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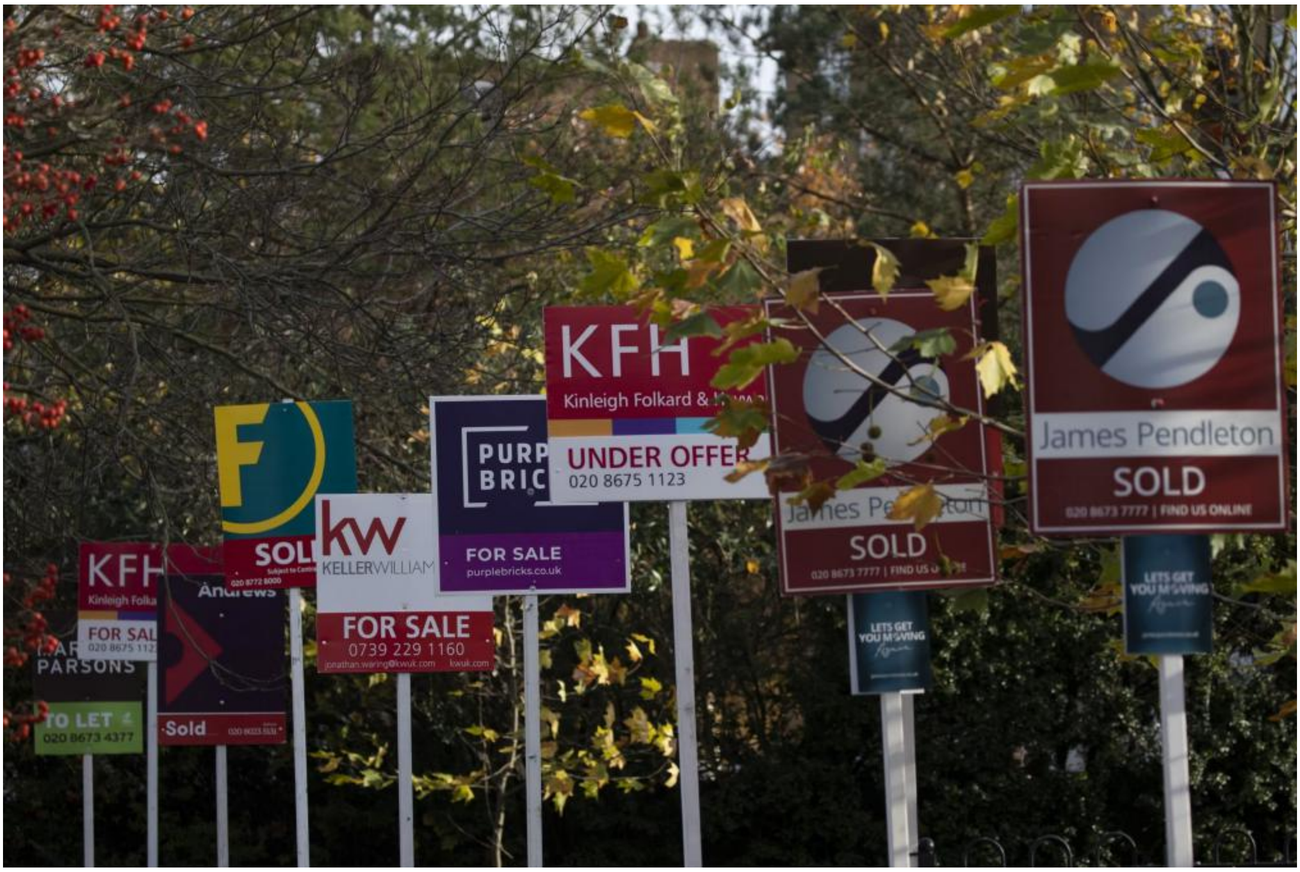
Could lenders follow landlords in a buy-to-let exodus?



Three in 10 landlords plan to cut the size of their portfolio this year, according to NRLA research. (Simon Dawson/Bloomberg)

By **Chloe Cheung**

Tax changes and proposed energy efficiency requirements have already put a question mark over the viability of buy-to-let, but higher mortgage rates have added an extra challenge for landlords.

