IMLA landlord survey: understanding today’s private rented sector providers

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December 2023

Executive summary

- **IMLA has conducted a survey of a random selection of 503 landlords to get a better understanding of the providers in today's private rented sector (PRS).** This report presents the findings of that survey.

- **In contrast to most sectors of the economy, where large corporates dominate, the overwhelming majority of providers in the PRS are individuals operating either in their own name or through small limited companies.** 80% of landlords own either one or two rental properties. Only 13% are classed as portfolio landlords, owning four or more properties and these providers own 39% of the stock meaning 61% is in the hands of smaller suppliers.

- **We asked respondents for key financial data about their rental businesses.** The answers confirm the small scale of rental businesses and the modest level of returns: median average income is £14,000 and profit less than £9,000. Average net rental yields were 3.8% and average return on equity excluding capital gains was 3.7% - a modest figure compared to the returns typically expected by larger corporates. Landlords' median other income is £39,000 compared to average PRS tenant income of £37,000 and £50,000 in London.

- **We asked whether respondents believed they were paying more tax as a result of the removal of the mortgage interest deduction.** 36% of the total said they were paying more tax as a result of this change. But looking at their total stated income, we calculate that 58% will be paying more tax. So it would seem that more than a third of those paying more tax do not realise they are doing so, or are unaware of future liabilities

- **On average landlords with mortgages expect to see their monthly interest payment rise by 80% over the next two years.** This is equivalent to 26% of these landlords' rental income and 54% of their trading profit, highlighting the need that many landlords will face to raise rents further to cover rising costs.

- **New regulations have increased landlords' costs and further regulation could prove unaffordable for some landlords, pushing them out of the sector.** 64% of landlords say that increased regulation has added to their costs, rising to 73% amongst portfolio providers. 44% said upgrading all their properties to an EPC rating of C, which could become policy under a future government, would either require a grant, the sale of at least one property or is unaffordable.

- **Despite the current headwinds, the majority of landlords said they planned to expand their portfolios.** In contrast to media coverage talking of an exodus of landlords, over the next five years, 35% plan to add properties while only 18% plan to downsize. Amongst portfolio landlords these figures are even higher: 50% and 17% respectively. This may reflect a desire to meet rising tenant demand.

1. Overview

1.1 Purpose of IMLA landlord survey

During September 2023 IMLA carried out a survey of a random sample of 503 landlords across the UK, selecting respondents from consumer panels to minimize the risk of sample bias. The survey was designed to give a more accurate picture of the people who provide accommodation in the private rented sector (PRS). This paper outlines the findings from the survey across a range of different characteristics, comparing leveraged to unleveraged landlords and portfolio landlords to smaller operators, while examining how many landlords use limited companies relative to those operating under their own name and how many manage their properties themselves compared to those who use a letting agent. We provide a particular focus on the financial returns and how these returns might evolve over the next few years given the steep rise in mortgage rates since last year.

The PRS has received a good deal of attention in the media in recent years and a substantial proportion of the coverage has been critical of landlords and the renting experience. Given the larger numbers of people renting privately today compared to earlier decades, it is unsurprising that the market conditions that tenants face has been a topical subject and that lobby groups and politicians have often seized on this issue to push for more regulation, higher taxes on landlords and even statutory rent controls. But how representative is the narrative sometimes presented of landlords as profiteering and even exploitative? Our survey is designed to provide some answers.

IMLA would welcome a dialogue with other parties with an interest in the PRS, including tenant lobby groups such as Shelter and Generation Rent, central government and local authorities, to consider the findings of this survey, which has attempted to fill something of a void in information about the financial situation landlords find themselves in - with some surprising results. All interested parties have a shared goal in understanding the true financial position of landlords because everyone who has an interest in the PRS should share the goal of seeing it function better, delivering better results for its customer base of tenants. And like any other market, improved functioning cannot happen without the active involvement of the providers or suppliers in that market.

1.2 Public perception of private landlords

A good deal of the media coverage of the PRS in recent years has focused on the difficulties tenants have faced in a market where demand has consistently outstripped supply and where, in consequence, many have faced rising rents and increased competition for properties, requiring them sometimes to take accommodation that is less than desirable. Typical of this kind of coverage is an article on the website justdoproperty.co.uk entitled *The Rent Crisis: Landlords Profiting, Tenants Suffering*[1].

