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How the sector has responded during the Covid-19 Pandemic?

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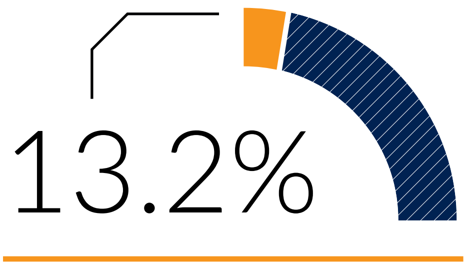
The UK property market, and by extension the buy-to-let (BTL) sector, finds itself at an interesting crossroads. The pandemic has had various, far-reaching implications on the market over the past 18 months, while the stamp duty land tax (SDLT) holiday has had similarly pronounced effects.

Rewind to March 2020, when the UK entered its first nationwide lockdown, and the property industry ground to a halt. The inception of rigid social distancing measures placed severe and often impossible limitations on the mechanisms of buying property; in particular estate agents' ability to show properties, and the delay from Land Registry until late July to permit witnessed electronic signatures on critical documentation.

The easing of lockdown rules heading into the summer last year, married with the SDLT holiday from 8 July, paired to create a perfect storm for market activity; injecting the UK property sector with a fervour that can credibly be described as unprecedented. After the initial slowdown in Q2 2020, the market has bounced back to a remarkable degree, with the 16 months since the start of the stamp duty holiday resulting in a huge boom in house prices and transactional activity.



According to the Office for National Statistics, average UK house prices increased by 13.2% over the year to June 2021. It is the fastest pace of growth recorded in 17 years.

The stamp duty holiday ends on 30 September 2021. Whilst it is difficult to anticipate how the residential market will settle in the longer term, it is encouraging to see the initial signals of a resistance to price volatility within the sector.

But house prices cannot – and should not – be the indicator we use to assess everything. The landscape and prospects of BTL property investment in the UK is very different than it was even five years ago, and with the property sector as a whole undergoing such an unusual period, it is important to explore the current thinking of BTL property investors, how the pandemic influenced their decision-making, and what their future plans are.

Accordingly, in assessing the conditions of the property market as it enters a new set of circumstances, attention should turn from indices and raw data, and towards the buyers themselves.

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Between 30 August and 4 September 2021, an independent market research agency conducted a survey on behalf of Market Financial Solutions (MFS) of 512 UK adults, all of whom own two or more residential properties. The survey delved into their experiences of investing during the pandemic, and how they plan to adapt their portfolio in the future.

This research comes at an opportune moment for BTL investors, signalling some encouraging prospects, while underlining the key differences in planning that can be seen among investors with different portfolio sizes.

As such, for the purposes of this research, we have separated property investors into separate classes; those with 'smaller' portfolios of between two and six properties, and 'larger' investors with six or more. By doing so, we will illustrate the variances at work between established BTL landlords and those not yet investing at such a scale.

In this report, we will share the full findings of this series of research, along with further insights from the MFS leadership team.

Key findings at a glance

Of the 512 UK property investors surveyed:

SURVEY

512 UK ADULTS

2+

WITH 2 OR MORE RESIDENTIAL PROPERTIES

38% have bought a property since July 2020

32% tried and failed to buy a property during the stamp duty holiday

44% of property investors are now more likely to invest in rural areas

60% feel the stamp duty holiday made the market 'too chaotic'

65% allowed greater flexibility on tenants' payments due to financial problems caused by the pandemic

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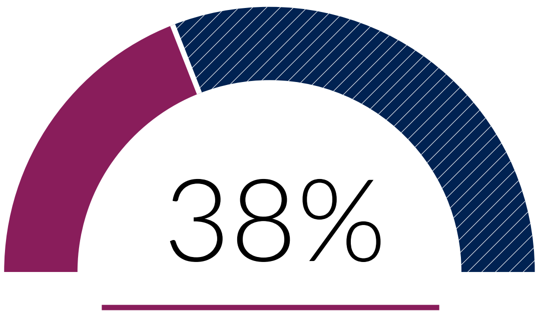
How did investors navigate the pandemic?

A number of important factors underpinned the fortunes of investment in the property market – including, in many respects, quite unusually favourable conditions for professional landlords.

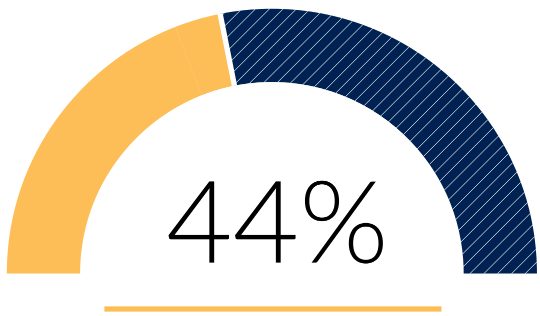
The introduction of the Coronavirus Business Interruption Loan Scheme (CBILS) afforded landlords with an injection of low-risk fluidity, while restrictions on financial lenders repossessing delinquent properties during the pandemic gave some necessary flexibility to help property investors navigate the particular circumstances their investment portfolio faced.

