



**Property  
Finance.**



**Shawbrook  
Bank**



# **The Changing Face of Buy to Let**

August 2021

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## Research Methodology

The research involves detailed analysis of ONS population projections, ONS English Housing Survey and Ministry of Housing, Communities & Local Government data to establish the regional weighting of the PRS, its size and growth rate. Rental property prices are based on the average differential between rental property and house price data from Land Registry, the Welsh Government and Registers of Scotland, indexed against the ONS house price index. Rental data is gathered from index data from the ONS. All rental and property value data has been weighted to account for the changing regional composition of the PRS.

Unless otherwise stated, the data analysed is between Q1 2020 and Q1 2021, and references to “the last year” refers to the year to the end of Q1 2021. Research was conducted by Teamspirit for Shawbrook Bank.

Shawbrook Bank and Opinium research undertook research between 26th May and the 3rd June 2021 to ascertain landlord and tenant viewpoints. Shawbrook Bank surveyed 1,000 landlords, including 150 portfolio landlords, and 1,000 private tenants on their property portfolio and rental situation respectively. Shawbrook also undertook research amongst 187 commercial and second charge brokers on their views on the future of the market.

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# Foreword.



**No one could have predicted the way the Covid-19 pandemic would dominate the headlines and touch every aspect of our lives. And along with many others, the property market was not immune to its effects.**

As we entered our first national lockdown in March 2020, the outlook for the housing market was uncertain. However, government incentives negated the economic impact of the pandemic and both buyers and sellers alike sprang into action in response.

Meanwhile, the private rented sector (PRS) also stood up to the challenge. Landlords acted sensibly, with significant numbers offering their tenants rent holidays or reductions during the most difficult times. And as we look towards recovery, investors remain confident about the future of the market. With demand for housing stock high, supply remaining low and access to mortgage finance for would-be home-owners problematic, the PRS remains a vital component of the UK's housing market.

The pandemic has transformed our needs and wants when it comes to property. As flexible working becomes the norm, the commute, for many, is no longer the defining factor in choosing where to live. Instead of a small city centre flat close to work, many are opting for a larger property further out, with access to green space. Landlords are taking note and responding to these changes in demand. Whether that means choosing another area or property type when adding to their portfolio or renovating their current properties, landlords are cognisant of changing demands – and the returns that can be made from responding to them.

Indeed, the hunt for greater returns is on. Landlords are considering where they can add value to their property and where they can access the greatest yields. The North of England has seen a surge in interest as yields have soared over the last twelve months, whereas London has seen growth slow.

In this report, our first detailed look at the buy-to-let market, we examine the impact of the pandemic and the subsequent government initiatives that have helped stimulate the market in recent months. We consult the views of both landlords and tenants to get a full picture of demand, while also looking to the future to establish where investors can find value in the longer term.



**John Eastgate**

Managing Director, Property Finance at Shawbrook Bank



# Executive Summary

## Market Overview

- The Covid-19 pandemic and subsequent government reaction has dramatically re-shaped the market
- The Stamp Duty Holiday has turbo-charged the property market after the first national lockdown paused transactions
- The value of the PRS continues to increase, driven by rising house prices as the Stamp Duty Holiday fuels demand but supply remains low
- The PRS has contracted over the last year by 2.6%, making up 17% of overall housing stock, but the outlook points to growth

## Landlords

- Almost half (46%) of landlords reduced monthly rent payments for their tenants because of the pandemic
- More than a third of landlords plan to buy property in the next year, with two thirds confident about the market. The North of England sees rental yields rise, with more landlords planning to buy there

## Tenants

- Average rent across the UK is £919 per month, with London remaining the most expensive at £1,754 per month
- Rents have increased annually by 1.6%
- More than half of renters said they would be prepared to pay more money if the landlord undertook a renovation of the property

## Lenders

- Despite the impact of March 2020, mortgage lending is back on an upwards trajectory according to UK Finance
- Re-mortgaging levels expected to grow by 4% in 2021 as the possibility of rising interest rates prompts more to fix this year





# 1. Landlord co-operation a feature of the pandemic

The Covid-19 pandemic has clearly impacted the property market. The first UK national lockdown saw transactions grind to a halt as buyers and sellers were prevented from proceeding with plans. Entire industries shut down, impacting the incomes of both businesses and individuals, and therefore their ability to pay their mortgage or rent.

It's estimated that since March 2020, when the Coronavirus Job Retention Scheme was introduced, 11.2 million workers have been furloughed in the UK, and concerns remain over the impact the scheme ending will have on unemployment<sup>1</sup>.

With severe concerns over financial security, the government encouraged both lenders and landlords to grant payment holidays to ease the burden. Residential landlords stepped up to this challenge with close to half (44%) offering their tenants a rent holiday or rent reduction.

Of those landlords offering either a payment holiday or rent reduction, take-up was high. In fact, across their portfolios, most of these landlords saw 50% of tenants utilising a payment holiday or rent reduction. These special measures were typically in place for three to four months and were largely suggested where landlords knew their tenants were concerned over their financial security due to being furloughed or being made redundant.

Offering either of these measures came at a cost to landlords. One-in-ten said that they had seen their rental income reduce since March 2020. On average, landlords estimate they lost £7.6K due to payment holidays, and £6.5K on rent reductions.

