



Mortgages for Business

Q2 2018



Buy to Let Mortgage Index Q2 2018

Buy to let mortgage lending trends
Product pricing
Effect of underlying cost of funds
How fees & charges affect pricing
Borrowing by property type
Personal versus Ltd Company borrowing



Buy-to-Let Mortgage
Broker of the Year

About this index

Previous Indices Combined

Here at Mortgages for Business we track and analyse developments in the buy to let mortgage market to help landlords and property investors make informed investment finance decisions.

First published in Q1 2018, the Buy to Let Mortgage Index combines four indices

- [Buy to Let Mortgage Product Index](#)
- [Buy to Let Mortgage Costs Index](#)
- [Complex Buy to Let Index](#)
- [Limited Company Buy to Let Index](#)

To see the previous results of any of the four indices, please visit the news and insight section of our website.

Data & Methodology

Lenders and products

Data is obtained from Mortgage Flow, our proprietary buy to let mortgage product sourcing system. Lenders tracked in the index are chosen for their active contribution to the market and include market-leading mainstream providers, the challenger banks and the specialists which cater to full-time portfolio landlords with complex borrowing requirements. Some lenders and products have been excluded, typically those with bespoke offerings and products only available on properties in smaller, regional areas.

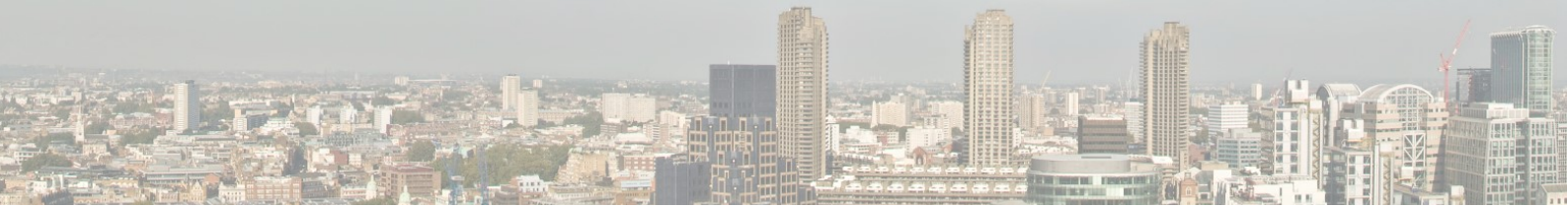
Interest rates

In order to track buy to let interest rates, 12 “standard” product ranges have been selected. These are two, three and five year fixed rate and discounted/tracker mortgage products at 65% and 75% loan to value. Life time tracker products have also been incorporated into the results for each of the above periods for the discount/tracker products.

Effect of fees & charges on headline rates

The total cost of the mortgage (including lender arrangement fees, valuation fees and legal fees) has been calculated over the period of the discount or fixed rate and this has been used to generate an annualised cost over that period. Calculations have been based on a “standard” mortgage of £150,000. This result can be markedly different from the APR measurement which fails to recognise the effect on borrowing costs of borrowers remortgaging once the period of the discount or fix has expired. If individual mortgage products offered “free” arrangement fees, valuations or legal fees this has been recognised in the calculations of costs for those products. Including these costs more accurately reflects the costs of taking on a buy to let mortgage without distortions caused by the way that lenders have structured fees on their products to meet marketing requirements.

INTRODUCTION



Transactions

Transaction data is based on buy to let mortgage applications and completions submitted via Mortgages for Business. This proprietary data is held within our CRM database and includes information on purchases, remortgages, property type, property value, loan amounts, loan to value, rental income and gross annual yields.

Jargon

Applications

Full buy to let mortgage applications that have been submitted to the lender but not yet completed, i.e. in progress.

Case count

The number of buy to let mortgages being transacted via Mortgages for Business, i.e. application and/or completion.

Completions

Buy to let mortgage applications that have been formally offered and drawn down. This includes remortgages.

Houses in Multiple Occupation (HMO)

An HMO is when unrelated tenants have exclusive access to their rooms and share part of the accommodation, such as the kitchen or the bathroom. An HMO may or may not require a licence.

Multi-Unit Freehold Blocks (MUFB)

This is a single building with multiple, separate, independent residential units owned under a single freehold title. Examples include purpose-built blocks of flats or Victorian/Edwardian houses converted into flats.

Semi-Commercial Property

Also known as mixed use investments, as both names suggest these properties are made up of part commercial and part residential elements, typically shops or offices with flat above.

Vanilla Buy to Let

These are standard buy to let transactions. Properties in this category tend to be normal 2-3 bed houses and 1-2 flats. Both borrowers and properties fit the general lending criteria for off-the-shelf products offered by the mainstream buy to let lenders.

