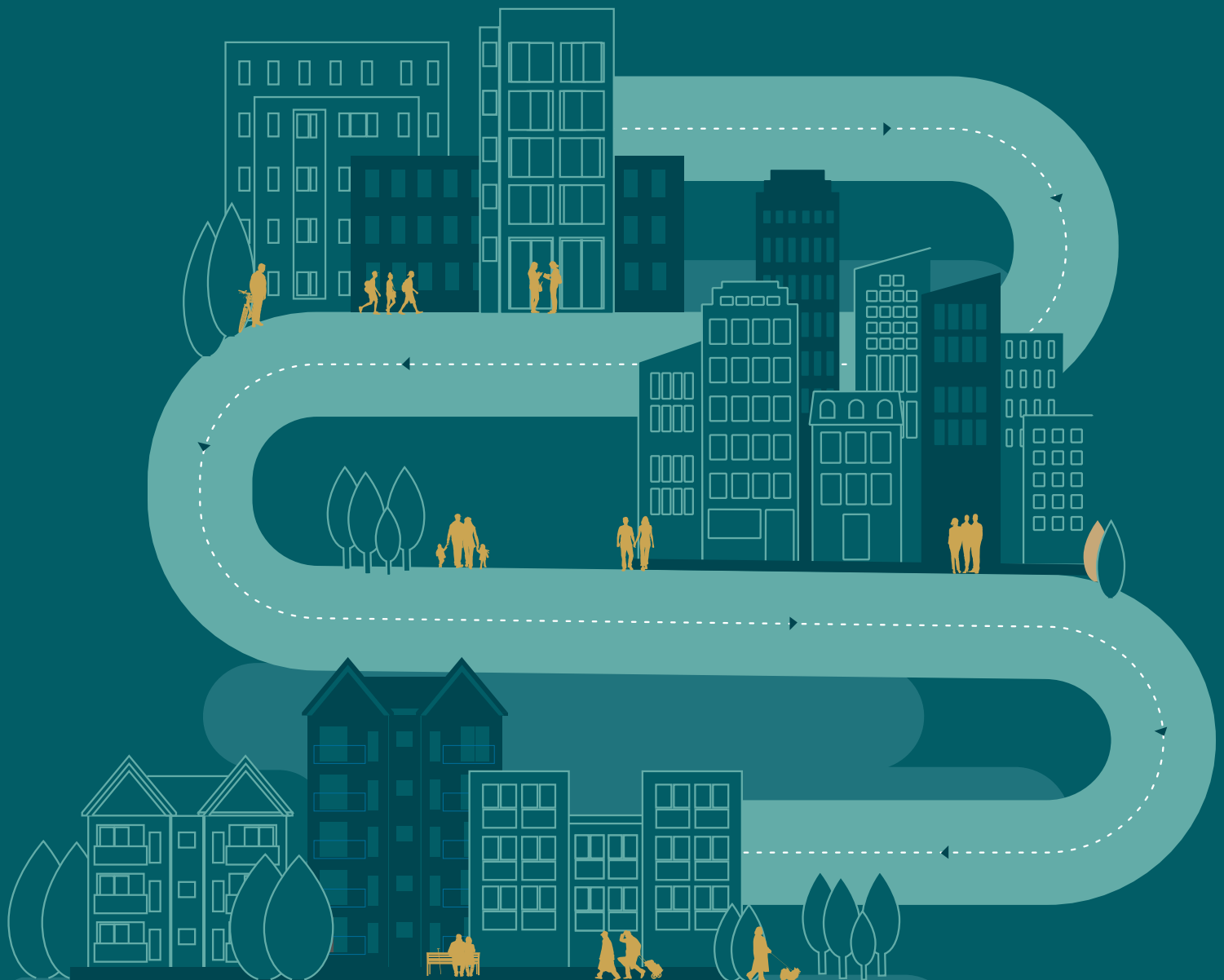


RESIDENTIAL INVESTMENT REPORT 2019

Sectors Analysed | Growth Forecasts | New Investor Survey



AN EMERGING SECTOR

The Residential Investment sector is gaining traction in the UK. Investors looking for long-term returns are seeking out the opportunities afforded in the expanding private rented sector, especially purpose-built age-targeted accommodation.

NOTED

Residential Investment is emerging as a leading real estate sector

Our survey of 43 leading investors, with a combined £32 billion already invested in Student Accommodation, PRS and Senior Living Rental, signals further growth

London and Bristol identified as leading investment opportunities over the next five years, with Birmingham also a strong opportunity area for PRS

Total size of sector forecast to reach £146 billion by 2025

The Residential Investment sector, incorporating purpose-built Student Accommodation, investment-grade and purpose-built rented accommodation (PRS) and Senior Living has been expanding rapidly in the UK in recent years. The myriad reasons for the growth of investment into income-producing residential markets include a search for diversification, finding value in the granularity of occupiers that comes with individual units, demographic and tenure shifts and a housing policy landscape in the UK that is now embracing diversity of tenure.







Within the three sectors that make up Residential Investment, the fundamentals underpinning the markets are also varied, from educational factors in the Student Accommodation market to housing affordability and employee mobility in the PRS and the ageing population and limited care options in the Senior Living sector.

To examine how these sectors will move over the next five years, we have undertaken a survey of 43 leading investors in Residential

Investment, the largest survey of its kind and representing a combined £32 billion of investment. The results of the survey are shown throughout the following pages, and are instructive in highlighting how and where the sectors are set to grow in the medium term, as well as outlining some of the expectations around pricing.

