Savills World Research
UK Residential

Spotlight
INVESTING IN RENTAL BRITAIN

Autumn 2013

Montague, One Year On
Unlocking potential in the private rented sector

What Tenants Want
Exclusive survey

Rental forecasts

Impact of Government policies

£1.36bn residential investment deals

This publication
This document was published in September 2013. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Abbreviations are:
- GLA: Greater London Authority
- HA: Housing Association
- IRR: Internal Rate of Return
- PRS: private rented sector
- TCPA: Town and Country Planning Association
- UKGS: UK Guarantee Scheme

Foreword
IT'S A GREAT START BUT MORE IS NEEDED

PRS has come a long way since Sir Adrian Montague published his recommendations for attracting institutional investment into the sector

Following a number of Government measures designed to boost activity, the newly formed PRS Taskforce has identified at least £7bn of potential investment into the sector, yet there is limited stock and portfolios to absorb the quantum of investment.

So far we have not seen many investment models and bespoke schemes emerge, nor have we seen much flexibility around s106 negotiations. But it's early days.

What is clear over the past 12 months is that behind the scenes both public and private sector organisations are creating innovative build to rent models and investment 'platforms' that are designed to be attractive to investors. Much focus has been on creating management businesses with the scale and quality of stock that meet investors' criteria and are highly attractive to tenants.

Stratford Halo in East London is the clearest example of a purpose built scaled PRS development that is offering high quality accommodation to tenants that is professionally managed. Integrated within this scheme are the amenities and services that we expect to become more mainstream in the rental market such as furniture packages, wifi, gyms and ancillary space that is available to tenants. The average let up rate of 15 units per week is a strong indication of market demand for bespoke PRS developments.

Government policy has acknowledged the growing need for decent privately rented homes and, in London, the recent deal between the Greater London Authority (GLA) and Mace and Essential Living, a specialised PRS company, to develop PRS at Elephant and Castle shows the Mayor's recognition that to meet housing targets in the capital, build to rent has a critical role to play.

What we are now seeing in the market is that where land suitable for PRS is offered to the market, PRS buyers are competing with developers for open market sales, even in the crowded London land market. Essential Living, BE:HERE and Fizzy have been the most active aggregators of land destined for the PRS market.

Housing associations have also become an active buyer group of both land and standing stock. Just this year, they have acquired over 2,150 PRS units and invested £275m in the sector. Over the next 12 months, expect to see many more management platforms emerge from the HA sector that are set up to target third party capital.

Investment activity is spreading beyond the capital driven by the highly competitive London market as well as the high income yields in the region. Unique at the current time is that investors in the regions can buy stock that is both high yielding and discounted to owner occupier values, widening the options and strategies open to investors in these markets.

Despite an improving economy, a strengthening housing market and better credit environment, Savills expects the private rented sector to grow by one million households over the next five years. By 2018, one in five households will be renting in the private sector – a total of 5.7 million in England. PRS requires a further £200bn of investment to provide these homes and large-scale investors are well placed to supply this level of investment.

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Executive summary

The key findings in this issue

- We estimate that by 2018, one in five households, a total of 5.7 million in England, will be renting in the private sector, despite recent Government measures to boost homeownership. See pages 4/5

- Despite rising rents, only 15% of respondents ranked rental increases as a reason for moving. The data also revealed a strong preference for locations within a five minute walk to public transport, emphasising the importance of building on top of transport nodes. See pages 6/7

- There has been a significant weight of capital chasing residential product over the past year. Investors, along with housing associations, developers and housebuilders are carving out stock to create the critical mass of product that attracts institutional investors. See pages 8/9

- Rising demand for private rented homes has prompted the coalition Government to launch a series of measures aimed at encouraging a wider range of investors to build homes for private rent. See pages 10/11

- The current pipeline of new 'build to rent' product, estimated to be £1.2bn in London, will help create scale. Across the regions we are also beginning to see some significant PRS developments come forward in Birmingham, Manchester and Telford. See pages 12/13

Contents

Rental demand

RENTAL BRITAIN IS HERE TO STAY

As the numbers joining the private rented sector continues to grow, we examine the drivers currently underpinning rental demand

Words: Susan Emmett
Twitter: @saemmett

The private rented sector is growing dramatically. Between 2001 and 2011 the number of households renting privately rose in the UK by 2 million to 4.3 million. Though still the tenure of choice, homeownership is shrinking.

This structural shift in the housing market, which started in the early noughties and pre-dates the credit crunch, is set to remain. Savills expects the private rented sector to swell by about 200,000 households a year over the medium term.

We estimate that by 2018, one in five households, a total of 5.7 million in England, will be renting in the private sector, despite recent Government measures to boost homeownership.

Help to Buy may encourage more buyers onto and up the property ladder in the short-term but it will not change the direction of the market. Key drivers point to continued demand for private renting in the long-term.

