Buy-to-let market 2021: opportunities and inhibitors

Following the upheaval of the COVID crisis in 2020, we explore how specialist brokers feel about the future of the buy-to-let market

The buy-to-let market has many moving parts and it is certainly not a one-size-fits-all market. It is clear there are a lot of different push and pull factors for and against a buoyant buy-to-let sector in 2021 and much depends on:

- **the type of the buy-to-let landlord – portfolio versus standard;**
- **the type of transactions they are doing; and**
- **the geographical locations of the property investments.**

Against a backdrop of a turbulent 2020, we sounded out a number of specialist buy-to-let mortgage brokers using our **Citrine Research Adviser Exchange Sounding Board** to get their views on the outlook for the buy-to-let market in 2021.

We found that there is a lot of optimism for the future. The overriding sentiment from brokers is that professional portfolio landlords in particular are resilient, not deterred by potential market inhibitors and are always on the lookout for opportunities to build portfolios.

In this paper we explore the opportunities that are driving this broker optimism as well as the factors they caution could inhibit professional landlords from expanding their portfolios.

Opportunities
Healthy rental demand
The changing shape of rental demand giving a boost to areas outside city centres
Stamp duty holiday
Increase in buy to let incorporations
Growth in new buy-to-let clients coming from unexpected quarters
Anticipated growth in some niche market buy-to-let areas

Inhibitors
A shortage of housing stock
Greater competition from first-time buyers for that limited housing stock
Potential constraints on borrowing for any landlord that has sought Government assistance during the pandemic (for example, bounce back loans, payment holidays and so on)

Healthy rental demand

Rental demand is what really underpins the buoyancy of the buy-to-let market.

The pandemic has not adversely impacted rental demand. Brokers agree that their buy-to-let landlord clients are experiencing strong demand for rental property and they see no sign of this abating.

"If you buy good-quality property, you're a good landlord and it's well managed, that property will always rent."

According to the Ministry of Housing, Communities & Local government housing report in 2019-2020, the private rented sector accounted for 4.4 million or 19% of households in England, unchanged from 2018-19.

Aside from the very beginning of the first lockdown when there was a shift in the market as it adapted to the changing situation, the rental market opened, rebounded quickly and continued to rise.

"Throughout lockdown one, you were able to do virtual tours and rent properties. So that was one market that never actually stopped. Letting agents stayed open."

According to brokers, there are a number of factors fuelling rental demand including:

- younger people finding it difficult to get onto the housing ladder, therefore continuing to rent;
- a new wave of young renters entering the market following the lockdowns; and
- a steady transient labour market; for example, in areas close to major hospitals where the demand for rental properties remains high.

"The rise in renters has probably come from teenagers living with mum and dad that decide they don't want to. They've locked down with mum and dad twice or once or three times even and they want that bit of independence. Getting on the housing ladder is not always the easiest thing, but renting somewhere is something anyone can do."

According to the Office of National Statistics (ONS), a shortage of rental stock means rents themselves are increasing. The average monthly private sector rent in England over the 12 months to September 2020 was £725 - the highest ever recorded by the ONS.

Brokers do not foresee the Government Backed 95% Mortgages to Help First Time Buyers scheme dampening the healthy rental demand. There is a continuous new wave of renters coming into the market to replace any that do buy. The main barrier for many first-time buyers (particularly in the south) is income multiples and not loan-to-value; therefore, they don't see the new scheme as particularly having an impact:

*"It (*the 95% scheme*) might work well north of Birmingham but south of Birmingham I can't see it really helping. And going a step further, if you look at our coastline prices they are absolutely bonkers so it's not going to help first-time buyers in those areas either."*

The changing shape of rental demand

The shape and nature of rental demand has changed significantly as a result of the pandemic, the work-from-home rules and the anticipation that the five-day-commute lifestyle is over for good. Major city centres, particularly London, have not experienced increases in rental demand seen elsewhere as tenants seek larger properties with outdoor space, outside of city centres. This has opened up opportunities for brokers outside of city centres.

"People are starting to move away from HMO because they want outside space. They want to have their own space because it must have been terrible being in an HMO in lockdown."

According to estate agent Hamptons, in the past year, London's rental market hasn't fared as well as the rest of the UK. Inner London saw rental values drop by a whopping 17.7%. Greater London also saw rents decrease but only by 0.2%. However, Outer London has seen growth with rents increasing there by an average of 5.3%.