[1] https://justdoproperty.co.uk/the-rent-crisis-landlords-profiting-tenants-suffering/?utm_content=cmp-true

With more people renting, renting for longer and entering homeownership later, lobby groups that speak on behalf of tenants such as Generation Rent and Shelter have been effective at shaping the debate about the shortcomings of the PRS and the kinds of solutions that are required to improve the sector. And politicians have been receptive to these proposals. Since the 2004 Housing Act, which expanded regulation of Houses in Multiple Occupation (HMOs), introducing for example minimum bedroom sizes, there has been a steady accumulation of new regulations for private rented property including minimum EPC requirements, electrical safety requirements, new rules around what fees and deposits letting agents and landlords can charge and the growing use of additional and selective licensing by local authorities.

Further changes are expected with the Renters Reform Bill which will remove fixed-term tenancies and require landlords not to deny tenants the right to keep pets while also creating a national landlord registry and a minimum statutory decent homes standard. The government also previously proposed raising minimum EPC requirements for the PRS, but not for owner-occupied or social rented property, to grade C. Although the Prime Minister has now stated that his government will not enact this proposal, it remains possible that a future government will introduce it. In Scotland, private rent increases have been capped by law since the cost of living crisis and the Scottish government is now planning to introduce permanent rent controls.

In one of the most controversial proposals, in 23 February 2023 the London Renters Union published a letter calling for a nationwide rent freeze and moratorium on evictions in the PRS. The letter was signed by Sadiq Khan, Mayor of London, Andy Burnham, Mayor of Manchester and a range of lobby groups and other bodies. The letter included the statement: “The vast majority of landlords have far greater financial resilience to weather the storm ahead, with the median annual income of landlords before their income from rent is taken into account at £55,415.”

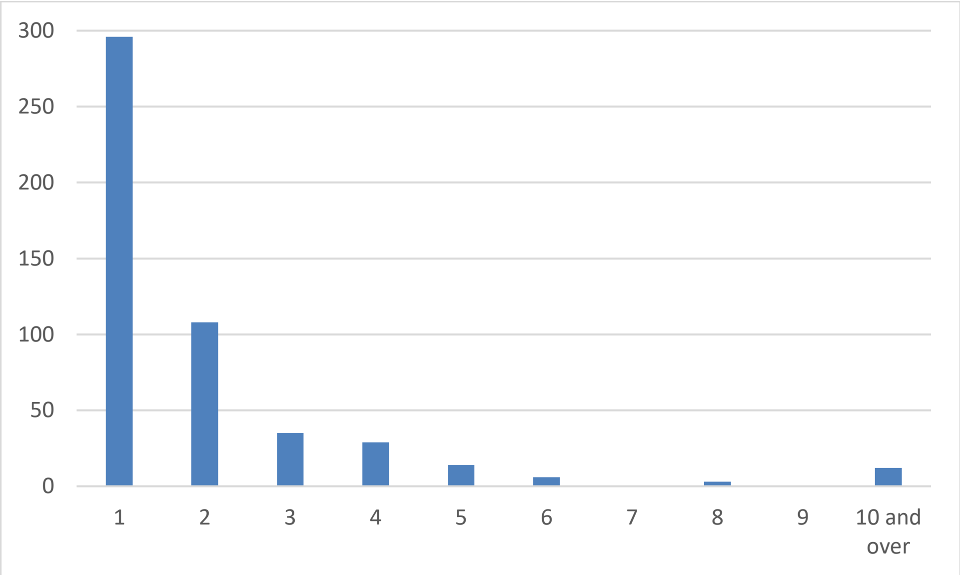
This figure was erroneous. Being taken from the English Private Landlord Survey 2021 from the Department for Levelling-up, Houses and Communities, it was in fact the mean average, the median figure being a more modest £24,000. By comparison, Private Rental Affordability data from the ONS showed that the median private tenant in England had an income of £37,000 in 2022, this figure rising to £50,000 for private tenants living in Greater London. This data suggests that it is inaccurate to claim “the vast majority of landlords have far greater financial resilience to weather the storm ahead” but with our survey we intended to shed further light on the true financial position of landlords.

