

PRS Trends

—● Q1 2023



paragon



The inaugural Private Rented Sector (PRS) Trends of 2023 highlights how landlords have responded to what was a particularly challenging winter period for many.

Like other small business owners across the spectrum of sectors, landlords have contended with a testing economic environment, but they remain committed, telling us that they expect to continue letting property for years to come. We see a correlation between portfolio size and the amount of time investors anticipate remaining in the PRS, those with the largest expecting to stay the longest.

Building portfolios, through measured investment, often takes time and many landlords have been in the sector long enough to have experienced previous periods of economic volatility. They understand that, economically speaking, testing times are temporary, and that buy-to-let investment is underpinned by fundamental

drivers of demand such as an ageing, increasing population and growth in single person households.

Alongside these long-term influences, we see that good quality, affordable homes are needed now more than ever.

The all-time high level of tenant demand reported by landlords in the previous edition of PRS Trends has been surpassed this quarter, primarily driven by a rise in the proportion who have experienced significant increases.

Linked to this demand, we see that the proportion of landlords reporting vacant rental properties remains low despite a slight increase on the previous quarter.

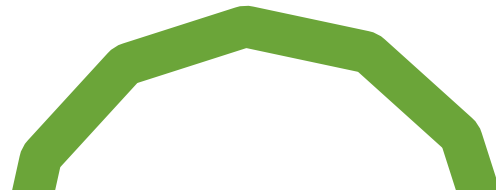
With these measures indicative of how the supply of homes is failing to keep pace with demand, we would expect rent inflation seen across the market to be the main factor behind an increase in

the proportion of landlords who report rising rents, but this is not the case.

Instead, it is the increased cost of managing properties that is a central driver of rent rises, challenging the profiteering landlord narrative that is perpetuated by some sections of the media and in the political sphere.

Unsurprisingly, the general feeling of uncertainty exhibited by UK businesses has also permeated the PRS and landlords are less confident about the future of their businesses and the domestic economy than they were a year ago. But, with some fiscal stability returning, we have seen optimism improve since last quarter and this is something that we anticipate continuing throughout the rest of the year.

Richard Rowntree
Managing Director of Mortgages



Portfolios

The typical portfolio is made up of 7.6 properties and 9.6 tenancies.

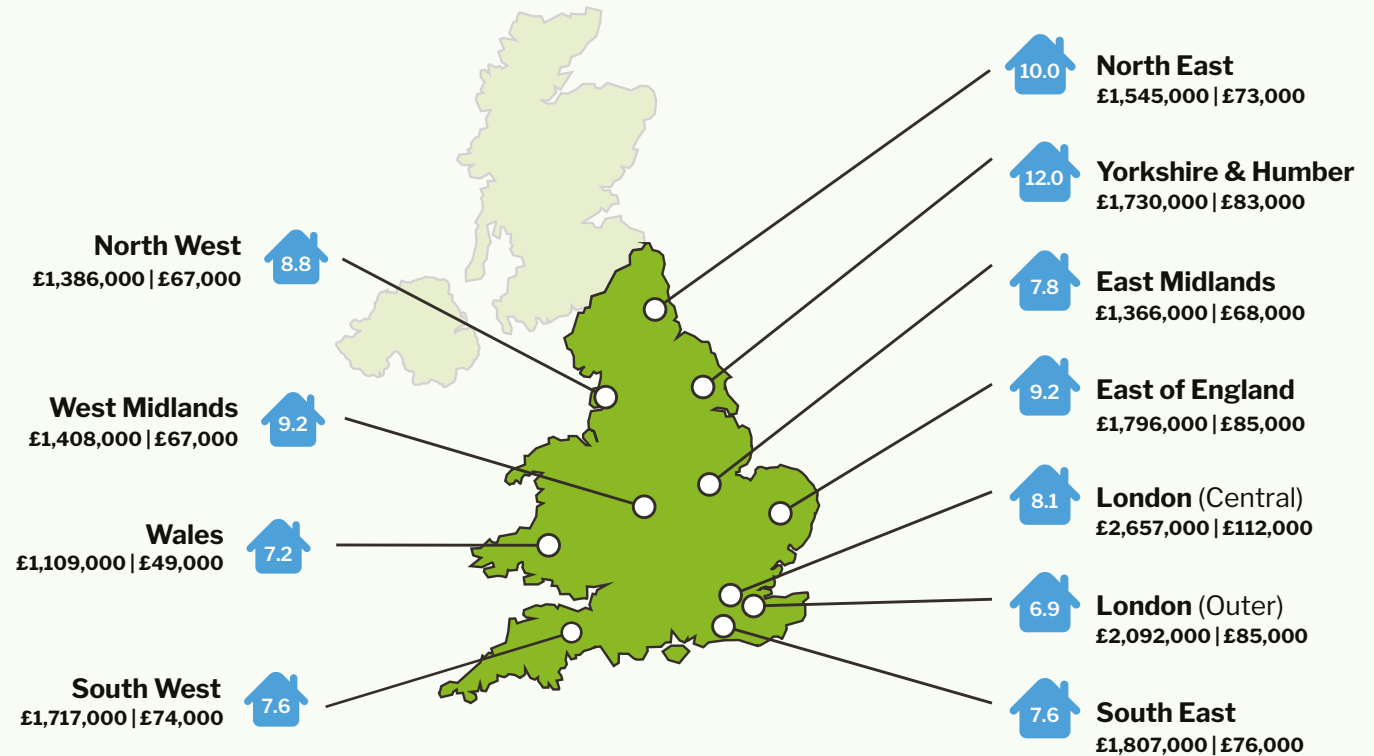
Landlords who operate in Yorkshire and The Humber continue to own the largest portfolios, with an average of 12 properties each. This is followed by the North East, where portfolios have expanded by an average of 1.2 properties since Q4 2022.

Landlords in the East of England and West Midlands have the third largest portfolios, with an average of 9.2 properties each. Conversely, landlords in Outer London operate the smallest portfolios, with an average of 6.9 properties.

The average rental property was valued at £204,079 in Q1 2023, following an increase of £17,700 on the previous quarter. This has led to an increase of £150,000 since Q4 2022 in the total value of an average portfolio to £1.55 million.

