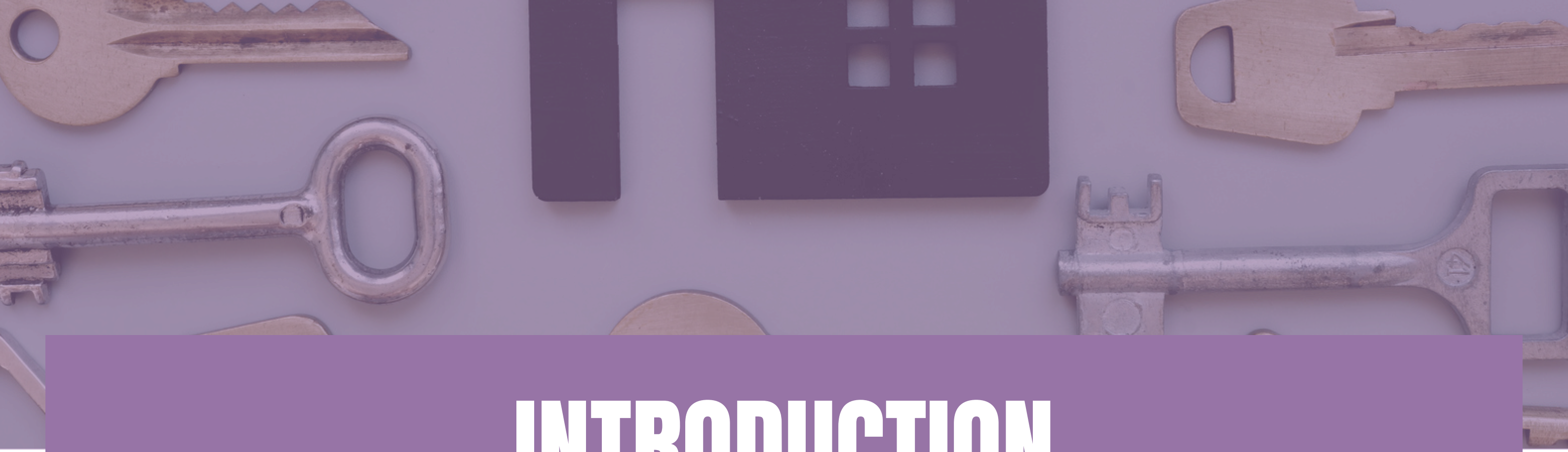
MARKET MOMENT

BUY-TO-LET

MAY 2025



INTRODUCTION

Richard Howes
Director of Mortgages

Leveraging in-depth research and strategic insights from our key partner, Aldermore, this analysis provides a comprehensive overview of the UK buy-to-let market.

I think it is fair to say the UK buy-to-let (BTL) market in 2025 represents a complex landscape, with all the recent change it has gone through, going through currently and the change expected in the next 12 months it is almost as though the BTL landscape is at a cross roads.

One thing you can't deny is that, the BTL sector and all its participants, landlords, renters, lenders and brokers are made of strong stuff... and it is not going away!

As we know the BTL sector is dominated by the broker market in terms of advice, where 98% of BTL mortgages are submitted to lenders through the broking community.

We're definitely facing more challenges than before, as we try to balance high rental demand and regional growth with growing regulatory and financial burdens.

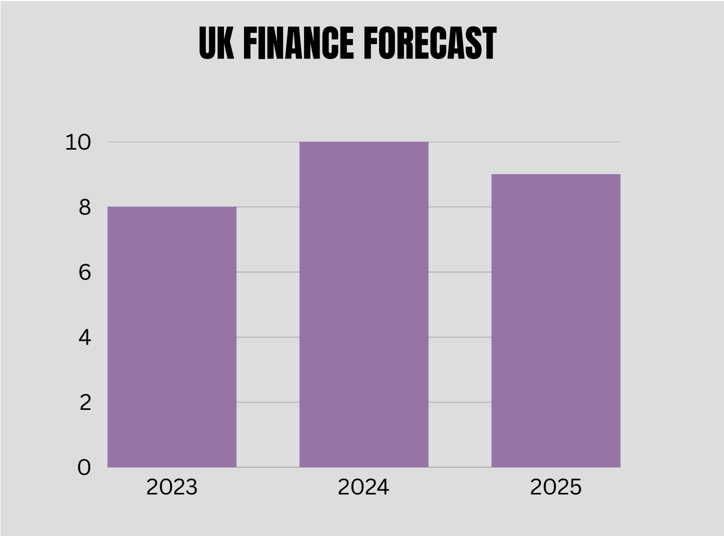
Indeed these pressures are going to increase further if the Renters Rights Bill and EPC legislation are passed. It is well known there are 169 pieces of legislation attached to renting a property out in a commercial sense, and the afore mentioned is only going to add to this.

