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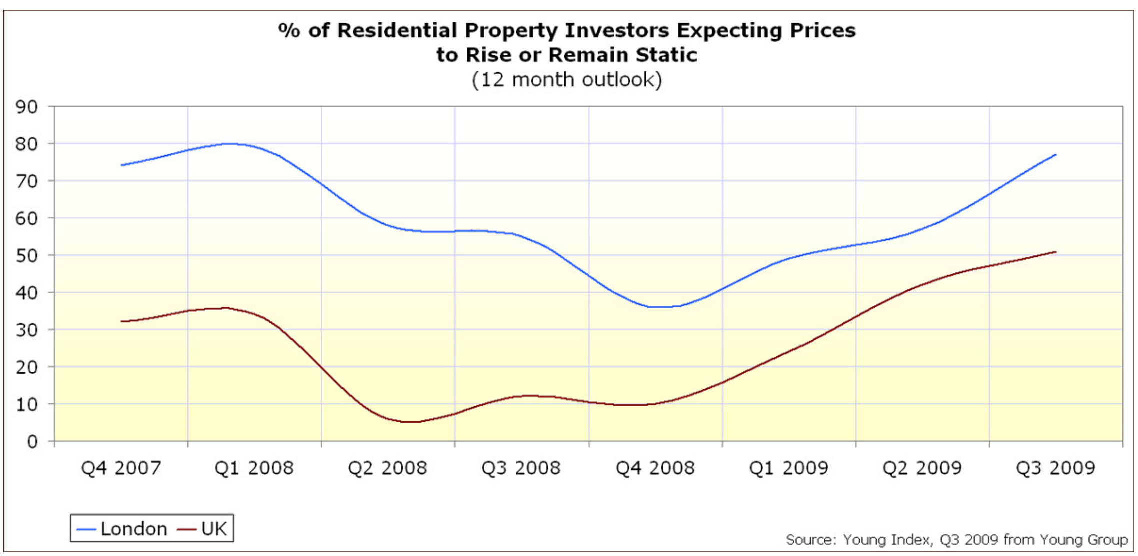
Landlords Increasingly Positive about Property Prices but Remain Hampered by the Mortgage Market

Latest results from Young Group's Young Index show the continuation of a rising trend; increasingly positive sentiment among buy-to-let landlords that property prices will stabilise and rise over the next 12 months.

77% of investors believe that London property prices will be at current levels or higher by this time next year (an increase from 57% in the previous quarter and up from a low of 36% in Q4 2008) and 51% of landlords expect the same to be true of UK property outside the capital (up from 42% in Q2 2009 and just 12% a year ago). But despite this increasingly positive 12 month outlook, the expected pace of market recovery remains fragile. Landlords forecast an average property price rise of less than 1% for London property and a fall of 1.62% for UK property outside the capital.

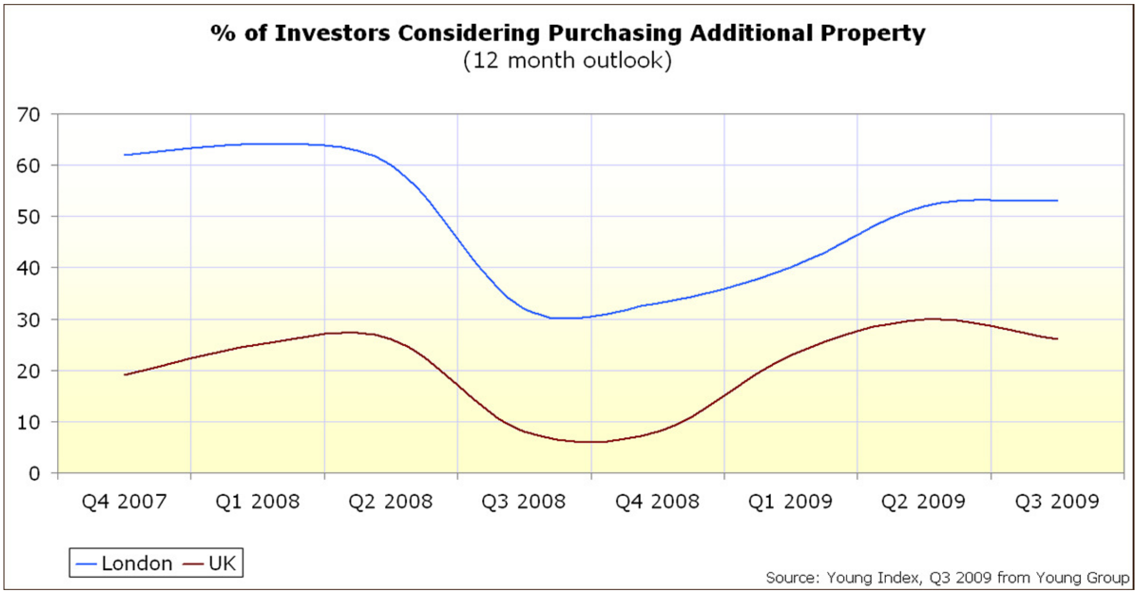
Figure 1:



London remains the preferred location for investors; 53% are considering buying additional property in the capital within the next 12 months (a similar level to the previous quarter although still down from the peak of 64% in Q1 2008). This compares to 26% of investors who are considering adding UK property outside of the capital to their rental portfolios.

