Lambert Smith Hampton

BTR 2.0

BUILD TO RENT REPORT 2024

MORE THAN **96,000** BUILT BTR UNITS IN THE UK

BRISTOL TOP OF LSH'S 2024 BTR HOTSPOTS RANKING

BTR'S RENTAL PREMIUM OVER NEW BUILD STOCK IS **11.9%**

RECORD BTR INVESTMENT OF OVER **£6BN** FORECAST FOR 2024

BIRMINGHAM HAS THE LARGEST BTR PIPELINE OUTSIDE LONDON

WELCOME

SIMON WILSON, HEAD OF LSH LIVING & CAPITAL MARKETS

Welcome to LSH's **Build to Rent Report 2024**, our review of the latest trends impacting this fast-evolving sector.

BTR has grown rapidly over the last decade to become one of the most active parts of the UK property market. The sector is now in a period of significant change; while it was once synonymous with apartments aimed at young urban professionals, BTR now also increasingly encompasses mid-market schemes, suburban properties, and homes aimed at families and older renters.

We call this new phase of growth **BTR 2.0**.

Over the last year, change has also been driven by housebuilders' increased willingness to make bulk sales of homes to investors, rather than selling individual units to private buyers. This is bringing an injection of single family housing into the UK's rental stock and underpinning transactional activity. Buoyed by this, and supported by strong rental growth prospects, we are predicting that 2024 will be another record year for UK BTR investment.

As part of the Connells Group, and working closely with our group colleagues at Hamptons, LSH has a unique position at the heart of the BTR sector. We have access to an unrivalled network able to assist and advise throughout the full lifecycle of a BTR project; providing a complete range of planning, development, leasing, investment and property management services.

I hope you enjoy this publication, which has been produced in conjunction with our Connells and Hamptons colleagues. Please feel free to contact myself, or any of the team, if you would like to discuss any of the topics covered by the report.

BTR 2.0

ANEISHA BEVERIDGE,
HEAD OF RESEARCH, HAMPTONS

The BTR sector is evolving beyond its initial focus on homes for young, urban professionals; to encompass a broader range of mid-market and family-oriented products.

BEYOND THE FIRST WAVE

The origins of the Build to Rent (BTR) sector, as we know it today, can be traced back to the 2012 London Olympics. After the games, part of the Olympic Village in Stratford was converted into professionally managed rental accommodation by Get Living, in a scheme that pioneered the BTR model in the UK, now known as East Village.

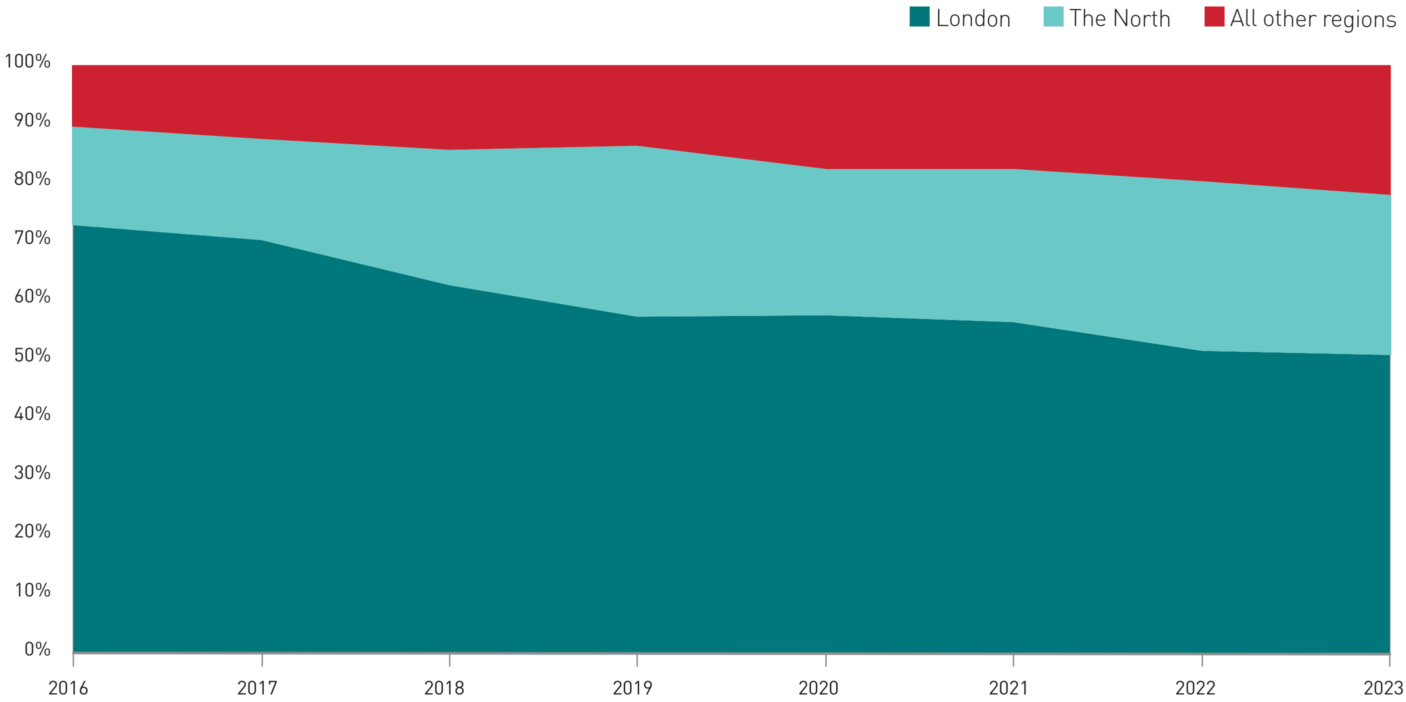
This marked the start of the first wave of modern BTR developments, which were primarily aimed at relatively affluent young professionals looking for convenient, hassle-free living in urban areas. While most of the initial growth of BTR was driven by pension funds looking for returns in an era of low interest rates and largely consisted of similar schemes nearby in London; in more recent years, BTR has increasingly diversified.

Back in 2016, almost 75% of all advertised BTR homes were in London. By 2023, that figure had fallen to 50%, reflecting the growth of the sector as it expanded into the London commuter belt and other major cities. The North West has become the main focal point outside the capital, with Manchester and Salford being key hotspots.

Over the past 12 months, 23% of all BTR homes advertised to rent were in the North West, up from 15% in 2016. Between them, Manchester and Salford accounted for nearly a third of all BTR homes advertised outside London in 2023. Liverpool and Leeds were also notable frontrunners, while Birmingham and Leicester have additionally seen significant levels of activity.

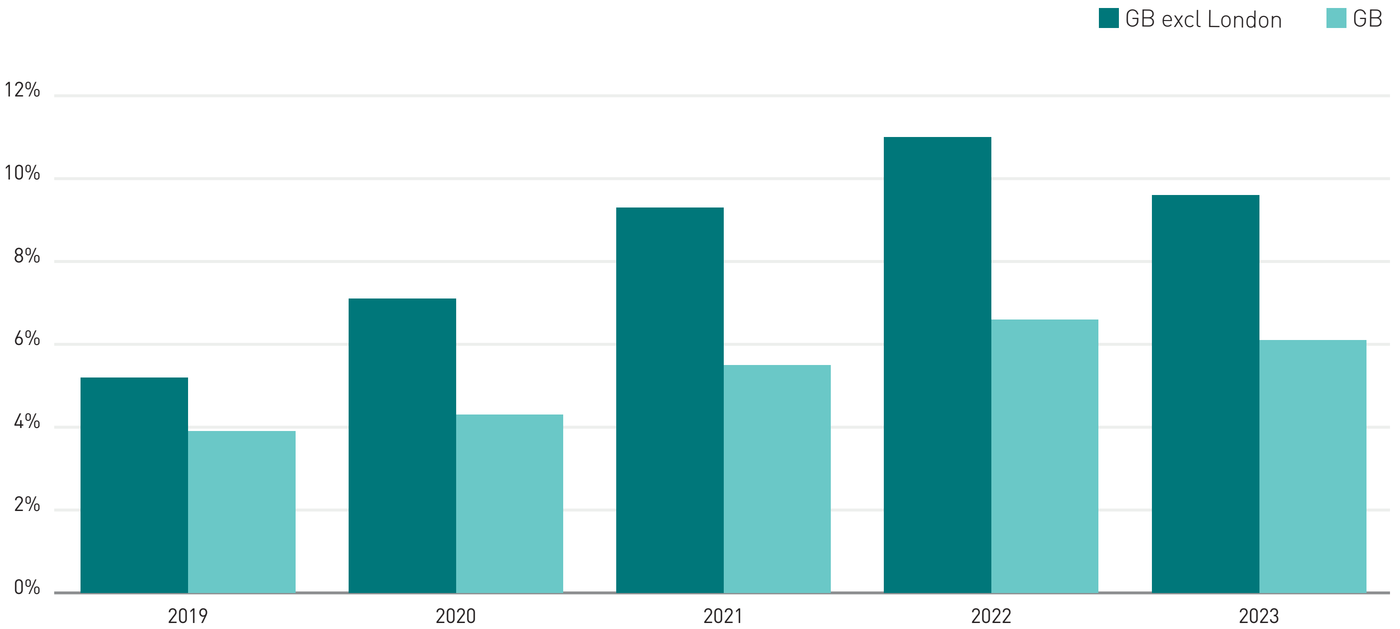
But it's not all about cities. One of the biggest shifts in BTR over the last few years has been the spread of activity from urban centres into the suburbs. Back in 2016, more than 90% of advertised BTR homes were in cities. However, the share of BTR homes advertised in the suburbs has doubled from 9% in 2016 to 18% today. The growth of suburban BTR is likely to continue as a tough sales market means housebuilders become a growing source of the sector's stock.

LOCATIONS OF BTR HOMES ADVERTISED IN GB (%)



Source: Hamptons / Homeviews

SINGLE FAMILY HOUSING AS A PROPORTION OF ADVERTISED BTR HOMES (%)



Source: Hamptons / Homeviews

EVOLVING PRODUCTS

Alongside geographical shifts in activity, the types of homes on offer have changed too. In 2019, just 4% of all advertised BTR homes were single family houses (SFH). By 2023, that proportion had risen by half to over 6%. Outside London, however, the shift has been much more significant. Houses made up 10% of all BTR homes advertised to rent outside the capital in 2023, double the share recorded five years ago.

This is opening up BTR to a new audience and extending its lifecycle for tenants looking to leave urban hotspots. While these suburban developments don't tend to come with all the amenities offered by their city skyscraper counterparts, they're appealing more to older middle-income families looking for the convenience of a new build alongside extra space. Consequently, it's now more common than ever for children to grow up in a BTR home. In 2023, 17% of BTR households across the country had a child, double the proportion from six years ago.

Over the next 12-18 months, the supply of SFH is likely to get a shot in the arm from the slowing sales market. The strength of the rental sector has seen housebuilders strike bulk deals with BTR operators for assets that would have previously been sold to private buyers, feeding large numbers of homes into the BTR market. Typically, these deals are replacing off-plan purchasers, with many of the large housebuilders still looking to ensure at least half of their homes are sold prior to completion. But whether these deals will survive an eventual recovery in the sales market or a government that's set a target to increase homeownership rates remains to be seen.

The growth of the suburban and SFH market is fundamentally aligned with demographic changes and the rise of the older renter. The 2007 crash created a generation of tenants who have struggled to get onto the housing ladder and we expect the number of renters over the age of 65 to reach one million over the next decade. While their peers in previous generations were mostly homeowners, a growing number of more mature households now rent. This will support the expansion of SFH into new suburban markets previously dominated by owner-occupiers and even into retiree focussed schemes tailored to those who are set to rent for life.

FILLING THE SUPPLY GAP

Notwithstanding the injection of stock expected to come from housebuilders' deals with BTR investors, the balance between supply and demand is likely to remain tighter in the rental sector than the sales market for some time. This is reflected in Hamptons' rental growth forecasts which project rents to rise 25% between 2023 and 2026, four and a half times faster than house prices. These increases will go some way towards covering landlords' additional costs, particularly the increased cost of borrowing.