Lenders & Product Numbers

No. of buy to let mortgage lenders: **38**

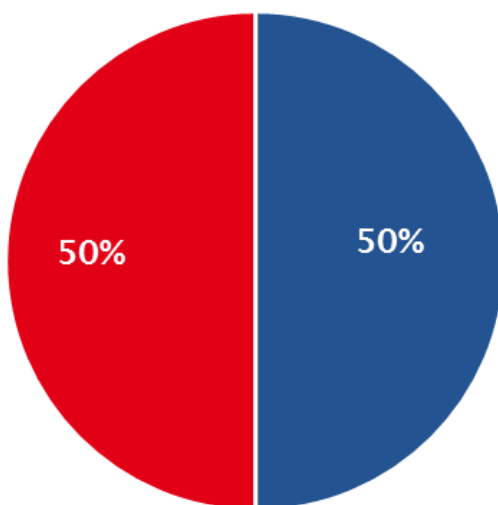
Average No. buy to let products: **1,547**

The number of buy to let lenders tracked increased by one in the second quarter when The Mortgage Lender was included in the data set.

Buy to let mortgage product availability increased again, this time by an average of 81 products, up to 1,547 from 1,466 in Q1 2018 and 1,332 in Q4 2017.

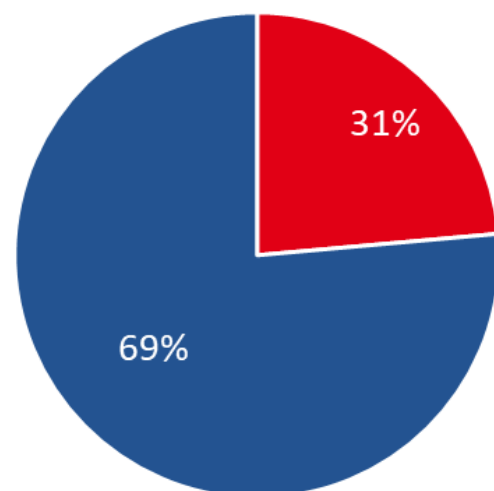
Lending to Limited Companies: Three more lenders—The Mortgage Works, Kensington Mortgages and LendInvest—began offering products to landlords borrowing via a limited company, taking the total to 19. As a result, 31% of all buy to let mortgages are now available to corporates, up from 25% in Q1.

Lenders



Lenders offering products to Ltd Co borrowers
Lenders with no Ltd Co products

BTL Mortgage Products



Products available to Ltd Co borrowers
Products available to individuals

Pricing

Fixed Rate Buy to Let Mortgages

| Term | Q1 2018 | Q2 2018 |
|----------------|-----------------|----------------|
| Average 5 year | 3.52% (-0.03) | 3.52% (=) |
| Average 3 year | 3.34% (+0.01) | 3.30% (-0.04%) |
| Average 2 year | 3.01% (+0.08) | 3.01% (=) |

Tracker Rate Buy to Let Mortgages

| Term | Q1 2018 | Q2 2018 |
|----------------------|-----------------|----------------|
| Average 5 year | 2.88% (-0.06) | 2.72% (-0.16%) |
| Average 3 year | 3.54% (+0.05) | 3.47% (-0.07%) |
| Average 2 year | 3.11% (+0.10) | 2.93% (-0.18%) |
| Average Term Tracker | 4.59% (-0.06) | 4.52% (-0.07%) |

PRICING

Fixed and tracker rates

Fixed rate buy to let mortgages the most popular choice among landlords.

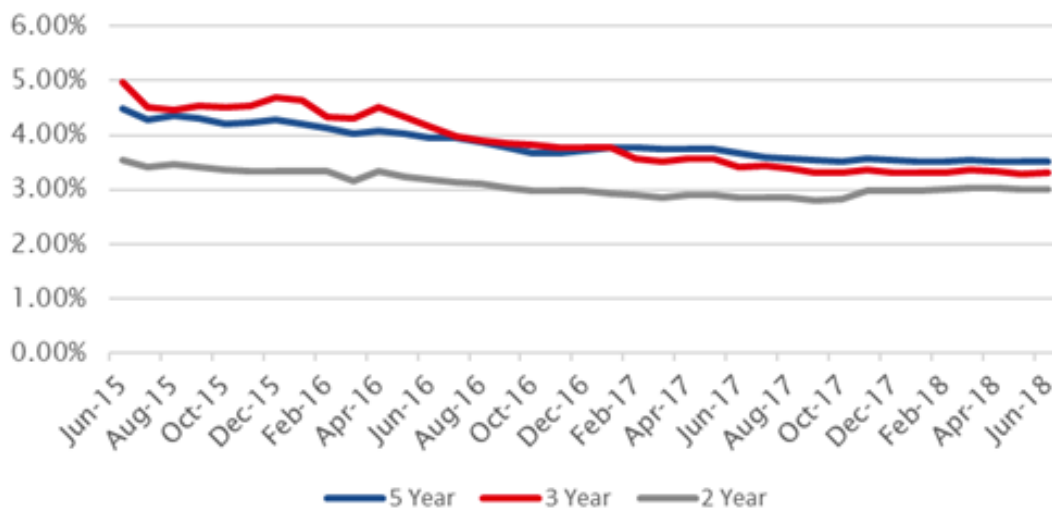
Apart from minor fluctuations, pricing remained fairly flat in the quarter most probably because it is unlikely that rates can go much lower without damaging lenders' already squeezed margins.