Perhaps unsurprisingly, landlords that predominantly own properties such as flats, HMOs or student accommodation were more likely to experience a reduction in income. The first national lockdown saw many in cities or in shared households look to move back to a family home or to alternative accommodation in order to have more living or outdoor space. In addition, with working from home the new norm and proximity to work no longer a prerequisite, some realised they could save money by moving further away from city centres. This left some landlords with empty properties over the past eighteen months. In fact, close to a third of landlords said they had at least one property empty during the pandemic.

1. <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-february-2021/coronavirus-job-retention-scheme-statistics-february-2021>

**Figure 1**

Portfolio landlords were more likely to suggest a rent reduction or payment holiday



## 2. Buying patterns have changed as government incentives drive demand – beyond the stamp duty holiday

The Stamp Duty Holiday, introduced by the UK government to help restart the property market after the first lockdown, had its desired effect – and more. Transaction levels in the first three months of 2021 were 51% higher than the previous year, and higher than any quarter since 2005<sup>2</sup>.

Landlords have been making the most of the Stamp Duty Holiday too. More than a quarter (28%) of landlords, and close to a half of (43%) portfolio landlords (those with four or more properties in their portfolio) have already bought property this year because of the Stamp Duty Holiday. A further 13% were in the process of buying a property when surveyed as a direct result of the government incentive. Indeed, of those that had bought, or were in the process, 46% of landlords said they

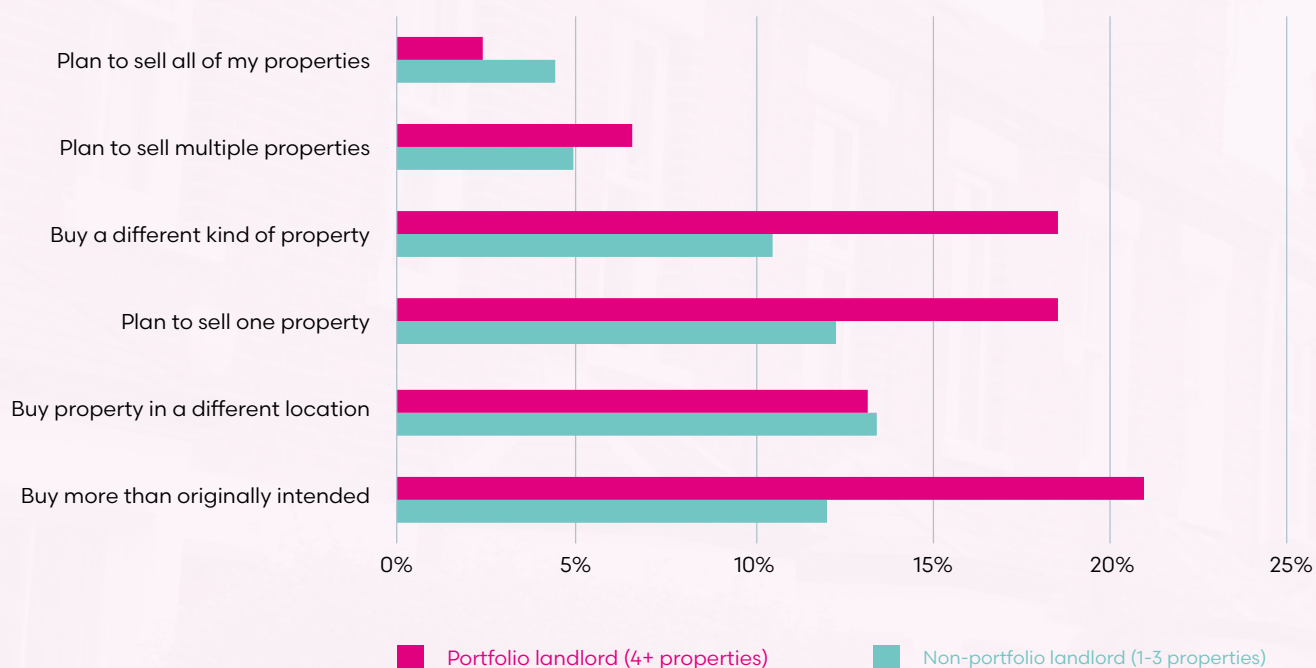
would not have done so had it not been for the holiday. Landlords said that the incentive was a 'good financial opportunity' and a quarter said it had given them the confidence to expand spontaneously.

While the Stamp Duty Holiday has come to an end, this hasn't put a dampener on the property market as was originally prophesied. Two thirds (67%) of landlords said that they were confident about the future of the property market over the next twelve months, with a third (34%) of all landlords planning to buy a property in that period. Mortgage Brokers too remain confident with 71% saying that property investors are more likely to increase their portfolio in 2021, with 12% predicting that the end of the Stamp Duty Holiday will have no impact on the market.

2. <https://www.gov.uk/government/statistics/monthly-property-transactions-completed-in-the-uk-with-value-40000-or-above>

**Figure 2**

Since the start of the pandemic landlords have changed their purchasing plans



### 3. Landlords respond to changing needs from tenants

We know that the pandemic has had a significant short-term impact on the property market, but what are the longer-term effects? There have been a number of systemic shifts made in the past eighteen months, one being the move to flexible working that could have a considerable impact on the way we buy and rent property for many years to come.

Landlords are conscious of the changing demands of their tenants and are already shifting their purchasing plans accordingly. One-in-ten (12%) landlords plan to make their next purchase in a different location to their other properties. Of these close to a third (30%) plan to buy in a more rural location. The North of England in particular is a popular choice for those considering their next investment.