Many smaller landlords are already baulking at these higher costs and tighter regulation. Given their ageing profile, they are selling up and cashing in. Between 2017 and 2023, the English Housing Survey reports a 100,000 fall in the number of privately rented households in England, with private renters dropping from 20.3% to 18.8% of all households. The growth of BTR is yet to offset the exodus of smaller landlords.

Tougher affordability conditions, particularly as rates have risen, will keep would-be first-time buyers renting for longer. When combined with a shrinking buy-to-let (BTL) sector, this makes it likely that BTR will provide homes for an increasing share of tenants in the future. The extent to which it can diversify beyond its urban heartlands to offer a range of products aimed at older and larger middle-income households will dictate whether it can become a mainstream force in the rental market and stem the falling number of rented homes.

ROLLING OUT TO THE REGIONS

MATTHEW COLBOURNE,
ASSOCIATE DIRECTOR - RESEARCH,
LAMBERT SMITH HAMPTON

The existing BTR stock is heavily focused on London and Manchester/Salford, but other cities such as Birmingham, Leeds, Edinburgh and Glasgow feature prominently in the development pipeline.

CRUNCHING THE NUMBERS

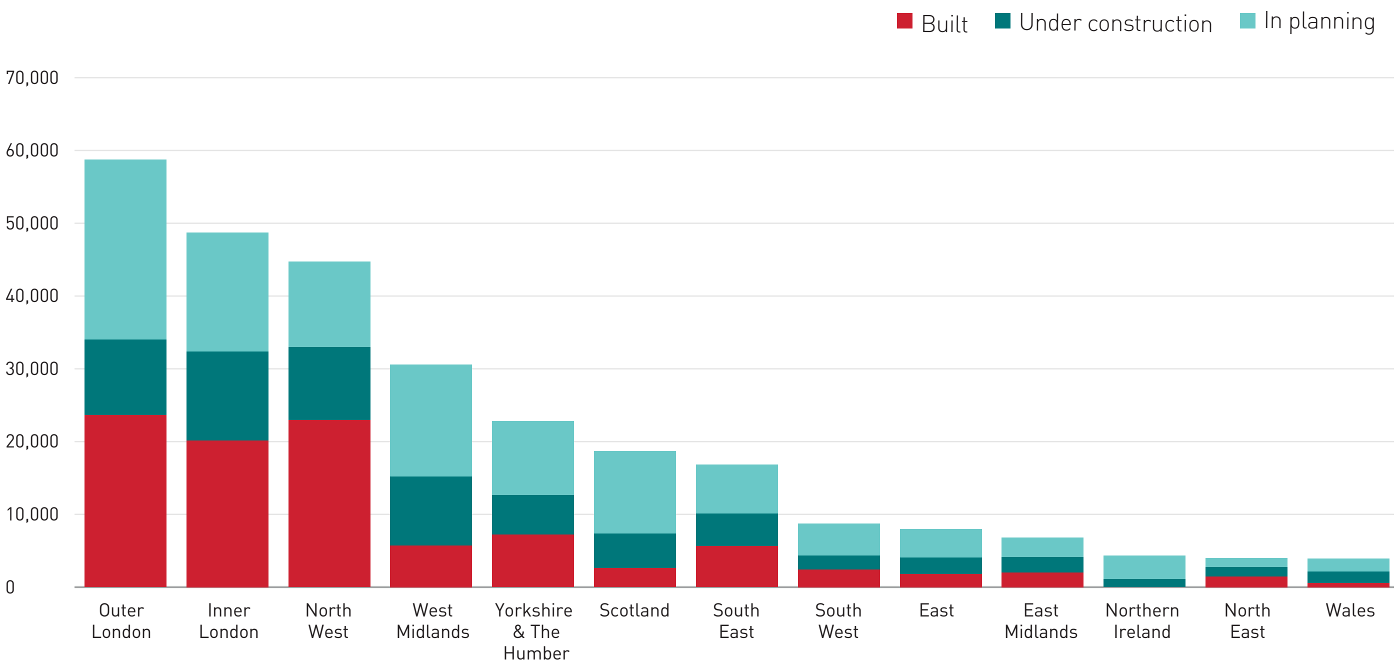
In preparation for this report, LSH has created a comprehensive database of existing and pipeline BTR schemes. The database records that there were 96,091 built units in the UK at the end of 2023, with a further 66,927 under construction and 113,909 in planning. While the BTR sector has grown rapidly over the last decade, the number of built units still only represents just over 2% of the UK's total private rental stock.

The existing stock is heavily concentrated in London and the North West, which between them account for close to 70% of the UK's built units. London has 43,777 existing units and the North West has 22,934, the large majority of which are located in Manchester/Salford.

London's stock is spread around the capital, with all 32 boroughs having some existing units. However, there are concentrations of activity within specific areas of London, as five boroughs – Newham, Brent, Tower Hamlets, Croydon and Southwark – are home to about half of its built units.

Manchester/Salford is currently the only UK regional market on a scale that rivals London, with 17,905 built units spread across the two neighbouring cities. This is about four times

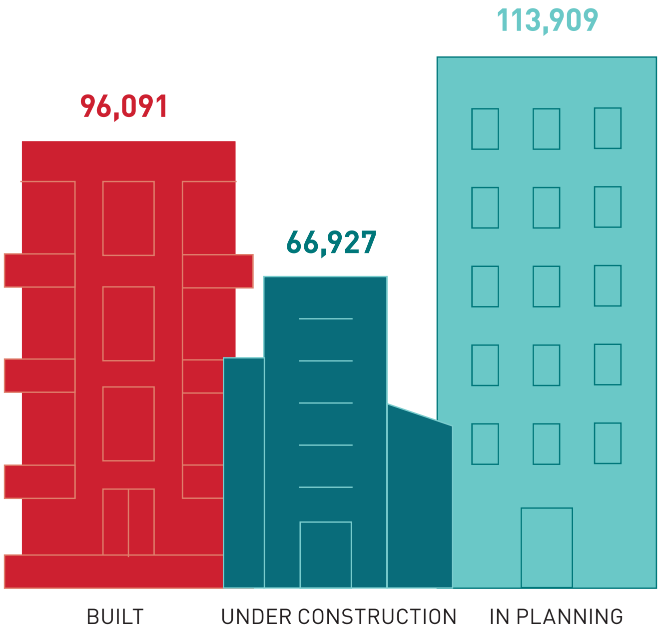
BTR UNITS BY REGION



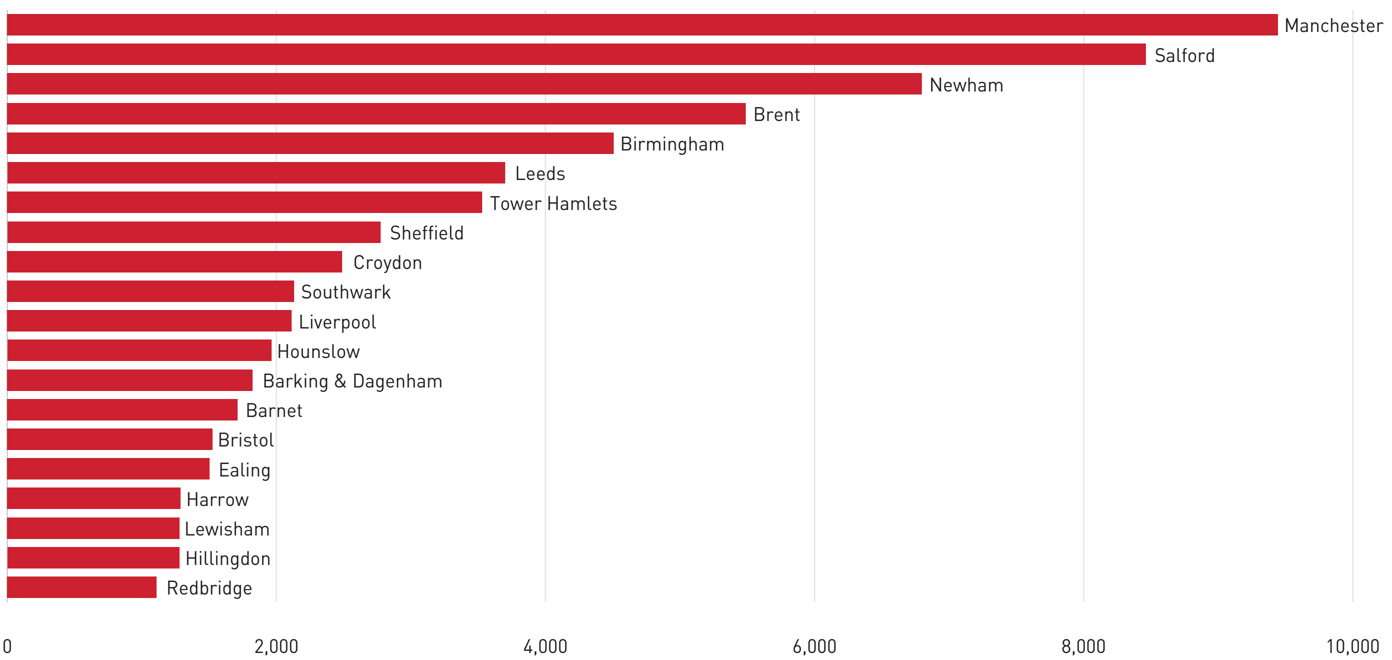
Source: LSH Research

ENCLAVE, CROYDON

BTR UNITS, Q4 2023

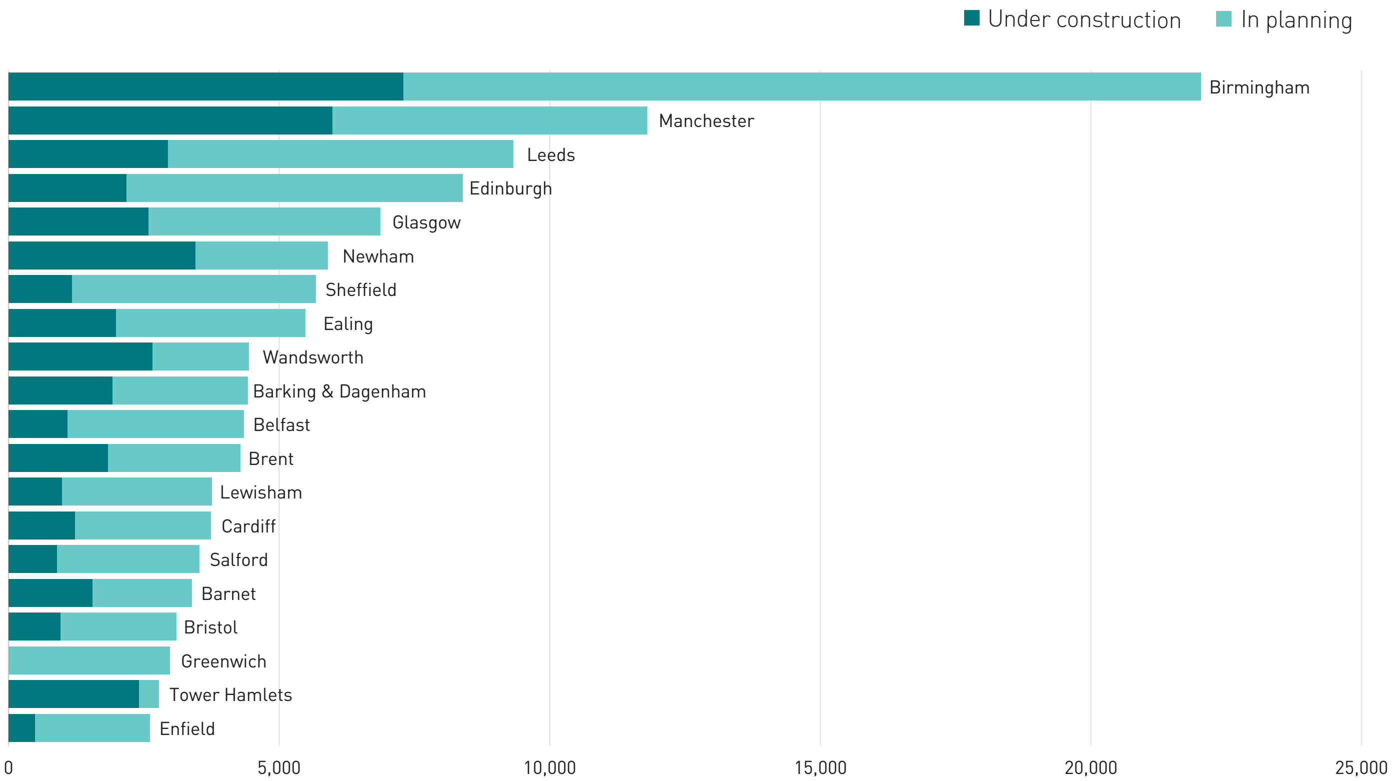


BUILT BTR UNITS – TOP 20 LOCATIONS



Source: LSH Research

PIPELINE BTR UNITS – TOP 20 LOCATIONS



Source: LSH Research

as many units as the next biggest regional market, Birmingham. The only other UK regional cities with more than 1,000 built units are Leeds, Liverpool, Bristol, Sheffield, Leicester and Newcastle.

