UK BTR market update

Q1 2025

Knight Frank's quarterly review of the key investment themes in the UK Build to Rent (BTR) market covering co-living, multifamily (MFH) and single family housing (SFH)

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Strong Q1 for investment positions the market well for 2025

BTR investment

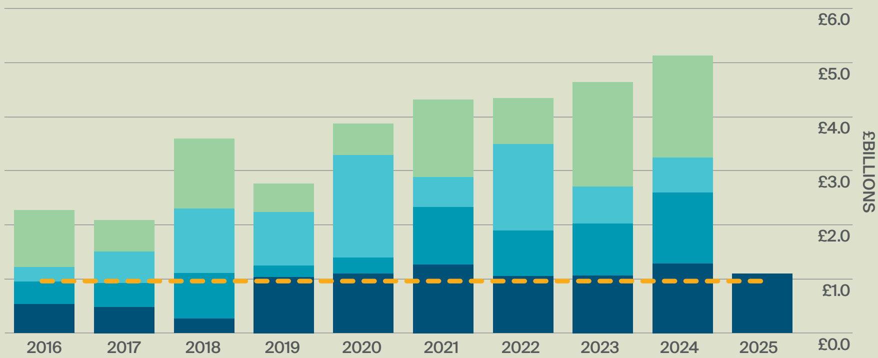
More than £1.1 billion was invested in the UK BTR market over the first three months of 2025, the seventh consecutive year that first quarter investment has topped £1 billion. Investment was slightly down on the same period of 2024 but remained in line with the long-term average for the quarter. In total, 18 deals were completed. Robust investment and activity levels suggest the sector continues to weather broader market volatility and positions it well to build on last year's record spend. As has been the case in previous quarters, Single Family Housing (SFH) performed strongly, accounting for 50% of the total number of deals completed. Momentum looks set to continue into 2025. Knight Frank alone is currently advising on a further £1.7 billion of assets that are likely to trade this year.

Shifting deal structures

Funding new development remains the primary route to market for investors, accounting for 72% of deals in Q1. Acquisitions of stabilised schemes also remain an important part of the market following a strong 2024, accounting for 11% of activity in Q1 as some early investors continue to come to the end of hold periods and look to recycle capital. Joint ventures accounted for 17% of activity, with the ability to share risk attractive in the current environment given elevated debt and construction costs, while the continued appetite for SFH means forward commits accounted for a sizable share of deals. With the funding market remaining challenging, and no shortage of investor demand to deliver new homes for rent, investors will look at all routes to access the market.

Fig 1: Total UK BTR investment volumes

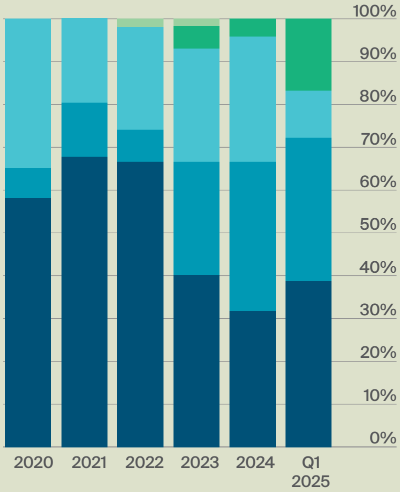
£ billions



Source: Knight Frank Research

Fig 2: Shifting in deal structures

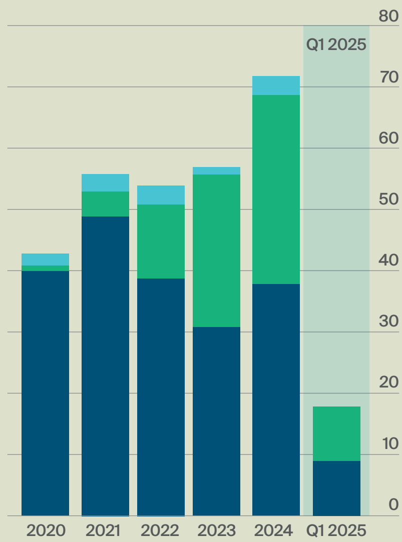
% of total deals by type



Source: Knight Frank Research

Fig 3: BTR investment by sub-sector

Number of deals



Source: Knight Frank Research

Strong liquidity and lower margins

Interest rates have stabilised although they remain stubbornly high. Despite this, strong appetite to fund residential rental product means we are seeing peak liquidity in the debt market, which is driving down margins, resulting in a lower all-in cost of debt. Both the banks and debt funds are keen to deploy – and many have significant lending targets for 2025. Given this demand, banks have been willing to push leverage, with more prepared to offer 60% loan-to-value. Competition from lenders is also leading to more innovative funding structures emerging that better align with investor requirements. However, the outlook is marred by uncertainty as the global economy digests the impact of US tariffs on growth. As concerns of slower growth increase, it means bets have also risen that the Bank of England will cut rates faster this year to support the economy. The SONIA forward curve confirms financial markets are expecting a gradual decrease in the cost of debt as the year progresses. This has the potential to shift the investment landscape, opening opportunities for new funding deals.

