UK BTR market update

Q4 2024

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

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Record year for investment and delivery

Fifth consecutive record year for investment

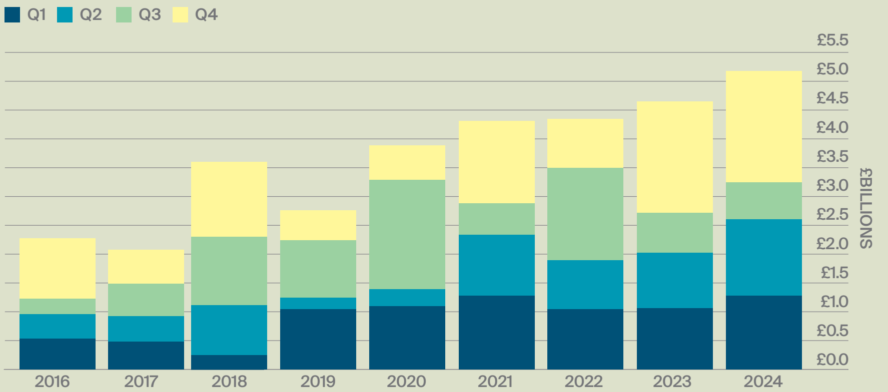
Investment in UK Build to Rent (BTR) surpassed £5 billion for the first time in 2024, the fifth consecutive record year for investment. The full year figure of £5.2 billion, which was up 11% on 2023, was boosted by activity in the final quarter, when £1.9 billion transacted. A record year for investment demonstrates continued confidence from investors in the sector. In total, 72 deals completed in 2024, including 23 in the final quarter. Multifamily transactions accounted for 71% of investment by value in Q4, the highest quarterly proportion since Q3 2023. Reflecting the increase in multifamily transactions, the average deal size also climbed in Q4 to £84 million, 3% above the long-term average. In part, an increase in multifamily deals was driven by a single investor, Starlight, agreeing forward purchase deals for four schemes. The UK remains an attractive market for global capital, with a 51% year-on-year increase in cross-border spend in 2024 (66% of total investment). This was led by a 56% increase in North American capital, which hit a record £2.8 billion last year – outstripping investment from the UK for the first time.

Another strong year for Single Family Housing

Single family housing (SFH) continued to cement its position as a key part of the UK residential investment market in 2024. Last year, investors spent £1.8 billion funding or acquiring almost 6,000 houses to rent and accounting for 36% of total BTR investment by value. The strong levels of investment into SFH have the potential to change the composition of the overall BTR market, which remains strongly weighted towards multifamily stock. Indeed, while SFH accounts for just 11% of all completed BTR homes in the UK, some 22% of the under construction pipeline is for houses to rent.

