

Bradford & Bingley<sup>^</sup>

# Buy-to-Let Confidence Study

January 2008

**mortgage express**

## The UK's definitive Buy-to-Let Confidence Study

Commissioned by Bradford & Bingley and Mortgage Express, our specialist intermediary lender.

We've led the way in buy-to-let for more than a decade, which puts us in an ideal position to gauge the state of the market and to measure landlord opinion across the nation.

This report, carried out for us by GfK NOP, represents the responses of approximately 4,000 property investors – it's the largest survey of its kind and offers a unique, comprehensive insight into the current state of play for buy-to-let, as well as a realistic view of the future.

## An overview of the market

The last six months or so have seen no shortage of headlines once again predicting the demise of buy-to-let, with one or two actively blaming it for the issues currently facing the mortgage market. But landlords and lenders alike have weathered this particular storm many times over the last few years. *'Property collapse feared as landlords sell up'* sounds like a current headline – in fact, it came from a report in 2004. *'The craze for buying houses and flats to let has finally started to pall'* is another which could have come from yesterday's tabloids – it was published in 2005.

While there's no denying that today's market circumstances are presenting the mortgage industry with a unique set of challenges, those who know buy-to-let and how it works have a clear view of the future of private property investment, its stability and how it makes a positive contribution to housing across the UK. They are committed to maintaining or expanding their portfolios and have made it clear that they are interested in long term returns rather than short term gains.

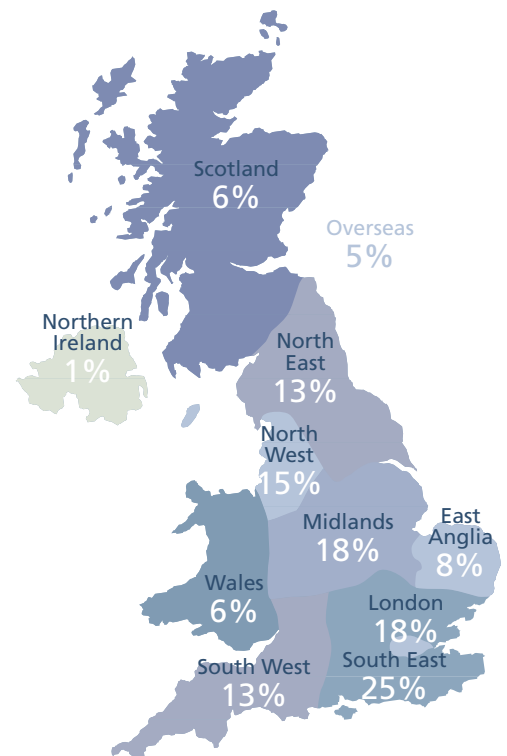
When it comes to providing an accurate snapshot of the state of buy-to-let, landlords themselves are in the best position to give us an honest outlook. The feedback from our latest confidence study paints an encouraging picture – most are still looking to maintain or increase their portfolios, most anticipate rent levels to either increase or stay the same, and most have had no difficulty finding tenants. And these results are backed up by the Association of Residential Letting Agents' (ARLA) latest report. According to its members, tenant demand in the private rented sector remains at the highest level seen for five years, which has led to an increase in rents. Two thirds of the letting agents in

Central London report they have more tenants than there are properties available to rent, and this is echoed throughout the South East, where the same lack of property is reported by 57% of letting agents. In the rest of the country, 37% are reporting rental property shortages. [Source: ARLA quarterly survey of member letting agents, November 2007.]

So it's evident that the majority of property investors are not discouraged by current economic conditions. Our survey shows that they are clearly aware of all the press coverage and largely negative remarks from business commentators. But they show a high degree of pragmatism and confidence in the long-term future of their investments – most are not concerned by predictions of a slowdown in the market, and those that are have still made a commitment to maintain their portfolios.

