



links to articles
in this issue:

The growth of
buy-to-let

Government suggests
reforms to Homebuy

Report exposes consumer
attitudes towards borrowing

Countdown to the
mortgage white paper

useful links

Media centre:

Recent press releases

Press office contacts

Politics

Statistics:

Key statistics

Policy:

Issues

Responses

Events:

Events programme

CML website:

www.cml.org.uk

The growth of buy-to-let

- Last year the buy-to-let market accounted for 11.1% of gross mortgage lending – up from 9% in the previous year. A total of 330,000 buy-to-let mortgages were taken out in 2006, worth £38.4 billion – an increase of 48% by volume, and 57% by value on the 2005 figure.
- Did anyone really think that buy-to-let would become such a vital strand of mortgage lending just 10 years ago? Probably not. But the combination of a change in housing legislation in the late-eighties combined with shifting social attitudes towards home-ownership brought on by the housing crash and the recession of the early-nineties, provided a strong demand for rented properties.
- The launch of the buy-to-let mortgage scheme in 1996 by the Association of Residential Letting Agents, supported by a panel of lenders, was aimed at stimulating the private rented sector, and provided the perfect opportunity for individuals to buy and rent property at a competitive mortgage rate.
- For the first time we are now able to give details of levels of repossessions and receiver of rent appointments in the buy-to-let market. Broadly, levels of difficulty are low, and similar to the rest of the housing market. The percentage of buy-to-let mortgages taken into possession was 0.14% while an additional 0.06% of buy-to-let properties had a receiver of rent newly appointed.
- The fast growth of the buy-to-let market is often cited as a key cause of declining numbers of first-time buyers, but in reality it is not this straightforward. The likelihood is that increasing numbers of young people are making so-called “lifestyle choices”, including putting off home-ownership until later in life. Coupled with growing affordability constraints and the demand of many young people to have flexibility in tenure, these changes, and not the growth in buy-to-let, are the real drivers behind the falling numbers of first-time buyers.

Announcing CML spring events – please diarise dates

CML Scotland Annual Lunch – Friday 9 March, Edinburgh

Sponsored by Mortgage Business Expo

CML Annual Lunch – Friday 20 April, London

Sponsored by Moneyfacts



for a full list of events, workshops and courses
visit our events page on our website at www.cml.org.uk





The growth of buy-to-let

To say that the buy-to-let market had a good year in 2006 is something of an understatement. Last week we reported that buy-to-let lending had reached an all-time record of £94.8 billion in 2006, up from £73.4 billion in the previous year. And, the number of buy-to-let mortgages reached 849,900 - a rise of 21% on the 2005 figure (701,900). Our new figures show that buy-to-let lending has a significant presence in the overall lending picture, and accounts for 11.1% of all gross lending. Did anyone really think the market would become such an important strand of lending 10 years ago? Probably not. Though looking back, it is easy to see just why it has developed so rapidly.

Why the market evolve?

During the late-1980s there was something of a revival in the private rented sector. This was fuelled by the 1988 Housing Act which effectively de-regulated the rental market and introduced short-term tenancies, giving landlords greater security to reclaim their property. This was coupled in the early 1990s with an increase in the number of accidental landlords – people who were unable to sell their homes and decided to let them out and either buy or rent another property to live in. Lenders had previously charged higher commercial rates to borrowers who wanted to let property, but with the housing market crash and the recession of the early-nineties still a recent memory, lenders began to offer lower rates to these borrowers and started to gain experience in managing a portfolio of loans to small-time landlords.

In 1996 the Association of Residential Letting Agents, supported by a panel of lenders, launched the “buy-to-let” mortgage scheme aimed at stimulating the private rented sector. This also catered for the small, but growing, number of new landlords. That year the buy-to-let panel wrote about £12 million in business, but it was only in 1998 that we started to collect more detailed data about the market. That year there were just 28,700 buy-to-let loans, worth £2 billion and the market accounted for just 0.4% of all outstanding mortgages.

Changes in the legislative and lending landscapes were met with a shift in social attitudes towards home-ownership. During the mid-nineties it was becoming increasingly common for young people to defer buying a property until later in life meaning they tended to rent for longer. This trend has continued, and in 2005 research conducted by Paragon Mortgages found that 74% of people aged between 18-24 were renting their first property (47% in private and 28% in public renting). In the same year GMAC RFC revealed that the majority of young people had a positive attitude towards renting – 61% saying that it offered them the chance to live in a better area, in better accommodation, than they could otherwise afford and 72% said it gave them the flexibility to travel. 71% of those who responded said renting a property allowed them to move easily between jobs.

