



PROMISING FUTURE FOR UK BUILD-TO-RENT

August 2024

EXECUTIVE SUMMARY

The UK's Build-to-Rent (BTR) multifamily sector is still emerging with just 101,875 operational units, compared to a total of 4.6 million private rental households. However, the sector has increased threefold in the last five years.¹ A sub-sector of the private rented sector, BTR is attracting new investors seeking to capitalize on the growing demand for high-quality, professionally managed rental properties. **Rental demand in the UK is being driven by a combination of favorable demographics and structural change.** Despite this, the BTR sector remains fundamentally undersupplied. Several factors are shaping the current environment, and in our opinion are expected to create opportunities to develop quality rental housing in return for durable income streams and a strong opportunity for appreciation.

- 1 The UK has consistently failed to meet house building targets, resulting in a housing supply gap the size of London. This has led to strong house price inflation, which combined with elevated mortgage interest rates has pushed home ownership out of reach, pushing many towards renting for longer.
- 2 The UK BTR sector is nascent but is attracting strong investor demand. We see limited risk of oversupply, with rental demand underpinned by favorable demographics and structural changes happening both in consumer acceptance and lifestyle choices.
- 3 We see an opportunity for investors to develop high-quality, professionally managed rental accommodation in a market where rental growth and occupancy remain strong.



1. Savills. UK BTR Market Update. Q1 2024 & UK Department for Levelling Up, Housing & Communities. English Housing Survey 2022-23. Published December 14, 2023

UK BUILD-TO-RENT DEVELOPMENT

Evidence from mature markets elsewhere suggests that the UK BTR sector has not got close to its potential in terms of scale. There are just 101,875 operational BTR units in the UK, compared to a total of 4.6 million private rental households.² For comparison's sake, the current BTR supply for the whole of the UK is roughly comparable to the inventory of Copenhagen, Denmark (93,084 units) and the projected total UK future unit count size of 265,606 units is comparable to the existing professionally managed multifamily inventory in Austin, Texas (253,000 units).³

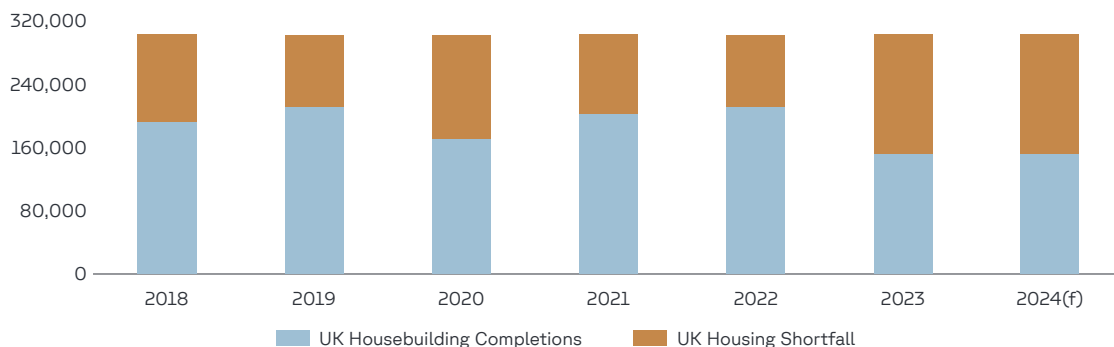
New completions have reached their highest annual level since 2021, but new starts have fallen and the number of homes at detailed planning application stage is down 31% year-over-year.⁴ This suggests investors are prioritizing existing developments over new ones. This is partly due to some developers pausing new projects until the lending environment improves. **Additional constraints on supply include the planning system and availability of suitable land for development.**

The operational UK BTR supply accounts for around 2.2% of private rental sector households. When combined with BTR units that are under construction, this percentage increases to just 3.4%. These factors mean rent growth has been strong across the private rental sector. Average rents for new lets rose by 6.6% in the 12 months to April 2024.⁵ The BTR sector continues to outperform with annual rental growth of 7.7%.⁶

We see a limited risk of oversupply in the coming years due to the structural shortage of housing in the UK. The latest housebuilding figures show the government has not yet met its annual target to build 300,000 new homes (**Exhibit 1**). **The UK has an estimated housing supply gap of 4.3 million homes; and demand is forecast to grow, as the number of households is forecast to expand by 1.4 million over the next five years.**⁷ Germany and France are facing a similar shortfall in housing, due to a steep decline in housebuilding. **However, Britain's housing crisis has become so acute that the government will need to build the equivalent of another city the size of London to make up for decades of below-target construction.**⁸

We believe BTR plays a crucial role in the delivery of more homes, particularly as many individual private landlords are exiting the sector due to elevated mortgage rates. As a result, the supply of rental accommodation is dwindling, and future supply growth is unlikely to occur via this route. **BTR can offer an efficient solution to the UK's housing shortage by developing quality housing at scale.**

