

**BUILD TO RENT:
OPPORTUNITIES
TO UNLOCK
THE HOUSING
CRISIS?** 

**BARTON
WILLMORE**

THE GROWTH OF BtR

It's an exciting time for the Build to Rent (BtR) sector as it continues to display strong growth. The pipeline has grown fivefold since 2013 and the number of units complete, under construction or in planning in the UK have increased by 30% in the past year according to data recently published by the British Property Federation.

Significantly, the sector has also recently been recognised for the first time as a distinct asset class within the Government's draft revised National Planning Policy Framework (NPPF) and accompanying draft National Planning Practice Guidance; a move which will assist in ensuring proposals are handled in a more coherent manner across the planning system.

But before we look at this planning move in more detail, it's worth reviewing the origins of this sector's rapid growth, to begin to understand the future possibilities that this sector can unlock at a time when housing is at the forefront of the national agenda.

WHY HAS THE BTR SECTOR SEEN SUCH RAPID GROWTH?

Many in the industry see the sector's original growth as a direct response to the last economic downturn, when competition from the 'for sale' market was at a low, and housing finance was more challenging to secure. With economic recovery however, competition today is once again at a high, so this is no longer the key driver.

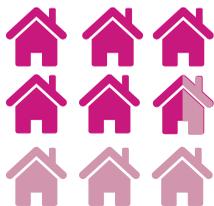
Born between 1980 and 2000, millennials have grown up amongst a rapid period of technological advances, with access to all the information they need at the press of a button or swipe of a smart phone. There are around 14 million millennials in the UK who are now reaching their prime working and spending years.

In tandem with this generational change, whether buying or renting, housing is increasingly unaffordable. Recent research by the Institute for Fiscal Studies evidences the decline in millennial homeownership, recognising that today's young adults are significantly

less likely to own a home at a given age than those born only five or 10 years earlier.

Millennials with middle incomes have been hit hardest, with a sharp downward trend from 65% owning their own homes in 1995/6, compared to just 27% 20 years later. Unsurprisingly, the key reason for this decline can be directly attributed to the sharp rise in house prices relative to incomes. In 2015/6 mean house prices were on average 152% higher than in 1995/6, whilst in stark contrast the real net incomes of those aged 25-34 grew by only 22% over the same 20 year period. As a result, an average house costs almost eight times average earnings, often significantly more in London and the South East.

1995/6



65%

of 25-34 year olds own their own home



27%

of 25-34 year olds own their own home

2015/16



Mean House prices have risen by **152%** in 2015-16 compared to 1995-96



Real net incomes for those aged 25-34 years grew by only **22%** over same 20-year period



The average house costs are 8x average earnings, often significantly more in The South East

Source: Institute for Fiscal Studies (<https://www.ifs.org.uk/publications/10505>)

This all represents a significant barrier to homeownership amongst young, economically active millennials, and is resulting in the emergence of 'Generation Rent', as more people are now renting privately than ever before. Against this backdrop, it is predicted that the BtR market will continue to show strong growth from its current worth of £25 billion to around £70 billion by 2021.

In tandem with these affordability issues however, there is also a clear emerging trend of millennials choosing to rent. Homes are today seen far more as a 'commodity', much like a hire purchase car, a contract phone or a TV package. People choose lifestyle factors; short-term convenience; the particular lifestyle an area offers that they would otherwise not be able to afford to live in; or perhaps a desire to co-live with friends/like-minded individuals. Other influences such as

the desire towards minimalistic living, the wish to live within purpose built modern, clean and technologically well-equipped accommodation have all significantly raised the expectations of the millennial generation to demand improved standards of convenient, flexible and well-equipped private rental accommodation.

Another key factor in this market growth has been the rise of the professional landlord. Offering better quality and 'security' of tenancy (for example the GLA's Affordable Housing SPG requires BtR developments to include minimum three-year leases with a six-month break clause for the tenant only) as well as short-term convenience, all make the professional landlord's BtR housing offer far more attractive for private renters.

THE MARKET / PRODUCT RESPONSE

In response to these demands, BTR developments are delivering schemes which offer a range of high-quality additional facilities and services as integral components – setting BtR schemes apart from the traditional private rental housing stock.

On-site amenities such as shared amenity spaces; gyms and cafés; a single rent charge covering rent, utilities, Council Tax and other services such as cleaning, Wi-Fi and TV; and on-site management all add to the attractiveness. The importance of these additional facilities and services is highlighted through Knight Frank's recent Tenant Survey research, demonstrating that millennials are willing to pay higher rental premiums for access to such facilities.