Fig 1: Total UK BTR investment volumes

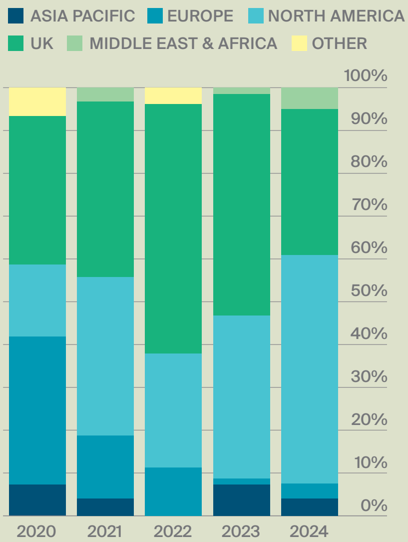
£ billions



Source: Knight Frank Research

Fig 2: North American investment in UK BTR hits record high

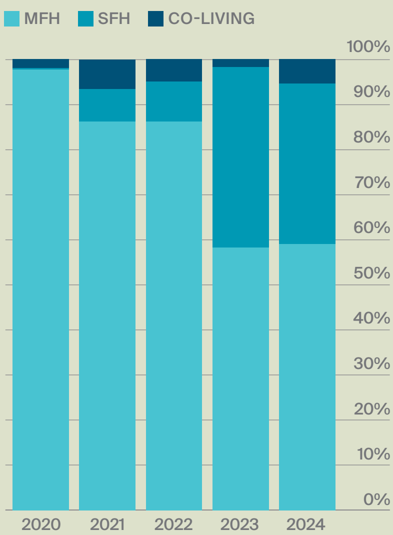
% of total investment



Source: Knight Frank Research

Fig 3: Strong year for Single Family Housing

% of total investment



Source: Knight Frank Research

Standing stock

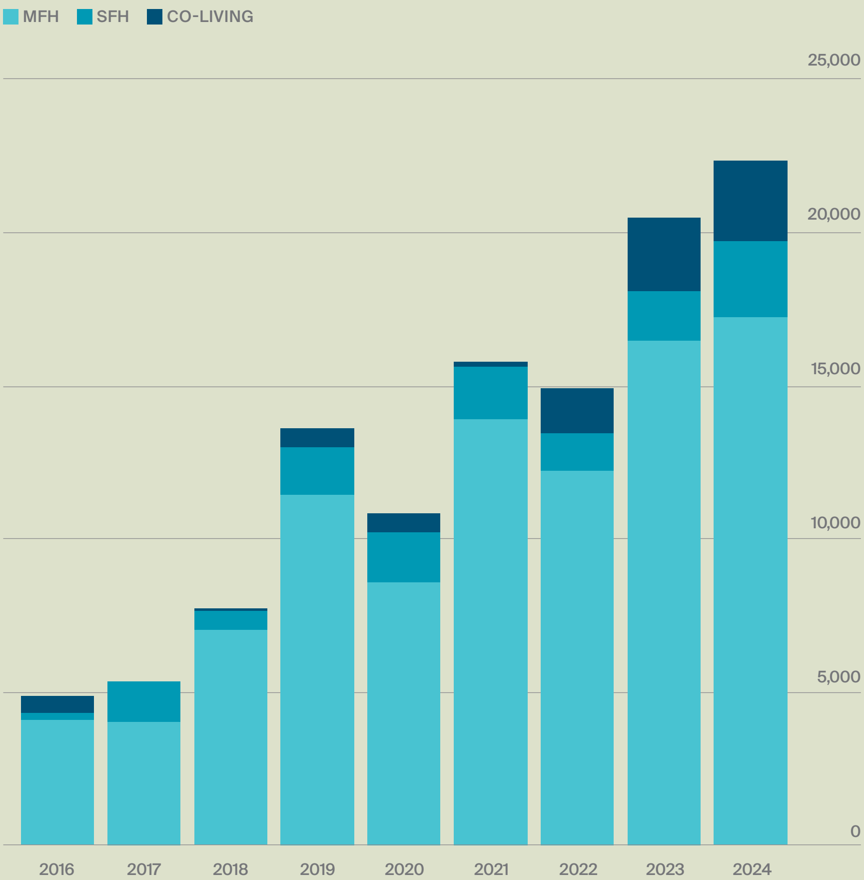
While deals to fund the development of new homes were the primary route to market for investors in 2024, accounting for 70% of total investment, there was an uptick in operational deals. In total, 21 stabilised assets traded in 2024, the highest number on record. Given the wider planning, development and financing challenges facing the market, and the growing volume of stabilised stock available to acquire as early investors look to sell stabilised buildings and recycle capital, our expectation is that standing asset sales will continue to increase their share of investment volumes in 2025. In 2024, stabilised deals were slightly more common in London, with 12 sales compared to nine in the regions.

Record year for BTR supply

More than 22,300 new BTR homes were completed in 2024, marking a record year of new delivery for the sector. The UK's operational BTR stock – encompassing co-living, multifamily and single family housing – now stands at over 126,000 homes, up by 21% year-on-year. A further 57,400 are under construction and 106,500 have full planning permission granted, taking the total size of the sector to 290,000 homes. Supply continues to build in regional markets, with 68% of completions in 2024 outside of the capital, led by Manchester and Birmingham. The North West accounted for 16% of completions, followed by the South East and the West Midlands. Scotland accounted for 10% of delivery in 2024, yet this is expected to represent a high point for delivery given the uncertain policy environment, which has resulted in a 67% fall in Scottish BTR investment volumes since 2020. Accordingly, Scotland accounts for just 4% of the UK BTR pipeline (under construction) over the next three years.