An analysis of each market is shown below, and the report also includes our forecasts (pages 10-11) for the extent of growth in all three sectors by 2025. The PRS sector is expected to leapfrog Student Accommodation over this time-frame, with the sum of capital invested and committed in the investment-grade PRS rising to more than the total value of the Student Accommodation sector. The combined value of the sectors in 2025, forecast to be £146 billion, means that the sector will start to close in on some of the commercial real estate classes by total asset value, cementing its place as an established asset class for global investors.

SIZE OF MARKETS

	 Student Accommodation	 PRS	 Senior Living
	Purpose-Built Student Accommodation (PBSA). For the purposes of this report, it includes university-run and private student property.	Large-scale investment-grade accommodation built specifically for rental, including new-build "Build-to-Rent" schemes.	Purpose-built rental accommodation specifically for older people, with a range of domiciliary or nursing care available as needed.
Market type	 Mature	 Expanding	 Establishing
Beds/Units	600,000	30,000*	4,000**
as % of relevant sector	33%^	2.60%	2.36%^^^
% total housing stock		0.42%	0.01%

* Operational ** Mostly pepper-potted ^ of student market ^^ of private senior living stock

Please see important note on back page

THE RESIDENTIAL INVESTMENT SURVEY

An examination of where our 43 survey respondents are currently invested, and where they expect to be invested by 2024, suggests that appetite for Student Accommodation will remain steady in the coming years, while there will be notable growth in PRS and Senior Living.

The survey results also makes clear that some investors who may only be active in one of the three sectors may become active in additional sectors by 2024. For example, some 13% of respondents currently invest across all three sectors, while in 2024 this will rise to 35%. Some 28% of respondents are invested in two sectors today, and in five years' time this will rise to 68%.

This echoes our expectations for increased diversification within Residential Investment, with investors spreading their exposure across age groups. The drivers of each

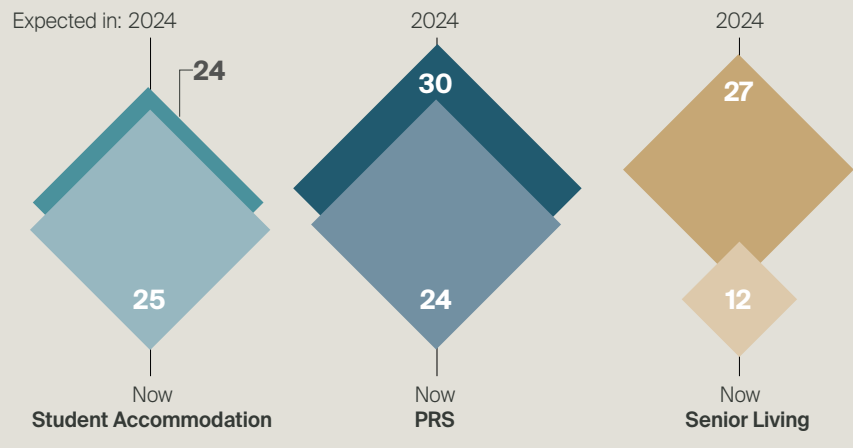
sector are relatively distinct, with Student Accommodation linked to the expanding tertiary education sector, PRS responding to the massive shifts in tenure seen in the UK over the last two decades, and the underlying need for homes in many key areas across the country, while the Senior Living market is underpinned by the sharply ageing population and the need for age-appropriate housing that offers elements of care.

While there are significant differences in market drivers, there are key synergies in construction and operations, making a

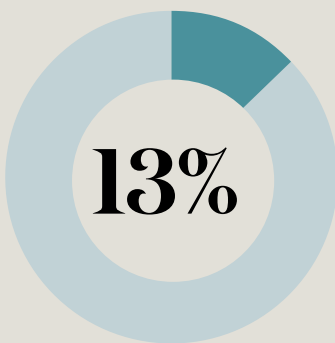
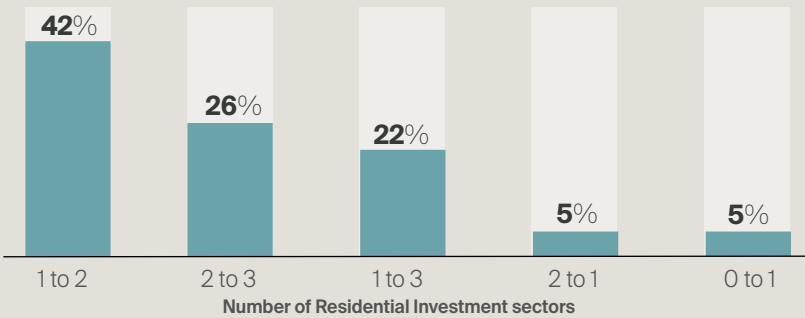
move across sectors even more appealing for investors.

The differing maturity of the markets, with the still-establishing Senior Living market sitting higher on the risk curve, means investors can blend their yields, with the expectation of yield compression in the future. This follows the trend seen in the PRS market in recent years, and the more mature student market over the last decade.

