



# Mortgages for Business

Q4 2019



## Buy to Let Mortgage Index

Buy to let mortgage lending trends

Product pricing

Effect of underlying cost of funds

How fees & charges affect pricing

Personal versus Ltd Company borrowing



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

## Data & Methodology

### Lenders and products

The information contained in this report 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 rates and discounted/tracker (variable) mortgage products, at both 65% and 75% loan to value.

### 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 variable 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 APRC measurement which fails to recognise the effect on borrowing costs of borrowers remortgaging once the period of the discount or fix has expired.

Where individual mortgage products offer “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.

### 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)

A house in multiple occupation (HMO) is a property that is rented out by at least 3 people who are not from 1 'household' (for example a family), but share facilities such as the bathroom and kitchen.

#### 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

**49** (<>) Total BTL lenders

**31** (<>) BTL lenders with mortgage products for Ltd companies

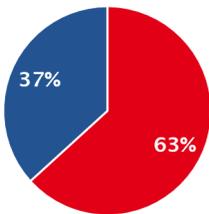
**1,981** (+72) Total BTL mortgage products

**738** (+51) BTL mortgage products available to Ltd companies

## Buy to Let Mortgage Lenders

A relatively quiet quarter for the buy to let mortgage sector which is unsurprising given the nation's focus on Brexit and the General Election. The overall number of lenders (49) held steady, as did the number of lenders with products available to landlords using limited companies as the borrowing vehicle (31).

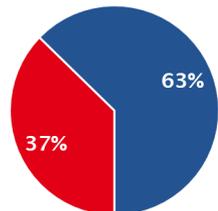
BTL Mortgage Lenders



**Lenders offering products to Ltd company borrowers**  
**Lenders without Ltd company products**

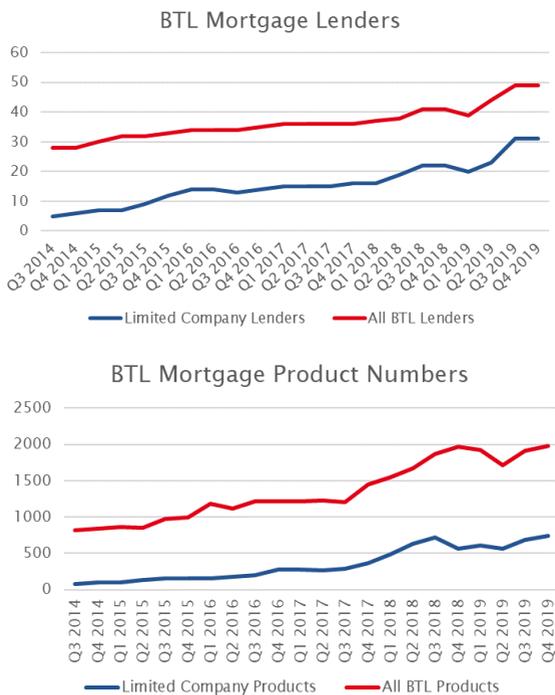
BTL Mortgage Products

**Products available to Ltd Co borrowers**  
**Products available to individuals**



## LENDERS & PRODUCT NUMBERS

Buy to let mortgage product numbers rose, but not significantly, and many lenders held fast with their ranges.



# Rates & Pricing

## Fixed or Tracker Rates?

### 95% of landlords chose a fixed rate in Q4

Once again, fixed rates dominated the market with 95% of landlords choosing these products over variable rates, just down slightly from 97% in the previous quarter.

Five-year fixed rates were particularly popular, chosen by 68% of landlords, a slight decrease on Q3 2019 (70%). Their popularity is mostly because lenders can apply a less rigorous stress test than required on shorter-term rates which, in effect, means that landlords can borrow more using products of five years or longer.

