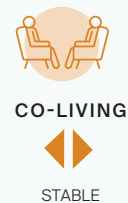
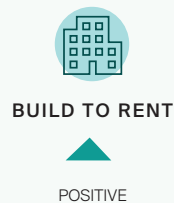


# Residential Investment Yield Guide

Q1 2021

knightfrank.com/research

## Q1 MARKET SENTIMENT



*Investment into residential assets continues to increase at a time when investment into some other real estate asset classes has slowed.*

**D**espite the ongoing disruption associated with Covid-19 and its impact on many areas of real estate, the residential investment sector continues to perform well.

A strong 2020, which saw £3.7bn invested in UK BTR and £5.9bn invested in PBSA, has been followed by a busy first quarter of 2021, despite restrictions. More than £822 million has been invested in BTR and £715 million in the student sector in Q1 to date, our database shows.

Increasingly investors recognise that the strong fundamentals underpinning these markets are unchanged. Their defensive characteristics are also attractive as a hedge against economic uncertainty.

While transactional activity is largely driven by existing investors, there is

rising demand from new entrants to the market, especially as more capital looks to diversify away from traditional real estate sectors.

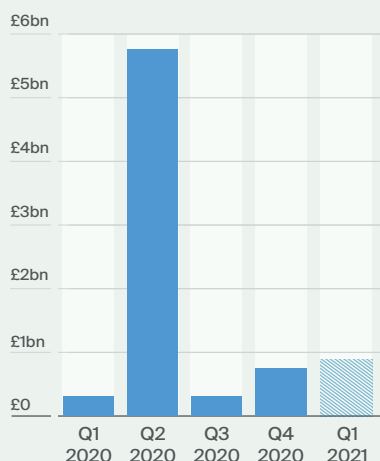
Single family housing has emerged as a key focus for investors in the BTR market this year, while rising student numbers

are likely to drive a pick-up in PBSA investment in core UK cities.

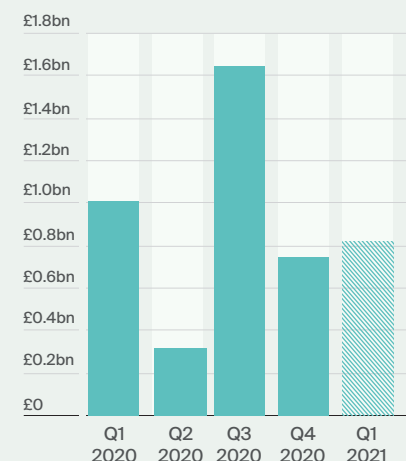
The combination of increased capital committed and further supply of product is likely to be positive for both liquidity and yields.

## Quarterly institutional investment volumes

### STUDENT



### BTR



Source: Knight Frank Research (provisional)

# Market Focus

## STUDENT

While operators undoubtedly had a tough time in 2020, the latest applications and acceptances data suggests that demand for UK higher education remains strong.

Indeed, the number of students enrolled on a university course for the 2020/21 academic cycle was up 5.4% year-on-year, suggesting that initial fears of a downturn in enrolment haven't transpired.

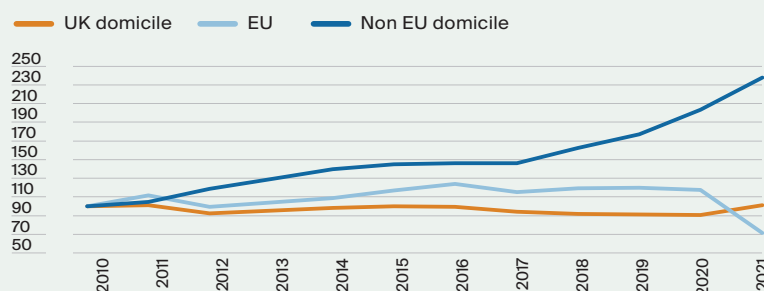
And there are early indications student demand will rise again for the 2021/22 academic year. January deadline data from UCAS points to an 8.4% increase in applications compared with at the same point in the previous cycle. Applications from

outside the EU alone increased by 17.1% year-on-year.

A further pick-up in student demand will help underpin an increase in transaction volumes this year. Meanwhile, yields for

student property are holding stable and investor activity is increasing. Transactions are occurring and whilst this is largely driven by existing consolidators, there is also demand from new entrants to the market.

**January deadline applicants by domicile**  
Applicants for September 2021



Source: Knight Frank Research

## BTR

Rental performance has remained robust in the BTR sector through the pandemic. Our income survey estimates that monthly rent collection has averaged 95% since March 2020.

The stability in the face of wider macro-economic disruption has reinforced BTR's appeal to investors.

Existing investors, such as Legal & General, Aberdeen Standard Investments and Grainger have all been active.