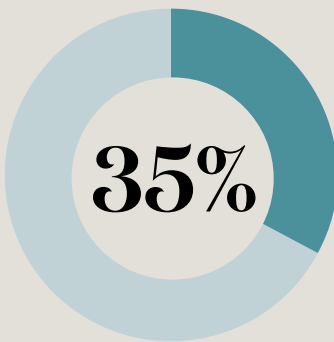
In which Residential Investment sectors are you active? (number of respondents)



Respondents expecting to change their exposure by 2024:



% of respondents active in all three sectors now



% of respondents who expect to be active across all three sectors in 2024

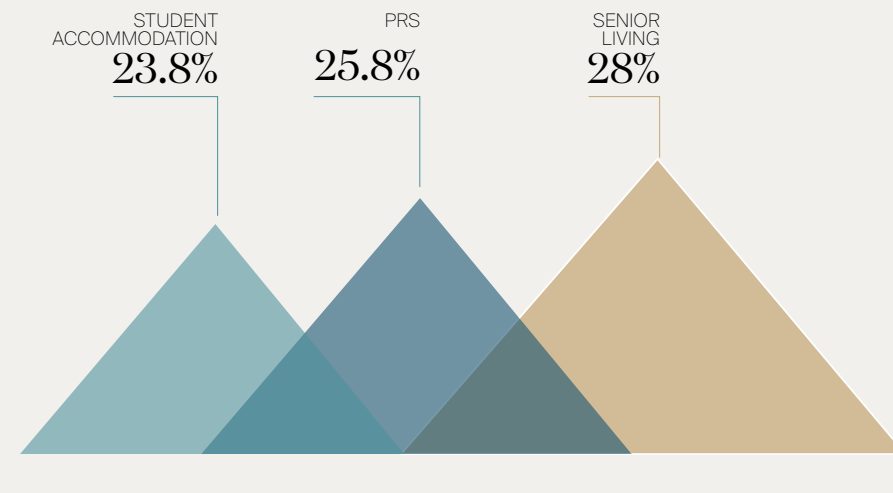
Source: Knight Frank Residential Investment Survey 2019

GROSS TO NET

We asked respondents about their current gross to net, and the mean average of the responses from London and the regions are blended, as shown in the chart. Generally the figure was higher in the regions, reflecting the typically lower rental levels in regional cities.

The spread between the totals in the three sectors is perhaps not as large as may be commonly assumed, but it also shows that Student Accommodation, as the more mature market, is the most efficient in terms of operational costs in part due to the higher density of tenants helping to drive operating efficiencies. At the other end of the scale, the Senior Living market has the largest gross to net leakage, which is to be expected given the typically higher levels of servicing, care and amenity provided.

What is your typical Gross to Net? UK average



Source: Knight Frank Residential Investment Survey 2019

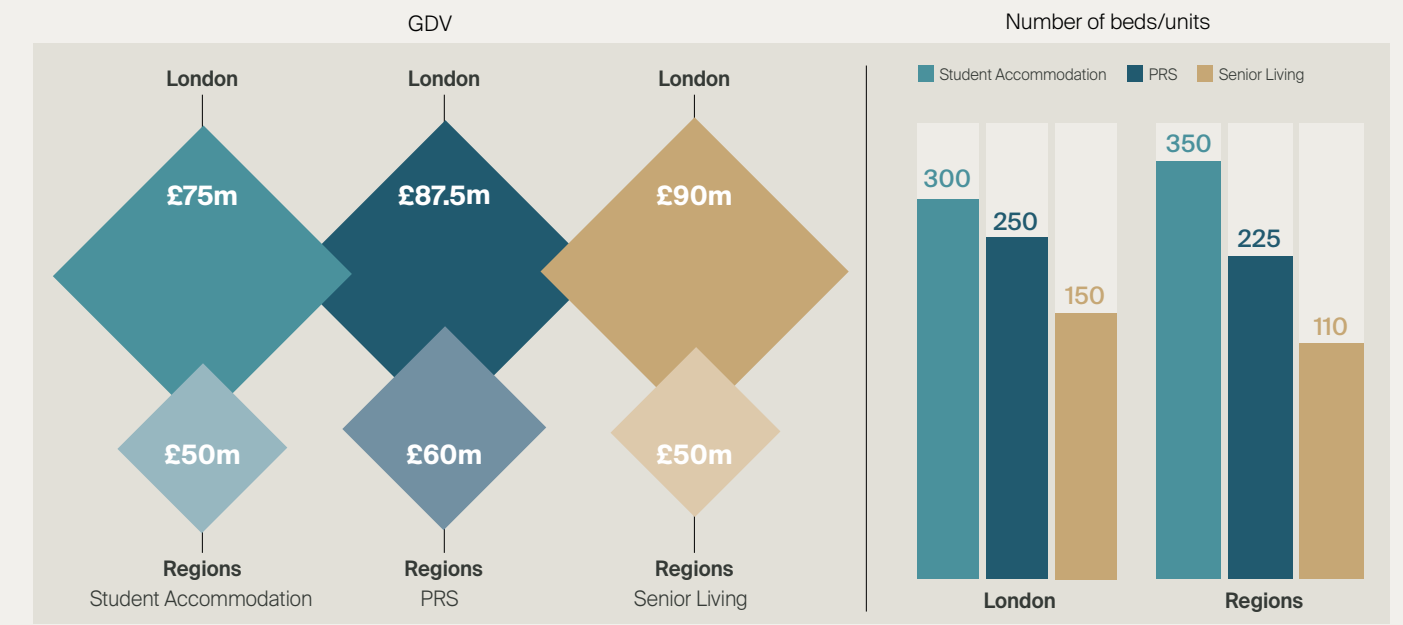
‘SWEET SPOT’

When asked about the size of schemes that best fit their investment criteria at present, the median of all responses showed that there was a desire for similar-sized schemes by GDV in London and the regions across all three sectors. The mean average of responses was slightly higher,

as this average figure does not discount the ‘outliers’ – in this case larger players looking for significantly bigger schemes – particularly in PRS. However there is a bigger range of responses when it comes to the ‘sweet spot’ measured by the number of beds or units, reflecting the fact that student

schemes tend to have smaller units, while being most efficient in terms of operating costs as a proportion of gross income, while PRS and Senior Living schemes will have larger units with a greater level of amenity and care provision.