2. Landlord basic characteristics

2.1 The diversity of providers in the PRS

While an increasing number of sectors of the economy have become dominated by large corporates over the past few decades, for example with the shift from independent retailers to large retail chains, the majority of the supply in the PRS is still provided by small businesses. Illustrating this point, Chart 1 splits our sample of landlords by the number of properties that each owns.

Chart 1 – number of rental properties own by landlords



Source: IMLA Landlord Survey

80% of landlords own only one or two rented properties with 59% owning only one. If you define a portfolio landlord as someone who owns four or more properties, only 13% of our sample qualify as portfolio landlords and they own only 39% of rented properties, leaving 61% of the stock with non-portfolio operators. Our survey does not include larger corporate owners but according to a paper by the Investment Property Forum only 3% of the UK PRS is owned by institutional investors[2].

This makes the PRS one of the most dispersed (i.e. least concentrated) industries in the UK, a characteristic which economists typically associate with strong competition, where individual suppliers are price takers having to price according to broader conditions of supply and demand. Even when properties are owned through corporate entities in the PRS, the overwhelming majority are individual or family businesses. This makes the PRS unique amongst major industries as the majority of supply is provided by small business owners rather than large corporate bodies.

[2] file:///C:/Users/robth/Downloads/Large-Scale-UK-Residential-Investment-Achieving-Market-Maturity-March-2021.pdf

2.2 What kind of people have become landlords?

The average age of our survey's landlords is 53. On average, they have been landlords for 11 years and although this is often considered something of a male-dominated business, 44% of them are female. 88% own the homes they live in meaning, perhaps surprisingly, that every eighth landlord is not an owner-occupier. And 30% of those who do own the home they live in have a mortgage on it. The proportion of landlords who live in each region broadly mirrors the wider population and most (73%) rent properties only in their own region: only 16% rent properties exclusively outside the region in which they live, and despite the image sometimes projected of individuals from London and the Southeast buying properties to rent out in cheaper regions of the country, only 7% fall into this category.

62% of our sample own their rental properties outright. The majority of the rest have buy-to-let mortgages although a small minority have commercial loans and a few have other debts including loans from family. Unsurprisingly, older landlords are more likely to have a debt-free rental business as they have had more time to accumulate wealth, with an average age of 56 against 47 for mortgaged landlords. The average loan-to-value (LTV) across all landlords is a modest 13%, rising to 36% for leveraged landlords.

33% became landlords because circumstances led them to rent out property, for example a couple deciding to keep two properties and rent one out when getting married or where a property proved difficult to sell. 50% became landlords primarily to enhance their pension or for an income and only 12% were motivated primarily by the prospect of capital gain. Our landlord sample has mean average non-rental income of £59,000 a year and a median of £39,000, the difference being the result of the impact of a smaller number of individuals with much higher non-rental income.

Although the removal of tax deduction for mortgage interest since 2017 has substantially increased the number of landlords opting to set up corporate structures, our survey reveals that across the population of existing landlords the rate of incorporation is still quite low. 90% of the rented properties covered by our survey are in personal names, only 10% in corporate bodies. Section 3 below examines differences between portfolio and so-called amateur landlords as well as those between landlords with and without mortgage debt. Although portfolio landlords are more likely to use corporate structures, even amongst this group, only 19% of properties are in corporate entities, perhaps reflecting the tax issues landlords face transferring properties bought before the removal of mortgage interest tax deductibility from their own name to a company.

Section 4 considers the financial position of landlords, finding that the majority make modest profits from their rental businesses and that return on the equity invested in their property is low even though many landlords also devote a considerable amount of time to their rental businesses, which is not factored into these returns. Rising mortgage rates are a concern, with many landlords worried that they will be pushed into a loss-making position by the scale of interest rate rises seen over the past year or so.

Section 5 considers the impact of regulation. 64% of landlords say that new regulations have increased their costs, rising to 73% amongst portfolio landlords. But despite increased regulation and rising mortgage rates, one surprising but heartening finding is that more landlords in our survey are planning to buy than sell properties. This perhaps illustrates both the resilience of landlords as a group and their interest in meeting growing demand for their product. One thing on which it appears everyone including tenant advocacy groups and government can agree is that there is currently an inadequate supply of private rented accommodation relative to demand. Ultimately, only private landlords can solve this problem, so better understanding them and their concerns can only be a positive.

