



FLEET MORTGAGES RENTAL BAROMETER

Q3 2023

An analysis covering:

- › The Housing & Buy-to-Let Mortgage Market
- › Rents & Rental Yields
- › Affordability

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FLEET MORTGAGES RENTAL BAROMETER Q3 2023

EXECUTIVE SUMMARY

- Residential Rental yields across England & Wales reached levels of 6.9% in Q3 2023
- House Prices down by 4.7% in Q3 2023 compared to the same period in 2022
- Average amount borrowed on BTL properties fell from £174K in Q2 to £187K in Q3 2023 (Based on Fleet data)
- Average monthly rent across the regions where Fleet lends was slightly down from £1,380 per month in Q2 to £1,346 per month in Q3. Rental prices ranged from an average of £678 per month in the North East to £2,457 in Greater London

HOUSING AND THE BUY-TO-LET MORTGAGE MARKET

Market Conditions.

Consistent with Fleet's Q2 2023 Rental Barometer, affordability, inflation, and rising interest rates continue to take their toll on activity within the private rental sector. An increase in Bank Base Rate continues to create affordability constraints, on top of what we are already experiencing. However, lenders are innovative and always adjusting to the market. An upturn in high fee products can be seen in Q3, particularly in the 2-year market, which has aided a struggling BTL market over the past 3 months. As expected, property purchase transactions continue to decline. According to Fleet's data, purchase transactions fell by 2.3% when comparing data from the previous quarter.

House Prices.

According to Nationwide's House Price Index**^{*}, the average house price in the UK was £278,601 in September, -0.4% compared to August, -1.8% compared to the previous quarter and -4.7% when comparing house prices from the same period last year.

Buy-to-Let Mortgage Market.

More specific and relevant to Fleet is the BTL Mortgage Market. A falloff in gross BTL mortgage lending can be observed from £18 billion in 2022 to the expected £13 billion by the end of 2023. This trend is expected to continue in Q4 and into 2024 where gross BTL lending is forecasted to fall a further 15% or £1 billion. This change fall in volumes can be backed up by a fall in broker activity. According to Twenty7 Tech, 752,475 searches were made in Q3, down from 894,879 searches the quarter before, a 19% decrease!

RENTS & RENTAL YIELDS

RENTAL YIELDS UP

Indicator	Q2 2023	Q3 2023
Bank Base Rate [1]	5.00%	5.25%
Ave. 5 Year Fixed Rate	6.31%	6.35%
Fleet Products [2]	6.09%	5.74%
Average Rent Cover at Origination [3]	167%	177%
Average Loan Size	£174K	£187K
Percentage Purchase Business	32%	30%
Number of Investment Properties owned by Landlords	12	12

[1] [Bank Rate history and data | Bank of England Database](#)

[2] Correct as at 17 October 2023

[3] Source: Fleet Mortgages

[4] Source: Fleet Mortgages

Rental Yields.

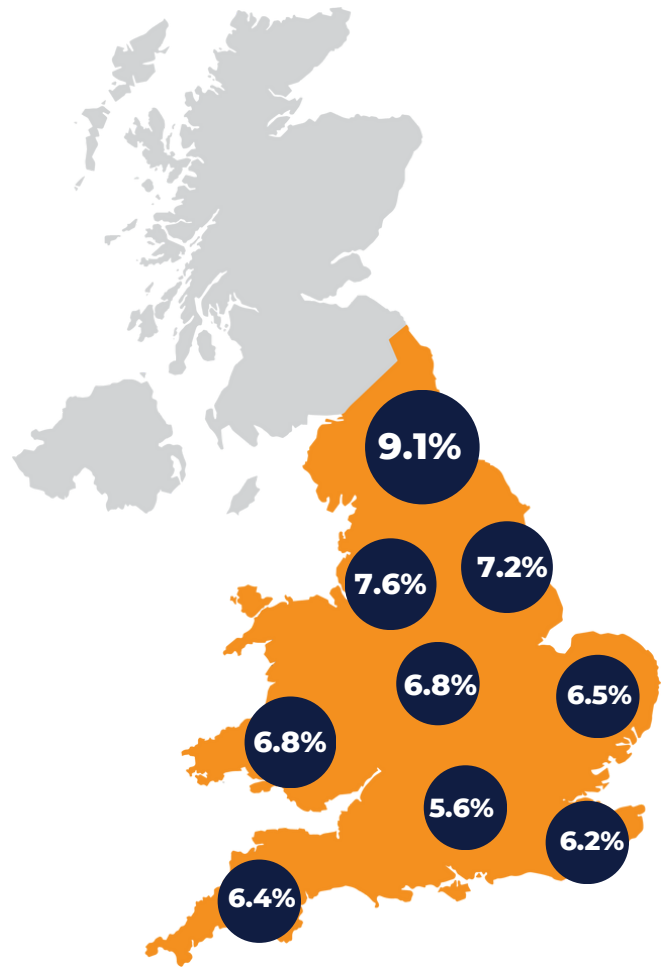
According to Fleet's data and per the table below, rental yields across England and Wales averaged 6.9% in Q3, up from 6.3% in Q2 and 1% higher than levels seen in the same period over 12 months ago.

