

‘We all live in a Robbie Fowler house’: The UK buy to let market in retrospect and prospect

Shaun French and Andrew Leyshon

School of Geography, University of Nottingham, Nottingham, NG7 2RD,
UK

shaun.french@nottingham.ac.uk, andrew.leyshon@nottingham.ac.uk

Report for the Financial Services Research Forum

June 2009

Executive Summary

1. The buy to let market has been a notable innovation of the UK financial services industry in the past 15 years. Created through the collaboration of the Association of Residential Letting Agents and a panel of mortgage lenders in 1996, the buy to let sector now accounts about 6% of all UK households, contributes around £30 billion to the UK economy, and makes up around 50% of the entire private rented sector. The buy to let market currently provides accommodation for about 2.5 million households, about 12% of the UK total
2. The market has grown rapidly since its inception in 1996. By 2008 there were over 1.1 million buy to let mortgages outstanding with a combined value of almost £1.4 billion. This growth was a product of least three drivers: broader socio-economic changes which helped to constitute a demand for rented property; the rise of financial securitisation, which made it easier for lenders to raise money in global capital markets, and the general financialization of everyday life, and in particular the more generalised use of debt as a form of leverage to produce an income stream.
3. The third driver – the use of debt to generate an income stream – was adopted enthusiastically by a set of investor-landlords who borrowed against housing both to generate a revenue stream (through rental income) and to produce long-term capital gains (by benefiting from house prices rises over the medium to long-term).
4. The growth of the buy to let market has had a number of impacts. It has reversed the long-term decline of the private rented sector, increasing the tenure choice available to individuals and households. Anecdotal evidence has also claimed a positive change in the quality of and attitudes to private renting. Less positive impacts have included the effective student colonisation of some urban spaces in university towns and cities as buy to let landlords have bought properties to cater to the student market. Immediate problems associated with a clustering of properties catering for the student rental market include problems with refuse disposal, street cleaning, car parking and increases in burglary rates. It is also claimed that buy to let landlords have crowded out first time buyers in many areas as they are often competing for the same kind of house.
5. The buy to let market has evolved unevenly within the UK. The majority of investment has occurred in the south of England, although there have been significant pockets of investment in provincial cities in the North. The market also has a distinctive urban geography. The ‘new build’ market, which makes up between 10-20% of the sector, tends to be located in city centres, frequently on brown field sites, effectively redeveloping former industrial or rundown areas of cities. The majority of the buy to let market is made up of older housing, typically two- and three-bedroom terraced housing.

6. Since its inception the buy to let market was considered to be more robust than the mortgage market in general. However, in 2008 levels of repossessions in buy to let exceeded that for mortgages overall, signalling that the economic slowdown was having a disproportionate impact on the sector. Our research indicated that it has been the new build sector that is the main problem within the sector, as a problem of oversupply led to a collapse in prices for one- and two-bedroom flats in new developments from 2007 onwards. Older properties, although they often carry a higher regulatory and maintenance burden, have been less badly affected by the downturn in the market.
7. New build buy to let markets have been favoured by at-a-distance investor landlords, while older housing tends to be the domain of local investor landlords. These geographies also help to explain the relative durability of different parts of the buy to let market, at least in the medium term, as a combination of a lack of knowledge and overbuild has meant that the new build market was disproportionately affected by the financial crisis and the subsequent recession. However, the buy to let market as a whole has been negatively affected by the financial crisis, and has placed a strain on large numbers of lenders and borrowers across the sector.
8. While the days of rapid expansion in the buy to let market appear to be over, given that it now requires individuals with significant capital to be able to enter the market from scratch, and the now limited inability to leverage debt, the market has been going long enough to ensure that there are a significant number of well-established investor landlords who experienced significant asset value appreciation and sizeable incomes over several years. A buy to let property with sitting tenants is a desirable asset for established landlords with deep pockets and significant capital reserves.
9. As such, the buy to let market will continue to be a significant feature of the UK financial landscape. The market is currently completing its first full economic cycle, experiencing its first bust after more than a decade of boom. Rates of repossession in this market have now risen above that for the mortgage market as a whole, although the full impacts of the recession have been cushioned by UK macroeconomic policy which has seen interest rates reduced to historically low levels. Buy to let landlords have been significant beneficiaries of this policy given their preference for interest rate-only mortgages, and that the cost of such loans are highly sensitive to interest rates levels. Interest rate cuts have helped off set the problems of falling demand and growing numbers of rental 'voids'. In other cases, where demand has held up, the low interest rate has served to increase cash flow. However, in the medium-term, interest rates are expected to rise as the economy recovers and the focus of macroeconomic switches from preventing deflation to countering inflation. Although interest rate rises will be a signal of economic recovery, they can be expected to introduce further problems in the buy to let market, particularly for highly geared borrowers with significant levels of borrowing.

10. There is likely to be concentration, centralisation and bifurcation in the buy to let market. There is likely to be a shakeout of the long tail of investor landlords, especially those who were late into the market. Larger, more established landlords are already positioning themselves within the market to pick up properties at discounted prices. There is also likely to be a bifurcation of the market, between investor landlords on the one hand, and letting agents on the other, because so many letting agents have become highly active within the market managing properties (especially new build) on behalf of development companies that have failed to attract a buyer.
11. In conclusion, the buy to let market has established itself as an important part of the mortgage marketing the UK in a relatively short period of time. Two of the three key factors that encouraged the formation of the market remain in place, although the shortage of capital and concerns around securitisation that followed the recent financial crisis will act to limit the funds that fuelled the market. Buy to let will remain attractive to individuals and households that seek to secure their financial futures beyond or alongside pension and stock market investment, although the barriers to entry in the buy to let market will be higher than has been the case in the past, as lenders risk price by setting more conservative loan to value ratios.

1. Introduction

There are few, if any, economic phenomena that have gained sufficiently broad cultural purchase that they can boast the dubious privilege of being the subject of a football terrace chant. However, the buy to let market is one such phenomenon. ‘We all live in a Robbie Fowler house’, the one line sung repeatedly to the tune of The Beatles’ ‘Yellow Submarine’, was first chanted in tribute to Britain’s most famous celebrity landlord during his career at Manchester City in the early 2000’s, after the *Sunday Times* ‘Rich List’ identified him as Britain’s third most wealthiest player.¹ Fowler – or at least his financial advisers – had used his significant sporting income accumulated over his career to build up an extensive property portfolio designed to sustain him in his football retirement, and the value of these assets made up a significant proportion of his net worth. But in addition, many of these houses generated Fowler a regular income stream, occupied as they were by private tenants and who paid rent every month.

Buy to let was clearly a profitable investment for Robbie Fowler and, if one is to believe the narrative and hyperbole that surrounds the buy to let industry in the UK, such as that which can be found in the pages of specialist publications such as *B2L* – the house magazine of buy to let specialist, Mortgage Express – it is not just the already rich and famous that can make a fortune out of renting property. Consider the individuals profiled on the cover of the Autumn 2007 and Spring 2008 editions of *B2L* (see Figure 1). The cover on the left features David Carlisle, who bought his first buy to let property in 2002 and by 2008 had amassed a property portfolio in Bradford made up of 10 houses worth £1.5 million. He ran his property empire as a sideline while holding down a full-time job as a car sales manager. That becoming a private landlord can bring about rapid social mobility, turning ordinary people into propertied aristocracy, is a recurring theme throughout the industry, or at least representations of it. Thus, on the right of Figure 2, perched firmly at the top of this propertied social hierarchy we have the ‘King and Queen of buy to let’, otherwise known as Judith and Fergus Wilson, former mathematics teachers at a South London comprehensive, who used their arithmetical skills to build an extraordinary buy to let business made up of more than 900 properties, based for the most part in Ashford, Kent. At one point their income was almost £1.5 million per annum, not including the accumulated paper value of their net property assets (Collinson, 2008).

¹ Fowler’s net worth was estimated to be £28m in 2006, behind only David Beckham (£87m) and Michael Owen (£32m) (see <http://tinyurl.com/cbchu3>).

Figure 1: But to let and the promises of rapid financial enrichment (Source: B2L Magazine, Autumn 2007, Spring 2008).



What we have tried to show, by way of introduction, is that the buy to let market is emblematic of some important changes within the UK economy over the past decade or so. These include, firstly, the significant economic and cultural role of the housing market (Christie et al., 2008; Smith, 2008b), and the increasingly powerful influence of the financial services industry in everyday life (Eturk et al., 2007; Langley, 2007; Leyshon and Thrift, 2007; Martin, 2002). The buy to let market was only created in the mid-1990s, in response to regulatory reform delivered in the late 1980s, and it managed very quickly to rehabilitate the idea of the private landlord, making it a socially acceptable, and potentially highly rewarding, option for those seeking financial enrichment through property investment. Buy to let is of interest to us because it provides a vehicle for examining the process of financialization, which attends both to the growing traction of finance within the economy in general and also, more specifically, to the increasing interpellation of individual subjectivities within the financial system (Langley, 2006, 2007; 2008). In particular, buy to let has been promoted as a device which delivers control of one's financial future. Or, as Langley puts it, helps people to transform themselves from 'saver subjects' to 'investor subjects' (Langley, 2006). This transformation has been motivated by the progressive abrogation by the state of responsibility for income smoothing and long-term financial security and the transfer of this responsibility to individuals, households and the market. From this perspective the rise of buy to let has been brought about by a perception that savings schemes such as pension schemes are vulnerable or inadequate, and that property can deliver larger and more secure long-term financial returns.

