

Sector Briefing:

UK BUILT-TO-RENT (BTR) SECTOR

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MARKET DEFINITION

BUILD-TO-RENT (BTR) IN EUROPE

- BNP Paribas (Apr 2022) defines a Build-to-Rent (BTR) asset as a new-build apartment block designed by developers, held by a single investor or joint venture, professionally managed, and offered exclusively for the long- and short-term rental sector, rather than for sale. Investors focus on the building and the management to secure a long-term investment providing recurrent and stable income. Property Investment adds BTR developments are generally developed by or with the involvement of large property development companies, large landlords, pension funds and institutional investors.
- Inventory base says one of the main advantages of BTR is that it offers long-term security of tenure to tenants. Unlike traditional rental properties, where landlords may need to respond to changes in the market, BTR properties are designed to provide long-term rental solutions. BTR offers a predictable income stream, with rents paid on a monthly basis and, more typically, longer lease periods than traditional rental properties. Additionally, BTR properties are often built in high-demand locations, e.g. commuter hubs, providing an opportunity for capital appreciation.
- BNP Paribas says BTR is an extension of the Private Rented Sector (PRS) as European housing markets have become institutionalised amid a lack of housing supply. PRS is a term for privately owned properties offered to the rental market, ranging from single dwellings owned by individuals to professionally managed portfolios. BTR is emerging in a context of economic slowdown, convergence of real estate performances, and a rise of rental tenure choice owing to the increase in house prices.
- BTR developments are new builds with a contemporary design that suits modern living styles with mod cons. They may also be partly or fully furnished. BTR developments often include amenities such as a concierge, gym, communal lounge, roof terraces, secure cycle storage, or cinema room. They may offer on-site social activities to residents. Developers usually aim to create a community, not solely an accommodation to rent.
- According to BNP Paribas, BTR assets in Europe are accessible through different investment models. Investors can opt for direct or indirect ownership using equity

or debt holding. They can also form joint ventures with other market players to benefit from local expertise or specific skills, as well as take on different levels of risk exposure by choosing whether to be involved in the construction/operational phases.

INVESTMENT MODELS

- BNP Paribas outlines the following four BTR investment models:
 - **Equity** - investors can access BTR assets and gain equity exposure through funds or by purchasing shares of a listed Real Estate Investment Trust (REIT). In doing so, investors indirectly own a share of the asset and expect a return on their investment based on the investment strategy defined by the fund or the REIT.
 - **Joint venture (JV)** - in a JV investment, two or more parties pool their resources to develop a specific project. Parties forming the JV generally have unique backgrounds, expertise and skills and combine them in a specific legal structure to achieve their goal.
 - **Forward funding** - in the forward funding investment model, the developer acquires the land and builds a turnkey asset for the investor. The investor designs the building with the developer, acquires the building permits and is involved in all the construction/operational processes, gradually purchasing each phase of the construction.
 - **Forward purchase** - in the forward purchase, the investor has a lower risk tolerance and prefers to purchase a finished asset. In this purchasing contract, the developer acquires the land, applies for a building permit, and develops the project. Both parties agree on a selling price that will be paid once the building is operational.
- BNP Paribas (Apr 2022) says in more mature markets such as the UK and Germany, most BTR assets are financed using a forward-funding process. In the UK, two thirds of BTR assets are forward funded while the remainder are standing stock.
 - From an *investor's perspective*, as a reward for forward funding and de-risking the development, BNP Paribas says most investors can expect a discount of 5%-15% of the aggregate development market value (according to location) and therefore a higher return thanks to their greater risk exposure.

- From a *developer perspective*, the model offers significant cash flow from the outset, certainty of development finance for the project, a more balanced approach to risk than forward purchase, no marketing cost, and the ability to move onto other development projects more quickly.
- In France and Spain, where the BTR sector is still emerging, BNP Paribas says most deals are forward purchase.
- BNP Paribas also sees a substantial increase in local and international JVs to secure the future pipeline and increase foreign market penetration. The lack of products, the scarcity of land and the fierce competition between investors are prompting more forward funding deals to get ahead of the production chain.

BTR INVESTMENT IN KEY EUROPEAN COUNTRIES

- BNP Paribas (Apr 2022) provides the following comparison on BTR investment between key European countries over the five years to April 2022:
 - **United Kingdom.** Over the last five years, more than €20bn has been invested in the BTR sector in the UK. More than 50% of the investment has been by the top 20 investors, including Legal & General (€1.7bn), Grainger (€1.4bn) and Invesco Real Estate (just over €1bn). London, Manchester and Birmingham as well as the Midlands region account for nearly 70% of total investment. London is in the lead (€7.5bn) followed by Manchester (€3bn), and Birmingham (€2.25bn).
 - **Germany.** €23bn has been invested in the new-build sector over the last five years. The market is more concentrated than the UK as the top 15 investors represent 50% of the total invested over the period. Degussa Bank (almost €1.8bn), Patrizia and Vonovia (€1.2bn each), Corestate capital, Catella, and Quantum Immobilien AG (c. €1bn each) have been the most active players over the last five years. The preferred locations are the Berlin-Brandenburg metropolis (nearly €6bn, more than 25% of total investment), Frankfurt/Rhine-Main (over €3.3bn), and Hamburg metropolis (nearly €2bn).
 - **France.** The new-build sector in France has attracted nearly €7.5bn over the last five years. CDC Habitat and AXA IM have been the most active players so far. In fact, CDC Habitat, one of the largest real estate investors in France, with a public interest mandate, launched a recovery plan in 2020 to support housing construction, buying around 40,000 dwellings for a total investment of

