AN EMERGING SECTOR

The Residential Investment sector is gaining traction in the UK. Investors looking for long-term returns are seeking out the opportunities afforded in the expanding private rented sector, especially purpose-built age-targeted accommodation.

NOTED
Residential Investment is emerging as a leading real estate sector

Our survey of 43 leading investors, with a combined £32 billion already invested in Student Accommodation, PRS and Senior Living Rental, signals further growth

London and Bristol identified as leading investment opportunities over the next five years, with Birmingham also a strong opportunity area for PRS

Total size of sector forecast to reach £146 billion by 2025

SIZE OF MARKETS

<table>
<thead>
<tr>
<th>Student Accommodation</th>
<th>PRS</th>
<th>Senior Living</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose-Built Student Accommodation (PBSA)</td>
<td>Large-scale investment-grade accommodation built specifically for rental, including new-build ‘Build-to-Rent’ schemes.</td>
<td>Purpose-built rental accommodation specifically for older people, with a range of domiciliary or nursing care available as needed.</td>
</tr>
<tr>
<td>Market type</td>
<td>Mature</td>
<td>Expanding</td>
</tr>
<tr>
<td>Beds/Units</td>
<td>600,000</td>
<td>30,000*</td>
</tr>
<tr>
<td>as % of relevant sector</td>
<td>37%*</td>
<td>2.66%</td>
</tr>
<tr>
<td>% total housing stock</td>
<td>0.42%</td>
<td>0.09%</td>
</tr>
</tbody>
</table>

* Operational ** Mostly pepper-potted * of student market ** of private senior living stock

The Residential Investment sector, incorporating purpose-built Student Accommodation, investment-grade and purpose-built rental accommodation (PRS) and Senior Living has been expanding rapidly in the UK in recent years. The myriad reasons for the growth of investment into income-producing residential markets include a search for diversification, finding value in the granularity of occupiers that comes with individual units, demographic and tenure shifts and a housing policy landscape in the UK that is now embracing diversity of tenure.

Within the three sectors that make up Residential Investment, the fundamentals underpinning the markets are also varied, from educational factors in the Student Accommodation market to housing affordability and employee mobility in the PRS and the ageing population and limited care options in the Senior Living sector.

To examine how these sectors will move over the next five years, we have undertaken a survey of 43 leading investors in Residential Investment, the largest survey of its kind and representing a combined £32 billion of investment. The results of the survey are shown throughout the following pages, and are instructive in highlighting how and where the sectors are set to grow in the medium term, as well as outlining some of the expectations around pricing.

An analysis of each market is shown below, and the report also includes our forecasts (pages 10-11) for the extent of growth in all three sectors by 2025. The PRS sector is expected to lead in Student Accommodation over this time-frame, with the sum of capital invested and committed in the investment-grade PRS rising to more than the total value of the Student Accommodation sector. The combined value of the sectors in 2025, forecast to be £146 billion, means that the sector will start to close in on some of the commercial real estate classes by total asset value, cementing its place as an established asset class for global investors.

The differing maturity of the markets, with the still-establishing Senior Living market sitting higher on the risk curve, means investors can blend their yields, with the expectation of yield compression in the future. This follows the trend seen in the PRS market in recent years, and the more mature student market over the last decade.

THE RESIDENTIAL INVESTMENT SURVEY

An examination of where our 43 survey respondents are currently invested, and where they expect to be invested by 2024, suggests that appetite for Student Accommodation will remain steady in the coming years, while there will be notable growth in PRS and Senior Living.

The survey results also makes clear that some investors who may only be active in one of the three sectors may become active in additional sectors by 2024. For example, some 13% of respondents currently invest across all three sectors, while in 2024 this will rise to 35%. Some 28% of respondents are invested in two sectors today, and in five years’ time this will rise to 68%.

This echoes our expectations for increased diversification within Residential Investment, with investors spreading their exposure across age groups. The drivers of each sector are relatively distinct, with Student Accommodation linked to the expanding tertiary education sector, PRS responding to the massive shifts in tenure seen in the UK over the last two decades, and the underlying need for homes in many key areas across the country, while the Senior Living market is underpinned by the sharply ageing population and the need for age-appropriate housing that offers elements of care.

While there are significant differences in market drivers, there are key synergies in construction and operations, making a move across sectors even more appealing for investors.

The differing maturity of the markets, with the still-establishing Senior Living market sitting higher on the risk curve, means investors can blend their yields, with the expectation of yield compression in the future. This follows the trend seen in the PRS market in recent years, and the more mature student market over the last decade.

Source: Knight Frank Residential Investment Survey 2019
**GROSS TO NET**

We asked respondents about their current gross to net, and the mean average of the responses from London and the regions are blended, as shown in the chart. Generally the figure was higher in the regions, reflecting the typically lower rental levels in regional cities.

