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# Single Family Housing: The Home of Residential Investment

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## Introduction

In this paper we shall:

- consider the emerging Single-Family Home (SFH) sector
- contrast it with Build-to-Rent as an investment class
- explore the operational differences
- look at the opportunities and potential.

We must also make a distinction between 'Suburban Build-to-Rent' (SBTR) which can also include low rise apartment blocks as well as houses. However, this paper looks exclusively at SFH's.

I am assuming the reader to be broadly familiar with the BTR sector and the canonical ideals by which the sector identifies itself, and from which it evolved. BTR is broadly analogous to the significantly more mature US Multi-Family sector and took much of its early learning from researching this.

It is generally assumed that the catalyst for BTR was Sir Adrian Montague's government sponsored report, "Barriers to institutional Investment in the Private Rented Sector", published in 2012 alongside subsequent government support packages: the HCA BTR funds 1 & 2 including the creation of the PRS Task Force.

Whilst this may be broadly true, there were earlier pioneers. Most notable of these was Fizzy Living that had incorporated prior to Sir Adrian's report and Delancey plc & Qatari Diar who, in 2011, signed a £557m deal to take over the Athlete's Village (Now known as the East Village) following the 2012 Olympics.

So, the BTR opportunity had been identified and the movement was afoot prior to 2012. Sir Adrian's report focussed attention on the sector, intimated a structure and outlined some of the PRS's deficiencies to be corrected. The argument for 'scale' in the sector is well rehearsed and understood. Since the beginnings of the British Property Federation (BPF) and Savills BTR index in 2016, the average scheme size has grown and continues to grow.



## Introduction

An alternative source, Knight Frank & Homeviews, reports that the average scheme size for completed schemes stands at 212 homes, whilst those under construction and in planning stand at 264 and 320 homes respectively. This is broadly in line with the trend identified by the BPF and Savills.

To be clear on the numbers:

The BPF and Savills report on schemes greater than 20 homes in size, whereas Knight Frank & Homeviews use a scheme size threshold of 75 homes and above. Broadly speaking, scale tends to run hand in hand with density, and density with urban environments. Therefore, we have seen most BTR schemes located in London or regional centres. This correlates with target cohorts, building typologies and the service provision identified by the BTR sector as necessary and appropriate.

But whilst scale has operational advantages and economies, it is, in general, limited to cities and large towns which have populations and cohorts sufficient to support a BTR development or, indeed, competing developments.

Single Family Housing is not similarly constrained. Comparing UK BTR development with UK housebuilding development (which we shall do later in this paper) illustrates how BTR is largely constrained to densely populated areas, whilst house builders are able to build more broadly and more evenly across the UK. This breadth of delivery has the advantage of offering greater opportunity, but disadvantage of, what has been determined to be "investible scale", that is: schemes of sufficient size to attract institutional attention.

But, as our research demonstrates, SFH investible scale cannot be judged against BTR investible scale. The two asset classes are very different and the approaches to each are not directly interchangeable. However, they are complimentary.

As I mentioned at the beginning of this introduction, whilst what much of the US residential does and also how it is formed is analogous to the UK residential market, care must be taken in the translation. Learning from US markets is valuable, but it is important to ensure direct comparability. Something that is not always as obvious as it may seem from sector nomenclatures. We are, after all, "Two nations separated by a common language".

Finally, thanks to the support from Howsy.com who have sponsored this paper, to researcher and editor Vivienne Neale and my colleague Adam Ali for their valuable input. Thanks also for vital contributions from Mark Farmer of CAST, the Government's Modern Methods of Construction Champion in housebuilding and Brendan Geraghty of Centred Architecture for his valuable insights in design and sustainability.

## Executive Summary



Despite substantial institutional investment in apartments, houses remain the dominant typology in the UK. Current housing stock and the population who live in them outweigh flat dwelling 80%-20%. A survey reveals that the national preference for living in houses is even higher: 90%-10%.

The pandemic has changed what we need from our homes. The working from home experiment has been largely successful and we will see greater numbers of knowledge-based workers working from home as often as three days a week.

This reduction in office working reduces the need for commuting and allows individuals the opportunity to choose a home based on a wider criterion: defensible space, flexibility of configuration and a reduction in cost that non-urban living brings.

As a result, this also has increased a reliance on local consumer infrastructure and online resource. Both of which have proven dependable.

The exodus from city environments, particularly London, is unlikely to be wholly reversed, especially as the millennial cohort ages. Some behaviours are likely to remain post-pandemic which will lead to a greater demand for houses. In particular: the suburbs of larger conurbations and cities and on the outskirts of medium to large settlements.

In contrast to the very specific metrics that govern urban apartment block viability, SFH can be built in a diversity of locations across the country. Given the relative simplicity of houses, they can also be delivered by a much wider variety of counterparties. The development risk associated with the delivery of houses is commensurately lower.

The customers have grown up. The BTR journey has been their journey and we're all ten years older. So, they have changed.

## Executive Summary

As have their wants and needs. Accelerated by the covid pandemic. They will, more often than not, have children, want defensible, flexible space, both inside and out, will work from home more and have settled friendship groups into which they invest more of their time.

Management will be the same but different. Learning from BTR will be valuable but not directly translatable. The dispersed nature and the reduced scheme size will mean on-site management and amenity is more often the exception rather than the rule. SFH will be a sophisticated digital first model driven by tech companies.

Renter engagement must be elevated to the next level. Principally as it will not be possible to engage face-to-face. Wider adoption of demographic, psychographic and emographic research and data should become the norm in an effort to fully understand the customer. In any event, further refinement of digital applications will also enhance the BTR experience.

The very different nature of SFH community and the understanding of it will require a different operational management approach. The renter-to-renter community process common in BTR, will be supplanted by more holistic engagement within the wider existing community to create a more rooted, organic relationship with the locality. Placing SFH amongst Open Market Sale homes aligns the community aspirations of those renting with owners and they become more invested.

Given the dispersed, heterogenous nature of SFH schemes, routine maintenance and repairs will be delivered by specialist trades aggregators or FM companies performing to specific SLA's. Control and tracking of these processes will be integrated within the management platforms and a number of data points collected and analysed.



## Executive Summary



Modern Methods of Construction (MMC) are looking to dominate the future of housebuilding. Now more mainstream in application and becoming adopted by housebuilders, MMC is an integral part of delivering Carbon Zero homes built to factory specifications and tolerances.

The benefits of speed, certainty and product standardisation and repetition have made this a compelling business case and it should be expected that the market will see more convergence between modular housing and single-family build to rent.

It is clear that the alignment between the needs of single-family house investors and the conditions needed to drive change and modernisation in construction is strong. We should expect to continue to see increasing examples of how the Single-Family House sector can show the way to private for sale developers and others when it comes to innovating the build process

ESG is no longer simply a buzz word within the industry, a nice to have or a thin veneer of conformity. It has become fundamental to asset performance, value and fund reporting. SFH has to be in the vanguard in terms of sustainability and delivering carbon zero assets. There is no excuse not to be. We know too much about our climate challenge and real estate will be asked to bear a substantial burden in reducing the UK's carbon emissions. Government will legislate for it.

Assets that fail the test, will fall in value. Regulation of green funds; the Sustainable Finance Disclosure Regulation (SFDR) will require elemental change within the industry in terms of ESG transparency. A green fund must be a green fund and all that it invests in must meet ESG criteria. This increases pressure on fund managers to ensure their assets are truly sustainable. Any asset or portfolio that fails this test will quickly become stranded.

## Executive Summary

We have seen that competitive tension amongst investors for Stabilised SFH assets has driven down net yields. This could very quickly reverse if such assets fail to meet the rapidly evolving criteria.

But this isn't all about asset value. We are all becoming a consciously sustainable in our outlook. Science tells us that we can no longer continue with impunity as we once did. Most of us are now listening. Perhaps fearful for the future of our children and the awful legacy we may leave them if we do not change our ways. SFH is an asset class which lends itself to driving ESG forward and an opportunity that must be grasped with both hands.

The design of a SFH is perhaps one of the most crucial elements to the success of the sector. It celebrates the house as a typology and the people who live in them. Houses are infinitely configurability, are suited to a multitude of construction methods and vernaculars and, most importantly, provide us with the framework with which we move towards a sustainable carbon zero future.

We know that SFH investment characteristics are very different to those of BTR. If this paper were written a year ago, we would be talking about capitalising SFH off yields substantially softer than those of BTR. What a difference a year makes. With the Thistle portfolio transaction (Goldman Sachs) at a NIY of 4.1 % we are very close to prime BTR assets. Driven, no doubt, by the superior performance of SFH over BTR during the pandemic.

The difficulty faced by investors is scale. It is not practical to invest in single schemes with the same number of homes as the average BTR scheme. SFH schemes to date, have been less than one third the size of a BTR scheme. So, investors will have to adopt a different strategy.



## Executive Summary



The housebuilder model isn't aligned with that of the SFH investor, although it depends upon market conditions and the perceived value of government incentives. It will be interesting to watch the evolution of the acquisition model. Partnerships with strategic land specialists or SME's may be one pathway.

Phased delivery will create a slightly different financial model as a manageable number of homes will be delivered by the counterparty agent at a regular phased rate. The rate dependant on the method of construction. This allows for early cashflow, better absorption and earlier stability. Generally speaking, the smaller scheme sizes will lease up more quickly and be less susceptible to oversupply in the market. But there will be more schemes of greater variety in diverse locations delivered by a wider range of counterparties.

The dispersed nature of the portfolios will also demonstrate defensible investment qualities as regions behave and respond to economic pressures in different ways. SFH as an asset class may, at certain times, mirror the performance of BTR, and at others it may behave counter-cyclically as it has done through the pandemic.

Fundamentally, SFH represents investment in the dominant residential asset typology in the country. Houses. They are, courtesy of their relative simplicity and renter profile, easier to manage and demonstrate, to date at least, superior occupancy levels and reduced management costs. Accommodation is infinitely configurable, fully defensible, costs less than an equivalently sized city centre home and has outside space one can actually use. Surveys reveal houses are more popular and more desirable.

As we strive for a carbon zero future and sustainable living, various house types, irrespective of vernacular, can be constructed using myriad modern techniques and materials to deliver homes for the future.

## Executive Summary

Management, now that digital solutions are sophisticated and engagement strategies are a science, has caught up with the idiosyncrasies of managing disparate and dispersed portfolios. Having spent more than two years researching SFH, my strong feeling is that the sector will outnumber BTR by 3-1 by the end of the twenties.

There is one word of caution: additionality. We are entering a phase where, despite government stimulus, affordability is severely hampering the British desire to own.

The residential investment sector needs to acknowledge its place in the market as one of providing a place of transitory convenience. Albeit one of quality, security and responsibility. Therefore, if the sector is seen as cannibalising the OMS market, accusations of which are gaining traction in Ireland and the US, the sector will find this government unsympathetic and possibly hostile.

Additionality and relative speed of delivery, enabling the government to reach its target of 300,000 homes per annum is crucial to the health of SFH and BTR. We must be rigorous in doing it, demonstrating it and not just talking about it.

Richard Berridge. June 2021.





## 01 Are they a uniquely British preference?

**1.1** EU dwelling type statistics indicate that, on average, 46% of the member states' population live in apartments. This compares with the UK where only 14.8% of the population are flat dwellers. This puts the UK 3rd from bottom with only Norway (13.3%) and Ireland (4.7%) below.

**1.2** This contrasts markedly with the EU wide population numbers living in houses. As one might expect, the reverse is true with Ireland leading at 92% and the UK with 84.8%. The EU average is 57.4%.

**1.3** Digging a little deeper into the statistics reveals that the UK has by far the largest number people living in 'attached' homes of one sort or another (semi-detached, terraced etc) at close to 61%. The EU average is 24.1%.

**1.4** So, we can see that, in terms of population, the UK's population live predominantly in houses. And by a significant margin.

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<sup>1</sup> Eurostat Housing Statistics 2018: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Housing\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Housing_statistics)

Distribution of population by dwelling type, 2018

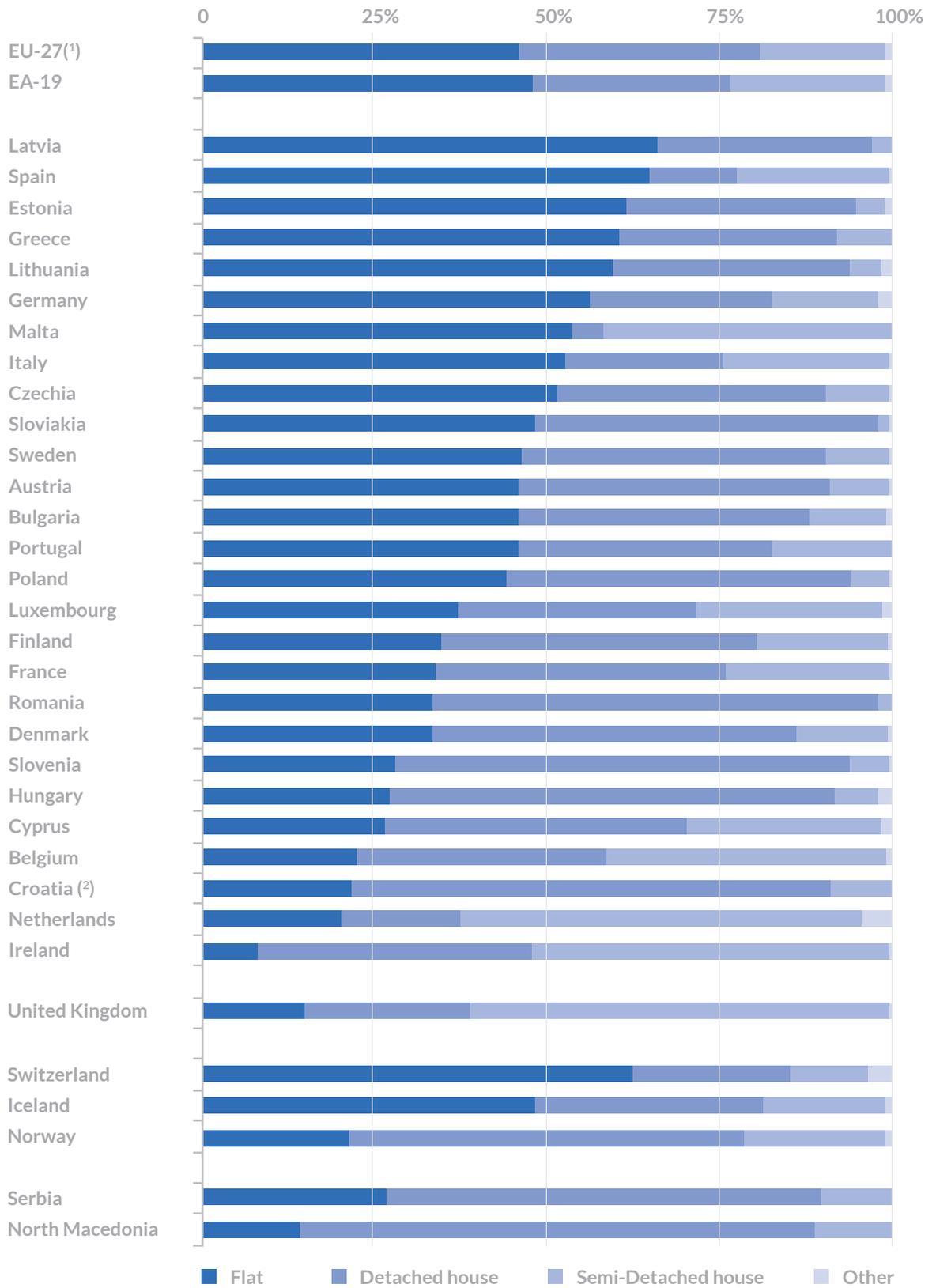


Fig 1. Source: Eurostat code: (ilc\_lvho01)

- 1.5 If we turn to dwelling stock typology, the EU data picture fairly reflects those of occupation by population. Ireland and UK, as one would expect, lead the way with 87.2 & 82.45% of dwelling stock being houses. Whilst the EU average is 51.4%<sup>2</sup>
- 1.6 Domestic data would seem to confirm this albeit at slightly lower levels. Overall, the UK house/flat split is given at approximately 80%-20%<sup>3</sup>

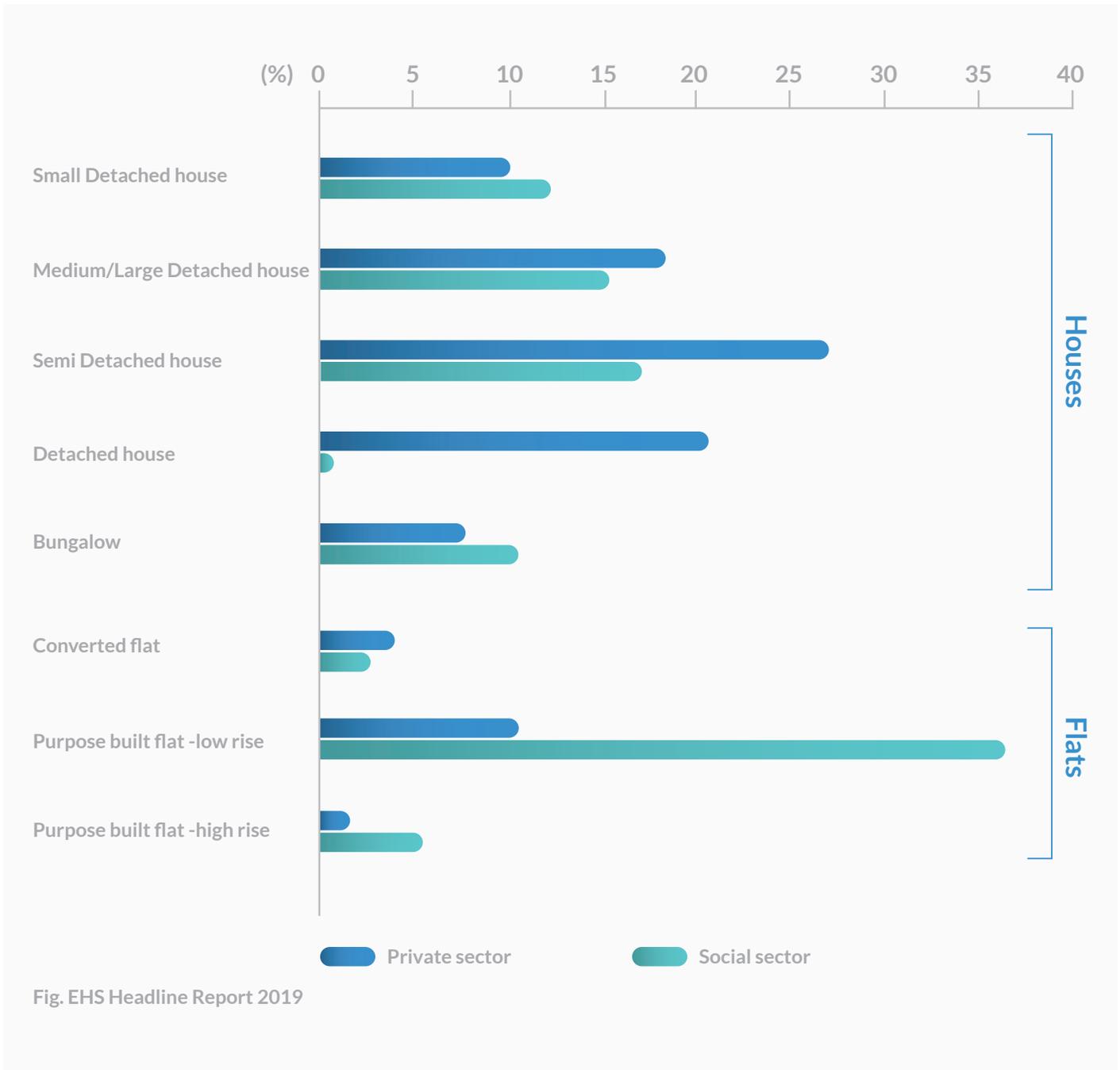


Fig. 2. Source: BRE Trust. (2017)



