

UK BTR market update

Q4 2023

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

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► Investment levels hit a new record last year, despite a volatile economic backdrop, boosted by an exceptionally strong final quarter. Single-family housing drove the market to new heights, with the push into suburban rental leading to a surge in regional transactions.

BTR investment hits record high

In 2023, investment in UK Build to Rent (BTR) reached £4.6 billion, a record high. Full year investment was boosted by activity in the final quarter, when £1.9 billion transacted, the strongest-ever quarter for the sector. BTR benefitted from a surge in Single Family Housing (SFH) investment to a record £1.9 billion in 2023, which offset a drop in multifamily investment, meaning the subsector represented just over 40% of total volumes last year. The boost from SFH meant BTR investment surpassed the student sector for the first time since 2018.

Momentum looks set to continue into 2024, with our agency and valuation teams tracking a further £1.1 billion of transactions that are under offer or due to complete across the whole BTR market, including SFH and co-living in early 2024.

SFH takes bigger share

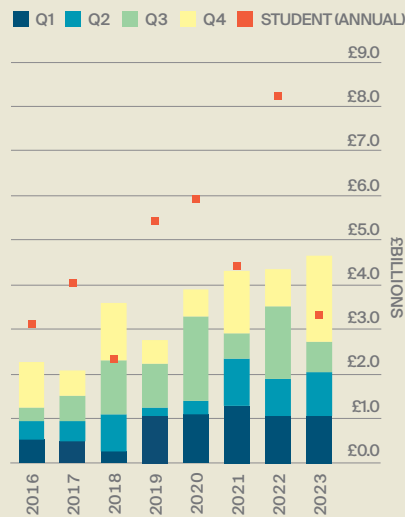
Investment in SFH jumped significantly in 2023, rising fivefold from £388 million in 2022 to £1.9 billion. Some £1.1 billion was invested in SFH in the final quarter alone, representing over half of all BTR investment over the three month period. This was in large part accounted for by Vistry's substantial sale of over 1,500 private single family homes to Blackstone-backed operator Leaf Living. This came after the housebuilder set out plans in September to fold its housebuilding operations into its partnerships business to allow a greater focus on forward sales. Even without the Vistry sale, SFH saw a strong uptick in investment throughout 2023, accounting for just over 40% all BTR investment over the course of the year, up from 7% in 2021.

Economic challenges remain but are easing

In October, financial markets were pricing in a single interest rate cut of 0.25% by the end of 2024. They are currently expecting four. A more positive economic outlook has created more clarity over pricing and should give investors confidence to deploy more capital this year. Notwithstanding elections and geopolitical tensions, we should see further falls in inflation in the UK over the course of 2024. Although inflationary pressure is still evident in some parts, wage growth is slowing which should reassure the Bank of England that higher interest rates are working their way through the economy, reinforcing expectations that they will begin cutting borrowing costs later this year. Indeed, Capital Economics currently expect the UK base rate will end 2025 at 3.0%. That said, in this economic climate, forward commit deals and joint ventures continue to rise in popularity as investors seek to defer costs and share risk.