3. Examining portfolio and amateur, mortgaged and unmortgaged landlords

3.1 Portfolio versus smaller providers

As mentioned above, most landlords fit the common characteristic of being small operators. But perhaps the most significant distinction within this population is between the somewhat larger or portfolio landlords, who are usually defined as owning four or more properties, and smaller providers, sometimes called amateur landlords, with three or fewer properties. In this section, we examine the key differences which our survey has revealed about these two categories. We also examine another important distinction: between leveraged or mortgaged providers and those without debt secured on their properties in Section 3.2 below.

Perhaps surprisingly, portfolio landlords are younger, averaging 49 years of age against 54 for smaller providers, but despite this they have more experience, averaging 14 years in the rental business against 11 for their smaller competitors. And a significantly higher proportion of portfolio landlords are male: 67% against 54% amongst so-called amateurs. Portfolio providers have an average of 6.2 properties against 1.4 for amateurs. They are also more likely to have some mortgage debt: 61% against 33%, although the majority still have debt-free businesses. They also have higher incomes from other sources: a mean average of £105,000 versus £52,000, although the contrast between the median figures is much smaller at £43,000 and £37,000 respectively.

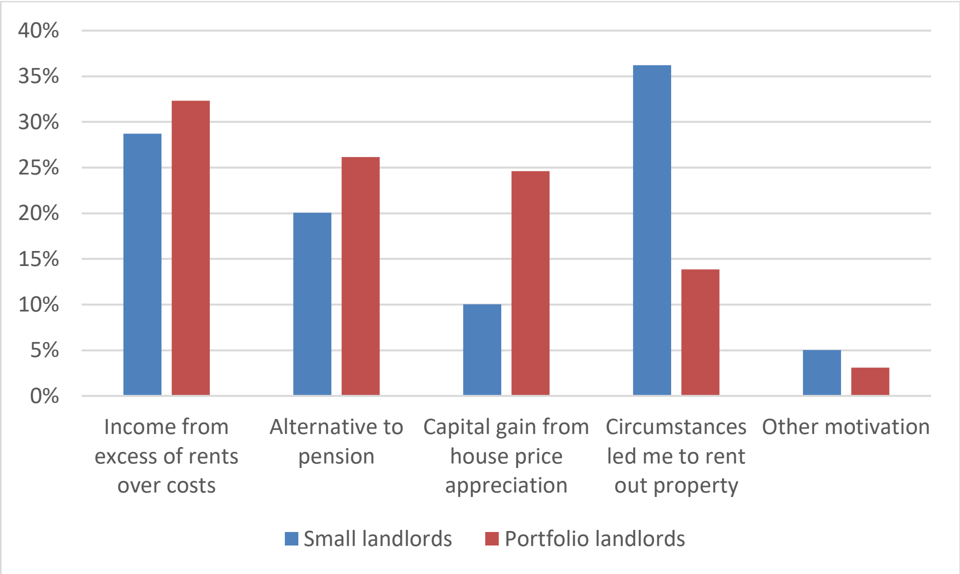
Chart 2 – Landlords currently catering to:

Source: IMLA Landlord Survey

Portfolio landlords are more likely to target specific niche rental markets: 13% operate in the student lets market, 13% rent to the retired and 9% rent to tenants on government benefits (see Chart 2). The figures for smaller landlords are 5%, 9% and 6% respectively. However, only 3% of portfolio providers cater exclusively to the student market and none exclusively to the retired or benefit recipients. With an average of more than six properties, these landlords can target different tenant groups and 83% report doing so, against 35% of small providers, who rely more heavily on the mainstream tenant groups of working singles and couples and working families, 78% reporting that they rent to these groups and 56% that they rent exclusively to one of these groups. Portfolio providers are also much more likely to rent out houses in multiple occupation (HMOs) – 13% against only 3% of smaller operators – and to offer short lets on websites like Airbnb (17% against 5%).

Although a slightly smaller proportion of portfolio landlords use the full management services of a letting agent (52% against 55%), more use letting agents solely to source tenants (34% against 29%), leading to the surprising result that a higher proportion of portfolio landlords use the services of a letting agent. Less surprisingly, a much higher proportion of properties in portfolio operations are held within a corporate entity (19% against 4%). However, this means that 81% of the properties of portfolio landlords are still owned by them personally.

Chart 3 – What was your primary motive for becoming a landlord?