around €4bn. AXA IM has invested €1.5bn, including the acquisition of a new housing portfolio in 2021. BNP says several investors are joining the French new-build market intending to develop a BTR product. The preferred location so far is the Paris region, with more than €4bn allocated over the last five years, or 57% of total investment. The Aix-Marseille metropolis comes second with more than €400m invested, followed by Lyon (€250m).

- **Spain.** Around €3bn has been invested in the BTR sector over the last five years. It is being particularly closely looked at by institutional investors for its strong potential growth. The most active investors over the last five years have been AXA (€550m), DWS (€362m), Grupo Lar/Primonial (€20m), Patrizia (€248m), Renta Corporation (€240m), Greystar (€220m), Aberdeen Standard Investment (€135m), and M&G Real Estate (€105m). These eight investors represent more than 70% of total investment. The Madrid region is in pole position with over 55% of the total allocation, followed by Catalonia (17%).
- *From hereon in this report will focus solely on the UK BTR market.*

UK BUILD-TO-RENT

MARKET SIZE AND KEY CITIES

- Based on its analysis of current operational BTR stock, and stock under construction, real estate consultancy [Knight Frank](#) (Sep 2022) estimated the value of the market for professionally managed rental accommodation in the UK is £56bn, up +60% from £35bn in 2019. Looking at the future pipeline, Knight Frank believes this figure has the potential to nearly double in size to £102bn by 2028.
- Research from the [British Property Federation](#) (BPF) and Savills (Oct 2022) projected the number of completed BTR homes could increase five-fold to reach 380,000 by 2032, with the sector worth £170bn, as the sector becomes an integral part of UK housing delivery and economic growth.
 - The BPF says UK BTR developers and investors initially focused on London, but since 2017 there has been a shift towards other core UK cities, led by Manchester, Birmingham, and Leeds. These cities are experiencing high population growth, along with a thriving professional sector and they have a need to attract and retain graduates and expand their workforce.

PROJECT PIPELINE

- In its BTR Q2 2023 report (Jul 2023 – [here](#) and [here](#)), BPF says:
 - The number of BTR homes complete, under construction, or in planning stands at over 253,402 in June 2023, up +12% on Q2 2022 with the regional market (+13%) growing faster than London (+10%).
 - Single-Family Housing continues to expand strongly with 28,000 units completed or in the pipeline, making up 12% of the BTR sector.
 - Completions.** There are now over 88,100 completed units nationally, an uplift of +13% YoY (London c.42,000 and c.46,000 in the regions).
 - Under construction.** Nationally, the number of units under construction increased by +9% YoY to 53,487 in Q2 2023. London saw an increase of c.1,200 units, while the regions saw an additional 3,200 units now under construction. The high number of historic starts in London and the increasing starts in the regions has kept the number of homes under construction at around 53,000.

- Planning.** The total number of BTR homes in planning increased by +13% between Q2 2022 and Q2 2023, with both London and the regions growing by +13%. This brought the number of homes in planning in Q2 2023 to 111,815 (c.38,100 in London, and c.73,700 in the regions). The number of homes in long-term planning has increased by +40% since Q2 2022.

BtR key statistics for the past year



Status	Q2 2023 Totals	Q2 2022 Totals	Increase
Complete	88,100	78,259	13%
Under Construction	53,487	49,075	9%
In Planning	111,815	98,929	13%
Totals	253,402	226,263	12%

Source: Savills, Mollor, British Property Federation

London and regional BtR growth



		Complete	Under construction	Planning	Total
London	Q2 2022	38,806	15,977	33,593	88,376
	Q2 2023	42,033	17,170	38,091	97,294
	% increase	8%	7%	13%	10%
Region	Q2 2022	39,453	33,098	65,336	137,887
	Q2 2023	46,067	36,317	73,724	156,108
	% increase	17%	10%	13%	13%
Total	Q2 2022	78,259	49,075	98,929	226,263
	Q2 2023	88,100	53,487	111,815	253,402
	% increase	13%	9%	13%	12%

Source: Savills, Mollor, British Property Federation

Source: [BPF](#) (Jul 2023)

- The [BPF](#) (Jul 2023) says build cost inflation and wider economic uncertainty looks set to slowdown delivery with construction starts totalling 5,549 units in H1 2023, down -55% on H1 2022. In London, where high land values mean schemes are typically larger and more capital intensive, construction starts totalled just 836 units, down -80% YoY. Starts in the [regions](#) have been more resilient with over 3,100 starts Q2 2023 compared to just 236 in London.

