INTERMEDIARY MORTGAGE LENDERS ASSOCIATION

Reshaping housing tenure in the UK: the role of buy-to-let

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Key findings:

- Higher demand has been the main driver of growth in the private rented sector over the past two and a half decades. Rent deregulation in 1988 and the launch of buy-to-let mortgages in 1996 have allowed individual landlords to respond to this demand.

- However, a surprisingly high proportion of new private rented property has been acquired without a mortgage. Only 420,000 of the additional 1,310,000 properties in the private rented sector between 2007 and 2012 were financed by buy-to-let loans.

- The failure to build enough houses to meet rising demand is chiefly responsible for first time buyer frustrations. But low interest rates and quantitative easing (QE) have advantaged landlords by lowering interest costs and underpinning house prices.

- The “triple lock” of the new regulatory landscape - the mortgage market review (MMR), Basel 3 capital adequacy rules and macro-prudential regime, disadvantages first-time buyers relative to buy-to-let borrowers and may help to entrench the decline of owner-occupation going forward.

- For example under the MMR at an interest rate of 4%, first time buyers required to take out a capital repayment mortgage will face monthly mortgage payments 58% higher than a landlord borrowing the same amount on an interest only basis.

- If current trends in tenure continue, two decades from now the majority of Britons will rent their home for the first time since the early 1970s. By 2032, 49% will own their home, 35% will rent privately and 16% will be in the social rented sector.

Executive summary

There has been much misunderstanding about the role of buy-to-let in the UK housing market since the association of residential letting agents (ARLA) and innovative mortgage lenders launched the buy-to-let mortgage initiative 18 years ago. This report surveys the evidence to take a fresh look at this controversial question.

The last couple of decades have seen a sea change in the evolution of housing tenures in the UK with the private rented sector taking over from owner-occupation as the engine of growth. On the latest figures, 18% of households rent privately, compared to 9% in 2000.

Many of the factors behind the growth of private renting are secular trends which are driving higher demand. These include the lack of availability of social housing, greater numbers of students and immigrant workers, employment trends, and home ownership becoming less accessible due to rising prices and tighter lending criteria, including the virtual disappearance of mortgages above 95% loan-to-value (LTV).

Individual landlords have been responsible for the majority of the extra supply[1], which we estimate from the number of extra rented properties, has amounted to a net investment of some £50bn per annum in recent years. Probably the most significant factor which facilitated this investment was the introduction of the assured shorthold tenancy contract in 1988, which restored market pricing to the sector and gave landlords the right of possession.

The buy-to-let mortgage, first launched in 1996, has also helped to expand supply. But comparing the growth of buy-to-let mortgages with the growth of the private rented sector as a whole shows that buy-to-let lending has been responding to rather than leading the growth: only 1.4m of the additional 2.6m properties in the private rented sector between 1996 and 2012 were financed by buy-to-let loans.

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[1] 2006 figures from the Department of Communities and Local Government (DCLG) show that 73% of landlords were individuals or couples and only 2% were public limited companies.

While many first time buyers may feel that buy-to-let investors are making it harder for them to get onto the property ladder, a heightened sense of competition is the inevitable result of insufficient growth in the housing stock as a whole in the face of a rapidly growing population.

With population growth projected to remain high for the next two decades and, as yet, no sign that the supply of new social rented or private housing will keep pace, this sense of competition is set to remain. Barring a major clearing of the logjam of inadequate supply, current trends projected forward point to a majority of households renting by 2032 and 35% in the private rented sector.

One irony given the government’s preference for homeownership is that the “triple lock” of new regulation: the Basel 3 capital adequacy regime, mortgage market review (MMR) and macro-prudential rules, seem to advantage buy-to-let landlords over first time buyers. The concerns that the Financial Conduct Authority (FCA) has expressed about the gaming of buy-to-let mortgages (where first time buyers claim to be buy-to-let investors) seem to confirm that even the regulator agrees that the new rules put first time buyers at a disadvantage.

Introduction

This report, the second in a series of research reports from IMLA on issues facing the UK mortgage market explores in more depth one of the themes touched on by the first report entitled *What is the new 'normal'? Mortgage lending in 2014-15 and the march back to a sustainable market* (February 2014). Here we explore the growth of the private rented sector, the role of buy-to-let and specifically whether the buy-to-let mortgage market has been responsible for crowding out first time buyers.

IMLA members and Peter Williams, IMLA's Executive Director, have contributed to this review but it should be stressed it does not necessarily reflect the views of each individual member organisation.

