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UK Build to Rent Market Update

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A slowdown in new starts and completions

Construction was largely put on hold in April and May and as lockdown eases across the UK, many developments are now progressing with a large number of completions expected in the second half of the year. Unsurprisingly, we have seen both starts and completions slow over the past three months across the UK as the construction industry grappled with the logistics of operating in a pandemic.

How has the market adapted?

The impact that Covid-19 has had on Build to Rent delivery will become clearer in the coming months. However, there have been signs throughout lockdown that the sector has emerged having learnt many lessons from the experience.

During lockdown itself, investors and their operators have been much more focused on managing customer welfare and wellbeing, offering particular support for those experiencing hardship.

A number of operators have made use of their digital platforms to provide better service for their residents. Virtual viewings have proven particularly popular allowing tenants the flexibility of remote self-guided tours while operators have been able to reduce their operating costs.

While there has been little concrete evidence on let up rates for schemes leasing up during lockdown, post lockdown tenant demand has improved across the rental market.

Looking to the future

We will likely see more of these long-term changes coming out of lockdown as Build to Rent operators adapt to the changing needs of their residents. Demand for amenities will undoubtedly have changed over the past few months and schemes may have to be redesigned in response. Some operators are already considering switching out cinemas, restaurants and gyms in favour of co-working areas while others are looking to redesign their sites in order to maximise outdoor space.

Despite the clear economic impact of Covid-19, the long-term fundamentals of renting remain. Existing affordability issues, stricter lending criteria and a rise in unemployment as the Government's furlough scheme eases will likely see first-time buyers delay the long-term commitment of home ownership until the wider economy recovers. Business strategies will be tweaked over the coming months and investors should take encouragement from knowing that US multifamily was one of the fastest real estate sectors to recover following the Global Financial Crisis.

Encouragingly, UK Build to Rent was among the first asset classes to have its material valuation uncertainty clauses relaxed by RICS. This highlights that there is now sufficient transactional evidence to provide certainty and should improve confidence among investors considering new deals.

While only three funding deals occurred in Q2 2020, totalling £96m, a number of deals have already completed in July. Get Living have agreed a major £252m forward funding deal for the second phase at Lewisham Gateway while Grainger have agreed forward funding deals in both Canning Town and Guildford, totalling £277m. Given the substantial number of deals currently under offer, investment into UK Build to Rent looks set for a significant rebound in the second half of the year.

Current Pipeline

The BtR pipeline includes 48,000 completed homes with a further 34,000 homes under construction. The future pipeline currently stands at over 80,000 homes, including those in the pre-application stage. Just over 35,000 homes have already gained detailed planning permission but have not yet commenced construction. This indicates a healthy supply of homes waiting to begin construction.

In Q2 2020, 12 schemes started construction in the UK with capacity for c.1,800 homes, 7% down on the 2019 average. On an annual basis, the number of starts has fallen considerably in both London and the regions since peaking in 2018. Nine schemes started construction in London this quarter with capacity for 800 homes, the largest of which is Thornton Park in Clapham. Only three schemes started construction in the regions though they are much larger in scale, and together will deliver 1,000 homes. Kangaroo Works in Sheffield and Dock 5 in Salford are both set to deliver over 350 rented homes each.

There are currently just under 168,000 Build to Rent homes planned, under construction, and operational across the UK.

Figure 1 Key schemes starting construction in Q2 2020

Scheme	Location	Investor / Funder	Build to Rent homes
Dock 5 Development	Salford	Forliving Ltd	394
Kangaroo Works	Sheffield	Angelo Gordon / Ridgeback	369
211 Broad Street	Birmingham	Taylor Grange Developments	264
Thornton Park	Lambeth	M&G Real Estate	186
Stratford Office Village	Newham	Aberdeen Standard	158
Aylesbury Estate – Plot 18	Southwark	Notting Hill Genesis	99

Source Savills, British Property Federation, Molior

Over the last quarter, the number of completions across the UK fell to just 1,640. This is half the number of homes that were built over the previous quarter and 33% down on Q2 2019.