- Beyond England, the BTR pipeline has continued to grow in [Scotland](#), with the number of homes planned up +60% YoY to June 2023) and completed (+33% YoY). After a strong Q1 2023 with its first three BTR schemes completing, the total pipeline in Wales has grown by +13%.

BtR quarterly starts and completions

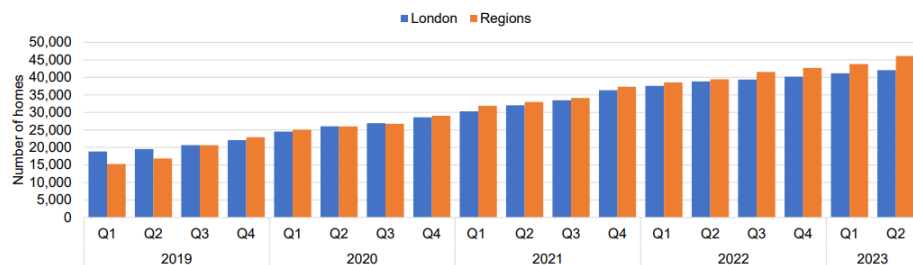


		2019				2020				2021				2022				2023	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
London	Starts	1,184	1,131	2,304	872	1,994	769	1,304	883	984	1,533	1,597	863	3,161	1,254	1,606	1,965	613	236
	Completions	761	714	1,106	1,445	2,422	1,521	897	1,670	1,692	1,714	1,444	2,872	1,230	1,267	557	835	947	888
Regions	Starts	1,457	1,223	2,359	1,632	2,271	668	1,592	2,462	5,117	3,673	2,300	4,118	3,011	4,963	2,514	2,619	1,543	3,157
	Completions	2,110	1,585	3,735	2,302	2,183	897	774	2,299	2,820	1,090	1,145	3,227	1,230	897	2,064	1,168	1,105	2,277
UK	Starts	2,641	2,354	4,663	2,504	4,265	1,437	2,896	3,345	6,101	5,206	3,897	4,981	6,172	6,217	4,120	4,584	2,156	3,393
	Completions	2,871	2,299	4,841	3,747	4,605	2,418	1,671	3,969	4,512	2,804	2,589	6,099	2,460	2,164	2,621	2,003	2,052	3,165

BtR completions (cumulative)

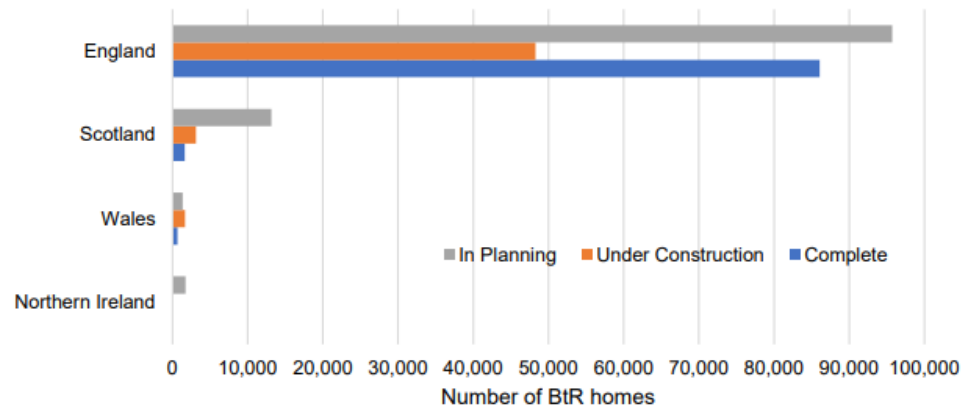


		2019				2020				2021				2022				2023	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
London		18,812	19,526	20,632	22,077	24,499	26,020	26,917	28,587	30,279	31,993	33,437	36,309	37,539	38,806	39,363	40,198	41,145	42,033
Regions		15,269	16,854	20,589	22,891	25,074	25,971	26,745	29,044	31,864	32,954	34,099	37,326	38,556	39,453	41,517	42,685	43,790	46,067



Source: [BPF](#) (Jul 2023)

BtR growing in most UK countries



England			
Status	Q2 2023 Totals	Q2 2022 Totals	Increase
Complete	85,818	77,103	11%
Under Construction	48,684	44,543	9%
In Planning	95,565	87,491	9%
Totals	230,067	209,137	10%

Scotland			
Status	Q2 2023 Totals	Q2 2022 Totals	Increase
Complete	1,621	1,222	33%
Under Construction	3,129	3,034	3%
In Planning	13,144	8,202	60%
Totals	17,894	12,458	44%

Wales			
Status	Q2 2023 Totals	Q2 2022 Totals	Increase
Complete	661	0	661%
Under Construction	1,674	1,432	17%
In Planning	1,362	1,833	-26%
Totals	3,697	3,265	13%

