



BUILD TO RENT HOUSING IN THE UK



The Future of UK Real Estate

14-15 OCTOBER 2019

OLD BILLINGSGATE, LONDON

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Build to rent in the UK – Opportunity knocks

Build to Rent (BTR)

‘Homes that are professionally operated for rent by large-scale investors’

A key moment when it all changed

M&G Real Estate (then PRUPIM) buying a £105.4m residential portfolio in 2013 from The Berkeley Group.

The big opportunity

There are currently **32,200 BTR homes** in the UK, **valued at £9.6bn** – just under 1% of the total value of the privately rented sector (PRS).

Source: BPF/Savills Q2 2019.

At full maturity, the sector could comprise **over 1.7 million households**, with a **total value of almost £550bn**. Source: Savills.

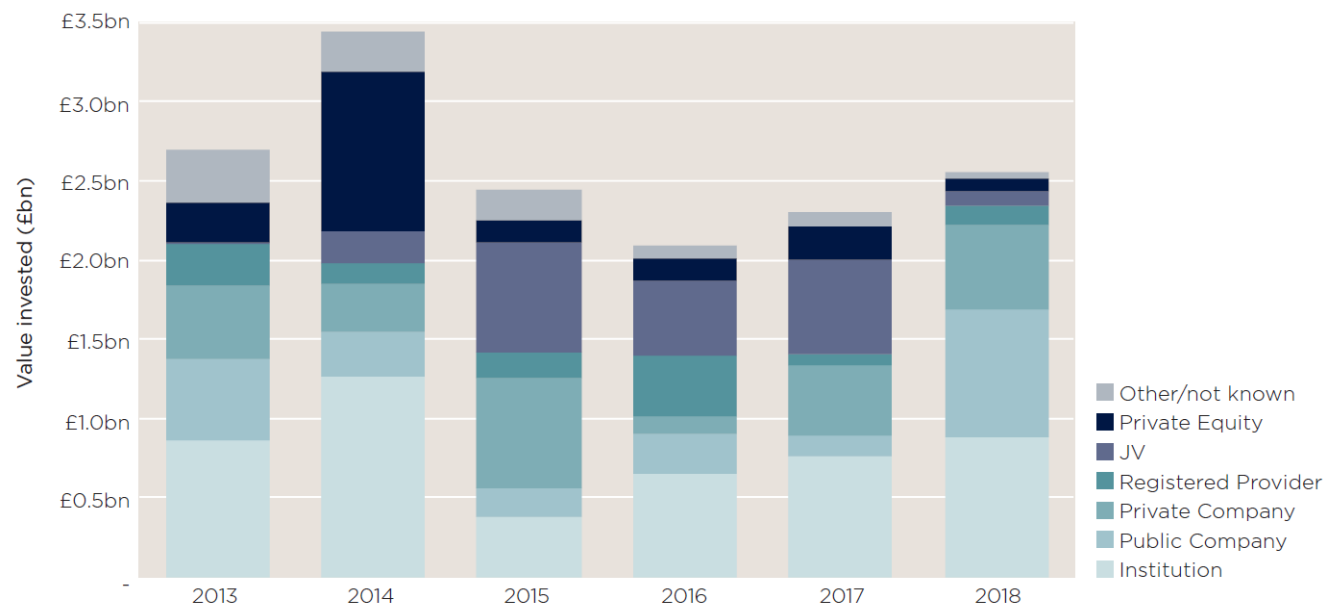
“Looking to the student accommodation sector as our benchmark, there’s a long time to go before institutional private rent reaches maturity. This means there is still scope for seismic shifts in the sector... There is also plenty of opportunity for new and innovative entrants to disrupt the market, as customer awareness and understanding of this tenure increases”

Lawrence Bowles, Associate Director, Residential Research, Savills

What is the appeal of BTR for investors?

