



ADMIRED PROPERTIES

BUILD TO RENT - Revolutionising the British property market



Build to rent is increasing in popularity due to the traditional buy to let offering, effectively failing a generation of young professionals who want a home close to where they work in significant cities around the UK with both modern design and leisure facilities. They want a home that meets their lifestyle needs and doesn't consist of children but does involve meeting like minded people, eating out, shopping and efficiency when it comes to problem solving. Currently the majority of rental properties are owned by both private individuals and couples, either using buy to let mortgage finance or private equity to invest in the rental market. It's currently not a sector led by professional investors, but that is changing. We're currently in a time where the housing crisis is critical and private renting has overtaken the social housing sector as the second largest tenancy, the role of the Build to Rent sector can only increase. As state by the Urban land Institute 'The UK is well on the way to launching Build to Rent as a separate asset class.

It will take several years to build an industry from the bottom up, and so far, it is only just nearing the end of the initial start up phase. However, there can be no doubt that a successful Build to Rent asset class can offer a quality product created to fulfil a need for modern, professionally run rental accommodation for young people that also delivers long term return to investors.

INTRODUCTION

Build to rent is currently classed innovative within the British property sector but now has the backing of the Government plus the wider industry and is now regarded a future solution for several challenges in providing more new homes by 2020.

The UK Government are determined to provide a million new homes by 2020 and recognise that these can't just be provided by home sales alone. It's commonly acknowledged that rented homes will make up a substantial amount of the need, but this cannot be realised through traditional buy to let landlords.

Properties which are provided by landlords within the buy to let scheme are not necessarily the kind of homes that people will want to rent in years to come.

Young professional couples, who can't afford to buy their first home or who aren't interested at this stage, aren't interested in a small flat in the suburb or a semi-detached home on a housing estate. They want the accessibility to city living.

Build to Rent is buy to lets successor and the future in modernising the UK's private rented sector. It can provide a solution to the lifestyle that the young people want in the 21st century. Research shows that young professionals want high spec rented homes not to far from their workplace and facilities they wouldn't experience when dealing with a single landlord owner buy to let property. They want easy access to transport links, with local amenities nearby such as shops, restaurants, gym and leisure services, and a community with compatible neighbour's and communal living spaces.



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THE GROWTH OF BUILD TO RENT IN THE UK

"The Build to Rent sector has been one of the good news stories of the housing market over the past few years and it is great to see quality rental homes now coming on to the market at scale."

Melanie Leech, chief executive of the British Property Federation

Although popular in North America, Japan, Sweden and Germany, the purpose-built rental market has now only been recognised in the UK market and classed as the future of Private Rented Sector (PRS). Traditionally, rented homes have been provided by local authorities, housing associations or private landlords. This has meant that the kind of homes available within PRS, tend to be traditional homes originally built for owner occupiers. They're owned by a landlord who potentially has a portfolio of such properties and either uses a letting agent or management company to collect rents or self manages to see to repairs and find a tenant.

This has led to a large sum of unsuitable properties being available for PRS. While the few at the higher end of the market meet the needs of professional people, many have been insufficient and the PRS have been regarded as being one of the amateur landlords. However, for tenants of previous generations who still harboured aspirations of ownership and for those who classed renting as a short-term solution before buying, this was a reluctant compromise.

A number of housing reports, including the Montague Review 2012, highlight that more rented homes are needed to be built and done so in a more specialised manner with ambitions of a new generation of professional young people taken into account.

British property Federation (BPF) latest figures show that in the past year that Build to Rent units with planning permission under construction or completed within the UK have surged by 200% to over 76,000 units.

And it's not just London where the Build to Rent revolution is taking place. Regional cities such as Manchester which are benefitting from the Government's Northern Powerhouse initiative are seeing developments being brought forward.

Furthermore, BPF figures display regions have seen an increase of almost 400% from 7000 units in October 2015 to over 40,000 in 2016.

The BPF have stressed that although these figures are promising, the sector could be delivering far more homes, this is the case now as investors, with a potential £50 billion to invest are looking for stable income and investment sectors that will be relatively unaffected by any Brexit or other global market turbulence.

In Chancellor Philip Hammond's autumn statement November 2016, it was outlined that £7.2 billion of investment in housing, including funding for Build to Rent on a massive scale, making it one of the most defining changes backed from the Government.

Since then the UK Government has confirmed a new multi-million-pound deal in providing more than 2000 quality new homes for rent in key cities around the country, including Manchester, Leeds and Birmingham which will be a £400 million development, one of the largest private sectors in the country. The Government's new Home Building Fund will also provide £45 million, allowing to kick start the new development and house building.

WHAT IS A BUILD TO RENT HOME?

"We seem to be on the brink of becoming a rental nation."

