

Insights:

FROM 'PRS' TO 'BUILD-TO-RENT', TO 'MULTIFAMILY-HOUSING'; EVOLVING UK RENTAL MODELS



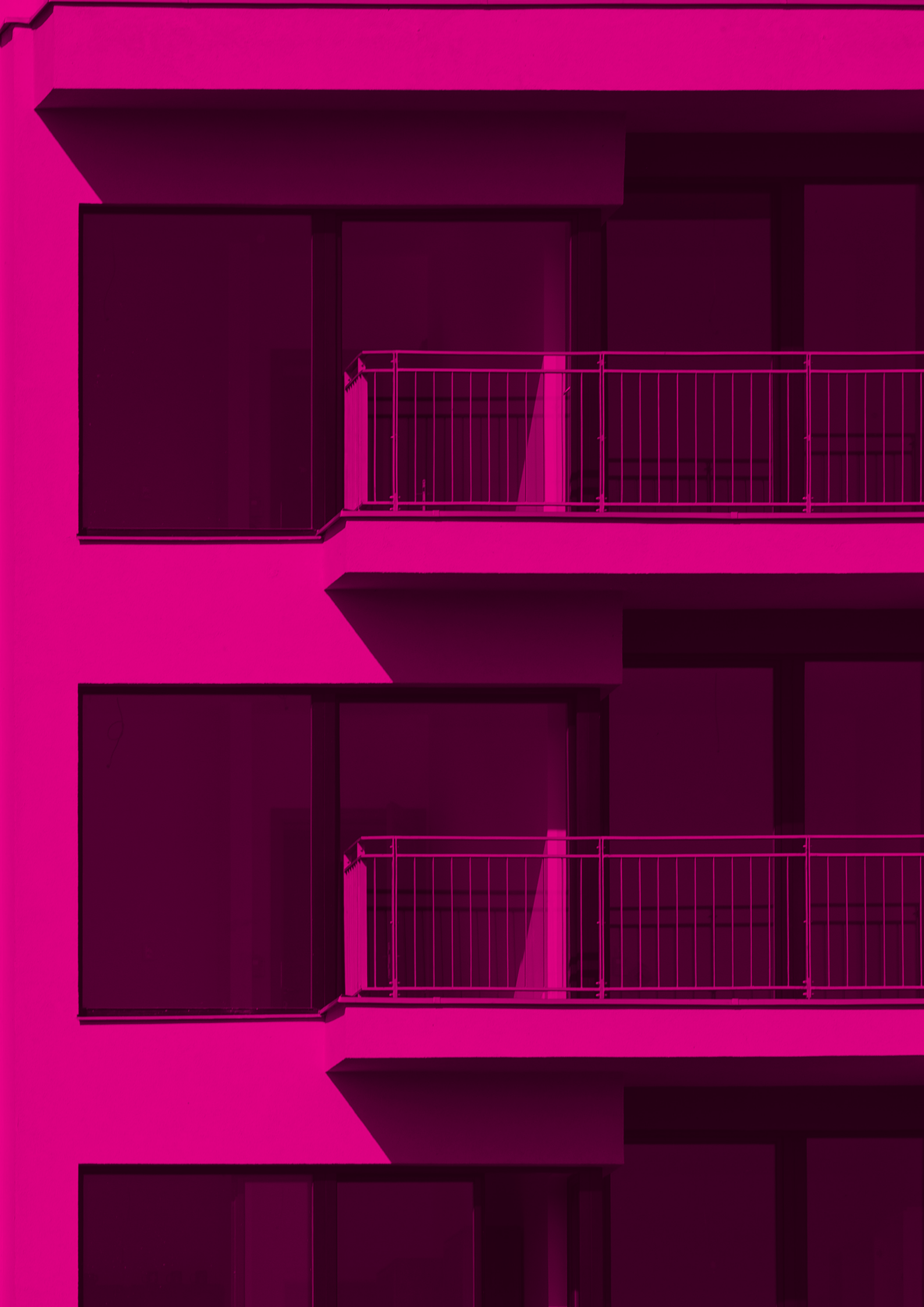
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IN THIS ARTICLE, RESIDENTIAL DIRECTOR, **TOM KLINGHOLZ**, APPRAISES THE CONCEPT OF MULTIFAMILY HOUSING.

