Single Family Housing Report

2024

Knight Frank's review of the performance and opportunities in the single family housing rental sector

knightfrank.com/research

Market Update

Investment in the single family housing market jumped significantly last year as investors turned their attention in greater numbers to the suburbs

The single family housing (SFH) sector in the UK is rapidly gaining momentum. Investors spent a record £1.9 billion acquiring or funding more than 6,200 homes last year, up fivefold from £388 million in 2022. In total, SFH investment accounted for just over 40% of all Build to Rent (BTR) investment last year.

The total number of SFH units in the UK, either existing or proposed, is now just above 26,500, with 11,575 operational and a further 15,000 in the pipeline (under construction or with full planning). The total size of the SFH market, combining both operational homes and pipeline, has nearly trebled since 2018 demonstrating the appetite from developers, investors and lenders for the sector.

A further acceleration in growth is expected, should investors realise their ambitions. Our 2023 survey of more than 50 of the largest investors across the UK Living Sectors (Student, BTR and Seniors Housing) flagged SFH as one of the biggest growth areas, with 71% of respondents saying they plan to target the sector in the coming five years, up from 45% invested today.

“The total size of the SFH market, has nearly trebled since 2018 demonstrating the appetite from developers, investors and lenders for the sector.”

NEW LETS IN SHORT SUPPLY

The need for a step change in both delivery and investment in new high quality rental stock is becoming more urgent. Analysis of listings data shows that the number of houses available to rent across the UK has dropped 41% compared with the 2017-19 average. The fall has been particularly acute for two and three bed houses, a key focus for SFH schemes.

The drop in listings volumes partly reflects the fact that renters are staying in existing properties for longer and moving less often. This means that properties are not cycling back onto the market as quickly or as often as they once did. In 2012, just 19% of all private renters had lived at their current address for more than five years; now that figure is 30%.

Pressures on individual private landlords have also slowed the growth of the buy-to-let sector, with some landlords looking to rationalise portfolios or exit altogether. The net result has been a substantial reduction in the supply of homes to rent.

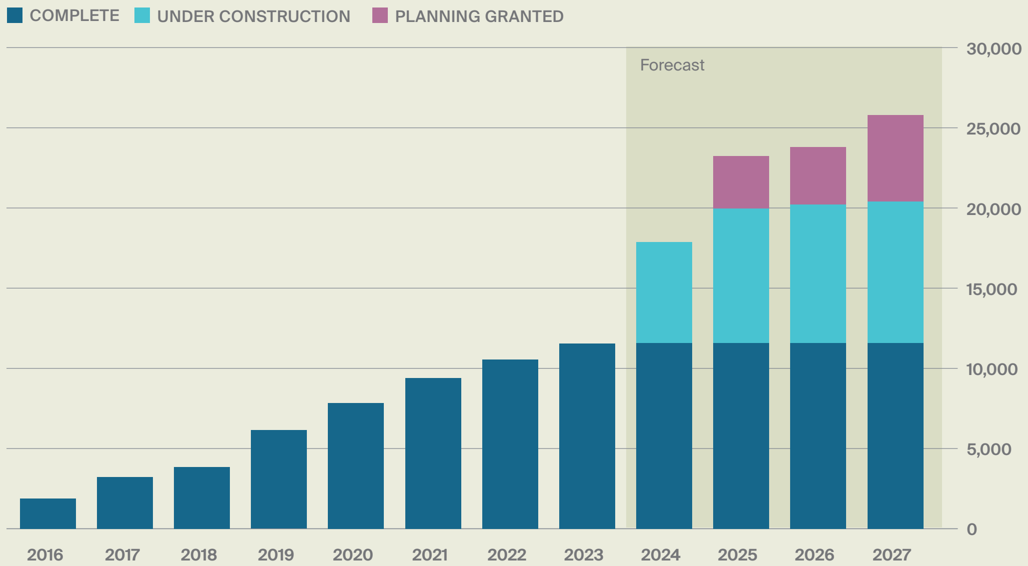
At the same time, affordability conditions in the sales market have steadily worsened over the last decade, supporting renter demand. Recent rate rises and higher mortgage costs have only added to these pressures. This has resulted in an increase in demand for good quality rental housing from long-term renters, including more families. The growth of the suburban and SFH market is fundamentally aligned with these changes.

Ultimately, this ongoing imbalance between supply and demand will continue to push up rents.

There is a clear opportunity for SFH to play a key role in increasing housing supply at a time when the demand for high quality and sustainable rental housing, particularly for families, is acute.

Fig 1: SFH supply has nearly trebled since 2018

Total number of complete and pipeline homes



Source: Knight Frank Research

DEFINITIONS:

Build to Rent (BTR): Institutionally owned private rental homes that are professionally managed and typically purpose-built.

Multifamily: Flat-led BTR schemes in urban locations.

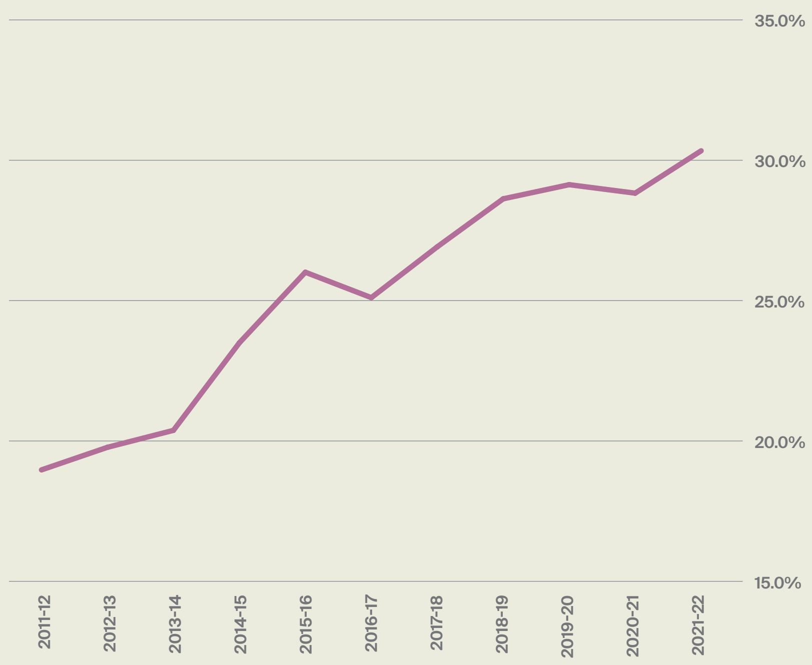
Single Family Housing: (SFH): Housing-led BTR schemes in suburban locations.