The spread between the totals in the three sectors is perhaps not as large as may be commonly assumed, but it also shows that Student Accommodation, as the more mature market, is the most efficient in terms of operational costs in part due to the higher density of tenants helping to drive operating efficiencies. At the other end of the scale, the Senior Living market has the largest gross to net leakage, which is to be expected given the typically higher levels of servicing, care and amenity provided.

**WHERE IS INVESTMENT COMING FROM?**

When looking at global investment into the Residential Investment sector, the heads of our three specialist teams at Knight Frank explain which continents and countries from outside the UK they have seen the most activity in recent years:

**STUDENT ACCOMMODATION**

James Pullan  
Head of Student Property

The key investors in the Student Accommodation sector have come from the North American equity houses and the Singaporean REITS. The North American equity houses are looking to add value through scale and by upgrading and rebranding. The Singaporean investors are predominantly seeking +6% NY. We anticipate that significant investment in the next twelve months will come from US pension funds able to access scale.

**PRS**

Nick Pleydell-Bouverie  
Head of Residential Investment Agency

As the PRS market has matured, we have seen capital flows into UK PRS diversifying and becoming truly global, with direct investment from Europe, the Middle East, Asia and Australia. For the first time we are also seeing new overseas investors seeking a blend of both commercial and residential investments in the UK to establish balanced portfolios and diversify their holdings. PRS is now established as a mainstream UK property sector.

**SENIOR LIVING**

Tom Scaife  
Head of Senior Living

Investment from the UK, USA and Canada that initially flowed into more mature PRS and student markets has diversified into the UK Senior Living rental market. This is not unsurprising given Senior Living completes the rental journey across residential investment. As investment increases from the Middle East and Malaysia into the more mature markets, expect to see it also flow into Senior Living, as investors get comfortable with the product, returns and available data in a nascent market.

**“SWEET SPOT”**

When asked about the size of schemes that best fit their investment criteria at present, the median of all responses showed that there was a desire for similar-sized schemes by GDV in London and the regions across all three sectors. The mean average of responses was slightly higher, as this average figure does not discount the “outliers” – in this case larger players looking for significantly bigger schemes - particularly in PRS. However there is a bigger range of responses when it comes to the “sweet spot” measured by the number of beds or units, reflecting the fact that student schemes tend to have smaller units, while being most efficient in terms of operating costs as a proportion of gross income, while PRS and Senior Living schemes will have larger units with a greater level of amenity and care provision.

**What is your typical Gross to Net?** UK average

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Accommodation</td>
<td>23.8%</td>
</tr>
<tr>
<td>PRS</td>
<td>25.8%</td>
</tr>
<tr>
<td>Senior Living</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: Knight Frank Residential Investment Survey 2019
RENTS AND OUTLOOK

An examination of the latest rental growth shows the spread across the country for both Student Accommodation and private rented apartments.

Rental growth, in the Student Accommodation market, and the wider residential rental market, which includes properties owned by individual landlords, has varied according to geography over the last year, as shown on the map to the right.

The student market has been strongest for rental growth in Bristol and Edinburgh in the year to the start of the current academic year.

Meanwhile, an examination of asking residential rents shows that they rose most strongly in Birmingham and Edinburgh, although anecdotal evidence shows that in some cases rental premiums can be achieved depending on the location, specification, servicing and amenities of the building.

The Senior Living market is also not yet established enough to have data on the growth of rents.

When we asked our survey respondents what they expected in terms of rental growth over the next five years, the average figures suggested a continuation of the current trend, although those in the Senior Living rental sector are expecting higher annual rental growth than the PRS market, as shown below.

Survey Respondents’ expectations for annual rental growth to 2024 by sector:

- **Student Accommodation**: 3.2% to 3.8%
- **PRS**: 2.4% to 4.8%
- **Senior Living**: 2.3% to 3.2%

**Note**: PRS denotes investment-grade PRS.

Source: Knight Frank Residential Investment Survey 2019
LOOKING TO THE FUTURE

Which cities will outperform the market over the next five years?

The survey respondents identified the cities where they saw the biggest opportunities in each sector. When examining the top three cities in each market, London and Bristol emerge as opportunity areas across all three sectors. This suggests an overlap of the different drivers for each sector to provide a favourable investment environment - from strong student demand, large-scale city regeneration and development as well as strong employment conditions, and finally a lack of senior living units. Birmingham is the best opportunity for PRS by quite some margin, according to respondents, driven by regeneration and infrastructure improvement.

When asked which sector would outperform in 2019, our survey respondents suggested that PRS would narrowly beat Student Accommodation.

The Student Accommodation sector was founded on the basis of highly attractive demographics and a demonstrable structural undersupply.

Even today, after the private sector has delivered 250,000 bedrooms across the UK, the sector remains structurally under-supplied, with 2.9 students for every bed in purpose-built student accommodation (PBSA) provided by either the university or the private sector.

Institutions are attracted to the opportunities for economies of scale and assets in portfolios are worth more than assets sitting outside of them. Arguably, PBSA was the first mover in the Residential Investment sector but with the development opportunity reducing, it is likely to be overtaken in scale by PRS within two years and the Senior Living sector within ten years.

