

Build to Rent in London

**A report for the University of New South Wales and NSW Landcom
November 2018**

By Kath Scanlon, Peter Williams and Fanny Blanc
LSE London/Cambridge University

Table of Contents

Executive Summary

Introduction	2
UK context.....	6
The housing market and the PRS	6
National and London policies.....	7
Local authorities and housing associations as BTR partners	9
Profile of BTR sector.....	10
Research questions and methodology.....	10
Interviews.....	11
Customer surveys.....	11
Case studies	11
Contribution of Build to Rent to estate regeneration and urban renewal	12
Two case studies of BTR in urban regeneration schemes	13
Lessons from the case studies	17
Affordable housing in the Build to Rent model	17
The role of not-for-profit providers	20
The customer experience	23
Research into the tenant experience.....	24
Household incomes: BTR vs buy-to-let tenants.....	25
Community: BTR vs buy-to-let tenants.....	25
Facilities and management: BTR vs other new build schemes	26
Comparing landlords.....	27
Financing Build to Rent	28
Lessons for Australia	30
Conclusions	31
References	33
Selected further resources.....	35

Executive Summary

At the invitation of the University New South Wales and NSW Landcom, LSE London carried out this study of the build to rent (BTR) sector in London, to help inform policy for the emerging market in Australia. The housing and rental markets in the UK and Australia share many features but London is about five years ahead of any Australian city in terms of BTR, and is therefore a natural comparator. In our research, which took place in the first half of 2018, we collected the latest statistics about BTR in London, reviewed recent publications, and interviewed 17 informed stakeholders. We also did a small survey of tenants, and conducted case studies of two recent BTR schemes. We looked at four subjects in particular:

- 1) The role of BTR in officially-sponsored urban renewal projects
- 2) BTR and affordable housing
- 3) The roles of not-for-profit housing providers in the BTR sector
- 4) The BTR consumer experience

Background

The private rented sector (PRS) in England houses about 20% of households. The vast majority of private landlords are individuals or couples, most of whom own only one or two properties. Until recently there was almost no corporate PRS, but recent government-policy initiatives have led to the rebirth of the sector (the sizeable institutional-landlord sector of the early part of the 20th century having withered away in the face of rent controls and other factors).

There are now about 21,000 completed BTR units in the UK, of which 58% are in London, and another 118,000 in the planning or development process. Some of the major BTR landlords are US or Canadian operators bringing their experience of the North American multi-family sector, but there are also important UK-based players including an increasing number of housing associations.

Policy measures

Since 2012 the UK national government has taken a number of measures to stimulate the supply of Build to Rent homes. These include

- The PRS guarantee scheme (2012 – present): at least £3.5 billion of debt guarantees for build to rent housing. To be eligible, properties must be completed, with stable incomes and a value of at least £10 million.
- The Build to Rent Fund (2012-2016): Loans to cover up to 50% of eligible development cost on BTR schemes. Replaced by the Home Building Fund, which funds private-sector development schemes including BTR.
- Taxing BTR landlords more favourably than their competitors. Since 2016 the UK government increased several taxes paid by individual private landlords; most of these tax changes do not apply to BTR landlords.
- Recognising BTR in planning policy, and requiring local authorities to plan specifically for BTR development.

Build to Rent developers have argued that because their schemes generate lower gross development values than speculative for-sale schemes, they could not afford to provide as much affordable housing. However in London—the only city with specific policy on Build to Rent—this argument was rejected, and the city’s planning guidance on affordable-housing contributions makes no distinction between BTR and other types of residential development.

The role of BTR in urban regeneration

The demand for the BTR product is crucially driven by location. Regeneration areas have proved to be fertile ground for the sector, offering opportunities to build at scale in areas with good existing or regenerated infrastructure and transport links. These locational factors have attracted large numbers of couples and single sharers seeking good homes in good locations.

BTR schemes build out faster than build for sale (BFS), meaning regeneration areas are (re)populated more quickly. An influx of new BTR tenants brings instant vitality, and by using the local services/shops/pubs they help carry forward the process of urban revitalisation. Because of this, most big London regeneration schemes now incorporate a BTR component. However, BTR does not generate the high land values that (in the UK) are drawn on to provide infrastructure and other public benefits—so while it is a useful element in big developments, it is almost never the main driver.

BTR and affordable housing

So far there is little evidence that BTR schemes will be major providers of affordable homes as conventionally defined. In England, most residential developments must include a proportion of affordable housing (in London the target is generally 35%). BFS schemes pay for this out of profits from market-sale units but BTR developments do not generate immediate capital receipts, and providers argue that they cannot therefore provide as much affordable housing as BFS schemes. But BTR schemes can contribute to cashflow and profits on large sites, and thereby indirectly help enable more defined affordable homes.

BTR landlords generally retain and manage their own affordable units, which are rented to tenants who meet criteria set by the local authority. Providers are willing to offer homes across a spectrum of rents as long as the overall scheme can produce the required rate of return.

The roles of not-for-profit housing providers in the BTR sector

A number of housing associations are important BTR landlords, either under their own names or through wholly-owned profit-making subsidiaries. They see the business as a natural progression that makes use of their skills in managing residential property and serving tenants—albeit that the consumer demographic is very different from their affordable portfolio.

Housing associations are looking for profits from the BTR elements of their businesses to cross-subsidise their core activities, either elsewhere on the same site or in other locations. The model has obvious appeal for both the associations and policy makers, as it enables associations to advance their charitable aims with less government subsidy. But those who have become BTR operators are now exposed to the market in a way that housing associations traditionally have not been. All of the associations interviewed were confident that their financial plans were realistic and were enthusiastic about providing good homes for those who need them across the full spectrum of the market. We will not know if these expectations are borne out until the economy has been through a complete market cycle.

The BTR consumer experience

Operators say BTR appeals to consumers because it offers new, high-quality units in good locations, with professional management. It also often offers three- to five-year leases, inclusive rents and the

services of a concierge. Evidence from our small survey suggested that these are all features that tenants value.

Market rents in BTR schemes tend to be at the top end of rents locally—that is, they are premium products. Broadly speaking, BTR tenants tend to be young professional couples/sharers. There are few families with children even in schemes with features designed to attract them. This is an issue of both tenure and built form: most of the BTR stock in London is in mid- to high-rise, high-density blocks, and for the rents charged one could make mortgage payments on (or rent) a sizeable house with a garden in many parts of the capital.

Operators' view was that schemes needed to have 100 units or more to support a concierge service and to achieve other economies of scale.

Final observations

BTR is becoming an established product in the UK but the first units were occupied only about four years ago, so the market is still in its infancy. Most of the homes to be provided are still at the planning stage and all parties involved are still learning about this market. It is clear that understanding the underlying demographics is key, and that amenities, service and product must be tailored appropriately, to provide the right stock in the right location.

Build to Rent covers quite a wide spectrum of homes ranging from the extremely luxurious to the relatively basic. Some informed observers have doubts as to whether the UK market will support the luxury end of the market as much as the USA does – their view being that UK renters were less concerned about pools, gyms and club rooms in their own block, preferring to find such amenities in the surrounding area. It is clear rental markets vary around the world, as do sentiments regarding home ownership and private renting. This is bound to mean that BTR markets will differ.

There are high expectations for how BTR will affect the PRS more broadly: the hope is that it will drive down rents for poorer quality homes and drive up standards. It is easy to see how this might play out in the immediate neighbourhoods of BTR schemes or even in metropolitan areas, but it may be too optimistic to expect to see effects spread to the very many local submarkets where BTR is not represented (and may never be).

While there appears to be strong demand for BTR from both consumers and investors, it is unlikely it will ever dominate the PRS market. Most experts suggest that, by the 2030s it may – at best – come to comprise around 10% of the market, or a maximum of 500,000 homes. This estimate is based more on instinct than hard data, given we have yet to see this new market go through an economic or housing-market cycle.

Core demand is from so-called millennials, many of whom have been squeezed out of home ownership. As their circumstances improve, and the housing market goes through the inevitable cyclical downturn, we might expect some of them to move into owner-occupation, thus reducing demand. Indeed government may still go further in its efforts to enable households to get into home ownership. This will be a conditioning factor in the process. However, some of the pressures that have kept them out so far are unlikely to change (for example, tighter mortgage-market regulation has made it harder for first-time buyers to access high LTV loans), so demand for rental homes may remain strong for some time even if the current slow deflation of the UK housing market continues.

In terms of purchasing land it was generally accepted that BTR developers cannot outbid BFS, though some recent market commentary does suggest this might be changing. The argument centres on the amount that developers can afford to pay for a site. For-sale developments generate a higher gross development value (GDV) as compared to BTR schemes, where the GDV is calculated on the basis of a capitalised flow of rental yields over time. BFS developers see higher immediate profits, so can afford to bid more than BTR developers for land. But as markets shift and house prices themselves move, the balance of advantage can alter. Some observers see falling house prices in the capital as an opportunity for BTR developers.

Introduction

This report is input into a major piece of research into the potential of purpose-built private rented housing, by the University of New South Wales on behalf of NSW Landcom (the NSW Government's land development agency). The so-called Build to Rent (BTR) sector is in its infancy in Australia but since 2016 there has been growing interest on the part of policymakers, developers and investors.

In the last ten years the provision of BTR housing (or 'multifamily' housing to use the North American term) has expanded very rapidly in England and particularly in London. A study of the UK experience may therefore offer useful lessons for policymakers in Australia. UNSW asked us to focus on four areas of experience to date:

- 1) The role of BTR in officially-sponsored urban renewal projects
- 2) BTR and affordable housing
- 3) The roles of not-for-profit housing providers in the BTR sector
- 4) The BTR consumer experience

UK context

The housing market and the PRS

The expansion of the private rented sector since its nadir in the early 1990s, and the subsequent (and long-awaited) emergence of a Build to Rent sector, must be viewed in the context of the overall housing situation in the UK in general and England in particular.

The market has been characterised by a number of long-term tensions. First there has been a continuing imbalance between the supply of and the demand for homes. Recognising this, the government has set a target of 300,000 new homes per annum in England. Output is currently well below that number though has been increasing: in 2016/17 it reached 217,000 net additions (new homes plus conversions and changes of use) (MHCLG, 2017).

The imbalances are more obvious in some regions than others – in the North of England supply and demand are close to balance and the issue is more about improving the quality of existing homes, while London faces an acute shortage, and in the current draft version of the London Plan (GLA, 2017a) the Mayor has set a target of 65,000 new homes a year over the next ten years (vs 38,500 in 2015/16, the most recent year for which figures are available).

Affordability issues also loom large. Constrained wages across the UK, rising house prices (at least until recently) and tighter mortgage conditions have all meant that access to home ownership has got tighter over the years post-dating the 2008 global financial crisis. Despite low interest rates and intense mortgage-market competition, borrowers still need significant deposits to be able to buy a home. Transaction costs have been rising due to the introduction of higher rates of stamp duty, though exemptions have recently been created for most first-time buyers in the UK¹.

¹ No SDLT is payable by first-time buyers of properties costing up to £500,000 in England, Wales and Northern Ireland, or up to £175,000 in Scotland. Purchaser must live in the property as their main home.