41%

The fall in the supply of houses to rent in Q4 2023 v the long-term average, according to analysis of listings data

Fig 2: Rise in long-term renters

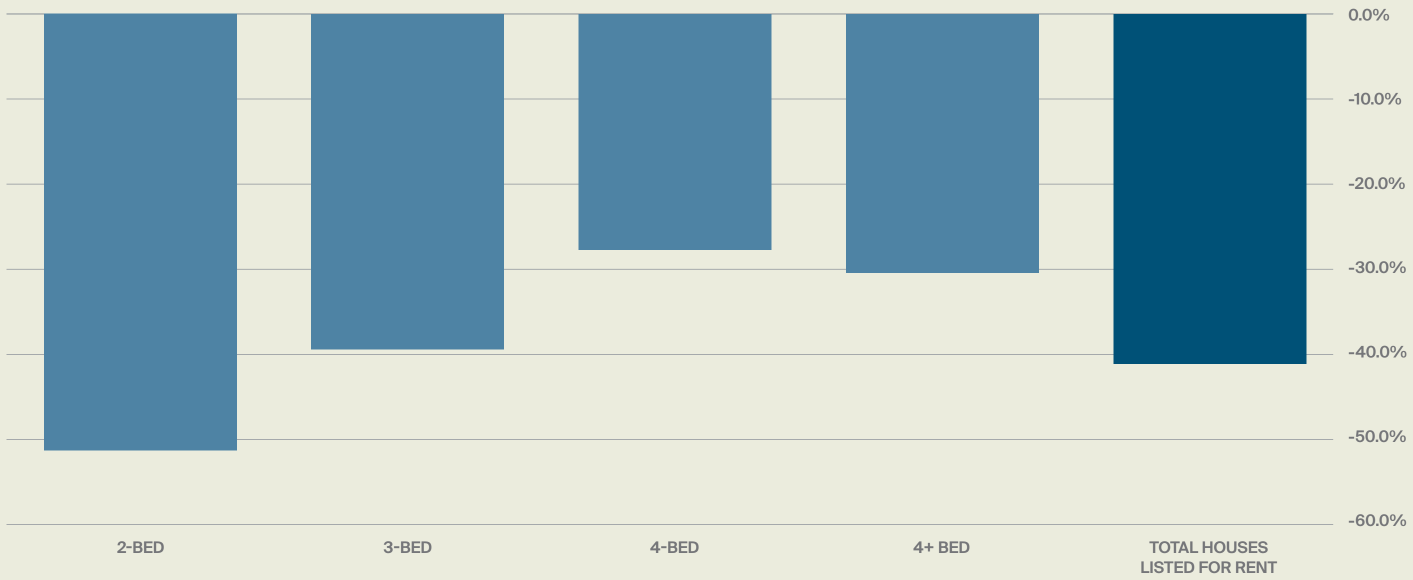
Proportion of private renters who have lived at their current address for 5 years or more



Source: Knight Frank Research, English Housing Survey

Fig 3: Fall in available supply of rental houses

Number of listings in Q4 2023 v 2017-19 average



Source: Knight Frank Research, Rightmove

SFH Investment Hits Record Levels

Investment in SFH jumped significantly in 2023, to a record £1.9 billion. Notable deals included Project Domus, where Knight Frank advised on PGIM's purchase of 918 homes in the North West from Goldman Sachs in Q1 and a forward funding deal between Dandara and Packaged Living across three sites in South East England, also advised by Knight Frank. Vistry's sale of over 1,500 private single family homes to Blackstone-backed operator Leaf Living was a significant boost in the final quarter.

More recently in 2024, Annington Homes, advised by Knight Frank, sold a portfolio of more than 500 existing homes to Citra Living.

A willingness on the part of housebuilders to engage with SFH investors has supported an uptick in investment. Some 71% of deals in 2023 were facilitated through transactions with housebuilders, either through bulk deals of stock under construction, or via partnership agreements for yet-to-be-built houses.

The wider economic context makes partnering with an investor to fund projects attractive. Recent trading updates from the listed housebuilders suggest that private sales rates per week are closer to 0.5 than they are to the long-term average of 0.7. Data from our Q4 survey of 50 volume and SME housebuilders suggests 40% have sold units, or intend to, to Build to Rent and SFH investors.

Crucially, given that private developers will build houses at a rate at which they can be sold, it is likely that without institutional backing the delivery of many of these homes would have stalled.

FUTURE PLANS

Of course, current market conditions will not last forever. Housebuilder sales rates are incrementally improving as mortgage finance becomes more favourable. However, several housebuilders have started incorporating forward sales models into longer-term business plans over the last 12 months as a way of diversifying income streams. As such, we expect to see more partnership agreements, forward fundings and bulk sales between housebuilders and SFH investors.

Such structures benefit investors by enabling a level of input on their required specification, unit mix and design. According to our survey of housebuilders, who collectively deliver around 70,000 homes each year, 60% of those who had already sold units to multifamily or SFH investors said they had prioritised relevant design elements from the outset.

More partnerships and JVs with housebuilders have the potential to have a significant impact on SFH supply. The top five housebuilders alone have a combined land bank of more than 350,000 plots. If 30% of these were sold to SFH investors it would add over 100,000 homes to the sector.

For housebuilders, there are additional benefits. These range from accelerating delivery to de-risking portfolios. An equity injection from an institutional investor can also help free up capital to spend on land or other sites. The recently concluded year-long study into housebuilding by the Competition and Markets Authority (CMA) included a recommendation that local planning authorities require increased diversity of tenure for larger sites, including rental.

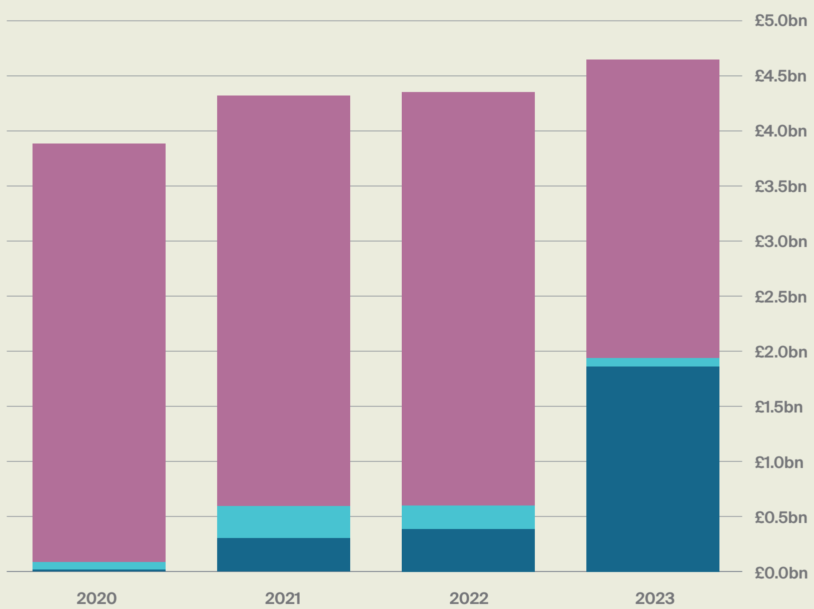
YIELDS RESILIENT

Whilst the underlying drivers for investment into SFH remain strong and the weight of capital looking to invest in the sector is substantial, the more challenging economic backdrop and higher financing costs for buyers reliant on debt has resulted in a slight softening of yields.

Strong operational performance, ongoing investor demand and an expectation that rental growth is going to remain robust over the coming years all support our view that longer-term we will see a return to further yield compression.