Fig 1: BTR outpaces Student in record-breaking year

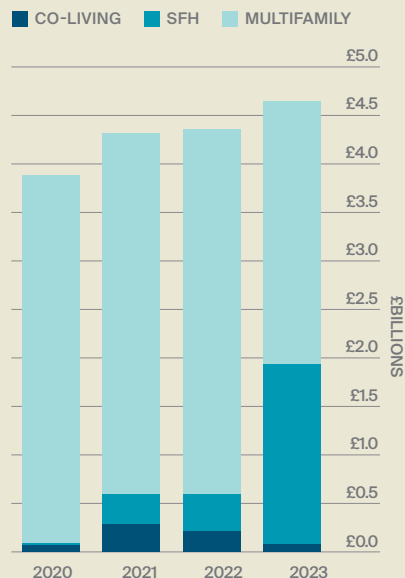
UK investment volumes



Source: Knight Frank Research

Fig 2: Surge in SFH investment

UK BTR investment by sub-sector



Source: Knight Frank Research

North American and APAC investment picks up

Rising investment levels from North America and Asia Pacific, as well as growing domestic investment, boosted the market last year. The proportion of investment from all three has grown since 2020-2022, with UK investors making up 53% of the market in 2023, followed by North America (38%) and Asia Pacific (7%). To this end, a notable transaction in Q4 was the sale of The Lark in Battersea by Knight Frank's investment team to new US entrant Pembroke – the first purpose-built operational multifamily scheme to trade in central London and the largest operational multifamily deal of 2023. In contrast, investment levels from Europe have shrunk from just over a fifth in 2020-2022 down to 1% last year due to challenging market conditions, higher financing costs and increased hedging costs. The majority of capital invested in 2023 was private equity (36%), followed by pensions funds (22%).

Regional deals dominate

Unsurprisingly, given the push into SFH, the regions accounted for 77% of all investment into UK BTR last year, with London taking the remaining 23%. This is a notable shift compared to previous years. In 2022, investment into London BTR represented 42% of the market. Excluding SFH, in 2023 the spread of investment was more even with London accounting for 38% of investment.

Yields level out

BTR yields, having softened throughout 2023, will be more stable this year. Notwithstanding further geopolitical shocks, the broader economic recovery and easing in finance costs will provide greater pricing certainty. Increased transactional evidence through Q4 has given investors greater confidence on pricing metrics and yield positioning which will further facilitate investment. More forward funding and developer JV opportunities should also emerge as construction cost hikes level off, contractor competition increases and inflation recedes.

Rental growth cools

Strong rental growth in BTR in recent years has been underpinned by a structural undersupply of rental housing, as well as a competitive jobs market, high immigration and rising mortgage costs. Annual BTR rents rose by 5.5% in the year to November 2023, according to the Knight Frank BTR Rental Index. Year-on-year rental growth remains historically high compared to the pre-pandemic years, but has cooled since the rental boom towards the end of 2021. We expect BTR rental growth will remain positive this year but at slightly lower levels than we have seen in the recent past in line with slower (but still strong) employment growth and as wage inflation comes down from recent peaks. Yet, despite an easing in the conditions which underpinned a period of exceptionally strong rental growth across the UK, an fundamental lack of supply will keep BTR rents rising in 2024 at a level above the long-term average.

