Residential Research – October 2024

UK Build to Rent Market Update

SAVILLS RESEARCH

The third quarter of 2024 saw £800 million of investment activity - a marked improvement on the same period last year.

This investment continues to fund housing delivery, in partnership with housebuilders or with contractors on investor-owned sites.

Investment needs to continue because the construction pipeline has shrunk by a fifth in the last 12 months: the record level of completions is not being matched by new construction starts.

As well as a shrinking construction pipeline, there is growing evidence that the private rented sector as a whole has started to contract. BTR investment will help to mitigate loss of rental supply and replace the homes being lost with higher quality, more energy efficient ones.

But Local Authorities need to adopt a much more proactive approach to BTR delivery in order to get the numbers up.

Partnerships will be key for future growth, as evidenced by the repeat transactions between investors and housebuilders in the space. We expect a further acceleration of delivery is likely to come.

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More and more housebuilders are seeing Single Family Housing as a long-term play

Single Family Housing (SFH) has become a key part of the UK residential investment market. SFH made up half of total BTR investment in the past year - the highest proportion of the total it has ever been.

Who has been active in SFH?

Growth in the SFH market has come through a combination of existing and new investors. Arguably the most successful partnership to date is between Countryside (now Vistry) and Sigma Capital who continue to grow quickly. The close alignment of Sigma's requirements with Vistry's partnership model means they have completed / contracted on over 8,000 homes.

Newer partnerships have also emerged between Vistry with Leaf Living and Barratt with Citra Living. This has led to a number of large transactions involving multiple sites and across a number of phases of development. A key driver for investors is to achieve scale as quickly as possible so that the supporting operational platform infrastructure can be established.

In the last year, Leaf Living agreed with Vistry to deliver over 3,200 SFH homes across multiple sites by 2027.

A return to single site SFH agreements

A period of slower sales rates to homeowners and Buy to Let investors has presented institutions with an opportunity to enter the market. Bulk deal investment (where the transaction involves multiple sites) rose to £1.2bn in the year to Q3 2024, half of the total £2.4bn invested in SFH. Large portfolio transactions have not replaced single-site disposals though, as investment volumes for SFH single-site schemes have also increased, from £0.27bn to £1.2bn.

As interest rates fall back, the sales market will strengthen. This may mean fewer large portfolio deals of this nature, with investors forward-funding single-site, purpose designed BTR developments, where consideration is given prior to sale to enhance viability.

Many housebuilders have restructured their business model and established a PRS partnership model to work with investors. This shows a long-term commitment to SFH and a recognition that sales rates, when they recover, will not return to the levels seen when Help to Buy was available. Housebuilders acknowledge the benefit of multi-tenure schemes, of which SFH can form a key part. SFH can speed up delivery and offer a faster, more consistent absorption rate. Forward-selling parcels to get funding into sites earlier helps fund land payments and local infrastructure such as schools.

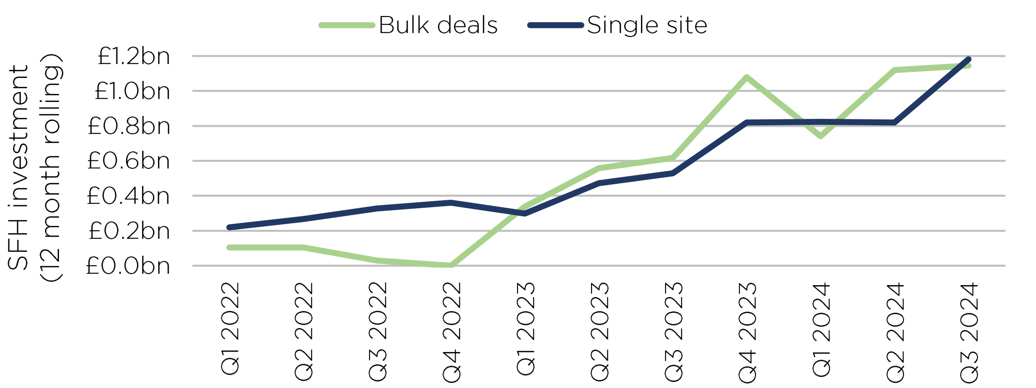
The rise of bespoke SFH

Investors are increasingly looking for bespoke SFH stock that is specifically designed for the needs of the rental market.

Key criteria that investors often prioritise include smaller unit types that appeal to the typical rental demographic, sustainability features (i.e. electric vehicle charging, heat pumps) and nearby amenities (schools and open spaces that offer children's play areas).