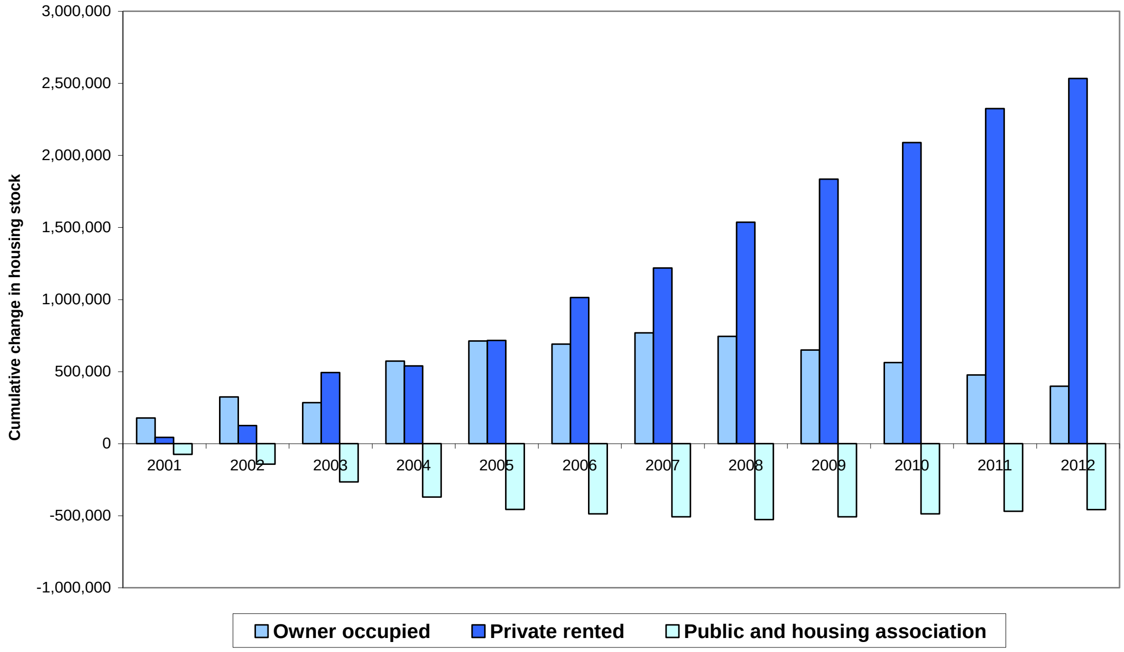
Section 1 - The shift towards private renting

Given the strong attachment to home ownership in the UK, it is unsurprising that the rise of the private rented sector and the decline of owner-occupation has become the focus of a heated debate in recent years. Campaign groups such as PricedOut have further raised the pitch of the debate by suggesting that buy-to-let mortgage lending has helped landlords to crowd out first time buyers.

There can be no doubt that the pattern of housing tenures in the UK has undergone a sea change over the past 15 or so years. In the two decades to the year 2000, the numbers owning their own home rose by 5.2m, easily outstripping the 3.7m increase in the housing stock as a whole. The private rented sector was virtually unchanged over this period (having fallen by around 180,000 in the 1980s and rebounded by some 240,000 in the 1990s) and the social rented sector shrank by 1.7m.

But, as Chart 1 illustrates on the following page, since the start of this new century it is the private rented sector that has powered ahead, providing 2.5m extra housing units since 2000, against a 2.4m rise in the total housing stock. Home ownership by contrast has grown by only 400,000 and has been shrinking since 2007.

Chart 1 – Cumulative rise in UK housing stock since 2000 by tenure



Source: DCLG.

What is driving the growth of the private rented sector?

What are the factors driving this shift towards private renting and how large a role has the mortgage market played in reshaping the UK's tenure profile since the year 2000?

Influences on demand for private rented accommodation

Many of the key drivers that have been identified to explain the growth of the private rented sector relate to rising demand. They include:

- **The declining availability of social housing**. The social rented sector has undergone a dramatic decline over the past three decades, pushing more people into the private rented sector. Although social housing is no longer shrinking, by 2012 its stock, at 4.9m, was 460,000 lower than in 2000.

- **Home ownership becoming less accessible**. The house price to earnings ratio rose sharply from the mid 1990s to 2007 and remains elevated, driven in part by a shortfall in the rate of new house building. This trend, coupled since 2007 with tighter mortgage lending criteria and lower maximum LTVs, has made it harder for new households to buy their own home.

