

QUARTERLY ANALYSIS : BTR

Build to Rent - Analysis by Sam Long, November 2017

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EXECUTIVE SUMMARY



Lewisham Gateway - 1B, Lewisham

Not so long ago the idea of corporate investment in private rented housing was a curiosity: everyone said it should be a good thing, but nobody seemed able to make it a mainstream proposition.

Now, however, Build to Rent appears to have become a steady contributor to London's housebuilding industry. At the end of Q3 2017 the sector accounted for:

- ▶ Almost a fifth of all new homes currently under construction in the capital.

- ▶ And, almost a quarter of all new homes sold during the year so far.

The thing that makes these proportions count as 'steady' is that the numbers are broadly similar to those measured at the ends of both 2015 and 2016.

It is important to note that this arrival on the scene has happened without any significant change in planning policy and despite BTR's much discussed 'discount' to the full market value of standard housebuilder stock. As such,

| Period | Starts | Completions | Sales |
|----------|--------|-------------|-------|
| 2009: Q1 | - | - | - |
| 2009: Q2 | 1,216 | 44 | - |
| 2009: Q3 | 95 | - | - |
| 2009: Q4 | - | - | 138 |
| 2010: Q1 | 224 | - | - |
| 2010: Q2 | - | - | - |
| 2010: Q3 | 94 | 166 | - |
| 2010: Q4 | 110 | 60 | - |
| 2011: Q1 | 23 | - | - |
| 2011: Q2 | 132 | - | 267 |
| 2011: Q3 | 63 | - | 1,440 |
| 2011: Q4 | 173 | - | 24 |
| 2012: Q1 | - | 138 | 165 |
| 2012: Q2 | 50 | 362 | 73 |
| 2012: Q3 | 73 | 55 | 134 |
| 2012: Q4 | 93 | 172 | 401 |
| 2013: Q1 | 257 | 132 | 140 |
| 2013: Q2 | 288 | 149 | 654 |
| 2013: Q3 | 342 | 422 | 404 |
| 2013: Q4 | 799 | 250 | 141 |
| 2014: Q1 | 283 | 416 | 415 |
| 2014: Q2 | 253 | 897 | 253 |
| 2014: Q3 | 319 | 399 | 339 |
| 2014: Q4 | 841 | 102 | 970 |
| 2015: Q1 | 3,349 | 179 | 3,054 |
| 2015: Q2 | 1,727 | 326 | 2,089 |
| 2015: Q3 | 1,223 | 812 | 1,068 |
| 2015: Q4 | 1,423 | 341 | 715 |
| 2016: Q1 | 1,491 | 784 | 2,110 |
| 2016: Q2 | 1,177 | 588 | 1,131 |
| 2016: Q3 | 1,013 | 1,388 | 1,102 |
| 2016: Q4 | 734 | 1,083 | 1,075 |
| 2017: Q1 | 279 | 948 | 762 |
| 2017: Q2 | 1,049 | 973 | 1,164 |
| 2017: Q3 | 2,013 | 382 | 2,127 |

the figures are a testament to the perseverance of individuals who have stuck with the vision, for what may have felt like many fruitless years.

Looking ahead, the known quantity of BTR permissions is healthy and some BTR buyers consider that frailties within the wider new homes market may work in their favour - rumours of potential BTR deals abound in relation to one or two developments by mainstream builders.

So, BTR buyers and builders are doing their bit and may even have a following wind. However, it would not surprise us if the investors who have staked both their funds and reputations on the sector will now be focused on the management and lettings end of the equation.

According to a number of managing agents the principal challenge in the near term is presented by what is considered to be a very high level of stock availability. This includes growing numbers of both BTR units and former owner-occupier units arriving on the lettings market because owners are unwilling to participate in a wilting sales market. Consequently there is downward pressure on rents, particularly for 2-bed and larger units.

In some areas agents are apparently advising clients to drop rents by 5-10% from 2016 levels, but fortunately there are very few individual BTR developments where such large drops are evident. Croydon town centre appears to be the most sensitive area where rents in BTR schemes have fallen by an average of around 5% from 2016 levels.