Delivering this requires housebuilders to form a pre-planning strategy for SFH, to differentiate these homes from open market sale homes and improve the viability of mixed tenure developments.

Figure 1 –SFH Investment has grown through a combination of bulk and single site deals



Source: Savills

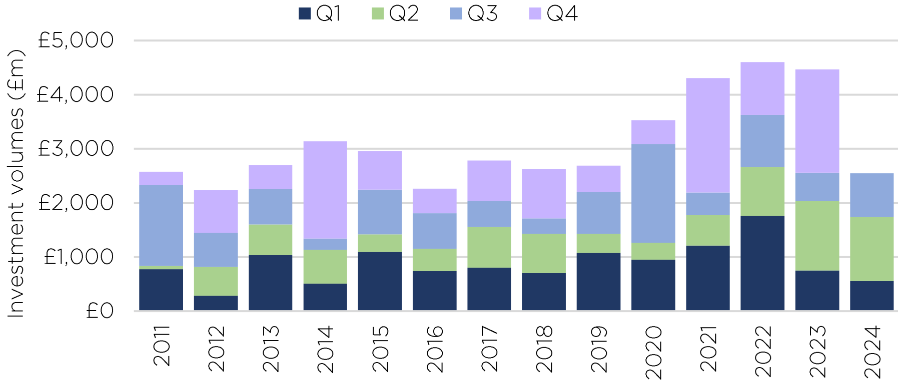
UK Build to Rent Investment

The third quarter of 2024 saw over £800m invested in UK BTR. While lower than the £1.2bn invested last quarter, this is the second-highest Q3 of the last 4 years. Since 2015, Q3 has tended to see slower volumes, with most annual investment falling in Q1 and Q4. Q4 2024 will need to be even stronger than 2023's £1.9bn for 2024 to match 2023's £4.5bn invested.

Once again, the driving force behind UK BTR investment has been transactions funding future development. In 2024 to date, 75% of transactions have been for the development of new homes. And SFH continues to be an attractive proposition, making up 50.4% of investment in the 12 months to Q3 2024, its highest proportion on record.

Investor focus has shifted beyond London, in the short-term at least, with only six transactions coming in 2024. At odds with the national trend, five out of six London transactions were to purchase standing assets - evidence of wider planning/development challenges facing London.

Figure 2 – A slower Q3, but in line with the historic trend



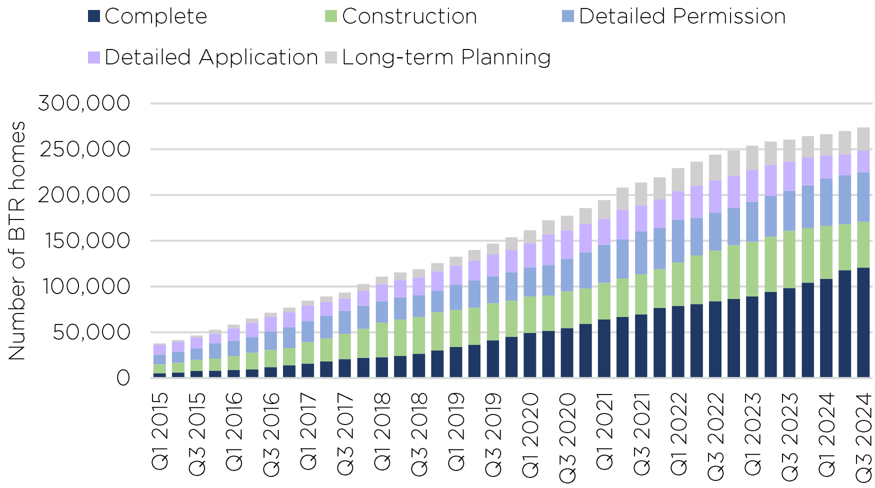
Source: Savills

UK Build to Rent Development

The UK's BTR stock now stands at over 120,000 completed homes, up by a huge 23% nationally compared to Q3 2023. There are a further 50,000 homes under construction as well as 103,00 homes in the planning pipeline, including those in the pre-application stage. The total size of the sector therefore currently stands at 274,000 homes, up 5% compared to Q3 2023.

The key story this quarter is the continued high level of completions, with 22,300 over the year to Q3 2024. This is the second-highest 12-month total on record. Yet record completions are not being matched by new construction starts. As a result, the construction pipeline has shrunk by 20% in the last 12 months, mirroring the wider residential development market.

Figure 3 – 120,000 operational homes but the construction pipeline has shrunk



Source: Savills, British Property Federation, Molior

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