Fig 4: Record year for BTR completions

Number of BTR homes completed

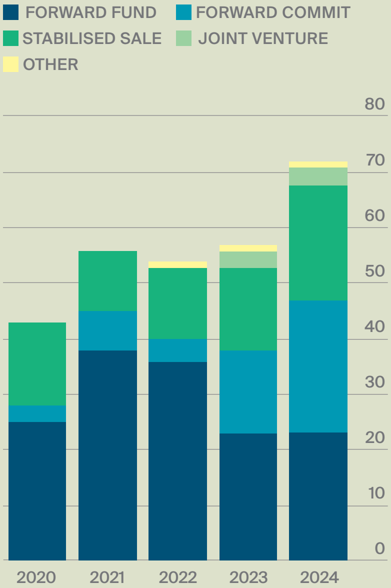


Source: Knight Frank Research

> "Single family housing (SFH) continued to cement its position as a key part of the UK residential investment market in 2024."

Fig 5: BTR deals by transaction type

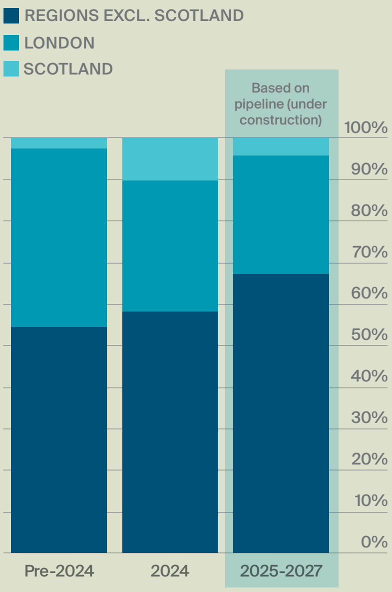
Number of deals



Source: Knight Frank Research

Fig 6: BTR delivery by region

% of BTR units delivered



Source: Knight Frank Research

...but starts are stalling

Record completions are not being matched by new construction starts. In London, for example, new BTR starts fell to their lowest annual level since 2014 in the year to Q3 2024 with fewer than 2,500 homes starting on site. Weaker construction activity over the last year means inflation in material and labour costs is likely to be close to zero for the next year or so, which will help support viability and reduce pressure on margins. That, in turn, will give investors and developers more incentive to take new or stalled projects forward providing a boost to development volumes, particularly in urban areas. That said, navigating shifts in both policy and regulation, such as the Building Safety Act will be a priority in 2025. Build cost inflation has already been moderating, down to 2.9% in 2024, from a peak of 15.5% in 2022, according to the BCIS. More stability is anticipated in 2025.

Supply shortages will underpin demand

A pick up in new BTR supply is helping to mitigate the reduction in rental supply which has been seen across the wider private rented sector: there are still 34% fewer homes listed to rent across the UK compared to the 2017–19 average. Incoming policy changes, including tighter regulation as proposed in the Renters Rights Bill (RRB) and the introduction of higher purchases taxes in both England and Scotland for private landlords, mean we expect to see further contraction in the 2025.