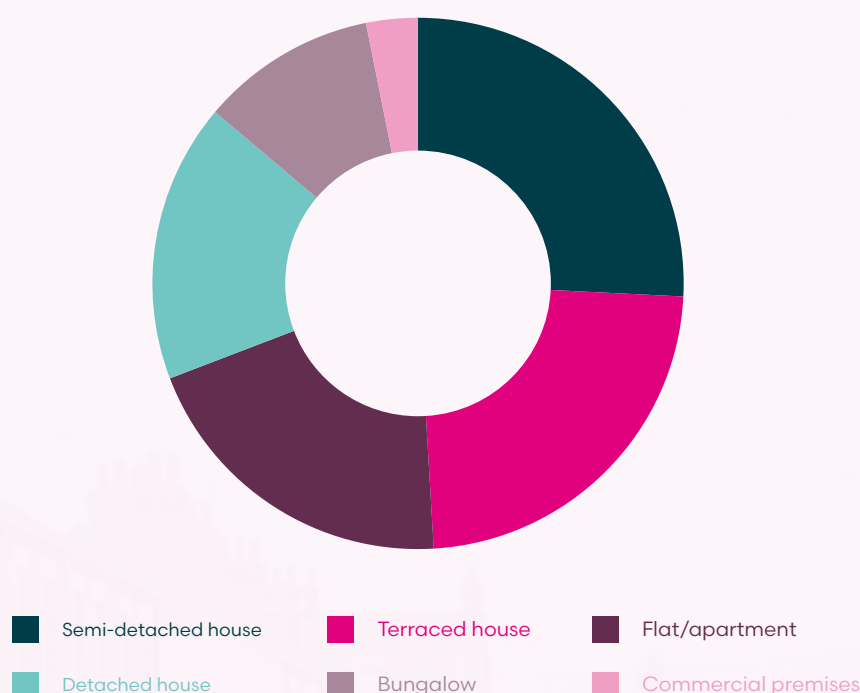
A further one-in-ten (13%) plan to buy a different type of property to what they already have in their property portfolio.

Landlords are also looking for specific property attributes to help attract tenants to their properties, and these largely match up with what tenants are looking for from their next property. Half (48%) of tenants said that a garden was their top priority for their next property, followed by off street parking (26%). Gardens were a key feature for landlords too, with a third saying outside green space would be a prerogative when they next bought a property.

Having learnt lessons from the pandemic, landlords are also looking to protect themselves from further economic shock. 17% said they would look for a property that could double as a holiday let if needed. This would help landlords, in the event of a void period, to make the most of the current staycation boom as international travel remains difficult.

**Figure 3**

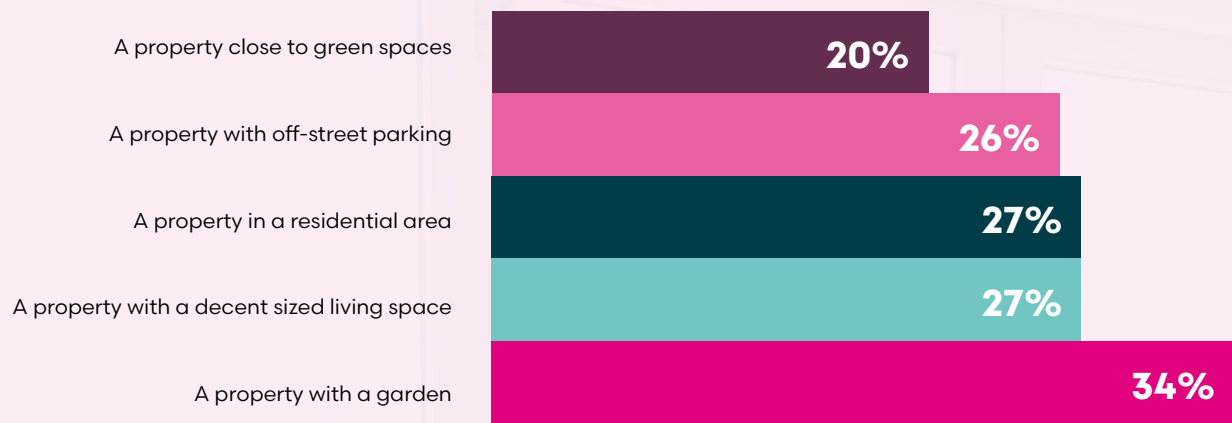
Landlords favour semi-detached properties as tenant demand shifts



