KentReliance

Press Release

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Buy to Let Britain:

Landlords' confidence knocked as government and Bank of England changes take effect

- Landlords' confidence falls back as tax burden rises and house prices growth slows; 41% hold a positive outlook for their portfolios, down from just 67% three years ago
- Value of Private Rented Sector (PRS) rises by 5.5% to £1.3trn, half rate of growth seen a year ago, as house price rises weaken and number of new households steadies
- Rents climb again, reaching £889 per month, pushing up yields
- Demand for limited company lending remains robust in 2017, accounting for four in ten buy to let loans, as investors mitigate impact of tax reform
- Some consolidation expected among amateur investors as new taxes and lending restrictions bite
- 24% of landlords find it harder to access finance following PRA's new rules

Landlords' confidence has fallen as investors face the prospect of higher tax costs and weakening house prices, according to the sixth edition of Kent Reliance's *Buy to Let Britain* report.

Just 41% of landlords are confident about the prospects for their portfolios, following the recent taxation and regulatory changes, according to a survey of more than 750 property investors. This represents a fall from 44% in the previous quarter, and compares to 67% seen three years ago. Political and economic uncertainty will only add to landlords' concerns.

The value of the sector has risen by £68bn in the last year, climbing to a record of £1.3 trn. However, this annual rate of increase (5.5%) is just half the level seen a year ago. Lower confidence amongst landlords mirrors this slower growth in the value of the PRS. The slowdown in house price inflation has been a key driver, with the annual average increase slowing to 3.2% in the last year. Indeed, in the last 2 quarters, prices actually fell.

There are now 5.5 million households in the sector, but annual growth of 2.3% is now only a third of the level seen three years ago. Tenant demand is still growing, albeit more slowly. 27% of landlords saw tenant demand increase in the last quarter, more than saw it decrease, but this was down from 39% a year ago, as first time buyer numbers continue to recover. On the supply side, there is a noticeable change too. In the first three months of 2017, the number of landlords expanding portfolios only slightly outnumbered those reducing them. 19% of landlords now expect to reduce their portfolios, compared to 13% increasing, as amateur landlords leave the market in response to the new tax rules affecting higher rate taxpayers.

Additional pressure on supply has come from the Bank of England's Prudential Regulation Authority's new underwriting standards, introduced in January. A quarter of landlords (24%) who have sought mortgage finance this year have found doing so more difficult, with a further 6% seeing their application rejected altogether.

Landlords react to tax changes and rising costs

While there is likely to be consolidation in the market as tax costs rise, property investors are also taking action to mitigate the impact of government intervention through rent rises and incorporation.

Running properties via limited companies means landlords are taxed as a company, rather than an individual, and can continue to offset all finance costs against rental profits. Kent Reliance's data shows six in ten applications for buy to let mortgages were via limited companies in 2016. Demand for limited company lending has not yet hit the heights seen last year, but limited company applications have still accounted for more than four in ten loans so far in 2017. With one in four landlords (24%) considering transferring their portfolio to a limited company or a partner or spouse, demand will strengthen in the long-term.

Landlords are also increasing rents to cover higher costs. Average rents per property now stand at £889 per month across Great Britain. Even though the rise was less steep than a year ago, the typical rent increased 1.9% annually. This is likely to continue as the mortgage tax changes bite. One third of landlords expect to raise rents in the next 6 months, compared to just 3% who expect them to fall. With rents rising, and house prices falling in the past two quarters, yields have edged up to 4.5%. Across the PRS, steady growth in the number of households and monthly rents means landlords are collecting a record £4.9bn per month in rent.

Andy Golding, Chief Executive of OneSavings Bank, which trades under the Kent Reliance and InterBay brands in buy to let, comments: "A perfect storm of weakening house prices, higher taxes and lending restrictions have knocked investors' confidence. On top of this, investors are now being buffeted by the winds of political uncertainty following the election, and its impact on the economy.

"Uncertainty will pass, but the impact of changes to mortgage tax relief and underwriting standards will leave a more indelible mark on the sector. We believe these changes will alter the mix of landlords, creating a more professional and stable sector in the long-term. There are already some signs of consolidation, with highly geared amateur landlords most likely to leave, and we are also seeing investors take action to protect their margins.

"The fundamentals supporting the PRS have not drastically changed. Yes, first-time buyer numbers have been recovering, but there is still an underlying supply and demand gap across the country. Given the inability of any party to win a clear majority in the election, the implementation of a strategy to create a necessary housing boom seems unlikely. Affordability issues will therefore remain, and rental accommodation will retain its importance to those unable to take their first step onto the property ladder."

- Ends -

Methodology

Kent Reliance's research team analysed ONS census, ONS population and English Housing Survey data to establish the regional weighting of the private rented sector, its size and growth rate. Rental property prices are based on the average differential between rental property and house price data from Land Registry and Registers of Scotland, indexed against the ONS house price index. Rental data incorporates figures taken from Citylets, yield data from LSL Property Services and index data from the ONS. All rental and property value data has been weighted to account for the changing regional composition of the private rented sector. Buy to let mortgage data is based on analysis of figures from the CML and ARLA. Unless otherwise stated, the data analysed is between Q1 2007 and the first quarter of 2017, and references to "the last year" refers to the year to the end of Q1 2017.

Unless otherwise stated, all survey data is based on a survey of 754 landlords, conducted by BDRC Continental in the first quarter of 2017.

Notes to Editors:

Contacts:

Teamspirit PR

Nick Albrow / Leanne Tsang

T: 020 7360 7877

E: OneSavingsBank@teamspiritpr.com

About Kent Reliance
Kent Reliance, part of the OneSavings Bank Group, maintains a link to our great history through Kent Reliance Building Society of offering financial products to the people of Kent for over 150 years and more recently the whole of the UK. It has built a strong position as a specialist mortgage lender and has an excellent reputation with customers and the national press as a value for money retail savings provider.

About OneSavings Bank Plc
OneSavings Bank plc ('OSB') began trading as a bank on 1 February 2011 and was admitted to the main market of the London Stock Exchange in June 2014 (OSB.L). OSB joined the FTSE 250 index in June 2015.

OSB is part of a specialist lending and retail savings group. OSB is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

OSB focuses on selected sub-sectors of the lending market in which it has established expertise, platforms and capabilities, and where opportunities have been identified for both high returns on a risk adjusted basis and strong growth. These include Residential Mortgages (comprising first charge, second charge and shared ownership), Buy to let/SME and Personal Loans. OSB originates organically through specialist brokers and independent financial advisors.

OSB is predominantly funded by retail savings originated through the established Kent Reliance franchise, which includes a network of branches in the South East of England, as well as online and postal channels. Diversification of funding is currently provided by a securitisation and OSB joined the Funding for Lending Scheme in early 2014.