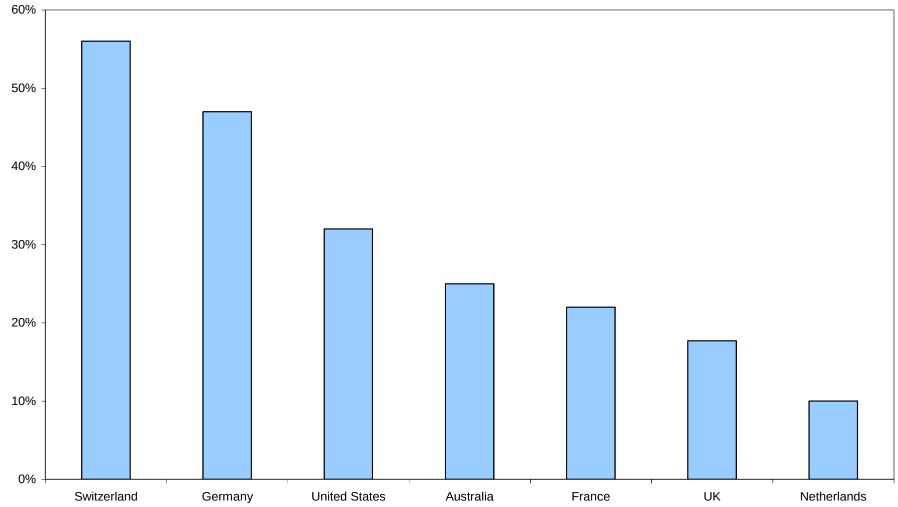
- **More flexible employment with lower job security**. Changes in the employment landscape have had an impact on workers' ability to finance house purchase. More workers are on flexible contracts or are self-employed, making it more difficult for them to access and sustain homeownership.

- **Rising numbers of students**. Student numbers rose from 2m in 2000–01 to around 2.5m in 2010-11 and students are overwhelmingly dependent on private rented accommodation.

- **Higher rates of immigration**. Most recent immigrants have neither the track record nor the deposit needed to qualify for a mortgage and few qualify for social housing. As a result the overwhelming majority of recent immigrants are dependent on the private rented sector. High levels of immigration over the past 15 years have boost demand in the sector. On average over the past 10 years net immigration has averaged 200,000 a year.

- **Social changes** such as later marriage and higher rates of separation amongst couples have also favoured the private rented sector as couples can more easily sustain home ownership than singles.

Chart 2 – % of households in private rented sector – international comparisons



Source: Various. Latest dates available.

Moreover, the UK has come from the position of having an unusually small private rented sector by international comparisons (see Chart 2). This was the product of a large expansion of social housing in the 1950s and 1960s, rent controls in the private rented sector and policies that favoured owner-occupation such as right to buy in the 1980s and favourable tax treatment. The growth of the private rented sector can therefore be considered in some sense a normalisation after a period when government policy artificially suppressed the sector's size.

Influences on the supply of rented property

Perhaps the most significant catalyst affecting the supply of rented property in recent times was the 1988 policy change that reversed previous regulation of the private rented sector. By creating the assured shorthold tenancy the 1988 Housing Act re-established market rents and gave landlords confidence that they could regain possess from a tenant if necessary.

It is surely not a coincidence that the size of the private rented sector started to rise from 1990. However, the 1988 Housing Act was a necessary but not sufficient condition for future growth and the sector picked up only slowly at first. But in view of the upward pressures on demand outlined above, it is also hard to avoid the conclusion that, had the assured shorthold tenancy not been introduced, the UK would be facing a far more serious housing crisis than the one we face today.

Another important milestone came in 1996 when the Association of Residential Letting Agents (ARLA) and a number of innovative mortgage lenders launched the buy-to-let mortgage initiative. Landlords who previously had relied on commercial loans with higher interest rates and low maximum loan-to-value (LTV) ratios now had access to mortgage products that were more akin to traditional residential mortgages, although the interest rates and maximum LTVs on buy-to-let mortgages have never fully converged on those of owner-occupied loans.

Role of the tax system

Another factor that has been cited as a driver of the private rented sector, and specifically of the buy-to-let mortgage, is taxation[2]. It is argued that because landlords can deduct mortgage interest in calculating their tax bill in a way that owner-occupiers cannot, they have an advantage over first time buyers.

However, this argument is erroneous. Owner occupiers in the UK are not subject to capital gains tax or, since 1963, to any tax on their 'imputed' rental income (previously known as Schedule D income). Private landlords in contrast are subject both to capital gains tax and tax on rental income, subject to allowable deductions for most of their costs.

The more advantageous tax position of the owner-occupier is best understood by considering the impact of two homeowners swapping properties and renting to each other. By renting these same properties they are subjecting themselves both to capital gains tax if they sell and income tax on rental income less costs. Even where their costs (e.g. repairs, mortgage interest) exceed their rental income this will leave them in an inferior tax position as such tax losses cannot be offset against other (non-property) income and they still face a potential capital tax liability.

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[2] See Why buy-to-let equals "Big Tax Let-off" How the UK tax system hands buy-to-let landlords an unfair advantage November 2013 David Kingman

However, homeowners' tax position was even more advantageous when mortgage interest tax relief was available up until 2000. So there has been a levelling of the playing field in favour of landlords which at the margin may have discouraged some from entering homeownership.

Outlook

Most of the trends that have boosted demand for rented accommodation outlined above seem set to continue. In particular, demographic projections point to rapidly rising housing demand. Official projections suggest the UK's population will increase by 3.2m to 67.8m by 2020, rising to 75.3m by 2035.