- **Stable long-term returns.** As Dan Batterton, BTR fund manager, Legal & General, told the Financial

BTR investment by investor type



Source Savills Operational Capital Markets

Times: “You can’t digitise a bed.” Residential is less susceptible to technological disruption than other real estate asset classes such as retail (online shopping) and offices (telecommuting).

- Huge undersupply of housing in the UK, and a strong demand for quality, rented property.
- **Expanding market:** accounts for less than one per cent of the value of PRS homes in the UK, compared

with 47% in the US.

- There is potential for values to increase as information on costs and rent returns increases and investors gain confidence in the sector.

BTR investment by type of investor

This chart shows growing investment activity from institutions over the past three years as their confidence in the sector grows.

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... and appeal for the resident?

- **Longer tenancy agreements** than in the general private rental sector in the UK.
- Transparent, **all-inclusive rents** (utilities, wi-fi, amenities & services) and **professional management**.
- **Services and amenities** ranging from 24-hour concierge to, for example, a microbrewery at Blackhorse Mills (a flagship project of the Legal & General BTR Fund) and an in-house gym and games room at Essential Living's three London sites.
- **Investment in the wider environment.** Amber Morley, Senior Consultant of Turley planning & development consultancy, says: *"The experience of the development is as much about a safe and pleasant journey from the station exit to the front door, as it is the onsite design."*

Setting the scene

- **Rising demand for renting, especially among millennials...** Only 25% of 18-34 year olds will be in a position to buy a home by 2026, even though 91% aspire to own a home (Santander, 2019).
- **High cost of average house prices when compared with workplace-based average earnings...** x12.25 in London in 2018 compared with x4 in 1997 (ONS).
- The **Strategic Plan 2018-2023 of Homes England**, the UK Government's non-departmental government body, aims to build an average of 300,000 new homes a year.
- Changes in the tax system mean that the market

