



UK Institutional PRS Market Update

November 2020

Investment and market update

Investment activity through Q3 and Q4 (to date) has picked up significantly from the lows of Q2, when deal activity dropped as a result of the first national lockdown. Sentiment is positive and rising activity levels reflect this.

Indeed, our latest rent collection survey results illustrate the strong performance of the BTR sector in the face of the economic adversity associated with the current pandemic.

Activity is expected to continue through year-end and into 2021. Indeed, as we have noted previously, our expectation is that full year investment volumes will rise to a record £4 billion (see figure 1).

Notwithstanding this positive activity in the market, investors remain discerning regarding potential opportunities. Whilst there is strong appetite for stabilised stock, fundamental factors such as location, employment and tenant profile remain key, whilst issues surrounding fire safety and ESG are increasingly in focus.

Rent collection

Rent collection averaged 94.9% in October, continuing the strong run of rent collection figures reported in previous months (figure 2). Over the last eight months, rent collection has averaged 95.6%.

The figures continue to perform favourably compared with other major property types reflecting the resilience of rental markets when faced with economic headwinds, as well as the needs-based nature of the sector.

We have noted previously that much of the shortfall in rents has been as a result of rent deferments (as opposed to reductions or payment holidays) - though operators have looked to offer support to tenants on a case-by-case basis. In that regard, it is encouraging to see that previous month's figures continue to be revised upward.

Figure. 1
Total investment volumes in UK institutional PRS

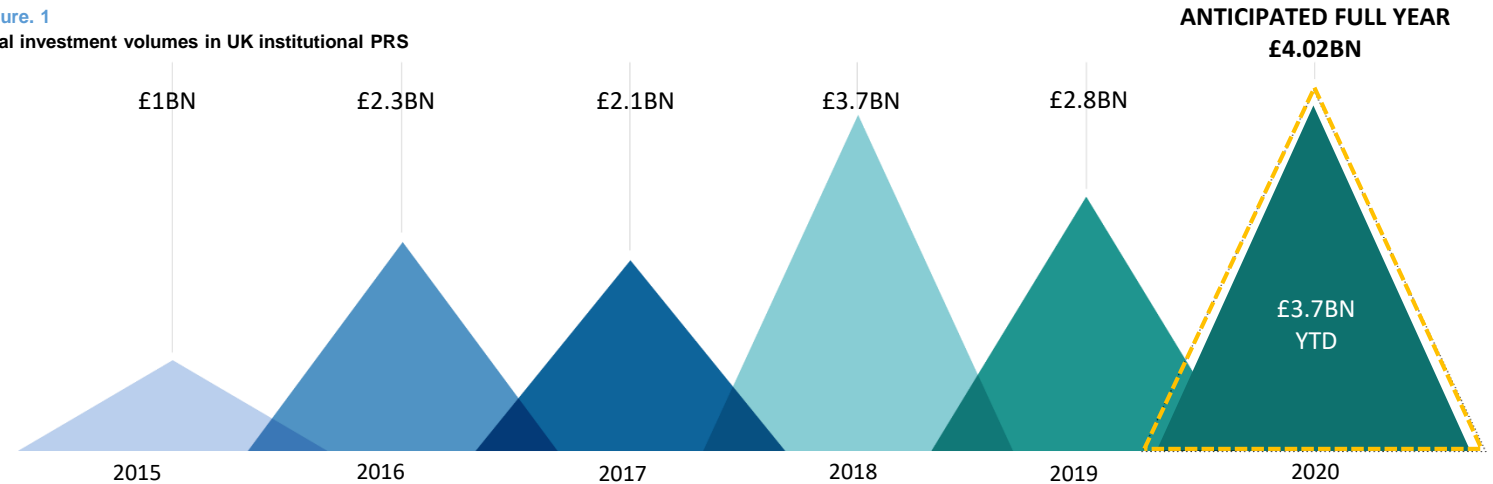
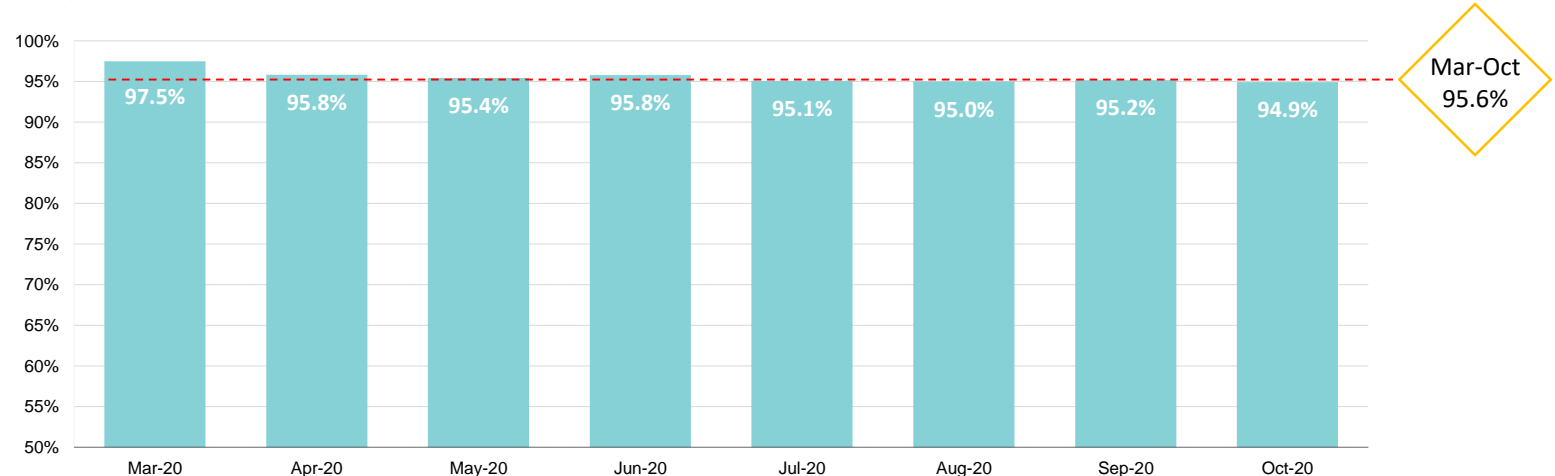