UK Finance forecast lending on buy-to-let mortgages is expected to fall in 2025 given the challenges there are in the market. UK Finance believed at the beginning of the year the increase in the stamp duty surcharge on top of other regulatory and tax burdens will act as a 'further deterrent' to the market.

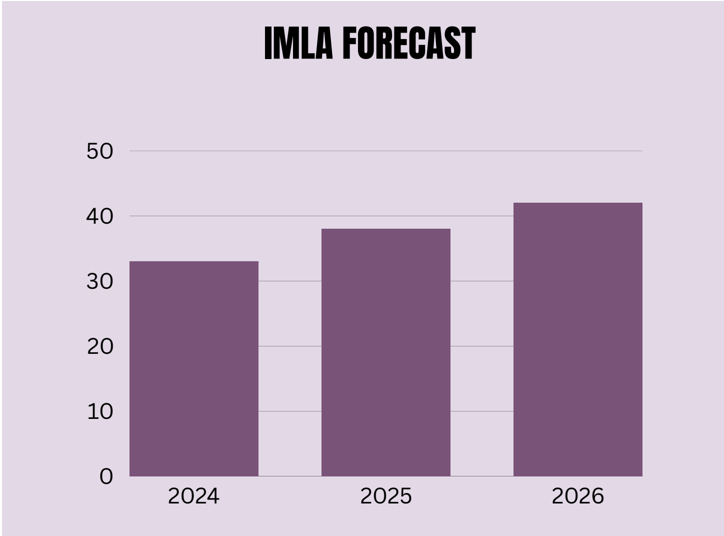
They thought cost and rate pressures had shrunk the buy-to-let market in 2023. However, there was a modest recovery in 2024 with house purchase lending to landlords growing by 13% to £10 billion thanks to falling mortgage rates.

By way of a contrast the Intermediary Mortgage Lenders Association (IMLA) in their The new ‘normal’ – prospects for 2025 and 2026 report forecast a rise in buy-to-let lending in 2025 to £38 billion (up 14%) and £42 billion in 2026 (11% ahead), supported by improved affordability as interest rates fall and rents continue to rise.