<sup>2</sup> EC Europa Fact Sheet. [https://ec.europa.eu/energy/eu-buildings-factsheets\\_en](https://ec.europa.eu/energy/eu-buildings-factsheets_en)

<sup>3</sup> BRE Trust: [https://files.bregrroup.com/bretrust/The-Housing-Stock-of-the-United-Kingdom\\_Report\\_BRE-Trust.pdf](https://files.bregrroup.com/bretrust/The-Housing-Stock-of-the-United-Kingdom_Report_BRE-Trust.pdf)

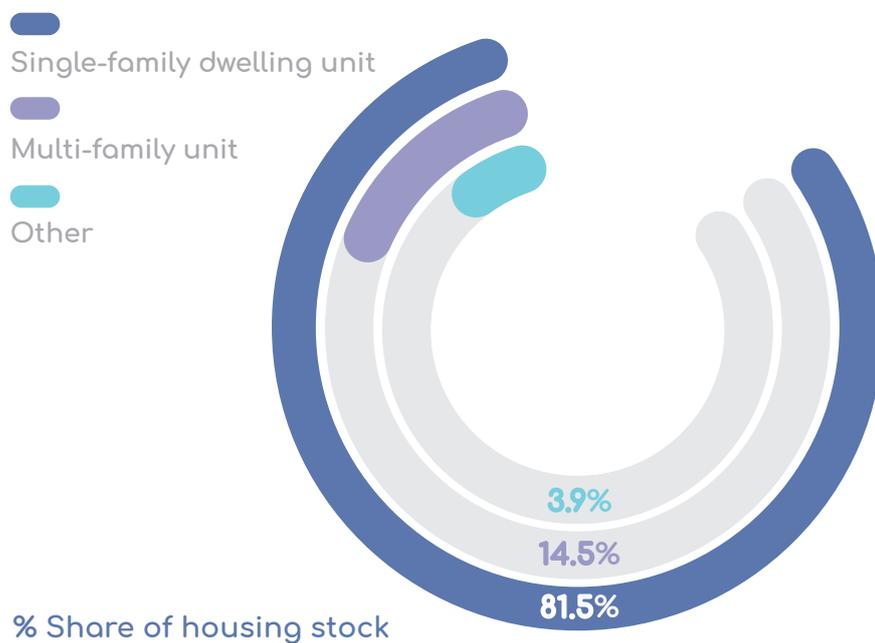


**1.7** The English Housing Survey 2019 'Dwelling Type by Tenure' data confirms that, in England, the housing typology split, across private and social homes at 80%-20% in favour of houses.<sup>4</sup>

<sup>4</sup> EHS Survey data on stock report 2020. DA1101 Stock Profile table. <https://www.gov.uk/government/statistical-data-sets/stock-profile>

**1.8** Whilst in general English housing typologies are heavily weighted towards houses, The Private Rented Sector is somewhat less so. 63% of the PRS are houses and 37% flats.<sup>5</sup> If we look at the Build to Rent sector, houses, at 12%, form a small proportion of BTR homes in operation.<sup>6</sup>

**1.9** Data from the United States is reflective of that in the UK. 81% of US housing stock is single family homes and 14.5% multi-family homes.



**1.10** A survey by the National Association of Realtors found that whilst 80% of Americans would prefer to live in a house as opposed to a flat, only 70% actually do.<sup>7</sup>

**1.11** One would expect therefore, that with BTR contributing significantly to newly built housing stock and significant regeneration of regional centres, new build dwellings would lean more favourably towards the number of flats being built.

<sup>5</sup> EHS. 2019-2020. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/945013/2019-20\\_EHS\\_Headline\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945013/2019-20_EHS_Headline_Report.pdf)

<sup>6</sup> Savills Spotlight. The UK Private Rented Sector: [https://www.savills.co.uk/research\\_articles/229130/308605-0](https://www.savills.co.uk/research_articles/229130/308605-0)

<sup>7</sup> National Association of Realtors survey: <https://www.nar.realtor/reports/2011-community-preference-survey>

**1.12** However, research shows that in the most recent years for which data is available (2019) 78% of newly built homes were houses.<sup>8</sup> This is the highest proportion of houses to flats being built since 2000-2001.

**1.13** As one can see from fig 4, the ratio of flats to houses being built increased as we approached the Global Financial Crisis. At its peak in 2008-09, flats accounted for 50% of new homes. Recovery from the GFC to date has shown a steady reversal of the trend.

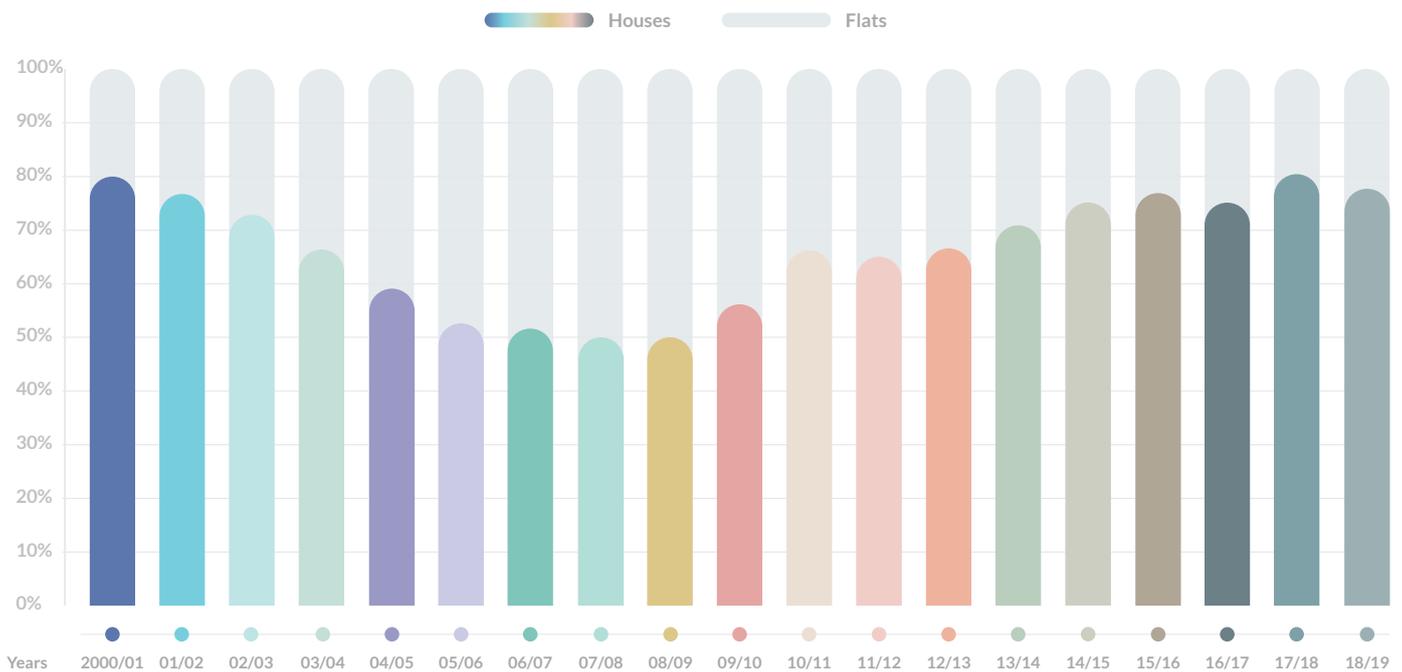


Fig. 5. MHCLG New build Dwellings England Dec 2019

**1.14** In 2017 Barratt Homes researched regional housing typologies based on Land Registry Data available at the time<sup>9</sup>.

The results were unsurprising, with houses forming 86% of the housing stock. It is doubtful that they have changed materially today.

**1.15** As most would expect the proportion of flats to houses in London was significantly higher than the national average, at 43%.

When houses in London were divided into terraced (27%), semi-detached (23%) & detached (8%), flats were the dominant single typology.

<sup>8</sup> MHCLG. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/875361/House\\_Building\\_Release\\_December\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/875361/House_Building_Release_December_2019.pdf)

<sup>9</sup> Barratt Homes. UK in a Street <https://www.barratthomes.co.uk/uk-in-a-street>



**1.16** The UK population overwhelmingly live in houses, and the level of that stock type is commensurately high.

Apart from a downward trend beginning in 2001-02 and ending in 2009-09, we continue to build many more houses than flats.

**1.17** But which type of home do people actually prefer?

Are we building the right type of homes in the right places?

The BTR sector is heavily weighted in favour of Urbanists. Much is made of town/city centre regeneration, repurposing and placemaking. So much so, that often the notion of life outside the city limits is so much 'noise' to the BTR cognoscenti.



*Research which asks simple questions is difficult to find as if so simple a question has so obvious an answer it need not be asked.*

*Whilst there are endless surveys on tenure preference, housing stock and what homes the population actually lives in, there is virtually no reliable present-day data on typology preference.*

**1.19** However, A survey by Howsy is revealing. Given a binary choice between a preference for a house or a flat, more than 90% opted for a house.

This was irrespective of tenure. Perhaps a question that could be addressed separate to this paper is: 'Are flats a staging post on the way to house living?' In which case, why buy a flat if it merely represents a moment in time?

This is especially true now when excessive home price inflation of the past is unlikely to be repeated given affordability pressures.

Perhaps this is a question urban BTR is answering.



So, the UK is not unique in its predisposition towards living in a house; the US has similar tastes and preferences.

But, compared to our European neighbours our housing stock is predominantly houses, the population overwhelmingly lives in them, and we are significantly more likely to want to live in a house.





## 02 The Changing Face of Desire

- 2.1** The global pandemic has forced us to re-evaluate our priorities. Those priorities have arisen due to circumstances beyond our control. Not just the obvious social imperatives which have kept us indoors, masked our faces, distanced us from each other and required sanitisation of all that enter our personal spheres, but also the way in which we are very likely to work from now on.
- 2.2** But what do we know about how much of what we have been forced into doing this past year, we will continue to do? How long does it take for a new behaviour to become a habit?
- 2.3** In the 1960's, plastic surgeon Dr Maxwell Maltz, curious to understand how long it took patients to get used to an amputation, observed that it took individuals 21 days to come to terms with their new situation.<sup>10</sup>
- 2.4** As I have previously written<sup>11</sup> Dr Phillippa Lally of UCL, in 2009, put that number at 66 days<sup>12</sup>. But with a variance of between 18-254 days. We're well beyond 254 days now. Dr Lally's research was based on more beneficial behavioural change such as eating more fruit or drinking more water. So how relevant is this research and how does it relate to post pandemic behavioural change?

<sup>10</sup> Dr Maxwell Maltz. *Psycho-Cybernetics. A New Way to Get More Living Out of Life.* 1960

<sup>11</sup> Richard Berridge. PS Investors. '2020. The Year of Authenticity' <https://www.psinvestors.co.uk/blog/property-expert-market-forecasts-2020/>

<sup>12</sup> Dr Phillippa Lally. UCL. *European Journal of Social Psychology.* <https://onlinelibrary.wiley.com/doi/abs/10.1002/ejsp.674>

2.5 As Tim Oldman<sup>13</sup> of Leesman observed, we may be getting used to working from home, or to paraphrase Dr Maltz 'had come to terms with it', but that doesn't mean we like it<sup>14</sup>.

Oldman also went on to make the point that Dr Maltz didn't appear to ask his patients if they'd like their amputated limb back.



So, if many of us have temporarily lost our offices, how many will want their office back?

And if we do want it back, do we want all of it back or just some of it?

Then there's the question of our employers: what benefit, if any, have they gained from us working from home?

A more efficient workforce?

Reduced premises costs?

“

**WHAT IS CLEAR IS THAT THE WAY WE LIVE, OR LIVED, HAD EVOLVED SYMBIOTICALLY WITH HOW AND WHERE WE WORK. IF HOW WE WORK IS TO CHANGE, THEN HOW AND WHERE WE LIVE WILL CHANGE TOO.**

<sup>13/14</sup> Tim Oldman. Founder and CEO Leesman. <https://www.linkedin.com/in/timoldman/>



**2.9** But perhaps we should have been prepared for a transformation in working practices before Covid-19. Net outbound migration away from London in 2019 stood at 30,000. That's 88 workers every day.

The same survey<sup>15</sup> found that one million young people planned to leave the capital before they turned 33 and that 53% of millennials had looked at jobs outside London. So, we can't be surprised that the rules by which we have lived our lives during the last three quarters of 2020 & 2021 has accelerated the migratory trend.



**2.10** One might imagine that these questions of telecommuting, of a distributed workforce and the impact of technology on working from home and the changing face of requirement are questions of our time.

But such questions were being asked 27 years ago by the National Academies of Sciences, Engineering and Medicine<sup>16</sup> in the US, well before current day wrangling over such matters.

**2.11** If we were to take a purely tools-based approach, there is little doubt that we have tools to enable an efficient distributed workforce.

**2.12** Returning to Leesman, they created an Lmi index, a 0-100 rating of how an office-based environment is (or isn't) supporting employees, and an H-Lmi index comparing home workspaces with corporate workplaces. Again, using a 0-100 rating.



<sup>15</sup> Total Jobs Survey. Reversal of the Brain-Drain. [https://www.totaljobs.com/file/general/TJ\\_Report\\_Reversal-of-the-brain-drain-SEPT-20.pdf](https://www.totaljobs.com/file/general/TJ_Report_Reversal-of-the-brain-drain-SEPT-20.pdf)  
<sup>16</sup> National Academies of Sciences, engineering and Medicine. Research Recommendations to Facilitate Distributed Work (1994) <https://www.nap.edu/catalog/4812/research-recommendations-to-facilitate-distributed-work>

**2.13** Fig's 6 & 7 indicate firstly (Fig 6) the home/office experience for differing activity profiles, and secondly (Fig 7) how many days a week an individual would prefer to work from home given the varying quality of the office environment.

**2.14** When considering activity profiles (Fig 6) it would seem that the more collaborative the activity, the more an office-based experience is preferred, and vice-versa as the activity became more individual.

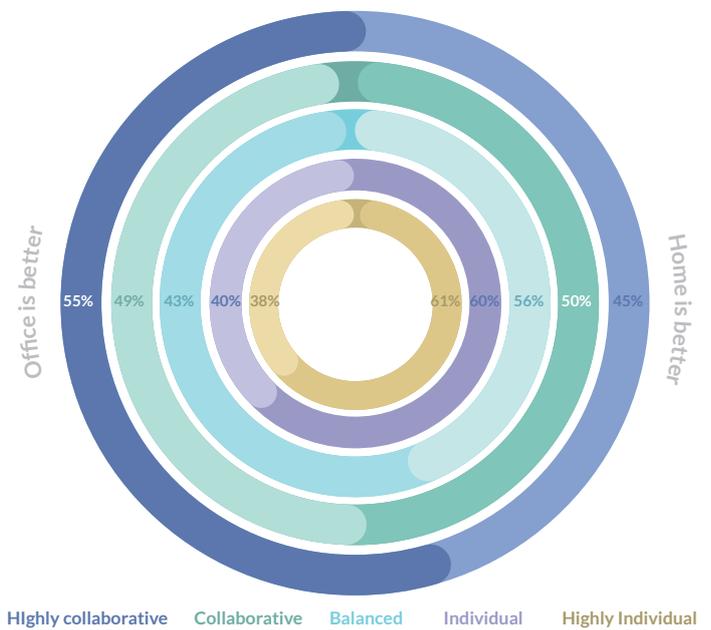
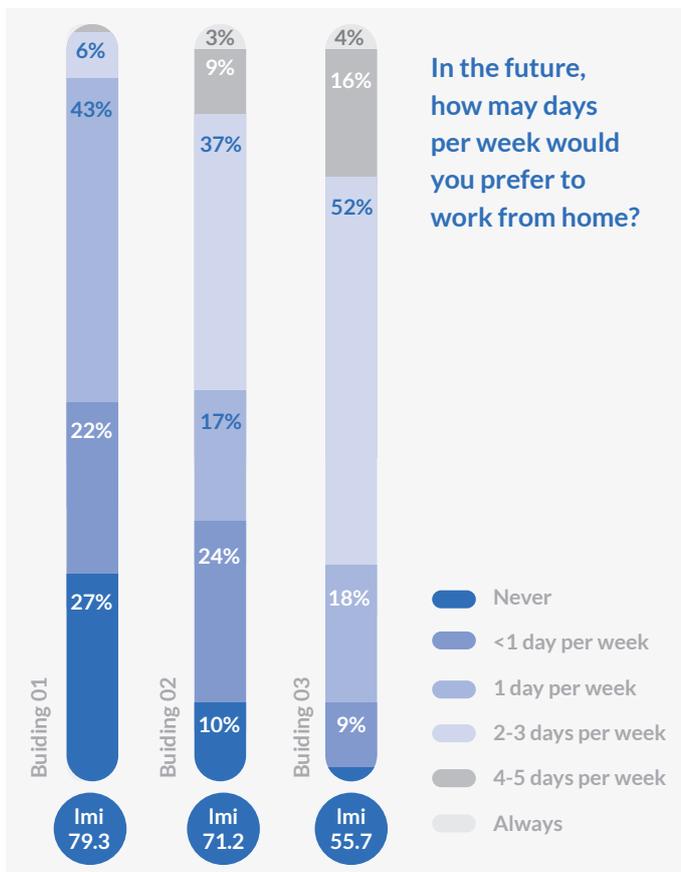


Fig.6<sup>17</sup>

Fig.7<sup>17</sup>



**2.15** As illustrated in Fig 7, better quality office environments promote a significantly greater desire to work in an office. It's also clear that relatively marginal falls in the quality of the office environment lead to a much greater desire to work from home more often.

**2.16** What the Leesman research tells us is that a significant proportion of the workforce are ready and may prefer to work from home 2-3 days a week<sup>17</sup>. This follows on from April 2020 when the ONS reported that 49.2% of us were working from home<sup>18</sup>. The outcomes of this forced experiment; the likelihood of the permanence of our newly acquired behavioural habits, means that we will need greater adaptability from the homes we live in.

