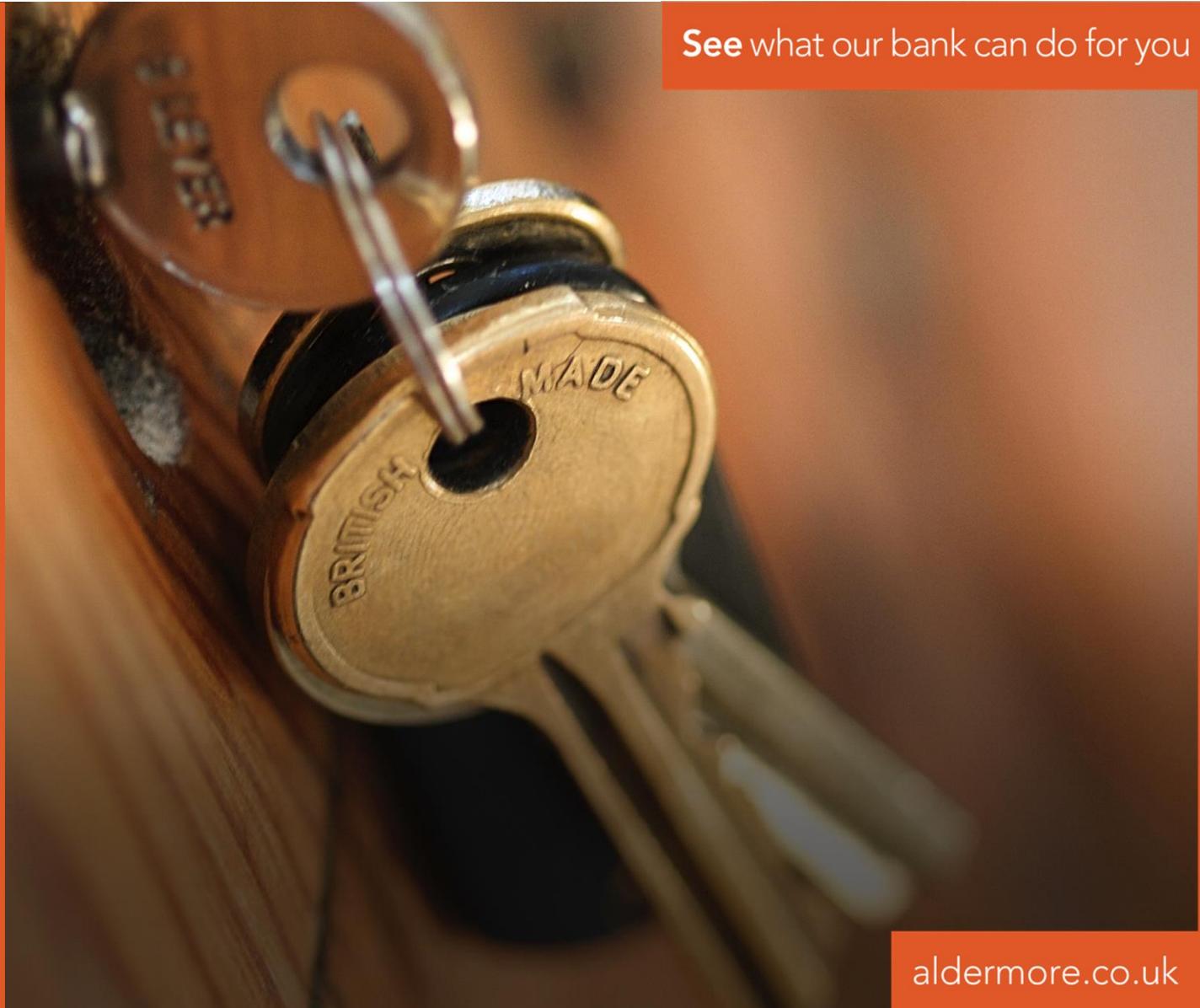


# London Mortgages Forum: The Future of Buy to Let?

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# Agenda

- “ BTL: the market
  - “ Household trends
  - “ Is BTL sustainable for lenders and landlords
  - “ Confidence in new opportunities
  - “ Steady growth in rental income
  - “ New build transactions sluggish
  - “ Reasons for renting
- “ Summary of influences - demand for private rental sector
- “ BTL: What can lenders do more of
- “ BTL: new challenges
  - “ The impact of regulation
- “ Summary



