ADDLESHAW GODDARD

BPF
BRITISH PROPERTY FEDERATION

BUILD TO RENT

Funding Britain's rental revolution

allsop

apg

Assael

Countrywide
integrated solutions local expertise

Essential Living

FIZZY

HERMES
INVESTMENT MANAGEMENT

HUB

Invesco

MODA LIVING

placefirst

Royal Bank of Scotland

Blackstock

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CLUTTONS

Genesis

grainger plc

GREYSTAR

Legal & General
INVESTMENT MANAGEMENT

MANCHESTER PLACE

M&G
REAL ESTATE

VENN
partners

Westrock

Willis

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1 INTRODUCTION AND EXECUTIVE SUMMARY

Introduction

Over the past 15 years, housing in Britain has undergone a dramatic transformation. Despite initiatives to help first-time buyers, homeownership is in decline, peaking at 69% in 2001 and steadily falling ever since.

Our population has grown by 3.7m in the 10 years since the last census, rising from 52.4m in 2001 - an increase of 7.1%. This was the largest growth England and Wales had seen in any 10-year period since the census began in 1801. Between 1991 and 2001 it had risen by 1.6m.

With new housing supply falling, and vast swathes of council housing sold off during the 1980s under Right to Buy, prices have gone up and up. Borrowing restrictions and rising prices have reduced the ability of younger people to access the ownership market. And the refusal of successive governments to recommence council-led building of properties has led to a continued shortfall in housing supply.

The result has seen the private rented sector (PRS) overtake the social rented sector as it looks set to provide a home for one in four households by 2020.

Growing demand for rented accommodation and the response to this demand from professional investors looks set to change the market, perhaps permanently.

Encouraged by favourable demographic and macroeconomic trends, institutional investors, who fled the sector following the introduction of rent controls in the 1970s, are starting to return. Other companies, largely capitalised by a variety of funds or high net worth individuals, have also entered the market.

Rather than buying up individual homes built for the home-ownership market, businesses are looking to create new clusters of homes for rent, as long-term investment opportunities. The result has been dubbed Build to Rent as a means of differentiating it from the broader PRS and noting the crucial difference that homes will not only be developed - rather than purchased off the for sale market - but built specifically for rent.

It has been estimated that during Q1 2015 a 16,000 unit pipeline of properties for private rent exists across London.

Much activity has been focused across London, where nearly a third of all starts in Q1 2015 were PRS developments, and the North West where there is a strong political will to create a so-called ‘northern powerhouse’. Yet many major businesses are focused on developing nationally across the UK, with an appetite for different yields and a desire to create different types of product.

This is a positive thing for Britain on various levels:

- ► New money for housing delivery - Institutional investors represent a new source of finance for the housing market, separate and additional to traditional housebuilders. This is crucial, because this money is over and above what comes through traditional housebuilders.

- ► More choice for renters - A professionalised rental market will offer greater choice, with different providers creating developments at a variety of price-points. Some may have gyms and crèches, others may simply have a sofa area in the lobby. All will be decent quality.

- ► Higher standards of accommodation - A more professionalised rental market will drive up standards across PRS, not least because Build to Rent will deliver modern, newly built developments. The owners will be focused on retaining customers and therefore not losing income, through costly voids.

- ► Greater stability for the property market - A functioning Build to Rent market will help separate the ‘investment’ and ‘service’ elements of housing, creating distinctive markets for those wishing to live somewhere or buy a property for investment. As with America, where many multifamily businesses are listed, it could one day allow the public to buy shares in Build to Rent businesses, accessing property investment without the need for mortgage debt.

Some of the early players in the Build to Rent market, such as Essential Living, Fizzy Living and Grainger have been joined by a host of UK institutions who are also now committed in excess of £10bn to the sector. They include Legal & General, M&G Real Estate, Hermes and Invesco.

This roll-call of blue chips should be reassuring to policy makers who have gone to some lengths in recent years to support the emergence of Build to Rent through access to funding and changes to planning policy. Housing minister Brandon Lewis has continued the Conservative Party’s support for Build to Rent, with many also welcoming Greg Clark’s appointment as Communities Secretary.

One of the crucial roles here has been handed to Venn Partners, who will manage the government’s PRS guarantee scheme, offering state-backed loans for Build to Rent companies financed through the bond markets. It follows the success of a similar scheme to fund affordable housing.

Research by Savills estimates that Build to Rent could generate more than £30bn of new investment into

Britain over the next five years with full policy support. This would deliver more than 150,000 homes and create a platform for thousands more to be financed and built.

Lobbying led by the British Property Federation over the last decade has resulted in many significant steps forward, from a variety of key government reviews, to crucial amendments around tax and planning policy, making investment more viable. It has sought to prioritise residential investment and to promote the political imperative to drive forward Build to Rent.

One challenge felt by this emerging sector is that councils and politicians in general tend to favour and prioritise affordable housing above all else, despite the massive need for market-priced housing. Of course there is a dire need for far more social housing than Britain currently has, but this must not diminish the need for quality market-rented housing or housing for sale either. The Conservatives' annual target of 5,000 homes in London was a clear acceptance of this need.

There are still further policy changes that are required to unlock the full potential of Build to Rent. And with a growing appreciation of the need to cater for renters and a growing realisation that councils could generate income and value from tapping into the value of their assets, Build to Rent poses a once-in-a-generation opportunity to fulfilll this demand and create much-needed housing.

This could work by councils setting up joint ventures where developers could transform redundant sites or old buildings into homes for rent, generating income for the public sector. This does not mean offering any kind of subsidy, it simply means taking a strategic view of what assets exist and where rented homes are needed most, creating the deals like any market-driven transaction. Just as councils rent out shops they own to supermarkets, they could own parts of buildings rented out to people, avoiding the need to sell off assets for good.

One of the other crucial changes needed is a more modernised approach to affordable housing which recognises the wholly different funding structures relating to build to rent compared with housing for sale. There are systemic challenges around housing different groups, and ultimately this will come to balancing out the risk and reward of development with the social needs of communities.

According to a tenants' survey by Knight Frank, 32 % of people said renting suits their lifestyle, which is one of the things many companies in this report want to cater for. They are doing this by creating buildings that engender a sense of community, encouraging residents to interact, become friends and hopefully stay longer.

As for this report's contributors, most cited location and the way operations were factored into design to be the most crucial elements of making investments deliver. And some suggested that integrating management had the potential to reduce costs. Everyone agreed that close proximity to transport was vital for the success of Build to Rent projects and that offering a genuine sense of service would set the sector apart from the PRS.

Ultimately, the numbers speak for themselves: more than 9 million people now rent privately and in central London, renters make up a third of people. It underlines the pure scale of the market and the huge opportunity that exists for Build to Rent to make a genuine and sustained impact on the way we live.

Executive summary

Britain is moving towards realising an institution-led Build to Rent sector. This report, our second on the topic, highlights the growing number and confidence of participants in this nascent sector.

State of play

Over a third of people surveyed by Knight Frank say that renting suits their lifestyle. Across the UK, there is a strong demand for a quality rental product in places like Manchester, Liverpool, Leeds, Sheffield, Birmingham, Bristol and Norwich. Contrary to what has been said, it is not all about London.

Contributors in this report aim to meet that demand by developing and investing in institutional-grade buildings that are of a high quality, engender a sense of community and will be professionally managed. Many are institutional investors, backed by pension funds or insurance businesses while others are developers capitalised in a variety of ways. The breadth of well-known businesses now actively involved speaks volumes about how far things have come.

Getting the public sector to properly follow suit is largely viewed as the single biggest challenge.

The UK's Build to Rent sector is being supported by central government, according to our contributors. The Coalition established the Private Rented Sector Taskforce and created a £1 billion fund to help kick start development. Now it is helping create cheap finance through government-backed bonds in a scheme managed by Venn Partners, an alternative lender.

Local authorities are also showing support, particularly in the North West. For example, Greater Manchester has joined up with the Abu Dhabi United Group to create a platform that could deliver around 6,000 homes across the city region.

Yet, experts believe that planners need to offer a greater degree of flexibility when setting section 106, community infrastructure levy (CIL) and affordable housing obligations. In practice, this means planners accepting the core differences between Build to Rent's business model and that of traditional housing for sale, which generates a capital receipt in the short-term.

Numerous councils are very supportive of Build to Rent and recognise the valuable contribution it can make both to housing supply and to upping standards across the wide sector.

Having supported it while in coalition, the new Conservative government will likely continue to push Build to Rent, having led a number of initiatives, particularly in London where Boris Johnson, the capital's mayor, introduced an annual 5,000 target for new rental homes. Johnson has also been at the forefront of using public land to support Build to Rent and the use of covenants to keep it as rental accommodation.

Crucially, Build to Rent has enjoyed broad cross-party support.

At local council level, this support can be more fragmented leading property chiefs to call for greater direction from central government towards local authorities. Engagement will still be needed with local councils to sell Build to Rent to them. The Government's PRS Taskforce will be vital in continuing its work so far in informing and educating local authorities about both the benefits of Build to Rent and its different business model. Yet this process will also rely on the sector finding its voice and speaking directly to consumers.

As Addleshaw Goddard's Peter Hardy notes: "All being said, numerous councils are very supportive of Build to Rent and recognise the valuable contribution it can make both to housing supply and to upping standards across the wider sector. Croydon, in south London, together with Ealing in west London, who we featured in last year's report, have both seen much activity in recent months."

Appetite

The appetite to be involved in Build to Rent is clearly evident. Many of the contributors here - institutional investors such as APG, Hermes, Invesco, Legal & General and M&G Real Estate - represent the leading names in the UK real estate sector.

Essential Living, which was the first UK company to enter the market and seek to replicate North America's multifamily sector, is capitalised by M3 Capital Partners, a London-based manager of global institutional funds. Essential Living aims to create and manage a portfolio of over 5,000 homes for long-term rent, with schemes across London and the South East.

Fizzy Living, together with initial backing from Thames Valley Housing Association (TVHA), has focused on creating a seed portfolio - an investible base to attract large-scale investment.

The company has now recently raised £300 million in institutional investment.

TVHA is not the only housing association moving into Build to Rent. Most of the major names in the sector have portfolios of market-rented homes. Genesis are looking into the sector in a big way, with several large schemes across London and Essex.

Meanwhile, a joint venture between Countrywide and Hermes is looking nationally for opportunities. The duo's Vista fund will seek out higher yields from across the regions. With the former's huge reach across the UK estate agency market, there will be an opportunity to quickly identify a wealth of market opportunities.

Within the next four years Greystar, a North American real estate investment and management business, will seek to balance holdings of student accommodation with Build to Rent assets. The company is one of the largest players in the States, managing more than $10bn of assets globally.

Britain's largest residential landlord, Grainger, has made innovative strides into developing partnerships with public sector bodies. Its executive director, Nick Jopling, is passionate about this opportunity and the company's recent notable projects include deals with Royal Borough of Kensington and Chelsea and the Ministry of Defence.

There are issues still to be addressed. Essential Living's Scott Hammond writes that one of the issues the government should look to address relates to how VAT is applied in this sector

Financing the building

A number of different financing options are open to the Build to Rent sector in the UK.

RBS's Gareth Taylor sees Build to Rent becoming increasingly popular with both equity and debt investors.

Equity investors see an alternative exit route to the traditional build to sell approach, not least by helping to unlock funding streams around multi-phased developments.

On the senior debt side, insurance funds are looking increasingly at Build to Rent by forward funding it in a similar way to how they financed student housing.

One of Europe's largest real estate asset managers, APG is looking to grow its residential real estate allocation to 25 % of its total, which it says represents 10 % of a €400 million fund. North American, European and other global institutional investors who already invest in vibrant domestic markets are also likely to do so in a significant way in the UK.

However, not all investors want to rush in. Towers Watson's Douglas Crawshaw, who advises pension funds, says translating interest into actual commitment has been difficult. He cites a lack of UK market data, additional risks created by property management, and the level of current returns.

Despite, regulatory constraints, banks will also play a key role in supporting development financing. Major banks such as RBS, Barclays, Lloyds and HSBC are all offering short-to-medium term loans. HSBC says the loan structures it will provide will move through the various stages of development. Its support for Neptune's major investment into 324 units in Liverpool's Baltic Village highlights HSBC's willingness to back the sector.

Operations and planning

Highlighted by many of the report's contributors is the importance of operations and management in making Build to Rent work as an investment.

Essential Living's Ian Merrick writes that focusing on important minutiae will save on operational costs and therefore increase profitability This can be as simple as making skirting boards smooth so they don't trap dust, thus reducing cleaning expenses.

From the management side, contributors see Build to Rent potentially building a professional career path of property management, much as it is it in the US. In many set-ups, the property managers will be directly incentivised to drive income, enhancing asset value.

The future

The Build to Rent sector is at a crucial stage of its early development. Both the public and private sector are showing the will to meet soaring demand from an increasingly diverse and expansive population. Challenges will have to be overcome, and more proof created of the sector's worth in order to attract some of the more risk-averse investors and developers.

But the wide-range of support from both investors and politicians highlights how the sector is gaining momentum. According to data published last May by the Better Renting for Britain campaign, using research from Savills, around £30bn of new, additional finance could be invested into the UK housing market specifically for Build to Rent over the next five years, with the right political support.

The re-appointment of Brandon Lewis as Housing Minister and the promotion of Greg Clark to Communities Secretary have been welcomed by the entire property sector. It is hoped they will continue to support Build to Rent and help deliver vital new homes for Britain.

Making renting viable

Addleshaw Goddard
Marnix Elsenaar
Head of Housing

Marnix is involved in a number of developments in the Private Rented Sector. He also leads the firm's Planning Team advising on planning, highways, compulsory purchase and compensation law to clients in the housing, transport, energy, and urban regeneration sectors. Marnix is a member of the BPF's Planning Committee.

Renting in the UK is changing. Buoyed by the maturing student accommodation market and the private rented sector's ongoing surge, institutional investors are finally investing in Build to Rent after many years spent discussing the possibility. Other businesses, with a range of financial backers and price-points, are also entering the market.

During the 18 months since we published Making Renting Viable, a report which looked at some of the challenges facing the sector with input from colleagues in the property industry and local government, much has changed. We were delighted that, after considering some of the recommendations in our report, the Department for Communities and Local Government (DCLG) made a small but significant amendment to its National Planning Policy Guidance. Moreover, as some early entrants have made headway with their initial schemes, a whole variety of companies are now moving forward with some exciting projects.

Different entrants in the market are taking different approaches to funding, design, operations and pricing. What they have in common is a desire to professionalise the sector, improving standards and enhancing perceptions of renting, while contributing to the long-term regeneration of Britain.

With an estimated pipeline of around 16,000 Build to Rent homes, this emerging sector isn't going to single-handedly cure the country's housing crisis, but it is an important first step on the road to offering a substantial and additional supply of housing. The benefit of it being funded by long-term investors, rather than short-term speculators, is that the properties will more likely be occupied with a single owner managing a cluster of homes. This is important, because it will help the property industry to win back the confidence of those who all too often see development as a threat rather than an enabler.

The fundamental objective is to ensure homes are lived in. But there's a game-changer if standards can be enhanced and the reputation of the sector overhauled. Stories featuring rogue landlords have, sadly, come to define the public image of renting, but this is far from the reality. It is a real challenge to win over hearts and minds, and there is genuine potential for this to be achieved, given what we have in front of us.

All too often, those people caught between social housing and ownership, or the emerging number of people who prefer the lifestyle of renting, are overlooked. The inexorable rise of renting since 2001 cannot be ignored any more.

According to Molior, 29% of housing starts during the first quarter of 2015 were homes for private rent, and, with consumer demand for rented homes set to exceed five million over the next few years, this couldn't be more timely.

Central government has recognised the role Build to Rent can play in helping to combat the UK's housing shortage. The Coalition established the Private Rented Sector Taskforce and created a £1 billion fund to help kick-start development. With the re-appointment of Housing Minister Brandon Lewis, the Conservatives look set to continue this.

City leaders have also taken proactive steps to support Build to Rent. The Mayor of London's draft supplementary planning guidance called on the capital's planners to give "positive support" to "long-term private rented products". This followed an annual target of 5,000 new homes for private rent. Meanwhile, Greater Manchester has partnered with the Abu Dhabi United Group to deliver nearly 6,000 homes for rent across the city region.

There is good reason why politicians are beginning to ease off on the 'ownership at all costs' mantra that largely defines Britain's social attitude to housing. Build to Rent has the potential to vastly improve standards, thus reducing complaints and regulation costs; it has the potential to help regenerate challenging areas; and, above all, to deliver additional supply above and beyond what traditional housebuilding can offer.

Of course, it is important not to overplay what Build to Rent can do. Private renting may represent one in four households within four years, but with such a vast quantum of housing owned by individuals, tens of billions of pounds of investment will be needed to make anything more than a dent.

With this report, we have sought to bring together some of the leading players in the market. The line-up of institutions, developers, financiers and advisors reads like a who's who of the residential sector. We are tremendously grateful to each of them for working with us on this report and we hope it provides a useful insight into their businesses and the growing Build to Rent sector.

Public Sector opportunities

Addleshaw Goddard
Mike O'Connor
Head of Infrastructure, Projects and Energy (IPE)

Mike also heads Addleshaw Goddard's sector focus teams which specialise in Health, Inward Investment and Regeneration.

With over 20 years' experience in the field, Mike is recognised as a leading expert on public-private and project finance transactions working for a wide range of public sector procuring bodies, private sector sponsors and funders.

Britain is reliant on private finance to deliver new infrastructure. From major projects like the Thames Tideway scheme and airport expansion to new schools and hospitals made possible through PFI, state spending is increasingly subsidised by business.

Housing is no different. Since the 1980s, governments have almost entirely depended on the private sector to deliver public policy. However, Britain's continued failure to build enough homes has led to calls for a rethink.

While local authorities now lack the resources needed for a programme of mass housebuilding like we saw in the 1950s and 60s, there are other ways the public sector can help.

The public sector is one of the largest landowners in the country and organisations like the NHS and MoD possess the kind of brownfield sites successive governments have long prioritised for development.

With the public coffers under renewed pressure, renting could provide long-term income streams enabling public bodies to generate cash flow, without selling off the family silver.

For other asset-rich, cash-poor bodies like local authorities, which similarly hold a lot of brownfield land, this is a golden opportunity that can also help tackle Britain's housing crisis.

The first steps were taken by the coalition government, which introduced the Infrastructure Act 2015, giving the Homes and Communities Agency additional powers to speed up the release of surplus public land. By March of this year, 899 sites had been released - enough to build over 100,000 new homes.

Some local authorities have already taken the initiative and are leading the way in this regard. A good example is Manchester, where rather than taking a one-off approach, the city council has pooled together money from the DCLG and local pension fund to create a joint venture focused on housing.

The city council has also partnered with the Abu Dhabi United Group to create 'Manchester Life', which aims to deliver more than 6,000 new homes; the first phase being 830 homes for rent.

Other councils should look and listen. Apart from helping to overcome Britain's housing shortage, Build to Rent also promises long-term, steady income at a time when budgets are tight.

Apart from helping to overcome Britain's housing shortage, Build to Rent also promises long-term, steady income at a time when budgets are tight.

More could be done but this will require initiatives from both the public and private sectors.

Firstly, central government must ensure all its departments adopt a modern view of "best value". This means having proper reports and valuations from consultants and experts on how best to approach the disposal of public land. This will allow them to realise and demonstrate the wider benefits of any disposal.

Currently land is being parcelled off to developers one piece at a time, which means you have lots of small and independent construction schemes taking place with no overarching plan guiding them.

The solution is not just simply copying a model others have implemented. Local authorities have to be adventurous if they want to close the funding gap. Devolution offers more opportunities than ever before to be more creative in thinking and planning in this area - let us hope they seize them.

Politics of property

British Property Federation
Ian Fletcher
Director of Policy (Real Estate)

The British Property Federation is the membership organisation for the UK real estate industry, representing all those involved in real estate ownership and investment.

It works with Government and regulatory bodies to help the real estate industry grow and thrive, to the benefit of its members and the economy as a whole.

The sector has been 'through the mill' over the past few weeks as the general election tipped one way, and then another. In the end, the result was decisive, and should allow the build-to-rent sector to move forward with confidence.

In truth, build-to-rent has been one of those rare issues we work on, where there is a reasonable cross-party consensus of support. Through our work and engagement during the last parliament, however, it was the Conservatives that put it firmly on the national policy agenda, first through reform of the SDLT bulk purchase rules, and then the Review by Sir Adrian Montague and package of measures that followed. There will be a variety of views in the sector about Montague, and the impact its specific measures have had, but for sheer symbolism that this is a sector on the Government's radar and confidence that has given, it should not be underestimated.

In turn, confidence has turned to interest, and then action, and there are plenty of reasons to remain optimistic for build-to-rent in the next parliament. For one thing, politicians are far more persuaded by reality than concept. When the BPF first tried to promote build-to-rent via a joint publication with London Councils only four years ago in 2011 we struggled to come up with six case studies and had to stretch the definition of 'build-to-rent' considerably to make our quota! Nowadays, we could probably muster that quota ten-times-over. Real examples are worth a thousand words of prose in our business and being able to point to shiny new buildings that are well-managed and delivering quality homes for young renters will be a tremendous help with the new Government. The industry, supported by us, can also start to have a conversation with the consumer, about what build-to-rent is about and can offer those seeking, or in need of a home, something different from the existing PRS.

envisaged - new players beyond traditional house builders willing to increase the output of homes. And although interest in London and the South East has been strong, other core cities in the East, West and North all have schemes at various stages of delivery.

Looking ahead there seems a continued strong commitment to the Northern Powerhouse and more generally devolution seems to be underpinning confidence in many of our great cities with strong demand and political desire for a quality rental product in places like Manchester, Liverpool, Leeds, Sheffield, Birmingham, Bristol and Norwich.

Within London there are also good reasons to be optimistic that build-to-rent will have plenty of opportunities, allied with political support from City Hall. The current Mayor has been at the forefront of using public land to support build-to-rent and the use of covenants to keep it as rental accommodation.

To deliver the housing numbers the capital needs will require greater density. Build to Rent, with its focus on quality management and long-term place-making should be well placed to provide what Londoners and their politicians want.

Another helpful political aspect of the development of the build-to-rent sector thus far, has been its variety, in terms of location, providers and type of homes being delivered. Though mainly flats, there have been schemes coming forward that are squarely about houses for families with children. The players investing in, building and managing the stock are delivering exactly what a Government would want and Sir Adrian Montague

The sacrosanct status of the Green Belt, rightly or wrongly, will also drive most housing development in London onto brownfield sites and estate regeneration projects. To deliver the housing numbers the capital needs will require greater density. Build-to-rent, with its focus on quality management and long-term place-making should be well placed to provide what Londoners and their politicians want.