According to the experimental ONS Index of Private Housing Rental Prices², rents have risen across Great Britain since 2012 (though in London they are now flat). Many landlords are under pressure to increase rents after a series of tax changes over the last few years have negatively affected their after-tax yields (Simcock, 2018). However competition from new supply is also increasing which may limit the headroom for increases. There is no rent regulation anywhere in England although recent legislation introduced the possibility (as yet unused) in Scotland.

Unsurprisingly given the overall context, England's home ownership has been falling – a trend in common with other UK jurisdictions. From a peak of 71% in England in the early 2000s, owner occupation is now down to 63%, though possibly stabilising in 2017 according to recent statistics. The impact of this has been felt most acutely by younger households, with an estimated third of them forecast to be renting in retirement (Resolution Foundation, 2018).

The rise of pressure groups such as Priced Out and Generation Rent³ reflects the considerable political tensions generated by these tenure shifts. Home ownership rates have fallen sharply across all of the younger age bands even though about 80% still aspire to be owners (Pannell, 2016). Aside from the increasing number returning to live in the parental home, many more within these age groups are now renting and this has driven a demand for more rental homes whether in the mainstream PRS or the more specialist BTR market.

At the same time, it is important to recognise that there have been shifts in housing consumption preferences. House prices, which had been rising since 2009, levelled off during 2017/18 in some parts of the UK and in London began to decline. Faced with the possibility of falling house prices, high transaction costs, student debt and possibly shorter employment contracts, some younger households prefer to rent. They may take the view that they can rent better homes in better locations than they could buy (if that option exists). Some make a lifestyle choice to locate in highly-accessible areas close to entertainment and/or lifestyle-related amenities, reflecting a focus on consumption rather than investment.

London's rental markets are very diverse both in terms of what is supplied and what is demanded or needed. They range from very poor quality and often multiply occupied homes in poor suburbs to luxurious apartments in expensively serviced blocks in very central locations. Given the high expectations of some of this new generation of renters it is little surprise that we have seen the emergence of new providers catering to tenants with higher incomes and busy life styles.

National and London policies

The UK Government has long sought to create a new corporate private rented sector to supplement (and, it hopes, eventually partially displace) the classic amateur landlords with one or two properties that dominate the sector (Kemp, 2004; Alakeson, 2012). Politicians have argued that the country needs real alternatives to home ownership and social renting, and that the labour market would benefit from greater availability of good quality, readily accessible and flexible rented housing. Over the last three decades, prior to 2012, various governments introduced policies designed to encourage the sector (including the Business Expansion Scheme, Housing Investment Trusts and Real Estate Investment Trusts), but to little effect.

² See

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/april2018>

³ <http://www.pricedout.org.uk/> and <http://www.generationrent.org/>

In 2012 the government commissioned a review to identify the problems. The findings of the *Review of the barriers to institutional investment in private rented homes* (known as the Montague Report), suggested that an increase in institutional investment could tackle some of the perceived historic weaknesses of the PRS by offering longer leases, a better service to tenants, and purpose-built, high-standard accommodation (Montague, 2012).

The government has used several schemes to support the BTR industry that has subsequently emerged. The main one currently in operation is the PRS guarantee scheme, which aims to encourage institutional investors. In 2012 the government announced that it would offer up to £10 billion of debt guarantees to support long-term loans for new housing, of which at least £3.5 billion would go to the private rented sector (rather than to affordable rental housing construction)⁴. This is not development funding; to be eligible, properties must be completed, with stable incomes and a value over £10 million. Some of our interviewees told us that the scheme's usefulness was limited because it did not cover the development phase.

An earlier scheme, the Build to Rent Fund, operated between 2012 and 2016⁵. This provided loans to cover up to 50% of eligible development costs, with the government sharing risk to help the construction, management and letting of new schemes. Developers sold on their interest or refinanced and repaid the investment once a scheme was fully let. The Build to Rent Fund has been replaced by the Home Building Fund, managed by Homes England, which provides funding for private-sector development schemes including BTR.

While supporting the BTR sector, in 2016 the government moved against traditional landlords through a series of tax increases aimed at reducing what it described as the advantages landlords enjoyed over owner-occupiers and at rebalancing competition between 'buy-to-let' investors and first-time buyers in the mainstream housing market. Some of these changes took effect immediately, most notably a 3% stamp duty surcharge for investors--which also controversially applies to purchases of BTR buildings--and some are being phased in over a period of years (detailed in Scanlon et al, 2016). Buy to Let loans for purchase have declined from around £1.5 billion a month in 2015 to £700 million a month in April and May 2018 (CML Table MM17). At the same time remortgaging has been boosted as landlords seek to restructure their debt.

The government's support for the sector has led to the inclusion of an explicit reference to BTR in the draft new national planning policy framework (MHCLG, 2018), giving formal policy recognition at national level for the first time. The consultation paper defines a BTR development as a single building, with 100% of the units privately rented, professionally managed, in single ownership and offering tenancies of three years or more. Assuming the draft document is adopted, local authorities will henceforth be required to plan for BTR development.

London has more detailed policy on BTR than does national government. The 2017 draft London Plan defines BTR very specifically as:

- 1) the development, or block or phase within the development has at least 50 units
- 2) the homes are held as Build to Rent under a covenant for at least 15 years
- 3) a clawback mechanism is in place to recoup additional affordable housing contributions in the event of the covenant being broken
- 4) all the units are self-contained and let separately
- 5) there is unified ownership and unified management of the development

⁴ The scheme is operated by Venn Partners (<http://www.venn-partners.com/prs/>).

⁵ See <https://www.gov.uk/government/collections/build-to-rent-guidance-and-allocations>

- 6) longer tenancies (three years or more) are available to all tenants. These should have break clauses for renters, which allow the tenant to end the tenancy with a month's notice any time after the first six months
- 7) the scheme offers rent certainty for the period of the tenancy, the basis of which should be made clear to the tenant before a tenancy agreement is signed, including any annual increases which should always be formula-linked
- 8) there is on-site management, this does not necessarily mean full-time dedicated on-site staff, but all schemes need to have systems for prompt resolution of issues and some daily on-site presence
- 9) providers have a complaints procedure in place and are a member of a recognised ombudsman scheme
- 10) providers do not charge up-front fees of any kind to tenants or prospective tenants, other than deposits and rent-in-advance. (Mayor of London, 2017)

Build to Rent developers have argued that because their schemes generate lower gross development values than speculative for-sale schemes, they could not afford to provide as much affordable housing. However in London—the only city with specific policy on Build to Rent—this argument was rejected, and the city's planning guidance on affordable-housing contributions makes no distinction between BTR and other types of residential development (see GLA 2017b).

No review of policy towards the PRS would be complete without a mention of rent regulation. There is no control of private-sector rent levels or rent increases in England (although the possibility—as yet unused—does now exist for 'rent pressure zones' in Scotland). Labour leader Jeremy Corbyn has made it clear that he would institute a form of rent control if Labour were to win the next election, and several BTR landlords said that they viewed this with concern (though thought that politically it was unlikely to eventuate).

Local authorities and housing associations as BTR partners

Many local authorities are actively searching for ways to realise the value of their land and property assets, to try to offset the continued squeeze on funding from central government. Some authorities still have significant stocks of council housing including sizeable estates built in the 1960s at relatively low densities. Although the dwellings themselves are now generally in good condition, many of these estates offer potential for development and densification through selective infill, demolition and rebuild, and/or repurposing of vacant or redundant land (e.g., garages).

Local authorities regularly enter into joint ventures with developers for estate regeneration programmes or development on other local-authority land⁶. The goal is to secure improved homes for low-income residents and at the same time build new homes for a wider mix of residents. These activities respond to the need to increase housing supply, but also enable local authorities to cross-subsidise mandatory council services and other activities (London Assembly, 2015 provides a helpful review of the issues).

While there are many examples of ambitious and successful estate-regeneration partnerships, the practice has become much more politically contentious in recent years, especially in London, as Minton (2017) among others makes clear. Redevelopment at scale requires decanting of residents, with concomitant concerns about when (or if) they will be able to return. While national and London planning policies aim to create social and income mix at neighbourhood level, activists often accuse local politicians of 'social cleansing' if the tenure mix of new homes differs from that of the homes they replace (Hill, 2017). The Mayor of London has now explicitly stated that estate

⁶ In a few cases the GLA has disposed of land with the requirement that it be used for BTR.

regeneration projects in the capital must provide new affordable and social housing to replace what was lost on a like-for-like basis⁷.

Like local authorities, housing associations have also been under financial pressure because of reduced government funding. This has encouraged many to develop a cross-subsidy business model whereby they develop market priced homes for sale and rent, then use profits from that activity to subsidise new social rented homes. This is a process not without its risks and tensions, not least because the payback for the social housing side of the business can take time to materialise.

Profile of BTR sector

The BTR sector has been growing strongly in recent years but still provides only a minute fraction of the country’s private rented housing. In Britain as a whole there are about 5.5 million PRS dwellings, of which well under 25,000 are BTR homes—less than half of one percent. According to a quarterly report from the British Property Federation, in the entire UK there were, at quarter end March 2018, 117,893 build-to-rent homes across **all** stages of the development lifecycle, compared to a total of 90,761 homes at the end of Q1 2017 (Table 1). Of these, some 20,863 were complete as of March 2018, up 45% from 14,371 in the same period the year before. The number of build-to-rent homes under construction has increased by 47 per cent in the last year.

BTR activity to date has been heavily concentrated in London. According to British Property Federation (BPF) figures the capital accounts for 58% of completed BTR homes in the UK, while its share of the country’s overall housing stock is just 13%. BTR has accounted for about a quarter of the new homes sold in London in 2015, 2016 and 2017, according to industry experts Molior.

Table 1: Total BTR homes in all stages of construction, as of end Q1 2018 and Q1 2017

Status	Q1 2018	Q1 2017	Increase
Complete	20,863	14,371	45%
Under construction	33,075	22,498	47%
In planning	63,955	53,892	19%
Total	117,893	90,761	30%

Source: BPF with analysis from Savills

The number of completed BTR schemes in London has grown rapidly over the last few years and the sector is no longer the novelty it was just five years ago. There is some evidence that competition (or perhaps the wider housing-market slowdown) has been recently affecting lettings: Molior reports that rents have been reduced in a few schemes, while others have been offering incentives such as rent-free periods. Many advocates of the BTR model have been confident that demand for this sort of product is effectively almost unlimited in London; this will be tested later in 2018, when a major influx of new BTR stock is due to come onto the market.

Research questions and methodology

Based on the areas of interest to UNSW and NSW Landcom, we developed four general research questions:

1. How is BTR incorporated in officially-sponsored urban renewal projects?

⁷ see <https://www.london.gov.uk/what-we-do/planning/london-plan/new-london-plan/draft-new-london-plan/chapter-4-housing/policy-h10-redevelopment-existing-housing-and-estate>

2. How are affordable components integrated into BTR schemes?
3. What are the possible roles of not-for-profit housing providers in the development and/or management of BTR schemes?
4. What is the consumer experience of BTR living and how does BTR fit in consumers' housing careers?

The report is structured around these four issues.

We carried out a short update of recent literature on the BTR sector, and used three main empirical methods: interviews, case studies of particular schemes, and an online survey of a small number of BTR tenants. With the approval of all parties, some of this work was done in conjunction with a parallel LSE research project on behalf of the Mayor of London.

