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Buy-to-let sector continues to improve

By Tanya Powley

Buy-to-let mortgage rates and arrangement fees are continuing to fall, as competition in the sector increases – but mortgage brokers warn that lending criteria remain strict compared with the peak of the market.

This month, the number of buy-to-let mortgages on the market stood at 501, up from a low of 189 in July 2009 and the highest level since September 2008, according to Moneyfacts, the financial data provider.

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This increased choice for landlords has come as more lenders have entered the buy-to-let sector or resumed lending. This week, Yorkshire Building Society became the latest lender to launch into the buy-to-let market, through its intermediary brand Accord Mortgages. Santander and Metro Bank are both expected to launch their buy-to-let offerings later this year.

"There is a buzz about the sector with more demand from landlords for products as rents continue to rise because would-be first-time buyers are struggling to get on the housing ladder," explained Melanie Bien of mortgage broker Private Finance. "This is persuading lenders, who may have abandoned the sector, to return – particularly as the residential mortgage market is fairly downbeat, with little demand from borrowers. We expect products to become increasingly competitive as more providers look to capitalise on this demand."

According to brokers, buy-to-let rates have fallen by almost 1 percentage point over the past year. Arrangement fees have also edged down lower, with more lenders now also offering flat-fee, rather than percentage fee, options.
"It was not long ago that percentage-based arrangement fees were the only option, but these high costs put some investors off," said Aaron Strutt of Trinity Financial. "We are now starting to see a shift towards more standard set up fees."

As a result, landlords can today get much more attractive deals compared with a year ago. Mike Perrin of Largemortgageloans.com said that property investors seeking a 75 per cent loan-to-value mortgage would have had to pay a rate of 4.7 per cent, plus a 2.5 per cent arrangement fee in February 2010, but can now secure the same loan at 3.89 per cent, with a £1,995 fee.

However, the most competitive rates are still reserved for landlords with bigger deposits of 40 per cent or more. For these borrowers, Principality Building Society has a two-year tracker at 2.89 per cent – Bank of England base rate plus 2.39 percentage points – with a 2.5 per cent fee. Skipton Building Society has a similar two-year tracker at 3.24 per cent – Bank base rate plus 2.74 percentage points – a £1,240 fee.

This week, Coventry Building Society also launched an attractive two-year fixed-rate deal at 3.99 per cent. It is available at 65 per cent loan-to-value and comes with a £950 fee. The product has the added appeal of coming with free valuation, free legal work for remortgages and no early repayment charges, according to David Hollingworth of London & Country.

Overall, lending criteria are still stricter than they were at the peak of the market. "We've seen some lenders loosening their criteria slightly but the big changes are mostly being made with headline rates and fees," noted David Whittaker of Mortgages for Business.

Most lenders still require deposits of between 25 to 40 per cent. While there are some lenders offering mortgages to those with just a 15 per cent deposit, their other criteria make it extremely difficult to secure such a deal. Rental cover – the number of times rent covers the mortgage repayments – remains 125 or 130 per cent, compared with 100 per cent before the downturn. But Bien said the extra buffer, which is designed to protect the investor and lender against rising costs, is a "prudent development".

Brokers pointed out that landlords seeking to expand their portfolios face restrictions, as well. Most lenders now limit lending to £1m per investor, and many refuse to accept applications from clients with ten or more properties.

Last September, **Lloyds Banking Group**, one of the biggest buy-to-let lenders, restricted the number of buy-to-let properties that it would lend on to just three – up to a maximum of £2m-worth of lending.

Yorkshire Building Society has also limited its lending to a maximum of three buy-to-let properties, up to a maximum of £1m worth of lending. It will not lend to landlords who have more than ten properties.

"These changes combine to preclude professional landlords with dozens of properties in favour of amateur landlords with higher external incomes," explained Perrin.