Incentives are more common than a straight rent reduction and deals often include conditional rent free periods, of up to a month, or simply cash back.

However, the strongest indicator of weakness in the current market is that lettings rates in newly completed BTR developments have halved since 2015 - from an average of 25 units per month in

2015 to 12 per month over the first three quarters of 2017.

The lettings market is expected to remain soft for a while, with a peak in availability anticipated in late 2018 - more than a fifth of the BTR units currently under construction are programmed to complete in the second half of that year.

The more distinctive BTR operators welcome growing competition and expect it to force a greater degree of differentiation between service offerings. Across the board, however, project appraisals are no doubt receiving more attention than ever before.

THE NUMBERS

This document provides an overview of London's committed BTR pipeline – Each BTR development described:

- Is under construction or is complete. (Permissions are not included here but are

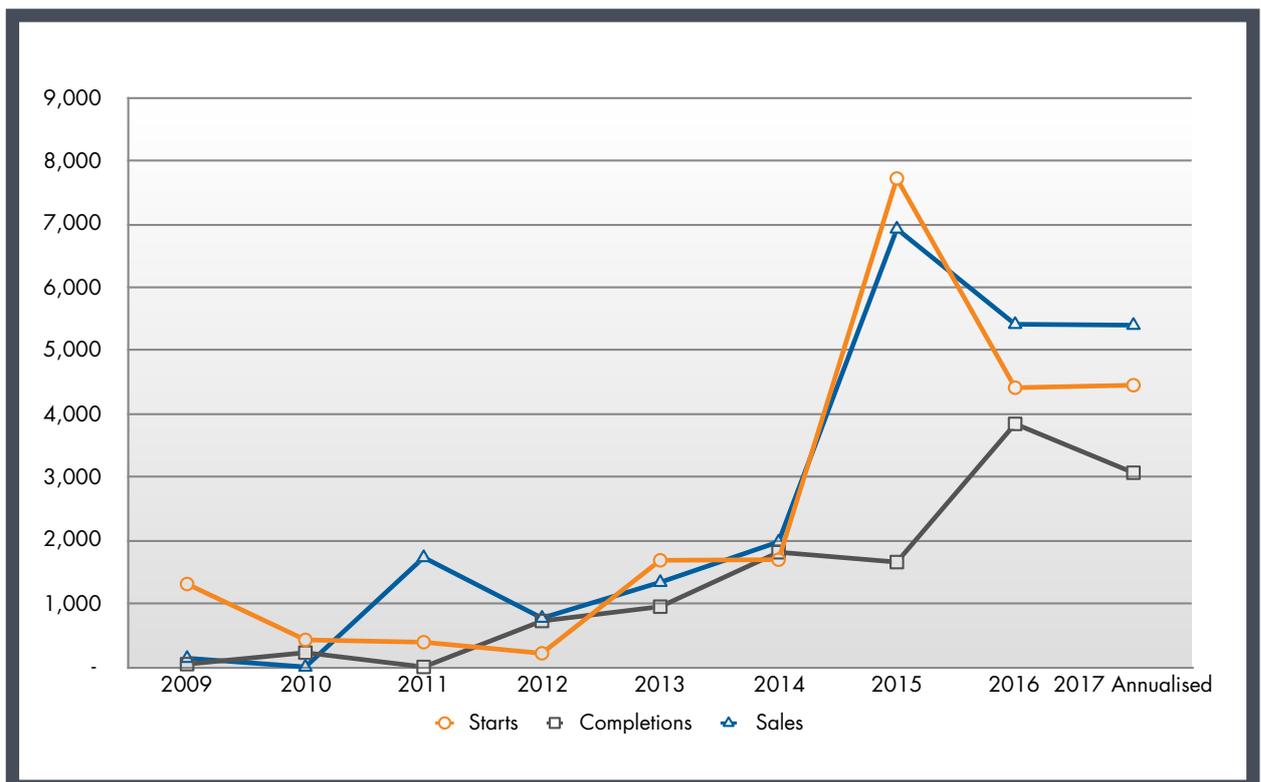
detailed in the accompanying online database.)