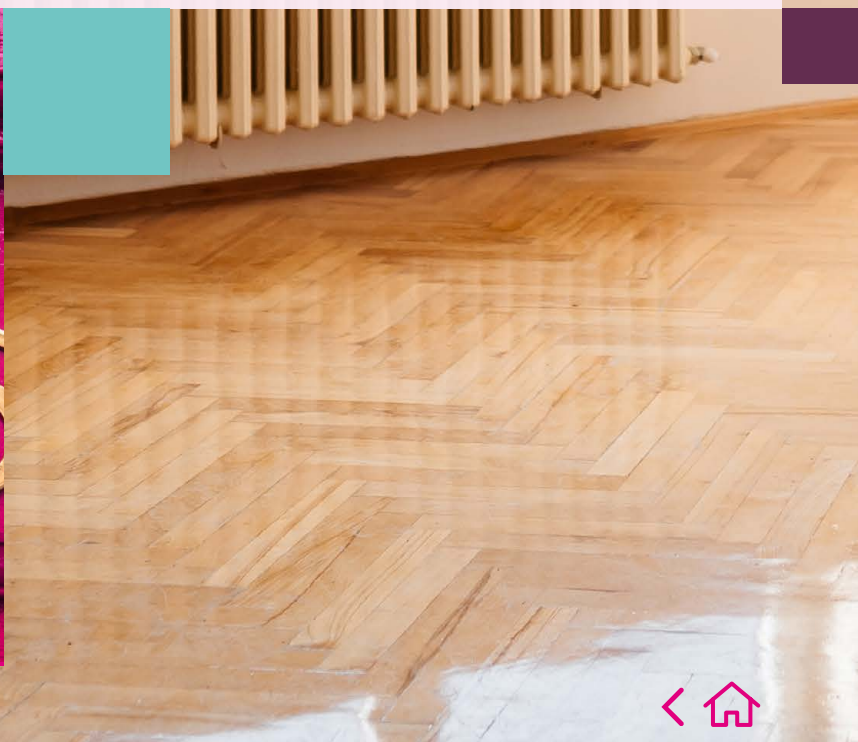
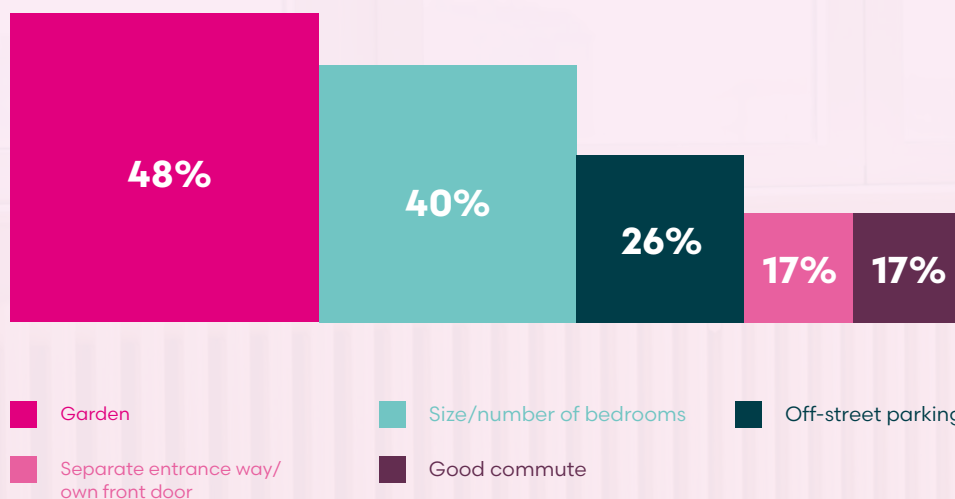


# 3. Landlords respond to changing needs from tenants continued

**Figure 4**  
Top five priorities for landlords looking for their next buy to let property



**Figure 5**  
Top five priorities for tenants looking for their next rental property







## SHAWBROOK VIEWPOINT:

**"It's no surprise that at a time of significant change, and a booming market, landlords are considering switching up their investments and expanding. However, it's important they exercise caution and do their research to ensure they are fully up to speed with the nuances of a different asset class or geography. We'd always recommend that landlords concentrate on one area of the market first as they build their portfolio and gain confidence before stepping out and trying a different asset class."**

## 4. Drilling down into the drivers of the Private Rental Sector (PRS)

The past eighteen months have been a time of substantial transformation for the PRS, but change is not a new concept for the sector. In fact, change has been a constant. The sector has undergone a period of professionalisation over recent years as taxation and regulatory changes took effect. This has slowed its growth, and in the last year we saw the PRS in the UK (England, Scotland and Wales) contract. However, this reduction isn't as surprising as it may seem. In the English Housing Survey, it is noted that the proportion of households outside of London actually contracted in 2019/20<sup>3</sup>. Considering the impact the pandemic has had on larger cities and in particular London, it is therefore unsurprising that we have seen the number of households in the PRS reduce over the course of the last year.

The most recent Stamp Duty Holiday, in addition to the Stamp Duty cut for first time buyers, and the Help to Buy scheme, has also provided further impetus and support for young people particularly in London, to get onto the property ladder. Indeed, of those tenants who plan to move out of their current property within the next year, a quarter (26%) said they were doing so because they expect to buy. This was most common among those aged between 35 and 54 years old (29%).

As of March 2021, there were 4.8 million properties in the PRS, accounting for 17% of all households in England, Scotland and Wales. The proportion of households has declined by 2.6% since March 2020 according to Shawbrook's analysis of ONS data, the English Housing survey, dwelling stock data from the Welsh government and Scotland's housing statistics.

However, the value of the PRS has grown over the same period, reflecting the boost to house prices. Indeed, our analysis suggests the value of the PRS grew to £1.4trn as of December 2020, a 5.8% increase on December 2019.

While the Stamp Duty Holiday has clearly provided an impetus for buyers to get onto the property market, rising house prices coupled with the disruption to employment and lagging wage inflation will make it harder for many to access finance going forward. Evidently the PRS will still have a role to play in supporting tenants.