There continued to be very little difference between fixed and tracker rates. As such, fixed rates proved a more popular choice for borrowers for two main reasons:

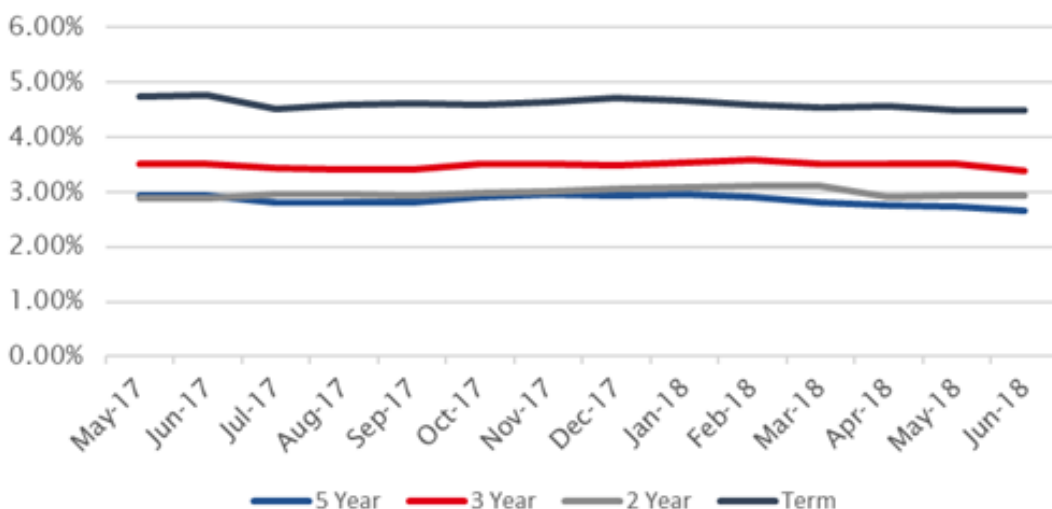
1. They provide certainty in an uncertain market, i.e. borrowers know exactly how much their monthly mortgage payments will cost throughout the fixed period.
2. Personal borrowers can extract more leverage using 5 year fixed rates because lenders can apply a less stringent stress tests, i.e. borrowers can borrow more.

In Q2, 93% of borrowers applying for buy to let finance via Mortgages for Business, opted for a fixed rate. And three quarters (75%) of those chose to fix for five years.

Fixed Rate Buy to Let Mortgages



Tracker Rate Buy to Let Mortgages



PRICING

Limited company pricing

Apart from 3 year fixed rates which flatlined, average pricing for rates available to limited companies reduced by c10bps, reducing the average price from 4.1% to 4.0%.

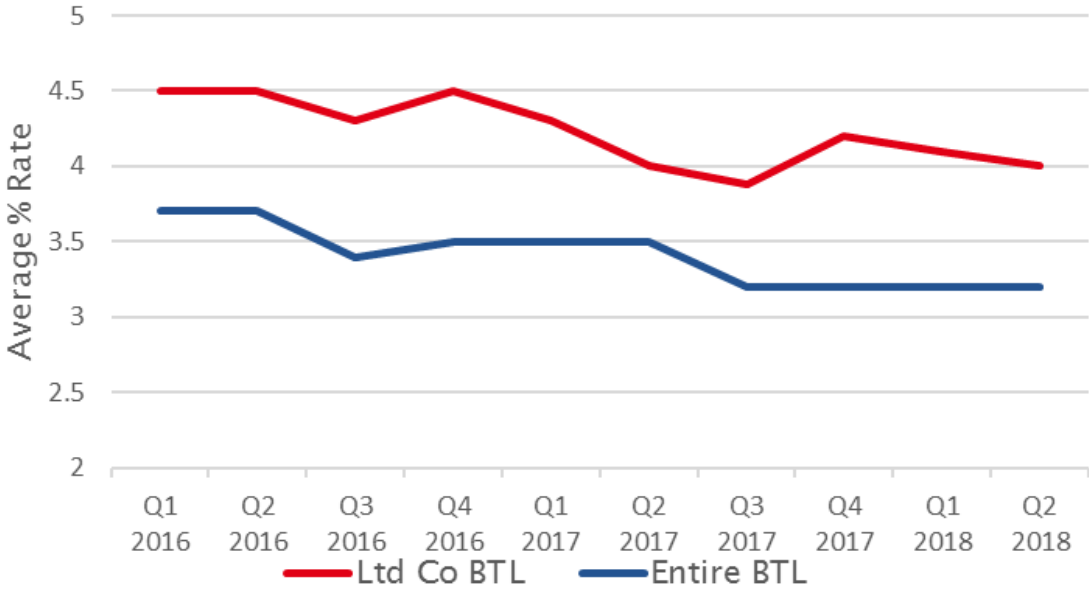
Why rates to limited companies seem higher