BUY-TO-LET MARKET FORECAST COMPARISON

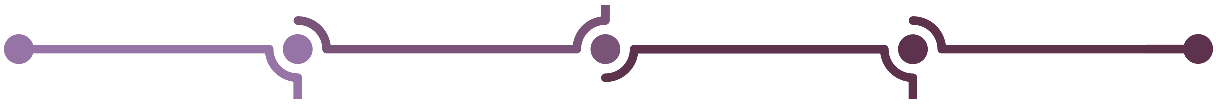


Expects 7% contraction in 2025
due to sector challenges



Projects 14% growth in 2025
and 11% growth in 2026

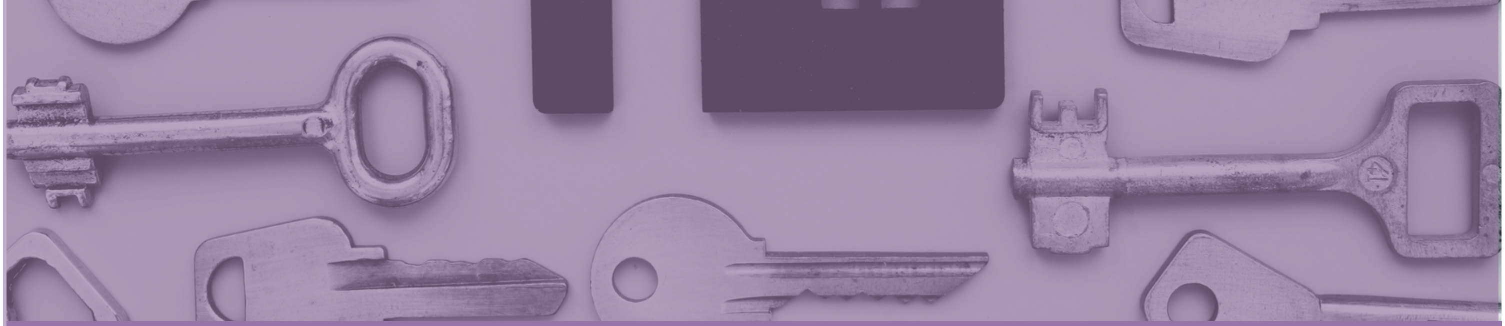
KEY MARKET FACTORS



Cost & Rate Pressures | Falling Mortgage Rates | Rising Rental Income

Note: UK Finance focuses on purchase lending while IMLA figures may include total buy-to-let lending

A further indication the market is not like the proverbial Monty Python Parrot, (younger readers may need to Google this!) is that a growing number of buy-to-let landlords who own through limited companies have been purchasing rental homes, further challenging the picture of decline across the private rented sector.

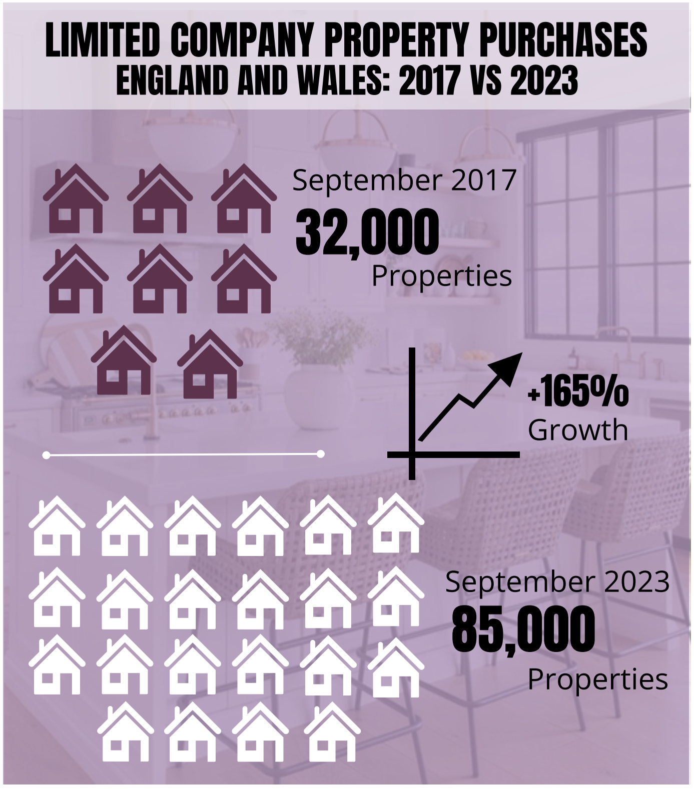


The Financial Times reported a significant increase in property purchases by limited companies in England and Wales. In the year leading up to September, these companies acquired 85,000 new properties, marking a substantial 165% rise compared to the 32,000 bought in the same period to September 2017.

Figures compiled by Hamptons, the estate agent, and Nottingham University's economics department — who analysed Companies House data — revealed that over three-quarters of buy-to-let limited companies established in 2017 have since bought properties.

However, a word of caution was expressed. Despite the rise in corporate purchases, there's a general decline in overall buy-to-let activity. In 2024, landlords bought 10% of all homes sold in the UK, a notable drop from the 16% peak in 2015.

This suggests that the reduction in new buy-to-let acquisitions has primarily come from smaller, individual landlords (often referred to as 'amateur landlords') who hold properties in their personal names, as indicated by the comparison between 2017 and 2024 data showing more purchases shifting to limited companies.



Source: Financial Times

Fierce competition between tenants to secure a UK rental home has eased slightly in the past year, with the stock of homes for renting up 18% compared with 2023, according to a recent rental report by property site Zoopla. Rents are still rising, but at 5.4% compared with 10.2% in 2023.

However, competition among tenants is still running at twice pre-pandemic levels, Zoopla added, and it expected demand to stay high into 2025.