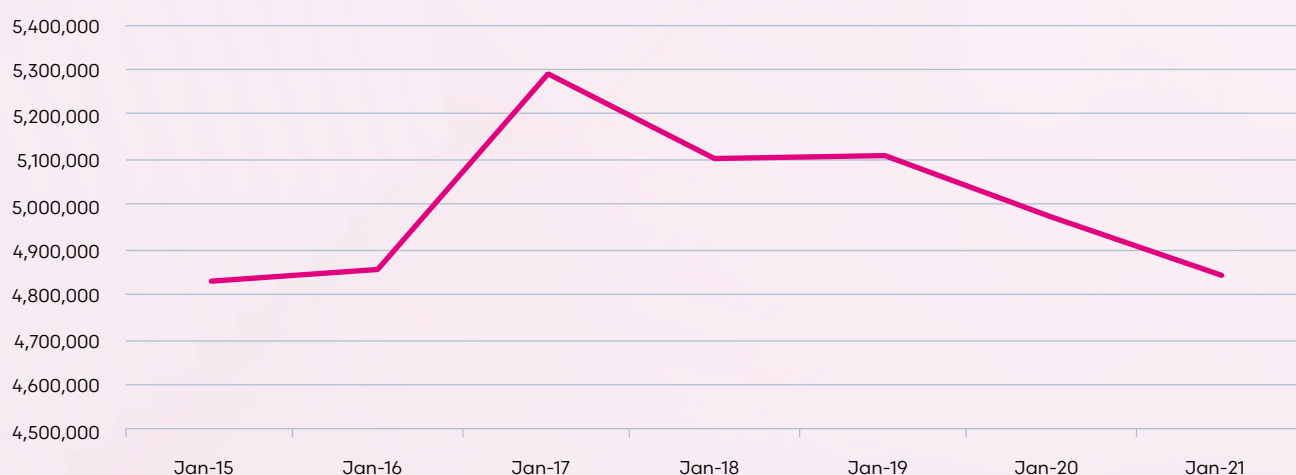
Landlords buying rental properties continue to use mortgage products in order to make a purchase. From our own research, 61% of landlords purchased their last property with a mortgage product. Of these, 32% used a buy-to-let product, while a further 20% used a standard mortgage. 9% re-mortgaged an existing property in order to rent it out. Portfolio landlords were more likely to take on debt to enable a purchase, with 68% using a mortgage product to buy their last property.

Buying a property using a limited company structure has increased in popularity in recent years as landlords looked to mitigate taxation changes. Of the landlords surveyed, 4% had bought their last property through a limited company, however, this number rises to 8% for portfolio landlords and increases even further for landlords with more than 6 properties (10%). This indicates that while limited companies remain a tool for professional landlords with larger portfolios, many landlords are still choosing to invest as an individual.

3. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/945013/2019-20\\_EHS\\_Headline\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945013/2019-20_EHS_Headline_Report.pdf)

**Figure 6**

The PRS contracts in 2020 as pandemic hits the market







**Figure 7**

Value of the PRS continues to grow driven by boom in house prices







## Customer Insight



When the pandemic hit we were forecasting potential drops in rental income at 25-30%, but the reality has been very different for us. We have strong relationships with our tenants, and while some have (and continue to) struggle, we have been very successful at agreeing repayment plans. We've also noticed that voids have been down because tenants haven't been moving to a new house. So higher arrears, but lower voids.

Recently, we have seen an incredible surge of tenant demand. The locations we are invested in are seeing even more "DFL's" (the "Down from London's") wanting to rent to test out a new lifestyle further from the city. While all property types have seen increased demand due to limited supply in the market, larger 2-3-bedroom properties are seeing even more interest.

Security of tenure (i.e. longer rental agreements) has become increasingly attractive to some tenants and this is an area we would like to explore more as a business, potentially alongside commitments to fix rent for a longer period of time. We believe that uncertainty on future rent and security of tenure are elements that make the experience of renting worse than owning – so these are areas we would love to start setting the standard for.

**Jackie Tomes**

Founder & CEO, Tomes Homes







## 5. Renting for longer

Despite a turbulent few years where landlords have been required to react to changing regulations, increased taxation and a global pandemic – the sector continues to show its strength. The PRS remains a vital component of the UK's housing market. As house prices continue to grow, an increasing number of people are renting for longer. According to the English Housing Survey, there was a considerable rise in the proportion of 35-44 year olds living within the PRS from 2009-10 to 2019-20. Renters aged 25-34 years old also grew during this time period. Older renters have also become more common, with the proportion of those aged 55-64 year olds living in the PRS rising from 7% to 10% during the same ten-year period<sup>4</sup>.

This trend is reflected in our own findings, with half (49%) of renters saying they expect to be renting for the rest of their life. Men (53%) were more likely to think that they would be renting for longer

compared to women (46%). Affordability is one reason behind these figures. Half admitted that they currently rent because they cannot afford to buy.

However, a growing number are also choosing to stay renting. More flexible lifestyles have led to some looking for the same from their property. In total, 10% said they prefer the reduced responsibility of renting, while a further 7% said that renting allowed them to live in a better location compared to if they bought. The professionalisation of the sector may also be contributing to this trend as rental stock improves in quality. Of those tenants who had recently moved, half said that they had been satisfied with the rental options available to them.

4. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/945013/2019-20\\_EHS\\_Hheadline\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945013/2019-20_EHS_Hheadline_Report.pdf)

## 6. House prices continue to skyrocket

Since the first national lockdown, house prices have rebounded at pace. March 2021 saw house price growth increase by 9.9% year on year<sup>5</sup>, as the UK's vaccine roll-out continued at speed and buyers and sellers alike increased in confidence. Buy-to-let properties have also been recovering well. The average buy-to-let property has increased 5.6% annually to £258,900 as of December 2020.

