

UK Build to Rent Market Update



Falling supply supports rental growth across UK

Annual rental growth in the UK has now reached new heights, with the median asking rent rising nearly 20% in the year to April 2021. This corresponds with a reduction in the number of properties available on the market, which has been trending downwards since 2018. While growth has been strongest in suburban and rural areas, we are now reaching a turning point in the market as demand once again outstrips supply in urban areas.

A matter of supply and demand

Rental growth is governed by the balance of supply and demand. There has been a consistent decline in the number of new rental listings across the country as a whole since 2018 (Figure 1). The number of lettings has been relatively constant however. This means there has been stable demand but falling supply, pushing up rents at a national level. Growth has been particularly strong over the past 18 months as the “Race for Space” has gathered momentum.

What is the long-term trend?

Partly responsible for the reduction in rental listings nationally is the continued exodus of mortgaged Buy-to-Let landlords from the rental market (over 180,000 mortgage redemptions since Q1 2017).

During this time we have seen c.50,000 Build to Rent (BtR) completions (Figure 2) and while this has created some new supply, it has not kept pace with the number of redemptions and there remains considerable scope to increase BtR supply nationally.

Rental homes are set to remain in high demand with house prices currently rising at their fastest rate in over 15 years. This means many First-Time-Buyers (FTBs) will struggle to access homeownership, and will now be renting for longer. This trend is already underway with mortgage approvals for FTBs down -6% in the year to March 2021 across the country (UK Finance).

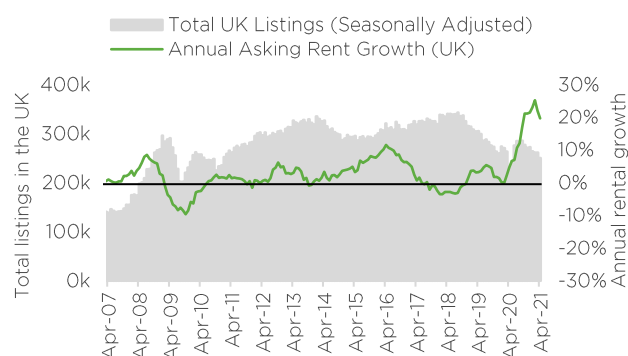
Where next for London?

In contrast to the national picture, new rental supply has risen sharply in the capital over the past 18 months, placing some downward pressure on rents (Figure 3). The latest RICS survey shows that we are now seeing demand return in London which will reduce some of the excess supply.

A number of indices are already reporting a return to positive growth (Table 1). Homelet are reporting monthly growth of 1.5% for achieved rents in June. This is the fastest rate of growth since August 2020 and suggests a turning point in the market. Data from Zoopla and Rightmove also suggests a return to growth.

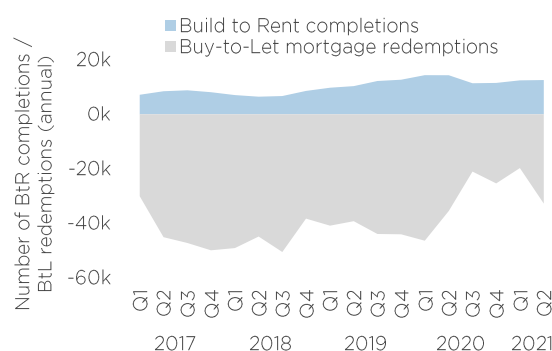
London listings now appear to be falling, having peaked at the end of 2020. This suggests the downward pressure on rents in the capital is subsiding and will support rental growth across London.

Figure 1 – Strong rental growth across the UK against a backdrop of falling rental listings



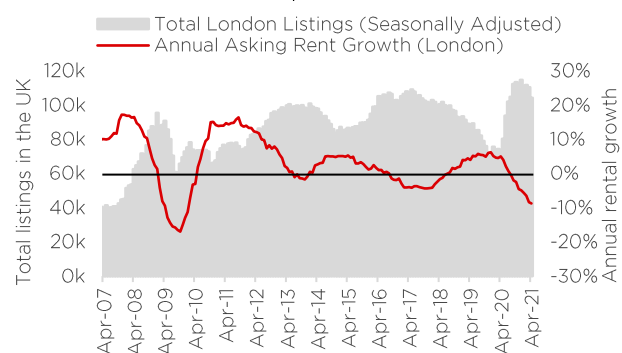
Source: Rightmove

Figure 2 – Build to Rent completions failing to keep pace with Buy-to-Let mortgage redemptions



Source: Savills Research using UK Finance, Molior, British Property Federation

Figure 3 – London recovery anticipated as demand starts to return to the capital



Source: Rightmove

Table 1 Summary of rental indices

	London		UK excluding London / GB excluding London	
	m/m	3m	m/m	3m
Homelet (June 2021)	1.5%	1.3%	0.8%	-
Rightmove (Q2 2021)	-	2.4%	-	2.4%
Zoopla (May 2021)	0.4%	0.6%	0.6%	1.4%

Source: Savills analysis using Homelet, Rightmove, Zoopla Rental Index powered by Hometrack

UK Build to Rent Investment

More than £550 million was invested into UK Build to Rent during Q2 2021.