The first purpose 'Build-to-Rent' developments are maturing as the next generation is coming to market, and a number of trends are emerging.

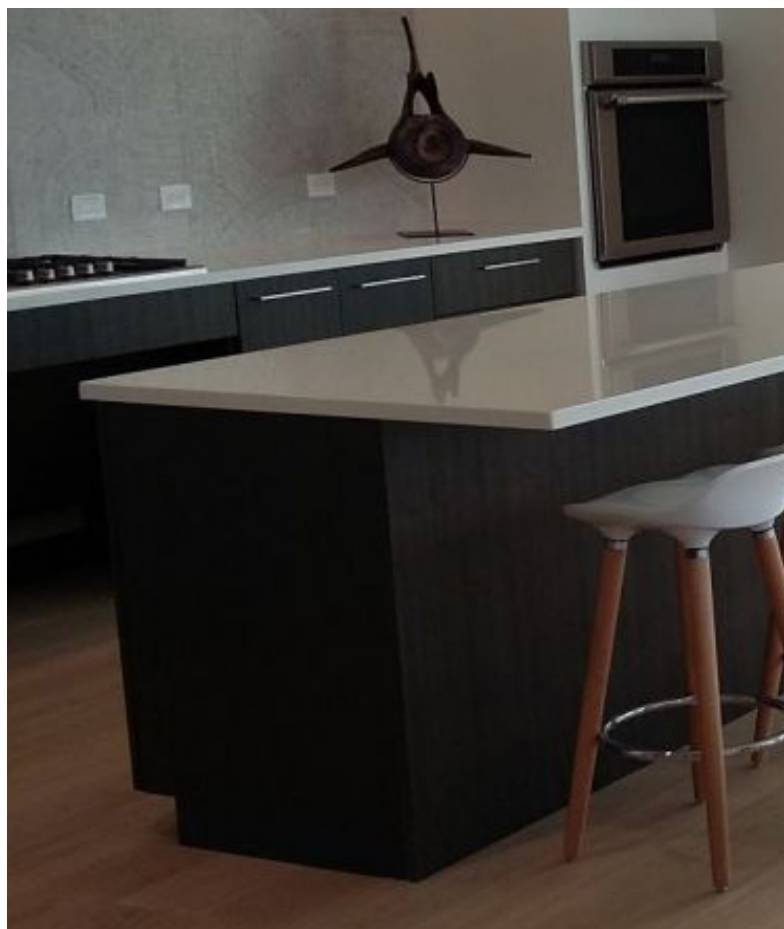
Initially, purpose 'Build-to-Rent' developments were categorised and included within the catch-all 'PRS' Private Rental Sector. The latter includes small private landlords, but the two rental offers are very different products, so the term the industry now uses is (purpose) Build-to-Rent. In the US, Build-to-Rent developments are referred to as 'Multifamily Housing', and there are calls to adopt this term in the UK as it better defines this type of accommodation. What can the UK learn from the more mature US Multifamily Housing model? What trends might emerge in the UK's 'Build-to-Rent' sector that will mirror trends happening in Multifamily Housing in the US?

The market - looking ahead

The Multifamily housing market in the US is now well established, and the offer is very different from 10 years ago. With the UK Build-to-Rent market emerging, this is a good time to appraise what we can learn from the more mature market in the US.

Multifamily Housing offers institutional investors diversification from other real estate sectors in that it provides a safe, steady cash flow, but the product has to be right. The uplift from a regular rental development to Multifamily Housing, reportedly a whopping 20% higher with its added amenities and services, is one reason why this product is so attractive for investors and developers.

To attract investors, the product must appear safe. Therefore, layouts, amenities, and the standard of finishes should look familiar in order to forecast future returns.





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How Multifamily / Build-to-Rent taps into the zeitgeist

It is true that the surge in popularity of Build-to-Rent in the UK can be attributed to the ever-increasing housing shortage, but there is an equally important trend as to why people are interested in this particular type of housing instead of simply renting a room/house.

There is a culture emerging of people who place more value on experiences than possessions. They are people who are prepared to pay a premium to buy into a lifestyle of luxury through exclusivity - people who buy artisan chocolate, drink at micro-breweries or frequent coffee houses where the beans are roasted on the premises. What these products have in common is a back-story, and it's this back-story for which people are willing to pay a premium. They create a sense of belonging, a community, a nice life. This group comprises entrepreneurs, not bound to an office, and (young) people who share their values and desires.