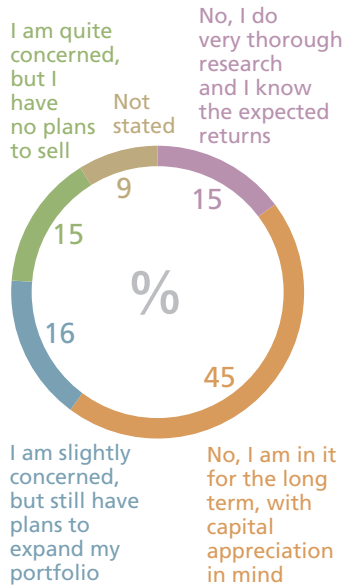
Contrary to what we're led to believe about buy-to-let, property investment is in good shape. And, given the issues facing today's housing market, it will continue to play a vital role in providing high quality, reasonably-priced accommodation for the UK's growing pool of tenants.

Figure 1:  
Property hotspots  
– where landlords are investing



## Confidence in the market

Figure 2: Have you been concerned at all by the reported slowdown in the buy-to-let market?



### Concerns

Given current market conditions, in this survey we asked landlords direct if they were concerned by reports about the decline of buy-to-let. The majority (60%) have no concerns as they have done their research and have planned for long-term capital appreciation. Even those who expressed a degree of concern said that they would still keep hold of their portfolio (15%). [[See figure 2.](#)]

### Portfolio plans

Following the pattern set by our previous surveys, landlords remain confident in the market and most plan to maintain or increase their portfolios over the next six months (86%). Less than 1% of respondents say they are planning to leave the market, which is consistent with our results earlier this year. [[See figure 3.](#)]

### Rental levels and demand

As demand for rental property continues to outstrip supply, particularly in London and the South East, it's no surprise that our survey shows that, according to our customers, rent has either stayed the same or increased (89%) compared to 12 months ago. And they overwhelmingly believe that this will be the case over the next 6 months (95%). [[See figures 4 & 5.](#)]

### Landlord experience

#### Void periods

Our survey shows that landlords are skilled at managing void periods. Just 28% had unplanned void periods in the last six months (down significantly from 42% in our last survey), and of those 50% say they lasted for four weeks or less. 12% state that they had planned voids so that they could carry out property maintenance. [[See figure 6.](#)]

### Tenants and their behaviour

The majority of respondents state that their tenants have not gone into arrears (67%), though there is a minor increase in the number who say that they have experienced arrears (27%, compared to 26% in our previous report). Bearing in mind the challenges faced by all consumers over the last half of 2007 (the 'credit crunch' and consequent tightening of belts), it is encouraging that this figure is still relatively low.

Tenant profile appears to be consistent with our previous survey – they are predominantly couples, singles, families and students. This highlights the shift towards renting as a lifestyle choice – particularly when securing a mortgage becomes more difficult (for a number of reasons) or less desirable when it comes to flexibility. [[See figure 7.](#)]

### Landlords

#### Profile

As in previous surveys, our latest results confirm that property investors tend to have a mature profile. Most (62%) are aged between 36 and 55, and the majority have been investing for more than two years.

A large proportion (63%) are male, and most invest alone or with a family member (72%). They tend to use their property investments to supplement their earnings – only a small proportion are full-time landlords – and they are looking for capital growth (47%) or to provide for their pension (43%). It's clear that a significant number of people would still rather trust bricks and mortar to give them a long-term return than more traditional methods of providing for retirement. [[See figures 8, 9, 10 & 11.](#)]

Figure 3: What are your portfolio plans over the next 6 months?

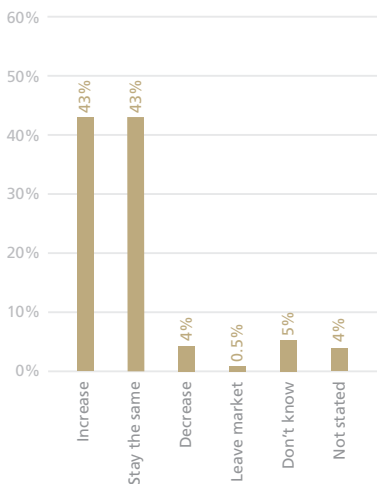


Figure 4:  
How does the rent for each property compare to 12 months ago?