The buy to let market in the UK has been subject to a number of studies in recent years suggesting that it is relatively robust due to the long-term aspirations of investors, the lower levels of repossession for buy to let mortgages, and the fact that borrowers in this market tend to be less highly geared than first-time buyers (Ball, 2006; Pannell and Heron, 2001; Scanlon and Whitehead, 2005; Thomas and Pannell, 2006). However, despite such general optimism, the studies also highlighted a source of concern; the stability of the buy to let market would be severely threatened by interest rate rises and/or declines in rental income brought about by an economic recession. Between 2003 and 2007, interest rates within the UK steadily increased in response to growing inflationary pressures within the economy, which increased the cost of buy to let loans. However, during the course of 2008 and 2009 interest rates in the UK declined to as low as 0.5%, but such reductions were in response to a post-financial crisis recession, which introduced new problems related to the availability of capital. The crisis has had significant implications for the buy to let market, in ways that are still being worked out. This report provides an analysis of the market in retrospect and prospect based on more than 30 interviews undertaken with leading buy to let lenders, letting agents, property companies, local authorities, regulatory agencies and landlords during 2008 and 2009. These interviews were undertaken both at the national level and as part of a case study on the Nottingham buy to let market.²

The remainder of the report is structured as follows. In Part 2 we discuss the nature and origins of the buy to let market in the UK. In Part 3, we discuss the impacts of the market. In Part 4 we investigate the uneven geographies of the buy to let market, which are critical to an understanding of its relative success and failure. Part 5 concludes the report.

2. The buy to let market

The buy to let market can simply be defined as one in which “private investors who purchase residential property using mortgages in order to rent out accommodation to tenants” (Ball, 2006, page 3). It accounts for about 6% of all UK households, contributes around £30 billion to the UK economy, and makes up around 50% of the entire private rented sector; that is, around 1 to 1.5 million properties in 2006. Buy to let emerged from the nadir of the private rented sector in the UK. The buy to let market currently provides accommodation for about 2.5 million households, about 12% of the UK total (Ball, 2006), although buy to let is more important in London, where the private rented sector accounts for 20% of all households. But in both cases, this percentage is much smaller than it once was; until recently, the

² The research employed a range of research methods. Secondary research included: a review of the existing academic and policy literature; a survey of published statistical data, and; a search of press report through the Nexus newspaper search engine. Primary research consisted of over 30 semi-structured interviews. These were undertaken with buy to let lenders, buy to let landlords active in the Nottingham housing market, letting agents, local government, and community groups, housing associations, industry bodies and property websites. It also involved participant observation at a buy to let investor seminar and a resident action group meeting. All interviews were conducted under conditions on confidentiality, and were transcribed and analysed.

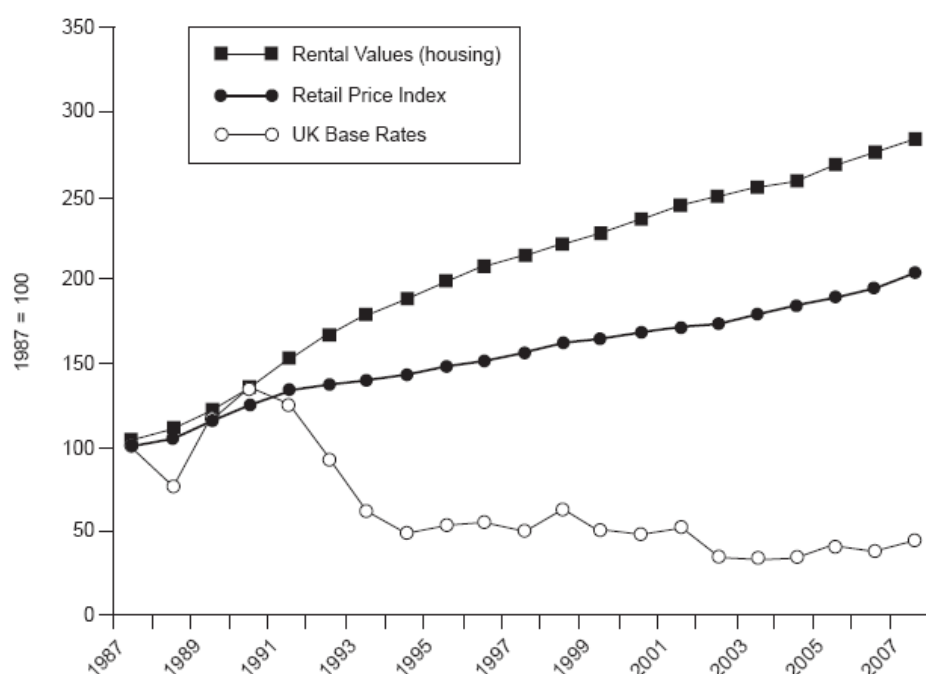
last 100 years had witnessed almost continuous decline in the stock of private rented housing. In 1914, the private rented sector accounted for 90% of housing, but this had fallen to only 13% by 1977, a decline of 5.7 million dwellings (Allen and McDowell, 1989). As the private rented sector declined, the owner-occupier sector grew, and by the 1980s several commentators were predicting the terminal decline of private renting as a significant form of housing tenure. For example, Hamnett and Randolph, reporting on the process of 'flat break-up' in London, and the transfer of houses in multiple occupancy to properties for sole owner occupancy, argued that the decline seemed to be "largely irreversible" (Hamnett and Randolph, 1984, page 267). This was due to large corporate and institutional investors abandoning the sector. In short, the private rented sector was enveloped by a growing net of regulatory control, introduced to protect tenants from the worst excesses of landlord behaviour, but which made it increasingly difficult for investors to turn a profit. Analysts identified what was described as a 'value gap' opening up between the amount of money properties could generate through sale in the owner occupier market and the investment they could yield in the private rented sector. By the 1980s, yields for domestic rented property had fallen to just 3% per annum, compared to 5% for commercial property. This value gap emerged mainly due to the progressive social regulation of the private rented sector, such as the imposition of rent control, commercial rents were set at a market rate, where rents fluctuated in broad relation to supply and demand. This prompted a long-term transfer of property from the private rented sector to owner occupation, as companies and institutions sold their residential portfolios and switched their investments to the commercial property market.

However, having reached its lowest ebb, there was an attempt to revive the private rented sector in the late 1980s. The 1988 Housing Act sought to further demutualise the rented sector by promoting private renting. Up to this point, the Conservative government's housing policy had focused mainly on promoting owner occupation, including the right to buy for council tenants, which served to crowd out the social rented sector (Kemp, 2004). The Act brought about the re-regulation of all new lettings by private landlords which significantly strengthened landlords' grounds for repossession, abolished fair rent appeals, and reduced the minimum notice period of eviction from one year to six months. The outcome of the Act was to make the private rented sector a more flexible and more attractive investment option. In so doing, it helped paved the way for the later creation of buy to let.

In 1996, the Association of Residential Letting Agents (ARLA) responded to a perceived shortage in the volume of rented property by devising the concept of buy to let, which it did in concert with a willing panel of mortgage lenders. Prior to this intervention, loans for property bought for the purposes of renting attracted an additional risk premium, of around 2% above the normal mortgage rate. However, under the proposed scheme, interest rates offered to prospective landlords were set at the prevailing market rate, on condition that the properties purchased were managed by ARLA letting agents. This would ensure business for ARLA members, and the guarantee that the properties would be run professionally would enable the lenders to forego the 2% risk premium. The scheme was successful and proved that there was an appetite among borrowers to obtain money to build up private rented property

portfolios. Over time, the term buy to let became generic, as other firms entered the market without the ARLA stipulation or the interest rate premium, which significantly increased the opportunity for individuals to obtain buy to let mortgages. The growth of the buy to let market was also facilitated by the benign macroeconomic conditions of the mid-1990s onwards, which in retrospect has been described as the ‘goldilocks’ or ‘NICE’ decade (that is, a period of economic growth that was ‘just right’ and produced ‘non-inflationary continuous expansion’). A decade of relatively low inflation combined with low interest rates, as well as a growing demand for rental property which pushed rents higher, created almost perfect conditions for generating yield through private rented sector investment (Figure 2).

Figure 2: The buy to let market and the ‘NICE’ decade: the retail price index, housing and rental values, and UK base rates, 1987-2007 (Source: Authors)



With all these conditions in place, the buy to let market grew rapidly from its inception, experiencing growth rates of more than 60% per annum until 2003 (Table 1). It slowed slightly thereafter, although the rate of increase nevertheless remained at near 30% per annum until 2007. The buy to let market accounted for 12% of the total mortgage market at its peak in 2007, falling back to 11% in 2008, which was also the slowest year of growth on record (although it still increased by 15%). There were over 1.1 million buy to let mortgages outstanding in 2008, which combined were worth almost £1.4 billion. Until recently, the buy to let market was seen as a safer market for lenders than the mainstream residential mortgage market. Indeed, until 2008 the percentage of mortgages at least three months in arrears was significantly lower in the case of the buy to let market than in the mortgage market as a whole (Table 2). This was despite the fact that the minimum loan to value ratio within the buy to let market increased over the period, from 75% in 1998 to 85% in 2007, lowering the deposit requirements for

borrowers, enabling them to increase their leverage. Moreover, over the same period the minimum rental coverage required – that is, gross rents as a percentage of the monthly mortgage payments – fell from 130% to 125%. However, this more relaxed attitude to risk evaporated in 2008, with loan to value ratios among some lenders falling to as low as 50% and, at the time of writing, ARLA recommending that gross rents should be at least 130% of monthly mortgage payments.³ One of the reasons for this is a more cautious attitude to lending generally by retail financial institutions following the financial crisis of 2007-08, but also because in 2008 buy to let became a riskier market; for the first-time the level of arrears within buy to let raced ahead of the mortgage market as a whole (indeed the rate of arrears in buy to let more than doubled between 2007 and 2008). A further sign of stress within this market is that the number of buy to let mortgages taken into possession or repossessed also doubled over the same period (Table 3).