On a per capita basis, Salford is the UK's most developed BTR market, with approximately 32 built units per 1,000 people, which compares with 17 units in Manchester. The only further locations with more than 15 units per 1,000 people are the London boroughs of Newham and Brent, within which Stratford and Wembley are the main focal points for BTR activity.

BTR units represent more than 20% of the total built PRS stock across Manchester/Salford. This is a considerably greater market share than anywhere else in the UK, with BTR units accounting for no more than 8% of the total PRS stock in any other major city. Large cities that are relatively lowly supplied, with BTR's share of the PRS stock below the national average of 2%, include Edinburgh, Cardiff, Glasgow, Nottingham and Belfast.

DEVELOPMENT SPREADS

While London and the North West dominate the existing stock, the development pipeline is much less concentrated in these regions. More than half of the units currently under construction or in planning are in other parts of UK. The West Midlands has the biggest pipeline outside London, due to a swathe of large-scale schemes in Birmingham.

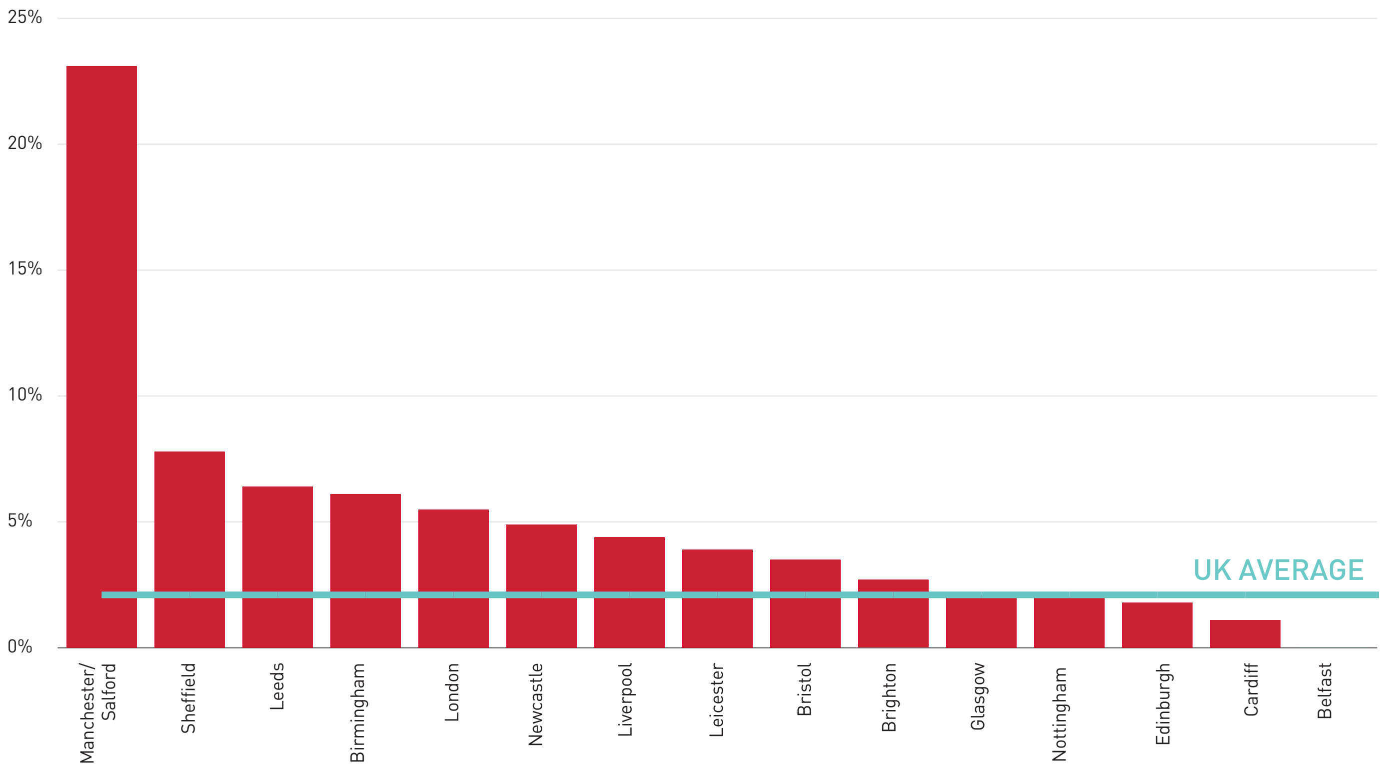
Scotland and Yorkshire & the Humber also have pipelines that are disproportionally large compared with current stock levels, with developers focused on cities such as Leeds, Sheffield, Glasgow and Edinburgh. However, the starkest contrast between current and future stock is found in Northern Ireland, which has no built units but more than 4,000 in pipeline projects.

As development continues to radiate from existing hotspots to other places, a growing number of locations are gaining BTR projects. Clients of LSH report that some of their best performing BTR assets are in smaller towns and cities that would not be considered core BTR markets. The success of such schemes will help to encourage the BTR model to gain further footholds across the UK.

The development pipeline is not just broadening geographically, but also diversifying across different styles of BTR assets. BTR development models are increasingly being applied to mid-market products; and to other residential types such as co-living, senior housing and single family housing. All of these have the potential to be key sources of much-needed future housing across the UK.

COPPERMAKER SQUARE, LONDON

BUILT BTR UNITS AS % OF TOTAL PRS STOCK (SELECTED CITIES)



Source: LSH Research

RENTALS ROCKET

KAMI NAGI,
GROUP RESEARCH DIRECTOR,
CONNELLS GROUP

An acute imbalance between supply and demand is fuelling high levels of rental growth; while the premiums commanded by BTR properties provide a further strong attraction for investors into the sector.

SUPPLY SQUEEZE

The imbalance between supply and demand in the residential rental market has intensified over recent years, partly as a result of pandemic impacts, but also due to the exit of some buy-to-let landlords in light of tax and regulatory pressures.

Higher mortgage rates have exacerbated the imbalance during the last twelve months, as they have caused activity in the sales market to slow and pushed potential buyers to remain renters for longer. Illustrating this, sales volumes in 2023 were 19% lower than in 2022; while the average rental property now receives about three times as many enquiries as it did in the pre-pandemic year of 2019.

While the average UK house price fell by 2% in 2023, the average rent for PRS apartments grew by a huge 14% to £1,095 pcm. Over H2 2023, Connells Group Research recorded the strongest growth rates in Birmingham, Manchester and Southampton. The largest percentage increase for 1-bed flats was seen in Brighton, while the largest for 2-beds was in Bristol.

As we start 2024, little seems to be changing with tenant demand remaining robust and tenancy lengths growing. The average tenancy length is now 28 months. Competition among tenants remains strong, with many seeking to secure the best new properties as soon as they become available. We expect this to fuel continued rental increases in the year ahead, albeit growth rates are likely to slow after peaking in 2023.

BTR COMMANDS A PREMIUM

On top of the strong growth in rents seen across the private rental sector, BTR properties have the additional attraction to investors of significant rental premiums over the wider market. On average, BTR rents were 11.9% higher than new-build rents in 2023, and 26.6% higher than those achieved in the secondhand market.

Unsurprisingly, the highest BTR rents are commanded in London, where the average 2-bed BTR flat now rents for £2,904 pcm. Rents are generally highest in the south of

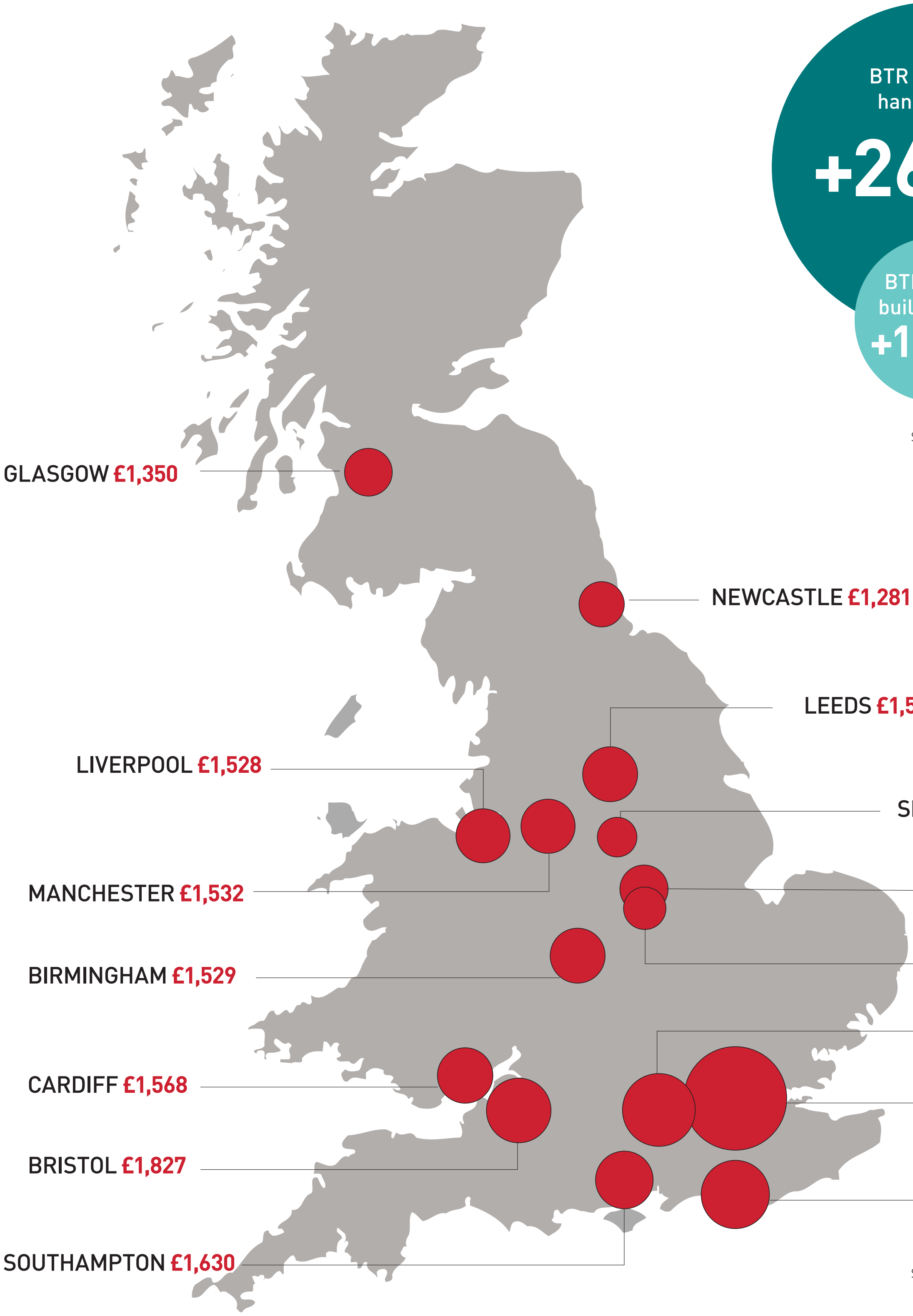
LANDSBY WEST, WEMBLEY PARK

England, at close to £2,000 pcm for 2-beds in Reading and Brighton; but major regional cities such as Manchester, Leeds and Birmingham are now also seeing similar properties rent on average for more than £1,500 pcm.

