

# Residential Investment Survey

2020

[knightfrank.com/research](https://knightfrank.com/research)



# £42 billion

Expected investment from our survey respondents into residential investments over the coming five years. This would represent a 68% increase on current capital committed, and demonstrates the growing confidence investors have in the UK's student, senior living and PRS markets.

# £151 billion

Total forecast size of the residential investment sector by 2025. Residential investment is still in its growth phase which represents a large and exciting opportunity for investors and developers.

## 5 KEY TAKEAWAYS

# 38%

Of survey respondents who will be invested across all three residential investment sectors by 2025, up from 13% currently suggesting that investors are happy to spread exposure across age groups. While there are differences in design and management requirements, there are synergies.

# 70%

Of survey respondents who expect residential investments will outperform all other real estate asset classes over the next five years highlighting the long-term investment opportunity afforded by the sector and favourable demographic and tenure shifts in play across the UK.

# London, Bristol, Birmingham, Manchester & Edinburgh

The three cities survey respondents believe will outperform the market over the next five years

# THE RESIDENTIAL INVESTMENT SURVEY

*Our survey of 40 leading investors, with a combined £62 billion already invested in student accommodation, PRS and senior living rental, signals further growth for the sectors.*

Investment into residential assets, incorporating purpose-built student accommodation, investment-grade and purpose-built rented accommodation (PRS) and senior living, has continued to increase, at a time when investment into some other asset classes has slowed.

This year may have presented investors with a new and unique set of challenges, with Covid-19 undoubtedly causing some short-term disruption across all real estate sectors. However, as the results of our survey of 40 leading investors who combined have committed more than £62 billion across residential investment markets shows, the appetite to increase exposure shows

no signs of slowing.

Indeed, as more than one respondent noted, the pandemic has "increased interest in all residential sectors", particularly given uncertainties surrounding other managed real estate.

The myriad reasons underpinning the outlook for investment into income-producing residential markets include a search for diversification, finding value in the granularity of occupiers that comes with individual units, as well as wider demographic and tenure shifts which are taking place across the UK.

Within the three sectors that make up residential investment, the fundamentals 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.

An analysis of each market is shown below, and the report also includes our forecasts for the extent of growth in all three sectors by 2025. Combined our survey respondents expect to have invested an additional £10 billion across sectors in 2021 and have earmarked £42 billion over the coming five years, a 68% increase on current capital committed.

The current crisis is expected to be a catalyst for this growth. Not only are existing players committing to investing more, but new entrants are also keen to increase their exposure.

## SIZE OF MARKETS

	STUDENT ACCOMMODATION	PRS	SENIOR LIVING
	Purpose-built student accommodation (PBSA), including university run and private student property	Large-scale investment-grade accommodation built specifically for rental, including new-build and "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	650,000	46,178*	5,130**
AS A % OF RELEVANT SECTOR	33%^	1.03%	2.9%~
% OF TOTAL HOUSING STOCK	-	0.2%	0.02%
ANTICIPATED INVESTMENT IN 2020	£5.5 BILLION	£4 BILLION	£300 MILLION

\*operational \*\*mostly pepper-potted ^of student market ^includes complete and under construction ~of private senior living stock

## CROSS-SECTOR INVESTMENT

The survey results makes clear that some investors who may only be active in one of the three sectors may become active in additional sectors by 2025. For example, some 13% of respondents currently invest across all three sectors, while in 2024 this will rise to 38%.

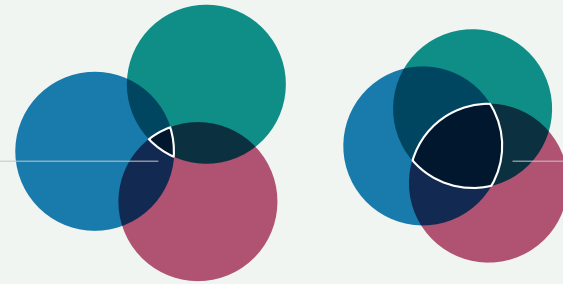
Some 47% of respondents are invested in two sectors today, and in five years' time this will rise to 68%.