The rental income generated by each property in an average portfolio increased by £79 per month since the previous quarter to total £9,211 annually. This results in a gross rental income of £70,000, an increase of £8,000 since the last PRS Trends report.

Portfolio value & gross annual rental income levels by region



Terraced houses remained the most commonly owned property type in Q1 2023, with 56% of landlords stating that they have at least one in their portfolios. This increases to almost three quarters (74%) of landlords with between 11 to 19 properties.

Individual flats are also a popular investment amongst buy-to-let business owners, with 48% of landlords owning this property type. Unsurprisingly, the biggest portfolios often are the most diverse in terms of property type and landlords who own 20 or more properties are the most likely to have bungalows, detached houses, multi unit blocks of flats and short term/holiday lets.

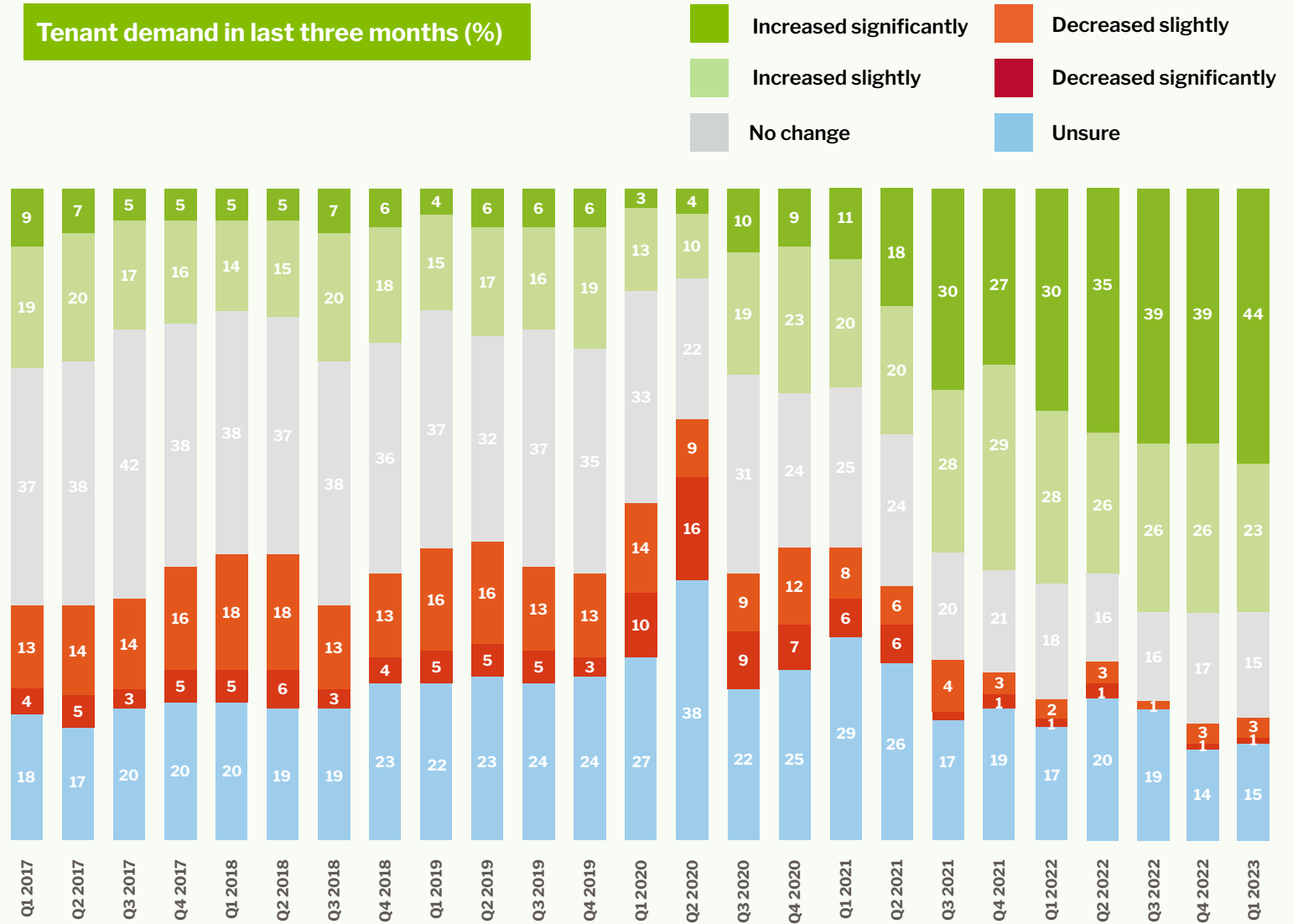


Tenant demand

After rising by two percentage points since the last quarter, the proportion of landlords reporting increased tenant demand during the previous three months has hit an all-time high of 67%. This increase is driven by 44% of landlords who note that tenant demand has increased significantly in the last three months.