Northern Ireland			
Status	Q2 2023 Totals	Q2 2022 Totals	Increase
Complete	0	0	-
Under Construction	0	0	-
In Planning	1,744	1,744	0%
Totals	1,744	1,744	0%

Source: [BPF](#) (Jul 2023)

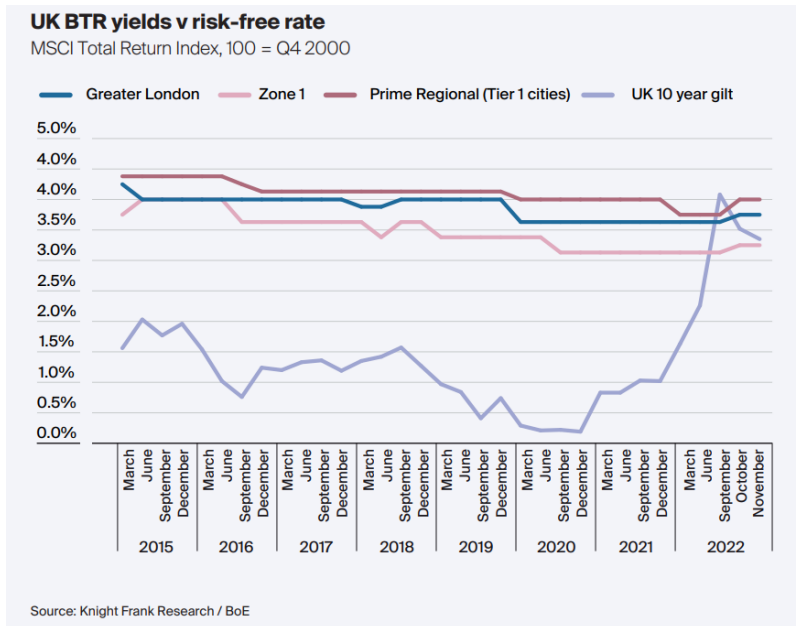
INVESTMENT INTO UK BTR

- [BNP Paribas](#) (Apr 2023) data revealed investment into UK BTR exceeded £1.1bn so far in Q1 2023, demonstrating investor appetite for opportunities across the sector as rental demand increases amid first time buyer affordability challenges.
- BNP Paribas estimates that around 75%-80% of Q1 2023 investment activity was allocated outside of London around major regional cities such as Manchester and Birmingham, and into Single-Family Housing in suburban areas.
- [Savills](#) (Jul 2023) goes on to say Q2 2023 investment transaction volume totalled £1.26bn. At the half year stage, H1 2023, investment volumes stood at £2.1bn, lower than at the same point in 2022, but higher than all preceding years. [CBRE](#) (Jun 2023) points to a lower H1 2023 investment amount of £1.9bn, adding it was lower than the £2.4bn in the same period last year. CBRE said H1 2023 saw the highest level of investment into Single-Family Housing on record, with £408m of investment in the first half of the year and a further £300m of Single-Family Housing assets under offer.

UK TRENDS

YIELDS REMAIN STABLE

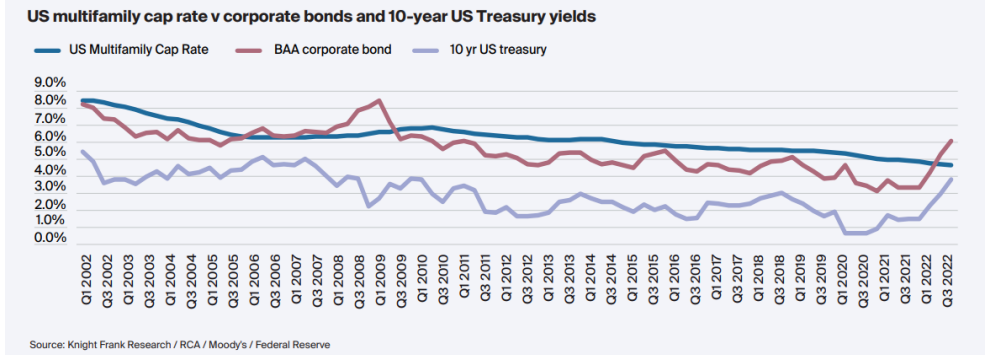
- In its [2022/23 Multihousing Report](#) (Feb 2023), Knight Frank said there are questions regarding the direction of travel for residential yields in the future, after a period of gradual yield compression as the BTR sector matured and investor demand strengthened. Yet while other property sectors can draw conclusions on what happens next based on how assets performed in previous downturns, the same is not true of the BTR market in the UK, given its nascency.
- Since 2015, BTR yields have shown significant risk premium over 10-year gilt rates, with the exception of the sudden 4% jump in risk-free rate over a very short period around September 2022, where that gilt-yield gap disappeared.



Source: [Knight Frank](#) (Feb 2023)

- Knight Frank (Feb 2023) says that with the absence of representative long-run data on UK BTR yields, it is useful to look to more mature markets as a guide. In the US, for example, multifamily yields have also been hardening for the last decade. Debt costs have spiked in the past, most notably post-global financial crisis (GFC), yet multifamily cap rates proved extremely stable. The data shown

below also suggests a lack of relationship to government bond markets, as well as relative stability through the GFC.