Rates available to limited companies were generally higher than the market average. This is because the cheapest products are typically offered by lenders without the systems or underwriting skills in place to offer products to limited companies. For the most part, rates available to limited companies are also available to personal borrowers.

| Products | Limited Company | |
|--------------|-----------------|---------------|
| | No. | Av. Rate |
| Variable | 113 | 4.3% ↓ |
| 2 Year Fix | 150 | 3.7% ↓ |
| 3 Year Fix | 55 | 3.9% ↔ |
| 5 Year Fix | 169 | 4.2% ↓ |
| Total | 487* | 4.0% ↓ |

*Includes 1, 4 and 10 year rates.

Average BTL Mortgage Rates Available to Ltd Companies



UNDERLYING COSTS



Underlying Costs

Bank Rate

To the relief of many borrowers, on 21 June the Bank of England's Monetary Policy committee voted by a majority of 6-3 to maintain the Bank Rate at 0.5%.

All members agreed that any future increases in the Bank Rate are likely to be gradual and limited. Bank of England governor Mark Carney suggested that "the softness of UK activity in the first quarter was largely due to the weather, not the economic climate".

This has led to many market commentators to suspect that Bank Rate may well be raised on 2nd August 2018.

As might be expected, tracker rates, particularly those which are linked to Bank Rate, changed very little throughout Q2. There was noticeably less variation in pricing for low, medium and high loan to value (LTV) products, especially when compared to their fixed rate counterparts.

3-Month LIBOR peaked slightly in April before falling off in May and June. Again, the effect on tracker rates linked to lenders' LIBORs was minimal.

Swap rates

Fixed rate buy to let mortgage products are typically based on the current swap rate of the same term, with the addition of the lender's operating margin.

Similar to 3-month LIBOR, in April swap rates peaked before gradually falling off over May and June. However, they are on average higher than in Q1. Despite this, pricing of fixed rate buy to let mortgages remained fairly flat or fell slightly, as lenders, yet again, chose to absorb the cost instead of passing it onto borrowers.