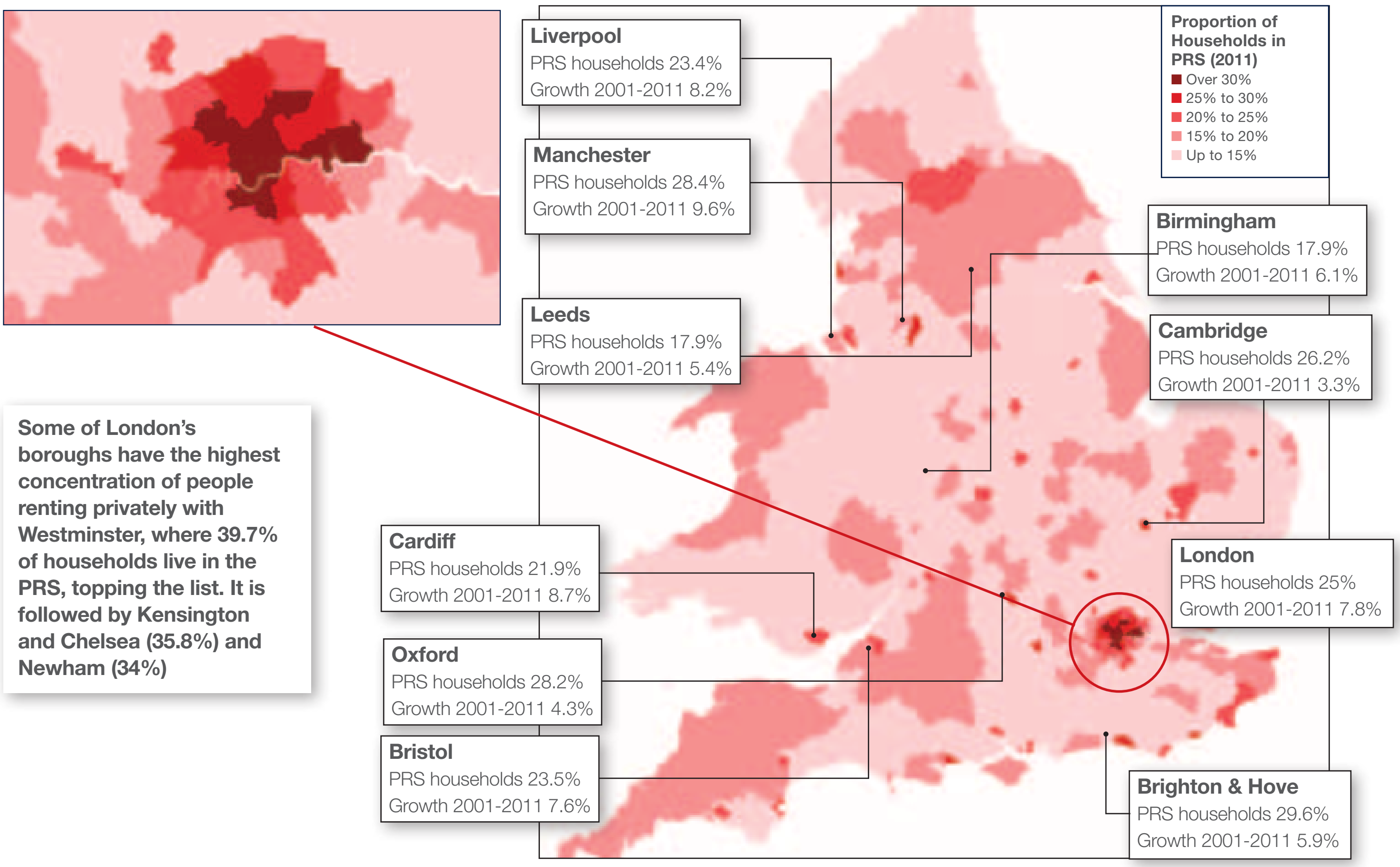
Affordability

Homes are expensive relative to average earnings as incomes have not kept pace with house price inflation. Back in 2001, median house prices in England and Wales were 4.5 times median earnings. Today prices are 6.7 times earnings.

Despite the effects of Funding for Lending, which has helped increase the availability of mortgages at higher loan-to-values, buyers still need

MAP 1.1

Concentration of privately rented homes in England and Wales The map reveals that Manchester, Oxford and Brighton & Hove are rental hotspots with high concentrations of PRS households



Source: 2011 Census

large deposits. The average first time buyer requires a deposit of £27,000 equivalent to 77% of their income. In London, the average first-time buyers must save £63,000.

The cost of monthly mortgage payments is another barrier. Banks' more cautious approach to lending means interest-only loans are now rare. Paying off the capital as well as the interest, makes the average mortgage more expensive to service than paying rent. This cost can only rise.

According to the Governor of the Bank of England's forward guidance policy, base rates are unlikely to rise before late 2016. But even a small rise in rates will make a substantial difference to stretched borrowers.

Demographic pressure

Despite the weak economy, the laws of supply and demand have driven strong rental growth over the last few years. Population growth adds pressure to the shortage. Projections by the Town and Country Planning Association (TCPA) predicts that the number of households in England is set to rise by a fifth in the next 20 years to 27 million, creating a demand for some 245,000 homes a year.

Of these, nearly two-thirds will be needed in the south and nearly a quarter of all housing need will be in London. Given the demographics of these new households, most are unlikely to become homeowners.

There is also a long term growth trend in the numbers of 20 to 34 year-olds living in major cities. In Birmingham, Leeds, Manchester, Liverpool and Bristol, the number of houses in the private rented sector has risen by 77% in the last decade. Renting may be largely an urban phenomenon, but it no longer applies solely to young people. High prices mean people rent for longer. 23% of all households renting are headed by someone aged 50 and above.

Rental growth

The imbalance between supply and demand has pushed up rents in well connected cities' centres – the type of location most popular with private renters as our YouGov survey shows on page 6 of this report.

The survey findings also reveal that the cost of renting is the key consideration for private renters raising the question of to what extent can rent rises continue without stretching affordability to breaking point. Rents will continue to rise where supply is most constrained.

Our forecasts indicate that average rents in the mainstream market will increase by 18.2% by 2017, with the greater part of that growth delivered in 2016 and 2017.

Similar capital growth is expected over the period although house price rises will be stronger in the next couple of years, fading from 2016 when interest rates are presumed to pick up.

HELP TO BUY

Government incentive has created a stir

The Government homeownership scheme, launched in April, has caused a stir in the property market. Although the main part of Help to Buy, the mortgage guarantee, has yet to take effect in January 2014, the £3.5bn equity loan part of the deal, aimed at buyers of new build homes, has already resulted in 12,500 registrations. Over its lifetime, the equity loan part of the deal could support 75,000 sales of new build homes.

