



MARKET MOMENT

UK BUY-TO-LET
AFFORDABILITY

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INTRODUCTION



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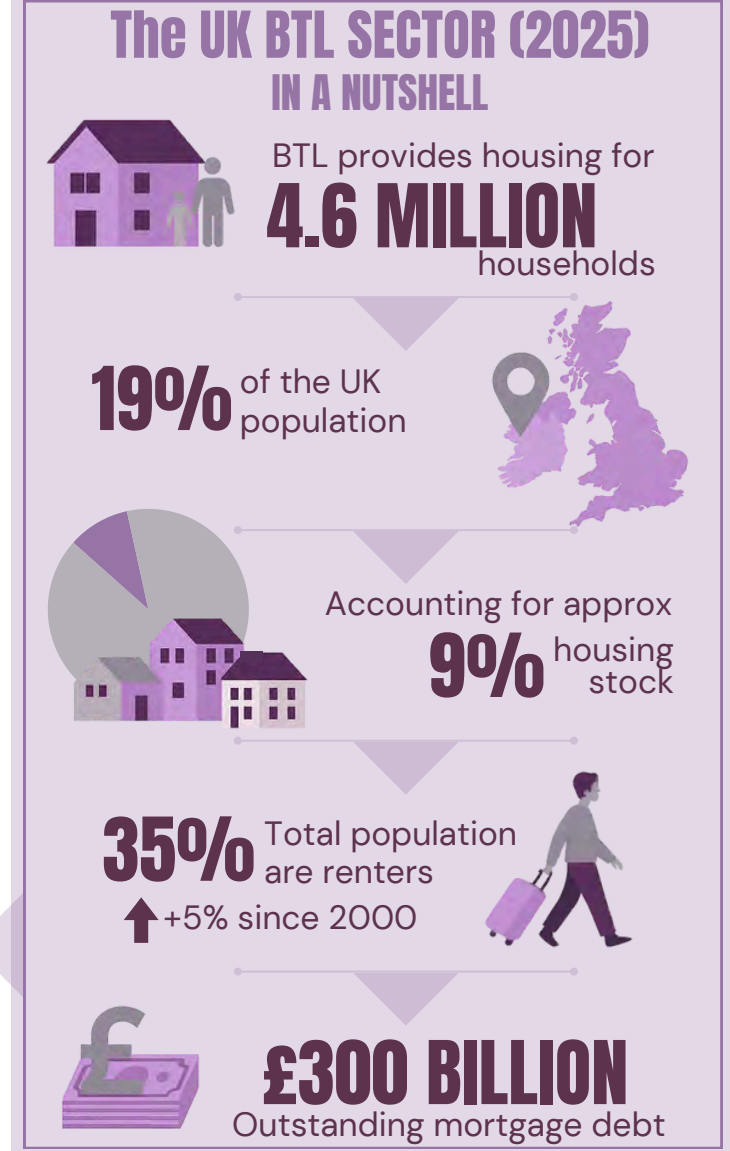
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Using in-depth research and strategic expertise from our valued partner Landbay, this report presents a comprehensive examination of the UK buy-to-let market.

The UK's Buy-to-Let (BTL) sector has long been both an engine of private investment and a safety net for those unable to secure homeownership. As of 2025, it provides housing for over 4.6 million households — around 19% of the UK population — and accounts for approximately 9% of the total housing stock. Renters make up nearly 35% of the total population, an almost 5% increase since the turn of the millennium, according to Statista and the sector represents a financial heavyweight: £300 billion in outstanding mortgage debt, equivalent to about 18% of the UK's total mortgage market.

Over the past decade, the BTL sector has evolved under pressure from tax reforms, lending restrictions, and an increasingly regulated environment.

While these changes have improved transparency and tenant protection in some respects, they have also squeezed profitability for landlords and driven shifts in market behaviour. At the same time, tenants have faced intensifying rent pressures,



exacerbated by a supply-demand imbalance that has worsened since the mid-2010s.