Stephanie McMahon, head of research at Strutt & Parker

Build to Rent usually refers to homes which specifically let to tenants rather than sell and is now becoming an investment asset class on its own accord. Its applicable not only to large institutions as products are emerging for individual investors.

The Urban Land Institute which published a guide to Build a Rent defines it as a development of 100 plus units which are purposefully designed and built with there customers in mind. They will naturally integrate dedicated staff on site with strong management based on maximising the customers experience.

The institute also highlights, irrespective of overall package amenities, the creation of a community feel, and positive customer experience should be a fundamental philosophy of any successful Build to Rent scheme.

Built to Rent developments all embrace the modern living with a high level of professional, onsite management services provided with no letting fees, three-year assured tenancies and the building in use as rented accommodation for at 15 least years.

The future of Build to Rent is understood as being in high quality residences in a management blocks of hundreds of units which offer a lifestyle that includes modern design, communal living, leisure facilities and onsite management teams, located in the heart of key cities close to work and social hubs.

Not only do tenants get a roof over their heads, they get a place to live that they're proud to call their home whilst investors get an asset with longevity with their investment in comparison to the traditional landlord owned buy to let.

These homes are made for modern tenants that are not as hooked with home ownership as their parents may have been. They aren't interested in a flat in a converted house and are more willing nowadays to pay for the highest quality accommodation with no expectation of ever owning it.



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DEMAND

"Alongside home ownership, we're determined to create a bigger, better private rental market to offer greater choice for tenants in a country that works for everyone."

UK Housing Minister Gavin Barwell

The UK PRS is going through a period of sustained growth, doubling in size to 5.4 million from 2001 to 2014, a trend which is set to continue as more people either don't want to buy a home or cannot afford to do so. Several young people want the flexibility to move as they build up their careers and selling a home can be regarded as a hassle.

Strutt & Parker's recent survey highlighted that although the majority may wish to own a home at some point, many still prefer to rent and the flexibility it provides. It concluded that a preference for renting is starting to surface.

It also found that there is growing evidence to suggest that renting is becoming more of a lifestyle choice rather than being purely motivated by a lack of affordable housing for potential buyers. Official figures showing that the PRS has grown by 82% over the past 10 years.

Like the ownership section, there is a shortage of homes to rent which has led to rents being increased. This shows that the demand is there for high-quality homes to rent from a generation that is in no rush to become a homeowner.

Savills, one of the UK's leading real estate agencies has predicted that the UK will need to house an additional 1.2 million households in private rented property by 2020 with reports from PricewaterhouseCoopers predicting that almost a quarter of all UK households would be renting privately by 2025, increasing the total to 7.2 million households and that more than half of that amount would be aged between 20 to 39.

There are several pros for tenants with tenancy agreements from three months to three years already on offer. Rents can start from as little as £250 per week with some including bills. The incentives are likely to increase as providers become more competitive.

INVESTMENT

"Investors are likely to be attracted to new Build to Rent projects by the steady yields on offer. The value of rents is significantly more stable than the value of house prices."

Paul Stanworth, managing director of L&G Capital

According real estate services firm JLL recent report, investors and developers are recognising the opportunity in the UK's Build to Rent market, with investors looking for security of residential rental income both in London and regional cities.

Significantly for investors, Build to Rent returns are projected to be net of all the costs that can often become difficult to calculate and keep track of in the traditional buy to let sector.

One of the attractions from an investment point of view is that new build rental homes attract a third higher rents than older properties. Therefore, any investors looking to take on a long-term project, that could provide higher yields should consider the differences with a simpler buy to let option.

According to those putting Build to Rent in their investment portfolios the shortage of residential accommodation in the housing market means that the positives significantly outweigh any risk. Real estate firm JLL highlight that support from the Government allows the sector to grow and with pent up demand for the right product offering presents substantial opportunity for both investors and developers.

Investment within the sector is being classed as long term, with many experts stating that already absorption rates on rental schemes are proven to be quicker than on housing developed for sale. It's believed that investors will be involved in a property investment owned by a long-term professional who will remain in the rental sector for the long term.

Many claim that with a move away from home ownership now firmly engrained there is more than enough opportunity for Build to Rent to become a top investment product, presenting investment opportunities that are simply too big to ignore.



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WHO IS INVOLVED?

Close to £15 billion has been invested into the Build to Rent sector and estate agents Knight Frank have estimated that this will increase to nearer £50 billion by 2020. The big investors include Legal & General, M & G and the asset management arm of Prudential. Legal & General have partnered up with Dutch pension fund manager and announced plans to invest £600 million for construction of 3000 Build to Rent apartments in Bristol and Walthamstow in London.