EXHIBIT 1: UK HOUSING BUILDING COMPLETIONS & SHORTFALL VS NATIONAL TARGETS



Source: JLL. November 23, 2023

- Ibid
- CBRE. European Multifamily Housing Report, April 2021. & CoStar. Q1 2024. Note: Data for Austin only includes projects with more than 100 units.
- Savills. UK BTR Market Update. Q1 2024
- Zoopla. Rental Market Report: June 2024
- CBRE. UK Multifamily Index. March 2024
- Centre for Cities. The Housebuilding Crisis: The UK's 4 Million Missing Homes. Published February 2023 & Oxford Economics. June 2024
- Bloomberg. UK's Housing Crisis Needs a London-Sized City to Fix It. June 25, 2024

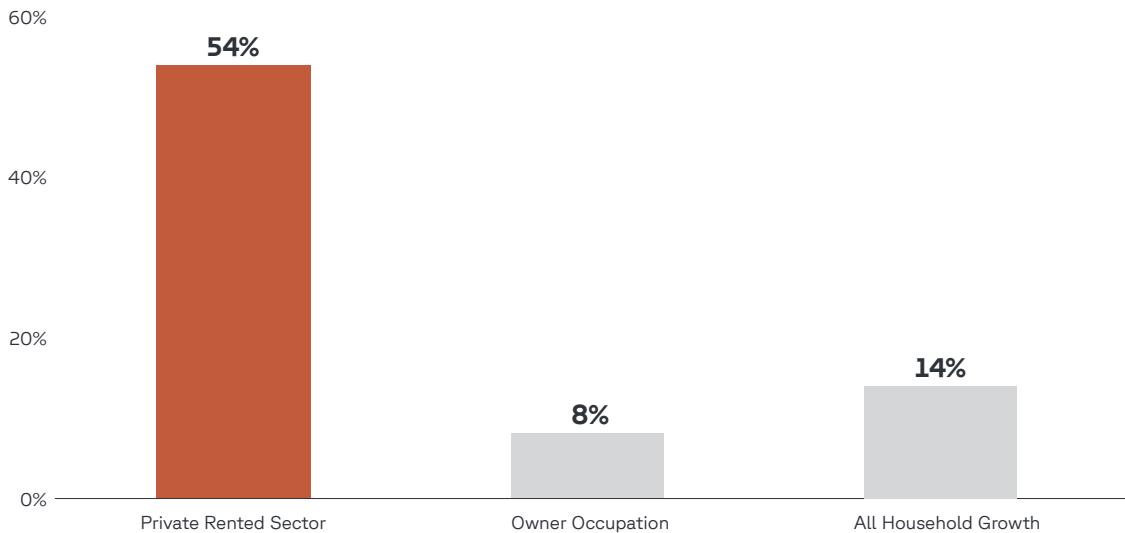
OCCUPATIONAL DEMAND IS SHIFTING

Owner occupiers account for the majority of UK households (65%); however, there has been a long-term shift towards private renting. Almost 20% of households rent privately, up from 14% over the last 15 years, growth of 1.6 million.



The number of households in the private rented sector has increased by 54% in the last 15 years, while the number of owner-occupied households has grown by 8% over the same period (**Exhibit 2**).⁹ **The growth in private renting is being driven by demographics and structural changes happening both in consumer acceptance, lifestyle choices and how people live.** Single-person households continue to increase and for many younger people especially, home ownership is not the ambition it once was.

EXHIBIT 2: CHANGE IN HOUSING OCCUPANCY (2008 -2022/23)



Source: Office for National Statistics. English Housing Survey

Over the next 10 years, annual population growth is expected to reach 361,000 per year.¹⁰ Strong inward migration points to the population growing far quicker than anticipated in previous projections, particularly those aged 25-34. Given nearly 40% of existing households in this age cohort rent privately, we expect this shift will put additional demand pressures on the private rental sector.¹¹

Affordability is another factor behind the shift towards renting. The house price-to-earnings ratio for first-time buyers across the UK is 5.2, rising to 8.5 in London.¹² By way of comparison, the long-term average is 4.0 in the UK and 6.1 in London.¹³ As referenced in our recent paper "[To Rent or Own?](#)," the current economic backdrop is boosting demand for rental housing.

Elevated mortgage rates are keeping many people, particularly first-time buyers who may be struggling to save a deposit, in rental accommodation for longer.

Higher mortgage rates mean that renting has become cheaper than buying a home.¹⁴ In the short term, this trend should continue to support renter demand. Over the longer term, rental demand is being further bolstered by the conscious lifestyle choice of certain groups to rent for longer than used to be the norm.

