

# Association of Residential Letting Agents

## Buy to Let Mortgages

### LENDING TRENDS

February 2003

This bulletin has been prepared from returns submitted by four of the five lenders on the ARLA panel of Buy to Let (BTL) mortgage lenders. It does not aim to reflect the full extent of lending on BTL mortgages.

*Throughout this bulletin, references to the ARLA Buy to Let panel relate only to the four lenders submitting statistical returns.*

The ARLA panel has remained unchanged during the period and the figures in this bulletin are comparable with those from the last bulletin. Although prior to that the panel has changed from time to time, for completeness we have included historical figures for lending volumes and average loan sizes.

In order to protect the confidentiality of individual lender's data, statistics relating to: lending to first time landlords; loans in arrears; properties taken into possession; gross annual rent-to-value and average annual rent by property type have not been included in this edition of the new series as insufficient data was received from panel lenders.

Except where otherwise stated, we believe that the statistics contained within this bulletin reflect trends in the Buy to Let market.

**Bulletin prepared by:**  
Owen Carey Jones  
February 2003

## LENDING FOR THE SIX MONTHS TO 30TH SEPTEMBER 2002

During the three months to 31st December 2003, the lenders on the ARLA Buy to Let panel have lent a total of £283.1 million on the security of 3,425 properties. This equates to an average loan of £82,657.

### CHANGES IN AVERAGE MONTHLY VOLUME OF LENDING

The table and chart below show how lending on Buy to Let mortgages has changed since ARLA set up its panel of approved lenders. However, it should be remembered that the constitution of the panel has changed from time to time and that these figures are not conclusive overall lending figures.

Compared with the six month period ending 30th September 2002, the average monthly number of loans and amount lent has decreased. The average monthly number of loans in the three months to 31st December 2002 has fallen by 26% from 1,543 to 1,142 whilst the average amount lent per month has also fallen by 26% from £126.8 million to £94.4 million.

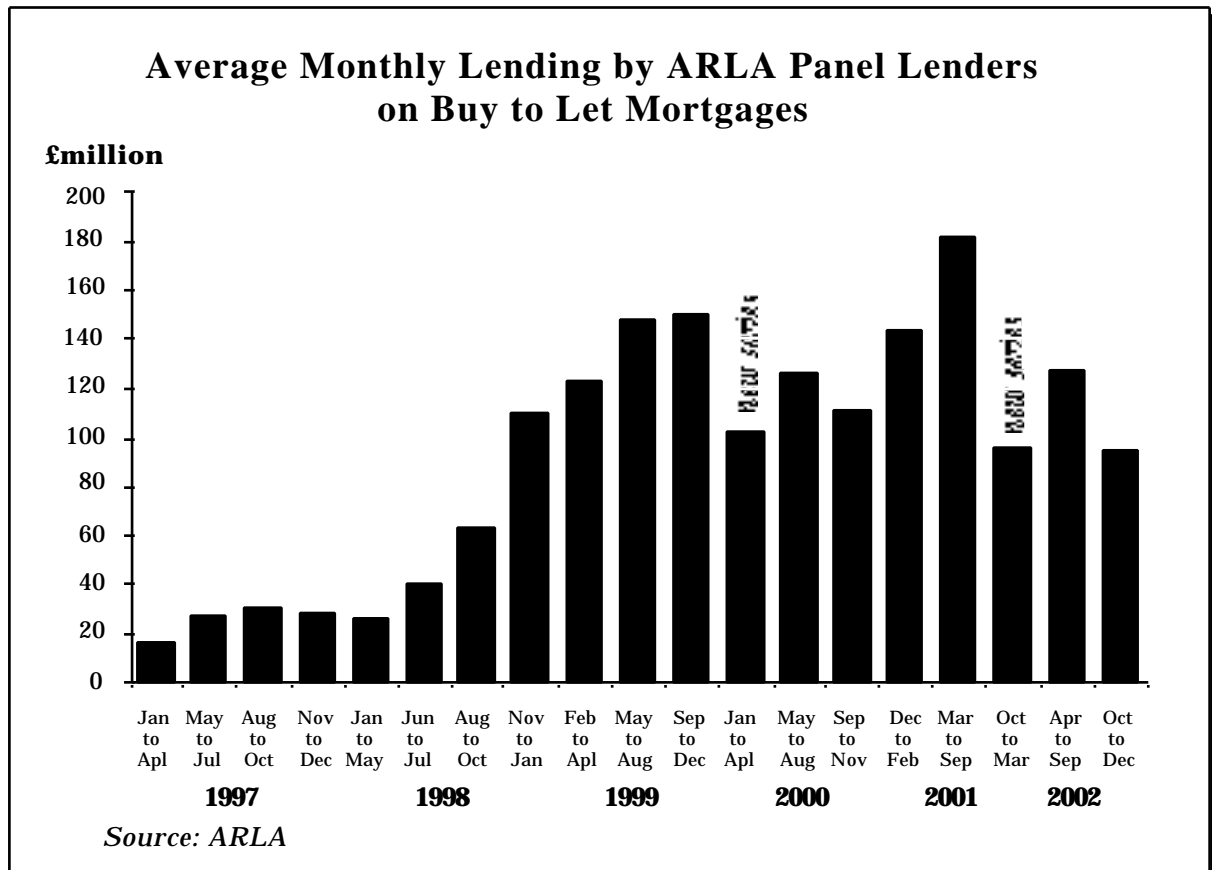
<b>Average Monthly Lending by ARLA Panel Lenders on Buy to Let Mortgages</b>			
<b>Period</b>		<b>Average Monthly Figures</b>	
		<b>No. of Loans</b>	<b>Amount Lent (£m)</b>
1997	Jan - Apl	n/a	16.3
	May - Jul	n/a	27.4
	Aug - Oct	n/a	31.0
	Nov - Dec	n/a	28.3
1998	Jan - May	n/a	26.7
	Jun - Jul	n/a	40.3
	Aug - Oct	n/a	63.0
	Nov - Jan	1,536	110.0
1999	Feb - Apl	1,840	123.3
	May - Aug	2,184	147.8
	Sep - Dec	2,166	150.3
----- <i>break in series</i> -----			
2000	Jan - Apl	1,686	102.5
	May - Aug	1,644	126.1
	Sep - Nov	1,456	111.5
2001	Dec - Feb	1,406	143.5
	Mar - Sep	2,131	181.4
----- <i>break in series</i> -----			
2002	Oct - Mar	1,188	95.2
	Apr - Sep	1,543	126.8
	Oct - Dec	1,142	94.4