Since the beginning of 2019, significantly more landlords are choosing 2-year fixed rates. In Q4 2018, just 8% of landlord borrowers opted for a 2-year rate, but only one year later, this proportion had risen to 26%. One reason for their rise in popularity is possibly due to the shorter Early Repayment Charge (ERC) periods which are typically attached to these products. Shorter ERCs allow landlords to refinance sooner without penalty, an option which has no doubt increased in appeal in the recent uncertain political times.

There has also been a small rise in the use of tracker and discounted rate products, up from 2% in Q3 to 4% in Q4 2019, which could be a response to increased speculation by landlords and market commentators that the Bank Rate could remain low or even cut in the near future.

Three-year products, both fixed and variable, accounted for just 1% of products chosen by borrowing landlords in the quarter.

## Pricing

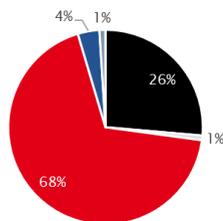
### Pricing Trends

Pricewise, the quarter was steady overall, with only the average term tracker bucking the trend.

The consistent Bank Rate and landlords' preference for fixed rates have continued to bring stability at the lower price point. On average, the price of all fixed-rate terms fell marginally.

Tracker rates fared somewhat differently. On average, the price of 3- and 5-year trackers fell by 0.04 bps. Two-year tracker rates rose slightly. Term tracker rates changed more, rising by 0.21 bps. This could be due to the rise in the 3-month LIBOR.

Term Preferences



Term Preferences

- Tracker
- 2 Year Fixed
- 3 Year Fixed
- 5 Year Fixed
- Variable

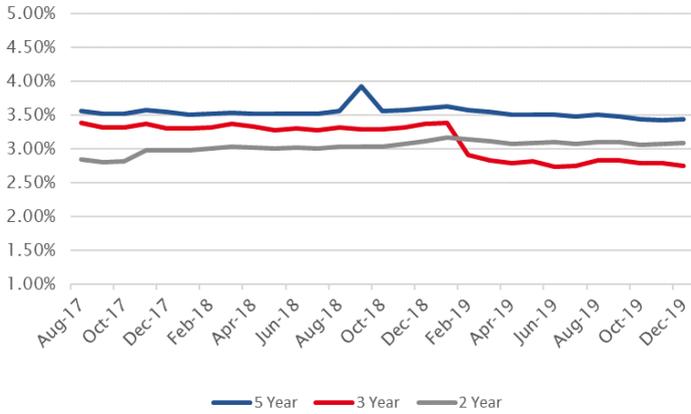
Average Fixed Rate Buy to Let Mortgage Prices

Terms	Q3 2019	Q4 2019
Average 5 year	3.49% (-0.02)	3.44% (-0.05)
Average 3 year	2.80% (+0.02)	2.78% (-0.02)
Average 2 year	3.09% (< >)	3.07% (-0.02)

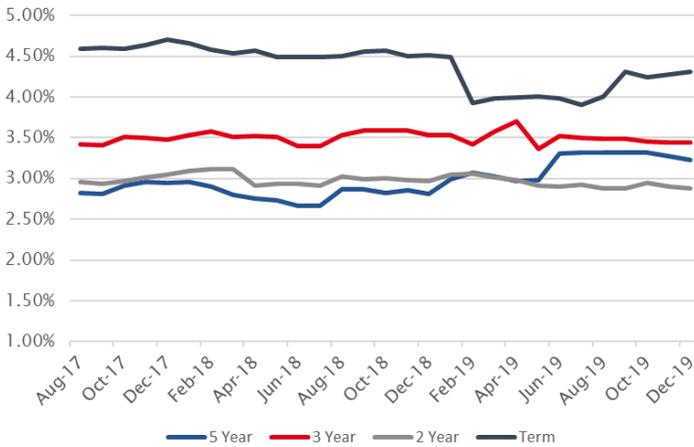
Average Tracker Buy to Let Mortgage Prices

Terms	Q3 2019	Q4 2019
Average 5 year	3.32% (+0.23)	3.28% (-0.04)
Average 3 year	3.49% (-0.04)	3.45% (-0.04)
Average 2 year	2.89% (-0.04)	2.91% (+0.03)
Average Term Tracker	4.07% (+0.07)	4.28% (+0.21%)

Fixed Rate BTL Mortgages



Tracker Rate BTL Mortgages



## RATES & PRICING

### Pricing of products available to limited companies

On average, rates available to landlords borrowing via a limited company were 0.7% points higher than those available to landlords borrowing personally - up from 0.6% point in the previous quarter.