9. UK Department for Levelling Up, Housing & Communities. English Housing Survey 2022-23. Published December 14, 2023

10. Knight Frank. What does stronger UK population growth mean for the housing market? February 5, 2024

11. Ibid

12. Nationwide. House Price Index. Q1 2024

13. Ibid. Average over the period from Q1 1983-Q4 2023

14. Halifax. Is it Cheaper to Rent or Buy a Home? Accessed June 20, 2024



COMPELLING INVESTMENT OPPORTUNITY

According to the latest INREV Investment Intentions Survey, residential took a solo top position for the first time as the most preferred sector to invest in across Europe over the next two years.¹⁵

Added to the favorable demand profile, the UK BTR market provides a compelling investment case, for several reasons.

1 The UK has a relatively **landlord-friendly lease structure**, offering investors uncapped rental growth potential. We anticipate further growth in rents over the next five years, albeit at a more modest rate given affordability criteria.

2 The UK BTR sector presents an opportunity to diversify into an asset class that exhibits **low volatility and correlation with other asset classes and the wider economic cycle**. Occupancy rates have remained consistently high despite wider economic uncertainty and stood at 96% as of March 2024.¹⁶

3 Comparing total returns across assets shows **UK residential has performed consistently well**. MSCI data indicates total returns for UK residential in the last 10 years of 6.0% annually. This is ahead of the all-property returns of 5.3%, and the second-best performing sector in the UK, after Industrial (12.0%).¹⁷

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15. INREV. Investment Intentions Survey 2024

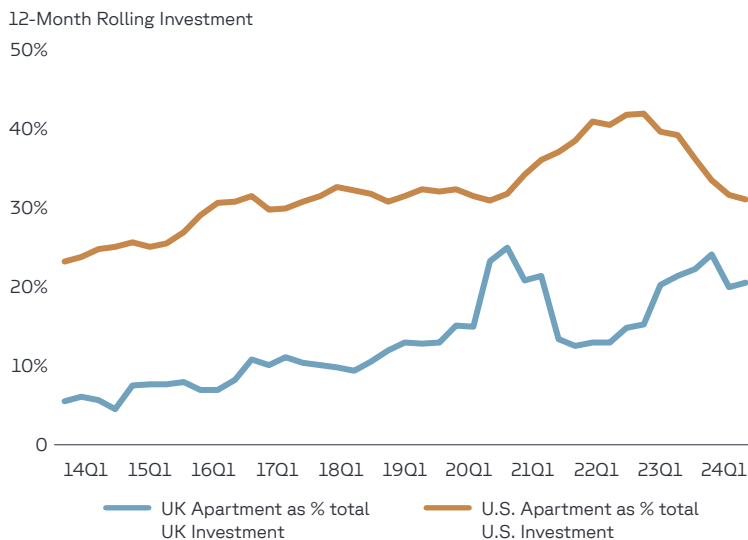
16. CBRE. UK Multifamily Index. March 2024.

17. MSCI. UK Annual Property Index. December 2023. Note: Based on 10-year annualized returns from 2014-2023.

The existing private rental sector (PRS) is extensive, but it is generally undermanaged and poorly invested by individual private owners as compared to the BTR market owned by institutional investors. Just 2% of PRS homes are held by institutions, with the remaining 98% in the hands of private Buy to Let investors.¹⁸ The apartment sector's share of total investment in the UK has increased significantly from 5% in 2014, to 20% as of Q1 2024. However, in the U.S., the apartment sector typically accounts for over 30% of total real estate investment, which suggests there is significant scope for growth in the UK (**Exhibit 3**).¹⁹

Unlike the rest of Europe, the provision of amenities in the recently built projects in the UK is extensive and aligns closer with the U.S. model. This provides an opportunity to introduce higher standards of design, service, and asset management. Given the strong emphasis on development, UK BTR is at the forefront of the drive to help improve sustainability and safeguard against future obsolescence.

EXHIBIT 3: UK VS U.S. MULTIFAMILY AS A SHARE OF TOTAL CRE INVESTMENT



Source: Real Capital Analytics

CONCLUSION

The UK residential market is undergoing noticeable positive evolution, and at this juncture, there are more benefits to rent than buy from an affordability perspective. Longer-term, we expect rental demand to be driven by people consciously choosing to rent. **The UK provides access to a deep pool of more than 4.6 million privately rented households, and the combination of demographic and structural tailwinds is expected to support demand for the rental sector going forward.** Given the supply and demand dynamics, we anticipate further rental growth, albeit at a more modest rate. As a result, we believe a growing opportunity exists for investors to provide high-quality, professionally managed rental accommodation.

18. Savills. Spotlight: Investment in UK Operational BTR. July 8, 2024

19. Real Capital Analytics. Q1 2024





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