> **The unaffordability of home ownership will continue to support demand for renting, especially across Southern England, where a sizeable proportion of workers are unable to buy.**

Source: Zoopla, UK rental Market Report, 2024

Quick stats

The average monthly UK rent is **£1,284**

higher than last year by **3%**

Lowest rate of growth for **3.5 YEARS**

Forecasted a near **20%** increase in UK rents over the next five years

Up from **1.05 MILLION** in 2024

Source: https://www.zoopla.co.uk/discover/property-news/rental-market-report/

Zoopla reported in their March UK rental market report that the average monthly UK rent is £1,284, 3% higher than last year. This is the lowest rate of growth for 3.5 years and more than half the rate a year ago (7.4%) as the supply/demand imbalance narrows. But Savills forecast a near 20% increase in UK rents over the next five years, outpacing the expected 15% growth in average incomes during the same period further underscoring the ongoing supply-demand imbalance in the market.

The mismatch between supply and demand is also noted by Zoopla as a challenge, with 12 renters currently chasing each home for rent. This is almost half the level of competition for rented homes recorded between 2022 and 2024 (when rental demand was at its strongest) but is still double pre-pandemic levels.

REGIONAL BTL

While London remains a significant market, regional cities are emerging as attractive BTL investment areas due to higher yields and growing rental demand. Cities like Manchester, Liverpool, and Leeds offer average rental yields between 5-7%, surpassing London's 3-4%.

This trend is driven by factors such as more affordable property prices, strong local economies, and an influx of students and young professionals.

The movement of landlords to go north shows no signs of abating and university towns continue to offer high yields, it is interesting to note some Lenders are now offering propositions around this area for the “Bank of Mum and Dad”.

Additionally, the build-to-rent sector continues to grow, with institutional investment reaching £5.4 billion in 2024. These professionally managed developments cater to tenant preferences for amenities like co-working spaces and gyms, offering potential for rental premiums and long-term growth.

It would be remiss not to talk about the BTL market and not mention the regulatory and tax changes which are a huge looming presence on the property market in 2025. Many changes have already been introduced in recent years, with more changes expected to come.

HOW THEN ARE LENDERS SUPPORTING THE BTL MARKET?

The obvious lever they can pull is to cut interest rates now we have a more stable base rate, the BTL market has always represented high margin for lenders, hence why many of the mainstream are in this area.

At the time of writing some major lenders are offering BTL fixed-rate deals below 4%, especially for lower LTVs.

Lenders are also trying to be innovative with new product types, such as green BTL mortgages, and offering discounts for energy-efficient properties. In addition, they are also looking at their overall BTL lending criteria and easing affordability criteria, such as Lower Interest Coverage Ratios (ICRs) for higher-rate taxpayers, accepting earned income top-ups alongside rental income to meet affordability tests.

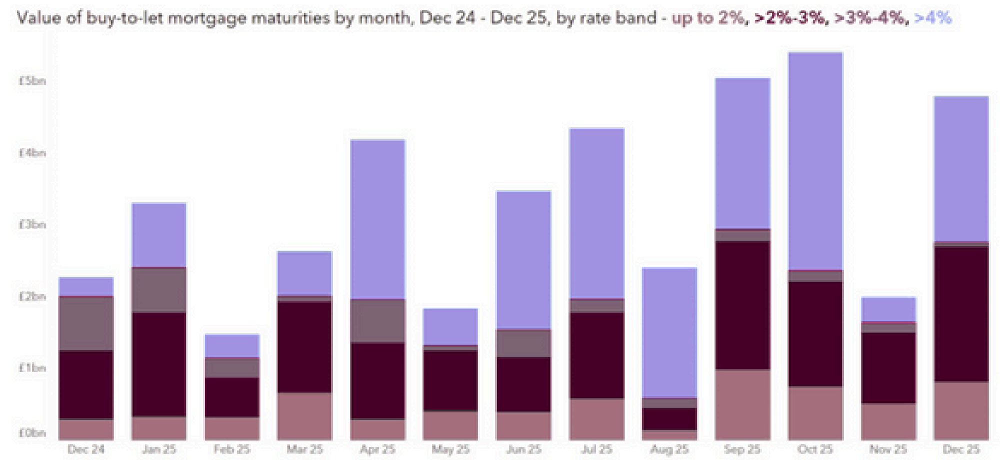
Portfolio landlords are also being accommodated with specialist underwriting and larger portfolio limits.