Source: IMLA Landlord Survey

When it comes to motivation for becoming a landlord, unsurprisingly portfolio operators were less likely to have started out due to particular circumstances (14% versus 36% for smaller operators) and more likely to have been driven primarily by a desire to create an alternative to a pension (27% versus 20%) or by the hope of future capital gains (23% versus 10%). They are also more likely to be planning to expand their rental business, with 34% expecting to add properties over the next 12 months (and only 10% planning to contract) and 50% looking to expand over the next 5 years (17% to reduce). The equivalent figures for smaller providers are 12% and 33% planning to grow over the next 1 and 5 years and 7% and 19% planning to contract.

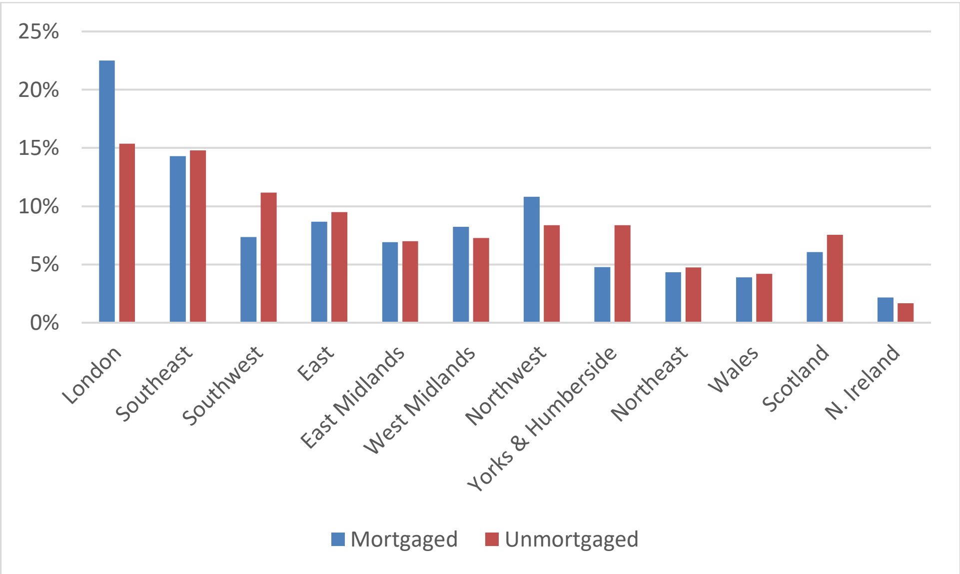
3.2 Mortgaged compared to unmortgaged landlords

Unmortgaged landlords are older on average, as you might expect, averaging 56 years of age against 47 for their leveraged competitors, the median age being even higher at 59 and they have been in the business on average for slightly longer at 12 against 10 years for leveraged providers. Unsurprisingly, they are significantly more likely to own their own home outright (74% against 41%) but have a significantly lower non-rental income: the average for unmortgaged landlords is £47,000 but £80,000 for the mortgaged ones. The respective median figures are £35,000 and £45,500. They own fewer properties: 1.7 against 2.6 for the average mortgaged landlord. They are more likely to use the full management services of a letting agent (55% against 52%) but less likely to use a letting agent only to find tenants (23% versus 40%), showing that overall, a higher proportion of mortgaged landlords use the services of a letting agent (91% versus 78%).

There is a significant gap in expansion plans with 53% of mortgage landlords planning to add more properties over the 5 years and only 21% planning to reduce the total, against 25% of unmortgaged landlords intending to expand and 17% contract their portfolios, although even unleveraged landlords are, in net terms, still expecting to expand, which contrasts with media coverage which has talked about a net exodus of landlords over the coming years. The bullishness of leveraged landlords is interesting given where mortgage rates currently are relative to rental yields. Our sample has an average gross rental yield of 4.7%. With rents required to be at least 125% of mortgage interest, at a 6% mortgage rate the maximum LTV would be c.62% at this yield.

Mortgaged providers are also more likely to cater to niche markets such as HMOs, short lets, students, retirees and benefit recipients. 10% of mortgaged landlords cater to students against only 5% amongst their unindebted competitors, while 4% cater exclusively to tenants on benefits against 1% for unmortgaged landlords.