Conclusion

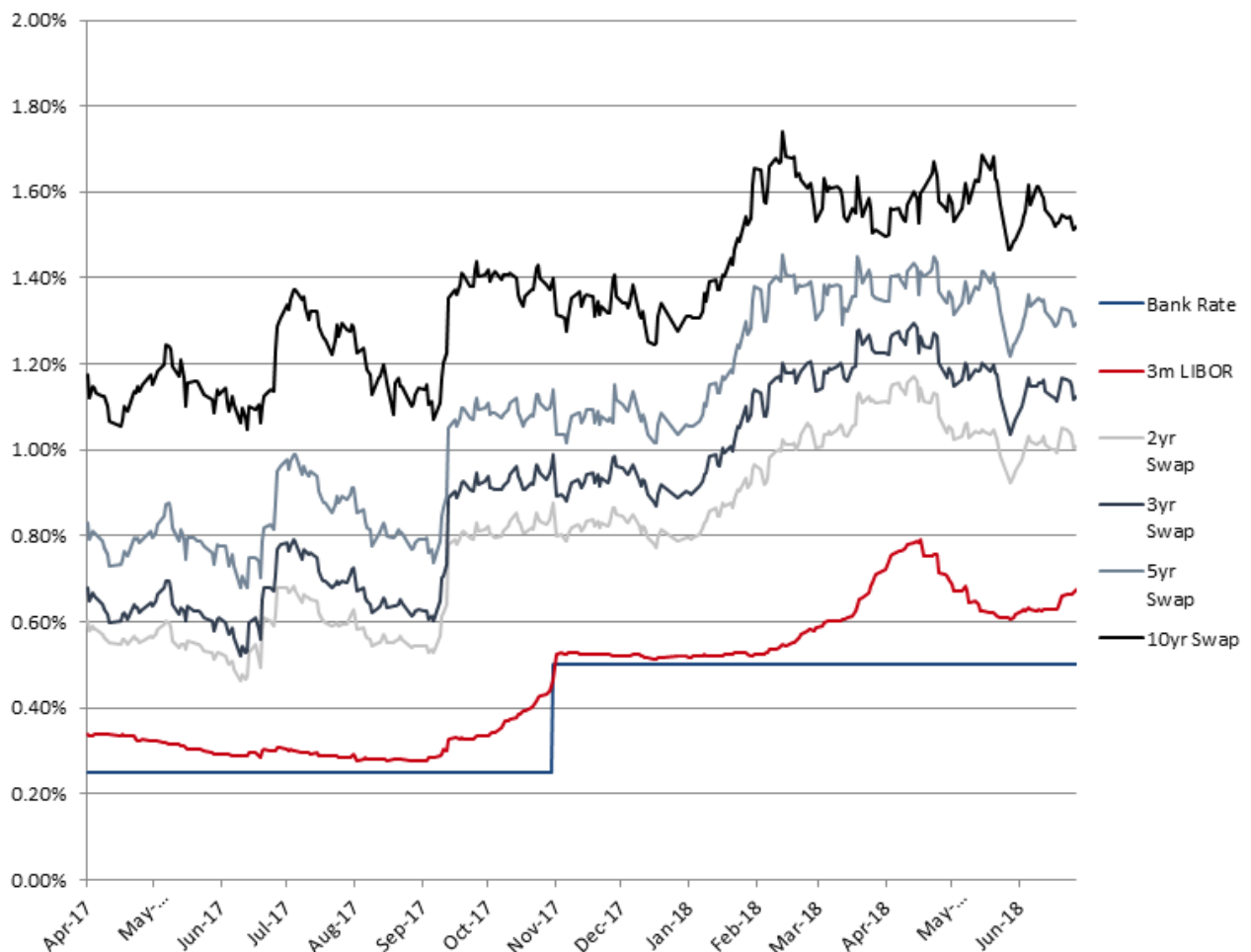
Lenders continue to absorb the underlying cost of funds, most probably, in an effort to remain competitive in a year when overall buy to let lending is expected to decline by c10% year on year.

UNDERLYING COSTS

BTL Fixed Rate Margins Over Swaps

| Terms | High LTV | Medium LTV | Low LTV |
|---------|---------------|---------------|---------------|
| 5 Years | 3.0% ↑ (2.7%) | 2.3% ↑ (1.8%) | 1.5% ↑ (1.2%) |
| 3 Years | 3.1% ↓ (3.2%) | 2.3% ↓ (2.5%) | 1.5% ↓ (1.6%) |
| 2 Years | 2.9% ↓ (3.0%) | 2.1% = (2.1%) | 1.4% ↓ (1.5%) |