Table 1: The buy to let market, 1998-2008 (Source: CML, Table MM6, 2008; CML press release, 2009).

<i>Year</i>	<i>Mortgages outstanding</i>			<i>Gross advances</i>	
	<i>Number</i>	<i>£m</i>	<i>Increase per annum (%)</i>	<i>£m</i>	<i>% of total mortgage advances</i>
1998	28,700	2,000	--	--	--
1999	73,200	5,400	170	3,100	3
2000	120,300	9,100	69	3,900	3
2001	185,000	14,700	62	6,900	4
2002	275,500	24,200	65	12,200	6
2003	417,500	39,000	61	19,200	7
2004	576,700	56,900	46	22,700	8
2005	699,400	73,100	29	24,500	8
2006	835,900	93,200	28	37,700	11
2007	1,024,300	120,400	29	44,600	12
2008	1,156,000	138,000	15	27,300	11

]

The growth in the buy to let market was initially a business opportunity for mainly middle sized and specialist retail financial services firms struggling to compete with larger global banks in mainstream, or prime, retail financial services markets. Over time, these large financial institutions have also entered the buy to let market, either directly or through subsidiaries. Indeed, many of the largest buy to let lenders are subsidiaries or branded divisions of established high-street lenders (Table 4). In this sense, buy to let may be seen as being located towards the upper end of a broader sub-prime market within the UK (Burton, et al. 2004), as these firms also frequently offer (or at least did offer until the breaking of the

³ See <http://www.arla.co.uk/buytolet/faqs.aspx>.

2007-08 financial crisis) products such as self certified and some prime mortgages and, in several cases, equity release products.

Table 2: Arrears, loan to value ratios (LTVs) and rental covers, 1998-2008 (Source: CML, Tables AP2 and MM6, 2008; CML press release, 2008).

Year	Mortgages at least three weeks in arrears: % of all mortgages		Maximum LTV	Minimum Rent Coverage
	BTL	All mortgages	%	% of monthly mortgage repayments
1998	0.70	2.20	75	130
1999	0.50	1.67	75	130
2000	0.47	1.47	78	130
2001	0.55	1.19	80	130
2002	0.40	1.03	80	130
2003	0.33	0.87	80	130
2004	0.54	0.88	80	130
2005	0.65	1.06	85	125
2006	0.58	0.98	85	125
2007	0.73	1.10	85	125
2008	2.32	1.88	83*	125*

* January – June, 2008

Table 3: Buy to let mortgages taken into possession, 2007-2008 (CML Press Release, 2009 (<http://www.cml.org/cml/media/press/2116>)).

Year	BTL mortgages taken into possession		
	Number	%	% of all reposessions
2007	2,000	0.20	7.7
2008	4,000	0.35	10.0

In addition to the regulatory, macroeconomic and institutional factors which helped bring the buy to let market into being, there are at least three additional reasons for its rapid growth from the mid-1990s onwards. First, there was a set of **broader socio-economic changes** which, between them, helped to constitute a demand for rented property. These included: labour migration, including

international migration to the UK, which was often short to medium term and/or undertaken by people with insufficient means to enter the owner occupier property market; the growth of student numbers – the majority of which live in rented accommodation – which was encouraged by the UK government’s stated policy to increase the proportion of people entering further education by the age of 30 to at least 50% by 2010; the high rate of marital breakdown, which now affects one in three marriages; the tendency towards ‘urban lifestyle choices’ among young adults who choose to rent city centre property rather than buy property in what are seen to be less glamorous (suburban) locations, and which is connected to an additional factor; high housing prices, which acts as a to entry to those with low incomes and/or low savings.

Table 4: The top 10 buy to let lenders in the UK, by balances outstanding, 2001 2007 (Source: CML, Table MM5, 2008).

<i>Rank</i>	<i>2001</i>	<i>2007</i>	<i>2007</i>
	<i>By balances outstanding</i>	<i>By balances outstanding</i>	<i>By gross advances</i>
1	Mortgage Express	Mortgage Express	Birmingham Midshires
2	Barclays-Woolwich	Birmingham Midshires	Mortgage Express
3	Nationwide	Paragon Group	Barclays-Woolwich
4	ParagonGroup	Bristol and West Group	Bristol & West Group
5	Bank of Scotland	Cheltenham& Gloucester	Bank of Scotland
6	Capital Home Loans	Northern Rock	GMAC
7	Brittanic	Capital Home Loans	Mortgage Business
8	Bristol and West Group	Mortgage Works	Paragon
9	Mortgage Business	Mortgage Business	Legal & General
10	Clydesdale Bank	Barclays-Woolwich	Nationwide

A second reason for the growth of the buy to let market is the advance of the process of **financial securitisation**, the role of which in inflating the domestic housing market has become notorious in the wake of the US subprime crisis and the collapse of Northern Rock in the UK (Elliott and Atkinson, 2008; Shiller, 2008; Turner, 2008). The first mortgage-backed security was issued in the UK in the late 1980s, and the market grew rapidly thereafter (Gardiner and Paterson, 2000; Langley, 2008; Pryke and Freeman, 1994; Pryke and Whitehead, 1991, 1994). By packaging loans and then selling them off in secondary markets as residential mortgage-backed securities (RMBS), centralised lenders, such as Paragon, Mortgage Express and Mortgage Works, were able to exploit this ‘originate and distribute’ model to great effect. It enabled them to grow rapidly and market their mortgages aggressively, without the requirement for a network of retail branches that had previously served as a barrier to entry to the mortgage market (Leyshon and Thrift, 1999).⁴

⁴ For example, Northern Rock is a particularly good example of the benefits that accrued from the pursuit of this model, albeit in the short to medium term. Formerly a medium-sized, regional building society, it converted into a

Table 5: Types of investor-landlord (Source: Department for Communities and Local Government 2008 (EHCS/PLS)).

<i>Type of landlord</i>	<i>Acquisition of property</i>	<i>Percentage</i>
<i>Individuals/partnerships</i>	<i>%</i>	74
	<i>Inherited</i>	
	<i>Purchased</i>	
	<i>Gift</i>	
	<i>Built-it</i>	
	<i>Other</i>	
<i>Companies</i>		16
<i>Other</i>		10
<i>Total</i>		100

A third reason for the growth of the buy to let market has been the general **financialization of everyday life**, and in particular the more generalised use of debt as a form of leverage to produce an income stream (Leyshon and Thrift, 2007). Financialization as a concept has been used to identify the ways in which money and finance has increasing traction over a broad set of social, economic, cultural and political processes (Eturk et al., 2008), and is deemed to be particularly significant given the progressive abrogation by the state of responsibility for the long-term financial security of individuals and households in line with the broader political philosophy of neoliberalism. In particular, buy to let offers the possibility of using debt to secure an asset that will generate a regular income. Individuals and households who become private landlords through the medium of buy to let in order to attempt to secure their financial futures may do so in order to shift from being savers to being investors (Langley, 2006, 2007). In doing so, such individuals reject a passive reliance on financial market investment, undertaken on their behalf by fund managers such as pension funds, for a more active engagement with what they see as more reliable and more materially durable investments in the form of housing, which they take responsibility for managing.

However, this move from being a passive saver to being active investor is not straightforward or unproblematic. This much is revealed in data taken from the English House Condition Private Landlord Survey (Department for Communities and Local Government, 2008) . It reveals that actually less than a third of private landlords – or **investor-landlords** – have a sustainable business model for their buy to let

public limited company in the late 1990s, transform its business model into one it described as a “mortgage bank”. Simultaneously closing branches while aggressively sourcing funds in international capital markets, which were transformed into mortgages which are then sold back into these markets as Residential Mortgage Backed Securities (RMBS), Northern Rock transcended its former status to capture 20% of the UK mortgage market. The model failed in the wake of growing problems in the interbank market in the summer of 2007, which made it difficult for the bank to raise the capital it needed to fund its business.

properties. The majority of buy to let mortgages in circulation are ‘interest only’; that is, repayments are made only to cover interest charges, with the principal remaining unpaid. These mortgages generate considerable tax advantages over repayment mortgages, in that interest payments attract tax relief but repayments of principal do not (Scanlon and Whitehead, 2005). However, the Private Landlord Survey revealed that only 32% landlords saw rental income as the main source of income from their properties. As many as 35% of private landlords identified asset appreciation as their main source of income, while the remaining 33% saw combination of rental income and asset appreciation as an expected return. In other words, almost 70% of private landlords saw asset appreciation as a component of income from their properties, a fundamental weakness in their business models in the face of the downturn in housing (or asset) prices. Many landlords seemed to assume an upward trajectory in housing prices that would more than trump and any shortfall in rental income to cover the mortgage payments.⁵

The Private Landlord Survey also provides information on types of landlord and their levels of commitment to the private rented sector. For example, 74% of private landlords are individuals or household partnerships, and of these 83% acquired the property through purchase, indicating a purposeful effort to enter the private rented sector (Table 5). Meanwhile, the majority of landlords (63%) see letting as a sideline to their main occupation, and they have no other property involvement (Table 6). The survey also reveals that the main purpose of holding rented properties for landlords was financial, with 70% of private landlords considering their properties as a means of delivering an investment/pension (Table 7). Finally, the creation of buy to let offered a route into private renting for many landlords, given that over a third of individuals/partnerships had been landlords for five years or less (Table 8).

Table 6: Levels of commitment of investor-landlords (Source: Department for Communities and Local Government, 2008 (EHCS/PLS)).