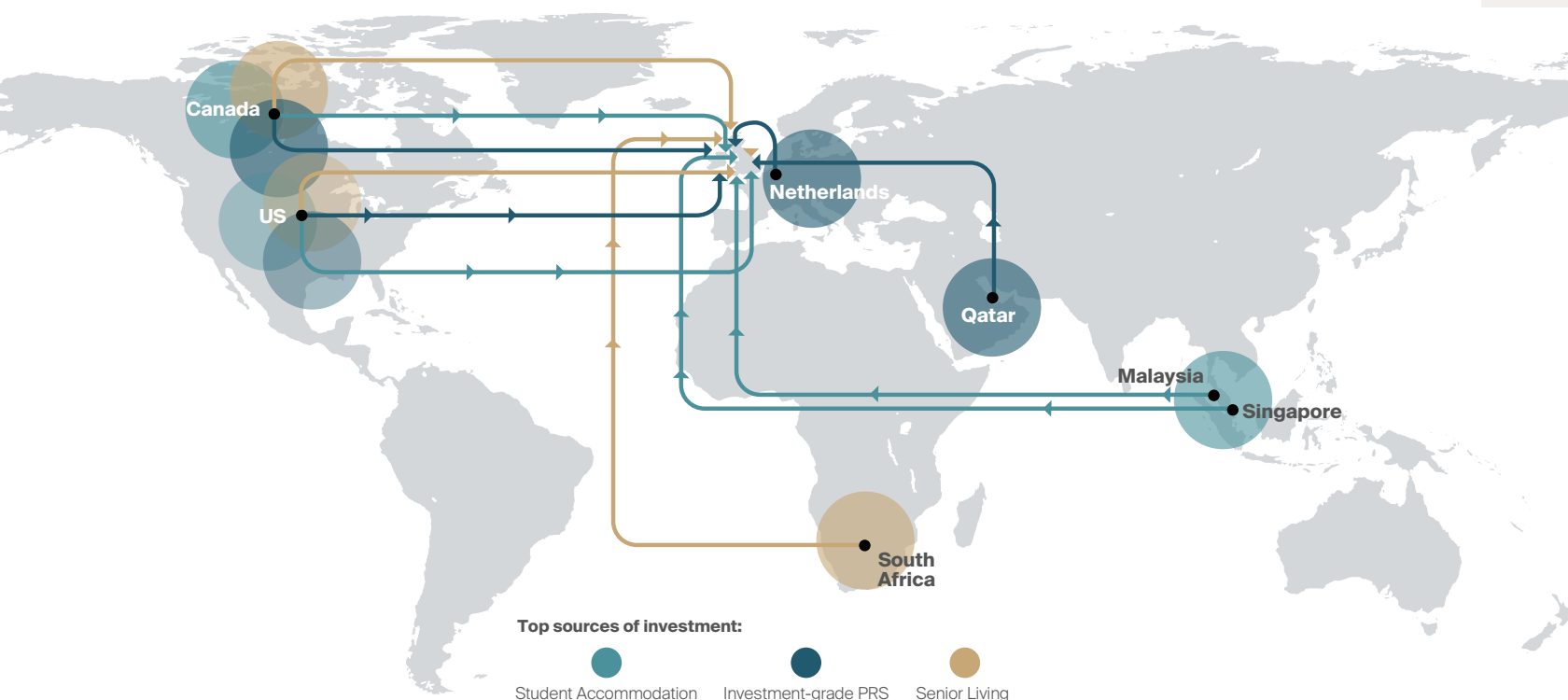
What is the ‘sweet spot’ for investment? Median average



Source: Knight Frank Residential Investment Survey 2019

WHERE IS INVESTMENT COMING FROM?

When looking at global investment into the Residential Investment sector, the heads of our three specialist teams at Knight Frank explain which continents and countries from outside the UK they have seen the most activity in recent years:



STUDENT ACCOMMODATION

James Pullan
Head of Student Property

The key investors in the Student Accommodation sector have come from the North American equity houses and the Singaporean REITS. The North American equity houses are looking to add value through scale and by upgrading and rebranding. The Singaporean investors are predominantly seeking +6% NIY. We anticipate that significant investment in the next twelve months will come from US pension funds able to access scale.

Top three sources of investment:



PRS

Nick Pleydell-Bouverie
Head of Residential Investment Agency

As the PRS market has matured, we have seen capital flows into UK PRS diversifying and becoming truly global, with direct investment from Europe, the Middle East, Asia and Australia. For the first time we are also seeing new overseas investors seeking a blend of both commercial and residential investments in the UK to establish balanced portfolios and diversify their holdings. PRS is now established as a mainstream UK property sector.

Top three sources of investment:



SENIOR LIVING

Tom Scaife
Head of Senior Living

Investment from the UK, USA and Canada that initially flowed into more mature PRS and student markets has diversified into the UK Senior Living rental market. This is not unsurprising given Senior Living completes the rental journey across residential investment. As investment increases from the Middle East and Malaysia into the more mature markets, expect to see it also flow into Senior Living, as investors get comfortable with the product, returns and available data in a nascent market.

Top three sources of investment:



RENTS AND OUTLOOK

An examination of the latest rental growth shows the spread across the country for both Student Accommodation and private rented apartments.

Rental growth, in the Student Accommodation market, and the wider residential rental market, which includes properties owned by individual landlords, has varied according to geography over the last year, as shown on the map to the right.

The student market has been strongest for rental growth in Bristol and Edinburgh in the year to the start of the current academic year.