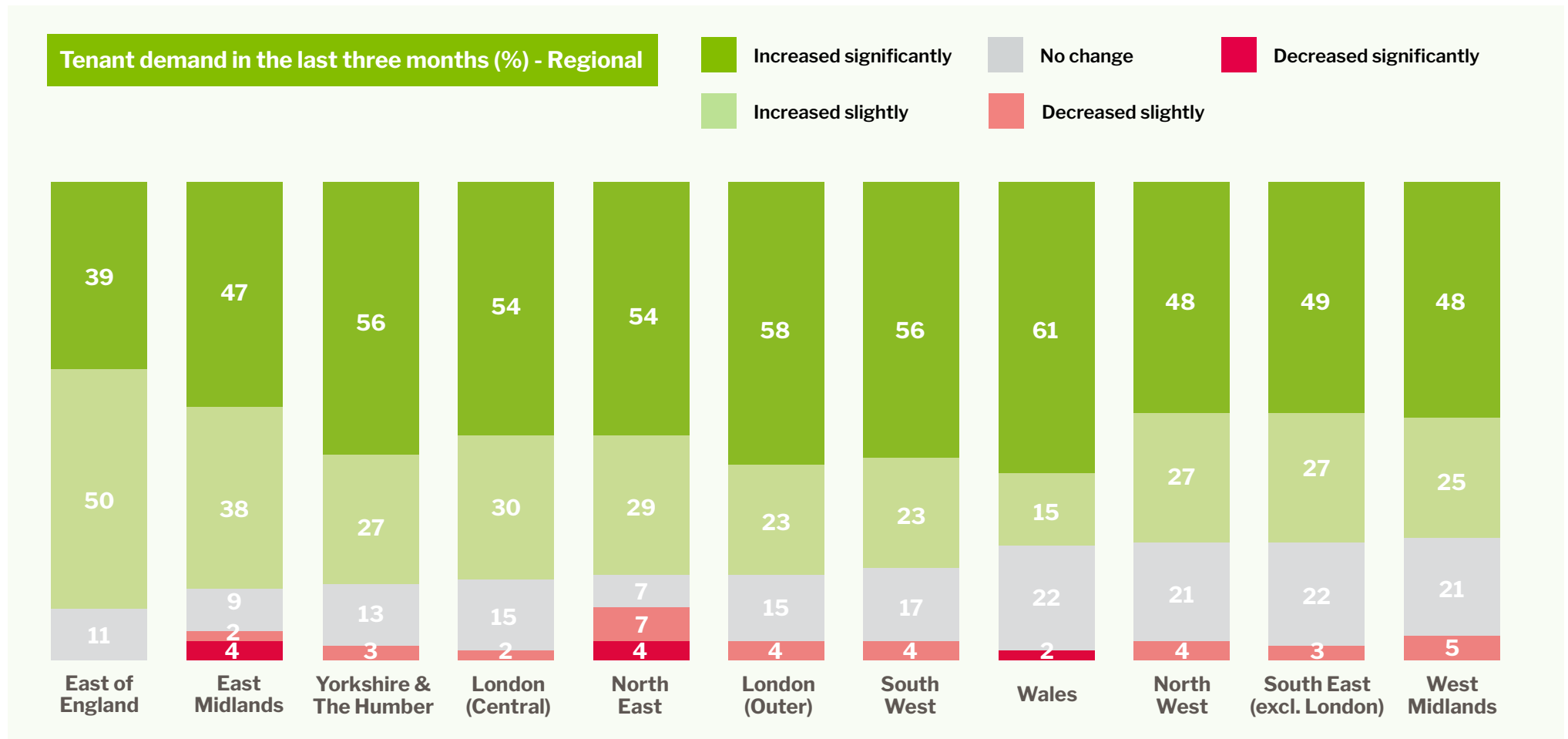


Tenant demand in last three months (%)



The East of England saw the largest increase in tenant demand during the quarter, after 89% of landlords in the region recorded growth. Occupying the spot as the area with the highest levels of increased tenant demand last quarter, Central London now sits in fourth place, with East Midlands and Yorkshire & The Humber tied in second.

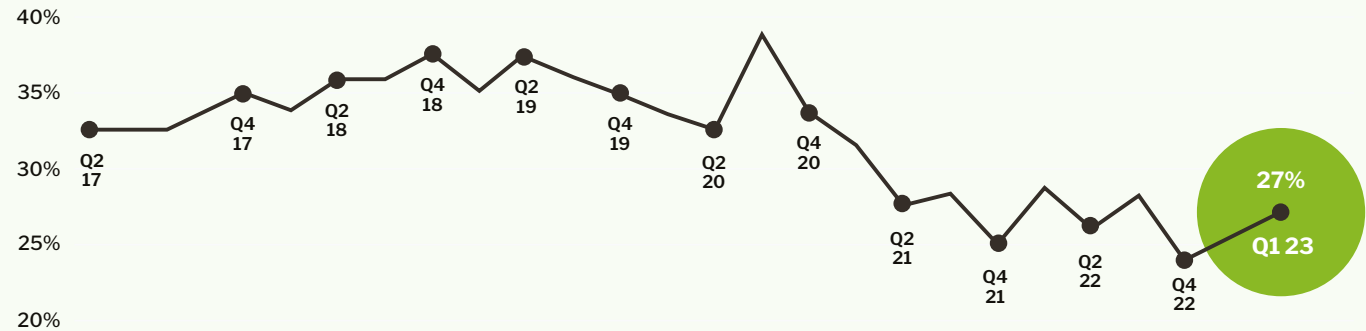
The lowest levels of tenant demand were reported by landlords in the West Midlands, where 73% reported increases, a three-percentage point increase on Q4 2022.



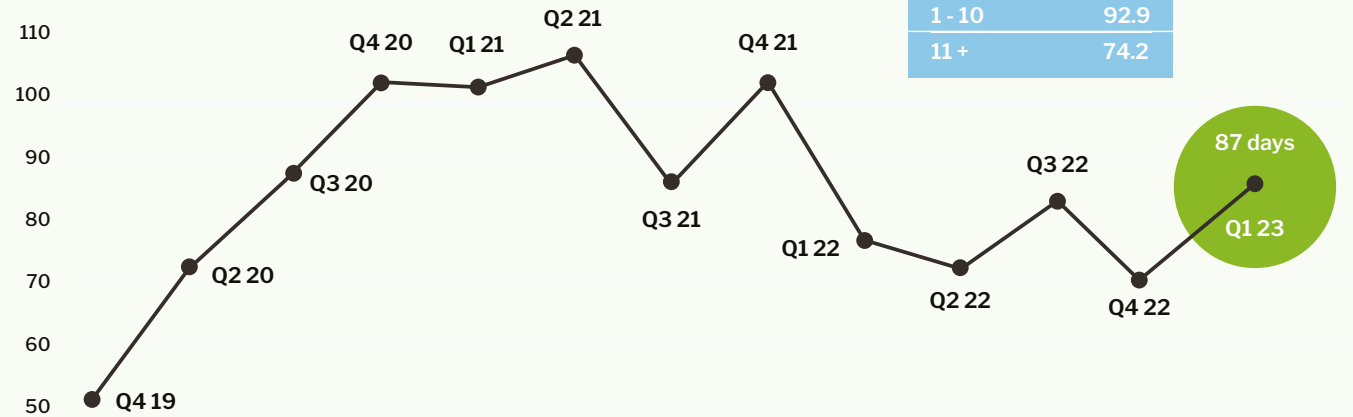
From a historic low of 24% in Q4 2022, the proportion of landlords reporting incidences of voids has increased slightly to 27% this quarter.

