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UK Build to Rent Market Update

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A strong start to 2020 derailed by the Covid-19 lockdown

The coronavirus pandemic will influence all aspects of the UK housing market. However, the fundamentals underpinning investment in the UK private rental market have not changed. Build to Rent is likely to see a short term impact on landlord revenues but longer term the coronavirus lockdown is unlikely to dampen investors' growing appetite for the sector.

Once we emerge from the coronavirus crisis investors will continue to increase their exposure to real estate assets that offer secure and stable income, and diversify their broader investment portfolios. A number of Government measures to stimulate economic activity or indeed a program of QE is likely to have a negative impact on bond yields and interest rates further boosting the appeal of Build to Rent to investors.

Historically, rental growth has tracked income growth and has demonstrated less volatility in times of economic uncertainty compared with other real estate sectors. Slower economic growth in the context of existing affordability levels and supply/demand imbalances within the housing market are more likely to increase demand for rented housing as people avoid the long term commitments of home ownership.

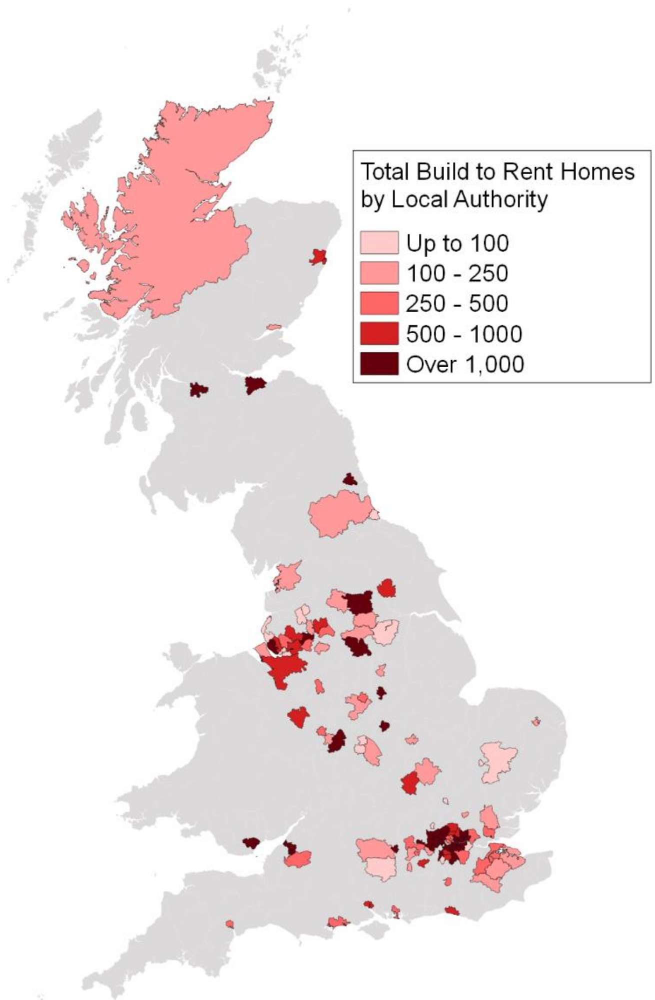
The undersupply of rental accommodation is likely to continue and become more acute as mortgaged buy to let landlords exit the sector (40,000 UK buy to let redemptions per year for past 3 years). At the same time, housebuilders are also more likely to be open to opportunities for bulk deals with investors in order to make up for lost owner occupier sales. We would not be surprised to see institutions playing a significant part in the housing market recovery post-coronavirus.

Institutions stepping in to buy large tranches of single family homes as rental investments is not new. Multifamily investors in the US expanded strongly through acquisition of single family homes.

A growing number of investors in the UK are understood to be pursuing family housing rental models. This has been slow to take off in the UK as development in the sector has typically focused on high-density projects in inner city locations, where tenant demand has been easier to underwrite. However, inner city schemes are typically more capital-intensive and we may see family housing models gain further traction in the second half of 2020 and into 2021. In fact Covid-19 may accelerate this emerging trend.

It is unclear how long the coronavirus pandemic will weigh on the housing market. However, once lockdown measures are lifted, Build to Rent investors will have capital to invest to progress construction with their partners.

Figure 1 Total Build to Rent homes including pipeline, at Q1 2020



Source Savills, British Property Federation, Molior

There are currently just over 157,500 Build to Rent homes planned, under construction, and operational across the UK. Around 33,500 homes remain under construction with c. 43,000 operational. The total planning pipeline currently stands at just under 81,000 homes, including those in the pre-application stage. Just over 40,000 homes have already gained planning permission but have not yet commenced construction. This indicates a healthy supply of homes waiting to begin construction. Six schemes started construction in Q1 2020, totalling c.1,600 homes.

