

REGIONAL FOCUS



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There has been a significant increase in PRS transactions in the regions in recent months. With many investors now having a PRS presence in locations such as Manchester, focus has turned to other centres including Leeds, Sheffield and Nottingham, to further enhance the spread of their portfolios.

One advantage of entering the market early is the lack of development in recent years, offering the potential to establish dominance and attract tenants from existing housing stock, which is often outmoded and surpassed by new, purpose built PRS schemes. It also highlights the benefits of PRS as a catalyst for regeneration in these areas.

This is exemplified by our recent deal, acting on behalf of Legal & General in their purchase of Mustard Wharf in Leeds. The Build to Rent (BTR) scheme, comprising 250 units and 8,640 sq ft of retail space, will be Leeds city centre's most significant BTR scheme, with a GDV of circa £60m and representing a c.4.5% NIY at acquisition.

The purchase signifies a key milestone for the city, kickstarting large scale development, and creating an entirely new destination for Leeds. As Dan Batterton, BTR Fund Manager at LGIM Real Assets, said 'the development complements the wider regeneration of the local area, supporting job growth and the local economy over the long term and providing a new standard of rental accommodation and service in a thriving community'.



PRS CONTINUES TO GROW

Nearly half of 25 to 34 year olds live in the private rented sector, new detailed figures from the English Housing Survey show. Some 46% of those in their late twenties and early thirties are tenants, up from 24% in 2006.

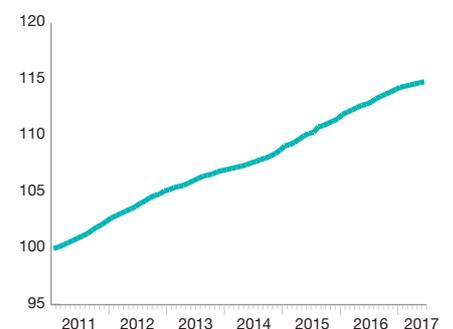
The proportion of families living in the private rented sector has also grown, from 30% to 36% over the last decade or so. The most recent research published by Knight Frank indicates that by 2021, nearly one in four households in England will be living in the private rented sector.

Rents were flat on the month in June, but are up 1.8% on the year across Great Britain, according to the latest data from the Office for National Statistics, which reflects average rents in all privately rented properties. Average rents across England have risen by 15 per cent since the start of 2011, although there are some key regional variations, with rental growth outperforming in some regional cities.

The recent policy changes in the rental market, including an extra 3% stamp duty for additional properties and the start of the taper of mortgage interest relief for landlords with buy-to-let mortgages, has changed the dynamics of the market in some areas, with a drop in buy-to-let mortgage lending being reported, but the underlying demand for rental property means there is still upwards pressure on rents in many markets.

As these new policies cause reflection among some buy-to-let landlords, investment into the Multihousing sector continues to rise, with more Build-to-

FIGURE 1
Rental growth in Great Britain
Indexed, 100 = Jan 2011



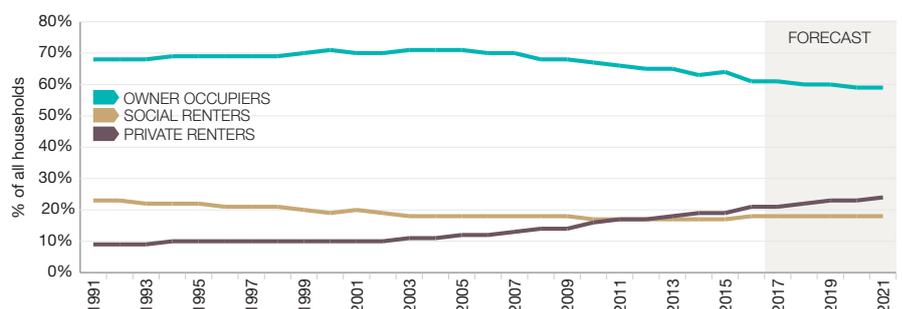
Source: ONS

Rent entrants into the market, investing in the development of purpose-built rental accommodation. Nearly 16,000 build-to-rent units have been completed across the UK, with a further 20,600 under construction and nearly 50,000 with planning. More than half of these units are in London, reflecting the findings of Knight Frank's [Investor survey](#), which found that, on average, institutional investment was split 65:35 between London and the regions, although in time this might be expected to develop into a more even split between the capital and key regional cities.

