



# Mortgages for Business

Q3 2018



## Buy to Let Mortgage Index Q3 2018

Buy to let mortgage lending trends  
Product pricing  
Effect of underlying cost of funds  
How fees & charges affect pricing  
Borrowing by property type  
Personal versus Ltd Company borrowing



Buy-to-Let Mortgage  
Broker of the Year

# About this index

## Previous Indices Combined

Here at Mortgages for Business we track and analyse developments in the buy to let mortgage market to help landlords and property investors make informed investment finance decisions.

First published in Q1 2018, the Buy to Let Mortgage Index combines four indices

- [Buy to Let Mortgage Product Index](#)
- [Buy to Let Mortgage Costs Index](#)
- [Complex Buy to Let Index](#)
- [Limited Company Buy to Let Index](#)

To see the previous results of any of the four indices, please visit the news and insight section of our website.

## Data & Methodology

### Lenders and products

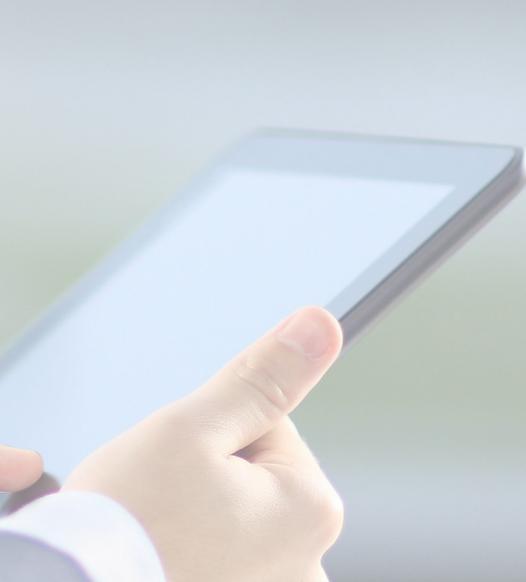
Data is obtained from Mortgage Flow, our proprietary buy to let mortgage product sourcing system. Lenders tracked in the index are chosen for their active contribution to the market and include market-leading mainstream providers, the challenger banks and the specialists which cater to full-time portfolio landlords with complex borrowing requirements. Some lenders and products have been excluded, typically those with bespoke offerings and products only available on properties in smaller, regional areas.

### Interest rates

In order to track buy to let interest rates, 12 “standard” product ranges have been selected. These are two, three and five year fixed rate and discounted/tracker mortgage products at 65% and 75% loan to value. Life time tracker products have also been incorporated into the results for each of the above periods for the discount/tracker products.

### Effect of fees & charges on headline rates

The total cost of the mortgage (including lender arrangement fees, valuation fees and legal fees) has been calculated over the period of the discount or fixed rate and this has been used to generate an annualised cost over that period. Calculations have been based on a “standard” mortgage of £150,000. This result can be markedly different from the APR measurement which fails to recognise the effect on borrowing costs of borrowers remortgaging once the period of the discount or fix has expired. If individual mortgage products offered “free” arrangement fees, valuations or legal fees this has been recognised in the calculations of costs for those products. Including these costs more accurately reflects the costs of taking on a buy to let mortgage without distortions caused by the way that lenders have structured fees on their products to meet marketing requirements.



# INTRODUCTION

## Transactions

Transaction data is based on buy to let mortgage applications and completions submitted via Mortgages for Business. This proprietary data is held within our CRM database and includes information on purchases, remortgages, property type, property value, loan amounts, loan to value, rental income and gross annual yields.

## Jargon

### Applications

Full buy to let mortgage applications that have been submitted to the lender but not yet completed, i.e. in progress.

### Case count

The number of buy to let mortgages being transacted via Mortgages for Business, i.e. application and/or completion.

### Completions

Buy to let mortgage applications that have been formally offered and drawn down. This includes remortgages.

### Houses in Multiple Occupation (HMO)

An HMO is when unrelated tenants have exclusive access to their rooms and share part of the accommodation, such as the kitchen or the bathroom.

## Multi-Unit Freehold Blocks (MUFB)

This is a single building with multiple, separate, independent residential units owned under a single freehold title. Examples include purpose-built blocks of flats or Victorian/Edwardian houses converted into flats.

## Semi-Commercial Property

Also known as mixed use investments, as both names suggest these properties are made up of part commercial and part residential elements, typically shops or offices with flat above.

## Vanilla Buy to Let

These are standard buy to let transactions. Properties in this category tend to be normal 2-3 bed houses and 1-2 flats. Both borrowers and properties fit the general lending criteria for off-the-shelf products offered by the mainstream buy to let lenders.