The average void duration has risen to 87 days, which is a 17-day increase compared to the previous quarter. Landlords who have 11 or more properties in their portfolio are more likely to experience shorter void periods, with an average of 74.2 days compared to landlords with 10 or less properties at 92.9 days.

Proportion of landlords experiencing a void period



Void duration (days)



No. of properties (average void duration)	
1 - 10	92.9
11 +	74.2

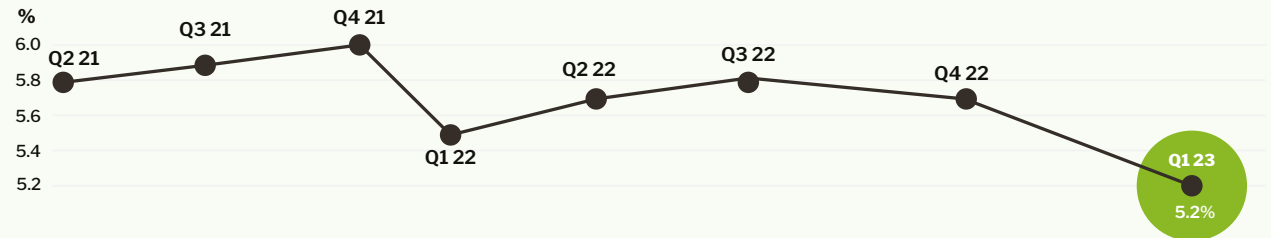


Yield generation

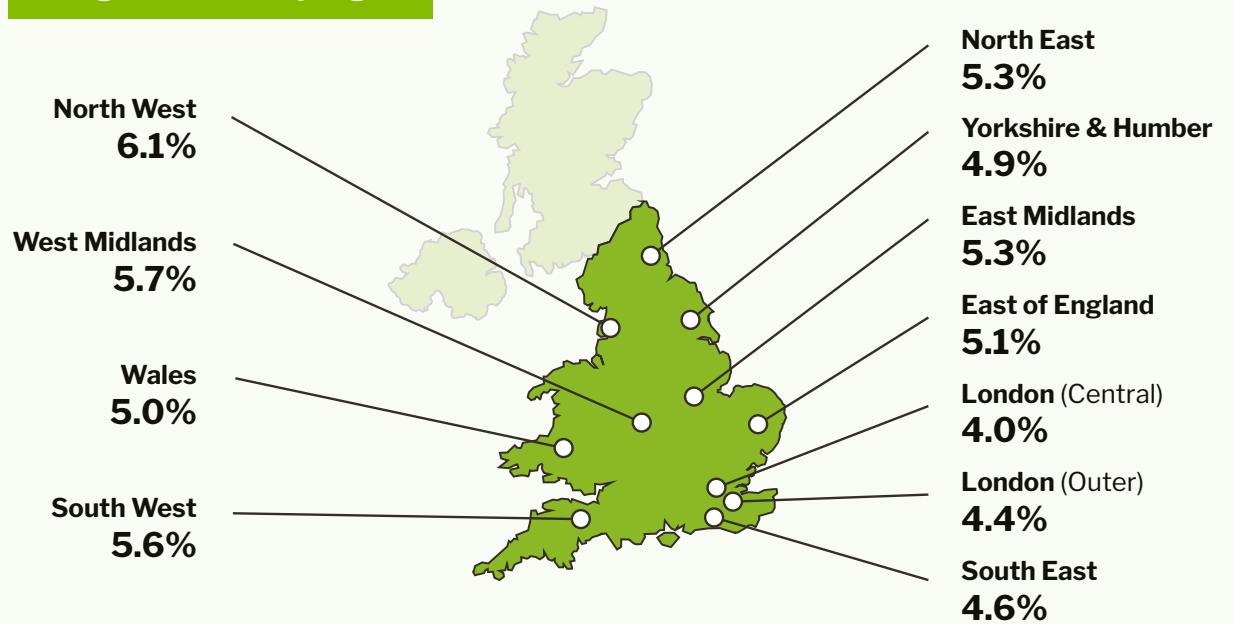
In Q1 2023, average rental yield generation decreased by 0.5 percentage points compared to the previous quarter, when rental yields stood at 5.7%.

Reviewing average rental yield generation regionally, landlords in the North West have reported the strongest levels this quarter at 6.1%, while Outer and Central London continue to have the lowest at 4.4% and 4.0% respectively.

Yield generation – historical



Yield generation – by region



After overtaking multi-unit blocks of flats in Q4 2022, HMOs continued to generate the strongest yields this quarter. Landlords reported achieving a yield of 6.0% through letting HMOs, compared to 5.6% with multi-unit blocks of flats, which saw a decrease of 0.6 percentage points since the last quarter.

In terms of tenant types, Q1 2023 saw letting to migrant workers deliver the highest yields of 6.1%.

Typically, properties housing students have delivered strong yields and, while returns reported by landlords catering to this tenant type fell by 0.9 percentage points in the time since the last PRS Trends report, student properties still generate above average yields of 5.6%.

