

# Savills Round Table

The prospects for residential property investment



**RESI**

**OPPORTUNITIES  
FOR A NEW DECADE**  
15-17 September 2010  
Celtic Manor Resort, Newport



# Analysing the residential markets' 'good feel' of yesteryear

For the first time at this year's RESI 10 conference, Savills has set out to measure the "good feel" – or "bad feel" – of the sector in a comprehensive sentiment survey. We covered attitudes to a wide range of different issues within the sector and received some interesting results.

On the back of this we used these results to form a discussion at a round table held at the conference. The round table was chaired by Richard Rees, who shaped the conversation into broad categories, we share our main findings from this below.

## Round table guests

**Debbie Aplin** Managing Director, Crest Nicholson Regeneration  
**Andrew Pratt** Managing Director of Residential, Grainger  
**Jennie Daly** Managing Director, Harrow Estates  
**Steve Morgan** Chairman, Redrow  
**Nick Jopling** Executive Director, Grainger  
**Mark Farmer** Head of Residential & Commercial Development, EC Harris

## Savills participants

**Richard Rees** Head of Development Services  
**Yolande Barnes** Head of Residential Research  
**Robert Grundy** Head of Housing Consultancy  
**Dominic Grace** Head of Residential Development  
**David Henry** Planning Director

**Yolande Barnes** There is diversity of opinion on what the economy is going to do. The bankers are saying something different to the public sector and Housing Associations. UK residential is expected to fall in value, whereas capital values in London are expected to rise. There is a perception that there is strong upward pressure on rents because of the number of people who are being cut out of the market and the sheer lack of supply. The good news is that most of the people in investment believe there will be more money for residential investment next year, which is unlike any other sector. Of course the undercurrent which runs through is that the industry is on the cusp of seeing a switch from the old leveraged debt driven models to equity driven funding.

## How do the changes in funding affect your business?

**Debbie Aplin** The big debate is whether debt or equity are the way forward. There are a lot of equity providers/ hedge funds around who have a huge amount of money

but nowhere to place it, so borrowers have to have something to give to the investors in terms of yield, and where is the market to do that? The one thing that we all have to be aware of is that they are short term players in the market who want to turn their money around quickly and I don't know if this is going to be a good thing for our business.

"The vast majority of house builders have seen a polarisation where good manageable sites are being favoured and banks are lending on them" Dominic Grace



## How do you see the main volume house builders being funded?

**Steve Morgan** The issue is the large amount of capital we have tied up in land. In the 80's Redrow had no capital, but we were able to grow our business without capital injection and without



any borrowings. We were able to do so because of planning. When we had finished a site we just went out and bought another one, and the process from shaking hands on the deal through to being on site, was less than two months. With our current planning system it can now take two years if you're lucky.

## Will we see more funds investing in the private rented sector?

**Dominic Grace** One thing that has been extraordinary about RESI 10 has been the dominance of the private rented sector. It's as though developers can't sell, if the site is in the right place then the demand is usually good. I suspect the places where the private rented sector model work best are also the areas where you can sell the best and therefore the need to adopt that model is at its lowest. I think it is important that we put this into context, the vast majority of house builders have seen a polarisation where good manageable sites are being favoured and banks are lending on them.

**Steve Morgan** We have come to the conclusion that the private rented sector cannot be made to pay pretty much anywhere other than London. Without some sort of cross subsidy it just does not work out of London.

"There is money out there ready to come in to the market but it is completely polarised around the London market and in particular the high end London market" Mark Farmer

"We have come to the conclusion that the private rented sector cannot be made to pay pretty much anywhere other than London" Steve Morgan



**Dominic Grace** A lot of people would venture that it does not work in higher value areas either, the actual price bands and places therefore that it will work in are actually very small.

**Andrew Pratt** Peter Pereira Gray is an interesting case here, Peter is happy to sit on an investment almost indefinitely and will hold it for a number of years and make it work for him, he is very unusual, there are not many investment operators like Peter's, in our funds the only way we can be profitable and create returns for our investors is to trade.