Fig 4: SFH investment drives record year for BTR sector

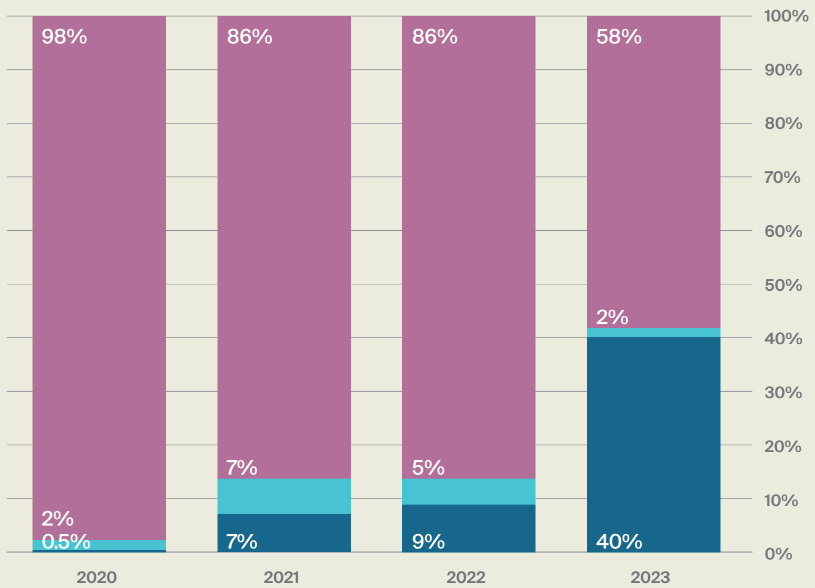
Investment by sub-sector



Source: Knight Frank Research

Fig 5: ...and takes a greater share of overall investment

% of total

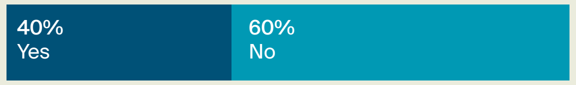


Source: Knight Frank Research

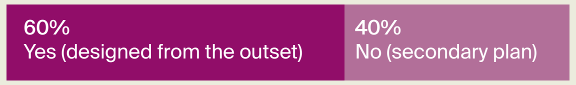
Fig 6: Knight Frank Housebuilder Survey

Q4 2023

Have you sold (or do you intend to sell) units to BTR or SFH investors?



If you have sold to BTR or SFH investors, did you prioritise incorporating relevant design elements from the outset?



Source: Knight Frank Research

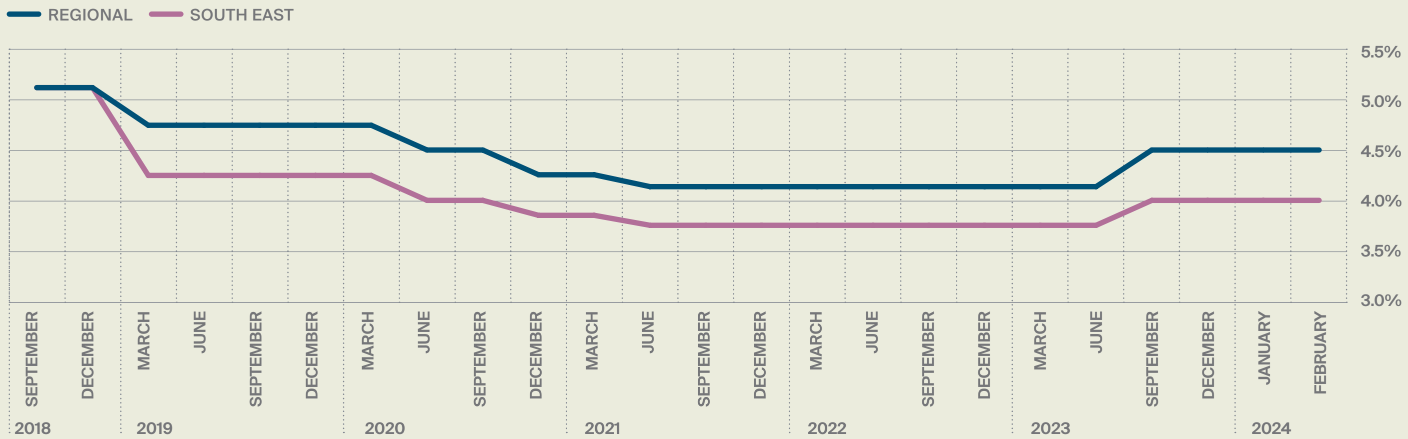
"The top five housebuilders have a combined land bank of more than 350,000 plots. If 30% of these were sold to SFH investors it would add over **100,000 homes** to the sector."

£1.9bn

Record investment in SFH in 2023

Fig 7: SFH Yields: Resilient

Net Initial Yield



NB. Yields are reflective of income-focused transactions of prime, stabilised institutional-grade assets.
Yields are provided on a Net Initial Yield (NIY) basis assuming a rack-rented property.
Source: Knight Frank Research

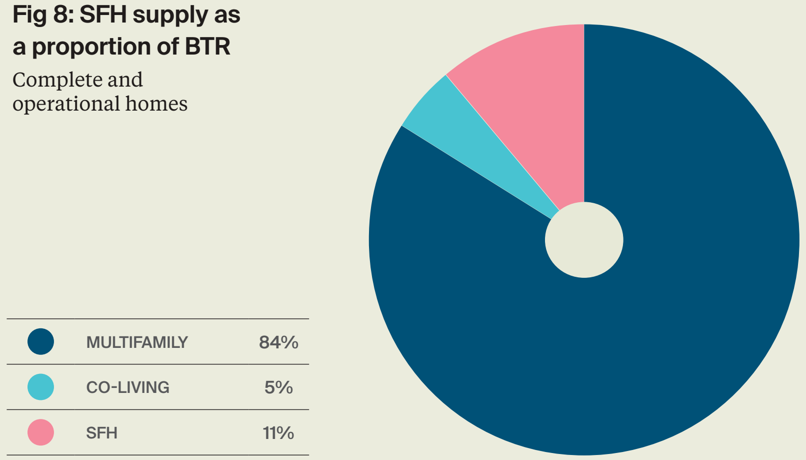
SFH To Take A Greater Share Of BTR Market

Delivery of SFH product is increasing but completed stock only accounts for 11% of the overall operational BTR market which consists primarily of multifamily units. With current momentum, and the weight of capital looking to enter the sector, we estimate that both multifamily and SFH will grow substantially over the medium term, but that SFH will take an increasing share of total delivery.

> "Current SFH supply caters for just 0.4% of the number of privately renting households who live in suburban locations, highlighting the scale of the opportunity."

Fig 8: SFH supply as a proportion of BTR

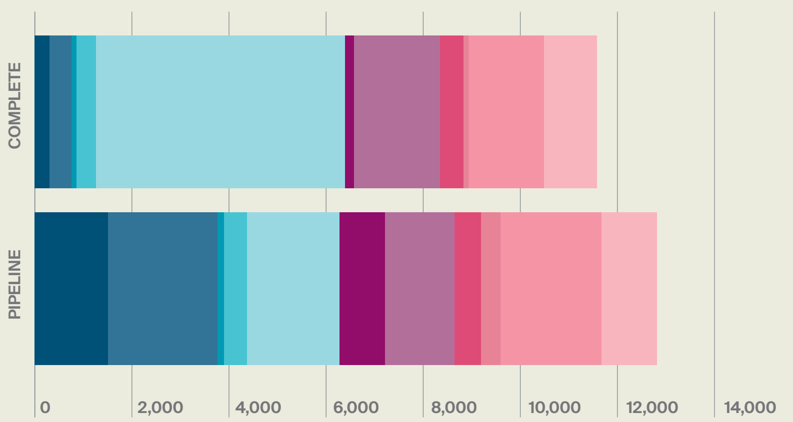
Complete and operational homes



Source: Knight Frank Research

Fig 9: SFH supply to become more widespread

Total number of units by region



Source: Knight Frank Research

Nearly 50% of privately renting households in the UK live in suburban areas, equating to 2.65 million households. Current SFH supply caters for just 0.4% of that number, highlighting the scale of the opportunity. Just looking at homes in the pipeline, SFH supply is expected to double within the next two years. Longer term, based on current population and tenure distribution figures, and applying our projection that at full maturity the BTR sector has the potential to account for between 30% to 35% of all privately renting households, that equates to a potential supply of more than 900,000 SFH homes.