Interviews

We carried out 17 interviews, speaking to 19 individuals either over the telephone or where possible in person (Table 2). These were one-to-one conversations and we agreed not to publish the names of interviewees. We wrote up notes of each discussion which were then coded by theme to feed into the relevant sections of the report.

Table 2: Interviewees

<i>Type of interviewee</i>	<i>Number of individuals interviewed</i>
For-profit BTR operator	3
Not-for-profit involved in BTR	5
Local government officer (including boroughs and GLA)	2
Agent/analyst	4
Property industry representative	2
Investor	2

One of the authors also attended the major annual property-industry conference⁸ about BTR in London in February.

Customer surveys

In conjunction with a parallel LSE research project on behalf of the Mayor of London, we surveyed BTR residents in London about their experience of living in this new housing type. We distributed postal invitations to complete an online survey to residents of a number of new high-density developments, including three BTR schemes. For one scheme, the survey included questions about consumer views of BTR.

Case studies

We looked at two examples of BTR incorporated into larger urban redevelopment schemes and produced short case-study reports with photographs.

We had hoped also to organise one or two focus groups with BTR consumers, to explore their experience of living in these developments and how they perceived the differences compared to

⁸ British Property Federation 'Housing for My Generation' <https://www.bpf.org.uk/events/housing-my-generation-conference-dinner>

standard buy-to-let provision. However, it proved difficult to recruit participants and given time and resource constraints we were unable to include this research task.

Contribution of Build to Rent to estate regeneration and urban renewal

All the BTR providers interviewed, regardless of size or type, recognised the strengths of BTR provision in regeneration areas and its competitive advantages (and disadvantages) vis-a-vis build for sale (BFS) schemes. One important advantage in a regeneration setting is that BTR can attract residents to these sites quickly, with an offer that appeals to the likely target market: new homes in good locations, with good transport links and established or improving infrastructure. BTR's contribution to populating an area quickly (compared to for-sale) makes placemaking easier and can help accelerate the creation of new communities. It can also meet a range of customer/market needs. Renters, we were told, were more willing than homebuyers to take a chance on an up-and-coming area, as they could easily move if it didn't work out.

One commercial operator argued that BTR schemes made a strong contribution to urban regeneration because the landlords had such a huge stake in the success of an area. They were very proactive about neighbourhood safety, the quality of the public realm etc., and their interventions had beneficial effects for the areas as a whole.

Including BTR in major schemes allows developers to build them out more rapidly. On standard speculative for-sale developments, the rule of thumb is that the market can absorb at most 150 to 200 units/year without affecting price. This therefore is the rate at which construction proceeds, even on schemes that will eventually have thousands of units. The completion of a BTR building, by contrast, can mean several hundred new units are available for occupation simultaneously. The sale of such a block generates a significant cash flow for the developer, and on occupancy the block makes an invaluable contribution to place making, especially on sites where there was little existing retail or commercial infrastructure (Savills et al, 2017).

However, stakeholders also recognised that BTR does not generate the same capital values as BFS, and because of that most said BTR would not normally be the *driver* of regeneration schemes. The purchase price for BTR blocks is based on the capitalised value of the future rental stream (as for commercial property), and as such is almost always lower than the sale price to individual buyers (see below for fuller discussion).

A number of respondents suggested that BTR schemes need the subsidy from BFS schemes as they would otherwise be marginal in terms of viability –there seemed to be different views on this, depending in part on who controlled the land used and whether it was sold at below market price (as in some instances occurs for government held land). There is also recent evidence of renewal schemes substituting BTR for BFS (see case studies below), reflecting oversupply of the latter and some weakening of prices.

Some local authorities promoting renewal projects in their areas recognise that BTR requires “patient” capital rather than short-term profit seeking. Some local authorities are themselves partnering with developers to provide that long-term view and ensure tenure diversity in their areas. Many have revised their local plans accordingly, and the new National Planning Policy Framework requires local authorities to consider making provision for BTR.

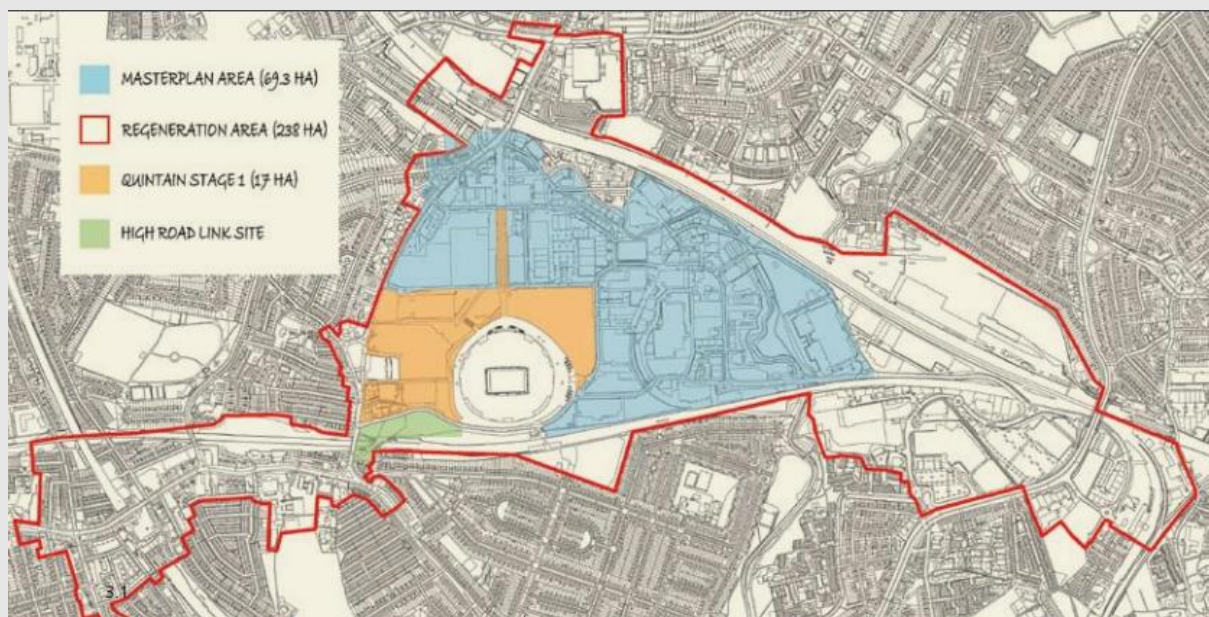
Two case studies of BTR in urban regeneration schemes

1. Wembley Park: Quintain

Located in the London Borough of Brent, the area around Wembley Stadium in northwest London is one of Europe's biggest regeneration projects. Wembley and the surrounding area was developed for the British Empire Exhibition in 1920s. The earlier stadium, which was the only remaining building from that period, was demolished in 2003 and a replacement opened in 2007. The stadium remains in its original location but over the decades the surrounding area was gradually given over to surface car parking and industrial use; despite fairly good transport connectivity there was little housing. Former London Mayor Ken Livingstone designated Wembley an Opportunity Area in the 2004 London Plan.

Much of the land adjacent to the stadium is now owned by developer Quintain and will be called Wembley Park⁹ (image below). Quintain purchased the site from Wembley Stadium plc in 2002, and in 2004 secured outline planning consent for 8.8 million sq ft of mixed-use development, to a masterplan by Rogers + Stirk¹⁰. Neither the application for planning permission nor the masterplan mentioned Build to Rent, which did not exist in the UK as a concept at that time.

Various planning documents show the development of Brent Council's ideas about Build to Rent. As recently as 2009, Brent's masterplan for the area referred to the Quintain planning permission and the general features of the proposed scheme, but made no mention of the private rented sector at all, still less BTR.



Map of Wembley masterplan area (Brent Council 2009). *Quintain holdings in yellow; the firm now owns more land, mostly to the N of what is indicated here.*

By 2015, though, the local authority had adopted specific policies favouring BTR development at Wembley. Brent's 2015 Wembley Area Action Plan says:

Wembley is a town centre location that represents an opportunity to deliver a new type of private rented accommodation. The council is keen to see private rented accommodation

⁹ See <http://www.quintain.co.uk/wembley-park>

¹⁰ <https://www.rsh-p.com/projects/wembley-masterplan/>

delivered at a scale that can support more professional and less fragmented management, as well as greater stability and longer rental periods. The council recognises the financial challenges of delivering a new supply of high quality private rented sector accommodation and will, therefore, seek to stimulate greater institutional investment in private rented accommodation that can offer a quality housing option accessible to people on low incomes, but also form part of a truly mixed housing solution open to people in a wide range of circumstances. The council is prepared to take a flexible approach to housing unit size mix and the proportion of affordable housing on viability grounds, where it is assured that such provision can deliver high standards of accommodation and housing management at affordable rents, and that appropriate long term financial and nominations arrangements can be secured.

WEM 22 Private Rented Sector The council will encourage the development of purpose-built private rented sector accommodation where dwellings are of demonstrably good design and there are suitable long term financial, management and nominations arrangements. Where such accommodation can be delivered, the council will be flexible on housing unit size mix and the proportion of affordable housing, if that accommodation, or a reasonable proportion thereof, can be made available at or below local housing allowance levels. (Brent, 2015 p. 72)

Wembley Park will, when complete in 2024, have almost 7000 new homes. Quintain announced in early 2017 that at Wembley they would deliver ‘the largest single-site purpose-built Build to Rent development anywhere in the UK’, with 5000 BTR units—that is, the majority of the new homes proposed for the site. From 260 BTR apartments completed in 2017, the plan is to have more than 3000 by 2020, and 5000 by 2024—a rate of construction far higher than the norm for for-sale schemes.

The BTR units are to be managed by Quintain’s dedicated subsidiary, Tipi, which was launched in 2016¹¹. The firm currently has 400 flats in three buildings (Alto: 120; Montana and Dakota: 140 each), mostly with one or two bedrooms. One-beds rent for £1800-£1895 per month, while two-beds go for £2085 - £2550. According to a 2015 London Assembly report, ‘Around Wembley Stadium, 45 per cent of the first phase of housing by developer Quintain is affordable, along with 70 per cent planned in the second phase’—however no rent data were available for the affordable units.

Tipi advertises ‘hotel-inspired services’. Each building has a concierge and homes are managed through an online portal, MyTipi. Tenants pay no fees and rents include utilities, fast broadband, gyms, communal social spaces, concierge services and resident social events.

¹¹ see <https://www.tipi.london/>



Communal area, Tipi Wembley

Quintain is owned by US-based Lone Star, which bought the company in 2015 and took it private. Recent press reports say that Lone Star is now looking to sell Quintain but this is unlikely to affect the development at Wembley.

Because the land was not in residential use before—and indeed, never has been—the scheme has avoided the bitter controversy that has dogged some major schemes featuring BTR, such as the Lend Lease development at Elephant and Castle or the stalled Haringey Development Vehicle in north London.

Clearly BTR was not envisioned as a lynchpin of the scheme from the beginning but only introduced recently—some years after the main elements of the physical plan were put into place. Nevertheless the wholesale change to a BTR-led strategy is remarkable, and bold. Presumably the driver is the speed with which the project can be built out. This case is also interesting in that Quintain are developing and operating themselves rather than selling to an outside operator, which developers often see as an attractive option for cash-flow reasons.