Source: [Knight Frank](#) (Feb 2023)

- Knight Frank expects to see a similar pattern in the UK. Longer-term, Knight Frank expects to see further yield compression driven by strong investor demand and the supply/demand dynamics of the sector which continues to drive competition for assets. The prospect of weaker rental growth in other property sectors is also likely to lead more investors to pivot to residential in search of long-term income. Indeed, prospects for rental growth are positive, which should compensate for any comparison to risk-free assets which offer a fixed bond coupon.

ENERGY EFFICIENCY

- According to [BTR News](#) (Dec 2022), highly energy efficient BTR buildings are at the top of the list for institutional investors when it comes to selecting opportunities, particularly pension funds which are acutely focused on future proofing portfolios, given their long-term hold play.
- The macro-economic energy crisis pushing up the price of utilities has served only to heighten capital focus on energy performance and the push for developers to bring forward those opportunities presenting the highest possible ESG credentials.
- In October 2022, BTR operator Sigma Capital commissioned a study to compare the energy consumption of four of its core properties against four other eras of homes. The findings revealed that current Simple Life homes are -25% cheaper to run in comparison to properties built between 2007-2011, and as much as -74% cheaper than older homes. ([LettingAgentToday](#), Oct 2022)

- To support the findings of its study, Sigma conducted market research with renters to uncover attitudes towards sustainability in the home. Sigma claims that some 74% think it is important to factor in the energy efficiency of the property when looking for somewhere to rent, while 61% think the specific features (insulation, glazed window, smart meters) being installed is important to consider.
- The cost advantage of energy efficient, modern BTR developments over older units in the private rented sector (PRS) has widened as energy costs have continuously risen. Private renters now face paying an additional £1bn in gas and electricity bills because of delays in the introduction of new standards forcing landlords to make their properties more energy efficient. ([The Guardian](#), Mar 2023)
- The government has been criticised for dragging its feet on enacting new proposals that would require landlords to improve properties to at least a C rating under the energy performance certificate (EPC) scheme.
- The Guardian (Mar 2023) reports that currently, privately rented homes only have to meet the less energy efficient EPC band E, making them more expensive for renters to heat. More than 2.4 million privately rented homes in England that fall below the C band could benefit from significant savings if landlords are made to comply with the proposed new minimum energy efficiency standards.
- Ministers began a consultation on raising the minimum requirement for privately rented homes in 2020 – with a plan to force landlords to meet the C band standard for new tenancies from 2025 and existing tenancies from 2028 – but the government has so far not turned the proposals into legislation.

OVER HALF OF LOCAL AUTHORITIES FACTOR IN BTR

- The [BPF](#) (May 2023) said BTR has continued to expand across the UK in the last quarter, with 186 (49%) of all UK local authorities having BTR in their planning pipeline.
- In its July 2023 update, the [BPF](#) said the number of local authorities with BTR in their planning pipeline has risen to 200, encompassing over half of all UK local authorities.