This echoes our expectations for increased diversification within the residential investment market, with investors spreading their exposure across age groups. While there are significant differences in market drivers, there are also synergies - particularly with regards to construction and operations - which makes the decision to move across sectors more appealing.

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.

# 13%

% OF RESPONDENTS ACTIVE IN ALL THREE SECTORS NOW



# 38%

% OF RESPONDENTS WHO EXPECT TO BE ACTIVE ACROSS ALL THREE SECTORS IN 2025

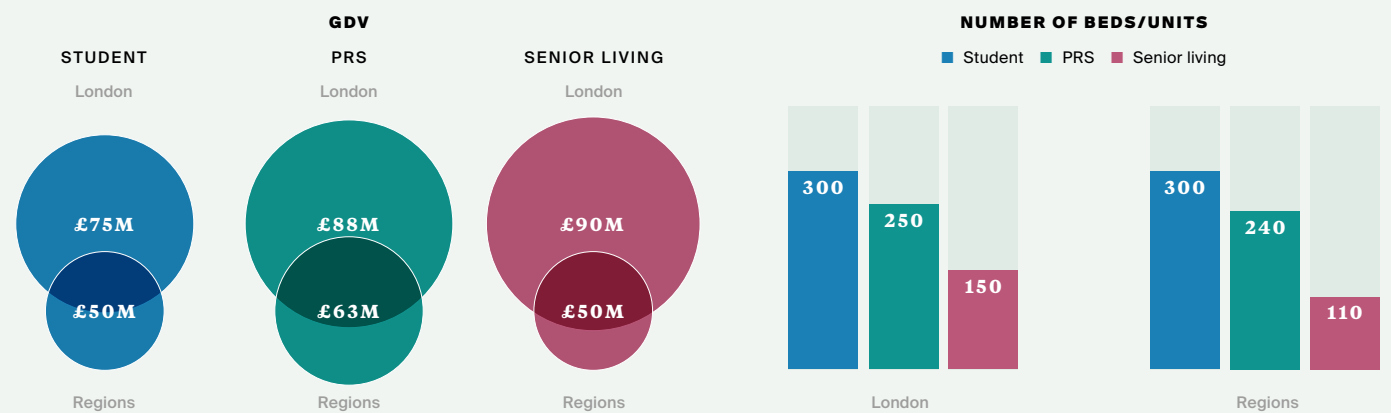
## ECONOMIES OF SCALE

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. It is worth noting that 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. However, there is a wider range of responses when it comes to the 'sweet spot' measured by the number of beds or units. Student schemes tend to be larger, on average, reflecting the fact that student schemes tend to have smaller units. PRS and senior living schemes will have larger units often alongside more amenity and care provision.

Scale will be a critical factor in the success of a number of investor's long-term strategies, with the pursuit of efficiencies of scale having significant potential to drive outperformance across a portfolio - particularly in an operationally intensive, low-margin / high-volume business.

### WHAT IS THE 'SWEET SPOT' FOR INVESTMENT?



## COMMENT

### STUDENT ACCOMMODATION



MERELINA SYKES  
JOINT HEAD OF STUDENT PROPERTY

The student accommodation sector is underpinned by highly attractive demographics and a demonstrable undersupply in some markets. This remains the case, in spite of the challenges presented this year. Transactions are still happening driven by existing consolidators but also from new entrants to the market. The results of our survey support this, with 70% of respondents who said they expect to be invested in student property in 2025 undeterred in their view, despite COVID.

Furthermore, applications for UK higher education are expected to increase next year, driven by increasing participation and absolute growth in the number of 18 year olds. Latest data from UCAS for October deadline courses indicates a 12% growth in applicants overall and 20% growth in international students for the 2021 academic year. On the supply-side we expect to see a healthy pipeline of new student schemes launch in time for the next academic cycle and for nominal rental growth to return to previous trends of approximately 2.5% per annum.