# Household trends

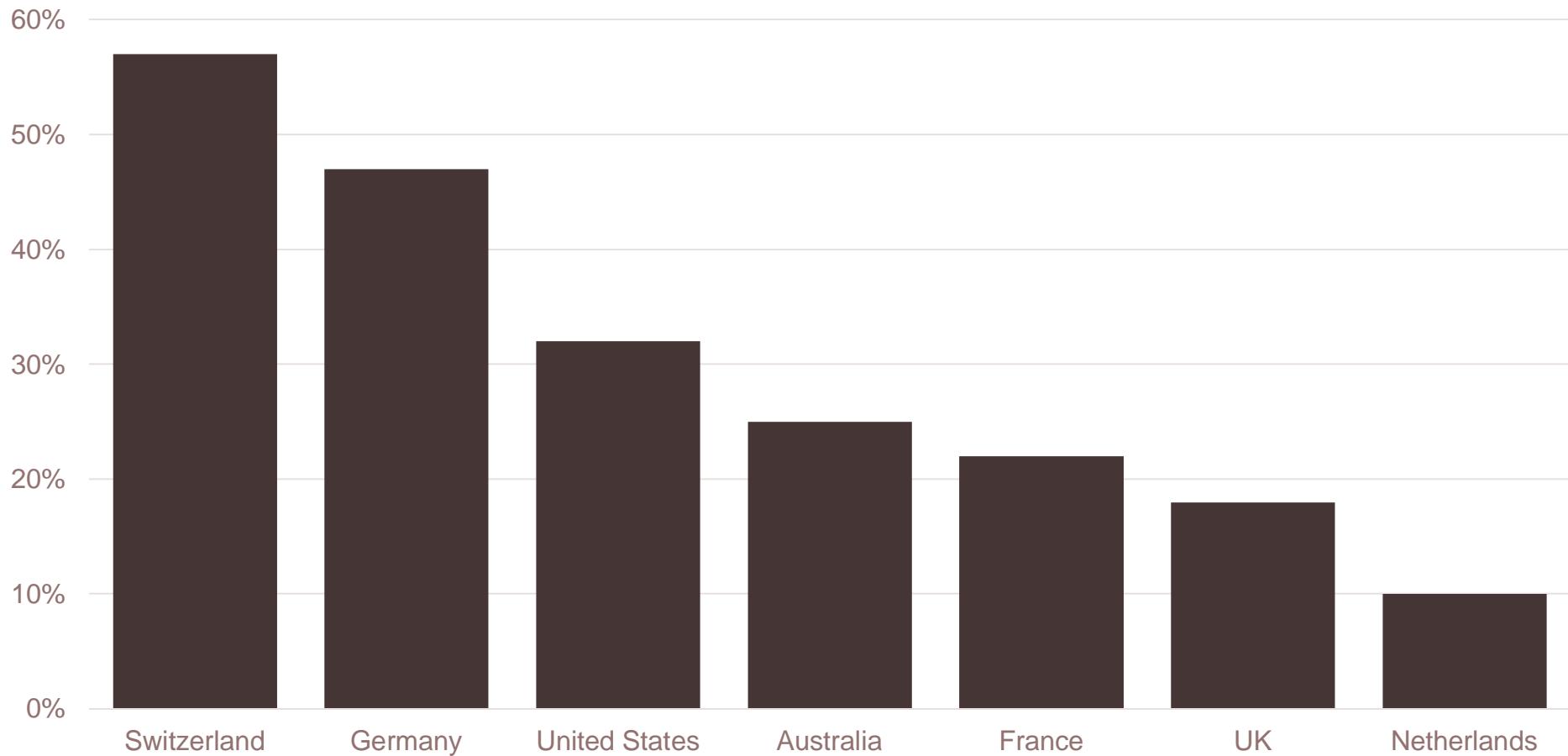
## UK tenure projections to 2032

	Owner-occupied units (thousands)	Private rented units (thousands)
2007	18,206	3,606
2012	17,835	4,920
2017f	17,445	6,106
2022f	17,064	7,578
2032f	16,326	11,672

- “ PRS market will treble 2007 . 2032
- “ Social rented will continue to reduce
- “ Owner Occupied will continue headwinds of high deposits, rising interest rates and intergenerational change