As the sector grows, so too will its geographic spread as investors look for scale and they look to tap into the deepest pools of demand. Current supply of completed SFH stock is heavily weighted towards the North West, which accounts for 44% of the market. Analysis of the future pipeline suggests that 87% of the SFH developments in planning or under construction are located outside of the North West.

The biggest pipeline can be found in the East of England, accounting for 15% of the total. This is followed by the West Midlands at 14%, both areas where buyer affordability has become more stretched in recent years, driving demand for rental housing and, as a result, rental growth.

The nature of SFH means that it can be built in a wide range of locations across the country without the same viability challenges that govern urban multifamily schemes.

INVESTOR PRIORITIES

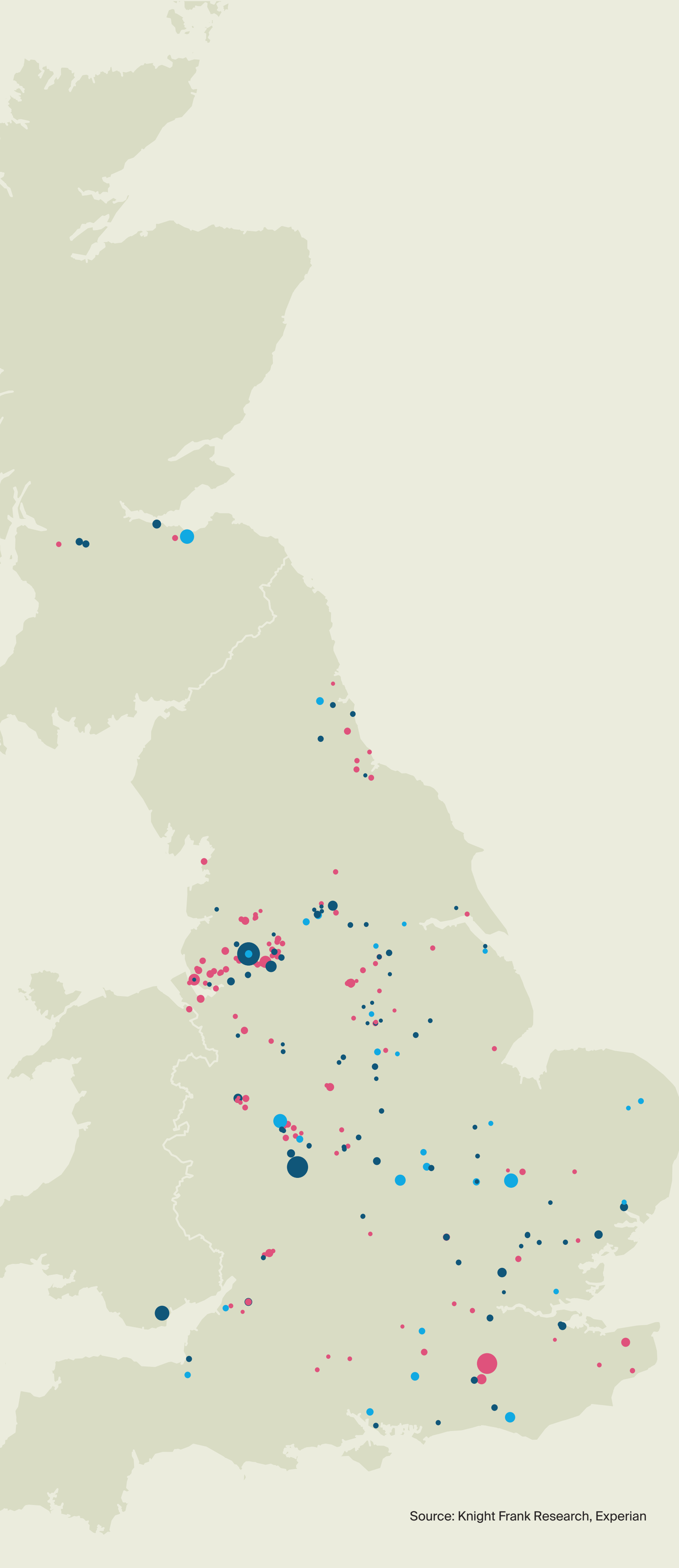
The average size of SFH schemes is getting larger, from an average of 76 homes for current operational schemes to 94 for homes under construction and 176 homes for schemes in the planning pipeline. This is partly a reflection of investors' desire for scale, but also of a greater understanding of the ideal unit mix, scheme density and economies of scale.

900k

The potential for SFH supply at full maturity

Map 1: Single family housing supply

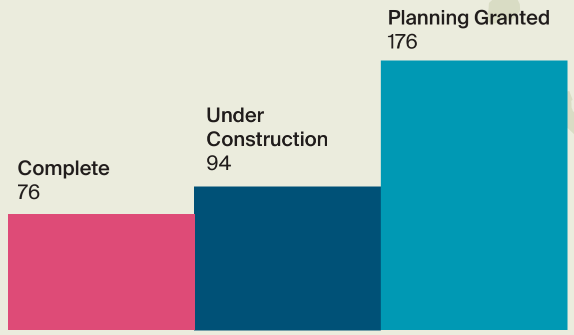
Complete, planning granted and under construction schemes, sized by total number of units



Source: Knight Frank Research, Experian

Fig 10: SFH schemes are getting bigger

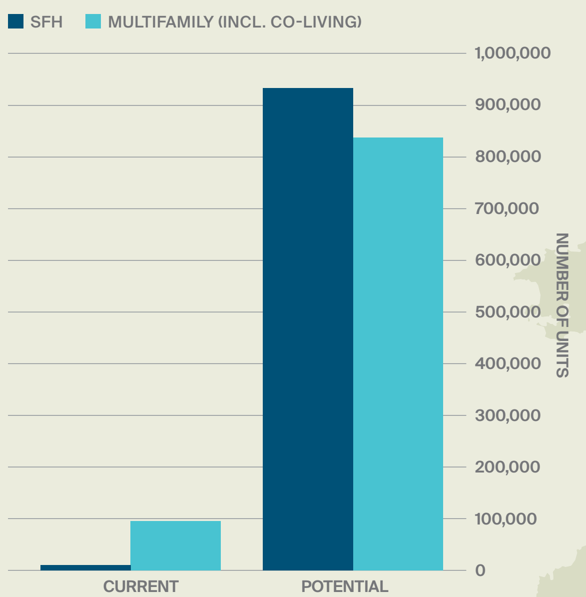
Average number of units per scheme by planning status



Source: Knight Frank Research

Fig 11: BTR supply by sub-sector

Current supply v potential (at full maturity)



Source: Knight Frank Research

Understanding SFH Market Dynamics

Investors are becoming increasingly discerning with regards to potential sites. As the majority of SFH developments do not have communal amenities, consideration to location is key, particularly when it comes to attracting and retaining tenants. Easy workplace connectivity, proximity to good schools and access to green space are all important for the long-term success of schemes.

Analysis of 153 completed SFH schemes across the country shows that 75% of homes are located within 500m of public transport infrastructure and 80% are within 650m of a public green space. Given the high proportion of families who live in SFH, access to education is key. The analysis shows that 89% have a nursery within 1km, 97% have a primary school and 60% a secondary school.