The concept of Multifamily taps seamlessly into this sentiment, namely the creation of a community through shared values and identity. They can meet in the lounge areas, work in the business centres, relax in the gym, compare notes at wine-tastings and socialise at barbecues. The Multifamily home facilitates the lifestyle they aspire to, and often comes with its own created back-story. The history of the building is reflected in finishes and details, or emphasised by local artists' artwork. All of this is enveloped in luxury, with high-quality finishes and furnishings, stimulated and guided by the management.

It's not just for the young

Although Multifamily living is primarily focused on young people with a higher than average disposable income, the US experience shows that other age/income groups should also not be ignored. Research shows that older people are turning to renting and enjoying

the services and facilities offered. Catering to diverse age groups also future-proofs a building, as people who are renting now might still be renting in 10 years' time. The most successful Multifamily buildings have a diverse age range, as a reflection of society. It ensures that there is general liveliness - for example, the use of the gym spread out during the day.

In the UK the proportion of families renting is rising as well. In one development in Barking, a homework group has been set up where children can move safely through the building without leaving the premises.

There is a 'natural' transition from living in managed student accommodation to living in a rental building with shared amenities. Some private For Sale developments now have similar shared lounge and kitchen areas. This is noticeable in buildings which are developed under Permitted Development Rights, such as conversions from office to residential. The unit sizes in these developments tend to be smaller than the nationally described Space Standards, emulating hotel-style living - 'sleep in your apartment, live in your building'.

How to distinguish yourself from the competition

In the more mature market of the US, developers work hard to make their product unique and attract the higher income rentals. The two key elements are services and management (on which, more later), and amenities. In their efforts to offer an ever more attractive product, an 'amenities war' has erupted.

As a rule of thumb, amenities tend to be included in the rent and excluded from the GIA calculations of the units. However, tenants are prepared to pay for certain extras (eg. parking, pets, bike storage), and a balance has to be sought between what is included and what can be extra revenue for the investor.

So what are the amenities offered?

Most Multifamily Homes have various lounge areas, a demonstration kitchen, meeting rooms, a gym and a roof terrace with barbecue area. A number of the Multifamily Homes have specific amenities as unique selling points - for example, a wine cellar, a two-lane bowling alley, a virtual golf range or a whole basketball court. These were rated not on usage, but as a talking point. Many Multifamily Homes also have a cinema room, although there is a trend evolving for converting these into yoga rooms - a comparatively low investment, and preferred by younger, prospective tenants. Fast broadband and WiFi are a given.

All class A developments have striking feature pieces, such as oversized fireplaces, bespoke furniture and artwork. These touches make the lounge areas feel like an extended home, rather than like a hotel lobby or plush office reception. References to the locality or previous use of the building greatly contribute to the placemaking, inviting residents to interact with each other. Management stimulates this by organising regular events, such as pool parties, wine tasting, barbecues and the like.

The Building

Careful consideration needs to be given to the initial design of the building, especially the floor to floor height, as this is something which can't be changed or upgraded. Flexibility needs to be built in to accommodate updating and upgrading amenities, which, on average, will need refreshing every 10 years to stay current. A clever introduction is extra height lifts for ease of moving furniture, which also gives a feeling of grandeur. With the rise of internet shopping, a significant store room is required for packages - one 350 unit development received, on average, 125 packages a day, also putting a strain on the concierge team.

For the larger developments, a rule of thumb is 1sq.ft/unit for storage. Most developments use a locker system, whereby the package is stored in a locker and a unique code is sent to the recipient by text or email for collection.

There is also a trend shift in finishes, away from dark, cosy colours to a light, fresh palate. Finishes are similar to those in the hospitality industry, of high standard and robust at the same time.

In the projects visited, Venetian plaster provides an interesting texture and luxurious feel while being hard-wearing and durable. Glazed tiles and bespoke wallpaper can be used to create a feeling of luxury and a sense of place. This attention to detail was mainly confined to the entrance and internal areas of the building - all money is spent in areas where interactions with the tenants occur. All corridors were carpeted, improving acoustics. Front doors were set back from the corridor to give the tenant private recess space, emphasised by architraving, additional lighting, and, in some instances, individual colour schemes.