Widening Demographic

One area the market is not currently responding to however, is perhaps the widening demographic opportunity of BtR. Whilst the vast majority of BtR schemes that have come forward to date have tended to focus around the millennial generation, there is also a significant opportunity for the BtR sector to deliver schemes to meet the needs of other demographic and social groups – such as family, later living and co-living schemes.

Building on the same principles of shared living and social interaction, incorporated amenities could be aligned with the specific needs of families or later living for example.

Indeed, reviews of tenants in a number of schemes by one operator we work with across London has highlighted that those people who rent cover a broad age range, including families and those who are retired.

Interestingly, both the US multifamily market and the UK student housing market took 15 to 20 years to emerge as an established asset class. In the UK, it is likely that it will take at least 10 years before there is significant BtR stock at scale in institutional ownership (BPF, 2017). If the BtR market is able to mature and reach a similar scale of investment as the US multi-family market or the UK Student market, it would create around 15,000 new homes per year in the period to 2030. If these are built in the right locations and on the right sites, there will be relatively little displacement of homes built for sale.

With this unprecedented growth in the market, one interesting government response has been the withdrawal of the specific Build to Rent Fund, merging it into the more general Home Building Fund. This indicates the Government are now starting to pull back from any specific BtR market stimulation and therefore confirms the market perception that the BtR sector has strong potential and that the Government only intended to assist the market for a short while. But how is this belief being reflected or supported in legislative terms by the Government?

THE PLANNING RESPONSE

Helpfully, the draft NPPF does widen the traditional definition of affordable housing and will include housing for BTR schemes for the first time.

Affordable Private Rent

In this version, the Government confirms that discounted market rent housing is expected to be the normal form of affordable housing provision, known under a new definition of 'Affordable Private Rent'.

Crucially, this allows for the affordable homes to be tenure blind and for BtR schemes to be brought forward entirely by a BtR developer, without the need to engage the services of a registered provider to provide the traditional affordable housing.

We therefore believe that the ability for schemes to be brought forward by a single BtR developer, providing both market and affordable private rent, should increase the rate in which BtR schemes can be delivered.

National Guidance

The revised National Planning Practice Guidance also contains useful guidance, setting out the Government's intention that 20% is generally considered to be a suitable benchmark for the level of affordable private rent homes to be provided in a BtR scheme.

Whilst this national guidance will be helpful, it is yet to be seen how this will be reflected throughout individual local authorities who have their own policy targets. This is therefore clearly a space we need to watch and wherever possible, influence through new policy development and viability work.

Identify the Need

However, as we have seen across other emerging residential tenures such as affordable housing, political support via legislation change is critical to securing further future growth and significant change, particularly when this is focused around embedding 'need' in policy. The revised NPPF proposals include a requirement for local authorities to identify the need for a range of housing types and tenures, including, for the first time, the provision for those who wish to rent.

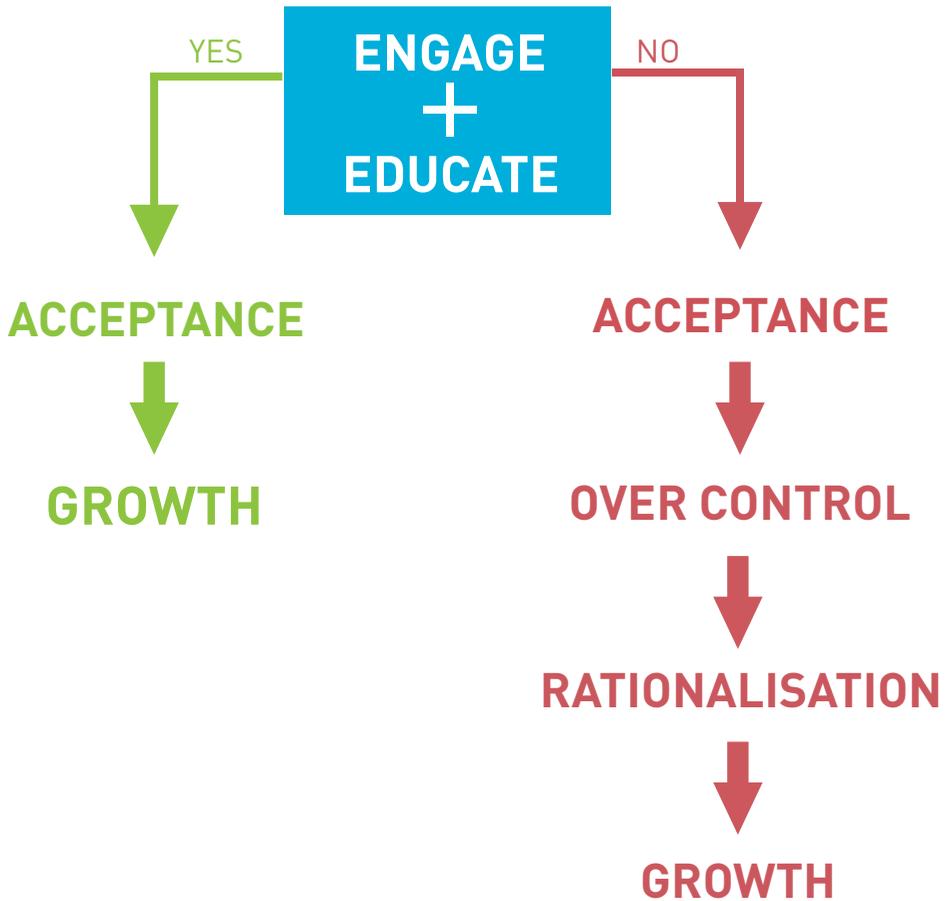
However, some may say this doesn't go far enough. Without recognising the distinct economics and bespoke design solutions that are required to ensure BtR can continue to compete with the 'for sale' market, is this policy shift really going to significantly and sufficiently support BtR delivery rates?