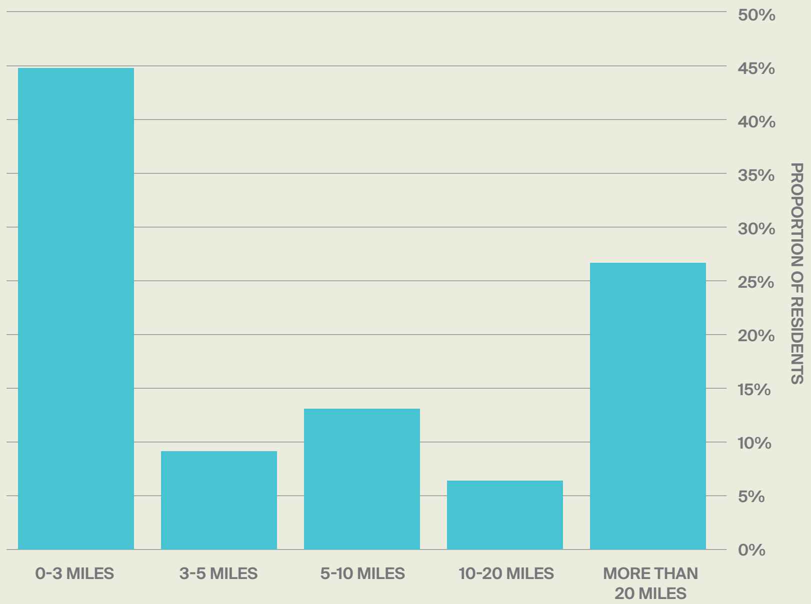
WHO LIVES IN SFH?

The analysis also provides evidence of how existing SFH communities are meeting specific local housing need, with 45% of existing residents having moved three miles or less when they moved into their home.

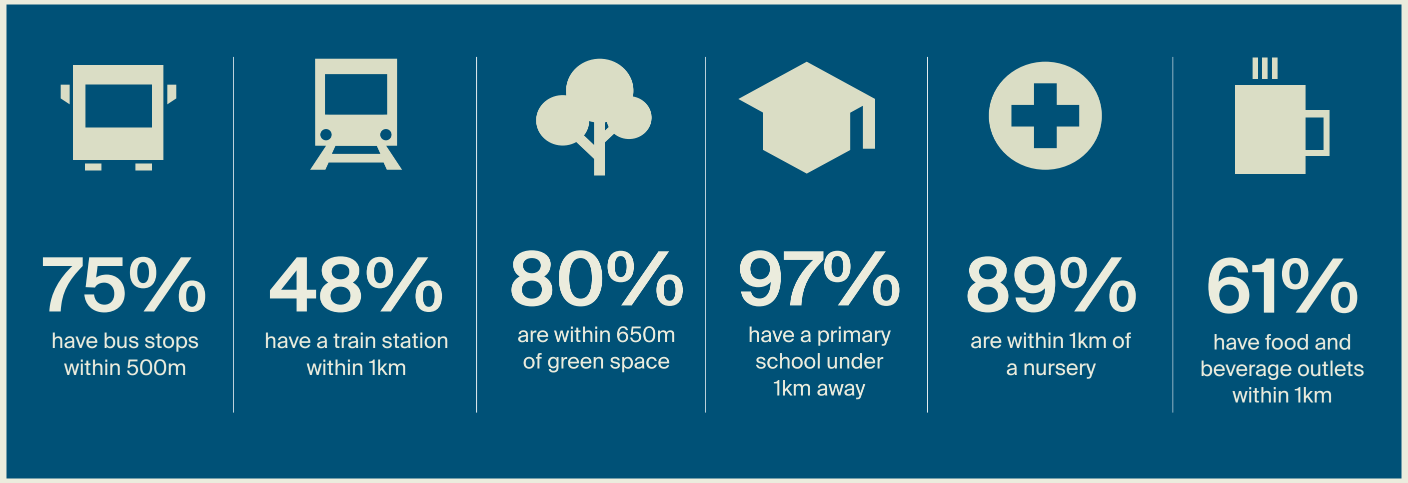
Some 52% of these tenants are aged over 35. This compares with 34% for multifamily and 72% for the wider PRS market. A slightly younger demographic than the wider PRS market underscores the distinctive demographic that SFH typically draws, often attracting younger families.

Compared to the wider PRS, incomes of households living in SFH are above average, though lower than the average for multifamily schemes. The analysis suggests the sector is diversifying its offer and meeting the needs of a wide demographic.

