UK BTR market update

Q2 2024

Knight Frank's quarterly review of the key investment themes in the UK Build to Rent (BTR) market

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Strong H1 for investment supported by ongoing investor demand for single family housing

Investment volumes

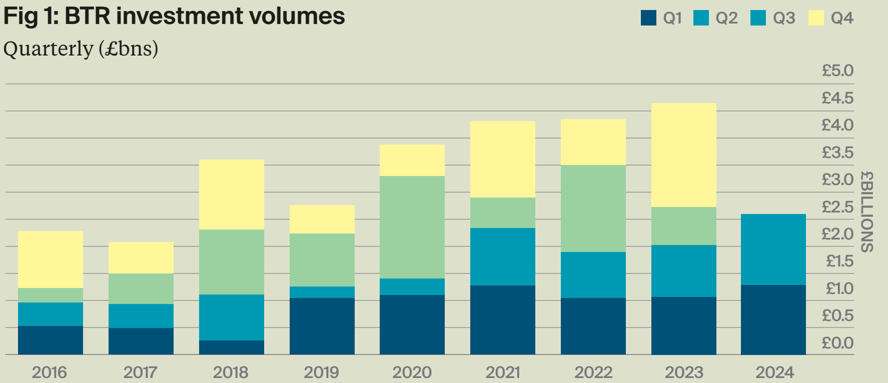
Investment in the UK Build to Rent sector topped £1.3 billion in the second quarter of 2024, up 38% year-on-year. It takes year to date investment for H1 to just over £2.6 billion, surpassing the previous H1 high of £2.3 billion in 2021. Robust investment volumes have come despite an ongoing challenging investment backdrop which have prolonged deal times. Second quarter investment was also boosted by Vistry's £580 million sale of 1,750 single family homes (SFH) to Blackstone-backed operator Leaf Living. Excluding that transaction, the average value of deals which have closed in Q2 has been £43.7 million, down from nearly £70 million at the same point last year. A smaller average lot size reflects greater liquidity for smaller deals while debt costs remain elevated.

Single family housing continues to lead

Smaller lot sizes also reflect the fact that investors continued to up their exposure to different sub-sectors within BTR over the course of the quarter, with SFH representing 56% of total investment by value in Q2. This was in large part accounted for by the Vistry/Blackstone deal but also included several smaller transactions. Currently, there are just over 12,000 completed SFH homes across the UK. By 2026, we anticipate complete SFH supply will have more than doubled to just shy of 23,000 homes. As investment into different sub-sectors within BTR grows, including SFH and co-living, they will take an increasing share of total delivery which is currently strongly weighted towards multifamily stock. Based on our analysis of the existing pipeline, multifamily as percentage of total BTR supply is expected to stand at 80% by 2026, down from 84% currently and from 94% in 2017.

Fig 1: BTR investment volumes

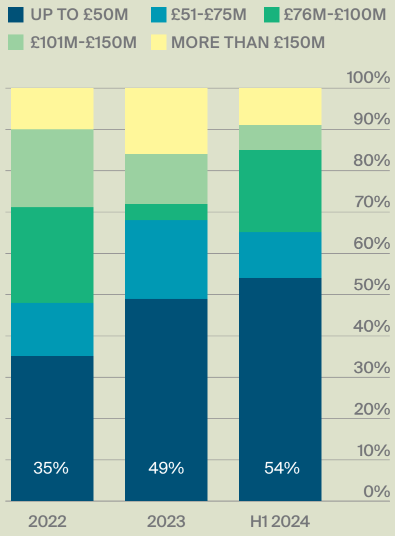
Quarterly (£bns)



Source: Knight Frank Research

Fig 2: Greater liquidity for smaller deals

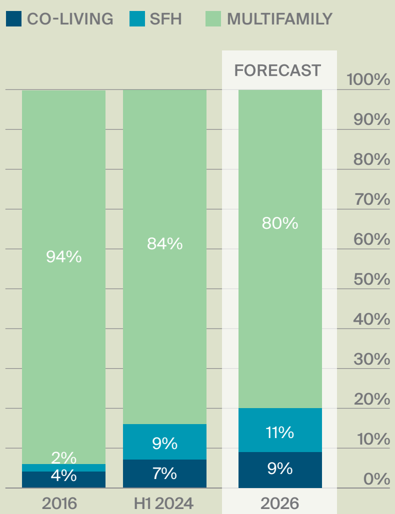
Number of UK BTR deals by price band, as a % of total