The positive response of PBSA operators to the pandemic has further exemplified the differences between the housing choices that are available to students and it is our expectation that a greater proportion will look to PBSA to meet their housing requirements in the future.

### PRS



NICK PLEYDELL-BOUVERIE  
HEAD OF RESIDENTIAL INVESTMENT AGENCY

The UK BTR sector has undergone a step change over the past year, with increasing numbers of schemes becoming fully stabilised, further proving income durability derived from the sector. This has been accentuated by the income performance of BTR through the Covid-19 lockdown period, which has outperformed almost all other real estate sectors.

As a result, we have seen a significant increase in the volume of capital seeking exposure to the sector, despite the wider macro-economic challenges. Key areas of focus for investors are now around aggregating to scale and re-evaluating existing stock, ESG credentials, designing in operational efficiency, durability and lifecycle costing of product, customer service and support, and flexible amenity provision. While short term operational challenges remain, there is a huge amount to be optimistic about for the BTR sector going forward.

The results of our investor survey demonstrate we are not alone in that view. We estimate that the current volume of capital committed to the market for professionally-managed rental accommodation in the UK to date is £41 billion. By 2025 we expect that figure will have risen to £75 billion.

### SENIOR LIVING



TOM SCAIFE  
HEAD OF SENIOR LIVING

Despite the nascency of the senior living rental market, the investment case remains compelling. The market is being driven by demographic change, senior's property wealth and incomes, a weight of capital seeking diversification of income, a huge demand and supply imbalance, and price growth for well-designed purpose built seniors housing.

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. The number of private senior living rental properties in the UK is forecast to increase by 160% over this time, from almost 5,000 currently to more than 13,000 by 2024. Activity is currently focussed on larger schemes in urban locations. Good customer experience and a high level of service will be at the core of all business plans.

The Covid-19 pandemic is expected to speed up existing trends in the sector including a more rapid take-up of the 'one move solution' with increasing service and care being delivered into rental propositions. A rental apartment or care suite can also provide increased tenant choice better suited to customers' financial profile and preference.

# LOOKING TO THE FUTURE

What do our survey respondents think will happen in the next five years?

44%

% of survey respondents who think residential investment sectors will outperform ALL other real estate sectors in 2021

70%

% of survey respondents who think residential investment sectors will outperform ALL other real estate sectors over the next FIVE years

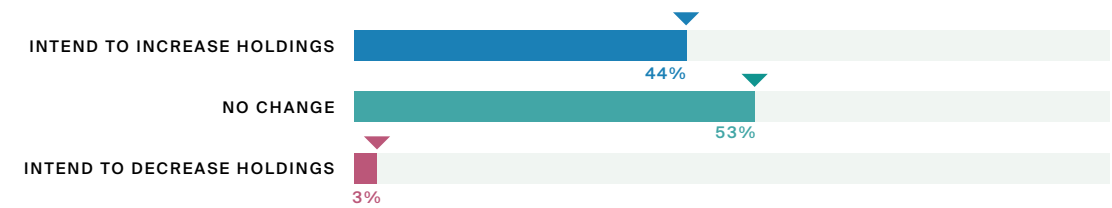
The survey respondents identified the cities where they saw the biggest opportunities in each sector. When examining the top three cities in each market, London, Bristol and Edinburgh emerge as opportunity areas across all three sectors. This suggests an overlap of the different

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 a lack of senior living units.

When asked whether the residential investment sector will outperform all

other real estate sectors in 2021, 44% of respondents said yes. This rises to 70% who think residential investments will be the top performer over the next five years, highlighting the long-term opportunity afforded by the sector underpinned by favourable demographic and tenure shifts.

