



Individual investment in the UK Private Rental Sector

A roundtable policy discussion on individual investment in the UK Private Rental Sector (PRS) was held at HM Treasury on 30th March 2010. The key messages raised by participants are summarised below.

Topic 1: The role of individual investment in the UK PRS

- The expectation of capital growth based on by house price inflation has been the key driver for individual investment in the PRS.
- The national landlord survey indicates that the primary reason to invest in property is for capital gain. Some of the other reasons given were personal mobility (e.g. if working abroad for a period of time) and family decisions (e.g. retirement home, student accommodation).
- This is in comparison to Germany, for instance, where rates of capital appreciation are much lower and rental yields are sufficient to cover investment in the long-term.

Topic 2: Contribution of PRS to new housing supply

- The PRS is a hugely important sector with over 60 per cent of new households entering the PRS.
- The buy-to-let (BTL) market focus is on new-build property due largely to the simplicity of the product (e.g. easier to manage).
- The apparent preference for new-build was a temporary phenomenon driven by a large number of inexperienced new-entrants to the market and is not representative of the majority of professional individual landlords.

Topic 3: Benefits of PRS utilisation of the stock and housing market flexibility

- The PRS helps to facilitate the transition from one tenure to another and has become the stepping stone for first-time-buyers in recent years.
- There is a group of people who cannot afford home ownership and are not eligible for social housing that are staying in the PRS for a substantial period of time (i.e. over 10 years).
- The PRS helps people to manage their living arrangements (e.g. older people downsize property as family members move out).
- The rent-a-room tax allowance is not seen as a constraint to investment in the PRS and the feeling is that the relief is not widely known.

Topic 4: Future prospects for individual investment in the UK PRS

- There is a need to revisit the long-term model for individual investment in the PRS with more of a focus on net rental yield and less on capital growth.

- It was felt that now is a good time to invest in the PRS as capital values are low and there is an expectation of capital growth in the medium term.
- The availability of finance is a key issue holding back individual investment in PRS. There are 95 per cent less BTL products available than at the peak with only two major lenders on BTL mortgages. The requirement for a large deposit and high interest rates on long-term fixed mortgages is a constraint to investment.
- The lack of available mortgage funding is seen as a problem across the board and not a fundamental / specific issue for the BTL market. This is seen as a short-term problem that will ease as lending conditions improve.
- There was no opposition to exploring the use of residential REITs. Participants did not feel that new investment vehicles would crowd out direct individual investment in the PRS.