As of 2025, affordability has become the defining challenge for the BTL sector — not just for tenants, but for landlords, lenders, and policymakers. This essay examines the state of BTL affordability in 2025, the factors driving change, regional differences, and the strategies being deployed to navigate a more demanding landscape.

LANDLORD AFFORDABILITY - SQUEEZED MARGINS IN A HIGHER-COST WORLD



FINANCE

BTL mortgage rates average 5.4%, up from ultra-low pre-2022 levels. Refinancing is costly, especially for landlords with expiring fixed deals.



LENDING ENVIRONMENT

Stress-test rules eased in 2025, improving affordability for five-year fixed products. BTL lending volumes rose 38.6% year-on-year.



TAXATION

Section 24 removes mortgage interest relief. Higher-rate taxpayers get only a 20% credit. SDLT surcharge and CGT hikes further reduce returns.



OPERATIONAL COSTS

Maintenance, insurance, and EPC upgrades (costing £6,000–£15,000) push operating costs above 20% of gross rental income.

For landlords, finance remains the biggest cost driver. BTL mortgage rates have historically run 0.75–1.5 percentage points above owner-occupier rates due to higher perceived risk and capital adequacy requirements. As of mid-2025, the average BTL rate is around 5.4%, following a volatile 2023–2024 when rates briefly exceeded 6.5%. Stabilisation reflects the Bank of England's base rate holding at 4%, but refinancing still brings significantly higher monthly costs for many landlords—especially those with expiring fixed deals—compared to the ultra-low-rate years before 2022.

The lending environment has eased slightly since the Bank of England relaxed stress-test rules in 2025. Previously, many lenders tested affordability at hypothetical rates of 7–8%, applying a 145% Interest Coverage Ratio (ICR) for higher-rate taxpayers. The new rules, particularly for five-year fixed products, have enabled more applications to pass affordability checks. Consequently, early 2025 saw BTL lending volumes rise 38.6% year-on-year, with total lending value up nearly 47%.

Taxation is the second major constraint. The full impact of Section 24 of the Finance (No. 2) Act 2015 — which removes mortgage interest relief for individual landlords — is now embedded. Higher-rate taxpayers can no longer deduct mortgage interest from rental income, receiving only a 20% tax credit. This has significantly reduced net yields for geared investors. The 5% Stamp Duty Land Tax (SDLT) surcharge on additional properties and increased Capital Gains Tax rates introduced in April 2025 have further eroded returns, especially for smaller landlords lacking economies of scale.

Operational costs form the third affordability pillar. Maintenance, insurance, licensing fees, and legal compliance costs are rising. The government's mandate for all rental properties to achieve a minimum Energy Performance Certificate (EPC) rating of "C" by 2028 adds substantial capital expenditure — typically £6,000–£15,000 per property, depending on age, type, and location. Paragon Bank data shows landlords now spend over 20% of gross rental income on operating costs, leaving many with minimal post-tax, post-expense profit margins.



LANDLORD ADAPTATION - THE RESILIENT MINORITY

Despite these pressures, a significant proportion of landlords remain profitable. In Q2 2025, 87% reported making a profit, up from 84% in Q1 and a sharp improvement on the 77% low in 2023.

THIS RECOVERY IS DRIVEN BY THREE KEY ADAPTIVE STRATEGIES:

Incorporation:

Limited company ownership now accounts for 74% of new BTL purchases. Companies are taxed on profits at corporation tax rates (currently 25%) and can fully deduct mortgage interest as a business expense.

While incorporation brings its own costs and complexities, the tax advantage is compelling for higher-rate taxpayers.



Regional Targeting:

Many landlords are shifting investment away from low-yield, high-cost areas in London and the South East toward stronger-yielding regional markets. MoneyWeek's Q1 2025 data identifies top locations such as Plymouth (PL4), Nottingham (NG7), and Gloucester (GL1), where gross yields reach 9–10%. These areas benefit from steady tenant demand from students, young professionals, and mobile workers.

