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Mortgages for Business has been at the forefront of the Buy to Let mortgage sector since the market inception ten years ago

Buy to Let mortgages and the Buy to Let investment vehicle as a whole was founded in 1996, and was the brainchild of Andrew Reeves of ARLA and a group of eight mortgage lenders. Residential investment prior to this point had been carried out under commercial terms and was by in large the realm of professional landlords. Birmingham Midshires, through their commercial lending operations, the then market leader offered 70% loan to value and terms of approximately 3% over Bank Base Rate. Today the majority of banks and building societies are involved in the Buy to Let market, under various brands, and Buy to Let represents 8% of all UK mortgage transactions.

How has the amateur investor affected the market?
Amateur investors surged to the market in the early years of the 21st century as house prices enjoyed consistently strong double digit growth each year. However the last two years has seen amateur activity dwindle, although there are signs in recent months smaller investors are returning to the market.

Additionally many amateur investors withdrew to the next “big thing” in many cases property investment overseas, amid headlines of cheap property with the potential for sky high capital growth.

Despite the hype surrounding Buy to Let investment and its new entry investors, the amateur investor is still very much sitting in the market’s passenger seat. According to 2006 CML statistics the large portfolio landlord remains dominant - 13% of landlords own 74% of the Buy to Let stock, and more striking 53% of landlords own a mere 3% of the stock. So despite the growing number of people active in Buy to Let market, amateurs impact remains relatively small.

What about first time buyers?
Buy to Let investors and first time buyers do tend to purchase the same property types, flats and terraced houses, however the idea investors have forced first timers out the market does not in principle calculate. 92% of mortgage transactions are carried out in the residential sector, and the Buy to Let market is very much a slave to movements in the residential sector. Residential purchases will always drive the market place and investors can only ever have a limited impact.

Who is the typical landlord?
The typical landlord to some extent really does not exist. The last five years has seen the rise of the semi-professional investor class, an investor who has built a portfolio of approximately ten or more properties but unfortunately still works nine to five.

Those investors who entered the market looking to make a “quick buck” have left and today’s market is characterised by individuals who take a robust long view of residential property investment.

How has the mortgage market developed over the last decade?
The dynamics of the market has changed significantly as increasing competition has meant greater commercialisation. 10 years ago Buy to Let was the territory of a few specialist lenders who priced on commercial terms - meaning high mortgage rates and the need to put down a 30% deposit.

As the market has moved through its lifecycle, terms have changed as more lenders have entered increasing the pool of money being advanced, and thus competition. Loan to value has risen in incremental 5% shifts up to the current market norm of 85%. In recent weeks selected lenders have moved the bar higher and started to offer 90% loan to value for investors willing to match the higher fee and increase lending margin requirement for borrowing at this level, demonstrating the lenders increasingly market orientation.

Lenders increasing need to stimulate demand and this has seen them introducing terms and products more attuned with the marketplace and the wants of the investors. Five years ago rent needed to 30% higher then the monthly interest only mortgage payment for lenders to grant the mortgage, products in the last twelve months have been launched where rental only needs to match the interest only mortgage payment i.e. 100% loan to value.

What about the mortgage market in the future?
The Buy to Let mortgage market is likely to continue to favour the investor as competition intensifies and the lenders need to differentiate themselves. It seems plausible that given the short history of the market 90% LTV will become the new market norm. Additionally more finely priced products will become available and especially at lower loan to values, although fees in the coming years will remain higher than residential mortgages.

What about the market in the future?
Given the increasing changes in socio economic factors and the rise of single person household coupled with insufficient new housing stock, the housing market and rental market are likely to remain strong for the foreseeable future. Predictions of a housing crash have been with us for a number of years now and thus far they remain unfounded, the stability in interest rates in the coming years also points to continue robust single digit growth.

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