Investment flows into the UK

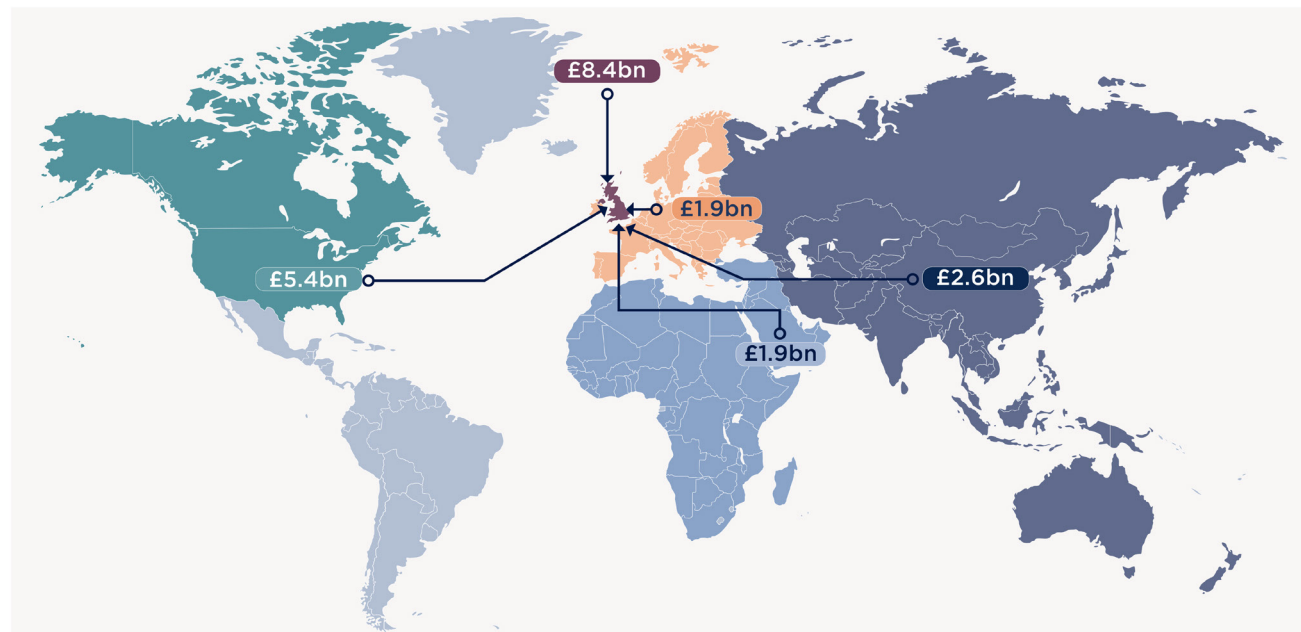


Figure 2 Investment volumes into the UK by source of capital and sector, 2016-18

UK	Value	Deals	North America	Value	Deals	Europe	Value	Deals
Student	£4.1bn	156	Student	£3.3bn	31	Student	£877m	9
Build to Rent	£3.2bn	72	Build to Rent	£1.4bn	18	Build to Rent	£501m	10
Retirement living	£1.1bn	49	Retirement living	£673m	15	Retirement living	£498m	5

Asia-Pacific	Value	Deals	Middle East & Africa	Value	Deals
Student	£2.2bn	19	Student	£1.0bn	31
Build to Rent	£35m	1	Build to Rent	£93m	9
Retirement living	£395m	1	Retirement living	-	-

is no longer so attractive for individual buy-to-let landlords. This leaves a **void for professionally run businesses** to enter the market.

- New BTR schemes are primarily forward funded by equity. As a **sign of the market starting to mature**, Goldman Sachs issued its first BTR development loan in the UK earlier this year.

Where is demand heading?

- A two-tier, if not **multi-tiered, market** is emerging, catering for different lifestyles and service levels, from luxury to mid-market to affordable housing.
- As millennials start families, there's a **growing demand for 'family' BTR homes**. 9% of operating BTR properties are houses, rather than apartments.

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- Seniors looking for flexibility and to downsize, as well as the **rising number of seniors who will not own their own home**; around a third of over 60 year olds are estimated to rent privately by 2040 (York University, 2015).

Supply of BTR homes

Source: Build to Rent Q2 2019 – Prepared by Savills for the British Property Federation (BPF)

- There are **142,999 BTR units** across the UK – **52% of which are in London**:
 - 32,223 **completed** BTR homes
 - 36,410 **under construction**
 - 74,366 **with planning permission**
- The entire BTR pipeline has **grown by 17% since Q2 2018**. Equivalent to over 21,000 additional homes over the past year.
- Lawrence Bowles of Savills expects **more public/private partnerships**. This follows Transport for London's partnership with Grainger – the UK's largest private residential landlord – to build over 3,000 BTR homes in London, including up to 1,400 in Limmo Peninsula, Newham.

For the latest edition of the BPF/Savills Build To Rent map.

Investment trends

- BTR investment reached **£2.6bn in 2018, 11% up on 2017**.

- More than **a third of investment is institutional** and expected to grow.
- **Rise of the REIT** as an investor. For example, Grainger – whose investments include the single largest BTR scheme delivered outside London, Clippers Quay in Salford – acquired the entire share capital of GRIP REIT at the end of last year.
- **Private equity firms** invested over £1bn in the BTR sector in 2014. *“With a typical 4 to 6-year investment horizon, we would expect to see these firms attempt to refinance or exit in the near future,”* says Lawrence Bowles of Savills. US private equity firm Lone Star put Quintain up for sale last year – (with a project for over 5,000 BTR homes near London's Wembley Stadium). Lone Star then withdrew the sale, even though a Delancey-led consortium had offered more than £2.1bn, reflecting the market interest in the sector.

