

PRS Trends

Q3 2023





This edition of PRS Trends highlights how we seem to be at somewhat of a turning point in the private rented sector (PRS) and economy more broadly.

Throughout the year, landlord confidence has understandably been dented by the challenging conditions that businesses across almost all sectors have faced. The third quarter of the year sees this rebound strongly however, with landlords significantly more upbeat about various aspects of running a lettings business than they were last quarter and when compared to the same period in 2022.

Our report reveals a number of factors that could be contributing to this.

Tenant demand reported by landlords has surpassed the record levels recorded earlier in the year to set a new all-time high.

The imbalance between this demand and supply is contributing to rental inflation but seemingly not to a level that is having a notable negative impact on tenants. During the previous three months, there has been a 2-percentage point reduction

in the proportion of landlords reporting tenants falling into rent arrears and the amount owed by each tenant has also fallen by approximately £300.

In addition, yields have stabilised, seeing a slight increase this quarter and, linked to this, profitability reported by landlords is at the highest level recorded so far throughout 2023.

With demand so high and the market stabilising, reflecting a move away from the fiscal turbulence we've experienced since the mini-budget just over a year ago, landlords are also less likely to divest in property than they have been in the previous five editions of PRS Trends.

Alongside the improving economic outlook, we've also noted a shift in sentiment towards the sector, with signs that the value of private investment is being recognised by Government. Recent policy announcements, such as the decision to reconsider proposals around PRS energy efficiency requirements, will have been welcomed by landlords and had a positive influence on their perception of the future for the sector and their businesses.

It's also worth noting that the research undertaken for this report was conducted before Housing Secretary, Michael Gove, announced that courts would be reformed before Section 21 was abolished and that a new ground for possession for student landlords would be created. These are both significant changes to the Renter's Reform Bill that landlord bodies, such as the NRLA, campaigned for vehemently, adding to the sense that the voice of the sector is being heard more than it has been in the past.

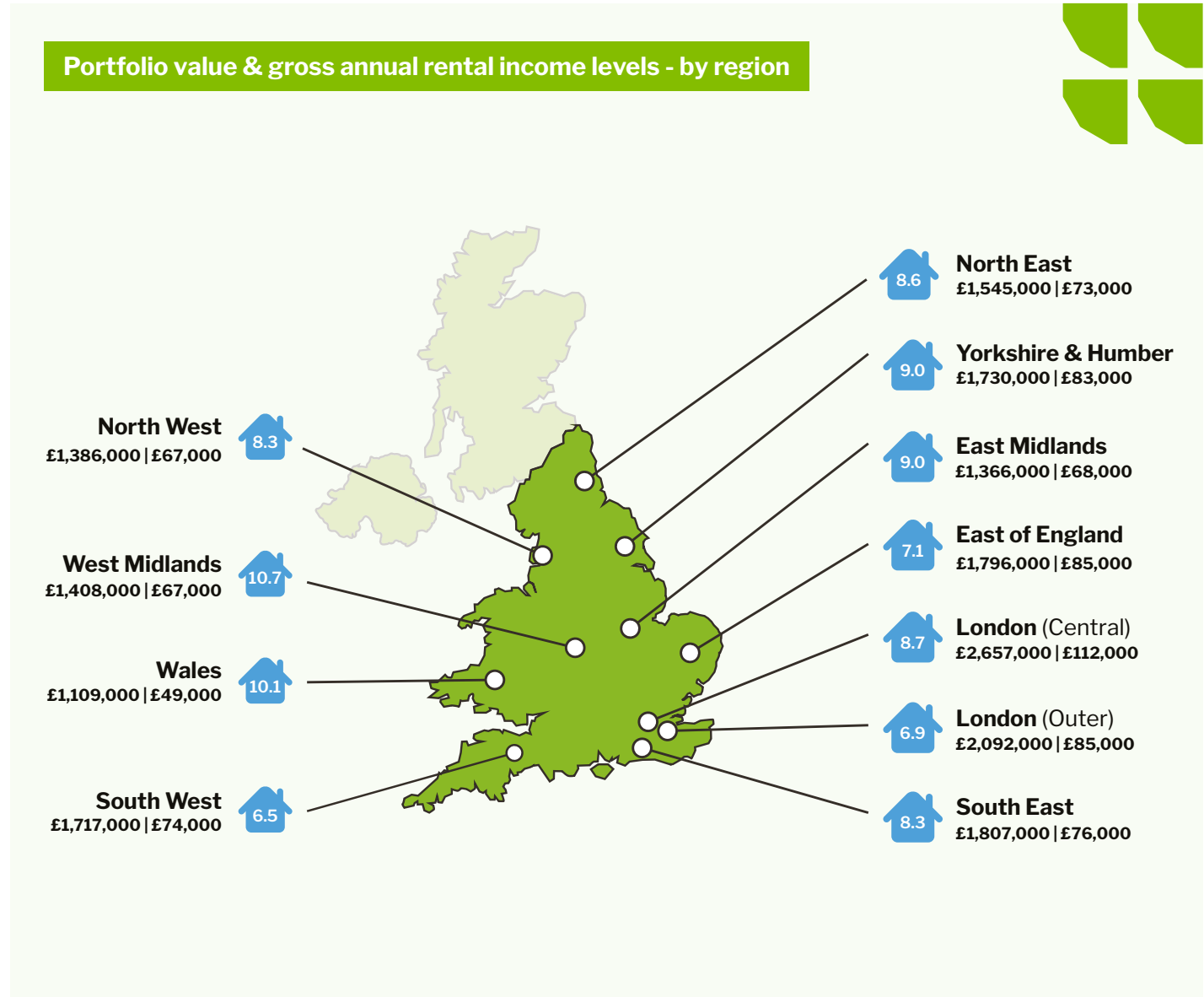
While it would be unwise to get ahead of ourselves and be oblivious to the challenges that landlords continue to face, we should also be buoyed by these findings that help to illustrate that the PRS is in better hands and better health than some would have you believe.

Richard Rowntree
Managing Director for Mortgages

Portfolios

The average portfolio size stood at 7.8 properties in Q3. These are home to an average of nine tenancies, owing to the fact that some properties, such as Houses in Multiple Occupation (HMO), house more than one tenancy.

In terms of value, the typical portfolio has decreased by approximately £90,000 since Q2 2023 to £1.56 million, consistent with longer-term averages. Dividing this by the average number of properties in a portfolio (7.8) reveals that the typical rental property is valued at £200,000, up from £191,860 last quarter. With gross rental income averaging £69,000, each property generates £8,846 annually, or £737 per calendar month.