The incentive's boost to housebuilders' sales, comes against a backdrop of a strengthening property market. Average house prices are rising again and concerns are mounting that further stimulus from Help to Buy which is available to all buyers of properties worth up to £600,000 (not just first-time buyers), might only serve to stoke up property prices. Critics argue that the scheme could push homeownership even further beyond the reach of the people it intends to support.

Regardless of this debate, this short-term scheme, intended to last three years, does not alter the fact that property prices remain high relative to earnings and that demand for rental homes continues.

> "Despite the weak economy, the laws of supply and demand have driven strong rental growth over the last few years"
> Susan Emmett, Savills Research

TABLE 1.1

Rental growth Five-year forecast values

	Forecast					
	2013	2014	2015	2016	2017	5yrs to end 2017
UK Mainstream	2.5%	2.5%	3%	4.5%	4.5%	18.2%
Greater London	3.0%	4%	4.5%	6%	6.5%	26.4%
Prime Central London	-1%	2.5%	3%	4.5%	4.5%	14.1%

Source: Savills Research

Savills/YouGov survey

WHAT DO TENANTS REALLY WANT?

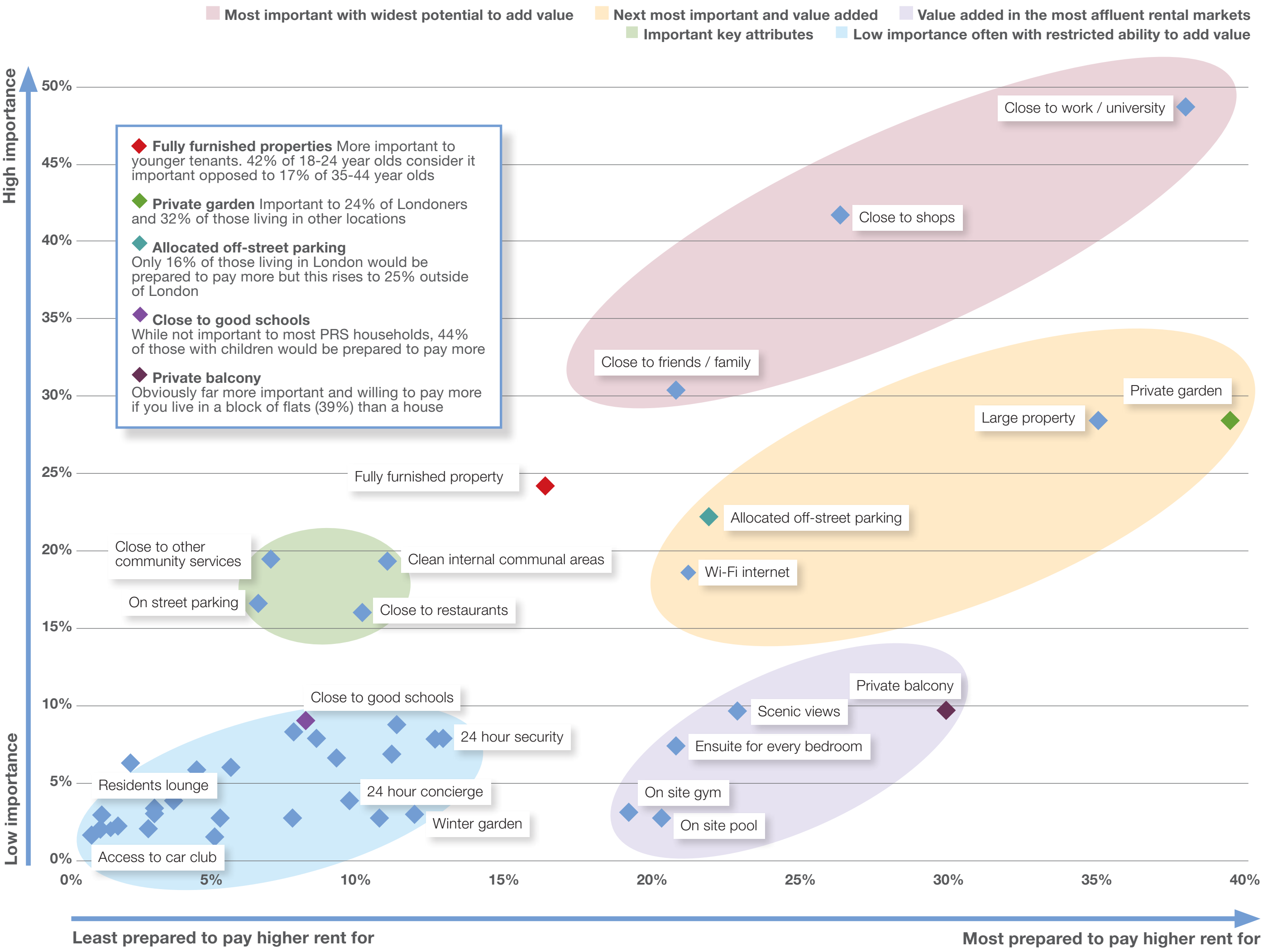
Our exclusive survey of 2,300 private sector tenants gives institutional investors an insight into their needs, aspirations and ways to deliver additional value

Words: Neal Hudson
Twitter: @ResiAnalyst

When it comes to deciding where to rent, tenants prize location and the size of the property above all else – that is the main message to emerge from our survey with YouGov.

The most cited reason for moving was in search of bigger and better property followed by a need to relocate, reflecting the flexible nature of the private rented sector. Despite rising rents, only 15% of respondents ranked rental increases as a reason for moving. The data also revealed a strong preference for locations within a five minute walk to public transport, emphasising the importance of building right on top of transport nodes.

GRAPH 2.1
Savills/YouGov survey findings What do tenants value?



