CEO Forum Roundtable
Build to Rent – Coming of Age

Hosted by NHBC
Location London
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This Forum discussion examined some of the trends in the Build to Rent market. These included growth, design, market segmentation and the approach different housing organisations were taking to the opportunity.

Andy von Bradsky introduced the topic and reminded the group that this was not a new tenure, but one that was experiencing some significant growth. The British Property Foundation (BPF) putting the figure at circa 140,000 new homes purpose-built for rent since 2012. Part of this due to investment coming in from overseas – and from the US in particular but there are also a growing number of UK investors.

Andy highlighted the areas of government policy, which supported and enabled this growth. These included the loans from the Government's HomeBuilding Fund, which were used to support schemes like Quintain's TiPi development in Wembley and the PRS Guarantee Scheme. The guarantee scheme has now reached its limit and the scheme closed in December. The draft NPPF has also been amended to make it easier to get build to rent through the planning system. So there are lots of building blocks from the government over the years to support build to rent.

Graham Sibley, NHBC, explained there are circa 43,000 BTR under construction according to the BPF. So the market shows continued growth. That is also evidenced by what NHBC is perceiving from its engagement with the investment market. This includes funders from the US and Far East, but also Scandinavia and Germany.

These funds find Build-to-Rent a very attractive place for patient capital. To date London has been the centre of growth, with Manchester growing rapidly as well. However in 2018, for the first time, more build to rent was on-site outside London that in the capital. This is seen in major cities such as Manchester, Birmingham and Liverpool but also in smaller places such as Watford, Maidstone and Bedford. One reason for growth in formerly unfashionable areas is due to good transport links to major cities. There is also an appetite for BTR in regeneration areas.

Not all BTR is in high rise with around 15% of the market in low rise apartments or houses.

NHBC's experience is that while investors were buying schemes built for other purposes now they see many more schemes built and designed specifically for BTR. These schemes are built with longevity in mind with quality very much an issue for commissioners.

NHBC also seeing increases in requests from clients for cover related to potential contractor insolvency and also to deal with the risk of decant of tenants. The new investors coming into the market are increasingly savvy and carrying out greater due diligence than the market is used to.

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Canada Court is a significant, build to rent (PRS) development by PRP forming part of developer Quintain's Wembley Park Masterplan. The scheme comprises seven buildings ranging from 12 to 26 storeys, with 743 private and discount market rent homes. © PRP

Discussion

One reason for build to rent is because of the unaffordability of home ownership. And the requirement for alternative tenures.

One view expressed by a Housing Association is that BTR is not core business. The central business is affordable homes for rent and shared ownership. While private sale is used to generate cash to cross-subsidise, PRS ties up capital which could be used for delivering affordable rent. However it is useful in large mixed use schemes and also in market conditions where HA's need to find an exit strategy from private sale.

The premise that new BTR developments are designed around and occupied by millenials was challenged. Evidence suggests that many of the homes are occupied by people following marital breakdown, families and those looking for a "later living option".

This was backed up by a sense that later living is going to be something which may well become a significant part of the build to rent market and that the providers of retirement living will have a greater focus on PRS than currently.

Alex Rose, Hometrack. Lack of affordability for buyers is driving the BTR market. One of the reasons for the focus on London was that this was a market that the US and overseas investors understood. Organisations like Hometrack are experiencing an unprecedented demand for data to support investment. Much of the funding is coming from sophisticated investors and the resulting amount of due diligence required is significant. "There is a bit of an Arms race at the moment in data to underpin decisions". This hunger for data to support investment decisions is problematical when it comes to modelling the returns on a on a new build scheme

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in areas with little history of the tenure. Investors will need to compare product with similar geographical areas rather than have a direct comparison within a City or town.

The premium that can be charged for purpose built PRS schemes is key in these decisions. It sets them apart from the second hand private rented market. Schemes with value added services and amenities for residents command higher rents, but finding the right balance between perceived value, affordability and cost is the challenge.

From a supply perspective demand still not being met whatever the tenure. There is a role for all tenures based on different market dynamics.

In the market for land for BTR, Hometrack identify a focus away from London to areas of a relatively affordable land values with decent achievable rent and reasonable commuting distance into London.

PfPCapital is an example of how a housing organisation can develop a thriving Build to Rent business. Starting in 2000 Places for People built a market rent portfolio up to circa 5000 units. That included 30% traditional family units. They identified demand for the tenure was strong in mid-market locations. As a result PFP capital specifically set up their fund to look at mid-market schemes. Investment is focussed on smaller apartment blocks and family homes in areas where there is strong demand for mid-market rent and where the strength of the private homes market makes accessibility to good quality housing difficult for a large sector of the community. Typically tenants will be in employment and on or around the average household income including those in the key worker sector. Tenants include young families, couples as well as singles.