Six in 10 landlords have at least one terraced house in their portfolios, making it the most popular choice for buy-to-let investors. This is unchanged from the previous quarter and is consistent with previous editions of PRS Trends.

Individual flats are the next most common property type held by landlords, closely followed by semi-detached houses, with 47% and 46%, respectively, having at least one in their portfolios.

On average, around three times as many landlords state that they own these types of property compared to other properties, such as houses in multiple occupation (HMOs) and detached houses, held by 17%, and multi-unit blocks of flats, which 14% of landlords own.



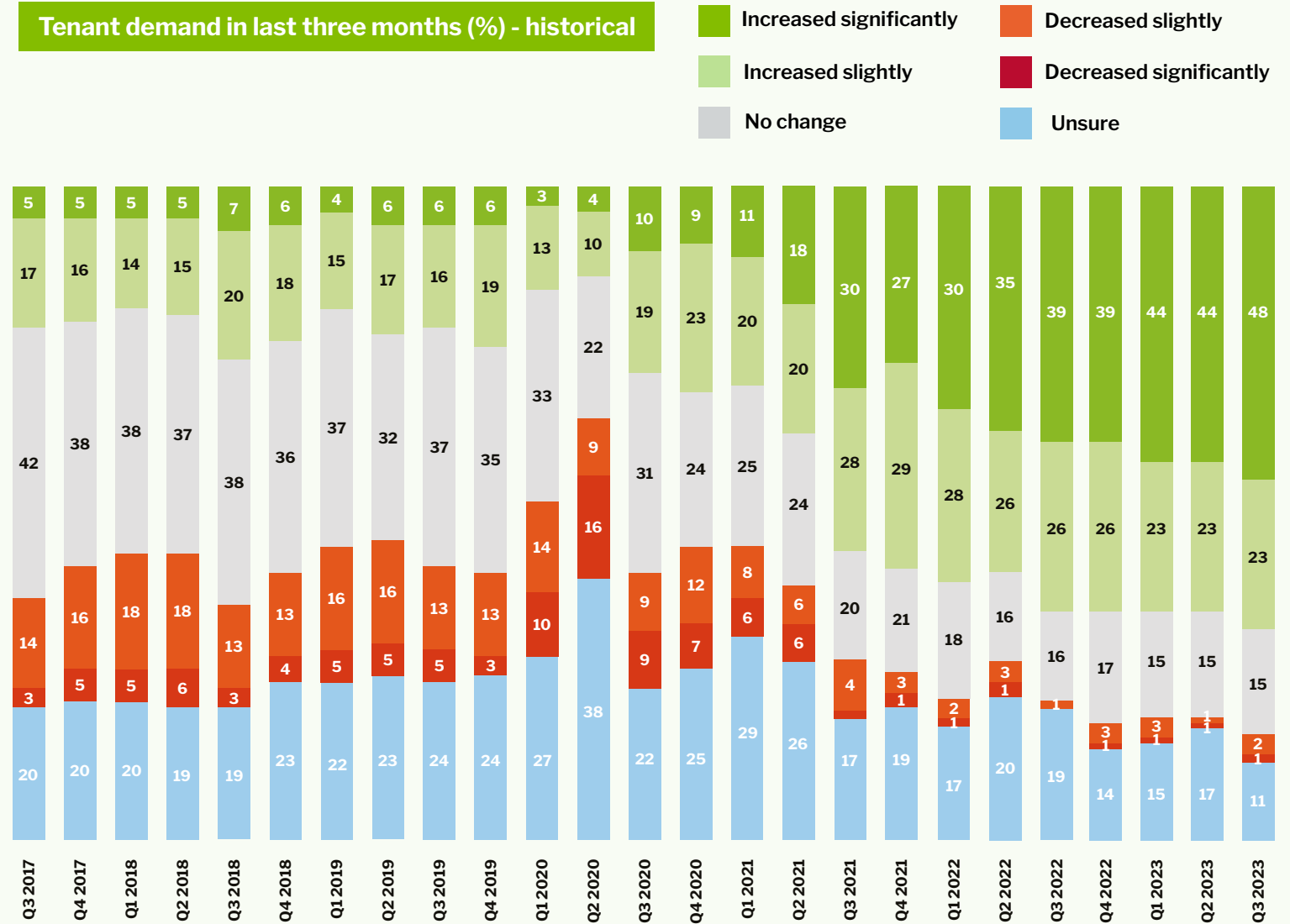
Tenant demand

The record level of tenant demand reported by landlords during the first half of the year increased in Q3 to set a new all-time high.

This was primarily driven by an increase in the proportion of landlords who reported significant increases in demand, up by 4-percentage points since the previous wave of research.



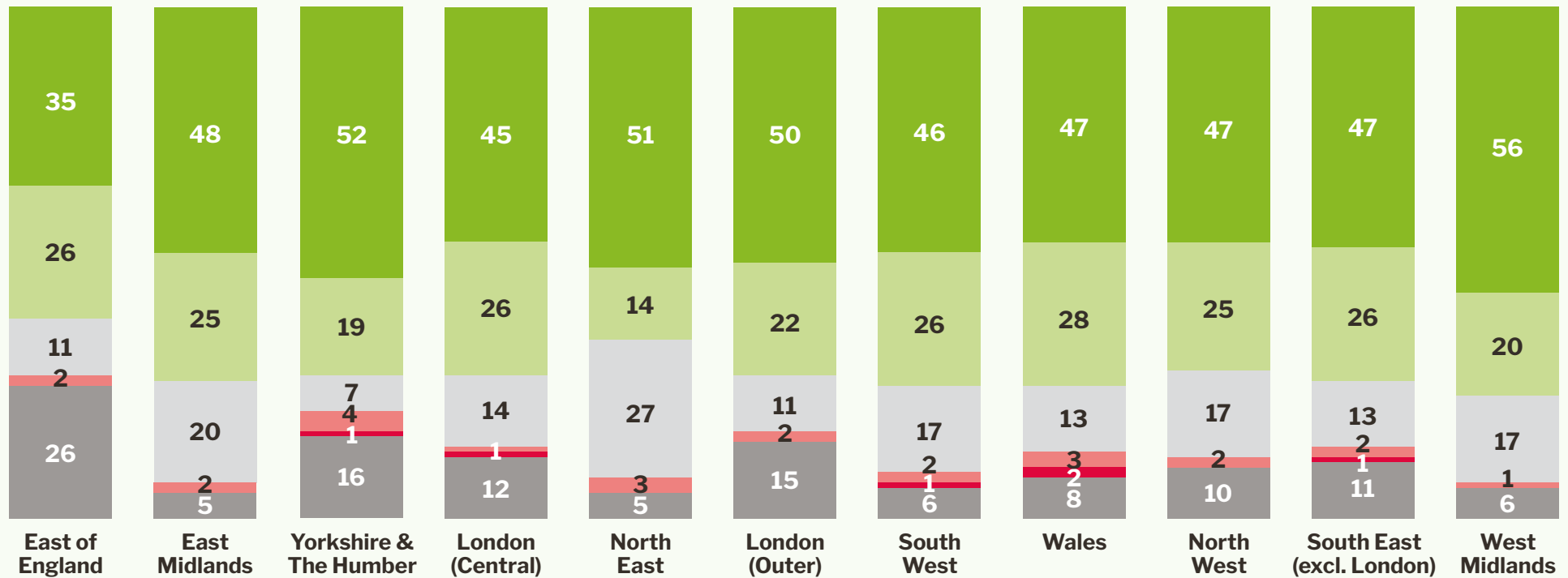
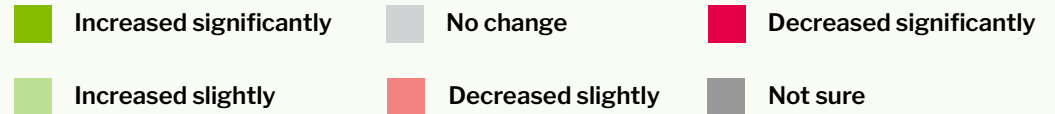
Tenant demand in last three months (%) - historical



