Ogier

Boardroom Briefings. Build-to-rent

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As board directors of real estate holding vehicles, Ogier Global find ourselves immersed in the intricacies of asset and development management across a seemingly ever-widening class spectrum.

From mixed-use office blocks to purpose-built student accommodation and, in more recent times, from data centres to co-living accommodation and beyond – the asset class has never felt so diverse. But, of course, not all of these asset classes find themselves 'in vogue' as we canter further into 2024. In this iteration of the Boardroom Briefings series, you're taken on a whistle-stop tour through some of the recent trends, challenges and the discussions we're seeing and holding around the boardroom with advisors and clients - focusing on investment in the 'living sector' and attempting to demystify some real estate jargon along the way.

In an intentional oversimplification of investor sentiment towards the spectrum of asset classes within the UK's real estate sector - commercial and retail assets continue to watch glumly from the sidelines while 'living sector', industrial and infrastructure assets bask in the relative sunshine. We remain in the era of 'beds, sheds and meds' as one analyst at a real estate conference I attended earlier this year remarked. And this rings true from an Ogier Global perspective too. The lion's share of acquisition transactional activity and fund platform establishments we, as fund administrators, have been involved with over recent years has been in the logistics, build-to-rent, purpose-built student accommodation and co-living spaces – with the greatest proportion of those deals to date being in the build-to-rent arena – which is where this article will focus.

The build-to-rent story

Although the birth of build-to-rent as a concept, and the subsequent increase in investment appetite that followed, may come as no great surprise when pitched against the backdrop of the historic supply / demand imbalance for accommodation within the UK's private rented sector (**PRS**) – questions have been asked about how effective the asset class has been in the battle against the housing crisis. Fortunately, for the analysts, enough time has elapsed since the start of the build-to-rent boom for development schemes to have completed, assets to have become operational and, importantly, for data on lettings, vacancy rates, estimated rental values and tenant demographics to have become more readily available. But before we explore some of the data and trends – what is build-to-rent?

Many UK build-to-rent historians point to Sir Adrian Montague's report on '[private rented homes: review of the barriers to institutional investment]' of August 2012 as being the catalyst for the birth of the build-to-rent sector. The report, published in the wake of a 2012 Cameron-Clegg coalition government's housing strategy aimed at boosting supply, highlighted the increasingly important role the PRS was expected to play in meeting housing needs and supporting economic growth. The report discussed the attracting of large-scale institutional investment into new homes for private renters, concluding that large-scale developments specifically designed for private rent (or with a substantial private rented element) could deliver real benefits for communities and tenants, and could also be an attractive investment proposition.

Most significantly, in the birth story of build-to-rent, this report contained a case study based on Grainger Plc's 'vision of Build to Rent'. In what may well have been industry's inaugural use of the phrase 'Build to Rent', the case study sets out Grainger's pioneering 2012 vision, listing many of the asset characteristics build-to-rent specialists today might draw on when answering the question; what is build-to-rent? Grainger characterised build-to-rent developments as comprising a minimum of 100 units, having the critical mass necessary to support special amenities such as concierge, small business centres, cafés of communal / community space, offering rolling yearly lease agreements, providing high standards of property management and being strategically positioned in locations providing long-term prospects for tenant demand and transport links.

Build-to-rent landscape of 2024

Circa 12 years on from the publication of Sir Adrian Montague's report, the characteristics described by Grainger are largely consistent with what we, as board directors, continue to see in 2024 assembled investment committee papers on build-to-rent assets. But although the theoretical fundamentals of build-to-rent remain similar, the real-life investment environment and consumer demands continue to shift. In fact, it's not unusual for business plans to be re-cast multiple times during the development phase of a build-to-rent asset, to account for changing construction cost landscapes and build-to-rent consumer amenity and fit-out demands from schemes. Fund managers and developers find themselves carefully assessing business plans, scrutinising operating cost provisions and amenity offerings to ensure they remain attractive to the build-to-rent tenant, but also leasable in today's rental market. This balancing act is a challenge for fund managers and requires a strong understanding of build-to-rent consumer demographics.