Source: Knight Frank Research

Fig 3: Diversification of BTR supply

Complete homes as a % of total supply by sub-sector



Source: Knight Frank Research

Note: 2026 figures are based on the current pipeline of units that are due to complete by 2026

A brighter economic backdrop

Inflation continued its downward trend in May, dropping to 2% from 2.3% the previous month. It marked the first time in three years that consumer price inflation was within the Bank of England's 2% target, according to the ONS. Labour market conditions also look to be loosening, which should give the Bank of England Monetary Policy Committee more confidence to cut the base rate, in line with similar moves by the ECB and the Bank of Canada, which have already begun lowering interest rates. Financial markets are betting on two cuts of 0.25% by December. As the cost of debt comes down, transactional activity levels will pick up further as sentiment improves and more forward funding opportunities emerge.

On track for record completions

There are currently 114,207 completed BTR homes across the UK in schemes with at least 75 units. A further 62,030 are under construction and 84,607 have full planning permission granted, taking the total size of the sector to 260,844 homes. Notably, more than 11,000 new BTR homes have been completed so far this year. Should delivery continue at this pace for the second half it will be a record-breaking year for BTR delivery. What is encouraging is the number of homes at construction and permission stage which have the potential to support starts and completions for the remainder of this year and beyond. It also means that BTR homes are likely to make up a growing segment of overall housing delivery. Already they have climbed from less than 1% of net additional dwellings a decade ago to 7.6% in 2022/23. Based on analysis of EPC data for new homes, BTR completions so far this year have accounted for 9% of all new housing delivery. Proposals from the new Labour government in relation to planning and housing also have the potential to support new supply. Plans to restore mandatory housebuilding targets, additional resourcing for the planning system, prioritising brownfield and greybelt land for development and a focus on delivering infrastructure should help unlock new and existing sites, notwithstanding the ongoing challenges around higher construction and borrowing costs.

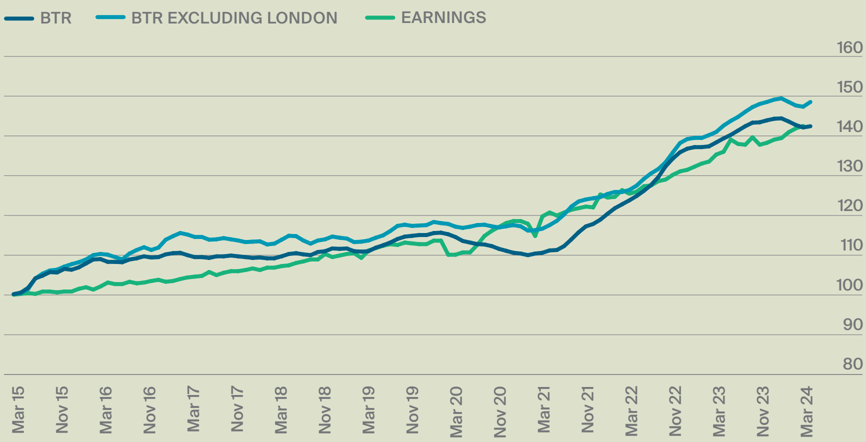
Size of market

Based on our analysis of current operational BTR stock, and stock under construction, we estimate that the value of the market for professionally managed rental accommodation in the UK is £79 billion, more than doubling from £35 billion in 2019. Looking at the pipeline of future development, we believe this figure has the potential to increase to £127 billion by 2029.

Rental growth cools...

Annual BTR asking rents outside of London rose by 4.2% in the year to May 2024, according to the Knight Frank BTR Rental Index, continuing an easing in rental inflation from the record highs of the last few years. The data points to a return to more sustainable levels of rental growth following recent double-digit increases. A slowdown in rental inflation has been led by the top end of the market, and in areas where affordability is more stretched. Schemes targeting the mid and core markets have tended to outperform.