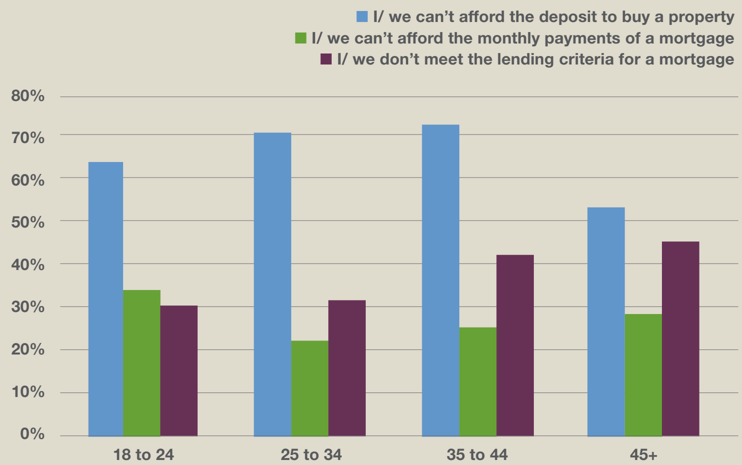
THE NEEDS OF TENANTS

Surveying the private rental scene

Affordability

Private renting continues to be viewed as an intermediate step to homeownership. The combination of high house prices and the constrained (although easing) mortgage lending environment means that the average first time buyer has to save a deposit equal to nine months of income. This is reflected in respondents' reasons for renting. 57% cited affordability as a major reason for picking their current property and deposit constraints are the biggest reason. Amongst older private renters, failing to meet mortgage lending criteria is almost as important as the inability to save a sufficient deposit.

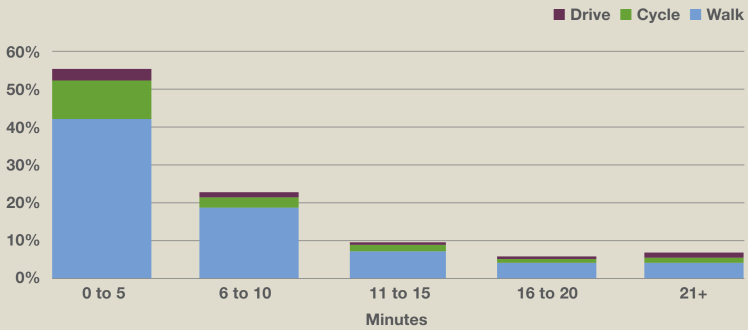
Reasons for renting
Mortgage deposit affordability is the strongest reason for renting across all age groups



Location, Location, Location

The old adage is even more important for private renters than buyers. Analysis of the 2011 Census shows hotspots of private renting around transport nodes in London. Survey respondents ranked distance from work, shops and family as the most important factors. Location and size are among the few things most prepared to pay a higher rent for. 52% of respondents lived less than a five minute walk or cycle to their nearest public transport, which rises to 73% if you expand the catchment to 10 minutes. 66% of respondents in London rated a 10 minute journey to public transport but this fell to 47% outside London.

Distance from public transport
Strong preference for locations within a five minute walk to public transport

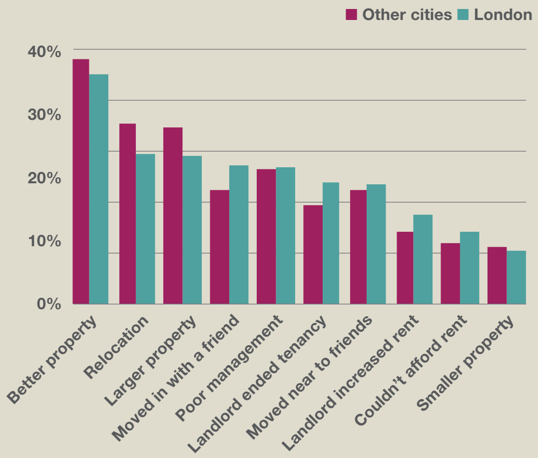


Graph source: Savills Research/YouGov

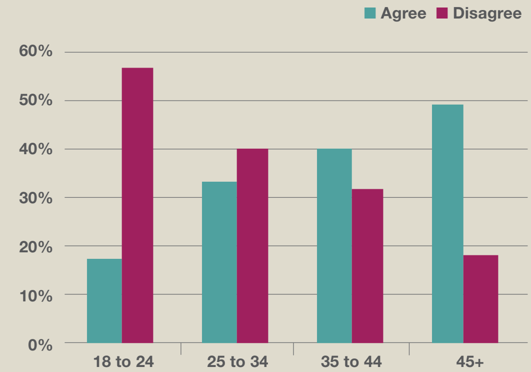
Reasons why they moved

Perhaps most surprising were the reasons why households moved. Top of the list is the desire for bigger or better accommodation followed by a need to relocate. Despite recent press stories around rising rents, only 15% of respondents ranked rental increases as a reason for moving. This was also the case in London which has seen the largest increases in rents with a slightly higher 17% citing rental increases as a major reason to move.

Reasons why they moved Desire to find better rental accommodation is the strongest driver for moving



Would like longer tenancies Strong disagreement on the need for longer term tenancies among young households



More important than rental increases was the landlord ending the tenancy. Despite this, 54% of respondents agreed that they liked the flexibility offered by their tenancy agreement and only 13% disagreed. This possibly reflects the idea that renting is still viewed as a short term situation on the route to homeownership. There is strong disagreement (56%) on the need for longer term tenancies among younger households (aged 18-24) but this changes to net agreement among those aged 35 and above.

As private renting continues to grow as a longer term tenure, tenants attitudes towards these issues will undoubtedly change and it will remain important to understand what is and isn't important as the sector matures.