The West Midlands was the region with the highest proportion of landlords, 76%, reporting increased tenant demand.

Similar levels of demand were recorded in most regions, with only the North East and East of England having fewer than 70% of landlords reporting increased tenant demand – 65% and 61% respectively.

Tenant demand in the last three months (%) - regional



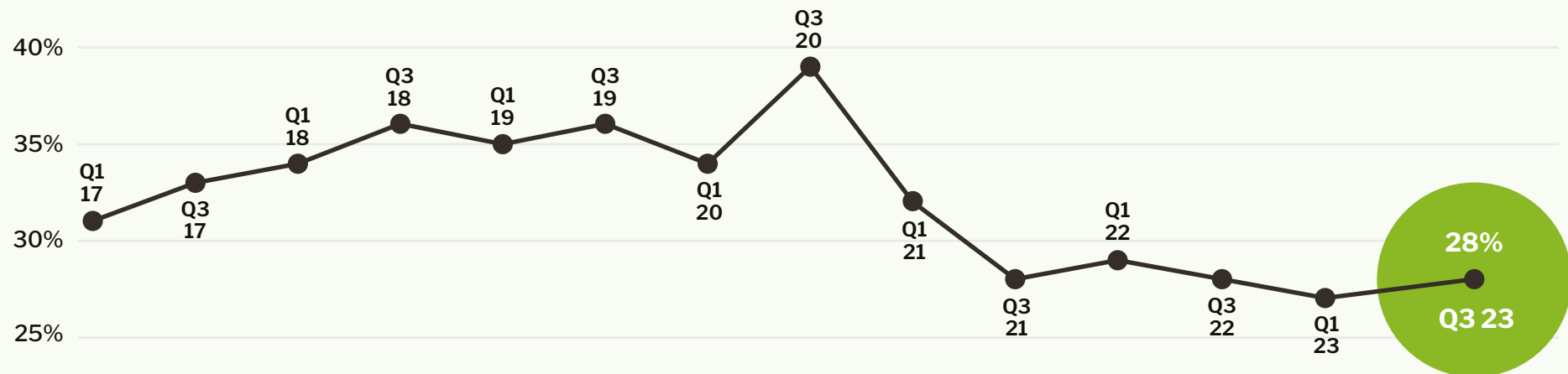
Voids

Over a quarter (28%) of landlords experienced voids in Q3. This represents a slight uptick of 1-percentage point since last quarter, to bring the metric back in line with the long-term average.

Analysing voids at a regional level, landlords in Yorkshire and The Humber, the North East and the East of England are most likely to have experienced empty rental properties during the last quarter. This correlates to tenant demand as these are the three regions with the lowest proportions of landlords reporting increases during the previous three months.

The typical void duration has fallen to 81 days in Q3 2023 from 87 days during the first quarter of the year, the last time the metric was measured.

Incidence of voids in the last three months (%) - historical



Yield generation

Average rental yields achieved by landlords increased from 5.2% in Q2 to 5.3% this quarter.

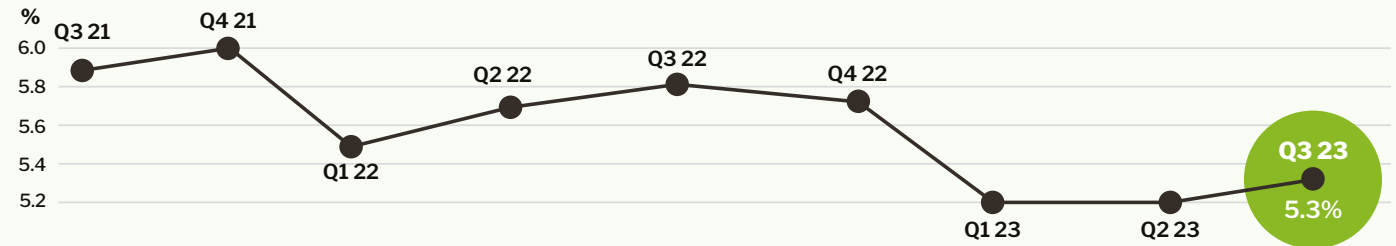
Properties in the East Midlands generated the highest average rental yields of 6.5% in Q3, significantly better returns than those reported by landlords in both Outer and Central London, 4.6% and 4.1%.

Yields achieved also vary across the range of portfolio sizes as single property landlords report yields of 4.9%, while those with 20 or more lets record the highest rental yields at 6.2%.