Brendan Kilpatrick, PRP covered the work they are doing on an 1800 unit scheme for Quintain in Wembley. He identified some distinct differences from the for sale market. The architect is involved in all aspects of design right down to the interiors of furnished flats. Clients are demanding but have strong focus on quality. Picking up on an earlier point there is also an ability to segment the market. So the three brands at Wembley target specific demographics, with the potential for residents to move at different stages of their lives. Each of the sites has a distinct design theme and features partnerships with suppliers such as Samsung and John Lewis.

The homes could all be brought to market in a relatively short time window, the belief being that the absorption rate will be much faster than for sale. The rents are comparatively high and targeted at those prepared to pay for the lifestyle. Some of the bigger homes are popular with sharers as it brings the per person cost to live in the development down. There are quite a few properties about to be launched in London of this type.

The comparison of the TiPi model with the investment plans of Sigma and PfP Capital highlighted that just as with cars the BTR market can target specific price points. There is a place for high-end schemes with amenity, but also for mid-market homes.

There is also a view that if PRS is to become a greater proportion of the housing stock we should be building a flexible housing stock rather than lots of homes aimed at one sector of the market. The US model (with services provided) might work in Dallas, but is it relevant in UK where we use high street for services and community?

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There is a requirement to think differently in design around issues like refuse, increased numbers of move-in and move-out events, robustness of components. To some extent there is an opportunity to increase the build standard of homes.

Paul Quinn, Clarion talked about the experience of introducing a purpose built BTR scheme as part of the Merton Regeneration. Reasons for interest are commercial, placemaking and derisking the development programme. The more tools to help achieve and fund that the better. CHG have set up a standalone company to develop BTR and a separate company to manage. On a commercial level the homes are intended to deliver a return. There is also a role to play in delivery of genuinely affordable communities. A range of tenures and products is required and BTR fits into this. From a design point of view they sit as a specific tenure as part of larger development and should fit in with other stock. BTR is a different financial animal than affordable rent, however flexibility needs to be built in.

It was clear that different Housing Providers take different approaches depending on their core business objectives, the need to manage development risk and the scale and location of the schemes they are developing. All had an element of BTR.

It also became apparent that part of the move into the sector by larger investment was around the pressure to deliver “responsible” investment.

Charlie Dunn, United Living. City Living is the PRS division of UL. It was formed because the land opportunities identified for the affordable sector in city centre areas outside London did not stack-up financially in recent past. They therefore sought investment from BTR market. Working in a range of cities, Leeds, Manchester, Newcastle and Milton Keynes. Similar long term aspirations to RPs.

Allows better partnership working. Only work with clients aiming for long term relationships. Examples such as High Street based in Newcastle who aim to have a £400m per annum investment in BTR.

City Living not generally designing to the US model. Investment coming from the Far-East as well as UK. The long-term investment view of PRS is still positive, Brexit issues tend to be around the here and now, labour, materials etc.

Some of the design specific characteristics of the schemes. Parking available is for low proportion of homes (although it’s still important to residents outwith London), schemes are all electric as this is seen to long-term offer best value (and deals with safety issues), clients are looking for standardised design.

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Attending

HOSTS

Steve Wood	CEO NHBC
Graham Sibley	Market Development Manager NHBC
Andy von Bradsky	Chairman The Housing Forum
Shelagh Grant	Chief Executive The Housing Forum

GUESTS

Félicie Krikler	Director Assael Architecture
Jeff Astle	Executive Director of Development and Sales bpha
Steve Skuse	Director of Development Delivery Catalyst Housing
Paul Quinn	Director of Merton Regeneration Clarion Housing Group
Tom Bolton	Policy Advisor (Housing Led Regeneration and Investment), MHCLG
Angela Wood	Acting Deputy Executive Director Development and Sales Peabody
Chris Jones	Managing Director Places for People Capital
Andrew Beharrell	Senior Partner Pollard Thomas Edwards
Brendan Kilpatrick	Senior Partner PRP
Paul Belfield	Director Rund Partnership
Juliette Bartlett	Project Director (London) Swan Housing Group
Katharine Lewis	Partner - Banking & Finance Towers & Hamlins
Charlie Dunn	Managing Director, PRS Division United Living

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With a membership of 150 like-minded organisations and businesses from across the public and private sector, The Housing Forum champions collaboration and innovation in construction to improve productivity, design and build quality.

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We'd love to talk to you about the benefits of membership to your organisation.

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