An exciting Government initiative the BPF called for, which is just taking off is Housing Zones. These are a welcome recognition that £400m in London spent on small scale infrastructure projects and land remediation, will help unlock some housing development sites.

At local level, challenges remain. Good progress was made by the Government's PRS Taskforce at informing and educating local authorities about build-to-rent and its different business model. The work of the Taskforce will now be taken forward by a 'PRS Champion' within the Department for Communities and Local Government, Mark Davis. He, and the industry, will need to continue to articulate the benefits of build-to-rent in terms of speeding up place-making and housing delivery on larger mixed-tenure sites. Also the partnership models that some build-to-rent providers have struck with local councils, which for example, in return for a lease of public land allow councils to share in the income generated by the scheme and provide a welcome contribution to hard-pressed council income. In return, the BPF and industry will continue to seek support for build-to-rent through national and local planning policy, requiring local authorities to identify the need for market rented homes, and proactively plan to meet those numbers in their local plans and land allocations.

Perhaps the most compelling argument for investment in build-to-rent in the next Parliament, however, is the most prominent aspect of both main political parties' housing offer during the election, that their target is to deliver 200,000 homes per annum, when at least 240,000 per annum is required. As clear a signal as any, that no supply-side revolution is planned by our politicians, who bluntly are working on the basis of accentuating the housing shortfall, rather than dealing with it. If the nation is to be housed, there will therefore be plenty of opportunities for innovative players and investors, delivering rented homes for mid-market occupiers, key workers, and the like.

The economic fundamentals of investment in housing will therefore remain strong over the next five years and beyond, and with the political landscape now settled, an exciting chapter should open for investors and renters. Vive la rental revolution!

2 DEVELOPERS AND OPERATORS

Differentiating Build to Rent - Addleshaw Goddard

The investment view - Essential Living

Operations view - Essential Living

Market perspective
Fizzy Living
Genesis Housing Association
Grainger plc
Westrock
Greystar Europe Holdings Limited

The Forgotten Majority - HUB Residential

Addleshaw Goddard advised **HUB** on a 152 home PRS scheme in Acton, forward funded by M&G Real Estate and which, once completed, will sit within M&G's UK Residential Fund.

Differentiating Build to Rent

Addleshaw Goddard
Peter Hardy
Real Estate Partner

Peter is a Commercial Real Estate specialist with particular expertise in dealing with development, public sector work, occupational and investment work, sales and purchases, and landlord and tenant issues. He also acts on the real estate aspects of PPP/PFI and corporate transactions.

Peter also has a large practice in the residential development sector, primarily acting for developers and funders. He is heavily involved in developments in the Private Rented Sector (PRS). Peter is a member of the BPF Regeneration and Development Committee.

Many of the ambitious new developments being spearheaded by organisations in this report could revolutionise Britain's housing market. They could usher it towards an era of service and away from one where only the privileged few can access quality housing in a good location.

Yet, one of the big challenges, at a local level, is that many councils confuse private rental models with the traditional housebuilding for sale market. It is easy to see why: there has been a traditional view that anything other than social housing will not win votes. Crucially, the planning system views all non-social housing the same, but things are changing.

Of course, the main difference, in commercial terms, is the long-term view taken by Build to Rent developers and operators, such as those who have contributed to this section.

Considerations about the long-term nature of Build to Rent returns, funding structures, debt financing, design, tax and long-term property management add issues that go far beyond what traditional housebuilding requires. Assets still need to look good, offer a quality service and be capable of housing people in a few decades' time.

As it has never been done before at scale, there is an inherent cynicism across some areas which, like it or not, the sector needs to overcome. If this can be done, and Build to Rent can be welcomed with open arms where it's needed most, then the sector will flourish.

In practice, this means planners accepting the core differences in the sector's business model and allowing for suitable flexibility in section 106, CIL and affordable housing obligations.

Despite the welcome support from central government for Build to Rent, with state-backed financing for both development and operational use, understanding of the role Build to Rent can play in delivering additional supply has yet to filter down fully to local government.

Many urban districts now boast high proportions of private renters. This means votes will be lost by a failure to deliver this kind of housing. It also means that they will need to appreciate the differences in the business models when it comes to agreeing workable development levies.

Build to Rent is clearly different to traditional residential, but any suggestion that it is aligned perfectly with commercial property development is also incorrect. You are not building a shed that is going to be let to a single distribution provider for the next 30 years - you're more likely to have 150 lease-holders at any one time, coming and going, each with their own needs.

The properties will be far more reliant on the fundamentals of location, design and attractiveness over a long period. This is so that you know you are still going to be able to get new tenants in 15, 20 or 30 years time, as opposed to just sitting on a lease for a 20-25 year period. In this sense, it is very similar to student accommodation, albeit with core differences in both the product and its planning treatment.

The other challenge for operators will be around management costs, which are largely an unknown phenomenon in Britain, given that these sorts of clustered, lifestyle-driven developments don't currently exist here.

As it has never been done before at scale, there is an inherent cynicism across some areas which, like it or not, the sector needs to overcome.

As part of the way such costs are taxed, there is a further need to differentiate Build to Rent from traditional housing, particularly when it comes to VAT. Whereas, you can transact a land deal and development to ensure there is no VAT leakage, the likelihood is that there will be VAT leakage at the operational level.

Commercial property operators in different sectors obtained VAT relief on operational costs. Yet, because rules are presently structured predominantly for buy-to-let

investors, who are typically individual or amateur investors, there's a mis-match which disincentivises professional operators.

Some developers and operators plan to internalise management, which may reduce certain costs, but is expensive and only works for the very biggest. Nevertheless, there is a clear and common-sense approach that could be taken here, with far broader economic and social benefits than the costs of a minimal VAT take from Build to Rent schemes offering a host of other benefits.

All being said, numerous councils are very supportive of Build to Rent and recognise the valuable contribution it can make both to housing supply and to upping standards across the wider sector. Croydon, in south London together with Ealing in west London, who we featured in last year's report, have both seen much activity in recent months.

Contrary to some perceptions, it is not just London benefiting from Build to Rent or, indeed, just other big cities such as Manchester. Numerous operators and investors are looking nationally across the UK, with a whole host of schemes spanning the length and breadth of the country. Of course, dense urban areas will always attract immediate investment, but the more variety we can have early on, the easier it will be to make the wider world aware of the potential this sector has to offer.

Investment view

Essential Living
Scott Hammond
Managing Director

Essential Living was the first UK company to create, design, develop and manage homes built from the ground up for long-term rent. Managing director Scott Hammond outlines the company's structure and how it has evolved since being established in 2012.

When we set up Essential Living nearly three years ago, we did so having evolved down a traditional housebuilder route. Our core management team had worked together extensively at major housebuilders and we knew the London and South East market. Our expertise in development, land acquisition, finance and construction is what allowed us to quickly build up a pipeline of schemes. The first few of these are now under construction.

Our mission is to create and manage a portfolio of more than 5,000 homes, built from the ground up, for long-term rent. We aim to evolve the US multifamily model for the British market and see a huge opportunity to capitalise on growing demand for housing as an increasing population moves across London's middle and outer boroughs.

Much to their credit, M3 Capital Partners, who capitalised us in 2012, were one of the first to spot the opportunity in the UK market place. Having also backed the likes of Urbanest and, through their management of institutional capital, they perfectly understood the dynamics of property as a 'service industry'.

Crucially, we are not the usual property company: Essential Living is a property development and operations company, and a fund, merged together. If a deal does not work for us as developers, then it does not work for the fund and will not go ahead.

We are collaborating together and taking the long-term view, which means we will come out of it with a good property portfolio, benefiting from development profit reflected in a strong net yield.

This structure has a massive impact on our business practice. If you are not set up to hold assets for a long time, then you will take a different stance to us. Other people look to trade on at different stages of the asset's life cycle. What we are doing is holding our assets for the long term. That means, from day one, we need to maximise income and streamline costs. During the development phases, it means we have had to focus heavily on appropriate structuring of our financial arrangements.

At the end of last year, we agreed a £52m financing deal with RBS and the Homes and Communities Agency (HCA) to develop our first three schemes, using the second tranche of money from the government's Build to Rent fund. While some had suggested there would be a lack of finance available for Build to Rent, we have found all of the major banks hugely supportive.

Traditional funds are experts in investment but often do not have in-house resources to develop or manage. Others simply do not have the risk appetite - and this will differ from business to business. Our structure, for instance, has allowed us to take planning risk on some schemes where other companies would not. However, we make careful considerations around the zoning or about the underlying value of an asset, pricing in both the risk and the likely timescale of planning.

Because of this approach, we need to achieve higher returns than if we were simply investing in stabilised assets. However, with deals such as the Archway Tower acquisition (bought off an existing use value of a vacant office building while the adjacent building was sold for 3 times as much with residential conversion consent) our approach is to wrap in development and planning gain into our returns, offering our investors an appropriate risk adjusted return.

Other issues the government should look to address relate to how VAT is applied on homes for rent.

Of course, the challenge for all investors is the risk they will take. Banks will, typically, only lend on permitted schemes and are increasingly being discouraged from risk by regulators. Many institutions will only touch stabilised assets, which makes perfect sense. However, buoyed by the fundamentals of the market and by the positive political outlet, the signs are positive right now.

As a long-term investor and developer, we will hold assets for the duration (we don't look to flip or trade), which means there will be opportunities to recycle debt at different stages to reinvest. This is very much the aim of the government's new PRS fund, managed by Venn, which is another welcome move in encouraging finance.

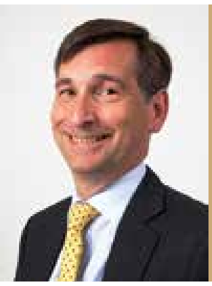
Vantage Point, Archway Tower, Islington – Essential Living

Other issues the government should look to address relate to how VAT is applied on homes for rent. Homes sold on the open market are ‘zero rated’ and so pay no VAT. If I rent you the flat, because it is an investment, I have to charge you VAT at 20% on the rent. But you are not going to pay that, so I have to make it VAT exempt, meaning I am unable to claim back my own VAT charges. Given that we are building new homes - rather than digesting those built for sale as buy-to-let investors do - Build to Rent investors should be treated differently, as far as VAT is concerned. You can offset it through capital gains, but you cannot avoid it and it is a needless drag and a disincentive that may reduce likely investment into the sector.

Having institutional landlords focused on long-term sustainable income generation is one benefit, but the bigger win from Build to Rent is far more obvious: new housing supply. Our focus is on delivering a level of service and a quality of product not seen in this country before while creating an investment grade asset.

By doing this, we believe we can turn renting from a sector in which people settle for what is available, to one focused on the quality of product, service and certainty. By identifying the things that make renting a hassle and removing them, we have an opportunity to genuinely evolve the sector as other consumer industries have.

Operations view



Essential Living
Ian Merrick
Operations Director

Effective management and great service will be key to the sector's profitability and in creating successful rental brands, says Essential Living's operations director Ian Merrick

In three decades working across hospitality and high-end serviced apartments I learned that beautiful buildings are not always the best performing. Sure, design is very important in attracting customers but you should build from the operational side first, and then add design in later.

The practicality of how it is run defines whether a building will 'stack up' from an investment point of view. The more practical it is, the less you spend on maintenance. Again, that lowers your costs and increases customer satisfaction.

Crucially, you also have to consider who you are renting to. For example, our Creekside Wharf scheme in Greenwich is aimed at families. It has larger apartments with various family-friendly design features like extra acoustic insulation, additional storage and larger balconies with taller balustrades. Two of our guiding principles are reducing customers' hassle and giving them more time. These will be all the more relevant for working families.

While we are excited about the role Build to Rent can play in shifting people's perceptions of renting, as far as driving yield is concerned, it's the little things that will make the biggest difference.

Focusing on small, but significant operational costs will make the biggest impact. For example, square skirting boards are dust traps. But if you install smooth edges they do not trap dust, so wear-and-tear is reduced. Incremental changes like that means your capital outlay over a period of time is less.

The same can apply to other outlays, like light bulbs. Spending more on a longer-lasting bulb, which reduces replacement costs and wear-and-tear, can make a huge difference across a portfolio of properties.

In the USA, they build from an operational view first, and then add the design in. For example, some hotels in the States use oil-based paint for the corridors that has a dotty pattern. So if a wall gets scuffed, instead of having to repaint the entire wall, they just have to touch the affected area up. It is called 'life cycle costing'.

You only have to look at the market place developing in the Build to Rent sector to see that it will be highly competitive in years to come. This is central to the investment we have made developing our brand and setting out uniform standards that will govern our developments and our operations. People like brands because they are benchmarks. If you buy a Mercedes or stay in a Hilton Hotel, you know what you're getting. That is what we want for Essential Living - that people know who we are, what we do and what to expect.

This is especially important as we're moving into a sector like the PRS that has traditionally been associated with low standards and poor service. Housing is also one of the few markets without any well-known brands, and I think this reflects on the previous lack of consumer focus.

We are likely to see a huge amount of change in the coming years, not just in the housing market but across the districts we are building in.

One of the standards across Essential Living developments will be an array of shared spaces, which renters in the private rented sector do not currently benefit from. By having areas you can share with your neighbours and friends when they visit, you are more inclined to stay. This is good for us, as we have greater certainty about customers staying for the long run.

Farrier House, Bethnal Green – Essential Living

Market perspective

Fizzy Living
Harry Downes
Managing Director

Backed by Thames Valley Housing Association, Fizzy has created a real buzz as one of the first entrants into the sector. Managing director Harry Downes talks about their mission to provide service-led housing for Britain's 'renty-somethings'.

Back in 2008, when the country's property market was on its knees, there was a nagging sense of contradiction twitching amid the financial crisis. Residential development had stopped dead, yet the population was still growing, still working, eating and taking their kids to school. Demand for that consumable entity of "living" was not hampered by the near collapse of the banking system.

We still needed homes and people, largely, still had money to pay for housing. There had to be a way to break this cycle, and this was to change the way people could pay for their housing; to create a model funded by long-term investment rather than short-term bank finance that would be less volatile and less of a hostage of fortune to GDP than house prices.

Ironically, the businesses most successful at doing this are charities: housing associations. It says something about their innovative thinking that it was Thames Valley Housing Association (TVHA) who we initially partnered with to launch our business. Our initial focus was to create a seed portfolio - an investible base on to which large-scale investment could be harnessed. There were many hurdles initially, the most prominent being property management - a role which housing associations are better equipped to do than anyone.

We needed to achieve scale and agreed that a front-facing brand would minimise any potential reputational risk for all involved, while also allowing us to be totally clear on what the offer was and who our audience would be. This gave birth to the phrase 'renty-somethings' - referring to young professionals.

The first couple of buildings were funded through TVHA's £30m investment. When not a single UK institution would touch market rental, they showed immense foresight and, without that, we would never have raised our £300m institutional investment as quickly as we did.

This gave us proof of the concept. We had to have all of our systems in place: collecting rent, paying our bills and proving that we knew what we were on about.

With funding secured, our plan is very much Build to Rent - rather than buy-in-bulk-to-let and pay someone else's development margin forevermore.

The central problem the sector has at the moment is that planners do not distinguish between housing for rent or sale. It is rather like copyright laws pre-dating emerging technology. It means Build to Rent cannot compete on the same terms as an open market housebuilder or a buy-to-let investor who have no obligation to deliver the services we do.

If this sounds a bit negative, let me stress that we are delighted with the progress policymakers have already made. The government is taking the viability problems more seriously

Laura, the Bob at Fizzy Poplar


Fizzy Lewisham

and we are hopeful that they will do something about it that really achieves the movement we need at local level.

Before Russell Brand comes knocking, please know that we are not asking for any kind of subsidy. We do not need public money - the problem we face is viability.

The easiest way to sort things out is to amend section 106 agreements, which act as a tax-collection device for councils. It is totally fair that we have got to give something in return for planning permission but, if what you give in return was a 10 or 15-year covenant to carry on managing a professionally managed portfolio, this would drive the residual valuation. The planning system needs to recognise the cost of tying up capital for the long term against the higher, short-term capital receipts generated by selling everything off right away.

With that in mind, those detail-orientated operators investing for the long term will reap the best returns. If you are outsourcing management, the percentage attributed to your costs will start with a '3'. If you're doing it internally, it should be mid 20s.

While individual buy-to-let investors continue to receive generous tax subsidies on management costs we are operating at a competitive disadvantage. The government should recognise that, unlike buy-to-let landlords, we are creating new supply. Evening out the tax system could thus deliver more of the homes they promised the electorate.

If voters have a straight choice between renting from somebody who owns three flats or somebody who has 3,000, the larger entity will undoubtedly be doing a more thorough job.

Ultimately, with the population growth we are seeing, unless the government gives £80,000 to every person living at home between the ages of 25 and 35, saving up that sort of money for a deposit is going to be really hard.

Over the coming years, as this market evolves more people will see it as an absolutely acceptable alternative to traditional home owning. We are getting that already. We are going to continue with our target market, stay in urban centres and, after we hit 1,000 flats in London, we will go nationwide and our plan is to grow and grow.

What is important is that we constantly learn through this process. Our expectation of how the mix of our flats would work has changed. For example, we have got far more successful couples living in two bedroom flats because one of them works from home. We thought that would be an absolute no-go. These days, people do not all necessarily rush off to an office. What we have learned is to be able to shift away from our previous misconceptions and go with the market. Even pets have proved popular, helping to create the place and atmosphere we are always striving to achieve. We want renters to think 'this is home, it's not a rental block'.

Clearly, Build to Rent remains a tiny proportion of Britain's housing market. There is immense scope for growth and a huge opportunity for this to benefit both investors and society. It will not be the silver bullet for the wider housing crisis and nor will it eliminate the property cycle, but additional housing supply from different sources of capital will clearly help cushion the market during any future economic downturn, even if we cannot wholly eliminate boom and bust.

Genesis Housing Association
John Carleton
Executive Director - Markets and Portfolio

Genesis is one of London's largest social landlords but has an increasing focus on private development. John Carleton, executive director of markets and portfolio, explains why they are expanding into Build to Rent.

Stratford Halo, the 43-floor residential tower you opened opposite the Olympic Park in 2012, put Genesis on the map as having a firm commitment to rental housing. What has pushed Genesis away from being solely a housing charity?
I think to a certain extent it was looking at where we were in terms of our footprint and taking a view that the housing need in London went from one end of the tenure structure to the other. All areas of the market need new housing. Data shows that just as many people rent from social and private landlords, and we believe we have a responsibility to address need where it falls. We simply took the view that we are evolving into a housing provider rather than solely an affordable housing provider.

And do you think that's the case across the traditional affordable housing sector?
There's certainly movement in that direction. One of the big drivers is being aware of what makes better places. I think the notion that we just build affordable housing in a place is not actually what we need. To make a place better you need a diversity of people which is vital, particularly in fast-growing cities like London. There's an acceptance that we all make a trade off when we buy a house, but it's for specific reasons, be it a school close by or transport. There are a big percentage of us buying a home and it's about the place. We've found that bringing tenures together - mixed use and mixed tenure - make successful places.

And presumably, doing this can avoid recreating the sink estates of the past and, by contrast, enhance the broader appeal of more challenging areas?
Very much so. Whilst the underlying value of our assets is strong, 80% of the Genesis stock is in areas that are in the bottom five deciles of the indices of multiple deprivation. So for us to really drive the value of our assets we have to invest in place and community. We have to make places where our homes are more attractive for people to live. That involves us looking at mixed tenure and mixed use to help drive the long-term value to create new opportunities for people to access market-rented homes.

What route is Genesis currently taking into Build to Rent?
In terms of the early growth, a lot has been via the developer route. As well as Stratford Halo (700 homes across five tenures, including the market-rent tower), we have another iconic building in Colindale, north west London. The 16-storey Zenith House is a similar-priced rental product, with around 300 units across a host of other tenures. In Chelmsford, Essex, we are also moving into the second phase of our town centre redevelopment just outside the station, which will offer around 300-400 homes at market rent. We've certainly put our money where our mouth is and would look very closely at working with partners, again taking development risk but in a joint venture situation.

Would you look at unconditional sites?
We're heading in that direction but we're not there yet. It would be stepping too deep in the waters of risk right now, but with the direction of travel in the land market, we may have to do that at some point. We've been lucky in one sense that over the past five years we've had a bank of land, albeit some of it bought at the wrong time, but that has given us a platform to be able to launch what our model of place looks like.

What would you say to critics who may negatively view your shift away from just developing affordable housing?
I have spent time convincing our board that we are the makers of our own destiny. No longer should housing associations simply be followers and deliverers of government affordable housing policy. We have to make our own way, and the approach we are taking is that a range of tenures is very important to us. That's the way we'll continue to develop.

Colindale's Zenith House offers over 300 mixed tenure homes

Do you see negativity towards market rent from councils? Is this a problem?

I think it is, although less so than it was. It's possible to bring some enlightened councilors along with the fact that really there's an economic value to Build to Rent. The thing that we are trying to do is talk to them about Build to Rent at different price points. It might well be that some of our market rent is at full market value and some at a discount.

In regeneration areas like Colindale, Build to Rent brings in the same sort of economically active people that housing for sale does. This is a key point. When councils realise this, it starts to change the nature of an area in regeneration.

What part will Build to Rent play going forward in your strategy?

Over the next few years we hope to build a minimum of 10,000 homes off the back of our own balance sheet. If some of that is delivered in joint ventures or other partners that leverages that up. But our aspirations are to build a third affordable, a third at market rent and a third at intermediate pricing, whether that's for rent or sale. Any discount to the market would depend on the viability of individual schemes.

The big thing for Genesis is the economic value of its portfolio. With cash flow around the £2bn mark and the market value of our portfolio around £6bn, we have enough to access finance in the absence of public subsidy. As with the rest of our sector, the future will see us increasingly operating like a private sector real estate company, just one that has its core values of social responsibility welded to its sleeve.

We will look to use the value we have to create more value, and doing this in a socially responsible, yet innovative fashion can create benefit for everyone.

Stratford Halo is a flagship scheme of predominantly market rental homes near the Olympic Park

Grainger plc
Nick Jopling
Executive Director - Property

Grainger, the UK's only listed landlord, has over a century of experience in the private rented sector. With a growing pipeline of Build to Rent homes, executive director Nick Jopling explains why partnership will be key to future success.

Britain's housing market has fundamentally changed during our 100-year history. The re-emergence of renting as a socially accepted housing tenure is providing a clear opportunity to encourage additional funding for vital new development.

Opportunities to acquire existing stock or assets are few and far between. Grainger has been extremely active in recent years, with the recent £58m portfolio acquisition from Sarunas Properties expanding our reach regionally. Going forward, we believe homes for rent should be built specifically for it.

Yet, being primarily a landlord and also a quoted business, opportunities where we have to take on planning or development risk will only ever be a small part of our business. We are not, and never will be, a pure housebuilder. But we do occupy a unique position of being a well-capitalised, experienced place-maker with a broad-range of skills under one roof.