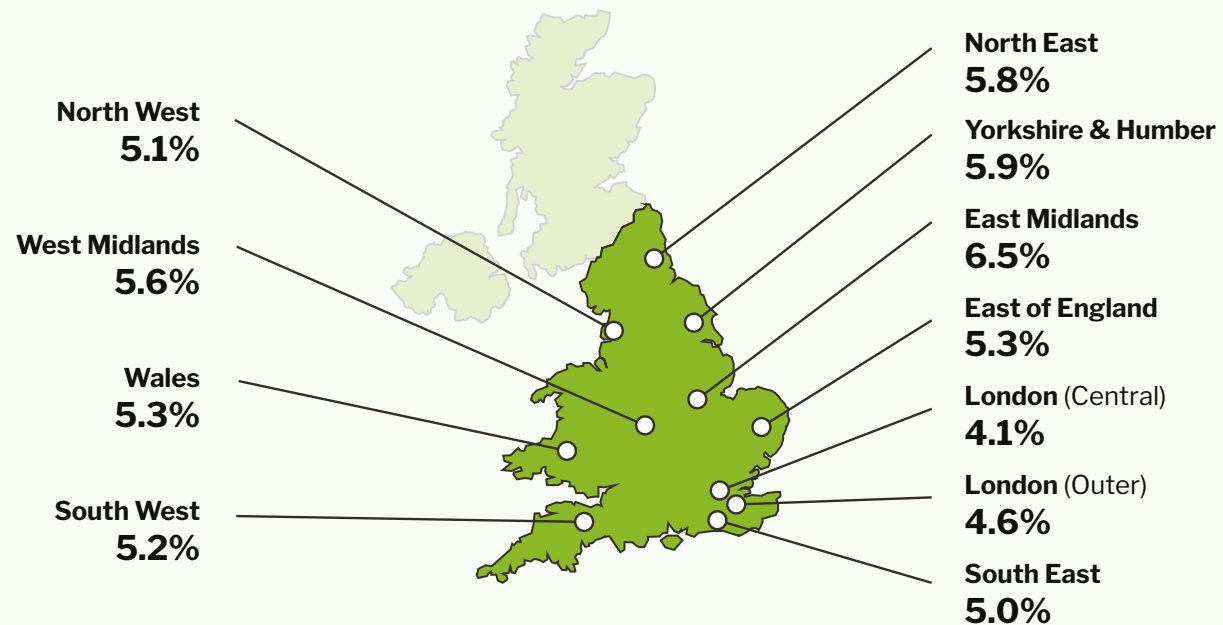
Yield generation – by portfolio size

No. of properties	(%)
1	4.9
2-3	4.8
4-5	5.3
6-10	5.9
11-9	5.2
20+	6.2

Yield generation – historical



Yield generation – regional



Splitting the data by property type reveals that HMOs continue to generate the highest yields for landlords, up from 6.0% last quarter to 6.3% in Q3.

This is followed by multi-unit blocks of flats that offer average yields of 6%, unchanged from Q2.

Following a decline seen since the final quarter of 2022, yields achieved by landlords letting to students have rebounded and now sit at 6%, the highest returns generated amongst the different tenant types.

This is followed by company lets that generate yields of 5.8%. At the other end of the scale, young couples and older couples provide the lowest yields at 5.2% and 5.1% respectively.

Yield generation – by property type



6.3%
HMO



6.0%
Flats – Multi
unit block



5.4%
Terraced house



5.3%
Detached
house



5.5%
Semi-detached
house



5.2%
Flats – Individual
units



5.7%
Bungalow

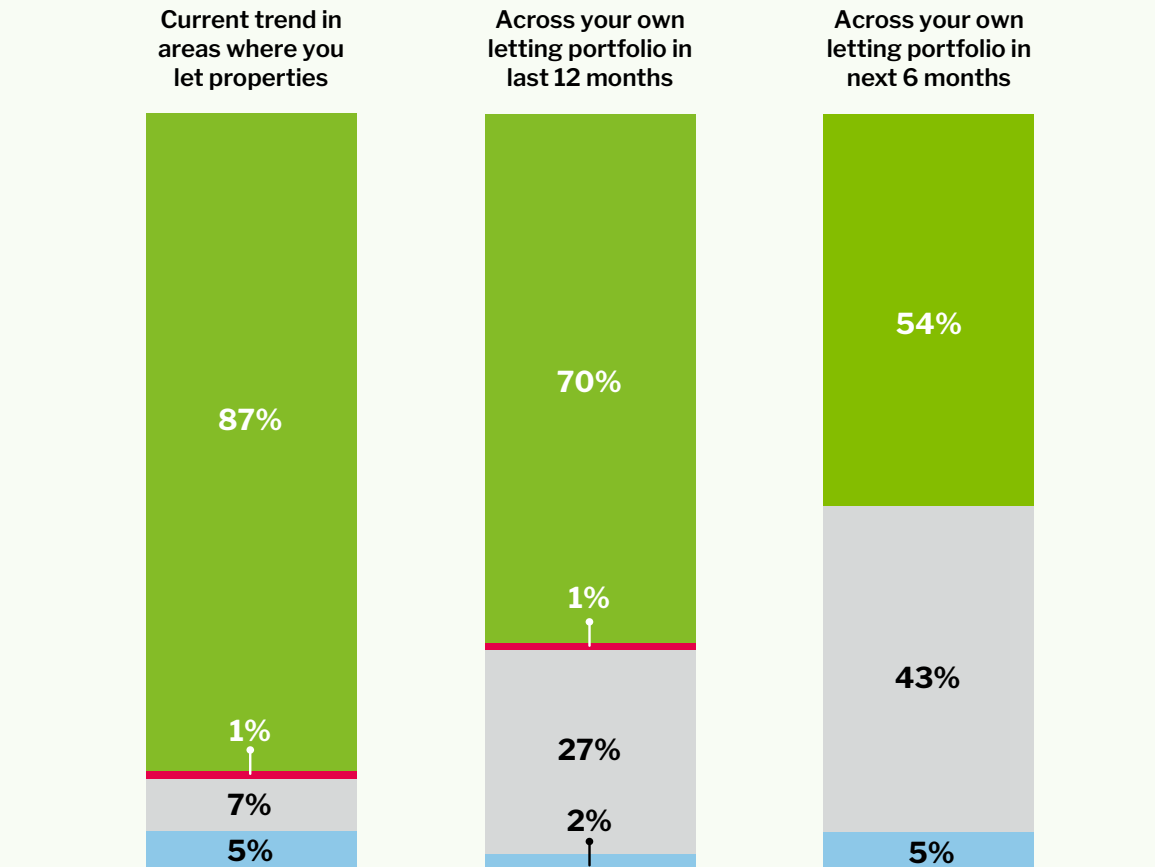
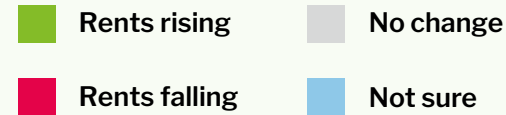
Rising rents

With tenant demand reaching record levels consistently throughout 2023, it is unsurprising to see upward pressure on rents. Last quarter, 87% of landlords said that rents are increasing in the areas where they currently let properties, a figure that remains in this edition of PRS Trends to mark a continuation of a year-long trend.