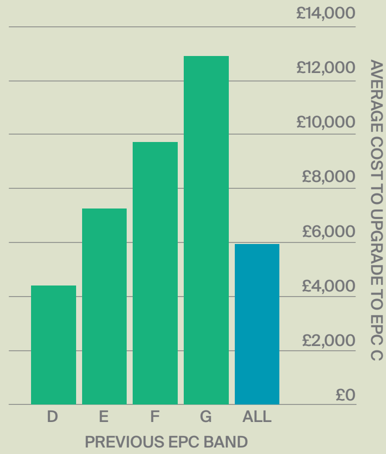
Counting the cost of going green

The proposed introduction of minimum energy efficiency standards, which will require every rented home to achieve an Energy Performance Certificate (EPC) rating of C or above by 2030, could result in a further increase in landlord sales. Around 63% of existing stock in the private rented sector has an EPC of D or below. Landlords who fall below the threshold will have to make a choice between upgrading existing homes to the new standard or exiting the sector. By comparing the EPC certificates of more than 31,000 homes in the PRS that improved their home energy performance in the previous five years pre-and post-improvement, we estimate that the average cost spent improving a dwelling previously rated EPC band D or below to band C is £5,988. However, this varies depending on numerous factors, not least the size, age and existing efficiency rating of a property. Properties with an EPC rating in band D, for example, typically spent £4,438 on the necessary improvements to move to band C, with this figure increasing to £9,760 on average for properties in band F and almost tripling to £12,985 for Band G.

> “The average cost of improving a dwelling previously rated EPC band D or below to band C is £5,988.”

Fig 7: Average costs to upgrade to EPC C

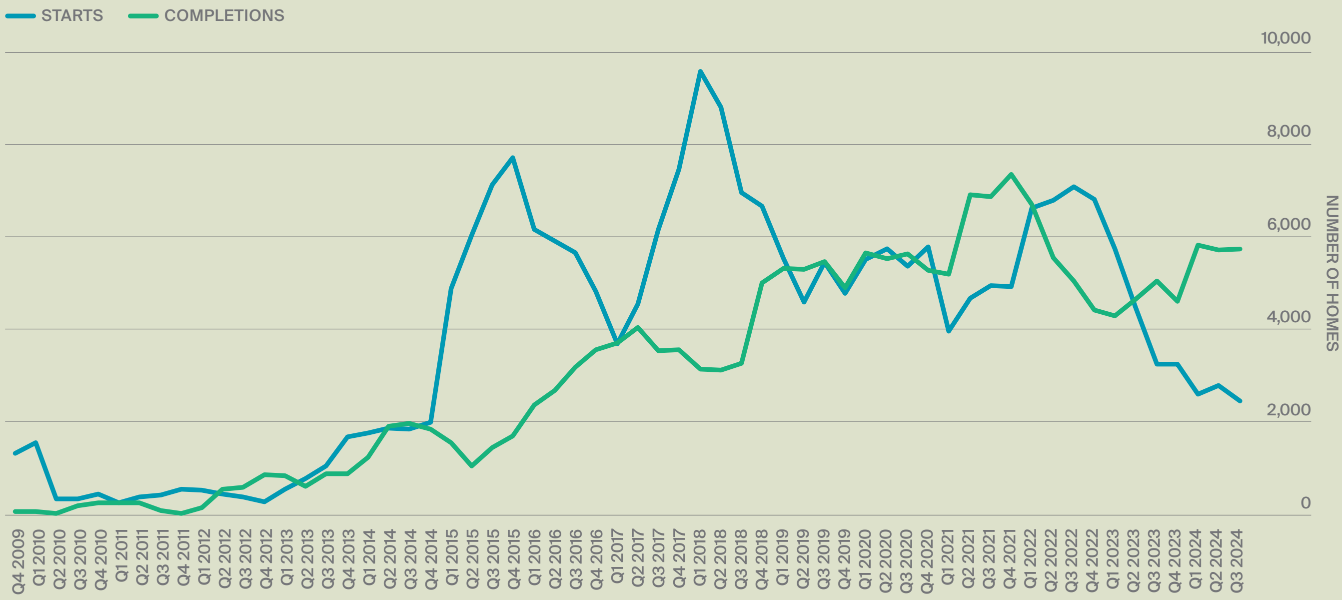
Based on analysis of PRS properties which have improved their EPC score