According to research for the National Residential Landlords Association, three in 10 landlords (30 per cent) plan to cut the size of their portfolio this year. The organisation says this marks the highest level of planned disinvestment in more than six years.

So if landlords do realise their plans to scale down their portfolio, or even exit the BTL market altogether, what impact might this have on the mortgage market?

> If amateur landlords continue to exit further, we could see mainstream lenders... look to pull back from the market.
>
> Stephanie Charman, Sesame Bankhall Group

The potential for amateur or accidental landlords to exit the market could see a reduction in BTL business across more 'vanilla' lenders, and tighten criteria for those remaining in the market, says Jon Cooper, head of mortgages at lender Aldermore.

"Specialist lenders that focus on limited company BTL and portfolio landlords, which by tradition have a more flexible lending approach, may receive more business as a result," he says. "If this were to occur, it would have a knock-on effect on some specialist lenders' operational rhythms and delivery timescales."

Read more from FTAdviser on the BTL sector

- What help is out there for BTL investors and landlords?
- Tax considerations for BTL investors
- Landlords still 'in the dark' over EPC regulations

Stephanie Charman, strategic relationships director at Sesame Bankhall Group, says she has seen a small number of amateur landlords selling properties due to pressure from interest rates, the potential for significant spending to bring properties up to EPC specifications, and concerns around increases in rent arrears.

"However, if amateur landlords continue to exit further, we could see mainstream lenders who don't offer a more specialist product range look to pull back from the market," she says.

How could mortgage rates be affected?

Although mortgage rates are influenced by factors besides demand, Charles Ayton, senior commercial manager at largemortgageloans.com, says there would be some impact on rates if there were fewer BTL landlords, and therefore less demand for BTL mortgages.

Gross BTL mortgage lending is forecast to fall this year, according to UK Finance (Luke MacGregor/Bloomberg)

“There will be fewer providers chasing that market, and therefore those that are left providing it may be able to increase their prices because they are the go-to provider. But of course, the whole thing needs to be competitive still,” he adds.

With UK Finance having forecast gross mortgage lending to fall this year, Chris Kirby, head of key accounts and specialist distribution at The Mortgage Lender, says lenders will be as competitive as they can to acquire the levels of business they need.

But he also says it is unlikely that lenders will just reduce rates.

Lenders and landlords shifting focus to HMOs

Dale Jannels, managing director at Impact Specialist Finance, a broker, packager and distributor, likewise cites how the market is going to shrink this year. “There’s going to be a lot of lenders going for a lot less business,” he says.

“And therefore they’ve got to come out with something that’s pretty unique to attract that volume to them, to hit their targets and make it a viable year for them.”

What do mortgage market forecasts predict?