If the growth in social rented housing continues at its current modest pace, its share of the total housing stock will continue to shrink, adding to affordability pressures in owner-occupied housing. So in the absence of a significant shift in housing policy towards either much higher social house building or to allow much higher new build rates in general (through say a relaxation of planning restrictions), it seems highly probably that the current trend towards private renting will continue.

Any attempt by a future government to control the private rented sector – for example, by reimposing regulation on the level of rents – would be counter-productive in such an environment. In the absence of higher housing supply, it would risk a reduction in investment in the sector leading to an *increase* in rents.

Table 1 – UK tenure projections to 2032

	Owner-occupied units (thousands)	% of total	Private rented units (thousands)	% of total	Social rented units (thousands)	% of total	Total units (thousands)
2007	18,206	68.0%	3,606	13.5%	4,886	18.3%	26,698
2012	17,835	64.2%	4,920	17.7%	4,936	17.8%	27,691
2017f	17,445	61.1%	6,106	21.4%	4,996	17.5%	28,548
2022f	17,064	57.5%	7,578	25.5%	5,058	17.0%	29,700
2032f	16,326	49.2%	11,672	35.2%	5,182	15.6%	33,181

Source: DCLG / IMLA

Table 1 shows how tenures will have changed by 2032 if current trends are projected forward. By 2032 the UK will see a majority of households renting for the first time since the early 1970s. By 2032 more than a third of British households will be renting privately.

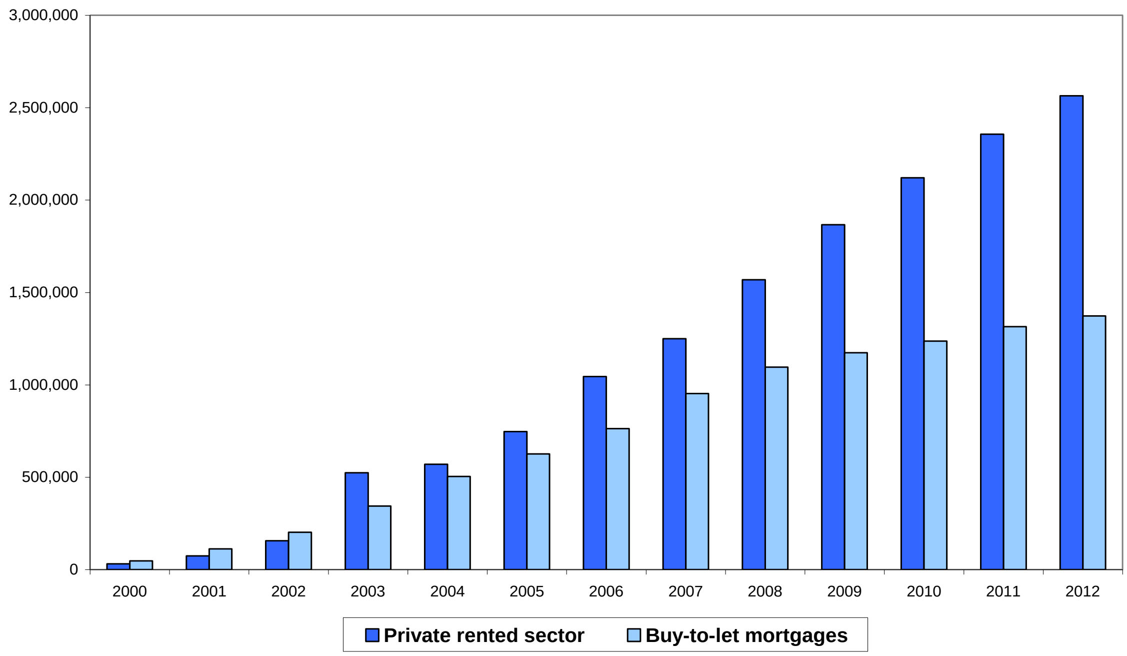
Data on tenure by age group shows how this projected shift is coming about. Homeownership rates are lower amongst younger age groups and this effect is gradually moving up the age brackets, as more people struggle to move into owner-occupation even as they reach their 30s and beyond. In 1991, 36% of 16-24 year olds and 67% of 25-34 year olds were homeowners. By 2012/13 this had fallen to 11% and 40% respectively. Unless a major policy or economic shift takes place majority homeownership is set to become the preserve of the old.

Section 2 – The interplay of buy-to-let and first time buyer lending

The growth of the private rented sector and buy-to-let

The buy-to-let mortgage has been a significant phenomenon since its launch in 1996. It has certainly encouraged a new breed a small landlord. But interestingly, by 2012 the number of buy-to-let mortgages had grown to 1.4m whilst over the same 1996-2012 period the private rented sector had grown by 2.6m.

Chart 3 – Cumulative increase in stock of UK buy-to-let mortgages and privately rented homes since 1999



Source: DCLG and Council of Mortgage Lenders

Given that buy-to-let loans were not available prior to 1996 and that they represent the cheapest form of debt finance available on a rented residential property, we would have expected the growth in the number of buy-to-let loans to have significantly outpaced that of the private rented sector as a whole as landlords switched to buy-to-let finance from other, more expensive sources or to provide a better mix of debt and equity.

