BUILD TO RENT

WELCOME TO THE UK'S NEWEST HOUSING SECTOR
BUILD TO RENT ADDS TO HOUSING SUPPLY

WE DELIVER HOMES
Our nation must deliver 250,000 homes a year to satisfy need. In 2014 it delivered 112,370. Working people contribute to pension funds, which in turn invest in a range of assets that provide them with an income in old-age. Such savings provide a secure, long-term pool of billions of pounds. Pension funds and other institutional investors are increasingly investing in new housing, delivering high quality, market-rented homes.

Did you know? The Mayor of London has a target of building 42,000 homes in London every year, with 5,000 of these coming from the Build to Rent sector.

WE DELIVER BETTER RENTING
Build to Rent homes are designed and built specifically for renting. The primary motivation of investors is to keep their buildings fully-occupied with satisfied tenants. That means offering longer tenancies, other flexibilities (to personalise the home for example), good onsite amenities, and good transport links for easy commuting.

Blocks of flats in private ownership usually suffer from patchwork management arrangements. With Build to Rent, everything is integrated. There is one manager for the whole building. Staff are not only from the world of housing but also from hospitality, in recognition that it is a service industry.

Ultimately, many investors are seeking to invest at scale and offer consistent standards across different locations so that they can develop into brands that their customers trust and stick with.

WE ARE PLACEMAKERS
As long-term investors, Build to Rent providers’ only interest is in creating ‘places’ that thrive. Their investments will gain or lose value depending on their wider environment. They therefore have a huge motivation to ensure that not only their developments work well, but also the neighbourhood and services that surround them.

They have no motivation or incentive to leave homes empty. The quicker they are let the quicker their pensioners and other investors derive their income.

Did you know?

The Private Rented Sector Taskforce in DCLG found that our industry would like to invest more than £10bn of equity in purpose-built private rented sector homes.

£10bn

Did you know?

Just over half of private renters are under 35 years of age.
DELIVERING THE RIGHT HOMES...

Demographics, a lack of housing supply and lifestyle choices are all creating a need for more rented homes. Without adding to supply, such need simply creates pressure on existing stock, either to switch between tenures, or to accommodate more occupiers.

Some communities are haemorrhaging their young talent because there are no obvious housing options for them. Just over half (51%) of private renters are under 35 years of age and 54% have no dependents, and so are unlikely to get social housing.

Build to Rent is about the mainstream market. Several local authority pension schemes are investing in Build to Rent, or are contemplating doing so, because it is delivering affordable homes for key workers and other important groups that are critical to their local economies.

...IN THE RIGHT PLACES

Renters tend to make more use of public transport and Build to Rent developments are often therefore delivered close to transport and other infrastructure, with a focus on brownfield development and supporting activity in town and city centres.

Although prevalent in London and the South East, Build to Rent is spreading wherever there is strong demand for renting, so Liverpool, Manchester, Sheffield and Birmingham all have developments, which are complete or in the pipeline. Indeed, given high land prices in London and the South East, there are fewer obstacles in regional cities, where achieving viability may be less challenging.

INNOVATORS AND PARTNERS WITH COUNCILS AND HOUSING ASSOCIATIONS

Our sector is working with local authorities and other partners in innovative ways. It is generating precious income for local councils; so rather than selling their land for instant receipts, councils can lease the land to a Build to Rent provider, derive long-term income from their share of rents, and retain ultimate ownership of their land.

Some of the biggest and best housing associations are delivering and managing Build to Rent, working with UK and overseas institutional investors. There are various motivations for them. For some, their market-rented homes are helping to cross-subsidise the delivery of more social housing. Many housing associations also deeply hold the view that their remit is to provide for all parts of society in housing need, and not exclusively for those on low income.

The sector’s investment is also bringing new constructors into building UK homes, for example Bouygues, one of France’s largest companies.