An increase in rent over the past quarter is not surprising. Rental stock remains in short supply and a shortage in supply inevitably leads to higher rental prices, particularly in areas such as London.

A recent study by Octane Capital suggests that the gap between mortgage payments and rental payments are closing. The average mortgage payment in the UK is £982pcm, whilst the average payment for rent is £1,106pcm. This sees mortgage payments increase by 13%, whilst rental prices rise by 10% over the same period. This suggests landlords are not passing on the full rising costs on to tenants, a likely reason why we see a fall in rental yields in regions such as East Midlands and Wales. This trend cannot be seen in all regions. Central London for example, has seen rent increase by 13% year-on-year, whilst mortgage payments in the region have increase by 11%.

Rental Yield Up in Q3 2023			
Geographic Region List	Q3 2022	Q2 2023	Q3 2023
North East	8.30%	8.40%	9.10%
North West	7.00%	7.70%	7.60%
Yorkshire and Humberside	7.10%	7.10%	7.20%
Wales	6.70%	7.20%	6.80%
West Midlands	6.20%	6.30%	7.50%
East Midlands	6.00%	6.50%	6.10%
South West	5.50%	5.90%	6.40%
East Anglia	5.20%	5.80%	6.50%
South East	5.20%	5.40%	6.20%
Greater London	4.90%	5.40%	5.60%
Grand Total	5.90%	6.30%	6.90%

Monthly Rental Income Exceeds £1,000 in 7 Regions			
Geographic Region List	Q3 2022	Q2 2023	Q3 2023
North East	£618	£680	£678
North West	£886	£905	£854
Yorkshire & The Humber	£879	£859	£713
Wales	£949	£1,059	£1,156
West Midlands	£1,098	£1,090	£1,176
East Midlands	£1,142	£1,021	£1,169
South West	£1,443	£1,284	£1,543
East Anglia	£1,276	£1,282	£1,299
South East	£1,566	£1,568	£1,660
Greater London	£2,076	£2,150	£2,457
Grand Total	£1,361	£1,380	£1,346



Where are rents increasing?

According to Fleet’s data, the Northern regions (North, North West & Yorkshire and the Humber) were the only regions to see an average fall in rental prices over Q3, with Yorkshire and the Humber in particular experiencing a 17% fall in rental prices, from £859 in Q2 to £713 in Q3. By contrast, London and the South West, are two regions where rental prices have increased the most, with London’s average rent increasing from £2,150pcm to £2,457 over the same period.

AFFORDABILITY

AFFORDABILITY RECOVERED IN Q3 2023

Increased interest rates since the start of the year have taken its toll on many landlords, who are unable to satisfy the minimum interest cover ratio of 125% required by BTL lenders. However, this quarter, we have seen a softening of interest rates and in particular the introduction of high fee products to combat the increased ICR calculations. Fleet’s Indicator table above suggests that lender’s efforts are working. Landlords on average have borrowed £13k more than in Q2 from £174K to £187K, a 7.5% increase.

Sources
[RICS UK Residential Market Survey October 2023](#)
[Nationwide House Price Index](#)
[Halifax House Price Index October 2023](#)
[Index of Private Housing Rental Prices, UK - Office for National Statistics \(ons.gov.uk\)](#)



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