

# QUARTERLY ANALYSIS : PRS

Analysis by Sam Long, August 2016

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## PRS DEVELOPMENTS HAVE...

completed at a record rate during the first half of 2016.



Rehearsal Rooms, Ealing

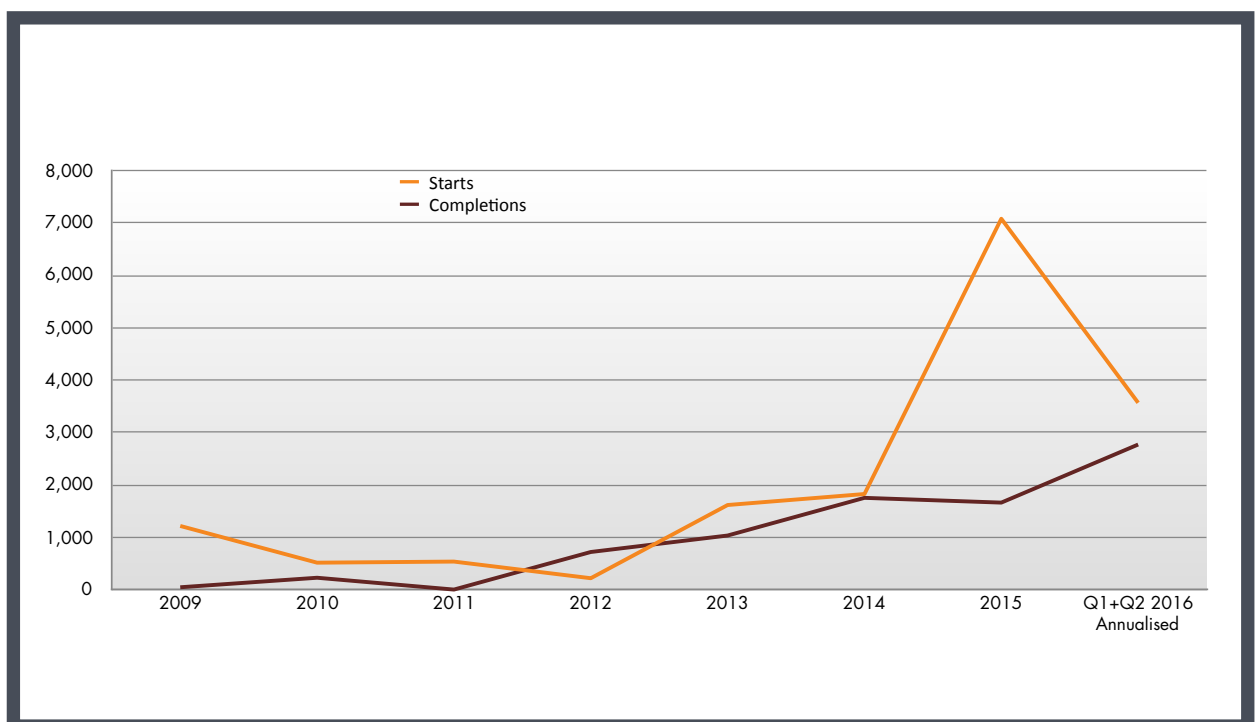
# EXECUTIVE SUMMARY

## section one

*During the second quarter of 2016 PRS developments have continued to flow off the production line at a steady rate.*

As a result the quarter has seen a number of major rental launches from the likes of Fizzy Living and Quintain, as well as a variety of smaller players. In all cases the releases have been heavily subscribed

**FIGURE 1 : PRS STARTS AND COMPLETIONS SINCE 2009**



and the developments are letting fast.

This bodes well given the large number of developments billed to reach completion later in 2016. The list of companies that are due to launch schemes in the second half of the year reads like a Who's Who of the industry and includes Akelius, be:here, Criterion Capital, Essential Living, Get Living London, Notting Hill and L&Q PRS to mention a few.

However, while it will be interesting to see how the lettings market responds to the quantity and range of rental product that is starting to emerge, there are perhaps more pressing questions to be asked about the other end of the construction process as PRS construction starts dropped markedly during Q2 2016.