This average increases to 93% in the West Midlands, the region with the highest proportions of landlords reporting increased tenant demand, and 90% in the South West, another region with tenant demand that tracks above the average, supporting the link between strong tenant demand and rental inflation.

Since the previous quarter, there has been a 5-percentage point increase in the proportion of landlords who have increased rents across their own portfolios in the last year, from 65% to 70%. A slightly smaller increase of 3% can be seen in landlords who are intending to raise rents in the next six months.

Rents - rising & falling



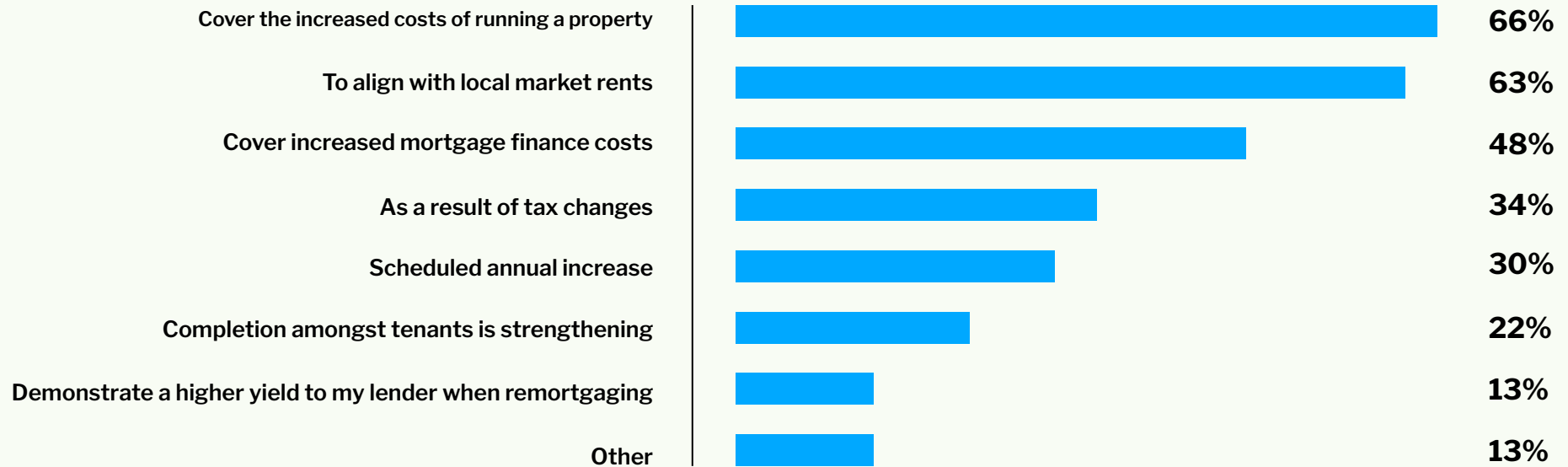
Most commonly, landlords plan to increase rents over the next six months to cover rises in the cost of running a property, chosen by two-thirds (66%), after falling from three-quarters (74%) in Q2.

This was closely followed by aligning with the local markets, which was selected as a reason for rent increases by 63% of landlords.

Following a decline of 9-percentage points since Q2, 48% of landlords who intend to raise rents during the next six months will do so to cover increased mortgage finance costs. Just over one-third (34%) anticipate increasing rents as a result of tax changes.



Reason for rent increase



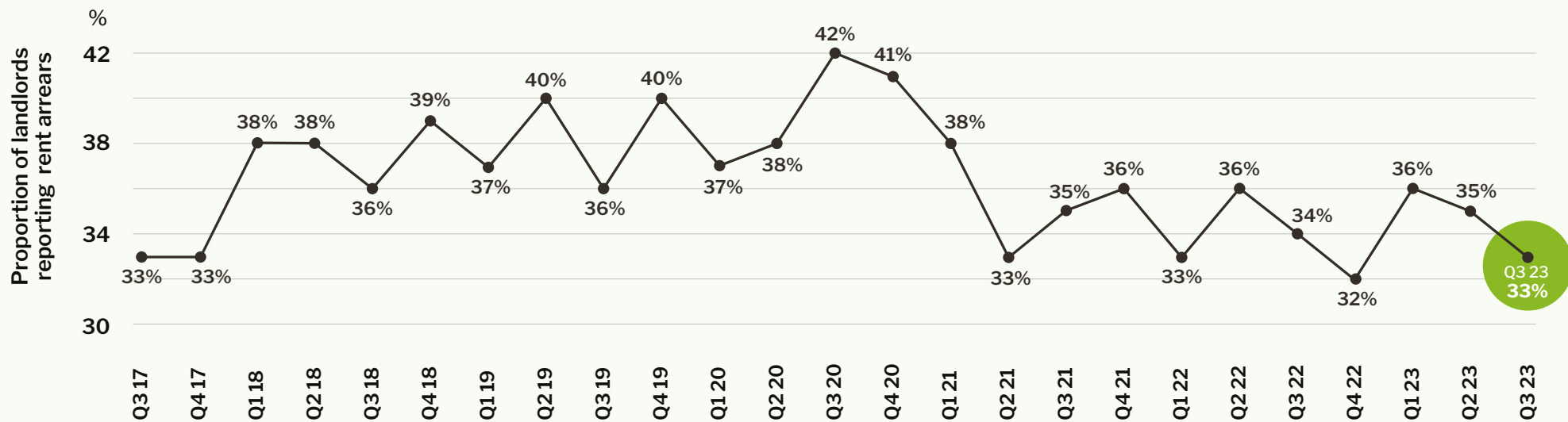
Rent arrears



The proportion of landlords reporting tenants falling into rent arrears has fallen by 2-percentage points since last quarter to one-third (33%), remaining relatively stable at this level throughout the last two years.