<i>Commitment of Landlords</i>	<i>Percentage</i>
<i>Letting is a sideline, no other property involvement</i>	63
<i>Letting alongside other property involvement</i>	13
<i>Letting is main business</i>	25
<i>Total</i>	100

⁵ Indeed, our interviews with landlords revealed several who routinely topped up their buy to let mortgage repayments with their own money to cover shortfalls in rental income caused by tenant turnover and “voids”. This tendency to subsidise their rental income in anticipation of long-term capital gains was also observed by Wallace (2008) in her study of the York buy to let market.

3. The impacts of buy to let

In this part of the report we consider the impacts of buy to let in the UK housing market and the wider urban environment. In particular, we consider its impacts upon the private rented sector and upon the local communities in which buy to let has become a significant presence in recent years. One of the main benefits and advantages of buy to let frequently claimed by its supporters is that it has facilitated a significant increase in the stock of private rented property. There is some evidence to support this proposition (NHPAU, 2008). The stock of private rented housing reached an all-time low in the late 1980's but in the wake of the 1988 Housing Act this form of housing tenure began to recover. Interestingly, the number of private rented dwellings showed no increase during the mid- to late-1990s during the initial years of the buy to let scheme, but since 2001 the supply of private rented properties has increased sharply (Figure 3). Much of this has involved the transfer of owner-occupied property into the private rented sector (cf. Hamnett and Randolph, 1984); for example, only 10% of buy to let mortgages between 2004 and 2006 were for the purchase of newly built properties (NHPUA, 2008, page 12). Supporters of buy to let have also suggested that the quality of available private rented property has improved. For example, the Survey of English Housing consistently reports higher levels of satisfaction among private tenants than among social rented tenants,⁶ which contradicts concerns expressed in some quarters that a rise in 'amateur' landlords would lead to a decline in service quality in the private rented sector (Ball, 2006). Indeed, there is anecdotal evidence to suggest that, in some places at least, many among the growing ranks of investor landlords are less than economically efficient, and 'leave too much on the table' in preparing their properties for the market, fitting them out to a standard that they would themselves be happy with, but which does not necessarily maximise their returns.⁷ However, in so doing, advocates for the buy to let market argue that such behaviour has brought about a transformation in the image and perception of the private rented sector. Due to the legacy of real landlords such as Rachman, and fictional ones such as Rigsby, this was once a housing tenure to be avoided:

'Private renting' conjured up images of damp and squalid, furnished and often multi-occupied property, let at high rents on insecure terms to vulnerable tenants by greedy or even unscrupulous landlords. To be a private tenant beyond a certain age was somehow to have failed or was something to explain rather a 'normal' state of affairs (Kemp, 2004, page 1).

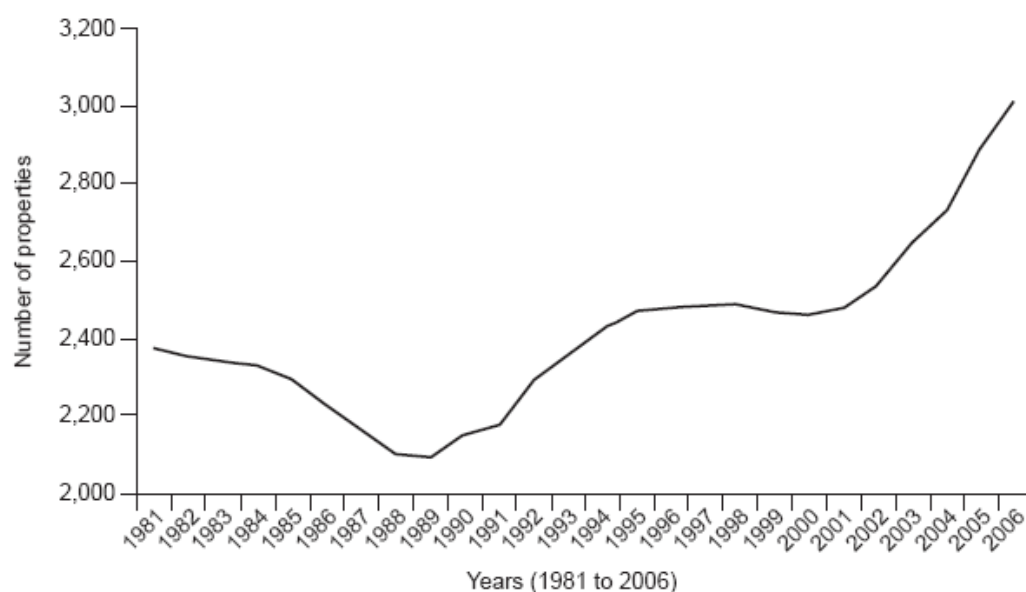
⁶ Although, interestingly, according to the Survey of English Housing, levels of satisfaction among private tenants has declined marginally since the mid 1990s; from being consistently above 80% between 1994 and 1998, have been consistently below 80% ever since, with a low of 75.6% in 2005-6.

⁷ As one buy to let landlord commented to us, "I'd be happy living in any of my properties" (personal communication, 2009). Moreover, in the popular UK television programme, *Property Ladder*, which follows amateur property developers as they make their forays into the market, the main failing routinely identified by host (and successful developer, Sarah Beeny), is their inability to keep their projects to budget and to ensure that their enterprise makes a profit. Many were saved only by the relentless rise of property prices. See, for example, the various case studies in Beeny and Phillips (2004).

Table 7: Purpose of rented property or properties (Source: Department for Communities and Local Government, 2008 (EHCS/PLS)).

<i>Purpose of rented property</i>	<i>Percentage</i>
<i>Investment/pension</i>	70
<i>Current home/somewhere to live in the future</i>	7
<i>Home for relative or friend</i>	5
<i>Property that didn't sell</i>	2
<i>For employee</i>	5
<i>To house people in need</i>	4
<i>Other</i>	7
<i>Total</i>	100

Figure 3: Number of dwellings in the private rental sector ('000s), 1981-2006 (Source: NHPAU, 2008, Figure 5)



However, during interviews, buy to let lenders were keen to emphasise a generational shift in the attitude to rental property, which made it a much more desirable housing choice:

Our generation had it almost programmed into us ... you'll buy a house as soon as you can ... houses make money all the time. *Young people don't think like that any more ...* Home ownership is a blessing in a lot of ways, but it is also a cost, and young people get that. They understand that they *have greater job mobility if they rent, they understand they can live in a better part of town if they share with*

friends and rent. They understand it's easy to enter, easy to exit, and they're not burdened with the responsibility of home ownership (Interview 3, buy to let lender, emphasis added).

Table 8: Length of time in the private rented sector: individual/partnerships only (Source: Department for Communities and Local Government, 2008 (EHCS/PLS)).

<i>Length of time in PRS</i>	<i>Years</i>
<i>5 or less</i>	34
<i>6-20</i>	49
<i>21-40</i>	15
<i>Over 40</i>	3

However, set against these positive attributes, there are other actors who have a less benign view of the growth of this sector. In particular, the inhabitants of areas in which buy to let has grown markedly in recent years have been particularly critical of what is seen to be a set of regressive social impacts. One way in which we can examine these impacts is through an examination of what has been described as the 'studentification' of urban space (Butler, 2007; Hubbard, 2008; Smith, 2008a; Smith and Holt, 2007). As student numbers have risen across the UK, so the number of properties given over to their accommodation has increased, which has led to the effective student colonisation of some urban spaces in university towns and cities. Immediate problems associated with a clustering of properties catering for the student rental market include problems with refuse disposal, street cleaning, car parking and increases in burglary rates (Hubbard, 2008). Longer term problems include the undermining of demand for some retail and recreational facilities, which has implications for local public planning and policy. In response, there has been the rise of local resistance to private landlords in general, and to buy to let in particular. For example, the Nottingham Action Group (NAG) on HMOs was formed as a pressure group in response 'to the problems caused by increasing concentrations of ... Houses in Multiple Occupancy (HMOs), shared houses with absentee landlords and short-term (mostly student) tenants' (<http://tinyurl.com/dhahjl>).

One of the key objectives of groups such as this is to try and ensure that the voice of local residents are heard but also to push for additional controls on the HMO sector beyond current statutory regulation (see Boxes 1 and 2). HMOs already have stringent statutory safety and environment regulations applied to them, but groups such as NAG have pushed local authorities to increase HMO regulations further. In the case of Nottingham, this has led to greater self-regulation in the sector following the entry of Unipol, a Leeds-based charity which aims to improve training, standards and professionalism in the management of student housing.⁸ Through an accreditation scheme, Unipol have effectively introduced a new system of governance to a large part of the private rented sector, which has increased costs to landlords.

⁸ For example, see the Unipol web site at <http://tinyurl.com/ctoknl>

However, there is a recognition in such areas that even if buy to let became a more problematic proposition for landlords, it would take time and no little investment to reclaim such areas for families that might want to live there:

You've got the real developers, the real HMO market chappies, and they are a complete and utter menace, because they buy a property, they either leave it as it is and do nothing at all, or they then convert it to get the maximum number of people in, so it's really packing as many people in, so you take, I mean a house two doors away from me would have been, it was a three bedroomed family home with a box room, and a garage, front room, extended lounge, kitchen, guy bought it in 2002, converted, extended the garage somewhat and converted it into two rooms with a corridor running down one side, so there's a window at the front for one room, and a window at the back for the other room. The front room of course is now a bedroom, study, the three bedrooms upstairs he's got tenants in, the box room I gather this year he's finally managing to rent the box room out ... and they're paying £75, £80 a week each, or will be, and he converted the lounge into a kitchen diner and the old kitchen is now another bedroom. So you've got seven in there. Now that is not only over occupation, the way it was done is cheap and shoddy basically, and also it means that anybody who would want to buy that place as a family home would need to go and reconvert it, back into a decent form (Interview 18, Residents Action Group).