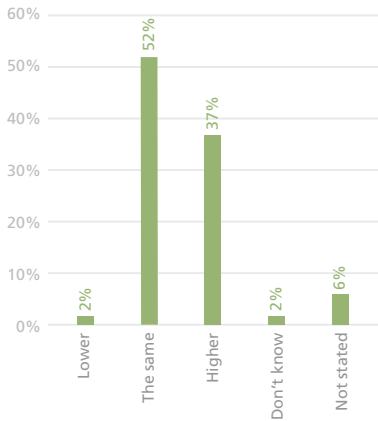


Figure 7:  
Who are your tenants?

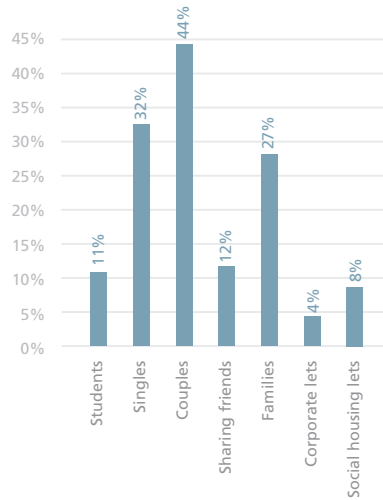


Figure 10:  
What is your employment status?

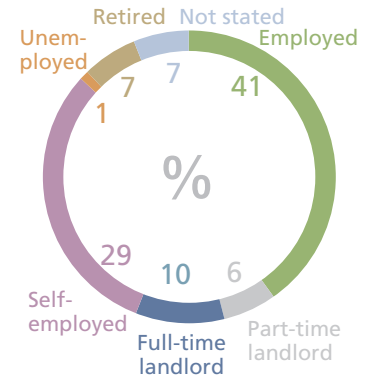


Figure 5:  
What do you expect rent levels to do over the next 6 months?

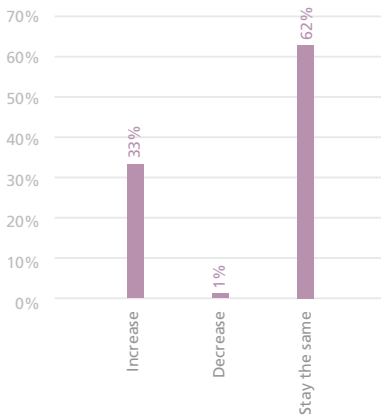


Figure 8:  
What is your age?

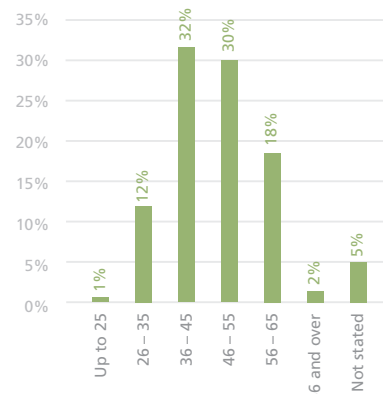


Figure 11:  
What are your reasons for investing in buy-to-let?

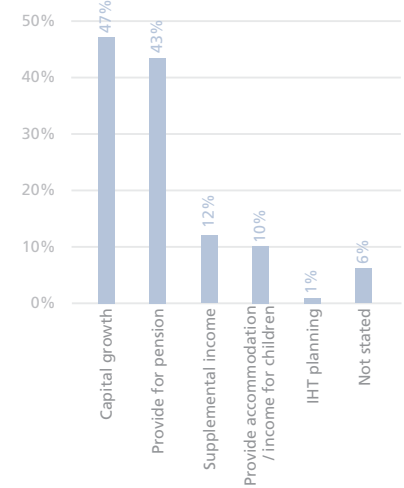


Figure 6:  
Over the past 6 months, have you experienced any void periods?

