UK: Institutional PRS Market Update

October 2020

Market update

Investment

Investor demand for UK Build to Rent remains strong. Sentiment is positive and we are seeing an increasing level of activity since full lockdown restrictions were eased, demonstrating the ongoing demand for institutional residential assets.

In our [Knight Frank/HomeViews Multihousing report](#) we noted that more than £2.7 billion had already been invested in BTR assets over the year to September, including the landmark sale of Dolphin Square in central London to AXA IM – a new entrant to the UK market.

Other recent deals include Long Harbour's £156m forward funding deal in Tottenham Hale and Pension Insurance Corporation's first foray into the UK market with a £130m forward funding deal in Manchester. Aberdeen Standard Investments, meanwhile, completed its third deal of the year with the purchase of Clarendon Quarter in Leeds for £41m.

Our analysis of the deal pipeline points to a busy run up to Christmas, with full year investment anticipated to rise to a record £4 billion (see figure 1).

In our view, the UK BTR sector has undergone a step change over the past year, with an increasing number of schemes becoming fully stabilised, which has further proven its income durability.

This has been accentuated by the performance of BTR through the Covid-19 pandemic, which has outperformed almost all other real estate sectors. As a result, we continue to see a significant increase in the volume of capital seeking exposure to the sector, despite the wider macro-economic challenges.

The focus for many investors is now on aggregating to scale, along with a renewed emphasis on the operational performance of platforms. ESG credentials, digital connectivity and post Covid-19 design changes are also increasing in prominence as investors turn their attention to the longer-term outlook.

Economic and rental update

Build to rent has proven to be one of the more resilient asset classes throughout the pandemic. Rent collection levels remain high, as evidenced by our ongoing survey, as does occupancy. Looking forward, there are still challenges, but there are also compelling reasons to be reassured of BTR's continued resilience.

Rental demand has bounced back strongly since restrictions were eased as pent-up demand has been released back into the market. Recessionary periods have historically been followed by increased demand for rental homes and this will continue to support growth in the sector.

Meanwhile, banks are tightening credit conditions with a noticeable reduction in the number of high LTV mortgage products, and a rise in the cost of those high LTV mortgages which are still available. This will add to existing affordability pressure for some renters, particularly in cities with high house prices.

In fact, data from Moneyfacts shows there has been an 80% fall in the number of mortgage products with an LTV of 85% or above since March. The total number of BTL mortgages has also dropped, by 47% since pre-pandemic (see figure 2 and 3), which could act as a brake on the supply of new rental stock from private landlords.

Figure. 1

Total investment volumes in UK institutional PRS

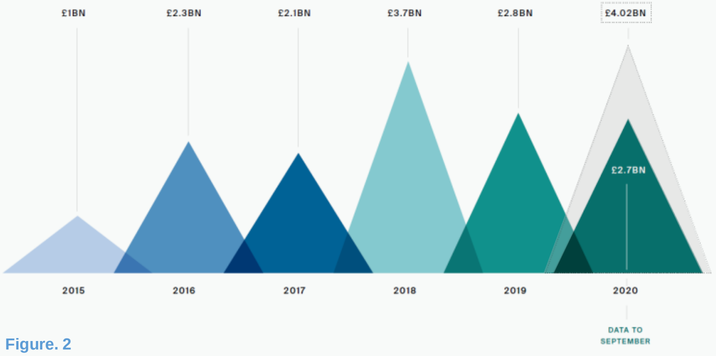


Figure. 2

Number of high LTV products drops

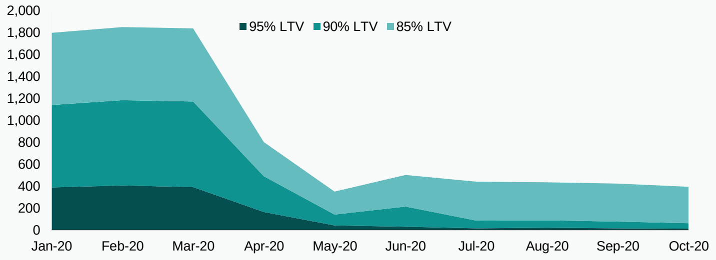
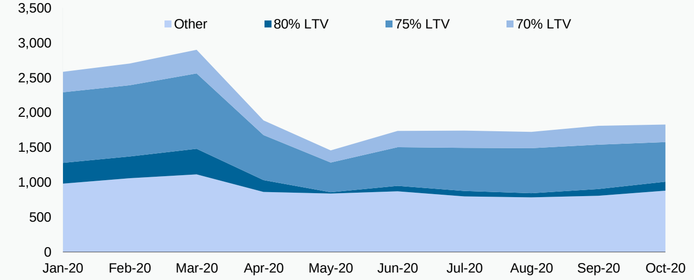


Figure. 3

…as does the number of BTL mortgage products



Source: Knight Frank Research / Moneyfacts

Rent collection

Income continues to be strong

Rent collection averaged 94.1% in September, continuing the strong run of rent collection figures reported in previous months (figure 4). Over the last seven months, rent collection has averaged 95.4%.

The figures continue to perform favourably compared with other managed real estate sectors. The stronger performance of residential reflects the proven resilience of rental markets when faced with economic headwinds, as well as the needs-based nature of the sector at a time when homes have arguably never been so important.

Investors are increasingly attracted to the BTR sector as a result of this steady cashflow, whilst its relative risk is seen as lower since the onset of the pandemic.

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 a number of previous month's figures have been revised upward.

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. September's questionnaire on rent collection was completed in October. For more information and to participate anonymously in future surveys please get in touch.

Figure. 4

What was your rent collection?

Monthly average of responses

Source: Knight Frank Research

Contacts

James Mannix
Head of Residential Development and Investment
+44 20 7861 5412

Nick Pleydell-Bouverie
Head of Residential Investment Agency
+44 20 7861 5256

Peter Wyatt
Head of Build to Rent and Funding
+44 20 3869 4698

Adam Burney
Residential Development & Investment, Valuation & Advisory
+44 20 7861 5170

Oliver Knight
Head of Residential Development Research
+44 20 7861 5134

Matthew Bowen
Head of Residential Investment Research
+44 117 945 2641