The drop in starts will probably not come as a great surprise given the ongoing debate regarding prospects for the residential development

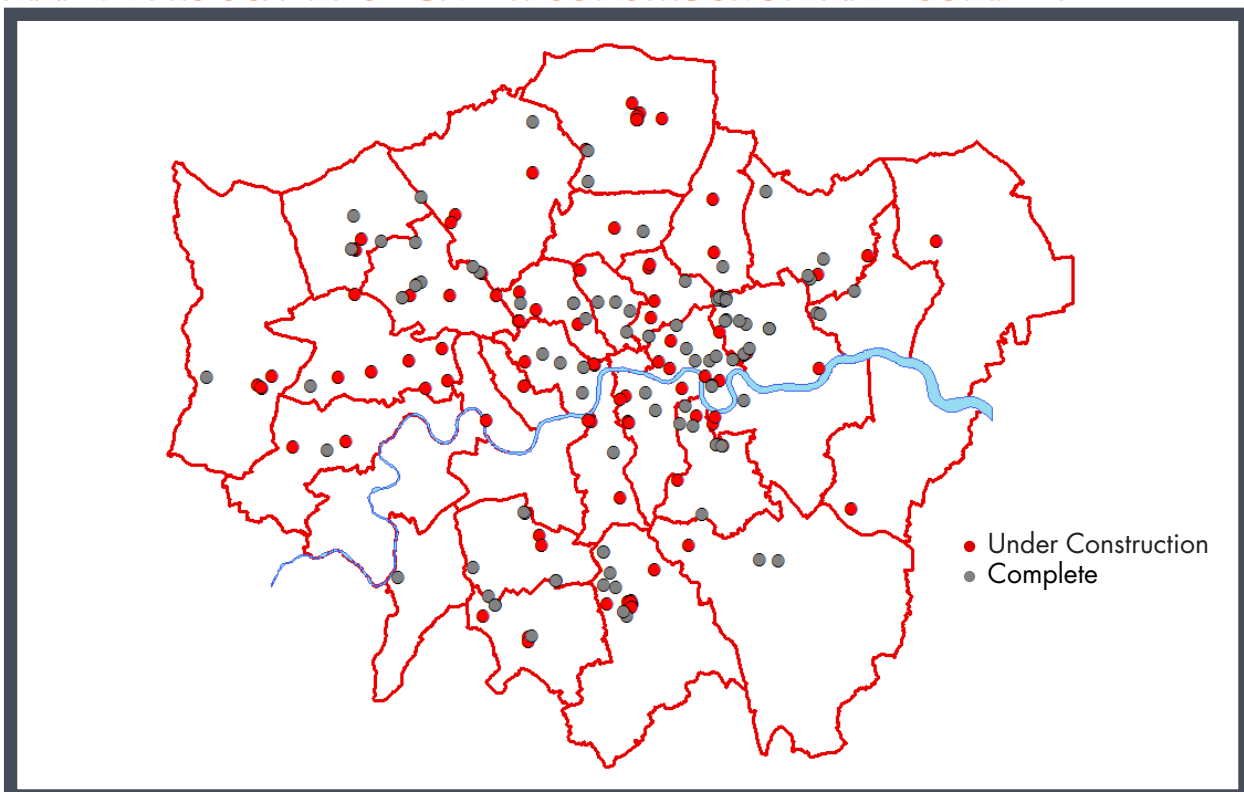
industry and the wider economy in light of the EU referendum result. However mainstream commentators have said little about Brexit's effects on built to rent specifically.

On paper, the pool of permitted PRS units continues to fill steadily and developers remain optimistic about the rate at which permissions will be implemented in the near future. As it happens we know of 20 permitted PRS projects where the companies involved have advised that construction will commence during the next 12 months or so. These contain in the order of 4,000 PRS units and site preparation is already underway for around a quarter of them.

Naturally many will observe that developers are habitually optimistic and a number of warnings have been put to us:

- While funders are said to be open for business it seems inevitable that proposals will receive a

## MAP 1 : PRS SCHEMES - UNDER CONSTRUCTION AND COMPLETED





greater degree of scrutiny than before the Brexit vote. PRS is still often described as a 'new model', which will tend to increase the burden of proof for funding applicants.