One broker we spoke to has even seen a move by their landlord clients to converting Houses of Multiple Occupation (HMO) back to residential properties.

"People are starting to move away from HMO because they want outside space. They want to have their own space because it must have been terrible being in an HMO in lockdown. And already in our area we've seen a move towards converting HMO back to residential properties."

Buy-to-let incorporations and stamp duty reduction stimulus

Brokers report that following the initial lockdown, 2020 was a busy period both in terms of new clients and existing portfolio landlords expanding their portfolios. Low interest rates and subdued house prices in the second half of 2020 bolstered demand.

Estate agent Hamptons found there were 41,700 so-called buy-to-let incorporations last year, up 23% on a year earlier.

The initial stamp duty holiday acted as a market stimulus, particularly in some locations. Brokers report seeing significantly more buy-to-let clients setting up, transferring and buying through incorporations to mitigate tax. Furthermore, existing portfolio landlord clients have taken advantage of the stamp duty holiday by leveraging funds from existing properties to expand their portfolio.

Growth in demand from unexpected quarters

In addition, brokers reveal growth in demand from new first-time landlords, some from unexpected quarters, including:

- an increase in demand from expats (Hong Kong, Singapore, Dubai and USA) seeking to both beat the overseas buyer additional stamp duty and take advantage of reduced stamp duty; and
- enquiries coming from potential first-time buyers unable to afford to purchase property to live in the area they live but keen to make a property investment.

Anticipated growth in some niche market buy-to-let areas

Increased interest has also been expressed in holiday buy-to-lets driven by the growth of the 'staycation' and many people anticipating not being able to travel abroad for some time.

"I've probably done more holiday homes in the past year than I've done in the previous eight years. There's never been many holiday buy-to-let lenders in this market; it's never been huge. But this year it has. I've done three this year and that's more than I've done in the previous eight years."

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However, despite increased interest and enquiries, some brokers report this has not yet translated into more deals.

"I get a lot of enquiries, but they don't tend to go anywhere, which I'm surprised about because I really had this pegged down as a real area for growth last year; with lockdown and Brexit, people aren't going on holidays much abroad, so it's a fantastic opportunity."

There are a lot of factors underpinning confidence and optimism. While brokers are confident that their portfolio landlords in particular will continue to seek and find opportunities in 2021, they caution on a few issues that could dampen the market.

Shortage of housing stock

A shortage of housing stock is a significant factor likely to put the brakes on the buy-to-let market this year.

This has been exacerbated by the extension of the stamp duty holiday and the launch of the Government Backed 95% Mortgages to Help First Time Buyers scheme. Although this is not envisaged to adversely impact rental demand, it is having the impact of causing house price increases. Buy-to-let investors in certain areas are finding themselves competing with first-time buyers.

"I've had a few conversations with my landlords over the last few weeks and they are worried about the 95% mortgage scheme that's coming out. And interestingly, the first deal, which was launched this morning by Accord, is about one percent lower than I would anticipate. So all of a sudden the first-time buyers are on a level playing field with your limited company buy-to-let landlords. But what my landlords are worried about is that they've got a ceiling set by what they can make from that property, whereas a first-time buyer will buy the property because they want somewhere to live. So their thinking is that they are always going to be outbid by the first-time buyer."

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Constraint on further borrowing

Another significant issue for some landlords is constraint on further borrowing if they used any government assistance during the pandemic (for example, bounce back loans, payment holiday – particularly if more than one). There is no industry standard and lenders are taking different views on whether they will accept applications from borrowers who did take government assistance. Landlords reportedly feel aggrieved as:

- accountants were quick to advise landlords to take bounce back loans almost as a contingency that they could pay back if not required;
- many understood and decided to seek assistance on the grounds that it wouldn't impact future borrowing; and
- it was almost too easy to access the assistance and, indeed, one broker reported a landlord client had taken a holiday by mistake by clicking on a wrong button.

Final thoughts

Overall, after a turbulent 2020, brokers report their landlord clients have adapted well and been quick to capitalise on new opportunities. Clearly there are a lot of factors underpinning the optimism noted and even with potential inhibitors, the specialist buy-to-let brokers we spoke to are anticipating a steady market in 2021.

Brokers anticipate their portfolio landlords (who make up the bulk of their client base) will continue to seek out business opportunities and, if one pocket of the market is not appealing, they will look for other types of deals.

The portfolio landlord is reportedly resilient, adaptable and flexible and will continue to do deals that make financial sense.

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