

Insights:

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# WHAT IS 'BUILD-TO-RENT' OR 'PRS', AND HOW CAN DEVELOPERS CAPITALISE ON THIS OPPORTUNITY?



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RESIDENTIAL





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**IN THIS ARTICLE, OUR UK RESIDENTIAL DIRECTOR, TOM KLINGHOLZ, DISCUSSES A NUMBER OF ISSUES ASSOCIATED WITH BUILD-TO-RENT HOUSING IN THE UK, AND AT HOW DEVELOPERS CAN CAPITALISE ON THE OPPORTUNITIES PRESENTED BY THIS GROWING SECTOR.**

The Build-to-Rent (BtR) sector in the UK (formerly known as the Private Rented Sector, or PRS) has grown substantially in recent years and accounts for approaching 20% of all UK households. Investors are continuing to buy up properties for the purposes of 'buy-to-let' – benefitting both from value rises in their acquired assets (UK house price rises) and from rising rents. It is clear that BtR is here to stay and will continue to grow significantly over the next few years. The sector's output has increased by 49% in 2017/2018, with 4,000 units, and is set to increase to 10,000 units over the next two years. How can developers capitalise on this opportunity? What are the key issues that they need to be aware of?

**What are PRS/Build-to-Rent developments?**

In essence, new housing developments where all the properties are built for rent, not sale. Many believe that, in 15 or 20 years' time, more people will rent in the UK than own their homes. This is caused by a lack of affordable 'built-for-sale' housing stock.

**Why has the Built-for-Sale housing market not kept up with the demand?**

The policy of promoting home ownership in the 1980s, to the detriment of all other housing forms, has become the victim of its own success, with more people than ever trying to buy their own home. However, demand for housing has outstripped supply. In the UK, it is estimated that 300,000 new homes are needed per year to cater for demand, but, on average, we build only around 125,000 each year. This has resulted in a housing shortage, which has now become a housing crisis.

There are several reasons for this. The residential market is notoriously volatile, and large-volume house builders are working with very tight margins.

This has historically made housing developments less attractive to create than other developments in terms of a build-to-sell model. Another reason is that local government planning decisions often take too long, which slows down or prevents people building new homes. Added to this, soaring house prices, especially in London and the South East, have resulted in a huge buy-up of UK housing stock by foreign investors.

**How can developers capitalise on this opportunity?**

Rising property prices and rising rents create a win-win scenario. These are the key considerations that successful Build-to-Rent developers should look out for:

***Target the right demographic***

The average age of people looking to move into a first home in the UK was between 25 and 35 years old in 2016, but now the average first-time buyer is 37 years old. The open market is not currently catering for this demographic, as most new home developments across the UK are 3-4-bed houses. The 25-35 age group are typically key workers or young urban professionals who are looking for a comfortable and affordable place to stay for a secure length of tenure. This group of people will happily live in PRS housing, as proven by the numerous successful emerging schemes.

However, they are not the only group for whom BtR would be suitable. Downsizers and students are equally attracted to rental accommodation if the right product can be offered.

***Build in the right location***

The most successful current BtR schemes are in urban locations, with local transport within walkable distance. Allowing for regional variations, 200 units is deemed to be the minimum 'critical mass', whether in one building or multiple buildings. Therefore, BtR developments are generally medium-to-high-density. Studies have shown that BtR is viable not only in London, but also in locations where there are strong employment rates and lower land values, or encouragement of urban densification.







LARGE PENSION FUNDS AND PROPERTY COMPANIES ARE INCREASINGLY ATTRACTED TO PRS BTR BECAUSE IT OFFERS SUSTAINABLE, HIGH-QUALITY INVESTMENTS THAT DELIVER LONGER TERM RETURNS.

### ***Create a sense of place***

To attract and retain target group tenants, the right lifestyle and consumer propositions are important. Added amenities, such as a concierge, are part of the BtR lifestyle formula, and this is where BtR distinguishes itself from the Build-for-Sale sector. Other types of lifestyle facilities might include workspaces, communal roof terraces and gyms. Additional income can be generated from these facilities, although the prime objective is the contribution they make to placemaking and community building. Tenants who feel that they are part of a community tend to stay longer. This in turn reduces the risk of rent voids, which have a negative impact on net operating income. Studies show that people who know one other person in a building are 75% more likely to renew their tenancy. For people who know two other people, this rises to 90%.

### ***Allow for building management***

Effective building management enhances and protects the long-term value of a development. BtR investors are looking for income over long periods. As such, maintaining the quality of a site place is important. In addition, communal spaces and services need to be well maintained as they are part of the extended home of the tenants – “sleep in your apartment, live in the building”.

### ***Unit design needs to be carefully considered***

Optimising the net-to-gross ratio will allow for greater building efficiency. Maximising the number of units per core/floor, and careful consideration of the aspect, will lead to a more efficient building. Unit sizes need to be carefully considered and are usually related to rental income and location, whereas personal amenity space can be balanced against communal amenity space, like a roof terrace. Flexibility in the design layout of the units is important. They should be designed to cater for different modes of tenure, such as for young professionals who are house-sharing or for families. Future proofing for different demographic needs is also important.

### ***Use high-quality materials***

As BtR developments are designed for long-term investment purposes, the life-cycle of the building materials used plays a much greater role than in other developments. Finishes need to be high-quality, robust, easily maintainable, readily accessible and designed to last.

### ***Take advantage of government initiatives***

Government and local authorities view BtR developments positively because they benefit local communities by providing much-needed homes. To stimulate the sector, the government has initiated a BtR taskforce, which has introduced a £10bn housing debt guarantee specifically for the building of BtR homes. In London, the Housing Zones Initiative of the Greater London Authority is designed to stimulate the process of housing provision. A budget of £500 million has been set aside, and favourable BtR planning conditions put in place within the housing zones. These budgets are to be used for improving the public realm, placemaking, infrastructure and building new schools and libraries. A £1bn SME development fund has been made available by Barclays, and it is anticipated that a further £34bn will be invested over the next five years in rental accommodation in the UK. These are all key elements which facilitate successful Build-to-Rent developments.

### ***Do BtR projects stack up as an investment?***

The perception is that BtR developments result in smaller returns than Build-for-Sale developments, but with rising house prices and rising rents, this is increasingly untrue. Not only do BtR investors benefit from high UK rents, but the value of their assets increase steadily over time as house prices continue to rise steadily. For this very reason, large institutional investors such as pension funds and property companies are increasingly attracted to BtR as a long-term investment vehicle because they are looking for stable, high-quality capital investments offering long-term returns.





### 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.