The campaigns of organization such as NAG and Unipol raise difficult political issues for local authorities. On the one hand, Universities are important actors in the local economy and students generate significant economic multipliers. However, on the other hand, local politicians need to respond to discontent among their electorate, while the economic benefits that students bring is tempered by the fact that they do not pay local taxes.

... [for] the local council ... I got the impression that ... the benefits that students bring far outweigh any possible problems (Interview 18, Residents Action Group)

I've been told specifically, and actually several times from within Rushcliffe Borough Council and from within Nottingham Trent University, that Rushcliffe Borough Council don't make any secret of the fact that they don't want student property, if they can eliminate it they will be very happy, and I think the reason for that is twofold. One is the perception of the nuisance and the value on house prices, and two is the income stream is frustrated (sic) because of the fact that students are not liable for Council Tax (Interview 19, buy to let investor).

This adds an additional burden of compliance on landlords with houses in multiple occupation as they have to demonstrate clearly that all their tenants are in full-time education to avoid being charged for tax::

I ask for letter of acceptance every time I rent it to [students], with the end date [of study] on it ... but you don't know actually when they're going to end. So if they end the course in June and they

still want to stay on 'till Christmas then the Council would look on their list and see that they're not a student, and send me council tax (Interview 15, buy to let investor)

A further charge made against the buy to let market by critics is that it has crowded out first-time buyers in certain areas (Levene, 2007). This was strongly denied by most of the lenders that we interviewed. However, there was one at least respondent who worked in a major buy to let lender who admitted that this process had occurred, but that it was difficult for lenders to concede ground on this matter:

Box 1: Nottingham Action Group Meeting, 25th February 2009 – Part 1

The meeting took place in Lenton. The venue was slightly worn down local venue with signs around announcing its immanent closure. The room was large with a dance floor upon which there was a desk set up and projector for a PowerPoint presentation by a visiting academic from the University of Brighton who has worked on the phenomenon of 'studentification'. The room was fairly full with approximately 40 people. For the most part the attendees were older than middle aged, although there were a group of representatives from both Nottingham Trent and Nottingham University huddled together in a booth in a corner almost cut off from the other people there.

I was welcomed by the organizer and introduced to the local councillor, although he seemed somewhat less than pleased to meet me and showed very little interest in the research project itself. I was then introduced to the speaker and found a table at the back from which I could observe proceedings.

The meeting began with a presentation from the Nottingham Crime and Drugs partnership who were announcing a week of action in Lenton, Dunkirk and Wollaton. This short presentation was followed by a series of questions mainly from one elderly man gentleman representing the Wollaton Park estate. He was suggesting that weeks of action come and go and nothing changes and was pressing the need for CCTV cameras in the area to curtail the 'drugs menace'. This section of the meeting did not mention the problems of students or Homes in Multiple Occupancy (HMO).

Following this there was a break for tea coffee and cake. During this break one woman came up to talk to me, curious as to who I was. She began the conversation by asking if I was the 'enemy' and when I told her I was a researcher from the University she said that I *was* the enemy then. After protesting that I wasn't I explained the nature of the research project she said that the impact of Buy to Let landlords in her area was to create feelings of isolation in that there was no community around her. She described a sense of anger at the landlords/investors perceived to be ruining her community but was at pains to suggest that she was not anti-student and welcomed them. She was also very bitter about how houses are converted into HMO's with them in essence being gutted and rebuilt meaning that they will never be family houses again without considerable reinvestment.

Box 2: Nottingham Action Group Meeting, 25th February 2009 – Part 2

After the break the speaker began his presentation. This was academic in style and focussed in upon the problems of studentification and problems in recent published policy documents upon it. The presentation finished by laying out the discussions that are ongoing in relation to the new City Council student plan. Following the presentation a discussion followed. Anger was directed at the council and letting agents. Discussion focused upon how the City Council can actively help change properties back from being HMOs and it was suggested that they should pay for this and that the council should actively be stopping the development of more. The representative of the council argued that they were doing everything they could but planning laws made it difficult to stop more HMO's being developed and that they were lobbying the appropriate ministers in Westminster. Also concern was raised about the Dunkirk and Lenton partnership forum as they were pro-student. Indeed it was considered an insult that their mailings contained adverts for letting agents. The academic and the councillor then brought up the issue of HMO's away from student areas and the attendees were reminded that it was the housing rather than the students which were the main focus of the group. The discussion then turned to a plan to reduce the number of letting boards in the streets. This was first addressed by Unipol who outlined a plan to bring landlords on board. There was concern that as this was voluntary nothing would happen but the City Council suggested that if the voluntary plan did not work they would be able to introduce a compulsory one. One attendee suggested that all hope was lost and that the group should not concentrate upon Lenton but other areas where the process is happening now, and blamed the City Council for allowing the situation to get to the non-retrievable state it is now. This point was met with derision and seen as defeatist although there was sympathy for laying the blame upon the council. One member of the audience suggested that the great hope was the financial crisis would make it impossible for landlords to own these properties and thus the recession could lead to them regaining there community and there appeared to be a strong belief that this could happen amongst the audience, although our findings so far would suggest that this will not be the case. The last person to stand up was from Radford and he suggested that the problems of HMOs in Radford was over, with students moving out and families moving in, suggesting that this offered hope to Lenton.

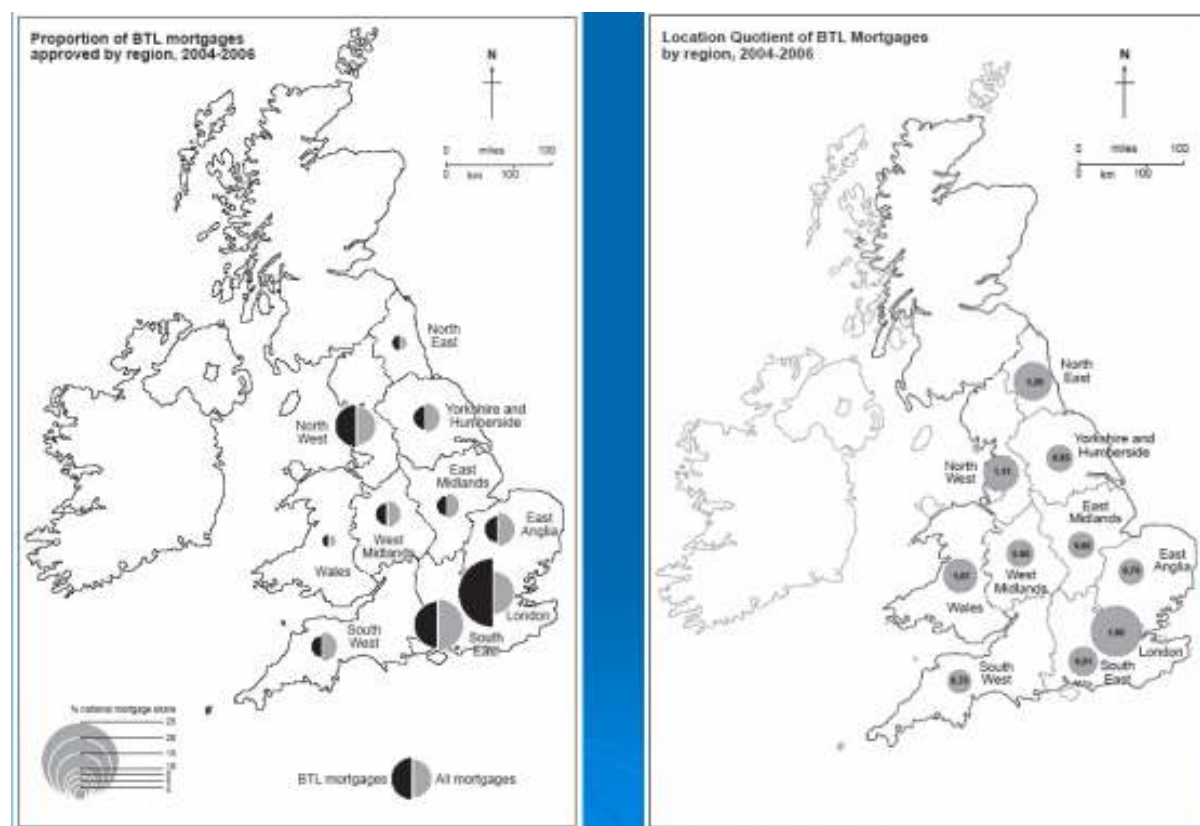
... for me I don't think there is any doubt about it [that buy to let landlords out bid first time buyers]... because if you look at a landlord, who is likely to be in their 40s, greater earning power than the typical first-time buyer ... and they don't get tax relief on mortgage payments, which [landlords] get, they're going to outbid them every time ... I don't have any doubt whatsoever that's happened. *Working for a buy to let lender, of course I can't go out and say that publicly* (Interview 1, buy to let lender 1, emphasis added)

In the next section of the report we explore the impacts of the buy to let market on the urban environment in more detail, through a consideration of the distinctive, and uneven, geographies of buy to let.

4. The geographies of buy to let

The geography of the buy to let market in the UK is highly uneven. According to figures published by Mortgage Express, a leading buy to let lender, the majority of buy to let investment was in the south of the country. Indeed, over 70% of buy to let investment could be found south of a line drawn between the Wash and the Severn. Almost half – 47% -- could be found in London and the South East alone. London is a particularly important site of investment, accounting not only for the highest proportion of buy to let mortgages, but also has a much higher share of buy to let mortgages than its share of the mortgage market as a whole (Figure 4). Indeed, only two other regions – the north-west and north-east – have a higher-than-expected share of buy to let mortgages, although in both cases the surplus is marginal. The concentration of the market within London is further confirmed by Figure 5, which maps buy to let mortgages by postcode. Around one in four mortgages in most areas of London are buy-to-let, with Canary Wharf emerging as the UK's 'buy to let capital' (O'Doherty, 2008).