As we are seeing, partnerships with developers or contractors are one of the best routes into Build to Rent. It has been how we started to access the market. Whether through a co-investment vehicle, joint venture or a forward-funding agreement, we largely focus on lower risk opportunities where there is significant scope to add expertise and deliver a project at a certain scale.

Partnerships, such as the one we have with Bouygues Development, are an attractive way of expanding expertise and diversifying risk. Bouygues has a strong reputation in project delivery and, knowing that we need to achieve scale quickly to ensure Build to Rent can work, we felt this partnership to be a great opportunity for both businesses.

By pooling our specialisms, it means they de-risk the construction process, enabling us to take on the lettings risk. We are not averse to taking sensible planning risk in appropriate areas at appropriate times, as we did successfully with Berewood, our large Hampshire scheme of 2,550 new homes.

Our partners are not always developers and contractors. We recently paired with the Royal Borough of Kensington and Chelsea (RBKC), where we will act on their behalf as a development partner, developing nearly a hundred new homes, half of which will be for private rent. Grainger will manage these long-term, collecting rents for the local authority and retaining a small portion to make sure we're driving value for the council. It will be for local people, featuring not just private rent, but affordable and social housing too. While it is a modestly sized scheme, the significance of it should not be overlooked: encouraging more councils to re-use assets and create long-term income-producing businesses should be top of the government's Build to Rent agenda.

Another route we are taking is to deliver Build to Rent by supporting the phased delivery of larger, strategic sites. Whether that is a partner's site or one of our own, there are opportunities to speed up the delivery of a wider development by providing up-front financing which a developer can recycle, as they would when selling an initial phase of a scheme. It also helps with place making, as people will be moving-in quicker, children will go to schools sooner, shops and pubs occupied faster, making it a nicer place to live earlier on.

This does not just benefit residents; it is good for us too, by helping to drive values on later phases. As the development will be a more attractive place to live, more people will want to live there, so houses will sell more quickly, people will rent houses quicker, which all helps Grainger and the end beneficiary.

Redefining housing not just as an institutional asset class, but also as a genuine consumer-focused industry will be key to making Build to Rent stack up over the long term.

In some cases, the end beneficiary could well be a government department, such as the Ministry of Defence. We have a partnership with the MoD on disused Army barracks at Aldershot. The new neighbourhood, which we are creating on behalf of the MoD is Wellesley and will deliver nearly 4,000 new homes over 15 years or so. More than a third of

Barking

the homes being delivered will be affordable housing, managed through our own registered provider.

For us, public sector landowners are often the most attractive partners but, sadly, not always the most prevalent. This is a shame, as Build to Rent has the potential to generate a long-term income for public sector landowners.

We see the role of local authorities as one of 'enablers' either through the use of their land or via the planning system. The increasing acceptance of a 'rental covenant' to secure a site specifically for PRS is another way local authorities can act as an enabler for the sector, recognising the differing commercial dynamics from more traditional private sale developments.

Lastly, we believe there is scope for integrating new thinking around housing tenure types in the planning system to encourage Build to Rent. Where local authorities can be bold is in working with Build to Rent developers to deliver rental homes at a range of price points: affordable rents, discounted market rents and open market rents. By adding in an additional layer of discounted market rents into the equation along with a 'rental covenants', Build to Rent schemes have a greater chance of meeting viability thresholds and delivering homes for a wider range of households.

Effective asset and property management is key to ensuring income generated from rental accommodation remains stable. Unlike us, many other investors prefer not to have responsibility for operational management of their portfolios, worrying about reputational risk and believing they can strike a good deal with managing agents to help bring gross to net margins down.

While recognising the benefits of external management, we think having it all in-house is more of a strength than a weakness. Reducing layers between the tenant and landlord is a good way to extract value out of the market and deliver a top-notch customer service. The customer sees it as a positive, as they do not have to deal with any middlemen.

Having internalised management will soon no longer be enough. Consumer expectations will be a main driver of change in the new market place, so this means the management, and design, of buildings must be appropriate to the customer base. In the century or so we have been around, this transition to a consumer-focused model is perhaps the greatest change we have seen in recent times. Redefining housing not just as an institutional asset class, but also as a genuine consumer-focused industry will be key to making Build to Rent stack up over the long term.

Westrock
Dominic Martin
Operations and Strategy Director

Westrock has national focus with a pipeline of developments in strategic locations. Operations and strategy director Dominic Martin, who headed up the government's PRS Taskforce, explains where they go next.

Westrock is fortunate in that it has a heritage in and is comfortable with development. With in-house expertise that understands development and its nuances, the company is not put off by taking appropriate planning and development risks to achieve the right returns.

Due to the integrated nature of our three business - Westrock Development, Westrock Capital, and Westrock Asset Management - our investments in real estate cover all the asset classes. When it comes to real estate, our appetite to acquire and develop opportunities is long-term and our focus, thus far, has been on achieving a level of scale as quickly as possible.

Our 'seed portfolio' of Build to Rent schemes has benefited from the extension of permitted development rights (PDR) to convert office buildings for residential use without the need for a full planning application. It has offered a unique opportunity to build up a portfolio quickly, removing some of the costs and risks traditionally associated with development.

There are two key components to the benefits of PDR: first and foremost it is the speed of delivery and avoidance of long drawn-out planning applications and negotiations. The second is having zero affordable housing. It is not that we do not support affordable housing, but this can be only limited to an intermediate rent tenure (this being the only tenure which does not compromise in the investment title (i.e. third party ownership), thus making it more institutionally attractive).

For the local communities, it has importantly enabled many run-down and unfit for purpose buildings to be brought back into use, targeting investment where it is most needed and enabling new homes to be created in the heart of city centres in a more sustainable fashion.

We believe PDR has been a great policy and the Conservatives' pre-election pledge to extend it is welcome. While there have been concerns over its use in central London areas, where secondary office space is in short supply, the same arguments do not apply in outer London areas or in many regional cities. The quicker housing can come to the market, the quicker Build to Rent can get off the ground to become a truly institutional asset class.

For office to residential conversion, knowing how buildings are constructed is vital. We are able to quickly review a building's structure and its fabric to think about how the services and utilisation will work or may not work, depending on what age and what style of construction it is. There is an ability to quickly assess whether it is structurally sound and is feasibly convertible.

When it comes to the conversion and construction costs, generally, we have to also analyse what return the investment is likely to generate. For Build to Rent, this is an operational business model and the sourcing of components, their life-span, but also their after service care/speed of response, are critical to providing a customer focused offering. Having this expertise internalised is crucial, especially as the plan is to manage the assets for the long term.

Geographically, we have a national focus. Thus far, it has been opportunity-led, which is why the seed portfolio has mainly focused on the South East. We're looking as far north as Edinburgh and Glasgow, as far west as Cardiff, and across London too. Not just at office to residential conversion either; the acquisitions team are considering new build as well as forward committed opportunities.

The growth of the Build to Rent market is being helped with funding markets opening up and the cost of capital lowering across funding types, be this mainstream clearing banks, institutional capital, sovereign wealth or private equity. In addition, the launch of the Government's PRS Debt Guarantee scheme will help.

What we do know is that the number of people renting is increasing every day, especially as the Millennial generation comes into focus. This is a national story and there is a shortage of supply in every town across the country. The depth of that rental market varies of course, so you might not start building 1,000 units inside Leicester, but you might start with, say, 150. In Manchester, the rental market grew by over 30,000 renters between 2001 and 2011. Some may be students and some families, but there are an awful lot of young professionals who will be renting for much longer than before. Understanding the nuances of local markets will be just as key as creating the right level of product that offers appropriate returns.

Understanding the nuances of local markets will be just as key as creating the right level of product that offers appropriate returns.

Greystar Europe Holdings Limited
Mark Allnutt
Senior Director - Investments

Being involved at the earliest possible stage is important so that economies of scale for maintenance, management, leasing and resident services are incorporated into our underwriting and building design.

Having quickly established themselves in the UK student housing market, Greystar, one of North America's leading real estate companies, are now looking at Build to Rent, hoping to build on their success in the multi-family sector.

Anyone who's had their eyes on the UK student housing market recently will be familiar to some degree with Greystar. We've had a busy two years hiring local professionals, building our operating platform and acquiring assets. To date, with our partners, we have acquired 52 assets in 18 markets around the UK. In North America, however, we have a 22 year old business heavily weighted toward conventional multifamily housing (purpose-built rented accommodation), with more than 400,000 units under management.

Greystar was established in Houston, Texas in 1993, just as Britain's student housing market emerged with the conversion of old office blocks into bespoke communal apartments. In that time, multifamily housing in the US has evolved into a proper institutional asset class, while student housing in Britain has matured in its own right. We believe the same opportunity now faces the UK with the Build to Rent scheme and lots can be learnt from the North American approach to building and operating purpose built rental assets.

An important driver behind Greystar's success in the US is our vertically integrated business model, something we're working hard to emulate here in the UK. Each of our lines of business - property operations, investment management and development management, leverage the strengths and scale of each other to the benefit of our combined portfolio. We do everything under one roof, which keeps our costs down and our expertise high.

Like many, Greystar's initial challenges in PRS relate to site identification. While we've identified several interesting opportunities to partner with existing landowners, developers and local authorities, our development business will ultimately evolve to include land buyers; enabling sites to be sourced earlier in the planning and predevelopment programming process. Being involved at the earliest possible stage is important so that economies of scale for maintenance, management, leasing and resident services are incorporated into our underwriting and building design.

As a long-term investor in purpose-built student accommodation, Greystar is focused on creating harmonious, integrated communities for our residents to live. In the UK, however, where renting is viewed as a poor second place to ownership, the experience is materially different. Greystar is working hard to develop the operating platform to deliver a standard of service that will change the market's perception of renting.

Roosevelt Lofts

The forgotten majority

HUB Residential
Steve Sanham
Development Director

HUB is a developer focused on mid-market housing whose Acton scheme with M&G Real Estate will be the fund manager's first rental development. Development director Steve Sanham explains why we need to focus on homes for existing communities.

The debate around housing in London is skewed: commentators either focus on glitzy postcodes and marble lobbies of prime London homes or the lack of social housing for low-income Londoners, with little regard for what is in between.

At HUB, we recognise middle-income housing is not just missing from the conversation, it is missing from the pipeline. That is why we are building homes, for rent and for sale, for real people with realistic budgets. These people are not poor and they are not rich. They earn too much for any kind of affordable housing, but would still fall short of being able to own somewhere well considered, in a part of London that works for their social and work lives.

So, instead of trying to undercut the market in already established (and increasingly over-heating) areas, we aim to create high quality homes in places that are not performing as well, through no reason other than the fact no one has built anything decent there yet. By creating an aspirational product in these areas, we can push the market forward, creating value for everyone.

As such, many of our schemes are in the outer donut of London, in areas that benefit from good transport currently, but are looking down the barrel of significant new public transport improvements. Crossrail will bring places like Hayes (where we are delivering 237 homes as part of The Old Vinyl Factory) so much closer to the centre of London. It is a game changer.

We like to think that our approach to development is more considered than a lot of our competitors. Through an understanding of all of the basic building blocks of development, we are able to break much of what we do back to first principles and ensure that money is spent in the right places to deliver efficient, intelligent buildings responsive to context, and sustainable in the real sense.

Victoria Square, North Acton, London

While there is no silver bullet to London's housing woes, Build to Rent has a crucial role to play as part of the mix.

Our landmark deal with M&G Real Estate, the first private rented sector forward-funding deal between a developer and a UK institution, really set the tone for how PRS deals can and will be structured going forward, in places like Ealing - it can be made to stack, through an understanding of efficient design, the workings of the planning process, and careful financial planning.

A key move in Acton, which we were very keen to champion, was the delivery of blind-tenure accommodation - all apartments are the same spec and have the same building entrance, yet 20 of the 152 will be delivered as Discount Market Rent apartments, owned and managed by M&G in the long term. This brings management efficiencies to the building, but also is an approach that has a big part to play in answering some of the questions about social cohesion/division, and the ongoing delivery of affordable homes in a world without housing grant. We abhor the poor door.

Ultimately, while there is no silver bullet to London's housing woes, Build to Rent has a crucial role to play as part of the mix.

3 MANCHESTER FOCUS

Housing the Northern Powerhouse - Addleshaw Goddard

Market perspective

Manchester Place

Moda Living

PlaceFirst

Addleshaw Goddard are advising **MODA Living**, a UK market leader for high quality professional PRS, on its construction contracts for its private rented scheme in the heart of the Co-op & Hermes 20 acre NOMA masterplan in central Manchester. The scheme involves constructing a 35 storey tower to be known as Angel Gardens and will deliver circa 460 apartments with 30,000sqft of dedicated resident amenity space.

Housing the Northern Powerhouse

Addleshaw Goddard
Peter Kershaw
Head of Real Estate Manchester

Peter specialises in all aspects of commercial real estate work acting for clients with large property portfolios. He also acts for institutional clients, so is familiar with the acquisition and disposal of investment properties. Peter has significant development expertise acting for local developer clients and national operators.

After a challenging 20th century, Manchester is once more on the up. Benefiting from strong local leadership, the city has survived the transition to a post-industrial economy by embracing new industries. Manchester now has the second largest creative cluster outside of London, and is poised to become a world leader in biosciences.

Given its recent success, it is no surprise that Manchester is central to George Osborne's vision for a 'northern powerhouse', and been at the forefront of devolution in England.

While Manchester's prosperity should, of course, be cause for celebration, it also brings its challenges.

After decades of having to manage population decline, the city is now expected to have another 80,000 residents by 2027, and will need to build 55,000 homes by then to cope with demand.

Most of this growth has been in working-age people, leading to an unprecedented squeeze on housing supply. In central Manchester, in particular, there is an acute shortage of quality residential stock.

As with London, there are fears a lack of housing will harm the city's competitiveness. Yet, in Build to Rent, Manchester may have found a solution.

Moda Living, a joint venture between Caddick Group and Generate Land, targets what it calls the 'City Centre renter' - people for whom renting is a lifestyle choice, rather than a second option after homeownership.

Its flagship Angel Gardens scheme in the ambitious NOMA regeneration project will see 450 apartments built by end of 2017, together with 22,000 sq. ft. of mixed-use commercial space.

Meanwhile Manchester Life, a £1bn partnership between the city council and Abu Dhabi United Group, owners of Manchester City Football Club, will see 6,000 homes, mostly for rent, built over a 10-year period. The first phase, 830 units in Ancoats and New Islington, builds on 15 years of redevelopment in the area.

Once the epicentre of the Industrial Revolution, Manchester is without a doubt at the very heart of today's rental revolution.

Manchester Place
Deborah McLaughlin
Chief Executive

Build to Rent will play an increasing role in providing high quality, secure, long-term housing.

A strengthened alliance between the council and the Homes & Communities Agency will provide a major stimulus to residential development in Manchester, chief executive Deborah McLaughlin says.

Can you talk us through the structure of Manchester Place?

Manchester Place is a partnership between Manchester City Council and the HCA with its own chief executive. Its role is to accelerate the delivery of housing across the city by identifying and assembling sites, working with developers and attracting funds and investment. The city team and the HCA work together to deliver the Manchester Place plan and jointly report to the Manchester Place board, chaired by Sir Howard Bernstein and myself.

What do you see as the strategic opportunity for Manchester over the next few years?

The strong economic growth of the city provides us with opportunities for new jobs and wealth creation, and devolution now gives more control of public transport, access to a £300m housing fund and responsibility for skills and training. The delivery of HS2 and HS3, the continued growth of the airport and Airport City and the international profile of the city's university sector all bring huge opportunity.

How will Manchester Place engage with the council and with the incoming city mayor?

The city council is integral to Manchester Place and that co-operation extends across all ten district councils under the combined authority and the new mayor.

How will Manchester Place sit alongside other central vehicles such as the HCA and the Build to Rent fund?

Again the HCA is integral to Manchester Place and schemes delivered under Build to Rent such as Tribe in New Islington are now coming to market. This connectivity is crucial if we are to achieve the right level and quality of new housing needed. Greater Manchester's own £300m housing fund to support new development, both open market sales and Build to Rent, will be launched this summer.

What specific opportunities will there be for Build to Rent?

Given the continued constraints of the mortgage market, Build to Rent will play an increasing role in providing high quality, secure, long-term housing. I believe it will become a positive lifestyle choice not just for young professionals but for families and older people. It will bring a major shift in supply. We need to provide a range of housing types if we want to create sustainable, thriving neighbourhoods in our city.

What is the key in bringing in new investment and what is the sales pitch you're making?

Manchester's message has always been very much 'we are open for business' and this is the same for Manchester Place. Manchester is a successful city, its science, new technology and professional sectors will create 50,000 jobs over the next 10 years. Manchester Place's job is to ensure we have the right kind of high quality housing to accommodate the people in those jobs and make conditions as favourable as possible to help deliver that. The Abu Dhabi backed Manchester Life Fund has already pledged £1bn over 10 years and we expect other funds to follow. The sales pitch is obvious: a successful city with clear ambition for growth and employment, creating high levels of housing demand in a place with a thriving social and cultural offer.

What kind of sites will work for Build to Rent and how do you see this work contributing to the future economic and social growth of the region?

A range of sites providing a range of living styles is crucial to the region's continued growth and prosperity.
We need to provide homes not just to retain our talented graduates but entice new professionals and increasingly provide places for a new trend of over 60's who want to return to the city.
Whatever the location, the key to successful and sustainable rental schemes is build quality and long term management. We want to see well designed, high quality buildings, built, filled, retained and managed by one entity.
Build to Rent is only one element of our housing provision and we also want to encourage high quality build for sale developments to provide a range of tenures.

Moda Living
Tony Brooks
Managing Director

Moda Living has emerged as one of the biggest players in Build to Rent, with schemes in Manchester, Leeds, Liverpool and London. Managing director Tony Brooks charts out their future.

Moda is aiming at the 'city centre renter', how do you think lifestyles have changed this past decade and how can you be sure it is not a fad?

Moda's target market has been consistently growing over the last decade. We follow and target people who have a broad range of reasons to choose quality rental accommodation. There are those who simply want to experience living in the city for a period of their lives, without long-term complications, to enjoy the local facilities that such a lifestyle offers but have no need to commit to purchasing a property. There are those who find the new mortgage rules and criteria difficult to meet, there are transient workers who may be involved in a city centre posting for a period of time and they do not necessarily need to buy a home in that city. There are also downsizers and empty nesters who are attracted to a financially unburdened lifestyle after being tied to a mortgage for many years and now want to experience more fun and flexibility.

Could you outline the route you are taking into the market place such as establishing seed assets, raising funding and beginning development?

The shareholders have initially seeded Moda with cash in order to buy sites and fund planning applications on key city centre sites. This has established the base for our business and provides genuine pipeline. This is crucial, as large-scale investors need to see tangible assets coming down the track in order to invest. We now have over 5,000 units under control across the UK. As planning permissions are implemented, we engage with suitable contractors to firm up build costs. With this clear proposition in place we have been able to go to the institutional investment market and source full-scale development finance to build out and operate the schemes for the next five years until full rent stabilisation is achieved. This maximises portfolio value.

What are some of the broader market challenges you are overcoming?

The challenges we have faced bringing the business forward are primarily in valuations and construction costs. The valuers need to properly understand what they looking at. It is not a capital value on practical completion. It is a long-term net operating income they need to consider. Many real estate professionals are not looking at this properly and are stifling schemes coming forward. It is a much more complex process than simply comparing the local sales and rentals on Rightmove. Some valuation firms need to get educated on this subject if there are to play a part in the professional PRS sector.
Delivery of large-scale schemes remains challenging. Single stage tender is out. These buildings are complex and require a two-stage or negotiated approach with a contractor that wants a long-term relationship. We need to share knowledge and re-use our experiences on each scheme going forward. Because of the size of the schemes (typically we won't look at less than 200 units in a building) there are programme issues that need to be worked through and carefully mitigated. Construction cost inflation is also a moving target at the moment. We are seeking top quality construction partners that believe in the product and the business model to go forward and deliver our pipeline.

The majority of your schemes are in the North, but you also have one in Vauxhall, London. Will the North remain your primary focus? How will you target your pipeline?

We are not limited geographically and we are targeting the top ten cities in the UK, with offices in both London and Harrogate. In fact, one of the goals is to build a nationwide community, so if you are moving from Leeds to Manchester or London you know we are there to offer you what other people cannot. We see the brand as a key asset. We are looking at multiple UK-wide projects at any one time. For us, it is a simple assessment to begin with; do the current rents in the location enable us to deliver our full service offering. This is really the main driver. We are pushing to change the landscape of the UK rental market and pioneer significant positive change for tenants. For example, at Angel Gardens, Manchester, we have 30,000 sq ft of dedicated resident amenity space. This does not really exist at the moment and there are only a few schemes in London that compare.

Manchester is often considered to have the second most developed private rental market after London. Why do you think that is?

Manchester is a very cool place with a very savvy population. They are switched on and brand aware, and it is usually one of the first places to catch on to the new trends from London or overseas. A residency in our future-proofed, highly-managed buildings is definitely the next step for the city centre renter. Manchester has a global reputation, multiple top tier football teams, a diverse cultural and industrial heritage, fantastic educational sector and a thriving creative and digital base, with the BBC and ITV at helm, not to mention the FBS with over 80 FTSE 100 companies established there. It bears a lot of resemblance to London and you only have to walk through the Northern Quarter, Salford Quay, Spinningfields and obviously NOMA to realise that.

What is the key to making your schemes 'stack up' operationally? Will you internalise or outsource management? How will you define what amenities are needed and what constitutes good service?

We are working with experienced market-leading building managers on a collaborative basis across the UK. We are designing on-site lettings offices and accounting for full management teams to work in the buildings to provide a wide range of services to our customers. Our on-site teams will be operating the latest BIM software that monitors design and maintenance of each individual building element, in unison with our tenant interface app, 'MyModa'. This technology will allow us to monitor the 'Big Data' of our schemes, collecting info on the use of amenities and making sure they run harmoniously throughout their lifetime. This will enable us to improve and adjust the services we offer going forward, giving us the blueprint for the perfect buildings.

Your flagship scheme, Angel Gardens, is part of NOMA. What is exciting about that and how does it promise to re-shape Manchester?

Moda are very proud of Angel Gardens and, even after recent trips to Europe and Chicago, we are struggling to find something comparable. Perhaps this opinion is biased but it is an exciting location in the heart of the 20-acre NOMA master plan by The Co-operative Group and Hermes that really caught our attention. Added to that the border we share with the Northern Quarter, perhaps the coolest area in the city, the new re-vamped Victoria train station and the fact we are a five-minute walk to the centre.
These are exciting times and, here at Moda Living, we are running ahead of the curve in our aim to be the market leader for UK PRS. A residency in one of our buildings will combine healthy, social living, future-proofed technology and a unique level of customer service for the modern renter. Being part of the Moda community will be a lifestyle choice.

