

QUARTERLY ANALYSIS : BTR

Build to Rent - Analysis by Sam Long, May 2017



THE BTR ANALYSIS



Keybridge, Lambeth

The flow of homes entering London's Build to Rent sector continued to slow during Q1 2017.

The number of developments going under construction specifically for BTR has dwindled to almost a handful. The schemes involved are generally small – less than 50 units, and most of the BTR operators involved are relatively minor players.

Instead, the highest profile BTR deals to come to light during Q1 have tended to involve bulk acquisitions of off-the-peg stock from housebuilders like Barratt and Bellway.

Of course these observations relate to a single quarter only and do not mean that the rest of the year will follow suit. There are a number of permitted schemes where we expect to see piling rigs soon involving a number of the most prominent BTR operators. It is also likely that more bulk acquisitions will be announced in due course.

However, we would not be surprised if Q2 2017 is also subdued for BTR buyers. Some have suggested that 'strong and stable' may no longer be the right words to describe prospects after the snap election on 8 June. It is also evident that the sustained downward pressure

on sterling has reinvigorated competition from other forms of bulk purchaser – housebuilders are once again quietly doing deals with speculative resellers.

Despite this break in additional activity there are still almost record numbers of BTR units under construction and there is little risk that the number of completed live projects will stop growing over the next year or so.

Completed BTR developments are now spread across most London boroughs and a small number of clusters have emerged where potentially competing operators are successfully avoiding direct confrontation by aiming their schemes at different market segments. Hayes is a notable example where Be's service offering for the Gatefold Building is a distinct cut above Empire Partners' nearby Empire House, which is one of the better office-to-residential conversion projects but is aimed at the entry market and has few bells and whistles.

On the other hand Croydon and its cluster of entry-

level BTR developments east of the town centre are recurring themes in these reports and residents continue to have fresh alternatives offered to them almost every other month. The current surfeit of supply makes it clear which developments have problems (usually avoidable defects) leading to significant churn just six months on from first launch.

While every agent wants to avoid the pain of dealing with churn on top of fresh lettings, we are normally told that having the patience to set the highest possible headline rent is important because rents tend to fall thereafter. This is because gradual dilapidation and negotiation pressures tend to offset rental growth in anything but the strongest underlying market. However, Croydon's situation means that it is currently proving hard to set a good initial rent precedent without including some form of incentive. Free utilities and/or rent free periods have been used, with the latter only applied if residents stay for at least 12 months.

Away from Croydon the word 'saturation' has often

Childers Street, Lewisham



been used when describing the market for 2-bed and larger units. Buy-to-let properties are normally the prime source of competition for larger units rather than rival BTR developments, but growing numbers of 'reluctant landlords' are blamed for the current downward pressure on rents for larger units in some developments.

All this emphasises that there is a financial imperative as well as a reputational need to deliver on the BTR sector's promise to deliver professionally managed homes. As such it has not been a surprise to discover that improvement initiatives, in both physical and management terms, are underway in a number of BTR developments, some of which completed less than five years ago.

Finally, it is heartening to see that some smaller operators are now looking to go beyond delivering vanilla stock. Aitch's Childers Street development in Deptford is one example - it offers an aesthetic and quantity of cycle repair facilities that would not be out of place in Shoreditch. The 7 June launch party also promises to deliver a good antidote to pre-election blues.

Our mobile numbers are below - if you have any questions whatsoever, please do not hesitate to contact us.

Sam Long, 30th May 2017

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TABLE 1 : BTR STARTS, COMPLETIONS AND SALES SINCE 2009

Period	Starts	Completions	Sales
2009: Q1	-	-	138
2009: Q2	1,216	44	-
2009: Q3	-	-	-
2009: Q4	-	-	-
2010: Q1	224	-	-
2010: Q2	-	-	-
2010: Q3	189	166	-
2010: Q4	110	60	-
2011: Q1	23	-	-
2011: Q2	227	-	267
2011: Q3	63	-	1,440
2011: Q4	173	-	24
2012: Q1	-	138	165
2012: Q2	48	362	71
2012: Q3	73	55	134
2012: Q4	180	172	401
2013: Q1	257	132	140
2013: Q2	288	149	654
2013: Q3	258	422	404
2013: Q4	799	250	80
2014: Q1	241	414	373
2014: Q2	253	835	253
2014: Q3	319	399	339
2014: Q4	848	105	996
2015: Q1	3,345	179	2,972
2015: Q2	1,762	326	2,069
2015: Q3	1,092	812	1,028
2015: Q4	1,461	345	760
2016: Q1	1,297	802	2,280
2016: Q2	943	640	937
2016: Q3	913	1,363	1,002
2016: Q4	719	1,083	1,060
2017: Q1	257	898	740

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FRONT COVER PHOTO

Rehearsal Rooms, Ealing
Photographer: Amanda Denny

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