Portfolio Rationalisation:

Selling underperforming properties to reduce debt and reinvest in high-yield assets is a common defensive play.

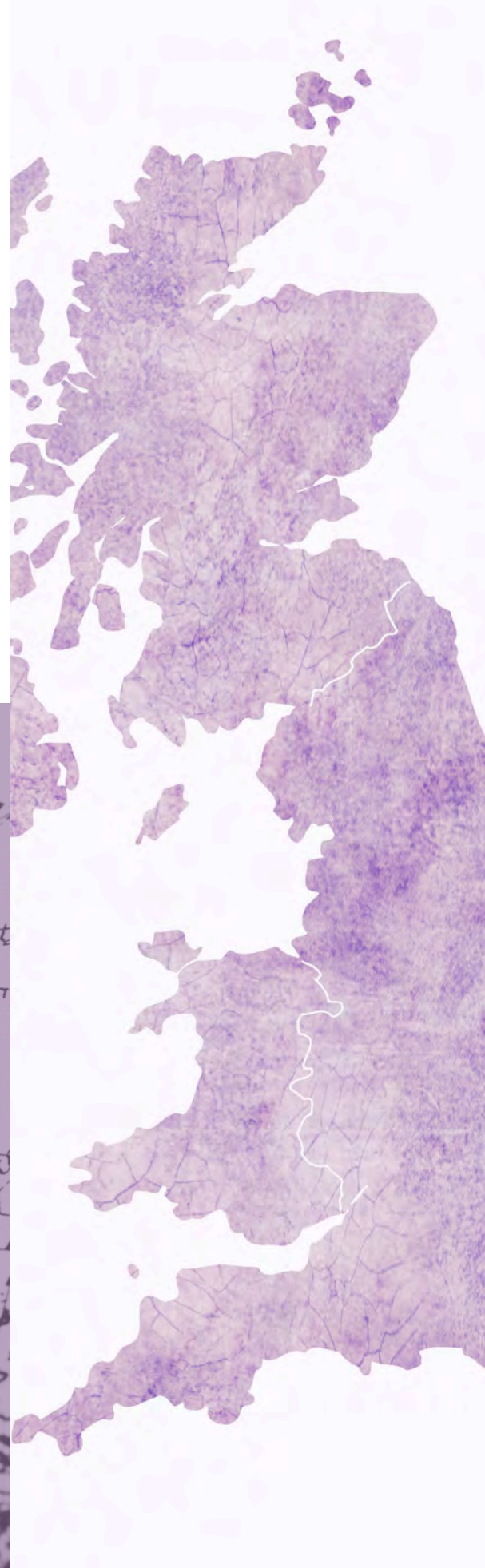
Some landlords are also diversifying into Houses in Multiple Occupation (HMOs), which typically generate higher yields, albeit with more intensive management requirements.



While landlords face margin compression, tenants are experiencing outright affordability breakdown in many parts of the UK. The private rented sector has lost over 220,000 dwellings since 2017, a decline driven by landlord exits and the conversion of long-term rentals into short-term lets. The resulting supply shortage has fuelled “rentflation,” with UK average rents up 6.7% year-on-year in mid-2025. In London, Manchester, and Bristol, increases exceed 10%.

The rent-to-income ratio now exceeds 40% in several major cities, well above the widely accepted affordability threshold of 30%. For lower-income tenants, this has meant rising arrears, increased eviction rates, and greater reliance on housing benefits or informal living arrangements. Stagnant wage growth has compounded the problem: while rents have surged over the past three years, median incomes have grown far more slowly.

Policy interventions remain limited. Proposals for rent controls have been debated but largely abandoned or diluted, with landlord associations warning of reduced investment and further supply contraction. The long-delayed Renters’ Reform Bill, intended to strengthen tenant protections and abolish Section 21 “no-fault” evictions, remains in legislative limbo. Meanwhile, social housing provision has failed to expand meaningfully, leaving the PRS to absorb demand it cannot fully meet.