2. Lewisham Gateway

Lewisham Gateway, a regeneration project centred on Lewisham Station (trains and DLR), is the largest regeneration site in southeast London. The overall Lewisham Gateway Site extends to 5.6 hectares (13.8 acres), much of which formerly comprised major roads including the Lewisham Northern Roundabout and its various approach roads. The land was owned by the local authority, the London Borough of Lewisham.

A development framework was agreed in 2002 and planning permission was granted in 2009 for comprehensive redevelopment of the site, including elimination of the roundabout, which had been recognised as problematic since at least the 1990s, and associated rerouting of main roads and the river that ran beneath them. The permission was for a mixed-use development of 700+ homes, retail and commercial uses, and the required infrastructure and public realm

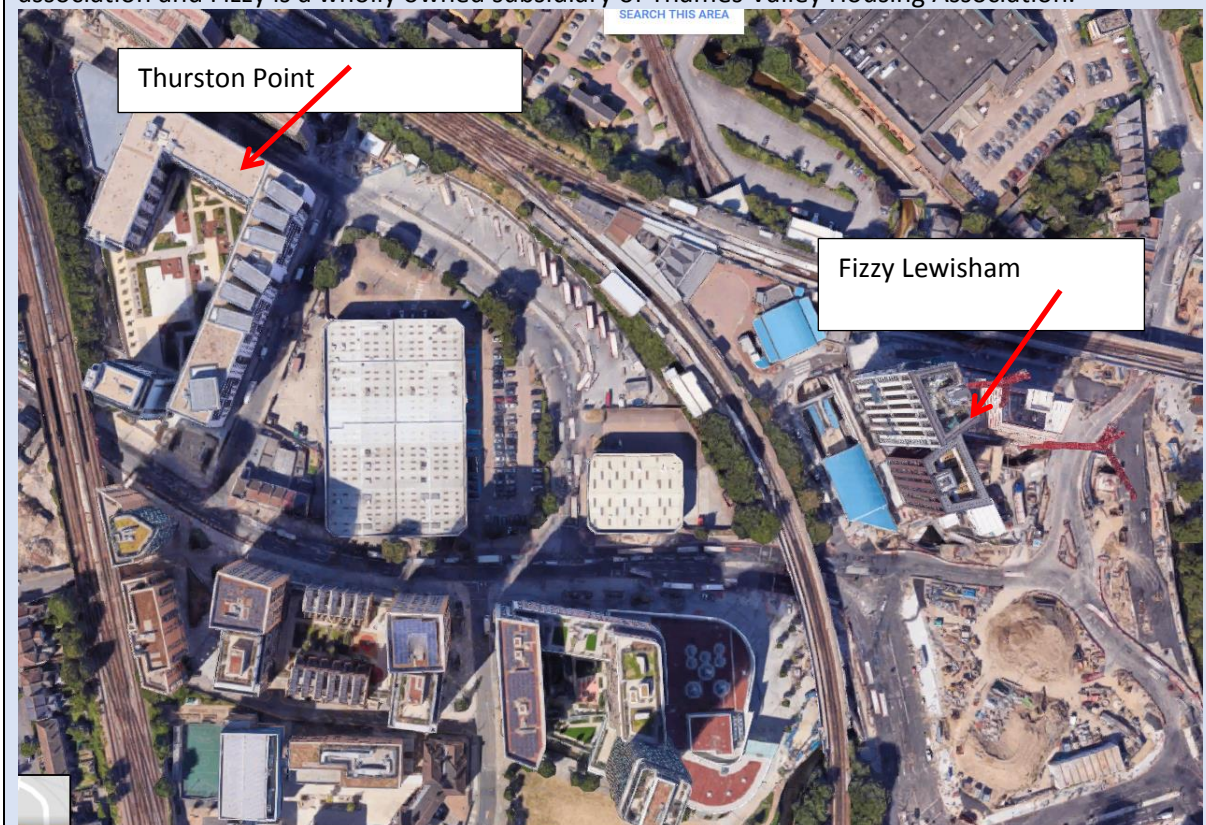
improvements. The site has a 15-year development timetable.

The developer is a partnership between several public-sector bodies (including LB Lewisham) and LGDL, a private company owned entirely by developer Muse. LB Lewisham contributed the land at no cost (Urban Delivery, 2017). The original partnership agreement incorporates the expectation that the developer will make a profit of 15% on cost--according to council documents,

Given the scale, complexity and cost of the works involved in delivering the vision for the site the public sector agencies organised a development competition inviting proposals for development of the site. From this process, in 2004 Lewisham Gateway Developments Limited (LGDL) were selected to deliver the phased development of the site, commencing with the road and infrastructure works. The financial model underpinning the development permits the developer a return of 15% on cost. This is below the rate typically secured on development projects of 20%+. Any return above 15% is to be shared amongst the development partners – i.e. LGDL, TfL, London Buses, LDA and the Council (Lewisham Council 2017).

The original plan was that up to 20% of units in the overall scheme would be affordable (in the form of shared ownership), subject to financial viability and availability of grant funding. In 2017 the developers submitted detailed planning applications for Phase 2, which contained no affordable housing. They said the cost of rerouting the roads and the river had been greater than expected and that providing affordable housing would be unviable given the target profit of 15%. The council rejected the planning application because it contained no affordable homes, and subsequently decided to spend £9.6m from its own funds to support construction of 106 affordable homes on the site.

There are two BTR operators in Lewisham Gateway: L&Q and Fizzy Living. L&Q is a housing association and Fizzy is a wholly owned subsidiary of Thames Valley Housing Association.



Satellite image of Lewisham Gateway area, with BTR blocks

L&Q's BTR property is Thurston Point, an eight-storey courtyard block that sits at the north end of the site, bordered by two railways. The scheme includes not only BTR; one of the buildings includes social rented and shared ownership homes, all of which are managed by L&Q¹². There are some 238 private rental units providing a mix of one, two and three-bed flats (Urban Delivery, 2017). Construction was complete by end-2015 and the units were let very quickly, with a waiting list set up for those who could not be accommodated initially. Thurston Point does not meet the Mayor's current criteria for BTR, as the scheme does not offer leases longer than 12 months.

Fizzy has two 68-unit BTR-only buildings next to the station. The first block was completed in June 2016 and reached 95% occupancy in four months (Urban Delivery, 2017). Rents at Fizzy Lewisham range from £1315/month for a one-bed to £1800 or more for a two-bed, and cover broadband but not other utilities. The company offers tenancies of up to five years, and pets are welcome for an additional payment. On-site managers called 'Bob' combine the functions of concierge and maintenance. Fizzy emphasises the social side, with a dedicated Facebook group, 'block parties' and a rooftop garden. According to the Evening Standard, the average Fizzy tenant earns £44,000 and is aged between 25 and 35.

As with the Wembley case study, BTR was not an integral part of the scheme from the outset: initial decisions were taken many years before BTR became a recognised part of the development toolkit. It is notable, though, that there are now 371 occupied BTR units – about half of all the housing the site will eventually contain. This remarkably high proportion reflects the site's excellent accessibility and, probably, the fact that the land was contributed free of charge by the borough.

Lessons from the case studies

Urban regeneration schemes in London are often located in places with excellent accessibility; indeed, sometimes the area being regenerated is brownfield land that was originally used for transport-related purposes around transport hubs (cf Lewisham). These are ideal locations for BTR.

The BTR elements that are now coming forward were not necessarily envisioned when the schemes were master planned ten or more years ago, as purpose-built private renting was then only just starting to emerge as a possibility. This suggests that BTR doesn't necessarily have to be specifically identified in urban regeneration plans from the start but could emerge as the plans evolve, or even post-construction—in the Lewisham case, Fizzy bought buildings that were originally intended for private sale. Just as BTR was not originally included in these urban-regeneration plans, we found in earlier research that many of London's 32 local plans made no mention of BTR (although others discussed it in detail). Interestingly, some of the highest concentrations of BTR schemes were to be found in London boroughs that had no formal policy on BTR (Wilson & Scanlon, 2017).

Affordable housing in the Build to Rent model

This section explores the development economics of BTR, looking at how much affordable housing it provides and of what type.

¹² see <https://lqpricedin.co.uk/wp-content/uploads/2015/01/Thurston-Point-Brochure-Final.pdf>

Mechanisms for providing affordable housing

In London, planners require developers of all schemes with 10 units or more to provide a certain proportion of affordable housing under Section 106 of the Town and Country Planning Act 1990 (usually known simply as S106). The precise number and type are negotiated on a site-by-site basis with the planning authority (in London the borough) as a condition of receiving planning permission, and the affordable homes must usually be provided on the same site as the market homes. Affordable units may include social rented housing but could instead or as well be some type of intermediate rented or shared ownership; the types of affordable housing provided and the proportion of each type are equally matters for negotiation. Some government grant funding is available to part-cover the cost of affordable provision; it is allocated through a competitive bidding process and is not guaranteed to all providers.

Post-GFC legislation says that planning authorities may not enforce conditions that would make schemes 'unviable' (unlikely to achieve a target profit), so as part of the negotiation process around affordable housing requirements, many major developments undergo 'viability testing'. Here experts from each side look forensically at expected scheme costs and income. The Mayor of London recently published guidance suggesting that schemes offering at least 35% affordable housing should benefit from fast-track planning procedures. Only where the developer offer is lower than this should a viability testing process be invoked to inform agreement on the appropriate lower level of affordable housing contribution (GLA, 2017b). The standard affordable housing contribution threshold on public land is higher, at 50%.

This affordable housing contribution is paid for out of the developer's profits on the market-rate units and can be thought of as a hypothecated tax on development. As previously noted, the gross development value of BTR schemes is lower than for equivalent BFS schemes. There is therefore less headroom for the BTR developer to pay the affordable-housing 'tax', all else being equal. The GLA guidance recognises that BTR has 'distinct economics' but even so the 35% target applies equally to BTR schemes. The industry regards this as contradictory, and says that the policy in effect forces BTR schemes into viability testing—because the economics of BTR cannot easily support a 35% affordable housing commitment. As a result, under this regime BTR projects are liable to be pushed into an often-costly process that can take many months. From the industry perspective, therefore, current policy negates one of the key advantages of BTR, which is development speed. In standard residential developments the affordable housing provided is generally sold on completion to a not-for-profit housing association (or 'registered provider' – RP) and the original developer has no more involvement.

Provision of affordable units within BTR schemes is rather different. Under the standard BTR business model, the preferred exit strategy is to sell the *entire* scheme to another investor. It would be detrimental to asset value to have to dispose of some units to an RP¹³. In addition, operators prefer owning all units so they can control management procedures including selection of tenants, public realm etc. Planning authorities now permit BTR operators to retain ownership of their affordable units, provided they are let at below-market rents to eligible households.

Within the industry these lower rents are known as Discounted Market Rent or DMR¹⁴. DMRs are a maximum of 80% of market rents but can be much lower (60%/50%). It is now becoming more common to negotiate a 'blend' within individual schemes, such that the operator provides some

¹³ There are a few early BTR schemes run by for-profit operators where the local authority required the involvement of a separate RP; also, some RPs are themselves BTR developers.

¹⁴ although the draft NPPF confusingly introduces another term, 'Affordable Private Rent'.

units at 80% of market, some at 60%, some at 50%, etc. Discounted rents can apply to any unit; the units are generally all the same and there is no dedicated affordable stock. When a household paying discounted rent moves out, the operator can bring in a new qualifying household and put them in any vacant unit. This reflects the portfolio approach adopted whereby target returns are set for blocks/schemes which it is then down to the managers to achieve.