Fig 3: Rise in Asia Pacific and North American investors

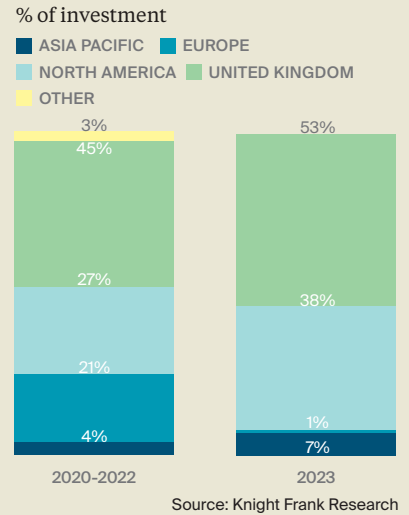


Fig 4: SFH boosts regional investment

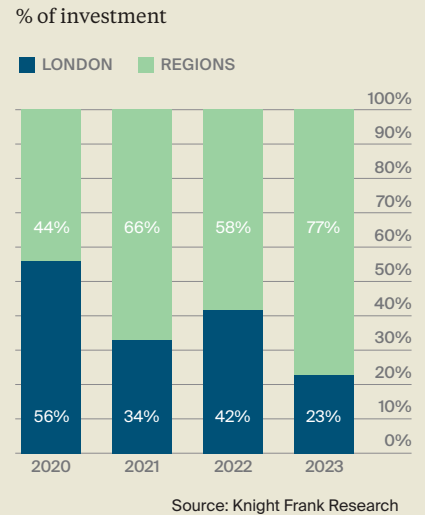


Fig 5: BTR yields stabilise

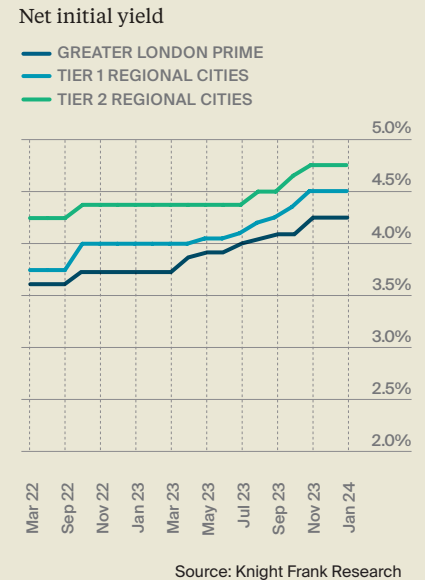
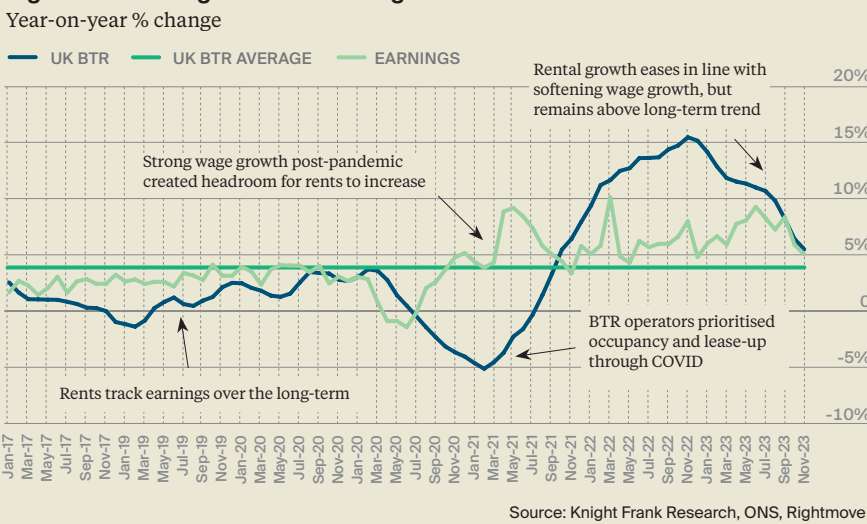


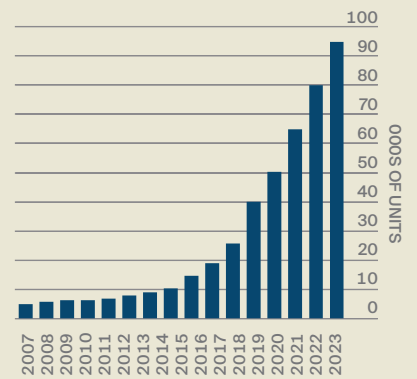
Fig 6: BTR rental growth above long-term trend



BTR supply continues to steadily rise

There are currently almost 100,000 completed BTR homes across the UK, up 19% on the previous year. A further 67,000 are under construction and 77,000 have full planning permission granted, taking the total size of the sector to 244,000 homes. Within this total figure, the SFH and co-living markets account for 24,000 and 18,000 complete and pipeline homes respectively. The continued growth of the BTR sector has come despite elevated build and financing costs and changing regulation around second stair cores which has impacted the viability of some schemes. An expected easing in build cost inflation should support delivery in 2024 and beyond. That said, BTR still remains a small fraction of the overall UK rental market, with completed BTR homes accounting for just 1.8% of total privately renting households.

Fig 7: Cumulative UK BTR supply
complete units (000's)