# Household trends

## % of households in private rented sector – international comparisons



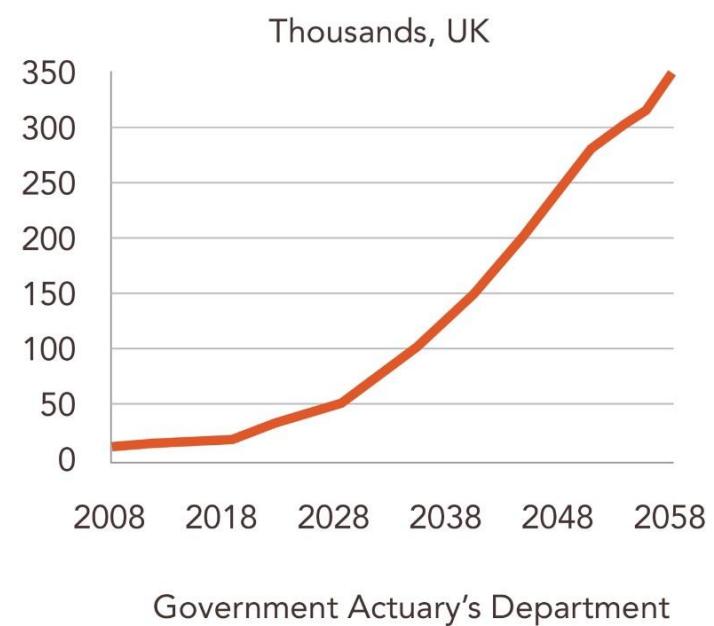
- “ UK still at the low end of renting %
- “ This is likely to move to the left over time

# Is BTL sustainable for lenders and landlords?

The projected increase in the UK population 2008 - 2033 is concentrated in older groups