James Pullan
Head of Student Property

Our investor survey shows that Birmingham is expected to outperform all other UK cities over the coming five years, with London, Bristol and Leeds closely behind.

Birmingham presents an incredibly compelling investment opportunity for PRS, with a rapidly growing population, significant infrastructure and transport improvements and a structural undersupply of new-build PRS product. London and Leeds are also two cities to closely watch for outperformance. London continues to present significant opportunity for PRS, given the size of the market - the growing population of Greater London is already bigger than the next six largest UK cities combined.

Nick Pleydell-Bouverie
Head of Residential Investment Agency

Meanwhile Leeds is seeing the fastest private sector growth of any regional city in the UK.

Tom Scaife
Head of Senior Living

It is unsurprising that some of the top performing cities in the next five years are in areas with the highest house prices, in London, Bristol and Edinburgh.

Senior Living rental is an asset-sale model, with the family house being sold to pay for rent and care. Investing first into higher value locations where the downsizing premium – the value of the family home relative to investment into senior living – is at its largest is a good option to ensure strongest tenant demand.

In the next five years we expect to see a race to scale and brand-building from some of the early movers to create management platforms with operational efficiencies. Good customer experience and a high level of service will be at the core of all business plans.

When asked if the Residential Investment sector will outperform over the next five years, respondents said:

- Yes – quality of education
- Yes, demographic driven, undersupplied market, premium rents will be established with long term rental growth prospects, potential for yield compression
- Yes, because of demographic fundamentals, housing shortage and ageing population

Which sector will outperform this year?

Survey Respondents:

PRS

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Head of Student Property

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In the next five years we expect to see a race to scale and brand-building from some of the early movers to create management platforms with operational efficiencies. Good customer experience and a high level of service will be at the core of all business plans.
The Student Accommodation, PRS and Senior Living sectors are all set to grow in the coming five years. Here we examine the views of our survey respondents, as well as sharing Knight Frank’s forecast for sector growth between now and 2025.

SECTOR GROWTH

More than two-thirds of our respondents who are not already fully invested in one or more of these sectors intend to increase their exposure in the coming years, according to our survey. This suggests that investors are not only increasing the size of their holdings, but also diversifying across the sectors, a theme we examined on page 3. We also used the survey responses, coupled with our market intelligence, to calculate the growth of our respondents’ investment into the sector over the next five years. The results suggest growth in all three sectors, with a 57% growth in Student Accommodation investment in 2024 compared to today. Investment into the PRS and Senior Living markets is expected to more than double from current levels, with 135% and 137% growth respectively.

This broadly echoes our own forecasts for total growth in the sector.

Back in 2015, the combined values of Student Accommodation, PRS – which includes capital invested as well as committed, and Senior Living rental, was around £44.6 billion. Today, that figure has nearly doubled to £87 billion, according to Knight Frank calculations, with the biggest growth seen in the PRS, where total investment and capital committed has more than doubled in size.

To put this in context, IPF data suggests that the UK Retail sector is currently valued at £351 billion, while the office market is worth £277 billion. The industrial sector is worth £226 billion. Yet the total investable assets in these sectors stands at £215 billion, £175 billion and £69 billion respectively, meaning Residential Investment has overtaken industrial on a like-for-like basis. In addition, the total value of all residential property in the UK is worth around £7 trillion, which means that a relatively modest transfer of rental accommodation from private landlords to purpose-built student accommodation, PRS or Senior Living would result in a large rise in the size of the sector.

Knight Frank estimates that the total value of the Residential Investment sector, including capital committed in PRS, will rise by 68% by 2025, taking the total value of the sector to £146 billion. By then, the PRS and Senior Living markets will be more established, underpinned by a broad base of investors keen to tap into an asset class which is closely linked to student, employment and population fundamentals across the UK.

Total Residential Investment
Knight Frank Forecasts

How will your portfolio exposure to Residential Investment change in the coming five years? Survey respondents, excluding those already fully invested.

<table>
<thead>
<tr>
<th>Intend to reduce holdings</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>No Change</td>
</tr>
</tbody>
</table>

Source: Knight Frank Residential Investment Survey 2019

Source: IPF, Knight Frank

£146bn
total forecast size of Residential Investment sector by 2025, Knight Frank

Estimated uplift in Respondent Group investments over next five years

<table>
<thead>
<tr>
<th>sector</th>
<th>£2019</th>
<th>£2020</th>
<th>£2021</th>
<th>£2022</th>
<th>£2023</th>
<th>£2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRS</td>
<td>£31bn</td>
<td>£51bn</td>
<td>£65bn</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Living</td>
<td>£15bn</td>
<td>£35bn</td>
<td>£75bn</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Knight Frank Residential Investment Survey 2019
The Birmingham Report - 2018
UK Housing Market Forecast - Nov 2018
Retirement Living comes of age - 2018
UK Student Housing Survey - 2018/19

Knight Frank Research Reports are available at KnightFrank.com/Research

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