Investment flows

THE DEALS AND THE DRIVERS

The rental market continues to gain momentum with increasing numbers of investors eyeing the sector

Words: Jacqui Daly

As an emerging asset class, the private rented sector (PRS) has taken some significant steps in the year following Sir Adrian Montague's proposals for encouraging greater institutional investment into the sector. The Government's PRS Taskforce, formed earlier this year to help drive growth in the sector, has identified £7 billion of investment aimed at rental stock.

The sums are already coming in. Savills own investment database shows that £1.36bn has traded in the residential investment market up to the end of Q3 2013.

This is up on the levels of activity we saw at the same time last year. Over half of the money flowing into the sector occurred at the start of the year with the two large institutional deals involving M&G Real Estate and APG Asset Management that contributed a substantial chunk of investment in the first quarter.

The amount of stock turning over in the market is a small fraction of the £893bn tied up in the private rented sector. New product is needed to create scale in the market and bring it more in line with the level of stock that trades in other real estate sectors.

Market activity

There has been a significant weight of capital chasing residential product over the past year. Investors, along with housing associations, developers and housebuilders are carving out stock to create the critical mass of product that attracts institutional investors.

Based on deals since the start of 2013, gross initial yields for diverse UK-wide rental portfolios are averaging 7%, increasing to 11% in some northern regions. Yields from investing in residential property are starting to look highly competitive against other asset classes fuelling higher equity allocation to the sector.

London and the South East has seen the lion's share of investment, accounting for 80% of deals. Outside London, the North West has seen the highest number of deals with total investment of £220m, including some significant portfolio deals. Manchester is emerging as a hot spot for investors.

TABLE 3.1

Sample of key deals in 2013

Buyer	Building / Portfolio	Location	Price (£million)	Units
M&G Real Estate	BRP Investments No.1 Limited	London / SE	£105	534
APG Asset Management	GRIP (Formerly known as GRES)	London / SE	£349	1,625
Places for People	Urban Splash	North	£57	634
Places for People	Terrace Hill	UK-wide	£67	901
Places for People	Grainger	UK-wide	£19	281
Long Harbour	Project Royal	UK-wide	£33	310
Long Harbour	Skyline Central	Manchester	£18	129
Amcorp	Merchant Square	London	£47	60
L&Q	Kingsbury Central	London	£14	55
L&Q	Davis House	London	£15	26
L&Q	Chrisp Street	London	£13	51
Addington Capital	City Heights	Leeds	£16	183
GRIP	Tilt Estate	London	£58	308

Source: Savills Research

Worthy of note is Places for People's (PfP) acquisition of 1,800 rental units from Terrace Hill, Grainger and Urban Splash. For an investor such as PfP, that has been investing in the sector for 10 years, these strategic acquisitions offer strong performance prospects bought with the benefit of a discount to owner occupier values and high yields.

A number of housing associations are proving they can make the quick investment decisions necessary to compete in a market where demand is strong for a finite amount of standing stock. Housing Associations have become one of four core buying groups in the residential investment market. L&Q has made 10 separate acquisitions this year and the importance of HAs in PRS will continue to strengthen over the next 12 months.

The market remains characterised by small lots sizes with over 60% of activity in the sub-£10m price band. Finding unbroken blocks, especially in the regions, is difficult, masking the appetite that we are seeing from PRS developers and aggregators, UK and Overseas High Net Worth's, Sovereign Wealth, HAs and Institutions for high yielding, good quality, stock in urban markets across the country

Portfolio performance

Voids

In London and many regional cities, voids are negligible and marketing periods have reduced. Let up rates on new schemes are short, with landlords such as Fizzy and A2Dominion reporting typical let up rates on new schemes of 4 to 5 units per week. Genesis at Stratford Halo is seeing an average of 14 units let per week.

Rents

Rents have grown strongly over the past three years. London and southern parts of the country have fuelled the strong national average growth of 8% over the same period.

Market prospects

The investment market will continue to get more sophisticated, as more management platforms emerge designed to attract large scale investment. Detailed portfolio measurement will be key to securing third party capital.

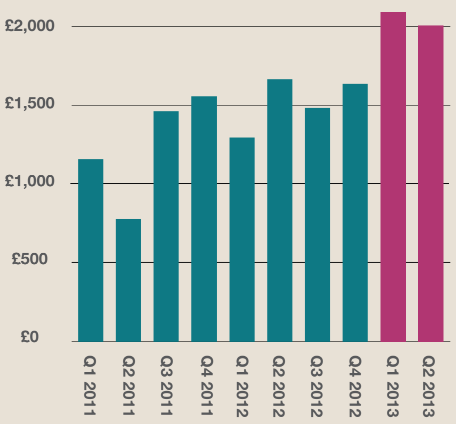
The strong population and household growth outlined in this report, indicates sustainable levels of new household formation to see continued demand in the PRS sector.

GRAPH 3.1

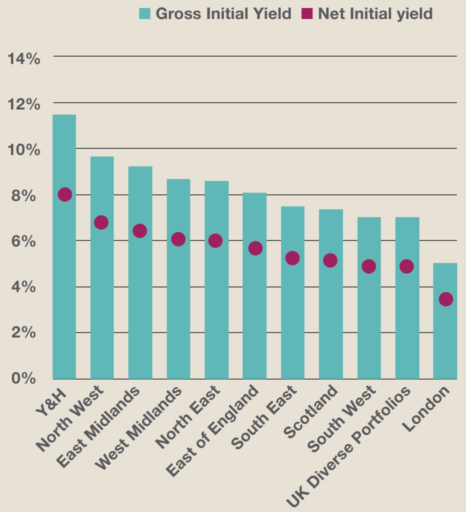
Investment market matrix

Deal flow

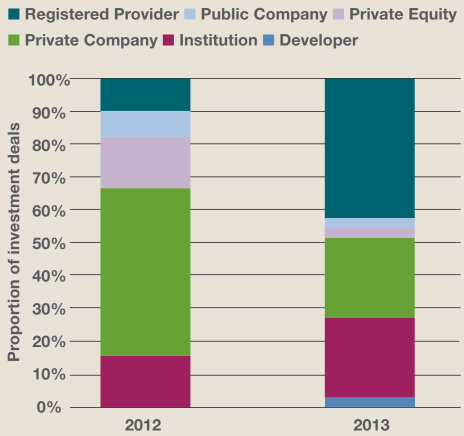
Residential portfolio investment £m (annual)