Fig 12: Distance moved by residents into SFH schemes

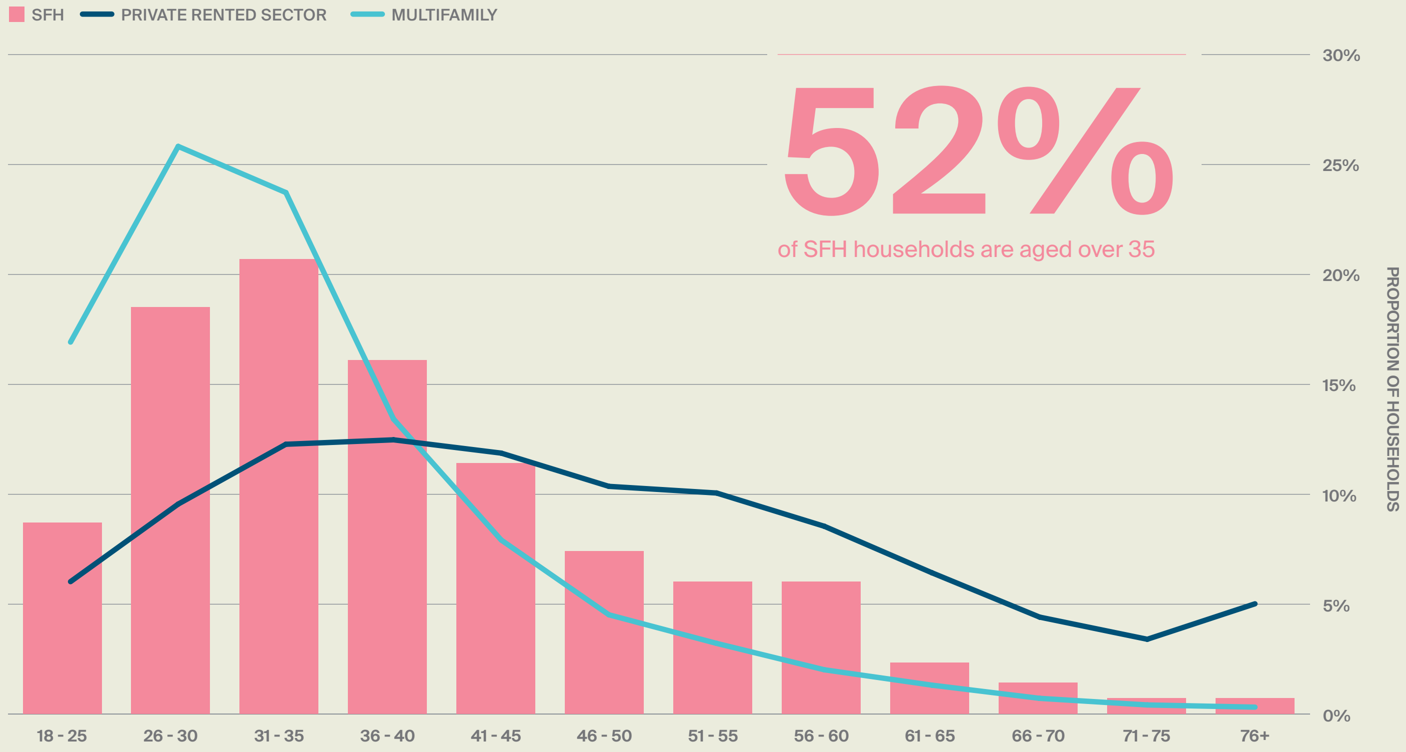


Source: Knight Frank Research, Experian



Source: Knight Frank Research, Addressbase

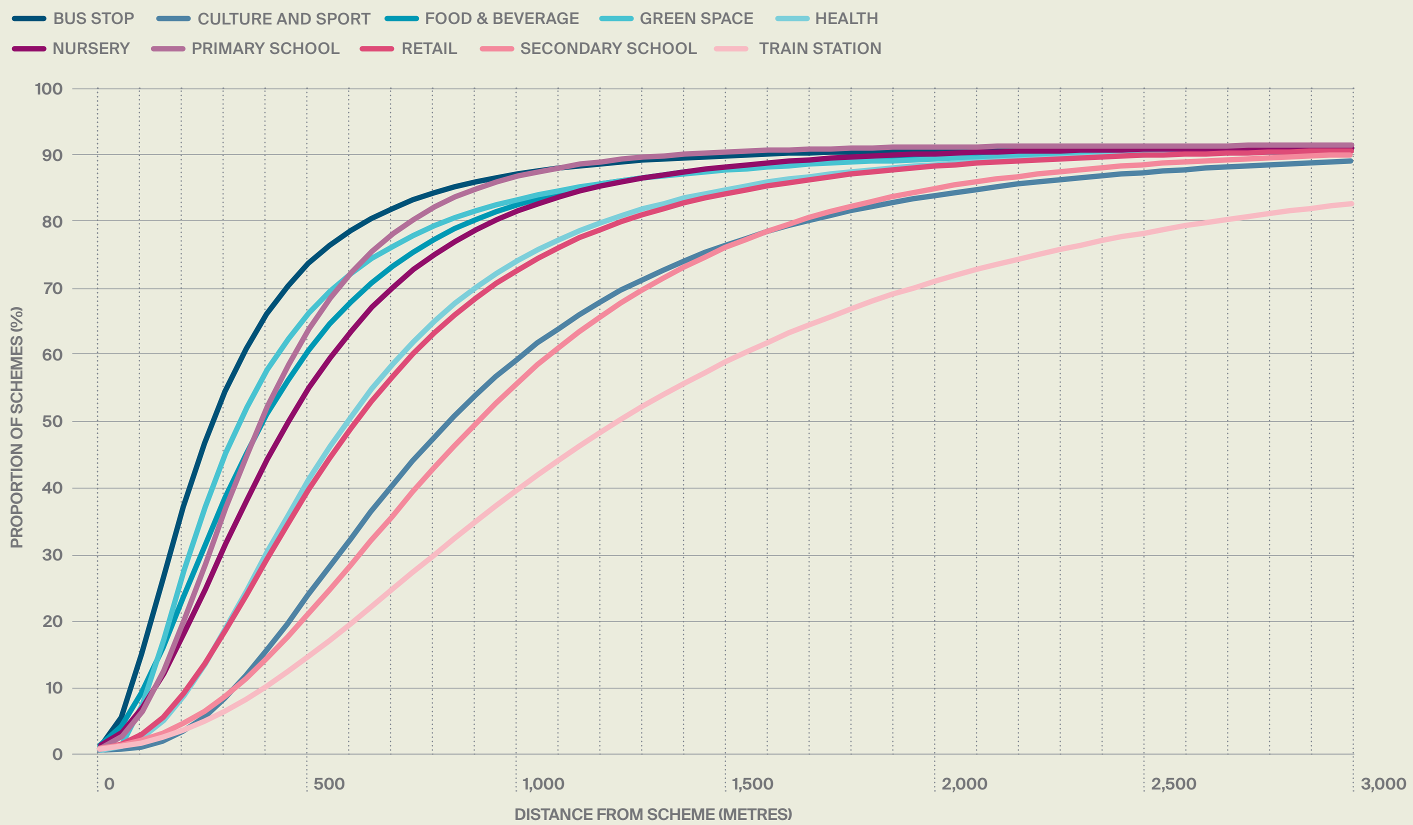
Fig 13: Proportion of households by age and property type



Source: Knight Frank Research, Experian
NB. Household age is typically identified based on the age of the eldest person with the highest income.

Fig 14: Distance from SFH schemes to local amenities

% of total (complete schemes only)



Source: Knight Frank Research, Addressbase

SFH Investor Survey

Our Single Family Housing Investor Survey represents the views of 20 leading institutional investors currently active in the market. In total, our survey respondents own and operate a significant proportion of the complete and operational single family rental homes across the UK.

Key takeaways

65%

of investors plan to significantly increase their total investment into SFH over the next five years

South East and the East Midlands

are the top target regions for investment

£17 billion

total potential capital to be deployed into SFH over the next five years

90%

agree that ESG is an important consideration for their investments into SFH

10%-15%

average discount to vacant possession required by investors for housebuilder purchase

3%-4%

expected annual rental growth over the next two years.

'SIGNIFICANT' INCREASE IN INVESTMENT PLANNED

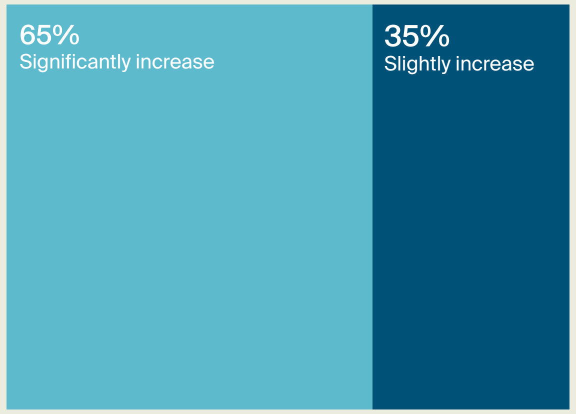
By 2029, 65% of investors we surveyed said they plan to have significantly increased their exposure to the SFH market in the UK, highlighting the momentum and weight of capital behind the sector. In total, the investors surveyed stated they were looking to commit £17 billion over the next five years.

Our calculations suggest that this translates into the potential for approximately 60,000 new homes at today's values. Should these ambitions be realised, this will mean the total number of SFH homes, either complete, under construction or in planning, will have nearly trebled from the current level.

£17 billion

The capital to be deployed into SFH over the next five years, according to survey respondents

Fig 15: How do you expect your total investment into SFH to change over the next five years?



