

May 2018



# OUR VIEW ON BUILD TO RENT



## 'One in three millennials will never own a home'

The Resolution Foundation  
(April 2018)

### Sector update

Research published by the Resolution Foundation in April highlighted the underlying driver of growth in the private rented sector (PRS) over the past decade. Private landlords have filled the gap left by the decline in public sector landlords and the reduction in owner occupation due to the rapid rise in house prices. As evident in the graph below, just over one fifth of households now rent their homes from private landlords.

The role of the PRS varies widely across the regions, with the highest proportion of private rented households focused in London. Here, private landlords provide 30% of homes, whilst the South East and the East of England have closer to 20% of households provided by the private sector.

To date, more than 80% of investment into the Build to Rent (BTR) sector has focused on London and major cities. However, with house prices in the East and South

East of England currently rising well ahead of those in the capital, affordability pressures in these areas are becoming more acute and the Cambridge-Milton Keynes-Oxford arc will present further BTR opportunities. This is particularly the case in Cambridge and Oxford and surrounding market towns where severe development constraints and intense housing demand collide.

These housing pressures have driven rental growth across a number of markets across Bidwells' golden triangle market area. Cambridge and St Albans, which continue to attract strong demand from highly skilled professionals, have seen rents rise over the last six months, with the latter showing growth of close to 5%. This pace of uplift in housing costs underpins the National Infrastructure Commission's recommendations to increase the provision of housing across the CaMkOx Arc in order to sustain and grow the region's international competitiveness.

### Tenure in South and East

Location	Owner Occupied	Private Rented	Social Rented
London	47.5%	30.0%	22.4%
South East	68.0%	18.9%	13.1%
East of England	66.3%	18.2%	15.5%
England	62.6%	20.3%	17.1%

Source: English Housing Survey 2016/17

### CaMkOx Arc primed for further growth



Source: Bidwells' Research

## Our view on Build to Rent

### Investment and development update

The past two years has been a period when the BTR market has come of age, as investors turned to the sector to boost returns on investment. In the first three months of 2018, almost £250m was invested into private rented schemes, with several larger transactions dominating activity.

The largest transaction was the forward funding of 383 BTR units in Liverpool city centre by Invesco Real Estate for £86m. The scheme is due to complete in 2020. Invesco has become one of the major players in the BTR market having completed ten acquisitions over the past 15 months. Other institutional investors also actively seeking opportunities include Aberdeen Standard, Legal & General and M&G, as well as overseas investors, particularly those where residential investment is well established in their domestic markets.

As detailed below, average BTR yields in the Bidwells' Golden Triangle are c. 3.94% with an average rent affordability ratio of c. 41% of gross local income.

### Build to Rent yields and capital values

Location	Average capital value (£psf)	Average net yield (%)
Aylesbury	£315 ▶◀	5.05
Bedford	£295 ▶◀	4.54
Bishops Stortford	£470 ▼	3.49
Cambridge	£700 ▲	3.58
Chelmsford	£500 ▶◀	3.20
Hatfield	£400 ▶◀	4.19
High Wycombe	£413 ▶◀	3.84
Hitchin	£450 ▶◀	3.28
Letchworth	£340 ▶◀	4.28
Milton Keynes	£400 ▶◀	3.77
Norwich	£325 ▶◀	3.82
Oxford	£600 ▶◀	3.23
St Albans	£710 ▲	2.66
Stevenage	£320 ▶◀	4.84
Watford	£350 ▶◀	5.26

Source: Bidwells' Research

Assumptions: Yields net of management and purchaser's costs. Yields will vary dependent of location. Capital values are based on recent local analysis.

### BTR in the the Oxbridge Corridor

Activity in the Cambridge – Milton Keynes– Oxford corridor has been limited over the past few years, with one of the largest transactions to date being the £30.5m forward funding of the Silbury Boulevard BTR scheme in Milton Keynes by Grainger Trust and the Dutch institution APG. The scheme will provide 139 private rented units.

