

Sector update

Build to rent



WINTER 2021

Spotlight falls on fast-growing sector

- Build to rent (BTR) is the fastest-growing sector in UK real estate. From a standing start ten years ago, some 64,000 BTR homes have been built – 13,152 in the last 12 months alone.
- The sector has demonstrated its resilience over the last 18 months. Occupancy levels have been high (~90%) and rent collection has been stable, demonstrating ongoing demand.
- Demand is underpinned by structural tailwinds: the demand/supply imbalance and lack of affordability sustaining “Generation rent”; lifestyle changes such as the desire for flexibility, dedicated home working spaces, attractive amenities, community and embedded technology are increasing the appeal of renting; and the significant growth in the number of households over the next 20 years which will create the need for a range of property types.
- The latest figures from the British Property Federation show planning consents are at record highs, with almost 7,000 new BTR home consents in Q1. There are now 205,525 built-to-rent homes completed, under construction or in planning, an increase of 14% on the same period in 2020. Current and future supply in the regions (116,632 units) leads activity in London (88,893 units).
- Demand in the suburbs for single-family BTR is also rising. There are now over 5,000 completed build to rent homes located in suburban areas (8% of all completed build to rent homes) where renters preference is for houses rather than apartments.



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The build to rent (BTR) sector has proved to be resilient to the impact of Covid-19. The pandemic has accentuated the benefits of BTR to consumers and underpinned a compelling investment case for developers, funders and investors. Record investment in 2021 is enticing more players to enter the sector and the next few years will see BTR becoming a significant part of the wider real estate market.

HOONG WEY WOON,
PARTNER

Institutional demand from multiple investor classes driving activity

- Although a relatively new asset class in the UK, investor interest is rising. BTR's counter-cyclical characteristics, long-term income stream, attractive yields and collateral backing have been aided by a resilient performance during the pandemic. Occupancy and rent levels have been high compared to commercial property. At the same time, the average size of units being delivered has increased year-on-year, which is more attractive to large-scale investors.
- This wider range of players and significant investment is supporting a strong pipeline of projects. Financial firepower and the ability to move quickly for attractive opportunities is also increasing competition with an emphasis on acquiring high quality assets that meet renters' requirements for well-located and designed properties.
- Investment in the regions and tier 2 cities and towns is rising in response to increasing demand. L&G and Catella's recent projects include schemes in Leicester and Leeds. Macquarie Asset Management's new dedicated full service BTR business, Goodstone Living, recently announced a £150m development of 500 homes in Birmingham.
- The sector has received a record level of investment so far in 2021. Over £2bn has been invested by specialist UK funds and REITS, traditional real estate funds expanding into BTR, experienced international investors entering the market, and new UK players drawn to the sector's attractive investment case.

- New entrants are also targeting different parts of the market, investing outside London and in tier 2 locations:

- Goldman Sachs' first investment was the £184m residential tower in Birmingham in 2019
- Sweden's Heimstaden Bostad entered the UK with the £160m, 752 homes project in Birmingham
- TPG Real Estate Partners has partnered with Gatehouse Bank to launch a £500m single-family BTR joint venture focused on the North and the Midlands
- Pension Insurance Corporation has invested £130m in its first build to rent project in central Manchester
- Lloyds Bank's new Citra Living arm, which aims to buy 50,000 units by 2030, has made its first investment in Peterborough.

- The emergence of new platforms by major overseas players demonstrates confidence that growth opportunities have scale. Recent initiatives include Common, the leading BTR and co-living operator in the US, expanding into the UK with plans to open at least 3,000 apartments by 2023; Canada's PSP Investments and Cadillac Fairview (CF), the real estate arm of the Ontario Teachers' Pension Plan, setting up a £1.5bn joint venture managed by Long Harbour to create a build to rent platform; and the £1bn partnership between Apache Capital and Moda Living to plan, develop, deliver and operate a leading

premium BTR portfolio, located in prime sites across UK regional cities, with a pipeline of approximately 5,000 units.