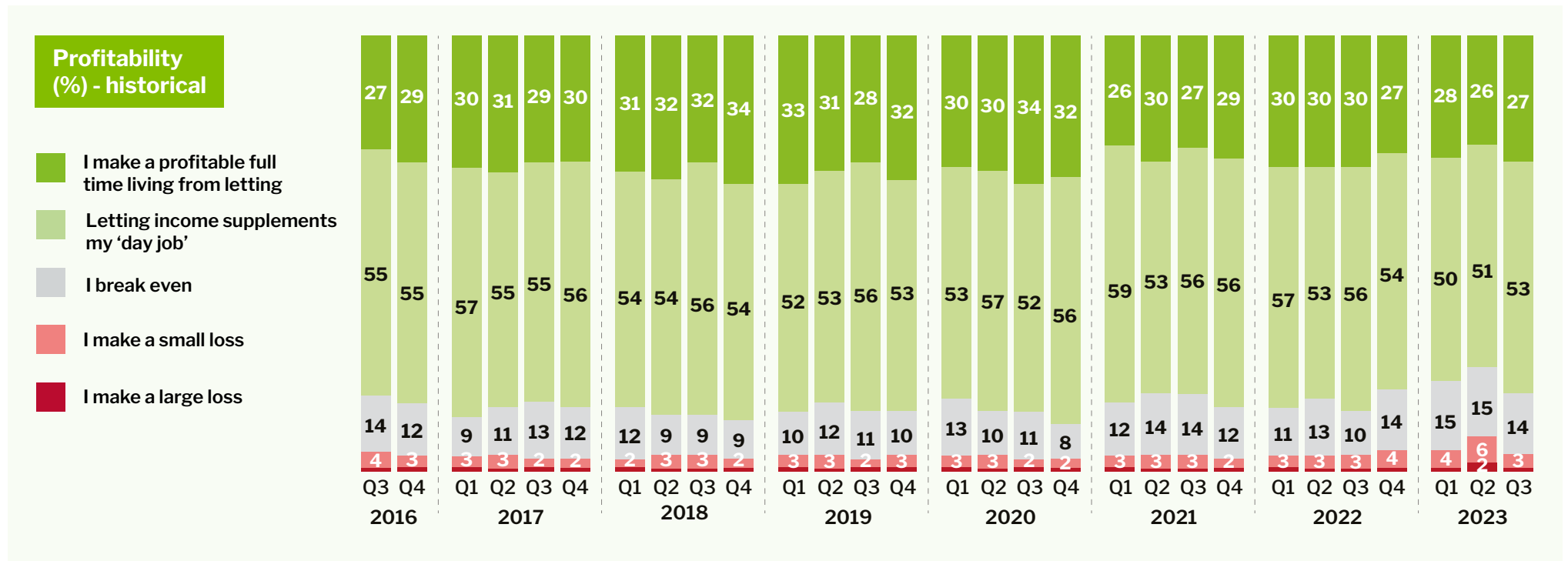
Landlords who stated that they have experienced arrears had an average of 1.3 tenants fall behind with rental payments, a decline from 1.7 last quarter. On average, each tenant owes approximately £1,900, down from £2,200 in Q2 2023.

Incidence of arrears in last 12 months - historical



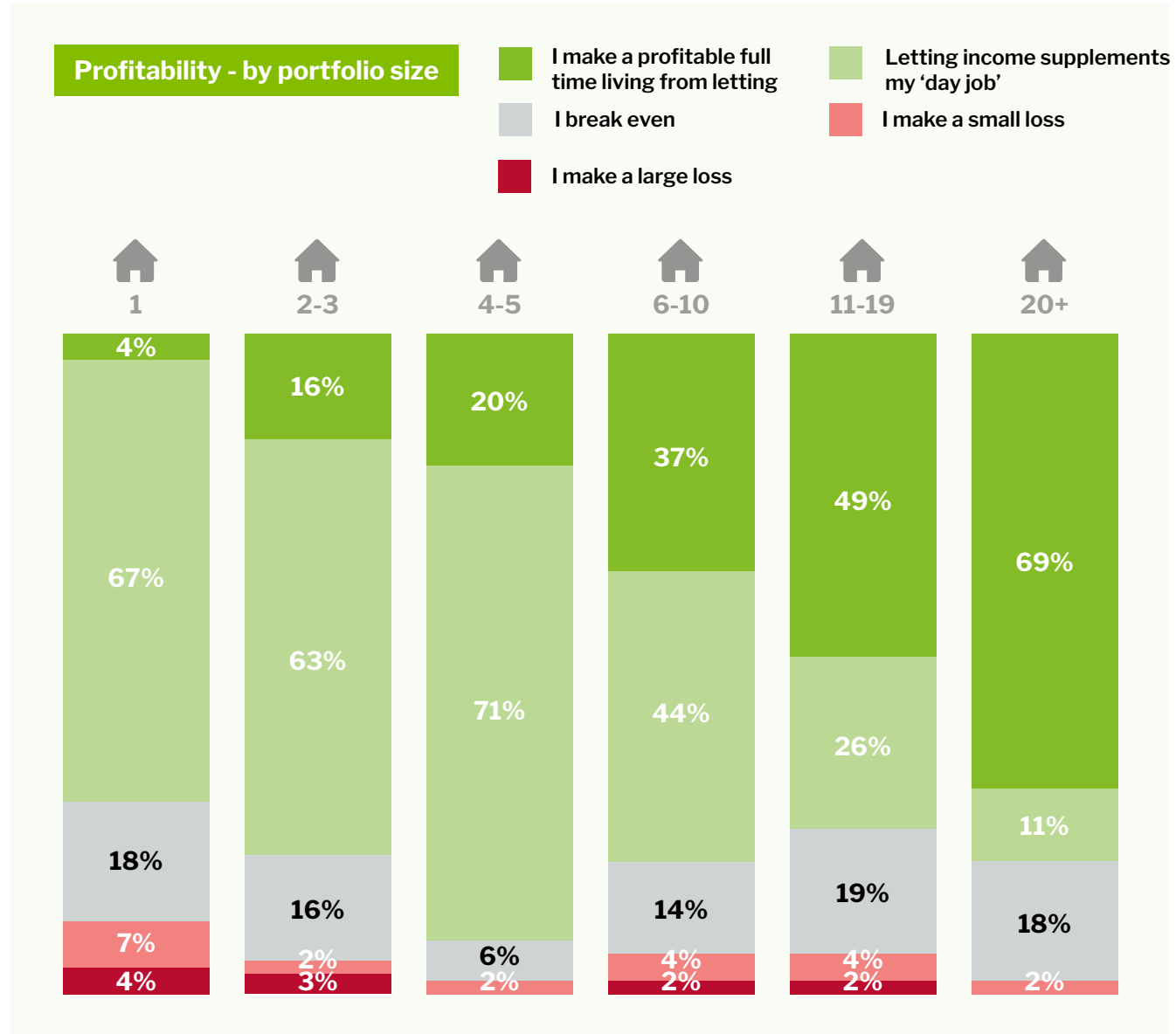
Profitability

Eight in 10 landlords reported their lettings activity was profitable during the quarter, up 3-percentage points on Q2 and the first improvement in profitability recorded this year.



