



FLEET MORTGAGES RENTAL BAROMETER Q2 2023

An analysis covering:

- › The Housing & Buy-to-Let Mortgage Market
- › Rents & Rental Yields
- › Affordability

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FLEET MORTGAGES RENTAL BAROMETER Q2 2023

EXECUTIVE SUMMARY

- Residential Rental yields across England & Wales reached levels of 6.3% in Q2 2023
- House Prices down by 3.5% in Q2 2023 compared to the same period in 2022
- Average amount borrowed on BTL properties fell from £197K in Q1 to £174K in Q2 2023 (Based on Fleet data)
- Gross rental income in excess of £1,000 per calendar month now achieved in 6 out of 10 regions across England and Wales
- Opportunities for landlords to take advantage of high rental incomes

HOUSING AND THE BUY-TO-LET MORTGAGE MARKET

Market Conditions.

Consistent with Fleet's Q1 2023 Rental Barometer, affordability, inflation, and rising interest rates continue to take their toll on activity within the private rental sector. According to the [Halifax House Price Index](#)*, the average UK house price fell again in June, leading to a third consecutive monthly fall. As expected, property purchase transactions continue to decline. According to Fleet's data, purchase transactions fell by 5% when comparing data from the first quarter of 2023. This prediction remains on track during the second quarter of the year.

House Prices.

According to [Nationwide's House Price Index](#)** , the average price of a house in the UK was £262,239 at the end of June 2023. House prices remained broadly flat over the month, but were down 3.5% compared with the same period in 2022. All regions except Northern Ireland recorded annual price falls during Q2 2023. In Fleet's Q1 2023 Rental Barometer, we suggested that an increase in Bank Base Rate could result in considerable affordability constraints, over and above what we are currently experiencing. That certainly seems to be the case, with lenders leaning towards higher fee products to counteract interest rates in order to find a balance between stress rates and rental calculations.

Buy-to-Let Mortgage Market.

More specific and relevant to Fleet is the BTL Mortgage Market. [UK Finance](#) forecasts that the BTL Mortgage market will see a 27% decline in house purchases over the period of 2023, whilst re-mortgage activity is expected to fall by 22% when comparing to activity in 2022. According to data from [Twenty7tec](#), BTL mortgage illustrations provided to landlords using their system is down 4% in Q2 2023 compared to the first quarter of the year and 18% down from the same period a year earlier.

RENTS & RENTAL YIELDS

RENTAL YIELDS MARGINALLY DOWN

Indicator	Q1 2023	Q2 2023
Bank Base Rate [1]	4.25%	5.00%
Ave. 5 Year Fixed Rate	5.35%	6.31%
Fleet Products [2]	5.35%	6.09%
Average Rent Cover at Origination [3]	181%	167%
Average Loan Size	£197k	£174k
Percentage Purchase Business	37%	32%
Number of Investment Properties owned by Landlords	11	12

[1] [Bank Rate history and data | Bank of England Database](#)

[2] Correct as at 22 June 2023

[3] Source: Fleet Mortgages

[4] Source: Fleet Mortgages

Rental Yields.

As per the table below, rental yields across England and Wales averaged 6.3% in Q2 2023, marginally down from 6.5% a quarter earlier and only 5.6% a year ago.

Rental Yield Marginally Down in Q2 2023

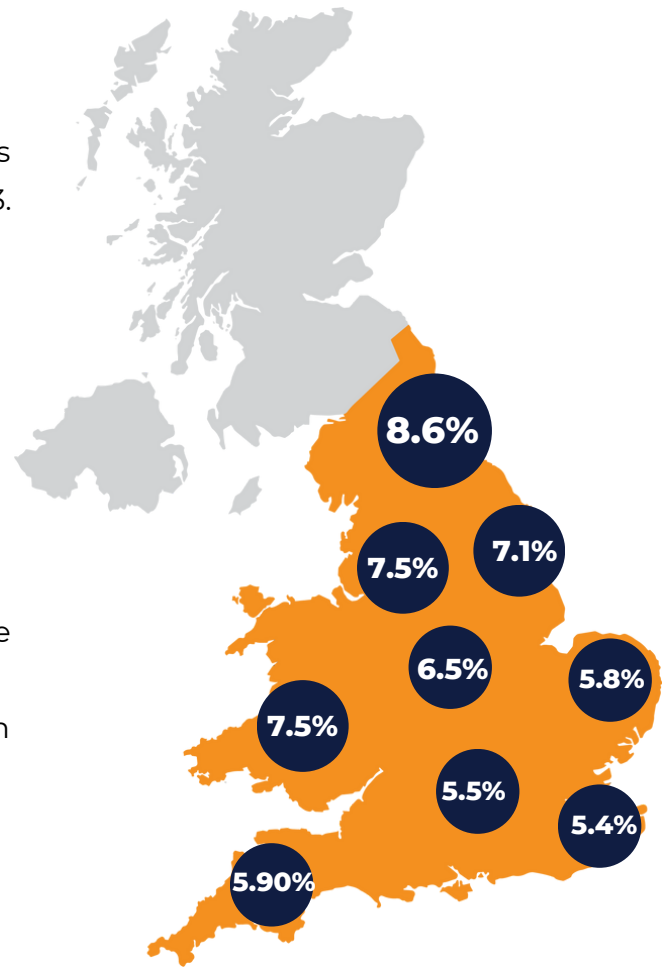
Geographic Region List	Q2 2022	Q1 2023	Q2 2023
North East	7.80%	8.60%	8.60%
North West	7.10%	7.40%	7.50%
Yorkshire and Humberside	6.90%	7.30%	7.10%
Wales	6.30%	7.40%	7.50%
West Midlands	6.20%	6.90%	6.70%
East Midlands	5.60%	6.60%	6.20%
South West	5.40%	6.20%	5.90%
East Anglia	5.10%	5.60%	5.80%
South East	5.00%	5.50%	5.40%
Greater London	4.50%	5.30%	5.50%
Grand Total	5.60%	6.50%	6.30%

