

UK Build to Rent Market Update



The first quarter of 2023 saw £820m transacted in UK Build to Rent. Whilst this is the lowest Q1 since 2018, it is only c£240m less than Germany, the largest investment market in Europe and Single Family Housing (SFH) has enjoyed a record quarter.

The completion of Project Domus and Great Charles Street will prove pivotal in driving market liquidity in the SFH and MF sectors, respectively, with each deal supplying further transactional evidence to help investors understand where pricing sits.

Completed deals and the latest market activity in both the SFH and MF spaces support that yields have moved c25bps since their peak in Q2 2022. The supporting tailwinds in BtR have sustained interest from new and existing investors and ensured competition on actively marketed opportunities.

From a development perspective, the number of homes under construction has grown by nearly a third in the past 24 months and construction now spans 25% of local authorities.

BtR has become a key part of addressing housing need in the UK and is taking an increasing share of construction starts.



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Fresh transactional evidence is helping to drive market liquidity

In Q1 2023, 12 deals transacted, with just under two thirds coming through development-based activity. Most had been in progress since Q2/Q3 2022 given the time taken to execute development deals. Several of the operational assets that traded were the first to be openly marketed in the wake of the mini-budget and ensuing market uncertainty.

Across development and operational deals, we have generally seen pricing maintained between offer acceptance and completion. This is despite challenges in the development and debt markets, as rental growth has offset a softening in yields.

The slower than normal start to the year is also a result of fewer opportunities marketed in Q4 – particularly on the development side.

Record level of investment into SFH despite concerns around pricing

Q1 was a record quarter for SFH- c£500m was invested. The scale of investment, alongside strong operational performance, is stabilising yield sentiment and supporting liquidity.

Goldman Sachs' sale of 918 SFH homes in the North West to PGIM (Project Domus) will help unlock further investment. The sale attracted a high level of interest from a varied pool of investors. This illustrates belief in the long-term structural tailwinds of this emerging sector particularly as bids were received in the highly uncertain aftermath of the Truss-Kwarteng "Mini-Budget".

Our recent European Investor survey showed that 'Pricing and Return' profile is the number one obstacle for Living sector investment. Project Domus has supplied the market with much-needed transactional evidence which will help investors to understand current pricing and returns, helping to drive liquidity.

Savills European Investor Survey

In Q1 2023, Savills Research and Savills Investment Management surveyed 68 investors to gauge market sentiment. The greatest cited obstacles (major barrier) for investment were:



Pricing and return profile



Access to stock / scalability



Regulatory Risks

Vast number of opportunities in the market for active investors

Whilst 'Access To Stock' is a concern for investors, there are a significant number of opportunities being marketed. For example, in Q1 2023, Savills marketed £1.5bn worth of assets. Latest investor interest includes a number of new entrants to the UK market and a return to the market from longer term supporters of UK BtR – some of whom paused strategies towards the end of last year. The record level of investment in 2021/22 mean there is a healthy construction pipeline (49,500 homes) with investors working hard to progress schemes.

Given challenges facing the private for sale market, we are likely to see an increase in the number of 'forward funding and forward commitment' opportunities. In 2022, 33% of investors were new entrants, showing faith in UK market fundamentals.

Investors are well placed to navigate UK rental market reform

The third greatest obstacle revealed by our investor survey is 'Regulatory Risks'. Speculation continues as to whether the UK rental market is likely to see rental market reform, but Scottish attempts at a 'rent freeze' have had unintended consequences on housing delivery and rental growth on new lettings. Either way, we expect professional landlords will be able to operate successfully in this new environment. For example, the biggest players in the sector already increase rents in line with inflation (rebased new lets to market) and offer rolling tenancies.

