



BIRTH OF A NEW MARKET – 5 YEARS IN THE LIFE OF BTR?

5 MARCH 2019 | written by **GERAGHTY TAYLOR**

It's November 2013 and Get Living London welcome their first resident into the new scheme at East Village in Stratford. Arguably this marks the birth of the new Build to Rent market.

It's just over 5 years on and we can list 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 BTR.

“What a ride!” says Colin Barber, Research at Geraghty Taylor. “I reckon the growth in this market has been as fast as anything we have seen in the last 40 years; its growth has already been equally as impressive as the private student market in the “noughties” and out-of-town retailing in the 1990s. But interestingly this is an “emerging market” that has already priced like an established, mature institutional market.”

In 2012 we typically had “tenants” renting from a plethora of small private landlords often enduring poor servicing, punitive agency charges and hefty deposits. But now we are seeing the arrival of professional managed, institutionally backed, landlords serving “customers” and drawing on skills learnt in hospitality markets.

BTR is now at the top of the pick list for many investors, alongside other “alternative” real estate classes. Turnover in these sectors is starting to eclipse the mainstream sectors like offices and retail and a whole industry is having to get to grips with a new sector and a general move towards real estate as an operating asset, delivering a “net income”.

But how times have changed! We have taken a brief and exciting run back over those last 5 years:

2013 – “It’ll never work” – East Village is surely a one-off opportunity?

- Qatari Diar and Delancey buy 1,439 homes in the London 2012 Athletes' Village and start Get Living London. Their first residents move in during November 2013.
- Others look on and wonder where else you can find sites that have such quality infrastructure from the outset. As CEO, Neil Young says, “we were probably the first half billion pound start-up!”

2014 - It might work BUT only if you get gifted the site or get some huge incentives

- Brendan Geraghty wants to know “why don’t institutions invest in residential?” And conversations follow about rent controls, reputational risk and fractional incomes. This is just not very institutional!
- But they do it in lots of other countries, like multifamily in the US and in Germany and Holland!?
- The dramatic housing shortages in London and across the country continue and it is almost impossible to ignore the compelling macro-economic argument for investment
- The ULI produces, “Build To Rent - a Best Practice Guide” in April 2014, sponsored by the British Government’s Private Rented Sector (PRS) Taskforce.
- We now have a name for the sector: Build to Rent - BTR

2015 - It might just work you know!

- Shorthold tenancies avoid rent control issues, a broad income base from multiple tenants reduces void risk and, if operated like a business and managed like hospitality, we can achieve rapid re-letting and maintain high occupancy rates.
- But with RICS valuation guidance that says rented residential apartments should be valued by applying a discount to the sale price, “For Sale” housebuilders will always outbid rental. We aren’t going to see any stock! Viability remains a real problem and often still needs discounts or concessions.
- Let’s think as an industry about this - ULI UK Residential Council holds workshops in March
- Only some 5,000 units now complete and most of this is in Permitted Development conversions of tired office blocks.
- 15 companies own 70% of the pipeline of 20,000 units in 155 schemes
- Annual turnover (all purchases) reaches £1.8bn
- East Village welcomes its 1,000th resident in September 2015

2016 – It’s time to take this seriously – it’s not just PD conversions and one-off LA deals

- The ULI produces a second edition, “Build To Rent - ULI Best Practice Guide” in May 2016 widely viewed as the text book on the sector
- But is it the same as PRS, a subset or different? Geraghty Taylor produce, “The Private Rented Sector Explained”
- In October 2016, a new industry report concluded that the construction sector must ‘Modernise or Die’ – the Farmer Report. Off-siting comes into focus.
- Interest focusing on management platforms and the realisation that the tenant is becoming the customer.
- Review of scheme lettings show that it’s not just the millennials moving in but millennial-minded occupiers of whatever age
- What is the gross to net factor for revenue? Is 25% achievable?
- Valuations still on discounted sale price
- Another £1.8bn of transactions
- Oh, and better not forget Brexit and Trump!

2017 – Wow! - This is the best thing since sliced bread, I want some!!

- Sea change in attitude towards the new sector
- Savills “Drop a Gear on House price Growth” maybe the housebuilders won’t always outbid and what about those unlet “for sale” schemes? Will they convert to BTR?
- What is the killer amenity play – is this how we differentiate? Geraghty Taylor issues “Build To Rent – A How To Guide” – including our 5 Golden Rules
- RICS issue new guidance notes embracing concept of NOI (net operating income) and yield valuation methodology in February....hurray!
- L&G announce they have launched their own modular construction factory outside Leeds
- Turnover reaches £3.0bn – JLL identify £50bn investment waiting to enter – that’s 20 years plus dry powder at current build out rates
- 80% of investors surveyed by the IPF intend to increase their weighting to residential – earmarking £8bn for the sector; nearly double the previous year!
- Tragic fire at Grenfell Point tower focuses minds on high-rise safety

2018 – It’s a long income thing...and needs brand

- The investment market is realising the long term income profile of BTR. It is a completely different model from the housebuilders development profit model.
- Geraghty Taylor issue, “The BTR Timeline” recognising that the creation of the building is a bump in the road on the way to creating a successful BTR business
- East Village reaches 3,000 residents and is working on an additional 1,500 units in new developments on site...take a look at “What you get for £650 a week” at East Village.
- Tall buildings (of 20+storeys) start to dominate new permissions. Over 500 in London in 2018 could deliver 100,000 homes by 2030. The UKs urban skyline is changing at the fastest pace in a generation.
- The importance of brand in developing a successful BTR business is being recognised. Geraghty Taylor issue, “Why is brand so important to BTR”
- Completed units rise from 5,000 to 30,000 a growth of 600% in 3 years
- Colliers identify rent premiums of 10% in BTR schemes over comparable apartments
- Turnover reaches £4.2bn according to Property Data.

2019 – Has only just begun....

- But we’ve already seen major REITs like Landsec and British Land among the big developers and investors targeting the maturing BTR market this year

...and a few thoughts looking forward...

- A few brave commentators like Nick Whitten at JLL have shown that if the UK market follows the trends seen in US multifamily, we could see institutional investment in the BTR market on par with the cash invested into the office market.
- This would mean huge expansion in stock but where will the sites come from?
- The next few years will see BTR delivered to an increasing number of customers who will start to appreciate it for its specific rental experience. “Elective renting” will become a tenure choice for many and building typologies will develop to allow these guys to go from student to family in suitable rented accommodation.
- The industry will mature and new specialists appear.
- Interest in offsite solutions will continue to increase as more vertically integrated companies see it as part of their business strategy and not just a design and procurement option.
- Control over product and supply chain is being demanded by savvy investors to reduce operating costs and NOI.
- Wellbeing and social impact will increasingly be measures of success of a scheme breaking the stranglehold of pure financial return

Here's to the next 5 years!

#BTR #BuildtoRent #Brand #Brandbeforebuilding

GERAGHTY TAYLOR

SAXON HOUSE
48 SOUTHWARK STREET
LONDON
SE1 1UN

+44 20 3696 5530

DESIGN@GERAGHTYTAYLOR.COM