- ▶ Prior to the EU referendum the Government was offering little tangible support to the corporate PRS sector and this is unlikely to change in the near future. A particularly barbed comment was that the industry would be wise to avoid seeking any form of 'subsidy' to help with housing 'rich' people.
- ▶ The major housing associations have played a key role in establishing the PRS sector, but some of the more risk-averse organisations are expected to revert to their core skills and re-allocate committed PRS units to affordable tenures.

More positively:

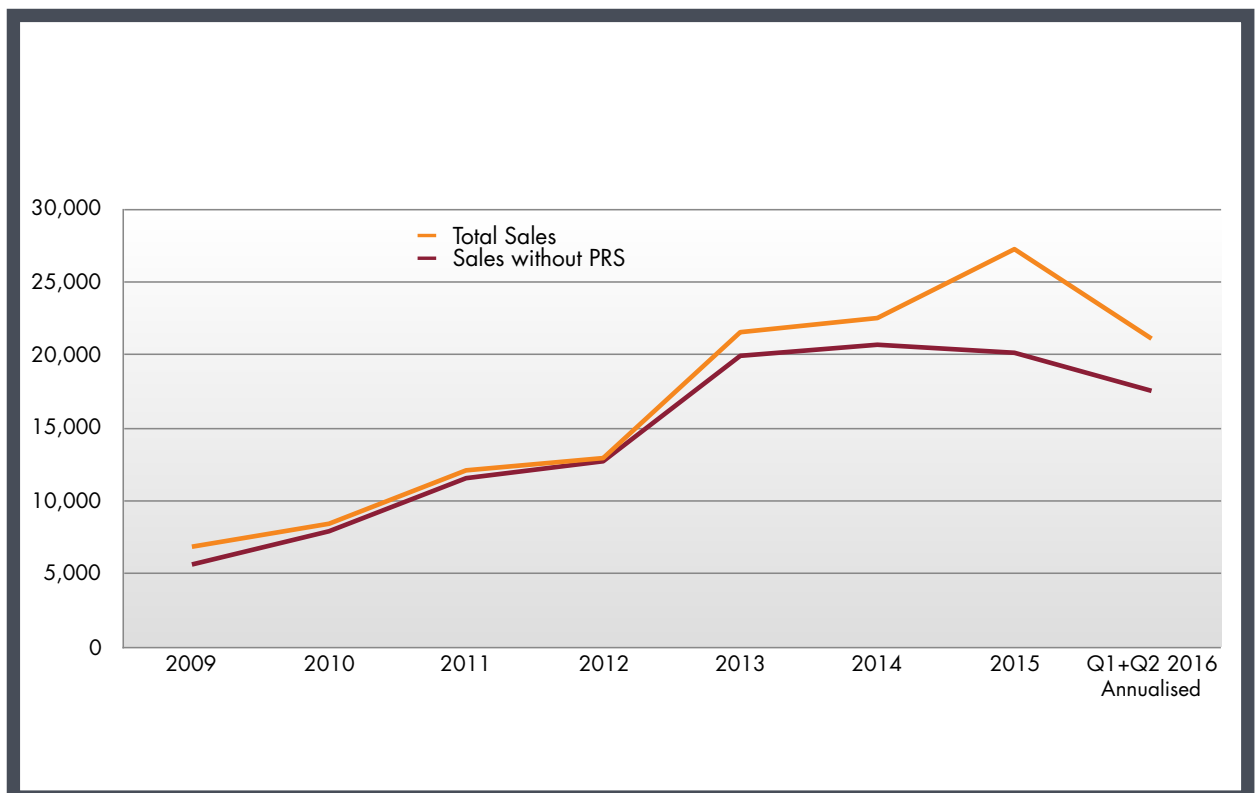
- ▶ Housing market fundamentals are seen as

unlikely to change and PRS is said to compare favourably with other asset classes, particularly from a volatility perspective. As a result the pool of capital seeking an outlet in PRS is still said to be growing.

- ▶ There remains an expectation that acquisition opportunities for both PRS land and development stock will emerge in growing numbers. Pricing and quality expectations of potential buyers and sellers are also said to be increasingly aligned, although the content of our in-trays makes us slightly wonder if there are now more would-be opportunists than opportunities.

