



SPECIALIST LENDING TRENDING

Q1 2024

Introduction

With interest rates hitting their expected peak, the cost of living crisis continuing to unfold, and inflation riding high, the housing market has undergone significant transformation over the past 24 months. With fewer people moving house¹, the private rented sector booming², and conflicting forecasts about the future of the housing sector, the lending environment is evolving.

In this inaugural Specialist Lending Trending, Adrian Moloney, Group Intermediary Director at OSB Group, explores key themes expected to shape the lending landscape over the next three months (Q1 2024).



Adrian Moloney

Group Intermediary Director,
OSB Group



Trends



Demand for product transfers could increase

Broadly speaking, experts predict that we've seen the peak of interest rates now, and rates should start to come down. As this starts to filter through the market and new products become available, we could see an increase in activity. Demand for remortgaging with product transfers will be a big focus for lenders in the first half of 2024, as a large number of loans mature, and landlords seek to fix new products with existing lenders.



Increased interest and investment in HMOs

While interest rates have peaked, they will still feel high for younger millennials and Generations Z who have come of age in different interest rate times. As would-be first time buyers this shift in environment means they will likely be either delaying plans to buy while they save for their deposits or are simply finding themselves unable to get onto the ladder while they absorb the increase in cost of living. This means demand for private rented homes could increase - and the supply of available properties for landlords to purchase is likely to rise too.

We're seeing a lot of interest in Houses of Multiple Occupation (HMOs) from both smaller and larger landlords, as demand for these types of properties - particularly in urban areas - grows. HMOs give great returns and while there are a lot of professional landlords operating in this market, smaller landlords are also exploring opportunities here. Yet new markets mean new rules - with a different set of regulations to abide by and understand. In good news, the quality of these homes has increased dramatically over the last several years as landlords have invested to meet growing demand from tenants. We expect this trend to continue in an upward trajectory over the next few months and welcome the ongoing and continued professionalisation of the sector.



Growing demand for bridging

We're seeing a lot of demand for bridging, particularly from landlords seizing investment opportunities or developing existing properties. With bridging rates sitting lower than term deals, landlords have realised their potential to help them upgrade properties and strengthen their portfolios. One of our clients is doing just that, buying three or four bed properties, converting them to five bed, then refinancing to buy the next and starting the cycle over. It facilitates swift action and with regulated bridging now making up around 70% of the market we've seen a real perception shift in this space over the last year or so.

The Broker Opportunity

With a General Election on the horizon and a cost of living crisis which continues to bite, there's a lot of uncertainty and landlords, home owners and buyers are - understandably - feeling hesitant and acting with caution. Now more than ever, they need good brokers on their side to build their understanding, confidence, and ultimately access to the lending they need. Specialist lenders particularly - who have the skills and experience to help those with complex income streams and adverse challenges seek solutions which aren't offered on the high street - will be more valuable than ever.

To best support them with their portfolios in Q1, staying engaged will be key and we are here to help. Rates, affordability and lender appetite will be shifting and evolving, and more so than ever before, and landlords will need reliable brokers who they trust. Partnerships will be key to finding the best solutions and support together.

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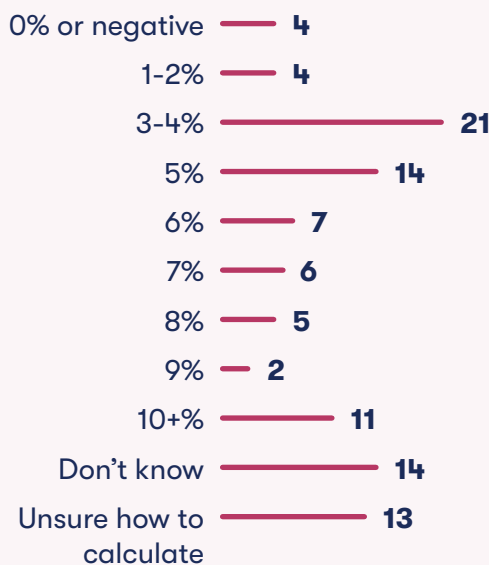


Our Pick of the Charts

According to the BVA BDCR Landlords Panel Q4 2023, the average rental yield has increased from 5.3% in Q3 of 2023 to 5.6% in Q4 of 2023. Meanwhile, landlords with a portfolio size of 11+ achieved the highest rental yield of 6.2% in Q4 of 2023.³

Rental yield (%)

Overall rental yield - 5.6%



By no. of properties	Mean
1	5.9
2-3	5.2
4-5	4.7
6-10	5.9
11+	6.2

Reference: BVA BDCR Landlords Panel Q4 2023.

In OSB Group's The Future Tenant Standard, we looked at how the tenant experience is evolving and how landlords are supporting their needs. It also showed the need for support and education from the industry and the broker community to grow deposits and confidence to help them move from renting to homeownership over the long term.⁴

The lure of homeownership

The lure of homeownership is strong and those who want to buy feel it will give them:

84%

A greater feeling of security compared to renting

79%

More pride in their home

82%

A home which better suits their personal tastes

But financially, it feels out of reach

48%

do not think they will ever be able to afford to buy

71%

of tenants say they are frightened by the size of borrowing required to buy

Reference: OSB Group The Future Tenant Standard, December 2023.

OSB Group lenders



Buy to let
Residential
Bridging Finance

KentReliance
for Intermediaries

Buy to let
Residential

InterBay

Commercial
Semi commercial
Bridging Finance



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1. Number of potential buyers registered per estate agent branch was down 13% in October <https://www.propertymark.co.uk/static/d2fef952-8500-4c97-bb370db696165035/Housing-Insight-Report-October-2023.pdf>
2. Rental prices have continued to increase reaching 6.2% in the 12 months to November 2023. London had the highest annual percentage change at 6.9%, while the Northeast saw the lowest at 4.7% - Economic Indicators (IPHRP: Index of Private Housing Rental Prices)
3. BVA BDRC Landlord Panel Q4 2023.
4. OSB Group The Future Tenant Standard, December 2023.