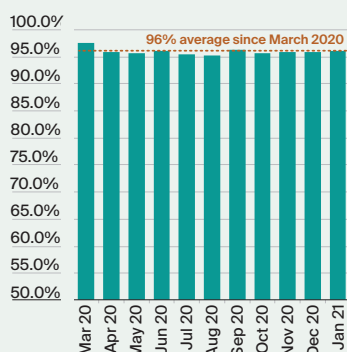
Last year also saw a number of new entrants enter into the market, such as AXA with its purchase of Dolphin Square. This trend has continued into 2021, with Goldman Sachs purchase of the Thistle Portfolio for £150 million in January. Sentiment would suggest that growing investor demand may lead to further competitive tension in the market and an inward movement of yields.

Recent key deals include Legal & General's investments at Hockley Mills in

Birmingham & Tower Works in Leeds. Hockley Mills will comprise 395 apartments and 28,000 sq ft of flexible commercial space. The purchase price of c. £97 million reflects an anticipated stabilised yield of 4.25%.

Tower Works represents a £50 million forward funding of a 250 apartment build to rent development, including amenity and commercial uses. The acquisition reflects an anticipated sub-4.25% yield, once stabilised.

**BTR rent collection**  
as a % of rent due



Source: Knight Frank Research



TOWER WORKS, LEEDS

## RESIDENTIAL INVESTMENT YIELD GUIDE Q1 2021

SECTOR	MAR-19	JUN-19	SEP-19	DEC-19	MAR-20	JUN-20	SEP-20	DEC-20	MAR-21	QTR CHANGE	MARKET SENTIMENT
<b>STUDENT PROPERTY</b>											
Prime London - Direct Let	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.75%-4.00%	▼	STABLE
Prime Regional - Direct Let	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	◀▶	STABLE
Prime London - 25 yr lease, Annual RPI	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	◀▶	STABLE
Prime Regional - 25 yr lease, Annual RPI	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	◀▶	STABLE
<b>CO-LIVING</b>											
Prime London	4.00%	4.00%	4.00%	4.00%	4.00-4.25%	4.25%	4.25%	4.25%	4.00%-4.25%	▼	STABLE
Prime Regional	4.75%	4.75%	4.75%	4.75%	4.75-5.00%	5.00%	5.00%	5.00%	5.00%	◀▶	STABLE
<b>BUILD TO RENT London &amp; South East</b>											
Zone 1 Prime	3.25%-3.50%	3.2%-3.50%	3.25%-3.50%	3.25%-3.50%	3.25%-3.50%	3.25%-3.50%	3.00%-3.25%	3.00%-3.25%	3.00%-3.25%	◀▶	STABLE
Zone 2 Prime	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.25%-3.50%	3.25%-3.50%	3.25%-3.50%	3.25%	3.25%	◀▶	STABLE
Zones 3-4 Prime	3.75%	3.75%	3.75%	3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%	3.50%	◀▶	STABLE
Greater London Prime	4.00%	4.00%	4.00%	4.00%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	◀▶	POSITIVE
South East Prime	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%	4.00%	4.00%	4.00%	4.00%	◀▶	POSITIVE
<b>Regional Cities</b>											
Prime	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%-4.25%	4.00%	4.00%	4.00%	4.00%	4.00%	◀▶	STABLE
Secondary	5.00%-5.25%	5.00%-5.25%	5.00%-5.25%	4.75%-5.00%	4.75%-5.00%	4.75%-5.00%	4.5%-5.00%	4.5%-5.00%	4.5%-5.00%	◀▶	POSITIVE
<b>Single Family Housing</b>											
South East	4.25%	4.25%	4.25%	4.25%	4.25%	4.00%	4.00%	3.85%	3.85%	◀▶	POSITIVE
Regional	4.75%	4.75%	4.75%	4.75%	4.75%	4.50%	4.50%	4.25%	4.25%	◀▶	POSITIVE

### Important note

This yield guide is provided for indicative purposes only and was prepared on 11th March 2021. Yields are reflective of income-focussed transactions of prime, stabilised institutional-grade assets. Yields are provided on a Net Initial Yield (NIY) basis assuming a rack rented property.



### Research

#### Oliver Knight

Head of Residential Development Research  
+44 20 7861 5134  
oliver.knight@knightfrank.com

### Student property

#### Neil Armstrong

Head of Student Property and Valuations  
+44 20 7861 5332  
neil.armstrong@knightfrank.com

### Build to Rent

#### John-Paul Stichbury

Associate  
+44 20 3866 8036  
john-paul.stichbury@knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. © Knight Frank LLP 2021. Terms of use: This report is published for general information only and not to be relied upon in any way. All information is for personal use only and should not be used in any part for commercial third party use. By continuing to access the report, it is recognised that a licence is granted only to use the reports and all content therein in this way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without prior written approval from Knight Frank LLP. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.