Meanwhile, an examination of asking residential rents shows that they rose most strongly in Birmingham and Edinburgh, although the asking rent growth seen in London, of 3.8%, is higher than the 0.4% growth in achieved rents – which comes from data modelled by the ONS. The two sets of data are not directly comparable, as they come from different samples, but it suggests that not all asking rents in the market are being met by tenants.

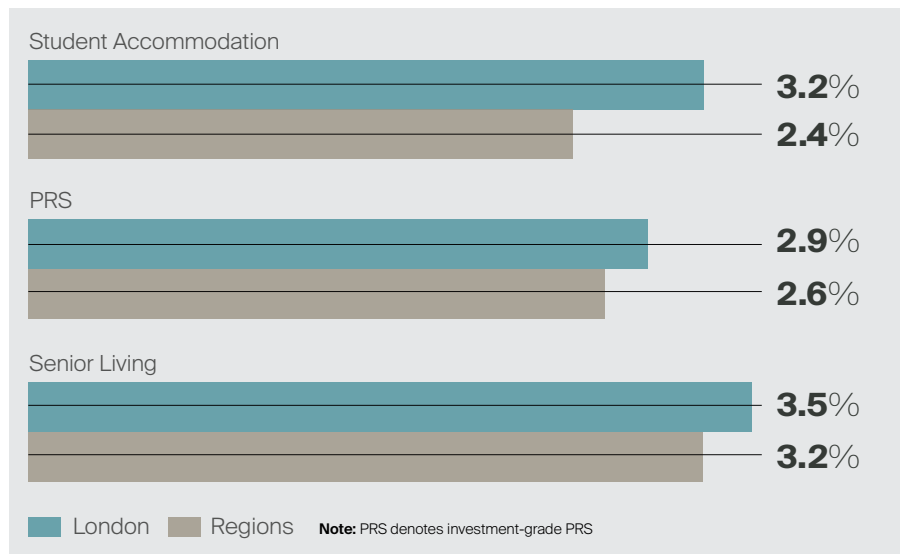
However, asking rents have risen by an average of 2.7% a year over the last decade, indicating the direction of travel in rental growth, while the annual growth in Student Accommodation rents is estimated at 3.1%.

The PRS market is not yet mature enough to deliver robust data on rental growth in investment-grade PRS properties alone, although anecdotal evidence shows that in some cases rental premiums can be achieved depending on the location, specification, servicing and amenities of the building.

The Senior Living market is also not yet established enough to have data on the growth of rents.

When we asked our survey respondents what they expected in terms of rental growth over the next five years, the average figures suggested a continuation of the current trend, although those in the Senior Living rental sector are expecting higher annual rental growth than the PRS market, as shown below.

Survey Respondents' expectations for annual rental growth to 2024 by sector:
(mean average)



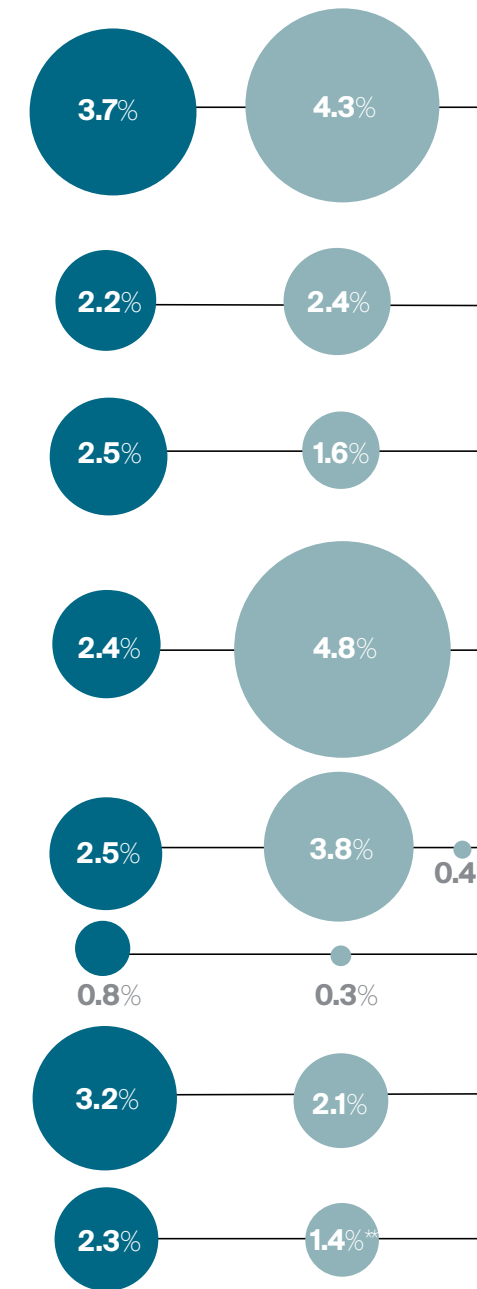
Source: Knight Frank Residential Investment Survey 2019

Current rental performance

Annual rental growth

Student Accommodation 2018/19

Asking rents, total residential rental market including PRS and private buy-to-let



* ONS achieved rents

** ONS achieved rents, GB excluding London

Source: ONS, Knight Frank, Rightmove

LOOKING TO THE FUTURE

Which cities will outperform the market over the next five years?

The survey respondents identified the cities where they saw the biggest opportunities in each sector. When examining the top three cities in each market, London and Bristol emerge as opportunity areas across all three sectors. This suggests an overlap of the different drivers for each sector to provide a favourable investment environment – from strong student demand, large-scale city regeneration and development as well as

strong employment conditions, and finally a lack of senior living units. Birmingham is the best opportunity for PRS by quite some margin, according to respondents, driven by regeneration and infrastructure improvement. When asked which sector would outperform in 2019, our survey respondents suggested that PRS would narrowly beat Student Accommodation.