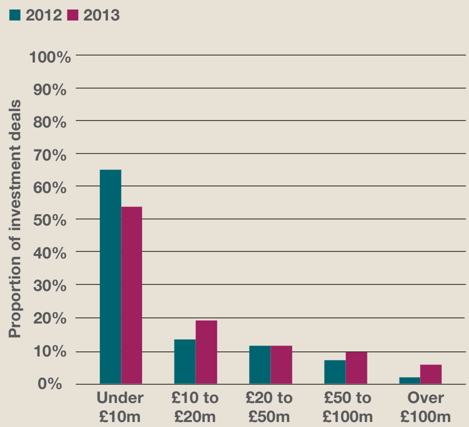
Gross initial yields 7% UK-wide portfolios



Buyer types: Registered providers & institutions increase their market share

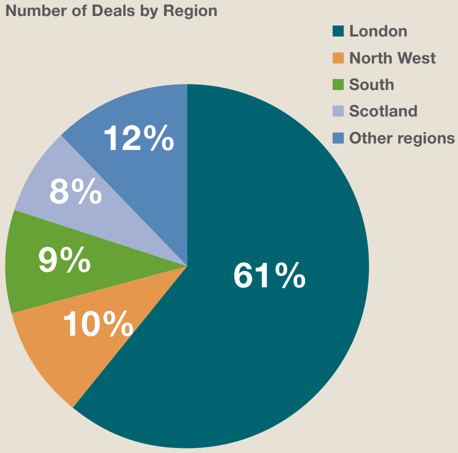


Small lot sizes constrain investment flow

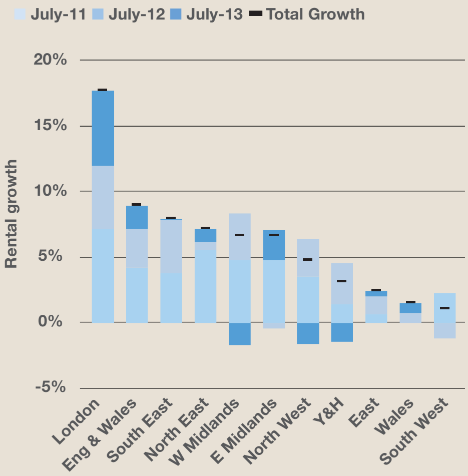


High yield attract investors to regional markets

Number of Deals by Region



London & the South have driven recent growth in rents



Source: Savills Research, LSL

Policy and planning
SHAPING THE RENTAL MARKET

Government measures will not transform the market but they help to provide proof of concept allowing deals to flourish

Words: Susan Emmett
Twitter: @saemmett

When it comes to housing policy, successive Governments have alternated their focus between affordable housing and home ownership. The private rented sector has received comparatively little attention from Whitehall. But as the population expands, the growing need for more homes at a time of low levels of housebuilding is changing that.

Rising demand for private rented homes has prompted the coalition Government to launch a series of measures aimed at encouraging a wider range of investors to build homes for private rent. The two main initiatives – Build to Rent Funding Scheme and the Debt Guarantee Scheme, come in response to Sir Adrian Montague's review of the barriers to investment in private rented homes published in 2012.

The schemes are accompanied by the launch of the Private Rented Sector Taskforce, a team whose mission is to bring the vision together.

The Government has estimated that the Build to Rent Funding scheme will deliver up to 10,000 rental homes. This in itself will not transform the market. But the proof of concept these deals provide, setting out models that work for different parties, helps to build confidence in a new market for residential property investment.

In order to increase supply of privately rented homes further, Local Planning Authorities must be open to negotiations regarding affordable housing provision. Although flexibility surrounding Section 106 requirements was a key recommendation by Montague, there is little evidence that this is happening in any meaningful way.

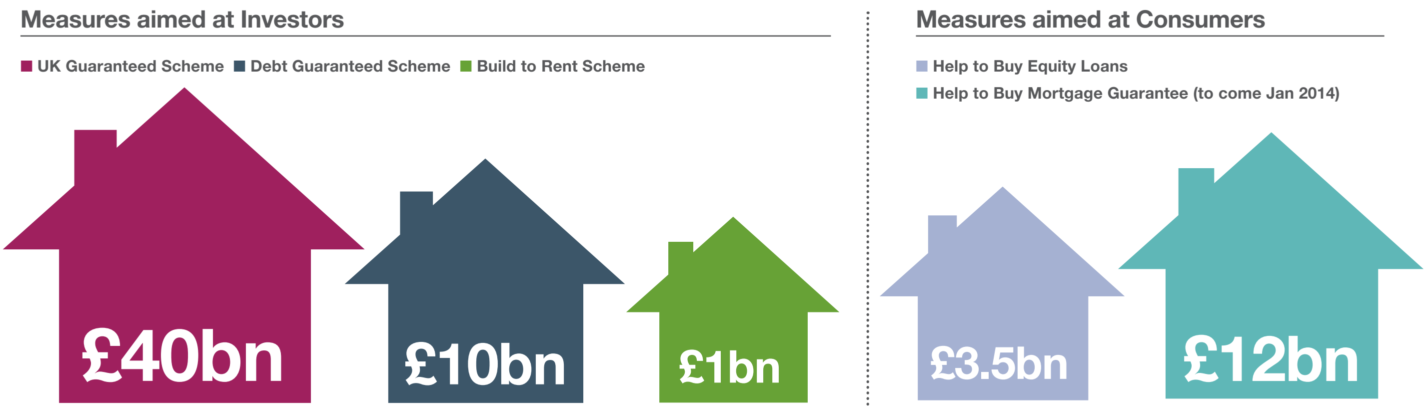
Build to Rent Fund

The second round of bidding for an estimated £400 million of funding from the Build to Rent Fund is currently under way. The deadline for applications is October 31st.