Return to core

While it has eased, the higher cost of debt has been a barrier for core capital in the market. As the debt landscape improves, we expect to see more core and core+ money coming back to the market in 2025. Nearly 70% of respondents to our survey of 60 of the largest investors across the UK Living Sectors confirmed their intention to invest more in core and core+ strategies over the coming 12 months. The risk appetite of such investors remains narrow, with SFH and low-rise multifamily assets most in demand. Our survey findings align with this, with investors flagging SFH as the biggest growth area over the coming five years, followed by co-living, and alongside a continued commitment to multifamily.

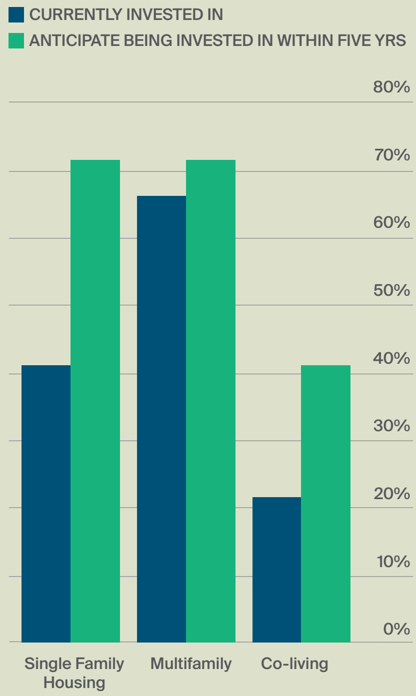
Fewer first-time buyers in urban markets

The number of new first-time buyer mortgages issued across the UK fell to its lowest level in a decade in 2023, according to the ONS, with the biggest falls occurring in urban areas. All local authorities in London registered a drop in first-time buyer mortgages per 1,000 dwellings between 2013 and 2023. Similar trends were seen in other major cities across the UK, with the rate of first-time buyer mortgages falling or growing more slowly than surrounding areas. In Manchester, for example, FTB mortgages per 1,000 dwellings fell 16.9% between 2013 and 2023, while they were down by 12.7% in Birmingham and by 3.2% in Leeds. The decline in first-time buyer activity within certain urban centres has significant implications for local rental markets. With fewer households transitioning to homeownership, demand for rental properties has intensified, driving competition and sustaining upward pressure on rents. This shift has further bolstered the BTR sector, as institutional investors and developers respond to the growing need for high-quality, professionally managed rental housing.

> "The number of new first-time buyer mortgages issued across the UK fell to its lowest level in a decade in 2023, according to the ONS, with the biggest falls occurring in urban areas."

Fig 4: Which sectors are you active in currently and which do you anticipate being active in within five years