# Lenders & Product Numbers

No. of BTL mortgage lenders: **41 (+3)**

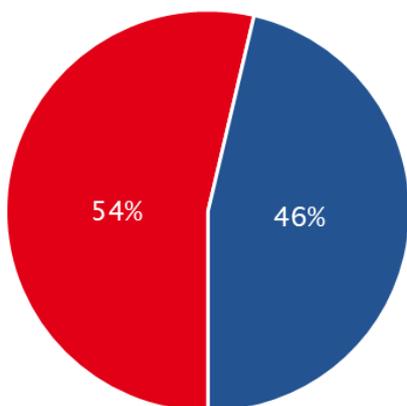
No. of Ltd Co BTL mortgage lenders: **22 (+3)**

Average No. buy to let products: **1,571 (+24)**

In Q3, the number of buy to let lenders tracked in this index increased by three. West Bromwich Building Society which only lends to landlords using SPV limited companies, Magellan Homeloans which has products for individuals and corporations, and a lender which is currently running an exclusive pilot with Mortgages for Business but as yet, does not want to be officially named. This lender caters to both individual investors and those borrowing via a corporate structure.

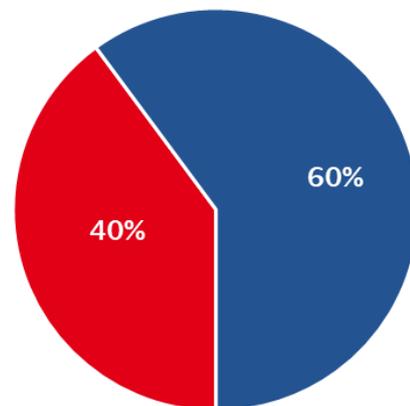
As might be expected, the increase in lenders has also resulted in an increase in the availability of buy to let mortgage products with an average of 1,571 between July and September. This compares to the previous quarter where the number of products averaged 1,547. For the first time since we started tracking buy to let lending to limited companies, more than half offer products to limited company borrowers - confirmation that the sector continues to move towards a more specialist bias.

BTL Mortgage Lenders



Lenders offering products to Ltd Co borrowers  
Lenders with no Ltd Co products

BTL Mortgage Products



Products available to Ltd Co borrowers  
Products available to individuals

# Pricing

## Fixed Rate Buy to Let Mortgages

Term	Q2 2018	Q3 2018
Average 5 year	3.52% (=)	3.67% (+0.15)
Average 3 year	3.30% (-0.04%)	3.30% (=)
Average 2 year	3.01% (=)	3.03% (+0.02)

## Tracker Rate Buy to Let Mortgages

Term	Q2 2018	Q3 2018
Average 5 year	2.72% (-0.16%)	2.80% (+0.08)
Average 3 year	3.47% (-0.07%)	3.51% (+0.04)
Average 2 year	2.93% (-0.18%)	2.98% (+0.05)
Average Term Tracker	4.52% (-0.07%)	4.52% (=)

Overall, pricing for all products tracked increased quarter on quarter, albeit marginally.