Why are rental yields increasing?

Rental yields are increasing for two reasons: Firstly, rental stock is in short supply and a shortage in supply inevitably leads to higher rental prices, particularly in areas such as London, where on average, rent accounts for 40% of gross earnings in the second quarter of 2023. Secondly, house prices are easing. According to Nationwide, a year-on-year decline of 3.5 percentage points can be observed. A combination of these two factors has led to higher rental yields over the last few quarters.

Where are rents increasing?

Whilst rental yields are increasing in every region in England and Wales, we have not witnessed an increase in rents in the same way. For example, according to Fleet’s data, rental yields in the Northern region remain the highest earners at 8.6%, but observes the lowest rental prices in the country at £643 pcm. By contrast, Central London observes the highest rental income (£2,111 pcm) but only receives on average 5.5% yields in the second quarter of 2023.



How did rental income change over the last 12 months?

According to data from Fleet, across the UK, average rental increased from £1,319 pcm in Q1 to £1,353 in Q2 but down from £1,413 a year earlier. According to Fleet’s Rental Barometer, gross rental income now exceeds £1,000pcm in 6 out of 10 regions, whereas a year ago, this was true for only 5 regions.

Monthly Rental Income Exceeds £1,000 in Six Regions

Geographic Region List	Q2 2022	Q1 2023	Q2 2023
North East	£535	£689	£643
North West	£853	£950	£919
Yorkshire and Humberside	£838	£840	£836
Wales	£901	£1,094	£1,013
West Midlands	£1,008	£1,118	£1,059
East Midlands	£1,043	£1,062	£967
South West	£1,313	£1,410	£1,449
East Anglia	£1,314	£1,411	£1,330
South East	£1,388	£1,389	£1,466
Greater London	£2,292	£2,157	£2,111
Grand Total	£1,413	£1,319	£1,353

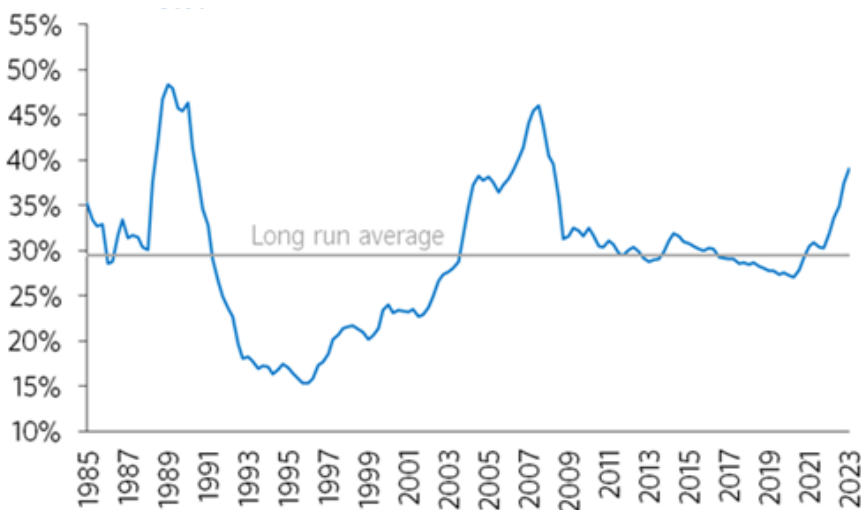
AFFORDABILITY

AFFORDABILITY RECOVERED IN Q2 2023

Towards the end of Q1 2023, interest cover ratios were back to levels seen during the pandemic. However, an imbalance remains between gross income and the increased monthly mortgage payments that borrowers now pay. A sharp increase in borrower cost is likely to slow BTL market activity in the short term as borrowers begin to feel the effects of increased interest rates on their payments. According to Zoopla's recent rental market report, renters in London see an average of 40% of their gross earnings go straight on their home, just short of the 43% recorded in 2015.

The table below shows the percentage of income taken up by mortgage payments in the UK.

UK FTB Mortgage Payments as % of Take-home Pay



Sources

[RICS UK Residential Market Survey June 2023](#)

[Nationwide House Price Index](#)

[Halifax House Price Index June 2023](#)

[Index of Private Housing Rental Prices, UK - Office for National Statistics \(ons.gov.uk\)](#)

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