Swap Rates, Bank Rate & 3 Month LIBOR

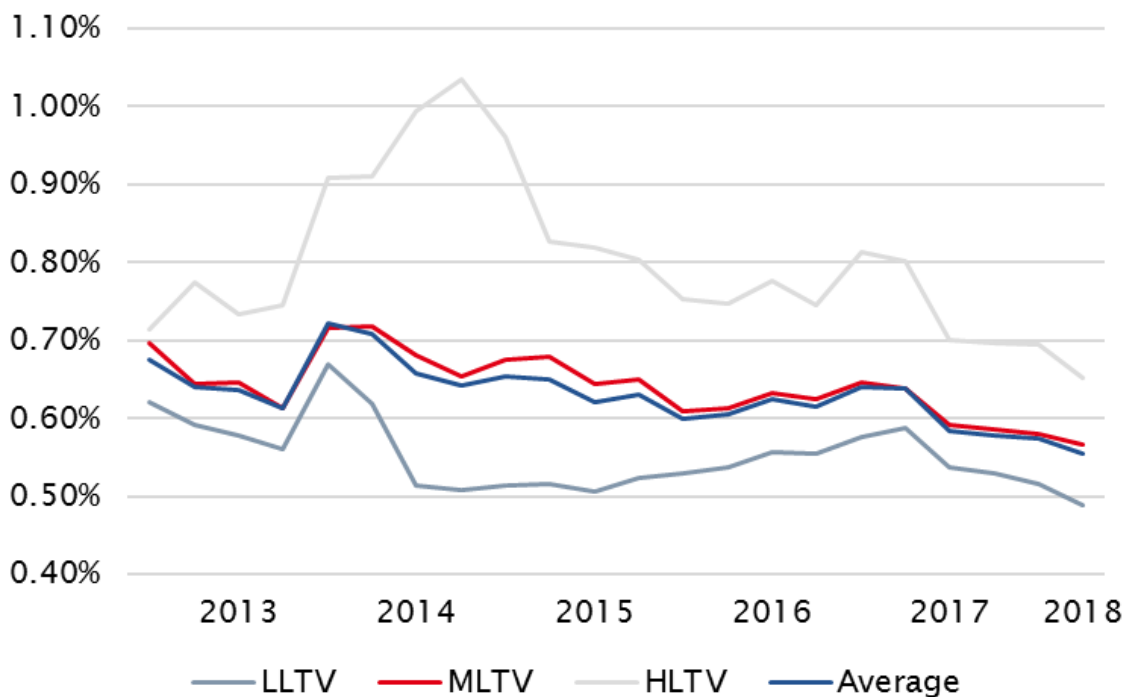


Fees & Charges

Amount fees & charges add to the headline

On average, the effect that fees and charges have on buy to let mortgages reduced further in Q2 2018 adding an average of just 0.55% to the headline rate. This is the lowest recorded effect since Mortgages for Business started tracking in 2013. Overall, there were reductions in fees and charges in low, medium and high loan to value options, the largest drop being from 0.69% to 0.65% in the high LTV range. In the low LTV range, the effect of fees and charges added less than half of one percent (0.49%).

Effect of Fees & Charges on Buy to Let Mortgages



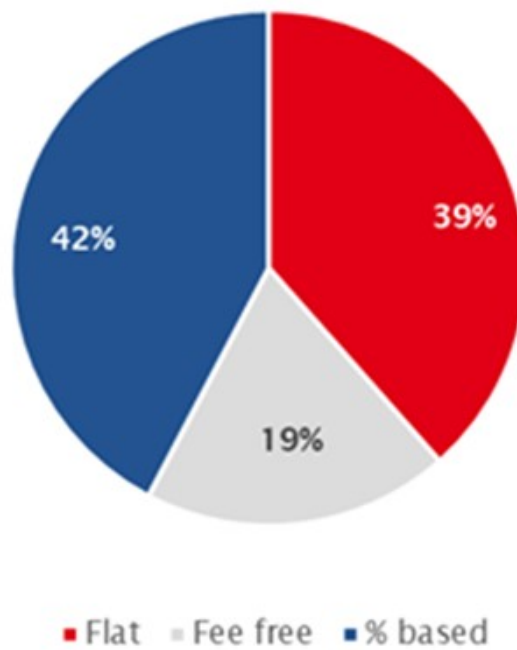
Lender arrangement fees

Market competition continued to affect how lenders structure their arrangement fees. In Q2 one-fifth of all buy to let mortgage products were free from these fees. This represents considerable growth in a short period—in Q3 2017 only 14% of products were arrangement fee free. Quarter-on-quarter however, there was little change in the split between products with no, flat or percent based fees.

The average flat fee increased again slightly on the last quarter in price, but at an average of just £1,389, it remains consistently less than £1,500.

FEES & CHARGES

Lender Arrangement Fees on Buy to Let Mortgage Products in Q2 2018



Lender Arrangement Fees on BTL Mortgages

| Fee Type | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 |
|----------|---------|---------|---------|---------|
| Fee-free | 14% | 16% | 19% | 20% |
| % based | 44% | 42% | 42% | 42% |
| Flat | 42% | 42% | 39% | 38% |
| Av. Flat | £1,370 | £1,423 | £1,441 | £1,389 |

Ltd Company BTL Transactions

Limited company BTL mortgage applications versus applications by landlords borrowing personally (transacted at Mortgages for Business)

Since progressively reducing Income Tax relief on finance costs was announced in July 2015, we have seen an increasing number of landlords using limited companies (trading and SPV) as borrowing vehicles because for many they afford greater tax and financial efficiencies. In H1 2015, we calculated that corporate borrowers accounted for c20% of transactions by value and case count. In the space of less than three years, the situation has changed radically as the latest results show.

Completed buy to let mortgage transactions

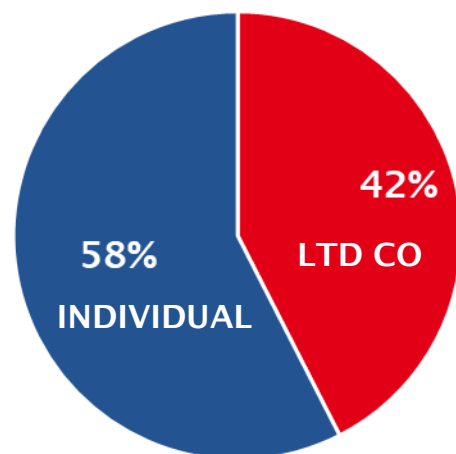
Slightly fewer (42%) Ltd company applications completed than in Q1 (47%). It will be interesting to see if this reduction means that the proportion of landlords using limited companies is beginning to level out. By value, completed Ltd company transactions also dipped, from 46% to 44%, as landlords borrowed less through companies in the quarter.