Chart 4 – Regional breakdown of landlord operations



Source: IMLA Landlord Survey

As Chart 4 illustrates, there are some marked regional differences in the profile of leveraged and unleveraged providers. Most notably, mortgaged rental businesses are much more likely to be operating in London. In contrast, the Southwest has a higher concentration of unmortgaged landlords. The high proportion of mortgaged landlords in London may reflect the higher level of house prices in the capital, making it harder for landlords to buy without debt finance.

Mortgaged landlords are significantly more likely to have set up a corporate structure to own properties, no doubt reflecting the tax advantage from incorporation since the introduction of a restriction on the deductibility of mortgage interest for properties held personally. Amongst leveraged landlords 17% of properties are held within a corporate body against only 4% for the unleveraged providers.

But using our sample we can also see how aware landlords are about the impact of the restriction on the tax deduction of mortgage interest. Our total sub-sample of mortgaged landlords was 182. If you exclude those operating with corporate structures for some or all properties they rent out, 36% of the total said they were paying more tax as a result of this change. But looking at their total stated income, we calculate that 58% will be paying more tax. So it would seem that more than a third of those paying more tax do not even realise they are doing so, or are unaware of future liabilities

4. Financial characteristics

4.1 Headline financial performance figures

We asked our sample a series of questions about the financial performance of their rental business during the last year. This included asking about the current market value of their properties, the amount of debt secured on them, total rental income, mortgage interest and all other costs. From these five core financial figures we could then calculate other key statistics and a range of average performance metrics. Because some respondents did not provide all of this data and a few others provided data that appeared questionable, we used a subset of 408 respondents to draw up this dataset.

Table 1 – Average landlord key financial statistics

	Total portfolio value	Total mortgage debt	Total rental income	Mortgage cost	Non mortgage costs	Trading profit
Mean average	£480,150	£65,934	£22,503	£2,841	£4,465	£15,197
Median average	£300,000	£0	£14,000	£0	£2,500	£8,925

Source: IMLA Landlord Survey

Table 1 shows the mean and median average figures for the five key data points we asked about and trading profit, calculated by deducting mortgage interest and other costs from rental income. Perhaps the most striking feature of Table 1 is the scale of the difference between the mean and median. This reflects the impact of a few larger businesses on the mean as the median is the figure for the landlord in the middle of the range of results for each number.

But the modest nature of income and profits for landlords is clear whether measured on a mean or median basis. The median landlord has total rental income of £14,000 and a trading profit of £9,000. Even on a mean basis trading profit averages £15,000, not a huge sum.

Table 2 – Average landlord key financial indicators

	LTV	Mortgage rate	Gross yield	Total cost/income	Net yield	Return on equity
Mean average	12.6%	4.3%	4.7%	32.5%	3.8%	3.7%
Median average	0.0%	0.0%	4.5%	23.6%	3.5%	3.5%

Source: IMLA Landlord Survey

Table 2 shows the key metrics we have calculated from the respondents' financial data. The average LTV is only 12.6%, reflecting the fact that the majority of landlords have no debt. Gross rental yields (gross rental income as a proportion of the value of the property) averages 4.7%, a relatively low figure, particularly now that some mortgage rates have pushed above 6%. On average, costs consumed 33% of rental income (13% being mortgage interest and 20% all other costs such as insurance, repairs and letting agent fees). As a result, net yields (after deducting costs) average 3.8%.

Since we can calculate the amount of equity each landlord has by deducting debt from the market value of their property, we can calculate return on equity from trading activities (i.e. before capital gains are taken into account). This is not a figure most landlords would be particularly familiar with but is arguably the key financial metric in the wider business world because it shows the return a business makes on the capital it deploys.

The average return on equity or ROE from trading is 3.7%. This is a modest figure that would generally be considered inadequate in the broader professional business world. Moreover, the figure does not take account of the time landlords spend managing their rental property. As a result, rather than the caricature that some commentators have promoted of landlords as greedy, these returns appear uncommercial.

What might account for these low returns? Of course, they do not take account of capital gains and these have been significant over the past decade in most cases. However, capital gains are never certain and it is worth remembering that there are areas of the country where property prices remain below the level reached before the financial crisis of 2008/9. Renting property might be perceived as relatively low risk compared to - say - investing in equities, which could help to account for the low returns. Other alternative investments, such as bonds and cash, were paying very low returns until recently, which might also make a 3.7% ROE look attractive to some investors.