The proportion of landlords who state that they make a 'full-time living' from lettings continues to align to portfolio size; fewer than one in 20 (4%) single property landlords state that they make a full-time living but this increases to one-fifth (20%) of those with four or five properties and 69% amongst landlords who own 20 or more properties.

Interestingly, however, the highest levels of overall profitability are recorded by landlords with 4-5 properties, with 91% stating that they either make a profitable full-time living from letting or that letting income supports their 'day job', an increase of 10-percentage points since Q2.



Landlord business expectations

Landlord optimism strongly rebounded this quarter, following the dip recorded in Q2. This uplift means that landlords are now more confident than they were during the same period in 2022, as signs of market and economic stability returning are evident this quarter.

Asked to rate their expectations for various aspects of lettings business - capital gains, rental yields,

UK financial market, UK Private Rented Sector and own letting business – notably higher proportions of landlords felt ‘good’ or ‘very good’ about the prospects of all areas, with the exception of the UK financial market which saw a more modest uplift of 2-percentage points on Q2.

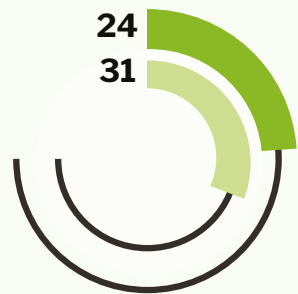
The most substantial increase can be seen in how landlords perceive the outlook for rental yields and

their own letting business, with the former rising by 16-percentage points and the latter by 11 since the previous quarter. In addition, the positive score for net optimism in ‘own lettings business’ recorded in Q3 is the first in a year.

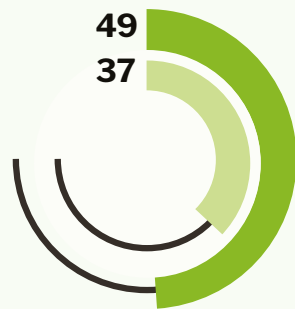
Landlords rating their expectations for next three months as ‘good’/‘very good’ (%)

■ Q3 22

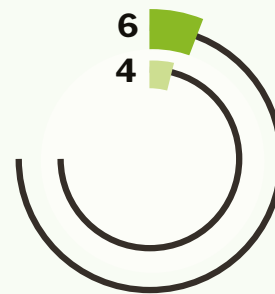
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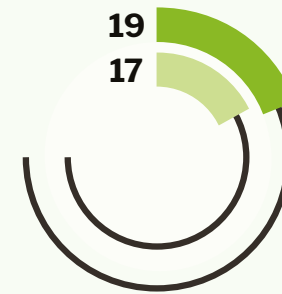
Capital gains



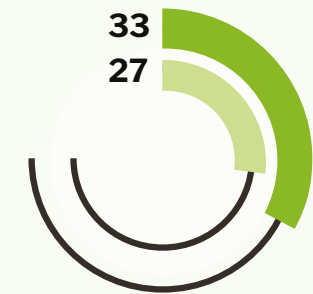
Rental yields



UK financial market



UK private rented sector



Own lettings business

Portfolio modification

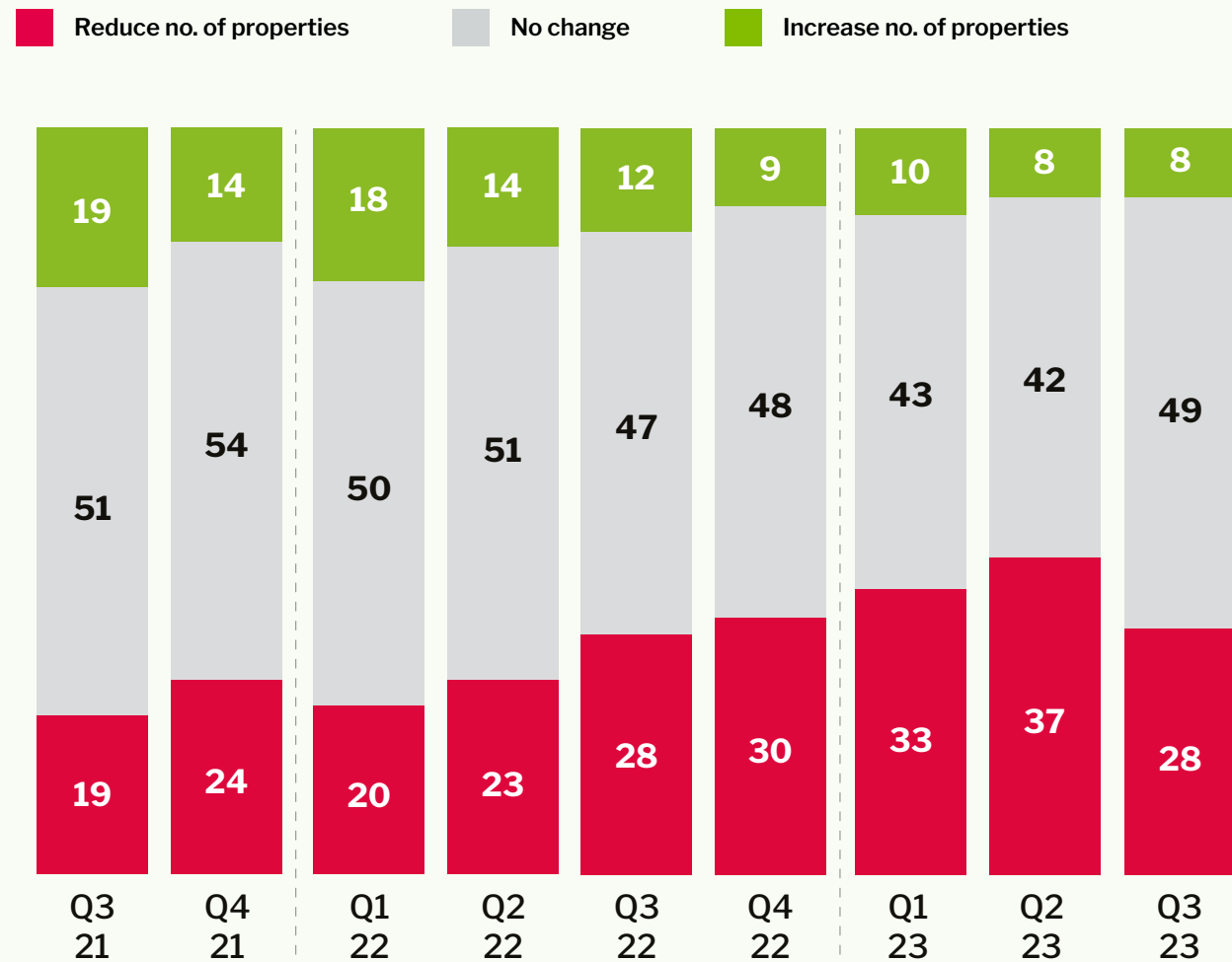
Landlord portfolio modification throughout the last three months is consistent with the previous edition of PRS Trends, with 5% of landlords purchasing properties and 12% selling. Landlords that have increased their portfolios have done so by an average of 2.2 properties each, while those who have divested have sold a mean number of 1.6 properties.