*Source: ARLA*

#### Notes:

- (1) *At the beginning of 2000, the ARLA panel of Buy to Let lenders was reduced from eight lenders to six. As a result the volume of Buy to Let lending by ARLA approved lenders reduced by approximately a third before rising again sharply in the following months.*

- (2) *Figures for November to December 1997 and for June to July 1998 are interpolated from the previous and following periods.*
- (3) *Figures for March to September 2001 include figures for lenders who were ARLA panel lenders at the beginning of 2001*
- (4) *At the end of 2001, the constituent lenders of the ARLA panel of lenders changed. Also, for the periods October 2001 to March 2002 and April 2002 to September 2002, the statistics relate to four out of the five ARLA lenders only.*



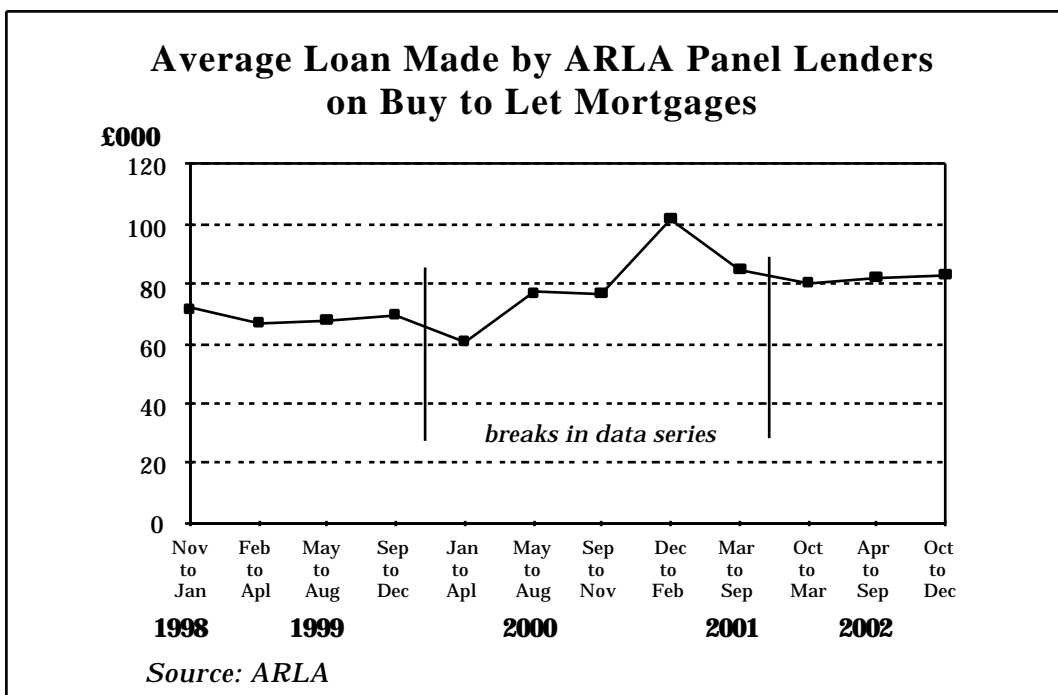
## CHANGES IN AVERAGE LOAN AMOUNT

The average loan made on Buy to Let properties by ARLA panel lenders in the three months to the end of December 2002, at £82,657, was 0.6% higher than for the six months to 30th September 2002.

The table and chart below show how the average amount lent on a Buy to Let property has changed over the last four years.