While London remains the most expensive region in the UK to buy a rental property, prices in the capital have only increased 2.5% over the last year. In comparison, Wales, the North West and Scotland have seen dramatic increases in price; 11%, 10.7% and 9.5% respectively. Rising prices in these areas reflect the trend of people moving out of the cities for more green space.

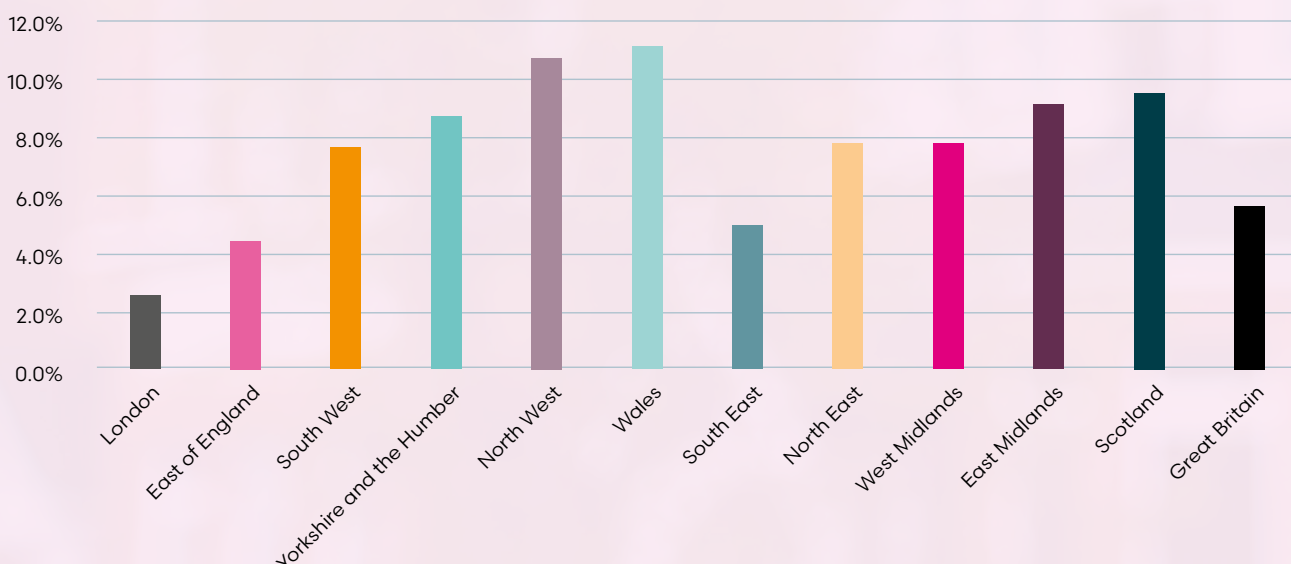
Strong house price growth highlights the opportunity for landlords to achieve solid returns over the long term. And landlords themselves are confident about the future too. This confidence is driving their purchasing decisions and has largely been fuelled by house price growth (41%) and an increase in demand from tenants (41%). In addition, many landlords pointed to the general strength of the economy (33%), and the increased rental yields currently available (26%). The Stamp Duty Holiday has also played its part in instilling landlords with confidence for the future.

Mortgage brokers are also reporting confidence in the market, with a quarter (23%) predicting that the buy-to-let market will see the strongest growth in the second half of 2021.

