Digging Deeper

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The Death of the Buy-to-Let Mortgage

- **Booms, Busts, and Tax Changes**
- **Not Dead Yet**
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The buy-to-let (BTL) mortgage was a key feature of the UK's housing market in the late 1990s and 2000s. But the last few years have been much tougher for BTL investors and their lenders. There are regular reports suggesting large numbers of landlords are ready to sell up thanks to tighter taxation and tougher regulations. If these reports are true, this would suggest the death of the BTL mortgage. However, while the heady days of the 2000s are long gone, the BTL mortgage still plays a key part in today's housing market. Unfortunately, our understanding of the exact role of the buy-to-let mortgage in the housing market is compromised by a lack of publicly available data.

Booms, Busts, and Tax Changes

The emergence of the BTL mortgage in the mid 1990s had a massive impact on the UK's housing market and daytime TV schedules. Alongside the assured shorthold tenancy, the growth in BTL mortgages contributed to the resurgence of the private rented sector and helped establish housing as a financial asset. The scale of BTL's impact on the housing market is highlighted by Fig 1 opposite. It shows almost every net new home added to England's housing stock between 2005 and 2015 ended up in the private rented sector. However, that situation has reversed over the last five years with almost every net new home now housing owner occupiers. Something has happened and BTL is no longer the dominant force it once was.

Fig 1: Net Change in Dwelling Stock by Tenure

Source: DLUHC - England

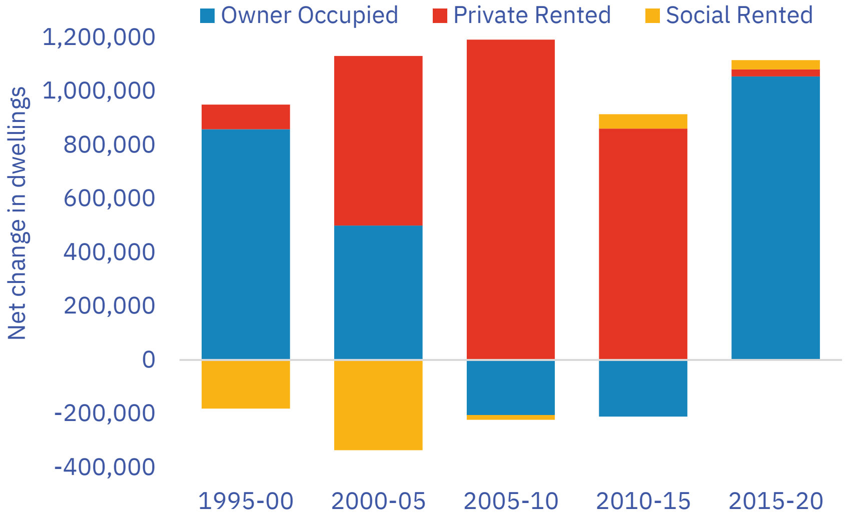
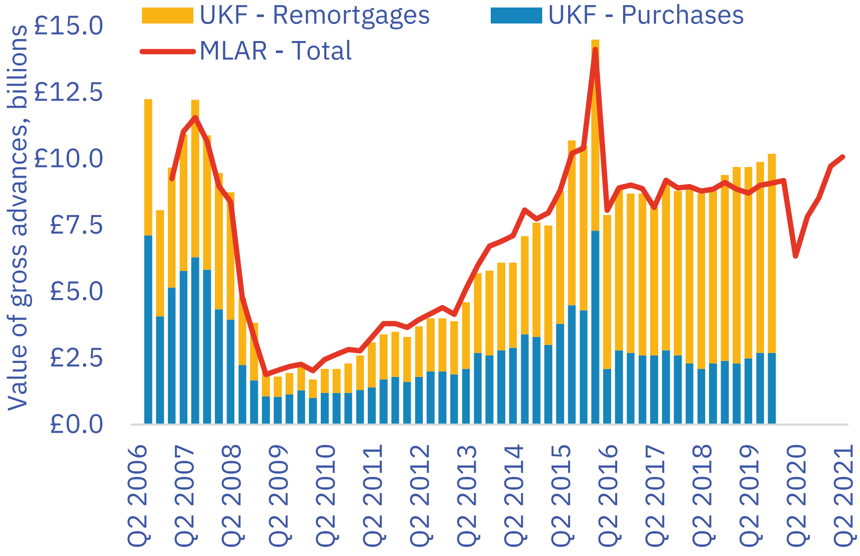


Fig 2: Buy-to-Let Gross Advances

Source: BoE/FCA MLAR Table 1.33, data from UK Finance press releases



The financial crisis in 2008 appeared to signal the end of the BTL boom as house prices crashed and mortgage lending dried up. But, as the economy and housing market began to recover in the early 2010s, it was the BTL sector that benefited. Mortgaged-mover numbers had collapsed and prospective first-time buyers struggled to raise a deposit. This put pressure on the private rented sector and mortgage lenders based their plans for growth on BTL. However, a political focus on home-ownership brought these plans to a halt. Tighter mortgage regulation and increased taxation have put a damper on the growth in BTL in recent years with the introduction of an additional 3% stamp duty in 2016 appearing to mark the high point of the BTL mortgage market (Fig2).