However, as the return from safe investments such as government bonds and cash has increased, the returns landlords report look increasingly inadequate. Moreover, with increased talk of rent controls, the risks associated with investment in the PRS are also increasing. Faced with higher risks, investors logically require higher returns and this could account for part of the recent sharp rise in rent levels. It is ironic to think that those advocating rent controls may be doing more to push rents up than anyone else at the current time.

4.2 Financial performance on a segregated basis

As we did in Section 3 above, we can look at our results disaggregated by size of portfolio and whether the landlord uses mortgage debt. The results for key financial data are shown in table 3.

Table 3 – Key financial data by category

	Total portfolio value	Total mortgage debt	Total rental income	Mortgage interest	Non mortgage costs	Trading profit
Portfolio	£1,341,304	£217,061	£62,746	£10,389	£10,865	£41,491
Amateur	£370,721	£46,730	£17,390	£1,882	£3,652	£11,856
Mortgaged	£616,512	£222,321	£29,446	£9,580	£5,541	£14,325
Unmortgaged	£422,659	£0	£19,576	£0	£4,012	£15,565

Source: IMLA Landlord Survey

As you would expect, portfolio landlords have higher income and costs but their average trading profit of £41,000 is still relatively modest (the corresponding median figure is £30,000). Table 3 also shows that mortgaged landlords have higher rental income than those without debt but slightly lower trading profits, reflecting the cost of mortgage interest.

Table 4 – Key financial indicators by category

	LTV	Mortgage rate	Gross yield	Cost/income ratio	Net yield	Trading return on equity
Portfolio	16.2%	4.8%	5.2%	33.1%	4.3%	4.3%
Amateur	13.7%	4.0%	4.9%	33.0%	3.9%	3.8%
Mortgaged	36.1%	4.3%	5.3%	58.0%	4.2%	4.1%
Unmortgaged	0.0%	N/A	4.8%	22.5%	3.8%	3.8%

Source: IMLA Landlord Survey

Table 4 shows the key financial metrics we have calculated based on the sample data. It provides a number of interesting insights. Firstly, even amongst mortgaged landlords the average overall LTV is a modest 36% across their holdings (which in some cases also includes some unmortgaged properties), suggesting that most of these providers will be able to adjust to higher interest rates without difficulty, although it will have a negative effect on returns. Another observation is that portfolio landlords pay a higher rate of interest at 4.8%, reflecting the specialist nature of this category and the fact that portfolio landlords are more likely to specialize in niche markets, which would also typically require higher mortgage rates.

The higher cost to income ratio of mortgaged landlords reflects mortgage interest costs, their non-mortgage costs being in line with those of other providers. Portfolio providers achieved gross yields of 5.2% compared to 4.9% for amateurs, perhaps reflecting their greater professionalism and the focus on niche rental markets of many of these providers. Finally, the highest ROEs were achieved by portfolio landlords, again perhaps reflecting their greater professionalism. However, at 4.3% even this group did not achieve a trading return that would satisfy most large corporate businesses.

4.3 the impact of rising mortgage rates

We asked the respondents with mortgages about their loans and their expectations about the cost of rising mortgage rates. 25% said they had already remortgaged or taken a product transfer since the start of August 2022 when mortgage rates started rising rapidly. 26% said they had fixed-rate loans coming to the end of the fixed period within the next 12 months and 46% within the next 24 months. We asked them to estimate what they expected to be paying in mortgage interest 24 months from now. On average, the expected increase was 80%.

Applying the 80% increase to the figures shown in Table 3 above suggests that the average landlord faces an increase in mortgage interest costs of £7,700 over the next 2 years, equivalent to 54% of current trading profits and 26% of their total rental income. This is a substantial hit to profits but one which most landlords will be able to cope with comfortably. As rents are rising across the country, profitability is unlikely to fall this much, but these findings do show why leveraged landlords in particular need to increase rents and would need to do so by about 12% a year over the next 2 years just to offset rising mortgage costs, with some landlords in a significantly worse position.

5. Impact of increased regulation

We asked our sample "Do you feel increased regulation of the private rental sector has impacted your costs as a landlord?" 64% of respondents said it had increased their costs, rising to 73% for portfolio landlords.