Launched at the end of 2012, the funding scheme supports the development of new purpose-built homes to let. As well as mitigating some of the risks for developers and investors, the Government seeks to provide proof that purpose built rented

"Local Planning Authorities must be open to negotiations regarding affordable housing provision"
Susan Emmett, Savills Research

GRAPH 4.1
Government stimuli to the housing market



Source: Savills Research

housing can meet housing need and investor requirements.

In response to high levels of interest from a variety of public and private sector stakeholders, the fund was increased five-fold to £1 billion in the 2013 Budget.

A first round of 41 projects is going through the due diligence process. The new wave of applicants in the second round will be focusing on building a more bespoke product that is designed to allow rental blocks to be run more cost effectively and to cope better with the wear and tear of tenant turnover thus delivering long-term management cost savings. We expect to see features such as extra wide corridors, service lifts, equal size bedrooms and ratio of bed to bathroom as standard.

Debt Guarantee Schemes

In a landmark initiative for private rented housing, the Government also launched up to £6.5 billion of debt guarantees available to organisations to invest in new privately rented homes. Together with £3.5 billion allocated to affordable housing and shared ownership, it adds up to a total £10 billion of backing for housing.

Yet despite initial approval from the industry when the measure was first announced in February 2013, there has been little take up so far. The Government's failure to secure a financial house to run the scheme has impeded fast progress. But it is still early days.

Savills expects to see a number of the successful applicants of the Build to Rent Fund seek further support via the Debt Guarantee Schemes once the building projects are under way.

The guarantee is designed to attract investment into the private rented sector from fixed-income investors who want a stable, long-term return without exposure to asset level risk. It is available for portfolios with a minimum aggregate value of £10 million for private rented schemes.

Once it takes off, it will provide a completely new funding product aimed at lowering the cost of debt, increasing the number of homes housing providers can build and ultimately improving investment returns.

UK Guarantee Scheme

As a measure that sets out to stimulate construction activity and create economic growth by backing large infrastructure projects, the Treasury-run £40 billion UK Guarantee Scheme (UKGS) unveiled last year, may not immediately be recognised as a source of funding for housing. However, this summer the Treasury indicated that guarantees are available for residential development – down to £10 million loans.

The Government has already announced that a UK Guarantee will be provided to the Greater London Authority to support borrowing of £1 billion to finance the Northern Line extension to Battersea. The Government has also recently approved a Guarantee worth up to £75 million which will help finance the conversion of the Drax coal-fired station to biomass.

BRISTOL HARBOURSIDE

Homes for private rent in harbourside scheme

Among the most recent deals to deliver more homes for private rent, the A2Dominion Group has agreed to buy 46 homes at Crest Nicholson's Habourside scheme in Bristol. A2Dominion, which has been running a medium-sized private rent portfolio of 400 homes for several years, will acquire the first 28 apartments in October and the remaining homes between January and March 2014.

John Knevett, A2Dominion's chief commercial officer and deputy chief executive, said: "This deal with Crest Nicholson supports our strategy to grow the Group's private rent portfolio to more than 1,000 homes over the next five years."

Chris Tinker, Crest Nicholson's Executive Board Director responsible for Build to Rent, said: "This forms part of a wider initiative where Crest Nicholson will be working with the HCA (Homes and Communities Agency) and its selected partners including A2Dominion, to speed up the delivery of new homes on several of its larger urban and suburban developments.

A2Dominion previously bought 102 homes for private rent from Crest Nicholson at the Centenary Quay project in Southampton. It was the first project to receive Government funding under the £1 billion Build to Rent scheme.

Source: Crest Nicholson

New Build to Rent

DELIVERING GREATER SUPPLY

The current pipeline of new 'build to rent' product, estimated to be £1.2 billion in london, will help create scale in the sector

Words: Jacqui Daly

"We are beginning to see more genuine interest in the private rented sector as a product"

Jacqui Daly, Savills Research

Institutional investors poured £4 billion into Housing Associations last year in a series of index-linked leaseback deals. Twelve months on, we are beginning to see more genuine interest in the private rented sector as a product and an investment asset class. Investment focus has been on London and the South East, where rents naturally link to earnings growth, but we are beginning to see interest beyond the capital.

However, the lack of purpose-built rental blocks has been a key constraint to investors. So far, most of the funds have been sunk into traditional housing developments with new PRS units effectively being flipped from open market sale to private rent.

These developments help to get the critical weight of stock under professional management and create the management platforms that investors are looking to invest in. The market is highly immature and it's likely to be a number of years before bespoke purpose built PRS product, as promoted by Montague, makes up a bigger share of the £893bn tied up in UK rental property.

The current pipeline of new 'build to rent' product, estimated to be £1.2bn in London, will help create scale. Across the regions we are also beginning to see some significant PRS developments come forward in Birmingham, Manchester and Telford. The Government's HCA Build to Rent programme is also expected to support the delivery of a further £2bn of rental product. All of this will help with the constraints clearly evident in the investment market.

Housing Associations

Government and policymakers have been heavily focused on attracting institutional investment into the PRS sector yet housing associations have been the majority of respondents to recent initiatives.

So far this year, A2Dominion has agreed two deals to purchase apartments for private rent from Crest Nicholson – 46 homes at the Harbourside scheme in Bristol and 102 homes at the Centenary Quay project in Southampton, both using the HCA Build to Rent Fund.