Table 1 Key schemes starting construction in Q1 2020

Scheme	Location	Investor/Funder	Build to Rent homes
Springside	Edinburgh	Apache Capital and Moda Living	476
UNCLE Colindale	Barnet	Realstar Group	347
Aubrey Place	Milton Keynes	Invesco	294
Edward St Quarter	Brighton	Investec	168

Source Savills, British Property Federation, Molior

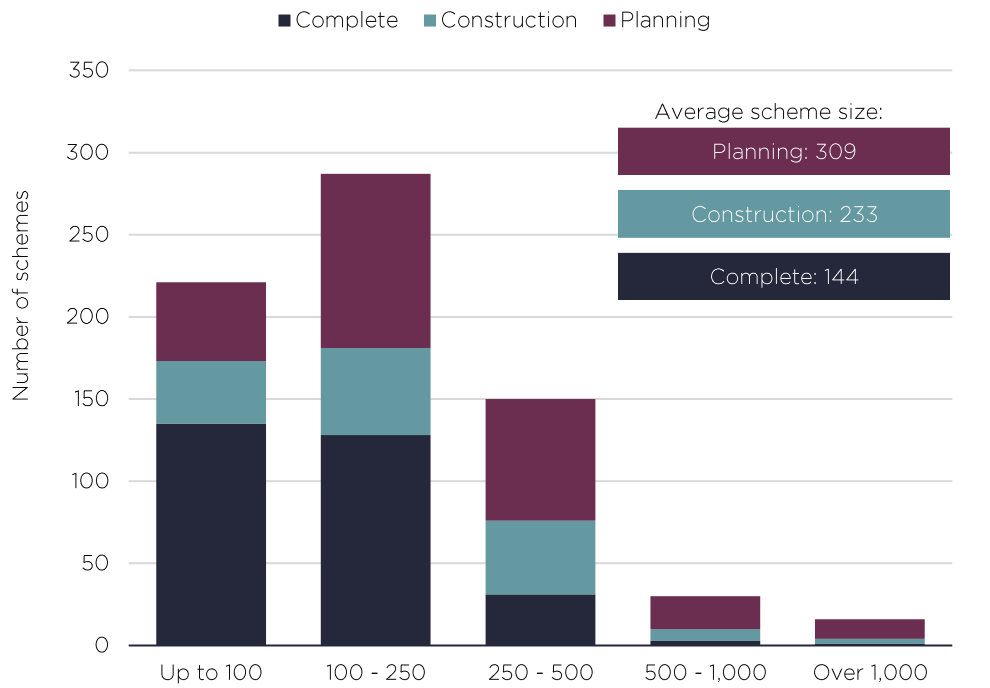
The scale of Build to Rent continues to grow, with the average size of schemes in the planning pipeline (309 homes) now over twice that of completed schemes (144 homes).

The average size of Build to Rent schemes has increased particularly quickly outside of London. The average completed scheme is now 163 homes outside of the capital compared with 128 in London.

This shows that investors have become more comfortable with Build to Rent outside of the capital and are now delivering at scale across key regional hubs.

A landmark scheme has completed this quarter becoming the largest completed scheme outside of London. Chapel Wharf is located in the heart of Manchester and comprises 995 apartments arranged over four blocks of up to 22 storeys.

Figure 2 The growing scale of Build to Rent schemes



Source Savills, British Property Federation, Molior

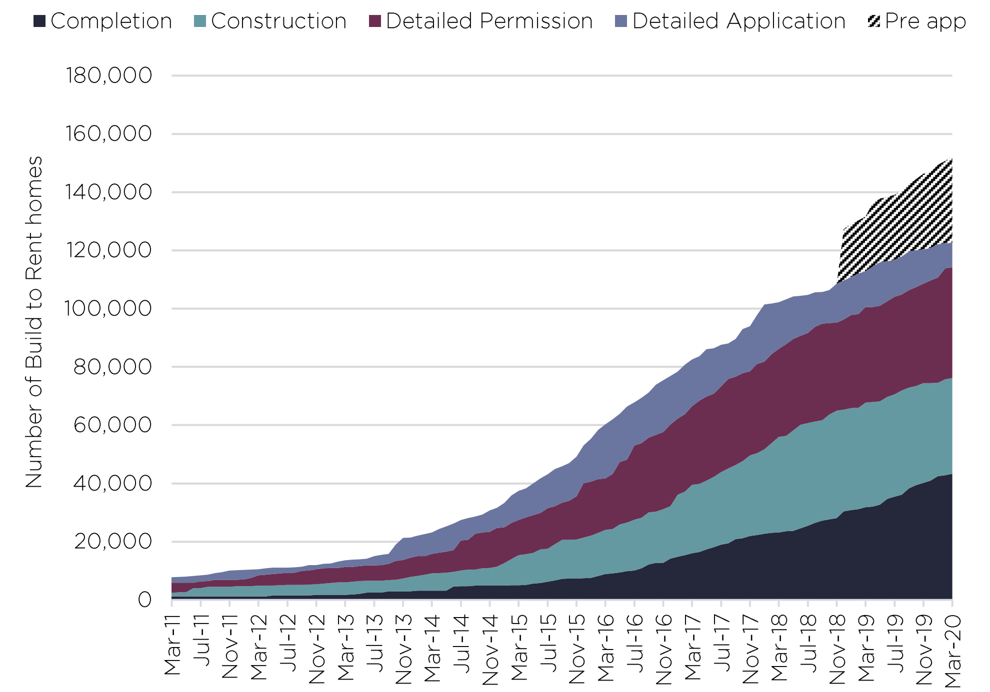
The first quarter of 2020 saw a large number of BtR homes completing across the country. The amount of completed stock increased 42% in the latest 12 months, the largest year-on-year increase since Q4 2018. This amounts to an extra 12,800 homes per year.

Meanwhile, we have seen the construction pipeline shrink. The number of homes under construction has remained broadly static in the capital and has fallen 22% since Q1 2019 in the regions.

Longer term, we have seen some contraction in the number of homes entering planning in London, with the total number of homes in planning falling by c. 4,000 homes in the last year.

Conversely, the planning pipeline beyond the capital has grown 41% since Q1 2019. Investors have been focused on delivering large numbers of homes in regional towns and cities with London proving more challenging from both a planning and pricing perspective.

Figure 3 The rise and rise of Build to rent



Source Savills, British Property Federation, Molior

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