Average Size of Loans Made by ARLA Panel Lenders on Buy to Let Mortgages		
Period		Average Loan (£000)
1998	Nov - Jan	71.6
1999	Feb - Apl	67.0
	May - Aug	67.6
	Sep - Dec	69.4
----- <i>break in series</i> -----		
2000	Jan - Apl	60.8
	May - Aug	76.7
	Sep - Nov	76.6
2001	Dec - Feb	102.0
	Mar - Sep	85.1
----- <i>break in series</i> -----		
2002	Oct - Mar	80.2
	Apr - Sep	82.1
	Oct - Dec	82.7

*Source: ARLA*



## TYPES OF BUY TO LET LOANS

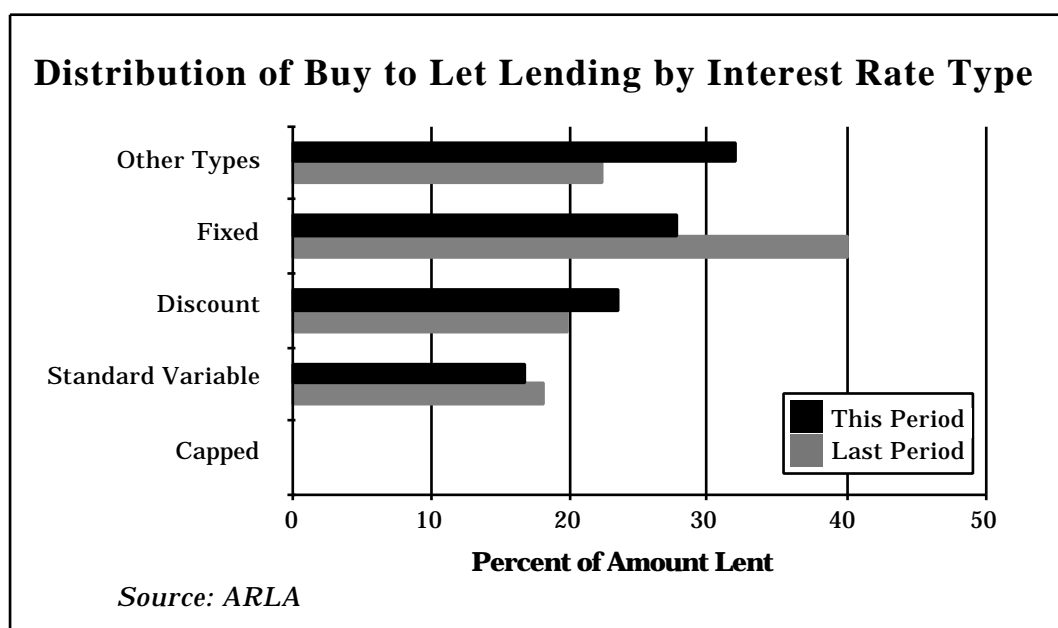
### *Interest Rate Type*

The most popular interest rate type for Buy to Let loans made in the last quarter of 2002 remained Fixed rate with 27.8% of all Buy to Let lending by ARLA panel lenders being of this type. A further 23.5% was Discount rate whilst only 16.7% was lent on Standard Variable rate loans.

<b>Distribution of Lending by Interest Rate Type</b>		
<b>Interest Rate Type</b>	<b>Percent of Total (%)</b>	
	<b>Last Period</b>	<b>This Period</b>
Standard Variable	18.0	16.7
Fixed	40.0	27.8
Capped	-	-
Discount	19.7	23.5
Other Types	22.3	31.9

*Source: ARLA*

No Capped rate loans at all were made in the period but 31.9% of lending consisted of interest rate types other than those listed in the return. Further investigation reveals that this lending was made up mainly of LIBOR or Base Rate Linked mortgages.



Compared with the six months to 30th September 2002, the main change was a large reduction in Fixed rate loans (27.8% compared with 40.0%) in favour mainly of LIBOR and Base Rate Linked loans which increased from 22.3% to 31.9%.