An interesting innovation from some of the specialist Lenders is around Limited Companies including, dedicated BTL rates for SPVs (Special Purpose Vehicles), more generous stress-testing assumptions, and streamlined applications for landlords with multiple properties.

An area that is growing and will represent further income opportunities for brokers is with Product Transfer & Remortgage Deals. The maturity of BTL mortgages from now until 2026 represents a major opportunity.

This will allow you as brokers to keep the communication lines open with your BTL clients for their existing deals, but also be front and centre should they be looking to add to their portfolio or indeed bring in other properties they may have for you to look at the finance requirements.

302,000 BTL FIXED MORTGAGES TO MATURE BY 2026



Source: CACI reproduced by Paradigm

LOOKING FORWARD

Lenders really need to show innovation and imagination to attract buy-to-let customers. This is vital for mitigating the effect of higher interest rates on rental yields, helping landlords adjust to tighter regulations such as the EPC C requirement, and for bringing new players into a more professional and yield-driven BTL market.

What is the Outlook for BTL in 2025?

The future will likely be defined by a combination of opportunity and increased complexity. As I said in my introduction, the market seems at a cross roads with more regulation bringing increased cost to all parties, but growing opportunities as the market undergoes a change into more professionalism.

There is no doubt there is still demand and many promising opportunities in all areas of the UK including cities and towns. Perhaps success in this market will depend on having a strategic investment policy to enable landlords to make the most of such change.

One Lender who is extremely practised in this area is Aldermore, they produce a BTL City Tracker & Landlord survey which gives an account of the market.

Why buy-to-let still means business

Landlords have faced nearly a decade of tax squeezes, rule tightening and new regulations, and there's more to come with the advent of the Renters' Rights Bill.

Despite this, many remain positive about buy-to-let as the underlying fundamentals for the sector are looking strong.

Aldermore

Jon Cooper
Director of Mortgages

Demand for rental homes remains high, outstripping supply, according to ARLA Propertymark,[1] which said there were seven people for each available property in December 2024.

Rents were also up 9% compared to a year earlier and void periods were down, leaving many landlords optimistic about the future.

In the Aldermore 2025 Buy-To-Let City Tracker report,[2] we asked 500 landlords how their portfolios performed last year and their thoughts about the future.

We were encouraged by the confidence and positivity reflected in their responses, which belied the gloomy narrative we often read about.

Despite the Renters' Rights Bill – which you can read more about below – potential EPC changes and the 5% stamp duty surcharge, landlords remain pragmatic about these challenges and optimistic about overcoming them.

Landlords reported increased property values and yields, fewer said they were considering leaving the market and more than half said they would recommend buying property to let.

At Aldermore, we are here to support brokers to look after your buy-to-let clients through good times and bad. Read on for an overview of the highlights of our recent landlord research.

1. https://www.propertymark.co.uk/resource/housing-insight-report-december-2024.html
2. Research conducted on behalf of Aldermore bank by Opinium Research between 7-14th January 2025 among 500 UK Landlords.

POSITIVES FOR LANDLORDS

Aldermore conducts regular surveys of UK landlords in our Buy-To-Let City Tracker, to make sure we can share up to date insights of the market and the general sentiment for brokers. In our 2025 report, we found:

Increased property values: Over half (58%) of landlords reported a rise in property values over the past 12 months, including 11% that have seen a 'significant' increase.

Stronger rental yields: More than half (51%) noted improved rental yields, averaging a 7.7% rise.

Landlord adaptation: Over a third (36%) have considered restructuring their portfolios to mitigate rising costs, with one in five (19%) setting up limited companies to improve tax efficiency in the last year alone and another 8% planning to.

Rents rising: Rents are still going up, by 12.4% on average, but fewer landlords are increasing them. Over four in five landlords (83%) raised their rental prices in the past year, compared to 94% in 2023.

Fewer landlords leaving: Only 31% of landlords are now considering leaving the sector, a significant drop from 48% in 2023, showing increased confidence in the market.

Positive sentiment: Two-thirds (64%) think that being a landlord remains a good way to make money, 56% would recommend it as an investment opportunity, and 51% are optimistic about the future.

TOP FACTS

Buy-To-Let City Tracker 2025

* Research conducted on behalf of Aldermore bank by Opinium Research between 7-14th January 2025 among 500 UK Landlords.

