PRIVATE RENTED SECTOR UPDATE

REGIONAL FOCUS

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There has been increasing activity in the regional markets over the last 12 months, with institutional investors attracted by the yields achievable and the strong occupier demand in regional centres. Of particular interest to institutions have been private rented sector schemes in 'top tier' regional centres, such as Birmingham & Manchester, with a large amount of interest focussed on lot sizes ranging between £20-100 million.

The increasing entry of institutional investors into the market is a significant positive factor for the PRS, which should lead to an increase in the supply of good quality, well managed rental accommodation. The design of the units within these schemes is aimed at the private rented sector, with appropriate layouts, specification and provision of services being key to the success of these schemes. The regional investment from institutions and the quality of product proposed is exemplified by LaSalle Investment Management's recent investment in Aberdeen, detailed below:

Forbes Place, Aberdeen

LaSalle IM recently invested approximately £60 million in a forward funding agreement at Forbes Place, Aberdeen. The proposed scheme comprises the development of 292 apartments and townhouses at Dandara's historic Stoneywood estate. The high-quality development is aimed principally at workers in the energy sector and is located close to Aberdeen International airport.

The properties at Forbes Place will feature underground parking, balconies for each unit, video entry, lifts, WIFI and secure delivery facilities for tenant's parcels and refrigerated storage for groceries. LaSalle IM is understood to be targeting schemes of 80+ units in regional towns and cities across the UK.

THE RISE AND RISE OF URBAN RENTERS

New data shows the proportion of those in the private rented sector living in urban areas has risen from 80% to 86% over the last decade, mostly accounted for by regional cities outside London.

The growth of the private rented sector in the UK has been well documented, and there is evidence from the most recent English Housing Survey that activity in this market is increasingly clustering in cities around the country. As part of the tapestry of information around the burgeoning investment sector in PRS, Knight Frank has monitored a range of data, not least the views of private tenants in our Tenant Survey, one of the largest such surveys ever conducted.

As the institutional investment market matures, there has been a desire for more detailed yield data. As such we have developed our PRS index, which reflected average yields, into a PRS Yield Guide, giving a fuller reflection of the best-in-class deals currently being done in the market. The Guide, which is produced by our consultancy agency & valuation teams can be seen in full on page 2.

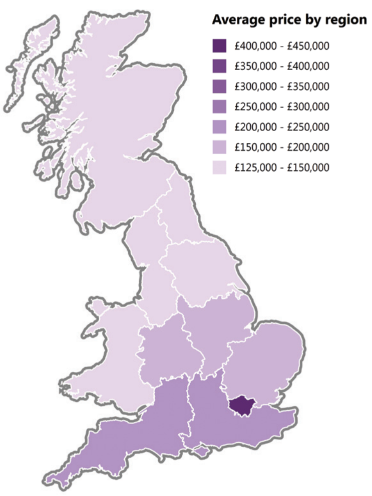
The Yield Guide shows a slight tightening in yields for prime PRS deals in Q2 across the Greater London market, as well as in many of the other key cities except Bristol and Glasgow.

Meanwhile, the growth in the size of the UK rental sector looks likely to continue. Demand for rental property is being underpinned by affordability constraints in many parts of the sales market as well as increased hurdles in the mortgage market. There is also an increasing desire for property with flexible tenure, especially among young professionals, who want to live close to where they work.

Tenants are also living in the PRS for longer – with the English Housing Survey showing that the proportion of those living in rented accommodation reporting that they have lived in their current home for between 2 and 4 years rising to 24%, up from 20% ten years ago.

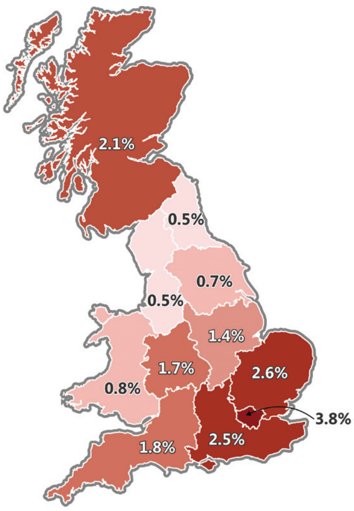
Rents are rising across the country, reflecting an increase in wages as well as inflation. They rose by 2.5% in the year to the end of June but there are still wide regional variations in rental growth as shown in the map in figure 2, just as there is a divergence in entry costs into these markets, reflected in the average housing values map in figure 1.

FIGURE 1
Average cost of housing
July 2015



Source: Macrobond

FIGURE 2
Annual growth in rents
Year to end June 2015



Source: ONS

FIGURE 3
Prime residential yield guide Q2 2015

Sector	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Market Sentiment
London							
Prime Central London (Mayfair, Knightsbridge, Kensington etc.)*	3.00%	2.75%	2.50%	2.50%	2.50%	2.50%	STABLE
Zone 1 Prime (Outside PCL)	4.25%	4.00%	4.00%	3.75%	3.75%	3.50%	STABLE
Zone 2-3 Prime	5.25%	5.00%	4.75%	4.75%	4.50%	4.50%	POSITIVE
Greater London Prime	5.75%	5.75%	5.50%	5.50%	5.50%	5.25%	POSITIVE
Major Regional Cities – Prime							
Birmingham	7.50%	7.25%	7.00%	6.75%	6.50%	6.25%	POSITIVE
Bristol	6.50%	6.25%	6.00%	6.00%	5.75%	5.75%	POSITIVE
Edinburgh	7.25%	6.75%	6.75%	6.75%	6.50%	6.25%	STABLE
Glasgow	8.00%	7.50%	7.50%	7.25%	6.75-7.25%	6.75-7.25%	STABLE
Leeds	8.00%	7.50%	7.50%	7.25%	7.25%	7.00%	POSITIVE
Manchester	7.50%	7.25%	7.00%	6.75%	6.50%	6.25%	POSITIVE
Ground Rents							
10 Year RPI Uplifts	3.25%	3.25%	3.00%	3.00%	2.75%	2.75%	POSITIVE
25 Year Doubling Reviews	3.75%	3.75%	3.50%	3.50%	3.25%	3.25%	POSITIVE
Bonds & Rates							
Libor 3 mth (2 June 2015)	0.53%	0.56%	0.56%	0.56%	0.56%	0.57%	
Base rate (2 June 2015)	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	
5 year swap rates (2 June 2015)	2.07%	1.27%	1.23%	1.57%	1.30%	1.55%	
10 yr gilts redemption yield (2 June 2015)	2.73%	1.61%	1.50%	1.92%	1.60%	2.01%	

The yields referenced above are gross yields and no allowance has been made for operating costs within this yield guide.
Based on rack rented properties and disregards bond type transactions.
This yield guide is for indicative purposes only and was prepared on 1 July 2015.
***Our PCL yield is based on a tenanted blocks, having a minimum of 5 units, situated within our Knight Frank's definition of Prime Central London.**

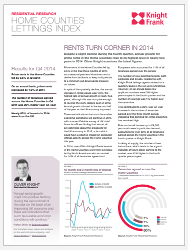
Source: Knight Frank Residential Research

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

Tenant Survey 2014

London Development Report 2014

Prime Central London Rental Index Dec 2014



Home Counties Rental Index Q4 2014

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