Elsewhere, Fizzy Living, a commercial subsidiary of Thames

New Festival Quarter, Poplar, by Fizzy Living

Valley Housing, brought two buildings to the market, Canning Town in East London and Epsom. They have recently acquired a third scheme in Poplar.

Unlocking hidden value

There is no financial incentive in terms of capital growth for tenants to pay higher rent for amenities and services, confirmed by our recent YouGov survey. Yet we are seeing house builders allocating early blocks to PRS because tenants create vibrancy, on-site visibility and demand for amenities and services, which helps to attract homebuyers and support sales values.

Housebuilders appreciate that a PRS exit strategy is equally viable in net land value terms to open market sales and that PRS adds value on larger sites.

PRS vs market sale

Forward funding improves the competitiveness of PRS against market sale. Forward funding, where an end buyer is identified, reduces risk and removes the speculative nature of development. This de-risking means that less equity is required and more debt can be employed to improve the return on equity.

Also, given that there is no reliance on phased sales to owner occupiers, the delivery of units can be speeded up reducing the length of the project and the duration of the debt requirement. As less equity is used and for a shorter time period, the internal rate of return rises. Where there is market demand and a number of phases of development, this de-risking, reduced equity requirement and project acceleration makes PRS a viable option.

ESSENTIAL LIVING

High-rise innovation in the private rented sector

One of the biggest examples of innovation and development occurring in the private rented sector comes in the shape of a 44-storey tower to be built on public sector land in Elephant & Castle in south London.

In an announcement this summer, the Greater London Authority (GLA) awarded Mace and Essential Living the contract to develop its site in Newington Butts. The deal will see institutional investment used to build a large-scale residential rental development. Essential Living, a specialised PRS company, is backed by M3 Capital Partners which has a long track record in long-term residential investment.

The move is a clear demonstration of the Mayor's support for increasing supply of housing through the private rented sector. It is also evidence that it is possible to develop rental homes within the existing planning framework without the use of restrictive covenants.

Essential plan to deliver 5,000 units of private rental stock over the next decade. It currently has a pipeline of 1,600 units at various stages of deliverability, which demonstrates that there is appetite for investment in the sector and that the private rented sector can compete with market sale.

Newington Butts site at Elephant & Castle

Source: Essential Living

TABLE 5.1

PRS land deals in London

Developer	Location	Units
BE:HERE	Aberfeldy Estate, Poplar	223
Essential Living	Berkshire House, Maidenhead	68
Essential Living	Three Colts Lane, Bethnal Green	149
Essential Living	Swiss Cottage, Camden	200
Essential Living	Archway Tower, Archway	100
Essential Living	360 Tower, Elephant & Castle	319
Fizzy Living	New Festival Quarter, Poplar	45

Source: Savills Research

OUTLOOK

As the PRS continues to grow, more homes are needed

■ Affordability constraints remain
The improving economy, strengthening housing market and Government policies promoting homeownership will not stop the private rented sector from growing. Despite all these factors as well as improving credit conditions, affordability constraints mean that many will continue to rent for longer. Savills Research expects the private rented sector to grow by 200,000 households per year over the medium term.

■ Urban phenomenon
The greatest demand for rental homes will continue to be found in city centres. In some London boroughs over 40% of households rent privately. Cities such as Manchester, Brighton and Oxford have a particularly high concentration of people renting homes. As our Savills/YouGov survey confirms on page 6, proximity to work and public transport are two of the most important factors when choosing a rental home.

■ Not just for the young
Renting no longer applies solely to young people. Census data show that under 35s make up 45% of the PRS. But a third of those renting are aged between 35 and 49, including many families, and this age group has being growing at the fastest rate. Growing concentrations of people renting privately in urban centres means that much of the social stigma associated with renting is fading and that there is growing demand for single family units as well as apartments.

■ Rents will continue to rise
The cost of renting is a key consideration for private tenants, according to our Savills/YouGov survey. Yet while there is a mismatch between supply and demand rents will continue to rise. We forecast that rents in the mainstream markets will rise by 18.2% by the end of 2017. In Greater London we expects rents to increase by 26.4% over the same period

■ More stock needed
Institutional investors are poised to inject £7 billion into the private rented sector according to the PRS Taskforce. However, a lack of product remains the biggest constraint to investment. Access to large residential portfolios of appropriate quality stock remains a significant barrier to major institutions looking to seed dedicated UK residential funds.

■ PRS is still fragmented
Savills own investment database shows that £1.36 billion traded in the investment market this year up to the end of Q3. Whilst this is an increase on last year, it remains a small fraction of the £893 billion tied up in the private rented sector, which is mostly in the hands of individual buy-to-let investors.

■ Flexibility is key
So far the Government has resisted calls to promote build to rent through a distinct Planning Use Class. We believe it is right to do so. While the introduction of a Use Class may help to deliver some new stock, long term it would depress value and investment returns.

There is enough flexibility within the NPPF to allow build to rent to flourish but Local Planning Authorities must be open to negotiations regarding Section 106 requirements. Although this was a key recommendation by Montague, there is little evidence that this is happening in any meaningful way.

‘We forecast that rents in the mainstream market will rise by 18.2% by the end of 2017. In Greater London we expect rents to increase by 26.4% over the same period’

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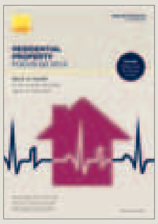
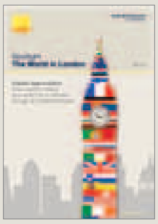
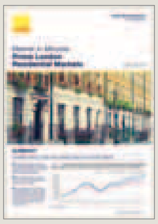
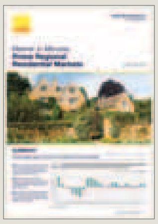

Research publications

Our latest reports

- **Residential Property Focus | Q3 2013**
- **Spotlight | World in London**
- **Market in Minutes | Prime London Residential Markets**
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