However, the results from the Q3 2009 survey of investor market sentiment show that the percentage of investors who expect to acquire additional properties over the forthcoming 12 months is stabilising (see figure 2).

Figure 2:



Neil Young, CEO of Young Group, points out: *"Our Young Index results for Q3 show that landlords are increasingly positive about the property market; a rising proportion believe that capital values are set to increase over the next 12 month, albeit by a very small percentage. From a practical point of view, it appears that landlords are fully aware of the current difficulties in securing buy-to-let mortgage funding to acquire additional rental property and the proportion of those who expect to add to their property portfolios is levelling off."*

57% of landlords cited a lack of access to appropriate mortgage finance as the main barrier to additional property acquisitions, comments included:

> *"Buy to let mortgages must be available for the market to pick up"*
>
> *"I see property for sale at good prices and want to snap up good investment stock, but just can't get mortgages at appropriate LTV ratios"*
>
> *"Buy-to-let won't swell again until mortgages are more freely available"*

The prevailing scarcity of mortgage funding has been highlighted by Paragon Mortgages who report that at the end of August 2009 there were 196 buy-to-let mortgage products available, a fall from 218 in May 2009 and a staggering 94% reduction from August 2007 when the credit crunch began.

Neil Young comments; *"To some extent the number of available buy-to-let mortgage products is irrelevant, what's needed is a sensible approach to lending with appropriate products, stability, consistency and certainty.*

"No one is suggesting that buy-to-let lending should return to the days of excessive credit and lax due diligence, and it would be hugely irresponsible to do so. But investors are increasingly frustrated that even when taking a conservative approach to investment purchases there is still a high degree of uncertainty, and little consistency, over whether a mortgage offer will be advanced."

Rental Market Bolstered

Young Group's estate agency business, Young London, highlights the effect of reduced mortgage finance in bolstering the rental market. Despite press reports of an overabundance of property offered for rent from 'reluctant landlords' who are unable to sell, 'reluctant tenants' [those who are renting property until they are able to secure a residential mortgage] are bolstering the rental market. Young London's letting team has seen tenant enquiries rise by 24% over the past quarter alone and the occupancy rate for property let through Young London is currently higher than 99%.

Neil Young sums up, *"Landlords with the right property in the right location who are realistic about their rental expectations are benefiting from the current market conditions, seeing positive cashflow as a result of low interest rates and rental income that has not significantly reduced, despite the Association of Residential Letting Agents (ARLA) reporting last month that available rental stock was 48% higher than a year ago. Many landlords are eager to grow their portfolios but are unable to do so due to the current lack of available mortgage funding. Instead, landlords are sitting tight; the average period that they expect to hold their property investments has risen to 12 years."*

Young Index: Headline Results for Q3 2009

- 98% of investors intend to hold their residential property investments for the next 12 months. 44% intend to hold their assets for at least 10 years (up from 41% in Q2 2009) and 27% of private residential property investors intend to retain their property investments for the next 20 years or more (up from 25% last quarter).
- On average, residential property investors now intend to hold their investment assets for the next 12 years, two years more than this time last year.
- 53% of investors are considering purchasing additional residential property assets within London during the next 12 months, compared to 26% who are looking at opportunities in the UK outside of the capital.
- The outlook for London property prices is stronger than for the rest of the UK. 77% of investors believe that London prices will be at current levels or higher by this time next year (up from a low of 36% in Q4 2008).
- The expectation for the pace of property price recovery is conservative. Landlords forecast an average property price rise of 0.73% for London property – and a fall of 1.62% for UK property outside the capital.
- 51% expect UK property prices outside of the capital to be at current levels or higher within 12 months; the first time since the start of the credit crunch that the majority of respondents point to a UK-wide positive price sentiment.
- 22% of respondents expect the Bank of England base rate to be at the current all time low of 0.5% in 12 months time and 98% believe that it will remain below 2.0%, well below the long term average of 5.0%. According to Young Index Q3 2009, the average interest rate outlook for Q3 2010 is 1.16%.
- 57% of respondents cite a lack of lending in the mortgage market as the principal barrier to investment property acquisitions.