HARRIS ASSOCIATES

An Introduction To UK Private Rented Sector & Build to Rent

Background to the UK Private Rented Sector (PRS)

Since the 1950s, the UK residential property market had been characterised by steady increases in home ownership. More recently the Private Rented Sector (PRS) has experienced notable growth, and now accounts for nearly 17% of all UK households. This increasing shift to private rental accommodation can be attributed to a number of factors:

- Housing supply / demand imbalances, particularly in London and the South East of England, resulting in significant house price inflation.
- Restricted mortgage availability and higher deposit requirements, most evident following the financial sector crash of 2007-2008 and subsequent economic downturn.
- Introduction of the 'buy to let' mortgage market in the mid-1990s.
- Reduction of available social / local authority housing stock, particularly since the introduction of 'Right to Buy' in the 1980s.
- Demographic / lifestyle trends, including the rise in single living and increased labour mobility.

It is anticipated that by 2025, 25% of the residential property market will comprise of the PRS. Within this sector specialist property companies, such as Grainger Plc and Dorrington, own large portfolios of residential property for rent, which are usually managed / maintained either in-house or by external professionals.

However, the sector continues to be dominated by small scale investors with perhaps 1 or 2 properties. These are typically offered on 6 months to 1 year assured shorthold tenancies. The condition and management of such housing stock can vary considerably, in line with the competence of each amateur landlord. Clearly, this does not offer best financial value or stability for tenants, many of who are already priced out of home ownership.

This situation contrasts with other European countries and the United States, where the PRS is mature, long established and typically offers enhanced security and quality of life for tenants.

UK PRS and Build to Rent

There is now a growing and immediate opportunity to professionalise the UK PRS and provide long term, high standard housing that meets the expectations of increasing numbers and types of tenants. This is particularly the case for graduates, young professionals and older people seeking to downsize in urban environments.

Build to Rent has emerged as an investment strategy to capitalise on this. Unlike traditional private landlords, who may acquire existing property to rent on a unit by unit basis, Build to Rent schemes typically comprise large scale, purpose built blocks with amenities such as gyms, communal roof terraces and concierge services. The entire block is designated for rent and owned by a single investor. This approach follows the US Multi-Family sector, which also places an emphasis on 'customer' care and brand development.

HARRIS ASSOCIATES

An Introduction To UK Private Rented Sector & Build to Rent

Such schemes are now attracting interest as an alternative asset class from a range of institutional investors. This includes pension funds, real estate investment trusts and insurers. Whilst familiar with commercial property and (over the last 20 years or so) student accommodation development, such investors are recognising the potential for long term rental income and capital growth presented by Build to Rent schemes. Furthermore, such developments may provide further opportunities to maximise returns through the economies of scale offered by their sheer size.

The Challenges of Build to Rent

Whilst in principle the market fundamentals supporting Build to Rent in the UK are particularly strong, the asset class is not long established. This limits the amount of data available at this time to assess the actual investment performance of built schemes. Furthermore, demand for Build to Rent will undoubtedly be sensitive to a region's economy, existing housing stock and demographic. A high density development that is viable in central London may not make much sense to replicate exactly in northern England or central Scotland.

Therefore, a proposed Build to Rent scheme will require comprehensive feasibility assessments. Each proposal should be considered on its own merits, appraising of course the business case but also the design / construction strategy to be adopted. Future maintenance and refurbishment requirements will require specific consideration from an early stage. If a building were to be subject to unscheduled repairs, forecast rental income and capital growth could be affected and a reputation develops for mismanagement and unreliability. Other factors to consider include:

- The type and nature of services and amenities to be included: Gyms and swimming pools will require more intensive management and upkeep in comparison to more basic reception areas and car parking facilities.

- The quality / type of materials used: As an example, at construction stage uPVC framed windows will incur a smaller capital cost to install in comparison to aluminium, but have shorter expected lifespans

- The demographic to be targeted: Older occupants and families will have differing access, security and comfort requirements compared to young professionals or graduates.

Going forward, once a scheme is built and occupied a strong site management team will be essential. They should be capable of managing tenant expectations and engaging with relevant property consultants to ensure a proactive approach to building upkeep and maintenance. Clear procedures should also be in place to ensure a smooth transition between tenancies. It will also be imperative for a clear and detailed plan to be adopted in the context of major maintenance and upgrade works over the long term.

HARRIS ASSOCIATES

An Introduction To UK Private Rented Sector & Build to Rent

Summary of PRS / Build To Rent In 2016

Each scheme or development will need to reflect the market that it is intended to target. There really is no one PRS or Build To Rent solution and each investor and developer will need to decide where their development sits. Culturally the Build To Rent sector in the UK is hugely different to Europe and the US. Home Ownership is as engrained in the British Psyche as queuing politely and exhibiting a stiff upper lip in times of strive. Attracting would be renters and indeed convincing investors to get out the cheque books to make PRS / Build To Rent a viable alternative to ownership will take time.

However, there can be no doubt that there is a momentum to the UK Build to Rent sector and this represents an exciting opportunity to reform the buoyant PRS in the UK, and could offer significant returns for early movers into this market. Although risks remain, with the right insight, professional guidance and financial commitment the Build To Rent wave could well be set to roll for decades to come.

For details of how Harris Associates serves the UK PRS and Build to Rent sector please refer to our separate publication "4 Phase Supply" which details how, as Chartered Building Surveyors, we can provide advice at each stage of a Build to Rent scheme, from feasibility, to project handover, to ongoing asset management.

For more information on Build To Rent services or any other property related matter, please contact Shaun Harris or Steven McCormack.

Shaun Harris
DD1 - 0203 195 0852
MOB - 07950 336 450
EMAIL - shaun@harrisassociatesuk.com

Steven McCormack
DDI - 0203 195 1299
MOB - 07715 104 646
EMAIL - steven@harrisassociatesuk.com