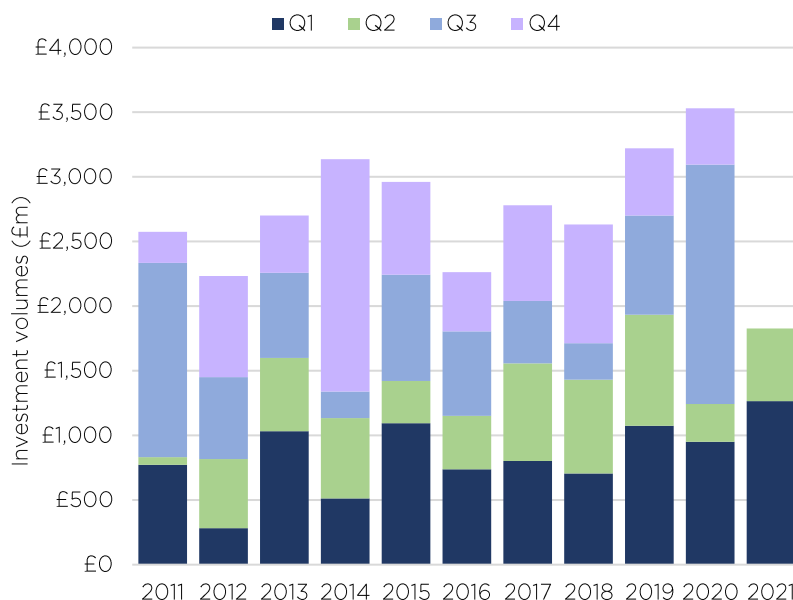
During Q1, operational deals dominated the landscape but the pendulum has since swung back in the direction of forward fund deals. More than £400 million was invested to fund future developments during Q2.

This included another new entrant to the sector with Heimstaden Bostad agreeing to fund 752 apartments at Soho Wharf in Birmingham. This is a continuation of the trend we have seen post-lockdown, with more and more investors making their debuts into the sector.

Six funding deals occurred during Q2 with five coming outside of London. These came across a range of locations including Birmingham, Brighton, Southampton and Derby.

Pension Insurance Corporation secured their second BtR development in Q2, agreeing to forward fund Amro Partners in the delivery of 'The Wiltern' in west London. This follows on from their Manchester New Victoria forward funding transaction with Muse in 2020.

Figure 4 Over £550m invested into UK Build to Rent during Q2 as funding for future developments dominate once again



Source Savills

UK Build to Rent Development

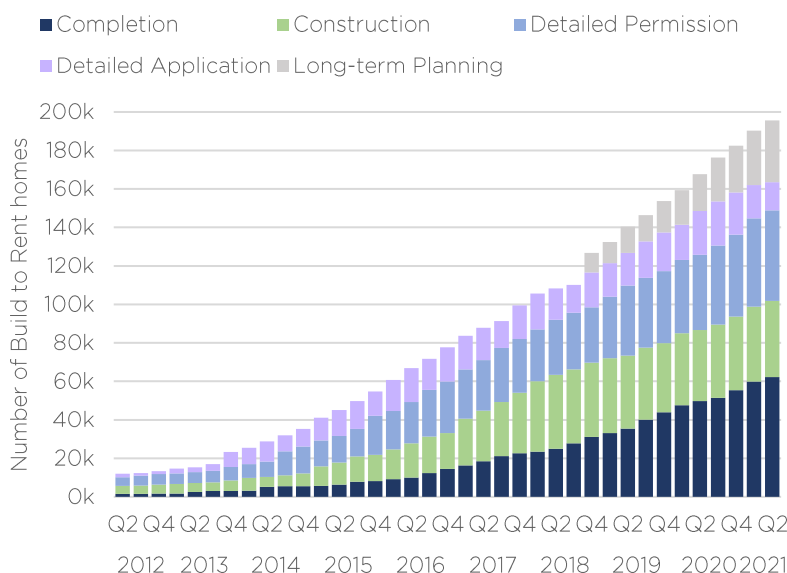
The UK's BtR stock now stands at 62,300 completed homes with a further 39,500 homes under construction. The future pipeline currently stands at 93,800 homes, including those in the pre-application stage – a slight fall from Q1's 94,700. This brings the total size of the sector to 195,600 homes completed or in development.

The slight contraction of the planning pipeline has resulted from a significant recovery in the construction pipeline, driven by new home starts outside of London. Three schemes delivering over 500 homes started construction outside of the capital over the last year, including two schemes backed by new entrants.

Annual starts outside of London have now recovered to 85% of their historic peak while starts in the capital remain subdued, at 50% of their peak in 2018.

With starts now once again outpacing completions in the regions we are seeing the construction pipeline return to growth. This will help support the overall supply of BtR stock across the UK.

Figure 5 Rebound in starts outside of London drive recovery in construction pipeline



Source Savills, British Property Federation, Molior

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