Source: Knight Frank Research

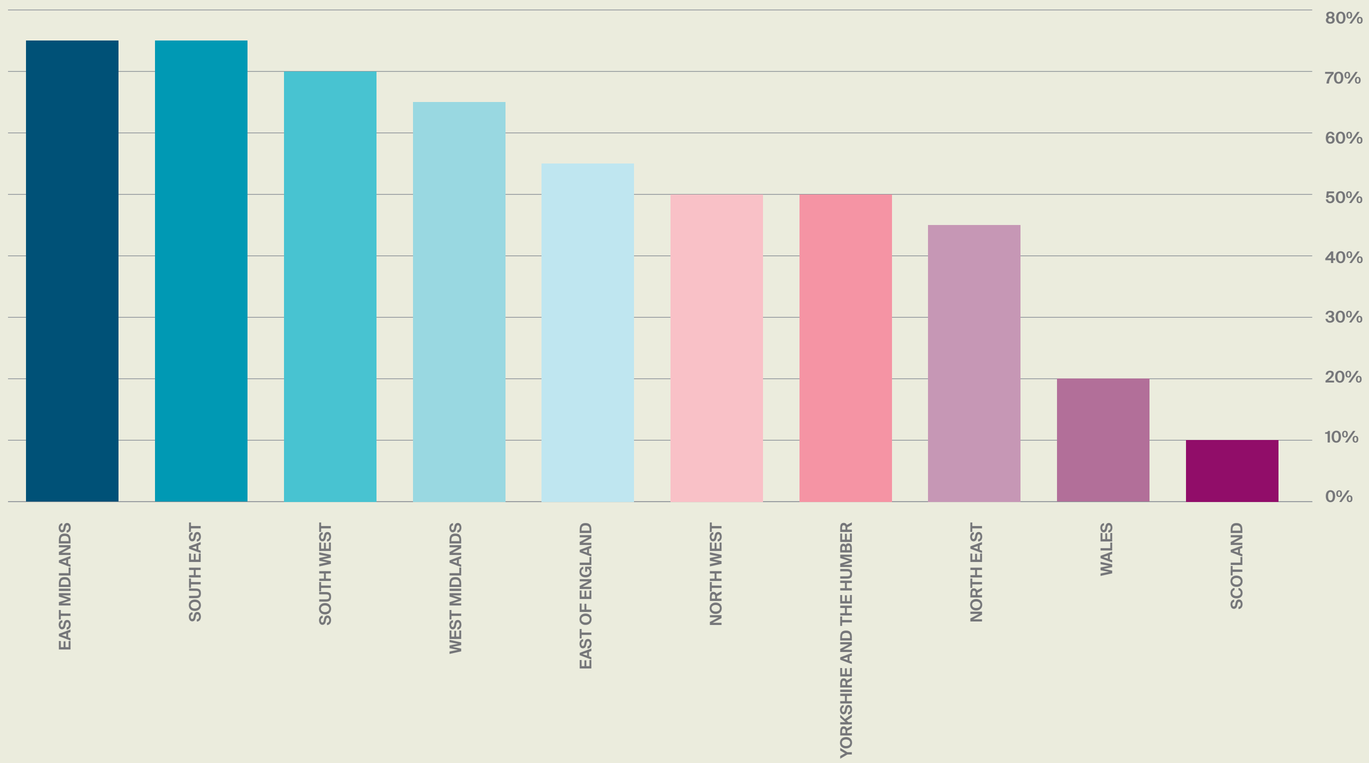
SFH SUPPLY TO BECOME MORE WIDESPREAD

The majority of investors (75%) are targeting locations in the South East and the East Midlands, with 70% targeting the South West and 65% targeting the West Midlands. The results chime with our analysis of the development pipeline, with the geographic distribution of schemes shifting as more regional markets are unlocked.

> "The survey results suggest that the geographic distribution of schemes is shifting and becoming more widespread with more regional markets likely to be unlocked."

Fig 16: Which locations are you targeting for SFH investment?

Respondents were asked to select all that apply



Source: Knight Frank Research

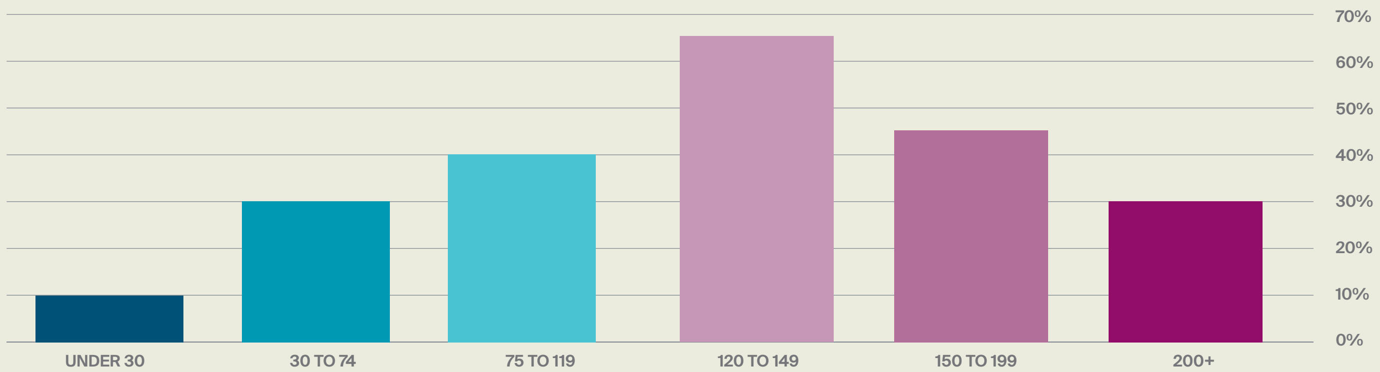
INVESTOR REQUIREMENTS

The current 'sweet spot' in terms of scheme size is between 120 and 149 homes, favoured by 65% of survey respondents. Both larger and smaller requirements exist and will be dependent on the supporting nature of the local market demographics and an investor-specific strategies. Indeed, while some investors are happy to deal in smaller lot sizes, most of the current demand is for larger lot sizes as investors look for scale and to drive operational efficiencies. For acquisitions from housebuilders, 63% of investors told us they require a discount to vacant possession of between 10% and 14%.

> "The current 'sweet spot' in terms of scheme size is between 120 and 149 homes, favoured by 65% of survey respondents."

Fig 17: What is your optimum number of SFH homes for a single site?

Respondents were asked to select all that apply



Source: Knight Frank Research

OPERATIONAL PERFORMANCE

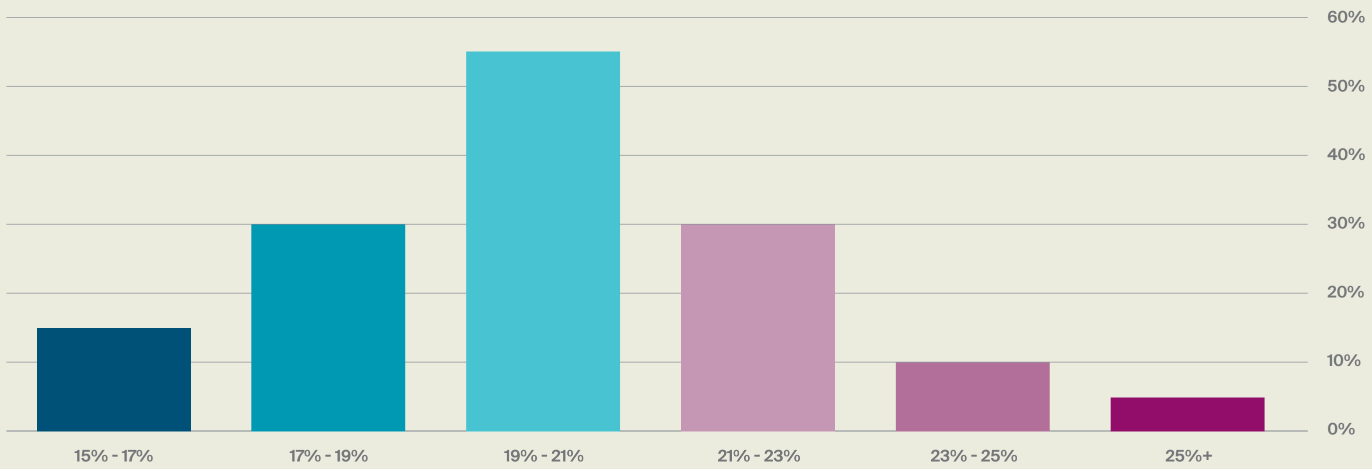
On average, 55% of the investors we spoke with are targeting gross-to-net income leakage of between 19% and 21%. This reflects the operational efficiencies present at suburban housing schemes (compared to multifamily schemes) with lower levels of communal services and amenity required and longer tenancy terms with fewer voids. The greatest number of investors (32%) are expecting rental growth of between 3% and 4% over the next two years.

