

UK Cities DNA



What role can the living sectors play in the success of cities?

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The fifth of twelve insight papers in our UK Cities DNA initiative – putting real estate supply and demand in the context of the economic direction of travel.

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Homes for growth

- Housing and residential development are fundamental to the economic fabric of any town or city, as a driver in their own right and a vital complement to commercial property as a means to nurture and retain talent.
- Regional markets are crucial, with more than two thirds of the current BTR pipeline located outside of London.
- Lower land values, less competition from the sales market and more attractive entry yields make for a compelling regional investment case.
- Understanding local demographics and need is key to determining the right types of homes (e.g. BTR, PBSA, Senior) that need to be built in the right locations.

“Housing is integral to the economic fabric of any city. Ensuring that the availability and quality of accommodation is robust has a huge role to play in how cities attract and retain talent.”

PRODUCTIVITY PAINS

The UK economy has a productivity problem, having experienced significantly slower productivity growth than comparable countries over the decade and a half since the Global Financial Crisis. Low productivity levels affect the resilience of the economy, making it more vulnerable to economic shocks, especially at a local level.

Cities such as Birmingham, Glasgow and Manchester have recorded stalling productivity growth relative – not just to London – but also against comparable cities in Europe. As we will explore more fully in Insight Papers 6 and 7, all major towns and cities across the country are undergoing significant economic evolution, often particular to that

geography. On the one hand, this is leading to changing requirements in commercial property requirements. On the other, it is presenting opportunities for residential development – and potential bridgeheads and cross-over between the two.

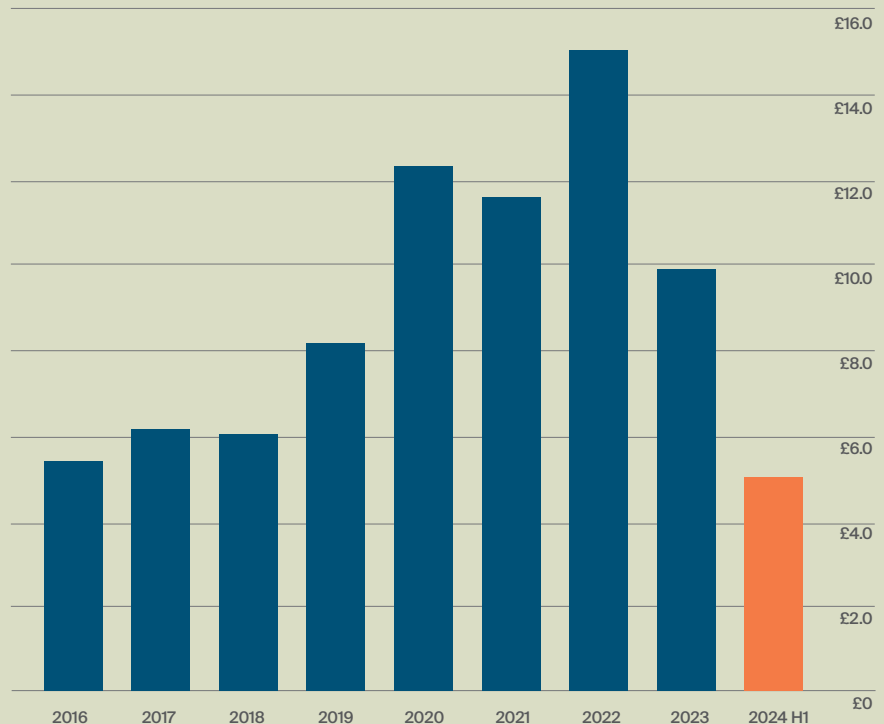
Access to good jobs is a key tenet to improving productivity but there are other critical factors at play too.

One of the most important – and sometimes overlooked – is adequate housing provision. Housing is integral to the economic fabric of any city. Ensuring that the availability and quality of accommodation is robust has a huge role to play in how cities attract and retain talent.