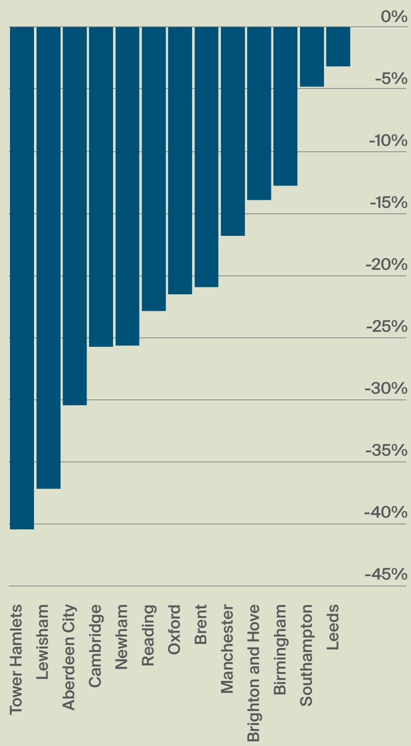
% of respondents



Source: Knight Frank NextGen Living Investor Survey 2025

Fig 5: Urban markets see drop in FTB numbers

Change in FTB mortgage sales per 1,000 dwellings, 2013 v 2023



Source: Knight Frank Research, ONS

130,000 complete BTR homes but pipeline shrinks

There are now over 130,000 completed BTR homes in the UK, with a further 56,357 under construction and 108,757 with full planning permission. In total, there are 295,617 BTR homes either completed or in the pipeline. Operational stock has increased by 19% over the last 12 months, led by London, Birmingham and Manchester. Outside of these core cities, BTR has continued to increase its geographical presence around the UK, with 29 new local authorities adding a complete BTR scheme to supply over that time. Analysis of expected completion dates for schemes currently under construction suggests completions will end 2025 in line with 2024, but they will probably start to decline in 2026, as developers across the residential market grapple with viability challenges and cost and regulatory pressures, particularly for urban developments. Only 28 of the 271 BTR sites currently under construction are due to complete in 2027 and just a handful of the current projects are set to run past 2028.

Building out not up

Of the homes currently being built, just over 40,000 are on multifamily schemes, 20% lower than at the same point last year. Meanwhile, the number of SFH homes under construction in Q1 has increased 29% YoY. However, as build and financing costs ease, there is optimism that more of the homes at permission stage will come forward as new starts on site in 2025, supporting future delivery. That said, challenges remain. Schemes subject to the Building Safety Act, for example, are experiencing elongated delivery timelines due to new approval gateways and capacity constraints at the Building Safety Regulator.

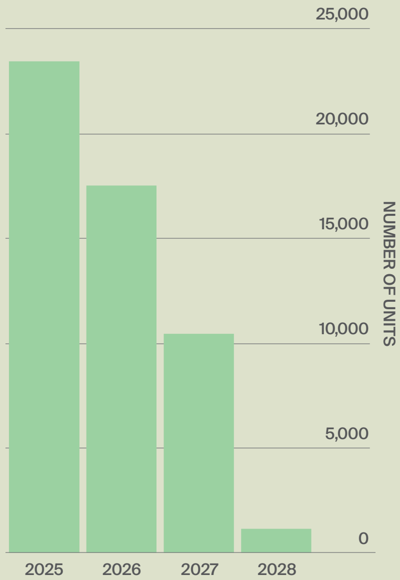
Policy to help unlock the pipeline

Development viability and the cost of finance have been two constraints on further growth in the sector over the last few years, according to the results of our NextGen Living survey. The reopening of the Private Rented Sector Guarantee Scheme , which provides government-backed loans, is welcome news for the industry and will help unlock some of the significant pipeline of multifamily consents. Nearly £2 billion has been made available through the scheme, which our analysis suggests could support the delivery of more than 13,000 new BTR homes – or around 12% of the total number of currently consented BTR homes. Under the previous scheme, which ran from 2015 to 2023, more than £1.5 billion in loans were administered with an average size of £42.6 million.

"The number of new first-time buyer mortgages issued across the UK fell to its lowest level in a decade in 2023."