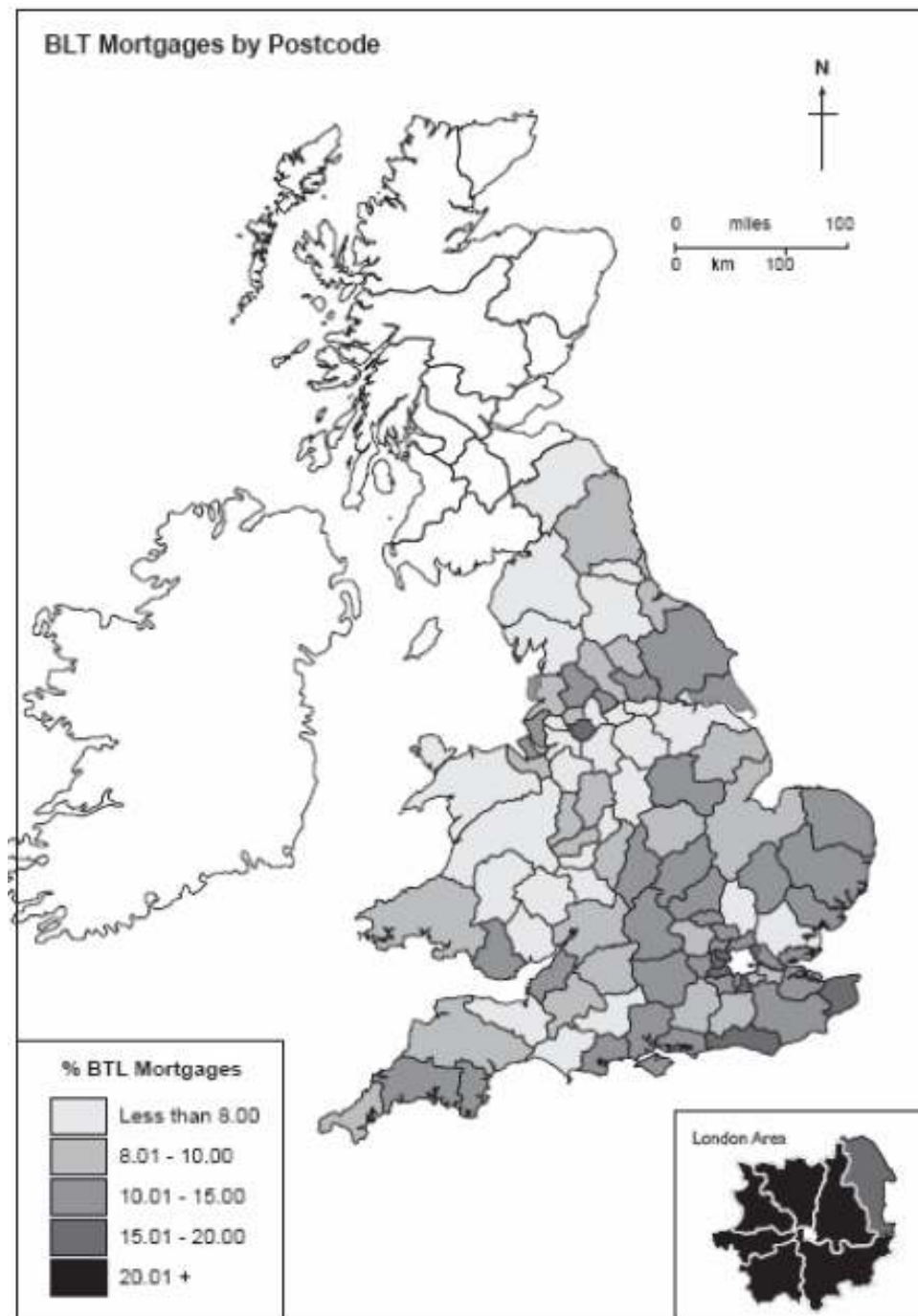
Figure 4: Share of all buy to let and all mortgage approvals by region, 2004 to 2006 (drawn from data in NHPAU, 2008).



In addition to these regional geographies, there is also a distinctive urban geography. There are two distinct geographies which characterise most cities and towns where buy to let has become a significant part of the urban landscape. First, there is the geography of 'new build'. New build buy to let properties typically consist of two-bedroom apartments in purpose-built residential development projects. New build is the minority category of buy to let, making up between 10-20% of total stock. It is concentrated in city centre locations, frequently on brown field sites, effectively redeveloping former industrial or rundown areas of cities. This part of the market was attractive to many investors, particularly new investors, as many properties were bought 'off plan' direct from developers who offered a 10 to 20% discount for such purchases. The ability of developers to sell so many properties off plan helps explain why so many of these projects carried on to completion, despite growing signs of oversupply in certain cities. With properties having already been bought, or at least secured for a substantial deposit, the cost of marketing the properties post-build was negated in many cases. From interviews with lenders and developers, it is clear that many of these properties were not initially bought with any plan to actively manage them as buy to let assets; rather, many were purchased solely on the anticipation of rapid capital growth through the development phase, and so more accurately might have been described as 'buy to flip'; that is, to sell as soon as the property was ready for occupation based on an anticipation of the property increasing in value through the development process. However, the growing oversupply of such

properties made such a strategy more problematic, with many such investors falling back on buy to let as an alternative means of generating the money to pay the mortgage.

Figure 5: Buy to let mortgages as a proportion of all mortgages by postcode, 2008 (Source: Fitch, in Financial Times, 2008).



Within this category of buy to let, there is a greater tendency for what might be described as ‘at-a-distance’ investor-landlordism. In part this is a result of the rise of firms such as property and investor clubs that have facilitated the entry of new investor landlords into the market. Using effective

distribution and marketing techniques, including high-quality and content-rich Internet sites, these firms have acted as a means of aggregating spatially distributed demand for buy to let property into developments across Britain and overseas. In particular, these firms made it relatively easy for novice investors to enter the market by providing an off-the-shelf, commoditised service: indeed, within the industry this part of the market is known as ‘commodity new-build’, which has been described as consisting of ‘small flats without character’ (Hawkins, 2008, page 16). Potential investors were often encouraged to buy property based on a set of photographs and a set of broadly encouraging statements about the location of the property and the area in which it was based (Wallace, 2008).⁹

The problems with this part of the market became increasingly apparent as the financial crisis intensified from the end of 2007. The price of new build flats collapsed, particularly in large provincial cities such as Leeds and Manchester; in Leeds it is estimated that by the beginning of 2008 over 7,000 apartments had been built over a period of 10 years, with 3,600 under construction, and a further 7,200 having received planning consent. By early 2008, there was a 30% vacancy rate for apartments in the city centre (Garett, 2008). The problems this caused for buy to let borrowers in their ability to service their loans, was closely monitored by lenders. In an attempt to attribute blame for the emerging property crisis, most lenders were quick to point accusing fingers at both developers and local planning authorities:

... you’ve got this huge concentration [of new build in] Birmingham, Manchester, Leeds, Nottingham to some extent ... and I think Liverpool as well ... these are cities where I think the planning controls haven’t worked, something’s gone awry and you’ve built these massive developments and frankly the price hasn’t supported it and developers have been a little naughty ... it’s £250,000 [for an apartment] but of course when you come to unravel [it] you find that the real price is £190,000 ... and there’s this discount and that discount ...
(Interview 1, buy to let lender).

The oversupply of properties is a frequent outcome of a property boom, which is in part a product of the long lead time of the sector. But the new-build buy to let property boom differs from regular cycles of boom and bust in, say, the commercial property sector. It has produced an unusual property glut. The volume of off-plan sales meant that the impact of the crisis was deferred for longer than would normally be the case in a property cycle, as the building of new property went on longer because the costs of overbuild were deflected from the developers and their lenders onto individual property investors and

⁹ During an interview with three letting agents in Nottingham firm, similar dubious indicators emerged during a response to a question that sought to identify some of the strengths of the city as a site for buy to let investment::

Agent 1: I think Nottingham itself is quite cosmopolitan in a sense, bars and restaurants, you know, and I think without trying to sell it to you you’ve got, you know, well it has, is it one of the biggest squares in the country?

Agent 2: It’s got the second biggest...

Agent 3: In Europe ...

Agent 1: It’s got, you know, places, fantastic ... Nottingham Castle, gosh one of the oldest, OK it’s not a castle anymore, but it’s got a lot of history there which was where King Charles raised his standard on Standard Hill. I mean, fantastic! (Interview 11, Letting Agency)

their lenders. In addition, given the relatively high number of non-local investors buying property off-plan, a large proportion of the costs of the new build property crisis have been born outside the cities and even the regions where the building is taking place. In this regard, in retrospect it may be that many UK local authorities have achieved a significant amount of urban regeneration thanks to investment imported from more affluent regions such as the South East of England, and (formerly) buoyant national economies such as the Republic of Ireland. Many prospective buy to let investors in such locations were effectively priced out of their own local property markets by the rapid appreciation in asset prices, and began looking further afield for investment opportunities. Many provincial cities in the UK may have benefited from the laying down of residential infrastructure paid for from elsewhere. In this sense, the oversupply of new-build property in many UK cities and the subsequent decline in prices may be seen as a form of property ‘neutron bomb’, in that while it may have ‘killed’ many investors, it has left the buildings standing, with long-term development implications for the areas in which they are built.

