

The UK Build to Rent (BTR) sector (residential units specially built to rent) has enjoyed substantial and sustained growth for a number of years. There has been a soaring demand for excellent quality rental housing with on-site management, social spaces and all the amenities BTR can offer.

Research published by the British Property Federation shows there was a telling 12% jump in the number of BTR homes in the first quarter of this year against the same period in 2019.¹ That figure quantifies the attractiveness of the market for renters, developers and investors alike.

Notwithstanding the phenomenal recent growth, the BTR sector is still emerging and has some way to go to match the levels of private rental living in, say, the US. Pre-COVID 19 the growth was there but now the sector has to contend with the lockdown arising from the COVID 19 crisis. Spring is ordinarily a busy period for the property market, but not this year. Property transactions in April hit a record low.² Even as the government seeks to restart the housing market, uncertainty in terms of income and employment has left many people nervous about making changes and moving homes. Total moves in the UK in 2020 are forecast to be down by at least 25% compared to the year before. There is no part of the real estate market where the effects will not be felt. BTR is no exception to that.

What are the issues for the sector as it weathers the storm? Here, we consider:

- Whether the factors that have previously influenced growth have been affected by the events of recent months
- The current landscape
- Adapting to consumer priorities
- What role BTR might adopt in a changing market



Growth Factors: Fundamentals Unlikely to be Changed

For all the turmoil created by the lockdown, it seems very unlikely that the growth in the BTR sector will be derailed. The fundamentals driving the pre-crisis growth are still there:

- The general national shortage of housing stock, with the government increasingly looking to the private rented sector to play a greater role in providing more new build housing.
- The economic fundamentals which have put the cost of buying a dwelling beyond the reach of more people, including many people in key worker positions.
- The forces (increasing regulatory controls on the standard of accommodation, reduction/withdrawal of tax breaks to private landlords) leading to a swing against private investor landlords in favour of institutionally funded larger scale specially built BTR developments.
- The increasing attraction to institutional investors of the long term, reliable income returns which flow from BTR investments.

The Current Landscape

The Residential Market

Despite the residential sales market being effectively at a standstill, there are still people and families who need to move. That need has not gone away. The BTR sector could benefit from this with BTR properties offering more flexibility at a time when people rate that as a high priority. There is an opportunity here for BTR to show the benefits of what it can provide and attract more numbers to join Generation Rent. If the sector can get it right now, those people may be here to stay.

Government Intervention

One obvious side effect from the COVID-19 crisis has been the increasing role played by governments in economic and social life. So far as the residential sector is concerned, this will be overwhelmingly positive. There will be increased funding in support of more housing generally, especially in support of more subsidised housing. The cross party Local Government Association's call for the government to provide funding to build more homes for key workers is very likely to be heeded.

¹ <https://www.bpf.org.uk/media-listing/press-releases/build-rent-boom-drives-significant-new-housing-supply-across-uk>

² <https://www.bbc.co.uk/news/business-52752475>

But government intervention is a double-edged sword, with the residential sector already attracting significant attention and proposals for reform. This could be off-putting for investors. If the economy does turn down or the virus takes longer to deal with, and governments stand behind the public, then they are unlikely to stand behind the institutional landlord. Government intervention may morph into rent controls and the like.

Rent Durability

During the last global financial crisis, while there was a significant drop in land values, residential rental declines were modest: according to the Office of National Statistics ranging from flat to 1.8%. During financial crises people have less confidence and purchasing power, resulting in steady or increased demand for rented accommodation. If, as one would expect, this is replicated in the post-COVID 19 period, that will make BTR all the more attractive to institutional investors, seeking long-term steady returns.

Shift to branded BTR developments

The swing towards specialist BTR homes provided by institutions, and away from private rented accommodations supplied by individual investors, has been apparent over recent years. The uncertainty unleashed by COVID-19 will accelerate that shift. Flexibility and choice matter, of course, but at times like these, for most people, security and dependability will probably matter most of all. The role of branding is already an important element in most institutionally funded BTR schemes, and its importance will only increase. People in a crisis are likely to be more attracted to the institutional brand, for the security and reliability it offers. And provided the brand delivers what it promises people are more likely to stick with it beyond the crisis.