<sup>17</sup> Leesman. Your Workplace of the Future. 2020. <https://www.leesmanindex.com/your-workplace-of-the-future/18> ONS. coronavirus (COVID-19) pandemic on the UK economy and society. April 2020.

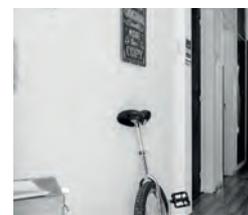
<sup>18</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukconomyandsocietyfasterindicators/23april2020>

**2.17** Trends in the rental market can appear or disappear relatively quickly. Hometrack's Q4 2020<sup>19</sup> data highlighted the trend that had become evident during the course of the pandemic.

- Weaker demand in city centres leading to falls in average rents in London, Manchester, Birmingham, Leeds and Edinburgh.
- Evidence of a 'halo effect' in these cities where outer boroughs and the wider commuter zones displaying solid growth. For example: Central Birmingham rents fell by -3.4% in the year to December 2020. Whereas neighbouring boroughs, Bromsgrove, Sandwell and Wolverhampton rose by an average of 5.3%.
- In an apparent demand for more space, houses were taking less time to rent out compared to flats. If compared to Q4 2019, across the country, it was taking 30% less time to let out a house. During the same period, the time to let out a flat remained largely unchanged.
- Hometrack also reported that in regions that were applying rent cuts, albeit a small proportion, a larger proportion of flats than houses saw asking rents reduced.
- The research also showed that renters were looking for more space, both inside and outside.

**2.18** Rightmove's data during 2020 was closely aligned with that of Hometrack's and showed a picture of city dwellers looking outside urban confines to less built-up areas for more space.

**2.19** However, Hometrack's December 2020 research contrasts markedly with Rightmove's Feb 2021 data which suggests a surge in portal searches for London zones 1 & 2<sup>20</sup>. Rightmove report that Nine Elms saw a 126% jump in searches in contrast to August 2020.



<sup>19</sup> Hometrack. Q4 2020 Rental Data. [https://www.hometrack.com/uk/insight/rental-market-report/q4-2020-rental-market-report/?utm\\_source=hometrack&utm\\_medium=trade-email&utm\\_campaign=rental-market-report](https://www.hometrack.com/uk/insight/rental-market-report/q4-2020-rental-market-report/?utm_source=hometrack&utm_medium=trade-email&utm_campaign=rental-market-report)

<sup>20</sup> Rightmove. 'Rental searches surges in Zones 1 & 2 as renters seek return'. March 2021. <https://www.rightmove.co.uk/press-centre/rental-searches-surges-in-zones-1-2-as-renters-seek-return/>

**2.20** Compared to August 2020, when 8 out of 10 searches were for properties outside zones 1 & 2, the latest data shows that the 10 most searched London locations were inside zones 1 & 2.



**2.21** Rightmove concluded that the reason for the increase in searches was that renters were looking to take advantage of the average price falls of 15% in the capital before a perceived probability that rents would rise again. Nevertheless, opportunist or not, it does represent a reversal of a near year-long trend of an urban exodus. However, as pointed out by Tracey Hartley<sup>21</sup>, now Head of Residential for the Crown Estate Central London Portfolio at JLL, said, renters, opportunistically renting in Zones 1 & 2, (where rents have dipped 17.7%<sup>22</sup> and there is an oversupply), could cause some short-term churn issues if supply becomes constrained and rents rise again to former levels. This could be caused by a significant return to short term lets, take Airbnb as an instance, as the global restrictions on movement are relaxed.



<sup>21</sup> Tracey Hartley. Head of Residential. Howard de Walden Estate. <https://www.linkedin.com/in/tracey-hartley-1752412/>

<sup>22</sup> Hamptons. February 2021 Lettings index. <https://www.hamptons.co.uk/research/articles/february-2021-lettings-index/>

**2.22** Should this happen, unaffordability would likely push these opportunistic renters back to the outer zones and other areas where competition for rentals has been fierce during the pandemic.

Rents in outer London have risen by 5.3% YoY<sup>23</sup> (Feb' 2020 - 2021).

Nationally, excluding London, rents have risen during this period by 8%<sup>24</sup>.



**2.23** So, short term trends driven by exceptional circumstances are a moveable feast and an unreliable indicator of long-term trends in renter preferences. But what I think we can see is a permanent trend for dispersed working.

**2.24** A dispersed work force will become commonplace. McKinsey's research<sup>25</sup> suggests that 20% of the workforce could work from home or remotely 3 to 5 days of the week.

This would show an increase of up to 4 times as many people working remotely than before the pandemic.

The evidence from Leesman and others supports this. The traditional working pattern and associated commute will not exist in the way it did prior to March 2020.

<sup>23/24</sup> Ibid.

<sup>25</sup> McKinsey Global Institute. 'What's next for remote work: An analysis of 2,000 tasks, 800 jobs, and nine countries' November 2020. <https://www.mckinsey.com/featured-insights/future-of-work/whats-next-for-remote-work-an-analysis-of-2000-tasks-800-jobs-and-nine-countries#>



**2.25** It isn't just the companies one would expect to have a dispersed and remote workforce that are moving to embrace homeworking. DropBox, Facebook, GitHub etc. are those one would assume to be employing dispersed working as a norm. But Lloyds Bank, Standard Chartered or The Nationwide?

**2.26** In December 2020, Lloyds Bank, who had 50,000 of its 65,000 employees working from home at the height of the pandemic, announced they were moving 700 staff to permanent homeworking<sup>26</sup>. Following a review, Standard Chartered Bank found that 80% of its workforce could be suitable for hybrid working<sup>27</sup>. In March 2021, The Nationwide confirmed that it had told 13,000 staff they could work from anywhere<sup>28</sup>.

**2.27** On the flip side, there are companies, and perhaps not those one would expect, where individuals are potentially being called back to the office. The Times reported both Google and Amazon were calling their staff back to office working. As Antony Slumbers<sup>30</sup> put it: "Everyone going back to the pre-pandemic life would be the greatest disavowal of 'don't waste a crisis' in history"<sup>31</sup>.

<sup>26</sup> Yahoo Finance: "700 Lloyds staff to work from home in 2021 despite vaccines news" December 2020

<https://uk.finance.yahoo.com/news/coronavirus-lloyds-halifax-bank-of-scotland-staff-working-from-home-2021-vaccines-105847137.html>

<sup>27</sup> Standard Chartered Bank. 'Creating a differentiated workplace' <https://www.sc.com/en/media/press-release/creating-a-differentiated-workplace-standard-chartered-focuses-on-hybrid-working-to-appeal-to-future-workforce/>

<sup>28</sup> Nationwide. "13,000 employees put in control as nationwide rolls out 'work anywhere' March 2021 approach" <https://www.nationwidemediacentre.co.uk/news/people-power-13-000-employees-put-in-control-as-nationwide-rolls-out-work-anywhere-approach>

<sup>29</sup> The Times. April 2 2021. 'Google and Amazon call staff back to the office' <https://www.thetimes.co.uk/article/google-and-amazon-call-staff-back-to-the-office-wjjmbtlxb>

<sup>30/31</sup> Antony Slumbers. CRE tech expert. <https://www.linkedin.com/in/antonyslumbers/>



**2.28** McKinsey has also looked at consumer attitudes in the US. In what they describe as "The Great Consumer Shift"<sup>32</sup> McKinsey highlight 5 main points.



- 01** Flight to Online
- 02** Shock to Loyalty
- 03** Need for Hygiene Transparency
- 04** Back to Basics and Value
- 05** Rise of the Homebody Economy

**2.29** McKinsey suggest that these main themes will be a permanent feature of our consumer behaviour in a post-pandemic environment.

**2.30** McKinsey carried out a similar survey in the UK in November 2020. The results were not materially different to those observed in the US<sup>33</sup>.

**2.31** Essentially, this means that our consumer habits will revolve around online where we cannot buy locally or rely upon local provision wherever possible. This may have a positive effect on local communities, consumer providers & economies. There is also the probability, when conditions allow and restrictions relaxed, that we will see the emergence of 'event consumerism'. Where venturing beyond the local and the digital becomes a special occasion and the customer experience a key factor.

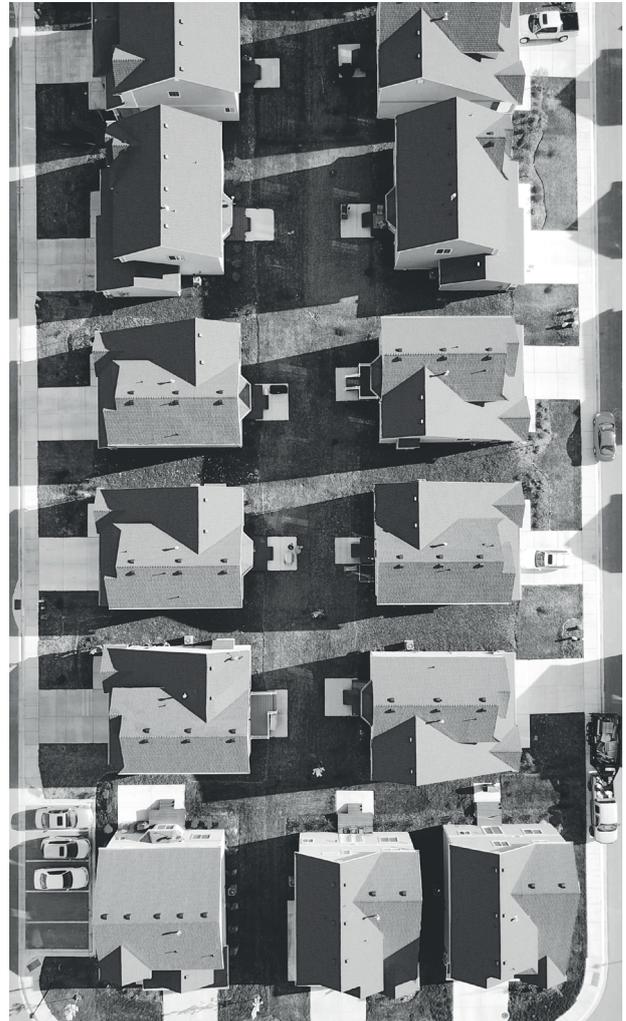
<sup>32</sup> McKinsey Global Institute. 'The Great Consumer Shift' August 2020. <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-great-consumer-shift-ten-charts-that-show-how-us-shopping-behavior-is-changing#>

<sup>33</sup> McKinsey Global Institute. 'UK consumer sentiment during the coronavirus crisis' December 15th 2020. <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-uk-consumer-sentiment-during-the-coronavirus-crisis>

**2.32** Similarly, 'event' could easily be applied to what we will expect from our workplaces from now on.

**2.33** So, in terms of requirement, we have seen both individuals and corporates adapt their behaviours to comply with the restrictions enforced by the pandemic.

**2.34** As those restrictions are relaxed, we are beginning to see the emergence of permanent change: in how we work, how we consume and ultimately, how, where and in what we live.



**2.35** The opportunity exists for investors to explore the Single-Family Home sector and provide homes which are more suited to post-pandemic living; To respond to the fundamental changes in society and in greater and more diverse locations than BTR is able.

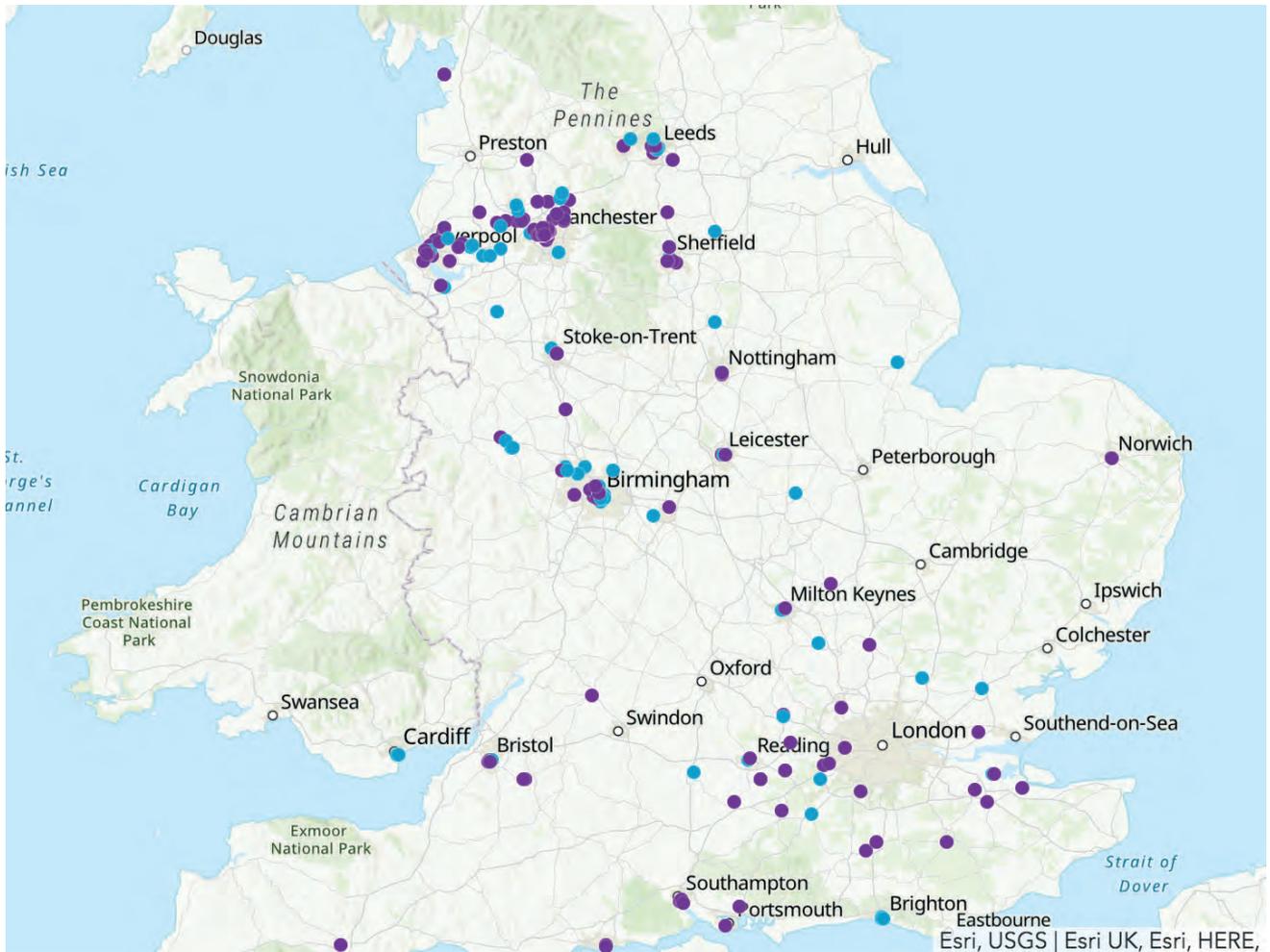


Fig 8. Source British Property Federation Build-to-Rent Map Q1 2021<sup>34</sup>.

## 03 Where & What?

**3.1** Analysis of the BPF’s Build-to-Rent map illustrates the locations where developers and investors have concentrated to date.

**3.2** As can be seen, by and large, BTR apartment developments are constrained by a need to be centred in urban locations. Principally London, Manchester, Liverpool, Leeds and Birmingham. The rationale for this is that the market for such typologies exists primarily in these locations. Both in terms of demand and target cohort.

<sup>34</sup> British Property Federation. <https://bpf.org.uk/about-real-estate/property-development/build-to-rent-map/>



**3.3** Those BTR schemes that are not located in urban centres, are situated close to transport infrastructure within an urban environment facilitating convenient access to city centres.

**3.4** Whilst BTR is broadly attractive to and across all cohorts, Gen Z's and Millennials account for nearly 80% of the customer base<sup>35</sup> and nearly 25% of customers work in the financial services sector or insurance<sup>36</sup>.

It generally follows that such industries are clustered in cities. For instance, taking London as a whole, 74% of insurance jobs, 46% of banking jobs and 46% of fund management are located in the City of London<sup>37</sup>.

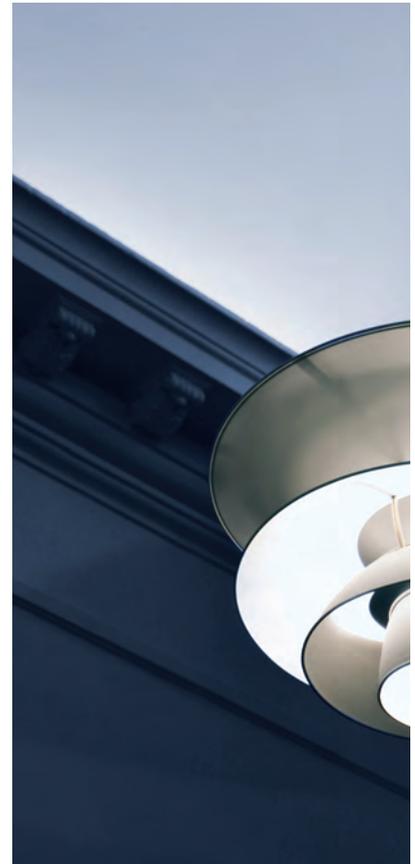
**3.5** It is self-evident, given that the urban population is reported as being 83.65%<sup>38</sup> of the UK as a whole, (defined as settlements with 10,000 or more people<sup>39</sup>) that large scale BTR schemes will find more customers there.

A pre-pandemic survey by Go-Compare<sup>40</sup> looking at renter preferences suggested that 48% of Gen Z's and 45% of Millennials thought it important to be close to university and/or work. This is typically, a prime city centre.

Of equal interest and pointing perhaps to the social habits of Gen Z and Millennials, 50% prioritised being close to social activities, restaurants and bars.

**3.6** So, to date, the where and what has been driven by clear demographic data, a conservative approach to risk and a need to prove the concept within the most likely receptive environment.

The learning from early BTR has been invaluable and the sector is now well established with proven operational management protocols and investment metrics.



<sup>35</sup> BPF. London First. UKAA. "Who Lives in BTR?" <https://thinkhouse.org.uk/site/assets/files/2301/london0121.pdf>

<sup>36</sup> Ibid

<sup>37</sup> City of London Economic Research Programme. Dr Laura Davidson. Head of Research 2017.

<sup>38</sup> Statista. Urban and rural population of the UK from 1960 to 2019. [www.statista.com/statistics/984702/urban-and-rural-population-of-the-uk/](https://www.statista.com/statistics/984702/urban-and-rural-population-of-the-uk/)

<sup>39</sup> ONS. Rural/Urban Definition (England & Wales) 2016 [www.ons.gov.uk/methodology/geography/geographicalproducts/ruralurbanclassifications/2001ruralurbanclassification/ruralurbandefinitionenglandandwales](https://www.ons.gov.uk/methodology/geography/geographicalproducts/ruralurbanclassifications/2001ruralurbanclassification/ruralurbandefinitionenglandandwales)

<sup>40</sup> Go-Compare Tenant Survey 2018. <https://www.buyassociation.co.uk/2018/09/17/survey-shows-uk-millennials-prefer-city-centre-living/>

- 3.7** As maturity approaches, BTR is able to look beyond its urban confines, broaden its offer, respond to changing demand and address a fundamental realignment in the way we now live.
- 3.8** PRS or BTR Schemes of **100 homes or more**: According to data from the BPF (Q3 2020) there are circa 40,000 completed PRS homes that form part of, or all of, a new build scheme. This represents 182 schemes across the country. 12% (4,800) of these homes are houses<sup>41</sup>.
- 3.9** Similarly, there are 33,500 homes under construction (114 schemes) and 80,500 homes in planning (222 schemes).
- 3.10** A simple calculation shows that using the 100+ homes threshold, on average, scheme size has grown over time from 219 homes per completed scheme, to 362 homes per scheme currently in planning.