But it’s not just about quantity. The right type of homes need to be built in the right places, to cater for

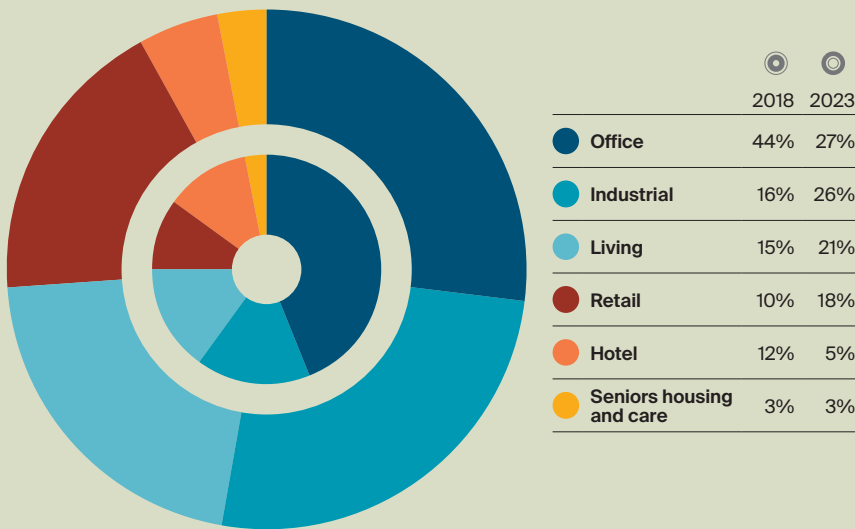
Fig 1: UK living sectors investment volumes

£ billions



Source: Knight Frank Research

Fig 2: Total UK investment volumes by sector
as a % of total



Source: Knight Frank Research

all housing needs. This Insight Paper looks at the role the living sectors – spanning purpose-built student accommodation (PBSA), the private and affordable rented sectors and seniors housing – can play in supporting productivity and growth.

INVESTOR APPETITE

The last few years have seen a step change in institutional capital being allocated to the living sectors. Investors are increasingly looking to meet pools of growing demand across the housing spectrum and tap into areas of strong potential income growth. Weaker performance and structural changes taking place in other real estate sectors have acted as another tailwind.

Accordingly, across the UK, investors spent £10 billion acquiring or funding assets in 2023, Knight Frank data shows. Build to Rent (BTR) led with £4.6 billion spent, followed by PBSA (£3.4 billion) and seniors housing (£2 billion). Promisingly, within those

“Weaker performance and structural changes taking place in other real estate sectors have also acted as a tailwind.”

figures, investment into regional markets, and cities in particular, has been rising.

The appeal of regional markets is clear. Lower land prices, less competition from the sales market and more attractive entry yields make for an attractive investment proposition. However, with housing affordability less of an issue outside London, the right demographic needs to be in place, and at sufficient scale.

ADDRESSING HOUSING NEED ACROSS ALL AGES

Rising investment in the regions is something that is also being reflected in development volumes. Analysis of the BTR development pipeline identifies more than 95,000 units which are due to be delivered in regional markets, led by Birmingham, Manchester and Leeds. In total, more than two thirds of the current BTR pipeline is located outside of London.

BTR plays a crucial role in the delivery of more homes, not least in helping to address the substantial supply and demand imbalance in the private rented sector.

Analysis of existing tenant profiles also confirms that the BTR market is catering to a wide tenant base. Across the UK, more than a quarter of tenants in multifamily schemes are aged between 26 and 30, for example.

£10bn

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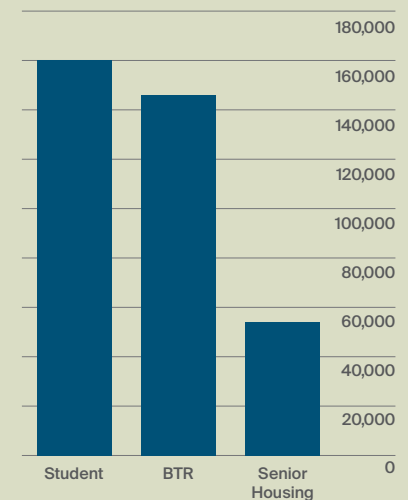
This shows that BTR supports younger tenants in the early stages of their careers, who are not yet able to buy, helping support employment growth in towns and cities.