## Repayment Type

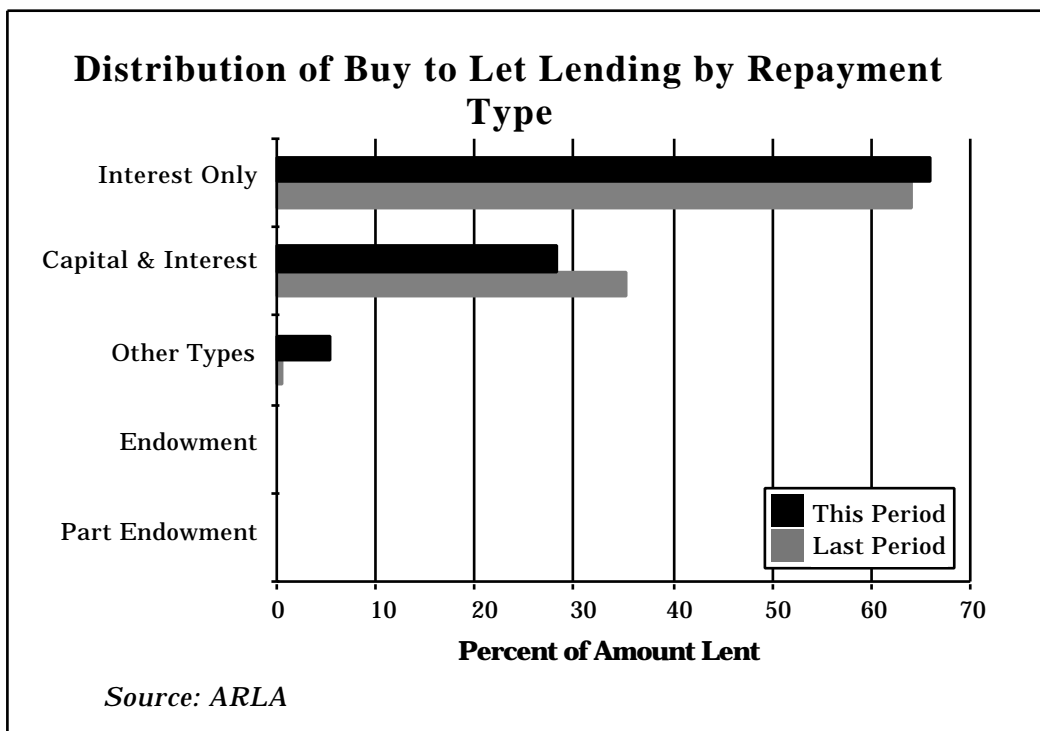
There was one repayment type, Interest Only, which predominated, taking in almost two thirds (66.1%) of all Buy to Let lending by ARLA panel lenders in the three months to 31st December 2002.

<b>Distribution of Lending by Repayment Type</b>		
<b>Interest Rate Type</b>	<b>Percent of Total (%)</b>	
	<b>Last Period</b>	<b>This Period</b>
Capital & Interest	35.3	28.4
Part End/Part Cap&Int	-	-
Endowment	0.2	-
Interest Only	64.2	66.1
Other Types	0.4	5.5

*Source: ARLA*

Accounting for nearly three out of ten loans (28.4%) were Capital & Interest mortgages. Virtually all Buy to Let lending was made up of these two types.

Compared with the previous six month period, Interest Only cases increased from 64.2% to 66.1% whilst Capital & Interest cases declined from 35.3% to 28.4%.



## CHANNELS OF DISTRIBUTION

In terms of channels of distribution for Buy to Let mortgages, the figures inevitably reflect the types of lender on the ARLA panel and the channels through which they conduct their Buy to Let business.

The figures for distribution channels should therefore be seen in this light and they are not necessarily indicative of any overall market situation with regard to the way in which Buy to Let loans are made available to landlords.

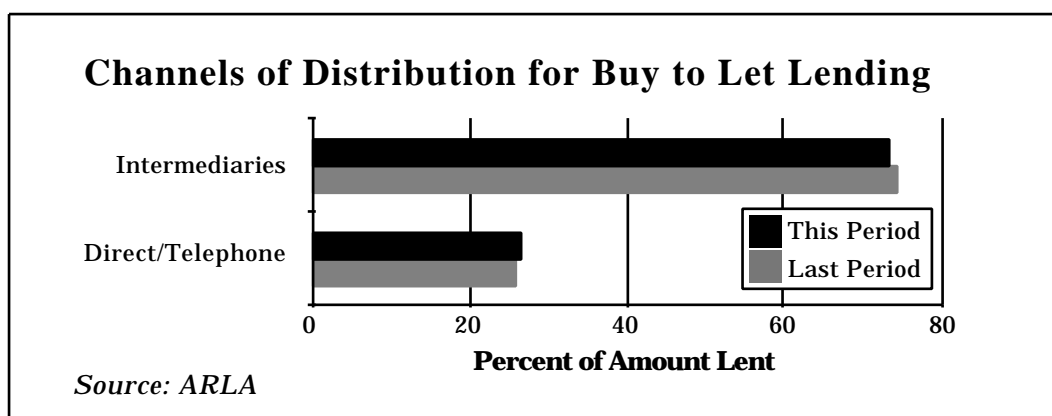
Having said that, for ARLA panel lenders, nearly three quarters (73.4%) of Buy to Let lending in the three months to 31st December 2002 was done through Intermediaries.

Channel	Percent of Total Lent (%)	
	Last Period	This Period
Direct/Telephone	25.7	26.6
Intermediaries	74.3	73.4

*Source: ARLA*

The only other channel used by ARLA panel lenders was Direct/Telephone sales which accounted for the remaining 26.6% of their Buy to Let lending.

Compared with the six month period ending 30th September 2002, these proportions are virtually unchanged although over the last three periods, the proportion of lending coming to ARLA lenders direct has increased a little each time.



## REGIONAL FIGURES

In order to provide statistics relating to the regions of the UK, the country has been divided into nine regions. Full details of the postcode areas and districts included within each of these regions are shown in the Appendix to this bulletin.

### *Number, Amount and Average Size of Loans Made*

The table below shows the breakdown by region of lending by ARLA panel members in the period 1st October 2002 to 31st December 2002.