REGIONAL DISPARITIES - TWO MARKETS IN ONE

Affordability conditions differ sharply between regions. In London and the South East, high capital values and modest rental yields have made it increasingly difficult for new investors to achieve sustainable returns without significant leverage — leverage that is harder to obtain under ICR rules. For tenants, these regions are the epicentre of rent inflation, driven by intense demand and constrained supply.

In contrast, parts of the Midlands, North West, and Wales offer better affordability metrics for both landlords and tenants. Lower purchase prices enable stronger yields, and local economies in cities like Nottingham, Liverpool, and Cardiff provide steady tenant bases. However, these advantages are not immune to broader pressures: as more landlords pivot north, competitive bidding on properties risks pushing up prices and eroding yields.

MACRO AND SYSTEMIC RISKS

The affordability challenge in BTL has implications beyond individual portfolios. Should interest rates rise again, EPC compliance costs escalate, or property values fall, landlords' disposable incomes could be further squeezed. This may lead to higher rents, accelerated sales, and in some cases, defaults. A wave of exits could increase sales market supply, potentially depressing prices, while further constricting PRS availability and pushing rents even higher.

From a financial stability perspective, a downturn in BTL could amplify stress across the broader mortgage market. Reduced rental income could impair landlords' ability to service debt, prompting lenders to tighten credit and withdraw products. This feedback loop could limit refinancing options and force distressed sales.

Despite these risks, the sector remains resilient. According to CACI, BTL mortgage applications reached £24.9 billion year-to-date in 2025, up from £21.5 billion in the same period of 2024. This suggests that, for well-structured deals in the right markets, lenders and investors still see BTL as a viable and profitable asset class.

THE OUTLOOK - SURVIVAL AS THE NEW SUCCESS

BTL in 2025 is a bifurcated market. On one side are landlords who have not yet adapted to some of the challenges and opportunities in the market where they hold over-leveraged, low-yield assets in high-cost regions while facing rising costs. On the other are those landlords using limited company structures, targeting high-yield regions, and locking in long-term fixed rates to stabilise cashflow.

We are also starting to see a new generation of landlords in the UK. While the median age of private landlords remains around 59, there are signs of a growing shift: in 2024, 22% of new BTL mortgages were taken out by landlords aged 18–34, up from 15% in 2014, while a recent study found that a third of UK adults aspire to become BTL landlords in the future according to FT Adviser from a survey conducted by MFS solutions.

For tenants, the near-term outlook remains challenging. Without meaningful increases in supply — whether through expanded social housing or incentivised PRS investment — rent inflation is unlikely to ease significantly. The current trajectory risks entrenching a generational divide in housing access, with long-term consequences for mobility, savings, and quality of life.

Ultimately, affordability in BTL is a moving target. It depends on interest rate policy, tax treatment, regulatory demands, and regional economic health. For landlords, agility, strategic acquisition, and operational efficiency will determine survival. For policymakers, the task is to reconcile the sector's role as both a source of profit and a provider of essential housing. The balance between these two functions will shape the future of the UK rental market.



ARE WE BEGINNING TO OVERCOME THE AFFORDABILITY BARRIER?

Affordability has undoubtedly been one of the biggest drivers of the BTL market – not just shaping landlord decisions, but lending decisions too. Over the last decade, this has certainly been a real factor. The reforms announced in the 2015 Budget fundamentally changed how landlords were taxed on rental income – restricting mortgage tax relief and recalibrating the economics of property investment.

LANDBAY



Beth Foryszewski

National Account Manager

Fast forward to 2022 and the 'mini-budget' and the cost-of-living crisis only amplified these policy changes, as both economic and political instability made a significant impact on UK inflation, interest rates and mortgage rates. As a result, landlords had to navigate a much tougher lending environment and economy, amid their own rising operating costs.

Despite very clear and significant headwinds though, we are now starting to see some glimmers of hope and signs that affordability is improving. Furthermore, our own survey data tells us that even in the face of real pressures, landlords remain committed to the BTL sector.