Mies Van Der Rohe inspired 36 storey tower with canter lever and colonnades housing the commercial space

PlaceFirst
David Smith-Milne
Founder

Whereas most Build to Rent developers have focused on young professionals, PlaceFirst aims to cater to working families. Founder David Smith-Milne outlines how they plan to make it work.

Unlike most other Build to Rent players, PlaceFirst is focusing on working families, with single family housing across secondary districts in the North near good schools and public transport.

Liverpool and Manchester have burst into life with development these past few years. But for many individuals and families, these high-end apartment schemes - for rent or for sale - can be unrealistic for their circumstances. Of course, there is a market there for professionals and high-income lifestyle renters, but there are also many locked out of ownership further down the income ladder who also need catering for, and for whom renting is the only option.

In 2010, just before the comprehensive spending review looked set to have some pretty profound effects on our economy, Placefirst set about a strategy to become a Build to Rent developer by securing land and developing a product aimed at low to middle income households that are in work. We knew, at this point, that we would be working against the grain of the market and that getting development finance would be difficult, but discounted land was available and the relationships we had built up with local authorities put us in a good position to acquire what's now in our pipeline.

My background was in management consulting at KPMG and many of my projects involved advising Government and its various agencies on major housing projects. I also used to advise a number of big housebuilders how to bid for and win large joint venture structures, typically on local authority land.

Through these projects it became clear to me that, despite everyone's very best intentions to increase housing supply, there was a growing number of individuals and families that were being overlooked by much of the limited supply that was being delivered - families that did not qualify or identify themselves as living in social housing but who could not access home ownership.

There are over 500,000 households that have failed to move on to or up the housing ladder since the credit crunch, and a significant number (more than 200,000 of these) would have been first time buyers. Help to Buy and a general easing of the mortgage markets will clearly help with this situation, but, with the average earnings of a Help to Buy applicant sitting at £45,000, there remains a huge cohort of people whose earnings are simply too low to access home ownership. Our business focuses on this demographic.

Our product is aimed at what are called low-middle income households. These are low-to-middle earners either locked out of home ownership because they do not have inter-generational wealth to access a mortgage, or because saving for a deposit is beyond their ability. They are working families excluded from home ownership, who do not identify themselves as requiring, nor qualify for, social housing. There are lots of them and, therefore, we are operating a business with real scale potential.

Many such individuals are struggling to gain traction on home ownership or simply do not want it. Many live in social housing but want a better quality house and landlord experience and do not want the stigma of living in a former council house.

Our demographic sits around £25-40,000 household income and we are very strict at demanding a stable source of employed income, so they cannot wholly be funded by benefits (although many will use working or family tax credits).

To make the economics work, our early deals have revolved around redeveloping distressed housing. In a number of neighbourhoods we have acquired over 200 distressed, often empty houses and set about a thorough and comprehensive process

A typical 3-bedroom family home at Placefirst's development in Woodnook, Accrington

A typical 3-bedroom family home at Placefirst's development in Woodnook, Accrington

of remodelling and refurbishment. In each case , we have acquired entire streets or blocks of properties so that we start with a critical mass and the ability to control the entire public realm. These early projects have in turn provided the company with a platform and the experience to move into new build schemes and we are now planning a series of integrated, family focused communities aimed at private renters.

Financially, we target a minimum net yield on our investment of 7%. We have to work hard on our land strategy and build costs to achieve this as it is vital that our rents remain affordable to working families on low to middle incomes. We also need to make sure that the properties are aspirational and can endure the pressure of being built to rent. We are achieving this through thoughtful and imaginative design, diligent procurement and genuine partnering with our supply chain.

This target yield gives us headroom to set it up at a more crunchy yield when we exit or refinance the portfolio in a number of years time.

Our immediate strategy for the business is to get to 1,000 units by 2019. This will see the business operating at a scale where its next steps are flexible. With over £100 million of assets we may think about a listing or an institutional refinance.

All of our schemes have a minimum of, say, 60 units and are well located within walking distance to a good or outstanding primary school and being close to public transport links.

We have also learned the hard way, that the best way to get a solid solution to the customer is to do as many of the services for that customer as possible in-house. Outsourcing to various letting agents or large established landlords from the housing association sector failed to provide the service standards we were looking for, so we have opted for a delivery approach using in house resource. This means we can tightly control cost and quality.

The thing that makes us different, however, especially from housing association landlords, is that we are evaluating every customer on a case-by-case basis. So, just as the rental market needs to shift from individual buy-to-let investors to a Build to Rent model, it should not lose its people focus.

Build to Rent should open up doors to better housing for everyone, no matter what their income is.

This criterion builds on the success of one of our earlier schemes in East Lancashire, a town called Accrington, where we have delivered 131 units. What sealed the deal for us, on that project, was a new train link to central Manchester offering commuting times of around 45 minutes. Frankly, these neighbourhoods need transport connections into regional centres of employment if they are to operate as sustainable housing markets.

We also target locations where there is already strong evidence of private renting. Our approach is not one of creating a market, but instead going into established markets with a product that is far superior to that already available. A superior product, priced appropriately for the location, within a market that is established is very likely to be let by long term renters which gives us security of earnings.

The next wave of projects we are looking to deliver are, largely, 60 unit individual schemes, which include typically 2, 3 and 4 bedroom family housing. Our priorities are those secondary level locations around Manchester and other major conurbations in the North.

Ultimately, while we are not a social enterprise, I believe we have a role to positively shape society. Place-making and regeneration are banded around like over-used buzzwords and the proof is in making a difference to the people who rent our homes, and those who already live in the areas we develop. With such a wealth of this demand, I think these two ambitions are harmonised perfectly, and we believe passionately that Build to Rent should open up doors to better housing for everyone, no matter what their income is.

4 INSTITUTIONAL INVESTORS

Addleshaw Goddard advised **ISIS Waterside Regeneration** on schemes including Brentford Locks, further phases of which have been earmarked for PRS under the build to rent scheme.

Institutions have come full circle

Addleshaw Goddard
Leona Ahmed
Head of Real Estate and joint Head of the Real Estate Sector

Leona leads a significant real estate team, a key part of Addleshaw Goddard's business. She works with clients such at Columbia Threadneedle, BMO Real Estate, Miller Developments as well as acting for a number of Asian investors. She is a highly experienced transactional advisor and has a significant track record in all aspects of mixed use development and town centre regeneration including site assembly, forward funding anchor lettings, financing and strategic asset management.

A century ago, when around three-quarters of homes were rented privately in England, institutions were the cornerstone of the property market. Indeed, it's always said that the sector is cyclical and this is no truer than in the commercial property markets where institutional investors have in recent times focussed their investment.

But with significant shifts in pricing, caused in no small part by the wealth of overseas investment pouring into London, many traditional owners of West End retail and City offices have sold assets and shifted their attention elsewhere. According to IPD, regional offices and industrial properties saw the biggest price movements and transaction levels in 2014, signalling a hunt for income as London yields compress.

By their nature, pension funds and insurers look for secure, long-term returns and tend to favour low-volatile, less-risky opportunities compared with private investors. This is the principal reason why they have not been able to compete with buy-to-let investors, who have been able to take on personal risk and leverage themselves often past 90%. Pension funds cannot leverage and therefore any fund manager would struggle to make the returns. This, coupled with a tightly regulated sector has made the private rented sector that once attracted these investors, a very challenging sub-sector to place money.

Over recent years, traditional institutional investments such as sovereign bonds have hit record lows. There has been a growing trend of institutions increasing their exposures to real estate. And within the property divisions of the major institutions, there has similarly been a growth in their desire to allocate to so-called alternative assets, such as Build to Rent.

Many major foreign investors - from Asia, North America and Europe - have strong footholds in Britain's market, as a testament to it being a competitive and transparent market. The quality of the assets and businesses within it continue to attract money looking for safe secure income. Some of this money is now leading the way in supporting Build to Rent, particularly from North America where this is a mature and well understood asset class.

Not so long ago, Build to Rent's estimated return of an average 4% net yield would have been considered too low for some investors. Compared to city office yields there does not on the face of it look an unattractive return.

The risks though are greater. Some operators will take development risk to drive their IRRs. But most institutions will be far more comfortable with de-risking construction and taking on leasing risk while the sector is in its infancy and with a lack of genuine market data.

The major benefits are the perceived reduced volatility, relative to other sectors and the obvious imbalance between supply and demand, which is only likely to grow as Britain's population surges over the next few years. Whereas other investments are driven by how the economy is fairing, people will always need a place to live. It means this type of investment is less affected by the macro-economic environment that other asset classes are more tightly linked to.

As with any type of property investment, there will be hurdles to overcome. The key to making things stack up for Build to Rent for an institutional investor will be critical mass (the operational and management set up costs are high so economies of scale will be essential) skills set within the organisation - without stating the obvious, handling residential tenants is a different ball game. While the direct reputational risk may potentially be higher on some levels, the opportunity to create stabilised assets and recognise enhanced will become attractive as values grow. Although Britain is decades behind North America - which boasts a sizeable listed multifamily sector, there is every opportunity for such a shift to occur here as institutions seek to find a new home for their funds.

The key to making things stack up for Build to Rent for an institutional investor will be critical mass

Market perspective

Legal & General
James Lidgate
Head of Residential

Legal & General is one of the best known financial brands in the UK and has invested in different housing tenures. Now firmly moving forward in Build to Rent James Lidgate sets out its planned route across the UK market.

What was the attraction in coming to L&G from the housebuilding sector?

Having always worked in residential development, previously at Bellway Homes and prior to that, Berkeley Group, the appeal of coming to L&G was that its aspirations were many and multi-faceted. The business has a growing appetite for alternative real estate sectors and Build to Rent is a significant proportion of that appetite.

What route is L&G taking to Build to Rent investment?

We are using our own balance sheet to fund development, an approach more akin to a private equity play than other traditional fund approaches which may require raising capital or finding a mandate before investing. It is quite a different approach from some other UK institutions taking a position in the market, but we believe it is right for L&G given our track record, particularly in sectors such as student housing, which have transferable elements to them.

How are you managing to compete against your former employers in what is a highly competitive land market that does not differentiate between housing for sale and rent?

The first project we have committed to is in Walthamstow, north east London. We bought a development site and plan to seek a bespoke planning permission for a private rented scheme. We are taking planning development and construction risks, and we are ultimately taking operational and management risks too. For me, the willingness to take measured and appropriate risks was the acid test. While it is still very tough in the land market, our ability to compete and identify strategic opportunities puts us in a strong position in what is a highly competitive land market. Put simply, we have funds and the necessary skillset at our disposal to manage planning and development without needing a fresh mandate from a pension fund to obtain capital. L&G's track record in development and its balance sheet will allow us to operate very much alongside existing PRS businesses - such as Essential Living for example.

What is your appetite for risk and for the sector as a whole?

We will take reasonably significant planning risk but we would not buy purely unconditional land, which requires a re-designation. It is about taking the skillsets we have in different sectors and applying them to Build to Rent, being balanced in our approach but seeking at all times to maximise our returns on behalf of our shareholders. We want to be the leading developer and investor in the Build to Rent sector, developing many thousands of homes. I think that is an absolutely achievable target, but first we have to put the right building blocks in place, including supportive infrastructure, in order to be able to deliver at that kind of scale. We are not at a standing start by any stretch of the imagination but we are still relatively early on in developing our strategy.

What do the next five years look like in terms of the structure and scale of your Build to Rent activity?

Within five years, our current aspiration is to have many thousands of units in the pipeline and delivered. I fully accept the lead-in time can be significant on some of these projects, but there is no reason why in five years' time we would not have thousands of homes in the development pipeline.

What will your approach to operation and management be?

There will be third party sourcing of expertise for the property management and operational piece. We have a reasonably extensive shortlist of potential partners that we have approached, or that have approached us. At some point in this calendar year we will be starting to take our discussions with them forward, but presently our focus is on building up the development pipeline. To maximise the operational efficiency of our schemes, we have very fixed views about how we want everything: from procurement of construction to facilities managements and tenant satisfaction surveys, we have detailed everything out. We have a list of KPIs that we expect our property manager and our managing agent to perform for the services we want to offer. It is about finding the right partner to deliver that.

What's going to be key to your success?

I see us not in a wholly unique position but, ultimately, there remains only a very small proportion of the market that is prepared to do what we are doing. That is the really exciting prospect, from my perspective. We are an investor, a developer, an operator and a manager and the key will be aligning all of those interests from the outset. We are out there bidding on opportunities alongside the residential developers and the housebuilders. We are very much in the market for the development opportunities for sites, with and without planning, together with other opportunities that could benefit from our balance sheet and appetite for taking a long-term strategic view on development. In an era where society needs both housing and stable long term investment opportunities, there is potential in the future for this to be one possible solution.

Towers Watson
Douglas Crawshaw
Head of UK and European Real Estate

Towers Watson is a leading advisor to pension funds, consulting on people, risk and financial management. Douglas Crawshaw, head of UK and European real estate, outlines why institutions are happy taking their time.

Can you briefly outline your role at Towers Watson?

My background is in direct property and I came into consulting after gaining 11 years' worth of experience in private practice and fund management. As a firm, Towers Watson has one of the biggest real estate teams in the investment-consulting sector and we pride ourselves on having strong on-the-ground experience in each of the three principal regions of Europe, the Americas and Asia Pacific. Our role is to research investment managers and their fund propositions, which we then rate and assess as to whether or not they are appropriate for our clients. Our client base is quite varied, from pension funds, sovereign wealth funds, to insurers - in other words, institutional investors. In researching the available opportunities, we find that, whilst some proposals we see may be theoretically good ones, they may just not be suitable for a particular client (or group of clients).

How long have you been looking at the residential space?

We began looking at residential around four years ago. It has involved meeting lots of firms, such as the developers and fund management houses, which has given us an insight into the workings of what is essentially a new sector.

And what's your take on Build to Rent?

I think there is a real interest in Build to Rent as a sector, but converting that into actual commitments has been more difficult than anticipated. This has been due to a number of factors that do not really exist in the commercial sector.
Firstly, there is a reputational issue for our clients. If you are a pension fund, and you have invested in, or own, the development, then residential means you are dealing with the members of the public, which has potentially different issues from commercial property investment.
The second issue is the loss between gross income and net income received by investors and, whether on a net of fee basis this net income return is attractive to investors in the context of other investment opportunities. It ranges but, realistically, people see it at around 25%. We have to sit in front of our clients and say: "Should we do this?" We compare the returns from residential investment to traditional property such as balanced funds, and the rationale needs to stack up for the opportunity to be compelling.
Then we question whether residential is set to go through an asset value correction, but there are things that mitigate these and other issues.

Such as supply not meeting demand?

Exactly. There is not enough supply. In fact it appears that the market is building far less new stock than is required, leading to increasing demand. So one can argue that the demand for Build to Rent (creation of new stock) is there, but can it be built appropriately to encourage tenants as well as institutional investment? Building is risky, with planning delays, construction delays and other factors that need to be taken into account. There are the political risks too - such as will there be rent control?
Residential does seem to offer compelling diversification benefits when considered alongside traditional commercial property. It is less volatile than offices, for example, but industrial offers a generally higher yield and retail offers more inflation linkage.

It sounds like you are nervous at the moment.

I think, collectively, as investment advisors, we are nervous. That is our job. I do think it will work, but we have spent the last four years or so looking into this, and we can wait, if necessary, to find the right opportunity for our clients. That is not to say one does not exist today, but we do need to become comfortable with some of the issues surrounding residential.

So how do you see residential as an asset class?

I see it as a complementary strategy that will be of interest to investors seeking diversification and who want a defensive play alongside their core commercial real estate investment exposures. I could envisage that a more mature market could perhaps develop along the lines of that seen in North America, for example, with perhaps a set of listed vehicles that could provide further opportunities for indirect investment, just as traditional REITs do. However, at present, the focus is on unlisted fund opportunities.

...the outlook for residential property investment in the UK is positive, if the stock is appropriate for institutional investment, and there is the will and support from government...

Is the lack of reliable data about the sector a major drawback for institutions?

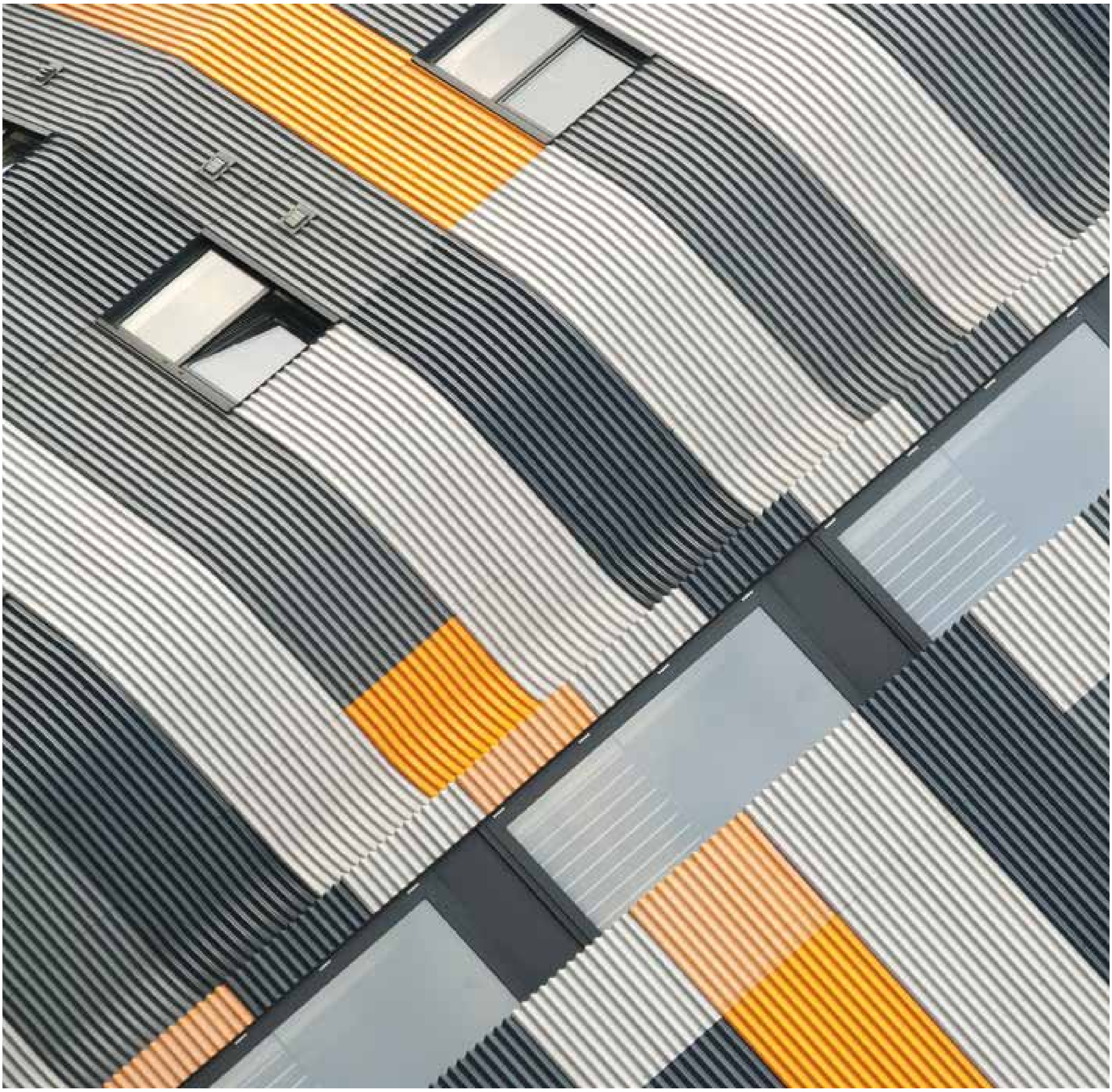
Definitely. For most investors, the need to be able to prove a strategy works before you invest is essential. A traditional balanced fund has data stretching back many years that proves the concept. However, for residential, this is still not really available - especially in an institutional investment context. There are lots of graphs available that provide projections but limited actual evidence of performance in unlisted fund terms.

Given your views on data, or the lack thereof, do you sign up to the view that the UK market will follow the boom seen in the US?

Multifamily is massive in the US. I think there is some way to go before the UK has a residential investment market approaching that seen in the US. However, there is a mismatch between supply and demand and with the right dynamics and investment rationale, institutional investors could play an active role in the same way as they do in the US in providing much needed housing, but, as mentioned already, there are some issues that need to be overcome and concerns that need to be addressed.

Do you see a successful Build to Rent sector emerging?

I do - in time. However, it is starting now and there are numerous groups working hard to develop such a compelling opportunity. I think, in time, it will be an important part of the overall property allocation. The issues are being thought through and the risks are becoming understood. There is some way to go, but I think the outlook for residential property investment in the UK is positive, if the stock is appropriate for institutional investment, and there is the will and support from government, for example, to make it successful.



APG Asset Management
Martijn Vos
Senior Portfolio Manager Real Estate

APG has an extensive portfolio of European residential property and has recently entered the UK market in partnerships with Grainger and Delancey. Martjin Vos discusses how to manage the risk involved with an evolving market.

You are on record as saying you are below target allocation to residential. How much can we expect you to invest in the coming years?

We are the biggest asset manager in Europe acting on behalf of pension funds and have around 10% allocated to real estate from a €400 billion fund. Around five years ago we made the decision that we intend to grow the residential allocation to 20%-25% of the global real estate allocation. It is still growing and we are on track to reach that goal, although there is no fixed deadline.

What was the vision behind your move into the UK market, where you have agreed major joint ventures with Grainger and Delancey?

We had been watching the UK market for a while, and the drop in residential prices in 2008 was one thing that improved viability and attractiveness for us. We discovered that there was no widespread institutional rental product on the scale of countries like Germany and Sweden, despite the very obvious, and growing, demand-supply imbalance. This is something of an anomaly, particularly given the maturity of Britain's student accommodation sector, which we view as a niche in the residential rental market.
Grainger was managing one of the few portfolios of stable, income producing stock that we were able to buy into, creating the GRIP fund.
This led us to look for similar stock and we noticed that Delancey had done a large transaction at East Village, Stratford. Off the back of conversations with Delancey, we discovered they had another development in Elephant & Castle, that suited our requirements, and we invested €125 million in the venture.
The 50:50 joint venture with Delancey enables us to explore opportunities for larger regeneration schemes and we are now aiming to find sites that have 600 units and above and to develop those for long term rent.

What lessons do you think Britain can learn from other housing markets in northern Europe and America?

The US rental market is highly competitive, so companies are more focused on consumers' needs. Rents also tend to be more transparent which increases stability for both the landlord and the tenant, and quality on the whole, is amplified.
Northern European markets are more efficient at creating stock but also the value of sites generally makes the creation of a rental portfolio more economically viable than in Britain.
We intend to look outside of London, but our main focus will be on the south east due to the growing demand across the region.