BUILD TO RENT ADDS TO GOVERNMENT REVENUES AND CREATES JOBS

Build to Rent contributes to local and national Government revenues through SDLT, VAT, CIL, corporation tax and other payments. Building 10,000 homes each year will add about £1.2bn to the UK economy and create 11,000 jobs. The £10bn of investment identified for Build to Rent would create around £28bn of wider economic benefit.
GET LIVING LONDON, EAST VILLAGE
THREE-YEAR TENANCIES

East Village is perhaps the highest profile Build to Rent scheme in the UK. Converted from the London 2012 Athletes’ Village, it now provides 1,439 rental homes in London E20. While there are a good number of innovations to praise at East Village, customer service and the range of different tenancies offered to those wishing to live in the scheme are particularly worthy of note. A three-year tenancy is one of the most popular choices, whereby a standard Assured Shorthold Tenancy is written for three years with rents rising by CPI at the end of each of the first two years. This gives tenants certainty, while the landlord benefits from a reduced risk of vacancy. Tenants can balance flexibility and security with the ability to give two months’ notice to end their tenancy at any time after the first six months.
HELP US TO PUSH ON

There is £10bn of firm commitments, and as much as £30bn that the sector has to invest in Build to Rent this Parliament. The sector wants to push on and increase supply. It will grow, but to grow quickly it needs help.

PLAN FOR BUILD TO RENT

The risks and returns of building for rent are very different from conventional home building, which is focused on building homes for sale. When building for sale, capital is tied up for significantly less time – until the new homes are sold and the housebuilder derives a profit. When building for rent, the investor is tying up capital for 10, 20 or 30 years. There is no instant profit; the investor (say, a pension fund) will derive income to pay pensioners, and will only get capital receipts when it sells the homes at the end of its holding. This impacts on building for rent in two ways: there is no instant profit, and therefore builders for sale tend to be able to outbid Build to Rent investors for land; and, in turn, the viability of building for rent is more challenging.

National policy should oblige local authorities to measure demand for market rented housing and to plan for that demand, allocating land in local plans for Build to Rent.

COVENANTS, CLAWBACK AND DMR

In London, the GLA is supporting the Build to Rent sector through supplementary planning guidance. This stresses that the appropriate affordable housing on new Build to Rent developments should be discounted market rent (DMR). This helps development viability, but also allows the investor to manage the ‘affordable’ and ‘market rented’ elements as one. This also has benefits to tenants of the ‘affordable’ units, with such developments being ‘tenure blind’.

To ensure this offer of DMR is restricted to Build to Rent developments, the local authority should place a covenant (planning condition) on the development, retaining it as market rented homes for a fixed period. If units are sold individually the local authority should also insert clawback provisions into the planning condition, so that the applicable affordable housing provision on units for sale applies. This approach in London should be adopted as national planning policy.

PROMOTE BETTER USE OF PUBLIC LAND

Build to Rent providers have difficulties competing with build-for-sale for private land, which makes them more reliant on access to public land. Most public land is held by local authorities. There are some innovative partnerships between investors and local authorities that are helping deliver new homes, whereby the local council leases its land for Build to Rent and derives a share of the income on its contribution to a joint venture. Some local councils understand this model, but others remain nervous that they may fall foul of Government rules on best value. The Government should issue revised guidelines, which give greater comfort to councils that public sector land deals that might not generate the greatest instant profit, but provide an income stream, meet best value.
REFORM THE COMMUNITY INFRASTRUCTURE LEVY (CIL)

The Government is committed to reviewing CIL early in this Parliament. Local authorities should consider a separate rate for Build to Rent in their charging schedules, to reflect the sector’s different viability to build-for-sale.

REFORM VAT, WHICH HITS BUILD TO RENT FAR HARDER THAN BUY TO LET

Rents do not incur VAT and therefore VAT on costs incurred by institutional investors has nothing to be offset against. For most buy-to-let investors this is not a problem as they are not VAT-registered. The 20% VAT paid on repairs and maintenance of Build to Rent property, however, eats into income and prevents investment.

Under the EU VAT Directive, the UK is permitted to reduce VAT rates to 5% on residential repairs and maintenance. We think this would be a win-win policy, giving a long-term increase in the tax-take to HM Treasury through the increased economic activity in the sector and ancillary services, including fund and property management fees and tax on rental and all services associated with the letting industry, as well as on the construction of rented homes.

MAKE REITs WORK FOR RESIDENTIAL

A Real Estate Investment Trust (REIT) is a structure that seeks to replicate the advantages of direct property investment for indirect investors, like people saving in a pension fund. The legislation has been on the statute book for a decade but, to date, REITs have almost solely been used for commercial property investment. Recognising this, successive Governments have made reforms to make REITs more residential-friendly, but have not completely removed all of the barriers.