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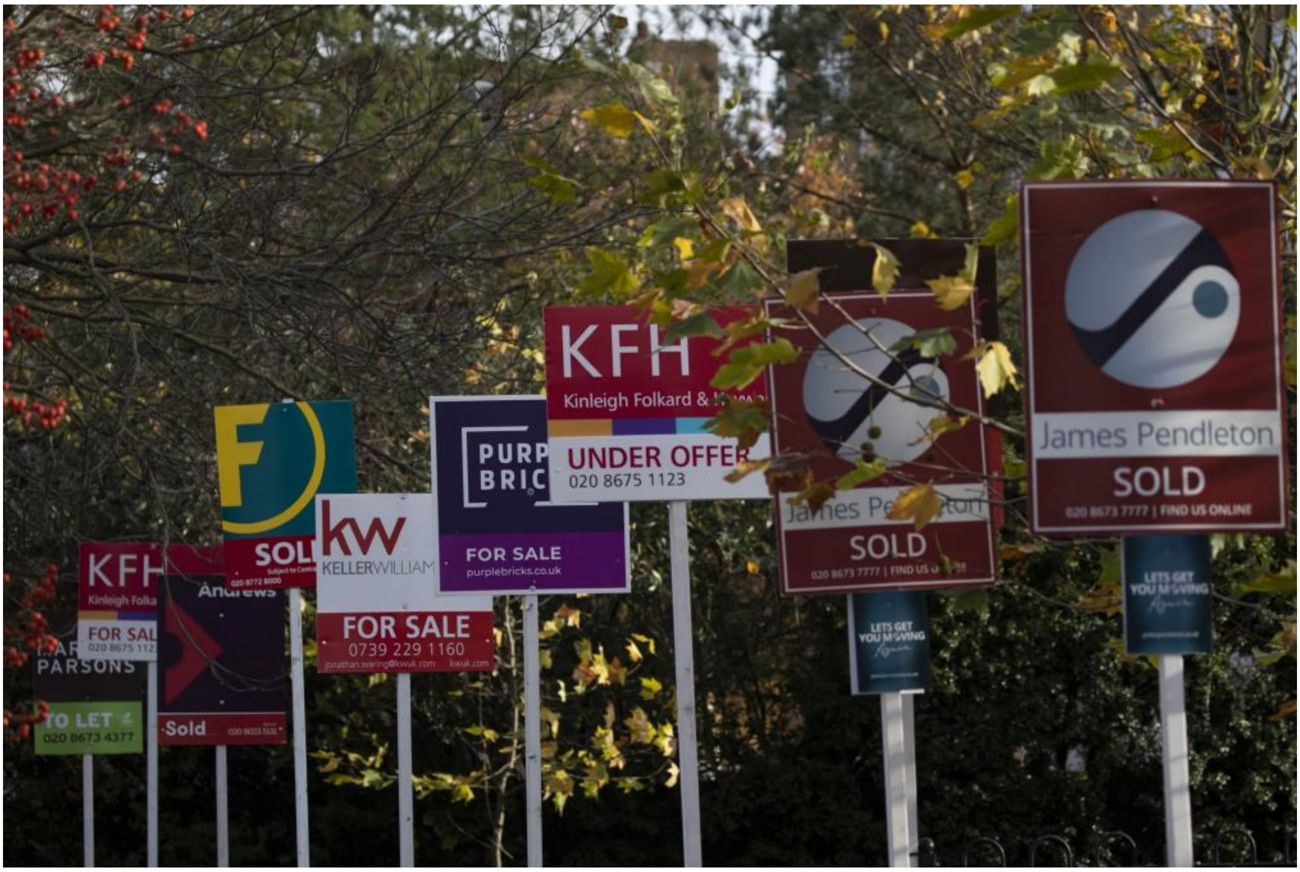

Three in 10 landlords plan to cut the size of their portfolio this year, according to NRLA research. (Simon Dawson/Bloomberg)

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Gross BTL mortgage lending is forecast to be at £13bn for house purchase this year, and £30bn for remortgaging, according to UK Finance, marking a 27 per cent and 22 per cent decrease respectively year-on-year.

	2022	2023	2024
Gross BTL mortgage lending for house purchase (£bn)	18	13	11
Gross BTL mortgage lending for remortgaging (£bn)	38	30	28
Source: UK Finance Mortgage Market Forecasts			

While rates are driven by the market, Jannels says he thinks lenders will look at criteria.

“[Lenders] have no real control over the rates at all. So I think it’s going to have to be criteria – so houses in multiple occupation, student lets, holiday lets. These are all high rental yield entities and attractive propositions.”

Although Charman says Sesame Bankhall Group has seen a small number of amateur landlords selling properties, she also says the group has seen “strong activity” from professional landlords buying property and diversifying their portfolios by looking at HMOs and multi-unit blocks.

> They’re not buying a single BTL anymore. They’re buying HMOs or student lets
>
> Dale Jannels, Impact Specialist Finance

Jannels makes a similar observation. “There are some landlords who are looking to exit the market. But they tend to be the landlords that maybe have been an accidental landlord; they might only have one or two properties.

“But we’re seeing lots of landlords at the moment, especially the portfolio landlords, who have got space and capital or equity in their properties; they’re actually raising money at the moment to buy more properties, because they’re seeing it as an opportunity, rather than a hindrance.

Dale Jannels, managing director at Impact Specialist Finance

“What they are doing though, is they’re not buying a single BTL anymore. They’re buying HMOs or student lets, where they can rent out per room rather than the BTL as a whole.”

Jannels adds: “I think because they’re comfortable the rental incomes are going to fit.

“Whereas if you’ve got a normal two bedroom house, you’re probably going to find in the current climate that the rental income is probably going to be very tight [with regards to] getting the mortgage that [the landlord] wanted.