“We would expect to see more investors expanding their capabilities to cover the full spectrum of operational residential assets. In particular, there are opportunities for firms to capitalise on brand awareness to encourage graduates leaving PBSA (purpose-built student accommodation) to move into the same investor's BTR schemes, and for those in later life leaving BTR for retirement housing”

Lawrence Bowles, Associate Director, Residential Research, Savills

Role of UK Government

- The **National Planning Policy Framework** (2018) recognised that BTRs should be treated differently. It stated that when defining ‘affordable housing’, rents are expected to be at least 20% below local market levels. The landlord of the affordable units must be a registered provider.
- Under the UK Government's **PRS Debt Guarantee Fund**, once a scheme is complete and let, the Government guarantees the refinancing, which in turn opens the door to cheaper finance.
- A **government-commissioned report**, issued at the end of last year by former cabinet minister **Sir Oliver Letwin**, recommended developers on large sites be required to build a **wider mix of housing types for sale and rent**. *“This has been a real boost for the sector, as it supports including BTR as part of the mix on large sites to accelerate housing delivery,”* says Lawrence Bowles of Savills.
- The **draft London Plan** encourages boroughs to take a *“positive approach to the BTR system”*, says Bowles. That affordable rent (discounted market rent) must be fully integrated into the development.
- Following the Mayor of London Sadiq Khan calling for rent controls, **Ian Fletcher, Director of Policy, British Property Federation**, said: *“The greatest challenge to investment comes from politics, through clumsy policies on rent controls, taxation policies, or regulation aimed generally at the private rented sector.”* As the Mayor does not have powers to introduce rent controls, any such measures would need

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to be approved by the UK Government.

- **Marnix Elsenaar, Partner, Head of Planning at law firm Addleshaw Goddard**, added: *“In general, in local plans there is still a dearth of detailed policy.”*

2019 news headlines

Of particular significance, says Lawrence Bowles of Savills, is the agreement between developer Telford Homes plc and investors Invesco and M&G. He expects to see **more of this kind of strategic partnership** as housebuilders seek to decrease their exposure to sales risk.

- **L&G** purchased two neighbouring sites in south-west London. Paul Miller, MD Principal Investing, Legal & General Capital: *“This latest development in Wandsworth, our largest BTR acquisition to date, is a perfect example, offering 1,000 new rental homes alongside improving the station infrastructure and offering commercial real estate space to support local businesses”* (May 2019).

- **Greystar**, the largest operator of apartments in the US, launched a fund of close to £2bn to invest the UK BTR sector, of which £750m is equity (May 2019). The company has more than 3,500 units currently under development and nearly £5 billion assets under management in the UK and is expanding across the rest of Europe.

- **Long Harbour’s** multi-family investment programme, the third in its series, raised an initial £500m of capital to deploy over the next 24 months. The first

investment is a £70m of forward funding for a 166-unit scheme in Tottenham Hale, London (May 2019).

- **Goldman Sachs** issued its first BTR development loan in the UK, a £118mn loan to fund a 42-storey residential tower in Birmingham’s Broad Street, delivered by Apache Capital Partners and Moda Living (Apr 2019).

- The **Aberdeen Standard** Pan-European Residential Property Fund (ASPER) announced it was investing £60m (€67.4m) to forward fund a BTR project in Birmingham (Jan 2019).

Georgina Power

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Join us to talk about housing at the MIPIM UK Summit (14-15 October)

As part of the MIPIM UK Summit programme, a panel of leading speakers discuss Housing options and innovation: *How do we build and invest in what people need, want and can afford?*

A B2B event that brings together top-level real estate professionals and investors from all asset classes to build partnerships, gain industry insight and discover outstanding projects. The event is made up of a world-class content programme dedicated to real estate investment and development opportunities, an exhibition, and a plethora of networking opportunities over 2 days.

2,300+
Participants

1,000+
Companies

40+
Countries

150+
Speakers

Further reading

- **The Sky’s The Limit: Student Accommodation – Built to Rent – Retirement Living** by Savills (2019)
- **Build to Rent Report** published by Addleshaw Goddard in collaboration with the British Property Federation, Savills and Turley.