Looking ahead, further opportunities for BTR development will be brought forward as the vision for the CaMkOx Arc progresses. The National Infrastructure Commission estimates improvements in infrastructure and housing across the region will result in a close to threefold increase in the economic output of the Arc over the coming decades. This will provide the necessary critical mass to facilitate the expansion in scale and depth of the existing knowledge corridor, which already presents a unique proposition in the UK: Oxford and Cambridge are the only cities in the UK in the European top 20 list for innovation.

See more on the plans for the region in our paper *Introduction to the CaMkOx Arc* (April 2018).

### Planning update

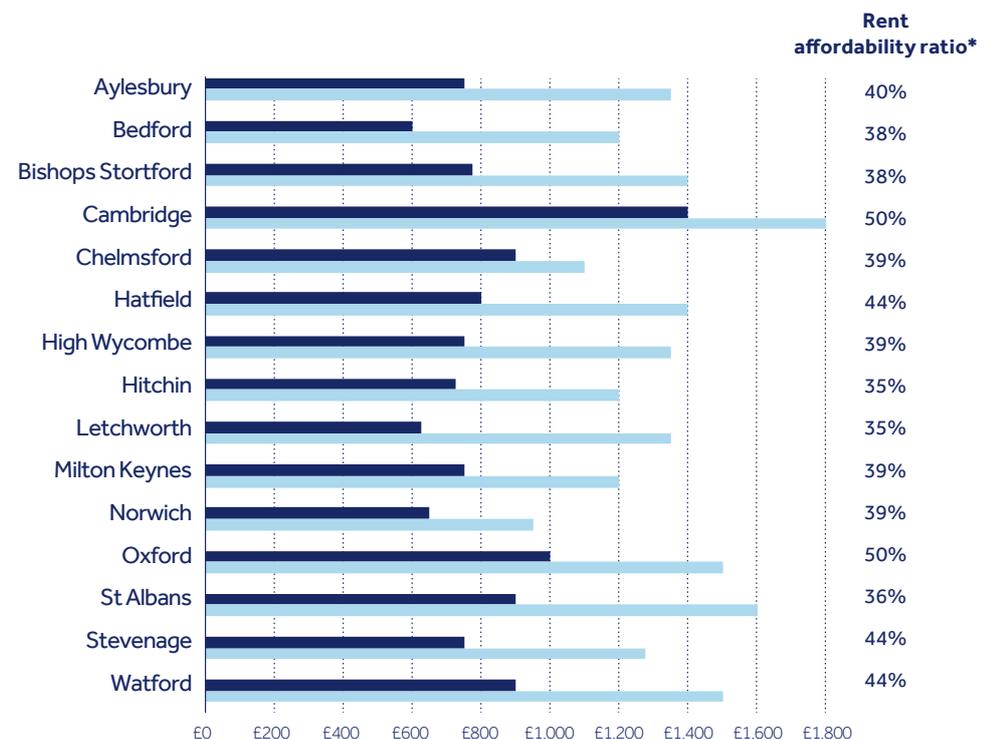
One of the most significant revisions in the latest draft National Planning Policy Framework (NPPF) is the formal policy recognition of BTR homes as a sector. This recognition is a milestone one for the asset class. Under the proposed NPPF, BTR will receive tenure status, for which local authorities will be required to plan.

BTR schemes will be treated in a different manner to affordable homes for sale in Build for Sale schemes, with a recommendation in the National Planning Policy Guidance (NPPG), published ahead of the NPPF, that 20% of BTR schemes should be affordable private rented units. The affordable homes will need to be provided and maintained in perpetuity. The draft guidance proposes the market rent units offer tenancy agreements of three years or more.

The latest proposals are a positive step towards the recognition of BTR as an integral part of the UK's housing provision, with the objective of increasing choice for renters. In doing so, it also eases the path to entry for investors.

### Build to Rent – rental range (EPCM)

April 2018



Source: Bidwells' Research, ONS

Assumptions: \*Affordability based on a ratio of Bidwells' mid-point rental value in city centre location and average gross local income. The higher the % the lower the affordability of the location. ONS location assumptions: Aylesbury - Aylesbury Value; Hitchin and Letchworth - North Herts; Hatfield - Welwyn Hatfield; Bishops Stortford - E Herts.

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