Newly submitted buy to let mortgage applications

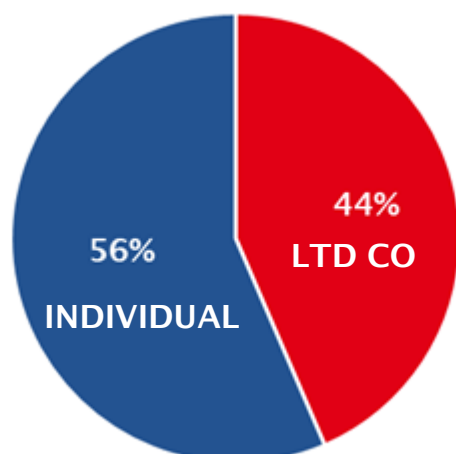
The picture was a little different for buy to let mortgage applications submitted but not completed in the quarter. By case count, 48% of applications were made by landlords using corporate structures, the

same as Q1. However, by value, limited company applications dipped to 46% from 48% in Q1. Again, it could be that the market is levelling out.

BTL Mortgage Applications
NO. OF CASES COMPLETED



BTL Mortgage Applications
VALUE OF CASES COMPLETED



Purchases versus Remortgages

All transactions

Finance for remortgaging continued to outstrip mortgages for purchases across all property types. Vanilla and multi-units in particular saw increased remortgage activity quarter-on-quarter.

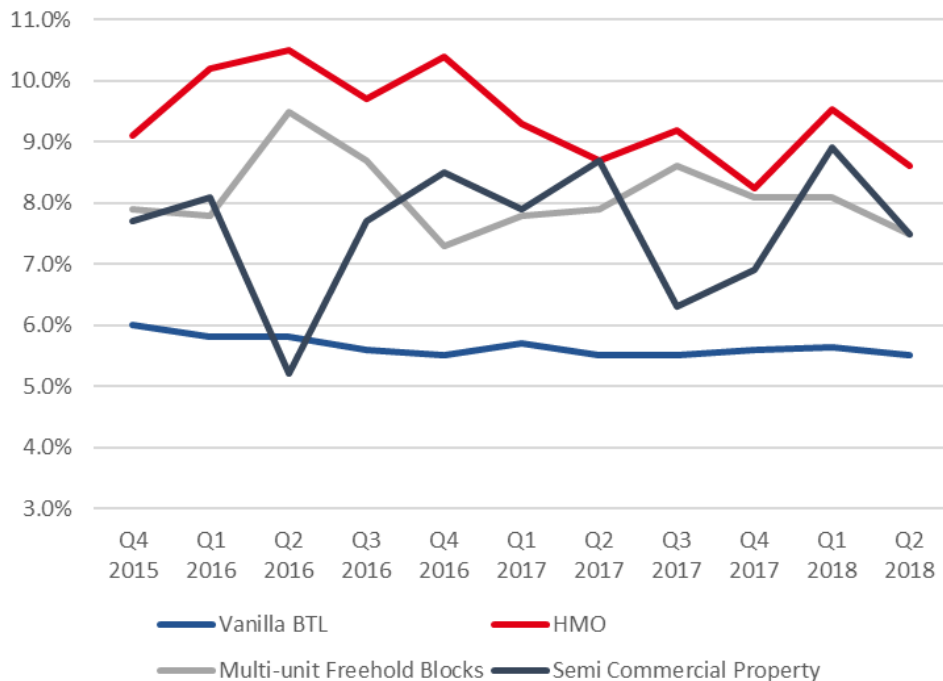
This can be linked to the surge in the number of purchases made by landlords in the run up to the introduction of the higher rate of stamp duty back in April 2016. These properties are now clear of their Early Repayment Charges, leaving borrowers free to refinance without penalty.

This prediction is supported by recent UK Finance statistics which show a 9-year BTL remortgaging high in January 2018, followed in February by a 9.7% increase in remortgaging by number and value compared to February 2017.

Ltd company transactions

Although there were still more purchase transactions (59%) by landlords using limited companies, in Q2 the number of remortgages (41%) continued to increase, up from 33% as borrowing on two-year products rolled off ERC tie-ins.

Average Annual Gross Rental Yields



Property Types

Overall

In Q2 2018, vanilla buy to let property remained typically the most reliable investment. Despite falling yields, HMOs continued to provide healthy returns.