# PRICING

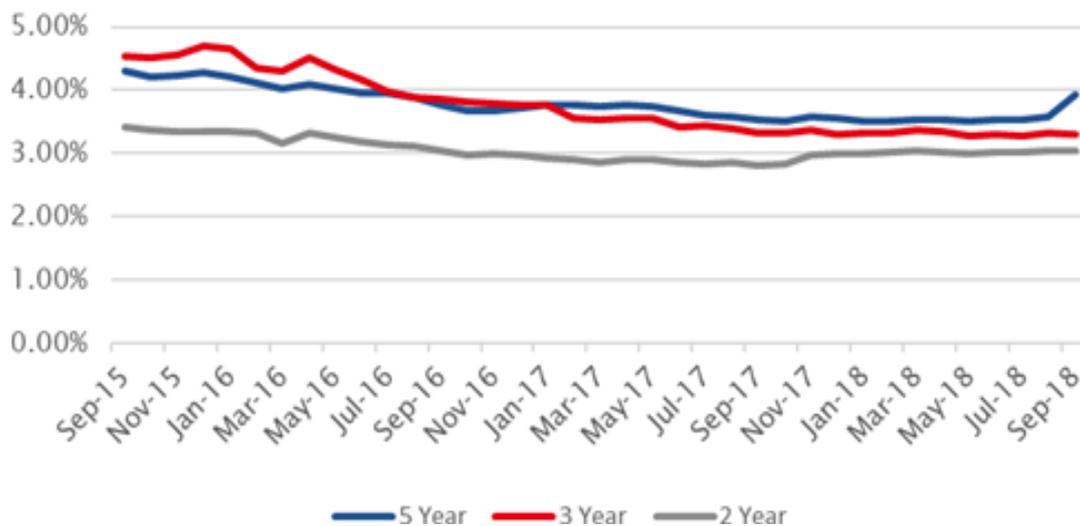
## Fixed and tracker rates

### 96% of landlords chose a fixed rate in Q3 2018

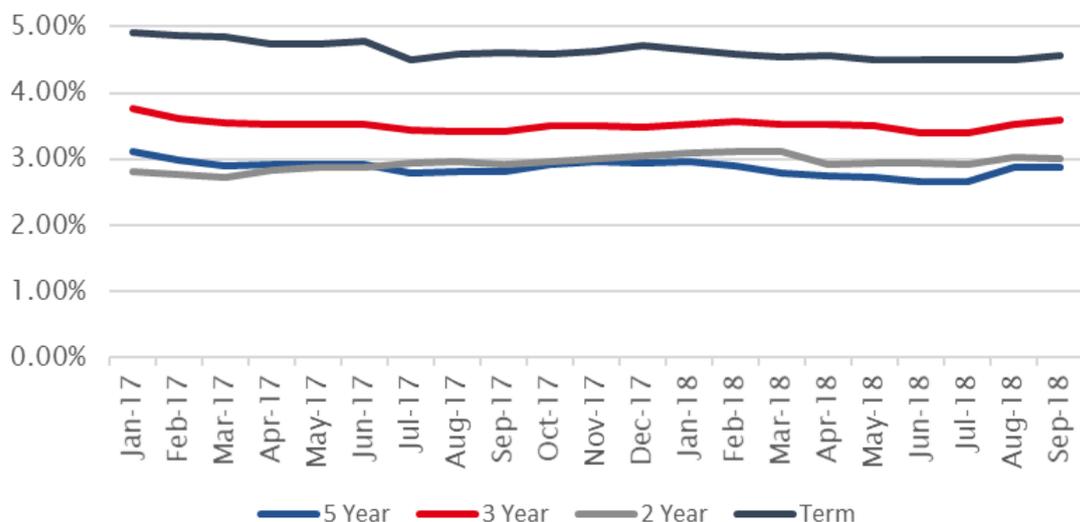
In Q3, 96% of landlords borrowing via Mortgages for Business chose a fixed rate buy to let mortgage, up from 93% in the previous quarter. Five-year fixed rates remained the most popular term – 73% of those choosing to fix opted for five years. Despite the small increase in price, these rates remain competitive, especially when compared to their two and three-year counterparts. They also hold the promise of greater stability in an unpredictable market and are subject to less stringent stress tests thus allowing landlords to maximise their borrowing.

If the preference for five-year fixed rates continues, it will have the knock-on effect of reducing the volume of buy to let remortgage borrowing. We will continue to monitor this.

### Fixed Rate Buy to Let Mortgages



### Tracker Rate Buy to Let Mortgages



# PRICING

## Limited company pricing

Five-year fixed rate buy to let mortgages available to landlords borrowing via a limited company reduced in price in Q3, albeit by only 10bps, to 4.1% from an average of 4.2% - a small piece of good news! Pricing of all other rates remained the same on average, except 3-year fixes which rose on average to 4.2% from 3.9%.

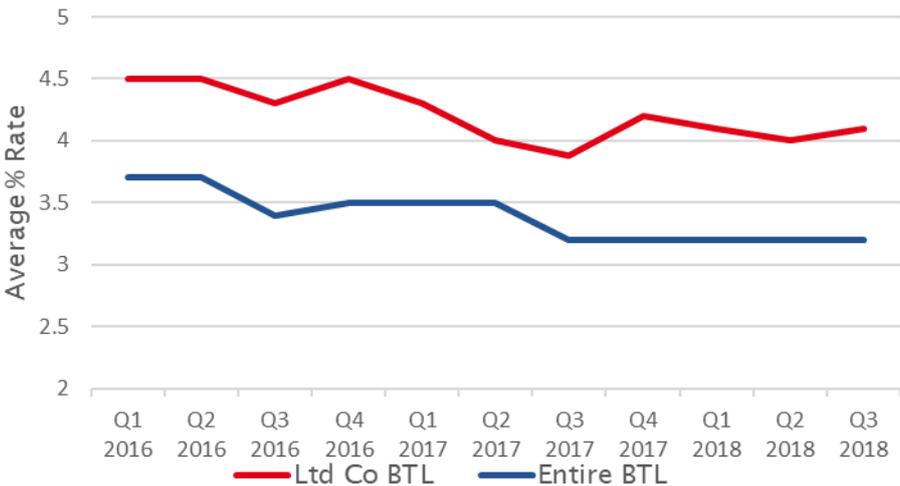
## Why rates to limited companies seem higher

Rates available to landlords using limited companies were generally higher than the market average. This is because the cheapest buy to let mortgages are typically offered by lenders without the systems or underwriting skills in place to offer products to limited companies (i.e. they only offer to landlords borrowing personally).

