

LGPS INTELLIGENCE

Build to Rent: New homes, new investment opportunities



Blackhorse Mills,
Walthamstow

Build to Rent (BTR) is a relatively new addition to the UK housing landscape. It has received real recognition as an institutional asset class over the past five years, shifting residential investment from the pre-existing private rental sector towards a new type of offering.



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WHAT IS BTR AND HOW IS IT DIFFERENT TO OTHER HOMES FOR RENT?

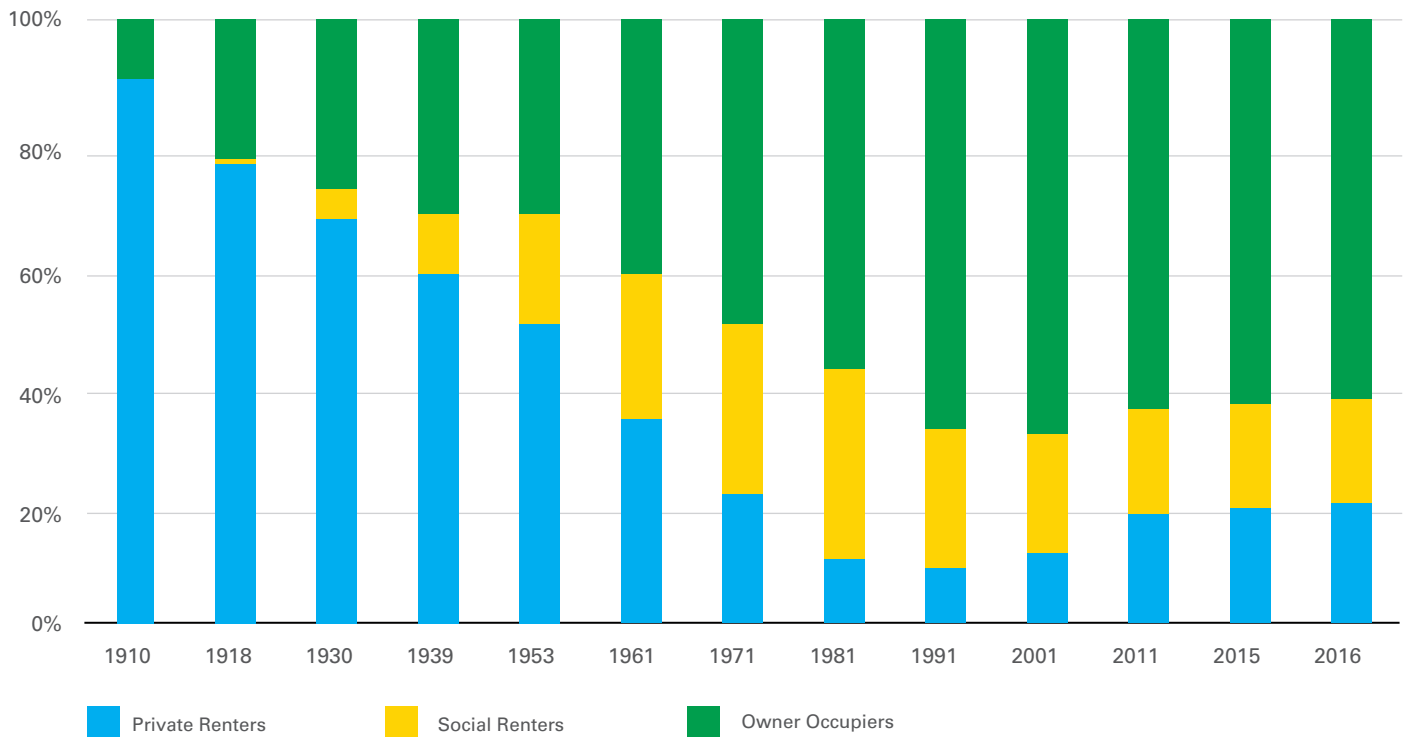
BTR is a distinct investment type, with different physical and operational characteristics compared to the private rental market, and also the wider build-to-sell sector. Schemes are large, multi-unit blocks of private rented housing and ancillary services in single ownership. Importantly, these blocks are built specifically for the rental market. This ensures units are designed to meet tenant needs with the most operationally efficient specification possible and centralised, professional management.

Decades of buy-to-let landlord activity, precipitated by the introduction of buy-to-let mortgages in the 1990s, have created a highly fragmented rental sector. The Department for Communities and Local Government

estimates that 70% of privately rented homes are owned by landlords with portfolios of fewer than 10 properties. Many are converted properties, lacking professional management.

BTR has disrupted this outdated model, assisted by changes to government policy such as the introduction of supplementary Stamp Duty Land Tax in 2016 on homes not destined for primary residence. Analysis by UK Finance suggests buy-to-let transactional activity has now significantly decreased in the UK.

Figure 1: Housing tenure in England and Wales



Source: DCLG

A STRUCTURAL SHIFT BACK TO THE SECTOR

Research produced by the House of Commons estimates that around 20% of the UK population lived in rental accommodation last year (see Figure 1). There has been a structural shift back towards renting over the past twenty years due to a variety of demographic reasons, alongside the recent introduction of purpose-built products. This suggests renting is no longer considered a ‘residual choice’ because there are no other viable options, or as a stop-gap before buying a property.