<sup>41</sup> Savills. Spotlight: The UK Private Rented Sector. [https://www.savills.co.uk/research\\_articles/229130/308605-0](https://www.savills.co.uk/research_articles/229130/308605-0)

**3.11** Combined, the sector has delivered, or is potentially delivering, 152,370 PRS and/or BTR homes from 518 schemes nationally<sup>42</sup>.



**3.12** Contrast the BPF BTR data with that from Glenigan (April 2021) which reveals that, UK wide, there are approximately 4,150 schemes, currently either in planning or under construction.

Each of these contain more than **100 houses**<sup>43</sup>. This reflects what we already know about the UK dominance of the house typology.

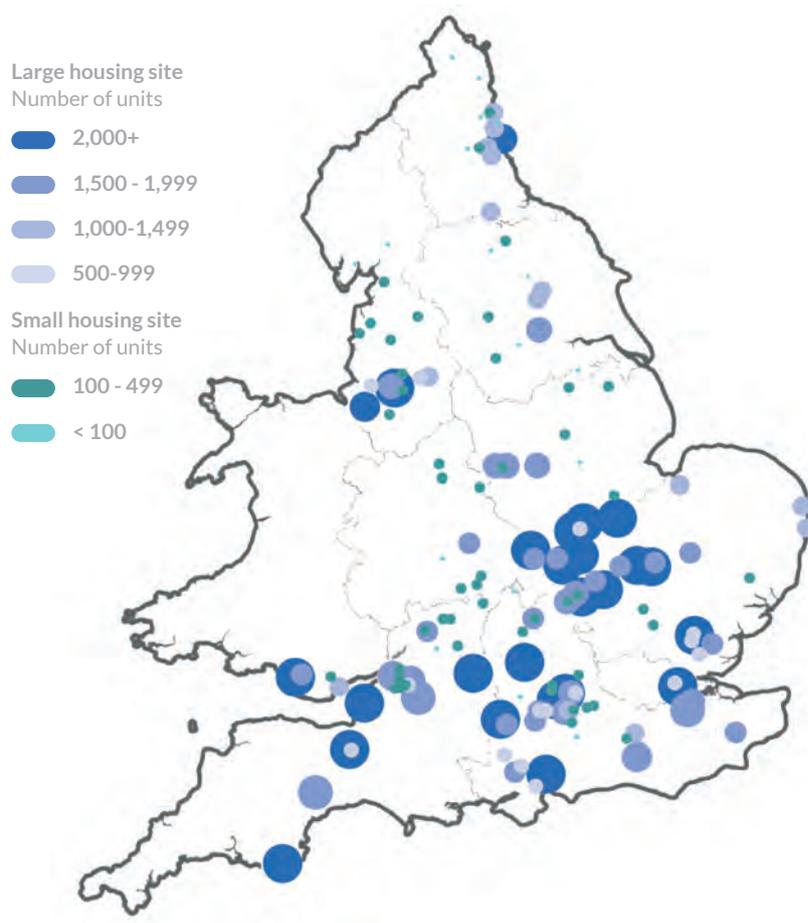
**3.13** We can also see from research by planning experts Lichfields that the current map of housing delivery is considerable broader and more diverse than that of the BTR map.

<sup>42</sup> Schemes delivering more than 100 homes.

<sup>43</sup> Glenigan. Realtime construction and planning data. <https://www.glenigan.com/our-products/insights-specific-research/>

**3.14** Lichfields' research also found that there are 196,714 homes on large sites of 500 + Units. 16,467 homes on smaller sites of <500 units and 35 sites of more than 2,000 homes<sup>44</sup>.

**3.15** We can infer from the popularity of houses, both in the PRS, social housing and owner-occupied sectors, that if we were to see significant investment in the SFH sector by institutional investors, Government would see substantial additionality to the numbers of homes built each year. This may influence support for SFH at Westminster.



Source: Lichfields Research. Feb' 2020. 'From Start to finish'<sup>45</sup>.

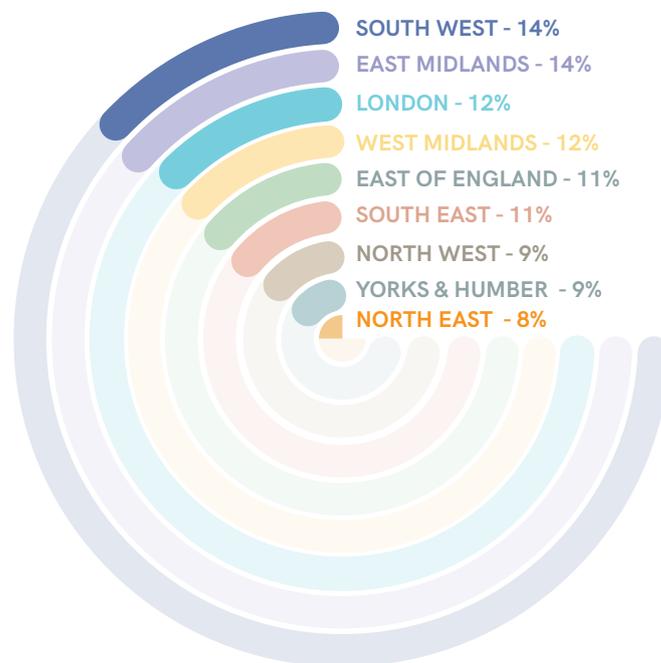
<sup>44</sup> Lichfields. From Start to Finish. Feb' 2020. <https://lichfields.uk/content/insights/start-to-finish>

<sup>45</sup> Lichfields. Ibid.

**3.16** Whilst there are more opportunities to build houses, and in a greater variety of locations, it is clear that in less densely populated areas the take-up by renters is likely to be commensurately reduced. This limits the number of SFH's that can be introduced in any one area at any one time.

**3.17** As at 2017, excluding London and outer boroughs, there were 751 settlements with a population of 10,000 or more in England.

### Project growth in households english regions 2018-2028



Source: Office for National Statistics – Household Projections 2018-2028 Table 2.

**3.18** This number is likely to increase subject to the Government's projected household growth in the English regions.

**3.19** Outside London and employing the Government's new Standard Method (SM) of calculating housing need<sup>46</sup>, it is estimated that local authorities are committed to enable delivery of 204,000 dwellings per annum<sup>47</sup> under their local plans.

<sup>46</sup> Housing and Economic Needs Assessment. <https://www.gov.uk/guidance/housing-and-economic-development-needs-assessments>

<sup>47</sup> Lichfields Blog: Planning Matters. [https://lichfields.uk/blog/2020/december/16/mangling-the-mutant-change-to-the-standard-method-for-local-housing-need?how-many-homes#\\_ftn5](https://lichfields.uk/blog/2020/december/16/mangling-the-mutant-change-to-the-standard-method-for-local-housing-need?how-many-homes#_ftn5)



**3.20** If we assume the ratio of houses to flats being built to remain broadly constant as at 1.12 (78% - 22%) then we could assume an annual target of houses to be approximately 159,000.

**3.22** According to the Government's own housing delivery figures, whilst there is an upward trend, it is unlikely that we shall see 300,000 homes delivered in 2021. For the year 2019-2020 the national annual figure was 243,700. In London it was 41,718 additional dwellings.

**3.23** So, the SM for calculating need and delivery is one thing, actual delivery is quite another. Throw Covid 19 into the mix for most of 2020 and it is likely Government will see a substantial shortfall in the delivery of homes and short term HPI.

**3.21** The total annual delivery of homes committed to by all authorities is just short of 300k. London has committed to nearly one third of this figure.



**3.24** Government housing supply indicators for the 12-month period to June 2020 showed new build starts down 26% and completions down 15%. Much of this followed the impact of the first national lockdown which was the most severe and closed many construction sites.

**3.25** However, leaving aside the immediate impact of Covid 19, it is clear that right across the country, in a diverse number of locations, most local authorities are planning for housing growth. Given what we know about typology ratios, most of these will be houses.

- 3.26** The ability to deliver houses across multiple regions throughout the UK mitigates the investor risk associated with delivering more complex structures in much narrower geographic locations. This, as we have experienced, can be negatively affected by exceptional events.
- 3.27** In addition to the current Local Plans, Savills suggest that the government's ambition to build one million homes in the Oxford - Cambridge Arc by 2050 could possibly be met. However, at current delivery rates, 630,000 additional homes would be delivered in this time<sup>48</sup>.
- 3.28** The Government has announced the creation of four new Garden Villages within the Arc corridor at South Oxfordshire, Vale of White Horse, West Oxfordshire and Central Bedfordshire.
- 3.29** The National Infrastructure Commission (NIC) has suggested four further areas suitable for additional settlements: between Bicester and Bletchley, at Marston Vale, at Sandy and between Sandy and Cambridge<sup>49</sup>.
- 3.30** As noted in 1.7 houses, by 80%-20%, are the dominant typology in the UK and attached houses, either semi-detached or terraced, make up 67% of the UK house stock across all tenures<sup>50</sup>.

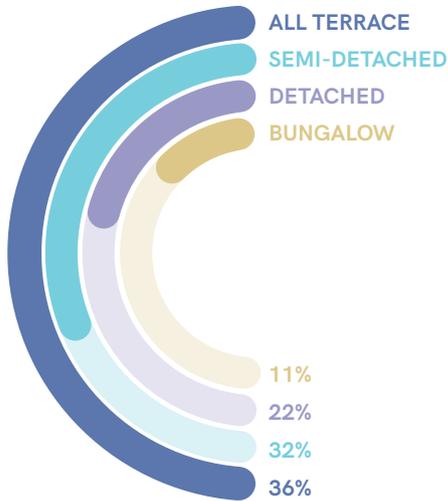


<sup>48</sup> Savills. The Oxford Cambridge Innovation Arc: <https://pdf.euro.savills.co.uk/uk/residential---other/the-oxford-cambridge-innovation-arc.pdf>

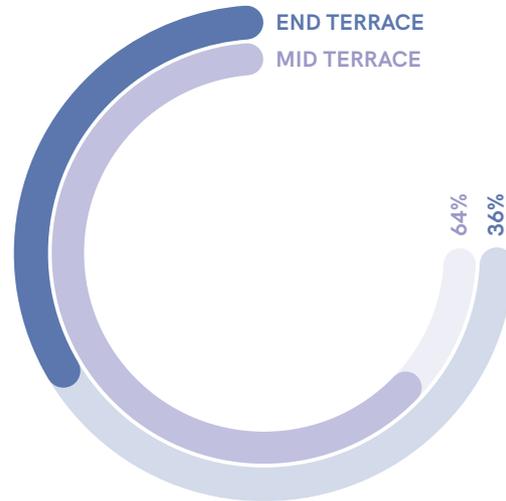
<sup>49</sup> NIC. Cambridge - Milton Keynes - Oxford Growth Arc. <https://nic.org.uk/studies-reports/growth-arc/>

<sup>50</sup> English Housing Survey Data of Stock Profile 2018. <https://www.gov.uk/government/statistical-data-sets/stock-profile#history>

### All House Types



### Terrace House Types

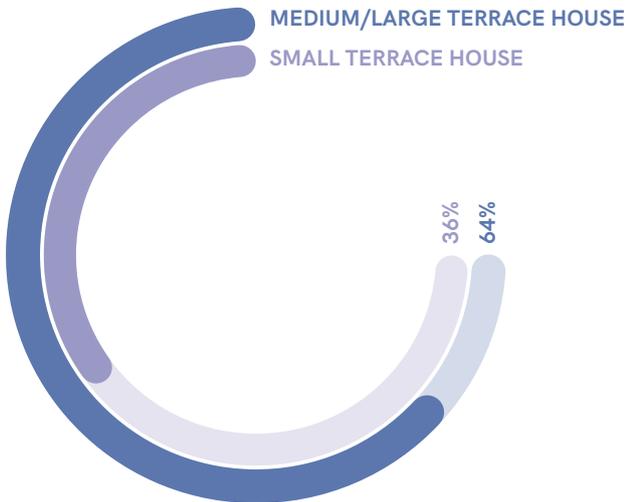


Source: English Housing Survey 2018. Table DA1101.

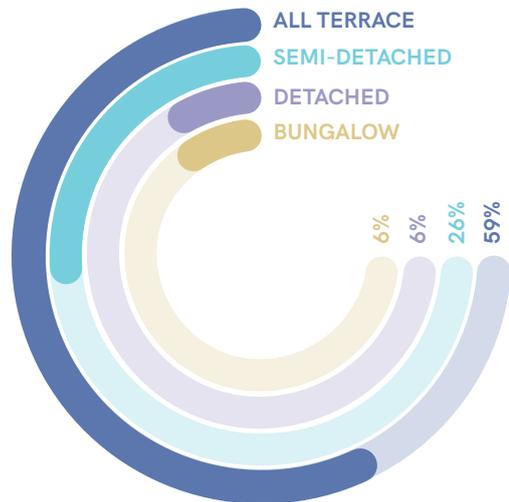
**3.31** As one would expect, mid-terrace houses make up two thirds of the terraced stock

**3.32** Medium to large terraced houses make up two thirds of the terraced house size.

### Terrace House Size

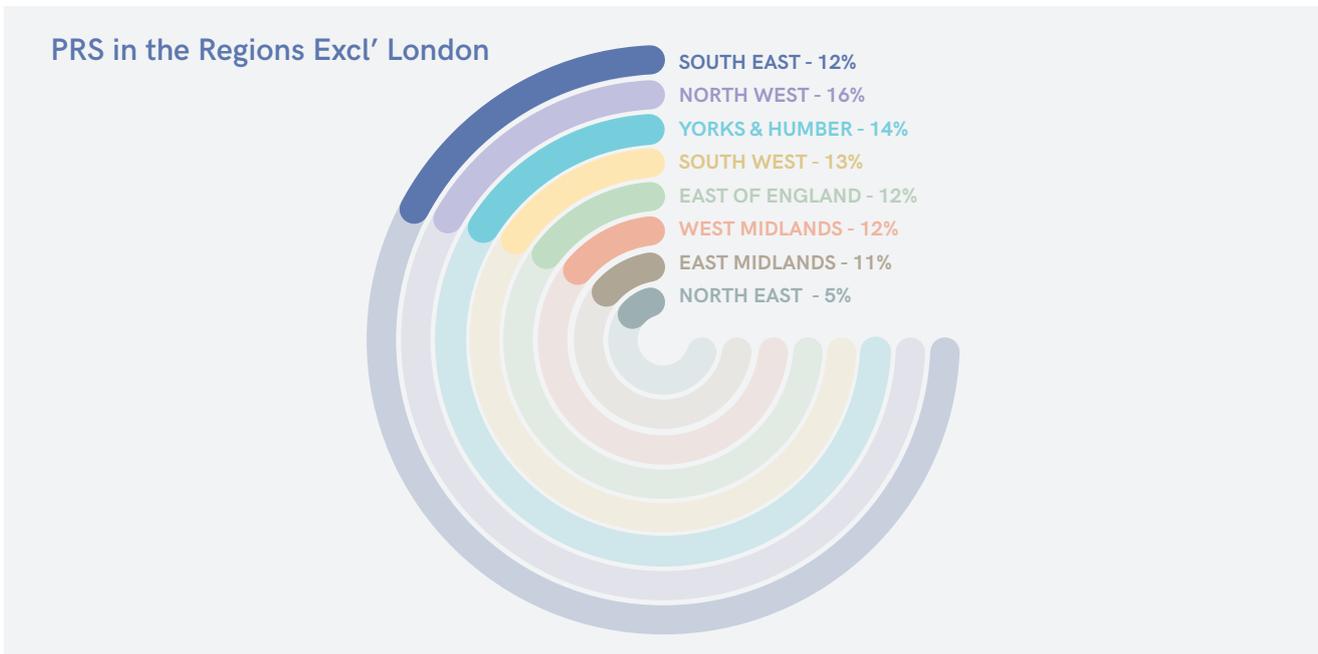


### Houses in the PRS



Source: English Housing Survey 2018. Table DA1101.

**3.33** In short, terraced houses make up 36% of all houses in England across all tenures



Source: English Housing Survey 2018. Table DA1101.

**3.34** If we look at house typologies in the PRS, we see that terrace houses form 59% of the rental stock that are houses.

**3.36** In 3.16 I suggested that in suburban locations or in typically smaller settlements, renter take up would be reduced. A result of fewer people living in a less dense environment. It is useful to look at Sigma Capital's recent sale of the Gatehouse Bank JV portfolio (Thistle Portfolio). 918 houses across 15 sites at an average of 61 homes per site. (mainly houses)<sup>51</sup>

**3.38** The majority of the houses within the Sigma purview are terrace or semi-detached homes.

**3.35** Looking at the PRS throughout England, excluding London, we see a broad balance of provision across regions with only the North East as something of an outlier with 5% of PRS housing stock being rental.

**3.37** Sigma also has a JV with UK PRS Properties where they have completed an initial portfolio of 684 family homes across 8 sites in the North West and the Midlands at an average of 85 homes per site<sup>52</sup>.

**3.39** Hearthstone Investment tends to be more cautious in terms of quantum in any one location. Acquiring predominantly houses, the fund, HRF1 rarely exceed 30 units homes per scheme and has bought houses in such diverse locations as Nottingham, Tamworth, Great Manchester, West Sussex, Exeter, Aylesbury and Didcot<sup>53</sup>.

<sup>51</sup> Sigma Capital Group PLC. Annual Report & Financial Statements. p24

<sup>52</sup> Ibid

<sup>53</sup> Property Funds World. <https://www.propertyfundsworld.com/2019/01/07/271824/hearthstone-residential-fund-1-exchanges-contracts-its-largest-single-deal>



**3.40** Through its eight PRS vehicles, Annington Homes Limited, via its wholly owned subsidiary Annington Rentals (Holdings Limited), owns 1716 units within its Non-MQE portfolio. This portfolio is partly formed from 'released' MOD units transferred in. It also includes 207 apartments at 'Pinn Point' in Uxbridge<sup>54</sup>.

**3.41** In 2019 the MOD surrendered its lease to Annington on 200 homes at St Lucia Park in Bordon Hampshire.

The strategy Annington has employed is to sell and rent the homes through LSL New Homes and PRSim, an LSL plc owned PRS operational manager. Most of the homes are fully refurbished houses. Approximately 35% of the of the homes are for rent.