- The market for single-family housing is set to experience significant growth driven by rising demand in the suburbs. In response, Legal & General has launched a suburban BTR business. Partnering with housebuilders, the business aims to develop large scale single family rental communities and is targeting 1,000 homes each year from 2024. Reflecting the opportunity in the regions, Goldman Sachs and Pitmore's £150m acquisition of the Thistle Portfolio from Gatehouse Bank comprised over 900 mostly two and three-bedroom homes across the North West.
- Repurposing retail properties is another opportunity. Vacant units left behind by the likes of Top Shop and Debenhams are being redeveloped. Hammerson and Packaged Living recently revealed plans to develop the Debenhams in Leicester's Highcross Shopping Centre into 300 apartments with co-working and resident amenities. John Lewis has unveiled plans to build 10,000 new homes on land it owns across the UK. The homes, which will range from studio flats to four-bedroom houses, could be built in department store car parks, above Waitrose supermarkets or next to distribution centres, as well developing new sites.

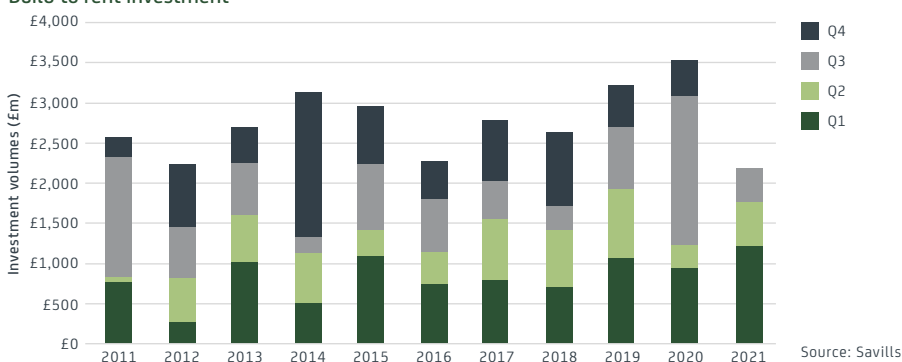


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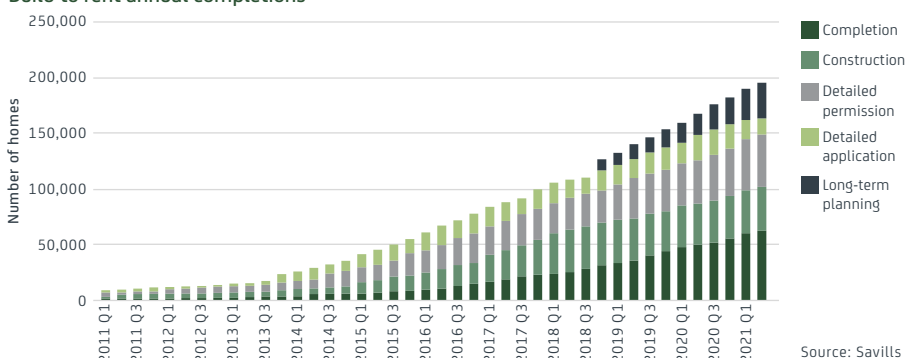
As more new investors enter the market, their focus is shifting towards the regions and single family housing, enticed by stronger returns, a demand/supply imbalance and support from the Government's levelling up agenda.

ZAC BARNETT,
VICE PRESIDENT

Build to rent investment



Build to rent annual completions



Looking ahead

- Despite the growth of units in planning and construction, there is still a shortfall against the 300,000 new homes required per year. Construction starts are once again outpacing completions in the regions and the construction pipeline is now returning to growth.
- In contrast to the wider market, new rental supply has risen sharply in London over the past 18 months, placing some downward pressure on rents. However, London listings now appear to be falling, suggesting the pressure is easing and will support rental growth in the London market. This is likely to coincide with a return to the workplace and some sense of normality post Covid.
- Investment continues to increase. The strong underlying fundamentals provide comfort and security, especially against other asset classes that continue to struggle. The UK market will continue to attract foreign investment as a result of its strong legal system, attractiveness of the pound and good operational demand and economy. Management teams will continue to improve operating efficiency, driving performance and returns.
- Consolidation in the market is inevitable. In comparison to the UK PBSA market, where the top five operators account for 48% of the market, in BTR, the top five operators control only 24% of all units. M&A activity will be driven by continued global investment coupled with the stabilisation of existing platforms and new operators growing out their own offering, acquiring and developing schemes.

