



WHAT HAS CHANGED IN THE BTR WORLD SINCE MIPIM 2018?

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The UKs skyline is changing....with BTR playing a major role

Cast a curious eye around any major transport hub in London, Manchester, Birmingham or Leeds, and you can't fail to notice significant changes to the surrounding area. Green Belt constraints mean most cities can't grow out - so they are growing up, and we are probably witnessing the greatest upheaval in the UK skyline in a generation.

BTR development increasing pace

Residential and BTR in particular, is now the single most important driver of change. According to figures from the British Property Federation (BPF), the number of BTR units under construction has grown by 40% in the last year. More encouragingly, completed units have increased by nearly a third and have seen a big step up in quality - purpose built schemes (70%) have overtaken permitted development rights (pdr) and conversions (which account for 30% of London's currently completed stock). Expect more real data on take-up, price premiums, time to let and customer satisfaction flowing from this additional supply.

It's not just a London phenomenon

The expected growth outside London has materialised... mostly into the big 5 cities. Lack of sites, but growing confidence has seen developers exploring other smaller cities. Half the completed stock of BTR is now outside London and there is even more under construction (55%) – the phenomenon is spreading.

BTR has become big business

Our independent research has found that over 150,000 units in 650+ schemes being delivered by more than 250 different owners. We identify more than 900 businesses employing thousands of active participants in the BTR marketplace.

....and it's delivering rental premiums and growth

Several commentators have identified that the theoretical rental premium, so prized by BTR operators, has materialised in the market. One report by Colliers showed professionally managed BTR apartment blocks achieved an average premium of 9.9% (for one bedroom) and 9.4% (for two bedroom apartments) over a comparable Buy-To-Let (BTL) flat, in the first half of 2018. What's more, these premiums are marginally up from last year's figures, which correlate with the findings that rental growth has been stronger in BTR schemes than in the wider private rented sector in the UK.

British BTR design is not simply importing US multifamily

There has been a polarising of investor interest on larger schemes with 150 now being viewed as a minimum. Schemes of 300 plus units now regularly feature. High-rise is often the route to these higher densities. But this is not the high-rise of old. The BTR industry has occupier satisfaction at its very core.

The importance of customer satisfaction is now accepted. One of the crucial satisfiers is simply seen as just good old-fashioned quality service. The clamour to identify the killer-amenity has subsided and flexibility of amenity offering is now paramount.

Some of the most appealing BTR schemes are now just part of wider mixed-use urban development. The critical role of place-making has been well recognised this year and the need to deliver a thriving community underpins the creation of successful BTR investments.

The target demographic is evolving too. This year it is not so much the millennial but the millennial-minded. Many operators have been surprised at the wide variety of occupiers that have been attracted at both ends of the age spectrum. This has prompted constructive discussions about the value of mixed age communities.

A few interesting projects have looked at BTR as the appropriate tenure for schemes which would previously have been developed as single family, "for sale" units. 15% of the schemes in the pipeline include houses rather than just high-rise. Modern, flexible design solutions can deliver the longevity of investment income required by investors.

#Brand before Building

BTR was the flag-bearer for the arrival of Brand to the Residential markets during the year. Brand is so much more than a catchy logo. It underpins the very objectives of the operator's business and influences all aspects of their customer offer. It adds enormous value in other consumer markets and we expect it to do the same in BTR.

Modern construction methods at the forefront of BTR

Offsite construction has become a crucial consideration in BTR strategies. We would argue it is an integral part of any business strategy rather than a scheme by scheme option. Forward-thinking operators design all their buildings around modular specifications but with traditional construction techniques optional.

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Serious players are now thinking well beyond the individual scheme and initial construction, indeed to many, the construction of a building is being seen as a 'bump in the road' towards the ultimate delivery of their long term income. Supply chain management is a clear differentiator in established multifamily operators and is coming to the UK.

Ops are crucial to the success

The realisation that a new approach to traditional property management underpins successful BTR is now clear. New entrants and rebranded businesses have come into the market this year with a range of different propositions and ambitions. Fully consider your options.

Funding appetite remains very high

On the funding side, there have been a plethora of BTR fund launches and announcements. More funds, in fact, than managers that can demonstrate they have a track record of successfully creating a BTR building. Is this a valid investor concern? Well, it certainly is delaying the fundraising activities of some.

The latest IPF survey was actually a bit cooler in terms of intentions towards Resi investment at the end of 2018, but this should be viewed as a sensible stabilisation at the previous year's high level, rather than a fall away in interest. There is certainly plenty of money chasing the sector. The problem is the availability of sites.

This year some brave commentators (us and JLL to name two) hinted at the possibility that institutional holdings in BTR could eclipse other sectors in the medium term. JLL drew comparisons with the US and showed that if the UK followed the same trajectory, BTR could usurp offices in institutional portfolios.

The Agency world is changing

Residential property has stormed into the spotlight in the future strategy of most major real estate agents. Much corporate restructuring has happened and will hasten further next year. Watch for new Department titles catering for "beds" in all the different formats they are delivered.

Interestingly, JLL has decided to do away with the Brits definition, "BTR", and go for multifamily as their global definition.

The public sector view

Many local authorities have appreciated the value of BTR to their housing initiatives, but this is not universal. Their role is crucial to successful inner urban development.

Housing associations involved in the sector is coming under increasing scrutiny. They have the infrastructure, sites and motivations, but how will they respond.

The major issues of planning, affordable content and discounted rents all sit in the background but have seen limited movement this year.

More politics.....

Is Brexit a concern? It is difficult to be certain, but the good news is that BTR offers a local solution to local housing needs and so is widely felt to be broadly immune to specific Brexit risks. It will, of course, be subjected to whatever economic outcomes ensue.

More frequently discussed at present is the potential threat, as many see it, of a Labour Government. Would they re-introduce rent controls? The industry is pretty sanguine about this, believing that it is helping fulfil a very real need for more housing and that sensible dialogue should see compromises that would allow BTR to continue to develop.

But we still need to shout louder!

BTR has found a voice within the industry with initiatives by the UKAA, ULI, BPF and others. It has a name, but one designed for those involved in the creation and management of stock. It still lacks consumer identity with its customers. Who goes out "to rent a BTR"? Product differentiation can only improve with more identity as more units come to market.

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Create differently

#BTR #BuildtoRent #Brand #Brandbeforebuilding

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