Yield generation – by property type



6.0%
HMO



5.6%
Flats – Multi unit block



5.3%
Terraced house



5.3%
Detached house



5.3%
Semi-detached house



5.0%
Flats – Individual units



5.0%
Bungalow

Rising rents

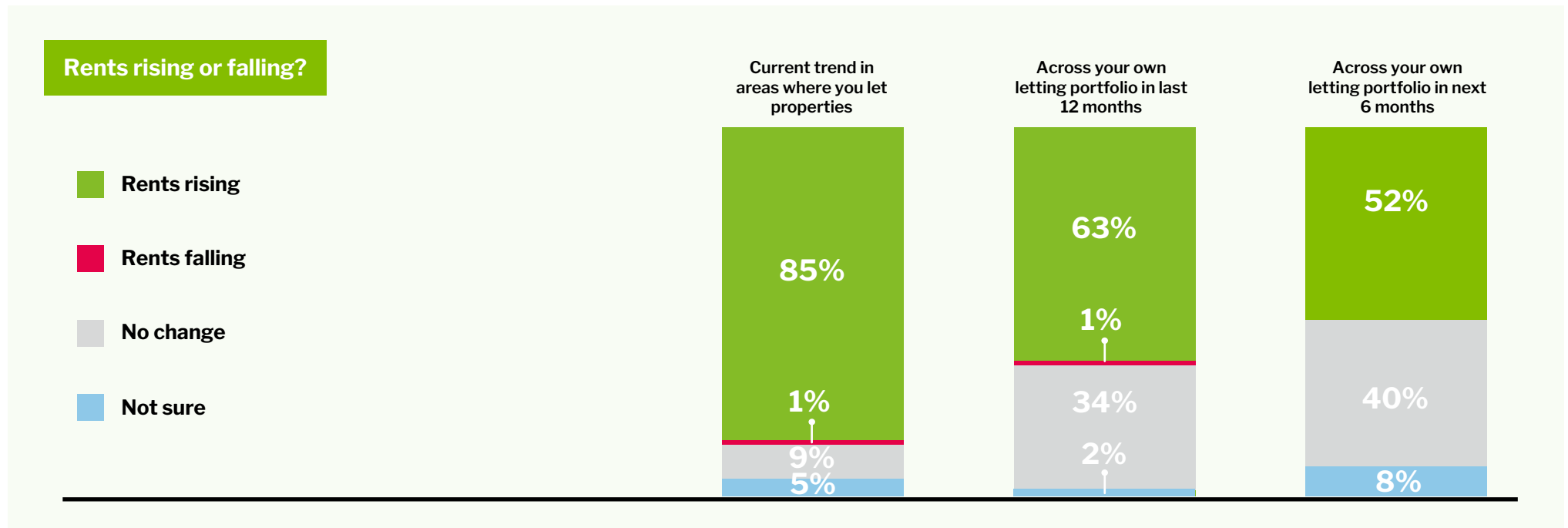
The quarter saw an increase of five percentage points in the proportion of landlords who have reported that rents are currently rising. Also rising by five percentage points was the proportion of landlords who say that they have increased rents across their own portfolios in the past 12 months.

Regionally, 90% of landlords with rental properties in Wales are reporting rising rents. With 77% of

landlords indicating that rents are increasing at present, the East Midlands is the region least likely to be impacted by rental inflation.

Over the past 12 months, landlords in Central London and the South East were the most likely to have made increases, with 75% and 68% stating that they had upped the amount tenants are charged. Tenants in the West Midlands are the least likely to have experienced rental inflation throughout the past year, with 54% of landlords in the region reporting having put rents up.

Just over half of landlords surveyed, 52%, anticipate increasing rents in the next six months, up from 46% last quarter, as the impact of rising overheads starts to become more evident. Rents are expected to rise by 8.2% but this is an average across all portfolio sizes and single property landlords anticipate higher increases of 11.4%, up by 2.7 percentage points since Q4 2022.

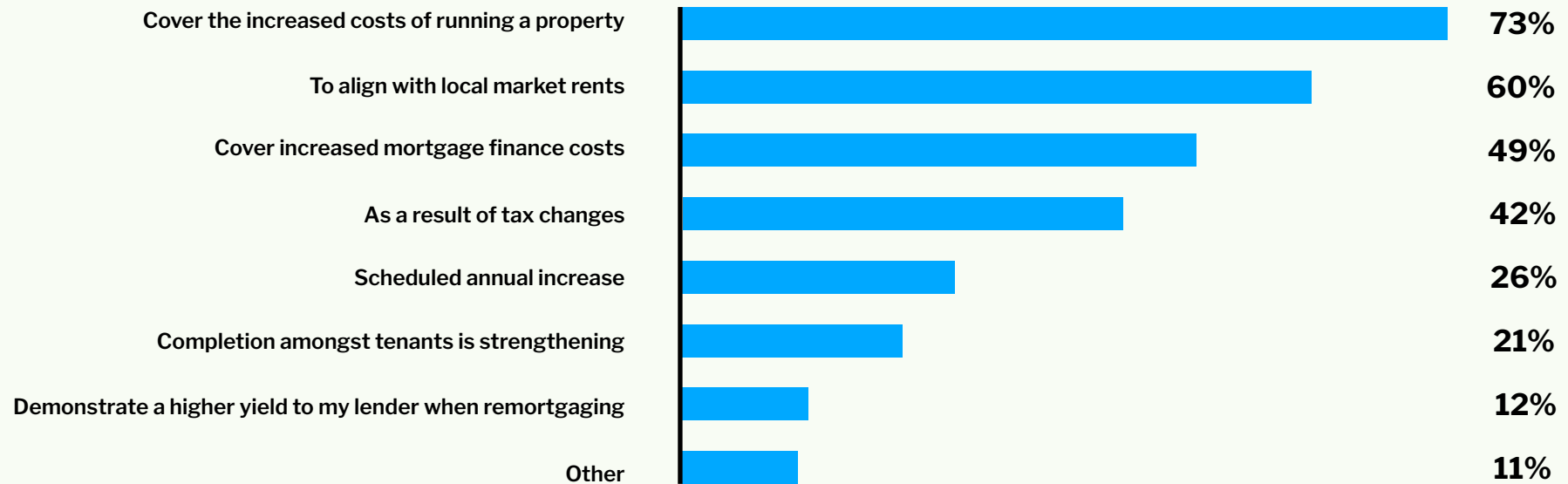


The primary driver for rising rent in Q1 continued to be the increased cost of running a property, with almost three quarters of landlords (73%) citing this reason. This is especially true amongst landlords with larger portfolios, 83% of those with 11 or more properties expect rising overheads to lead to rent inflation during the next six months.

As was the case in Q4 2022, the second most common reason for rental increases is to align with local market rents, selected by 60% of survey respondents this wave.



