

UK Build to Rent Market Update



Shortage of rental stock nationwide presents huge opportunities for Build to Rent investment

Nearly every local authority in the UK is currently in need of new rental supply. This is fuelling rental growth, far in excess of average annual growth since 2011. The Buy-to-Let sector is likely responsible for falling rental supply, with a growing number of mortgaged landlords selling up and exiting the market. New rental supply is not plugging the current supply gap and there is considerable scope for investors to deliver Build to Rent across all locations and price points.

Widespread stock shortages fuelling rental growth

At a national level, the number of properties available to rent during Q4 2021 was -39% lower than the 2017 to 2019 average. Stock shortages were most acute in the North East with the number of listings on Rightmove running at just under half the 2017-19 average.

This lack of stock has fuelled strong rental growth in nearly all locations (Figure 1). In fact, national annual rental growth of 7.4% per annum in the year to November 2021 has far outpaced the annualised rate of growth seen between 2011 and 2019 of 2.1% per annum.

Buy-to-Let sector responsible for falling rental supply

One suggestion for the widespread lack of stock is that Buy-to-Let landlords have used 2021 as an opportunity to crystallise gains and sell out of the sector.

Data from UK Finance suggests a contraction of the Buy-to-Let sector. In the year to October 2021 there were approximately 58,000 mortgaged Buy-to-Let redemptions, up from 28,000 a year ago, suggesting a growing number of mortgaged landlords are selling up and exiting the market. This is supported by the District Councils Network who recently warned that 76% of local councils have seen a rise in landlords either selling or converting to Airbnb lets. This has

intensified pressure on council housing services.

Meanwhile, Zoopla Research recently reported that 8% of homes listed for sale in Q3 2021 had been rented out in the last 3 years, up from 5% in Q1 2021 and 3% in Q3 2019. This suggests, based on Savills estimate of 1.5m transactions in 2021, that between 75,000 and 120,000 homes sold in 2021 could have come from the rental market. Some of these sales will have been recycled between landlords but given the tax and regulatory pressures targeting the Buy-to-let market, many landlords will be looking for a route out of the market.

The rise and rise of Build to Rent

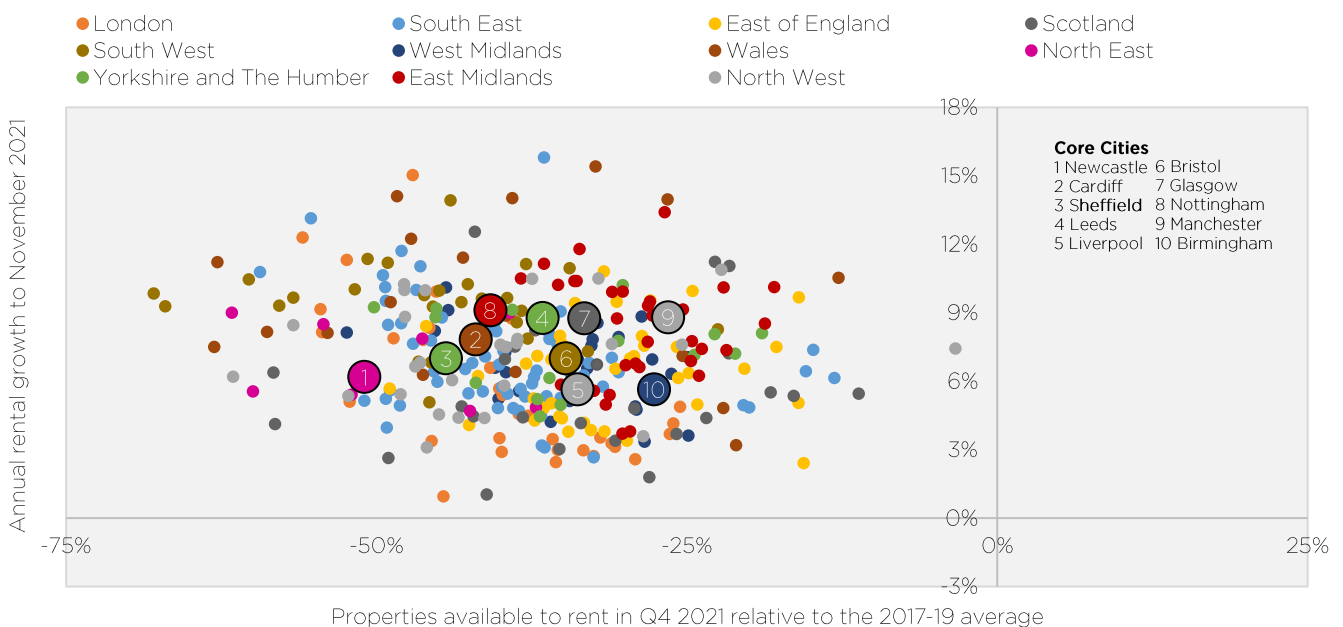
Against the backdrop of falling rental supply, Build to Rent is fast becoming an important part of UK housing delivery. There were 14,660 BtR completions in 2021, 15% higher than the 2019-21 average.

Rising BtR completions is nothing new and we estimate there will be 30,000 annual completions by 2026, 13.5% of annual supply. What has shifted recently however is distribution. Since the first Covid-19 lockdown, investors have realised the opportunity to become early investors in new markets. Build to Rent has been earmarked for an additional 29 local authorities since March 2020 meaning 38% of local authorities now have BtR in their pipeline, up from 20% in Q1 2017.

Can Build to Rent plug the supply gap?

It is clear that Build to Rent is finding its place across the nation and can help to address the widespread supply shortages seen in Figure 1. The fall in available homes to rent nationally on Rightmove (97,000 fewer in Q4 2021 vs Q4 2019) far outweighs new BtR supply of c. 15,000 per annum in 2021. There remains considerable scope for new rental supply to enter the rental market up and down the country.

