

# UK Build to Rent Market Update



**The third quarter of 2023** saw a record number of Build to Rent (BtR) homes under construction, at 59,043, despite a slowdown in starts in response to economic headwinds.

Notably, Northern Ireland began construction on its first BtR scheme, signalling a key moment for the growth of the sector in the region.

There are now 92,140 completed BtR homes across the UK, an 11% rise year on year. BtR continues to expand its reach and the number of local authorities with BtR in their planning pipeline has reached 200 for the first time, primed to deliver over 112,500 more homes.

The Single Family Housing (SFH) sector in particular continued to expand strongly, with over 28,000 homes now in the planning pipeline (11% of all BtR homes).

Across the wider UK residential market, rents grew by a further 10.1% in the year to September, meaning we have now seen double-digit annual growth for 20 months in a row.

This highlights the pressing need for increased housing supply and the opportunity for investors seeking consistent, inflation-linked returns.



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## Investment remains comparatively resilient in a challenging economic environment

Investment activity has fallen across all real estate sectors, in the face of economic uncertainty and the elevated cost of debt. Twelve month total UK real estate investment came in at just under £35 billion in Q3 2023, down from £42 billion in Q2 2023. This is after a recent surge in investment and a peak of £74 billion in the year to Q1 2022, as the post-pandemic period saw investors return to the market.

While overall investment is currently down across the board, the falls are primarily due to the drop in investment in commercial sectors. Compared to the peak of Q1 2022, commercial investment was down -53.1%. Meanwhile, BtR investment was down by substantially less. This means BtR investment comprised a record 10.0% of total real estate investment in the year to Q3 2023, up from 6.4% in Q1 2022, when total real estate investment was at its peak.

## The continued attraction of the Living sectors

The change in the economic landscape does create the need for careful consideration of investment strategy in the short term. Some investors have shifted towards a greater proportion of fixed rather than floating rate debt, or have completed more deals with all equity, intending to add debt at a later stage. Others are shifting their focus towards locations with higher yields in the medium term.

Nevertheless, investment in the Living sectors (Build to Rent, PBSA, Senior Housing etc.) remains

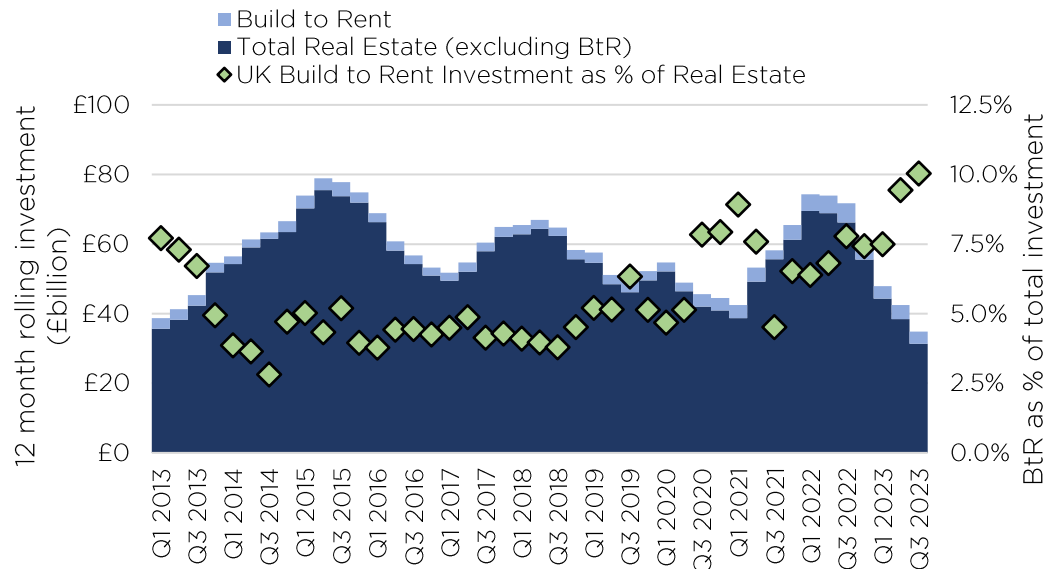
attractive, driven by strong fundamentals and risk-adjusted returns. A supply and demand imbalance continues to impact towns and cities across the country, which are failing to meet housing need. The high cost of debt in particular impacts affordability for potential first-time buyers, increasing the demand for good quality rental housing. The current lack of rental accommodation has also driven significant rental growth, which is offsetting some of the challenges of increased operational costs.

The Living sectors also have strong counter-cyclical features that help investors achieve consistent returns during periods of uncertainty. Unlike many other real estate sectors, rents can be rebased every year, keeping pace with inflation and adapting to a shifting economic environment.

In addition, student numbers often increase during economic downturns, in response to a weaker job market. This not only increases the need for Purpose-Built Student Accommodation, but also promotes the BtR sector, as residents who wish to retain the amenities, services, and quality of their rented accommodation may transfer to this product once they graduate.