** Research conducted on behalf of Aldermore bank by Opinium Research between 7-14th January 2025 among 2,000 UK private renters

THE RESPONSIBLE LANDLORD

The research also revealed a clear commitment from landlords to make sure they provide good-quality rentals for tenants.

From doing repairs and ensuring safety standards to their support of the Decent Homes Standard, overall, landlords are clearly dedicated to providing good housing.

- **Maintaining safety:** nearly nine in 10 landlords (89%) organise the repairs and maintenance for their properties, from installing smoke alarms to ensuring electrical safety.
- **Supporting the local economy:** 86% of landlords hire local tradespeople for renovations and repairs, contributing to the local economy and ensuring a quick and knowledgeable service for tenants.
- **Easy to contact:** 59% of landlords say they make sure they are easily contactable in case of an emergency.

This commitment to quality not only benefits tenants but also strengthens landlords' reputations, fosters longer-term tenancies, reduces void periods and cuts costs. Maintaining the quality of the property also helps retain and even increase its value, making it a win-win.

WHAT DOES THE RENTERS' RIGHTS BILL MEAN FOR THE BUY-TO-LET MARKET?

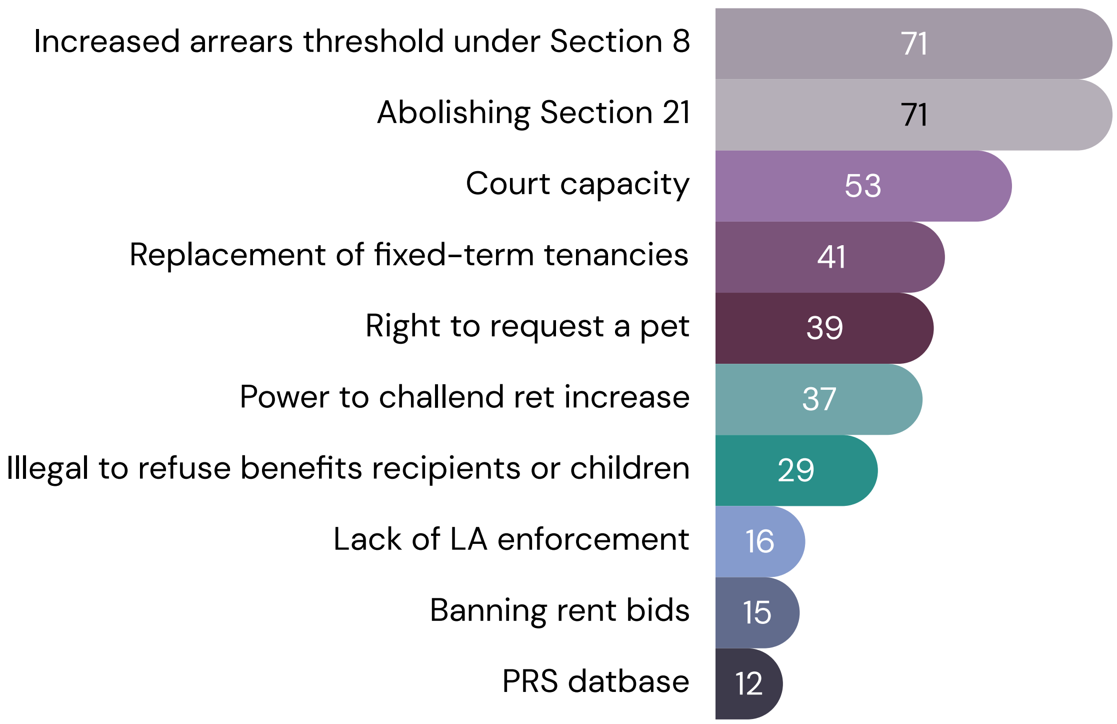
The Renters' Rights Bill is the biggest shake-up to the private rented sector (PRS) in the last 10 years. And that's saying something: it's been a busy decade.

The aim of this new legislation is one we can all agree with: clear and robust protection for the 11 million people renting in the UK today.

The Bill addresses the insecurities faced by tenants by reforming the sector and the quality of homes in it, while cracking down on unscrupulous landlords.