How much of a problem is political risk when it comes to planning in Britain?

Political agendas in Britain are focused on creating more housing. As long as this does not translate into regulation of the market we are comfortable with the political climate. Other European markets are typically more regulated so it is something we have become accustomed to, but a shift from a free market is a difficult transition.

Many other countries deal with regulation, such as rents tied to an index. What impact would rent indexing have on your need to build up stock in Britain?

We would have to account for price. In Britain, yields are typically lower in the south east, compared to Europe, and indexing rents would not help to create more stock in this area, even if it is encouraging for consumers. For example, Delancey offers rents linked to an index over a number of years which is perfectly viable commercially. If this is to be done with longer-term contracts then prices may adjust to a slightly higher yield.

How do you balance the potential reputational risk of problems that can arise in operational buildings?

We work with our partners to make sure the right policies are in place to prevent reputational damage. There is a reputational risk in any real estate market and choosing the right partner is key. The crucial thing is to have the right manager who can deal with problems as they arise and avoid them getting out of control. It is the mismanagement of problems, not the problems themselves, which create reputational risk. Having the right operator is, therefore, our priority. Also, reserving and spending sufficient CAPEX on the buildings can help preventing problems to arise.

Is the lack of market data a barrier and where do you see Build to Rent going in the years to come?

Anything can happen while the market is still growing, but I would say that, within 10 years, we will see larger portfolios being created and an opening up of the investment

...within 10 years, we will see larger portfolios being created and an opening up of the investment market...

market, just as we have seen with student housing. Anything could happen, of course, but based on the fundamentals we see, this market has significant growth potential.
APG was able to enter the UK because of the lack of an institutional rental market. We entered with knowledge of other European markets with a stable rental product that we believe could be established in the UK. Data may be scarce in the UK because of the lack of product; advisors must look to other markets in Europe for supporting examples, as many exist.

In your experience how do you ensure you see the expected returns on operational stock?

Scale of the number of units or the ability for it to be scaled up is most important. I expect a minimum IRR of 6% on investment over a 7 year period which would grow according to the amount of risk you take. I would expect an initial yield between 3.25% and 4.5% depending on the location and nature of the market if I were to buy or sell stabilised assets.

What can the new British Government do to encourage the Build to Rent sector over the next 5 years?

The key is to increase the viability of potential sites. There is not enough stock to cater for investment or renter demand, so the government must work on bringing state land forward for development and think about how it differentiates Build to Rent from general housing for sale. Doing so could attract investors like APG, generating significant stable income streams given the vast amount of demand we will see for housing over the next decade.

Elephant & Castle Phase 1

Countrywide
Graham Bell
Finance Director

Countrywide is the UK's largest estate agency and lettings network, achieving national coverage through over 50 local high street brands. Graham Bell discusses its partnership with Hermes and their first acquisitions.

What made Countrywide decide to build its own portfolio?

We had three reasons. Firstly, as the UK's largest estate and letting agent, we manage more properties than anyone else in the industry. That means we have a wealth of expertise and a large distribution platform to call upon, and we can manage different types of residential property throughout the UK very efficiently.

Secondly, we have an unparalleled amount of proprietary data on the UK housing market. This data enables us to identify areas and regions where we will find investment opportunities that will deliver a strong long-term capital and income return for investors.

Thirdly, we employ several thousand people who have significant experience and relationships within their local residential property markets, and therefore have the ability to identify and source investment opportunities.

Why did you decide to partner with Hermes Investment Management?

We are not a fund manager and so quite quickly dismissed the idea of launching a vehicle ourselves. We wanted to form a partnership with a company that had a track record of raising and managing third-party investments. Hermes not only has that experience but they also share our outlook on residential property. Partnering with them will allow us to grow at a faster rate and offer a unique mix of expertise between our two businesses.

Your first projects are in Manchester, Nottingham and Birmingham. What was the reasoning for those locations?

Our data and the knowledge and expertise of our people on the ground informs us that these are attractive target markets for investment.

They are high density, relatively high yielding properties, with an insufficient pipeline of new rented stock expected to come onto the market to meet the growing demand - the high yields should, therefore, be sustainable over the medium to long term.

I do not believe that institutional PRS is just a London opportunity.

If you were a young professional in Birmingham, would you want to live in a brand new property within walking distance of the city centre and with good transport links? I would say you probably would, if the property is available and affordable.

In terms of developing PRS in the regional markets, are there any idiosyncrasies that have to be considered?

Manchester, for example, more than any other market outside London is seeing a lot of new property coming to the market.

Is there a danger of oversupply becoming a threat?

Perhaps, but when you look at the figures, even though Manchester is probably building more new properties than any other regional city, it is still nowhere near the level of demand forecast in that marketplace. Theoretically, it is a threat, but it is some way off being an actual threat.

You have a 30% cap on London. Why did you choose to do that, as will that not be the best performing part of the UK?

The reason that we put a cap on London at the moment is because our investors are "total return" investors - focused on both income and capital returns. At the present time, the better income returns, or yields, are found outside London and the southeast.

Mica Point, Birmingham

On the other hand, capital returns are, by their very nature, quite subjective. It is very difficult for me to prove to you what your capital return will be in the next 3, 5, or 10 years. However, I can substantiate the income return that you can achieve within relatively small margins of error.

What we have also said is we reserve the right for ongoing flexibility around how much of the fund we allocate to London and the southeast. 30% is our cap and our guideline for now, but that is not to say it will not change in the next few years, if the market evolves.

Your first few developments are relatively small compared to European and American projects. Will you look to scale up?

The first thing to say is that the initial acquisitions we did are what we call the 'seed portfolio' which was deliberately smaller than the assets that we are aiming to invest in the medium to long term. Countrywide was seeding the portfolio before we raised further funding with Hermes and we set aside a maximum of £20 million to do this. This was a significant commitment, at the time, as we are a services company, not a property investment company. As a result, we had limited funds available, so we had to make sure that we could spread it amongst a portfolio of assets. By definition, they are all a bit smaller [the blocks] than the assets that we are after in the long term. However, what we have been able to prove - even with smaller than targeted assets - is that we can manage them efficiently. They are all producing a net return in line or above our original expectations.

Going forward, we see the average size of each of the blocks increasing significantly because we have much larger access to funds than we had initially. Of course, with larger blocks you are able to manage them more efficiently.

I think an issue here is that the UK market is not yet as sophisticated and developed as the US market, so quite a lot of money is chasing a limited amount of stock. The simple fact is that we don't have a lot of large purpose-built PRS blocks being developed at the moment. I think you have to be relatively flexible with your investment strategy if you are going to make acquisitions in the market.

Would you look at buying a portfolio?

We definitely have not ruled out buying a portfolio of assets. For example, if we would do a deal with a developer or a seller to buy a portfolio of individual units that was of sufficient scale and that we could manage efficiently.

What sorts of returns are you going to be looking for on an income basis?

We are looking for a 5% net yield after all other costs, so, we are looking to return 5% "dividend" annually to our investors once the fund is fully established and stabilised, with capital appreciation as a further increment to the returns.

I do not believe that institutional PRS is just a London opportunity.

Medlock Place, Droylsden

Hermes Investment Management
Ben Sanderson
Director - Fund Management

Hermes Investment Management is a leading player in the UK real estate market. Ben Sanderson discusses the launch of the Vista UK Residential Real Estate Fund in partnership with Countrywide.

Can you explain the fund you are setting up with Countrywide?

The Vista UK Residential Real Estate Fund is an open-ended fund which will appeal to longer term investors seeking an attractive, well diversified and stable income return. Vista allows institutional investors access to an attractive but historically inaccessible market, the UK private rented sector (PRS), by providing the scale, expertise and resources essential for them to allocate.

Residential property investment has delivered returns in excess of all other UK real estate sectors for more than a decade, while at the same time exhibiting low correlations with other sectors.

Vista has launched with £95 million of commitments from cornerstone investors and has already invested in three assets in Manchester, Birmingham and Nottingham, with a combined value of £13 million

Will you be looking to raise more monies for the fund?

For now we'll be looking to grow it up to £250 million through third party capital. In the medium to long term, I can see it growing to over £1 billion. We believe there is a fundamental long-term opportunity in Build to Rent and it would be realistic for this to grow to the same size as our core commercial real estate funds.

What has been the reason that Hermes hasn't played this sector before?

We have been carefully looking at this space for some time now, drawing upon experiences and best practices gained from other markets, notably our US and German residential platforms. The reason we're doing this now is two-fold.

First, there has been a fundamental shift on the demand side, partly due to affordability issues and demographic changes. I think everyone is pretty aware of the UK's housing shortage and the growing need for more rental space, so that definitely made this the right time to enter this sector in this way.

Second, we needed a partner on the key operational activities. Vista combines the complementary skill sets of Hermes and Countrywide. The size and scale of Countrywide's platform means it is uniquely placed to play a leading role in building and developing a Private Rented Sector Fund on such a scale. Moreover, Countrywide is the largest integrated property services group in the UK, including the UK's largest lettings and estate agency network with over 1,000 branches. Hermes is a recognised industry leader with an innovative and long-term approach to responsible property investment and over £6 billion of real estate assets under management. It's a perfect fit.

What returns are being targeted?

Our aim is to distribute 5% income yield to investors on a regularly quarterly basis, net of everything like fees and costs. In terms of the net return, we're looking at between 9-11%.

How do investors see Build to Rent? As an alternative to real estate?

Some investors see it as part of their private, illiquid market investments, along with other assets such as infrastructure. Others will see it as complimentary - a diversifier - to their real estate exposure.

However, US, Asian and Dutch investors - who already have a vibrant domestic rental market - have been trying for a long time to invest into the UK this way, and I think they'll look to take advantage of this opportunity.

So will real estate allocations be driven up?

As a low-levered, low-risk investment, Build to Rent plays into the institutional investor space

I think this is the next phase of real estate developing as an investment sector, and will help make a case for it as a 'grown-up' asset class. It could replace commercial real estate for some investors and equally, it could draw in others seeking real asset exposure.

> *It could replace commercial real estate for some investors and equally, it could draw in others seeking real asset exposure.*

When do you think the holy grail of portfolio premium will arrive?

In this regard, I think Build to Rent will be like student accommodation. If you have a scaled up exposure to student accommodation across the UK, then you have a very liquid, attractive asset for investors. This sector is in its early days, we're still a few years away from that scale but it's on a similar trajectory. Frankly, due to the demand you could have a single asset today and sell it a premium.

What do you think is the long-term view that most will hold in terms of the split between residential and commercial investments?

I think the US is a great comparison where it's about 25% residential and 75% commercial. In a decade, I can see it being a similar situation here. As an industry, I can see that being the norm.

Countrywide and you have put a 25% cap on investing into London and the southeast. Can you explain that decision?

The aim to give investors a 5% income yield, as well as the net 9-11% return, is only possible by going nationwide because there's a higher income to be found outside of London and the South East. This implies investing in those areas where there is a strong private rental market already in existence, and a good demographic and economic profile. That said, we will still very much look at appropriate opportunities around the capital.

What type of product will Countrywide and you be looking at?

We'll be looking, broadly, at the mid-range market. That means we'll be looking at developments that are for people who are either just above or below the standard earnings for the UK.

That isn't to say it won't be high quality institutional grade housing - it just won't be One Hyde Park.

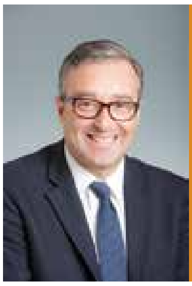
I think this mid-range market has a high potential outside of London. A lot of the talk has been about the young professional market, the iPad generation. But there's also the average earner market, which is demanding these developments. These are people - who are nowhere near needing social housing - who want quality homes in good locations near their work or transport links.

Is that indicative of a trend towards urbanisation in the UK?

Yes. People increasingly want to live in urban hubs. A development could be in Sunderland - and that doesn't mean it has to be in the countryside. It could be in the urban sprawl where there are good transport links and other amenities, and that's where a majority of younger people in particular want to live now.

Is it harder to get schemes off the ground in less well-off areas?

It has to work as an investment first. Most crucially, the demand for rental is there and politicians from all parties recognise this. At a national level, the Build to Rent fund and PRS Taskforce have shown the Conservatives are willing. In Manchester, the Labour council has also been extremely proactive in supporting Build to Rent. Annual targets set by the Mayor of London are also a welcome move which could all contribute to making Build to Rent an accepted, and valued, source of new housing supply.



Invesco Real Estate
John German
Director - Residential Investment

Invesco Real Estate manages global investments across the spectrum of real estate. John German discusses how Invesco is using its American multifamily experience to inform its UK residential plans.

Will the appetite for residential property drive an increase in funds' allocations to real estate as a whole, or simply shift their allocation out of traditional areas?

I believe it is a bit of both: investors are certainly revisiting their allocations to real estate. What we're seeing from our investor base, because they have continual capital influence, is that they're giving us more equity. While it's hard to judge whether that is the result of an increased allocation relative to the rest of their investment or simply a bigger pot, our role as an investment manager is to present interesting ideas to our investors.

Two European mandates we are currently working with have made a specific allocation to residential - distinct and separate to their commercial allocations - so I'd say in those cases that's an upping of their overall real estate allocation.

How are you finding pension funds' attitudes to Build to Rent?

There is an education process that has to be undertaken and getting them to understand the reasons why we think it's a compelling investment opportunity is very much part of that process.

I think it is more a case of is the door half open than closed and you have to simply push it open. Few investors are charging forward yet, but what many people tell us is that it's something they will buy into when it has been created and stabilised.

So your route into the market is to de-risk the creation of the asset by forward-funding it?

Our route is to de-risk construction but take full leasing risk. We will look at sites that are "oven-ready", therefore, not taking any risk . There may be non-material amendments that are required, but fundamentally it is a site that we can start on immediately, as we did at the Old Vinyl Factory in Hayes, which will be completed in May 2016. A key thing for Invesco is buying the land to ensure we are crystallising the stamp duty.

In appointing be:here as the retained manager for Hayes, does this mean Invesco will always stay away from branding its homes?

At the moment, we are not looking to create an Invesco branded entity. If we do, we have a multifamily brand in the US called Instrata, which has a number of buildings in New York. It may be the case that we feel we'd like to bring that across. But today that is not the case.

be:here has a long-term property management mandate and embedded in that are ways in which we feel we can help drive performance.

So by incentivising the property manager you believe you can drive better returns?

Part of this is not just thinking about a single income stream that will grow in line with some sort of growth forecast. We're creating something that is a variation on the hotel concept and we understand hotels extremely well. (We have over 40 hotels and about €1bn under management in our business at the moment.) We understand that hospitality side of investments and what we're very keen to do is to ensure that the property manager isn't just collecting the rent and dealing with all the problems.

You want to ensure that they are driving up the value as well?

Every year we have an agreed rental target of a base rent and if the property manager, for good reasons, increases the base rent, they take the benefit of market movement. But part of our job is to understand what market movement will be. They get a slice of any upside, so if they lease the building more quickly - then they get a share of the upside.

From our investor's perspective, it's a question of straight bottom-line performance: so why not incentivise the manager to do better?

There is an education process that has to be undertaken and getting them to understand the reasons why we think it's a compelling investment...

And what about ancillary income - which will be important given your product will be aimed towards the premium end of the market, relative to its location?

It isn't totally clear at this stage what people will or won't pay for. What we have agreed, though, is that there are things that will fall under 'ancillary income'. We'll look at the net cost of these - whether it's cleaning, gyms or broadband - creating meaningful incentives for our property managers to drive income, but without any hard-selling techniques.

So aligning the interests of the investors and those working for the investors behind a brand is key to making things stack up.

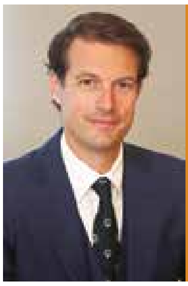
A lot of it must also come down to your design and systems?

Scale is the most obvious one. A hundred units in the US wouldn't even be looked at, but we're taking about 100 units as a minimum in Europe. Experience and the right data will dictate what scale of properties and amenities are needed to make them justifiable from a cost perspective. We have a number of matrices from our American colleagues who have extensive experience in the sector. We have a very clear concept of what we want to do and have global systems to share data, enabling knowledge and insight to be communicated globally. The will include our Instrata projects in New York, our 7,000-unit project in Dallas, as well as in San Francisco and Seattle.

Where do you see your USP within the market place?

It's in our direct experience in North America. While there are many crucial differences between Europe and the US, not least in scale and the political environment, we are dealing with global consumers. Property is an asset - rented homes have been around for hundreds of years. Our experience in structuring funds, effectively managing real estate and driving competitive returns makes us well placed to look for similar opportunities in Europe.

The Gatefold Building, Hayes



M&G Real Estate
Alex Greaves
Head of Residential Investment

M&G Real Estate is one of the world's largest property investors across all the major sectors in the UK, Europe and Asia. Alex Greaves reflects on the past two years, its initial schemes and the company's future in the sector.

You will be celebrating your second anniversary with M&G Real Estate this year. Are you pleased with the progress?

Very much so. M&G Real Estate was the first UK real estate fund manager to launch a dedicated residential fund open to third party institutional investors. Within two years, our residential fund has doubled in size, and we have embarked on two major schemes with a pipeline of more to come.

For us, the message is that residential investment is not all about rising house prices - it can also provide a strong, long-term income stream. This is key for institutional investors, many of whom need to match liabilities. With bond yields at historic lows, they are searching at new sources of income, and I am very happy to see that they are increasingly seeing the potential of residential.

I am buoyed by the progress being made across the sector, but it is important to put things in context: Build to Rent is moving from practically a standing start. As with the student housing market, which has seen record transaction levels over the last two years, there is scope for residential to accommodate many players across a thriving Build to Rent sector that creates value and raises standards.

Your route into the market is, presently, through a fund structure that identifies opportunities that meet your risk and investment profile and then holds them for the long term. What has this delivered and do you see your appetite for risk moving?

Our route to market has been to identify opportunities where the right fundamentals exist for long-term income growth and strong cash-on-cash returns, partnering with the right companies in those areas. By providing the finance for the HUB development in Acton, and the Crest Nicholson scheme in Bath, we have reduced construction risk. We will then lease and manage these assets through third-parties. While we are prepared to take leasing risk, planning risk is not something we have an appetite for in our residential fund. Other companies are taking riskier positions, but it is vital to recognise that they are wholly different structures. Subsequently, the sorts of returns they need to hit, to cater for that risk, will undoubtedly be higher.

And in terms of returns, to make things stack up for investors, will operational efficiency need to improve above what we currently see in the market, where management costs are around 30 % (IPD)?

The most important factors in making things stack up operationally, aside from the location of the asset, is scale and quality. The kind of product we are creating will be substantially different and far more efficient than the types of homes that currently constitute the private rented sector, or indeed the IPD Residential Index. After all, the UK housing stock is the oldest in Europe and amongst the most inefficient.

Whatever price point a development aims for, it has to offer value for money to our customers. It also has to be sustainable - a key factor in controlling costs. Creating a sense of community is important, as that encourages people to stay for longer and minimises turnover of customers.

Build to Rent definitely offers an alternative route to market for housebuilders...

Our experience in commercial real estate and our scale as institutional investors puts us in a strong position to manage residential properties in an efficient manner, minimising operational costs and maximising

Bath Riverside, Bath. Courtesy of Crest Nicholson returns for out investors while offering people robust, high quality accommodation.

And your deal with Crest Nicholson, announced this May, is also notable for being the first large-scale Build to Rent deal struck with a listed housebuilder. Is it the first of many?
Having established our seed portfolio with Berkeley Homes, we have always seen scope for combining our investor expertise with the experience of housebuilders. Scale and quality are key, but managing risk is critical. Providing finance for a project requires certain guarantees around delivery to reduce risk.
From a housebuilder's perspective, partnering with us helps speed up development. Having the ability to let faster than you can sell, while paying off infrastructure costs, is an appealing option for developers.

Could housebuilders potentially help fast-track the sector's development?
We need to be realistic about how quickly the sector will evolve with the added complications of property cycles, as well as economic and political factors, which all impact upon sales rates. Build to Rent definitely offers an alternative route to market for housebuilders, and the potential for additional lines of finance. This is useful for the large developments many of the listed housebuilders create. We intend to do further work with Crest Nicholson and are working on further opportunities in other parts of the country.
From M&G Real Estate's perspective, you just mentioned the potential for a long term partnership with Crest, but presumably you are keeping your options open regarding doing one-off deals with developers.
Given the scale of our residential fund, and the strong demand from institutional investors, we are interested in both partnership deals and one-off transactions. Finding the right partners is very important. The fund was launched just under two years ago, so it is still early days, but we have access to significant capital and I am confident about the potential for deals with other partners.

With much activity still focused on London and, to a lesser degree, Manchester, Bath could be a milestone in getting people to look across other parts of the country. What makes it work for you?
One of the reasons London works from an investment perspective is due to the inability to produce the amount of housing needed for a growing city. Bath shares the same dynamic, but for somewhat different reasons. Firstly, it's a world heritage site, which restricts development. Then there is growing demand for housing from students who have graduated from nearby universities, who are choosing to stay and enjoy the high quality of life that Bath has to offer and local business are benefitting from skilled staff. Transport links are another attraction of the city, and travel times to London are set to be reduced to around an hour following electrification. With high capital values, property yields are more akin to London than elsewhere. Cities like Bristol, Bath and Reading which sit on the M4 corridor are all areas that we see have the right fundamentals for Build to Rent.

Victoria Square, North Acton, London

5 FINANCE

Competitive lending offers a strong platform for growth - Addleshaw Goddard

Market perspective

HSBC

RBS

The road to alternative lending - Venn Partners

Addleshaw Goddard advised **Barclays Bank plc** on its funding of a joint venture between Gatehouse Bank and Sigma Capital (a residential and urban regeneration specialist) to create one of the first and largest PRS platforms in the UK. The initial phase is for 927 new rental homes, with a total development cost of approximately £100m, to be developed on sites procured by Sigma through its existing local authority partnerships with Liverpool City Council and Salford City Council and its housebuilding partner, Countryside Properties (UK) Ltd.

Competitive lending offers a strong platform for growth

Addleshaw Goddard
Lee Sheldon
Head of Funds and Indirect Real Estate and joint Head of the Real Estate Sector

Lee specialises in advising both managers of and investors in UK, pan-European and global investment funds operating across the real estate, infrastructure and private equity sectors. Lee's work with fund managers covers advice on all aspects of fund formation and the establishment of their fund management business and in relation to investors, advice on fund investments, co-investments and acquisitions/disposals of portfolios of fund interests in the secondary market.

Lee also advises a range of property companies (both public and private) and real estate fund managers on complex corporate wrapped real estate transactions including investments/divestments, joint ventures and corporate restructurings.

A backdrop of low-yielding corporate bonds and government debt has helped drive finance towards UK real estate over the last few years.