Reason for rent increase

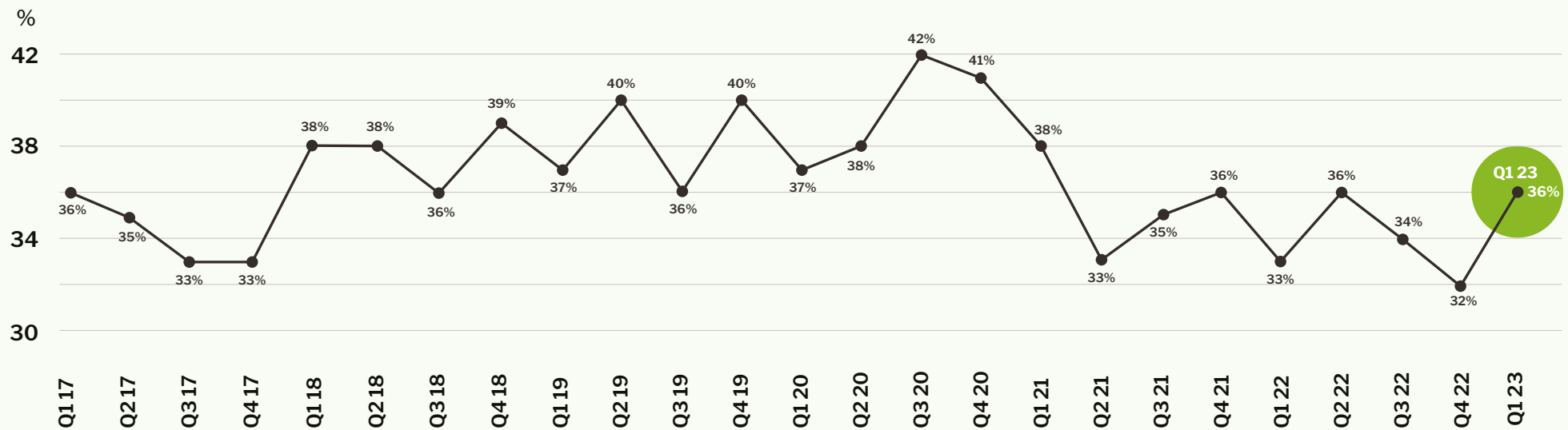


Rent arrears

The incidence of arrears reported by landlords has increased by four percentage points since last quarter to 36% in Q1 2023.

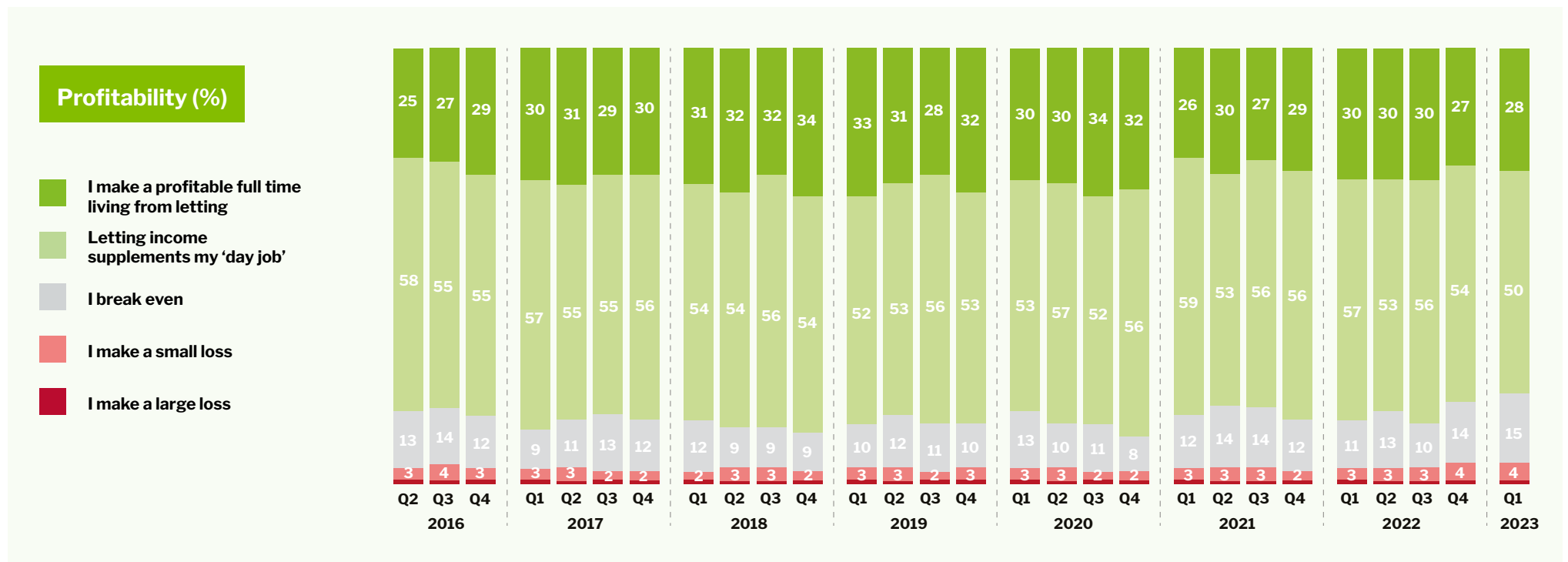
Splitting the data by different tenant cohorts shows that landlords letting to Universal Credit claimants report the highest incidence of arrears, following an increase of five percentage points from the previous quarter. Least likely to incur arrears are landlords who let to young singles and couples, with 42% and 40% experiencing tenants falling behind with rental payments, respectively.

Proportion of landlords reporting rent arrears



Profitability

Over three quarters (78%) of landlords have recorded making a profit in Q1 2023, with the proportion of landlords who are breaking even rising to 15%.



Landlord business expectations

Asked to rate their expectations for a variety of different business focused metrics - capital gains, rental yields, UK financial market, UK Private Rented Sector and own letting business - we see that landlord confidence has seen an increase on last quarter. There has been a five percentage point increase in the proportion of landlords who

feel either good or very good about the prospect for rental yields over the next three months, while confidence in the UK financial market has gone up by three percentage points. In addition, a further 2% of landlords are more optimistic about their own letting business.

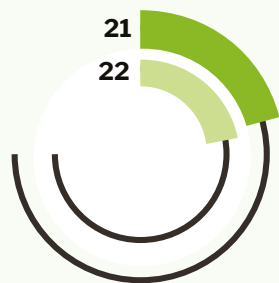
Despite this positive movement, overall optimism is still depressed when compared to the same period a year ago. This is unsurprising when viewed against a backdrop of significant economic turbulence experienced over the past 12 months.

Focusing on expectations for landlords' own lettings businesses, we see a slight uptick of two percentage points since last quarter, with 26% of survey respondents now feeling good or very good about the measure.