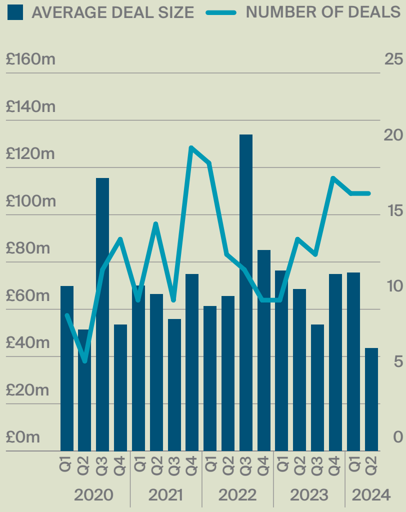
Fig 4: BTR rental growth



Source: Knight Frank Research, ONS

Fig 5: More deals, smaller deals

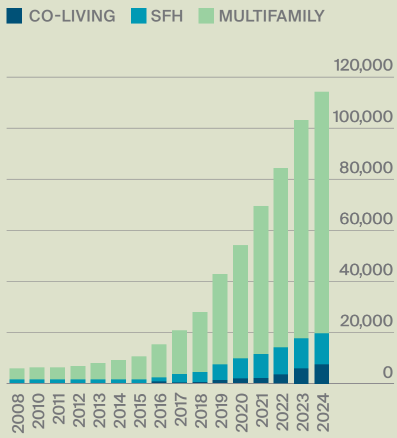
Average BTR transaction value and number of deals



Source: Knight Frank Research
Note: Excludes transactions of £300m and above

Fig 6: Cumulative BTR supply

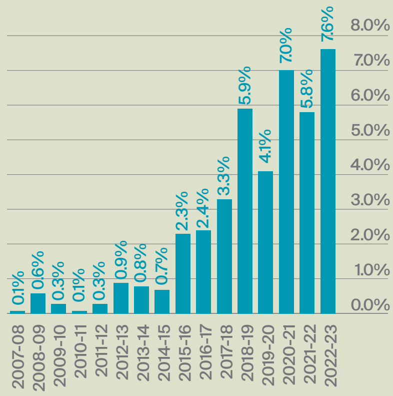
# of complete units (000s)



Source: Knight Frank Research

Fig 7: BTR taking a bigger share of overall housing supply

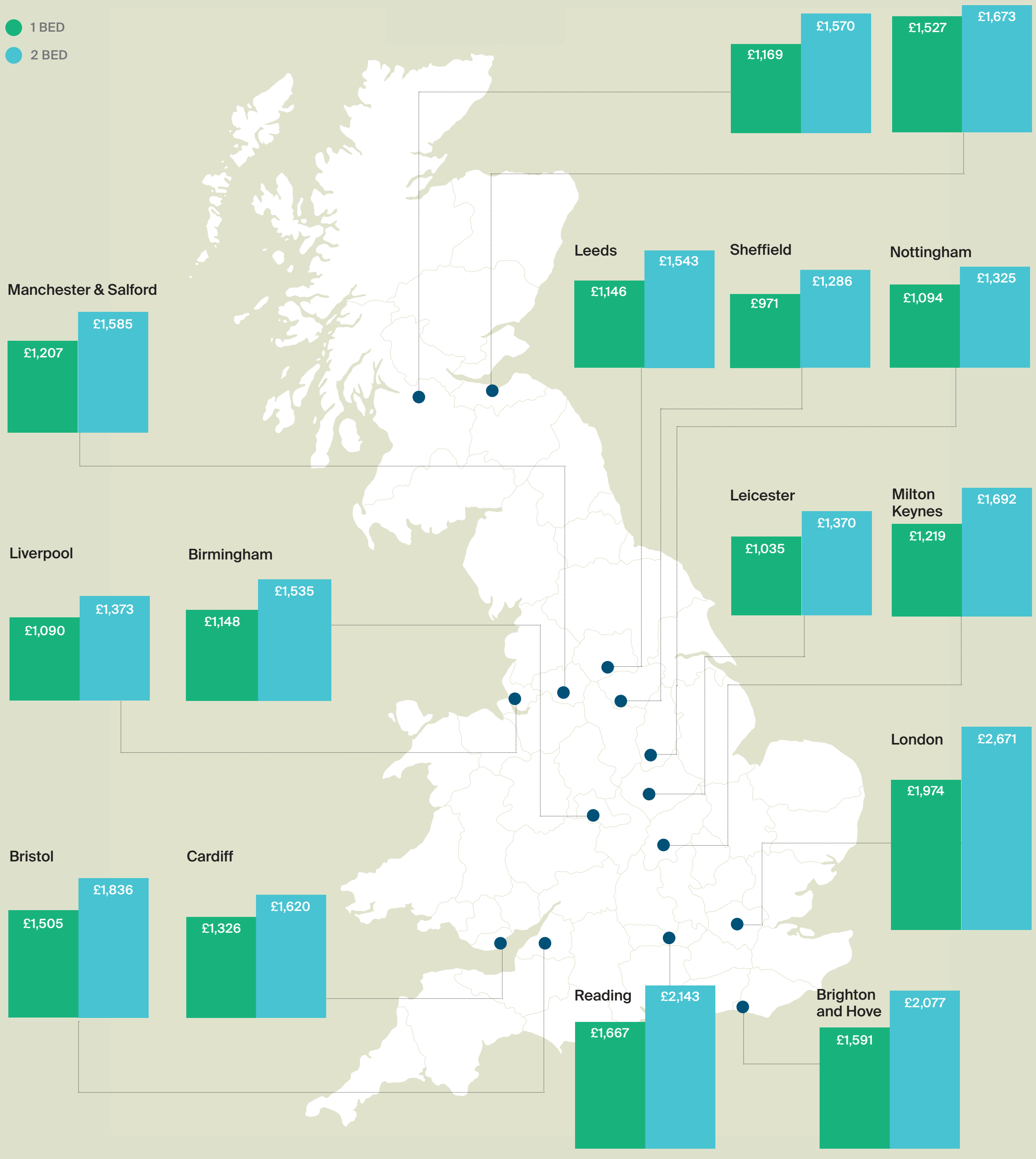
BTR supply as a % of total net additional dwellings, England