Just as new lenders have entered the commercial property market - keen to gain exposure to prime office buildings, shopping malls and warehouses - the Build to Rent sector has also attracted alternative lenders and high street banks keen to tap into the UK's housing market.

Record low returns in fixed-income investments and continued yield compression in prime real estate has accelerated the emergence of European real estate debt as an investible asset class in recent years.

Together with downward pressure on bonds, quantitative easing in the EU and Japan and the likelihood that record low interest rates will persist for some time, this has created a more competitive market-place which has pushed down borrowing prices.

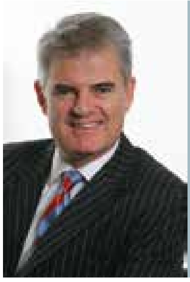
Put in context, senior property debt returned more than 3.5 % this year, according to Savills while corporate bonds returned 1.38, according to Bank of America Merrill Lynch and gilts returned 0.4 %.

Although Build to Rent is seen as a new asset class, on many levels, its fundamentals are no different from traditional property. Where lending is concerned, schemes built for rent are, for the most part, valued against open-market sale pricing. Subsequently, they will be valued as income-producing assets - in exactly the same way as student housing or office blocks.

The upshot of a greater supply of capital chasing a relatively small number of big-ticket developments is that market entrants can focus on the many other challenges they face during their 'proof of concept' period. Construction costs and soaring land prices as, for many, more of a concern than accessing financing. Together with welcome support of the government-backed bond scheme, being managed by Venn Partners, the current horizon looks positive for financing Build to Rent. We can expect any remaining clouds to lift once the sector can showcase stabilised, newly created assets over the next two years.

...its fundamentals are no different from traditional property.

Market perspective



HSBC
Phil Dare
Regional Manager - Corporate Banking, Real Estate

HSBC Real Estate Finance provides structured, tailored solutions to Corporate & Fund clients engaged in Investment & Development activities across all property asset classes. Phil Dare explains why the bank is a firm supporter of Build to Rent.

How did HSBC come to be involved in the Build to Rent market?

I have been a champion of Build to Rent for some years now, and have written strategy papers to help develop our thinking on the Private Rented Sector (PRS). I have also taken part in work organised by the Urban Land Institute residential council to visit multifamily schemes in Boston and Chicago, along with the Head of the Government's Private Rented Sector Taskforce, which has been extremely interesting and helpful.

The UK can learn a lot from the sector's success in America and, for a global business like HSBC, we can certainly see benefits in Britain's rental market reaching a more mature level, potentially akin to the level of sophistication North America has achieved.

Expanding awareness across our UK business has involved ensuring we have some of the best knowledge and expertise in the sector, and identifying where HSBC can actively support the market to grow.

Given that you can't take the same long-term investment view that fund managers can, what route are you taking into the market?

We adopt a pragmatic and long-term investment view in our assessment of the sector and our positive outlook for the asset class. Whilst banks' regulatory capital typically enables short-to-medium term loans, rather than long term funding, we definitely have a role to play.

The loan structures we offer can move through the various PRS stages of development, letting and income generation from tenant customers. After stabilisation of the asset post practical completion, a loan would move from development terms to an investment basis. The Neptune PRS investment of 324 units, in Liverpool's Baltic Village, where we have provided a £24 million facility, is a good example of that.

It also demonstrates the strength of our relationships, as Neptune Investments has a longstanding relationship with HSBC. HSBC is also assisting Moorfield's push in to PRS by funding the Moorfield/Glenbrook 240 unit scheme at Queen's Dock waterfront.

What can HSBC bring to the market?

The extensive regional market knowledge, as well as local customer knowledge are major positives that we bring to the market. Equally, our global network means we are well placed to facilitate introductions, which is particularly important as we know that many foreign-based investors are looking at entering Britain's Build to Rent sector, plus we have a very strong capital markets capability in HSBC.

HSBC has also played a key role in helping Britain's burgeoning student housing market expand. While there are differences with that market and Build to Rent, many of the same fundamentals apply and we are already seeing investors such as Greystar, M3 Capital, M&G and L&G, and others with a track-record in residential/student housing, move into Build to Rent.

Given the amount of activity happening across the north west, what role do you think Liverpool and Manchester, for example, have to play in the sector?

All the major cities in the UK can have Build to Rent schemes that work, not just London. Large regional centres all have significant potential.

However, it will depend on the availability of suitable sites and a willingness of site owners and developers to "start from scratch" and buy into a true PRS concept at scheme inception. There is no reason that it shouldn't work. Crucially, it comes down to fundamentals of supply and demand, any urban environment with a stable employment base, thriving education scene and good transport links could support it.

In terms of some of the initial schemes you have been involved with, such as Neptune Investments and Moorfield Real Estate Fund in Liverpool, they both seem pretty high-end landmark projects. Looking at places across the north west, do you think it can work lower down the food chain of quality or do you think, currently, it is going to be stuff at the top end that is most attractive?

Fundamentally, the quality has to be there to attract tenants to pay the right level of rent to make the development work as an investment. Also, once the market becomes more competitive, with more Build to Rent developments competing against buy-to-let investors, then supply will start to match demand which may see rent

Build to Rent will become a sustainable institutional asset class, we want to support that.

levels plateau and possibly even fall. If a PRS development can demonstrate it is of a superior quality, people may pay a premium, or show a preference to rent accommodation where they are looked after as a valued customer and where they enjoy a strong sense of community. It is not just down to rent levels.

So making sure your development is well designed, of a high quality, and operates efficiently could, potentially, future-proof the investment?

Exactly, and the sector that has historically demonstrated this is the student accommodation market. Around 20 years ago when it was in its infancy, the market generally comprised small investors who bought dilapidated properties then rented them out to students. There was little 'scale' or volume operation. Nowadays, though, it is very much a high quality established institutional asset class run by large-scale professional operators. Such accommodation is well located, with really top class communal facilities, concierge, CCTV, high speed broadband and site security, which all creates a sense of community.

This satisfies the desires of the universities and parents sending students to the UK, or away from home, as well as the students themselves. Strong rental income is achieved and standards across the broader sector are rising. I am sure the Private Rented Sector can evolve in the same way.

Finally, where do you see the Build to Rent sector in the future?

I believe the "appraisal gap" between development to sell, or Build to Rent, will close as understanding and belief in PRS grows, investment yields reduce and design efficiencies increase.

What we need now are all the stakeholders - developers, funds, local authorities, central government - to work together to ensure that the sector now enters a steady and sustained phase of growth.

I see it becoming an established institutional asset class in this country and that's what we, at HSBC, want to help achieve.

Baltic Village, Liverpool, 324 Private Rented Sector Apartments & communal facilities - Image of Development underway

Royal Bank of Scotland
Gareth Taylor
Director - Real Estate Finance

The RBS Real Estate Finance team draw on a wealth of knowledge throughout the organisation to advise investors, financial intermediaries, developers and fund managers. Gareth Taylor explains how the market is changing and what this means for investors.

Equity investors

Build to Rent is growing in popularity with a variety of equity investors. Some developers are looking at entering the market on the basis that it could provide them with an alternative exit route to the traditional build to sell approach. Other developers see it as a way of unlocking additional funding streams around multi-phased developments, which would otherwise take longer to deliver the same quantum of housing. Operators, such as Essential Living and Greystar, are looking to be both the developer and operator - creating a platform to run themselves as a long-term hold.

Once the Build to Rent sector becomes established as a more mature institutional investment class, you have the potential that the schemes' values will be higher than the vacant possession value, which is one of the current barriers stopping some investors holding stock for long-term rent (as there is no premium in doing so).

Debt investors

There is a lot of demand out there, not least because, in the current economic climate, yields on high quality property debt are competitive. Many have seen Build to Rent as a way of deploying capital and, in many respects; it directly follows on from typical development finance perspective - the only difference being that you have to hold the stock at the end.

What this means is that there is a greater focus on what happens post-development, given the variables at play. In practice, this means you have to ensure the scheme is in the right location and has the right attributes for the rental market, given that renting is more dependent on access and amenity.

Lenders' considerations will focus on who the operator is and what the gross-to-net margins look like. The operational requirements of running a large-scale rental scheme - whether the properties are designed for rent or not - will also affect assumptions; with considerations around the longevity of the materials used, layout and the social spaces available potentially adding value.

We would look at the development dynamics and see how well this stacks up, we would compare the rental assumptions against comparable market lets and then look at the gross to nets, given historic trends and established portfolios you are looking at 25-30 % including sinking fund and ongoing cap ex, you would expect the development costs to be higher than a build to sell, reflecting the greater cost of more durable materials. You want to get a feel from management that they have thought about it and incorporated it within their budgeting.

Sources of debt

Initially, there was not a great deal of appetite - people didn't really understand it. There was demand from the senior debt market to begin with and this is still key for development as it provides the flexibility needed. On the investment side, given the low-yielding nature of residential assets and their long term nature, it does not necessarily fit with senior debt and is more an asset class orientated towards the capital markets: bonds and pensions funds who can provide longer term funding.

However, we have started to see evidence of insurance funds forward funding PRS structures in a similar way to student housing. There is evidence of the volume of demand in that sector growing and of investors taking on additional risk to gain exposure to it as a result.

Management - making it stack up

The operator is key to this and I think there is a huge gap in the market at the moment for a single provider to offer total PRS management. There are a lot of people looking at entering the market without having really thought through how they will operate the schemes they end up with, and I think there is a gap in the market here for a large operator - potential for a big firm to come in - and do that for them.

Monitoring ongoing costs and let up rates to get to stabilisation and making suitable investment into a capex/sinking fund will be key, as it will be necessary to keep stuff spruced up and modern, given the likely churn of tenants.

Not many current examples of purpose built stock exist but, in theory, if you are making that investment up front and creating the right space, then your costs should be lower over the long term, provided you achieve appropriate economies of scale. There is not currently much evidence of this in the UK, but there is comparable evidence in the US multifamily sector, in Canada and Europe.

Scale

Schemes need to be of sufficient scale in order to realise true economies of scale and reduce the gross to net margins.

I think professionalising the sector provides significant benefits for tenants and wider society. I also think, with the changing demographics within London and other major cities in the UK, there will be demand for a high quality alternative to owning, akin to the full service apartment blocks in New York, with gyms, dry cleaning, maid service, etc.

It could start to become a lifestyle choice, not comparable to owning, on account of the wholly different offering. This may include living more centrally or having access to more amenities that would be out of reach if owning in a similar location. Having the right scale is crucial in paying for this effectively.

Land market

It is a big problem in London, particularly given the asset's low yielding nature. We are seeing a lot of competition in the London land market, driving up prices, but this appears to be less of an issue regionally. However, it is important people are not over-paying for land; those entering the market and buying stock may be paying someone else's planning gain and a margin they themselves could be extracting from a piece of land.

What we look at

We look to support developers with a good track and business plan against well-located assets where demand can be established for the product.

Social benefits of rent

Overall, this emerging sector should benefit the UK by supporting the delivery of a significant number of new homes and, more importantly, by improving the quality of rental accommodation. This is one area that the UK banking industry and all the political parties agree to be vital. Better quality landlords operating on a professional basis can offer tenants assured tenure on the basis that the owners and investors are in it for the long term and not short-term speculation.

Some of the fundamentals offered by residential property, such as the diversification, defensiveness and lower volatility, are particularly attractive for investors.

Vantage Point, Archway Tower, Essential Living

The road to alternative lending

Venn Partners
Paul House
Managing Partner

Working with DCLG as the delivery partner on the £3.5bn Private Rented Sector Guarantee Scheme, Venn is helping unlock new investment to drive forward Build to Rent.

Venn Partners is an investment manager focused on direct lending opportunities in Europe. Founded in 2009, it originates primary loans across various lending markets, The firm was recently mandated as the delivery partner by the UK government in respect of its £3.5 billion Private Rented Sector Guarantee Scheme, entailing origination, underwriting and on-going management of the scheme loans, as well as establishing and managing the government guaranteed bond issuance programme to fund the loans.

Reconfigured lending markets are changing the funding landscape for property says Venn Partners' Paul House.

By nature, banks are inherently leveraged entities, which when backed by government guarantees, are able to price very competitively in view of very low cost of capital. However, in the years that followed the financial crisis, banks' capacities to lend were greatly reduced. They retrenched from originating new loans and cleared their balance sheets of legacy debt. In addition, new regulation was introduced aiming to reduce credit risk in the banks' loan portfolios.

The corollary has been the considerable decrease in risk appetite by banks, following years of high risk taking in the last real estate cycle. As a result of banks' retrenchment from the sector, alternative methodologies to fund the property industry have emerged, thus creating many new opportunities across the market for alternative providers of capital.

Outstanding real estate debt held by banks in the UK fell by nearly a third between 2008 and mid-2014, from £270bn to £171bn, according to De Montfort University. With an estimated 90-95 % of European real estate lending driven historically by banks, this shift has provided an unparalleled opportunity for so-called 'alternative lenders' in real estate debt to emerge.

Non-bank, alternative lenders, like Venn Partners, have the capability to be much nimbler, focused and tailored in their lending activities for two key reasons. Firstly, they are not as heavily regulated as banks, because they pose less systemic risk. Secondly, they are borne out of specific business plans, aiming to leverage a highly developed skillset of a smaller group of people and focusing on specific commercial transactions.

In Venn's case, it is real estate lending, across commercial and residential property.

Institutional investors have a variety of direct and indirect routes to gain exposure to commercial real estate. These investment opportunities are originated and managed either directly by institutional investors or by a variety of entities and in different investment formats. Venn sources its capital directly from institutional investors who value Venn's expertise and positioning in the market.

Appetite growth for residential property exposure from institutions

During my 20 years at Citigroup, originating and repackaging debt for the capital markets, I've witnessed a growing appetite from institutions for European real estate exposure in its various forms, including exposure to residential property. The residential markets in Germany have historically been particularly developed, representing attractive investment opportunities. The sector has increasingly been seen as a vital component of any multi-asset portfolio. Some of the fundamentals offered by residential property, such as the diversification, defensiveness and lower volatility, are particularly attractive for investors.

Looking at how the UK market has evolved, it is encouraging to see growing appetite to create institutional grade assets. Institutional investors are now prepared to enter earlier in the process to buy a site, build residential property and bring the asset to a stabilised occupancy and rent level.

Striking the right price balance

The structural demand-supply imbalance in the housing market is well documented, but London is continuing to see a quantum of high-end product being developed. These are largely inaccessible to most people, thus reinforcing demand for large-scale developments at a more affordable price level.

Venn runs a number of investment strategies and, as the investment manager, deploys capital into specific transactions. For instance, Venn has worked on financing a number of residential schemes, such as Essential Living's Perfume Factory in Acton and HUB's Hoola project in Royal Victoria Docks. They have focused on building quality homes that will serve existing communities with high quality product at affordable pricing levels.

Filling a gap

Going back to the finance market, alternative lenders have mostly focused on areas of the debt market that have not been served by the high street lenders. For Venn Partners, the focus has been in providing loans with slightly higher LTVs and certain flexible features that provide capital to property owners and developers. Our target transaction size is in the £20-£100m loan size bracket, with some flexibility at either end of that spectrum.

When we first started in 2013, lending against residential property was an area we analysed in depth in view of favourable market dynamics at the time. We were pleased to be awarded the UK government's mandate to run its £3.5 billion private rented sector debt scheme, which enables Venn to offer affordable loans to owners of institutional quality residential real estate across the UK. We believe this scheme has real potential to boost the institutional ownership in the residential sector and therefore help drive increased supply of homes to the UK market and provide quality accommodation that is professionally managed.

The PRS Housing Guarantee Scheme

The PRS scheme is an important part of Venn's business and is run as a separate business line within the firm. PRS Operations Ltd is a subsidiary of Venn Partners LLP and the delivery partner for interested investors and borrowers. In May 2015, a bond programme proposed to be established by one of PRS Operations Ltd's subsidiaries was awarded a provisional Aa1 rating by Moody's.

The essence of the scheme is to offer government-backed finance for up to 30 years against stabilised assets at up to 80 % LTV. Having additional capital to recycle into additional housing at competitive rates will benefit the growth of the residential sector in the UK.

We are excited to help facilitate the sector's development and delighted by the wide variety of over 130 different borrowers that have thus far expressed interest in the scheme. We believe it will help narrow the imbalance between the supply and demand of affordable residential property in the UK and create different access routes for capital markets, funds and large institutions to finance housing.

6 ADVISORS

Addleshaw Goddard are currently acting for **Notting Hill Housing Association** on the acquisition and development of a number of sites to be developed by them for a mixture of private and affordable housing uses. We have been involved in these sites from their acquisition, through planning and into development giving advice at every stage of the process on issues ranging across the whole spectrum of property, planning and development advice.

The challenges of valuing build to rent

Allsop LLP
Paul Winstanley
Partner - Residential Valuation

As one of the sector's leading valuers, Paul Winstanley discusses the challenges in valuing Build to Rent and why investors need a careful on research and data.

From a reputational and an investment point of view, not all housing is equal. You have the traditional PRS, mainly owned by individuals; you have a minority 'corporate' PRS, with companies owning swathes of housing rented on assured shorthold tenancies (ASTs) or regulated tenancies; and now an emerging Build to Rent stock. From a valuation perspective, would you agree with that analogy?
Yes. To me it is pretty obvious that these are different types of investment. However, this is not because they're structured in a hugely different fashion, but because the players in each market are generally different.

From a valuer's perspective, the most important thing to look at is who is your market, so, for example, traditional buy-to-let PRS is usually traded on a unit-by-unit basis. That sector is dominated by small investors (with a few companies here and there) who are mostly focused on capital growth (with a reasonable rental return in the meantime). That is unlikely to change and there are 4 million PRS homes in this sector. There are many successful, large landlords who operate in the corporate PRS market who contribute, for example, to the IPD Residential Index. The properties they buy are similarly traditional properties, but just on a larger scale and may include protected (regulated) tenancies.

However, the institutional grade stock being planned or created now is a fundamentally different product, on account of its clustering and density, and the amenities provided. This is the Build to Rent stock that you refer to.

Would this mean that the concept like a discount to vacant possession would disappear?
The traditional PRS currently trades with reference to vacant possession because those homes can be sold on a unit-by-unit basis into either the owner-occupier market or the investment market - whichever one is going to push it to a higher value. With no fundamental shift likely in the ownership profile of these assets, we foresee business as usual in terms of investor behaviour when considering bids. In Build to Rent, investors are generally more interested in scale, giving blocks an identity or brand and operating them much like a business. So, as with purpose built student housing, the focus will be on maximising the net rental cash flow over say a 5, 10 or 20 year period. Vacant possession value will not be ignored in a valuation (because owners will always want to have an eye on break-up value) but for so long as a block is successful, the rental cash flow will be the main consideration.

How will valuing Build to Rent schemes then differ from valuing single unit or portfolios of PRS stock?
Firstly you will look at lot size. If we are talking about single standalone schemes of, say, £15-50 million that have 150-300 units, clearly there is a lot of capital tied up in one location. So, therefore, only very large-scale players are likely to be interested; they want large blocks because they can achieve economies of scale in letting and management and maximise the net rental return. Secondly, you would look at how these types of block have been traded in the recent past- the valuer will want to assess how transactions have been priced by buyers and on what basis. In other words, the valuer will reflect the market. It seems likely that institutions and large-scale buyers will calculate value based on net rental cash flow: not just purely what they can borrow or what the vacant possession aggregate is, but we are all waiting for evidence to emerge to prove this.

Is the reason that a pension fund wants cash-on-cash returns, not capital increases?
Yes, that is one of the reasons, but the fact is they have longer-term investment horizons and are often income focussed as investment houses. Also, the ability to access capital appreciation is a lot harder because most if not all Build to Rent investors will want to keep blocks 'unbroken'. It is not as simple as selling one house in a portfolio that comes vacant into the owner-occupier market. Also, if a Build to Rent block

Until a Build to Rent market exists and there is consistent transactional evidence of how investors price and trade assets valuers and agents will still be feeling their way.

has say 200 flats, achieving individual sales of those flats could take a couple of years at least; that is a long time to crystallise vacant value, with the risk also that you flood the market with too many flats in one go. It's not implausible that an institution could exit from a block in this manner, but much more likely is that they would sell on a fully let block to another investor.

So, HPI is a far more of a theoretical return?

It is more theoretical in large scale Build to Rent, but there could be locations where, over time, capital appreciation is very much higher than rental growth and it is possible that an investor could make a better return by splitting a block up and selling individual dwellings. It would probably be unusual if capital and rental values could become so detached from each other but it is a reason why an investor would always be interested to know the vacant value aggregate of the investment.

Elements of the product being built, in many cases, specifically for rent, will also have an impact, presumably?

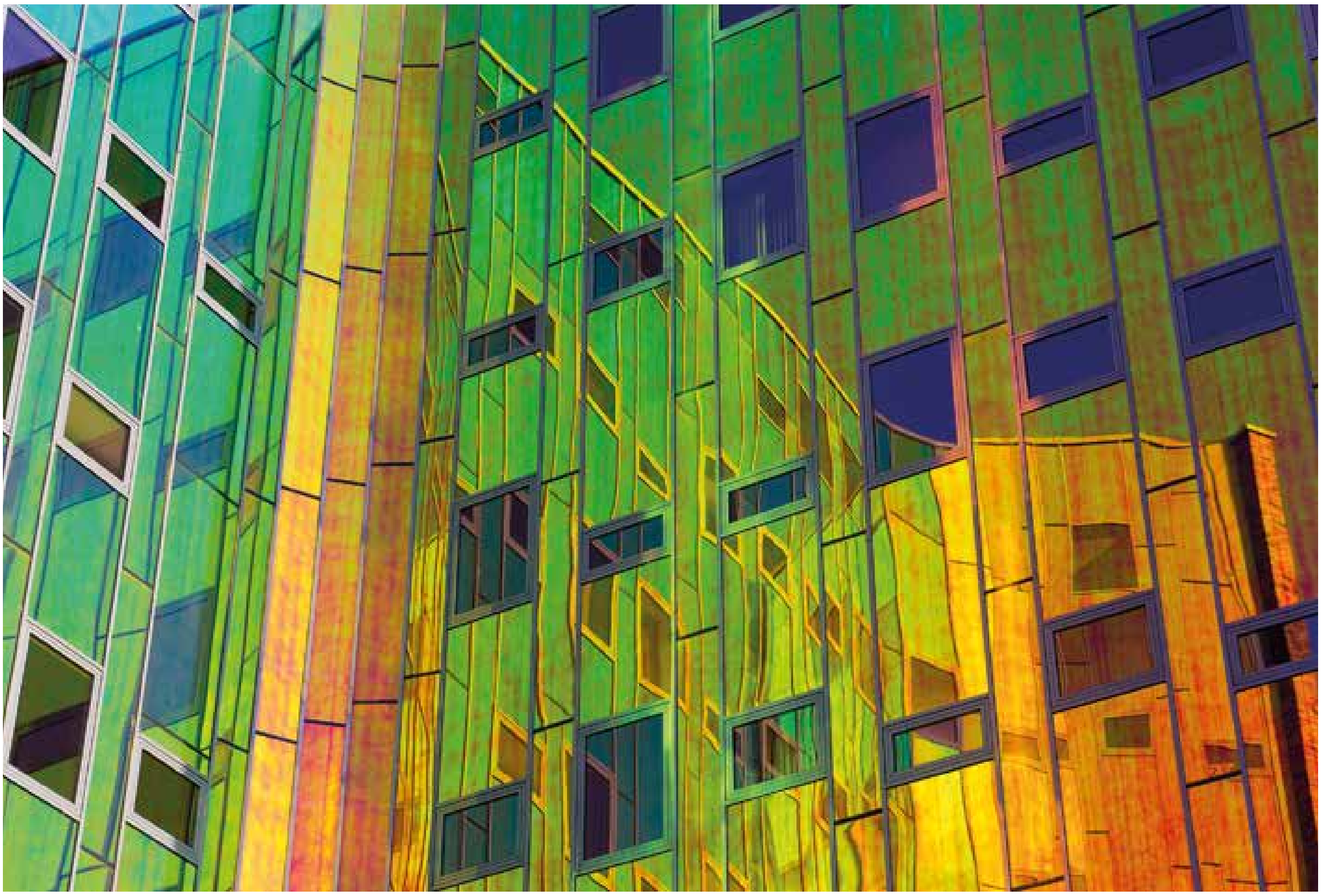
Of course. They are usually designed to be particularly suitable and successful for the rental market, not for typical developer build and sell. The in-built design benefits ought to lead to stronger rental streams and lower gross-to-net reductions. It's just a different product.

