Diversifying the BTR pipeline

Following a somewhat prolonged surge in popularity, is build-to-rent (BTR) ready to significantly contribute to the fixing of the UK's ruptured housing market? Alex Bell reports

Another build-to-rent (BTR) wave is coming but how big, diverse and impactful is it going to be? A concept operational for decades in the likes of Germany and the US, the UK can trace BTR back to just 2008.

BTR has been booming here since the financial crisis and its maturity is ongoing. Ongoing in a kingdom that requires 300,000 new homes per year to firmly address housing imbalance.

Couple that challenge with build cost inflation and interest rate rises, geopolitical risk and supply chain disruption, labour shortages, regulatory uncertainty, hybrid work, and rapidly moving environmental, social and governance (ESG) targets – the task facing custodians of real estate is vast.

Despite this, BTR continues to make in-roads, contributing to overall housing supply. Analysis by the British Property Federation (BPF) and Savills shows a 13 per cent increase of completed BTR homes in the UK to 88,100 in the past year.

BTR dwellings completed, under construction or in the planning pipeline stands at 253,402 (Q2 2023), a 12 per cent rise. Single-family housing is expanding too, with 28,000 units completed or in the pipeline.

Fighting delivery deceleration

The analysis, however, also highlights a deceleration in delivery, with construction starts totalling 5,549 units in the first half of the year, down 55 per cent on the same period in 2022.

Andrew Smith is chief investment officer of Hearthstone Investments, which launched its first fund focused on UK suburban private rented housing in 2012 and has since built an income-generating portfolio of over 1,400 homes across England, Scotland and Wales.

Last year, Hearthstone exchanged contracts with a national housebuilder for 70 new homes – 64 houses and a small apartment block – near Fareham in Hampshire. The site is part of a new masterplanned community of 3,500 homes off the M27 between Southampton and Portsmouth.

"This scheme is a good example of what we do," says Smith. "Our residents are typically young professionals, families and key workers. This is mainstream housing for people on average incomes, the kind of homes everybody needs, not high-end premium apartment city blocks.

"Institutional investors are increasingly getting involved in these kinds of projects. It's cheaper quality accommodation and close to Southampton and Portsmouth, which both have large student populations."

Alignment of interest is key

Smith explains further why Hearthstone is working so closely with UK local government pension funds, housebuilders and local authorities to push forward its agenda.

"Our focus has tended to be on houses and small apartment blocks rather than the very large city-centre BTR projects. We think that there's a very large and to some extent untapped market for family housing, and smaller apartment blocks, which you can do anywhere there's strong rental demand.

"Our investors are generally UK local government pension funds. They use the rental income from the investments to pay their pensions. There's real alignment of interest because they're in it for the long term. They want to make sure that the homes are looked after properly, that the people that live in them are looked after properly as well. It's a good business model that works well for the residents."

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> **Andrew Smith**
> Hearthstone Investments

Nikki Davies is managing director at the specialist built-environment PR agency Meeting Place. She says: "Though established in the US, the BTR concept arrived on British shores just over a decade ago. Despite the relative newness, it's certainly gaining traction – nearly half of all local authorities had BTR in their planning pipeline in early 2023."

Meeting Place recently held a webinar with public and private sector leaders to take a closer look at the trends. The panel agreed that BTR has a key role to play in helping to solve the housing crisis, yet some scepticism surrounding the concept remains.

Clearer messaging needed?

"For BTR to truly fit within our property ecosystem, especially outside larger cities, developers must tackle misconceptions and get a deeper understanding surrounding the nuances of local councils and communities," says Davies.

"Councillors tend to see housing as being either private or social – and BTR is seen as neither one or the other. Some local authorities also struggle with how affordable rents can be incorporated into BTR schemes which can hold up development.

"A development's impact on its immediate environment is crucial. The sector needs to do more to communicate the benefits surrounding the concept, but also how the specific development will integrate into and benefit local communities."

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> **Nikki Davies**
> Meeting Place

At its Waterfront development in Chatham, Kent, Medway Development Company has instructed Leaders Roman Group (LRG) to manage and maintain 86 BTR properties currently under construction.

Andy Jones is group director corporate and BTR at LRG, and says that BTR is expanding beyond traditional city apartments into BTR suburban communities, which provide family homes and related services on new developments.

He also alludes to recent analysis by BPF which states that the BTR sector could be worth £170bn by 2032, with the number of units set to rise from 76,800 to 380,000.

"Prior to the pandemic, institutional investment in UK real estate was focused on commercial property," says Jones. ➤

LRG manages the BTR homes at Buckler's Park, Crowthorne

KINGS CRESCENT HOMES FURTHER INVESTS IN ASHFORD

Kings Crescent Homes has plans for another scheme in the region.