Although high rental growth rates and significant BTR premiums add to the investment case for the sector, it should be acknowledged that current rental levels are stretching the budgets of numerous renters. The rents currently commanded by BTR homes represent a large proportion of average household incomes in many cities.

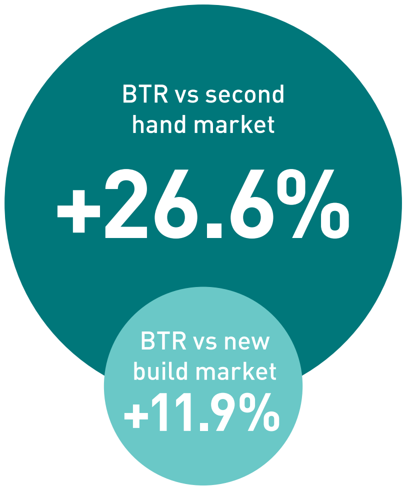
Affordability issues are a huge challenge for many renters and may constrain future rental growth rates, particularly in the most expensive UK markets. The continued expansion of the BTR sector will depend on its ability to provide more affordable homes targeted at mid and lower income households, in addition to premium products.

AVERAGE MONTHLY RENTS – 2 BED BTR FLATS



Source: Connells Group Research / REalyse

BTR RENTAL PREMIUMS (NATIONAL AVERAGES)



Source: Connells Group Research / REalyse

BUILD TO RANK

MATTHEW COLBOURNE,
ASSOCIATE DIRECTOR - RESEARCH,
LAMBERT SMITH HAMPTON

Bristol comes top of LSH's BTR Hotspot Ranking 2024, while a myriad of other locations with potential for BTR and SFH development are also spotlighted.

RANKING THE CITIES

LSH's BTR Hotspot Ranking 2024 assesses which UK locations have the greatest potential for built to rent development. The ranking incorporates multiple data points that form three pillars – Household Profile; Economic and Demographic Growth; and Rental Market Dynamics to assess the towns and cities with the greatest suitability for BTR.

The Household Profile pillar uses Experian's Mosaic socio-demographic classification to identify locations with large populations likely to have strong demand for BTR homes; Economic and Demographic Growth includes measures of GVA growth, population density and population growth in the key 20-34 age group; and Rental Market Dynamics incorporates PRS rental growth, home affordability and the prevalence of PRS households in each location.

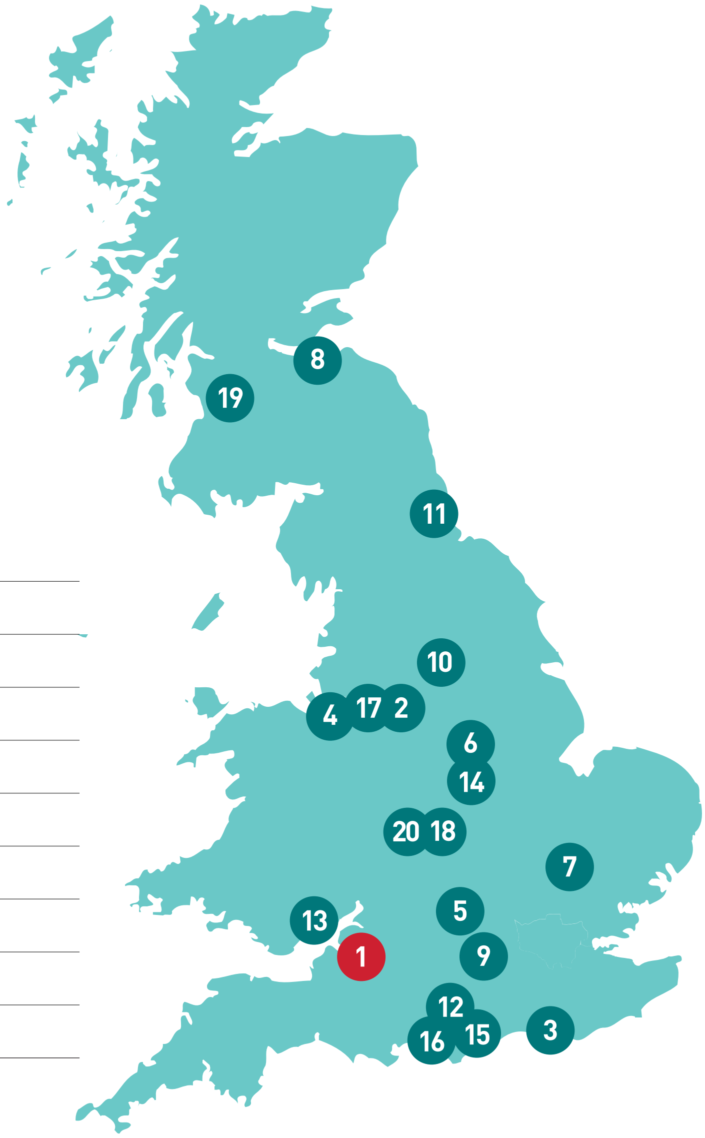
A separate single family housing ranking has also been produced, applying a different set of demographic criteria. The SFH list gives priority to locations whose demographic profiles show a strong presence of young and growing families.

BTR OPPORTUNITY RANKING

1	BRISTOL	11	NEWCASTLE
2	MANCHESTER	12	SOUTHAMPTON
3	BRIGHTON & HOVE	13	CARDIFF
4	LIVERPOOL	14	LEICESTER
5	OXFORD	15	PORTSMOUTH
6	NOTTINGHAM	16	BOURNEMOUTH
7	CAMBRIDGE	17	SALFORD
8	EDINBURGH	18	COVENTRY
9	READING	19	GLASGOW
10	LEEDS	20	BIRMINGHAM

TOP OF THE CHARTS

Top place in the BTR ranking goes to Bristol on the back of an impressive all-round showing across the metrics. The South West city achieves the unique distinction of a top ten



placing in all three pillars, with its strongest individual performances being for PRS rental growth and the size of its 20-34 year old population.

Manchester's well-established appeal as a BTR location is underlined by a second place finish in the ranking; while Brighton & Hove comes third, reflecting the presence of a young, vibrant rental population.

The identity of these top three cities may come as no surprise, as all three have received strong interest from BTR investors and developers. However, one does not need to look too far down the ranking to find locations that have been largely untapped by the BTR sector.

Oxford and Cambridge have demographic profiles that should support BTR demand, but development activity to date has been limited due to competition from exceptionally strong sales markets. In addition, Portsmouth is ranked in the top twenty but has seen hardly any BTR development; while locations such as Nottingham, Newcastle and Southampton all appear to have greater potential for BTR than current market activity would suggest.

REGIONAL STARS

The South East is the region with the strongest presence at the top end of the ranking, with five locations in the top 20, namely Brighton & Hove, Oxford, Reading, Southampton and Portsmouth. The North West is also notably visible, with Manchester, Liverpool and Salford all highly ranked.

However, there is a wide geographical spread of cities at the top of the ranking. Every UK region bar Northern Ireland has at least one representative in the top 20 and, even then, Belfast only narrowly misses out at 21. Top-ranked locations within their regions include Cambridge, Nottingham, Coventry, Newcastle, Cardiff, Edinburgh and Leeds.

UNTAPPED GEMS

In order to identify locations with untapped growth potential, the 'Under the Radar' ranking shows the top-ranked locations that currently have little or no BTR development, with fewer than 1,000 units either built or in the pipeline.

In addition to the previously-mentioned Oxford, Cambridge and Portsmouth, there are multiple large cities in the UK that have barely been touched by BTR developers but which have the size and demographics to support new schemes. These include Plymouth, Watford, Norwich and Hull; with the last of these being both the highest ranked city on the list, and the largest in the UK, yet to see any BTR development.

UNDER THE RADAR

1	OXFORD
2	CAMBRIDGE
3	PORTSMOUTH
4	PLYMOUTH
5	WATFORD
6	HULL
7	SLOUGH
8	NORWICH
9	LUTON
10	BATH

COPPERMAKER SQUARE, LONDON

CAPITAL OPPORTUNITIES

Greater London's boroughs have been ranked separately from the rest of the UK. The top two boroughs in the ranking are Newham and Brent, both of which have very favourable demographic profiles. This is reflected in current BTR market activity, as these boroughs have the largest existing stocks of BTR units in London, with Stratford and Wembley being their respective focal points.

The London top ten is evenly split between inner and outer boroughs. However, the sweetest spots for BTR development appear to be around zones 2-3, with the innermost and outermost boroughs generally appearing further down the ranking. Two exceptions around the edge of London are Barnet and Croydon, which both appear in the top ten.

THE LONDON LIST

1. NEWHAM
2. BRENT
3. HARINGEY
4. LEWISHAM
5. WALTHAM FOREST
6. BARNET
7. LAMBETH
8. SOUTHWARK
9. CROYDON
10. TOWER HAMLETS

SINGLE FAMILY HOUSING

The single family housing ranking uses a similar methodology to the BTR ranking, but incorporates Mosaic categories that are typified by slightly older households with children. Higher rankings are given to locations with large populations in the 25-39 age group and those with high proportions of households with three or more people.

The results share some similarities with the BTR list, as nine cities appear in the top 20 of both rankings. However, the SFH list has its own flavour, with several mid-sized cities moving up the list while larger cities slip down.

There is a particularly noticeable presence of cities from the Midlands in the SFH ranking. Leicester is the top ranked location, while Nottingham provides a second East Midlands representative in the top three. There are also five West Midlands locations in the top 20, namely Sandwell, Birmingham, Coventry, Dudley and Walsall. The high placements of Milton Keynes and Peterborough are also notable, with both entering in the top 10 after being much lower in the BTR ranking.

SFH POTENTIAL

1. LEICESTER
2. BRISTOL
3. NOTTINGHAM
4. SANDWELL
5. MANCHESTER
6. MILTON KEYNES
7. BIRMINGHAM
8. COVENTRY
9. LEEDS
10. PETERBOROUGH
11. HULL
12. BELFAST
13. THURROCK
14. SALFORD
15. MEDWAY
16. LIVERPOOL
17. DUDLEY
18. BRADFORD
19. WALSALL
20. CRAWLEY

DRILLING DOWN

The top three locations in each UK region outside London are shown below. The South East and North West are the only regions whose top three are all in the overall top 20, but every part of the UK has at least one city that features highly overall.

REGIONAL PROMISE (UK RANKING IN BRACKETS)

SOUTH WEST	
1	BRISTOL (1)
2	BOURNEMOUTH (16)
3	PLYMOUTH (23)

NORTH WEST	
1	MANCHESTER (2)
2	LIVERPOOL (4)
3	SALFORD (17)

SOUTH EAST	
1	BRIGHTON & HOVE (3)
2	OXFORD (5)
3	READING (9)

EAST MIDLANDS	
1	NOTTINGHAM (6)
2	LEICESTER (14)
3	LINCOLN (30)

EAST OF ENGLAND	
1	CAMBRIDGE (7)
2	WATFORD (22)
3	NORWICH (29)

SCOTLAND	
1	EDINBURGH (8)
2	GLASGOW (19)
3	ABERDEEN (25)

YORKSHIRE & THE HUMBER	
1	LEEDS (10)
2	HULL (23)
3	YORK (32)

NORTH EAST	
1	NEWCASTLE (11)
2	MIDDLESBROUGH (55)
3	DURHAM (86)

WALES	
1	CARDIFF (13)
2	SWANSEA (72)
3	ABERYSTWYTH (142)

WEST MIDLANDS	
1	COVENTRY (18)
2	BIRMINGHAM (20)
3	WARWICK (40)

NORTHERN IRELAND	
1	BELFAST (21)
2	NEWRY (100)
3	NEWTOWNABBEY (102)

RIGHT-SIZING AMENITIES

PAUL NOBLE,
NATIONAL SALES DIRECTOR,
LAMBERT SMITH HAMPTON

For BTR assets to work in non-core locations, operators should consider stepping back from the amenity arms race, and tailor products to match local demand.