Fig 7: Diminishing pipeline

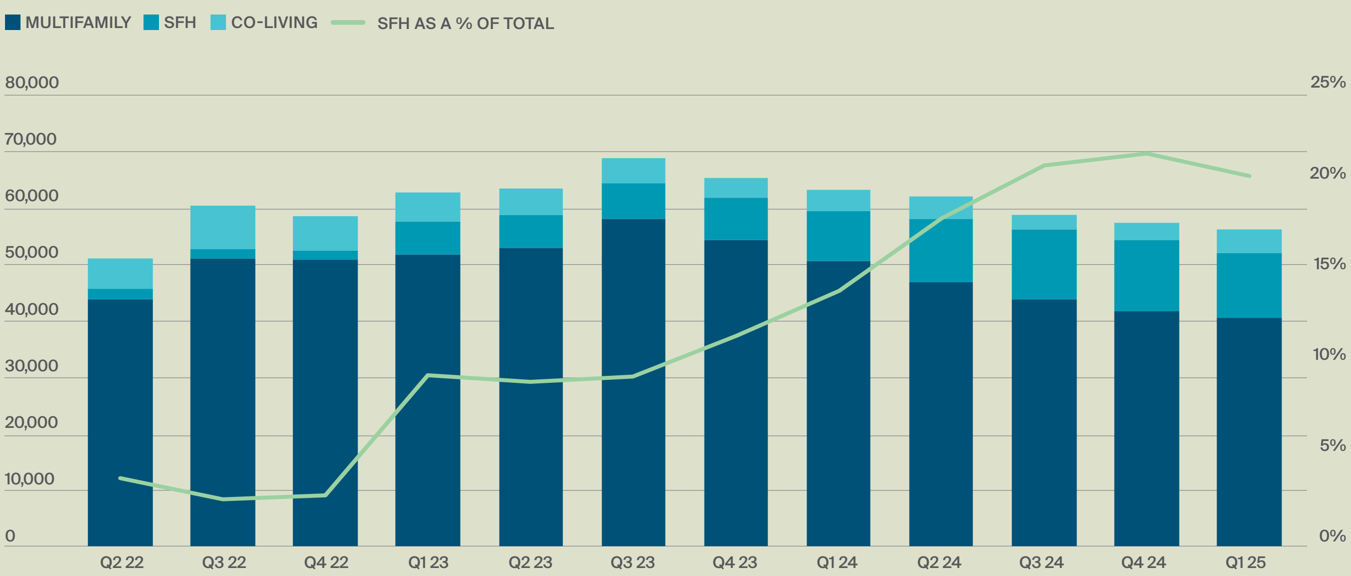
Expected annual BTR completions by year



Source: Knight Frank Research

Fig 6: SFH taking a bigger share of BTR homes being built

Total number of units under construction



Source: Knight Frank Research

What does scale look like?

Just 2% of PRS homes are held by institutions, with the remaining 98% in the hands of private buy to let investors. These statistics confirm the huge headroom for growth across the BTR market from the perspective of supply. Our expectation is that the BTR sector has the potential to account for at least 30% of all privately renting households across the UK at maturity. Based on current population and tenure distribution figures, that equates to the ability for the market to absorb 1.9 million purpose-built rental homes. Thanks to the larger volume of renters currently living in suburban locations, our expectation is that SFH could overtake MFH, with potential for more than 1 million SFH units and nearly 850,000 multifamily apartments, including co-living. Over time, the market potential will increase in line with population growth and shifts in tenure distribution.

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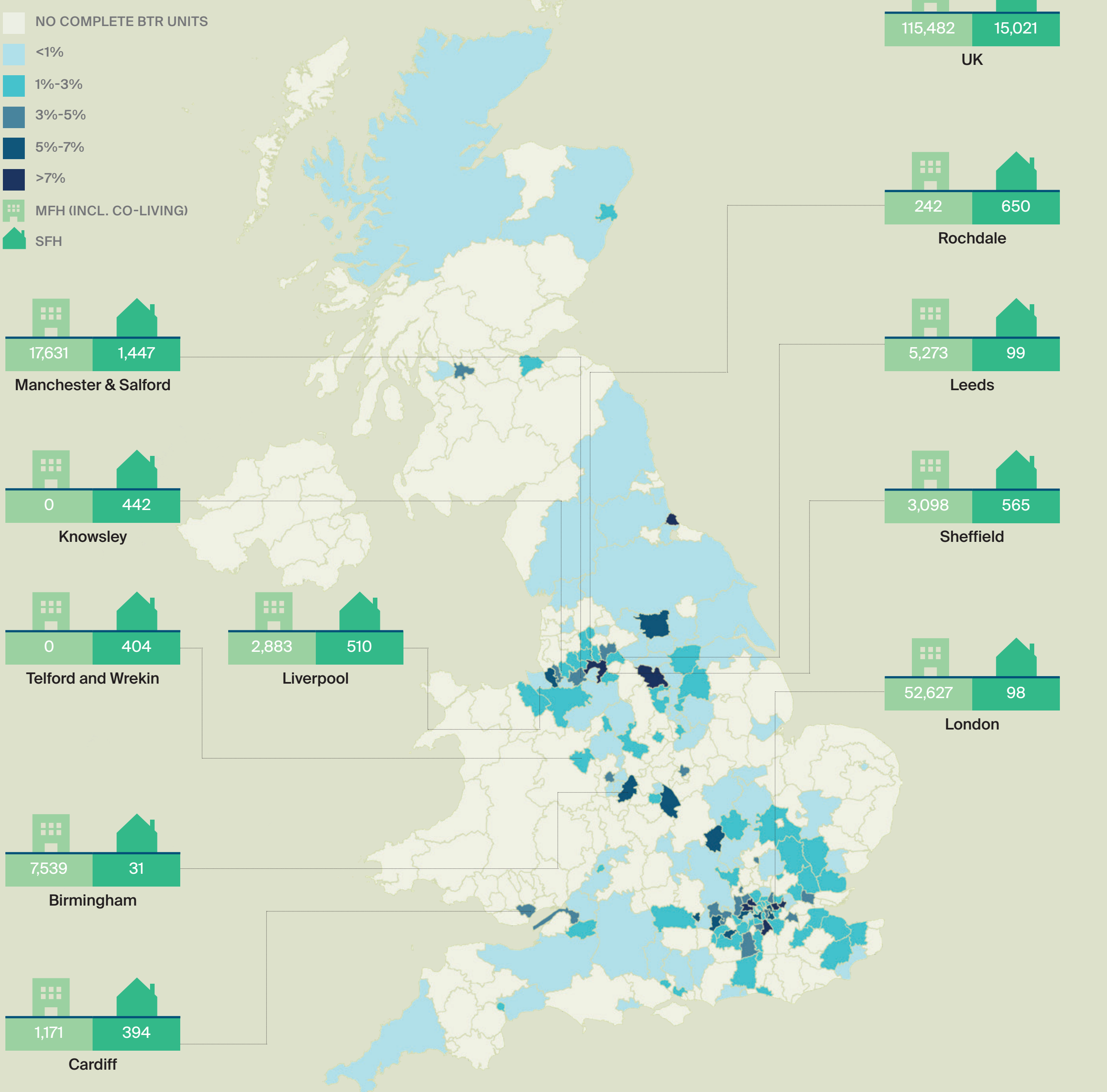
Fig 8: BTR market penetration rate