Given the stabilised assets institutions want do not yet exist, how, in the meantime, can prices be clearly calculated?

It is a little like chicken and egg at present. Until a Build to Rent market exists and there is consistent transactional evidence of how investors price and trade assets, valuers and agents are still feeling their way. The only proxy we have is the student market where institutional demand is well proven and there are very many transactions. Purpose built student accommodation is valued quite differently from conventional student shared houses (HMOs) and valuers and agents are well used to reflecting this.

What do you think is key to making Build to Rent investments stack up?

It is about building the right product in the right location. It is getting a specialist Build to Rent architect involved to draw up a proper Build to Rent experience and a specialist asset manager to ensure effective asset management is inbuilt, and that will, in turn, draw up on experience of what is in the US. By that I don't mean replicating what is in the US, but learning from best practice; vital aspects like thinking about gross to net, thinking about property accounting management. That, to me, is crucial because if you create the product first, then you have a better chance of success. If you make mistakes in the build and the design, then dwellings will be harder to rent and maximise returns.



Architectural approach for Build to Rent in the Private Rented Sector

Assael Architecture
Russell Pedley
Director

With a number of prominent Build to Rent schemes in the pipeline, Russell Pedley discusses how design can encourage renters to stay for the long term.

When homes are designed specifically for renting, our mantra is that 'residents should feel they are renting the whole building'.

Build to Rent is focussed around lifestyle and not simply about building houses. As experienced residential architects, we know that it is as important to deliver high quality homes as it is to provide spaces that foster communities around them. These can offer professionally managed services from centralised receptions or amenity access across multiple buildings.

There are several important factors to be considered but the key point is that design can be key to the delivering a successful and thriving Build to Rent community.

Layout

The approach to layout should be based on achieving a balance of design from the inside-out and the outside-in, generated by strong urban design principles. Dwelling design efficiency, combined with structural and building systems' efficiencies should be central to delivering a viable development strategy. This will drive the economics of the rental model, deliver homes that work, be user-friendly and create desirable places to live for all types of renter.

Build to Rent should be designed to shift the emphasis from providing all amenities within the dwelling, which is found in traditional housing, to that of more shared amenities and facilities. This shift will generate opportunities for more social interaction between residents and will help build a stronger community in the building as a whole.

This requires more efficient design of the residents' private dwelling areas and associated circulation. It also changes the traditional relationship between gross internal areas (GIA) and net internal areas (NIA). The space saved on accommodation levels is then redistributed to residents' shared internal and external amenities and facilities.

Ultimately, our aim is to design homes where renters will feel they are living in the whole building and not just their private dwelling, and this should be reflected in the layout. Space is redistributed to reflect the lifestyle priorities of those looking to rent.

This shift of spend from inside the dwelling to outside the dwelling is a fundamental best practice principle of Build to Rent cost distribution. As architects, we must aim to deliver robust layouts that can suit a range of renter profiles to enable the appropriate living spaces to be configured to perform functionally, without compromising any ergonomic spatial standards and remaining user-friendly.

Achieving effective GIA and NIA efficiencies will lead to layouts with more single aspect dwellings, that are distributed around central cores, with typically more apartments served by a core at each floor level than would be expected in private-for-sale tenure. Larger apartments, such as two, three and four bedroom dwellings more suited to families or sharers, should be located at corner locations to receive dual aspect and minimise circulation distances.

Access

It is also important for Build to Rent developments to be integrated with a mix of ground floor uses. In most cases, many of the design considerations should be similar to conventional residential design. Best practice on the design of the layout of purpose-designed homes for rent includes four zones relative to accessibility and levels of specification:

1. Front of house - sets first impressions so needs to be designed to create the right atmosphere and character
2. Renter's shared areas - circulation and amenities
3. Renter's private accommodation - residential lettable areas
4. Back of house - management team

Considered design of circulation areas helps facilitate a sense of community. These should be considered as renters' shared areas, with opportunities for social interactions, where renters are encouraged to get to know their neighbours. Designing 'dwell' areas for conversation, that are naturally lit, perhaps with bay window seating, access to a communal balcony, or just enlarged areas of circulation with the introduction of daylight and views, should be considered to enhance circulation routes.

Overall, our responsibility is to design buildings that perform efficiently over the long term, both in terms of operating costs and around the way they help form a community. If we can encourage renters to live and use the whole of the building, then they are far more likely to circulate and form the sorts of communities we all want to see develop.

Brand and reputation: finding your voice

Blackstock
Andrew Teacher
Managing Director

Reputational risk is often cited as a barrier to investment, but by integrating your communications functions, companies can protect themselves and build valuable brands, says communications expert Andrew Teacher.

Finding your voice with investors, consumers and regulators can be a challenge. For property companies and institutional investors who don't traditionally see themselves as consumer-facing, Build to Rent poses additional layers of reputational risk.

Reputational risk has always existed. But the increasing reach of social media, and the speed with which stories can take hold, has changed the landscape for corporate communications. Companies can no longer wait until quarterly results day: reputation management is now 24/7.

Success will always depend on having a high degree of empathy, creating strong relationships with politicians, local communities and the media and speaking in plain English to investors, journalists or locals. Above all, it good long-term relationship with tenants, or put a better way, customers are vital.

Integration

Housing is a politicised sector .Decisions taken by councils can create or destroy huge amounts of value, so communicating with all stakeholders is essential. This doesn't mean creating a good cover story - it means doing the right thing and explaining your reasoning clearly. All too often, companies hire cheap inexperienced consultants who take a cookie-cutter approach which fails when there are big issues to be discussed.

Batting back criticism around affordable housing provision, people's emotional opposition to tall buildings or explaining that foreign buyers are often necessary to help unlock bank lending and bring schemes forward more quickly can seem daunting and people often stay silent. It is about balance, of course.

Unfortunately, developers can be scapegoats for problems beyond their control, such as an historic lack of social housing. The reality of course is that more could be provided say if the entire system of funding affordable housing was re-written to subsidise individuals rather than their homes. Regardless, developers are easy targets. Sometimes the best defence can be pre-emptive: foreseeing criticism and explaining it ahead of time to address concerns and neutralise criticism.

PRS vs. Build to Rent

Sadly, renting has a bad reputation. Rogue landlords make good television while the scale of the PRS makes it inevitable some people will have bad experiences. The key thing is to constantly explain how Build to Rent is different from buy-to-let, and why it should not be tarnished with the singular 'PRS' brush.

But politics is typically focused on the short-term. Councils are unlikely to support something that helps the next generation over current votes. Luckily, the ability of Build to Rent to make sizeable, very real contributions to new housing supply is probably the strongest argument in its favour. The premium service, bespoke facilities and amenities should be a winning argument.

Defining and defending Build to Rent should be easy: it's a compelling solution to many problems. But until the sector is mature, questions will remain and ongoing debates, such as the provision of affordable housing, will continue to be used as sticks to beat developers of all kinds. Explaining how the system could be reformed should help.

Straight-talking

Avoiding jargon and being transparent will demonstrate that Build to Rent companies are more professional than the current PRS. Making people aware of institutional or long-term investors' intentions will help people appreciate the commercial as well as social imperative they have.

Firms must be clear on what they stand for and the benefits of what they are doing. Local politicians' default position will be towards greater levels of social and affordable housing, particularly in the current housing market. But things are changing. It is important that politicians don't automatically turn down new homes at the expense of stringent social housing requirements. Encouraging development while delivering a balance of housing at all price points for people on all incomes is vital. Being open about these issues and helping councils explain the offer to their own stakeholders can oil the wheels of acceptance.

Engage

Above all, keep channels of conversation open, even when you don't need them. All too often, companies ignore local community groups, politicians or journalists because it doesn't suit them, only to be surprised that they get a raw deal when a crisis erupts. People will always give you a fairer hearing if they know, trust and can get hold of you. Sometimes it's best to say nothing, but constantly engaging will always reap dividends.

The Great Estates give a unqiue insight into the prospects for the Build to Rent sector

Cluttons LLP
Einar Roberts
Partner - Residential Consultancy

Cluttons has served the UK property market for more than 250 years. By looking at the success of the Great Estates, emerging companies can secure their own future, says Einar Roberts.

What can new entrants to the housing market learn from the Great Estates?

They have a deep understanding of the residential property market. This is because they have been immersed in the sector at a scale that most UK institutional investors have not, for well over a generation. I think its acknowledged that the estates have led the way in terms of service delivery in recent years, but I'm sure many of the new entrants will know the basics themselves. It is a people business: customers want to know that if something goes wrong it will be dealt with quickly and for the level of service to be reflective of the level of rent they pay.

Another obvious area the great estates have excelled at, recently and historically is place-making: having control of an entire district brings responsibility, and I think they have exercised that responsibility with real care and foresight.

A critical element of Build to Rent as a new sector, is its scale, which the great estates have. Being able to cluster hundreds of homes in one area, such as the Old Vinyl Factor in Hayes or the Perfume Factory further down the road in Acton, will allow for a real mix of spaces, tenures and uses as well as economies of scale in terms of service delivery.

Are there any other markets that one should look at for insight into how the market might develop?

The US multifamily model is a widely discussed and understood reference point, but probably the most extreme, internationally recognised, example of place-making and Build to Rent is in Dubai and the wider United Arab Emirates, where Cluttons has been the leading property consultancy for 40 years.

Since the 1960's oil boom in Abu Dhabi, the Emirati capital, the federation has gone through an astronomical level of development, with Dubai emerging on the world's stage as the UAE's most flamboyant city-state and arguably the fastest-growing city in the world. The population has exploded by almost 6,000% since 1960. The growth of the city has centred on place-making, with developers such as Emaar and Nakheel unveiling some of the most iconic mixed-use developments in the world, such as the Palm Jumeirah and Downtown Dubai; anchored by the Burj Khalifa.

The UAE has a long history in what we would term Build to Rent, although the different emirates have varying levels of penetration and sophistication in their dealings in the sector. In Sharjah for instance, Build to Rent has a key role providing secondary accommodation to the non-western international workforce and their families; with over half the population of Sharjah commuting to Dubai each working day.

We don't think the UK model will rigidly follow either the US or UAE examples, but the most valuable insight they provide as reference points, is that it will evolve to meet the needs of the UK market.

Why can Built to Rent help with place making?

It can be far quicker to fill up a block of 150 rented homes than to sell them. When looking at larger regeneration projects, having hundreds of people living in an area within the first year can really speed up the arrival of businesses. If some of the housing next door is for sale, this additional level of vibrancy will likely speed up the sale of those homes too. It's a positive domino effect.

How important do you think brand is to consumers when choosing a property?

Our own recent research has been quite clear in showing that location is the most important factor when someone is choosing a property to rent, and that is hardly surprising. However, for some of our clients, their brand is linked to the place where they hold stock and they promote their brand on that basis. Whether this will still be the same when the Build to Rent sector develops remains to be seen, of course. The higher levels of satisfaction of those renting from great estates versus buy-to-let landlords in the same districts were clear and highly correlated with the great estate tenants' more positive property management experience. Scale brings with it efficiency, and this can support an enhanced service.

How can landlords harmonise the need for good service with investors' desires to reduce gross-to-net margins?

When developing specifically for rent, it is possible to build into your model a more effective operating platform, anticipating the sorts of things you will need to replace or maintain, ensuring that areas are accessible, easily replaceable or that any associated costs are predictable. You can't do that if you are buying Victorian stock in central London, which will inevitably come with higher costs resulting from age or design.

Equally though, it is important that you develop your product to suit the market, so you don't over or under specify. Once you have understood your market - using effective data and research - you can provide an appropriate model to suit that market. Looking at the more traditional buildings that we manage, a lot of money is spent on redecorations. The nature of renting means you have to expect a relatively transient population, who for example, will be lugging furniture and cases up and down stairs. But if you are building a property from scratch, you can build in materials that do not show knocks too easily or widen corridors appropriately.

In the multifamily sector in America, shared spaces, leisure facilities and other communal areas are quite common. How do you think such amenities will be received in Britain?
Again, I think it will be about understanding your market. I would say, in central London, such amenities are usually just a short walk away. Developers have to be careful to only offer such facilities when they positively differentiate their stock, to ensure they have not just spent a lot of money on an underappreciated gimmick. Our research and experience tells us that the main reason a tenant chooses to stay in a rental property is that their landlord provides a good service. We think this will be the real differentiator from buy-to-let as the market develops, which is why we feel so positive about the future of the Build to Rent sector.
I would, at this point, acknowledge that I do not know exactly how the UK market will develop. Mentioning Dubai again, it is relevant that much of the early development in the emirate did not follow understandable economic drivers; it was more speculative and perhaps to some degree a "build and they will come" approach. As the UK Build to Ret market develops, there are likely to be key influencers that introduce, based on little more than self-belief, facilities or service delivery styles that create expectations for the sector. Once such expectations are embedded in the public consciousness, they will come to define the sector.

How critical will management be to the performance of new investments?
Absolutely critical. It's very easy to meet expectations by throwing money at problems as they arise. It's also very easy to destroy your reputation by not committing enough money to your service. I think it's going to be a fine line for new entrants to the market to make sure they buy the right help at the right moments to fit the model to their assets.

Do you think when it comes to service that the industry is ripe for further disruption? Does it need to improve?
If you look at retail and hospitality it is clear to me that there is certainly room for improvement. There is now a real appreciation of the benefits of service. It is a recognition that our great estate and institutional clients are acutely aware of.
However, you also have to recognise that the market is differentiated, and there are different levels of service: you would not go to the Ritz and expect the same service as the Holiday Inn. The residential sector is no less differentiated and we feel there is real space for new entrants to establish their own niches.

What advice would you give to investors coming into the market?
Our approach would be to research the sub-market and ensure you understand, as well as you are able, the present and future demand and supply profile of that market. That gives you an appreciation of the optimum blend of stock to meet the needs of the market. Then you must make sure you optimise the site in terms of its planning potential towards providing that optimum blend of stock. Then optimise the construction so that it limits your ongoing costs and finally optimise the management model so you deliver the service the market requires without overspending. We think, globally, that is going to give the right answer.

Providing insurance for the build to rent market

Willis
Mike Carolan
Director - Construction Practice

Willis' Construction Practice employs over 80 professionals based in London, who are responsible for arranging and providing insurance coverage and risk management services to contractors, project owners, project managers, project financiers, professional consultants and insurers throughout the world. With its specialist technical expertise and ability to leverage the market, Willis is able to offer a wide range of solutions to its clients.

How is Build to Rent shifting the course of insurance for housing development?

The crucial difference is that much of what is being built will be owned and even managed by the party building it. Companies like Grainger or Willmott Dixon, who we've worked with recently, all take a long-term view on development. Major funders in this space - many of whom have forward-funding agreements with developers - need to have certainty around future costs. This certainty will no doubt focus on lifestyle costs and issues that may arise with the buildings over the long and medium term.

So while you have the usual considerations relating to protection during the development phase, you also have to think about the design far more closely and this is something the insurance industry has been quick to recognise.

What sort of insurance do you offer to a property developer?

From a developer's point of view, we offer a couple of key insurance solutions. The first is an owner coordinated insurance programme (OCIP, or project insurance) for the construction phase. This essentially provides broad insurance coverage to meet contractual obligations in development agreements, financing, building contracts and lease agreements for the duration of a construction project and the defects liability period.

Recently, there has also been an increased demand for latent or inherent defects insurance (LDI or IDI). This insurance is a first party material damage policy that starts upon practical completion of the building and lasts up to 12 years, with the option of cover being purchased at the start of construction. There are a few reasons for the upswing in demand for this product, including the fact that the policy meets the requirements of owners, lenders and prospective tenants.

What benefits can these policies offer Build to Rent developers?

The OCIP basically takes away a lot of insurance responsibilities from the contractor. It's a broad, bespoke policy under the control of the developer that covers contract works, liabilities, and non-negligence across a number of parties. For example, if a contractor becomes insolvent and they have arranged the insurance, all these policies will also go with the demise of that contractor. An OCIP will mitigate this risk and ensure that cover continues.

Crucially for Build to Rent developers, an OCIP also covers optional delay in start-up or advance loss of revenue. So, say if during the construction phase your building burns down a day before the tenants are due to move in, an OCIP policy would cover the loss of rental income you were expecting or any additional interest payments to keep loans in place. As with design considerations, protecting income is another key consideration for long-term investors.

One of the benefits of LDI is that it can reduce the need for expensive lawsuits and legal costs to prove another professional party liable for any defects and reduces reliance upon collateral warranties. This is because structural damage, or defective design, workmanship or materials for example, is covered by the policy. And the only requirement developers have to meet to claim on the policy is that there is a latent defect causing damage or that the threat exists.

> *Major funders in this space...need to have certainty around future costs.*

And some of these new innovations - around life-cycle insurance - how do they work?

They work by looking closely - at an early stage - at the designs and durability assessments a developer may have in place. Using market-leading software modelling, these programmes assess the most critical aspects of a building's design: capital cost, life-cycle costs, maintenance costs, energy costs and general building performance and durability, better informing the decision making process.

Has the cost of insurance changed?

While construction development costs have gone up enormously, project policy insurance costs are far more competitive than they were 15 years ago. That's simply because insurers want to - and have the capacity - to offer the policies. With the increased competition and lowered prices it is important that the actual cover and the financial rating of the insurers (usually a requirement for investors), is also taken into account.

Do you see those low costs changing, say, with a lot of mid-market development for Build to Rent coming through?

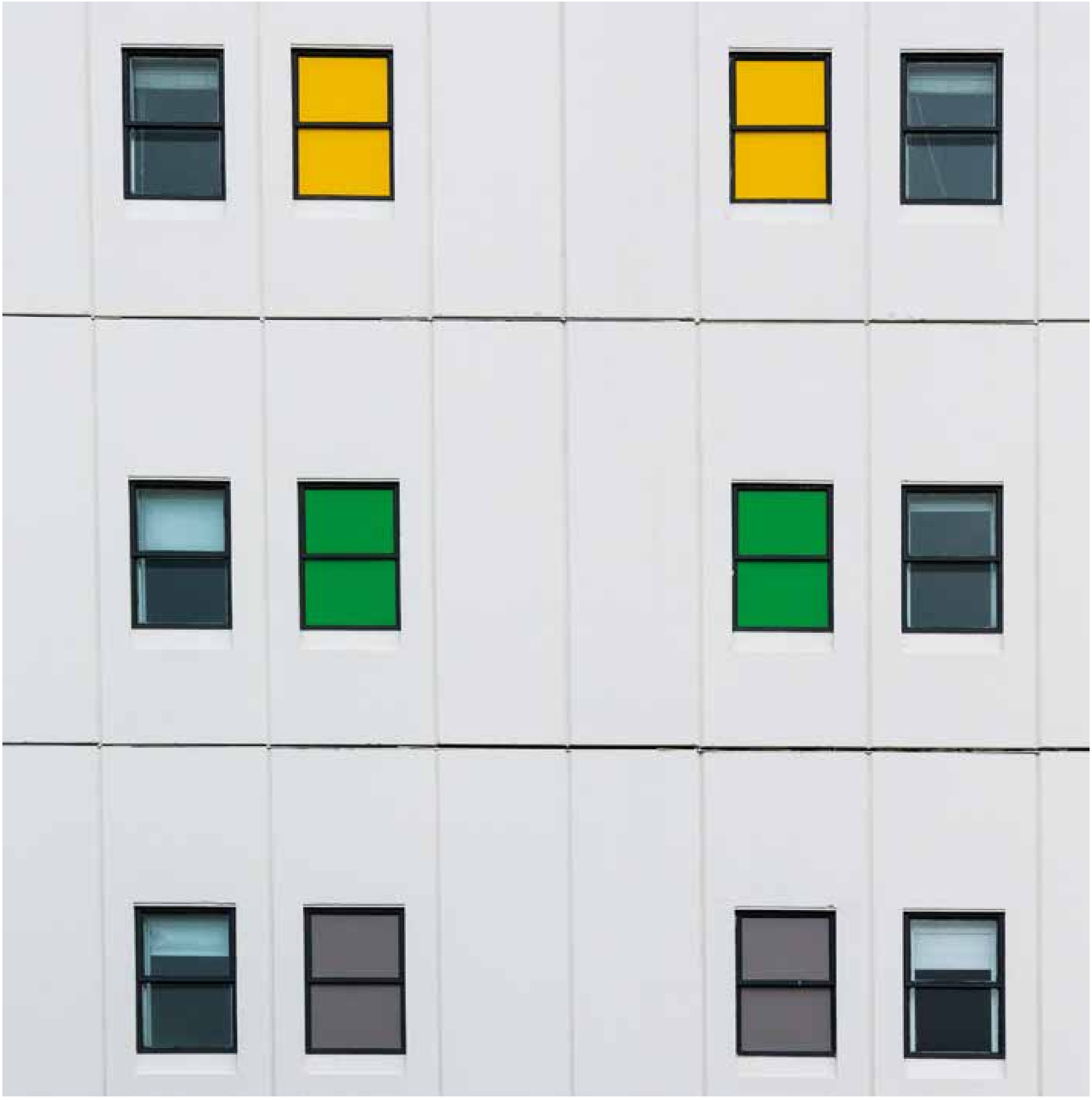
No, that won't affect things at all. It's the same type of risk, just more developments at different pricing levels. Unless insurers' claims experience and capacity deteriorates, pricing will remain low.