#### Why are rates for limited companies higher?

Rates available to purchases through limited companies are generally higher than the market average. Why is this? Well, the lenders who offer the lowest buy to let rates stick to buy to lets held in the personal name. They don't need specialist systems or underwriting to offer products to limited companies and combined with writing large volumes of personal name volumes, they can reduce their costs and in turn, their products.

#### Average Price

All BTL mortgages

# 3.0%

BTL mortgages available to Ltd companies

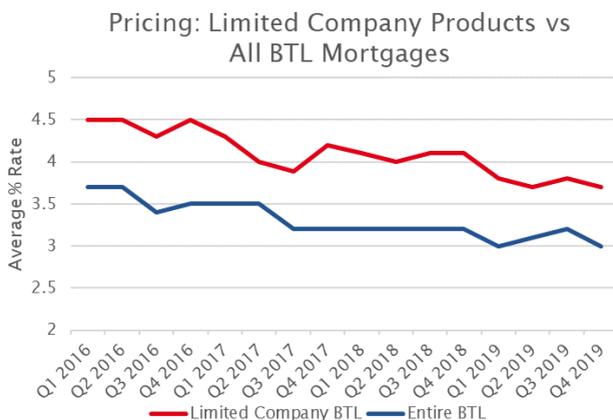
# 3.7%

Products Available to Limited Companies <sup>^</sup>				
Products	Q3 2019		Q4 2019	
	No.	Rate		Low LTV
Variable	69 (-5)	3.95%	76 (+7)	3.90%
2 year fix	267 (+42)	3.65%	288 (+21)	3.67%
3 year fix	17 (-4)	3.40%	17 (<>)	3.40%
5 year fix	306 (+69)	3.98%	322 (+16)	4.02%

<sup>^</sup>Includes products available to both personal & corporate borrowers and products designed exclusively for corporate borrowers.

\*Table totals may also include 1, 4, 7 & 10 year rates

### Pricing: Limited Company Products vs All BTL Mortgages



# Underlying Costs

BTL Fixed Rate Margins Over Swaps - Q4 2019

Terms	High LTV	Medium LTV	Low LTV
5 years	3.4% (-0.2%)	2.7% (-0.2%)	2.1% (-0.1%)
3 years	2.5% (-0.3%)	2.1% (-0.2%)	1.8% (-0.1%)
2 years	3.1% (-0.2%)	2.3% (-0.1%)	1.6% (-0.2%)

## Swap Rates

Typically (as can be seen in the graphs), and up to the end of Q3 2019, fixed-rate buy to let mortgage products followed the trend for the swap rate of the same term, with the addition of the lender's operating margin. While a clear downward trend emerged during the first three quarters of 2019, at the beginning of October swap rates became more volatile and the trend reversed. Most likely, this is due to the markets feeling unsettled as a result of the extended Brexit deadline and the decision to hold a general election in December.

However, Q4 followed an unusual trend which saw the rise in swaps rates but not an increase in fixed-rate buy to let mortgage product pricing. Competition between lenders remained fierce in the slow market, which, combined with lenders particularly keen to meet their end of year targets, is likely to explain why rates did not increase as well.



## Bank Rate

Throughout 2019 the Bank Rate remained at 0.75%. This helped to keep buy to let mortgage rates competitively low. Recent comments made by outgoing Bank of England governor Mark Carney, also give rise to speculation that rates will remain low. Carney indicated that the Monetary Policy Committee would take prompt action if the country's economy continued to flounder. The action, in this case, would result in a cut to the Bank Rate.