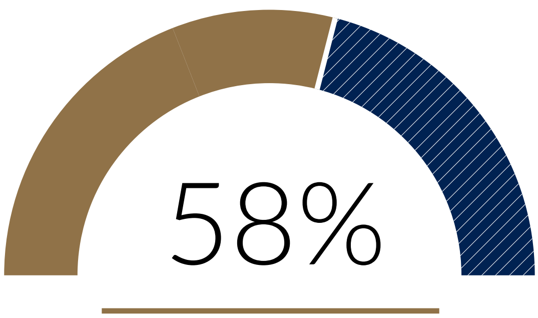


Accordingly, it is unsurprising to discover that almost two fifths (38%) of the BTL investors surveyed had invested in more property since July 2020.

Another influential consequence of the pandemic has been the shifts in buyer demand. With workplaces closed, there has been a lot of talk about an exodus from urban areas; city dwellers looking to take advantage of the opportunity to move to more rural locations.

(44%) of investors stated they have become more likely to consider investing in properties in rural areas since the onset of the pandemic.





When considering only those with larger portfolios, this number rises to nearly six in ten (58%), signalling the potential for rural properties to continue to flourish in coming years.

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Flexibility on payments

The economic disruption caused by the pandemic has been vast. Redundancies and furloughs have affected the income of millions of UK households, with rental or mortgage payments no longer viable in some instances.

65%

MFS' research showed that just under two thirds (65%) of UK landlords had permitted their tenants flexibility on their payments due to financial problems caused by the pandemic.

55%

Looking ahead, the majority (55%) of BTL investors said that they intend to increase their rents in the coming 12 months

80%

However, the vast majority (80%) said they would be happy to receive a lower annual rent return, if it meant they could get a better, or more long-term tenant in place.

Evidently, landlords are approaching rental returns with a degree of flexibility in the current landscape, both out of respect for the financial circumstances of their tenants during pandemic, as well as their own desire to ensure reliable, long-term income.

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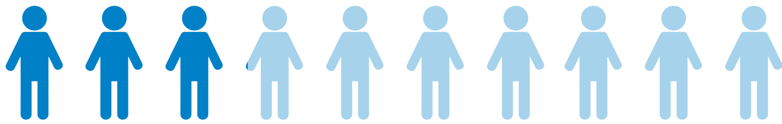
Reflections on the SDLT holiday

The SDLT holiday has been an ever-present subject of discussion in the property sector over the past 16 months. For property investors, though, the initiative has received a mixed reaction.

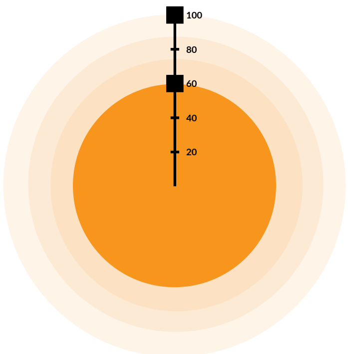
As noted above, 38% of property investors seized the opportunity to expand their portfolios while the tax break has been available.



Yet more than three in ten property investors (32%) admitted they had tried and failed to buy property during the stamp duty holiday – nearly as many as had completed property purchases.

Investors with larger portfolios were more likely to have failed in their attempts to buy a property during the stamp duty holiday than those with smaller portfolios (45% versus 30%).

This reflects on a heated market, where property chains and financial flexibility were of huge significance to take fullest advantage of the Stamp Duty relief.



60%

A rare accord was found between the majority of investors across all demographics surveyed, with 60% overall believing the stamp duty holiday has made the UK property market "too chaotic" over the past 12 months.

Outlook for the future

The attractiveness of BTL investment has been a matter of debate over recent years. Of course, pandemic notwithstanding, the last five years have radically altered what it means to be a BTL owner. A string of reforms, led by the introduction of a 3% surcharge on stamp duty for second homes, and more stringent regulations around HMOs, have raised the cost of entry to the market and hampered the immediate yield potential of many investment opportunities.

Encouragingly, more than two thirds (68%) of UK property investors still consider buy-to-let property to be an attractive investment asset – this is particularly true among younger investors, with 79% of those aged between 18 and 34 saying they feel BTL is a positive investment option.