Brokers are in a unique position to guide landlord clients through these changes and make sure they are ready for what's coming up.

LANDLORDS' TOP 10 RRB CONCERNS (%)



Source: Paragon, **Louisa Sedwick** What does the Renters Rights Bill and EPC legislation have in store?

OVERVIEW OF THE KEY MEASURES:

- **Section 21 evictions banned:** No-fault evictions will be abolished and landlords will have to use expanded Section 8 possession grounds to end a contract.
- **No more fixed-term tenancies:** Fixed-term tenancies will be replaced by open-ended rolling agreements, which tenants can leave with two months' notice.
- **Decent Homes Standard:** This standard, already in place for social housing, will extend to private rentals. It requires properties to be safe, warm, and free of serious hazards, potentially requiring landlords to invest in property upgrades.
- **Awaab's Law:** This law, also in place in the social sector, enforces strict timelines for landlords to address serious hazards like mould and damp.
- **Rental bidding wars banned:** Landlords and agents will have to advertise a rental price and can't accept higher bids. Rent increases will be limited to once a year, and tenants will be able to challenge the rise. Landlords will only be permitted to request one month's rent in advance along with a security deposit.
- **New landlord database and Ombudsman:** Landlords will need to register on a national database, and disputes with tenants will be resolved through a new Ombudsman scheme.
- **Strengthened enforcement and penalties:** Local councils will have greater powers to crack down on rogue landlords, including forcing those who commit certain offences to repay rent to their tenants.

WHAT CAN BROKERS DO?

The Bill is likely to become law this year, with October having been mooted as a possible date, but it could be earlier.

HERE'S HOW YOU CAN LOOK TO HELP CLIENTS:

01 Check they know what's coming

Get in touch with all your buy-to-let clients to make sure they know about the Bill. Detail the main changes and how they are likely to affect landlords. Remind them to ask you any questions and signpost them to accurate information, such as the government's guide to the Bill.

02 Encourage them to make plans now

Landlords might be reluctant to make any investments into their property or processes until they know exactly what is coming. If they need to upgrade properties for example, they might want to start looking at funding options now, such as a further advance or even bridging finance. One cost-free exercise could be to go through existing tenancy agreements and contracts to see what needs to be changed to be in line with the proposed Bill.

03 Discuss their strategy

Landlords might need help with their longer-term investment strategy as a result of the Bill. Help them review their portfolios, looking at any properties that are underperforming, or that might not meet the new expectations. They might decide to restructure their portfolio by selling properties.

04 Remind them of the benefits

It's not all doom and gloom. Remind your landlord clients that they probably already work to many of the new standards proposed in the Bill. There will be extra admin and some landlords will experience more significant change. But the goal is happier tenants that hopefully stay longer, have fewer arrears and live in safer properties that better hold their value.

05 Educate yourself

Stay up to date with the progress of the Bill, any further amendments and their impact on landlords. Attend lender or distributor workshops and training sessions to stay informed so you are better able to support your clients.

How are Aldermore supporting the buy-to-let market?

Aldermore backs you and your buy-to-let clients all the way, with a wide choice of innovative products, from standard to complex buy-to-let mortgages, including our multi-property range.

By making mortgage finance easier to manage and giving landlords the ability to leverage their whole portfolio to refinance and raise funds, we can help them to focus on, and overcome, any challenges ahead.

We can support landlords in a variety of ways, including:

- Lending to both SPVs and Trading Companies
- Allowing first-time landlords*
- No minimum income for experienced landlords*
- Allowing up to 6 directors/shareholders/applicants per application

We can also support landlords save time and money with our multi-property deal. Here, we can:

- Combine 2 to 30 properties on a single application
- Aggregate the LTV and rental income across the application
- Require only one Personal Guarantee per director per application
- Offer free valuations (excluding HMO/MUF properties)

The landscape for landlords has become more challenging over the last 10 years and there are undoubtedly more hurdles ahead. We're confident that the vast majority will adapt to the new regulations, as they always do, and continue to provide quality homes to tenants.

To find out more about our buy-to-let product range, visit
aldermore.co.uk/intermediaries/mortgages/buy-to-let/

For more insights, news and information, visit
aldermore.co.uk/intermediaries/mortgages/insights/

*Conditions may apply, read our lending criteria guides for more information, or speak to your Business Development Manager.

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