Energy efficient, amenity rich (think swimming pools, 24/7 concierge, gyms, cinema rooms and social / co-working spaces), strategically positioned in vibrant cities and close to transport hubs, units handed over fully furnished (mostly) and often contracted on short-term leases with super-fast broadband and other incentives thrown in – build-to-rent fund managers play to a target audience. And the statistics appear to support this. According to a 22 May 2024 publication by the British Property Federation, featuring analysis from one of the largest build-to-rent driven surveys to date in the UK, 'Gen Z' continue to drive build-to-rent, making up 30% of tenants compared with 22% in the wider PRS. The dominant age group in both build-to-rent and the PRS is 25-34 years old but, interestingly (although perhaps unsurprisingly), the proportion of renters in the 16-24 age group is significantly higher in the build-to-rent sector (30%) than the wider public rental sector (22%).

But what's the catch, I hear you cry? Well, rents are generally higher on average across build-to-rent developments than the wider PRS – which is unsurprising given the amenity luxuries at some of these residences (check out the private dining and lounge amenities at 10 George Street, or the tennis court and rooftop pool at Blackhorse Mills – both popular London build-to-rent schemes).

According to the British Property Federation publication, the average rent for build-to-rent units is between 15% and 25% higher than average in the PRS (depending on property). So it seems younger generation consumers are willing to pay premium rents, for premium space. But the consumer market is fickle. One of the many challenges for build-to-rent developers and fund managers is keeping close to the data on the wants and needs of these build-to-rent punters – trimming operating costs without diminishing the luxury feel. We listen to fund managers discussing the innovative ways to do this, incentivising tenants with freebies and vouchers, offering free Wi-Fi packages and, often, selling a pet-friendly dream (the importance of which shouldn’t be understated given the pet ownership boom the UK witnessed during the COVID pandemic!).

Fund managers are, however, quick to tell us that value and frilly add-ons aren’t always enough to pre-let and maintain good occupancy rates at builtd-to-rent schemes – asset location is a significant factor, and there's no better way visualise this than a visit to the British Property Foundation's interactive build-to-rent map. After toggling outwards with the map's zoom feature, users get an immediate sense for how capital-centric the build-to-rent development pipeline in the UK has been, with comparably small pockets of activity scattered around the larger cities across the Midlands and the Northwest (the 'core cities' of Manchester, Leeds etc.). Premium rents, premium space and situated in premium locations. But here’s where it gets more interesting. According to the Savills UK Build to Rent Market Update of Q1 2024, recent research is suggesting that movers to build-to-rent developments are willing to travel significantly further to rent, compared to those in the PRS. They claim the median distanced travelled by movers to build-to-rent schemes being almost double that of those moving to the PRS more generally. The pull factors seem to go beyond simply living in a new build property and this great migration is contributing towards London's creeping towards United Nations 'megacity' status (a 10 million inhabitant city).

As more UK build-to-rent developments mature to practical completion in 2024 following the bumper years of investment volumes between 2021-2023, fund managers will continue to keep one eye on the competition, vying to make their schemes the most attractive to the Gen Z movers and shakers in market. That said, despite increased supply to market, demand for housing is likely to continue to drive the build-to-rent product success in the UK – with Q1 2024 cited by Knight Frank as having the highest UK build-to-rent investment figure recorded for a first quarter. It seems the investment era of 'beds, sheds and meds' isn't over yet...

Ogier Global's Real Estate Services offering

At Ogier, our agility and adaptability are key strengths that allow us to support clients to navigate the ever-evolving trends they may encounter. Our Corporate and Fiduciary division boasts a dedicated team of professionals specialising in the setup, administration and management of corporate real estate holding structures and regulated funds holding various asset types including build-to-rent, as well as providing practical legal advice and consulting.

About Ogier

Ogier is a professional services firm with the knowledge and expertise to handle the most demanding and complex transactions and provide expert, efficient and cost-effective services to all our clients. We regularly win awards for the quality of our client service, our work and our people.

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