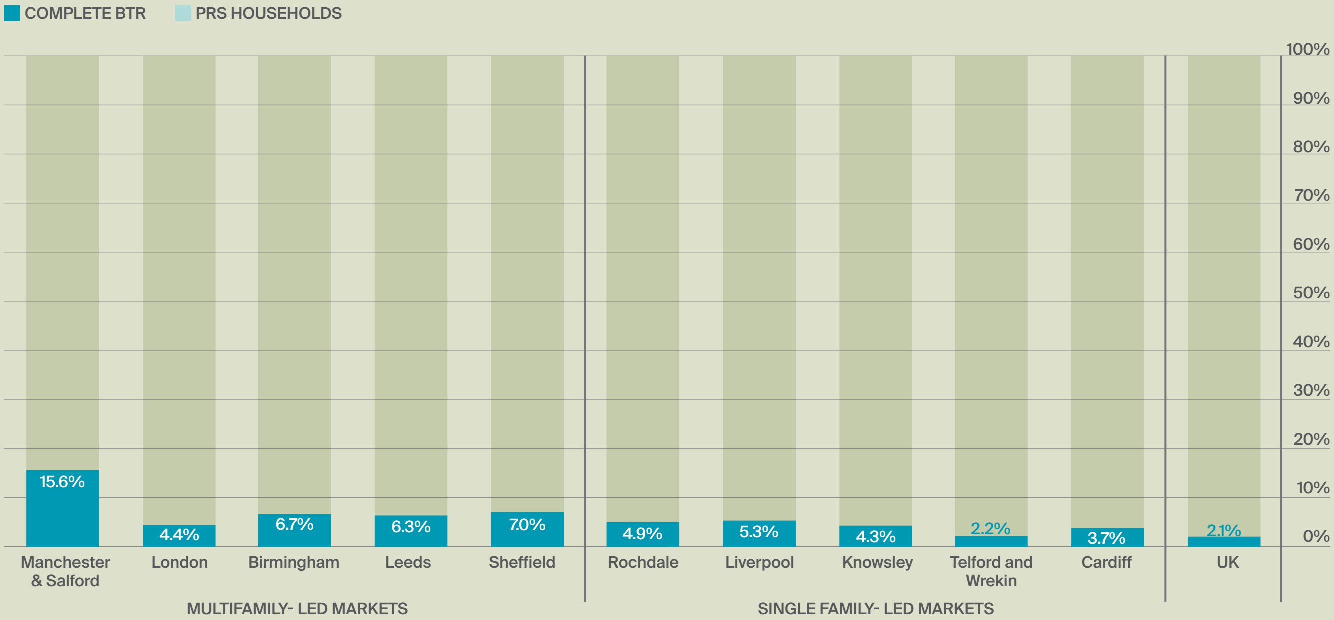
Local authorities



Source: Knight Frank Research

Fig 9: Market penetration rates remain low across BTR and SFH-led locations

BTR supply as % of PRS market



Source: Knight Frank Research

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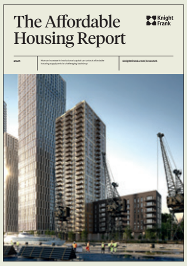

The Affordable Housing Report 2024

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