*The strategy of positioning rental homes alongside homes for sale, and within the same scheme, is likely to become commonplace for reasons I will explore later in this paper. (8.12)*

**3.43** House builders have been criticised for slow build out rates. Letwin (2018) summarised this as follows:  
*"I concluded that the homogeneity of the types and tenures of the homes on offer on these sites, and the limits on the rate at which the market will absorb such homogenous products, are the fundamental drivers of the slow rate of build out."*<sup>55</sup>



<sup>54</sup> Annington Rentals. <https://www.annington.co.uk/properties-for-rent>

<sup>55</sup> Independent Review of Build Out. Sir Oliver Letwin 2018. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/752124/Letwin\\_review\\_web\\_version.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752124/Letwin_review_web_version.pdf)



**3.44** Entirely pragmatically, house builders will build at the rate at which they can sell the homes they build, at a price which maximises their return. Naturally, this is determined by the state of the market and the resources available to the builder to reflect take up rate.

**3.45** This presents a barrier to the speed and scale at which institutional ownership of SFH can progress and flourish.

**3.46** Whilst an approach to a house builder from an institutional investor may be attractive from a risk mitigation perspective, the price which the investor is prepared to pay may not be. This is particularly so as the institution is likely to hold the house builder to a higher standard of construction given the long horizon investment term and stewardship of the portfolio.

**3.47** Given that the sales methodologies employed by house builders are well established, have proven to be robust and to maximise returns, engaging with an investor who would, more often than not, require a discount to open market value, could be seen as an unnecessary step.

**3.48** Help to Buy<sup>56</sup> and now the Mortgage Guarantee<sup>57</sup> scheme are market stimuli consistent with the Government's desire to see home ownership increase.

With such stimuli in place, the risk to house builders is lessened, and the requirement to mitigate risk by partnering with a bulk buyer of homes is commensurately reduced.

**3.49** Similarly, the Government's promised planning overhaul is specifically aimed at getting more of the population into homeownership. Particularly with the 'First Homes' initiative<sup>58</sup>.



<sup>56</sup> Help to Buy. <https://www.helptobuy.gov.uk/>

<sup>57</sup> Mortgage Guarantee Scheme. <https://www.gov.uk/government/news/new-95-mortgage-scheme-launches>

<sup>58</sup> First Homes. <https://www.gov.uk/guidance/first-homes>

- 3.50** So, whilst geographic opportunities to deliver SFH's are substantially greater, commercial opportunities and partnerships with housebuilders may be less so. Particularly as many institutions are not prepared to take the risk involved with buying potential sites unconditionally and gaining planning consent.
- 3.51** Nevertheless, as Sigma Capital have demonstrated, as an alternative to pursuing PLC or private ventures, it is possible to form partnerships with local authorities to assist in delivering multi tenure schemes on LA owned land<sup>59</sup>. This, alongside their commercial partnerships with Countryside and Keepmoat.
- 3.52** However, whilst the government's preference is for home ownership, there is also a clear focus on the annual delivery of homes. As referred to at 5.15. SFH would accelerate the rate of delivery through additionality. Sigma suggest that delivery can be 4-5 times faster<sup>60</sup>.
- 3.53** It is worth, at this point, exploring other options open to investors in SFH. Present Made, Apache<sup>61</sup> Capital's recently unveiled SFH rental model offers a counter to the how we have seen the sector evolve to date.
- 3.54** Focussing on carbon zero development and sustainability, Present Made are also looking towards BTR to deliver a greater level of amenity at significant scale: 370 houses and apartments on the outskirts of Cambridge and 650 homes South of Bedford<sup>62</sup>. It will be interesting to watch the evolution of these schemes and see if they influence the SFH investment model for the future, or if they become outliers.
- 3.55** Irrespective of the model, it is crucial that SFH schemes are seen to be increasing the number of homes delivered each year and not 'cannibalising' the open market sale delivery numbers. Without demonstrating additionality, it is possible that the slow or restricted delivery of open market sale homes and increasing house price inflation will be blamed upon the SFH sector. As in Arwa Mehdawi's Guardian piece from June of this year<sup>63</sup>. Clearly, this could result in negative regulatory intervention from government.



<sup>59</sup> Sigma Capital. How local authorities can foster investment by corporate landlords in new private rental housing [https://www.sigmacapital.co.uk/wp-content/uploads/2017/11/CrookandKemp\\_SCREEN.pdf](https://www.sigmacapital.co.uk/wp-content/uploads/2017/11/CrookandKemp_SCREEN.pdf)

<sup>60</sup> Ibid

<sup>61</sup> Apache Capital. Present Made. <https://presentmade.com/>

<sup>62</sup> Present Made. Cambridge and Bedford. [https://presentmade.com/#pm\\_block-block\\_608aa1706015a](https://presentmade.com/#pm_block-block_608aa1706015a)

<sup>63</sup> Arwa Mehdawi. The Guardian: Do millennials really prefer to rent - or have we just been cheated out of a proper home?



## The Where and What can be summarised as follows:

- ✔ Compared to BTR, SFH can be located in a significantly greater number of locations across all regions.
- ✔ SFH's can be delivered more evenly across the regions.
- ✔ Despite a slow return to pre-Covid behaviours, a permanently dispersed workforce is likely to lead to a reduction in daily commutes and a need for more flexible, defensible, private space both inside and outside.
- ✔ Evidence to date suggests that the number of homes per SFH scheme are likely to be, on average, less than one third of those in a typical BTR scheme.
- ✔ Irrespective of scheme size, current investors generally hold SFH assets that form part of a wider, mixed tenure scheme.
- ✔ Analysis of the most popular form of house type suggests that the majority of SFH should be either terraced or semi-detached.
- ✔ Institutional investors will have to align their acquisition strategies with the different scale and delivery characteristics of housing schemes.
- ✔ Institutional investors may have to consider closer alignment with housebuilders to secure sufficient pipeline at scale or take planning/development risk.



## 04 The Customer

**4.1** As we already know, 80% of BTR residents are Gen Z's or Millennials according to the UKAA 'Who Lives in BTR' research report<sup>64</sup>.

**4.2** 2021 is the year that early millennials turn 40 years of age. We have also seen the definition of 'geriatric millennials' as a micro cohort.

Born between 1980-85 this is the first generation to be familiar with the analogue and the digital, and therefore comfortable & conversant with both<sup>65</sup>.

**4.3** BTR and the millennial cohort have grown up, side by side, and have known each other for a little over ten years. In this time millennials will have moved on from being 'twenty something' to 'thirty something'. What they wanted, and BTR offered from the outset, is not, perhaps, what they want now.

**4.4** The maturing of early BTR target cohorts is likely to bring an inevitable change in lifestyle driven by a change in life status. So, understanding the demographic to whom the SFH sector will appeal is critical. This, irrespective of post covid drivers.

<sup>64</sup> UKAA & BPF: Who Lives in BTR. <https://www.ukaa.org.uk/who-lives-in-build-to-rent-new-reprt-released-by-london-first-british-property-federation-and-ukaa/>

<sup>65</sup> Erica Dhawan. Why the Hybrid Workforce of the Future depends on the Geriatric Millennial. April 2021. <https://index.medium.com/why-the-hybrid-workforce-of-the-future-depends-on-the-geriatric-millennial-6f9ff4de1d23>

**4.5** Nothing changes lifestyle quite so radically as becoming a parent. The average age in the UK for women to become a parent is 30.7 years<sup>66</sup>, and for men, 33.6 years. Interestingly, 58% of men and 65% of women within the Geriatric Millennial cohort are married<sup>67</sup>.

**4.6** So, the likelihood is that a significant proportion of millennials who have children will also either be married or co-habiting. Clearly, this is going to influence where they wish to live and the type of accommodation that best suits their life status.



**4.7** Such individuals are also likely to have settled friendship groups and be less in need of curated community.

Research from the university of Aalto in Finland found that after the age of 25, friendship groups shrink rapidly as family and close contacts become more important and casual contacts fall away<sup>68</sup>.

<sup>66</sup> ONS. Birth characteristics in England & Wales: 2019. <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthcharacteristicsinenglandandwales/2019>

<sup>67</sup> ONS. People Population & Community. England & Wales: 2019. <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/populationestimatesbymaritalstatusandlivingarrangements/2019>

<sup>68</sup> Kunal Bhattacharya PHD. University of Aalto. 'Communication with Family & Friends Across the Life Course' <https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0165687>



**4.8** Having established, close relationships this group will also have established wider community connections. Such connections will have come in the form of socialising in a number of ways with different interest groups:



- 1.** Other parents at children's schools
- 2.** Sports club or local gym
- 3.** Interest club
- 4.** Church
- 5.** Local pub
- 6.** Local restaurants
- 7.** Work colleagues
- 8.** Previous neighbours
- 9.** Close friends from school or university
- 10.** Family

**4.9** We have also examined in 2.0 how the pandemic has changed attitudes to how and where we work, and to what we now hold most dear. The immediate response to Covid 19 was to reboot our priorities, protect our families and close friends, and reconnect with the natural environment. Many did this by moving away from urban centres.



#### 4.10

According to NielsonIQ<sup>69</sup>, 75% of millennials are eco conscious to the extent that they will change their consumer habits to support brands that are demonstrably eco-friendly. The pandemic has heightened this conscious bias towards eco platforms of all types. Both investors and operational managers will have to respond accordingly.

#### 4.11

Carried out in the second half of 2019, Sigma Capital's 'The Rental Experience: Setting the Standard'<sup>70</sup> can justifiably be relied upon to give some valuable qualitative and quantitative insights into renters of houses.

#### 4.12

However, illustrating how rapidly trends emerge and the influence the pandemic has had on the mood of a nation, the Sigma research does not touch on sustainability. It is possible questions regarding sustainable living were not asked or, if they were, they were not a priority for renters at the time.

#### 4.13

The research does reveal that 45% of renters are aged between 35 and 54. 72% are over the age of 34. This contrasts markedly with the 80% of renters in BTR who are under the age of 40.

<sup>69</sup> Nielson IQ. Consumer data platform. <https://nielseniq.com/global/en/insights/analysis/2018/was-2018-the-year-of-the-influential-sustainable-consumer/>

<sup>70</sup> Sigma Capital. The Rental Experience: Setting the Standard. <https://www.sigmacapital.co.uk/wp-content/uploads/2020/06/The-Rental-Experience-Setting-the-Standard.pdf>

**4.14** As one might expect, given the predominance of older renters, more than half of renters are living with a partner. 33% of renters have children under the age of 18 and 8% have children living with them who are over 18. ONS statistics support Sigma’s findings with data demonstrating the average age of renters is increasing<sup>71</sup>.



**4.15** Sigma’s research also revealed that 61% of renters said that a garden was one of their top priorities. This would appear to be correlative with Sigma’s other findings. Bear in mind, that this finding is pre-pandemic. Evidence of renter behaviour during the pandemic would suggest this number to be higher today.



**4.16** In terms of demographics, the research found that 54% of renters fell into the ABC1 categories and are earning enough to buy a property. When looking at how long renters had been renting, 54% said they had been renting for more than six years.

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<sup>71</sup> ONS. The Private Rented Sector. <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/ukprivaterentedsector/2018>

**4.17** Given the demographic profile suggested by Sigma's research, there is a strong likelihood that renters of houses are more able to work from home; working in an office perhaps only two or three days a week.

**4.18** It is not entirely clear if Sigma's research draws upon its own quite significant renter base and the regions where their schemes are located. Or is reflective of national preferences.



Nevertheless, the picture that is emerging is that renters of houses have very different profiles and priorities to those who rent apartments.

- They are significantly older
- They are likely to have children
- Friendship and interest groups will be well established
- Local community and facilities will be important
- Maturity & the pandemic mean they live broadly autonomously
- They will rely heavily on high quality connectivity
- They require more flexible space and access to a garden
- Sustainability will be a priority
- They require fewer operational management interventions

“

**GIVEN THE ABOVE, I AM UNCONVINCED THAT THE 'GATED COMMUNITY' MODEL, COMMON IN NORTH AMERICA, WILL FIND SIGNIFICANT TRACTION IN THE UK.**



## 05 The Management

- 5.1** In terms of management, BTR has both experienced and highly capable operational management teams. Therefore, the function is well understood. Here, where possible, I will only comment and highlight the differences between BTR and SFH management.
- 5.2** It is clear that BTR's revolutionary thinking, that fundamentally changed the relationship between landlord and renter. This has also to be applied to SFH management. This does not mean that the sector simply transfers its management approach from urban apartments to suburban houses.
- 5.3** We know that the scale of scheme size, the disparate & varied locations and the type of renter, will require a very different approach to that where everything is contained within what is effectively a vast hermetic envelope.
- 5.4** The nature of amenity will be vastly different. Not just based on the economics of provision to a significantly smaller number of homes per scheme, but also, and more importantly, the intrinsically autonomous nature of a house and those who live in them.



**5.5** Therefore, localised operational management and permanent on-site teams will be the exception rather than the rule it has become in urban BTR.

**5.6** It is expected that SFH schemes will be equipped with advanced and reliable connectivity as integral to the design and offer.

**5.7** Despite the relatively unsophisticated nature of houses compared to the technical complexity of urban towers, the digital management of houses will be more advanced with an omni-channel approach to customer engagement.



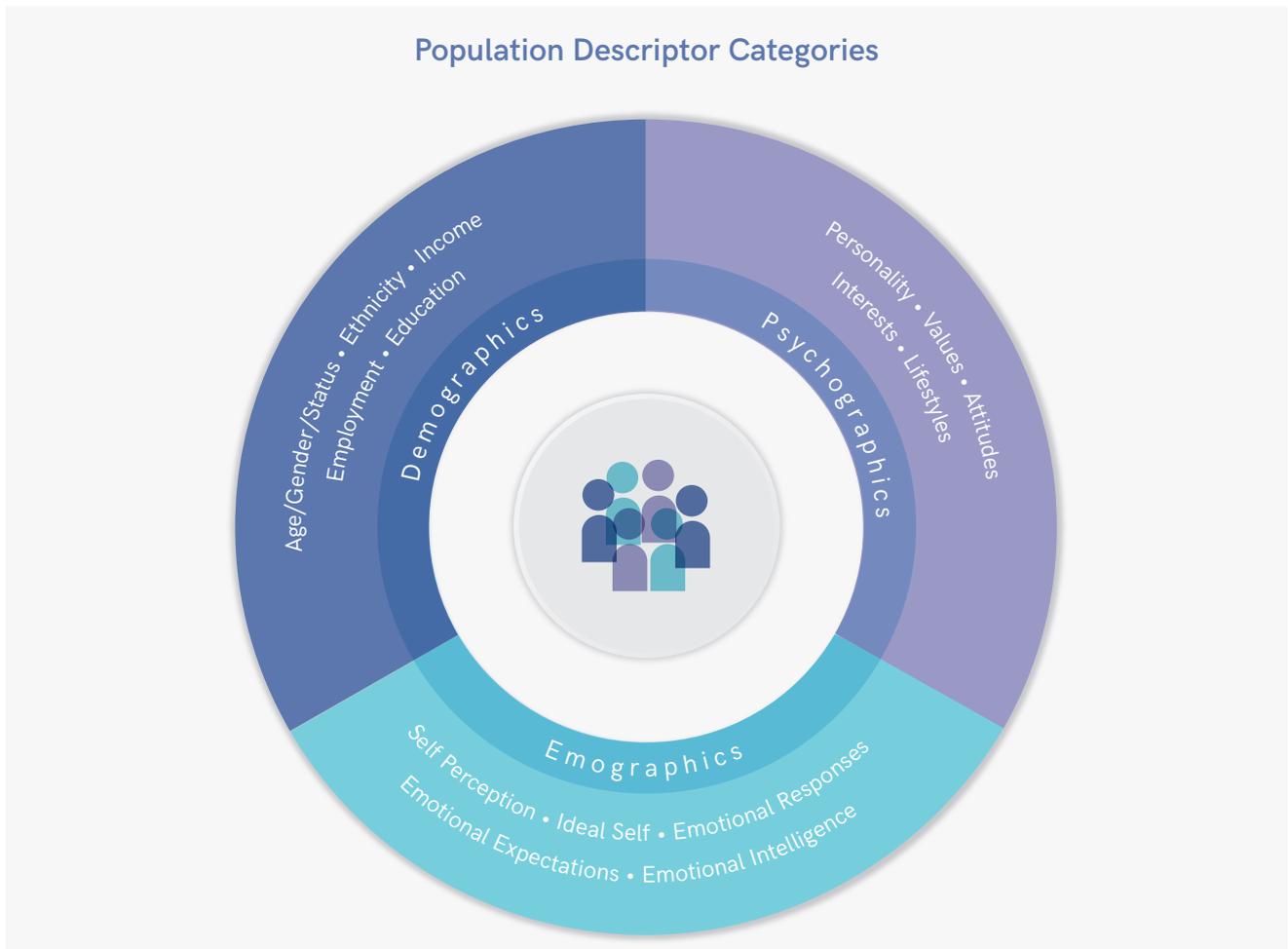
**5.8** The collection of customer data via an omni-channel approach will be crucial in shaping the operational management to provide the very best customer experience. Data categories that best describe this are as follows:

>>> Demographics

>>> Psychographics

>>> Emographics

**5.9** Demographics research is a tried and tested source of understanding the customer but is only one third of the picture. In the BTR sector, psychographics has recently become a method by which companies have tried to broaden their understanding of customers wants and needs by building a picture of their personality, attitudes, values, interests and lifestyles.



**5.10** Emographics is a relatively new area of study where organisations try to understand the emotional journey of customers or a demographic group.

This includes emotional responses; both how they feel and how they want to feel and how a product or experience makes them feel. It also strives to understand emotional intelligence<sup>72</sup>.

<sup>72</sup> Strategic Vision. Emographics. <https://www.strategicvision.com/emographics/>

**5.11** As with BTR, the digital user interface and initial customer experience sets the tone for customer engagement expectations in the future.

✔ **Contextual Engagement:**

this is where the operational manager uses their understanding of the customer and their behaviours through data analysis to give context and relevance to all the customers. Without context, engagement can be meaningless or even annoying to the customer.

✔ **Engagement of Convenience:**

the ability for customers to communicate with the operational manager with the minimum of actions but with the expectation of a comprehensive response. Simplicity in app or portal design to encourage use with as few as steps to action as possible.

Conceptually easy, complex in execution. Particularly important in reporting repairs or matters which have potentially negative connotations.

✔ **Emotional Engagement:**

an area where one is often told 'don't get involved'. But this is about empathy, emotional ties, expectations and responses.