## HOW WILL YOUR FIRM'S INVESTMENT PORTFOLIO EXPOSURE TO RESIDENTIAL INVESTMENT CHANGE OVER THE NEXT FIVE YEARS?



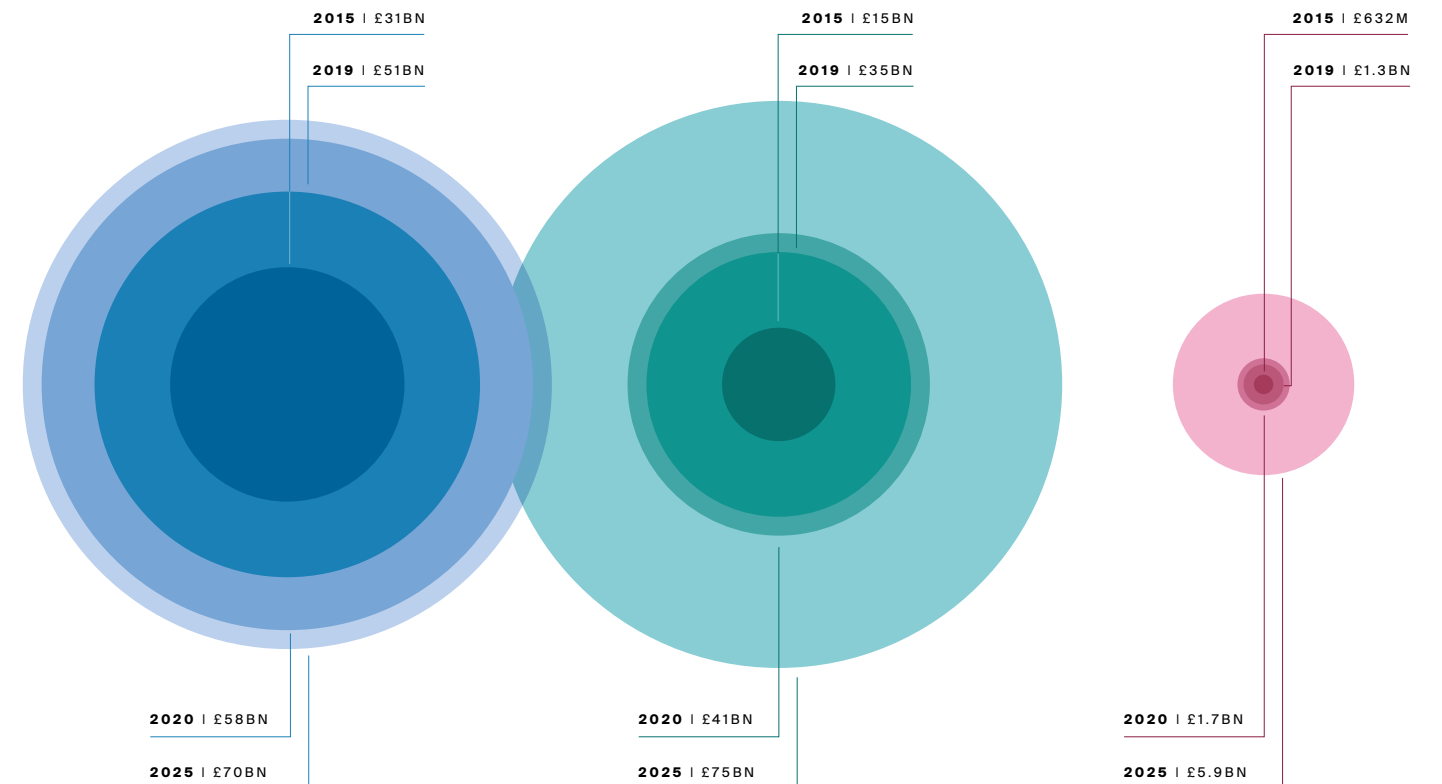
## TOTAL RESIDENTIAL INVESTMENT

Knight Frank forecasts

### STUDENT ACCOMMODATION

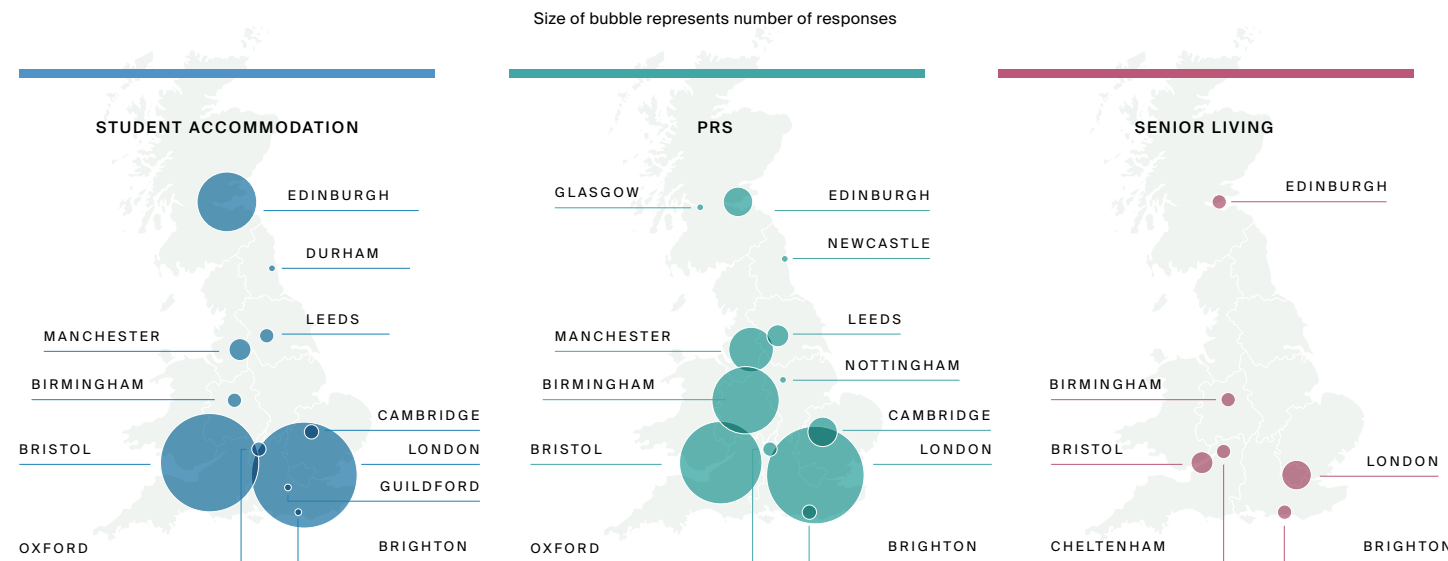
### PRS

### SENIOR LIVING



## WHICH CITIES WILL OUTPERFORM THE MARKET IN YOUR SECTOR? NEXT FIVE YEARS

Size of bubble represents number of responses



### TOP 5 CITIES FOR EXPECTED OUTPERFORMANCE

all sectors

- 1 | LONDON
- 2 | BRISTOL
- 3 | EDINBURGH
- 4 | BIRMINGHAM
- 5 | MANCHESTER

---

**Please get in touch with us**

---

## Research



**Oliver Knight**

Partner, Head of Residential Development Research

+44 20 7861 5134

Oliver.knight@knightfrank.com



**Matt Bowen**

Head of Residential Investment Research

+44 117 945 2641

Matthew.Bowen@knightfrank.com

## Residential Investment



**James Mannix**

Head of Development and Residential Investment

+44 20 7861 5412

James.mannix@knightfrank.com



**Merelina Sykes**

Joint Head of Student Property

+44 20 7861 5425

Merelina.sykes@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

---

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



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. Important Notice: © Knight Frank LLP 2020 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.