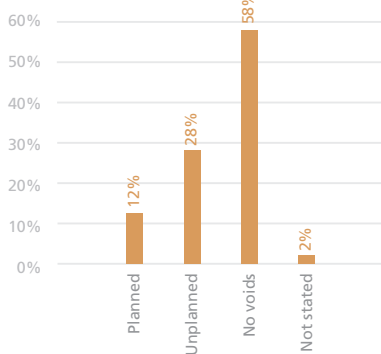
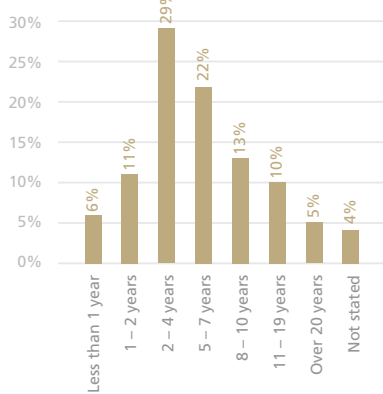
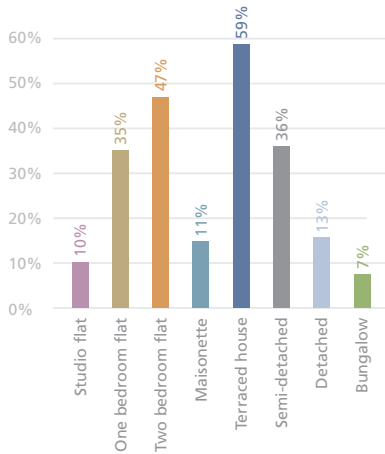


Figure 9:  
How long have you been investing in property?