The fact that the private rented sector increased by some 1.2m more than the number of properties with buy-to-let loans is strong evidence that the buy-to-let mortgage market has been responding to a growing private rented sector rather than leading it. It also highlights the extent to which those investing in the private rented sector have been able to draw on other sources of finance such as their equity, and in the case of larger commercial landlords, other forms of debt.

Impact of buy-to-let lending on house prices

Even if you accept that buy-to-let mortgage lending has been responding to rather than driving the growth of the private rented sector it does not automatically follow that it has not contributed to the crowding out of first time buyers. Against a relatively fixed overall supply, landlords bidding for properties to meet rising tenant demand will still represent competition for first time buyers.

A report by the National Housing and Planning Advice Unit (NHPAU) entitled 'Buy-to-let mortgage lending and the impact on UK house prices: a technical report' (February 2008) attempted to estimate the impact of buy-to-let lending on house prices. Using a regression model to estimate the impact, it concluded that gross mortgage lending for house purchase had a strong influence on the level of house prices and that up to Q2 2007 buy-to-let lending had raised UK house prices cumulatively by up to 7.4%.

The NHPAU report stressed that its estimated impact was *up to* 7.4% because it was difficult to know how much additional owner-occupied lending there would have been in the absence of buy-to-let mortgage products. However, the implication is clearly that first time buyers faced higher property prices than they would otherwise have faced.

However, given rising rental demand, an absence of buy-to-let mortgages might alternatively have encouraged higher levels of cash investment in the private rented sector. Certainly the 2007-12 period seems to bear out the view that many landlords can expand their portfolios without recourse to buy-to-let finance. So it is difficult to be certain of the true impact of buy-to-let lending on first time buyers.

The NHPAU paper can be also questioned for linking levels of gross mortgage lending with long term movements in house prices. While higher gross lending can drive up house prices in a cyclical upturn, this reflects the level of churn in the market (the rate of housing turnover). In the longer term it will be changes in the stock of lending relative to the stock of housing that determines house prices. Looked at from this perspective, it is the failure to generate growth in the size of the housing stock in the face of higher mortgage demand that is the real culprit. Suppressing buy-to-let lending could in theory reduce house prices, helping first time buyer affordability, but only at the cost of higher rents.

A comparison of buy-to-let and first time buyer loans

The comparison of first time buyers and buy-to-let borrowers is not simply a matter of lending volumes however. To consider whether buy-to-let mortgages have advantaged landlords relative to first time buyers, it is necessary also to consider how the two classes of mortgage product differ. The main distinctions between buy-to-let and first time buyer mortgages are:

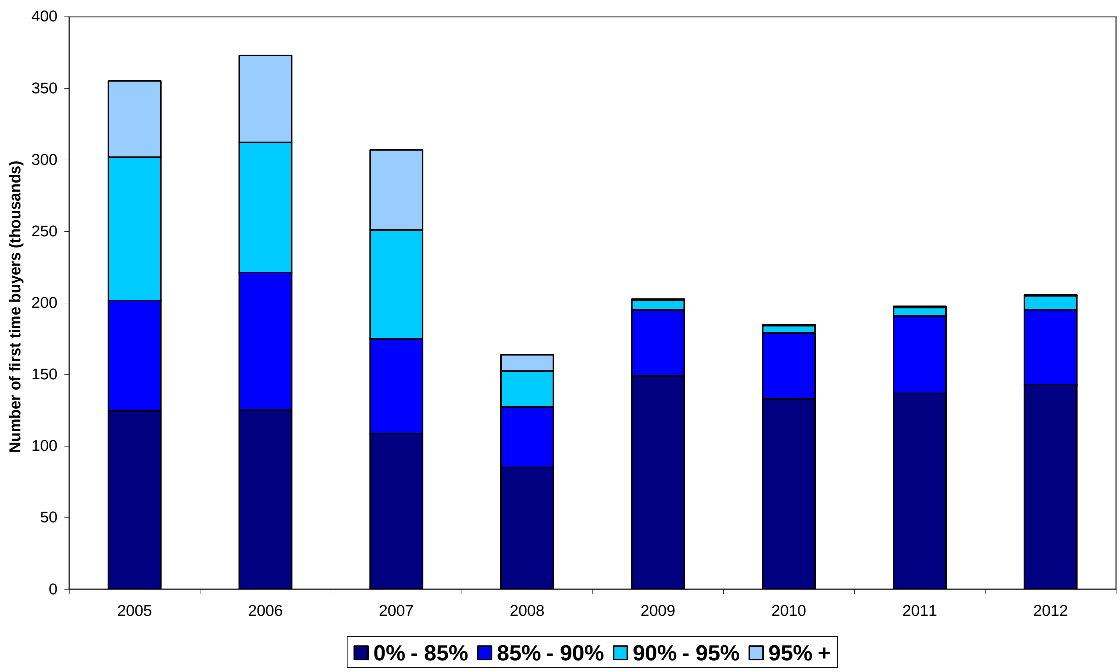
- The average LTV for first time buyers stands at 80% (Q4 2013) although it was over 95% in the mid 1990s, reflecting the limited savings of most first time buyers. Maximum LTVs for first time buyers were above 100% before the financial crisis but even now are 95%. By contrast most lenders currently stipulate a maximum LTV on buy-to-let loans of 75% and even before the financial crisis there were few products over an LTV of 85%.