In the student market, accommodation has a huge role to play in how cities nurture and retain talent. Knight Frank’s *Student Accommodation Survey*, conducted alongside UCAS, confirms the importance that students themselves place on accommodation. Over 50% of applicants to university said that the availability of housing had influenced their decision on where to apply to study.

Yet the market is supply constrained. Fewer than 17,500 new purpose-built student beds will be added to supply in the 2024/25 academic year, representing a marginal 0.6% increase on last year’s delivery. Longer-term, since 2012, just 258,000 new PBSA beds

Fig 3: New homes under construction or in the planning pipeline

By sector



Source: Knight Frank Research

“More than two thirds of the current BTR pipeline is located outside of London.”

have been added across the UK. Over that same period, almost 470,000 full-time students have been added to the student population.

Ensuring cities have an adequate supply of suitable housing is key to balancing the needs of students and local communities. Many universities have recognised the need for more student housing to address the supply shortages and to mitigate against further loss of housing in an already constrained private rented sector.

More broadly, universities are integral to the economy of any city and building human capital is fundamental to supporting productivity and growth at a local level. Estimates from Universities UK (UUK), drawing on data from London Economics, suggest the international student cohort alone have “directly contributed” to a £60 billion economic boost over the past five years.

In the seniors housing market, there is increasing development activity in more urban locations, supporting the priorities of the Baby Boomer generation for walkability, convenience, and proximity to culture. In 2019, older consumers accounted for to 54% of all UK consumer spending,

and this is likely to increase to 63p of every pound spent by consumers by 2040. The benefits to providing more age-appropriate accommodation in supporting local economic growth are clear.

SUPPORTIVE POLICY IS KEY

The chronic lack of housing supply in markets where demand is most acute is constraining economic potential. Encouraging the flow of more private capital should be viewed as an important route to providing the right mix of long-term homes that towns and cities so badly need.

It is especially relevant in the context of a new Labour government which has set itself an ambitious target for housebuilding of 1.5 million homes over the next five years. Achieving that will require at least 300,000 new homes to be added to supply annually, and a cumulative near 50% increase on delivery over the previous five-year period.

Towns and cities across the country need be at the forefront of this growth. In delivering her speech on changes to national planning policy, Deputy Prime Minister Angela Rayner stated that the proposals would “drive the growth, create jobs and breathe life back into towns and cities”. However, the reality is that the industry is facing significant challenges in meeting housing demands, with long-term viability remaining a primary concern.

It is clear that the bulk of stock growth lies in energising development

43,000

Delivery across student, BTR and seniors housing in 2023.

in urban centres and driving alternative tenures. Regional cities have strong demand for tens of thousands of new homes. The living sectors can and will need to play an ever more important role to achieve this aim, particularly given the long-term interest investors have in the success of an area. Delivery across student, BTR and seniors housing in 2023 amounted to around 43,000 homes.




Based on existing tenure distributions, 60,000 homes per year need to be delivered for private rent, including student housing, meet need. For the seniors sector, independent studies have pointed to a need to deliver an additional 50,000 age-targeted units each year.

Analysis of the development pipeline suggests there is scope to increase capacity, although this will require a significant step up from current levels and comes amid a challenging development environment characterised by rising build and site costs, skills and labour shortages, higher financing costs, and tricky-to-navigate planning policy. In total, there are 160,000 student beds under construction or at some stage of planning, 146,000 BTR homes in the pipeline and just shy of 54,000 seniors housing units.

The real estate sector has an opportunity to improve the quality of homes available to wider society across the breadth of the UK. Within that, living sectors can play a pioneering role. As people reassess and re-evaluate their work/life balance, so too are they looking at their housing requirements. A desire for greater flexibility, combined with an increasingly challenging ownership market, means that the rental sector has never been more relevant or critical to support local economies.

Table 1: Development pipeline by location

Top five cities with homes under construction or in planning (excluding London)

	 Student	 BTR	 Seniors Housing
1	Nottingham	Birmingham	Lincoln
2	Manchester	Manchester	Bristol
3	Leeds	Leeds	Exeter
4	Sheffield	Edinburgh	Manchester
5	Liverpool	Sheffield	Cambridge

Source: Knight Frank Research

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



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