<b>Regional Distribution of New Buy to Let Mortgages by Number of Loans (000s)</b>			
<b>Region</b>	<b>Apr 02 to Sep 02</b>	<b>Oct 02 to Dec 02</b>	<b>Percentage Change in No. of Loans Per Month</b>
Prime London	0.9	1.1	-11.9
Rest of Central London	13.6	10.6	-42.4
Rest of Greater London	9.1	7.5	-39.2
South East	20.3	19	-30.9
South West & South Wales	12.8	11.5	-33.7
Midlands	14.2	13.1	-32.0
North West & North Wales	12.6	16.3	-4.8
North East	14.0	17.8	-6.0
Scotland & N Ireland	2.4	3.3	+1.4

*Source: ARLA*

There was a sharp decline in lending in the South of the country, where monthly lending levels fell by about a third whilst lending in the North actually maintained its level with the result that the proportion of Buy to Let lending conducted in the North rose sharply.

<b>Regional Distribution of New Buy to Let Mortgages by Amount Lent (£m)</b>			
<b>Region</b>	<b>Apr 02 to Sep 02</b>	<b>Oct 02 to Dec 02</b>	<b>Percentage Change in Amount Lent Per Month</b>
Prime London	2.2	2.0	-31.7
Rest of Central London	23.2	18.8	-39.6
Rest of Greater London	12.1	10.2	-37.4
South East	20.9	21.4	-23.7
South West & South Wales	11.5	11.3	-26.8
Midlands	10.4	10.6	-24.4
North West & North Wales	8.3	10.7	-3.5
North East	9.7	12.4	-5.5
Scotland & N Ireland	1.7	2.6	+15.6

