Changing the way the UK rents

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Kurt Mueller argues the case for build to rent

One defining characteristic of the UK housing market is its enduring lack of supply. Every year, the problem is compounded as household demand grows and housebuilding fails to keep pace. Between 120,000 and 150,000 new homes have been built annually, yet demand has been growing at 200,000-250,000 new units a year.

Everyone agrees the UK must build more homes. This consensus has spread far and wide, even including the ?not in my back yard? contingent. Every major political party admits the need for more housing stock. It would be too much to hope that they would agree on how this will be achieved, but at least they are acknowledging the requirement.

In parallel, a number of other seismic shifts are underway in the housing market. One of the starker and arguably more durable shifts is the change in tenures.

Shifting tenures

From being the smallest tenure sector only a few years ago, private renting recently became the second largest in the UK after owner occupation, providing homes for more than 4 million households. Growth in the sector is set to continue, with Savills predicting a 20% increase in just the next 5 years.

This growth is not a new phenomenon. It was not sparked by the recent financial crisis and the constraints placed on mortgage lending; the tenure has been growing since the turn of the 21st century. Of course, private renting accelerated as a result of the financial crisis and constraints on mortgages, but it remained steady and established well before 2008-09.

The underlying cause of this move away from owner occupation and into private renting is due to a cultural shift, rather than a specific one-off economic/financial event. The millennial generation displays distinct behavioural and cultural differences to their parents in terms of lifestyle, spending patterns and key life pathways. They prefer not to settle down as early, want to take more holidays and own the latest mobile phone or gadget; they change jobs more frequently, marry and start families later in life, as Census data confirms.

The social trends taking place among the UK?s millennial generation mean they are using the built environment differently, including housing. Importantly, while they still desire to own a home at some point, they are doing so later in life and are renting for longer. These merging social trends and their effect on the built environment are set out in Tomorrow?s home by Lily Berheimer.

Investor appetite

The unrelenting growth in demand for private renting has piqued the interest of politicians, media and global institutional investors, such as pension and sovereign wealth funds. There is an opportunity to supply both more homes in the UK and a new type of rental property.

Unlike mainland Europe and North America, the UK private rented sector (PRS) does not always offer tenants good value for money, nor does it traditionally offer large investors a quality investment. According to DCLG Private Landlords Survey 2010 :

- 78% of landlords own only a single dwelling for rent
- only 8% of landlords are full-time
- less than 1% of landlords own a large portfolio of more than 100 dwellings.

In the US and Germany, institutional ownership in the PRS is around 13% and 17% respectively.

The untapped nature of the UK PRS, coupled with the steady growth in demand, creates a very attractive opportunity for investors. Combine this with a political consensus that supports an increase in housing supply and you have one of the hottest real estate asset classes for investors worldwide.

The case for build to rent

While global investors start circling the UK PRS, many have begun to find a fairly significant barrier: there is nothing to invest in. After decades of a two-tier housing system catering primarily for owner occupiers and the social housing sector, the UK?s housing stock is ill-suited for those wishing to live in private rental accommodation. The solution is to build the right type of housing from scratch. Otherwise known as build to rent, the concept is in its infancy in the UK, but well known in the US.

Unsurprisingly, there is cross-party support for the establishment of build to rent as a professional sector, backed by institutional investors.

During the last Parliament, the coalition government introduced a number of schemes to support the growth of the PRS. The first was a ?1bn Build to Rent programme , which is reportedly on track to create up to 10,000 new homes specifically for private rent. In addition, it established the PRS Guarantee Scheme, offering ?3.5bn worth of guarantees to finance investment in new privately rented homes.

The proposition

Build to rent differs from the traditional PRS offering over the past few decades. Developers and investors undertaking such projects are employing new and innovative design techniques, many of which tear up traditionalist thinking, beginning instead with renters in mind. As part of the design process, the questions to be asked are:

Where will our tenants be working? How old will they be? What will they do in their spare time? What is their marital status and where do their friends and families live?

Armed with the answers, developers, investors and architects can better understand their future customers and reflect their needs into their new residential buildings. This could take the shape of increased storage space, perhaps a rooftop terrace or a residents? lounge, a fitness studio, caf?, communal garden or a concierge service.

Such features can be seen as frivolous or costly, but if effectively applied, they become commercially savvy. They are aimed at improving returns by attracting more customers, commanding higher rents and securing tenants for longer. In financial speak, it is about maximising initial gross yield, reducing management costs, the gross to net yield leakage and reducing voids. There is even the potential to add revenue streams from paid-for ancillary services if the target customer group is right.

Making it a reality

Grainger?s build to rent Abbeville Apartments development, in Barking, Essex, is one of the first in the UK designed specifically for renting. With customer needs leading the design, the 100 apartments (1-, 2- and 3-bedroom) all have double-sized bedrooms, lots of storage and appealing communal features such as a residents? lounge, fitness studio, green space and a loading bay.

All apartments come with an optional furniture package. At no added cost, they include a balcony, free WiFi from day one, DAB radio sockets, FreeSAT, and are Sky TV-ready. Residents have concierge services, bike storage, car parking and added security with CCTV and video entry systems. The building is located next to a supermarket and a 5-minute walk from Barking station, with rail and underground links to the City and Canary Wharf.

Grainger has applied its long-term investment approach to this building. It offers flexible, long-term tenancies (up to 3 years) and transparent fees. Residents will deal directly with Grainger, the landlord. The building has a dedicated property management, maintenance and repairs team, and will have an online tenant portal where occupants can communicate directly with their building manager and store all the information they need for living in the building.

Emerging social trends mean that private renting will continue to be an important and growing part of the UK housing market. Build to rent provides appropriate housing, giving customers greater value for money, choice and quality. It is also part of the solution to addressing the UK?s housing shortage.

Grainger plc
Grainger plc is the UK's largest listed residential property owner and manager, with around ?3.2bn of residential assets under management across the UK and Germany. Established in 1912, it is a FTSE 250 publicly quoted company, listd on the London Stock Exchange and recognised for its corporate responsibility credentials by its listing on the FTSE4Good index. Grainger was awarded the UK's residential Asset Manager of the Year at the RESI Awards in 2012, 2013 and 2014.

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Further information

- Related competencies include Housing strategy and provision , Investment management , Property finance and funding
- This feature is taken from the RICS *Property journal* (July/August 2015)