CUTTING THE CLOTH

As the BTR sector has grown over the last decade, operators have engaged in a war of amenities, introducing increasingly sophisticated facilities to attract and retain tenants. On-site amenities such as gyms, co-working facilities, cafés, cinema rooms and resident lounges are all features of many higher-end BTR products.

However, high levels of amenity are not likely to be sustainable for BTR assets located in non-core locations, where achievable rental incomes are significantly lower than in core markets. For BTR to be viable in smaller regional UK cities, operational costs need to be scaled back in line with rents. Operators must be prepared to pare down amenities, while still offering a quality of product that distinguishes itself from the local competition.

UNDERSTANDING COSTS

At the very early stages of planning a new BTR development, it is important to first establish what levels of rental income can be reasonably supported by the local market. From this starting point, operators can work backwards and determine what operational expenses are sustainable at the expected income levels.

A common rule of thumb in the industry is that OpEx costs should represent about 25% of annual operating income. However, operational costs have risen significantly in recent years, with high energy prices becoming particularly onerous, and the reality is that this figure is closer to 30% in most standing BTR assets. With costs remaining a major challenge, anything that can be done to keep a lid on OpEx from day one, without significantly impacting a product's attractiveness to residents, will boost the chances of long-term success.

STAFFING SOLUTIONS

The single biggest operational expense in any BTR asset is staff costs. The range of employees working at a BTR asset may include front desk and concierge staff, building/estate managers and maintenance teams, on-site leasing teams and staff supervising facilities such as gyms.

However, not all sites require 24-hour staffing, and there may be efficiencies to be gained from outsourcing some roles or using contact-free technology-led systems where possible. Leasing is a prime example of a job that can be outsourced to partners on an 'on demand' basis, rather than employing a full-time on-site team. Self-leasing customer experience tools such as virtual tours and floor plans can also reduce the need for permanent staff.

Another key area where technological solutions can support increased efficiencies is parcel delivery and collection. Many BTR buildings now receive thousands of deliveries each week for their residents, which puts a huge burden on staff if parcels are managed manually. Investment in well-designed smart locker systems will not only drastically ease staffing demands, but may also minimise the potential for parcel theft.

PRIORITISING AMENITIES

Decisions around which amenities and services to offer in a BTR asset require an understanding of residents' priorities. Superfast broadband and wi-fi is now widely expected as

CHURCH STREET PLACE, ECCLES

LSH has provided operational advice to Arelsco Ventures on this 272-unit BTR scheme, being developed by Silverlane and due for completion in 2025.

CASE STUDY
NORTHMINSTER, PETERBOROUGH

Cross Keys Homes' Northminster development is Peterborough's first true BTR scheme, with 315 units due for completion in 2024/25. As all of these are offered at Discount Market Rents (DMR), i.e. 20% below open market rents, it is essential that OpEx costs are kept under control.

LSH was brought in during the construction phase to advise on operational matters. Key solutions that will be implemented following our advice include:

- The concierge function has been reduced from a 24/7 solution, to be replaced by increased security measures (CCTV position, access contract, offsite monitoring, etc.) and a customer focused resident app;
- Gym facilities have been designed out, as they were too small to be of benefit and not required with DMR rents;
- A secure self-service parcel room will be in place, providing a function that would have taken at least one full time employee to manage manually;
- Instead of employing a full-time leasing team, initial lease-up will be handled by Connells Group's local William H Brown (Sequence) team, while an on-site leasing administrator and off-site tech-led solutions will subsequently be in place for renewals and relets;
- Maintenance and cleaning team members will be employed, for both cost and service benefits.

The above solutions are all designed to deliver staffing efficiencies from day one, with considerable thought given to where money should be spent, and where it can be saved, in this landmark scheme.

standard and arguably the most important amenity that a BTR asset needs to provide, alongside smart parcel management systems.

Beyond this, there are very few amenities that are absolutely essential to every mid-market BTR scheme. However, facilities that support residents' homeworking have risen higher up the list of priorities since the pandemic. These can take the form of communal co-working spaces within the building; or flexible areas in individual flats suited to workspace use, such as pocket offices, unused corners or second rooms.

OFF-SITE PROVISION

Not every amenity needs to be provided within the property. There may, for example, be no need for an on-site fitness centre if residents can be given subsidised access to an existing gym in a nearby building. Running a relatively small on-site gym can be a needless expense, especially if there are larger high-quality facilities within easy walking distance.

The provision of off-site benefits, as opposed to on-site amenities, may provide BTR operators with a means of maintaining an attractive offer to tenants at reduced expense, with preferential rates and access to local businesses and services negotiated for residents.

MAKING THE MOST OF SPACE

Where on-site amenities are provided, measures can be explored to maximise their usefulness. Spaces should be designed to be flexible so that, for example, the same part of the building can be used as a workspace on weekdays and an events space at the weekend.

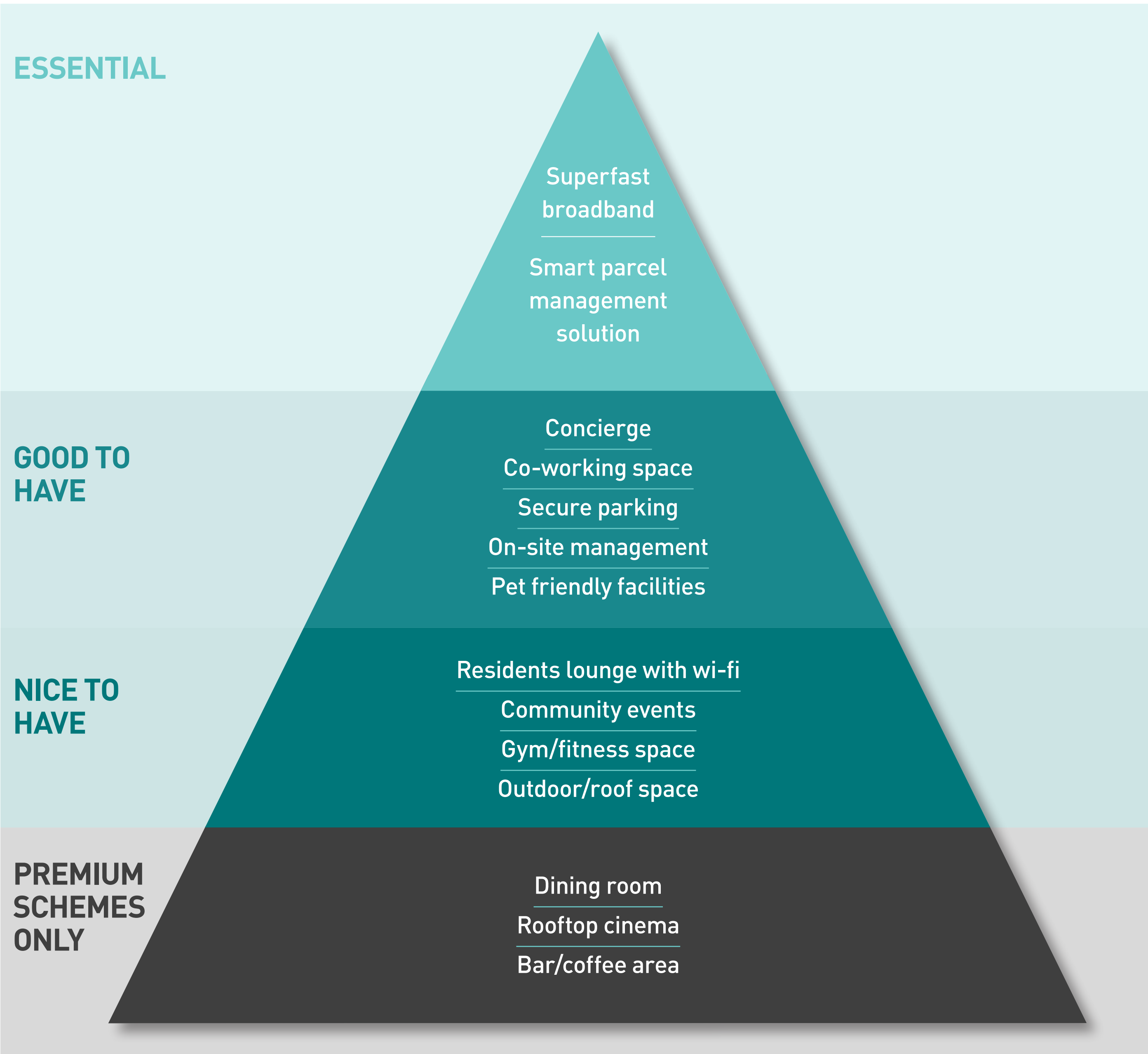
The potential to generate additional income streams from building facilities should also not be overlooked. On-site amenities such as gyms and coworking spaces can be opened up to non-residents where designed appropriately, and communal spaces or rooftop areas may potentially be leased out for events. While the residents of high-end BTR assets might expect exclusive access to such amenities, this is less likely to be an issue in mid-market schemes.

GET IT RIGHT FIRST TIME

With BTR development being rolled out to a wider range of smaller towns and cities, operators need to be realistic about what can be achieved in these markets. In many locations, rental levels will not support luxury, amenity-rich schemes, so facilities need to be 'right-sized' to the local market. BTR schemes will have a much higher chance of success if the correct decisions around amenity levels are made at the outset, as significant additional costs may be incurred if an over-ambitious scheme needs to be repositioned at a later date.

LSH, through its experience and as part of the Connells Group, is uniquely placed to advise on achievable rents in new BTR markets and to guide developers and owners through ensuring that operational efficiency is built into schemes from the earliest point.

THE HIERARCHY OF AMENITIES



CITY CLUB, COVENTRY

WALL OF CAPITAL

**EWEN WHITE,
DIRECTOR - LSH LIVING
& CAPITAL MARKETS**

While 2023 was a record year for BTR investment, the increase in volume was entirely driven by a surge in housebuilder sales in the single family housing segment. Investment in more conventional BTR assets slowed significantly as a more challenging financial backdrop impacted viability.

SFH BEHIND A RECORD YEAR

Within the space of a decade, build to rent has grown from a niche specialist sector to one of the most in-demand parts of the UK investment market. BTR transactions reached an all-time high of £4.5bn in 2023, slightly ahead of 2022's previous record, while BTR's share of the overall UK investment market was a best-ever 12%.

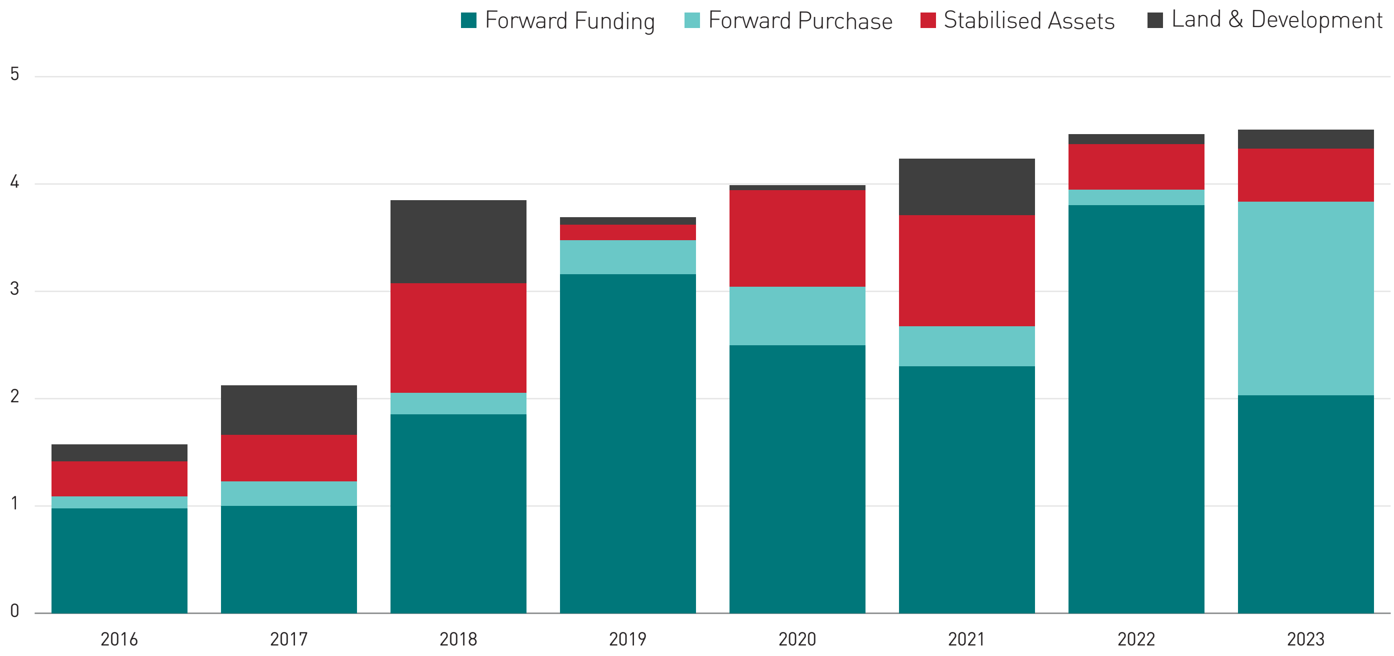
However, 2023's record volume was inflated by a huge rise in SFH transactions, which accounted for 42% of total BTR investment, a quantum leap from the typical level of c. 5% seen over the prior three years. This disguised a significant slowdown in investment in more conventional multifamily BTR assets, which dropped by 38% year-on-year.