In recent years there has also been strong growth in inward migration, and combined with the shift in attitudes towards renting, there has been constant demand for buy-to-let properties.

Repossessions in the buy-to-let market

Last week, for the first time, we were able to provide details of levels of possessions in the buy-to-let sector. Overall, the buy-to-let market experiences levels of arrears and possessions similar to the rest of the housing



“Changes in the legislative and lending landscapes were met with a shift in social attitudes towards home-ownership. During the mid-nineties it was becoming increasingly common for young people to defer buying a property until later in life meaning they tended to rent for longer”



market. Last year, just 0.59% of buy-to-let mortgages were in arrears by three months or more, and this is down from 0.65% in 2005. By comparison 0.89% of mortgages across the whole market were in three months or more arrears in 2006. The level of possessions in the buy-to-let sector stood at 0.14% of all loans, with a further 0.06% having a receiver of rent appointed (an alternative mechanism for a buy-to-let lender to take control of a property with arrears).

There is a range of reasons why buy-to-let mortgages fall into arrears - none of which will come as a great surprise. For example:

- when the tenant fails to pay rent;
- when the property is left vacant for a long period of time forcing the landlord to use their own money to cover the mortgage; and
- when the rent is insufficient to cover the mortgage payments.

Interestingly, drivers of arrears and possessions in the wider market - especially increases in interest rates - sometimes have the opposite effect in the buy-to-let market. In the home-owner market, when interest rates go up, we expect to see an increase in the number of mortgages falling into arrears as people struggle to pay higher monthly mortgage repayments. But in the buy-to-let market a hike in rates sometimes helps to sustain rental incomes as it increases affordability constraints for first-time buyers and continues to put pressure on demand for rental properties.

The flip side of this is that if rates go up faster than rental income, then some landlords might find themselves using their own financial resources to help cover the mortgage payments.

The drivers of investment

Despite the risks of investing in the buy-to-let market, a CML-commissioned survey in 2004 revealed that many landlords see it as a good investment opportunity. The research – *The profile and intentions of buy-to-let investors* – found that the main motives for becoming a landlord were financial. Buying property is often seen as a good investment – especially in a growing market with rising property values and upward pressure on rents. The survey also found that 60% of landlords expect to stay in the residential letting market for at least 10 years, illustrating that most see buy-to-let as a long-term investment.

The regulatory balancing act

One of the biggest issues in the buy-to-let market is regulation and the associated risks of burdening good landlords with a raft of complex rules. The various avenues of legislation range from the licensing of houses in multiple occupation (HMOs), selective licensing, the compulsory tenant deposit scheme, the Disability Discrimination Act and a new health and safety rating system.

The tenant deposit protection scheme is one example of how well-intended legislation might potentially cause confusion. The aim behind the scheme is to tackle the problem of landlords who unreasonably withhold tenant deposits. At present, if this happens, the tenant must go to the County Court to try and get their deposit back - a process that can be time-consuming and expensive. The proposed solution is a combination of a custodial scheme and up to three insurance schemes. Landlords will be required to provide paperwork to the scheme



“One of the biggest issues in the buy-to-let market is regulation and the associated risks of burdening good landlords with a raft of complex rules”



for each tenancy, and tenants will have to wait for up to 10 days before they get their deposits back from the custodial scheme. How this will work in practice, for example with foreign tenants returning home and needing their deposit immediately, is still unclear. In practice, all that is needed is a simple, cost-effective alternative dispute resolution (ADR) – a process that would compel the landlord to inform his/her tenants about the ADR, and a requirement that the landlord must lodge disputed amounts with a third party, so they wouldn't benefit from dragging out the legal process.

The issue of regulation in the buy-to-let market is something of a balancing act. While it is essential that tenants are protected against unscrupulous landlords, it is equally important that good landlords are not over-burdened by complex and costly regulation, the cost of which will ultimately be passed on to the consumer in the form of increased rents.

Stifling first-time buyers?

Over the past year it has been suggested by some housing market commentators that the growth of the buy-to-let market has been at the expense of first-time buyers. The argument goes that buy-to-let landlords are snapping-up properties that might otherwise have been in the price range of first-time buyers and this is pushing up house prices, making home-ownership a more distant prospect for many would-be home-owners.