Dutch pension asset manager APG, which controls pension assets of around £375 billion is backing a 44 storey Build to Rent tower block as part of the Elephant &

Castle regeneration scheme. Additionally, Sigma Capital is working with Kuwaiti investment bank and other investors to build 10,000 rental homes within the next 5 years and to build a portfolio worth £1 billion.

Financial advisors state that Build to Rent is growing into an asset class based on a lifestyle choice with a strong sense of community and with a higher tenant retention rate compared to traditional buy to let. Ultimately this will result in a decrease in voids, going full circle back to the investors cash flow.

WHERE NEXT

There are a few concerns surrounding on how Brexit will impact on Build to Rent due to the shortage of housing, particularly in and around London and this isn't going to suddenly disappear. Experts also highlight that the long-term economic fundamentals of housing investments are thriving more than ever.

Several studies carried out from big lenders within the UK including the likes of Halifax, Nationwide plus the Royal Institution of Chartered Surveyors say that house prices are unlikely to drop and indeed could rise by as much as 4%.

In contrast, rents are expected to rise this year, potentially due to the buy to let landlords having to pay 3% extra stamp duty charges on additional homes, introduced back in April 2016, to stricter lending criteria announced on buy to let mortgages and changes to tax that were introduced April 2017.

On top of this, a letting fee ban is set to be introduced in England and Wales which many believe will lead to private landlords passing on the cost to tenants in form of increased rents.

DEFINITION OF BUILD TO RENT

- A minimum of 50 units, all available for rent.
- No Letting Fee.
- Three Year assured short hold tenancies.
- Expert onsite management.
- Covenanted as rental for at least 15 years.

BUILD TO RENT REQUIREMENTS

- Close transport links with quick access to the city centre.
- Accessible location for local amenities and being in the heart of a vibrant community.
- An area with positive house number projections for up to 10 years, ensuring a growing rental demand.
- Accommodating for professionals with above average earnings seeking a quality home.



ADMIRERD PROPERTIES

WHY IS MANCHESTER AT THE HEART OF THE UK'S BUILD TO RENT REVOLUTION?

With Build to rent accommodation unquestionably being the future of the UK property investment, there are several reasons why Manchester is the place investors want more assets more than any other.

Its common knowledge that tenants have demanded this for years with the Government hoping it will redefine the private rented sector. Investors are now wanting Build to Rent property and they want it in Manchester.

For years London has been the place for investments from international buyers. The UK's economic and financial

heartbeat, luxury homes in admired postcodes and well known for its strong levels of capital growth. The capital has been the go-to destination for a generation of overseas buyers, but now a generation of investors are demanding a modern rental investment for the UK's growing rental market, therefore leaving London and heading to Manchester.

Here are the three reasons why Manchester, located in the north west England, has established itself as the preferred destination for Build to Rent investments:

1. ONE OF THE UK'S YOUNGEST POPULATION – VASTLY INCREASING

Minus London, Manchester is the fastest growing city in the UK. 2.85 million are predicted to live in the city by 2025, attracted by the expanding job market, world renown cultural attractions and national and international transport connection. Global Liveability have also ranked it as the number one UK city to live for two consecutive years.

More appropriately for Build to Rent investors, Manchester is the fastest growing 'Generation Y' city, the area is unquestionably driving the development of the UK's purpose – built rental market in comparison to any other.

- More than 60% of 25 to 29-year-olds live in Manchester than the UK average
- The Generation Y market accounts for 22% of Manchester's total population – almost 4x the national average

2. AN IMPORTANT PROPERTY SUPPLY DEMAND IMBALANCE

Although the number of people moving to Manchester continues to grow, the number of rental homes available for them to live in cannot keep up.

There are 85% of people living in Manchester privately renting. The city is already struggling to keep up with demands for rental accommodation from the young and growing population.

- 58% of graduate from universities in the Greater Manchester region stay to enter employment in the region. It means the city gets 20,000 new workers each year.

Manchester are in need for 4000 new Build to Rent units each year to house a rapidly growing tenant market that demands rental property, inclusive of facilities close to work and transport links. Only 1417 annual units are set for delivery in the city over the next eight years with two-thirds of this supply still subject to planning.

3. THE NUMBER ONE CITY FOR PROPERTY INVESTMENT

Since the Brexit vote and the decrease in value of the pound, the underlined immediate opportunity to invest in the UK, especially in the Manchester property market from global investors has risen even further.

- HSBC average annual yields from property investment 7.98% Manchester (highest in UK) 5.28% highest performing borough in London
- According to Juawai.com, In November 2016, there was an increase from Chinses property investors for real estate in Manchester, rising by 53.8% in just four weeks.
- Property in Manchester is currently selling two weeks quicker than the UK average after coming onto the market - Post Office Money Mortgages 2015

For more information, visit www.admiredproperties.co.uk or give us a call to discuss your individual investment goals on 01670 339 090