Deals for multifamily BTR assets slowed particularly notably after the mid-year point, with volume in H2 down 49% on H1. The stronger first half of the year partly resulted from the completion of deals that were already under negotiation in 2022 and, in some cases, had been delayed by the turmoil that followed that year's mini-budget. However, as higher interest rates impacted the viability of BTR developments, much fewer deals were initiated in 2023.

HOUSEBUILDERS DRIVE DEALS

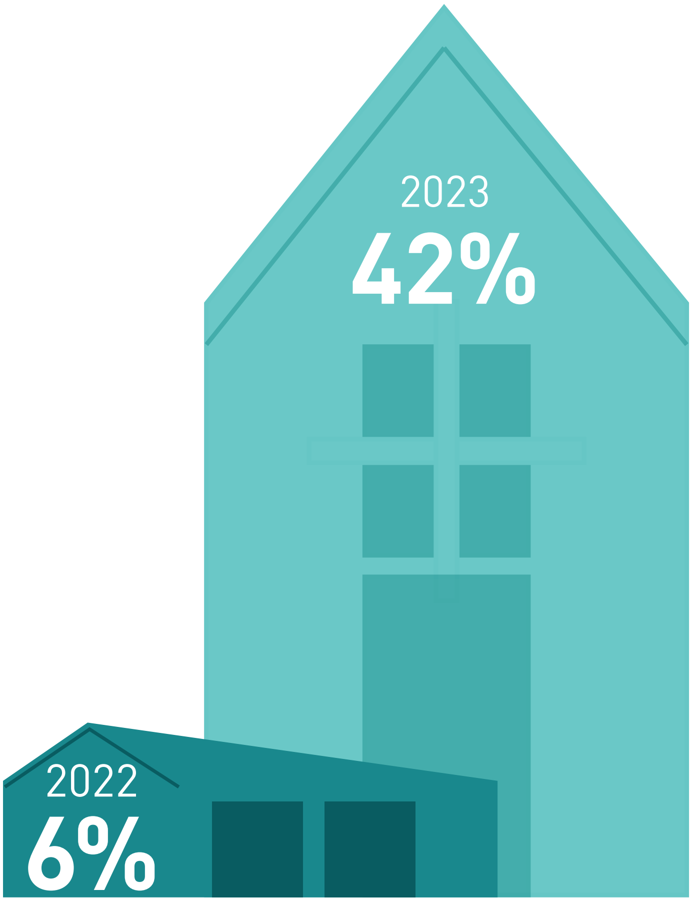
The boost to BTR investment that came from SFH in 2023 was huge, with £1.9bn invested in the segment, a volume on a completely different scale to any previously recorded. This

BTR INVESTMENT VOLUMES (£ BN)



Source: LSH Research

SFH SHARE OF BTR INVESTMENT VOLUMES (%)



Source: LSH Research

included the largest transaction of the year, which saw the Blackstone and Regis-backed Sage Homes and Leaf Living agree a £819m deal with Vistry Group for the acquisition of 2,915 units.

Other major SFH deals in 2023 included Citra Living's £168.4m forward purchase of 604 homes from Barratt Developments, and Sigma Capital's £205m deal with Countryside for the delivery of 865 homes. In addition, PGIM acquired a portfolio of 918 operational SFH homes in the North West from Goldman Sachs for c. £190m.

While the rise in SFH investment partly reflects growing investor demand for this emerging asset type, the more fundamental driver of activity has been housebuilders' increased willingness to making bulk sales of homes to investors, in preference to the more traditional model of selling individual units to the public.

The slower residential sales market has pushed housebuilders towards SFH deals, even though this usually means accepting a price discount compared with disposing homes individually. Single family housing deals have helped to boost cash flows and, in some cases, housebuilders have changed plans mid-way through the development process, completing deals for units that had been initially intended for the sales market.

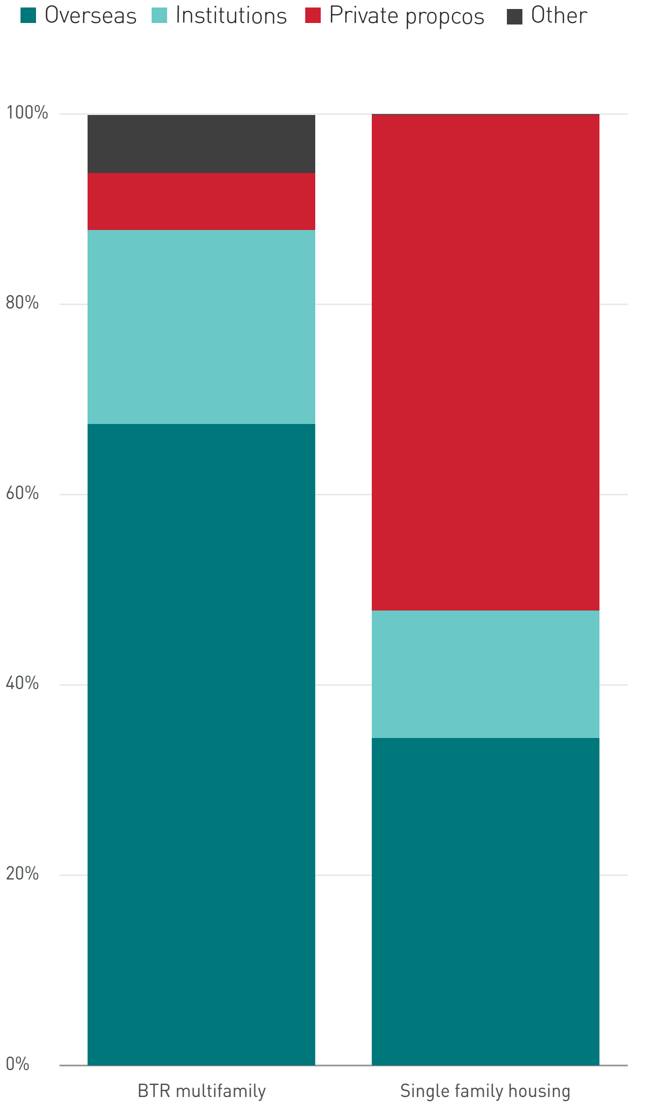
FORWARD DEALS DOMINATE

Forward funding deals are the dominant form of investment in the BTR sector, typically accounting for at least two-thirds of deal activity in recent years. However, forward fundings' share of BTR activity dropped to 45% in 2023. Standout deals included Harrison Street, NFU Mutual and Apache Capital's £302m transaction for Moda Living's Great Charles Street, Birmingham.

SELECTED DEALS, 2023

DATE	PROPERTY	BUYER	SELLER	PRICE	DEAL TYPE	ASSET TYPE
Q4	Vistry Portfolio	Sage Homes / Leaf Living	Vistry Group	£819m	Forward Purchase	SFH
Q1	Great Charles Street, Birmingham	Harrison Street / NFU Mutual / Apache	Moda Living	£302m	Forward Funding	BTR
Q1	Countryside Portfolio	Sigma Capital	Countryside Properties	£205m	Forward Funding	SFH
Q1	Domus Portfolio	PGIM Real Estate	Goldman Sachs	£190m	Stabilised Assets	SFH
Q2	Barratt Portfolio	Citra Living	Barratt Developments	£168.4m	Forward Purchase	SFH
Q2	The Loft Lines, Belfast	L&G / Clanmil Developments	Lacuna / Watkin Jones	£155m	Forward Funding	BTR
Q2	Lower Essex Square, Birmingham	BlackRock / Outpost Management	Apsley House Capital / Galliard Homes	£151m	Forward Funding	BTR
Q4	Renshaw's Yard, Staines	Greystar	Dandara Living	£141m	Forward Funding	BTR

BTR VOLUME BY INVESTOR TYPE, 2023 (%)



Source: LSH Research

Conversely, there was a notable increase in forward purchases (as distinct from funding deals), which took 40% of volume, compared with the long-term average of less than 10%. This primarily stemmed from SFH deals, but other notable forward purchases included EQT Exeter / Sigma Capital Group's £66m deal for the BTR element of the Gallions Quarter Phase 2B site, London.

Forward purchases are usually less popular as stamp duty is liable on the GDV of the built asset, rather than the land as is the generally the case for forward funding deals. As a result, yields are typically c. 50bps higher for forward purchases. Nonetheless, there are a handful of BTR investors such as Starlight for whom this is the preferred transaction model, and it is more common for SFH deals.

The prevalence of forward deal structures in the BTR sector is largely a reflection of the scarcity of investible stabilised assets. Deals for operational stock accounted for only 11% of 2023 volume, with the largest single-asset transaction being CompassRock International's purchase of Bow Square, Southampton for c. £60m. Nonetheless, demand for stabilised assets is strong, and more opportunities to acquire them should emerge over the next few years as owners of the first wave of BTR developments look to crystallise profits and exit their investments.

NORTH AMERICANS ACTIVE

Overseas buyers remained the most active investor type in the BTR investment market, accounting for 54% of 2023 volume, broadly in line with recent years. North Americans were most prominent, particularly at the larger end of the market, with groups such as Starlight, Realstar and Harrison Street involved in major deals. Many of the North American investors active in the UK BTR market have considerable experience in the US's much more mature multifamily sector and are now expanding into the UK's growing market.

While US investors have largely focused on multifamily BTR assets, the deals involving PGIM and Blackstone also saw them account for a significant share of SFH volume. Nonetheless, domestic investors were behind most of 2023's SFH deals, with the likes of Citra Living and Sigma Capital seeking to grow their SFH portfolios.

YIELDS STABILISING

As well as impacting volumes, the rising interest rate environment also put upward pressure on yields across the BTR sector in 2023. While there has been limited transactional evidence, yields have typically softened by 50-75bps from recent cycle lows. This has taken prime yields for stabilised stock to 3.75% in Central London and 4.50% in Tier 1 regional cities.

While these higher yields reflect the reduced viability of development projects, the outward movements are relatively modest compared with those seen in several other property sectors. Strong rental growth prospects have continued to provide some support for BTR yield levels.

However, these headline yields give a somewhat false impression of the BTR market, as prime stabilised assets are infrequently traded. Yields for forward funding deals are more representative of the market and are typically at least 50bps higher than those quoted for operational stock.

After a period of softening, prime yields appeared to hold firm across most of the market in the latter part of 2023, albeit there was still some evidence of outward yield movement in Tier 2 regional cities. Some yield compression is possible if a more certain financial backdrop triggers an upturn in deal activity in 2024.