We then asked specifically about EPC ratings and the likely impact of a mandatory minimum C rating. This policy was proposed in a consultation[3] but has now been dropped by the Prime Minister. However, a future government could decide to enact this policy as part of its green agenda. Of those who knew the EPC of their properties, landlords reported that 71% of them were rated C or above, so only 29% would need upgrading, although official data suggests that the proportion failing to meet a C grade is higher than this for the PRS as a whole.

Where property would need upgrading to achieve a C rating we asked where landlords thought they would get the funds to finance the work. 50% said they could meet the costs from their own financial resources or savings. A further 6% said they would have to increase their mortgage debt to pay for upgrades but the remaining 44% said they would either need a government grant, would need to sell at least one property, would not be able to afford the cost or did not know where they would find the financial resources. When considering introducing a minimum C rating a future government should take this into account rather than assuming that all landlords would have the resources to pay for the necessary work.

We also asked "What, if any, impact would you expect a mandatory rent freeze on existing tenancies to have on your rental business?" 7% said it would require them to sell properties or exit the market altogether. This suggests that policymakers should be careful about implementing such policies as they are likely to exacerbate the existing shortage of rental property to the detriment of future tenants.

[3] Improving the Energy Performance of Privately Rented Homes in England and Wales, Department for Business, Energy and Industrial Strategy (September 2020)

6. Conclusion

There has been a great deal of noise in the media surrounding the PRS in recent years, much of it with a legitimate focus on the difficulties tenants face finding quality affordable accommodation and being able to make longer-term plans and lay down roots. But, in contrast, there has been remarkable little commentary devoted to the issues that impact the providers in this vital sector of the economy and, in particular, there has been something of a void around landlord financial data and understanding of the financial models that landlords operate with and the strains that are being placed upon them. This is surprising given that there is a general understanding that in any sector of the economy providers need to make adequate returns and failure to do so can lead to inadequate supply.

With the void in information about typical financial returns of PRS providers, commentators have often slipped into unsubstantiated stereotyping of landlords as well-heeled individuals who are in a position to absorb higher costs without passing these on to their more financially constrained tenants. Our attempt to fill this informational void has produced the following results:

The median trading profit from our survey is less than £9,000 per annum. Even for portfolio landlords the median trading profit is £30,000. This is less than the median income of tenants in the PRS in England which was £37,000 in 2022. The mean average ROE from trading (ignoring capital gains or losses) is 3.7%, a figure that larger corporates would generally consider an inadequate rate of return. And in the immediate outlook capital losses appear more likely than gains, suggesting lower overall returns over the next year or two.

What we hope this survey shows is that landlords are small business owners with modest financial turnover and trading profits. With the majority of landlords operating without debt and the rest having an average LTV of 36%, they are as a group financially robust and well able to withstand the period of higher interest rates we are entering. But in any competitive market, higher costs will be passed on in higher prices to customers and landlords, like most other businesses, are facing rising costs, not only in the form of higher mortgage rates for those with debts, but in other costs such as for repairs and maintenance.

We can only hope that the data presented in this paper will help shape a broader understanding of private landlords and inform policymakers with the key message that landlords are small business people who, operating on modest profit margins, will inevitably need to keep increasing rents over the next year or two due to rising costs. Moreover, the vision that corporate or institutional money can help to address affordability in the PRS, that some politicians seem to have subscribed to, fails to take account of the higher returns such investors demand. Small landlords have therefore served the PRS well on the whole, indeed settling for somewhat uncommercial returns, and policymakers would therefore be wise to ensure that their policies do not deter the small businesses that form the backbone of the PRS from continuing to invest.

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About IMLA

The Intermediary Mortgage Lenders Association (IMLA) is the trade association that represents mortgage lenders who lend to UK consumers and businesses wholly or predominantly via the broker channel. Its membership of 53 banks, building societies and specialist lenders include 18 of the 20 largest UK mortgage lenders (measured by gross lending) and account for approximately 93% of gross mortgage lending.

IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market.

Originally founded in 1988, IMLA has close working relationships with key stakeholders including the Association of Mortgage Intermediaries (AMI), Building Societies Association, UK Finance and the Financial Conduct Authority (FCA).

Visit www.imla.org.uk to view the full list of IMLA members and associate members and learn more about IMLA's work.

About the author

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