- In keeping with other owner-occupied mortgages, first time buyer loans are invariably cheaper than buy-to-let mortgages at any given LTV, with both interest rates and fees usually lower.

- They are subject to different lending criteria, with first time buyer loans determined by an affordability calculation based on regular income and buy-to-let affordability assessed primarily on the basis of the potential rental income of the property.

- First time buyer loans are subject to Financial Conduct Authority (FCA) conduct of business regulation whilst buy-to-let loans are not.

Chart 4 – LTV distribution for UK first time buyers



Source: FCA

As Chart 4 shows, prior to the financial crisis the majority of first time buyers relied on high LTV mortgages (over 85%) to get them into the housing market. Indeed, as far back as the 1930s the 95% LTV mortgage was an established feature of the market in the UK[3].

So in terms of maximum LTV and also in cost, first time buyers still have a clear advantage over buy-to-let borrowers. However, the comparison is more complex when it comes to lending criteria. Lenders assess first time buyers on the basis of the loan they can afford taking account of their income, expenses and the risk that interest rates will increase. In contrast, lenders will assess what can be lent to a landlord against a specific property based on the rental income it is expected to generate.

[3] See "The working class owner-occupied house of the 1930s" – Alan Crisp

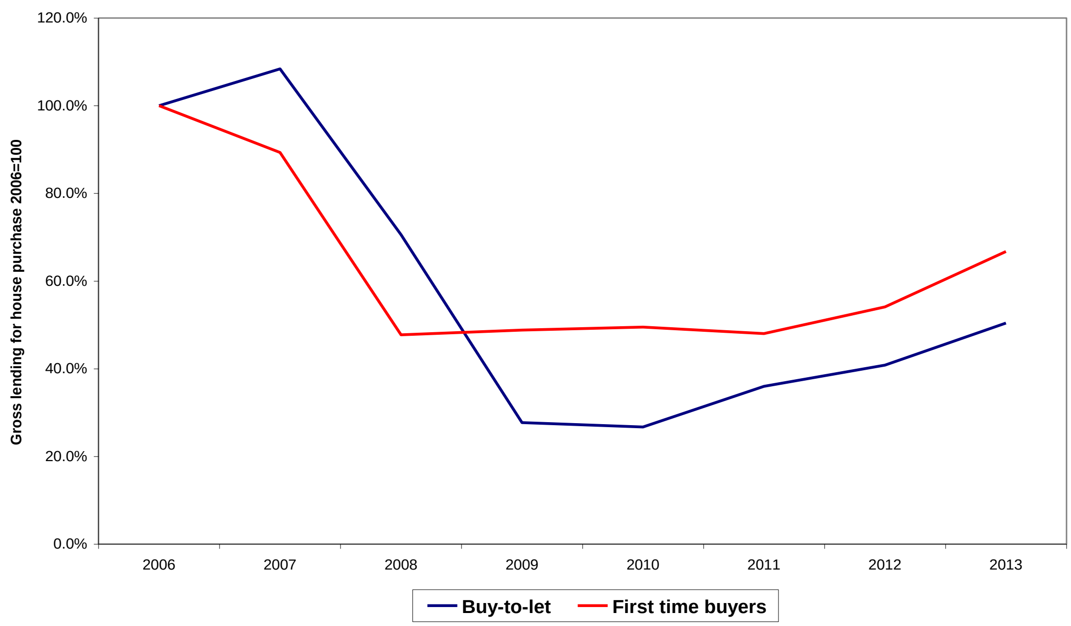
As a result of this difference in lending criteria there will be some properties, where the rental income is high relative to the market value, where buy-to-let borrowers will be able to borrow more than many first time buyers and others, where the rental yield is low, where most prospective first time buyers will be able to borrow more.

Developments in the period since 2007

The financial crisis drastically reduced the funds lenders had available to lend to mortgage and other borrowers. Unsurprisingly, lenders chose to reduce the higher risk segments of their mortgage lending including sub-prime and high LTV. On the face of it this should have disadvantaged first time buyer lending more than buy-to-let because first time buyer average LTVs are so much higher.

But despite first time buyers' greater dependence on high LTVs, it was buy-to-let lending which fell more sharply in the wake of the financial crisis. The number of new buy-to-let loans for house purchase fell 75% between 2007 and 2010, easily eclipsing the 45% decline in first time buyer lending (see Chart 5 which rebases lending to 100 in 2006).