Most operators select 'affordable housing' tenants themselves on the basis of criteria agreed with the local authority—that is, the operator has the final say. If the tenants are taken from the local-authority housing waiting list the operator will undertake further vetting. Apart from income, the criteria might include local residence and/or employment in a 'key worker' sector—the exact requirements vary by council. The operator is normally required to report annually to the local authority about who has been living in the affordable units. The affordable-housing requirements generally apply in perpetuity (unlike for example developments built using the US Low-Income Housing Tax Credit, which generally have a time-limited lock-in period).

RPs with BTR operations (see below) may not provide affordable housing within the BTR element of the development, but instead provide traditional social and/or affordable homes elsewhere in the overall scheme.

Definitions of 'affordable'

Discussions around affordable housing in England often become enmired in varying definitions of the word 'affordable'. There is an ever-increasing plethora of affordable products, both for rent and for purchase, which cover the range from social rented housing (genuinely low cost in most areas) to 80% of market price (cheaper than market but in many areas still expensive, and not necessarily 'affordable' in the common-sense meaning of the word) (Scanlon, 2017). When a newly built property is rented out at '80% of the market price' that is 80% of the rent for an equivalent – brand new – property. Practitioners often speak of 'genuinely affordable' to refer specifically to rents or prices that households on lower incomes can pay without hardship.

In recognition of the blurriness of the term 'affordable', the Mayor of London recently defined two types of 'genuinely affordable' rental product¹⁵, one of which is London Living Rent. This product is aimed at middle-income households who now rent and want to build up savings to buy a home, either through shared ownership or outright purchase. There are published benchmark London Living Rent levels for every neighbourhood in the capital, which are based on a third of average local household incomes and adjusted for the number of bedrooms. Across London as a whole, the average rent for a 2-bedroom London Living Rent home will be around £1,000 a month, which is two-thirds of the median market rent. Landlords are expected to encourage their tenants into home ownership within 10 years. The homes will be offered on tenancies of a minimum of three years. Tenants will be supported to save and given the option to buy their home on a shared ownership basis during their tenancy. They will also be given extra priority for other shared ownership homes across London.

Some BTR providers argue that even their normal market rents can be 'affordable' for low to moderate income workers – if a group of people on key worker incomes share an apartment they may be able to jointly pay the rent without any of them paying more than 1/3 of their income. This may be true but is rather different from the accepted definitions of affordability. Most of the existing London BTR schemes have rents in the top quartile for their local area; albeit that they are offering newly built, well-designed living spaces, it is a high-end product.

¹⁵ The second affordable rental product is London Affordable Rent, based on social rents. He also defined a third 'genuinely affordable' product, London Shared Ownership.

Table 3 compares rents at six BTR schemes with median rents in the boroughs where they are located. There are no borough-level data on PRS rents broken down by unit size, but a two-bedroom flat is regarded as the typical PRS unit in London so the figures are broadly comparable. To date these price differentials have not seemed to affect demand for the product because housing pressure is so strong in London; that may change as/when the housing and/or economic cycle turns.

Table 3: Advertised rents in selected BTR schemes in London

Scheme name	Operator	Borough	One bedroom	Two bedrooms	Median local rent (all unit sizes)
Thurston Point	L&Q	Lewisham	From £1275	From £1450	£1275
Fizzy Lewisham	Fizzy Living	Lewisham	£1450-£1515	£1650-£2025	£1275
Stratford Halo	Genesis	Newham	£1350-£1525	£1750-£3200	£1365
Dressage Court	Essential Living	Tower Hamlets	From £1820	From £2492	£1647
The Gatefold Building	be:here	Hillingdon	From £1300		£1200
UNCLE Elephant & Castle	UNCLE	Southwark	From £1950	From £2383	£1495

Sources: BTR schemes from web search May 2018. NB advertised rents may not encompass all ancillary services Local rents are borough median figures from Valuation Office Agency Private Rental Market Statistics, 3Q2017

BTR schemes often include a range of communal facilities and extras that might add to the consumer experience but certainly add to the price. Most do offer some level of concierge service—varying from part-time to 24/7—longer tenancies and an IT-driven service approach; other typical amenities include inclusive broadband, residents’ lounges and roof gardens (usually included in the rent), as well as gyms, co-working spaces and car-club membership (which may require separate payment). According to Hometrack analysis, most BTR providers are aiming at the top half of the rental market. Donnell (2017) found that in London some 7% of supply in 2017 was aimed at the very top decile (roughly £2500 plus per month), with 21% of provision overall in the wider upper quartile. The analysis then shows that there was a further 39% of the supply between the upper quartile and the median. As this suggests some 40% of provision was in the two lower quartiles.

By contrast in Manchester all the provision was in the rental bands above the median - 42% was in the upper decile and a further 35% between the upper decile and the upper quartile. This suggests that BTR is aiming at providing a clear alternative to the mainstream market in this city.

The role of not-for-profit housing associations

A number of housing associations/registered providers (RPs) are active in the BTR market, and London and Quadrant is one of the top ten providers overall. A recent LSE Housing and Communities report entitled *Private Renting: Can social landlords help?* reaches the following conclusion: ‘Overall, social landlords are able to make “long-term, slow, patient investments” that allow them to provide secure, decent quality, well managed rented homes that pay their way’ (Power et al, 2018). On the basis of interviews with 20 housing association landlords, the report argues that they can provide a real alternative to private landlords by offering lower rents and deposits, fewer fees, good services and a longer-term commitment to the sector—and in addition generate surpluses that might feed back into their social housing operations.

We conducted interviews with four BTR providers linked to RPs. The rationale for their involvement aligns with the findings of the LSE report, but even across the four organisations interviewed there was a variety of business models. Co-incidentally a recent *Social Housing* magazine feature article (Wilson, 2018) reviewed the different approaches adopted by a number of associations. The discussion below combines the two sources.

Places for People (PfP) was founded in 1965 as the North British Housing Association. It now trades as a property group and is made up of a number of companies including several housing associations. PfP launched its PRS fund in 2017, seeded with £150 million of properties already held in group ownership. In 2018 it opened PfP Capital, a specific BTR fund, again seeded with homes from three development schemes. This fund will invest in BTR schemes with the long-term ambition of feeding profits back into social housing. PfP believes BTR can help meet the range of market needs and demands that it identifies when undertaking development, not least in regeneration areas. The parent company has subsequently acquired the Igloo Regeneration Partnership Fund with PfP Capital taking on the role of investment manager.

By contrast, **London and Quadrant** in 2016 transferred £250 million of assets into a PRS subsidiary as a starting point. It has now acquired further homes and borrowed £175 million from the UK government-guaranteed PRS funding scheme in late 2016. It moved into the market in a low-key way, as initially the organisation had reservations about the suitability of the US 'multi-family' product for the UK context. However, by 2018 it had spent about £1 billion and built 1800 BTR homes, with a large pipeline in place. By 2020 it expects to have 5,000 BTR homes with an annual output of between 600 and 1000 homes. The schemes have a mix of 1-, 2- and 3-bed apartments aimed at young couples and sharers, priced at between £1000 and £2500 a month.

This RP had not gone for the premium market in terms of facilities or central London locations; rather it has focussed on outer London and in regeneration areas (see case study of Lewisham Gateway). Their view was that BTR had good growth potential and that RPs were well placed in terms of reputation and expertise. They were willing to offer longer tenancies (though not at Thurston Point, for example) and tenants can leave with two months' notice after six months. Some 75% of their tenants currently renew. To date their BTR schemes have not included social or affordable rented homes, as L&Q meets local authority requirements for affordable housing elsewhere on the wider site or scheme.

L&Q saw BTR as a natural fit for regeneration schemes (bringing areas to life with instant occupancy), and at least in London it was specifically recognised in planning policies. The organisation operates its BTR schemes under its corporate brand, and develops and manages sites on a portfolio basis, buying in services and operating according to corporate performance benchmarks. It aimed at net yields of around 2%, taking into account the new-build premium they get on first opening and helped by cheap borrowing from the government PRS fund mentioned above. The expectation was that their investments would drive down local rents. They anticipated that more RPs would enter this market.

Thames Valley Housing Association became involved in BTR after an approach from a third party who had identified the potential in the market, and in 2012 created a new, separately branded entity called **Fizzy Living**. Fizzy was launched with £30m of seed investment from Thames Valley. Subsequently it brought on board Silver Arrow, the investment fund owned by the Abu Dhabi Investment Authority (ADIA), which became majority owner in a joint venture with TVH (54/46). ADIA committed £400m to fund development; the project is refinanced once a scheme is up and running. We were told that the sovereign wealth fund backing the company kept in very close contact but did not engage with others outside of the business. Recently there have been

suggestions that ADIA's appetite to invest in the UK has weakened. If this is correct then the news that British Land is seeking to buy a 18% holding in Fizzy suggests others might step in.

Profits from Fizzy pass to TVH to support the social business and this has been the case since the outset. All the schemes that are currently operating or in the pipeline have been bought off the market, allowing them to avoid construction and planning risk. Fizzy now has around 600 units with a further 200 due soon and a pipeline on site of 300, giving a total of over 1,000 BTR units (see the case study of Lewisham Gateway). Our interviewee said the market had changed completely since Fizzy had begun to operate, as acquisition prices had increased and there was more competition from Build for Sale (BFS). In essence the firm was competing with BFS schemes which take a deposit from prospective buyers on valuation and purchase; these investors may then sell before the homes are complete. By contrast, Fizzy has to commit to buy and then wait some time (at least nine months) before their rental income comes in. BFS purchasers also currently benefit from the government's Help to Buy equity loan scheme, while BTR operators such as Fizzy must now pay a 3% stamp duty surcharge for buying units that are to be let out, a change brought in in the 2016 Budget.

To make all this work Fizzy had to manage cashflow by securing a discount on the price paid to the developer. The availability of low-cost funding from the investor also capped financing costs in the pre-let stage. ADIA was clearly a long-term investor whose interests were better suited to BTR than to BFS, where exit on sale was normal.

Annual rental growth had slowed from 3.5% previously to the current 0.5%, but demand remained strong (the company's vacancy rate is only about 1%) and the company could cope with the change. Its product was effectively discounted market rent and was targeted at young professionals – typically aged 30 and earning around £42,000 a year. They did not seek to mix age groups. Most were sharers renting 2-bed/2-bath homes; all 3-bed homes were occupied by sharers rather than families. Tenants spent an average of around 27% of income on rent. As with other RPs the affordable housing contribution was dealt with in the wider site planning.

The final RP or related company interviewed was **Clarion**, which has announced its intention to move into this market. Via a recent merger it had acquired a PRS portfolio of around 1,000 homes, mainly in the South East, and following a review was planning to enter the BTR market in a big way, creating a ring-fenced subsidiary that will bring forward 10,000 homes over the next 10 years. It recognises the poor quality of some of the current PRS and believes it can build on its core social-housing competencies to provide a better offer to a currently underserved market: the young professional middle market who want good places to live. These will not be city centre but secondary areas, possibly linked to regeneration. The RP was comfortable with the current decline in yields as it had access to long-term patient capital looking for steady returns.