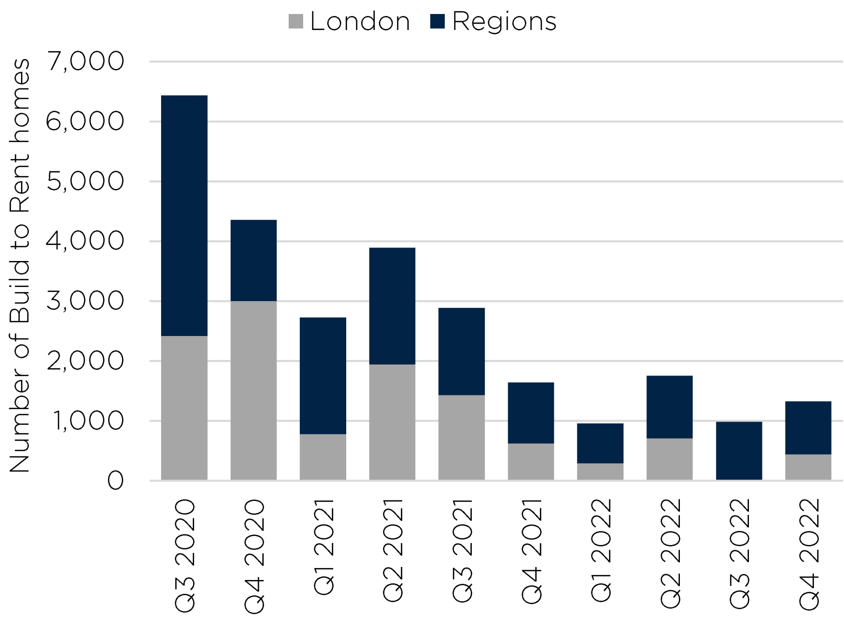
Completions have held up in London this quarter, broadly matching the total in Q1 2020. Meanwhile, completions have fallen sharply in the regions with just 433 homes completing this quarter. This is just 20% of the 2019 average.

As a result of lockdown measures in the UK, a number of schemes that had been scheduled to complete in Q2 2020 have now been delayed until the second half of the year.

We estimate that of the 34,000 homes under construction c. 11,000 homes could be delivered by the end of the year, shared evenly between London and the regions.

Around 1,000 homes are expected to complete at Wembley Park across three schemes while twice this number could be built across Manchester.

Figure 2 Construction pipeline estimated completions



Source Savills, British Property Federation, Molior

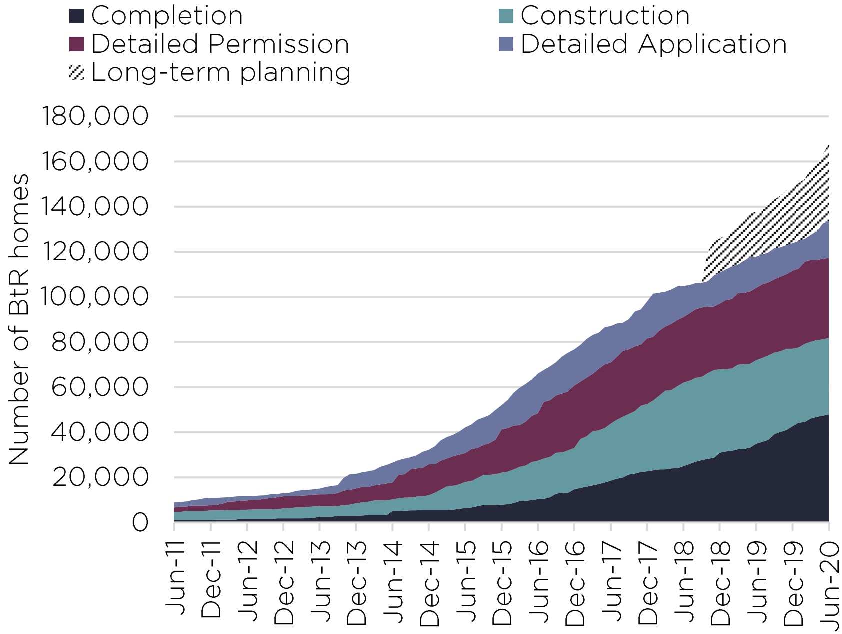
Over the past 12 months, a large number of BtR homes have completed across the country. The amount of completed stock increased by over a third in the latest 12 months. This amounts to an extra 12,900 homes per year.

As a result, we have seen some contraction in the construction pipeline. The number of homes under construction in London has remained relatively stable. Meanwhile, the construction pipeline outside of the capital has fallen 11% since Q1 2019, as the number of construction starts fails to keep pace with the high number of completions.

Over the long term, the number of homes entering planning in London has remained broadly static. That said, the 3,000 home partnership between TfL and Grainger should boost the planning pipeline as they bring schemes forward with two applications being made already this year.

The story is different outside of London, where the planning pipeline has grown 52% in the last year. There remains a healthy supply of homes waiting to begin construction in the regions.

Figure 3 The rise and rise of Build to Rent



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