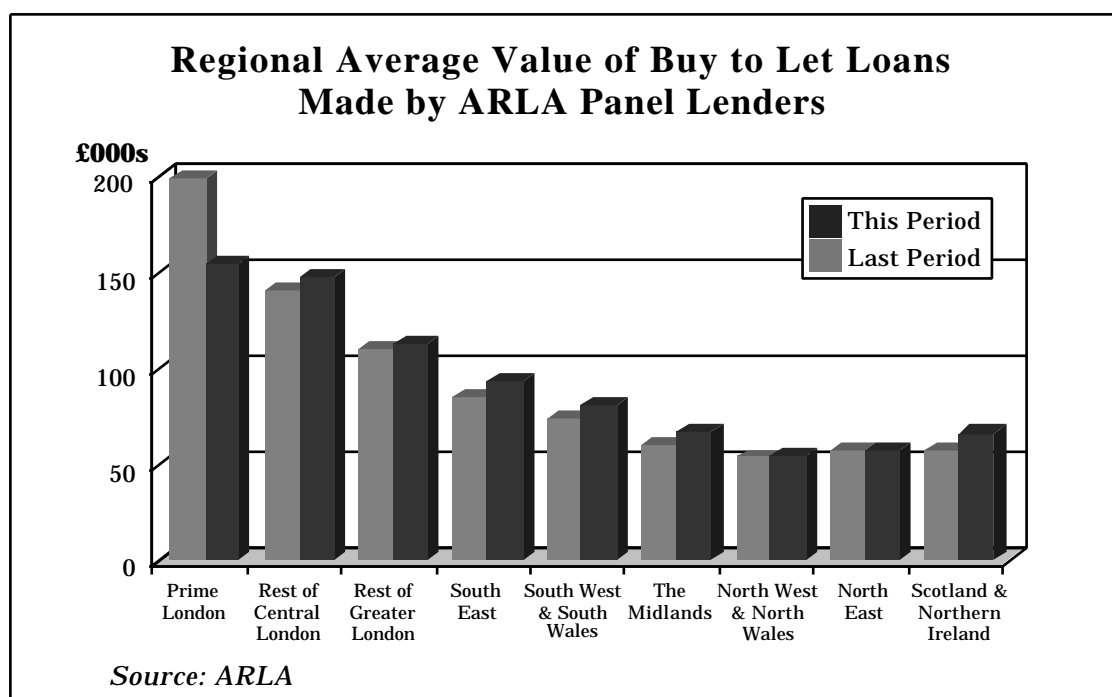
*Source: ARLA*

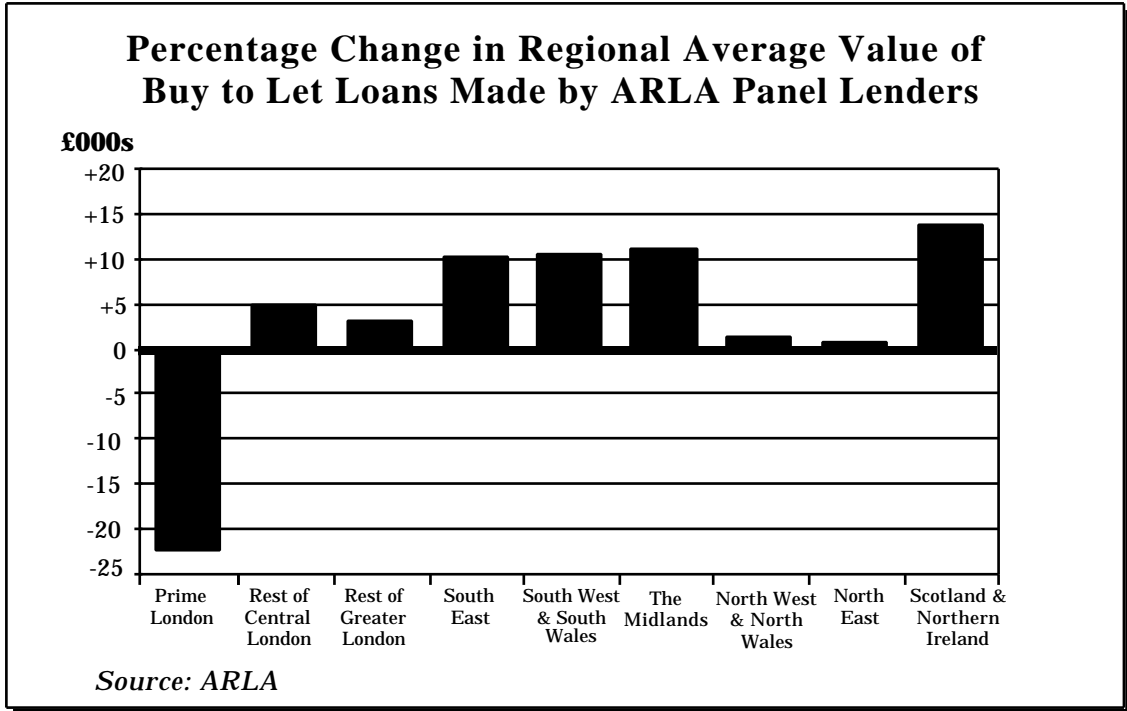
In terms of differences in the sizes of loans made on Buy to Let properties in these regions, as expected, the average loan on a Prime London property was the largest at £154,100. This figure was nearly three times the average figure of £54,600 seen in North West England & North Wales and nearly twice the size of the overall average loan size.

<b>Regional Average Loan Size for New Buy to Let Mortgages (£000s)</b>			
<b>Region</b>	<b>Apr 02 to Sep 02</b>	<b>Oct 02 to Dec 02</b>	<b>Percentage Change</b>
Prime London	198.8	154.1	-22.5
Rest of Central London	139.8	146.6	+4.9
Rest of Greater London	109.6	112.9	+3.0
South East	84.2	92.9	+10.3
South West & South Wales	73.7	81.4	+10.4
Midlands	60.2	67.0	+11.3
North West & North Wales	53.9	54.6	+1.3
North East	57.2	57.6	+0.7
Scotland & N Ireland	58.1	66.1	+13.8

*Source: ARLA*

However, compared with the period 1st March to 30th September 2002, the average loan sizes in the three months to 31st December 2002 showed some interesting changes, as can be seen more clearly in the charts below.





In particular, the average loan size for a property in Prime London decreased by 22.5% from £198,800 to £154,100 whilst the averages for all other regions were up by between 0.7% (North East) and 13.8% (Scotland & Northern Ireland).

## Interest Rate Types

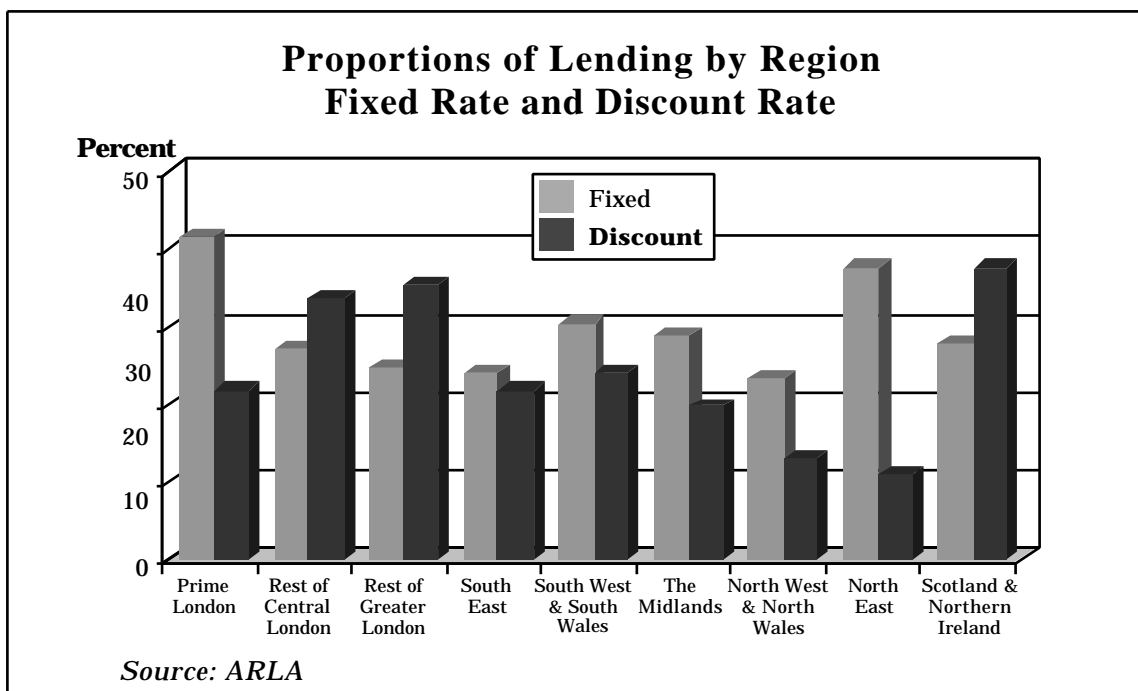
Within the Prime London area, 41.4% of Buy to Let lending in the last quarter of 2002 was on a Fixed rate basis compared with, at the other end of the scale, 23.3% of lending in North West England & North Wales.