This guidance sets out to:

- Clarify that affordable private rent unit levels should be set at a level that is at least 20% less than the private market rent (inclusive of service charges)
- Ensure a mechanism is put in place to ensure that the housing remains at an affordable price for future households
- Detail how BtR developments are expected to offer longer-term tenancies, typically of three or more years, to all new tenants who want to provide longer-term security and stability for those who wish to settle down within a community (the GLA's Affordable Housing SPG has already started to ask for this in planning guidance).

GOING FORWARDS

Without clear guidance, the sector will continue to fall foul of the same challenges.



The sector must come together to engage and educate Councils on the benefits of BtR housing, focusing on the full breadth of demographics from millennials to the retirement generations. Only through continual engagement and education can we begin to build on the success of this growing sector.

GET IN TOUCH TO DISCUSS BTR OPPORTUNITIES IN YOUR AREA



IAIN PAINTING
PLANNING PARTNER
LONDON

iaain.painting@
bartonwillmore.co.uk



KATHRYN VENTHAM
PARTNER
BIRMINGHAM

kathryn.ventham@
bartonwillmore.co.uk



KIM COHEN
PARTNER
READING

kim.cohen@
bartonwillmore.co.uk



ANDREW WILFORD
PLANNING DIRECTOR
EBBSFLEET

andrew.wilford@
bartonwillmore.co.uk



BOB MCCURRY
PLANNING DIRECTOR
LONDON

bob.mccurry@
bartonwillmore.co.uk



GREG DICKSON
PLANNING DIRECTOR
MANCHESTER

greg.dickson@
bartonwillmore.co.uk



LYNDON GILL
DIRECTOR
CAMBRIDGE

lyndon.gill@
bartonwillmore.co.uk



JULIAN MOAT
PLANNING ASSOCIATE
EBBSFLEET

julian.moat@
bartonwillmore.co.uk

101 Victoria Street
Bristol
BS1 6PU
T/ +44 (0)117 929 9677

Greyfriars House
Greyfriars Road
Cardiff
CF10 3AL
T/ +44 (0)292 066 0910

St Andrews House
St Andrews Road
Cambridge
CB4 1WB
T/ +44 (0)122 334 5555

The Observatory
Southfleet Road
Ebbsfleet
Dartford
Kent
DA10 0DF
T/ +44 (0)132 237 4660

68/70 George Street
Edinburgh
EH2 2LR
T/ +44 (0)131 220 7777

1st Floor
14 King Street
Leeds
LS1 2HL
T/ +44 (0)113 204 4777

7 Soho Square
London
W1D 3QB
T/ +44 (0)207 446 6888

Tower 12
18/22 Bridge Street
Spinningfields
Manchester
M3 3BZ
T/ +44 (0)161 817 4900

The Forum
The Pearl
New Bridge Street West
Newcastle
NE1 8AQ
T/ +44 (0)191 206 4040

The Blade
Abbey Square
Reading
RG1 3B
T/ +44 (0)118 943 0000

9th Floor
Bank House
8 Cherry Street
Birmingham
B2 5AL
T: 0121 711 5151

The Centrum Business Centre Ltd.
38 Queen Street
Glasgow
G1 3DX
T: 0141 548 8240

The White Building
5th Floor
1-4 Cumberland Place
Southampton
SO15 2NP
T: 023 8235 2499

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