The reality is probably not this straightforward. In some locations across the country landlords and first-time buyers will be competing for similar sorts of property, but in others they are not. Much of the perceived problem about the declining number of first-time buyers is due to the changing lifestyle choices many young people are making. The combination of social and economic trends – such as putting off marriage and children until later in life, and the need for many young people to have flexibility of tenure – has fuelled the falling numbers of first-time buyers. Coupled with worsening affordability, it is likely that these are the real drivers behind falling first-time buyer numbers, and not the growth of the buy-to-let market.

Our predictions for the future

It is clear from our figures last week that the buy-to-let market is an important strand of total mortgage lending. The market has been a continued source of growth since 2002 when the number of owner-occupiers with mortgages started to decline. This reflects the maturing age profile of the UK population coupled with falling numbers of younger households entering home-ownership.

According to a RICS survey in 2006, there has been persistent upward pressure on rents for more than three years. This, coupled with expected growth in house prices during the year will continue to make the buy-to-let market an attractive investment option for many people. But, there are always risks, not least the recent increases in interest rates – with perhaps more in the pipeline – which will push mortgage payments above rental income for some landlords, which will force them to turn to their own financial resources to help cover the mortgage, and potentially increase levels of possession in the sector.

Aside from this, the general feeling is that the market is in robust shape, and will remain so as we move through 2007. We believe the market can actually help absorb some of the demand for housing that is not currently being met by supply. But this will only happen if the government recognises the need for the market to play a supportive role. It also means that over-burdening buy-to-let landlords – who are usually individuals with limited resources – with complex rules and regulation will only make the market less dynamic, and the costs will ultimately be passed down to the consumer in the form of higher rents.



“Much of the perceived problem about the declining number of first-time buyers is due to the changing lifestyle choices many young people are making”



Government suggests reforms to Homebuy

Earlier this month, Ruth Kelly, secretary of state for communities and local government, raised the prospect of allowing social tenants to purchase just 10% of their home under the Social Homebuy scheme launched last October.

Under the current arrangements the minimum share of a property tenants can buy is 25%, and they can increase this stake as and when they can afford it. But, in a speech given to the Fabian Society, the secretary of state asked: "Is there a case for offering the opportunity for people to start with a smaller stake – say 10%?"

She went on to say that: "Any policy must pass three tests – it must be sustainable for tenants, affordable for government and workable for landlords". But such a scheme also needs to be acceptable to lenders and we were not consulted before the announcement.

We support the government's ambition of getting more people on to the property ladder in a sustainable way, and agree that people should be able to increase or decrease the share of the property they own depending on their financial circumstances. But it should not be assumed that the six lenders currently involved in the social Homebuy scheme would be prepared to lend as little as the 10% being suggested. At present, the minimum share a lender will provide is 25%, and lenders are worried that lowering this amount would raise questions about the borrowers' commitment to home-ownership and makes it difficult to justify the level of administration necessary for the lender. There may be a small number of cases where 10% will be acceptable but this will depend on individual circumstances.

Also, under the current social Homebuy scheme the borrower is responsible for all of the maintenance to the property. We have consistently argued that it is unfair to burden someone who owns less than 50% of a property with 100% of the maintenance costs. This must act as a disincentive to take-up of the scheme and does not help to make homeownership sustainable. Lenders would need to be consulted with the full details of the scheme to see whether it would be feasible.

Report exposes consumer attitudes towards borrowing

A new report by Picture Financial - a recent entrant to the secured lending market - has found that over three quarters of the UK population (78%) are comfortable or happy with the level of credit they take on, but just under half (42%) fear they are not getting the best deal on interest rates and charges.

The research also found that while nearly three quarters of consumers rate themselves as either good or excellent at managing their money, in reality over 1.8 million of the population will never review their finances, and one in three have little idea how much they are paying back each month in total on their outstanding credit.

When it comes to buying financial products just 3% of those aged between 18-24 years felt they knew their consumer rights when buying financial products. Although the report found that around half of the adult population find the easiest way to compare financial products is online or on the high street, it notes that:

"Consumers have a far greater understanding of other sectors in comparison to financial services. This is demonstrated through the research that shows consumers are four times more likely to know their consumer rights when buying food and clothes and three times as likely when buying electrical goods in comparison to financial products".