- Has 20 or more BTR units.
- Is – or on completion will be – owned and managed as an unbroken block.
- Is recent: schemes completed before 2009 are not included.

'Sales' of units to the BTR sector include both bulk sales from developers to BTR companies and in-house starts by BTR companies themselves. Where BTR sales are agreed before construction start we count them at construction start, otherwise we count them as close to the time of sale as is possible.

KEY STATISTICS

The table on Page 6 and the graph below show BTR starts, completions and sales across all London local authorities since 2009.



The graph below splits BTR sales into those agreed before construction start and those agreed after. This is meant to indicate what proportion of BTR development is deliberate and what is an afterthought.

The graph on Page 9 splits all sales of new homes in London into BTR sales and sales without BTR.

During the first three quarters of 2017:

- 3,300 BTR units started construction,
- 2,300 BTR units completed,
- 4,100 units were sold to the BTR sector,
- 82% of these sales were agreed prior to construction start (including in-house starts by BTR companies), 18% were agreed after construction start (i.e. bulk purchase deals).
- BTR accounts for 23% of all new homes sold in

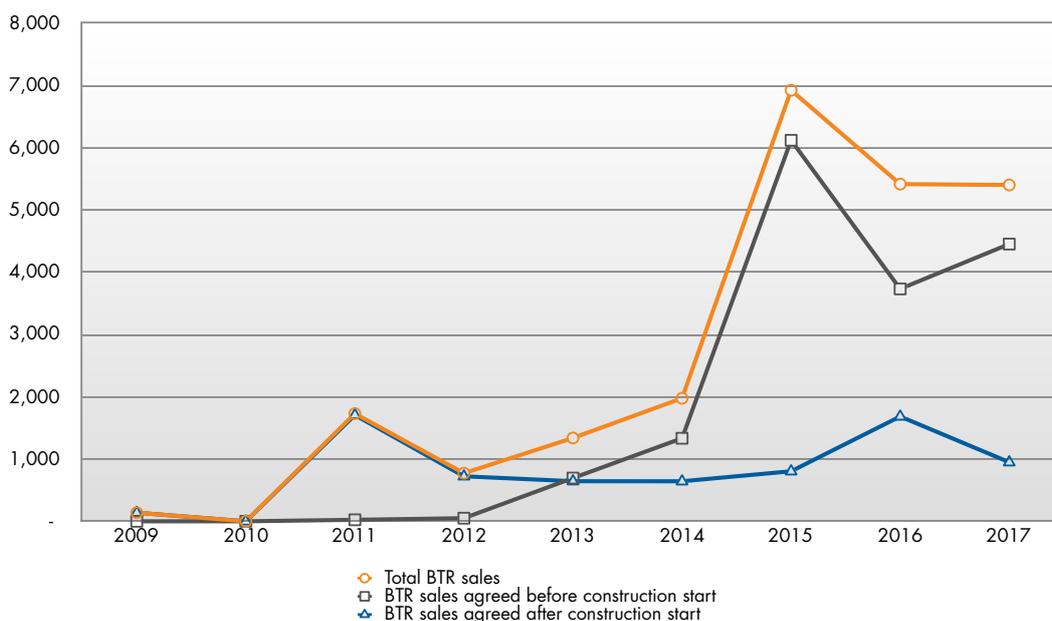
London during 2017 so far, compared to 26% during both 2016 and 2015.

At the end of September 2017:

- 10,900 BTR units were under construction in London.
- This is 17% of all new homes under way in the capital, compared to 17% and 16% at the ends of 2016 and 2015 respectively.
- 6% of these are programmed to complete during Q4 2017, 17% in the first half of 2018 and 22% during the second half of 2018.

Average BTR rents across all of London are as follows:

- Studios: £1,110 per month
- 1-beds: £1,410 per month



- 2-beds: £1,730 per month
- 3-beds : £2,500 per month

The average let-up rate during the first three quarters of 2017 was 12 units per month per scheme, compared to 18 in 2016, 25 in 2015 and 24 in 2014.

