

## PORTFOLIO FOCUS



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There is currently significant demand for residential portfolios in both London and across the UK, with a large number trading in 2015 and demand coming from both well-established residential investors and new entrants into the market. Increasingly, investors are focussing on larger lot sizes, which offer the ability to deploy a significant sum of capital in one transaction. As the depth of demand has increased, both portfolio discounts and yields have decreased, with some portfolios in the South East reflecting discounts of as low as 5%.

In 2015 alone Knight Frank Residential Capital Markets advised on portfolios worth in excess of £1.6bn of portfolios and recently completed on the sale of Project Parcel, a portfolio of 482 regional PRS units to Bass Real Estate Ltd. The portfolio comprised 18 tenanted residential blocks across the UK, and it achieved in excess of £40m.

As of June 2015, the Project Parcel portfolio was 95% occupied with a current passing rent of around £3m, thus reflecting a gross yield of around 7.5%. The greatest concentration of the portfolio was in the West Midlands with 31% followed by the North with 28%.

Nick Pleydell-Bouverie, Partner and Head of the Tenanted Residential Investments team, says: "We received strong interest from a range of both domestic and international investors. While investor demand remains extremely strong for PRS opportunities in the London market, we are now seeing an exceptional wall of capital chasing regional PRS investments".

## DEMAND FOR FLEXIBLE TENURE

**A changing policy environment will not curb the demand for privately rented accommodation, and large-scale investors are expected to treble their investment in the Build to Rent sector over the next five years.**

The demand for privately rented accommodation is set to continue in the coming years. In addition to the hurdles faced by young people trying to climb onto the property ladder, there is also a desire for the flexibility offered by rented accommodation, especially among young professionals. In Knight Frank's recent [Tenant Survey](#), for which 5,000 people living in the private rented sector were asked for their views on the sector – the largest survey of its kind conducted to date – the majority of tenants said that their preferred length of tenancy was one year or less, underlining the advantage of having a flexible housing tenure.

The Government's changes to the tax regime for buy-to-let investors, both the proposed additional 3% rate of stamp duty due to come into force in April as well as the withdrawal of some mortgage interest relief, starting in 2017, could see some individual rental units coming back to the market on a localised basis, undercutting the supply of rental accommodation. Large-scale investors are well-placed to step into this market to help fulfil demand.

Knight Frank's recent Investment Survey of large-scale investors in the PRS indicated that activity is poised to step up significantly in the years to come, with investment more than trebling by 2020. Knight Frank calculates this translates into total sector investment of £50 billion by then, up from £15 billion today.

Investors also said they expected gross yields to settle at 6% in the regions by 2020, with gross yields in London at 4.75%. For more detail on this, and all aspects of the PRS, read the [Tenant Survey](#) in full.

### Rental performance

Average residential rents grew at an annual rate of 2.7% across the UK in the 12 months to September 2015, according to the latest data from the ONS. However the rate of rental growth ranged from 0.5% in the North East of England to 4.1% in London, as shown in the map below. Rents have climbed on average by 10.9% over the last four years, but in London the overall rate of growth has been 19%, the ONS data says.

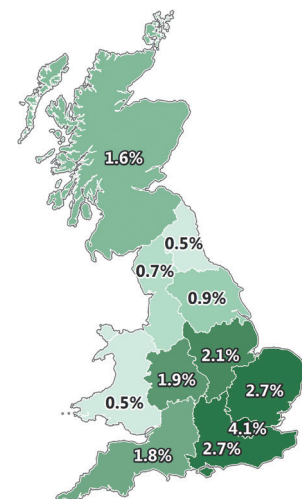
Knight Frank forecasts cumulative UK rental growth of 11.9% to the end of 2020, with 15.4% growth in Prime London.

FIGURE 1  
**Annual rate of growth in rents (GB)**  
Year to September 2015



Source: Knight Frank Research / ONS

FIGURE 2  
**Annual rental growth by region**  
Year to September 2015



Source: Knight Frank Research / ONS

FIGURE 3

## Prime residential yield guide Q4 2015

Sector	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Market Sentiment
<b>London</b>							
Prime Central London (Mayfair, Knightsbridge, Kensington etc.)*	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	STABLE
Zone 1 Prime (Outside PCL)	4.00%	3.75%	3.75%	3.50%	3.50%	3.50%	STABLE
Zone 2-3 Prime	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	POSITIVE
Greater London Prime	5.50%	5.50%	5.50%	5.25%	5.15%	5.15%	POSITIVE
<b>Major Regional Cities – Prime</b>							
Birmingham	7.00%	6.75%	6.50%	6.25%	6.25%	6.25%	POSITIVE
Bristol	6.00%	6.00%	5.75%	5.75%	5.75%	5.75%	POSITIVE
Edinburgh	6.75%	6.75%	6.50%	6.25%	5.75%	5.75%	STABLE
Glasgow	7.50%	7.25%	6.75-7.25%	6.75-7.25%	6.75-7.25%	6.75-7.25%	STABLE
Leeds	7.50%	7.25%	7.25%	7.00%	6.75%	6.75%	POSITIVE
Manchester	7.00%	6.75%	6.50%	6.25%	6.25%	6.25%	POSITIVE
<b>Ground Rents</b>							
10 Year RPI Uplifts	3.00%	3.00%	2.75%	2.75%	2.75%	2.75%	POSITIVE
25 Year Doubling Reviews	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	POSITIVE
<b>Bonds &amp; Rates</b>							
Libor 3 mth (2 June 2015)	0.56%	0.56%	0.56%	0.57%	0.58%	0.57%	
Base rate (2 June 2015)	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	
5 year swap rates (2 June 2015)	1.23%	1.57%	1.30%	1.54%	1.56%	1.47%	
10 yr gilts redemption yield (2 June 2015)	1.50%	1.92%	1.60%	2.04%	1.92%	1.91%	

The yields referenced above are gross yields and no allowance has been made for operating costs within this yield guide.

Based on rack rented properties and disregards bond type transactions.

This yield guide is for indicative purposes only and was prepared on 1 January 2016.

\*Our PCL yield is based on a tenanted blocks, having a minimum of 5 units, situated within our Knight Frank's definition of Prime Central London.

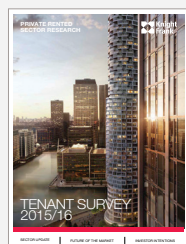
Source: Knight Frank Capital Markets



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