With significant funds now flowing into housing investment this is becoming more pressing. There is one reform in particular, that would help. REITs have tight restrictions on what is called ‘trading’. This rule is aimed at commercial property, but as currently written it is too restrictive and makes REITs an unattractive structure for residential investors.

LONG-TERM STABILITY

Build to Rent investors will typically be looking to commit investment for at least a decade and therefore will weigh up the longer-term risks that might impact on their investments, including political risks. The tone of political discourse is therefore important. Measures such as rent controls and long-term security of tenure drove institutions out of the sector in the 1960s and 1970s. The more there is a political market-based consensus on the market rented sector, such as existed in the 1990s and 2000s, the more investment is likely to flow.

PRIVATE RENTED HOMES ARE INCLUDED IN THE MAYOR’S YEARLY TARGET

5,000

OF PRIVATE RENTED SECTOR TENANTS CONSIDER PERSONALISING THEIR HOME TO BE A BENEFIT OF OWNING

71%

OF TENANTS LIVE WITHIN 10 MINUTES OF THEIR NEAREST PUBLIC TRANSPORT

73%
MANCHESTER CITY COUNCIL

Manchester City Council has developed a unique joint venture relationship with their own pension fund to deliver much needed market rented and new-build housing for sale. Rather than disposing of their own land and receiving a one-off return, by retaining a stake in each development they and their investor partners will benefit from growth in value brought about not just by the market but also from knock-on regeneration instigated by their initial investment in an area. By taking a commercial approach and engaging with private sector operators, such as their experienced property managers Touchstone, they are able to direct and control the management of their properties and return for the pension fund.

Phase I, to be completed by the end of 2015, will deliver 240 homes over five sites. Each takes the form of low-rise housing with design-led efficiencies. The council has begun the procurement stage for Phase II and has the investment support to continue allocating sites to what is proving to be a successful model.

SIGMA CAPITAL
PUBLIC AND PRIVATE PARTNERSHIPS

Sigma Capital, drawing on its established relationship with Liverpool and Salford City Councils, has agreed £1bn of private, Sharia-compliant funding with Gatehouse, to build 10,000 family homes in the North and Midlands over the next four to five years. An initial pipeline of 927 homes is planned across 14 sites in Liverpool and Greater Manchester over two years, with financial backing from banking partners Barclays and Gatehouse.

Sigma’s engagement with the public and private sectors has enabled them to establish a platform to deliver rented homes from the procurement phase through to property management, partnering with developers Countryside Properties and property managers Direct Lettings.

CASE STUDIES
Where Build to Rent homes are transforming communities
GRAINGER/APG/BOUYGUES,
CANNING TOWN COVENANT USE

A 90,000 sq ft Build to Rent scheme is to be delivered as part of the Hallsville Quarter in Canning Town, funded by a £33.25m agreement between Bouygues Development and GRIP, the PRS fund backed by Grainger and pension fund APG. Due for completion in summer 2017, the scheme of 134 apartments, over 16 storeys, is an example of the willingness of investors to invest in schemes subject to local authority imposed restricted covenants, and their commitment to investing in the PRS for the long-term. All 134 apartments in the Canning Town development are subject to a restrictive covenant, which will see their use restricted to letting on a private rented basis for a minimum of eight years. This is Grainger’s third Build to Rent project with Bouygues, demonstrating that partnerships between developers and investors are proving a successful formula for delivering market rented stock.

M&G REAL ESTATE, NORTH ACTON INSTITUTIONAL INVESTMENT

The Prudential’s return to the residential market after a long absence illustrates the new appetite from institutional investors for market rented homes. Encouraged by Government support, institutions are seeing an opportunity to deliver purpose-built residential investment at scale, with inbuilt efficiencies and modern management practices. M&G, as part of the Prudential group, is delivering all of these factors in the development of Victoria Square in North Acton.

The £43.5m investment consists of both its own and third party capital from the UK and Europe, including UK local authority pension funds, who are keen on the return profiles, as well as the social good brought about by increased housing supply and quality renting. The investment will deliver 152 homes and will include concierge services, bike spaces, function rooms and communal gardens, drawing on the US multi-family housing model, and using sophisticated design to foster greater customer satisfaction and longer tenant stays.

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