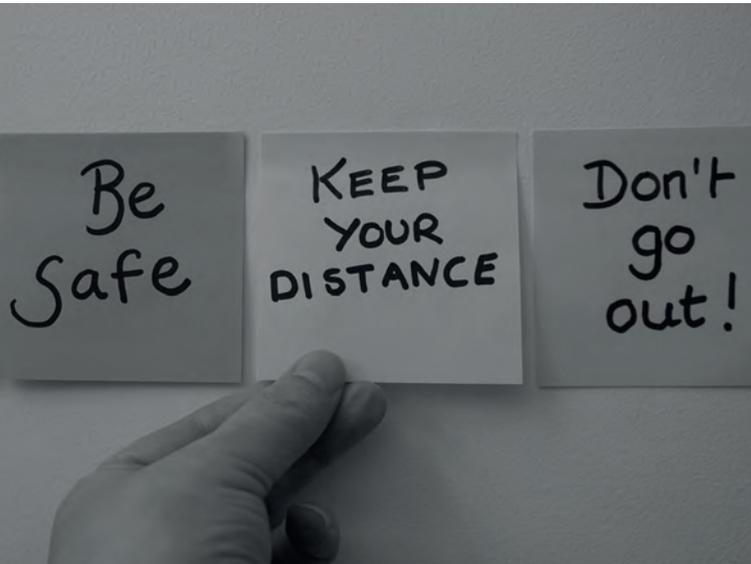
The operational manager's demographic sophistication will lead them to understand how to reinforce the emotional value in their brand and create brand loyalty.

✔ **Social Engagement:**

success in delivering contextual relevance, convenience and emotional engagement is reflected in the social advocacy of the customer in their SM interactions.

Subconscious positive influencer behaviours underscore the success of the operational manager's general engagement strategy and the adeptness of the CX personnel.





**5.16** In the context of SFH, Sophisticated engagement strategies can only be possible with advanced digital tools and a strategy that understands the data and how to analyse it.

In a covid/post-covid era where digital living has evolved exponentially within a relatively short period of time, it is important that operational managers continue to explore how digital engagement can enhance the customer experience and provided vital data sets to the client.



**5.17** Overall data collection comes under four main categories.

- The customer
- Asset performance
- Financial performance.
- Operational management performance

There are obviously sub-categories. Particularly in collecting asset performance data whereby the energy efficiency, functionality of consumables & white goods and materials lifecycle performance can be measured.

**5.18** To collect a coherent data set which is both comprehensive and informative, it requires both the assets and the operational managers to be digitally aligned.

That is, where possible, the assets should be fully responsive in reporting the specific performance parameters as required by the investor.

**5.19** For example, this could mean an automated digital reporting of such functions as energy use. Particularly if the investor is focussed on sustainable design and eco-homes where the assets may be equipped with photo-voltaic panels, energy storage solutions, MHRV, and possibly electric vehicle charging.

Such monitoring can also be used to inform tenants how to optimise their energy use. The Sero Group<sup>73</sup>, leaders in developing eco-homes and energy provision have such a capability.



**5.20** Monitoring and understanding the dynamics of energy use in houses is a crucial part of modern operational management which forms part of a holistic ESG strategy and provides data informing continuous improvement and strategies.

**5.21** IoT and geotagging can monitor and track white goods performance and consumables. Again, it is part of an integrated digital solution to the problem of managing a dispersed portfolio where it is impractical to have on-site management.

**5.22** An asset manager within institutional investor will want to be able to assess the financial performance of a dispersed heterogeneous SFH portfolio in the same way they do a homogeneous tower block.

The nature of a SFH portfolio should not be an impediment to this as long as the assets are digitally integrated from the outset and connected to the operational manager.



<sup>73</sup> Sero Group. <https://sero.group/>



**5.23** It is obvious that advanced digital tools and smart analysis are specifically suited to managing SFH's. But it is vital to ensure that even the digital remains human. Industry 4.0 saw the convergence of IoT, the Cloud, Big Data and Robotics. We are now witnessing the emergence of Industry 5.0.

**5.24** Industry 5.0 sees the collaboration or humanising of advanced technologies.

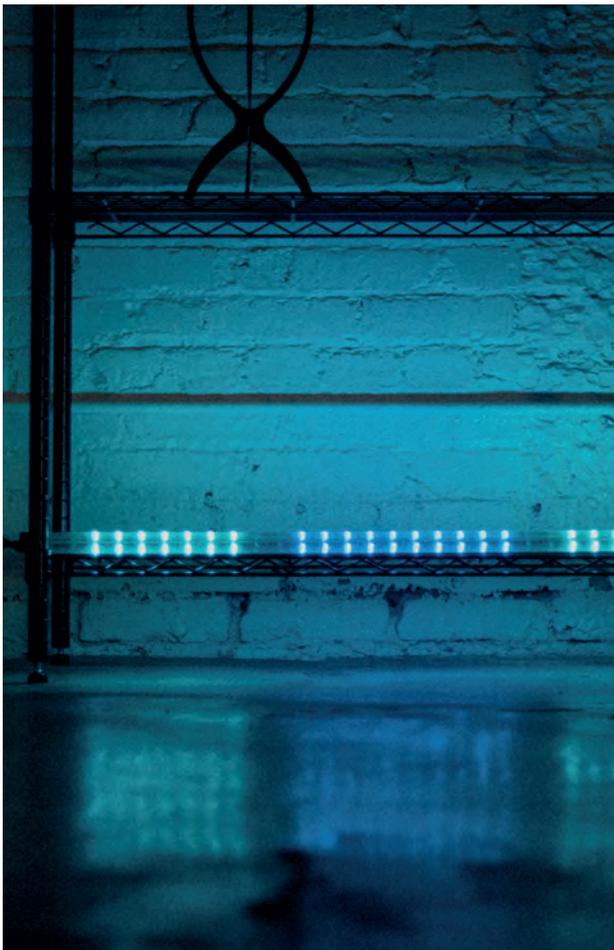
It places wellbeing at the centre of processes and is intrinsically linked with how ESG is framing future discussions. For an operational manager, it draws together the operational toolkit with a human-centric approach.

This makes engagement both organic and authentic.

**5.25** Like BTR, SFH operational management is fundamentally a 'people' business. So, despite the digital sophistication and the lack of permanent on-site staff, it will be important that face-to-face or voice communication is maintained and available should the customer require or feel more comfortable with it.

**5.26** Chat bots are a common method of communication and have their place but can be impersonal in their interaction. At the request of the customer, it is preferable that operational managers have a virtual concierge available via a video link. Most people are now comfortable and familiar with the personal nature of 'Zoom' type calls.

**5.27** Slack.com, albeit a work-based collaboration hub, demonstrates how easy it is to set up a multi-channel engagement facility with both telephone and video functionality.<sup>74</sup>



**5.28** Mobilisation is equally as important in SFH as it is BTR. Whilst operationally, one is not considering the operational functionality of a tall building, how and when to collect refuse or optimising lift operation, it is important to consider other aspects: general access, flood risk, estate management schedules etc.

**5.29** Other aspects of mobilisation, early marketing, understanding the likely customer, are similar to that of BTR and well understood by most operational management teams.

**5.30** Similarly marketing and lease up. Although, lease up is structured around phased delivery of homes allowing for early cash flow delivery and more manageable absorption. During this phase, there will be an on-site lease up team to offer viewings, facilitate move-ins and to deal with early snagging issues. Where the SFH assets are sited within multi-tenure OMS scheme, it would be practical, by agreement with the house builder, to share the marketing suite for this purpose.

<sup>74</sup> Slack. Collaboration Hub. <https://slack.com/intl/en-gb/about>



**5.31** Later move ins, as the scheme matures during the 3rd or 4th years of operation and stabilisation, would be facilitated by a roving regional team who would also deal with any other issues in conjunction with the virtual concierge and digital communication tools.

**5.32** Where SFH differs significantly, is in terms of community. As summarised at 4.19 the profile of the renter is very different to that of a BTR renter and requires fewer operational management interventions and on-site community administration.

**5.33** SFH operational managers will spend much of their mobilisation time understanding the local area and the existing community therein. Thereafter, the role will be one of organic integration of the customer into the wider community and promoting a sense of neighbourhood.

**5.34** It is essential to integrate renters within the existing community so that they feel a sense of belonging and invest in the local area.

This is where the operational manager must invest their time and effort. If successful, the renters self-curate in a way similar to that of home buyers. In most cases, SFH schemes will be set amongst OMS schemes where the owners are literally invested in the neighbourhood.

**5.35** Clearly, the goal is to achieve invested, happy renters who stay longer.

**5.36** PPM and particularly repairs are more difficult to control without an on-site maintenance team. Operational management can employ a dispersed permanent team of expert tradespersons or they can provide immediate access to a network of approved trade who operate under specific SLA's.

Howsy<sup>75</sup>, FixFlo<sup>76</sup> and Plentific<sup>77</sup> all have these operational structures in place.



**5.37** Other than the use of 'trades aggregator' platforms, management companies may prefer to use a national FM and professional service business such as Mitie<sup>78</sup> or the First Response Group<sup>79</sup>.

**5.38** In summary: operational management. The same but different.

- — Digital first
- — Data, data data. Analysis.
- — Employ the four engagement strategies
- — Think heterogeneously
- — Organic, self-driven community
- — Be human-centric
- — Let ESG be your guide
- — Don't forget the basics

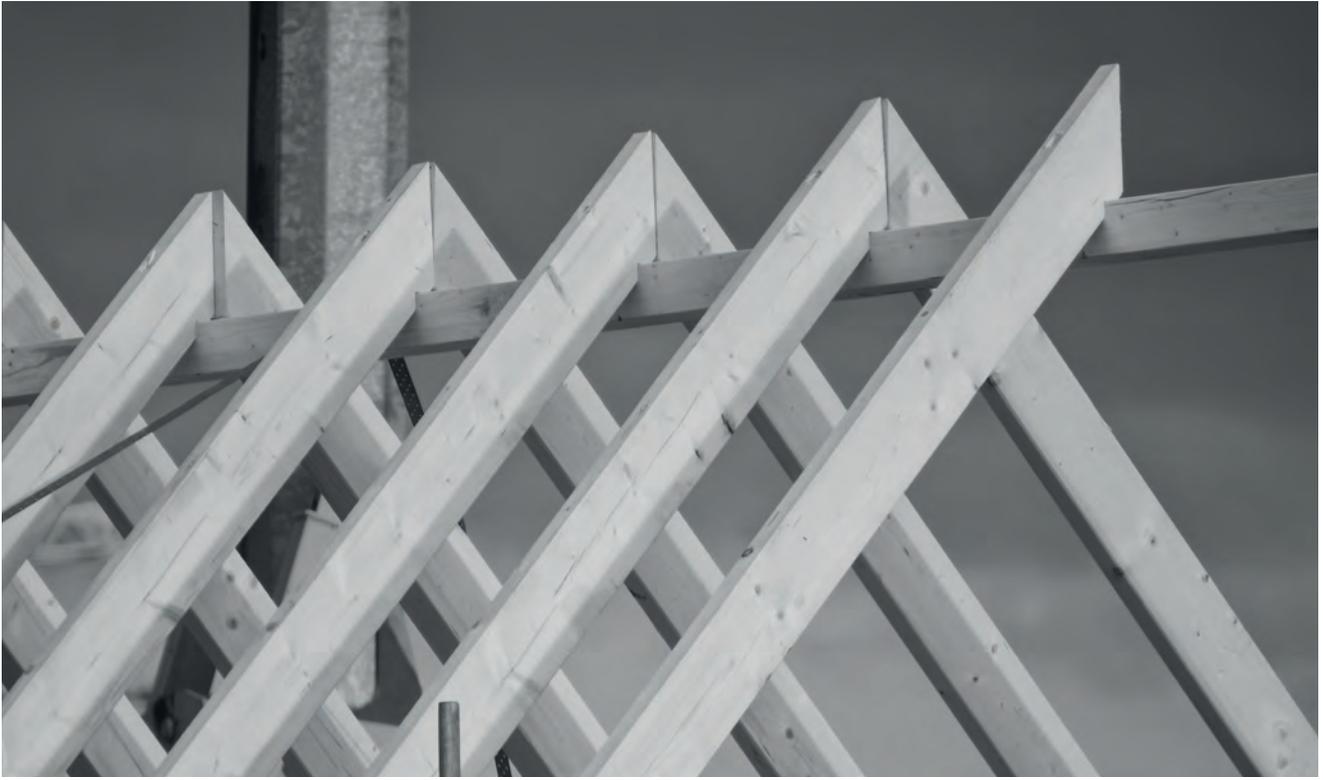
<sup>75</sup> Howsy.com Repairs management. <https://howsy.com/b/landlord-feature/repair-management>

<sup>76</sup> Fixflo.com. Repairs and maintenance platform. <https://www.fixflo.com/>

<sup>77</sup> Plentific.com SaaS Repairs and maintenance platform. <https://www.plentific.com/>

<sup>78</sup> Mitie.com Facilities Management. <https://www.mitie.com/>

<sup>79</sup> First Response Group FM. <https://www.firstresponsegroup.com/sectors/>



## 06 MMC & Construction.

Mark Farmer, Founder & CEO, Cast Consultancy

**6.1** The UK's Build to Rent market has been on a meteoric journey over the last decade or so. Market maturity is beckoning after many years of prospective future schemes and computer-generated images now turning into real stock and portfolios of performing assets across the UK.

Comparisons are often made to the mature US multi-family housing market and indeed there is much of how that market operates that can positively inform the ongoing evolution of its UK counterpart.

**6.2** From a construction perspective, the fusion that exists between residential and hospitality sectors in the design and operation of Build to Rent assets creates a really interesting opportunity to nurture the innovation that the construction industry has been crying out for.

We not only design and operate these assets differently but this in turn can dictate a different approach to how we physically build them.

**6.3** The move towards so called 'Modern Methods of Construction' or MMC has long been talked about, but on the back of Government support and an increasing awareness of developers, investors and construction advisors and supply chain partners, the uptake of MMC is now definitely on the rise.

Nowhere is this more apparent than in the Build to Rent sector and follows links to the Hotel and Purpose-Built Student Accommodation sectors where there has been much greater historical use of MMC.

**6.4** A combination of clear brand and design standards aiding repetition, a portfolio approach to development rather than project by project driving economies of scale, an imperative for quicker build times to advance income receipts and an interest in downstream asset performance have all conspired to make Build to Rent one of the catalysts for much wider construction industry modernisation.



- 6.5** Real world examples of this now exist in the UK including the likes of Essential Living's Union Wharf scheme, delivered using a fully modular approach. More recent schemes for Legal & General / PGGM at Blackhorse Mills, Walthamstow and Boxmakers Yard, Bristol have both seen the very latest thinking applied in terms of how Contractors can improve their quality and efficiency at speed which is now being further improved upon for new L&G schemes in Wandsworth and Brighton.
- 6.6** The same applies to the latest schemes being added to the East Village community for Get Living where major innovations in construction methodology have been taking place over the last 3 years of build programme that are reducing site labour hours, speeding up build whilst improving quality and minimising defects with more of a manufacturing rather than construction approach.
- 6.7** One of the highest profile examples of Build to Rent and construction innovation coming together is the Ten Degrees project in Croydon delivered for Greystar which has been constructed using a volumetric modular approach in a highly accelerated construction programme. This is for the moment the tallest residential volumetric modular scheme in the world. The ability to deliver this through a vertically integrated 'turnkey' construction package has been proven to be important in this case and remains the big challenge for how you maximise the speed benefit of volumetric modular in a complex apartment led scheme at an affordable price for the developer / investor who still wants a completed asset including foundations, core and cladding, not just modules.



**6.8** There is also an important point about technical accreditations and standards. To be investible, in the same way that homes need to be mortgageable, there is a need to ensure the MMC system used has the right assurance and warranty accreditation.

Ordinarily this needs to be at least to BOPAS and / or NHBC Accepts standard and be paired with a mainstream new build warranty to enable the scheme to be financed and insured in the normal way.



**6.9** Despite reticence in the past and some lingering concerns over build methodology and systemic risks, the underwriting market is gradually becoming more conversant with 'non-traditional' forms of construction and is seeing the potential for MMC to actually de-risk traditional construction failure rather than represent an increased risk.



**6.10** As more evidence is delivered of how these buildings perform from a maintenance, defects and perils event perspective, then the treatment of building systems will gradually normalise and indeed could become the preferred approach as regulations force change in construction.

- 6.11** One of these change drivers beyond statutory regulation will be the increasing interest of major investors in ESG led investment including decarbonising the embodied and operational emissions inherent in asset creation. This will start to have radical impact on construction materials, wasteful processes and driving improved building performance ahead of regulations which will require MMC being applied more and more.



- 6.12** Legal and General amongst other investors are already measuring and proving this at a project level through use of the Housing Quality Mark standard and at a portfolio level using GRESB benchmarking.
- 6.13** This sits alongside measures such as WiredScore<sup>80</sup>, proving the embedded technology offer and level of future proofing. The way in which we design and build these assets will increasingly be a determinant of not just achieving maximum customer satisfaction but also deciding how investible those assets will be in the future.



<sup>80</sup> WiredScore. <https://wiredscore.com/certify-a-building/wiredscore/wiredscore-home/>



**6.14** The next evolution, perhaps more Covid driven than anything else, is the maturity of the suburban, single family housing market. Once patterns of residential demand settle down post pandemic, it is likely that there will be a greater demand for living out of town and having access to greater personal amenity, including gardens. This is already being picked up on by some investors, including L&G who have already invested heavily in urban multi-family product and who now see a diversification to house typology led schemes.

**6.15** More recently Apache Capital has announced the launch of Present Made<sup>81</sup> which demonstrates the explicit link between single family housing Build to Rent and the application of MMC principles through a modular approach to design and build.

The benefits of speed, certainty and product standardisation and repetition have made this a compelling business case and it should be expected that the market will see more convergence between modular housing and single-family build to rent.



**6.16** It is clear that the alignment between the needs of single-family house investors and the conditions needed to drive change and modernisation in construction is strong. We should expect to continue to see increasing examples of how the Single-Family House sector can show the way to private for sale developers and others when it comes to innovating the build process.