It also found that the majority of investors are planning to hold the assets for longer than 10 years, underlining the long-term commitment to this asset class across the UK.

Growth of the Private Rented Sector

Historic and forecast tenure distribution in England



Source: 1980 to 1991: DOE Labour Force Survey Housing Trailer; 1992 to 2008: ONS Labour Force Survey; 2008-09 onwards: English Housing Survey, full household sample

Source: Knight Frank Research / ONS

PRIVATE RENTED SECTOR UPDATE AUGUST 2017

FIGURE 3

Prime Residential Yield Guide August 2017

Sector	Aug-16	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Market Sentiment
London - Zone 1 (gross yields reported)								
Prime Central London (GIY)*	2.75%-3.00%	2.75%-3.00%	3.00%-3.25%	3.00%-3.25%	3.00%-3.25%	3.00%-3.25%	3.00%-3.25%	STABLE
Zone 1 Prime (GIY) (Outside PCL)*	3.50%-3.75%	3.50%-3.75%	3.75%-4.00%	3.75%-4.00%	3.75%-4.00%	3.75%-4.00%	3.75%-4.00%	STABLE
London and South East								
Zone 2 Prime (NIY)	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	STABLE
Zones 3-4 Prime (NIY)	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	POSITIVE
Greater London Prime (NIY)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	POSITIVE
South East Prime (NIY)	4.25%	4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	POSITIVE
Prime Regional Cities								
Prime assets	4.25%	4.00-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	STABLE
Birmingham (NIY) (prime assets)	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	STABLE
Bristol (NIY) (prime assets)	4.25%	4.00-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	STABLE
Leeds (NIY) (prime assets)	4.75%-5.00%	4.50-4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	POSITIVE
Manchester (NIY) (prime assets)	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	STABLE
Secondary Regional Cities								
Prime assets	5.00%-5.50%	5.00%-5.50%	5.00%-5.25%	5.00%-5.25%	5.00%-5.25%	5.00%-5.25%	5.00%-5.25%	POSITIVE
Ground Rents								
10 Year RPI Uplifts	2.50%	2.50%	2.75%	2.75%	2.75%	2.75%	2.75%	STABLE
25 Year Doubling Reviews	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	SOFTENING
Bonds & Rates								
Libor 3 mth	0.50%	0.35%	0.33%	0.32%	0.30%	0.30%	0.28%	
Base rate	0.50%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	
5 year swap rates	0.63%	0.81%	0.79%	0.91%	0.79%	1.00%	0.85%	
10 yr gilts redemption yield	0.92%	1.14%	1.09%	1.22%	1.03%	1.35%	1.16%	

Based on rack rented properties and disregards bond type transactions. NIY - Where reported we have assumed an appropriate discount for operating costs. This yield guide is for indicative purposes only and was prepared on 9 August 2017. *Our PCL yield is based on tenanted blocks with a minimum of 6 units, covering locations such as Mayfair, Knightsbridge, Kensington etc, situated within Knight Frank's definition of Prime Central London. Yields in the PCL and Zone 1 Prime categories are reported gross in line with market practice and no allowance has been made for operating costs within this yield guide. Yields in the London and South East categories are reflective of income-focused transactions of institutional assets. Regional locations: We have provided an indication of yields in respect of a number of example locations, illustrating the spread of yields in this classification. These yields are reported in respect of institutional quality, stabilised assets.

Source: Knight Frank Capital Markets



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