Source: Knight Frank Research

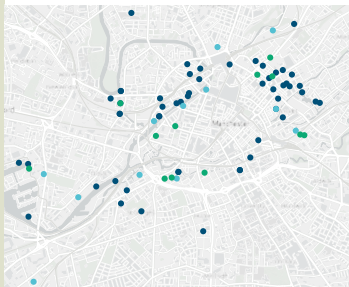
Fig 8: UK BTR supply

By status

- COMPLETE
- UNDER CONSTRUCTION
- PLANNING GRANTED

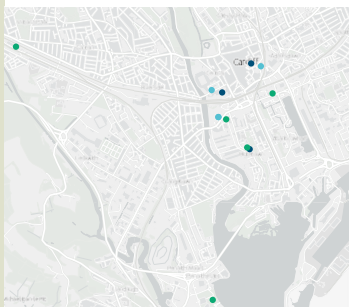
Manchester & Salford

● 15,673 ● 5,406 ● 5,614



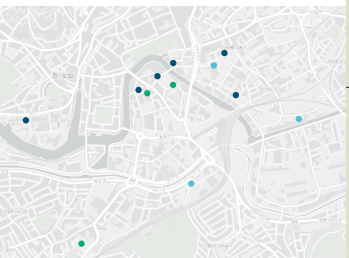
Cardiff

● 676 ● 1,882 ● 1,354



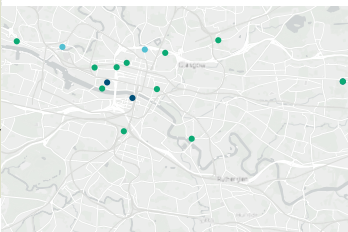
Bristol

● 1,521 ● 1,164 ● 932



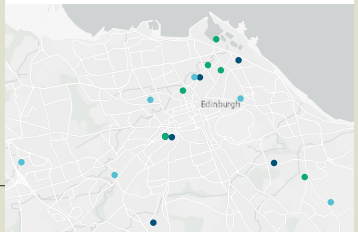
Glasgow

● 822 ● 3,116 ● 781



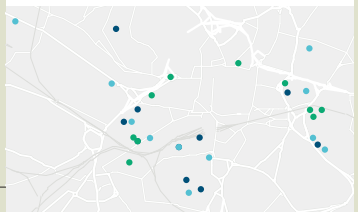
Edinburgh

● 897 ● 1,961 ● 2,094



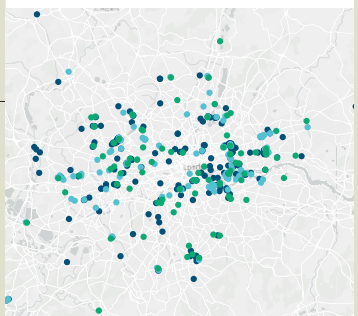
Leeds

● 3,645 ● 3,491 ● 5,599



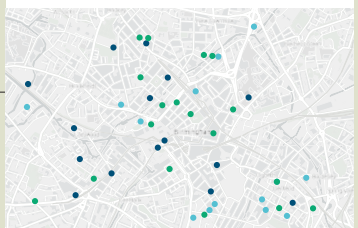
London

● 41,797 ● 24,535 ● 30,925



Birmingham

● 4,942 ● 7,132 ● 7,570

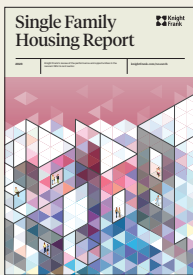


Source: Knight Frank Research

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Research



Oliver Knight
Head of Res Dev Research
+44 20 7861 5134
oliver.knight@knightfrank.com



Lizzie Breckner
Head of Build to Rent Research
+44 20 3640 7042
lizzie.breckner@knightfrank.com



Irene Pastor
Senior Analyst
+44 203 871 3862
irene.pastor@knightfrank.com

BTR



Nick Pleydell-Bouverie
Head of Residential Investment
+44 20 7861 5256
nick.pleydell-bouverie@knightfrank.com



Jonny Stevenson
Head of BTR Funding
+44 20 3909 6847
jonny.stevenson@knightfrank.com



Guy Stebbings
Head of Operational BTR
+44 20 7861 5413
guy.stebbing@knightfrank.com

Valuation and Capital Advisory



David Shapland
Head of Residential Investment Valuations
+44 20 7861 5455
david.shapland@knightfrank.com



Lisa Attenborough
Head of Debt Advisory
+44 20 3909 6846
lisa.attenborough@knightfrank.com



Emma Winning
Head of Equity Advisory
+44 20 7861 1509
emma.winning@knightfrank.com