On the other hand, in Scotland & Northern Ireland, 37.5% of lending was on a discount rate basis compared with just 10.9% for North East England.

Region	Percent of Lending (%)				
	Variable	Fixed	Capped	Disc	Other
Prime London	15.8	41.4	-	21.7	21.1
Rest of Central London	19.1	26.9	-	33.6	20.4
Rest of Greater London	19.3	24.8	-	35.2	20.7
South East England	17.3	23.8	-	21.7	37.2
South West England & South Wales	17.1	30.3	-	23.9	28.7
The Midlands	19.4	28.6	-	19.6	32.4
North West England & North Wales	16.0	23.3	-	13.1	47.5
North East England	8.9	37.5	-	10.9	42.6
Scotland & Northern Ireland	12.5	27.7	-	37.5	22.3

Source: ARLA

In the North West of England and North Wales, the Other category of interest rate types (mainly LIBOR or Base Rate Linked) prevailed with approaching half of all lending in that region having been of types other than those listed in the return.



## Repayment Types

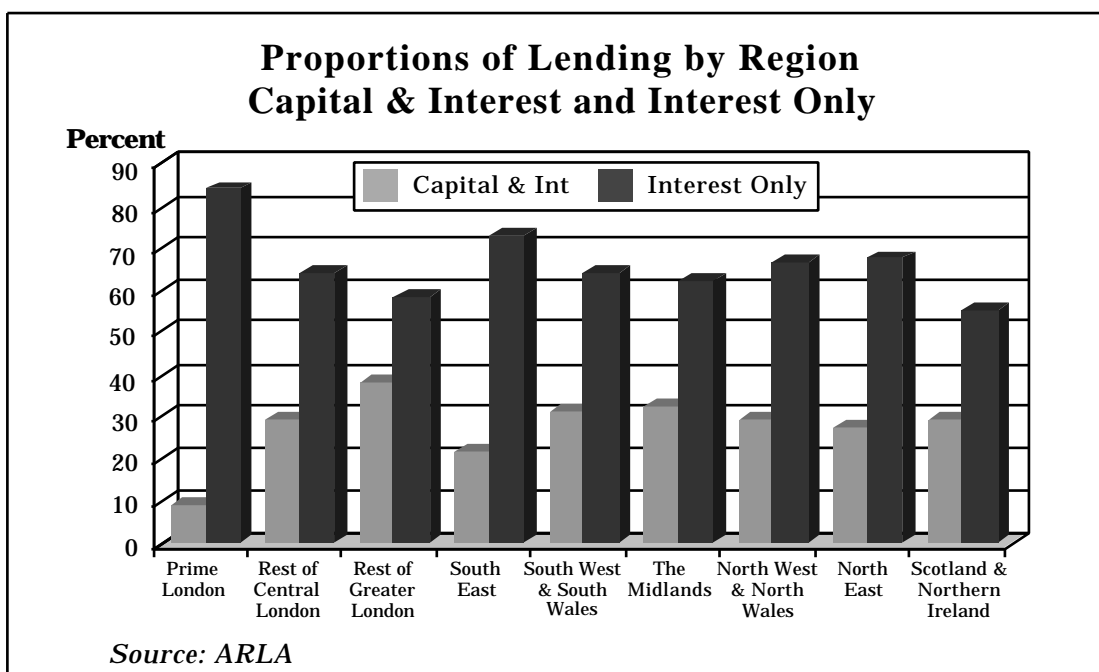
One region stands out in terms of the distribution of Buy to Let lending by repayment type for the last quarter of 2002 and that is Prime London which at 8.8% had less than half of the proportion of Capital & Interest lending of the next lowest region, South East England (22.0%).

Region	Percent of Lending (%)				
	Capital & Int	Part End	End	Interest Only	Other
Prime London	8.8	-	-	83.8	7.4
Rest of Central London	29.2	-	-	64.3	6.5
Rest of Greater London	38.1	-	-	58.9	3.1
South East England	22.0	-	-	72.9	5.1
South West England & South Wales	31.1	-	-	63.6	5.3
The Midlands	32.4	-	-	62.6	5.0
North West England & North Wales	29.0	-	-	66.5	4.5
North East England	26.9	-	-	67.7	5.4
Scotland & Northern Ireland	28.8	-	-	55.5	15.7

Source: ARLA

However, for all regions, most Buy to Let lending actually included no planned repayment of capital at all, i.e. they were Interest Only. The region in which this type was least popular was Scotland & Northern Ireland.