WALL OF CAPITAL

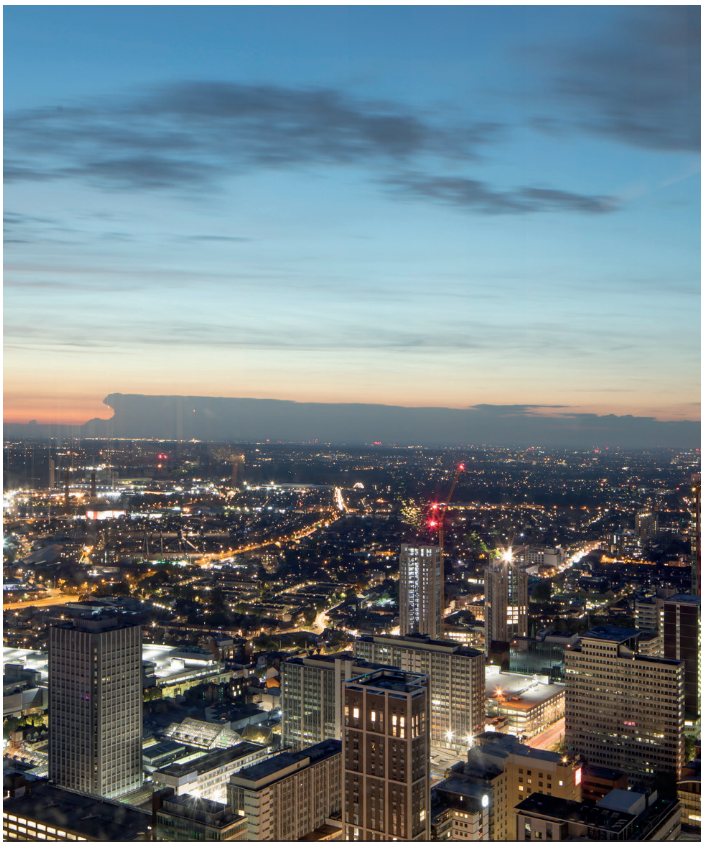
While overall BTR volumes were supported by increased SFH activity in 2023, activity in the multifamily BTR sector would undoubtedly been much stronger without the challenging financial backdrop. There is a huge wall of capital ready to be invested, but its deployment has been delayed since the Autumn 2022 mini budget. Several large deals were pulled in the aftermath of this, and many investors continued to sit patiently on their hands throughout the whole of 2023.

The BTR market is particularly sensitive to wider uncertainty due to the preponderance of forward funding deals, which causes decision making to be highly dependent on sentiment and conjecture around the market conditions into which future projects will be launched. Investors crave certainty, and a more stable interest rate environment could help to open the floodgates for more capital to enter the market in 2024.

There are already signs that activity is about to increase, with several large assets known to be under offer. LSH's forecast is that the sheer weight of money targeting the sector will push BTR investment to a new record of over £6bn in 2024. While housebuilder sales in the SFH segment will provide a continued boost to volume, a greater number of larger lot size multifamily BTR deals should also start to come through.

Strong rental growth prospects will continue to attract capital, with Hamptons forecasting that residential rents will rise by 25% over the next four years, hugely outpacing 5.5% growth in sales prices. A growing rental population, shrinking buy-to-let sector and prospects for office-to-BTR conversions add to the long-term investment case.

With the more traditional sectors of offices and retail facing structural challenges that may cause them to contract, BTR has the potential to fill the gap and become an increasingly core part of many mainstream property investors' long-term strategies.


ENCLAVE, CROYDON

BTR PRIME YIELDS, Q4 2023

		STABILISED ASSETS		FORWARD FUNDED	
		%	YIELD SENTIMENT	%	YIELD SENTIMENT
MULTIFAMILY BTR	Central London	3.75%	STABLE ▶◀	4.15%	STABLE ▶◀
	Outer London	4.25%	STABLE ▶◀	4.75%	STABLE ▶◀
	South East	4.50%	STABLE ▶◀	5.00%	STABLE ▶◀
	Regional Cities - Tier 1	4.50%	STABLE ▶◀	5.00%	STABLE ▶◀
	Regional Cities - Tier 2	5.00%	SOFTENING ▲	5.50%	SOFTENING ▲
SINGLE FAMILY HOUSING	South East	4.00%	STABLE ▶◀	4.50%	STABLE ▶◀
	Regional Cities	4.25%	STABLE ▶◀	4.75%	STABLE ▶◀

IN SEARCH OF CLARITY

MARY-JANE O'NEILL,
HEAD OF PLANNING CONSULTANCY
(LONDON & SOUTH),
LAMBERT SMITH HAMPTON

Greater clarity is required from local planning policy, to provide developers and investors with more certainty around the prospects for BTR schemes; and to maximise their social and economic benefits.

A LACK OF CONSISTENCY

While BTR has grown in popularity as a means of providing high quality professionally managed homes and affordable Discount Market Rent (DMR) housing, the support provided by local planning policy is inconsistent. LSH has explored trends in adopted, emerging and absent BTR policy across Greater London, which tends to act as precursor to wider national trends, to provide insight into what is needed from policy to give developers greater certainty around the delivery of BTR schemes.

THE NATIONAL FRAMEWORK

The latest version of the National Planning Policy Framework (NPPF) was published in December 2023, but notably included no alterations to BTR policy; retaining the original definition, added in 2018, which confirmed that schemes built solely for rent are exempt from the 10% affordable housing requirement. However, the NPPF now also includes specific references to assessing needs for retirement housing, housing-with-care and care homes, which are often rented products and could require more explicit local planning policy support in future.

SPOTLIGHT ON LONDON

The London Plan (2021) includes a BTR-specific policy, known as Policy H11, which sets out the criteria for proposals to qualify as BTR developments, while encouraging boroughs to set their own thresholds regarding the number of homes that constitute BTR and proportions of DMR homes. Policy H11 specifies that homes are held as BTR for a minimum covenant of 15 years, to ensure that they remain within the rental sector, but also emphasises the need to monitor covenant periods and potentially increase them as the market matures.

The onus is on local planning authorities (LPAs) to determine the complexities of BTR policy for their areas, placing responsibility on accurate and informed Local Plan policies, as set out within National Planning Practice Guidance (NPPG).

LSH has undertaken a review of planning policies across the London boroughs and development corporations to ascertain the existence and extent of BTR policy, including compliance with the London Plan. We have found evidential gaps in both policy and guidance, which could potentially result in BTR needs not being met.

Nearly half (45%) of London's planning authorities have no BTR-specific policy within their adopted Local Plans. This includes three (Bexley, Havering and Southwark) whose plans were adopted since the publication of the 2021 London Plan, but do not reflect Policy H11.

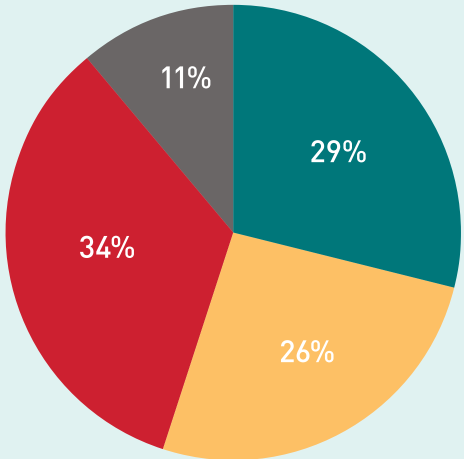
Where Local Plans do include BTR-specific policies, these predominately require compliance with Policy H11, with which major and referable schemes are required to accord. However, some plans provide additional detail, such as Brent Local Plan (adopted 2022), which specifies locations where BTR is acceptable and the size of development.

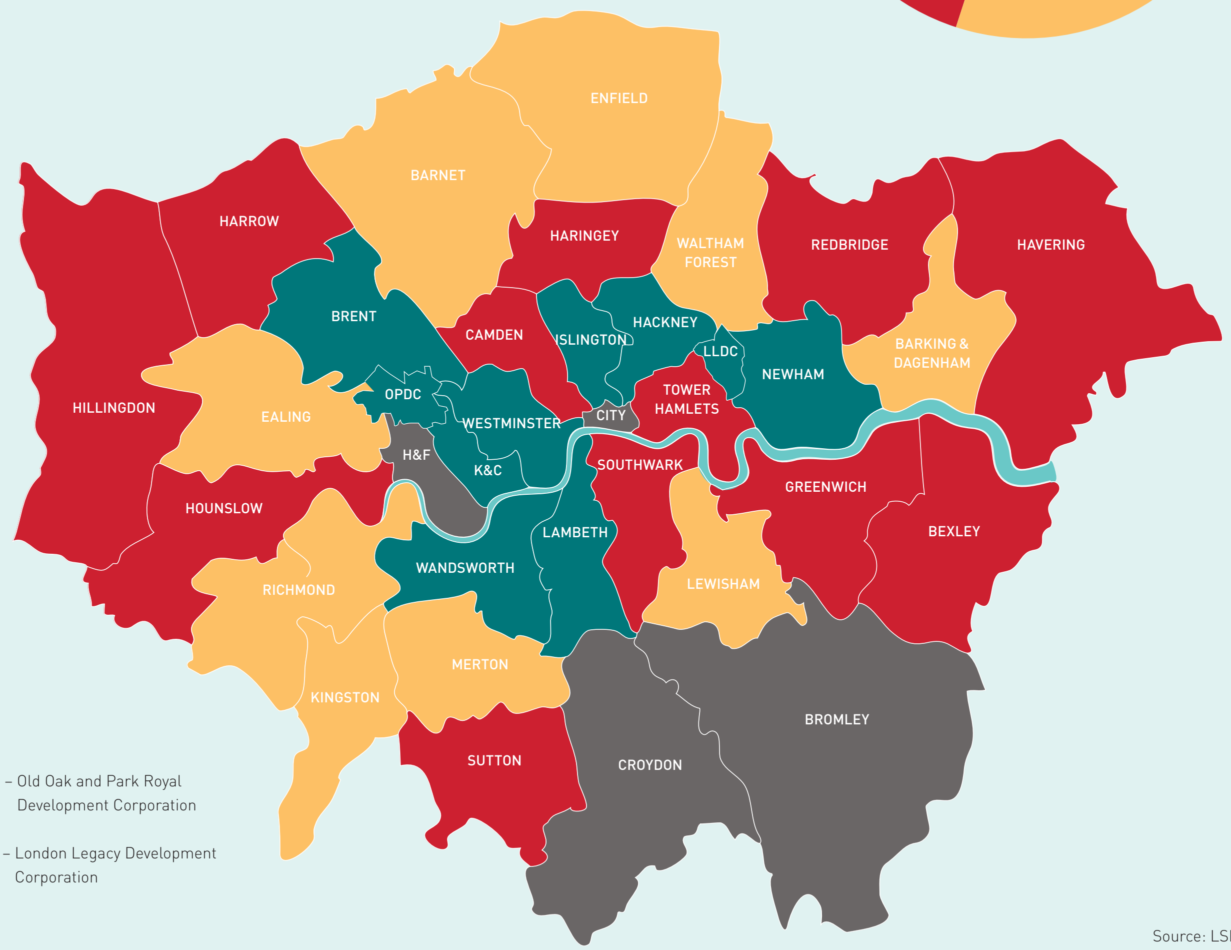
There are also some disparities in stipulations around covenants with, for example, Lambeth's Local Plan requiring that BTR schemes are subject to covenants of at least 25 years, as opposed to the London Plan's 15-year minimum requirement.

ENCLAVE, CROYDON

STATUS OF BTR POLICIES IN GREATER LONDON LOCAL PLANS

- BTR-specific policy within adopted Local Plan
- No adopted BTR-specific policy, but there is one within emerging Local Plan
- No BTR-specific policy or commentary within adopted or emerging Local Plan
- No BTR-specific policy within adopted or emerging Local Plan, but reference made to BTR in commentary





OPDC – Old Oak and Park Royal Development Corporation

LLDC – London Legacy Development Corporation

Source: LSH Research

CERTAINTY REQUIRED

We believe that greater clarity and guidance within local planning policy is required to ensure that BTR is delivered appropriately and where it is most needed to address London's acute housing shortage. The areas of BTR policy requiring enhanced clarity are summarised at the bottom of this page.