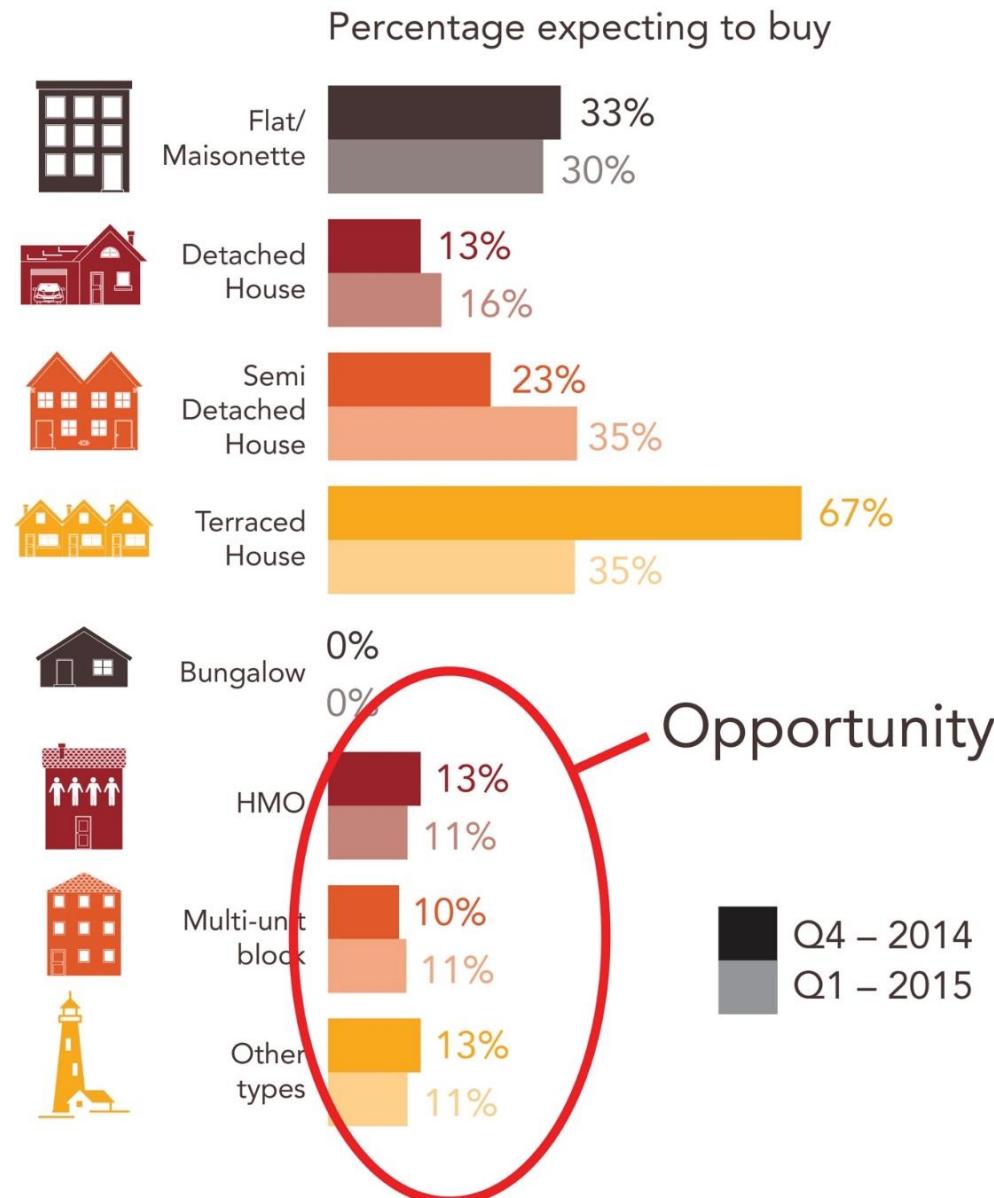


Telegram overload – centenarians will continue to be the fastest growing age group



- » Rapidly aging population restricting re-sales
- » Changes in pension rules
- » Loan to income stretch worsens for FTB

# BTL: Confidence in new opportunities

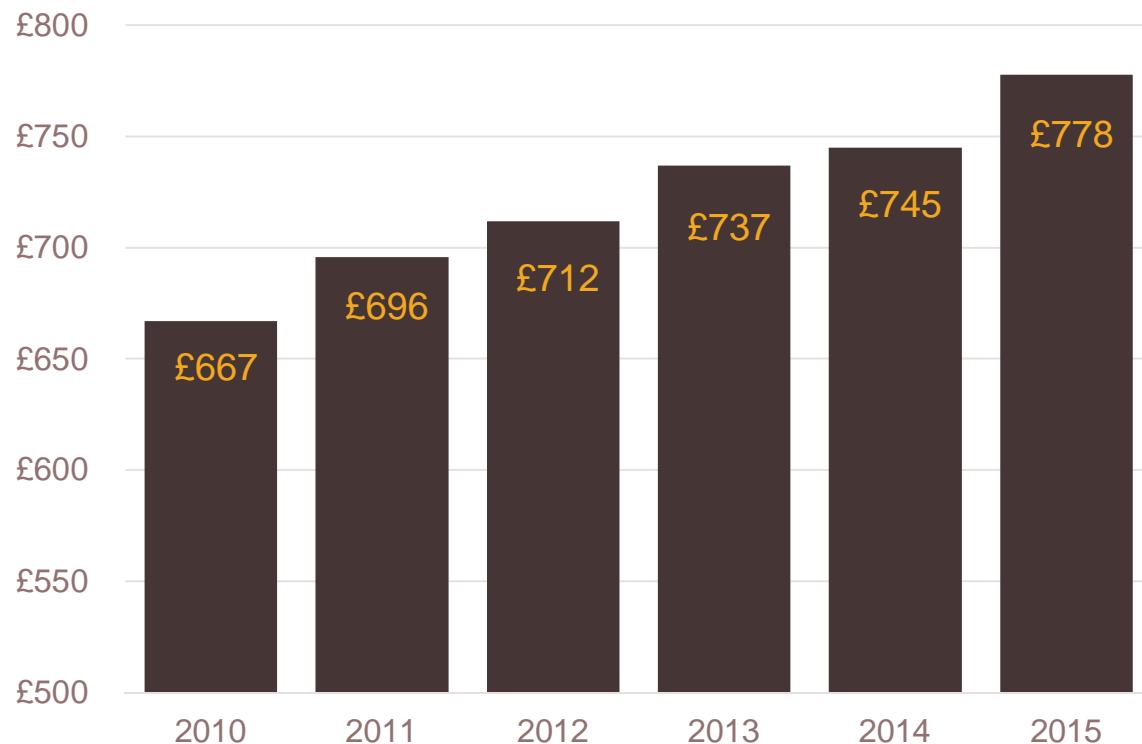


Landlords' propensity to purchase buy-to-let property in the immediate future has increased with 18% expecting to buy soon compared to 15% in Q4 2014

Among landlords on the look-out for new property, 22% are buying more specialist rental properties such as multi-unit blocks and HMOs.