Products	Limited Company	
	No.	Av. Rate
Variable	133	4.3% =
2 Year Fix	199	3.7% =
3 Year Fix	61	4.2% ↑
5 Year Fix	235	4.1% ↓
<b>Total</b>	<b>628*</b>	<b>4.1%</b>

\*Total includes 1, 4 and 10 year rates.

## Average BTL Mortgage Rates Available to Ltd Companies



## UNDERLYING COSTS

Term	Rate 1	Rate 2	Rate 3	Rate 4	Rate 5	Rate 6	Rate 7	Rate 8	Rate 9	Rate 10	Rate 11	Rate 12	Rate 13	Rate 14	Rate 15	Rate 16	Rate 17	Rate 18	Rate 19	Rate 20	Rate 21	Rate 22	Rate 23	Rate 24	Rate 25
1 year	2.93	2.96	4.02	4.54	4.58	2.21	2.29	2.37	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
2 year	3.10	3.13	4.58	4.58	4.58	2.29	2.37	2.42	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
3 year	3.20	3.23	4.58	4.58	4.58	2.34	2.42	2.47	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
4 year	3.27	3.30	4.58	4.58	4.58	2.39	2.47	2.51	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
5 year	3.33	3.36	4.58	4.58	4.58	2.43	2.51	2.59	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
6 year	3.38	3.41	4.58	4.58	4.58	2.49	2.59	2.68	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
7 year	3.44	3.47	4.58	4.58	4.58	2.58	2.68	2.76	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
8 year	3.49	3.52	4.58	4.58	4.58	2.66	2.76	2.80	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
9 year	3.54	3.57	4.58	4.58	4.58	2.72	2.80	2.82	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
10 year	3.58	3.61	4.58	4.58	4.58	2.72	2.80	2.82	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
12 year	3.66	3.69	4.58	4.58	4.58	2.72	2.80	2.82	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
15 year	3.76	3.79	4.58	4.58	4.58	2.72	2.80	2.82	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
20 year	3.85	3.88	4.58	4.58	4.58	2.72	2.80	2.82	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
25 year	3.89	3.92	4.58	4.58	4.58	2.72	2.80	2.82	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03
30 year	3.90	3.93	4.58	4.58	4.58	2.72	2.80	2.82	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03	5.03

# Underlying Costs

## Bank Rate & Swap Rates

As anticipated on the 2nd of August this year the Bank of England's Monetary Policy Committee voted to raise Bank Rate for only the second time in a decade, increasing it from 0.5% to 0.75%. Those on tracker mortgages that match any rise in the base rate, will have seen an immediate rise in their monthly repayments. Those on variable rates most likely felt the increase some weeks later.

Mark Carney, Governor of the Bank of England, subsequently advised that further changes to Bank Rate could not be ruled out. The next review takes place on 1st of November 2018.

Despite short term peaks and troughs, the general trend for swap rates over the last year has been a gradual increase and

as expected, the hike in Bank Rate only reinforced this upward curve.

Surprisingly then, there was a reduction in the overall cost and pricing of medium LTV tracker products, taking them to the lowest level since December 2017.

Further, with the exception of low LTV 5-year fixed rates which increased in price, the new Bank Rate has also had little impact so far on fixed rate products suggesting that lenders continued to absorb the underlying costs to remain competitive.