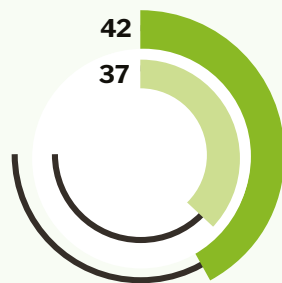
This does vary by portfolio size, however, with lower levels of optimism recorded amongst single property landlords when compared to those with 11 or more properties - 20% vs 30%.

Landlords rating their expectations for next three months as 'good'/'very good' (%)

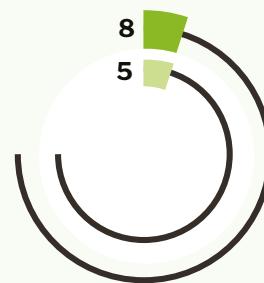
Q4 22 Q1 23



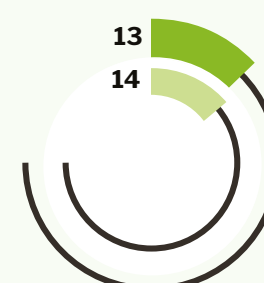
Capital gains



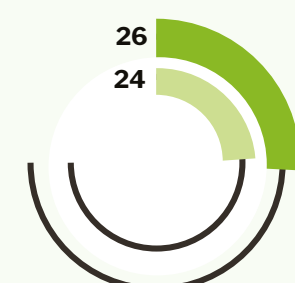
Rental yields



UK financial market



UK private rented sector



Own lettings business

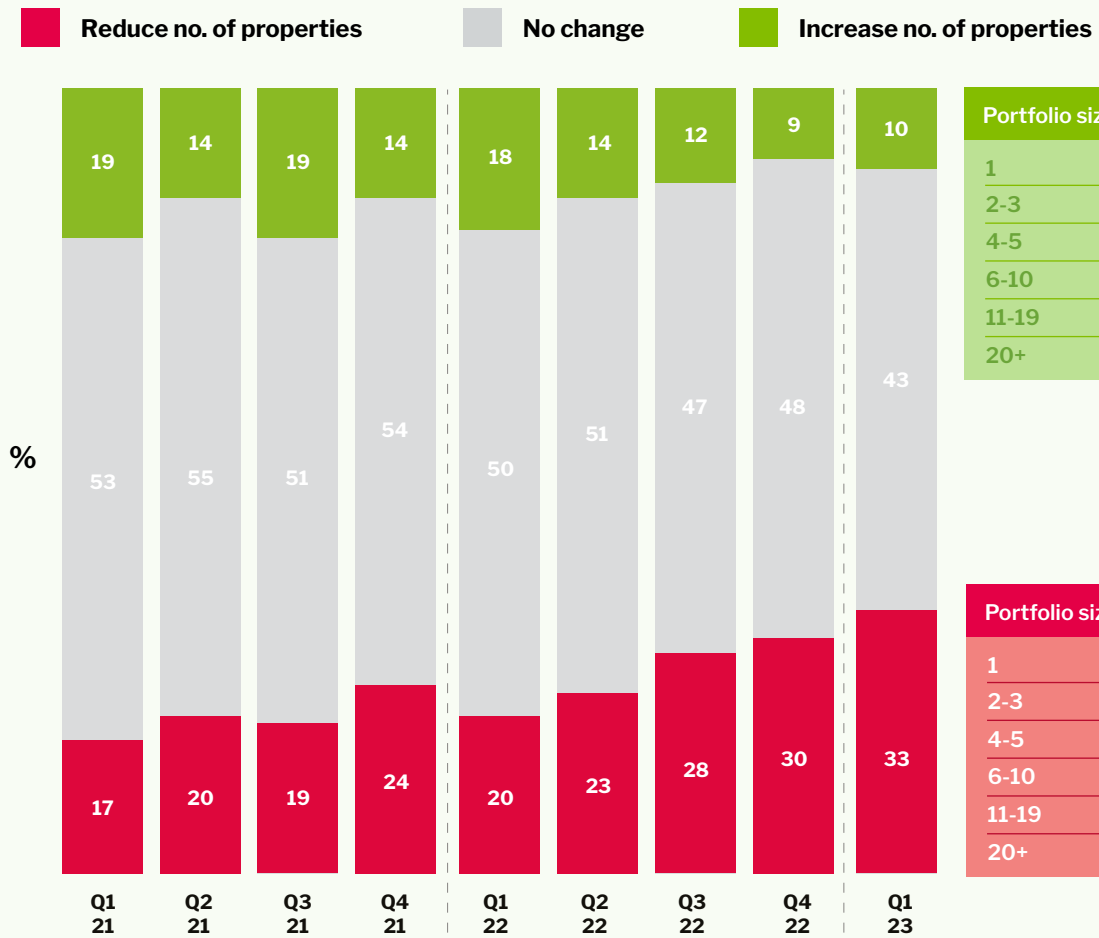
Portfolio intentions

Planned investment in portfolios during the next 12 months has seen a slight uptick of one percentage point since last quarter. Splitting this average by the number of properties a landlord currently owns shows that investment intentions generally increase with portfolio size. Only 6% of single property landlords anticipate purchasing property during the next 12 months but after an increase of 11 percentage points since Q4 2022, this now stands at 27% amongst landlords who own 20 or more homes.

Overall, landlords have indicated that they plan reduce portfolios during the next year. Offsetting the minor increase in planned investment reported since Q4 2022, an increase of three percentage points means that expected divestment reaches a high of 33% in Q1 2023.