Source: Knight Frank Research, MHCLG

Fig 8: London BTR starts falling

12 month rolling total



Source: Knight Frank Research, Molior

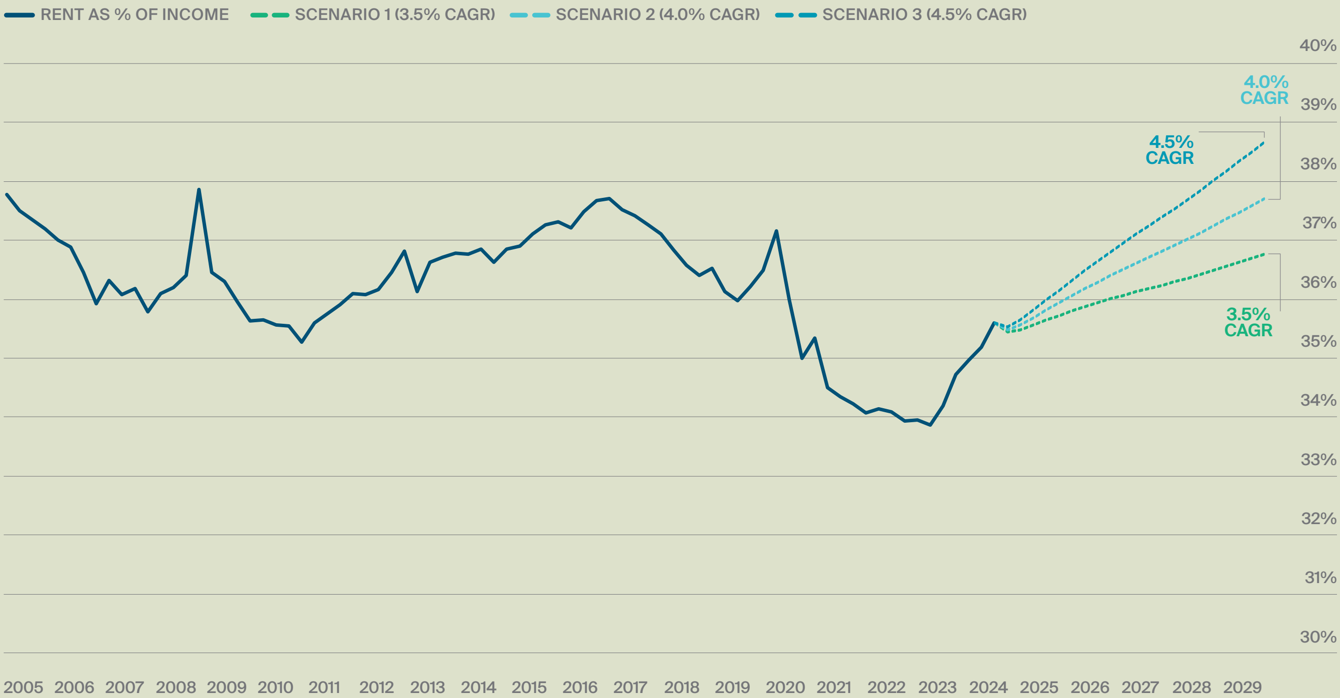
Room (for rents) to grow?

The imbalance between supply and demand will be the primary factor underpinning rents over the coming years but, in the absence of new supply, affordability could act as a brake on growth. Our modelling suggests that households spend, on average, 36% of their gross income on rent across the private rented sector. While this figure has risen over the last 12 months, it remains lower than the long-term average, largely thanks to strong wage growth over the same period. Yet, as wage growth slows, a key question for investors will be what the headroom is for future levels of rental growth. To better understand this, we have modelled the impact of three rental growth scenarios on affordability over the next five years. Under our highest growth option, of 4.5% annually, rent as a proportion of income rises to 39%. Whilst this is higher than historic trends, it remains within the potential affordability ceiling of 40% of earnings. There is, of course, nuance to this analysis; the picture in London will look different as rents are typically already closer to affordability ceilings, with less headroom for growth. Additionally, BTR residents are often higher earners, who are more able to accommodate rent increases than the typical PRS resident. Grainger recently reported rent as a proportion of household income for their tenants stands at 28%, for example.

"As wage growth slows, a key question for investors will be what the headroom is for future levels of rental growth."

Fig 9: Rental growth v affordability

Rent as a proportion of income under different rental growth scenarios



Note: Projections are based on wage growth forecasts from Oxford Economics of 2.7% CAGR over five years. Assumes 1.25 earners per household.
Source: Knight Frank Research, ONS, Oxford Economics

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Single Family Housing Report 2024

The Co-Living Report 2024

The Build to Rent Resident Experience Report 2024

The Affordable Housing Report 2024

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