AFFORDABILITY CHANGES

Prior to Section 24 reforms being introduced in 2017, affordability was widely calculated by lenders at an ICR of 125% at a 5% interest rate, with no requirement to stress background portfolios. Those changes to Section 24, along with new PRA guidelines made stress testing much tougher.

Today, each lender has their own individual rules, criteria and risk appetite. While ICRs now depend on tax status, lenders also stress background portfolios, with some looking at income, savings, assets and any other liabilities.

When you apply this approach to stress testing to the climate of the last couple of years – particularly with the sharp rise in interest rates in 2022, it has tested even the most experienced landlord and placed significant pressure on affordability calculations.

This can be seen in rental coverage, with current ICR averages still well below that of H1 2022. A drop of more than 40% in rental coverage between January 2022 and now highlights the huge hit to landlords and their ability to pass much more stringent stress testing.



GREEN SHOOTS

To maintain viability in a higher interest rate environment, many lenders increased their product fees to deliver rates and products that still worked for clients. In Landbay's case, it was cost neutral and simply a way to help brokers secure a lower interest rate and increase the borrowing capacity of their clients.

As the base rate has improved, so have mortgage rates too. As a result, landlords have been moving away from higher product fee options. Just six months ago, we would find that deals with a 6% product fee were far more common. Today, a product fee of 2% is easily the preferred choice among borrowers – demonstrating that more landlords are feeling less of a need to buy down their interest rate as that intense affordability pinch slowly begins to ease.

GROWING MOVEMENT TO LIMITED COMPANIES

With the changes to tax rules and stress testing placing increasing pressure on higher-rate tax payers in particular, we have seen a growing shift towards limited company structures and special purpose vehicles (SPVs).

Research by Hamptons found that BTL businesses are the largest single type of business in the UK. In February, the number of BTL businesses passed the 400,000 mark for the first time – up more than fourfold from 2016.

Not only is it more affordable for wealthier clients looking to purchase properties, the significant tax advantages of being able to offset mortgage interest and costs are particularly beneficial to landlords with large portfolios. That's not forgetting the ability to maintain much more favourable stress testing and affordability calculations, which is a clear driver of demand.

While it is certainly not the right choice for everyone, the direction of travel for the sector couldn't be any clearer. Such is this growing shift, our data predicts almost total dominance by limited companies in BTL by 2037.

As the number of SPVs has grown, so has the proportion of lending, as well as the number of products available to limited company borrowers. At Landbay we recently simplified our BTL range into three product sets, including Premier which is exclusive to limited company SPVs.

It combines two-year and five-year standard options with rates as much as 40 basis points lower than existing product lines, while also offering product transfer options for those looking to refinance.





LOOKING AHEAD

It's hard not to see affordability remaining a central theme in the BTL market, as it dictates how much landlords can borrow and how they approach future investment. What is really positive though is that following a prolonged period of real pressure, it does feel like the tide is beginning to turn.

Not only can we see this in product choice and fee preference, we see this in our data with the majority of landlords not only intending to expand this year, but a clear intent to keep hold of the properties they have.

I'm sure that the last few years have left an indelible mark on the BTL landscape. However, it has clearly prompted landlords to think more strategically about the likes of financing, company structure and their long-term planning. It has also reinforced the value of expert advice in navigating the BTL market.

It has also pushed lenders to really prioritise innovation to answer these clear affordability pressures. Across the board we have seen great work from lenders on product and criteria to help brokers in supporting landlords of all shapes and sizes with purchases and refinancing. I think a great example at Landbay is our new product transfer proposition which is well placed to answer those pressures felt at remortgage, all while delivering real efficiencies and cost savings.

The combination of these green shoots of affordability, along with the promise of a stabilising interest rate environment certainly gives us reason for optimism. With the right advice from expert brokers and the right product and support from lenders, there's every reason to believe that landlords will be in a good position to seize the opportunities that lie ahead.

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