So on the whole the fundamentals still look good for BTR. But to take advantage and thrive BTR developers and investors will have to be agile to work within the current market and react to the changing consumer priorities.

Adapting to Consumer Priorities

Operators in this space will be considering and evaluating:

- **Renter priorities:** We are in the middle of the world's largest working from home experiment. By all accounts working from home has become the new normal and this trend is likely to continue for the foreseeable future. In light of this, providers of BTR properties will surely look to focus on including desk space, or sectioning off open plan rooms in order to appeal to future renters. Top quality fast broadband is also key – internet is now the fourth utility. Working from home makes this all the more important and at the top of many renters priority lists.
- **Location:** For those workers who are unable to work from home, property location will become vitally important. Renters will prioritise being near their workplace in order to avoid using public transport. This may result in developers attaching more importance to the location of BTR developments in cities, and their proximity to certain workplaces such as hospitals, schools and major supermarkets.
- **Competing renter priorities:** The lockdown period has shown the importance of having your own personal outdoor space and such spaces have become the subject of greater demand. There is an argument that the BTR sector may suffer here with renters moving away from the cities where the majority of the BTR properties are located, to the suburbs and the countryside. Whilst the trends coming out of lockdown are yet unknown, what is clear is BTR developers and investors must recognise this, focusing on incorporating balconies and outdoor space into their schemes, likely attributing premiums to properties with gardens and balconies.
- **Pricing:** In response to the current economic uncertainty, pricing will prove to be a key factor in determining demand for BTR properties. BTR providers must be mindful of this and look to market their properties in an affordable manner.
- **Safe provision of services:** BTR properties focus heavily on their practicality and community feel, with some premium accommodation providing on-site teams and attractive communal spaces. Moving forward, BTR providers will have to consider how to continue to provide these services safely so that they can retain one of their key selling points. Cleaning regimes must be regular and visible. If people are to move away from an aspiration of home-owning then the renting model needs to be able to deliver on the lifestyle and well-being choices which the customers are seeking.
- **Branding:** We have already remarked on the likely increasing importance of branding. But that cuts both ways. While a good brand will enhance a BTR scheme, nothing will sink a scheme faster than a brand which is not backed up by real delivery. Consumers will want reliable brands with sound reputations.



The Role of BTR in a Changing Market

Key Role in Urban Regeneration

The real estate sector which has been hardest hit by the current crisis is retail. The pre-crisis decline in retail is being accelerated, deepening the associated malaise in high street retail districts and town centres generally. The important role of BTR developments, in bringing more people back into urban centres, in increasing vibrancy and assisting to reverse the blighting of shopping districts and town centres, is obvious. The BTR sector will surely become even more pivotal in facilitating much needed social regeneration, and this will not be lost on institutional investors, not least because they will want to be, and be seen to be, associated with projects which support ESG³ issues.

Long-Term Demand and Investment – A Positive Outlook⁴

No one can predict with certainty the long-term demand for the BTR sector. However, recent market activity creates a positive outlook. Grainger Plc, one of the big players in the UK BTR sector continued to keep its nine construction sites (totalling around 9,000 BTR properties) open and active during lockdown. Investors have continued to commit funding to new developments, with Aberdeen Standard Investments recently committing £50 million of funding to a development in Barking, East London, followed by Gatehouse, with a £10.2 million commitment in the West Midlands.

Operators demonstrating that they offer a real choice to renters, a genuine customer-centric service, can flourish. Overseas investors (private family wealth based funds, sovereign wealth funds, pension funds, others) which have always liked the UK as a go to core investment destination, but have not to date got into BTR because of a comparative lack of evidence of returns, will be closely watching how BTR performs during and after this crisis. This is definitely a space to watch.

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³ Environmental, social and governance.

⁴ For further comment on opportunities for the build to rent sector to be a key player in urban regeneration and the challenges it might meet, see our sister [article](#).