- Last week the Department for Communities and Local Government revealed that during 2006, 160,234 new homes were built in England – an increase of just 0.5% on the previous year's total of 159,454. The number of new starts reached 183,143 in 2006, from 177,129 in 2005, a rise of just 3%.
- In a recent report – *Unlocking the door – delivering more affordable homes from the comprehensive spending review* - the Housing Corporation has claimed that releasing a potential £7 billion of additional debt capacity from housing associations could help build between 40,000 and 50,000 affordable homes every year.
- Citizens Advice has reported that they were approached for help with 15% more debt related problems in January 2007 compared to the same month in 2006. The charity said that the number of cases arising from everyday living expenses – such as bills and council tax – had risen sharply.





links to articles
in this issue:

The growth of
buy-to-let

Government suggests
reforms to Homebuy

Report exposes consumer
attitudes towards borrowing

news & views contacts

News & Views is the
fortnightly newsletter of the
Council of Mortgage Lenders

Bush House
North West Wing
Aldywch
London WC2B 4PJ
Switchboard: 0845 373 6771

Editor

Bernard Clarke
Direct line: 020 7438 8923
bernard.clarke@cml.org.uk

Design & Production:

Natalie Wheeler
Direct line: 020 7438 8921
natalie.wheeler@cml.org.uk

A full list of staff and further
information about the CML
can be found at:

www.cml.org.uk

Countdown to the mortgage white paper

The European Commission has recently published reports from the Mortgage Funding Expert Group (MFEG) and the Mortgage Industry and Consumers Expert Group (MICEG) – the two groups set-up to examine funding and consumer issues in the European mortgage market. This marks the end of a long consultation period, following the Commission's green paper – *Mortgage credit in the EU* - in July 2005.

As the Commission draws up the white paper to be published in the summer, it needs to decide what, if any, steps are needed to improve the integration and efficiency of Europe's diverse mortgage markets. The Commission's decisions will draw on the work of the two expert groups, and we believe the MFEG report provides a blueprint for the kind of route the Commission should be taking.

The broad thrust of the MFEG report is to promote a liberalising agenda in Europe, and it states that: "MFEG believes that a market-based, deregulated approach is best able to provide efficient markets, deliver maximum choice and best pricing for the consumer". We welcome this approach.

The report's specific proposals include:

- Creating a "passport" system for lenders authorised in a member state to undertake business in states without unnecessary restrictions (for example, the requirement in Germany for a mortgage originator or servicer to hold a banking licence).
- Promoting greater transparency in national land registries through the removal of hidden charges and preferences, clearer property valuation methods and terminology, and greater standardisation of reporting to funding investors;
- Promoting measures to integrate the European infrastructure for mortgage lending in areas such as cross-border access to land registries.

In some respects the MFEG report reflects our own views on the integration of the European mortgage markets. We believe that the Commission should (subject to proper cost benefit analysis) focus on to the following priorities when drafting the white paper:

- The integration of mortgage funding markets, which should help improve market efficiency.
- Liberalisation of mortgage markets in countries where restrictions limit competition. This allows the "supply side" to drive integration by making it easier for lenders to enter other European markets.
- The integration of the infrastructure for mortgage lending, for example, measures affecting cross-border access to credit databases, improvements in valuation methodology and better cross-border access to land registries.
- In contrast, increased harmonisation of consumer protection measures risks imposing excessive costs relative to the potential benefits and should therefore be a low priority. We believe this should only be considered once the above measures have been implemented and given time to bed-down.

The MICEG report clarifies the lack of agreement between industry and consumer representatives on the way forward on pre-contractual information, advice, APRC and early repayment. But it does not provide a mandate for specific action or a compelling case for any regulatory intervention on consumer protection measures. Industry (including CML representatives) and consumers failed to agree on almost all significant matters while consumer representatives seemed to lack the detailed evidence needed to support their case that changes would bring new benefits which would exceed industry costs.

In the green paper, the Commission made it clear that intervention would only be proposed if it could be demonstrated that there was a clear business case to support it. It also emphasised that future initiatives may not necessarily be of a regulatory nature. We welcome this approach as an example of the better regulation agenda in action. The MFEG provides the Commission with a clear approach and with specific recommendations that should improve integration and efficiency without imposing an undue additional regulatory burden. We hope that the Commission acts accordingly.