<sup>81</sup> Apache Capital. Present Made. <https://presentmade.com/>



## 07 ESG. Sustainability.

Brendan Geraghty

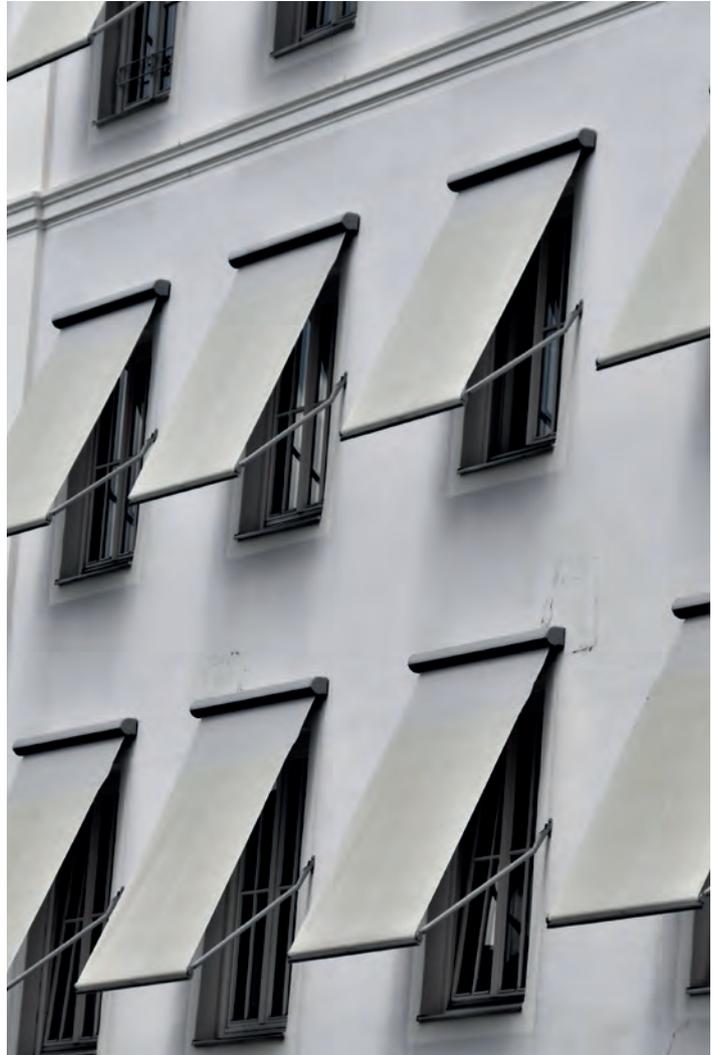
### Environmental, Social and Corporate Governance (ESG)

*In the following sections (7&8) Brendan Geraghty of Centred Architecture discusses ESG, Sustainability and Design in Single Family Homes.*

**7.2** Environmental, Social and Governance (ESG) issues are rising up public and corporate agendas, driven by regulatory and changing market demands. ESG factors are now key drivers in investment decisions and also consumer behaviour. BTR is positioned between the two and must reflect the ESG requirements of each group.

**7.3** The Build to Rent (BTR) market is nascent and growing rapidly with over £41 billion of committed capital. It is already recognised by institutional investors who are attracted to its stable revenue. Scale is important with most urban BTR schemes comprising some element of mixed use and often many hundreds of units.

**7.4** The BTR sector is already creating new models for flexible urban living. It is customer centric, thrives on community and prizes design quality, speed of delivery and efficient operations. BTR is changing residential real estate for the better, it seeks innovation and to create new legacies for sustainable living. The sector is expanding into Single Family Homes (SFH), where projects will be smaller in scale, but will still be based on the same customer centric principles.



**7.5** The SFH will need some modifications if it is to deliver ESG objectives to investors whilst also providing a good quality homes to customers. The design aspects of the new homes are covered in a sperate section of this document. This report will focus on the rise of ESG, how it is changing real estate and the implications for the BTR sector

**7.6** ESG emerged in 2005 in the UN report 'Who Cares Wins'<sup>82</sup>. Its predecessor, Corporate Social Responsibility (CSR), share a common origin, that is the adoption of practices and policies by businesses that are intended to have a positive influence on the world. ESG is the evolution of CSR, however there are distinct differences. Whilst CSR aims to make businesses accountable, ESG seeks to make their efforts measurable. Now, not only traditional metrics are reported against. Climate-related risk and responsible investment strategies are also taken into consideration

**7.7** ESG ushers in high levels of corporate transparency. This is something that is likely to be important to BTR customers as a positive ESG profile, supported by accurate data. It could help to deliver an important competitive edge.



Table 1. Important ESG factors

**7.8** ESG's influence continues to grow and become more mainstream. In 2020, Standard and Poor's 500 Index recorded that 80% of the companies listed report their performance on ESG objectives<sup>83</sup>. The growing trend of ESG integration amongst property developers and investors leads to the important need to address environmental and social issues at all levels of the UK's construction industry.

<sup>82</sup> United Nations. Who Cares Wins: Connecting financial markets to a changing world. 2005. [https://d306pr3pise04h.cloudfront.net/docs/issues\\_doc%2FFinancial\\_markets%2Fwho\\_cares\\_who\\_wins.pdf](https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2FFinancial_markets%2Fwho_cares_who_wins.pdf)

<sup>83</sup> S&P. Integrating ESG Values Into the Core. <https://www.spglobal.com/spdji/en/documents/education/education-the-sp-500-esg-index-integrating-esg-values-into-the-core.pdf>

**7.9** Our acceptance of ESG issues increased as we understood the challenges of the UK's 2008 Climate Change Act and the 2015 Paris Agreement on Climate Change.

This legislation committed the UK to achieving net-zero carbon by 2050, with substantial carbon emission reductions by 2030.

According to the UK Green Building Council<sup>84</sup>, around 10% of the country's carbon dioxide emissions are directly associated with construction activities.

The number rises to 40% when taking into account the whole of the built environment sector.

To meet these environmental targets developers must shift from delivery of the built asset alone, towards design for the performance of that asset.

The BTR sector does include operating model requirements in the design of its buildings. However, the integration of design and performance will need to go much further if we are to meet ESG objectives.

**7.10** In the UK there has been good progress on environmental standards with the Government raising these requirements in the Building Regulations and Future Homes Standards. The Building Research Establishment Environment Assessment Method Certification (BREEAM)<sup>85</sup> is widely used to set and measure environmental standards. But the scope of these standards is limited and does not cover the full remit of ESG objectives. BTR will need to consider how it fills in the gaps.

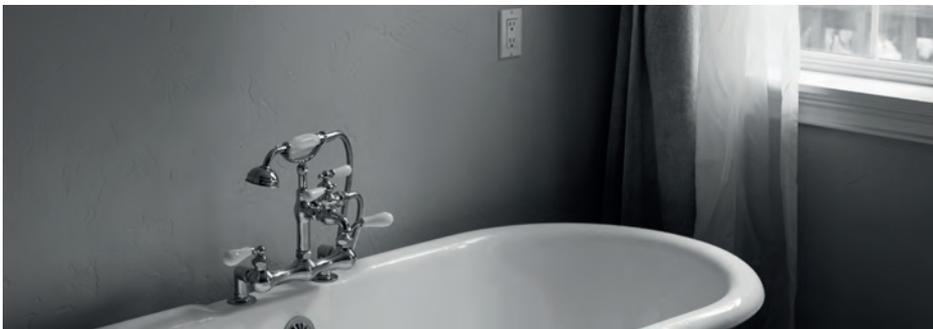


<sup>84</sup> UK Green Building Council. <https://www.ukgbc.org/climate-change/>

<sup>85</sup> BREEAM. ESG. <https://www.breeam.com/tag/esg/>

**7.11** Modern Methods of Construction (MMC) can play a large role in the modernisation of construction, achieving reductions in carbon and waste, and providing sustainable homes. In many ways BTR and MMC 'want the same things' with regard to design standardisation, supply chain management, speed of construction and quality certainty.

**7.12** Part of the solution lies in expanding research and development into more sustainable materials and systems with lower embodied carbon. Advances in technology, data capture and the use of Building Information Modelling (BIM) will all help to develop the evidence-based and performance-focused design approach that will help to deliver buildings and ESG strategies.

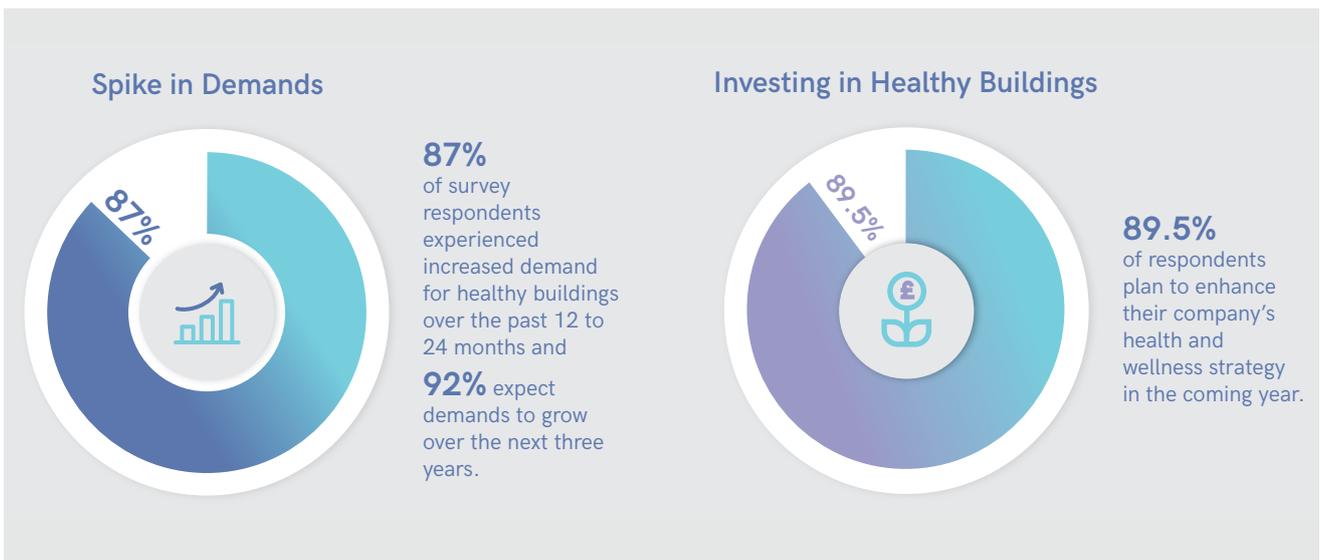


**7.13** Life cycle costing, whole life carbon modelling and post occupancy evaluations are all part of the ESG agenda and may deliver greater business and environmental benefits. Given the long-term hold of BTR assets by investors, the nature of longer tenancies and customer relationships, these factors could easily be incorporated into a BTR investment thesis.

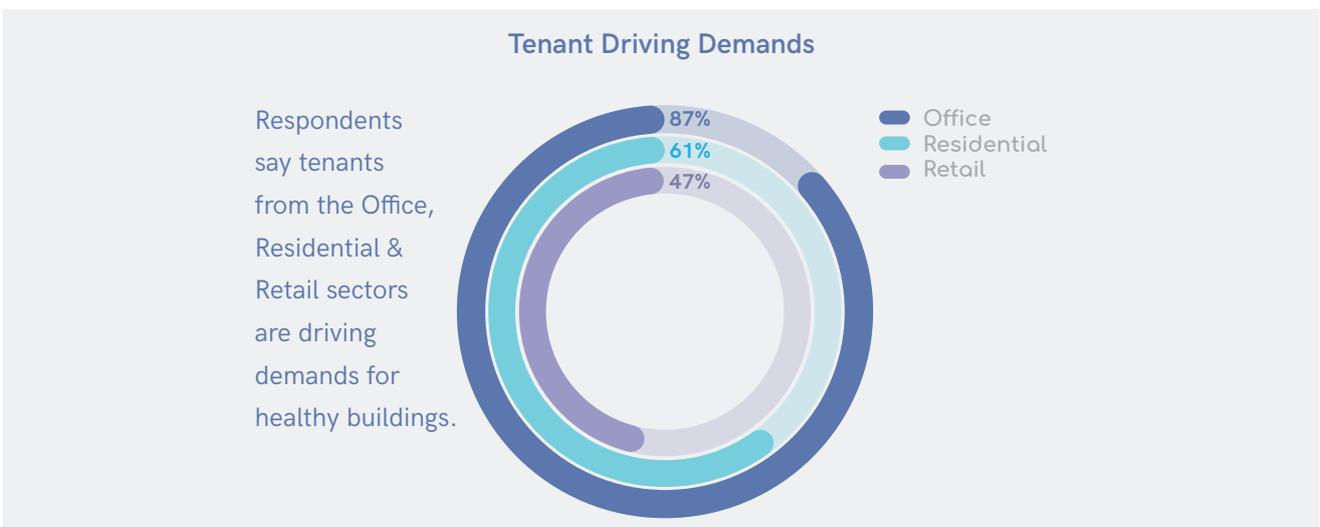
**7.14** Health and wellbeing are areas of increasing importance in real estate in which certification can be achieved through the Well Building Institute. Covid-19 has highlighted and accelerated the need to address health, well-being and social impact in our buildings. Nonetheless even before Covid ESG was rising and it was having an increasing influence on investment decisions.

**7.15** Building environments directly and indirectly influence the health, wellbeing and quality of life of the people who use them. Having a positive wellbeing influence is becoming increasingly more important to investors, shareholders, customers' and staff; all seeking greater proof for how their building environment will benefit their quality of life.

Having the ability to understand, measure, report and deliver wellbeing performance is fundamental to financial and social outcomes for existing and future assets.



**7.16** The 2021 report - 'A New Investor Consensus: The Rising demand for Healthy Buildings'<sup>86</sup> published by the UN, Centre for Active Design and Bentall Green Oak, is the source for the statistics above. It describes a strong global shift in demand for healthy buildings across sectors, and is tenant driven.



<sup>86</sup> UK Green Building Council. <https://www.ukgbc.org/climate-change/>

- 7.17** According to this report, a health building may offer a 4.4-7% rental premium with higher overall productivity with improved employee satisfaction, lower absenteeism, and lower staff turnover. Incorporating ESG factors leads to increased profitability through higher property values, attracting better tenants and improved return on investment. Keeping residents happy is a key objective in BTR, listening and responding to customers' needs is good for business and will be an important part of a measurable ESG strategy. *'Property owners, managers and occupiers who may have only thought of well-being in passing within their approach to ESG are now far more aware of the link between building design and function, and personal and societal health and wellness.'* (Eric Usher Head United Nations Environment Programme Finance Initiative)



- 7.18** The world has changed. As we come to terms with the Covid-19 crisis we see new patterns of living and working, where communities and consumers behave differently. ESG is transforming the real estate sector by measuring and reporting the social impact of investments. The S in ESG is a growing force in real estate investment criteria, due in part to increased awareness of how the built environment impacts human health. BTR provides places where we live, work, study and socialize and should play a central role in improving human health.



- 7.19** ESG is not limited to companies and investors, consumers are increasingly mindful of how ESG values influence their purchasing decisions. Consumers increasingly demand and are potentially willing to pay more for sustainable products and services. ESG has the potential to strengthen the links between investors and customers and vice versa. This is an area of risk and opportunity, and one where to some extent ESG 'gets personal' as it aligns with the values of its target customers. Other sectors use brands to position their product and to engage with customers. BTR could develop brands to do a similar job, increasing customer loyalty whilst delivering ESG goals. With its emphasis on customer engagement, BTR and SFH is perhaps uniquely placed to do so.

*Going forward, ESG is going to play a critical role in how the built environment is managed.*

*From inception, through design, building, occupation and disposal, ESG will need to be fully embedded into an organisation's decision-making.*

*There is now a growing momentum, driven by asset managers, consumers, and employees alike, demanding transparent, purpose-led business practices that align with their own priorities.*



**7.21** Customer centricity is at the core of BTR and its importance will evolve further as it moves into Single Family Housing (SFH).

BTR has always offered more than a place to live, it provides a home to its customers, something that is soaked in personal preferences.

This emotional dynamic may be more on the consumers' side than the investors, but it is relevant to both as it points to the changing nature of demand and the expanding expectations of customers.



*'Responsible real estate investors have awakened to the notion that the buildings we manage for our clients are part of the critical infrastructure that cities rely on for the resilience, health and well-being of their citizens.'*

*Where excellence in environmental performance has rightly become a more common pursuit for our industry, our fiduciary responsibilities are increasingly taking us into new territory that requires attention to the multitude of social factors that impact asset value.*

*Our collective experience with the first modern pandemic in our lifetimes is teaching us how closely tied investment performance is to operational excellence, tenant engagement, and community relationships.'*

*Amy Price,  
President BentallGreenOak*

**7.23** As BTR moves into SFH, it enters a market that may have greater ESG demands and opportunities than its urban counterpart. Our family homes must be flexible enough to grow and change with the families they host. They should provide security, stability and sustain us. We expect to safely raise our children in our homes and put down community roots.

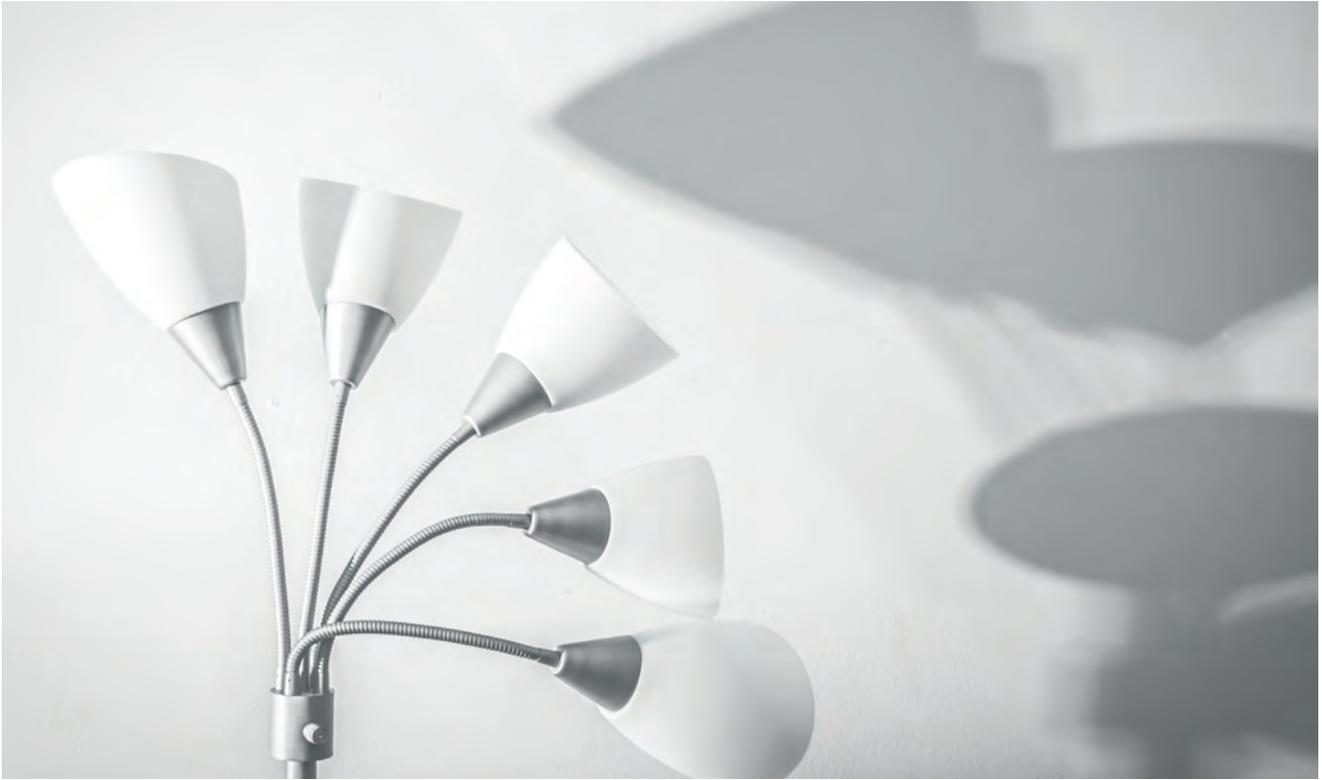


**7.24** To create successful SFH communities, BTR developers and investors must take greater responsibility for defining what performance levels they want from its BTR assets. It starts with widening the investment brief to include the ESG criteria that will make it a successful and sustainable.

