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Loans squeeze spurs buy-to-let boom

By Ed Hammond, Property Correspondent, Financial Times



The collapse of [mortgage lending](#) in the UK has created a bonanza for buy-to-let investors, the group widely blamed for bringing about the housing market crash by fuelling speculation.

Private sector landlords have increased their share of the country's residential stock by 42 per cent since 2007 and now account for 19 per cent of the total value. At the same time, the value of properties occupied by owners has fallen 2 per cent, according to new figures.

Cash-rich buy-to-let landlords are benefiting from the lack of bank lending to other potential homeowners and the lowest level of housing output since 1923, which has helped drive rental demand and increase yields.

This unintended consequence of tighter lending conditions – which has emboldened, rather than restrained, the speculative borrowers who helped trigger the market's collapse – is [likely to anger those unable to gain a foothold on the housing ladder](#), however.

“The expansion of the private rented sector is the single most important issue in the UK property market at the moment,” said Yolande Barnes, head of research at [Savills](#), the property services group.

“But, if you look at the investment logic for people getting into it, it tells you a lot about how the market has changed in the past five years. Buy-to-let used to be a pure play on capital growth, but now you are basically buying rental income with a pretty good guarantee that it will grow,” Ms Barnes added.

The fundamental change in motivation of private landlords is reflected in the many different groups that contributed to the growth of the sector.

As well as existing buy-to-let investors using the relatively cheap cost of borrowing to expand their portfolios, there has been an influx of cash buyers. Equity rich buyers, often from overseas, are attracted to a market underpinned by limited mortgage availability and the undersupply of new stock.

However, one group, which has only really developed since the financial crisis, is becoming an increasingly important aspect of the overall private landlord sector.

“After the collapse of Lehman Brothers, you had people becoming accidental landlords as they were sitting on properties which they bought for capital growth and then couldn’t sell,” said Tim Hyatt, president of the Association of Residential Lettings Agents.

He added such landlords had become more enthusiastic about holding property as the rental market strengthened.

Mr Hyatt forecasts there could be as many as 6.6m houses in the hands of private landlords by 2021, equivalent to 22 per cent of the all UK homes, up from just under 4m today.

He warned, though, that the [low supply of new property](#), which fell to 105,000 homes last year against a government target of 250,000, could exacerbate the difficulties facing aspiring homeowners.

“Rents will become unaffordable if the supply of stock stays as depressed as it has been. You will get first-time buyers who are unable to buy and cannot afford to rent,” he added.