



Lunch with BLP 2017/18

# Have we mastered Build-to-Rent yet?

Presented by guest speaker **Andrew Stanford**



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## Executive Summary

In April 2013 the Coalition Government signalled the importance of the role of the private rented sector (PRS) in the UK's housing market with the launch of the PRS taskforce, with a view to stimulating the supply of and investment in purpose built rental development (build-to-rent).

Kim Vernau, CEO, BLP Insurance, highlights the key points raised at an interactive discussion organised for industry peers on the evolution of the build-to-rent sector. Guest speaker Andrew Stanford, head of Residential at LaSalle Investment Management, reflected on his two year tenure heading

up the PRS Taskforce and posed the question as to whether as an industry and country we have mastered build-to-rent yet, presenting his views on land supply, notions of how to attract global investment and the economic and political climate affecting the sector.

## Introduction

Against the backdrop of the UK's housing shortage, build-to-rent is increasingly recognised as an essential part of the provision of a strong housing market. Successive governments have looked to promote this tenure, with the 2015 Housing White Paper seen by many as having the potential to add real momentum to the sector. However, the recent Autumn Budget, while acknowledging private rental as a key tenure, fell short of industry expectations in terms of measures to support build-to-rent.

LaSalle Investment Management deploys various build-to-rent investment strategies and is currently undertaking its biggest scheme to date with the development of Allegro a new urban village in Exchange Square, Birmingham. Since launching its UK PRS platform in 2015, LaSalle has 1,800 homes in the pipeline or in the process of being let and has invested nearly £400 million in build-to-rent making it one of the market leaders in the sector.

## The PRS Taskforce

The main objective of the Government's PRS taskforce at launch was to stimulate the build-to-rent sector. This included promoting measures to attract tenants, developers and institutional investors to enter the market and reinforcing the government's support for the sector; both through its balance sheet and commitment not to introduce barriers to entry.

dedicated to meetings with numerous stakeholders, including developers, builders, investors, advisers and local authority representatives. The task was educating the broader market, especially those in the public sector, on what build-to-rent actually meant.

Having developed a business plan setting out how this would be put into action the majority of time was

This was in part achieved through the publication of the Urban Land Institute's "Build-to-Rent: A Best Practice Guide", providing a quality benchmark for the design and management of build-to-rent in the UK market.

## Investment for all

Investors across the risk spectrum can continue to gain exposure to the build-to-rent sector. Specifically, those seeking a stable, long-term, bond-like return on investment can invest in the PRS housing debt guarantee scheme, with low exposure to residential property risk. It is likely that the government will continue to fund such housing guarantees to support the

building of new homes for the PRS. On the other end of the spectrum, investors with a more opportunistic outlook will take on the risk associated with planning, development and letting-out to get these schemes up and running. We are seeing an increasing number of developers/investors taking this approach.

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## Government Housing Policy

The Prime Minister has made it her personal responsibility to increase housing supply, laying out in the Autumn Budget her commitment to build 300,000 houses a year for the next five years. It will be interesting to see how this plays out in terms of the growth of build-to-rent going forward.

However, while unlikely in practice, there is also merit in the argument that the government should take limited action to stimulate the build-to-rent market, leaving housing policy where it is for the immediate future so that stakeholders can get to grips with this new environment.

What is clear is that the government needs to be flexible in its approach. To

this end, it has acknowledged the British Property Federation's call for a review on national policies and guidance on design and space standards, to reflect the requirements for build-to-rent flats versus planning permissions for local authorities. Key to this is having the flexibility to provide the right type of accommodation that the rental market needs.

Another positive is the Government's proposal that the parameters of affordable private rent for build-to-rent schemes should be set at a minimum of 20 per cent discount in perpetuity. Importantly, if this isn't viable for the sector then there is flexibility for it to be amended, however it will be interesting to see how this pans out in practice.

## Benign Budget for build-to-rent

Disappointingly, very little support for build-to-rent was outlined in the Autumn Budget 2017, while the Government's continued focus on measures to promote homeownership continues. However, while homeownership is seemingly starting to tail-off, rising interest rates and a faltering economy would indicate that private rental is more likely to accelerate than decelerate in a broad economic sense.

Crucially, there was no adjustment made to the phasing out of mortgage tax relief for buy-to-let landlords in the budget. The government clearly wants to see a significant reduction in the number of buy-to-let landlords and this

is further evidence of the approach working in practice. The Chancellor also unveiled plans to look at barriers to landlords offering longer and more secure tenancies. This is broadly in line with what tenants will come to expect and it will be interesting to see what the outcome of the consultation will be.

The Government's strong pledge within the Budget to ensure councils in high demand areas permit more homes for local first time buyers presents a potential concern. In practice this could see any gains afforded by the Housing White Paper for affordable renters become eroded.

## What next for build-to-rent?

Uncertainty arising from ongoing Brexit negotiations will inevitably continue to see a slow-down in build-to-rent investment, despite the advantages of the tenure over other UK property in the same boat. As a result of changes to Capital Gains Tax (CGT) for non-UK investors, we could see investment in commercial and residential developments slow down. However, those non-UK institutions who don't hedge their currency, could sense an attractive opportunity to invest in build-to-rent.

Tenant demand for private rental properties will continue to grow. After all, despite Brexit and the measures introduced by the Budget, we still have a growing population in the UK.


Satisfied customers in the PRS market will gradually start to impact on demand in a self-perpetuating manner. In this industry the power lies with the tenant/customers who will move elsewhere if they are not being provided with the right levels of customer service.

## Conclusion

The question of whether we as an industry have truly mastered build-to-rent is not an easy one to answer, as there are so many shifting aspects to the market. Every industry player, even those equipped with knowledge and experience from the US market, are learning on a daily basis how to best make these assets work. It's a process of continually learning and refining with every project, with some in the industry facing a steeper learning curve than others. The sector has come a long way in only a short period

of time, and continues to grow with more and more parties announcing investments in build-to-rent schemes. According to latest figures from the British Property Federation, 96,000 build-to-rent homes have either been completed or are planned in the UK to date, and there's no doubt that this figure is set to increase. Build-to-rent might not be a mainstream property class just yet, but it's increasingly accepted that this will be the case in the next five to ten years, which will prove invaluable to the acceleration of the industry.



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**Andrew Stanford is Head of UK Residential at LaSalle Investment Management** which is deploying various build-to-rent investment strategies. His primary role is developing and implementing asset management initiatives to drive returns. He is a widely-respected expert in private residential sector circles and was engaged by the Department for Communities and Local Government (DCLG) to head the Government's Private Rented Sector taskforce between 2013 and 2015. He is currently Chairman of the British Property Federation's BTR committee.

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