SINGLE-FAMILY HOUSING

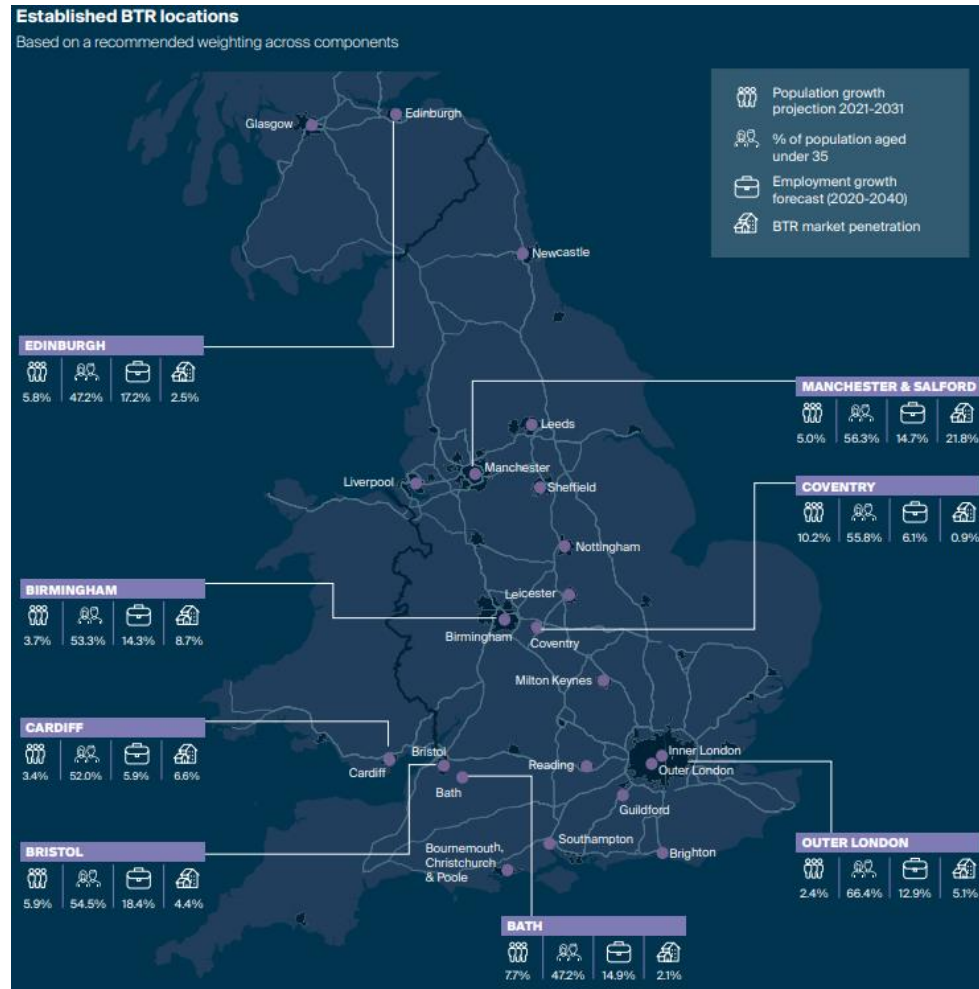
- In its [BTR Q2 2023](#) report (Jul 2023), the BPF says Single-Family Housing sector in BTR continues to expand strongly. As of June 2023, there were nearly 28,000 Single-Family Housing homes under construction or in the planning pipeline, making up 12% of all BTR homes. [Savills](#) (Sep 2022) says Single-Family Housing will take an increasing share of the UK BTR market, growing from 12% to 18% over the next 10 years.
- In its [2023 Single Family Housing Report](#), Knight Frank says Single-Family Housing rental housing market in the UK is continuing to grow at pace. This expansion is supported by a search from both traditional housebuilders and urban BTR developers for new ways in which to diversify and tap into the burgeoning institutional investor demand looking to enter the UK's single family rental markets. Knight Frank says it has identified a further £8bn of capital set aside to target Single-Family Housing over the next 3-5 years either through funds already secured or active fundraises.
- [CBRE](#) (Jun 2023) said H1 2023 saw the highest level of investment into Single-Family Housing on record, with £408m of investment in the first half of the year and a further £300m of Single-Family Housing assets under offer

SUBURBAN BTR

- According to [Property Investor Today](#) (May 2022), the changing nature of the profile of investors in the suburban BTR market might boost the sector. Whereas investment houses and pension funds were relatively long-standing investors, new entrants to BTR have included high street names like Legal & General, Lloyds Bank, and John Lewis. Property Investor Today predicts that if more retailers like John Lewis start to invest in suburban BTR, better home design will be the result – turbocharging the market.
- As mentioned earlier in the report, [BNP Paribas](#) (Apr 2023) BNP Paribas estimates that around 75%-80% of Q1 2023 investment activity was allocated outside of London around major regional cities such as Manchester and Birmingham, and into Single-Family Housing in suburban areas.

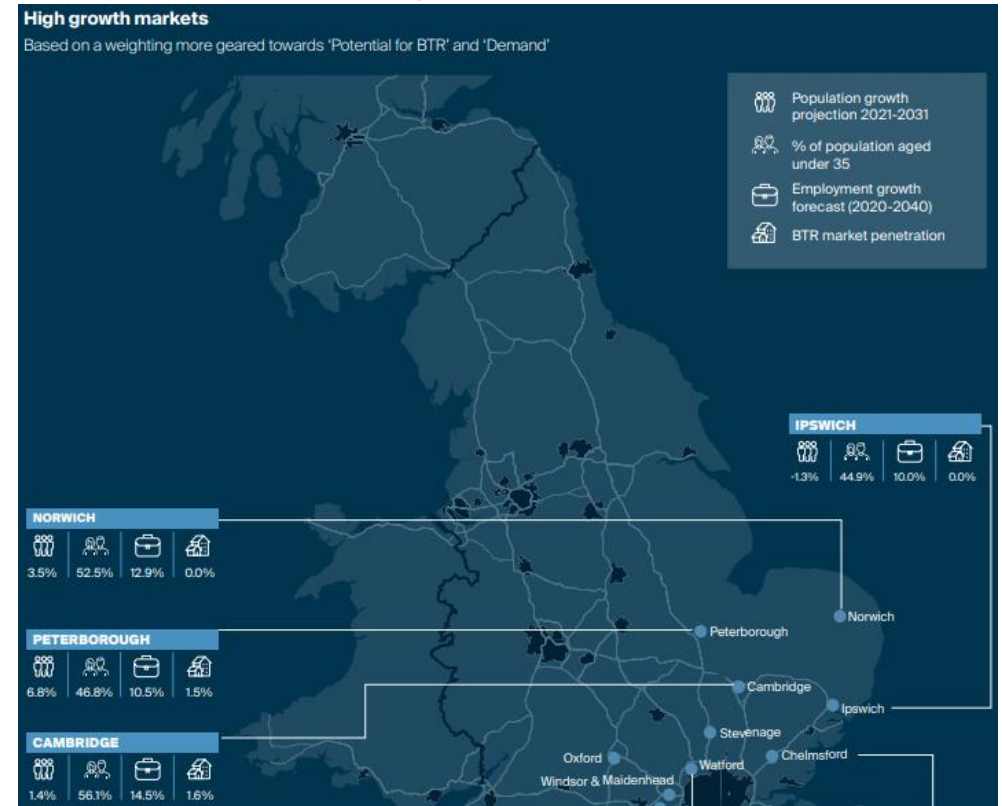
- In its [2022/23 Multihousing Report](#) (Feb 2023), Knight Frank produces an assessment of regional BTR locations based on population growth, population aged under 35, employment growth forecast, and BTR penetration. Its analysis shows the following:

Established BTR Locations



Source: [2022/23 Multihousing Report](#) (Feb 2023), Knight Frank

High Growth Markets

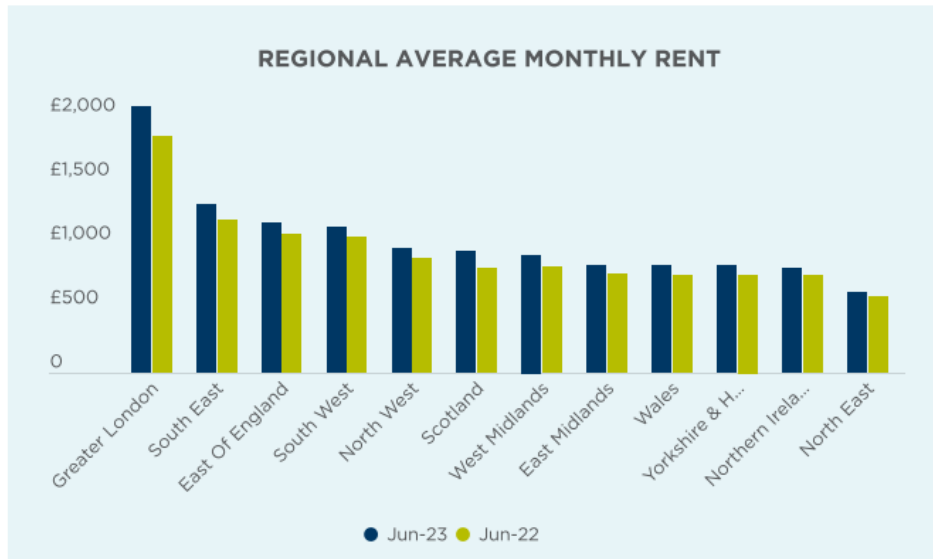


Source: [2022/23 Multihousing Report](#) (Feb 2023), Knight Frank

- The growth path for suburban BTR is not exempt from challenges, which mainly consists of policy roadblocks (refer to 'Planning Policy' under 'Challenges' below).

RENTS HOLD UP

- In its [Q2 2023 BTR Report](#) (Jul 2023), Cushman & Wakefield reported the UK (excluding London) has seen +9.7% growth in rents over the last 12 months, making the average rent £1,027 pcm as of June 2023.
- Scotland (at +15.8% annual growth), London (+12.5% annual growth), and the West Midlands (+10.8% annual growth) were the top performing regions. The North East was the only region to experience negative monthly growth in rents in June, -1.1%.



Source: Cushman & Wakefield, [Q2 2023 BTR Report](#) (Jul-23)

CHALLENGES

PLANNING POLICY

- According to [Property Reporter](#) (Mar 2023), suburban BTR is not immune from the planning policy frustrations and challenges which affect all housebuilders. The main challenges include:

Sequential testing

- According to Property Reporter, for suburban BTR communities, the first and most significant challenge lies at the heart of the planning system. Planning exists to create well-functioning spaces, to enable social, economic, and environmental priorities to shape places and to protect the natural and cultural heritage for future generations.
- Suburban BTR communities - which offer a range of property sizes (well suited to multi-generational living) in a sustainable, community-orientated mixed-use setting, often powered by renewable energy - undoubtedly have the potential to create the genuinely balanced communities that planning policy requires.
- But the central issue facing the developers of those BTR suburban communities which provide a range of services solely for residents' use, is demonstrating how a substantial mixed-use development, the co-living components of which are usually created 'exclusively' for its residents, as reflected in their service charges, can benefit the wider community.
- As part of the planning process, it is possible that local authorities may ask for a sequential assessment to demonstrate the new community will not over-provide to the detriment of existing services. So in the absence of a policy specific to this unique development type, existing planning policy risks scuppering many developments.