5. <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/april2021>

**Figure 8**

Wales sees the highest growth in Buy-to-Let property







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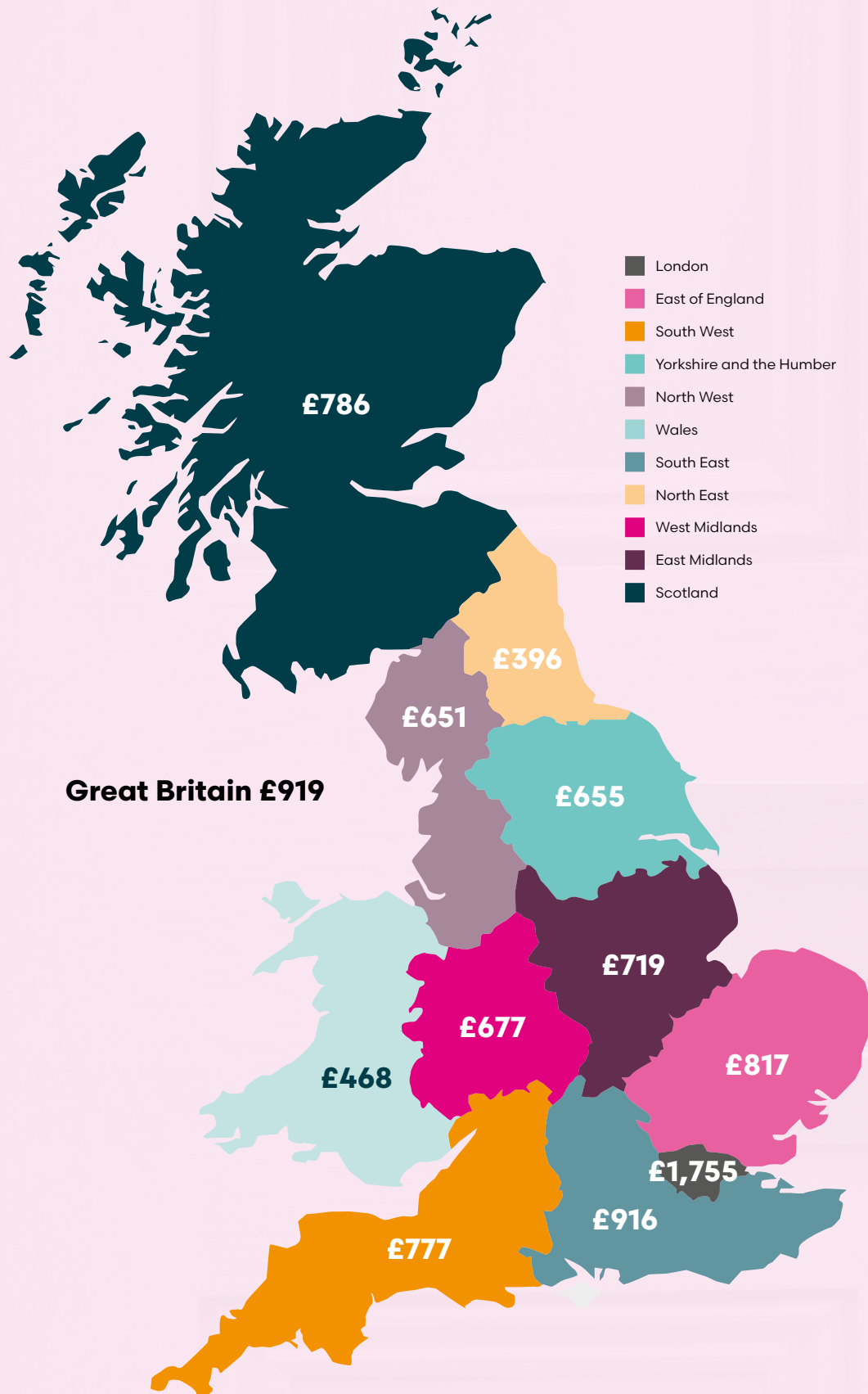
## 7. Understanding demand

Demand from tenants has largely recovered following the dip in 2020 as the national lockdowns disincentivised moving property. Landlords have already experienced a rise in demand from tenants looking for new rental properties. Close to half said that demand had increased over the last twelve months, and of that group 15% said it had increased a lot. Portfolio landlords, those with a more expansive view of the market given their holdings, are more likely to think that demand had increased (54%). In addition, landlords of HMOs and student accommodation have also seen a significant rise in demand from tenants (59%) as universities returned to in-person teaching and young people who had returned to their family homes began to move out again.

And demand hasn't just increased a little. The majority of landlords reported a significant increase in enquiries from tenants of up to 11-50%, with 15% of landlords saying demand has increased by over 51%.

## 8. Where can profits be made?

London remains the most expensive place to rent across the UK with rents on average £1,755 per month (as of December 2020). In comparison, the North East is the cheapest place to rent at £396 per month. Across the UK rents have increased at 1.6% annually, however, areas such as the South West, East Midlands and West Midlands have seen the greatest increase in rents over the last year at 2.6%, 2.4%, 2.2% respectively.





So where can landlords access strong returns from their next property? While London may generate the highest rents, yields for London buy-to-let properties are currently amongst the lowest at 3.9%, below the UK average of 4.3%. In comparison while rents in the North East are low, landlords with properties in this region will have seen a rental yield of 4.5%.

The highest rental yields can be found in the North West (5.5%), Yorkshire and the Humber (5.4%) and Scotland (5.8%).

Of those landlords that said they were planning to buy in another location, the majority said they were doing so in order to access a better yield.

<b>London</b>	3.9%
<b>East of England</b>	3.9%
<b>South West</b>	4.1%
<b>Yorkshire and The Humber</b>	5.4%
<b>North West</b>	5.5%
<b>Wales</b>	3.7%
<b>South East</b>	3.8%
<b>North East</b>	4.5%
<b>West Midlands</b>	4.8%
<b>East Midlands</b>	5.0%
<b>Scotland</b>	5.8%
<b>Great Britain</b>	4.3%

Buying in another location or a different property type isn't the only way that landlords can achieve higher returns. Many landlords are instead looking at their current properties to find more value. Six-in-ten landlords have undertaken a refurbishment in the last twelve months, with 18% doing so for more than one of their properties. Close to half of mortgage brokers also reported an increase in demand from clients looking to fund home refurbishment projects in the past six months (46%).

Notably, 16% of landlords undertook the renovation with the aim of increasing the amount of rent that they could charge their tenants.

Repainting the property (37%), new carpets and flooring (28%) or adding in a new kitchen (27%) or bathroom (27%) were the most popular renovations undertaken by landlords over the last twelve months. Some landlords did even more significant work to their properties with 10% choosing to convert their loft into additional living space and 8% putting a home office in the garden.

Landlords estimate that they spent £13K on refurbishments in the last twelve months, with portfolio landlords spending, on average, an additional £5K on their properties. The majority of landlords used

savings in order to pay for this work (60%).

Concerningly however, 19% used a short-term credit product, indicating that some landlords are not aware of the other secured loan options available to them and could be taking on more risk and higher interest rates than necessary.