## Conclusion

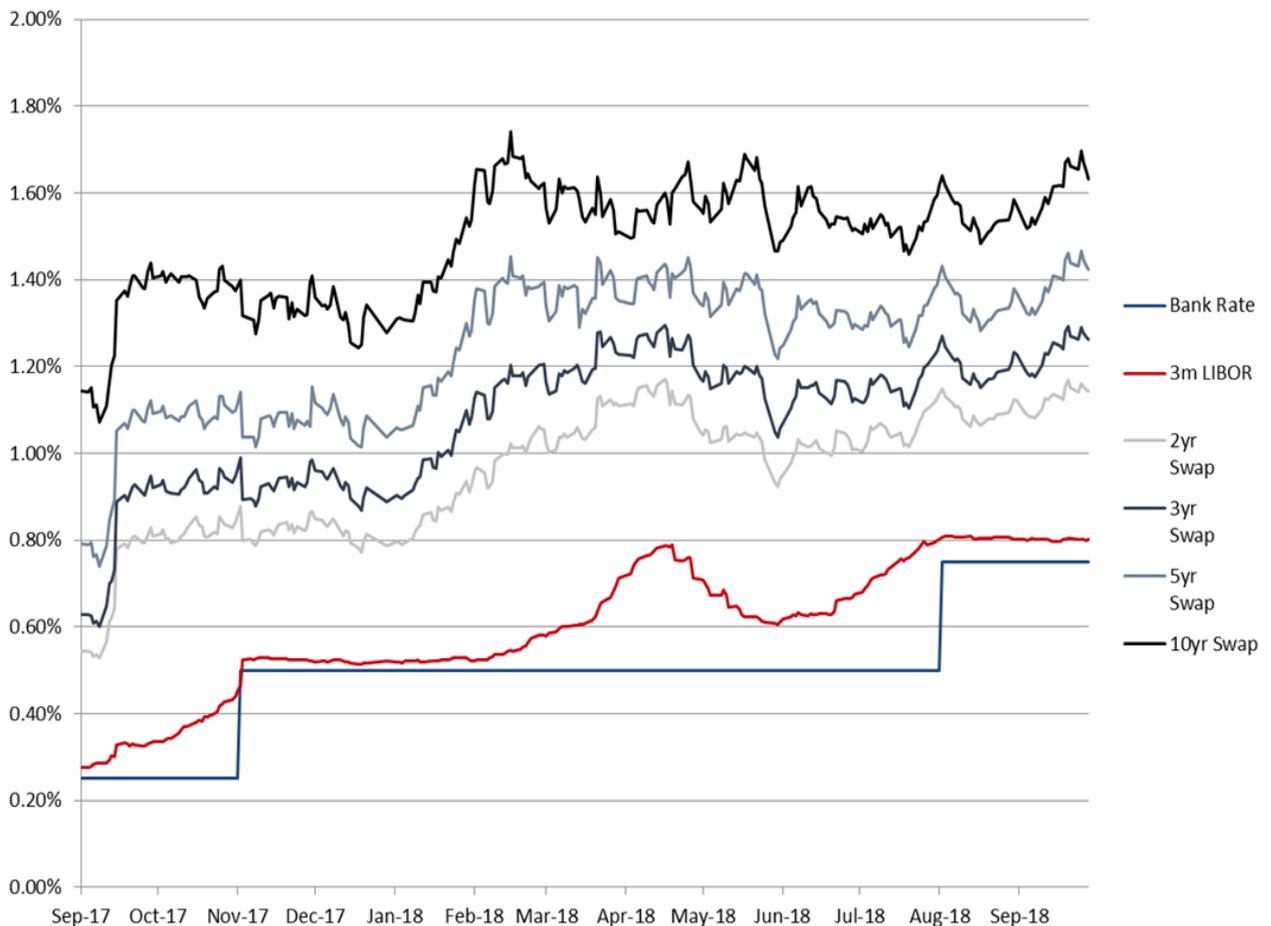
The uncertainty surrounding Brexit may keep rates low for a while yet, although behind closed doors lenders may be asking themselves how long they can maintain this position.

# UNDERLYING COSTS

## BTL Fixed Rate Margins Over Swaps

Terms	High LTV	Medium LTV	Low LTV
5 Years	3.0% = (3.0%)	2.3% = (2.3%)	1.8% <b>↑</b> (1.5%)
3 Years	3.0% <b>↓</b> (3.1%)	2.3% = (2.3%)	1.5% = (1.5%)
2 Years	2.8% <b>↓</b> (2.9%)	2.0% <b>↓</b> (2.1%)	1.3% <b>↓</b> (1.4%)