It is too early to say whether the significant market interventions these RPs plan will pay off, but they clearly have high expectations. Scale is essential to make these models work most efficiently and to have a real presence in the market; operators indicated that about 100 units was the minimum viable size. Although the business models of these organisations varied (standalone companies vs part of the main entity; an explicit residential fund vs working with an external investor to build up an asset base), all four were responding to the same drivers:

- underlying demand for the BTR product;
- the possibility of generating more funds for social and affordable homes;
- a way of meeting a more diverse set of market needs; and
- synergies with their existing activity.
-

Although associations identify obvious synergies between BTR and their experience as social landlords—and Power’s research, referred to above, stresses that their social nature is a strength—it is interesting to note that BTR operators associated with housing associations do not normally identify themselves as such to consumers. The individual RP-related landlords each stress their own USPs to tenants, but as a group they do not claim to do anything different or better than commercial operators.

Housing associations are important actors in London’s BTR sector, but they are not the only players. A number of commercial operators, many from the USA and Canada, are expanding into this market and bringing their own approaches. Greystar, a major US operator, wants to use the ‘multifamily’ rubric to differentiate itself from rivals, while Realstar, a Canadian firm, operates under the UNCLE brand and emphasises the personal relationship between its building managers (‘uncles’) and tenants.

Local authorities themselves are also becoming increasingly involved as developers and operators. Many have set up council-owned housing companies to provide homes for market sale or rent (possible under the Localism Act in 2011). Some act as independent developers; others partner with for-profit companies to develop on council-owned land. Red Door Ventures, owned by the London Borough of Newham, has even invested in schemes outside its borough. The fact that councils can offer cheap or even free land makes BTR possible in places where land costs would normally be prohibitive (see case study on Lewisham Gateway). Hackett (2017) provides a good summary of the situation.

Commercial, for-profit firms are the mainstay of the multifamily industry in North America and according to Molior they own the bulk of the occupied BTR stock in London (although several housing associations are also important players). One of our interviewees, who works for a commercial operator, said that in his view his housing-association competitors were paying too much for land and becoming increasingly leveraged; he saw these as warning signs. However, presenters at the February 2018 industry conference in London noted that RPs were required to satisfy the Regulator of Social Housing that their BTR activity was appropriately financed and governed, and that it would not have detrimental effects on their social operations.

The BTR customer experience

The BTR operators we spoke to confirmed that their customer demographic is generally young professional couples/sharers. There are few families with children even in schemes with features designed to attract them (e.g., new schools, playgrounds, family-sized units). This is an issue of both tenure and built form: most of the BTR stock in London is in mid- to high-rise, high-density blocks which is not generally the type of housing sought by families with children, and for the rents charged one could make mortgage payments on (or rent) a sizeable house with a garden in many parts of the capital. However, in other parts of the UK there are developers providing purpose-built private rented *houses* (Sigma is the most important), which would have more appeal for families.

Within London’s BTR sector the dwelling types are fairly standard. While there are a few studios and a few very large flats, most of the schemes consist predominantly of ‘dumbbell’ units with two equally-sized bedrooms and two bathrooms, a configuration that is ideal for sharers but also can work for families. We were told by several in the industry that although some local authorities insist operators provide 3- and 4-bedroom flats because they are ‘suitable for families’, in practice families never rent such accommodation and it always goes to sharers. Some reported that tenants often started as sharers in big flats, then as they formed couples/earned more money they moved to *smaller* flats that they did not share.

Although in principle the tenure is suited to downsizers who want an urban retirement, in practice there is not much evidence that such households are taking it up in large numbers.

Operators say their offer appeals to consumers because of

- Standard inclusion of additional services within basic rent (often includes utilities, broadband etc)
- No letting fees
- Concierges who can take tenants' packages (a huge selling point)
- Responsive service and repairs
- Quality and functionality of new-build, especially compared to the typical rented property in London (often a conversion in a Victorian house)
- A focus on the creation of community (many emphasise parties, social events)
- Good locations (often right on top of a tube stop)
- Longer leases

Many operators offer longer-than-usual leases (three to five years with annual inflation-linked rent rises; provision for the tenant to withdraw at any time with two months' notice), compared with the 6- to 12-month Assured Shorthold Tenancy that is the standard private rental lease in England. Tenants also enjoy the certainty that the lease will be renewed if there haven't been any problems. Some of the early entrants to the sector found it hard to sell this idea as tenants were afraid there was a catch, but it seems to be better understood now. It is too early to know how long tenants do in fact stay, but one major operator told us they saw a pattern where tenants would initially take a short lease and then a longer one when they renewed—though as leases don't tie tenants down for the full period that is not necessarily an indication of their intentions. The key question is whether the greater tenure security means households might consider rented housing as a long-term solution.

Research into the tenant experience

Over the period December 2017 – May 2019, LSE London carried out research for the Greater London Authority on residents' experience of high-density housing in London. The full report of this research will be published later this year (Scanlon et al, 2018 forthcoming). One element of the work involved looking at the experience of BTR tenants in selected schemes, and comparing it with the experience of tenants renting new-build flats from buy-to-let landlords. Our methods included an online survey, focus groups and walking interviews with residents. The following section is adapted from a chapter of the report for the GLA.

In comparing the experience of BTR and buy-to-let tenants, we looked at three themes:

- *Community.* Many BTR landlords have active community-building programmes, providing social events and parties for residents. Is there a greater sense of community in BTR schemes?
- *Facilities.* BTR landlords often provide a range of communal facilities including co-working space, gyms, social spaces etc. Do residents rate the facilities on offer?
- *Management.* BTR operators provide dedicated, professional management, often with on-site concierges and/or building managers. Do BTR tenants find their buildings to be well managed?

The research into high-density living involved fieldwork at 11 new-build developments (first occupied between 2010 and 2015), of which three were BTR schemes:

Scheme A: southeast London, operated by a housing association. 406 units in 2 buildings: a 15-storey tower and 8/9-storey courtyard block. Mostly market rent (325 units), some social rent and shared ownership. Purpose-built for private rent, opened 2015. Landlord does not offer longer tenancies.

Scheme B: east London. Entire scheme has about 3000 units, half market rent (operated by private firm backed by sovereign wealth money), half social/affordable rent plus a few shared ownership (operated by a consortium of housing associations). One of the first BTR schemes to open in London, although not originally designed for private rental.

Scheme C: east London, again operated by a housing association. 704 units in two buildings on a busy main road, one medium-rise and one 43-storey tower. Tower mainly market rent though not specifically designed for private rental, with social/affordable rent in the rest of the scheme. Opened 2013.

There were 58 BTR respondents across the three schemes once we excluded those who were renting social or affordable homes. The tables below compare results from tenants in these three schemes with those of buy-to-let (BTL) tenants¹⁶ living in eight other high-density new-build schemes in London. It is acknowledged that, in occupying recently built blocks, the 'BTL' tenants/tenancies included here are unrepresentative of the broader BTL sector, since the overwhelming majority of London private tenants live in older homes. In addition, only at one scheme did we ask specific questions about residents' experience of their landlords as opposed to the overall management of the developments. In the BTR schemes the landlords are the building managers, but in new-build for-sale schemes the two functions are usually unrelated.

Household incomes: BTR vs buy-to-let tenants

The income distributions of buy-to-let and Build to Rent tenants in these new developments were similar (Table 4). Both types of tenant were relatively affluent: 74% of BTR tenants and 72% of BTL tenants said they had household incomes above £60,000, and more than a third in each landlord type had household incomes over £90,000. For comparison, the median household income in London in 2012/13 was estimated at £39,110.

Table 4: Household incomes of BTR and BTL tenants, 11 new build schemes in London

Sample: 132 respondents

	BTR	BTL
up to £30,000	4%	3%
£30-60,000	22%	26%
£60-90,000	38%	35%
£90,000 +	36%	37%

Community: BTR vs buy-to-let tenants

BTR tenants were more likely to know seven or more people in their schemes (15% vs 6% of buy-to-let tenants) (Table 5). However, *within* the build-to-rent sector there was huge variation, with no one at Scheme A knowing more than six people, vs 44% at Scheme B. In fact the strong performance of Scheme B accounts for all of the differences between the two types of rental. In terms of

¹⁶ Buy to Let (BTL) in this instance is a synonym for mainstream private rental homes of which the vast majority are in the ownership of individual investors or 'buy to let landlords'.

sociability, the difference between *schemes* seemed to be much more important than the distinction between *types of landlord*.

Table 5: Number of other people known in the development: BTR and BTL tenants

Sample: 132 respondents

	No one	1-3 people	4-6 people	7-10 people	More than 10 people	Number of respondents
Scheme A	50%	33%	17%	0%	0%	19
Scheme B	13%	38%	17%	13%	21%	24
Scheme C	53%	27%	7%	7%	7%	15
AVERAGE BUILD TO RENT	38%	32%	13%	6%	9%	58
AVERAGE BUY TO LET (8 schemes)	49%	34%	10%	2%	4%	118

Build to rent tenants were somewhat more likely to agree that their schemes had a good sense of community (Table 6), although for both types of tenants this was a minority view (22% of build-to-rent tenants agreed, vs 16% for buy-to-let tenants). Again, the variation *within* categories was more marked than the variation *between* categories.

Table 6: My development has a good sense of community: BTR tenants vs buy-to-let in new build

Sample: 132 respondents

Scheme	Agree	Neither agree nor disagree	Disagree
Scheme A	6%	6%	89%
Scheme B	39%	48%	13%
Scheme C	15%	15%	69%
AVERAGE BUILD TO RENT	22%	26%	52%
AVERAGE BUY TO LET	16%	19%	65%

Facilities and management: BTR vs other new build schemes

Our three BTR schemes scored no higher than other new rented housing for good communal services (Table 7)—perhaps unsurprising, as all the survey respondents were living in new schemes featuring at least some communal facilities. Comparing BTR facilities to those offered by private landlords in general – including the majority that rent out older stock – would doubtless show a BTR advantage.

Table 7: My development has good communal services: BTR tenants vs buy-to-let in new build

Sample: 132 respondents

Scheme	Agree	Neither agree nor disagree	Disagree
Scheme A	11%	67%	22%
Scheme B	88%	13%	0%
Scheme C	67%	13%	20%
AVERAGE BUILD TO RENT	58%	30%	12%
AVERAGE BUY TO LET	71%	12%	17%

There was no major difference between buy-to-let and build-to-rent tenants in terms of how they saw the quality of management *of their developments*—about 68% in each category said they were

well managed (Table 8). Variation within each category is more important than variation between categories. Looking at BTR responses, 44% of Scheme A respondents said their scheme was well managed vs 80% for Scheme C, and within the non-BTR schemes there was a similar spread. Note that this question asked about the management of the development, not the skills of the landlord. In BTR schemes the manager of the development is also the landlord, but landlords in a typical BFS development are separate private individuals.

Table 8: This development is well managed: BTR tenants vs buy-to-let in newbuild

Sample: 132 respondents

<i>Scheme</i>	<i>Agree</i>	<i>Neither agree nor disagree</i>	<i>Disagree</i>
Scheme A	44%	22%	33%
Scheme B	78%	13%	9%
Scheme C	80%	0%	20%
AVERAGE BUILD TO RENT	68%	13%	20%
AVERAGE BUY TO LET	68%	16%	16%

Comparing landlords

As part of the high density research we asked respondents from Scheme A to compare their experience of build-to-rent and buy-to-let landlords. The results, reported below in Tables 9-11, are based on a very small sample (19 private tenants).