Figure 1 Shortage of rental stock fuelling strong rental growth across nearly every UK local authority



Source: Zoopla powered by Hometrack, Rightmove

UK Build to Rent Investment

More than £4 billion was invested into UK Build to Rent in 2021. Around half of this came in the final quarter, setting a new record for quarterly Build to Rent investment (circa £2bn).

Forward fund deals made up 64% of investment flowing into the sector and remain a vital route to market as the sector matures. That said, a number of large-scale portfolio deals completed this year. The latest is Greystar’s acquisition of a minority stake in the Fizzy Living platform, which significantly boosts their footprint in the capital.

In 2021 many investors announced significant aspirations to scale up across the country across both urban multifamily and suburban single family platforms. These include established international players such as Blackstone (US) and Macquarie Asset Management (Australia) as well as less-experienced new entrants such as John Lewis and Lloyds Bank.

Lloyds are aiming to expand rapidly and are targeting 50,000 rental homes by 2030. This would redefine what scale looks like in the UK with Grainger, the current largest BTR landlord, boasting 7,200 Build to Rent homes to date.

UK Build to Rent Development

The UK’s BtR stock now stands at 70,785 completed homes with a further 42,100 homes under construction. The future pipeline currently stands at 99,300 homes, including those in the pre-application stage. This brings the total size of the sector to 212,200 homes completed or in development.

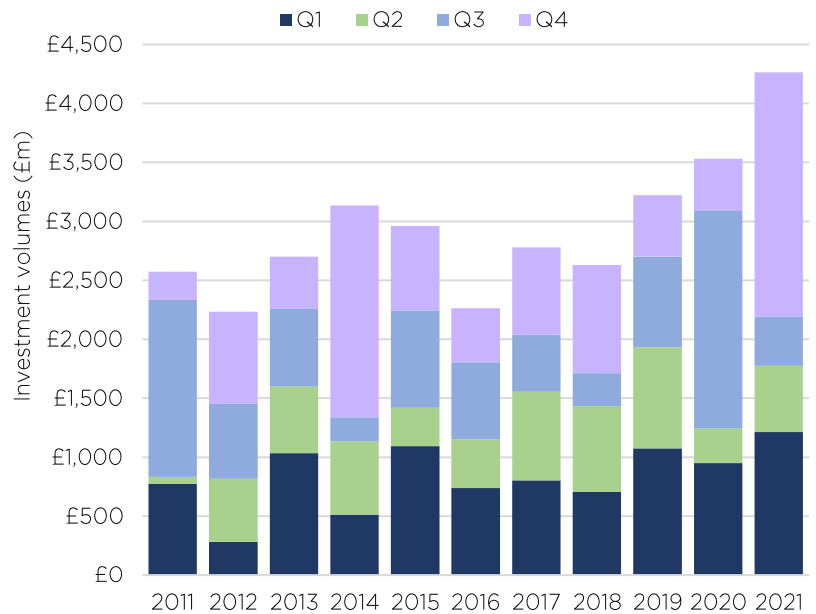
Regional new home starts have continued to drive the construction pipeline. In 2021 nearly 13,500 homes started construction outside London. This is 47% higher than the three year average (2019-21).

Starts within London remain subdued while completions are running at an all-time high. In 2021 6,800 Build to Rent homes completed in London, 21% higher than the three year average (2019-21). At the same time 4,100 new Build to Rent homes started construction, down -18% on the three year average.

With London starts failing to keep pace with completions, the construction pipeline shrunk -15% in 2021 in the capital while the regions saw their construction pipeline grow by 27%.

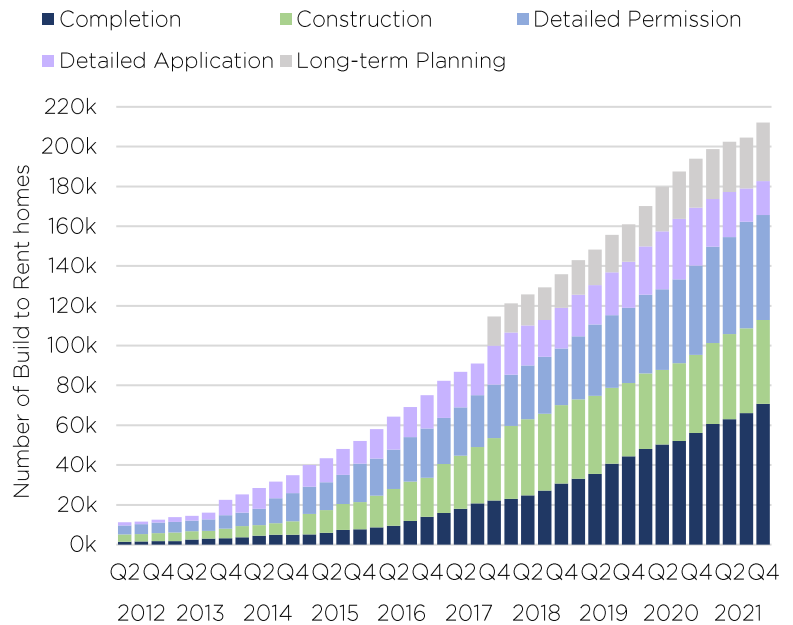
The sector continues to rebalance and shift towards regional towns and cities with strong fundamentals. 39% of local authorities now have BtR in their pipeline, more than double the number in Q1 2017 (18%).

Figure 2 Record £4.3bn invested into UK Build to Rent during 2021



Source Savills

Figure 3 UK construction pipeline continues to grow in 2021 despite contraction of London Build to Rent construction



Source Savills, British Property Federation, Molior

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