Perhaps, in part, linked to being the region with the highest yields achieved by landlords, the East Midlands has seen significantly more portfolio modification compared to other locations, with 17% of landlords investing and 17% divesting during the past three months.

This quarter sees a decline in planned divestment, returning to the level recorded in the same period in 2022 and following five consecutive quarterly increases.

While planned acquisition remains unchanged from the 8% average noted last quarter, drilling down into the data reveals that purchases are more likely amongst landlords with larger portfolios. We see that 12% of landlords with between 6-10 properties, 14% of those with 11-19 and 18% of landlords with 20 or more lets intend to expand their portfolios during the next 12 months.

Landlord portfolio intentions in the next 12 months (%) - historical



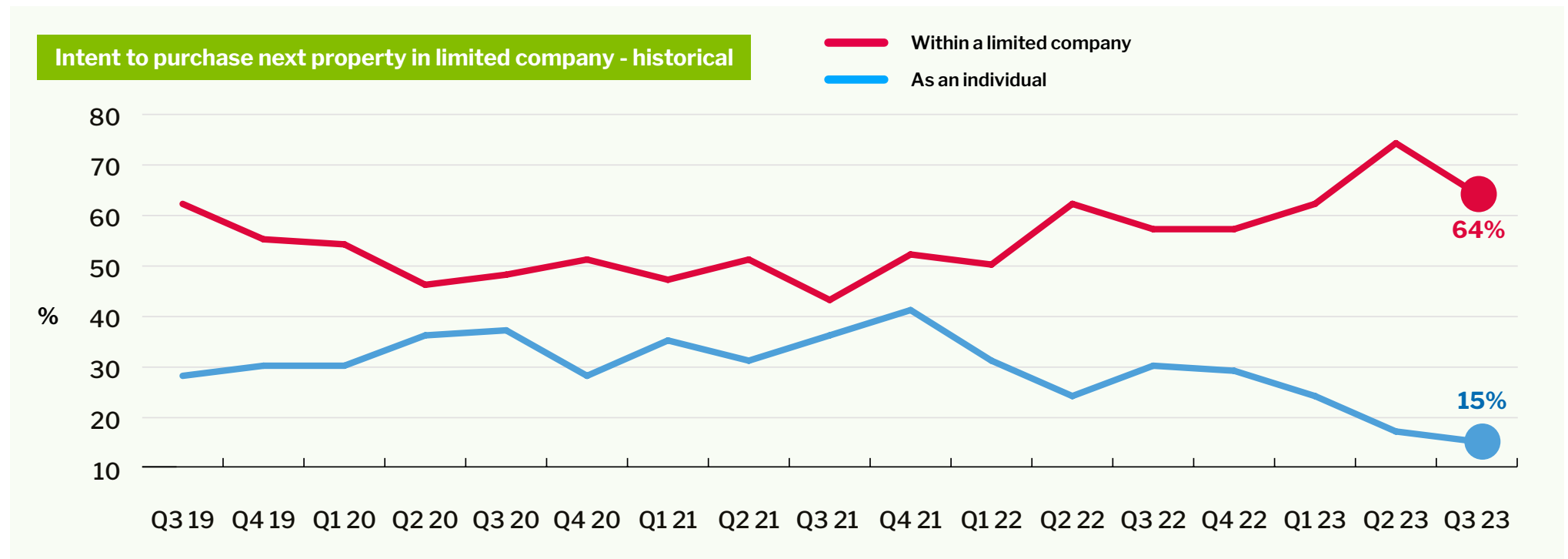
Property purchase strategies

The proportion of landlords who plan to invest through a limited company structure has fallen by 10-percentage points from the all-time high of 74% in Q2 to 64% this quarter, slightly below the long-term average.

This figure represents the average proportion across the range of different portfolio sizes and we see that landlords with six or more properties

are much more likely to utilise limited companies compared to those with smaller portfolios - 82% vs 18%.

Following a 2-percentage point drop since last quarter, the proportion of landlords who plan to purchase as individuals has hit a new record low of 15%.



Remortgage intention

Compared to the previous quarter, a slightly lower proportion of landlords intend to remortgage in the next 12 months – 30% in Q2 vs 27% in Q3. This increases to 38% amongst landlords with four or more mortgaged buy-to-let properties, while those with between 1-3 properties are less likely to remortgage during the next year at 18%.

Fixed-rate mortgages continue to be substantially more popular than variable-rate products amongst those who intend to remortgage, with 53% expecting to select the former and 9% the latter.

Looking at fixed-rate terms, 28% of landlords stated that they will choose two-year terms, up by 1-percentage point since Q2 and still the most popular option. Just under one in five (19%) say that they will fix over five years, up from 16% last quarter, while 6% intend to select a three-year fixed-rate mortgage, following a 3-percentage point decline since Q2.

One in three (30%) are unsure about the mortgage they'll opt for and a further 9% will turn to brokers for advice.

While utilising limited company structures continues to be more prevalent in property purchase cases compared to remortgages, since Q2, the proportion of landlords who plan to remortgage within a limited company has grown from 20% to 26%, while buying as an individual has fallen from 52% to 49%.

Plans to remortgage in the next 12 months



Rate likely to go for			
Fixed (2 year)	28%	Variable	9%
Fixed (3 year)	6%	Don't know	30%
Fixed (5 year)	19%	Will take advice from broker	9%
Fixed (other)	0%		



The Q3 2023 Private Rented Sector (PRS) Trends report was developed following analysis of data gained through in-depth interviews with 785 landlords. Research agency BVA BDRC, in partnership with the National Residential Landlords Association (NRLA), conducted these interviews in September and October 2023.



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