Almost all of the Scheme A respondents had previously lived in other private rented property. About half said BTR was better or much better than their previous experience, with 19% saying it was worse or much worse (Table 9).

Table 9: Compared to your previous experience of private renting, is living in a purpose-built rental development:

Scheme A only; sample 19 respondents

Much better	31%
Better	19%
About the same	31%
Worse	6%
Much worse	13%

We asked Scheme A tenants their views on some of the claimed benefits of BTR. More than two-thirds agreed that the flats were higher quality and more modern than typical rental units, and 59% said the management was better (Table 10).

Table 10: Perceived advantages of purpose-built schemes with corporate landlords

Scheme A only; sample 19 respondents

	<i>Agree</i>	<i>Neither agree nor disagree</i>	<i>Disagree</i>
Higher-quality, more modern flats	71%	24%	6%
More professional and responsive management	59%	24%	18%
Better communal facilities	41%	35%	24%

We also asked about some of the perceived disadvantages of renting from a corporate landlord (Table 11). For tenants, the main disadvantage was that rents were more expensive than local alternatives (53% agreed). Some 57% of respondents at Scheme A were paying more than 1/3 of their income in rent, the highest in any of our case studies. Fewer thought that the flats were bland or difficult to personalise.

Table 11: Perceived disadvantages of purpose-built schemes with corporate landlords

Scheme A only; sample 19 respondents

	Agree	Neither agree nor disagree	Disagree
More expensive rents	53%	24%	24%
Less able to personalise flat	41%	12%	47%
Bland/characterless	35%	18%	47%

Based on this small sample, tenants were positive about the BTR experience at Scheme A but not overwhelmingly so. Some of the expected features of BTR were absent in this block, which has few communal facilities, and several tenants expressed disappointment with the build quality of the block or with responsiveness of management from the operator, a social landlord.

Financing Build to Rent

Development of BTR, and investment in completed schemes, is funded in a variety of ways and at a range of times in the development process. Passive capital investors such as institutions often invest equity, but active capital investors, operators and developers are much more reliant on development debt to deliver schemes. The main models for timing of investment include forward-funding, developer retaining ownership and developer selling on to an investor. Most big institutions (e.g. pension funds) are relatively risk-averse and want to buy on completion rather than taking development risk (Savills et al, 2017).

The main investors in BTR are pension funds from the UK and other countries, other large UK and global investment funds, high net-worth individuals and retail investors looking to secure long-term stable returns with relatively low risk. It is clear the appetite to invest in UK commercial and retail real estate has waned since 2016 and that residential investment has begun to emerge as an investment category backed by increasing research and understanding – and crucially track record. BTR is well established in the USA and a number of US real estate firms and investors are active in the UK. Now domestic investors are beginning to understand the market. There is also strong interest among investors from the Middle East and Far East, partly because the UK market is seen as underserved, legally well protected and safe/secure.

Australian interest is evidenced by the January 2018 announcement that Lendlease has established a partnership with the Canada Pension Plan Investment Board (CPPIB) to launch a major BTR investment partnership, with an initial target to invest £1.5 billion in the UK sector. The partnership will begin with an investment of £450 million in the next phase of new homes, which will be for private rent, at Lendlease's £2.3 billion Elephant Park development in Elephant & Castle. CPPIB will contribute about £350 million of the £450 million total, and Lendlease will invest the balance.

According to an industry source, in Q1 2018 there was £31.1 billion of equity targeting the UK's BTR sector over the next five years (CBRE, 2018). The volume of deals was increasing with both domestic and North American investor appetite growing (38% of the funds are US/Canada-based, 25% UK-based). Margins have been squeezed as a consequence of competition and the cost of buying

schemes. It is striking that all the major estate agencies have built capacity and are now staffed with specialists around the PRS in general and BTR in particular.

London has dominated the UK's BTR market to date. CBRE estimate that 60% of total investment in 2017 was in London (around £1.2 billion), up from 40% the previous year, with investment focused outside the core central areas where land prices generate unaffordable rents. However in recent years competition for sites in London (albeit tempered by the weakening of house prices in the capital since 2017) has meant that both developers and investors will also not only consider provincial cities like Manchester, Liverpool or Birmingham but also secondary centres like Chesterfield and Bedford – often where there is a river/canalside setting. Investment in prime regional centres (Birmingham/Manchester) fell in 2017, but some smaller cities including Leicester and Sheffield recorded growth while others (Nottingham and Exeter) reported their first BTR deals. It is clear that confidence in the underlying market logic of BTR is growing, and as understanding and experience builds we can expect to see further locational diversification.

Since 2016 several new actors have become involved in the UK BTR market, including Brookfield Property Partners, the world's second-largest real estate fund manager and the listed arm of the Canadian private-equity investor; Legal and General Investment Management, who have set up a large factory near Leeds to build modular units for BTR schemes; Oxford Property; and Blackstone, the US private equity firm. On a different scale, Sigma Capital group has set up a self-funded rented property portfolio with support from Homes England's Home Building Fund (£45m) – interestingly with a focus on houses rather than flats.

As documented in *Social Housing* magazine, a number of these investors are also moving into the affordable housing space. Legal and General has a direct investment portfolio and has now launched a for-profit affordable housing registered provider with the ambition of delivering 3,000 homes per annum. Blackstone, which is not only the largest private equity firm in the US but also its biggest landlord, recently acquired a stake in for-profit housing association Sage, based in Southend, while British Land has itself set up a for-profit housing association as has First Base, a London-based housing and regeneration company. This evidences the way momentum is building, along with increasing competition and diversity.

In principle, there is not necessarily any close link between BTR and affordable housing. However, as noted earlier, providers are open as to the spread of rents achieved on each site. Many operate on a portfolio basis, with an overall target return for each scheme; scheme managers are given considerable freedom to set the mix of tenants and the rents charged. At least one of the RP-related providers aimed to offer rents at 80% of market across the board. There is also a pressure from some funds to engage with the evident shortage of housing.

Our research identified four key problems relating to the financing of BTR:

- Capacity of the debt markets to lend
- State of maturity of the market
- Track record of borrowers
- Scale of assets.

The first three problems relate mainly to debt finance, and are interlinked. The BTR sector is still in its infancy and schemes are often very large. They require commensurately large loans, but with limited information to underwrite the deals, lenders attach a higher risk weighting to such debt. This means providers need to hold more cash on their balance sheets and it restricts their access to development finance (BPF, 2017). The government recognised this was an issue and addressed it with the Build to Rent Guarantee scheme described above. As the sector matures and developers

and providers generate a track record, and lenders develop familiarity with the business model, borrowing conditions should ease—and there is evidence that this is happening already.

The fourth problem is asset scale. Some developers (e.g. Quintain—see Wembley case study) keep and operate their completed schemes, but more typically the developer sells to an investor, who contracts an operator to manage the asset. Individual BTR buildings may not be large enough to interest institutional investors, who generally prefer to invest in lots of at least £25 million or better still, £50 million.

Lessons for Australia

There are many similarities between the UK housing market and Australia's: both countries have seen a slump in home ownership and price surges in major cities, and certain major investors are active in both markets. However, in some areas they differ considerably—in particular, Australian community housing providers are some way behind their UK housing association counterparts in terms of their use of capital markets, their size and the range of activities they undertake.

NSW Lancom is keen to explore the creation of a BTR sector in Australia. The UK government similarly worked for some time to promote the sector. It has taken many years, and several disappointing initiatives, for the UK to get where it is now. During that time, the investment context has changed considerably: there are more funds looking for long-term stable returns in a low-interest-rate environment. For years, governments across the world reduced base rates and provided banks with cheap money (through e.g. the Term Funding scheme in the UK), keeping interest rates low for longer than anticipated. Little wonder then that BTR has attracted investors' attention, as it offers the potential for both solid rental returns plus longer term capital gains. Given the commonality of potential investors and the close parallels between the two countries in terms of housing market structures and recent trends, Australia does start down this path with considerable advantages.

There has been a natural tendency to see London and Sydney as the natural loci of BTR. However, in the UK the market has now spread well beyond the capital, and houses are now being provided as well as flats.

This takes us to demographic change and market demand. The surge in the numbers of younger people and households, and the shifts in their preferences, have led to real changes in demand in both countries—changes that favour BTR.

While the UK sector is some years ahead of Australia, the USA is decades ahead of both. The UK market is tiny by comparison to the US multifamily sector, where developers are building around 400,000 homes per annum adding to a stock of around 20 million homes. One recent newspaper article quotes a Quintain spokesperson as saying 'in the US even if you have 20,000 units you are just beginning to get to scale. Nobody in the UK even has a pipeline over 10,000' (Sunday Telegraph, May 2018). Context is key: BTR in London is now developing into a relatively standardised offer, which differs markedly from, say, typical multifamily schemes in the western USA. Similarly the sector that eventually evolves in Australia will reflect the local market there.

Several of our interviewees said Australia could learn lessons from commercial purpose-built student accommodation, which was an important precursor to BTR in the UK. The growth in PBSA was initially supported by tax breaks and university guarantees but the sector is now unsubsidised and operates on a fully commercial basis. It was also suggested that Australia should take advantage of

modular construction techniques, which are particularly suitable for standardised accommodation types like PBSA and BTR.

Conclusions

Although well ahead of the Australian sector, the UK BTR market is still in its infancy. Most of the homes to be provided are still at the planning stage and all parties involved are still learning about this market. It is clear that understanding the underlying demographics is key, and that amenities, service and product must be tailored appropriately, to provide the right stock in the right location. While there appears to be strong demand for BTR from both consumers and investors, it is unlikely it will ever dominate the PRS market. Most experts suggest that, by the 2030s it may – at best – come to comprise around 10% of the market, or a maximum of 500,000 homes. This estimate is based more on instinct than hard data, given we have yet to see this new market go through an economic or housing-market cycle.

There are high expectations for how BTR will affect the PRS more broadly: the hope is that it will drive down rents for poorer quality homes and drive up standards. It is easy to see how this might play out in the immediate neighbourhoods of BTR schemes or even in metropolitan areas, but it may be too optimistic to expect to see effects spread to the very many local submarkets where BTR is not represented (and may never be).

Core demand is from so-called millennials, many of whom have been squeezed out of home ownership. As their circumstances improve, and the housing market goes through the inevitable cyclical downturn, we might expect some of them to move into owner-occupation, thus reducing demand. Indeed government may still go further in its efforts to enable households to get into home ownership. This will be a conditioning factor in the process. However, some of the pressures that have kept them out so far are unlikely to change (for example, tighter mortgage-market regulation has made it harder for first-time buyers to access high LTV loans), so demand for rental homes may remain strong for some time even if the current slow deflation of the UK housing market continues.

The demand for the BTR product is crucially driven by location. Regeneration areas have proved to be fertile ground for the sector, offering opportunities to build at scale in areas with good existing or regenerated infrastructure and transport links. These locational factors have attracted large numbers of couples and single sharers seeking good homes in good locations—indeed, respondents to our survey for the GLA said transport was the single most important factor in deciding where to live (Scanlon et al, 2018 forthcoming). An influx of new BTR tenants brings instant vitality to regeneration areas, using the local services/shops/pubs and helping carry forward the regeneration process.