“Whereas a HMO is going to attract a bigger rental income, and therefore the rental income calculations would probably fit the loan required based on… renting out room-by-room.”

Cooper at Aldermore, who agrees that experienced landlords are looking for more value for money and moving into areas such as HMOs or refurb-to-let, says: “I expect to see that a portion of lenders will look to adapt to offering experienced landlords more diverse product sets, such as bridging or refurb solutions to HMO products."

> There's still plenty of opportunity for lenders within the space
>
> Chris Kirby, The Mortgage Lender

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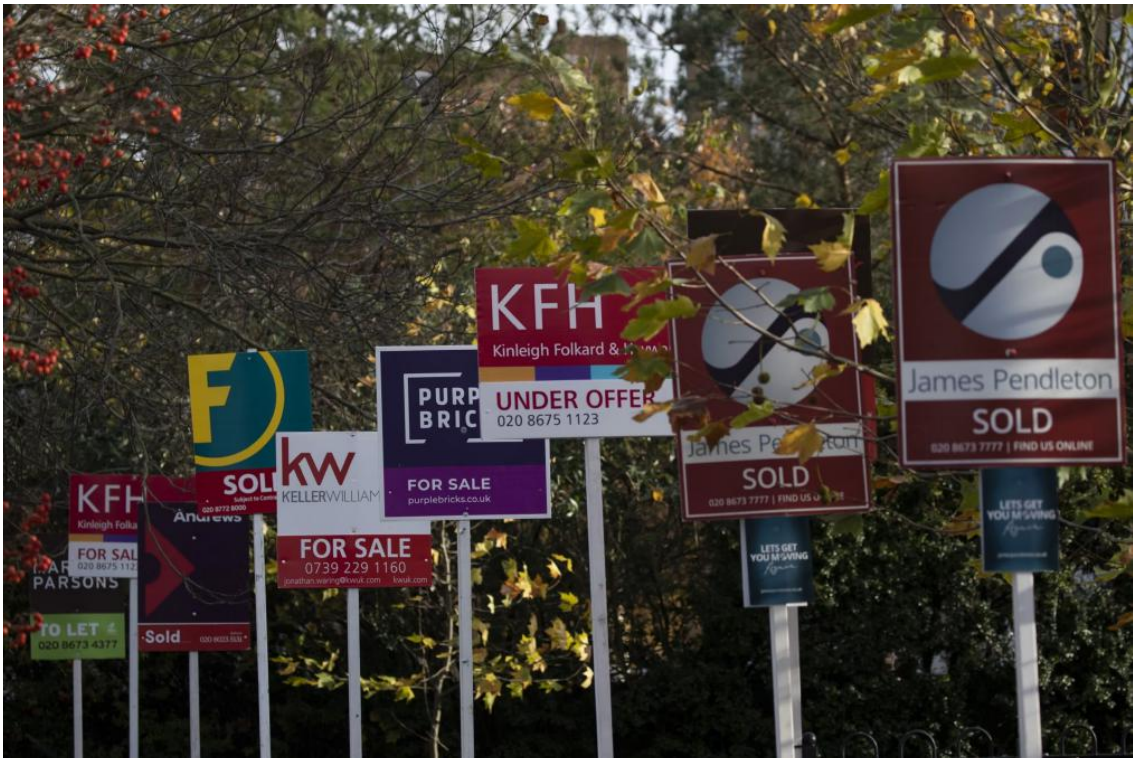

Three in 10 landlords plan to cut the size of their portfolio this year, according to NRLA rese[illegible] Dawson/Bloomberg)

Bookmark this article to read later.

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Although Kirby at The Mortgage Lender says there are some professional landlords with larger portfolios who may also be re-evaluating their portfolios, and making a move on some of the less profitable properties they have, he adds that these landlords are "ultimately not going anywhere".

"With talk about house prices potentially falling over the course of the year, this typically presents a good opportunity for landlords with decent cash reserves to buy more properties where they see good investments," says Kirby.

"Therefore, while some may exit, others are likely thinking about joining or expanding in the market, which means there's still plenty of opportunity for lenders within the space."

Chloe Cheung is a senior features writer at FTAdviser