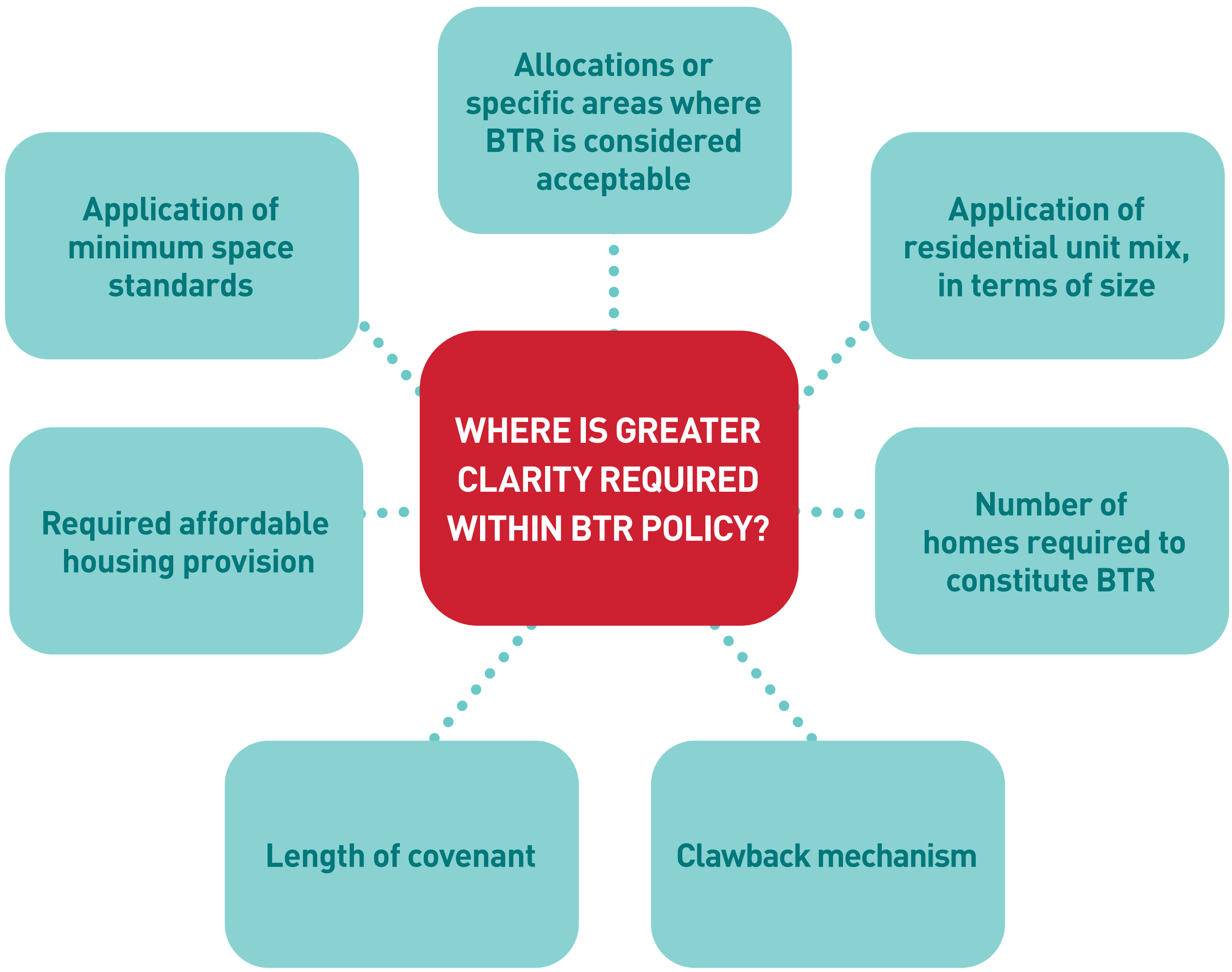
Improved policy clarity would provide greater certainty to investors and developers on the acceptability of BTR schemes within particular areas, demonstrate LPAs' commitment and support to delivering appropriate BTR projects, and speed up the process of submission and determination of BTR applications.

This said, there is not necessarily an evident correlation between supportive or detailed planning policy, and the number of BTR schemes coming forward. Boroughs without specific BTR policies in their Local Plans include some, such as Tower Hamlets, Southwark and Croydon, that have seen relatively high volumes of development in the sector.

Local planning policy is just one factor influencing the location of BTR schemes, alongside market trends, politics and demographics. More detailed planning policy can restrict the locations where BTR is accepted within a local authority area, while an absence of policy may sometimes prove less constrictive to BTR opportunities.

AFFORDABILITY PROVISIONS

A particular area of uncertainty, and a key challenge to BTR schemes, is affordability, as rents are typically higher than in the wider private rented sector. While guidance within the NPPF is broad and advises that affordable housing provision and type is to be determined by each LPA, Policy H11 of the London Plan is more prescriptive for BTR developments. Most notably, it includes a requirement that BTR schemes deliver at least 35% affordable housing to follow the Fast Track Route through planning.



COPPERMAKER SQUARE, LONDON

However, there is some inconsistency between local policies across London. In Hackney, for example, there is a specific target that 50% of homes in BTR schemes are affordable, subject to viability; while Lambeth's Local Plan provides additional clarification on what affordability provisions are required to qualify a BTR scheme for the Fast Track Route.

Among the more recently adopted and emerging Local Plans, such as Lambeth, Wandsworth and Merton, there is a general trend that the Viability Tested Route must be followed where the required affordable housing provision cannot be met. This suggests that, while not consistently applied across boroughs, there is a movement towards a greater commitment to securing affordable provision within BTR schemes in London, which we expect to be replicated to a certain degree across the rest of England.

PROACTIVE POLICY NEEDED

The NPPF and the London Plan support the delivery of a wide range of housing types and tenures, including BTR, to cater for and create diverse communities. A consistently proactive and tailored approach to BTR policy at a local level is, however, currently lacking, despite the NPPF and regional policy actively encouraging BTR-specific policies within Local Plans.

The areas of uncertainty identified must be addressed to increase confidence for developers and investors, and to maximise the social and economic benefits of BTR schemes within communities. At a time where housing provision, particularly affordable tenures, is a key challenge, a more joined-up, proactive approach within local policy will enable developers and LPAs to have greater confidence in BTR as a housing solution.

OUR KEY CALLS FOR 2024

SIMON WILSON, HEAD OF LSH LIVING & CAPITAL MARKETS

EWEN WHITE, DIRECTOR - LSH LIVING & CAPITAL MARKETS

Our key calls for 2024 are underpinned by a belief that BTR continues to offer huge growth potential, although there may be legislative and viability challenges ahead. A drive towards more affordable products will be key to sustaining BTR's growth.

1 LIVING FAMILY TO GROW

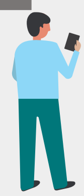
The living family will continue to grow and develop as PBSA, Co-Living, BTR, and Senior BTR evolve in response to renter demand. Developers will look to take advantage of synergies between the living subsectors, by pursuing projects across multiple market segments and incorporating units of different living types into the same schemes.

We project that the number of completed BTR homes in the UK will double within the next five years.

2 UNIT MIX WILL EVOLVE

We expect to see a continued evolution in the unit mix offered by BTR developments, with schemes increasingly being tilted towards having larger proportions of studios and one bed flats, while the number of two and three bed flats is reduced.

This will primarily be driven by affordability considerations from renters and viability considerations from developers, with the quality of unit and amenity more important than size to many renters. Developers could be able to increase the total number of units in developments to maximise rental income.



3 LESS AMENITY, MORE AFFORDABILITY

The rethinking of amenity levels will be essential to the next phase of the BTR sector's growth. We predict that developers and operators will show increased willingness to scale back on-site amenities to ensure that more affordable BTR schemes are feasible. This will support a push into the mid-market, unlock viability in non-core regional locations, and differentiate products in more established markets.

Reductions in on-site facilities will go hand-in-hand with the increased provision of off-site benefits, such as subsidised access to local gyms to maintain an attractive offer for residents.

4 CO-LIVING GOES MAINSTREAM OUTSIDE LONDON

We predict that 2024 will be the year when Co-Living takes hold outside of London. The large majority of built projects in this emerging sector are in the UK capital but, echoing the evolution of BTR, we expect development to increasingly radiate out into the regions as it becomes a more mainstream proposition.

We expect the next phase of Co-Living's growth to be led by the major UK regional cities, as well as South East locations with large numbers of young workers, such as Brighton.

5 LEGISLATION WILL CREATE CHALLENGES

Further legislation on a range of issues including fire safety and second staircases will create continued uncertainty and viability challenges for BTR developers. Unless greater clarity is forthcoming, the proposed changes put the size of the BTR development pipeline at risk.

A secondary market will form for assets that do not conform to the latest legislation and the highest EPC/ ESG credentials

6 INELASTIC LAND MARKET TO REMAIN A CONSTRAINT

The inelasticity of the land market will remain a constraint to new BTR development. While land values have nominally fallen over the last year, many landowners with sites suitable for BTR development have not adjusted their price expectations in line with the market, and would prefer to wait for an upturn before selling. The slow land market will remain a blockage to schemes in the near-term.

7 LIMITED GENERAL ELECTION RISK

We don't believe that the prospects for a general election in the latter half of 2024 will present a risk to the funding market, as the element of risk normally associated with a transition of government is already factored in, if not welcomed.

8 SFH TO UNDERPIN RECORD INVESTMENT

Despite the challenges mentioned elsewhere, another record year is forecast for BTR investment in 2024, with volume expected to surpass £6bn for the first time. As was the case in 2023, a significant boost to volume will come from increased activity in the SFH segment, as housebuilders seek to make bulk sales to investors.

However, a more settled interest rate environment will support a rebound in forward funding deals for more conventional multifamily BTR assets, and we expect a greater number of large-lot deals to come through as the year progresses.

THE LSH BTR FAMILY

As well as having our own team of industry-leading BTR experts, LSH is able to call on an unrivalled national network as part of the Connells Group, the UK's largest estate agency group with over 80 local brands.

Lambert Smith Hampton

RESIDENTIAL PROPERTY MANAGEMENT

LHLM PROPERTY MANAGEMENT

RESIDENTIAL-LED PROJECT MANAGEMENT

ikon

BTR & SFH LETTINGS

Connells group

Countrywide

Hamptons THE HOME EXPERTS

This network gives LSH a unique position at the heart of the BTR sector. As a group, we:

- **Sell the most residential land in the UK**
- **Sell and let the most homes in the UK**
- **Manage the most homes in the UK**

As a full-service BTR consultancy, we have the real-time data to support projects across their entire lifecycle, through planning, development, investment, leasing and property management. Whether you are an investor, developer or operator, we have the expertise to ensure that your BTR ventures are successful.

LAMBERT SMITH HAMPTON

Simon Wilson
Head of LSH Living & Capital Markets
+44 (0)7751 734 395
siwilson@lsh.co.uk

Ewen White
Director - LSH Living & Capital Markets
+44 (0)7814 550 786
ewhite@lsh.co.uk

Richard Durkin
Director - LSH Living & Capital Markets
+44 (0)7918 738 541
rdurkin@lsh.co.uk

Paul Noble
National Sales Director
+44 (0)7730 203 273
pnoble@lsh.co.uk

Mary-Jane O'Neill
Head of Planning Consultancy (London & South)
+44 (0)7732 600 795
mjoneill@lsh.co.uk

Oliver du Sautoy
Head of Research
+44 (0)7525 633 053
odusautoy@lsh.co.uk

Matthew Colbourne
Associate Director - Research
+44 (0)7711 766 501
mcolbourne@lsh.co.uk

HAMPTONS

Michael Quinn
National Business Development Manager, BTR/PRS
quinnm@hamptons.co.uk

Karen Standing
Head of Build to Rent, Corporate PRS
standingk@hamptons.co.uk

Aneisha Beveridge
Head of Research
beveridgea@hamptons.co.uk

CONNELLS GROUP

James Thornett
Group PRS Director
james.thornett@connellsgroup.co.uk

Kami Nagi
Group Research Director
kami.nagi@connellsgroup.co.uk

Lambert Smith Hampton