### Swap Rates, Bank Rate & 3 Month LIBOR

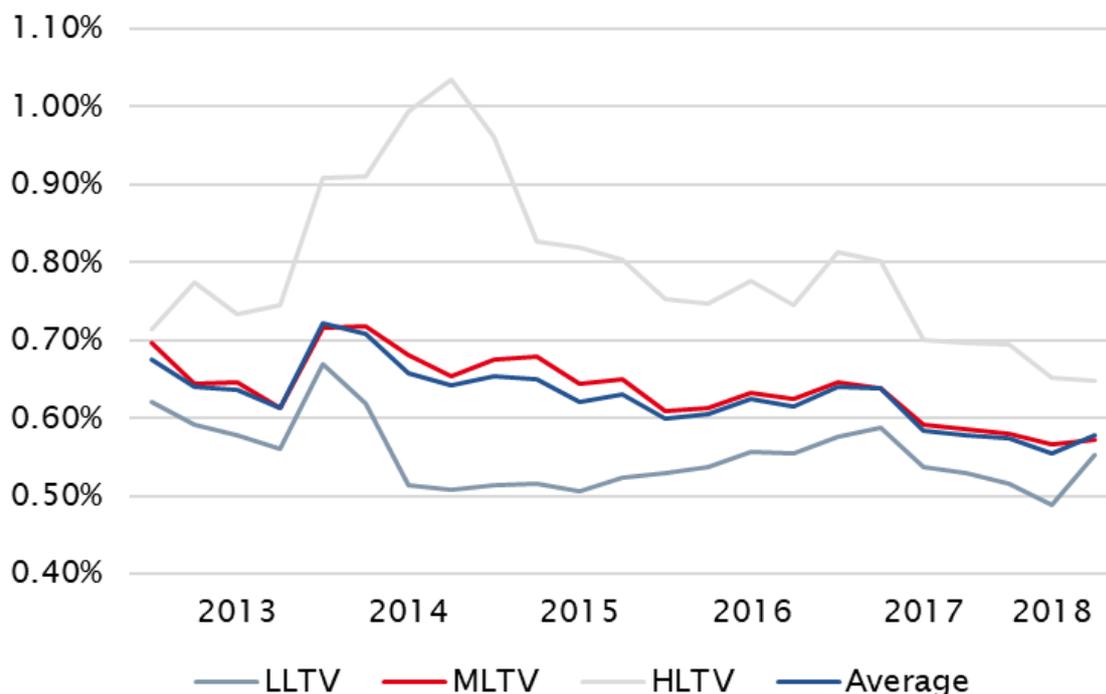


# Fees & Charges

## Amount fees & charges add to the headline

Overall, fees and charges, (i.e. lender arrangement fees, valuations and legal fees) added on average, 0.58% to the headline rate, up from 0.55% in Q2 but still lower than the average cost throughout 2017 of 0.61%. This increase was largely due to the increase in costs in the low LTV product category (see graph), which jumped from 0.49% to 0.55%, and can, in turn, be traced to the new lenders being tracked and their specialist products catering to more exacting circumstances (non-standard properties, inter-company loans, rates for Ltd companies without the requirement for a personal guarantee).

### Effect of Fees & Charges on Buy to Let Mortgages

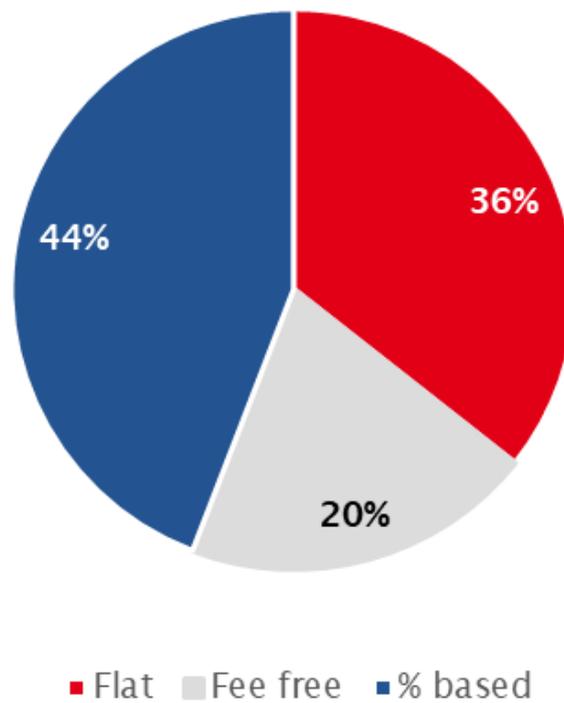


## Lender arrangement fees

There was little change in the split of lender arrangement fees – see pie chart. Only percentage-based fees gained ground, up 2% points to 44% at the expense of flat fees. The average flat based fee increased marginally in price but remains less than £1,500 seen during 2016.

## FEES & CHARGES

### Lender Arrangement Fees on Buy to Let Mortgage Products in Q3 2018



### Lender Arrangement Fees on BTL Mortgages

Fee Type	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Fee-free	16%	19%	20%	20%
% based	42%	42%	42%	44%
Flat	42%	39%	38%	36%
Av. Flat	£1,423	£1,441	£1,389	£1,422

# Ltd Company BTL Transactions

## Limited company BTL mortgage applications versus applications by landlords borrowing personally (transacted at Mortgages for Business)

Since the changes in Income Tax relief on landlords' finance costs were announced in July 2015, corporate structures (predominantly Special Purpose Vehicles) have proved increasingly popular among buy to let investors as they can provide both fiscal and financial efficiencies. For example, landlords pay Corporation Tax on SPV limited companies, not Income Tax, and lenders can use less stringent stress tests when underwriting loans from corporate applicants.

