

Buy-to-let Still Popular With Investors And Lenders

A traditional buy-to-let mortgage is reached by using the 125% rent-to-mortgage repayment calculation, but in the current climate this has made life tougher for buy-to-let owners, so an increasing number of loans are now based on an income multiple of the landlord's income.

Prior to that lenders began to relax the 125% rule, first to 115%, and in some cases to just 100%, while at the same time increasing the loan-to-value ratio. Industry experts believe that such subsidies for landlords are not sustainable, and a bubble may be created.

At the beginning of 2007 there were 850,000 buy-to-let mortgages in the UK, worth £94.8bn. The rise in buy-to-lets continues and with it, and the landlords' willingness to subsidise rents, which suggest that they still believe property to be a good long-term investment – better than a pension.

The buy-to-let market outperformed the regular market in 2006, and with tenant demand said to be strong, rents fairly steady and less void periods, buy-to-lets are still a popular property investment. Therefore lenders are still willing to lend for the buy-to-let market with no penalties.

Rental yields have tightened, yet investors continue to build portfolios as they still see a property's increasing capital value as their main route to profit; rental income is seen only as a means to cover the mortgage and maintenance of the property. At least 50% of buy-to-let owners hope to keep a property for a minimum of 15 years to reap the benefits of a gain in value.

Salary-based [buy to let mortgage](#) products for buy-to-let owners are said to be for experienced landlords, and ideal properties needing renovation. Responsible lenders say that an investor must have had a buy-to-let and residential mortgage for the previous 12 months.

With interest rates having risen, rental yields on the downward slope and a slowdown in property prices, it is strange to read the figures from the Council of Mortgage Lenders showing that landlords took out buy-to-let mortgages in record numbers in the first six months of 2007.

A single piece of bad news might be enough to put off would-be buy-to-let investors, but not even all three seem able to deter people. Instead all up to date data shows that investors are sticking to their guns, even though they need to subsidise their buy-to-let mortgages every month.

This might not be as foolish as it seems. The underlying facts are that there is still a shortage of houses and there will be for several years yet. House prices may have cooled, but are still going up in many areas, and many would-be first-time buyers have been priced out of the market, so they are looking to rent. Most landlords accept that they may not make big profits month-to-month, but are looking for long-term capital growth. There are few predictions of a housing price crash; the forecasts are for a gentle flattening of the curve, which will no doubt pick up again in a year or two.

Not everywhere has a rosy picture of course, and some places are seeing an oversupply of property. In these places landlords do struggle to find tenants, particularly for new-build flats in some towns and cities. Auction houses have said that they have noted an increase in repossessions of those type of properties.

About the Author

An author on a variety of property related subjects, which include mortgage rate reviews and detailed analysis of the role mortgage brokers provide in the current climate.

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