The developer is currently delivering over 800 units from Hove up to Birmingham, including 255 units in Birmingham's Jewellery Quarter, 148 units in Brighton and Hove, and 146 units in phase one of the Ashford Victoria Road masterplan.

It has secured a £34.9m loan from OakNorth Bank to develop a new build-to-rent scheme in Ashford comprising 254 homes across four separate buildings. The scheme borders the River Stour and Victoria Park, a short walk from the town centre.

Nick Harvey-Jones, chief executive of Kings Crescent Homes, said: "Following on from the success of our phase one scheme, we're extremely excited to develop this well-located and attractively designed phase two BTR scheme in central Ashford."

CBRE is the debt advisor to Kings Crescent Homes.

"But the world has changed, and residential property is demonstrably the more robust asset class, with yields consistently out-stripping those of the commercial sector.

"LRG has seen significantly increased interest in BTR by institutional investors, including from owners of either commercial or retail properties and, simultaneously, retail property investors and operators such as the John Lewis Partnership, which recently revealed the first three locations where it plans to debut its BTR market ambitions."

He adds: "Despite the current political and economic turmoil, the future for BTR suburban communities shows no sign of abating. Amalgamation with other property classes – including the later living and affordable housing sectors, joint ventures leading to innovative cross-subsidies, and public-private partnerships – are adding to the wide-ranging appeal."

Diversifying the stock

Jacqui Daly, director of residential research and consultancy at Savills, believes BTR's profile must be diverse going forward: "With interest rates now expected to stay higher for longer, demand for new homes for sale is likely to be weaker, which will constrain housing delivery.

She continues: "BTR will have a key role to play in maintaining overall housing supply, and in the last quarter we have seen examples of major housebuilders agreeing to deliver a pipeline of rented homes, which has boosted the pipeline. The continued diversification of the profile of BTR deliverers is critical to its continued growth."

Davies of Meeting Place adds: "BTR can present long-term solutions, catering to a spectrum of needs, from families and young professionals to later living. This diversification creates competition and strengthens BTR's foothold.

"Critics argue BTR is prohibitively expensive and fosters transient communities. And admittedly, BTR properties are typically more expensive – often inclusive of bills and furniture, with better communal facilities – but they provide surety, quality, and professional landlords in an uncertain rental market.

"New BTR projects should seamlessly blend into existing communities, catalysing economic opportunities and creating benefits between residents, old and new. With the right planning, it can meet diverse housing demands and alleviate stress on other saturated housing categories.


Hearthstone Investments near Fareham

FROM OBSOLETE OFFICE TO TRENDY APARTMENT

Packaged Living and Bridges Fund Management are set to transform Norman Place, the former home of Covéa Insurance, into 234 BTR homes.

Property consultancy Vail Williams acted for vendor Covéa, while Hollis Hockley advised the purchaser.

The town centre site backs directly onto the River Thames and is adjacent to the Elizabeth line entrance at Reading railway station.

Ed Ellerington, founder and chief executive of Packaged Living, said: "We are delighted to have partnered with Bridges to redevelop this obsolete office building into an institutional-grade BTR scheme, which in turn will encourage more young professionals into the town, supporting its economic growth. Reading has seen unparalleled growth over the past few years, with surging demand for new good-quality homes and a limited supply within the town centre.

"Norman Place, on the waterfront with vistas over Christchurch Meadows, is a fantastic canvas to create a standout place for people to live close to local employment and the wider amenities of the town."

"Armed with informed planning, a commitment to community integration and a vision for diverse tenures, BTR is well poised to provide a significant and positive contribution to alleviating our housing crisis."

Housing as a political football

In the BTR analysis of the second quarter of 2023, the BPF and Savills report writes "eyes have turned to BTR to plug the supply gap, and the sector is already taking an increasing share of new housing delivery". It went on to state that BTR "makes up less than 1 per cent of privately rented homes", yet predicted growth as new entrants emerge.

Smith of Hearthstone says: "Housing has been a bit of a political football for many years, and we've only got to look at how long housing ministers stay in place, which on average is months rather than years.

"The government's housing targets of 300,000 new homes a year across the country was based on research about household formation, population growth, and the need to renew housing and replace substandard stock, but we haven't really got near that – for a combination of reasons.

"Government policy has tended to lean towards first-time buyers. There's nothing wrong with that as there's a need to look after people trying to get onto the housing ladder, but, equally, there's a large segment of the population that needs sociable, social and affordable housing.

"Housing policy needs to be a multi-tenure strategy. We need to provide for social housing, we need to provide for private renters and we need to provide for owner-occupiers." ■