### Completed buy to let mortgage transactions

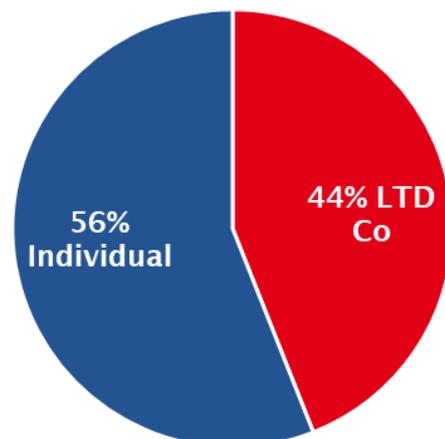
In Q3, 44% of completed buy to let transactions were made by Ltd companies, up from 42% in the previous quarter. The remaining 56% of transactions were made by landlords borrowing personally. However, by value, landlords borrowed slightly less using limited companies than borrowing personally, down to 43% from 44% in Q2.

### Newly submitted buy to let mortgage applications

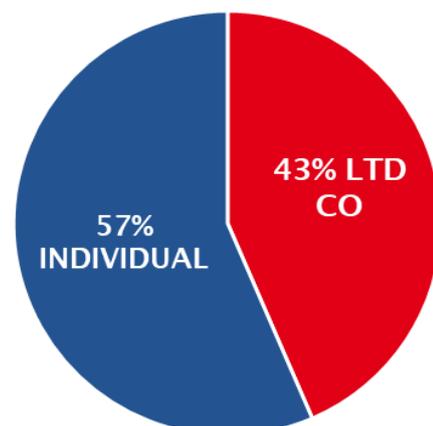
Q3 saw a drop in the proportion of applications submitted by landlords using corporate structure from 48% in Q2 to 44%. It will be interesting to see if this percentage now levels out in future

quarters. The total value of applications made in a limited company also fell sharply to 39% from 46% in Q2

BTL Mortgage Applications  
NO. OF CASES COMPLETED



BTL Mortgage Applications  
VALUE OF CASES COMPLETED





# Purchases versus Remortgages

## All transactions

As in the wider mortgage market, the trend for remortgaging continued with only one-third of buy to let mortgage transactions being made for purchases. The only property type that had an increase in purchase transactions was HMOs which increased from 33% to 36% - unsurprising as these properties typically provide the highest gross yields in the buy to let sector.

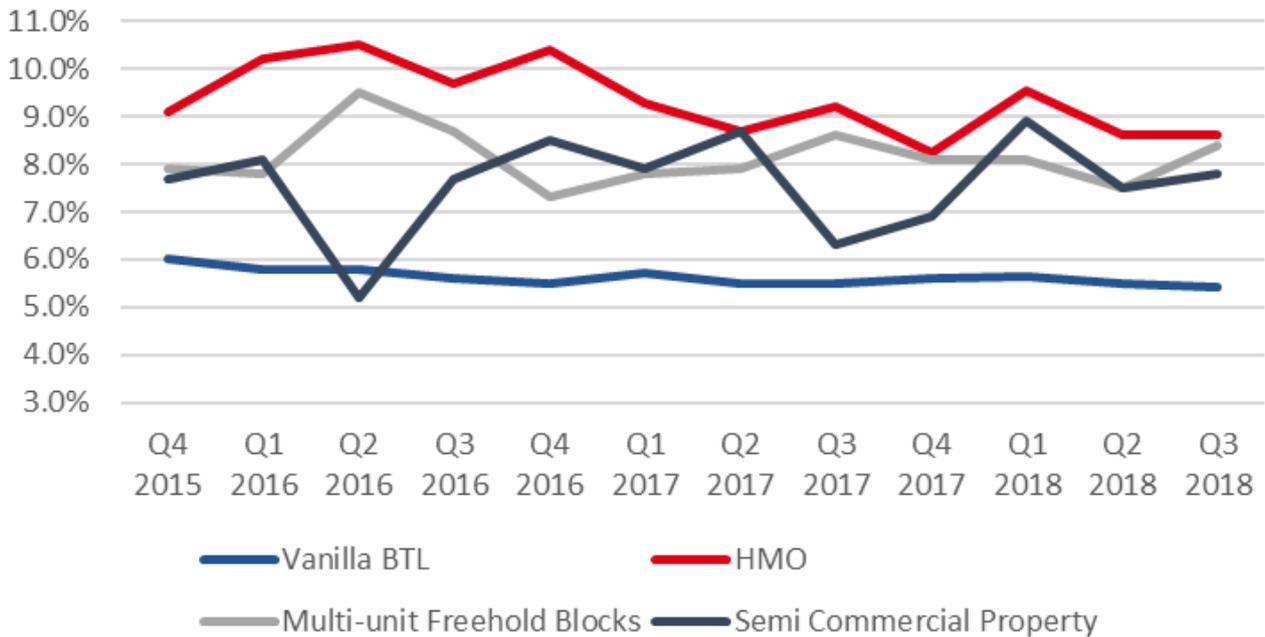
It will be interesting to see if the extension of mandatory HMO licensing and new licensing conditions introduced on 1st October 2018 will affect future borrowing for HMOs.