Table 1 Key Build to Rent deals completing in Q1 2023

Scheme	Location	Purchaser	Type	SFH/MF
Great Charles St	Birmingham	Apache Capital	Development	MF
Latitude Blue	Leeds	Realstar Group	Forward Fund	MF
Grafton Way	Ipswich	Packaged Living/Aviva	Forward Fund	SFH
Project Domus	North West	PGIM	Operational	SFH
Bow Square	Southampton	CompassRock	Operational	MF

UK Build to Rent Investment

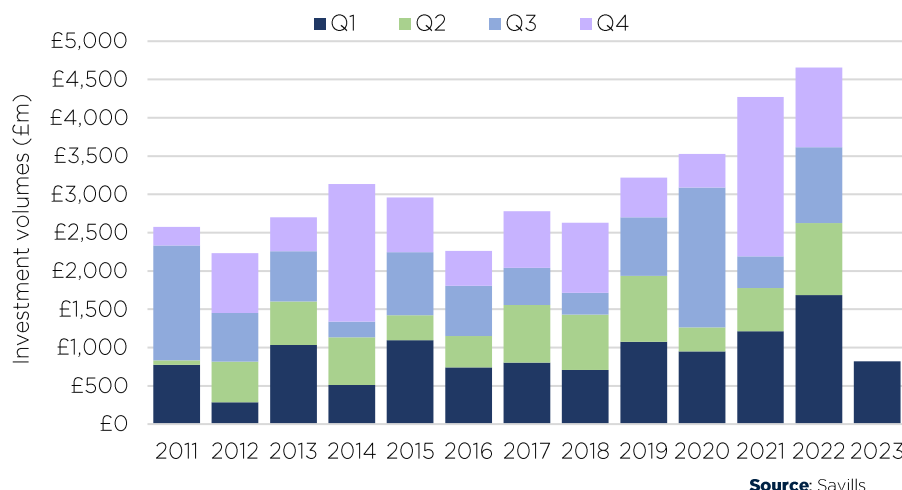
The first quarter of 2023 saw 12 deals transacting, totalling over 3,500 homes.

This was a combined £820m with just under two thirds coming through development based activity. The total is the lowest Q1 since 2018 and is likely reflective of market sentiment around the “Mini Budget”, given the time it takes for development based deals to run to completion.

More than a third (36%) of investment were operational deals, up from 21% in 2022 and broadly in line with 2020 and 2021. The total has been boosted by the strong performance from Single Family Rental deals in Q1.

SFH deals made up 60% of total investment in Q1 2023, the highest proportion on record.

Figure 1 – £820 million invested in Q1 2023, the lowest Q1 since 2018



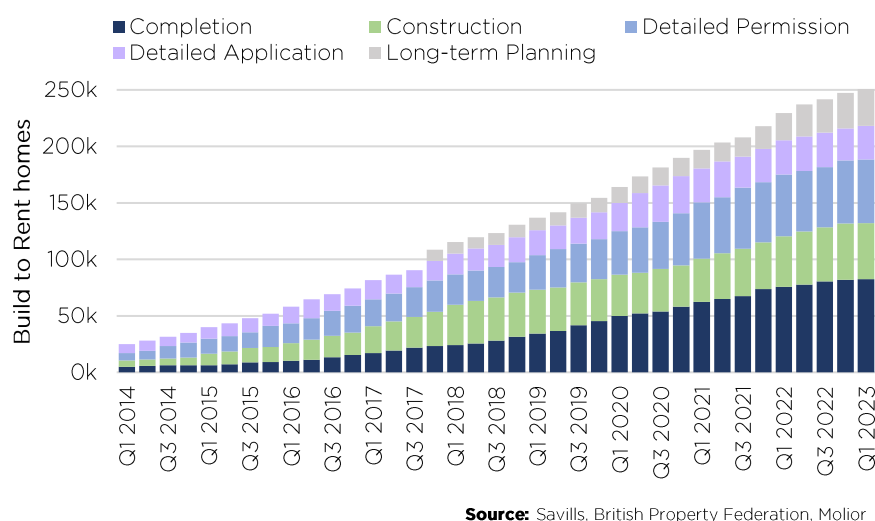
UK Build to Rent Development

The UK's Build to Rent stock now stands at 82,500 completed homes, with a further 49,500 homes under construction. There are a further 119,300 homes in the pipeline, including those in the pre-application stage. The total size of the sector is 251,200 homes completed or in the potential pipeline.

Q1 2023 data shows that starts and completions have dropped, likely due to the economic headwinds facing the wider construction sector and residential development market. This, however, follows incredibly strong starts in 2021, especially in the regions where there are c.33,900 homes in the construction pipeline, alongside a further c.15,600 homes in London.

The latest quarter's data shows that Build to Rent delivery has begun to slow down, suggesting it is not immune to the headwinds facing the wider construction sector.

Figure 2 – Construction pipeline remains healthy in Q1 2023



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