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Lenders target amateur landlords

By Tanya Powley



Banks and building societies are launching new buy-to-let mortgage ranges targeted at non-professional landlords with small property portfolios – but borrowers have been warned that not all of the latest deals are competitive.

On Monday, banking group Santander entered the buy-to-let market, with mortgages aimed at landlords looking to

make a first or second buy-to-let investment. Its products are available to borrowers who already have a residential or buy-to-let mortgage, but who hold no more than three properties overall.

However, the bank has limited its new range to just two loans: both of which are two-year fixed rates and, according to brokers, uncompetitively priced.

Santander is offering a two-year fix at 4.29 per cent to property investors with deposits of 40 per cent or more, and a two-year fix at 5.19 per cent for those able to put down at least 25 per cent of the property's value. "I cannot see their offering causing a huge rush of applications as the rates are distinctly average," said Nigel Bedford of Largemortgageloans.com.

Better buy-to-let rates are available elsewhere, according to brokers. For investors seeking a 75 per cent loan-to-value (LTV) deal, NatWest offers a two-year fix at 4.39 per cent with a £1,999 fee. Landlords can also get a five-year fix at 4.84 per cent with a £1,995 fee from Accord Mortgages.

But these best-buy deals carry restrictions. Accord – the intermediary arm of Yorkshire Building Society, which started offering buy-to-let loans in August – will only lend on properties in certain postcodes in London and south-east England. It also stipulates that the buy-to-let property must be no more than a 40-mile drive from one of the applicant's main homes.

Buy-to-let outlook 'positive'

The outlook for property investors remains positive for 2012 in spite of flat or falling prices, as demand for rental property is expected to stay high, and push up rents.

Average rents across England and Wales have risen 3.5 per cent in the year to November, according to the LSL Buy-to-Let Index. Last month saw a 0.4 per cent fall – the first drop in ten months – to £717 per month. However, the average rental yield is now at 5.3 per cent and property analysts believe rental growth will continue in 2012.

David Newnes of LSL said it is these yields, rather than potential capital gains, that are attracting investors to the buy-to-let market. "It is rental income that pays a landlord's mortgage and, while capital gains are important over the long run, the strength of demand and rents underpin sensible investment decisions."

Nigel Bedford of Largemortgageloans.com believes the outlook for the buy-to-let market will continue to be strong throughout 2012.

"There is caution among professional landlords as so many are sitting on very low historic lifetime trackers, and they know that one day rates will go up and impact their profits," he said. "But all indications are that the Bank of England will not raise base rate anytime soon. So 'enjoy the benefit' is very much the order of the day."

Godiva Mortgages – the specialist lending arm of Coventry Building Society – has a number of market-leading rates at 65 per cent LTV. These include a two-year tracker at 3.29 per cent, with a £1,249 fee, and a best-buy two-year fix at 3.65 per cent with a £2,249 fee. Accord has the market-leading five-year fix at 65 per cent LTV, at 4.64 per cent with a £1,995 fee – for those borrowers who meet its criteria.

This increased competition has resulted in a lowering of rates and fees, and an increase in the total number of products available. According to the broker Mortgages for Business, the number of buy-to-let mortgages has increased from 250 at the beginning of 2011 to 429 today. Lenders are still offering mostly two-year deals, which account for 174 of the products on offer, but there has been an increase in the number of three and five-year deals to 63 and 49, respectively.

Landlords have favoured products that allow them to borrow the most, noted Bedford. "The deals with the lowest rates tend to give the highest potential borrowing, and hence the most popular tend to be the two-year trackers, rather than fixed rates," he said.

David Whittaker of Mortgages for Business said he typically advises landlords to opt for longer term rates – particularly when capital growth is flat as there is less to be gained from refinancing after two years. "I normally don't like two-year products as they are hostage to fortune," he explained. "With the bank base rate set to remain low for a while, perhaps they won't suffer interest rate shock. But certainly fixed rates will move up in the meantime."

Landlords with no more than three buy-to-let properties got a further boost this week when NatWest introduced a new lower rental calculation for wealthy borrowers. Landlords that earn more than £50,000 in non-property income will only be required to have 100 per cent of their mortgage repayments at an assumed rate of 7 per cent covered

by rental income. As a result, higher-earning non-professional landlords will need less rent coming in to get a NatWest buy-to-let mortgage.

However, landlords with an income of less than £50,000 or more than three buy-to-let properties will be worse off as a result of NatWest's policy changes: it has increased the minimum rental cover it will accept from 125 per cent of repayments at 6.75 per cent to 125 per cent of repayments at 7 per cent.