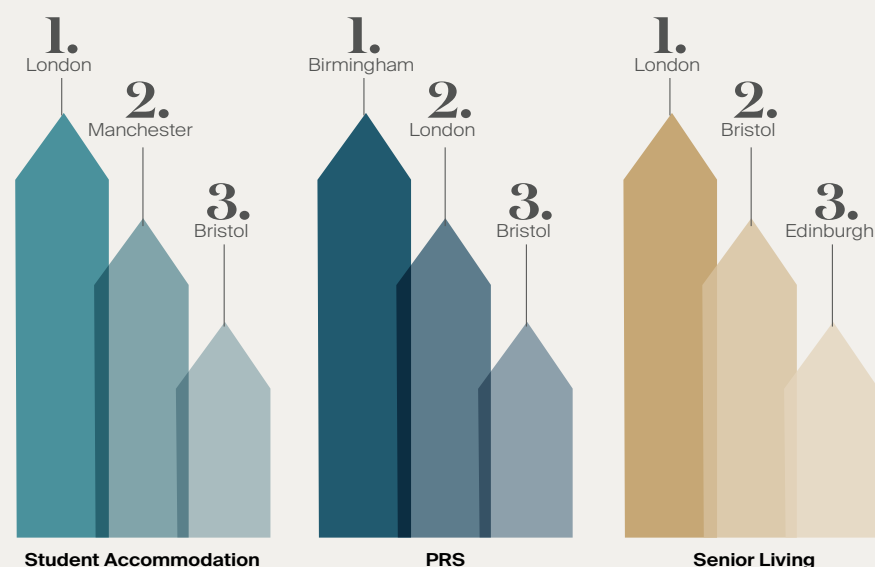
When asked if the Residential Investment sector will outperform over the next five years, respondents said:

“
Yes – quality of education”

“
Yes. Demographic driven, undersupplied nascent market, premium rents will be established with long term rental growth prospects, potential for yield compression”

“
Yes, because of demographic fundamentals, housing shortage and ageing population”

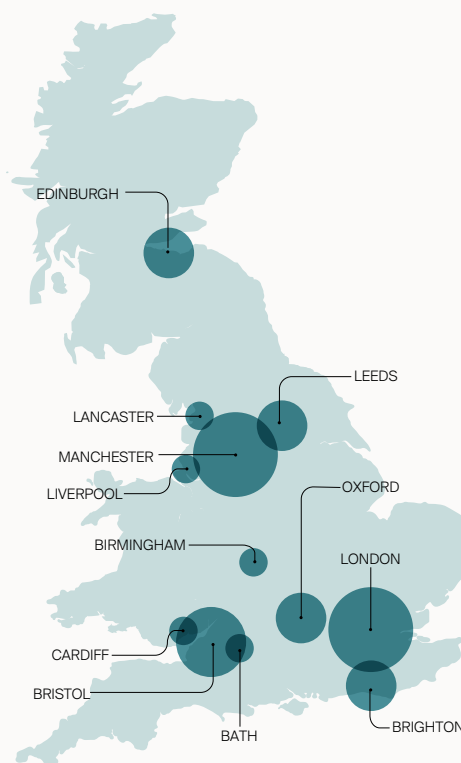
Top 3 cities for performance, 2019 - 2024 (survey respondents)



Source: Knight Frank Residential Investment Survey 2019

Five-year view: Which cities will outperform the market in your sector?

Survey Respondents:



Key
Bigger circle: most respondents identifying as opportunity area

STUDENT ACCOMMODATION

James Pullan
Head of Student Property

The Student Accommodation sector was founded on the basis of highly attractive demographics and a demonstrable structural undersupply.

Even today, after the private sector has delivered 250,000 bedrooms across the UK, the sector remains structurally under-supplied, with 2.9 students for every bed in purpose-built student accommodation (PBSA) provided by either the university or the private sector.

Institutions are attracted to the opportunities for economies of scale and assets in portfolios are worth more than assets sitting outside of them. Arguably, PBSA was the first mover in the Residential Investment sector but with the development opportunity reducing, it is likely to be overtaken in scale by PRS within two years and the Senior Living sector within ten years.

PRS

Nick Pleydell-Bouverie
Head of Residential Investment Agency

Our investor survey shows that Birmingham is expected to outperform all other UK cities over the coming five years, with London, Bristol and Leeds closely behind.

Birmingham presents an incredibly compelling investment opportunity for PRS, with a rapidly growing population, significant infrastructure and transport improvements and a structural undersupply of new-build PRS product.

London and Leeds are also two cities to closely watch for outperformance. London continues to present significant opportunity for PRS, given the size of the market – the growing population of Greater London is already bigger than the next six largest UK cities combined.

Meanwhile Leeds is seeing the fastest private sector growth of any regional city in the UK.

SENIOR LIVING

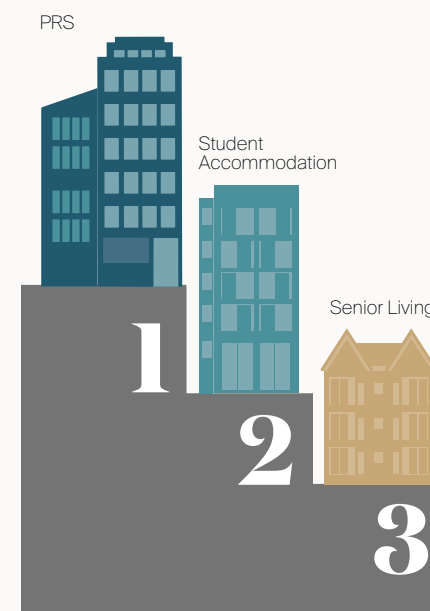
Tom Scaife
Head of Senior Living

It is unsurprising that some of the top performing cities in the next five years are in areas with the highest house prices, in London, Bristol and Edinburgh.