Chart 5 – Buy-to-let and first time buyer gross lending for UK house purchase (2006=100)



Source: Council of Mortgage Lenders

This precipitous decline in buy-to-let lending reflected the extent to which mortgage lenders withdraw credit supply to the sector much more than it reflected landlords scaling back their ambitions. This in turn reflected a series of factors: a number of lenders that had focused heavily on buy-to-let ceased lending (most notably Mortgage Express, part of Bradford & Bingley); the closure of the securitisation market; a perception on the part of some lenders that buy-to-let was higher risk; and a concern that the regulator shared this view; and a retreat into core owner-occupied lending by firms that had less money to lend in aggregate.

But while the volume of buy-to-let lending has been much lower since the financial crisis the private rented sector appears to have gone from strength to strength. Tenant demand has been buoyed by the decision of many households to delay purchasing their own home and demographics have also remained strongly supportive.

Reflecting the strength of tenant demand, between 2007 and 2012, the number of properties in the private rented sector in the UK rose by 1,310,000 according to figures from the Department for Communities and Local Government (DCLG) even though the number of buy-to-let mortgages rose by only 420,000. DCLG's 2010 private landlord survey shows that 44% of landlord purchases were made without a mortgage with a further 9% of properties being inherited.

As buy-to-let is generally the cheapest source of mortgage finance available for rented residential property it seems unlikely other sources of debt played a significant role although institutional or corporate private landlords would use commercial loans.

The picture today

The current environment may be said to favour landlords to some extent. Even after their recent easing, deposit requirements are higher than in the pre-recession period, limiting the number of first time buyers able to access the market. Monetary policy has also inadvertently favoured buy-to-let investors.

Bank rate at 0.5% for the past 5 years has provided existing landlords with a cash windfall. And because mortgages granted before the financial crisis typically had much lower spreads over bank rate than loans today, these landlords are paying lower rates than their tenants could hope to pay if they now became homeowners. Low interest rates and QE have also supported higher asset prices including house prices. This combination of ultra-lower mortgage rates and buoyed house prices has provided many landlords with a war chest of both cash and equity with which to expand should they wish to.

However, the low gross rental yields that have become a feature of the market in parts of the country in recent years, as property price increases have outstripped those of rents, can impose a constraint on buy-to-let investors as they limit the amount they can borrow.

Most buy-to-let lenders require that rental income must be at least 125% of annual mortgage interest typically calculated at a non-discounted interest rate. So for a property valued at £200,000 with a gross rental income of £6,000, the lender would want to ensure that interest costs are no more than £4,800. At an interest rate of 4%, this means that the maximum loan size would be £120,000, equal to only 60% of the property's value. This could constrain buy-to-let investors' purchasing power relative to owner-occupiers in some local markets.

Though the environment may favour buy-to-let, policy measures have generally favoured first time buyers with Help-to-Buy being just the latest, although the most high profile, of a series of schemes aimed primarily at this group. This illustrates politicians' preferences for measures to support owner occupation although government has also sought to encourage investment in the private rented sector by institutions with policies such as the build-to-rent initiative.

The picture going forward

If current trends continue as described in Section 1, rising demand for private rented property will drive further expansion by landlords. This should ensure that buy-to-let becomes a significantly larger component of the overall mortgage market. Just how much larger will depend on the extent to which landlords rely on mortgage finance but the aging profile of homeowners does suggest that new business is likely to be much more focused on buy-to-let in the coming years than it is today.

The projections shown in Section 1 would have political ramifications. Pressure is likely to grow for planning restrictions to be relaxed to allow for a large increase in new building, especially of social housing. And as long as homeownership remains an aspiration for the majority, politicians will seek to support the tenure. But the new regulatory regime may be pulling in the opposite direction and we turn to this issue next.

Section 3 - Impact of the new regulatory environment

In our previous research paper '*What is the new 'normal'? Mortgage lending in 2014-15 and the march back to a sustainable market*' (February 2014) we talked of the triple lock of new regulation: the Base 3 capital adequacy regime; the mortgage market review (MMR) and the new macro-prudential regime. We stated our concerns that this new triumvirate might dampen activity in the mortgage market going forward.

However, we believe there is also a risk that regulation could disadvantage first time buyers relative to buy-to-let. As it is considered a commercial transaction, buy-to-let lending has not been subject to consumer regulation in the UK. Our government reconfirmed this view recently when it successfully negotiated a carve-out for buy-to-let from regulation under the EU mortgage credit directive.

This difference of regulatory treatment did not appear to significantly disadvantage first time buyers in the past, but with the new regulatory regime this may no longer be the case:

Basel capital adequacy regime

- Basel 2 increased the sensitivity to risk of the capital adequacy rules and Basel 3 imposes a further increase in the level of capital lenders have to hold across the board. As a result of these changes lenders must hold much higher levels of capital on high LTV loans relative to lower LTV loans. With high LTV loans likely to be more expensive and less readily available as a result, first time buyers will be disadvantaged.