Source: Knight Frank Research

Headline changes in asking rents have dipped below wage inflation which should ease affordability pressures and create headroom for further rental growth in the near term, as well as supporting occupancy. This, combined with the ongoing imbalance between rental supply and demand, supports our view that rents will continue to increase, albeit at a more measured pace than that seen in recent years. Oxford Economics has recently upped its medium term forecasts for wage growth over the next five years from 15.8% to 16.4%.

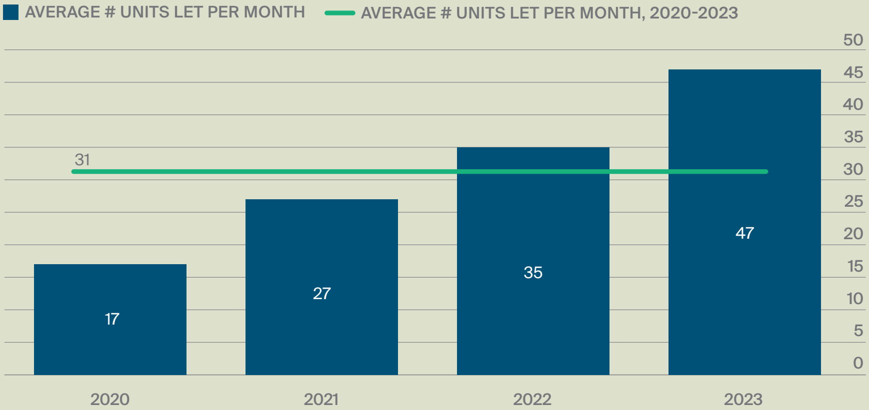
Fig 8: Average BTR asking rents
12 months to end of June 2024, by bedroom



Source: Knight Frank Research

Fig 9: Lease up rates point to strong demand

Average number of units let per month in BTR schemes that completed since 2020



Note: this analysis is based on lease-up rates for 100 multifamily schemes and seven co-living schemes that have completed in the UK since 2019. Schemes are considered stabilised once they are 95% let.
Source: Knight Frank Research

> "While rental inflation is cooling, the imbalance between supply and demand in the rental sector means lease up of new schemes remains strong."

...but demand is still strong

While rental inflation is cooling, the imbalance between supply and demand in the rental sector means lease up of new schemes remains strong. Our analysis of more than 100 stabilised BTR schemes shows that, since 2019, BTR schemes in the UK have been leasing up at a faster rate, from an average of 17 units let per month for schemes which completed in 2020 to an average of 47 units let per month for schemes launched in 2023. Lease up is expected to remain strong this year particularly as we head into the traditionally busier months for rental demand between May and September.

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The Co-Living Report 2024

UK Student Market Update Q4 2023

The Affordable Housing Report 2024

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