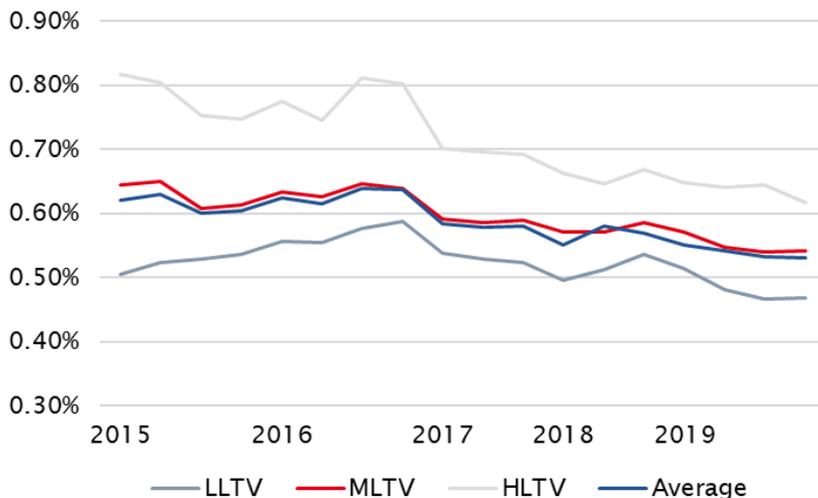
# Fees & Charges

## Lender margins

### Lender margins start to level out

The end of 2019 the average cost above the headline rate remain at 0.53%.

Both low loan to value and medium loan to value maintained the same average rate as of Q3 (0.47% and 0.54% respectively), but the high loan to value continues on a downward trajectory, decreasing from an average of 0.64% to 0.62%.



## FEES & CHARGES

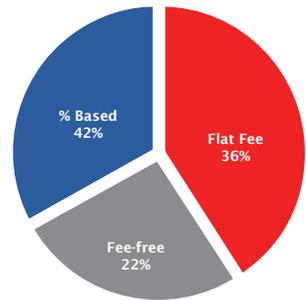
### Lender arrangement fees

#### Fixed fees remain low

Arrangement fees are charged by lenders, to borrowers, to cover the costs of setting up the mortgage. Amounts and how the fee is applied varies, and often borrowers can add the cost of the fee onto the mortgage (although interest may be charged on this).

Typically, there are two types of fee:

- **Flat (or fixed):** A specific amount, usually applied to vanilla products.
- **Percentage-based:** The amount due is a percentage of the loan amount, usually between 0.5-2%. This type is mostly applied to products available for non-standard properties and to landlords with more complex borrowing requirements – where loan requirements are regularly higher.



Proportion of Lender Arrangement Fee Options Charged on Buy to Let Mortgage Products in Q4 2019

Often lenders also release fee-free products. Lenders usually apply this incentive to vanilla products where the administration is simpler, and underwriting is more straightforward.

In Q4, the average flat arrangement fee rose marginally to £1,460 from £1,443 but happily for borrowers, remained below the £1,500 threshold. From Q3 to Q4 2019, the proportion of flat, percentage-based and fee-free products barely changed.

Lender Arrangement Fees on BTL Mortgages				
Fee Type	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Fee-free	20%	22%	23%	22%
% based	46%	40%	41%	42%
Flat fee	34%	38%	36%	36%
Average flat fee	£1,530	£1,504	£1,443	£1,460

# Ltd Company BTL Transactions

## Limited company vs personal borrowing *(transacted by Mortgages for Business)*

Since July 2015, a series of fiscal and regulatory changes have led to a rise in landlords using limited company vehicles to finance buy to let property.

In the second half of 2015, these corporate structures were used in about a quarter of all buy to let mortgage applications. In Q4 2019, this had risen to just over half (52%).