Notable build to rent activity

DATE	INVESTOR/DEVELOPER	LOCATION	DESCRIPTION	CITY	TYPE
Oct-21	Get Living	UK	£155m forward funding agreement with HUB and Smedvig for the first phase of The Landing in Maidenhead	Maidenhead	Forward funding
Oct-21	Common	US	Entering the UK market with plans to open at least 3,000 apartments by 2023	London	Operating platform
Sep-21	Fiera Real Estate and Packaged Living	UK	Forward funding agreement with CDL Hospitality Trusts for The Castings, a 352-home scheme with a GDV of over £73m	Manchester	Forward funding
Sep-21	Watkin Jones plc	UK	Forward funding agreement with Ropemaker Properties for Watkin Jones' first fully co-living scheme on Gladstone Road in Exeter that will include 133 studio homes	Exeter	Forward funding
Aug-21	Telford Homes	UK	£28.3m acquisition of Elizabeth Arden factory for BTR conversion to 374 homes	London	Site purchase
Aug-21	Watkin Jones plc	UK	£130m 600+ home, mixed-use BTR and PBSA scheme in Bath	Bath	Forward Funding
Aug-21	TPG Real Estate Partners and Gatehouse Bank	UK	£500m joint venture to enable construction of up to 2,500 suburban, purpose-built family rental homes	North and Midlands	Investment
Aug-21	Watkin Jones plc	UK	£76.5m sale of 216-apartment in Hove to LGIM on behalf of its Legal & General Retirement business	Hove	Forward funding
Jul-21	Grainger plc	UK	132-home scheme in Southampton city centre, Gatehouse Apartments	Southampton	Forward funding
Jun-21	Catella (European Residential Fund III)	Germany	£32m funding of The Arches, 101 one-bed and 52 two-bed apartments, plus 31 studios	Leicester	Forward funding
Jun-21	Greystar	US	£31m development in Battersea	London	Forward funding
Jun-21	Watkin Jones	UK	Makers' Yard development comprising 551 one-, two- and three-bed apartments	Birmingham	Forward funding

DATE	INVESTOR/DEVELOPER	LOCATION	DESCRIPTION	CITY	TYPE
May-21	Pension Insurance Corporation plc	UK	£90m forward funding of 278 BTR apartments in Ealing	London	Forward funding
May-21	Grainger plc	UK	£37.4m forward funding of Becketwell, a 259-home development	Derby	Forward funding
May-21	Heimstaden Bostad	Sweden	752 residential units (Soho Wharf) in Birmingham for £160m acquired from Apsley House Capital and Galliard Homes	Birmingham	Forward funding
Jan-21	L&G	UK	£100m development site at Hockley Mills 395 homes	Birmingham	Forward funding
Jan-21	Realstar/Redrow	UK	513 new rental homes in Southall and Colindale with a combined GDV of £183.5m	London	Forward funding
Jul-20	Harrison Street and Cortland	US	JV to develop a 367-unit property in Watford with backing from Homes England and AIG Asset Management	Watford	Forward funding
Sep-20	Pension Insurance Corporation plc	UK	£130m forward funding of 520 BTR apartments	Manchester	Forward funding
Aug-20	Aberdeen Standard Investments	UK	Acquired Clarendon Quarter, a 324-unit residential scheme from Habitus Leeds	Leeds	Investment

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The team advises business owners, management teams and financial investors on mergers and acquisitions, raising private and public equity capital, and raising and refinancing debt capital.



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