## Properties

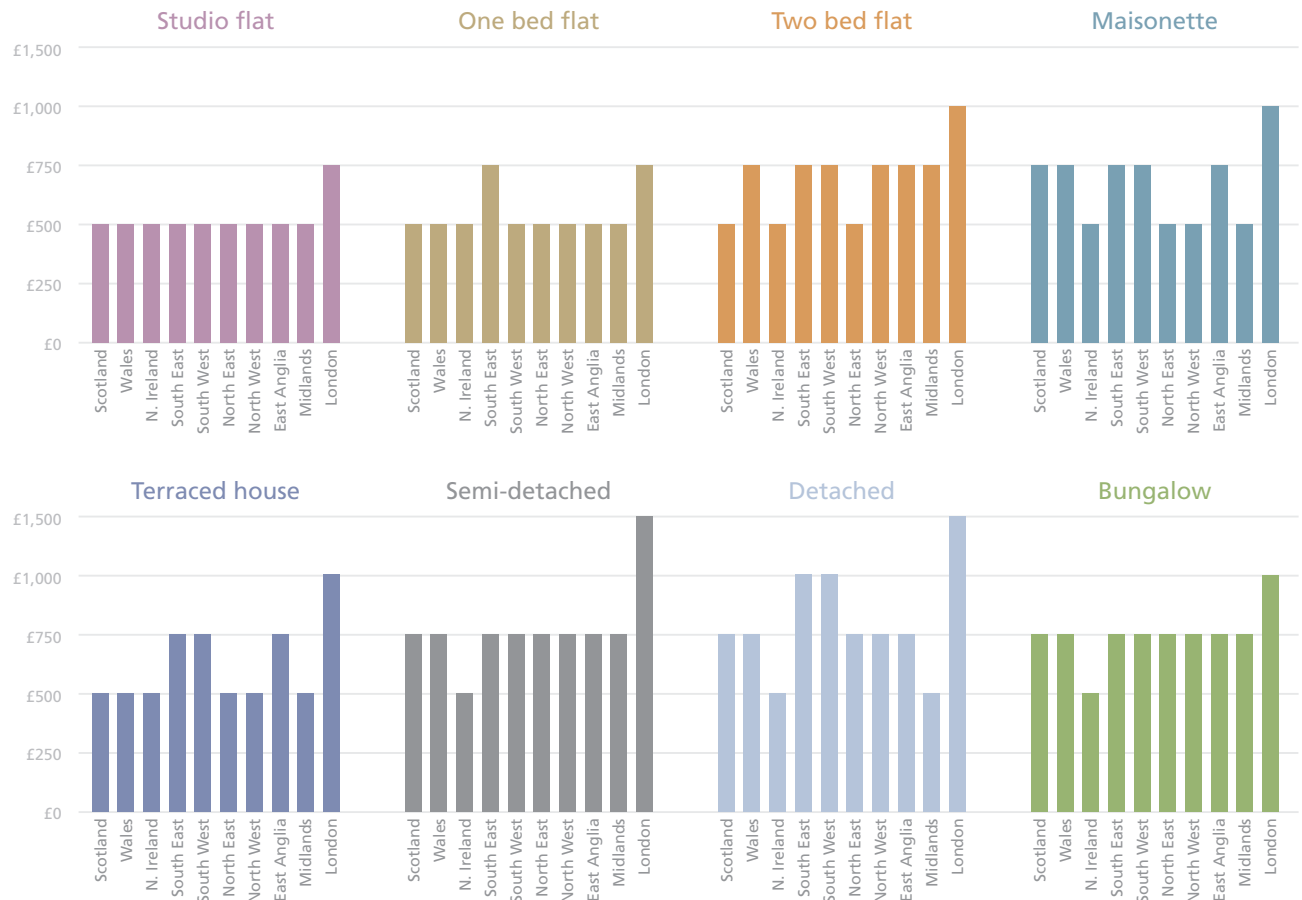
Figure 12:  
What property types are in your portfolio?



As part of our latest survey, as well as confirming how many properties they have in their portfolio, we asked landlords about their property types and how much rent they expect to charge for each.

Most (42%) have up to five properties, and the most popular types are flats and terraced houses. Unsurprisingly, the highest rents charged are for properties in the South East and London, though some property types in the South West and East Anglia make similar charges.

Figure 13:  
Average monthly rent by property type and region.



## Conclusion

The fact that buy-to-let is still making headlines more than 10 years after its introduction shows that, though it remains proportionately small in terms of overall size, it has considerable – and growing – significance in today's mortgage market.

Predictions of its demise have proved to be inaccurate, as landlords have consistently demonstrated that they are financially astute, intelligent investors who are more than ready to face what will undoubtedly be a challenging future. They have a vested interest in running their portfolios efficiently – planning for long-term capital gains and pension provision takes commitment, care and attention.

Our survey shows that landlords believe in buy-to-let and how it will play a vital part in meeting the UK's housing needs. The evidence suggests that we are facing inevitable growth in the number of potential tenants, due to, among other factors:

- ▶ an increase in the number of single households. The Office of National Statistics has reported a decline in average household size from 2.65 in 1981 to 2.30 today, and this is expected to continue to 2.10 in 2026.
- ▶ a planned rise in the percentage of people attending university. The Government's strategic target for students in tertiary education is 50% by 2010, which has led to an increase of 25% in student numbers since 1998, to 2.5 million.
- ▶ a shift in attitude fuelled by a changing economic climate. The number of potential owner/occupiers may well decrease as lenders tighten their criteria and customers tighten their belts.

**Private landlords have proved that they are best placed to provide what these people need – good quality, affordable accommodation – and are set to continue doing so for the foreseeable future.**

YOUR PROPERTY MAY BE REPOSSESSED IF YOU  
DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

**Bradford & Bingley plc**

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