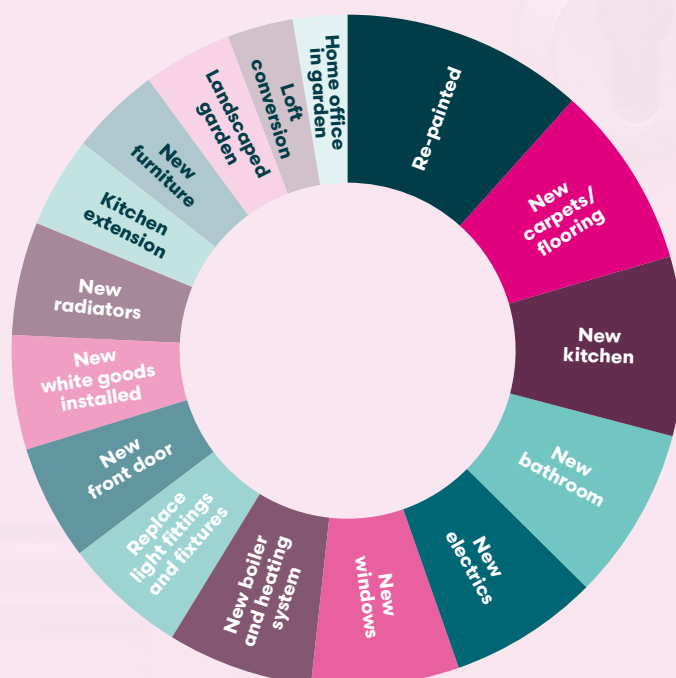
A comparatively small 2% re-mortgaged in order to release capital for a renovation and a further 12% used a second charge mortgage.

Making improvements to a rental property can pay off. The majority of tenants surveyed agreed that they would pay more in rent if their landlord made improvements to their property. For example, 24% of tenants said that they would be willing to pay more if their landlord installed a new kitchen, and 20% said that a new bathroom would be worth paying more for. 18% said that they would be happy to increase their rent if the landlord repainted or the windows were replaced.

Indeed, tenants deemed that a home office would be worth an extra £19 per month and an additional bedroom £22 per month on average. Evidently, landlords can create more value in their properties through a renovation while also ensuring that their properties remain attractive to tenants.

**Figure 9**

Renovations by landlords ranged from re-painting to home offices over the last twelve months







## Going Green

Creating more space or improving a property cosmetically aren't the only reasons why a landlord may carry out a renovation. Many landlords also undertook a refurbishment in the last twelve months in order to improve the energy efficiency of their property. Of the landlords who renovated, 17% made changes in order to improve their Energy Performance Certificate (EPC) rating, and this rises to 22% for portfolio landlords.

In April 2020 new regulations came in that meant that all buy-to-let properties in the UK must have a minimum EPC rating of E, regardless of when the tenancy started. This meant that landlords of properties with a rating of F-G, the lowest ratings, were required to make changes or face financial penalties. With new regulations coming in from 2025 that will require a rental property to have an EPC rating of 'C' or above for new tenancies, moving to all tenancies by 2028, it's likely we'll see more landlords carrying out renovations to improve their properties rating.

New regulations are not the only reason why a landlord may want to make their property more environmentally friendly either. As sustainability tops the agenda for many governments and businesses, many lenders are also taking steps to ensure the properties they are lending against are environmentally friendly. Termed 'Green Mortgages', these new products in the market will often reward property owners with lower rates, reduced fees or higher LTVs should green home improvements be made.

Demand from tenants can also be linked to a property's environmental credentials. In fact, 10% of tenants said that they would pay more if the landlord installed solar panels and 15% said they would be happy to increase their rent if the landlord updated the boiler and heating system.



## Conclusion

**There is no doubt that the last eighteen months have had a significant impact on the property market in the UK. The first national lockdown had a knock-on implication for demand in the market and transactions plummeted over this period. This was quickly reversed with the introduction of the Stamp Duty Holiday which saw sales and house prices skyrocket.**

Landlords have played, still play, and will play, a pivotal role within the housing market. They've stepped up to offer tenants rental breaks and reductions where they've been affected by the economic implications of the pandemic and subsequent government restrictions. And with fewer able to or planning to buy, the need for professional landlords with good quality properties has never been higher.

Indeed, with the Stamp Duty Holiday now at an end, and house prices continuing to outstrip inflation, many will continue to struggle to get their foot on the property ladder. The PRS therefore will continue to play an important role in supporting these tenants.

In this report, we have looked at how the PRS has changed since the onset of the pandemic, from both a landlord and tenant viewpoint. While some landlords have chosen to sell-up, the strength of the PRS has been overwhelmingly proven with many landlords choosing to buy more properties than originally planned. Indeed, confidence remains high, and landlords are well equipped to react to any future changes coming down the line.

The introduction of Green Mortgages and the move towards sustainability is likely to be the next challenge that landlords face as tenants increasingly seek energy efficient and environmentally friendly homes.

As the UK looks to rebound economically, it's possible that we will also see measures put in place to aid the recovery. Whether this is additional taxation, or an increase to the Bank of England's base rate to curb inflation, the second half of 2021 will be pivotal and property investors will be paying close attention to announcements.

Ultimately confidence in the market remains high among landlords, and it's vital that investment continues to flow into a sector that is supporting so many across the UK. Access to high quality, sustainable rental properties is paramount, and professional, responsible landlords that can offer this are likely to reap the rewards.



**Shawbrook  
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