Looking ahead, these factors will maintain the comparative attractiveness of the sector for investors. This may lead to a further rebalancing of real estate portfolios away from commercial assets such as offices and towards residential, supporting the continued growth of the sector.

**Figure 1** – Build to Rent investment takes up a record proportion of total investment

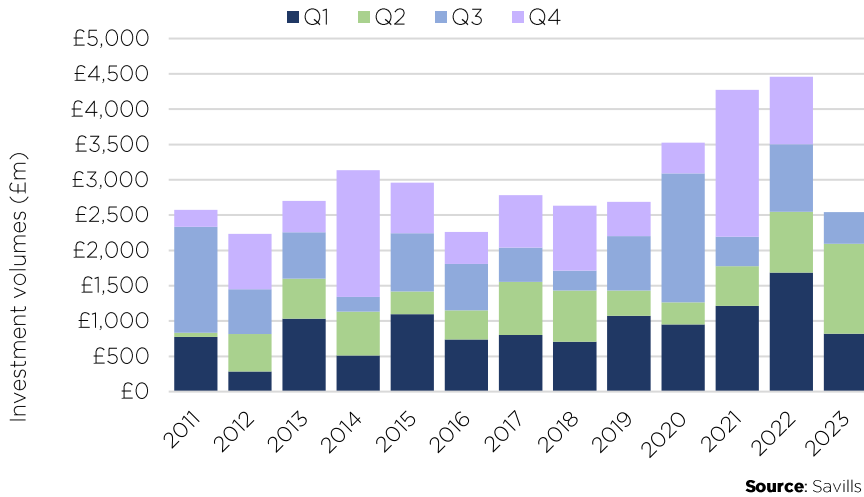


Source: Savills Research using MSCI

### UK Build to Rent Investment

The third quarter of 2023 saw a flurry of BtR transactions across 18 sites – demonstrating continued momentum from Q2. However, the total volume of capital deployed was relatively muted, at just £448 million. That said, this is 7.5% higher than Q3 2021, which was followed by a bumper Q4. It brings the year-to-date total to £2.5 billion, the third highest on record at this point in the year, surpassed only by 2022 and 2020. Despite investment values falling across all asset classes, these deals demonstrate the comparative attractiveness and stability of BtR. 78% of investment in Q3 was in multifamily transactions, whilst 25% of capital deployed was into operational assets – up from just 4% in Q2. A notable transaction in Q3 was Long Harbour’s acquisition of the final phase of St George’s Beaufort Park masterplan, which will deliver 370 homes – only the second major transaction to occur in London this year.

**Figure 2** – £448 million of investment in Q3



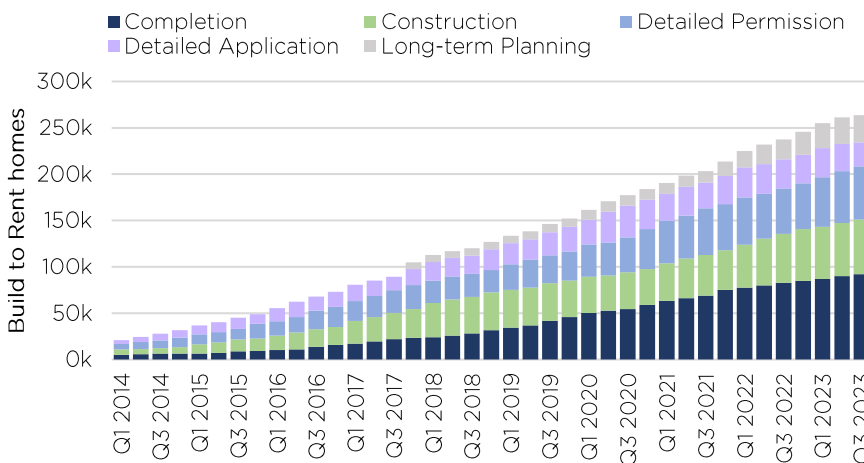
### UK Build to Rent Development

The UK’s BtR stock now stands at 92,140 completed homes, with a further 59,043 homes under construction. In addition, there are 112,511 homes in the planning pipeline, including those in the pre-application stage. The total size of the sector is therefore 263,694 homes.

Starts in London remained subdued in Q3 due to the continued impact of the heightened cost of debt and changes in regulations around second stair cores. Starts in the regions were more resilient (3,339), slightly down on the strong Q2 but far above the more sluggish Q1 (1,543). This was bolstered especially by the growing number of single-family schemes, with 20 having started construction in 2023 so far.

Materials cost inflation continues to cool, down to 2.8% in Q2 2023 from a peak of 23.5% in Q2 2022, according to BCIS. This should alleviate some of the pressures which have slowed the rate of starts in 2023 and allow the planning pipeline to keep moving.

**Figure 3** – Over 92,000 homes operational with 59,000 more underway



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