- Government and market observers may not have fully appreciated the extent to which the new Basel regime has disincentivised lenders from providing high LTV loans because, by coincidence, the Basel 2 regime was adopted by most banks at the start of 2008, just when the financial crisis was starting to intensify. If Basel 2 was the main reason for lenders to withdraw or reprice high LTV loans, such loans will remain more expensive and harder to obtain on a permanent basis.

Mortgage market review (MMR)

- The new affordability rules introduced by the MMR, including an interest rate stress test, is expected to increase the number of first time buyers being rejected or finding they cannot borrow enough to get onto the housing ladder.

- Under the MMR owner-occupiers will also find it harder to borrow on an interest only basis. The FCA states 'Lenders will still be allowed to grant interest-only loans, but only where there is a credible strategy for repaying the capital'. In contrast most buy-to-let investors borrow on an interest only basis, resulting in a lower monthly outlay. Equally, under the MMR borrowing into retirement will become harder for owner-occupiers but not for buy-to-let borrowers.

Macro-prudential measures

- The new macro-prudential regime will see the Financial Policy Committee (FPC) of the Bank of England able to instruct lenders to increase the interest rate used in the borrower stress test. It could do so because, for example, it believed the market was overheating. Again this would involve restrictions on first time buyers' ability to borrow relative to buy-to-let investors.

The FCA has expressed concerns about the heightened risk of first time buyers and other owner-occupiers 'gaming' the MMR rules by masquerading as buy-to-let borrowers. This seems to bear out the view that the new regulatory regime will disadvantage first time buyers relative to buy-to-let borrowers. While lenders and brokers should put in place robust measures to prevent first time buyers disguising themselves as buy-to-let investors, the existence of such regulatory arbitrage does call into question whether the rules have been sufficiently well calibrated.

It seems anomalous that a tenant who has met a given monthly rental payment over a long period might be able to qualify for a loan to become "their own landlord" but not qualify as a first time buyer. And the additional monthly cost of a capital repayment mortgage will disadvantage them in the amount they can borrow relative to a landlord using an interest only loan.

For example, consider a tenant who has met a monthly rent payment of £1,000. Their landlord would be assessed as being able to afford annual interest payments of up to £9,600 (£12,000/125%) - £800 a month. At an interest rate of 4% the landlord would be able to borrow £240,000 on an interest only basis. If the tenant wanted to buy, assuming they were assessed as being able to afford to borrow £240,000, at the same interest rate their monthly payment on a 25 year capital repayment mortgage would be £1,267 rather than £800 – a 58% higher monthly outlay.

Section 4 - Conclusion

Many first time buyers feel that they face fierce competition from property investors and certainly the overall shortage of property has heightened the general sense of competition in the market, particularly in London and the southeast. However, tenant demand has been increasing due to a range of secular trends that reflect wider changes in society, including changing employment patterns, higher number of students and foreign workers, and a shortage of social housing along with the increasing challenge of homeownership.

Buy-to-let mortgages have helped landlords to respond to this extra tenant demand but it is surprising how successful landlords have been at finding alternative sources of finance: only 420,000 of the 1,310,000 increase in the private rented sector in the UK between 2007 and 2012 was financed by a buy-to-let loan.

Nonetheless, it seems that one consequence of recent changes to the regulatory regime is to disadvantage the first time buyer relative to the buy-to-let borrower. This clashes with the government's desire to promote homeownership and it remains to be seen how future governments will reconcile the natural political instinct to promote owner-occupation with the headwinds created by the new regulatory framework and the need for a market led private rented sector able to respond to changing demand.

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About IMLA

IMLA is the specialist trade body representing the interests of mortgage lenders who market their products through brokers, rather than solely direct or through a branch network. Its directors and members are drawn from the senior ranks of mainstream banks, building societies, 'challenger' banks and specialist lenders.

IMLA provides a unique opportunity for senior industry professionals to meet on a regular basis to discuss key current initiatives and contribute actively through IMLA and other industry forums.

IMLA was formed in 1988 as the Association of Mortgage Lenders and was instrumental in the creation of the Council of Mortgage Lenders (CML). It changed its name to IMLA in 1995. Subsequently IMLA helped bring the Association of Mortgage Intermediaries (AMI) into being and was instrumental in bringing the mortgage advisers qualification CeMAP to fruition. For more information, please visit www.imla.org.uk

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A highly experienced analyst and economist, he previously served as an economist at the Bank of England (1989-1994), a high profile analyst at the investment bank UBS (1994-2001) and as senior policy adviser to the Council of Mortgage Lenders (CML) (2005-12).

He was also the project originator and manager at the European Mortgage Finance Agency project (2001-05) and created the blueprint for the government backed NewBuy 95% LTV mortgage scheme.