Prioritisation of brownfield sites

- Property Reporter goes on to say a similar policy conundrum exists regarding the Government's 'Brownfield First' policy. For many reasons, it is logical that planning policy favours urban brownfield developments which not only utilise otherwise redundant sites but bring much-needed footfall and vitality to high streets.
- But on the other hand, BTR suburban communities are by their very nature, larger than average developments and the range of services and facilities available is

determined by the number of residents and rental income. The 'green', family-orientated values that define them necessitate a semi-rural environment, usually on the edge of a settlement. So, proposed BTR suburban communities will need to be carefully positioned in relation to the principles of sustainable development – more so now in light of the revised National Planning Policy Framework's (NPPF) shifting approach to Green Belt release, whose aim is to prevent urban sprawl by keeping land permanently open ([UK Parliament](#), Feb 2023).

Gaining acceptance from planning committees

- Property Reporter adds, as with any innovation, one of the greatest challenges facing suburban BTR communities is fear of the unknown. In circumstances in which developers have successfully addressed all planning policy requirements, a significant challenge is communicating that to, and achieving buy-in from, local councillors.
- Even if a scheme is recommended for approval, there is no guarantee it will be understood and accepted by planning committee members, who frequently turn down planning applications against their officers' recommendations.
- Local residents may have pre-conceived ideas concerning the traditionally transient nature of rental communities and the demographic profile of those who rent rather than buy their homes. Those concerned about local house prices may object on the grounds that due to supply and demand pressures, the provision of rental properties may fuel rising house prices to the detriment of those who have not yet bought their own home.

RENT CONTROLS

- According to [BNP Paribas](#) (Jun 2023), a potential issue for the BTR sector is the threat of widespread rent caps, which have already been introduced in some form in Scotland and Dublin. The main concern is that having policy dictate rental growth rather than the market forces will dampen investment appetite and, therefore, supply.
- According to a report published by the Scottish Property Federation, rent controls and political uncertainty are impacting investors' appetite to fund and deliver BTR homes in Scotland. ([PBC Today](#), Apr 2023)

- The Assessment of Scotland's '[Rent Freeze and Impacts Report](#)' (Apr 2023) has showcased that the rent control system introduced under the Cost of Living (Tenant Protection) Act will disrupt the future supply of new homes for rent. The report investigated the impact of Scotland's six-month rent freeze and 3% rent cap on the Scottish BTR market in a series of in-depth interviews with institutional investors.
- Out of the 14 investors interviewed with a combined £15bn of BTR assets, nine judged Scotland to be unattractive, including four which view the country as un-investable under current conditions. Although Scotland has been slower to attract investment in the BTR sector than other parts of the UK, Glasgow and Edinburgh have been experiencing strong BTR growth in recent years. Despite the clear market appeal of a shortage of high-quality rental properties, investors now view Scotland as a political risk due to the combination of legislative uncertainty and the rent interventions, which are seen as disproportionate.
- [BNP Paribas](#) (Jun 2023) says the message from those in the industry is that any policy or regulations relating to rents need very careful consideration and appropriate industry consultation, or risk making the supply situation worse and creating a false rental economy. It must also be weighed against rising operational costs, and any form of rent caps needs to be a long-term, index-linked policy so there is investor certainty over pricing and return expectations.

DEBT COSTS AND REGULATION

- In its [Q2 2023 BTR Report](#) (Jul 2023), Cushman & Wakefield says the cost of borrowing is at the highest level for the last 15 years, and the outlook remains uncertain, fuelled by the recent disappointing inflation figures. While investors continue to seek exposure to the market, the increased cost of debt continues to put pressure on deal structuring, particularly in the forward funding market.
- While a number of forward funding deals are on the market and under offer, most of these are likely to complete in the latter part of the year, given the complex nature of these deals and the time taken to complete.
- As well as the economic backdrop, discussion around increasing regulation in different forms is also continuing to cause investor uncertainty. Further, regulation in the rental market is on the horizon - for example, the anticipated requirement for a secondary means of escape has meant many potential forward funding opportunities have had to revise planning consents, again causing further delays.

This has particularly impacted the market for flatted led schemes whereby build cost inflation has been compounded by increased costs associated with building regulations and fire safety measures.

- Given the greater height and density, London is particularly impacted by the advice from the National Fire Chiefs Council that all residential buildings of 18 metres / 7 storeys should have a second stair core which impacts efficiency. Any existing consented schemes over this height, with a single stair core, is now of little interest to the majority of institutional grade investors and therefore most developers are going back into planning.
- More positively, investors that paused activity following the mini-budget and its ramifications have started to return to the market, albeit tentatively. Constrained supply for the past few years has opened up opportunity for the more established and new market players as best in class funding opportunities have seen competitive bidding processes resume. There has been greater demand for stock in core cities, as existing BTR products demonstrate strong performance.
- Traditional housebuilders are continuing to explore the BTR sector with a number looking to de-risk some of their existing schemes, as they see individual sales slow, by selling block opportunities to active investors. As the mortgage affordability issue continues to bite, Cushman & Wakefield says we are likely to see more opportunities for investors with housebuilders in both the BTR and single family.
- Overall, the investor rational for BTR remains strong and money remains committed to the sector. However, cost of debt and a changing construction environment, is temporarily dragging the pace of investment.

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