Senior Living rental is an asset-sale model, with the family house being sold to pay for rent and care. Investing first into higher value locations where the downsizing premium – the value of the family home relative to investment into senior living – is at its largest is a good option to ensure strongest tenant demand.

In the next five years we expect to see a race to scale and brand-building from some of the early movers to create management platforms with operational efficiencies. Good customer experience and a high level of service will be at the core of all business plans.

Which sector will outperform this year? (survey respondents)

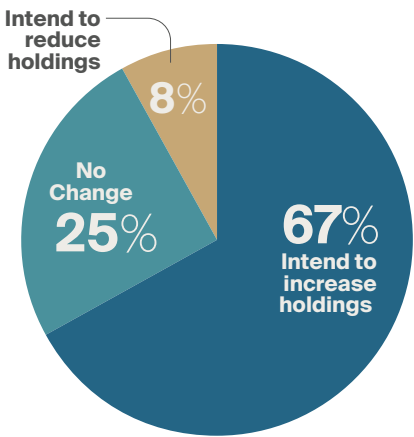


Source: Knight Frank Residential Investment Survey 2019

SECTOR GROWTH

The Student Accommodation, PRS and Senior Living sectors are all set to grow in the coming five years. Here we examine the views of our survey respondents, as well as sharing Knight Frank’s forecast for sector growth between now and 2025.

How will your portfolio exposure to Residential Investment change in the coming five years? Survey respondents, excluding those already fully invested



Source: Knight Frank Residential Investment Survey 2019

More than two-thirds of our respondents who are not already fully invested in one or more of these sectors intend to increase their exposure in the coming years, according to our survey. This suggests that investors are not only increasing the size of their holdings, but also diversifying across the sectors, a theme we examined on page 3.

We also used the survey responses, coupled with our market intelligence, to calculate the growth of our respondents’ investment into the sector over the next five years. The results suggest growth in all three sectors, with a 57% growth in Student Accommodation investment in 2024 compared to today. Investment into the PRS and Senior Living markets is expected to more than double from current levels, with 135% and 137% growth respectively.

This broadly echoes our own forecasts for total growth in the sector.

Back in 2015, the combined values of Student Accommodation, PRS – which includes capital invested as well as committed, and Senior Living rental, was around £46.6 billion. Today, that figure has nearly doubled to £87 billion, according to Knight Frank calculations, with the biggest growth seen in the PRS, where total investment and capital committed has more than doubled in size.

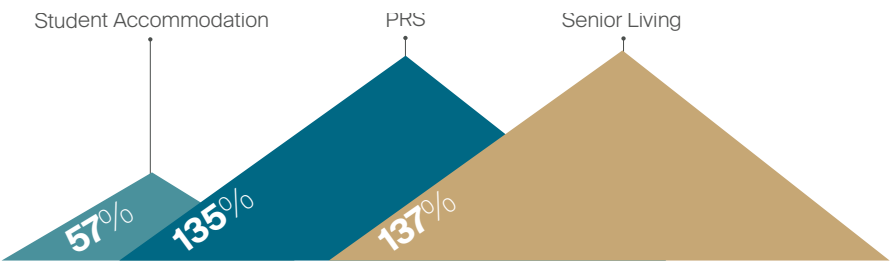
To put this in context, IPF data suggests that the UK Retail sector is currently valued at £351 billion, while the office market is worth £277 billion. The industrial sector is worth £266 billion. Yet the total investable assets in these sectors stands at £175 billion, £215 billion and £69 billion respectively, meaning Residential Investment has overtaken

industrial on a like-for-like basis. In addition, the total value of all residential property in the UK is worth around £7 trillion, which means that a relatively modest transfer of rental accommodation from private landlords to purpose-built student accommodation, PRS or Senior Living would result in a large rise in the size of the sector.

Knight Frank estimates that the total value of the Residential Investment sector, including capital committed in PRS, will rise by 68% by 2025, taking the total value of the sector to £146 billion. By then, the PRS and Senior Living markets will be more established, underpinned by a broad base of investors keen to tap into an asset class which is closely linked to student, employment and population fundamentals across the UK.

£146bn
total forecast size of Residential Investment sector by 2025, Knight Frank