# BTL: Steady growth in rental income

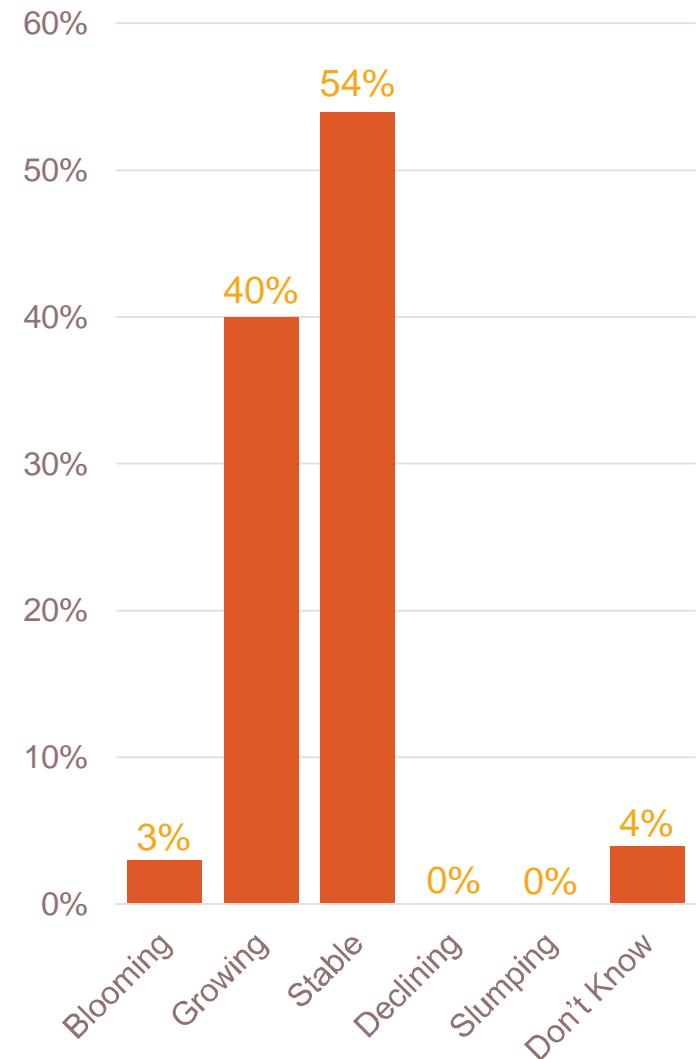
## Average rent in May



- „ Demand is pushing up rents
- „ How long is this sustainable for?
  - Rent to income more stretched
- „ But tenant demand continues to grow