Where have you seen the biggest losses?

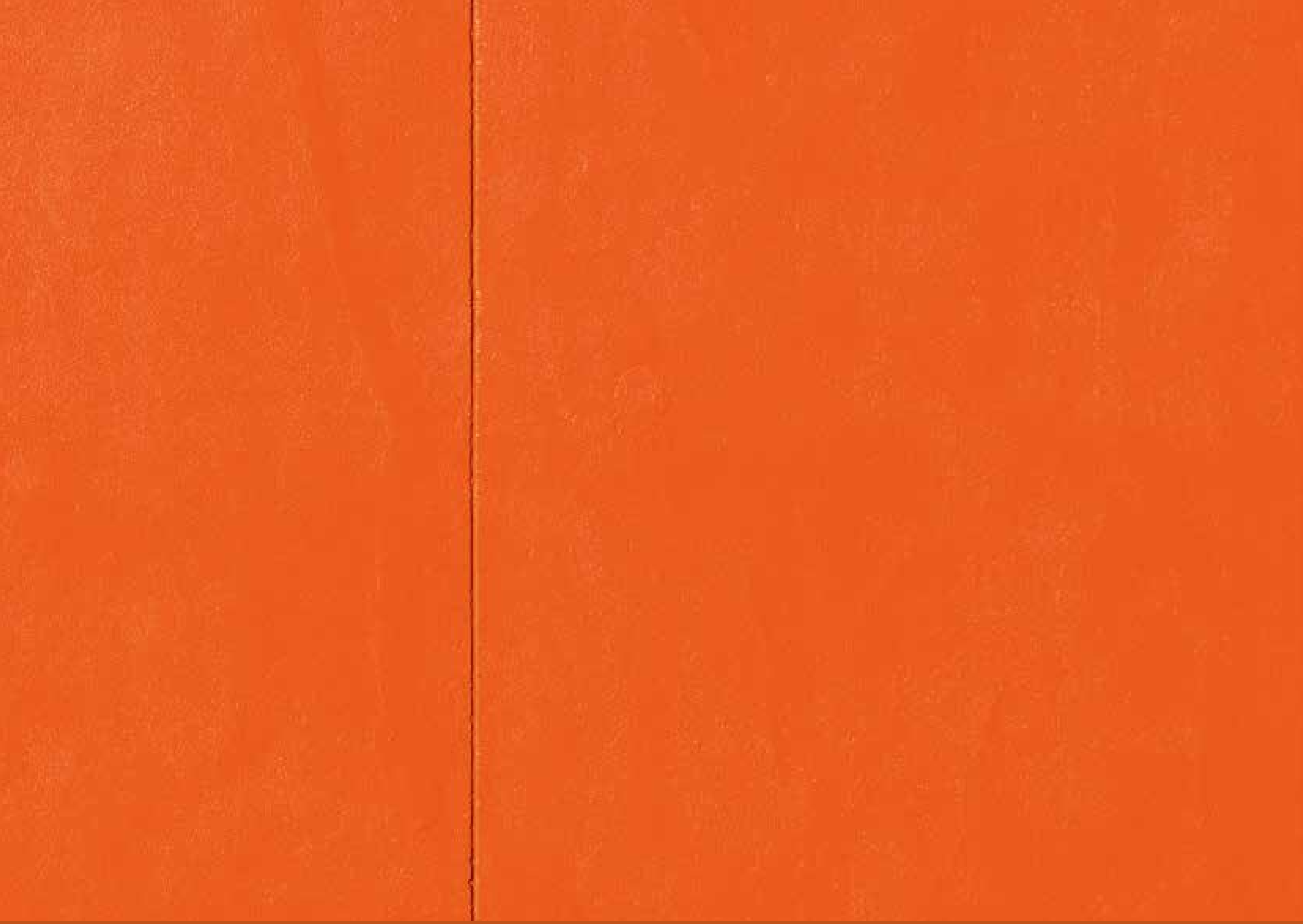
Water damage losses have been one of the biggest issues in project developments. The workers leave the site on a Friday, come back on a Monday and the pipes have leaked as a result of, say, poor fitting or workmanship issues and you have a claim to repair all that damage and the completion is delayed. But even with the current level of losses, project insurance pricing has been stable. Again, that's due to insurers' appetite for this business.

Can insurance affect the quality of finance developers can tap into?

Definitely. Banks require that borrowers have certain insurance policies in place, as well as details of the insurer providing those policies to ensure they are of a certain quality and financial rating. They won't lend to a developer if their chosen insurer's rating is below a certain level or the insurance offered doesn't meet their requirements. Banks are much more stringent now on the checking of developers insurances.



7 CASE STUDIES



Bath Riverside
Crest Nicholson / M&G Real Estate

M&G Real Estate is providing £25.2 million to fund the development of 97 new private rental homes as part of the wider Bath Riverside regeneration scheme in central Bath, South West England. Crest Nicholson is both developer and contractor of the scheme, and the transaction is intended to form part of a longer-term relationship, which could lead to the provision of a further 2,000 homes across the UK.

The building is under construction and due to be ready for tenancy in 2016. It will feature one and two-bedroom apartments and on-site amenities like a function room and gym.

Bath is a thriving city, with a strong tourism industry, two universities and good transport links across the UK (the electrification of the train line is set to reduce the journey time to London to just one hour). Construction in the city centre is heavily limited due to Bath's world heritage status, and demand is high.

Creekside Wharf Essential Living

Essential Living's Greenwich Creekside Wharf development brings the best elements of America's multifamily sector to south London. Reflecting the ambition of the Build to Rent model to provide the stability and security to a range of demographics, one of the two blocks is dedicated solely to families, offering local families up to five year tenancies and a range of services, including an on-site nursery, roof top garden and bike storage centre.

The block dedicated to families has been designed with the needs of the tenants in mind, with 60 oversize two and three bedroom apartments offering additional pram storage, extra acoustic insulation and child friendly balconies.

The ambition is clear, to create and deliver a balance between modern housing and a genuine social benefit.

Creekside Wharf demonstrates how Essential Living see housing contributing to a local community and how building specifically for rent can provide a product that positively disrupts an out-dated market that favours the simplicity of easy-to fill one-bed flats.

Fizzy Stepney
Fizzy Living

Located in the Vivo regeneration, Fizzy Stepney is in the centre of the rapidly emerging residential hotspot of Stepney Green. With excellent travel connections to both the city and Canary Wharf, renters are only a 2 minute walk from Stepney Green Station. Overlooking the tree lined Shandy Park, Fizzy Stepney comprises 63 flats of one, two and three bed units. Renters are provided with amenities such as communal landscaped gardens, furniture packs, free wifi and an on-site property management. Fizzy Stepney offers good quality accommodation equipped with nearby travel links and amenities designed to make renter’s lives easier.

East Village
Get Living London

Get Living London is a true pioneer in the private rental sector, changing the way London rents since its launch in 2013. As the residential owner directly managing 1,439 private rental homes in the former Athletes' Village, East Village, Get Living London aims to make renting refreshingly straightforward and convenient. In this unique position, Get Living London does not charge fees (saving residents up to £350), provides long term stability with built-in flexibility and ensures a service-oriented approach with team on-site seven days a week to deal with any issues quickly.

19-27 Young Street
Grainger plc

Grainger's Young Street and Hortensia Road developments are a flagship project that will be of interest to many other local authorities, private land owners and developers in delivering private rented housing.

Grainger will redevelop two council-owned sites (Hortensia Road and Young Street) for mixed tenure housing. Some will be privately sold, some will be affordable housing, but a major component of the development will be purpose built private rental accommodation managed by Grainger for the long term under a 125 year agreement. This innovative approach will see the Council retain freehold ownership of the sites and share a proportion of the long term rental income stream with Grainger. Grainger will also receive a management fee.

Young Street and Hortensia Road embodies the excellent opportunities for urban regeneration when forward thinking Local Authorities work in partnership with developers to deliver a range of housing options for the community. Young Street was recognised for its high quality design, awarded Best PRS Project at the Housing Design Awards.

Abbeville Apartments
Grainger plc

Grainger is the largest UK residential landlord listed on the London stock exchange. It has a proud tradition of pioneering changes in the UK housing market stretching back to its inception in Newcastle in 1912. Grainger's Abbeville Apartments is reflective of this ambition to be at the forefront of Build to Rent, being one of the first buildings in the UK that has been designed specifically for renting.

The 100 one, two and three bedroom apartments all feature double sized bedrooms, and are ready to be kitted out with a range of furniture packages to suit all needs. At no added cost, all apartments include a balcony, free wifi from day one, DAB radio sockets, FreeSAT, and are SKY-ready. Beyond their apartment, residents have concierge services (including parcel storage facilities), bike storage, car parking and added security with CCTV and video entry systems.

By directly owning and managing the properties, Grainger ensures great customer service via a dedicated property management, maintenance and repairs team for the building, and with the option of longer tenancies, tenants can enjoy all this for as long as they wish.

Victoria Square
HUB / M&G Real Estate

M&G Real Estate's £43.5 million deal at Victoria Square, North Acton, West London was the first PRS forward funding by an institutional fund open to third party investors. Crucially, from an investment point of view, it was underwritten on the basis of rent and rental growth as opposed to capital and house price growth - a structure which appeals to pension funds' needs for long-term, income-focused returns.

The design - the result of close collaboration between Newground Architects and HUB - focuses on community-oriented features, efficiency and robustness. The scheme will provide 152 one, two and three-bedroom PRS apartments, along with a function room, a reception and letting office, roof gardens and allotments, bike parking, a car share scheme and electric car charging points.

The location already enjoys good transport links and will further benefit from the arrival of the high-speed Crossrail train link. Construction is expected to be completed in 2017.

Old Vinyl Factory
Invesco / be:here

Invesco Real Estate (IRE), the global real estate investment manager, made its first investment in the UK private rented sector (PRS) in May 2014 in partnership with be:here, Willmott Dixon's PRS company, who are responsible for both the construction and ongoing property management of the completed project.

Under the deal in which The Gatefold Building was acquired by IRE on behalf of a UK local authority pension fund the development will be forward funded as it is, IRE believes, the first transaction of this type in the UK PRS market.

The project has been fully designed and specified as a rental scheme and will provide 118 one, two and three bedroom flats situated a short distance from Hayes and Harlington Station which already provides regular train services to Central London, but will be enhanced with the introduction of Crossrail.

This transaction forms part of IRE's desire to access UK PRS investments on behalf of its global client base.

Ferry Lane
Legal & General

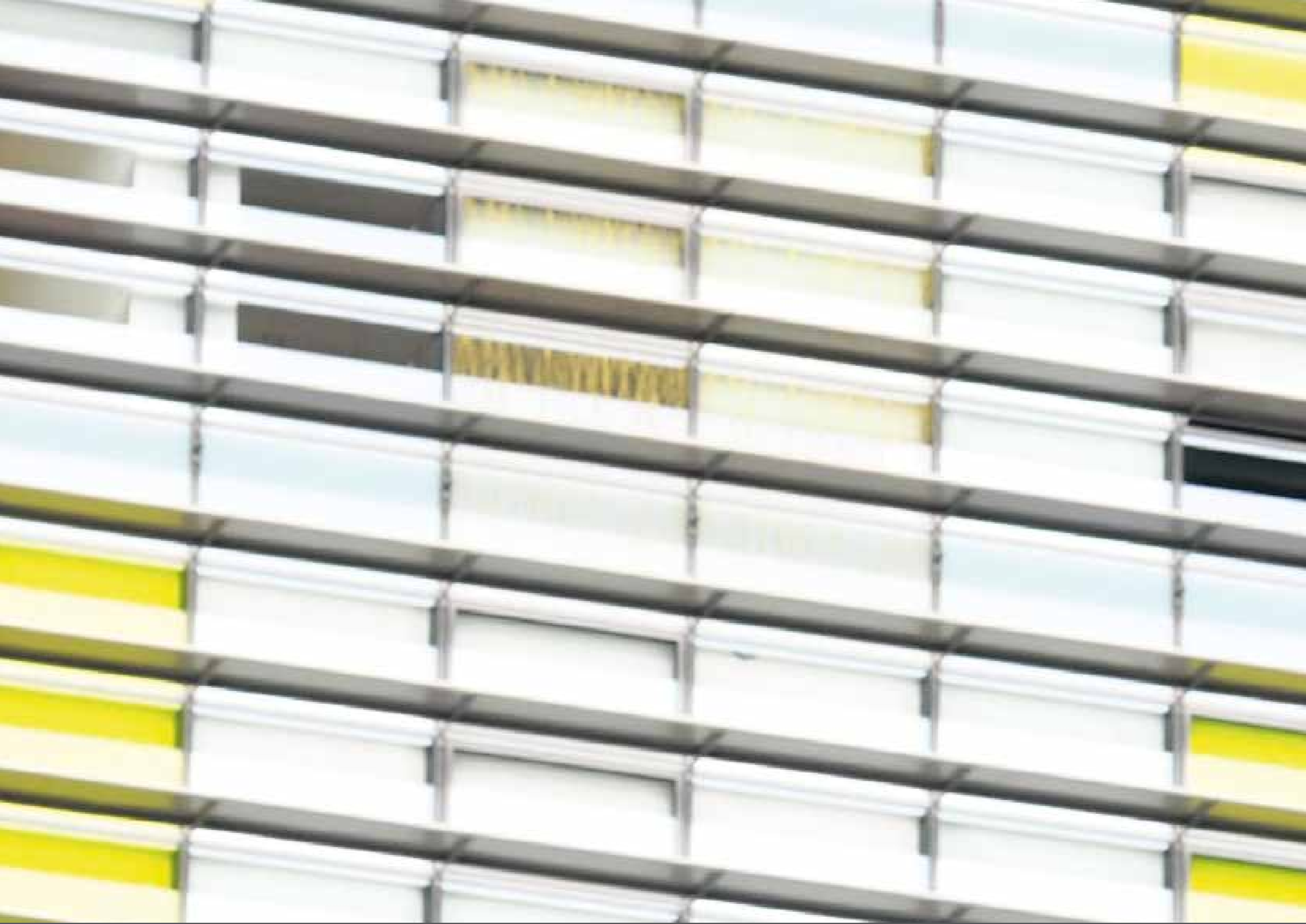
L&G has purchased an industrial estate in Waltham Forest with outline planning consent for 300+ apartments and is currently drawing up a detailed planning submission for a specifically designed PRS scheme.

Set within a 3.95 acre London regeneration site on Blackhorse Road, the location benefits from excellent transport links, connecting it to central London within 15 minutes. It therefore has the potential to offer convenient, affordably priced accommodation that appeals to a huge catchment. The long term commitment to develop and hold this asset removes short termism and allows for a high quality scheme that can be the catalyst to wider regeneration in the area.

L&G is looking to create a high quality scheme that provides a new level of customer experience for elective renters through best practice in building and customer management. As such, the scheme will be carefully designed to maximise operational efficiency, enabling lower rents, while the size of project provides the scope for offering additional services to tenants that make renting an attractive and flexible life style choice. Services will include a concierge, car club, community space, gym and business suite, with multiple lease lengths offered to tenants to suit their needs.

Angel Garden
Moda Living

Moda Living's Angel Gardens is pioneering the future of PRS at Manchester's most exclusive residential address. Located in the heart of the Co-op and Hermes 20 acre Noma master plan and bordering the vibrant and attractive Northern Quarter. This stunning landmark development includes an iconic 36 storey tower, comprising of 458 stylish apartments and unique and ground breaking resident amenities such as the 7 storey roof top 'Multi-Moda-Court' (interchangeable sports court), cinema rooms, BBQ terraces, gym, sky lounges, concierge, roof terraces, meeting rooms and more. Specifically designed to encourage tenant interaction and build a strong sense of community in a hotel style 24-hour managed environment. The aim is to have all a residents wants and needs on-site accessed through best-in-class customer services. The scheme also provides high quality co-locating retail, bar and restaurant space. Angel Gardens sets the new standard for luxury contemporary living in Manchester and Moda is bringing significant, positive change to the UK rental landscape.



8 CONCLUSIONS

The next five years

The next five years

Addleshaw Goddard
Marnix Elsenaar
Head of Housing

As this report has highlighted, there is already a broad appetite for Build to Rent among investors, developers and financiers. Dozens of projects are going through planning and the sector already represents a sizeable proportion of new build housing.

Changes in demand for renting

Consumer demand is also clearly set to grow substantially on account of affordability issues and, moreover, demographic and lifestyle changes. House prices are unlikely to drop so significantly in the coming years that the houses suddenly become affordable to people who cannot afford them now. And with interest rates certain to rise at some point, affordability of credit may well become an issue again.

Savills predicts the number of households privately renting will grow by 1.2 million to 6.04 million, representing nearly a quarter of all households by 2019. In London, the proportion of renters is well above a third already in central areas.

Shifting lifestyle trends - where work and private time is increasingly blurred, and where urban dwellers increasingly favour being clustered around their workplace and social ground - mean that living centrally will be increasingly important to many people.

For those coming to big metropolitan centres like London and Manchester attracted by employment, innovation and education, having high quality, easily accessible accommodation with the right facilities will be crucial in securing Britain's position in the global economy.

Individual is king

Trends around online shopping and apps that allow you to have virtually anything on demand means our society is increasingly service-focused, driven by a need for convenience and a desire to save time. These are things that will underpin the business models of Build to Rent schemes, especially where they seek to drive additional income via add-on services.

The demographics of these renters will also continue to change. While under-35s will continue to form the bulk of private tenants, the proportion of 35-to-49 year olds renting is expected to rise by around 30 %.

Just as seniors look to release equity in properties and spend this in retirement, many younger people will focus more on their lifestyle needs. This will be one key area where Build to Rent could change British society: by taking renting from being a stigmatised to an aspirational tenure. Just as in North America, rental complexes for older people will become commonplace, reflecting the ageing population and their desire for continuing independence.

Unaffordable house prices have clearly played a central role in driving people into the rental market. But many simply don't want the hassle of a mortgage or the many plagues of plumbing, building or electrical issues that come with home ownership.

Knight Frank research found almost one-third of renters preferred renting for lifestyle reasons. We expect this to grow, particularly for young professionals living in urban locations. This is because renting will continue to allow people to access housing in far more expensive locations than they could otherwise buy.

Sociable housing

To ensure the properties suit people's lifestyles, an array of different amenities are planned for different schemes at a variety of price-points. The collective ambition is to create more sociable housing that caters for all manner of interests - whether it's home working, looking after children or entertaining friends.

A £30bn pledge to delivering political ambitions

For politicians, who have made commitments to deliver more homes, Build to Rent has a crucial role to play. Developers, institutional investors and housing associations could inject up to £30bn of new private finance into Build to Rent if the market conditions are right, which could build more than 150,000 homes, housing around 350,000 people.

This could significantly ease the pressure on the rental market, principally because it would be funding in addition to what currently invests in housing.

But in order to succeed, there needs to be recognition from local and central government that Build to Rent is fundamentally different from traditional housebuilding, which focuses on creating homes for sale. Yet planning policy currently treats schemes built for rent in the same way as those built for sale.

Whereas purpose-built rental schemes generate profits over a long period, traditional housing is sold off, netting the developer a capital receipt rather than a steady stream of income. This changes the amount of development taxes - known as section 106 payments - which can be levied before the whole scheme becomes unviable.

Politicians and planners should take note. The Build to Rent sector could play a crucial role in solving the housing crisis, securing more development funded by additional, institutional capital, and helping improve the quality of housing.

The Better Renting for Britain campaign, which was set up to promote and support a professional, long-term rental market, is aiming to push the new government in the right direction. It was buoyed by the positive response already received from housing minister Brandon Lewis.

Institutional backing

The key to a vibrant UK Build to Rent sector is to ensure both domestic and foreign institutional investors continue to back it. Some have suggested if fixed-income investments become more attractive again, that finance could shift out of real estate. Yet, as the student housing sector has shown, appetite has continued to grow for so-called 'alternative' property asset classes where there are enough of those assets to be bough and sold.

This needs to happen for the Build to Rent market and, when it does, we will see a 'portfolio premium', which means the value of a cluster of apartments will be higher collectively than when split up, reflecting the appetite for a large income stream from an institutional investor.

Government at all levels can show its commitment to making this happen by doing what it can to speed up the creation of more developments. At a local level, this means setting aside idle public land for the development of rented homes that could generate long-term, stable income for the public sector.

Councils can also take the initiative by identifying how many homes for rent are needed in their area, allocating the necessary land and making suitable provisions within section 106 rules. To allay fears that developers may flip properties for short-term gain, councils can ensure the housing is kept for renting and not for sale by agreeing covenants with developers.

Personal finance

The prospects for individual investors are mixed. On one level, a far more professionalised Build to Rent sector will make life tougher for individual landlords who haven't invested in their buy-to-let properties, and who have profited from the 'take what you get' mentality that exists in many parts of the PRS. We are likely to see a two or three-tier market arise where newly built Build to Rent schemes suck in renters happy to pay the market rate for rents, and lower quality rented housing is forced to reduce its prices accordingly. A more active and a more competitive market is good news for consumers and promises to raise standards across the board.

A thriving sector which includes a wider range of listed businesses would enable members of the public to own shares in Build to Rent landlords. This would be good for the economy and would also create a more sustainable stream of finance for development, while elevating the role of such companies in the eyes of everyday consumers. With a greater focus on individuals taking more control of their pensions, the ability to invest into housing by buying shares in corporate landlords is something politicians should encourage.

Much has been achieved in the past five years. More must be done in the next five if Build to Rent is to become anything more than a tiny niche within the UK's housing market. North America and mainland Europe have both proved that an institutionally financed and professional managed private rented sector is a possibility. New entrants into the market are trying to make it a reality. The government and policy-makers locally must understand it's a necessity. Housing has been a political football for too long but with so much potential funding on the table, securing a future for Build to Rent really is an open goal.

The Build to Rent sector could play a crucial role in solving the housing crisis, securing more development funded by additional, institutional capital, and helping improve the quality of housing.

ADDLESHAW GODDARD

MARNIX ELSENAAR
0207 160 3246

PETER HARDY
0207 160 3052

LEONA AHMED
0207 160 3460

LEE SHELDON
0207 160 3247

PETER KERSHAW
0161 934 6507

MIKE O'CONNOR
0161 934 6342

firstname.surname@addleshawgoddard.com

BRITISH PROPERTY FEDERATION

IAN FLETCHER
020 7802 0112
ifletcher@bpf.org.uk

addleshawgoddard.com

Doha, Dubai, Hong Kong, Leeds, London, Manchester, Muscat, Singapore and Tokyo*

* a formal alliance with Hashidate Law Office