Landlord portfolio intentions



Portfolio size	(%)
1	6
2-3	7
4-5	8
6-10	14
11-19	9
20+	27

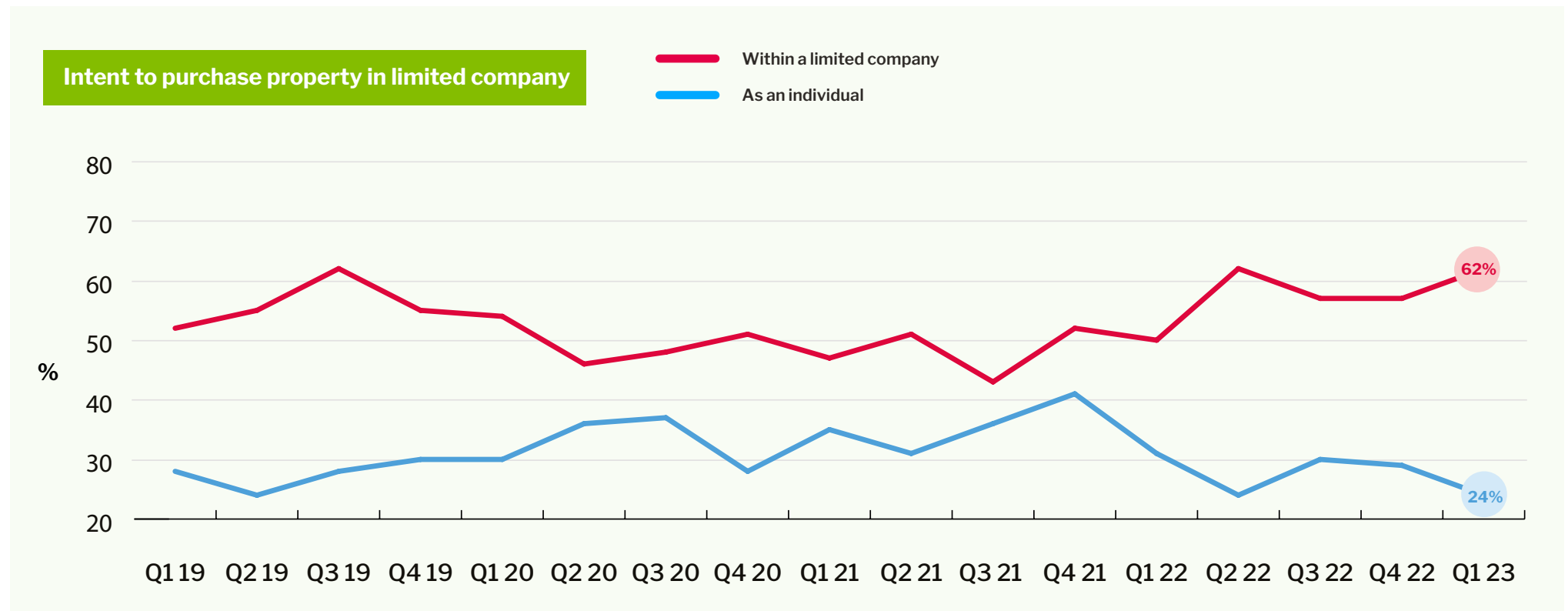
Portfolio size	(%)
1	15
2-3	25
4-5	33
6-10	39
11-19	49
20+	45

Property purchase strategies

Of those who plan to buy a new rental property, over six in 10 landlords advised that they would do so within a limited company structure. This follows a five percentage point increase compared to Q4 2022 and a year-on-year rise of 12 percentage points to mark a return to the high reported in Q2 2022.

Landlords who intend to purchase as an individual has fallen by five percentage points since Q4 2022 to 24%.

Of those who plan to purchase within a limited company structure, 64% have six or more properties.



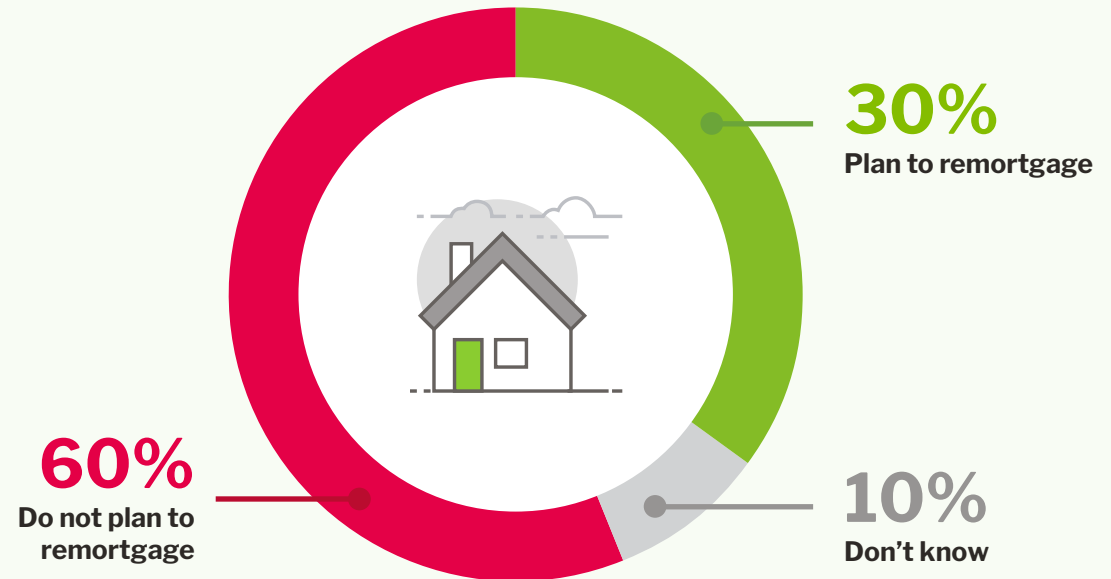
Remortgage intention

In the next 12 months, 30% of landlords plan to remortgage and 46% of these expect to opt for a fixed rate product.

Equal proportions of landlords, 22%, are likely to go for either a two-year fixed rate or a five-year fixed rate product. A small proportion of landlords, 2%, think that they may choose a three-year fixed rate mortgage, down from 9% in Q4 2022, while the cohort who will opt for variable rate products remains consistent on the previous quarter at 9%.

Over half of landlords planning to remortgage (55%) expect to do so as an individual after an increase of six percentage points since Q4. During the same period, a fall of five percentage points was recorded in the proportion of those intending to remortgage within a limited company which now stands at 20%.

Plans to remortgage in the next 12 months



Rate likely to go for			
Fixed (2 year)	22%	Variable	9%
Fixed (3 year)	2%	Don't know	39%
Fixed 5 year	22%	Will take advice from broker	5%
Fixed (other)	0%		



The Q1 2023 Private Rented Sector (PRS) Trends report was developed following analysis of data gained through in-depth interviews with 683 landlords. Research agency BVA BDRC, in partnership with the National Residential Landlords Association (NRLA), conducted these interviews between March and April 2023.



www.paragonbank.co.uk



jordan.lott@paragonbank.co.uk

BTL0189-001 (05/2023)