Finishes in the apartments are focused on the ability to update between tenancies. Not tiles, as the grout will get dirty, but back-painted glass or paint. Kitchens have a basic fit-out, as the emphasis is on the communal spaces rather than home cooking. In a narrow space, a kitchen island on castors is provided for flexibility. Walk-in wardrobes are standard, and each apartment comes with a washer and dryer.

In the UK, the decision by developers to offer fully furnished apartments is currently based on local market requirements.

Layouts

In the US, apartment sizes, although, on average, about 100 sq.ft. larger than the UK equivalent, are getting smaller. However, this extra space doesn't always translate into a more generous layout - many units have a windowless room, designated as office space or an extra bedroom. This occurs because it allows for a deeper apartment layout, and takes up less of the valuable façade frontage. However, this reduces the flexibility. Should the developer wish to flip the building to a private For Sale development, the windowless rooms cannot be monetised.

It is interesting to consider that smaller space standards in the UK (a discussion in itself) means that we, as architects, are well honed to optimise spatial solutions and create liveable spaces in smaller footprints.

Pets

In the US, the biggest common factor seems to be dog ownership. Jars with dog biscuits appear on every concierge counter. Some developments have an internal, dedicated dog walking area. Dog ownership is high among the demographic living in these buildings, young professionals without children.

It is also a great money spinner for the management - \$75-\$100/month for a dog, depending on size, is not uncommon. There are strict rules regarding pet behaviour and there is a restriction on certain breeds. DNA samples are taken to ensure that pet owners clean up after their dogs. This pooch dedication may seem excessive, but the effect is to create a community feel that cannot be underestimated.

The potential extra revenue stream in allowing pets in buildings is worth investigation by the developer. Research by LSL* on UK tenants shows that, on average, 26% of all people would prefer to rent with a pet, with this specific figure rising to 36% among the 18-25 age group, and that renters are prepared to pay up to £50/month extra for a pet.

Bikes

Another emerging trend is the provision of spaces and facilities for bike storage and maintenance. Increased bike ownership, combined with escalating parking costs, makes bike-related amenities increasingly popular. The maintenance space can be kitted out with a vending machine and seating, again inviting people to interact around a mutual interest.

The all-important management

The way properties are 'managed' is an important factor in the success of Multifamily housing and the renewal of tenancies. Many management companies actively encourage this by organising a monthly schedule of events. By informally mingling with the tenants, they can pick up any complaints, and monitor the general feeling of wellbeing. The style of management plays a significant factor in the tenants' rating of the development. Apps and social media are used to communicate and report any issues with the apartment, schedule repairs, and receive notifications of the arrival of packages.

A creative management style reassures tenants. Management companies are adopting various ways of branding their developments, including the use of a 'signature scent' in communal areas. It remains to be seen how this will translate into the UK market, where there is generally a culture of less direct interaction and more focus on 'behind the scenes' smooth running.

Evolving style of living

It is no longer a question of whether Build-to-Rent/Multifamily Housing will evolve in the UK, but more a question of how. By looking to the US and understanding their amenities and level of service, combined with well-considered design, we will be placed in a strong position to create a successful and sustainable development. Our current portfolio contains a number of Build-to-Rent developments in Manchester, Bristol and the South West, and most of our mixed-use urban regeneration schemes now include a Build-to-Rent element. Our experience to date confirms that maintaining flexibility in the layout of the floor plans, and in particular the amenity spaces, are key to being able to respond to changing circumstances in this emerging market. It is clear from the rapidly emerging UK market and current trends in living that Build-to-Rent developments are now becoming an established and important fixture on the housing landscape.

** LSL Tenant Survey February 2016*



About the author

Tom joined Chapman Taylor's international concept design team in 2008, becoming a Director in 2015.

With over 20 years' design experience in the residential sector, he now leads our UK residential team with an overview of design on residential-led mixed-use projects and masterplans.

Tom has led design teams on large scale residential-led masterplans and buildings in the UK, Middle East, Russia, Asia, North Africa, and Europe. The diversity of this experience provides Tom with a versatile design approach responding to a project's context and culture to create design solutions that deliver our clients' aspirations.