Residents in BTR schemes benefit from a professional quality of management, and also have the opportunity to sign long, transparent leases if they wish. This is important: a survey conducted by Lambert Smith Hampton highlighted the significance placed by renters on the condition of homes, ancillary services and quality communication with the landlord; these factors are often lacking in the rental properties of old.

BENEFITING THE WHOLE COMMUNITY

We believe residents should be put at the heart of every decision. This can be as simple as bulk-buying services at a discount or offering family-friendly leases.

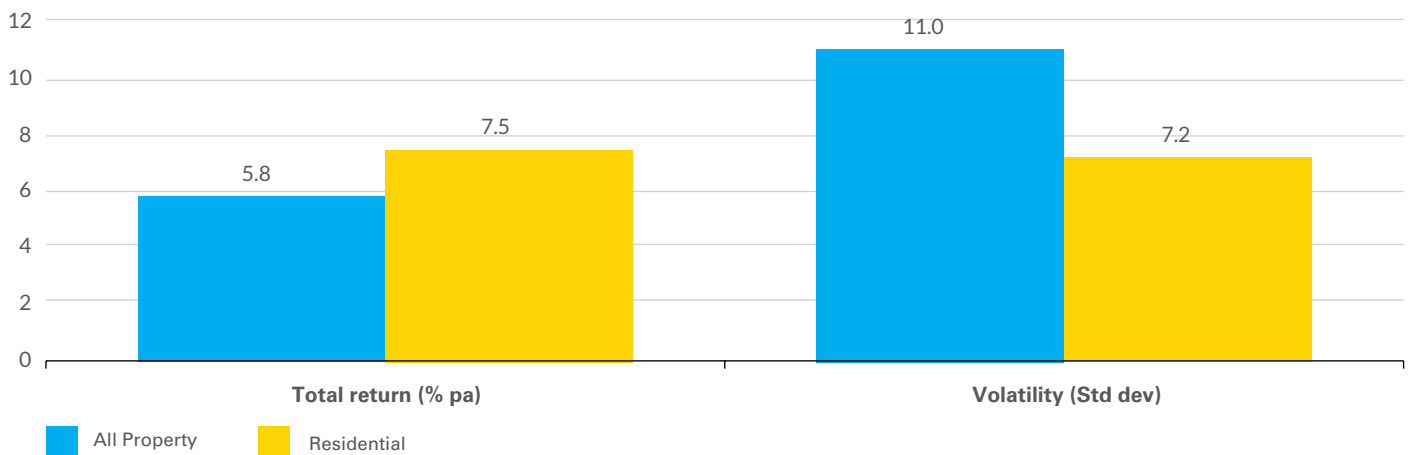
Best-in-class BTR developments also include a variety of facilities, such as gyms, resident lounges – even breweries! These are often open to the public to ensure that other local people also enjoy the scheme, fostering a sense of civic loyalty within the community.

AN ATTRACTIVE INVESTMENT SOLUTION

Homes England estimates that England needs 300,000 new homes per year to meet demand. Through the release of the 2017 Housing White Paper and the forthcoming National Planning Policy Framework, it has been acknowledged by Government that institutionally held BTR can make a significant contribution towards reaching these targets. BTR will not solve the housing crisis on its own, but should speed up housing supply.

Government also welcomes the professionalism offered by institutional landlords and is looking to large-scale investors, including investment vehicles used by LGPS funds, to continue to drive evolution in the sector.

Figure 2: Residential property has a more attractive risk-adjusted return profile compared to All Property (2007 – 2017)



Sources: MSCI IPD Annual Property Digest 2017. Past performance is not a guide to future performance. Capital is at risk.

Whilst still a relatively young sector, we believe BTR is an attractive asset class for investors, particularly pension schemes in search of long-term opportunities (see Figure 2). High occupancy rates and long tenancies mean income streams are stable, and are often linked to price indices. This helps to meet long-term liabilities whilst also hedging against inflation. The needs-based demand profile of the sector also offers important diversification benefits from more cyclical investments.

The aspiration of Legal & General is to deliver high-quality and well-managed homes, whether through its Build to Rent Fund or wider Group initiatives such as those offering by L&G Homes, including suburban houses, retirement properties or modular construction. This will help enhance the overall quality of housing in the UK, offering people a genuine choice between tenures and investors an attractive long-term opportunity.

CASE STUDY

There is an important role for BTR to play as a catalyst for regeneration. The LGIM BTR Fund is developing a new scheme at Blackhorse Mills, Walthamstow. Regenerating the former Ferry Lane Industrial Estate, it is just under 20 minutes to central London.

The 479 unit site is part of the wider regeneration initiative located at the gateway to Waltham Forrest, overlooking Europe’s largest urban wetlands. Walthamstow’s reservoirs are a Site of Special Scientific Interest; the environmentally-focused design of the scheme responds sensitively to the natural microclimate and has a zero-car policy.

Alongside homes, the scheme will also include a microbrewery, 19,000sq.ft. of retail space, a gym and an open-air swimming pool. The facilities will be open to all residents and is due for completion at the end of 2019.

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