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Not Dead Yet

Tougher regulations and increased taxation have led to regular reports that landlords are looking to exit the sector in large numbers. However, the available evidence suggests they have not done so. While the overall size of the private rented sector has stagnated in recent years, it does not appear to have shrunk (at least until the pandemic). Other data shows the BTL mortgage market has continued to grow. As Fig 3 highlights, the value of outstanding BTL balances has risen since 2016, albeit at a slower rate than in previous years. And this result isn't just due to rising house prices. UK Finance reported in their latest Arrears and Possessions release that the number of outstanding BTL mortgages had risen to 2,040,000 at the end of Q3 2021. That's a new record high. Further data from UK Finance (Fig 4) shows the continued growth in net lending with most of the largest BTL lenders (by gross lending flows) increasing their exposure to the market in 2020. It appears, despite the challenges, the BTL mortgage is not dead though our knowledge of what has happened to it since the pandemic hit is more limited.

Fig 3: BTL Outstanding Balances

Source: BoE/FCA MLAR Table 1.33

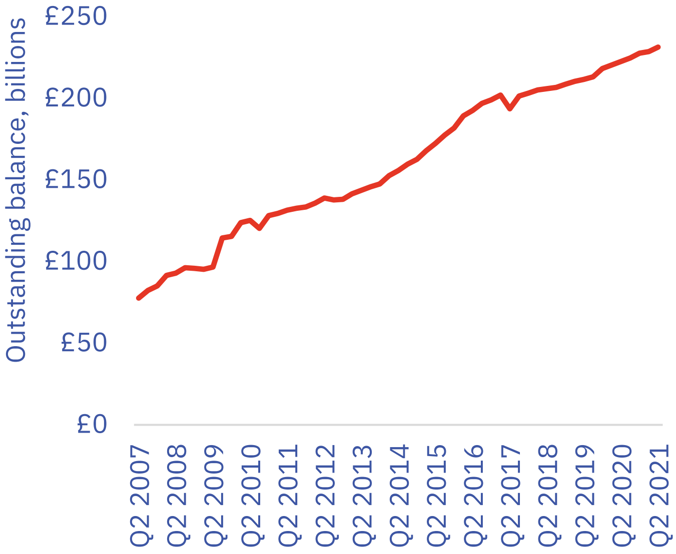
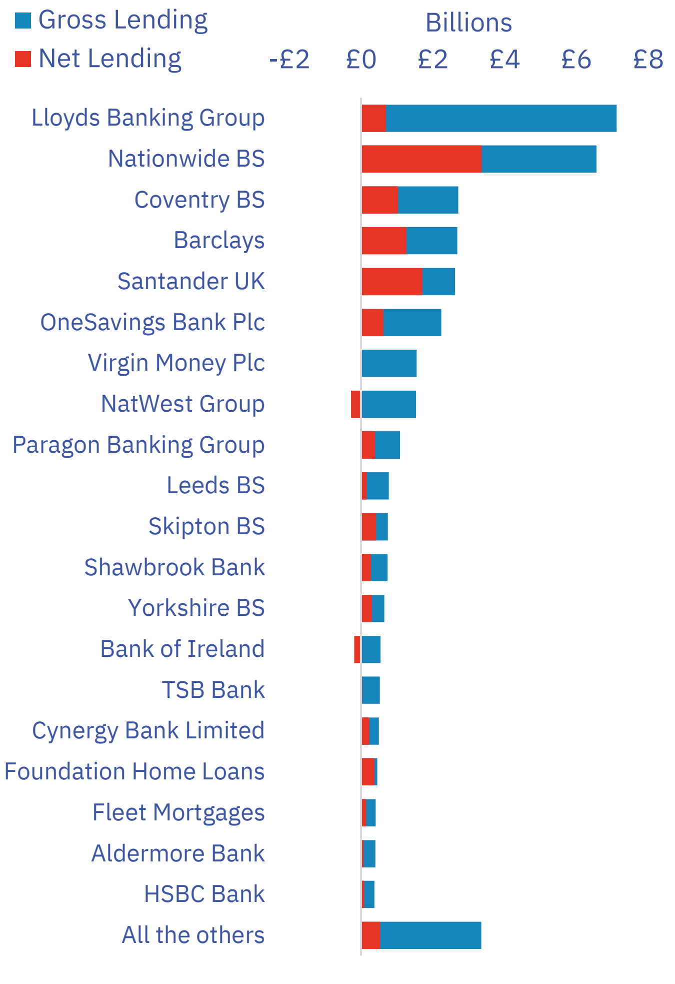


Fig 4: Largest BTL Lenders, 2020

Source: UK Finance



More Data Please

Unfortunately our understanding of what has been happening to the BTL mortgage market since the pandemic hit is limited by a lack of public data. UK Finance stopped publishing headline BTL data in early 2020. That means there's no longer any public data on BTL activity beyond the quarterly MLAR gross advances data that covers both purchases and remortgaging (as per Fig 2). Additionally, with most BTL lending not regulated by the FCA, it is not included in some of the other sources we regularly use to understand the mortgage market. This issue can also cause problems with the data we do have, as coverage may vary depending on who submits data or not. This situation is not ideal for a market covering over two million homes and more than 15% of mortgage lending.

Given the circumstances, we have become more reliant on the occasional insight from organisations with access to UK Finance data. For example, Savills recently reported that mortgaged BTL activity in the first half of 2021 had increased by the same rate as mortgaged mover activity. That suggests BTL investors made the most of the stamp duty holiday despite still being liable for the 3% additional rate. Meanwhile, anecdotal evidence suggests BTL mortgage activity has shifted towards larger landlords including those using corporate vehicles. It is possible this explains the disconnect between press stories about landlords selling up and the continued growth in BTL lending. Survey data tells us the private rented sector contains lots of landlords owning only one or two properties (e.g. slide 5). Lots of them may have or be intending to sell up. But the BTL mortgage market has continued to grow thanks to the continued interest of larger scale landlords who are better able to cope with the costs of tighter regulation.