### Q4 2019 Average BTL Loan Amounts

	Completed Applications	Newly Submitted Applications
<b>Individual</b>	£213,316	£228,777
<b>Limited Company</b>	£170,414	£215,368

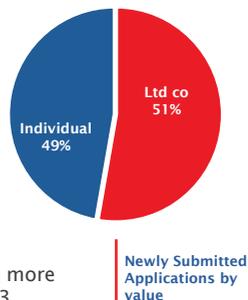
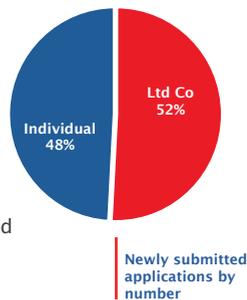


## Newly submitted applications

Since the beginning of 2019, there have been similar levels in the number and value of new applications made personally compared to those made using corporate structures. This trend continued during the final quarter of 2019.

By volume of applications, 48% were made by landlords using limited companies, and 52% by landlords applying personally. By value of applications, the proportion was slightly different, at 51% and 49% respectively.

Generally, average buy to let loan amounts increased slightly in Q4 compared to the previous quarter. The average loan value for limited companies rose by £23,006, and the average loan taken personally increased by £16,023.



## Completed transactions

Comparing Q4 to Q3 2019, there was only a small increase in the number of completions through limited companies, from 49% to 51%.

However, a more significant change was a decrease in the value of applications (51% down to 46%), indicating that landlords are putting more lower value properties through limited company structures than in Q3.

# Purchases vs Remortgages

## All transactions

2019 has been referred to by many within the sector as the ‘year of the remortgage’. This sentiment was certainly true of the transactions at Mortgages for Business, where in the last three-quarters of the year remortgages accounted for c.69% of buy to let mortgage applications.

## Ltd company transactions

The split between purchase and remortgage transactions is more evenly spread amongst landlords who use corporate structures as the borrowing vehicle than landlords financing buy to let property personally. Purchasing through a limited company is often more efficient both from a tax perspective and financially to borrow via a limited company, and due to changes in tax relief, this ownership method has become increasingly popular in the last few years. As a result, fewer landlords are expanding their portfolios with the help of personal buy to let borrowing.

## Product transfers

Included in the remortgage figures are transactions made by landlords who switch mortgage product but stay with the same lender. While product transfers are not always the cheapest option for borrowers, they are usually quick to complete.

Product transfers are also sometimes the only option for landlords to get a like-for-like refinancing solution, who otherwise may not qualify for finance with another lender due to a change in circumstance. These situations are more common in recent times due to the new tax and regulatory landscape, which has made it harder for landlords to meet standard borrowing criteria.

*\*Remortgage transactions include other lending types, including further advances, product transfers and equity release.*



# PURCHASES VS REMORTGAGES

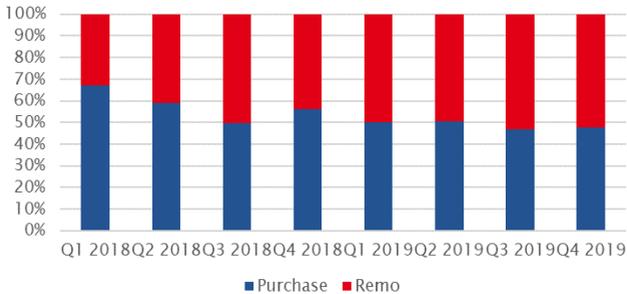
## All BTL Purchase vs Remortgage

All BTL Purchase vs Remortgage



## Limited Company BTL Completions Purchase vs Remortgage

Limited Company BTL Completions Purchase vs Remortgage



# Property Types

## Yields

Yields from the various types of property remained steady throughout Q4 2019.

Vanilla properties maintained their consistency, yielding an average, if unremarkable, 5.8%. Easy to fund and straightforward to manage, they are the backbone of the average landlord's property portfolio.