Interest Only and Capital & Interest were the only repayment types of any significance in the Buy to Let market during the last quarter of 2002.



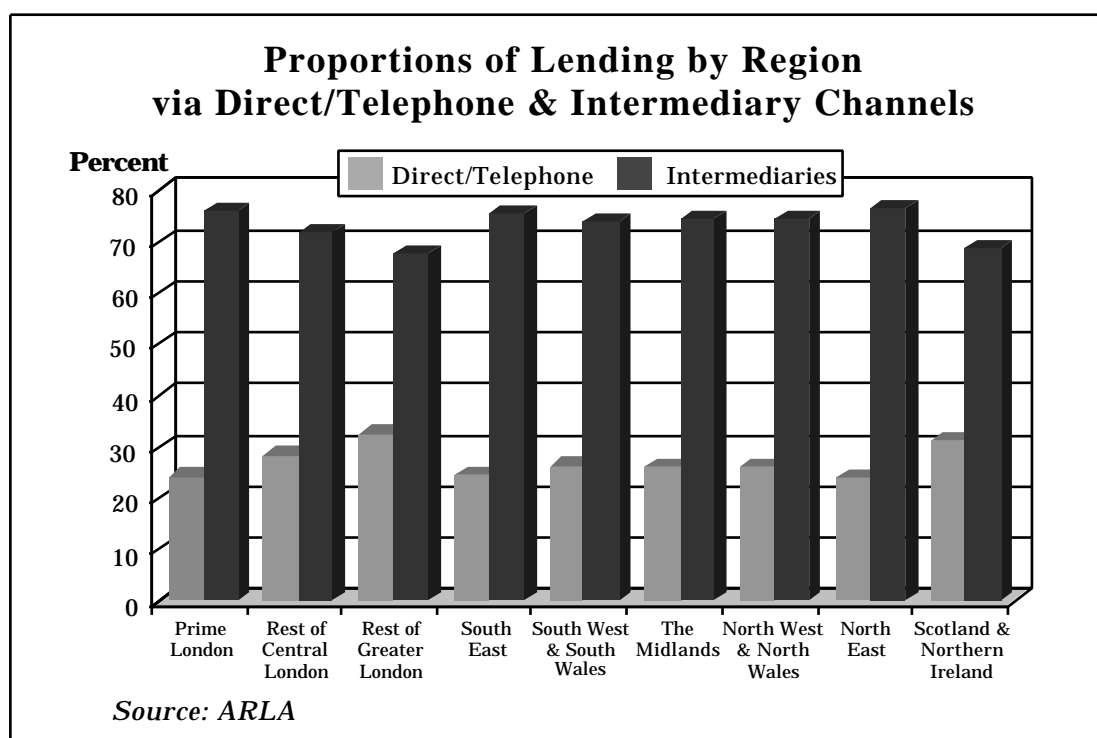
## Channels of Distribution

Subject to the proviso mentioned above, it would appear that, in all regions of the UK, most Buy to Let lending in the last three months of 2002 was conducted through the auspices of Intermediaries.

Region	Percent of Lending (%)	
	Direct/Telephone	Intermediaries
Prime London	24.2	75.8
Rest of Central London	28.2	71.8
Rest of Greater London	32.6	67.4
South East England	24.5	75.5
South West England & South Wales	26.0	74.0
The Midlands	25.7	74.3
North West England & North Wales	25.9	74.1
North East England	23.8	76.2
Scotland & Northern Ireland	31.3	68.7

*Source: ARLA*

There was little difference between most of the regions in the proportions of Buy to Let business which was conducted through intermediaries but business from the Rest of Greater London and Scotland & Northern Ireland appears to have been less dependant than average on intermediaries.



# ARLA Buy to Let Market Statistics

## Appendix to Lending Bulletin

### Regional Definitions (by Postcode)

#### 1. Prime London

NW3	NW8	SW1X	SW1W	SW3	SW5
SW6	SW7	SW10	SW11	W2	W8
W11					

#### 2. Rest of Central London

NW	N	E	W	WC	EC
SW	SE				

*(excluding all postcodes included in Prime London)*

#### 3. Rest of Greater London

BR	CR	DA	EN	HA	IG
KT	RM	SM	TW	UB	WD

#### 4. Rest of South East

AL	BN	CB	CO	CM	CT
GU	HP	IP	LU	ME	MK
NR	OX	PO	RG	RH	SG
SL	SO	SS	TN		

#### 5. South West & South Wales

BA	BH	BS	CF	DT	EX
GL	LD	NP	PL	SA	SN
SP	TA	TQ	TR		

#### 6. Midlands

B	CV	CW	DE	DY	HR
LE	LN	NG	NN	PE	ST
WR	WS	WV			

#### 7. North West & North Wales

BB	BL	CA	CH	FY	L
LA	LL	M	OL	PR	SK
SY	TF	WA	WN		

#### 8. North East

BD	DN	DH	DL	HD	HG
HU	HX	LS	NE	S	SR
TS	WF	YO			

#### 9. Scotland & Northern Ireland

AB	BT	DD	DG	EH	FK
G	HS	IV	KA	KW	KY
ML	PA	PH	TD	ZE	