Based on the 22,500 committed BTR units in London, that are either under construction or have completed since 2009, the top five BTR companies are:

1. Get Living London - 2,300 BTR units
2. L&Q PRS - 2,300
3. Quintain - 2,200
4. Canary Wharf Group - 1,100

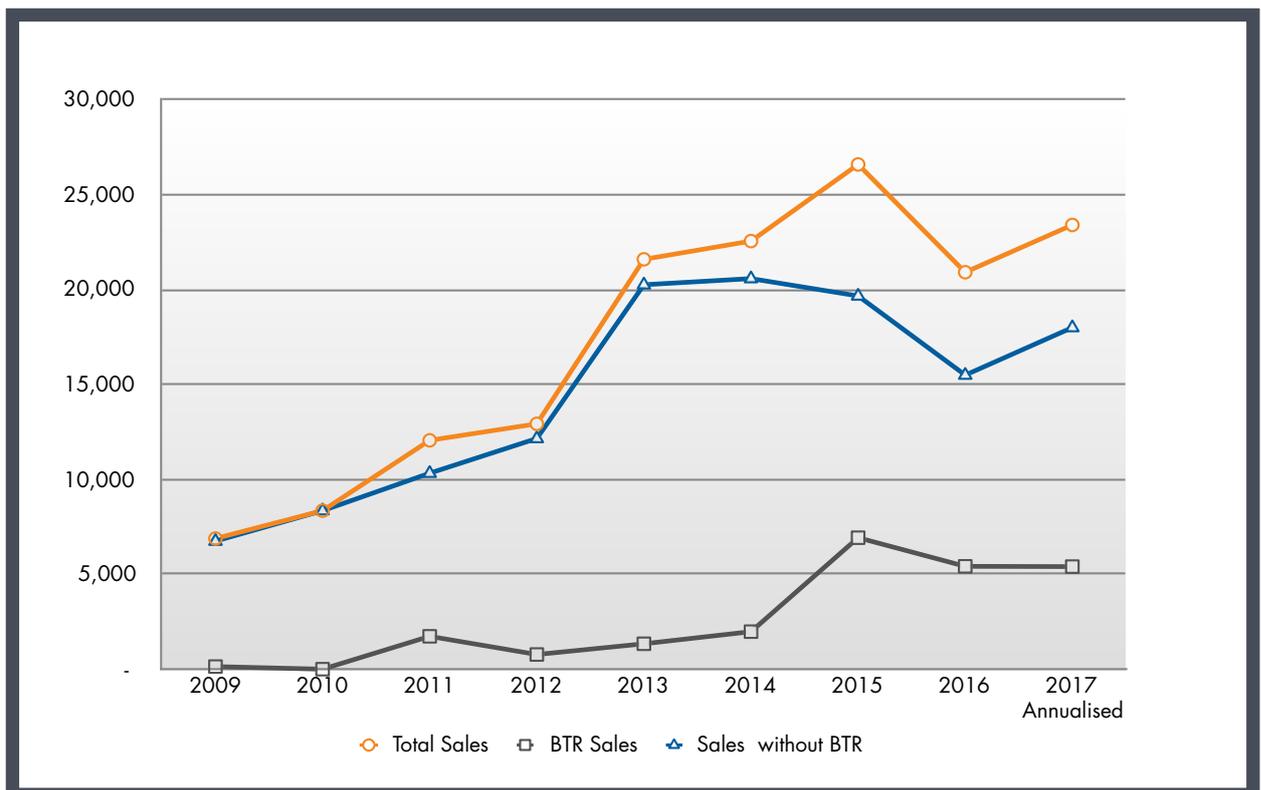
5. M&G Real Estate - 1,000

Based on the 11,600 BTR units completed in London since 2009, the top five BTR managers are:

1. Get Living London - 1,800 BTR units
2. London & Quadrant Housing Trust - 1,200
3. Genesis Housing Association - 600
4. The Acorn Group - 550
5. Go Native - 400

My mobile number is below; if you have any questions whatsoever, please do not hesitate to call.

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FRONT COVER PHOTO

Creekside Wharf, Lewisham
Photographer: Amanda Denny

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