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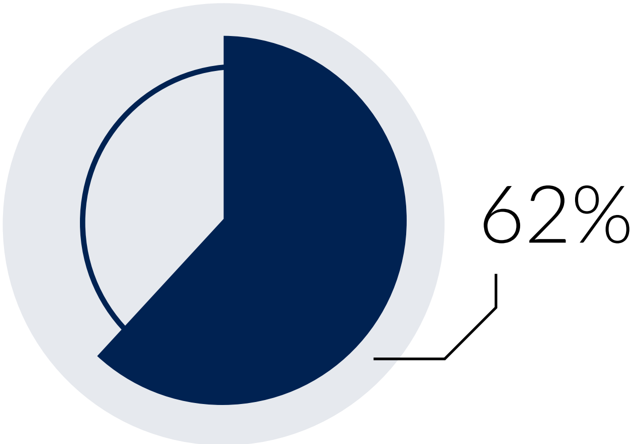
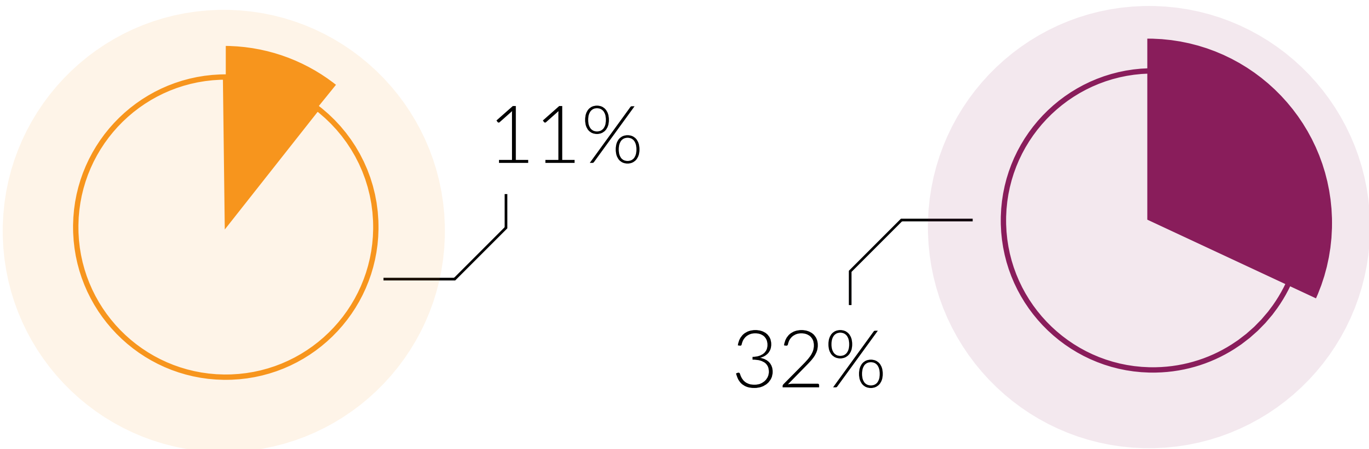
Ownership of the asset is not the only trend to watch; the structure of its ongoing management is also a significant talking point.



To this end, we found that over three fifths (62%) of BTL investors depend on the services of an estate agent to manage one or more lets on their behalf.

However, as to whether the value added by estate agents justifies their fee, only 19% of all respondents agreed.



Men

Women

With men nearly three times less likely (11%) than women (32%) to value the work of an estate agent.

For those with larger portfolios, who are more likely to be full-time landlords, the proportion relying on agents to manage their lets falls to just 45%. With question marks as to whether agents are worth their fees, we could see more landlords consider managing their BTL portfolios themselves in the coming year.

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The thoughts of our CEO

Paresh Raja, CEO of Market Financial Solutions, *said:*

"The pandemic has caused huge financial disruption to consumers, businesses and investors. So, it is positive to see that a healthy majority of UK landlords have allowed their tenants flexibility in making payments during this period.

"It is also telling that while rent increases invariably lie ahead, there is a clear appetite among landlords to secure reliable, long-term tenants – they are willing to drop rents in order to do so.

"Perhaps most notably, our research underlines that, despite some speculation to the contrary, the BTL market has lasting appeal. Tax reforms and new regulations introduced over the past five years have affected landlords as the Government has sought to gain better control over the private rental sector, but as an asset class, UK investors are evidently still gravitating towards buy-to-let properties in huge numbers.

"The rapid house price growth from the past year is likely to cool as the stamp duty holiday comes to an end. However, we should not confuse a slowing rate of growth with falling prices – in the long-term, investors are clearly still confident in the ability of bricks and mortar assets to deliver capital growth.

"As we emerge from the pandemic – as well as the SDLT holiday – it will be fascinating to watch how the property market and BTL sectors readjust. From rural investments to rental prices, there are many trends to monitor closely, and MFS remains committed to doing so."

Paresh Raja, CEO of Market Financial Solutions

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