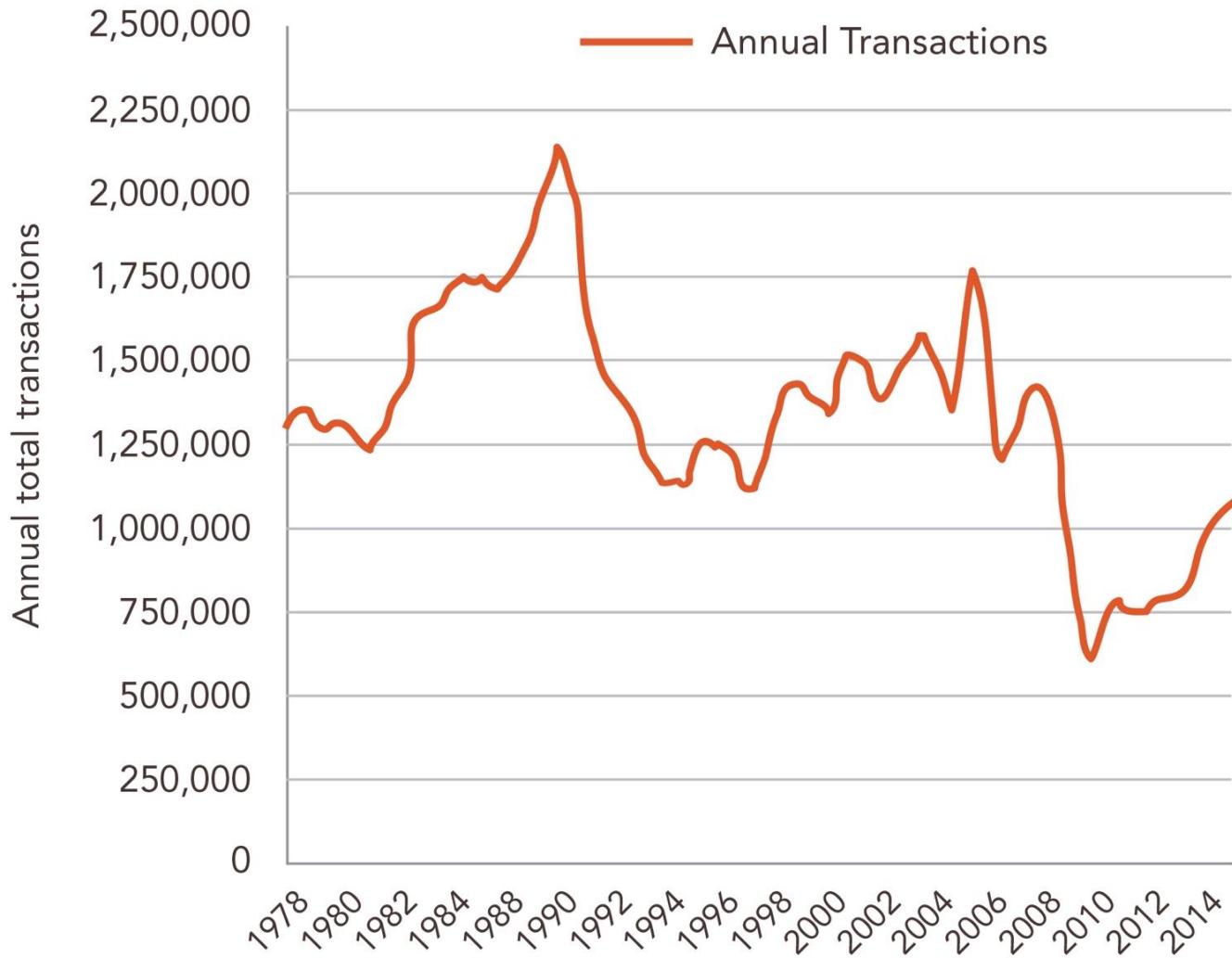
Source: LSL

## Tenant demand – landlord survey



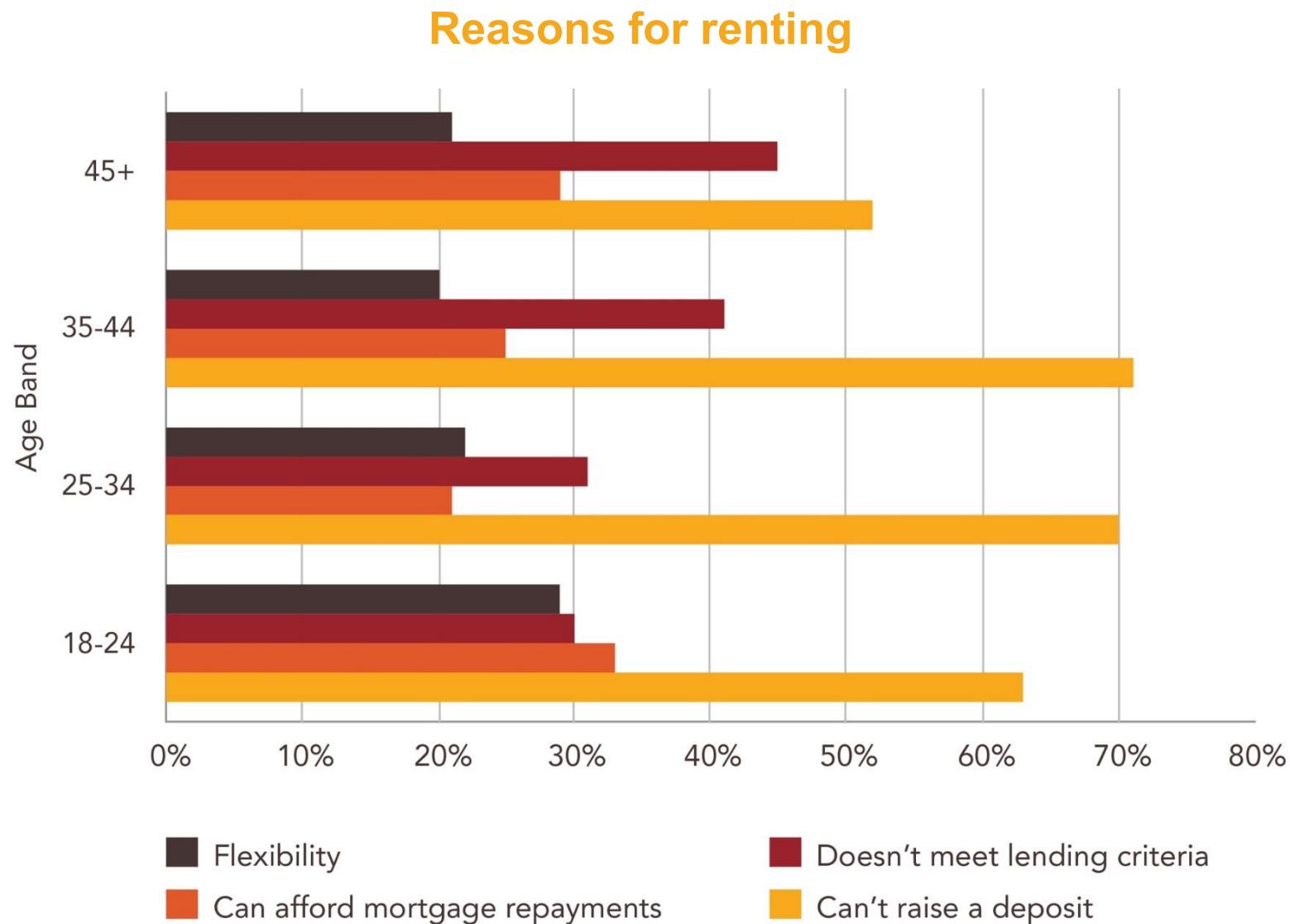
Source: Paragon

# BTL: new build transactions sluggish



- “ Green Belt?
- “ Replace sold HA properties?
- “ Builders cannot/do not wish to build quicker
- “ Builders not motivated to focus on small houses

# BTL: Reasons for renting



# Summary of Influences – Demand for PRS

Many of the key drivers that have been identified to explain the growth of the private rented sector relate to rising demand. They include:

**The declining availability of social housing**

**Home ownership becoming less accessible**

**More flexible employment with lower job security**

**Rising number of students**

**Higher rates of immigration**

**Social changes/intergenerational**

**UK population likely to rise to 70m by 2027**

**1 person households will be two-thirds of future household increases**

**Pension withdrawal rule changes – but ave. pot is £36k so likely to benefit cash purchases in the main from wealthier pensioners**

# BTL: What can lenders do more of?

- “ Houses in Multiple Occupations
- “ Ltd Companies
- “ Multi flats on one title
- “ Professional Landlords with larger portfolios
- “ Auction purchases
- “ Un-mortgagable properties that require bridging finance
- “ Development finance for rental property



## BTL: What can lenders do more of?

- ” Product flexibility
- ” Challenger banks and new entrants are the main source of niche lending