As with all property market reports the data from one quarter may provide little more than a false horizon and very few people hold a hard view of future prospects. The most positive aspect of our recent research is that few people are planning to simply shut-up shop until current uncertainties blow over.

**FIGURE 2 : PRIVATE SALES SINCE 2009 - WITH AND WITHOUT PRS**



## KEY STATISTICS

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

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

Table 1 and Figure 1 show PRS construction starts and completions since 2009. Map 1 shows where the relevant schemes are located.

## PRS WITHIN THE CONTEXT OF THE WIDER MARKET

Figure 2 is included to illustrate the impact that PRS is having on the wider industry. It shows the total number of private sales each year – both with 'sales' to PRS and without. We have counted 'sales' to PRS at the point of construction start for the relevant units.

- Figure 2 shows that private sales effectively flat lined between from 2013 to 2015 if PRS activity is excluded from the picture.
- PRS accounted for 26% of all sales in 2015, but this has dropped to 17% in the first half of 2016 so far.
- On a pro-rata basis total sales in 2016 would be 22% down on the 2015 peak.

## CONSTRUCTION

- At the end of Q2 2016 there were 9,230 PRS units under way in 95 developments across

**TABLE 1 : PRS STARTS AND COMPLETIONS SINCE 2009**

Period	Starts	Completions
2009: Q1	-	-
2009: Q2	1,216	44
2009: Q3	-	-
2009: Q4	-	-
2010: Q1	224	-
2010: Q2	-	-
2010: Q3	180	166
2010: Q4	110	60
2011: Q1	87	-
2011: Q2	132	-
2011: Q3	63	-
2011: Q4	253	-
2012: Q1	-	138
2012: Q2	48	353
2012: Q3	73	55
2012: Q4	96	172
2013: Q1	193	132
2013: Q2	288	149
2013: Q3	342	422
2013: Q4	793	330
2014: Q1	241	369
2014: Q2	462	880
2014: Q3	319	399
2014: Q4	804	105
2015: Q1	3,047	179
2015: Q2	1,809	326
2015: Q3	1,102	812
2015: Q4	1,129	345
2016: Q1	1,391	752
2016: Q2	394	634

London.

- A third of all PRS units currently underway are in GPDO office-to-residential conversion projects.

- ▶ PRS currently accounts for 15% of all private housebuilding in London, which equals the record set at the end of 2015, as well as the previous record level set in 2010 when East Village, Stratford Halo and Pioneer Point were all underway.
- ▶ 390 PRS units have started in Q2 2016, which is 71% down on the quarterly average for the preceding four quarters. It is worth noting that in the broader market total private residential construction starts also dropped in Q2, but only by 32% compared to the average for the preceding four quarters.

## COMPLETED SCHEMES

- ▶ At the end of Q2 2016 there were 6,820 completed PRS units in 96 developments across London.
- ▶ 630 PRS units completed during Q2 2016 compared to an average of 560 per quarter in the preceding four quarters.
- ▶ GPDO schemes account for 22% of all PRS units completed since 2009.

More detailed company listings are provided in Sections 3 and 4, together with a similar listing for property managers.

Section 5 summarises rental data collected for completed schemes.

Molior's online database provides full details of all the developments described in this report plus 63 more that have yet to start on site, including 14,900

## COMPANIES

Based on schemes under construction and completed, the top five PRS companies (the owners) are:

1. Delancey with APG and Qatari Diar - 2,290 units
2. L&Q PRS - 1,360
3. Criterion Capital / Miflats - 1,100
4. Canary Wharf Group - 940
5. M&G - 690

On the same basis the top five PRS developers (the builders) are:

1. Olympic Delivery Authority - 1,440 units
2. Criterion Capital - 1,100
3. Canary Wharf Group - 940
4. Delancey with APG and Qatari Diar - 850
5. London & Quadrant Housing Trust - 840

permitted PRS units, 2,390 at application stage and 2,870 pre-planning.

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

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#### FRONT COVER PHOTO

Wembley Park - Emerald Gardens, Brent

Photographer: Amanda Denny

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