## Where will investment come from?

**Yolande Barnes** There is still a reliance on the old ways, the majority of people seem to think that there will be more opportunity for the purchase of distressed stock. I think though in reality there is real doubt as to whether it will end up as fire sale type stock, it may be distressed but the way it is going to be disposed is much more sophisticated than it was in the 1990's.

**Dominic Grace** Stock that is distressed is distressed because it is either in the wrong location or the product is wrong and this is not the sort of stock that funds are going to want to buy.



**Nick Jopling** When you speak to funds the reliance on debt and gearing wants to be at a minimum, which fits quite well with a model of a low return low volatility long return, but there are none of those portfolios out there because that relies on existing stock, you can't put development into that model because you have to have shorter term, higher return to do that.

**Yolande Barnes** There is an indication that there is more money available, but the complaint is that it is too short term, the wrong type of money. This is the point where we, as the industry, have to respond with the products that do fit, otherwise it will go away.

**Mark Farmer** In terms of debt finance it is absolutely apparent that debt is not there. There is money out there ready to come in to the market but it is completely polarised around the London market and in particular the high end London market. You have got private equity looking for the short term high multiple returns, beyond that there is a complete lack of interest. There is a disconnect, it's all about getting on the band wagon around the big bounce backs happening in the London market. We are also involved in some of the institutional plays surrounding the private rented sector, what we have seen there is a complete aversion to risk and looking at business plan financial models, everyone is talking about it but I don't see it happening any time soon.

“The majority of investors out there are short term players, they are there to turn their money quickly and I don’t know if this is going to be a good thing for our business” Debbie Aplin



### What role will the public sector play?

**Robert Grundy** The public sector is in a difficult situation because of the lack of availability of grant. Housing Associations may not have a great deal of cash to spend in terms of helping get units to market. One of the barriers to the creation of a proper residential investment sector is the availability of stock. Housing Associations have got a huge amount of stock but it’s all highly regulated, but what they are looking at is a different approach to increase their income and tracking it through their business plans into new build. I think that there is scope for the residential investment sector to team up and work in parallel with

Housing Associations and ultimately create a continuum between the pure residential investors and the Housing Associations.

**Andrew Pratt** If it is very hard to get a market let product away to institutional investors, how are you going to do it with discount rent, social housing product? I have never seen numbers that would attract institutional investment.

**Robert Grundy** It is not necessarily purely social rented, there is something in between, but of course you are right in that a sufficient yield is needed and the lower the rent the harder that becomes. However, there is a big gap, with people who don’t qualify for social housing but can’t afford to buy on the open market, this surely fits with the Housing Associations objectives.

### How will the new planning system affect the industry?

**Yolande Barnes** Even with confusion over the Localism agenda people are seeing opportunities, situations where sites are viable and where there is a good relationship between the developer and the local authority

that regardless of what has happened to RSS’s these sites are being progressed.

**Richard Rees** Does that really happen? In my experience I have not found many situations where this has happened.

**Jennie Daly** It’s whether the positive makes up for the negative, the positives are being prominently recorded and I don’t think these are bringing into balance those that are being lost. The planning system is the conduit for opportunity, if there is an opportunity that can be seized by a developer and an opportunity that can be seized by the community, unfortunately that opportunity has to flow through the planning system. This lies in the hands of officers who generally lack proper instruction, because of the political wars going on around them and lack the ability to innovate and seize opportunity, so that conduit is still going to be a block until there is empowerment. That requires politicians to talk to their officers and for their officers to actually want to take up that opportunity.

**David Henry** The jury’s still out, its going to be a good couple of years before the whole system and any reasonable track record can be shown. But there are lots of authorities still sitting on the fence, it’s geographical, in the South East, where we expect to see most of the focus they are often the hardest authorities to crack.

## Summary

### The importance of residential investment

The discussions and our survey have highlighted some good insights from the key players in the industry. We are at a critical point in the future of residential property. Never has it been more important for the pension funds and others to be persuaded of the merits of residential investment.

The short lifetime of the RESI conferences has witnessed a dramatic and perhaps fundamental sea change in the sector. In future years, the Savills sentiment survey aims to keep track of a sector that will become increasingly important in the political agenda.

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