Figure. 2
Monthly Rent Collection
Average of responses, as a % of rent due



The survey represents the views shared by some of the biggest investors in professionally managed PRS in the UK who collectively own and manage more than 22,500 built and let residential units. October's questionnaire on rent collection was completed in November..

Source: Knight Frank Research

New housebuilding ticks up, but peak delivery reached?

Government “net additions” figures for the 12 months to 31 March 2020 found that 243,770 homes were added to supply in the year, up 0.8% from the 241,335 in the previous year (figure 3), and the highest since this figure started being recorded in 1991/1992.

The figure includes a 2.9% rise in new build completions.

In London, 41,718 homes were added to supply, up 13.9% from 36,618 the previous year. The increase in delivery is still below the Mayor’s revised ten-year new homes target, which came down from 65,000 to 52,000 a year in December 2019, in line with recommendations from planning inspectors reviewing City Hall’s draft new London Plan.

Similarly, the overall net additions figure for England falls short of the government’s ambition to increase housebuilding levels to 300,000 new homes a year by the mid-2020s in order to meet housing need and clear a backlog of undersupply.

It is likely that - given the disruption faced by housebuilders this year - these figures will represent a short-term peak in new homes delivery. Indeed, more recent figures tracking Energy Performance Certificates (EPCs) for new homes, which have in the past acted as a lead indicator for new supply, suggest that just 28,498 EPCs were allocated to new homes in England in Q2, 57% lower than Q2 2019.

The imbalance between housing supply and need in certain parts of the country, combined with low wage growth and stricter mortgage lending since the financial crisis, has and will continue to contribute to households facing increasing difficulties to access homeownership.

Figure 3

England: New homes delivery
Net additions and EPC registrations for new homes

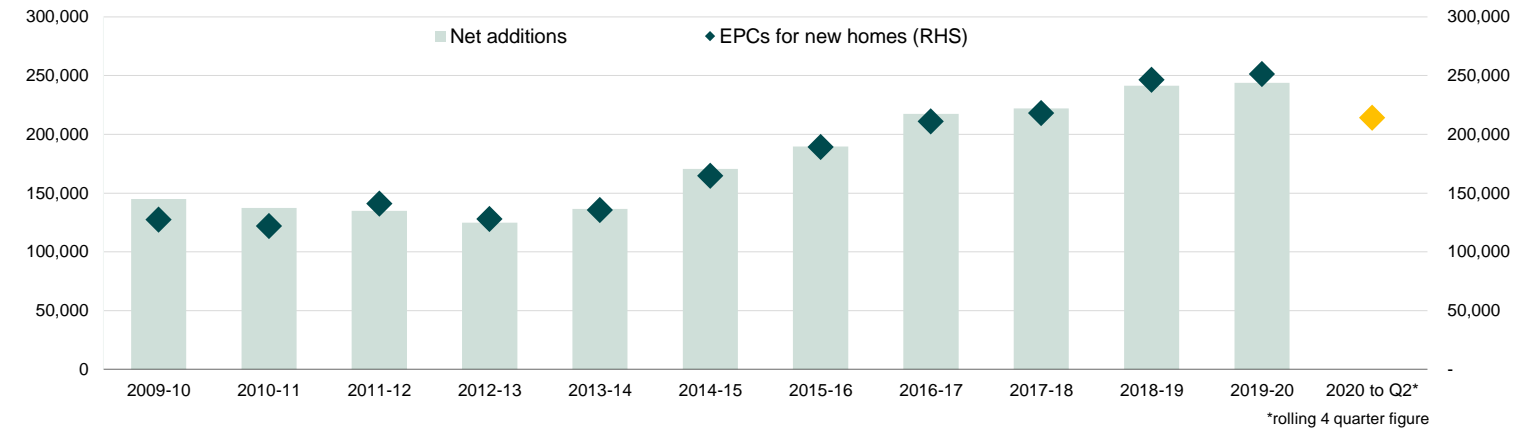


Figure 4

England: % change in net additions
By region, 2019/20 versus 2018/19



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