There is also an emerging demand for family BTR, and in some locations the sector appeals to older downsizers and divorced people. Families generally prefer houses rather than flats, and look in somewhat different locations than young singles. Some analysts, pointing to the Sigma venture (<https://www.sigmacapital.co.uk/prs/our-prs-model/>), suggest we will soon see BTR operators offering terraced houses and perhaps other types of homes. This is some distance from where the market has started but it does reflect the underlying demand for good quality, readily accessible new homes across a wide spread of the population. There is a large gap between aspirations and what the market is currently providing, whether for home ownership (high prices and difficult access) or renting. The mainstream PRS market, while improving, is still viewed negatively by many current or potential tenants and lack of tenure security is an issue for families in particular.

Build to Rent covers quite a wide spectrum of homes ranging from the extremely luxurious to the relatively basic. Some informed observers have doubts as to whether the UK market will support the luxury end of the market as much as the USA does – their view being that UK renters were less concerned about pools, gyms and club rooms in their own block, preferring to find such amenities in the surrounding area. It is clear rental markets do vary around the world as do sentiments regarding home ownership and private renting. This is bound to mean that BTR markets will differ.

While there may be a debate as to where to pitch supply, there was agreement among those interviewed that it was essential to build at scale, to be able to provide a full-time concierge service and to achieve other economies of scale. Operators also agreed that the service proposition was key. Given the age profile and lifestyle of most renters, the view was that they needed the support of good concierge services above all else. Again, this was a key point of difference to the mainstream rental market.

In terms of supply it was generally accepted that BTR developers cannot outbid BFS, though some recent market commentary does suggest this might be changing. The argument centres on the amount that developers can afford to pay for a site. For-sale developments generate a higher gross development value (GDV) as compared to BTR schemes, where the GDV is calculated on the basis of a capitalised flow of rental yields over time. BFS developers see higher immediate profits, so can afford to bid more than BTR developers for land. But as markets shift and house prices themselves move, the balance of advantage can alter. Some observers see falling house prices in the capital as an opportunity for BTR developers.

On the issue of BTR and the supply of affordable homes, there is little evidence that BTR schemes will be major providers of affordable homes as conventionally defined. While local authorities are coming to recognise and value the pluses of BTR (speed, placemaking, quality of product), these must be balanced against the minus of less affordable housing than BFS, and they are constantly pushing to get more affordable homes. The extremely flexible meaning of the word ‘affordable’ can give latitude to finding a solution that suits everyone: providers are willing to offer homes across a spectrum of rents as long as the overall scheme can produce the required rate of return. But BTR schemes can contribute to cashflow and profits on large sites, and thereby help enable more defined affordable homes.

Housing associations are important players in the UK BTR market, and look for profits from the BTR elements of their businesses to cross-subsidise their core activities, either elsewhere on the same site or in other locations. The model has obvious appeal for both RPs and policy makers, as it enables associations to advance their charitable aims with less government subsidy. But those who have become BTR operators are now exposed to the market in a way that housing associations traditionally have not been. All of the associations interviewed were confident that their financial plans were realistic and were enthusiastic about providing good homes for those who need them across the full spectrum of the market. We will not know if these expectations are borne out until the economy has been through a complete market cycle.

References

- Alakeson, V. (2012) Making Institutional Investment in the Private Rented Sector Work; London: Resolution Foundation <https://www.resolutionfoundation.org/publications/making-institutional-investment-private-rented-sector-work/>
- Brent Council (2009) Wembley Masterplan Supplementary Planning Document <https://www.brent.gov.uk/media/333266/Wembley%20Masterplan.pdf>
- Brent Council (2015) Wembley Area Action Plan <https://www.brent.gov.uk/media/12978016/WAAP%20adopted%20version.pdf>
- British Property Federation with Savills (2018) 'Build to Rent Q1 2018' unpublished slide presentation
- CBRE (2018) Build to Rent Equity tracker
- Donnell, R. (2017) Unpublished Hometrack analysis supplied by the author
- Greater London Authority (2017a) The London Plan: The spatial development strategy for London; Draft for public consultation https://www.london.gov.uk/sites/default/files/new_london_plan_december_2017.pdf
- GLA (2017b) Affordable Housing and Viability Supplementary Planning Guidance https://www.london.gov.uk/sites/default/files/ah_viability_spg_20170816.pdf
- Hackett, P. (2017) *Delivering the renaissance in council-built homes: the rise of local housing companies* London: Smith Institute <http://www.smith-institute.org.uk/wp-content/uploads/2017/10/The-rise-of-local-housing-companies.pdf>
- Hill, D. (2017) 'Regeneration—or pushing out the poor? Labour divides in bitter housing battle' *The Observer Regeneration* <https://www.theguardian.com/society/2017/oct/29/gentrification-pushing-out-the-poor-haringey-council-housing-battle-corbyn-labour>
- Kemp, P. (2004) *Private Renting in Transition*; Coventry: Chartered Institute of Housing
- Lewisham Council Strategic Planning Committee (2017) agenda papers meeting 27 March 2017 <http://councilmeetings.lewisham.gov.uk/documents/s50930/Appendix%20A-%20Committee%20report%2021st%20March%202017.pdf>
- London Assembly Regeneration Committee (2015) The Regeneration Game Stadium-led regeneration March 2015 http://web.archive.org/web/20150915124732/http://www.london.gov.uk/sites/default/files/Regeneration%20Committee%20report%20-%20The%20Regeneration%20Game_0.pdf
- Ministry for Housing, Communities and Local Government (2018) National Planning Policy Framework: Draft text for consultation https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685289/Draft_revised_National_Planning_Policy_Framework.pdf

Ministry for Housing, Communities and Local Government (2017) Live Table 120: Components of net housing supply, England 2006-07 to 2016-17 <https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing>

Minton, A. (2017) *Big Capital: Who is London for?* Penguin, Random House

Pannell, B. (2016) *Home-ownership or bust? Consumer research into tenure aspirations* Council of Mortgage Lenders

Power, A., Belotti, A., Lane, L. and Provan, B. (2018) Private Renting: Can social landlords help? LSE Homes and Communities <http://sticerd.lse.ac.uk/dps/case/cr/casereport113.pdf>

Savills, with Whitehead, C. and Scanlon, K. (2017) *Unlocking the benefits and potential of build to rent*. Savills

Scanlon, K., White, T. and Blanc, F. (2018 forthcoming) *Residents' experience of high-density housing in London* LSE London/LSE Cities report for the GLA

Scanlon, K. (2017) 'Social housing in England: affordable vs "affordable"' *Critical Housing Analysis*, 4:1, 21-30

Scanlon, K., Whitehead, C. and Williams, P. (2016) *Taking stock: Understanding the effects of recent policy measures on the private rented sector and Buy to Let* LSE London

Simcock, T. (2018) *The Impact of Taxation Reform on Private Landlords*, RLA Pearl Report, Residential Landlords Association, Manchester

Sunday Telegraph 6th May 2018 page 8

Urban Delivery (2017) *Lewisham Gateway Financial Viability Review Report* (for) London Borough of Lewisham March 2017
<http://councilmeetings.lewisham.gov.uk/documents/s48739/Appendix%206%20Lewisham%20Gateway%20Council%20Viability%20Report.pdf>

Wilson, J. and Scanlon, K. (2017) *Making the most of Build to Rent* London: Future of London

Wilson, R. (2018) Working the PRS market, *Social Housing*, April, pp 10-11

Selected further resources

Policy

Allsop (2016) *How does Build to Rent fit into BREXIT?* Available at:

<https://www.allsop.co.uk/resources/2016/09/How-does-build-to-rent-fit-into-Brexit-Autumn-2016.pdf>

Department of Communities and Local Government (2017) *Fixing our broken housing market.*

Housing White Paper. Available at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

GLA (2017) *Draft Housing Strategy.* Available at:

https://www.london.gov.uk/sites/default/files/2017_london_draft_housing_strategy.pdf

House of Commons (2017) *Building the new private rented sector: issues and prospects (England)* Briefing Paper.

Homes and Community Agency (2012) *Build to rent fund 2012-16*, HCA, London.

Planning Resource (2018) *Only a third of London boroughs support build to rent, study find.* Available

at: <https://www.planningresource.co.uk/article/1457157/third-london-boroughs-support-build-rent-study-finds>

Market / investment

Arcadis in association with Hometrack (2013) *Build to Rent--Pushing the Boundaries.* Available at

https://www.arcadis.com/media/9/3/5/%7B935065C6-C838-43F5-8FAF-5406EB0DB200%7D8644r_private%20rented%20sector%20report_WEB_LR.pdf

CBRE (2017) *Market Review Q4 2017*, CBRE, London

Housing LIN (2018) *Why older people need more market rent housing: new opportunities for older people, local authorities, developers, investors and providers.* Available at:

https://www.housinglin.org.uk/assets/Resources/Housing/Support_materials/Practice_briefings/HLIN_PRS-Briefing-3.pdf

Knight Frank (2017) *Private rented sector update August 2017.* Available at:

<http://www.knightfrank.co.uk/resources/residential/development/uk-residential-investment-yield-guide-august-2017-4897.pdf>

JLL Australia (2017) *Build to Rent Residential: Australia's Missing Sector*, Research Australia

September 2017. Available at http://www.jll.com.au/australia/en-au/Research/Build%20to%20rent%20residential_Australias%20missing%20sector%20September%202017.pdf

Savills (2016) *Spotlight Rental Britain.* Report. Available at:

<https://pdf.euro.savills.co.uk/uk/residential---other/spotlight-rental-britain-february-2016.pdf>

Affordability, viability, discount market rent

Arcadis in association with Hometrack (2013) *Build to Rent--Pushing the Boundaries*. Available at https://www.arcadis.com/media/9/3/5/%7B935065C6-C838-43F5-8FAF-5406EB0DB200%7D8644r_private%20rented%20sector%20report_WEB_LR.pdf

Savills (2018) *House-led schemes lead the way on let-up rates*. Blog. Available at: <http://www.savills.co.uk/blog/article/227743/residential-property/house-led-schemes-lead-the-way-on-let-up-rates.aspx>

Urban regeneration, estate renewal

London Councils (2017) *Everything you need to know about build to rent in London*. Report. <http://londonfirst.co.uk/wp-content/uploads/2017/09/Build-to-Rent.pdf>

The role of housing associations

Addleshaw Goddard & BPF (2015) *Build to Rent Funding Britain's rental revolution*. Report. Available at: <https://www.addleshawgoddard.com/globalassets/sectors/real-estate/build-to-rent-report--funding-britains-rental-revolution.pdf>

DCLG (2017) *Planning and affordable housing for Build to Rent*. Summary of Consultation responses. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/635320/Build_to_Rent_Consultation_Analysis.pdf

Consumer experience

Byers, D. (2018) *The start of a British rental revolution; The home to let is changing. Tenants can now expect bars, gyms and childcare, reports David Byers*. The Times.

Kollewe, J. (2017) *Build-to-rent – the solution to Britain's housing crisis?* The Guardian. Available at: <https://www.theguardian.com/business/2017/sep/14/build-to-rent-the-solution-to-britains-housing-crisis>