- ” Engage brokers with easier to understand criteria and to encourage participation in specialist segments
- ” More user friendly propositions for brokers and landlords alike:
  - ” Access to discounted services . asset management, tenant finders etc.
  - ” Enhanced rental stress and investment yield calculators



# BTL: The impact of regulation

- " EU Mortgage Directive will result in Let to Buys and inherited property treated as consumer buy-to-let+from March 2016, i.e. will be regulated
  - . Market size . 5% to 10% of BTL?
  - . Will all lenders participate or be the domain of niche lenders?
  - . Will this see the return of family tenanted BTLs?
- " Prospect of further Regulation/Treasury rules on BTL/stress tests?
- " Ending of tax relief on mortgage interest?
- " Skill of brokers to operate in PRS!!
  - . Link to wealth advisers
  - . Should PRS be a regulated investment class as equities and others?

# In summary...

**PRS/BTL is a sustainably growing market**

**Tenant demand must continue to grow given market drivers**

**We are witnessing the start of inter-generational change**

**Government policies are helping short term house purchases only**

**Potential additional Treasury intervention is unwelcome but not catastrophic**

**Lenders can do more to help serve better landlord needs**

**Brokers can specialise in this sector and link with wealth advisers**

**The hype in the press of a BTL bubble is without foundation**