HMOs continued to produce the most substantial yields. At 9.2% in 2019, they performed better on average than in the previous two years. Their continuing popularity amongst both landlords and tenants seems to show no sign of abating despite stricter licensing laws. Interest in this type of investment may well continue to grow now the political uncertainty has subsided following the December election.

Yields from multi unit freehold blocks generally fluctuate more widely due to a greater diversity of funding available and a smaller data set. While they still performing better than vanilla properties, their yields have decreased year on year for the past

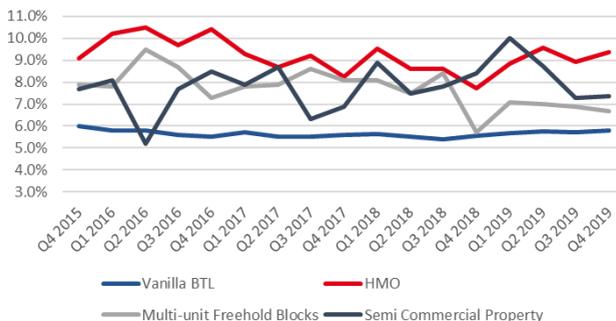
three years, so it will be interesting to see if their popularity also diminishes in 2020.

Semi-commercial properties (also known as mixed-use properties), cannot be financed with a buy to let mortgage because of the commercial element. However, they continue to grow in popularity with residential landlords looking to diversify and achieve higher yields. Despite a smaller data set, the figures show that yields from these properties have increased over the last three years. In Q4 they returned an average of 7.4% and on average 8.3% for 2019.

## Loan to Value

The market quietness over the final quarter 2019, and indeed the whole 12-months, is echoed in the average loan to value percentages achieved. For the most part, the percentage LTV held steady across all property types, despite some minor fluctuations where the data sets were smaller (MUFBs and SCPs).

Average Gross Rental Yields



## PROPERTY TYPES

### Transactions by property type

Vanilla Buy to Let				
	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Purchases</b>	35%	33%	32%	32%
<b>Remortgages</b>	65%	67%	68%	68%
<b>Average loan size</b>	£189,843	£177,094	£188,974	£200,469
<b>Average property value</b>	£291,455	£271,665	£271,548	£309,638
<b>Average loan to value</b>	69%	68%	68%	68%
<b>Average yield</b>	5.68%	5.76%	5.72%	5.78%

Houses in Multiple Occupation (HMO)				
	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Purchases</b>	46%	64%	35%	19%
<b>Remortgages</b>	54%	34%	65%	81%
<b>Average loan size</b>	£234,887	£249,340	£242,699	£258,060
<b>Average property value</b>	£346,447	£361,936	£338,949	£392,291
<b>Average loan to value</b>	70%	69%	71%	68%
<b>Average yield</b>	8.85%	9.56%	8.92%	9.37%

Multi Unit Freehold Blocks (MUFB)				
	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Purchases</b>	25%	17%	22%	35%
<b>Remortgages</b>	75%	83%	78%	65%
<b>Average loan size</b>	£336,959	£302,230	£434,079	£553,423
<b>Average property value</b>	£492,917	£486,391	£691,519	£656,826
<b>Average loan to value</b>	70%	68%	65%	68%
<b>Average yield</b>	7.10%	7.00%	6.73%	6.69%

Semi-Commercial Property (SCP)				
	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Purchases</b>	17%	25%	20%	42%
<b>Remortgages</b>	83%	75%	80%	58%
<b>Average loan size</b>	£306,750	£179,325	£358,748	£299,940
<b>Average property value</b>	£443,167	£404,750	£504,000	£463,750
<b>Average loan to value</b>	68%	51%	60%	67%
<b>Average yield</b>	10.00%	8.74%	7.27%	7.36%



## FURTHER RESEARCH

We publish a variety of papers designed to help landlords, businesses, developers 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 the Marketing department.

**ANY PROPERTY USED AS SECURITY, WHICH MAY INCLUDE YOUR HOME, MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE**



# Mortgages for Business

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