3%-4%

Investors' expectations for SFH rental growth over the next two years

Fig 18: What is your target gross-to-net income leakage?

Inclusive of rolling void



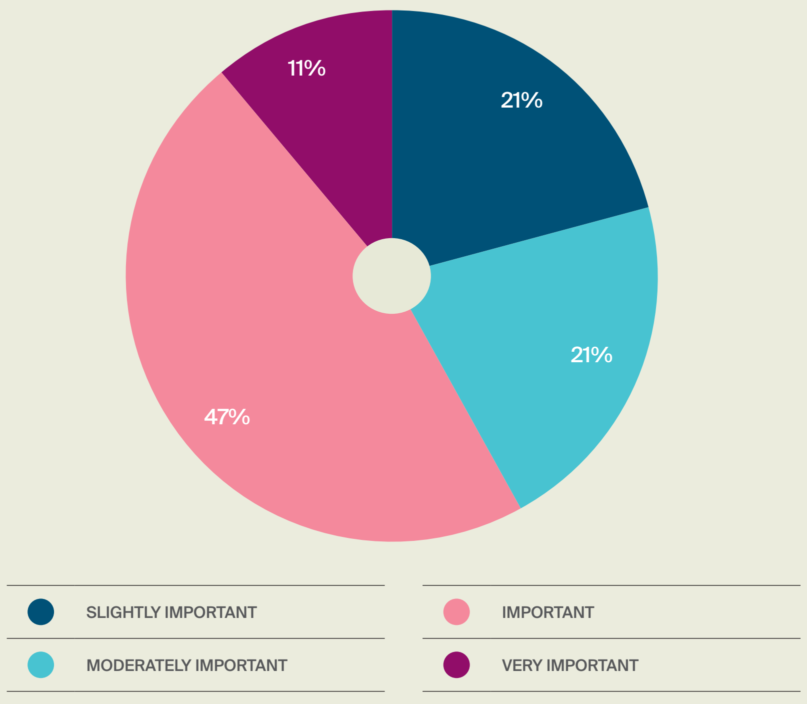
Source: Knight Frank Research

COST OF FINANCE IS THE BIGGEST BARRIER TO DEPLOYING MORE CAPITAL

Some 45% of investors highlighted the higher cost of debt as a barrier to deploying more capital into SFH, which reflects the sharp increase in financing costs over the past 18 months. More than half of respondents said access to debt was important or very important to their investment strategy, with 45% expecting their requirement for debt to increase in the coming 12 months. A more positive economic outlook this year has created more clarity over pricing and should give investors the confidence to deploy more capital this year.

> "A more positive economic outlook has created more clarity over pricing which should give investors the confidence to deploy more capital this year."

Fig 19: How important is access to the debt market to your investment strategy?



Source: Knight Frank Research

ENVIRONMENTAL CONSIDERATIONS

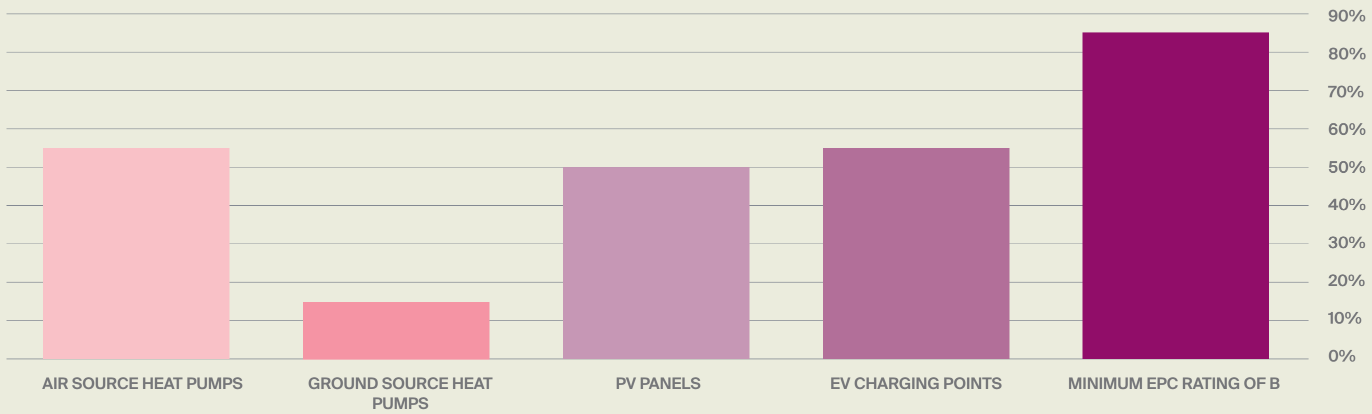
ESG has become common parlance for property investors, including those active in the SFH sector. Some 90% of those surveyed agreed that ESG is an important consideration for their investments into SFH. Demonstrating this focus, we are seeing more investment in sustainable developments. For investors, this is important for futureproofing assets and lowering any potential regulatory risks. Just over half of survey respondents (55%) are planning on installing air source heat pumps and 50% look towards solar energy solutions. EV charging points are required at SFH schemes by 55% of investors.

90%

of investors surveyed agree that ESG is an important consideration for their investment in SFH

Fig 20: Which of the following do you require at your SFH schemes?

Respondents were asked to select all that apply



Source: Knight Frank Research

Front cover image: Casa by Moda's newest neighbourhood in Kirkstall, Leeds known as Casa, Abbey Court.

We like questions, if you've got one about our research,
or would like some property advice, we would love to hear from you.

Research

Oliver Knight
+44 20 7861 5134
oliver.knight@knightfrank.com

Lizzie Breckner
+44 20 3640 7042
lizzie.breckner@knightfrank.com

Irene Pastor
+44 20 3871 3862
irene.pastor@knightfrank.com

Residential Capital Markets

Nick Pleydell-Bouverie
+44 20 7861 5256
nick.p-b@knightfrank.com

Jonny Stevenson
+44 20 3909 6847
jonny.stevenson@knightfrank.com

Jack Hutchinson
+44 20 3866 7842
jack.hutchinson@knightfrank.com

Charlotte Leahy
+44 20 3967 7181
charlotte.leahy@knightfrank.com

Capital Advisory

Lisa Attenborough
+44 20 3909 6846
lisa.attenborough@knightfrank.com

Emma Winning
+44 20 7861 1509
emma.winning@knightfrank.com

Land and Planning

Mark Evans
+44 121 233 6410
mark.evans@knightfrank.com

Chris Benham
+44 20 7861 1289
chris.benham@knightfrank.com