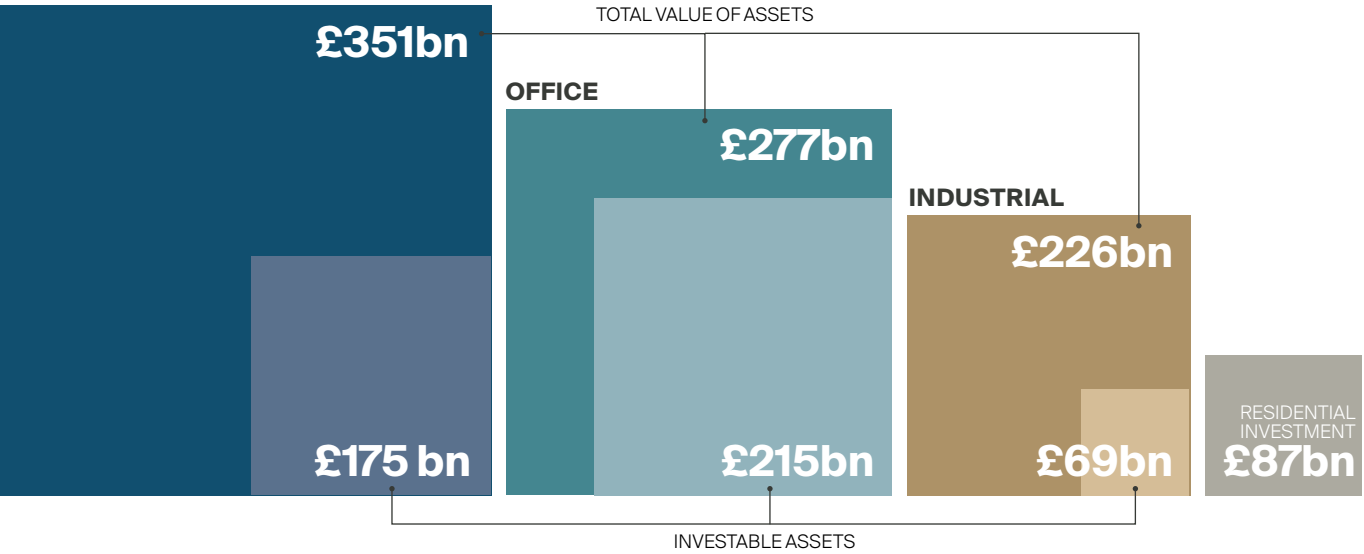
Estimated uplift in Respondent Group investments over next five years



Source: Knight Frank Residential Investment Survey 2019

Real estate sectors

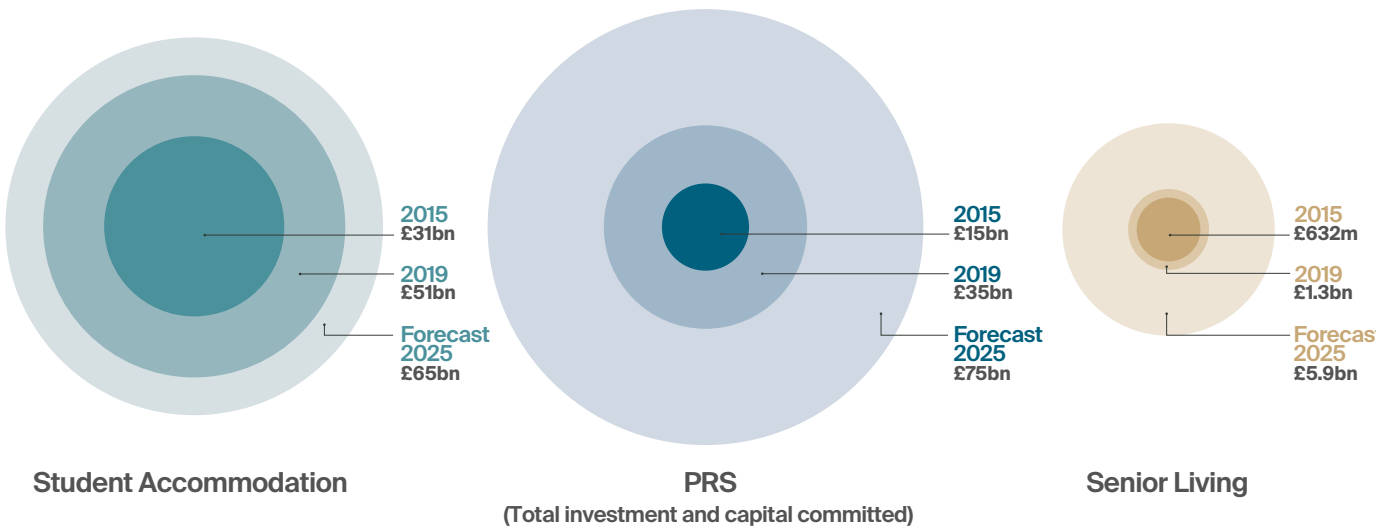
RETAIL



Source: IPF, Knight Frank

Total Residential Investment

Knight Frank forecasts



Source: Knight Frank Residential Investment Survey 2019

RESIDENTIAL RESEARCH

Gráinne Gilmore

Head of UK Residential Research

+44 20 7861 5102

grainne.gilmore@knightfrank.com

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



The UK Tenant Survey - 2019



London Residential Development - 2019



UK Retirement Living 2018



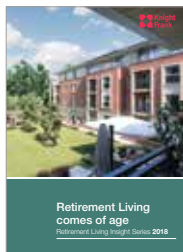
Knight Frank/ UCAS Student Housing Survey - 2018/19



The Birmingham Report - 2018



UK Housing Market Forecast - Nov 2018



Retirement Living comes of age - 2018



UK Student Housing - Update April 2019

Knight Frank Research Reports are available at [KnightFrank.com/Research](https://www.knightfrank.com/research)

Important Notice © Knight Frank LLP 2019 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Get in touch

If you're thinking of investing, buying or selling, or would just like some property advice, please do get in touch.

James Mannix

Head of Residential Development & Investment

+44 20 7861 5412

james.mannix@knightfrank.com

James Pullan

Head of Student Property

44 20 7861 5422

james.pullan@knightfrank.com

Nick Pleydell-Bouverie

Head of Residential Investment Agency

+44 20 7861 5256

nick.pleydell-bouverie@knightfrank.com

Tom Scaife

Head of Senior Living

+44 20 7861 5429

tom.scaife@knightfrank.com