Vanilla properties

Yields and LTVs have remained relatively flat since mid-2015, although there was a small rise in average property values and loan amounts. These elements and the fact that vanilla properties tend to be easier to operate, have ensured that these property types remain the most popular and stable investment.

HMO property

HMOs produce consistently higher yields than other types of buy to let property;

however, in Q2, yields dipped slightly. At an average annual return of 8.6% .

Multi-unit Freehold Blocks

Yields reduced in the Q1 but remain much healthier than their vanilla counterparts. This is due to a greater number of higher value but lower yielding properties being financed in the quarter, typically in more expensive areas.

Semi-commercial Property

Also known as mixed use property, these are typically shops or offices with flats above. A greater number of less expensive SCPs were financed in the quarter. This drove up LTVs but reduced yields to a still healthy 7.8%.

PROPERTY TYPES

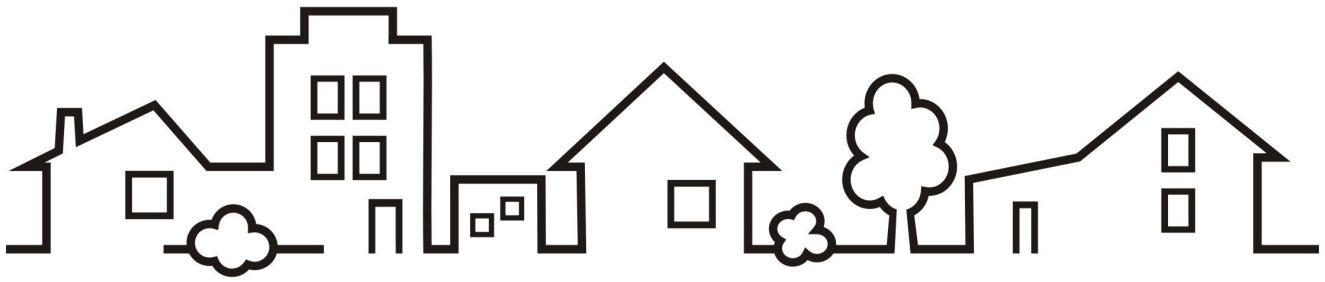
Transactions by property type

| Vanilla Buy to Let | | | | |
|------------------------|----------|----------|----------|----------|
| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 |
| Purchases | 41% | 49% | 39% | 35% |
| Remortgages | 59% | 51% | 61% | 65% |
| Average loan size | £211,517 | £183,202 | £178,735 | £195,789 |
| Average property value | £326,611 | £284,529 | £282,492 | £308,236 |
| Average loan to value | 69% | 67% | 66% | 67% |
| Average yield | 5.5% | 5.6% | 5.6% | 5.5% |

| Houses in Multiple Occupation (HMO) | | | | |
|-------------------------------------|----------|----------|----------|----------|
| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 |
| Purchases | 27% | 33% | 40% | 32% |
| Remortgages | 73% | 67% | 60% | 68% |
| Average loan size | £234,217 | £285,138 | £233,957 | £261,719 |
| Average property value | £331,296 | £434,643 | £353,989 | £397,446 |
| Average loan to value | 72% | 68% | 71% | 69% |
| Average yield | 9.2% | 8.2% | 9.5% | 8.6% |

| Multi-unit Freehold Blocks (MUFB) | | | | |
|-----------------------------------|----------|----------|----------|----------|
| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 |
| Purchases | 47% | 29% | 25% | 38% |
| Remortgages | 53% | 71% | 75% | 62% |
| Average loan size | £273,558 | £305,672 | £328,868 | £510,677 |
| Average property value | £424,919 | £439,750 | £503,326 | £761,710 |
| Average loan to value | 69% | 70% | 65% | 68% |
| Average yield | 8.6% | 8.1% | 8.1% | 7.5% |

| Semi-commercial Property (SCP) | | | | |
|--------------------------------|------------|----------|------------|----------|
| | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 |
| Purchases | 67% | 40% | 0% | 33% |
| Remortgages | 33% | 60% | 100% | 67% |
| Average loan size | £694,375 | £191,159 | £950,000 | £400,000 |
| Average property value | £1,124,167 | £483,000 | £2,000,000 | £736,667 |
| Average loan to value | 66% | 42% | 48% | 56% |
| Average yield | 6.3% | 6.9% | 8.9% | 7.8% |



Further Research

We publish a variety of papers designed to help landlords, businesses and home-buyers make informed property investment decisions.

For more information

Please visit the [News & Insight](#) section of our website.

To discuss both the current and previous results of the Buy to Let Mortgage Index, in the first instance, please contact:

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