In contradistinction to the geography of new build, the geography of extant buy to let property is very different. The typical stock of housing here is two to three bedroomed terraced housing. While these properties are in plentiful supply across UK, they carry with them a higher maintenance burden and, in the case of HMOs, they are also associated with more complex regulatory compliance.¹⁰ Whereas new builds buy to let investor landlords tend to operate ‘at-a-distance’ from their properties and tenants, those that operate within an older stock of property tend to maintain more regular and closer contacts with both their tenants and their properties. As one major buy to let lender commented, investor landlords in the HMO market

... tend to have a well-defined strategy, and usually a local one, they will know a particular area well and they will target a particular type of tenant in that area and often a small number of streets. And they’ll know everything that’s going on, they’ll know whether Mrs Scroggins has got a property on the market, they’ll know what their tenants are doing, and will often be in and out of those properties on a regular basis, whether that’s doing the plumbing or replacing a light bulb, whatever it might be, they’re very, very closely involved on a detailed level themselves (Interview 3, buy to let lender).

In comparison to new build buy to let investors, these investor landlords are for the most part more engaged with their properties, partly as a result of the higher maintenance burden, but also because they have actively sought out properties in a particular area as part of a broader investment strategy. Therefore, it is possible to attempt a demarcation of investor-landlords, along axes of knowledge and geography (Figure 6).

It is well established that during a financial crisis lenders undertake a ‘flight to quality’, as riskier prospects are abandoned in favour of safer markets and borrowers. It became apparent during our

¹⁰ For example, HMOs have more stringent health and safety requirements and landlords now also have to obtain energy efficiency certificates.

interviews that a flight to quality was also underway in the buy to let market, with lenders favouring investments where income flow can be guaranteed. In the case of buy to let, this had the effect of expressing a preference for terraced housing rather than new-build flats or even ‘hybrid’ categories, such as first floor property conversions over existing businesses. Lenders rejected the claims of ‘fictitious’, potential income from as yet unrealised tenants in new build buy to let in favour of mundane and regular sources of income from long established private rented markets.¹¹ In so doing, lenders were also providing a validation to a particular type of investor landlord, the ‘professional’ investor-landlord with high levels of local knowledge (see Figure 6). The importance of local geographical knowledge was revealed to us during the course of our field work in Nottingham in an anecdote about an unsuccessful investment. The majority of student housing in the city is located within what is known among local landlords as the ‘Nottingham triangle’, which is bounded in the north by the Ilkeston Road (Figure 7). We were told by one letting agent of an out-of-town investor who wanted to obtain a property suitable for the student market. The investor bought a property on the Ilkeston Road, but which was located on the northern rather than the southern side of the street. For students, this placed the house outside their desirable residential area as it was technically located in the inner-city area of Radford, even though it was only the other side of the street. Nevertheless, it meant that the landlord experienced considerable difficulties in attracting student tenants and generating the rental income needed to service the mortgage.

5. Conclusions

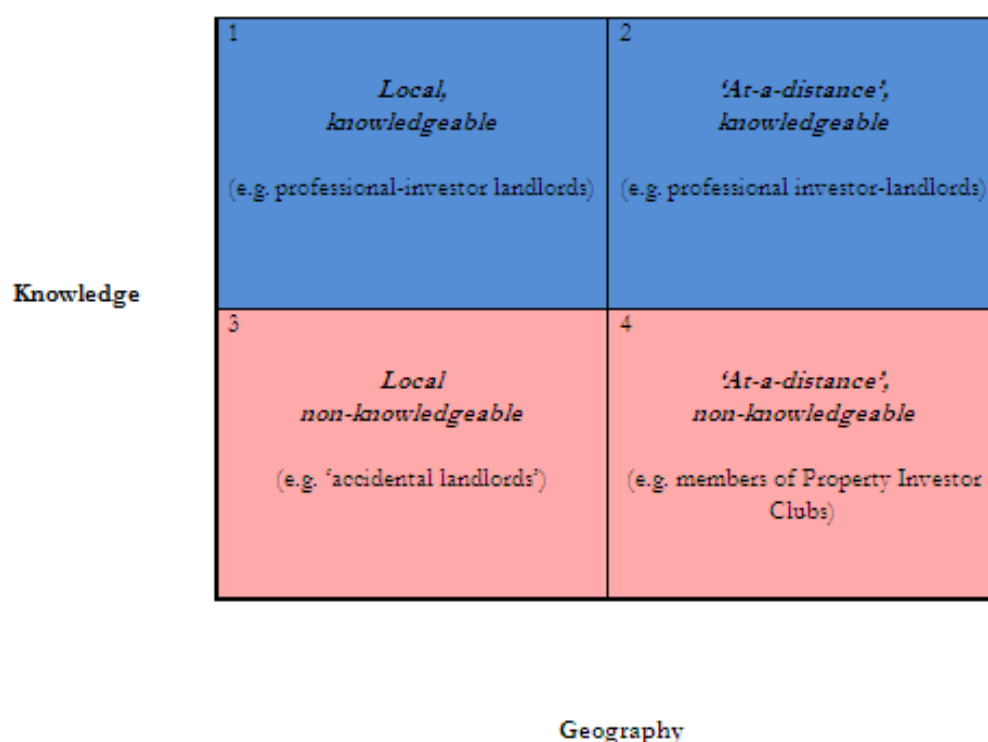
There was no trouble in getting a mortgage, they’re quite willing to give a mortgage on the house if you can show them what the income will be. So I should think there’s still quite a good market actually on buy to let because the house prices have dropped considerably up there over the past couple of years. So now would actually be a good time to buy to let in Nottingham (Interview 15, Buy to Let Investor)

This report has examined the rise of the buy to let market in the UK, with a particular focus on its constituent geographies. It has drawn on a case study of the Nottingham market to argue that the two main types of buy to let property, new-build and the stock of existing (mainly terraced) housing, have distinctive geographies, both in terms of their physical manifestation and of the kind of investor landlords

¹¹ There are broadly three main types of tenants within the private rented sector, which constitute different parts of the buy to let market. Firstly, there is the ‘professional market’, who make up the bulk of demand for flats and apartments, mainly in city and town centres. While premium rents can be charged, it is often a short-term market, the tenancies rarely extending beyond a year. Second, there is the HMO market, which is often aimed at student renters. This market has less churn than the professional market, with tenants typically staying for at least a year, and up to two years (and occasionally even longer than that). Third, and finally, there is the benefit claimant market. These are often houses of single occupation, aimed at families, and have relatively long-term tenants. Tenancies in this market can last up to five years or more.

that are active in them. New build buy to let markets have been favoured by at-a-distance investor landlords, while older housing tends to be the domain of local investor landlords. These geographies also help to explain the relative durability of different parts of the buy to let market, at least in the medium term, as a combination of a lack of knowledge and overbuild has meant that the new build market was disproportionately affected by the financial crisis and the subsequent recession. However, the buy to let market as a whole has been negatively affected by the financial crisis, and has placed a strain on large numbers of lenders and borrowers across the sector.

Figure 6: Types of investor-landlords (Source: The authors).

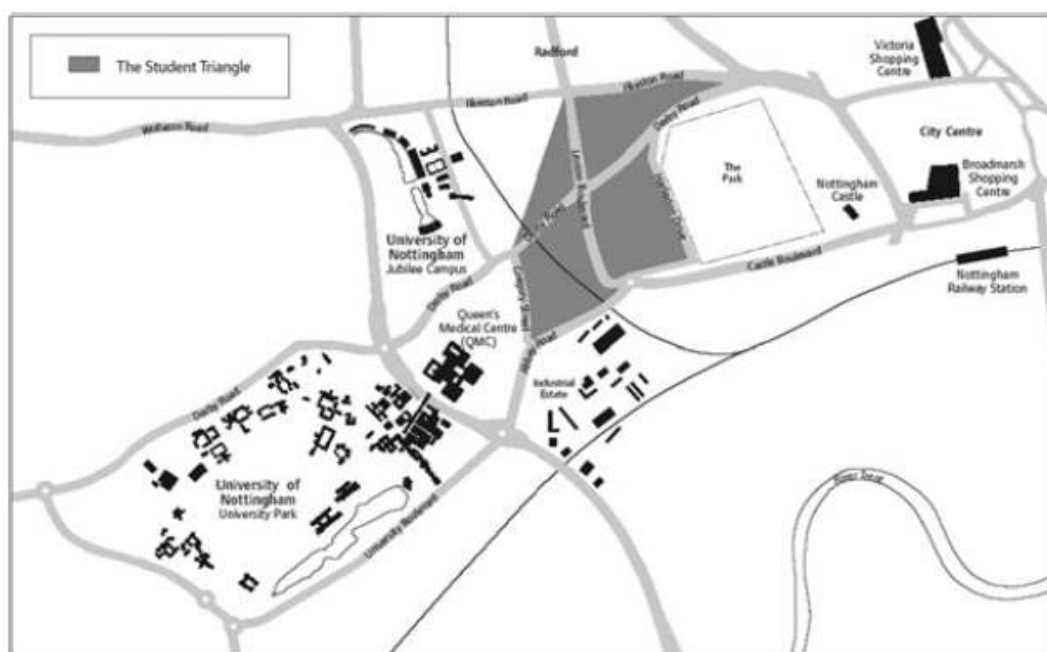


Indeed, the buy to let market has been under pressure since at least 2003. Between July 2003 and December 2007 interest rates rose steadily, from 3.5% to 5.75%, as the Bank of England responded to inflationary pressures within the economy. This had an impact on yields, as the cost of money became more expensive. This was exacerbated by the steady rise in house prices, and meant that landlords investing in the market were buying more expensive assets. However, during this period it was still easy to access credit, as loans could be rolled over, while continued economic growth meant there was steady demand for rented property. Moreover, despite the falling yields on investment, landlords were reassured by the increase in the value of their assets. Since December 2007, the nature of the crisis in the buy to let market has changed, in response to the wider financial crisis. Interest rates have fallen precipitously, to as low as 0.5%, which has reduced mortgage repayments. The reduction of interest rates has undoubtedly saved the buy to let market from falling into a severe crisis, as those investor landlords on interest rate

only mortgages that track bank of England base rates have enjoyed an effective payments holiday during the recession. As one letting agent, who also owned his own buy to let property put it:

I was on a fixed rate deal for two years which was great, hadn't really thought beyond that, and then all of a sudden [the] fixed rate finishes and the interest rate is not very favourable, so I've had three or four months of panic. But now, with the rates coming down ... a lot of people are actually wanting to come out their fixed rates and go on to [a] variable [rate loan] because it's a better offer (Interview 11, Letting Agency)

Figure 7: The 'Nottingham triangle' (Source: The authors).