## Ltd company transactions

In the period immediately after the tax changes were announced, there was an increase in the number of landlords applying for finance using corporate structures. Many chose three-year fixed rates which, has resulted in a more even split between purchases and remortgages in Q3 as landlords are now free to refinance after coming to the end of their ERC tie-in period. We saw a similar pattern in Q3 2017 when landlords who had opted for 2-year fixed rates became free to look for new deals. This means that, in part, the increase from 41% of remortgages in Q2 to 50% in Q3 is due to those already using corporate structures as borrowing vehicles.

## TRANSACTIONS / PROPERTY TYPES

### Average Annual Gross Rental Yields



# Property Types

## Yields

Despite a small decline throughout 2018, vanilla buy to let properties continue to offer the most consistent yield and remain a popular choice for both part-time and professional landlords because they are easier to finance and manage.

At 8.6%, HMOs continue to produce the highest yield of any buy to let property type, although multi-units and semi-commercial properties also consistently produce strong yields compared to their vanilla counterparts.

## Loan to value

LTVs remained steady across vanilla, HMO and multi-unit properties. The change seen with semi-commercial properties is due to the smaller data set.

# PROPERTY TYPES

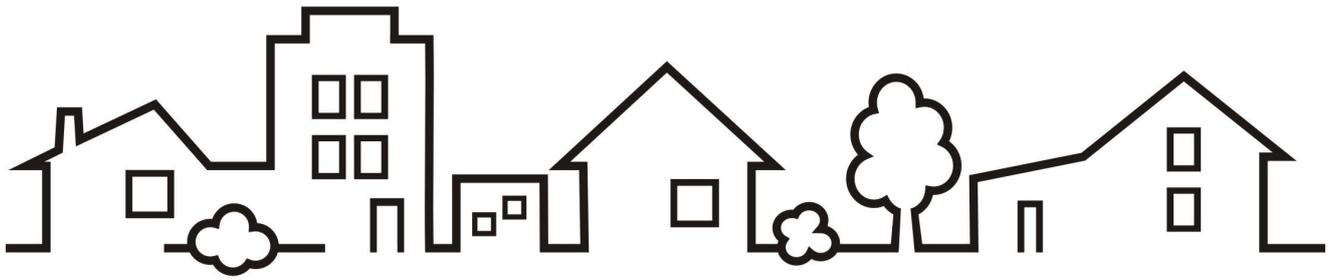
## Transactions by property type

Vanilla Buy to Let				
	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Purchases	49%	39%	35%	33%
Remortgages	51%	61%	65%	67%
Average loan size	£183,202	£178,735	£195,789	£212,587
Average property value	£284,529	£282,492	£308,236	£313,899
Average loan to value	67%	66%	67%	67%
Average yield	5.6%	5.6%	5.5%	5.4%

Houses in Multiple Occupation (HMO)				
	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Purchases	33%	40%	32%	36%
Remortgages	67%	60%	68%	64%
Average loan size	£285,138	£233,957	£261,719	£237,103
Average property value	£434,643	£353,989	£397,446	£355,576
Average loan to value	68%	71%	69%	70%
Average yield	8.2%	9.5%	8.6%	8.6%

Multi-unit Freehold Blocks (MUFB)				
	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Purchases	29%	25%	38%	32%
Remortgages	71%	75%	62%	68%
Average loan size	£305,672	£328,868	£510,677	£393,308
Average property value	£439,750	£503,326	£761,710	£614,816
Average loan to value	70%	65%	68%	70%
Average yield	8.1%	8.1%	7.5%	8.4%

Semi-commercial Property (SCP)				
	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Purchases	40%	0%	33%	33%
Remortgages	60%	100%	67%	67%
Average loan size	£191,159	£950,000	£400,000	£727,750
Average property value	£483,000	£2,000,000	£736,667	£1,270,167
Average loan to value	42%	48%	56%	63%
Average yield	6.9%	8.9%	7.8%	7.8%



## Further Research

We publish a variety of papers designed to help landlords, businesses and home-buyers make informed property investment decisions.

### For more information

Please visit the [News & Insight](#) section of our website.

To discuss both the current and previous results of the Buy to Let Mortgage Index, in the first instance, please contact:

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