This has been an important support for landlords, because the recession has brought with it a decreasing demand for rented property from some social groups (such as international migrants, for example, many of whom have now returned home). However, while the costs of existing loans have fallen, obtaining access to new capital is extremely difficult, with reports of some landlords experiencing problems in renewing and rolling over their loans. The decline in the property market has meant a fall in the value of the assets upon which loans are secured. This is particularly problematic for some landlords as lenders have dramatically reduced their loan to value ratios. Moreover, there is a suggestion that in some places at least problems of capital are being exacerbated by a return of problems in generating yield, as the supply of properties increases due to 'slump landlordism', as individuals and households move, but are unable or unwilling to sell in a deflated market and seek to cover their mortgage costs through renting

the property. This has had a deflationary impact on rents. Moreover, landlords are experiencing increasing compliance costs as new regulations on HMOs and energy efficiency have recently been brought into being.

There are now considerable doubts about the future of buy to let. Even during the long boom of this market a shadow hung over it as no-one was sure how it would respond to a decline in house prices. In particular, there was a fear that a downturn, and a slackening of demand for rental property, would see a rise in buy to let reposessions which would leave lenders with relatively unattractive assets, given their location and possible quality in comparison to an unoccupied property, that lenders might struggle to dispose of after repossession. While there has been a rise in the number of buy to let reposessions – indeed, as indicated earlier, the number of buy to let reposessions doubled between 2007 and 2008 – the buy to let market is now such an established part of the economy that it seems unlikely that there will be a wholesale re-conversion of rental property into owner occupation to mirror the long run process of the 20th century. While the days of rapid expansion in the buy to let market appear to be over, given that it now requires individuals with significant capital to be able to enter the market from scratch, and the now limited inability to leverage debt, the market has been going long enough to ensure that there are a significant number of well-established investor landlords who experienced significant asset value appreciation and sizeable incomes over several years. A buy to let property with sitting tenants is a desirable asset for established landlords with deep pockets and significant capital reserves.

As a result, there is likely to be concentration, centralisation and bifurcation in the buy to let market. There is likely to be a shakeout of the long tail of investor landlords, especially those who were late into the market. Our research revealed that the larger, more established landlords are already positioning themselves within the market to pick up properties at discounted prices, and were frequently referred to as ‘vultures’ by informants. There is also likely to be a bifurcation of the market, between investor landlords on the one hand, and letting agents on the other, because so many letting agents have become highly active within the market managing properties (especially new build) on behalf of development companies that have failed to attract a buyer.

The recent history of the buy to let market in the UK draws attention to the fact that there are limits to the ability of individuals to become investor subjects seeking financial security through the housing market. For those that sought to reject the vagaries of passive financial investment for more stable and durable active investment in housing and property, the recent downturn in the market must have come both as a disappointment but also a realisation of the difficulties of escaping the vagaries of the financial markets. It has also revealed there are distinct geographies of investor landlords, with both regional and intra-urban specificities. Those investor landlords that chose a more active pursuit of their financial future, by trading on their local knowledge of property markets and active management of their properties in more down at heel areas have been relatively less affected than those that chose a more passive active management strategy through at-a-distance buy to let investment. In this sense, investor

landlords were better served by a focus on the ordinary parts of cities (cf. Amin and Graham, 1997), not the glossy and glamorous city centres fetishised in romantic accounts of 'city living'.

Acknowledgments

We are grateful for the support of the Forum, and in particular to Nigel Waite and Jim Devlin. We are also very grateful for the invaluable research assistance of James Corah at a critical stage of the study. The diagrams were drawn by Elaine Watts. The usual disclaimers apply.

References

- Allen, J. and McDowell, L. 1989: *Landlords and Property: social relations in the private rented sector*. Cambridge: Cambridge University Press.
- Amin, A. and Graham, S. 1997: The ordinary city. *Transactions of the Institute of British Geographers* 22, 411-429.
- Ball, M. 2006: Buy to Let: The Revolution - 10 Years On. London: ARLA.
- Butler, T. 2007: For gentrification? *Environment and Planning A* 39, 162-181.
- Christie, H., Smith, S.J. and Munro, M. 2008: The emotional economy of housing. *Environment and Planning A* 40, 2296-2312.
- Collinson, P. 2008: The king and queen of buy-to-let. *The Guardian*, London, <http://www.guardian.co.uk/money/2008/oct/2004/buyingtolet.property>.
- Department for Communities and Local Government 2008: English House Condition Survey 2006: Private Landlords Survey. London: Department for Communities and Local Government.
- Elliott, L. and Atkinson, D. 2008: *The Gods that Failed: how blind faith in markets has cost us our future*. London: The Bodley Head.
- Eturk, I., Froud, J., Johal, S., Leaver, A. and Williams, K. 2007: Financialization or what's going on? , *Paper presented at the International Working Group on Financialization Inaugural Workshop, London, 12-13th February*
- Eturk, I., Froud, J., Johal, S., Leaver, A. and Williams, K., editors 2008: *Financialization at Work: key texts and commentary*. London: Routledge.
- Gardiner, K. and Paterson, R. 2000: The potential for mortgage securitisation in the UK and Europe. *Housing Finance* 45, 52-59.
- Garrett, A. 2008: Trouble up north as apartment prices slump: With one major scheme mothballed and a struggle to find tenants, city centre rental investors are sitting on losses. *The Observer, Cash Pages*, March 9th, page 20.
- Hamnett, C. and Randolph, W. 1984: The role of landlord disinvestment in housing market transformation: an analysis of the flat break-up market in central London. *Transactions of the Institute of British Geographers* 9, 259-279.
- Hawkins, P. 2008: Landlords sit tight. *The Times*, January 18th, page 16.
- Hubbard, P. 2008: Regulating the social impacts of studentification: a Loughborough case study. *Environment and Planning A* 40, 323-341.
- Kemp, P. 2004: *Private Renting in Transition*. Coventry: The Chartered Institute of Housing.
- Langley, P. 2006: The making of investor subjects in Anglo-American pensions. *Environment and Planning D-Society & Space* 24, 919-934.
- Langley, P. 2007: Uncertain subjects of Anglo-American financialization. *Cultural Critique*, 67-91.
- Langley, P. 2008: *The Everyday Life of Global Finance: saving and borrowing in America*. Oxford: Oxford University Press.
- Levene, T. 2007: Nottingham's forest of housing despair. *The Guardian*, 16th June. <http://tinyurl.com/ctrfom>.
- Leyshon, A. and Thrift, N. 1999: Lists come alive: electronic systems of knowledge and the rise of credit-scoring in retail banking. *Economy and Society* 28, 434-466.
- Leyshon, A. and Thrift, N. 2007: The capitalization of almost everything: the future of finance and capitalism. *Theory, Culture & Society* 24, 97-115.
- Martin, R. 2002: *Financialization of Daily Life*. Philadelphia: Temple University Press.
- NHPAU 2008: Buy-to-let mortgage lending and the impact on UK house prices. *NHPAU Research Findings Number 1*, London: National Housing and Planning Advice Unit.
- O'Doherty, J. 2008: Canary Wharf feels the chill. *Financial Times*, April 19th page 3.
- Pannell, B. and Heron, J. 2001: Good bye to Buy-to-Let? *Housing Finance* 52, 18-25.
- Pryke, M. and Freeman, T. 1994: Mortgage-backed securitization in the United Kingdom: the background. *Housing Policy Debate* 5, 307-342.
- Pryke, M. and Whitehead, C. 1991: *Mortgage-backed securitisation in the UK: a wholesale change in housing finance?* Cambridge: University of Cambridge.
- Pryke, M. and Whitehead, C. 1994: An overview of mortgage-backed securitisation in the UK. *Housing Studies* 9, 75-101.

- Scanlon, K. and Whitehead, C. 2005: The profile and intentions of buy-to-let investors. London: Council of Mortgage Lenders.
- Shiller, R. 2008: *The Subprime Solution: how today's global financial crisis happened, and what to do about it*. Princeton, NJ: Princeton University Press.
- Smith, D. 2008a: The Politics of Studentification and '(Un) balanced' Urban Populations: Lessons for Gentrification and Sustainable Communities? *Urban Studies* 45, 2541-2564.
- Smith, D.P. and Holt, L. 2007: Studentification and 'apprentice' gentrifiers within Britain's provincial towns and cities: extending the meaning of gentrification. *Environment and Planning A* 39, 142-161.
- Smith, S.J. 2008b: Owner-occupation: at home with a hybrid of money and materials. *Environment and Planning A* 40, 520-535.
- Thomas, R. and Pannell, B. 2006: The growth of buy-to-let. *CML Housing Finance* 9, 1-14.
- Turner, G. 2008: *The credit crunch: housing bubbles, globalisation and the worldwide economic crisis* London: Pluto Press.
- Wallace, A. 2008: Knowing the market? Understanding and performing York's housing. *Housing Studies* 23, 253-270.