This can be translated into a comprehensive project brief for the construction sector to deliver with ESG requirements designed in from the start. These criteria will be measured during construction and into operations to provide the performance data needed to deliver ESG goals.

**7.25** BTR currently has the means to deliver many ESG goals, the pressure to do so is growing and will continue to increase.

The future of BTR in SFH presents an opportunity to lead residential real estate in delivering ESG goals that are good for business, customers and the planet.



## 08 Design. Houses

Brendan Geraghty

**8.1** 'There is no place like home' and our image of a home is very often a house, something that provides a provides strong cultural, community and personal identities for its occupants. Traditionally this is visualized as a Single-Family Home (SFH) with happy families enjoying living in a long-term home.

This popular image suggests that a home is as much an emotional construct as it is a physical one. The emotional and cultural dynamics around a home are an important part of the success of any house. As BTR moves into the suburbs with SFH, meeting this emotional need along with the physical design of the house, will be important to get 'right' to help keep customers happy and renting.



**8.2** On a purely physical design level, the National Design Guide - Planning Practice guidance for beautiful, enduring and successful places (Ministry of Housing and Communities & Local Government 2021<sup>87</sup>) sets out clear criteria that planners and public will expect from all developers.

**8.3** Published in 2021, the National Design Guide provides a framework for how local authorities will recognise well designed proposals, by outlining and illustrating the Government’s priorities for well-designed places in the form of ten characteristics. Whilst not yet adopted by all local authorities, going forward, it is likely to have a strong influence planning policy guidance.

**8.4** From a BTR and SFH perspective, these characteristics provide good general guidance on placemaking, community engagement and design quality. Furthermore it draws in issues like climate change, well-being and healthy buildings into development proposals. However, what they don’t do is provide specific requirements for SFH, this must be developed from an understanding of target customer needs and against a back of designing towards net zero carbon in our homes and communities.

## A well designed place

The 10 characteristics of well designed places as defined by National Design Guide - Planning Practice guidance for beautiful, enduring and successful places.

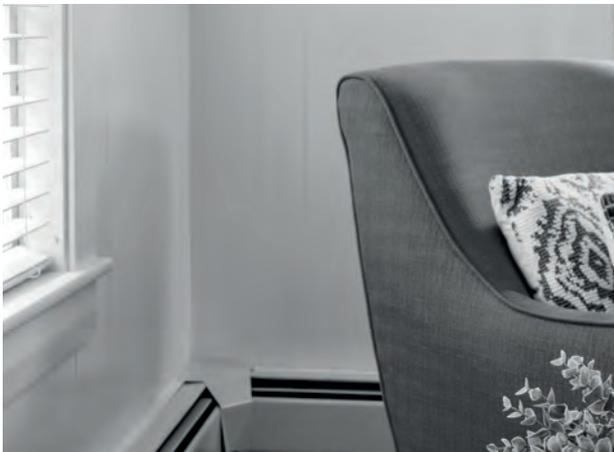


<sup>87</sup> National Design Guide. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/962113/National\\_design\\_guide.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962113/National_design_guide.pdf)



**8.5** BTR is ushering in a new level of customer awareness into residential real estate and SFH will be no exception. Granted, the target market is different to urban BTR but they will still have requirements that are common to both urban BTR and SFH e.g., good operational service and

support, along with specific SFH requirements e.g. larger private amenity. It will be important for BTR developers moving into SFH to have a granular understanding of the needs of their target customers and to design houses and communities to meet those needs





**8.6** Urban BTR provides many clues as to what is being valued by BTR customers. In the Homeviews 2021 National Build to Rent Report<sup>88</sup> identified several elements that will need to find their way into suburban BTR, for example:

### Management

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82% of surveyed urban BTR sites offered a concierge service.

Urban BTR customers rated management at 4.25 out of 5, with the biggest complaint being the slowness of dealing with maintenance issues.

Whilst rented SFH cannot easily replicate the urban concierge model, successful BTR is all about responsive management – it is becoming a distinguishing feature of the BTR industry as it talks directly to the centrality of the customer.

Rented SFH will need to ensure that the high standards of management support that are being achieved in urban BTR is appropriately replicated in the sub-urban model.

### Design Quality

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Purpose built urban BTR buildings scored 4.42 out of 5 for design quality. This included both apartment and shared amenities/facilities. Interiors designed to maximize space, with a good specification for finishes and stylish furniture (if provided) are all valued. Sub-urban BTR will need to provide multi-functional family accommodation. Luckily, the house building sector has a good track record in delivering SFH, however there is a large range in design quality across the sector.

With rented SFH there is a good opportunity to develop house designs that provide intelligent solutions that uniquely reflects the needs of their customers.

Like its urban counterpart, rented SFH can contribute to establishing design quality as being prized by customers and a key characteristic of successful BTR.

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<sup>88</sup> Homeviews National BTR Report. <https://www.homeviews.com/2021-national-build-to-rent-report/>

**8.7** The Covid 19 pandemic has caused significant change to our work and home lives. Society is still coming to terms with its full impact. Research carried out by Optim in 2020<sup>89</sup> into the impact of Covid suggest the following changes to our homes:

## 02

88.7% would like a dedicated workspace in the home. Working from home is here to stay, but in SFH working from home covers everything from school homework to parents' jobs. Historically our houses have never really been specifically designed for working from home. Accommodating this through design flexibility can be designed into new homes but must be supported by good technology infrastructure.

## 04

98.4% want faster and more resilient internet. Unreliable internet access was a big problem for many during Covid Lockdowns. As we move towards a flexible working model, online education, retail and leisure activities are all growing rapidly, it will be very important to provide resilient and fast internet infrastructure.



## 01

87% of respondents say wellbeing is important, 83% say it will impact on deciding what kind of property to rent. Wellness features very high on both customer and investors agenda. There is more detail on this in Sustainability and Environmental, Social and Governance (ESG) section of this report. Wellness overlaps with ESG and will increasingly have an influence on both customer expectations and satisfaction, both important features of successful BTR

## 03

88% placed a high value on outdoor space. We are used to our houses having outdoor spaces or gardens. What will be important for sub-urban BTR will be the provision of communal outdoor amenity where community activity can take place.

## 05

52.6% are interested in intergenerational living, and appeal outweighs supply. Developers of sub-urban BTR will need to consider if the standards housing products offered by housebuilders is sufficiently diverse to meet the needs of its customers. New products may need to be developed e.g. intergenerational housing (see Livinhome later in the report) or greater flexibility and adaptability in house design may needed to ensure that rented SFH can meet the current and future needs of its customers.



<sup>89</sup> Optim. (<http://optim.live/>)



**8.8** Perhaps the biggest influence on the future home will be the growing demand for well-being standards healthy homes.

From a purely design perspective, it is important to understand what constitutes well-being in house design. There are various global and UK standards that can be used to for design criteria and obtain certification, for example:

- **BREEAM** – is targeted at new buildings, not necessarily residential or houses.
- **Home Quality Mark** – delivered by the BRE, a comprehensive set of standards for all homes, not all of it will be relevant to houses.
- **International Well Building Institute (IWBI)** – scores 10 key concepts well-being in design.



Each concept from the IWBI consists of features with distinct health intents.



**8.9** Whilst these standards are relevant and helpful, they generally describe the criteria that should be included in design of a building or a development.

They do not always include an obligation, nor the means for measuring the ongoing performance of the building. Measuring building performance against ESG goals and customer criteria is becoming increasingly important to consumers, developers and investors.

Data driven design will soon become a way of delivering against ESG goals and improving house design for customers.

LifeProven<sup>90</sup> a well-being and social impact consultancy that measures and ranks 99 building elements in order of importance to the occupiers.

This data informs the future design and investment decisions.

Their analysis of several thousand residential properties suggests the top wellbeing criteria for customers are:

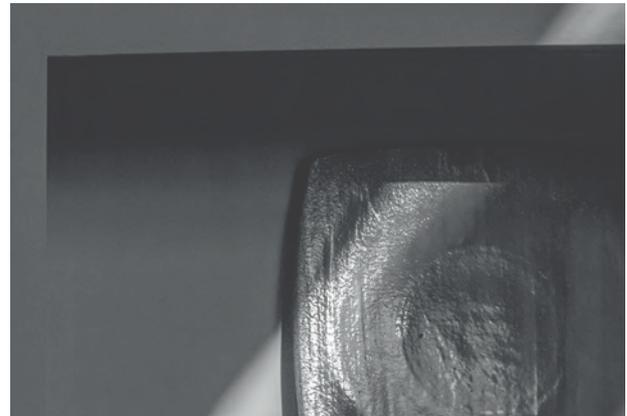
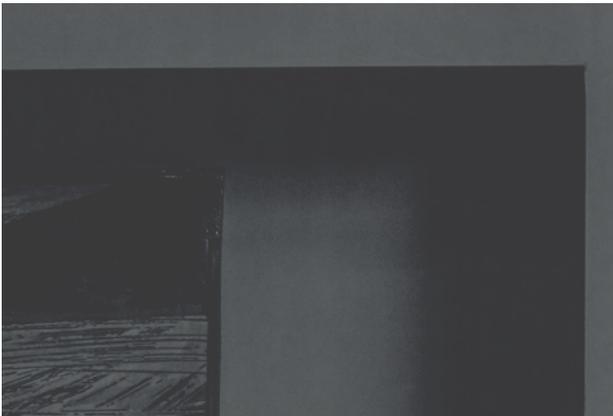
- Good neighbour interactions. Something managed SFH can influence.
- Access to daylight. A key design and well-being requirement.
- Good quality interior design and layout. The value of good interior design is proving to be highly valued in BTR.
- Access to green spaces. Both private and shared.
- Sufficient storage.

<sup>90</sup> LifeProven. (<https://www.lifeproven.co.uk/>)



**8.10** The construction sector is slowly coming to understand the full import of meeting the UK's Zero Carbon obligations. Meeting this goal is already having a major impact on design, but there is still a considerable way to go.

There are various standards for reducing the carbon footprint of dwellings e.g. Passive-Haus, or the UK Governments Future Homes Standard. The latter aims to ensure all new homes built from 2025 will produce 75-80% less carbon than homes delivered under current regulations. These deal specifically with carbon reduction.



**8.11** The Independent Assessment of Climate Risk, published in June 2021<sup>91</sup> makes for chilling reading as describes the risks to the UK from Climate Change. For all developers, but particularly those in BTR who must work harder to keep their customers happy, the report points out that the design of our homes and communities are failing to take action to protect people from the fast-rising

risks of the climate crisis, such as heatwaves and more intense rainfall. The report on adaptation, or 'climate-proofing', found that, since its 2016 assessment, more than 570,000 new homes had been built that are not resilient to high temperatures. A further 1.5 million such homes are due to be built in the next five years. This will require a fundamental rethink of how we design our homes. The BTR and SFH industry must act to design in climate resilience or risk losing customers.

<sup>91</sup> The Climate Change Committee. <https://www.theccc.org.uk/publication/independent-assessment-of-uk-climate-risk/>



## 8.12

The role of technology in future homes cannot be underestimated. Smart Homes and smart technology will increase in our homes. Urban BTR has done well to provide good technology infrastructure applied at a building level and with customer facing technology and interactive applications.

If WiredScore provides institutionally recognized standards for office buildings, how long will it be before is standard in BTR? With Fizzy living having the first Wirescore rating in BTR. The rest of the industry is likely to follow. SFH will not be exempt, although providing the required infrastructure resilience in housing may present different challenges to that of an urban BTR block. Sub-urban BTR must set high standards for technology in the home.

## 8.13

The digitization of construction is advancing at pace with BIM software providing a commonly used digital backbone to the design process. This is an important part of the modernization of construction and the use of Modern Methods of Construction (MMC) , detailed elsewhere in this report. SFH will need to embrace MMC for the standardization it brings, the speed of construction and quality of assembly. It will also make a significant contribution to meeting sustainability and ESG goals.

<sup>92</sup> WiredScore. <https://wiredscore.com/>



## Conclusion

Whilst there is a great heritage of designing SFH in the UK and one of the housing sectors great legacies is how it has evolved the home. Rented SFH is likely to demand further evolution of the house to meet the current and future needs of BTR customers. However, it is the threat posed by Climate Change and rise in demand for wellbeing standards and healthy homes that will have biggest impact on design. If the brief to the architect includes all these criteria, our industry is more than capable of designing them in, the big risk excluding them. BTR developers seeking to provide SFH must ensure that the development and house design brief is detailed and thorough enough to ensure the BTR houses meet all regulatory, customer and ESG requirements.



**8.14** New products invite new customers. BTR is innovating within residential real estate and sub-urban BTR has a great opportunity to bring new product to the market and expand SFH to Multiple Family Housing or Intergenerational Housing. Livinhome is one such product, designed and constructed to be fully adaptable from a single storey 1 bed roomed apartment to a 6-bedroom house, it provides a solution for small or large families. They can live communally or separately in this fully MMC house typology.



**8.16** Sub-urban BTR provides a great opportunity to create the next customer focused, technology enabled and climate resilient evolution of the family house. In doing so you will provide homes that are resilient, healthy and attractive, meeting the emotional and practical needs of your customers and keeping them renting for the long term.



## 09 Investment Characteristics

**9.1** A product of institutional investment and professional management, we have seen urban BTR drive down yields.

Where once residential investment outside of London Zone One and Two would demonstrate relatively 'soft' yields, today, net yields can be as low as 3.25%.

However, one has to remember that, largely, these are appraisal attributed based yields and not yields wholly supported by a representative volume of transactions.

**9.2** Given the above, we must also consider the likelihood that residential investment yields from BTR have shifted artificially by common consent over its current life cycle as a response to viability issues.

This has been supported by historically low interest rates<sup>93</sup> and long-term gilt yields well below their 20y average<sup>94</sup> of 3.38% at, as of April 2021, 1.3%.

<sup>93</sup> Bank of England. Interest Rate Data. <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>

<sup>94</sup> UK Debt Management office. Gilt yields. <https://www.dmo.gov.uk/data/ExportReport?reportCode=D4H>

**9.3** Now that investor attention has turned to SFH, it is clear that investor demand has created competitive tensions in the market which are currently exerting downward pressure on yields.

**9.4** CBRE's most recent research<sup>95</sup> suggests that Q1 2021 BTR net yields mirror those of Q1 2020. That is:

- ▶ A. London Zone 2: 3.25%
- ▶ B. London Zones 3-6: 3.50%
- ▶ C. Outer London/SE: 3.75%
- ▶ D. Prime Regional: 4.25%

**9.5** Knight Frank<sup>96</sup> reported SFH net yields to have fallen in the year to March 2021 from 4.25% in the South East, to 3.85%, and regionally from 4.75% to 4.25%.

It should be noted that the relatively recent high profile of SFH amongst investors has seen that substantial yield shift over just one year. In previous years, given that little SFH data has been available, it had remained stable.

**9.6** The Knight Frank research would seem to be validated by the acquisition of the Thistle portfolio of 918 houses from Gatehouse Bank by Goldman Sachs & Pitmore for £150 million reflecting a NIY of 4.1%<sup>97</sup>.

**9.7** Given the arcane nature of inferred yields, derived from a range of data points which result in wide variations based on precedent, location, sector, covenant, quality, risk etc, it is interesting to see SFH begin to mirror those of BTR. This, despite the very different nature of the housing stock.



<sup>95</sup> CBRE. Residential Investment Market View Q1 2021. [http://cbre.vo.llnwd.net/grgservices/secure/Residential\\_Investment\\_MarketView\\_Q1\\_2021\\_FINAL.pdf?e=1623071276&h=e6b93869d04c37d6def4d9b3d5fb936a](http://cbre.vo.llnwd.net/grgservices/secure/Residential_Investment_MarketView_Q1_2021_FINAL.pdf?e=1623071276&h=e6b93869d04c37d6def4d9b3d5fb936a)

<sup>96</sup> Knight Frank. Residential Investment Yield Guide Q1 2021. <https://content.knightfrank.com/research/588/documents/en/uk-residential-investment-yield-guide-q1-2021-7903.pdf>

<sup>97</sup> Research Tree. Gatehouse to Goldman Sachs Transaction. <https://www.research-tree.com/companies/uk/asset-management/sigma-capital-group-plc/research/n-1-singer/strong-validation-in-landmark-portfolio-transaction/29a26358-0856-4367-a35b-f0fade6282d7>



**9.8** The fundamental acquisition process for most institutions will not be much different to that of BTR.

That is:  
forward commitment/purchase,  
forward funding, golden-brick,  
cost + or joint-venture.

So, these processes and structures are well understood.

**9.9** However, there are some institutions, LGIM being a case in point, where the entire delivery chain is fully owned.

LGIM own housebuilder Cala Homes and they have a 500,000 sq.ft. MMC manufacturing facility in Leeds. An example of a fully vertically stacked investment business.

But not one that is wholly dependent on its own development or manufacturing capability.

LGIM have the flexibility to step outside their own stack in order to make acquisitions where and when appropriate.



**9.10** As discussed earlier in 5.0, we have seen that investors will likely have to invest in, on average, three or four times the number of schemes in order to achieve similar rates of scale to that in a single BTR transaction.

**9.11** So, whilst the acquisition process is similar to that of BTR, the delivery processes are very different and dependant on the nature of the scheme and the development methodology.

**9.12** At 3.42. I suggested that the strategy for positioning rental homes alongside homes for sale would become commonplace.

The reasoning behind this is that by embedding renters with owners it creates a greater sense of belonging and encourages organic long term community engagement. The owners are literally invested in the neighbourhood, the renters by association.

“

*This has clear benefits to the investor and can be best illustrated by Goldman Sachs's acquisition of the Gatehouse 918 house portfolio across 15 sites which reported an occupancy rate of 99.8%<sup>98</sup> and rent collection of 98% during the pandemic months. Each of these sites form part of wider multi-tenure schemes.*

<sup>98</sup> BTR News. January 2021. <https://btrnews.co.uk/gatehouse-bank-agree-sale-of-btr-portfolio-to-goldman-sachs/>

**9.14** So, given 9.12 and 9.13, the delivery characteristics will not vary much from how market sale houses are delivered. i.e. in bite sized tranches enabling phased lease up and absorption. In fact, SFH's are likely to be delivered alongside market sale homes on the same site.

**9.15** The benefits of such a delivery process allow for early income flow from completed homes which balances completion outlay, a managed absorption rate based on smaller numbers being marketed at any one time and reduced utility and council tax liabilities. The homes will be quicker to market and faster to stabilisation.

**9.16** How the investor chooses to configure the SFH scheme will be down to investor preference and the agreement of the delivery partner. In the main, it will fall into four categories:



**9.17** Each of the above, except for the final point, will likely account for between 30-50% of the site numbers in total and represent between 50 and 150 homes depending on local demographics, economy etc.

**9.18** Given the more autonomous nature of the renters and their inclination to invest in the wider local community, the cost of management is expected to be lower than that observed in a BTR scheme. The investor should, therefore, see more of each £1 received in rent.



- Pepper potting throughout the site
- Clusters within the site
- A specific segment of the site
- The whole of the site

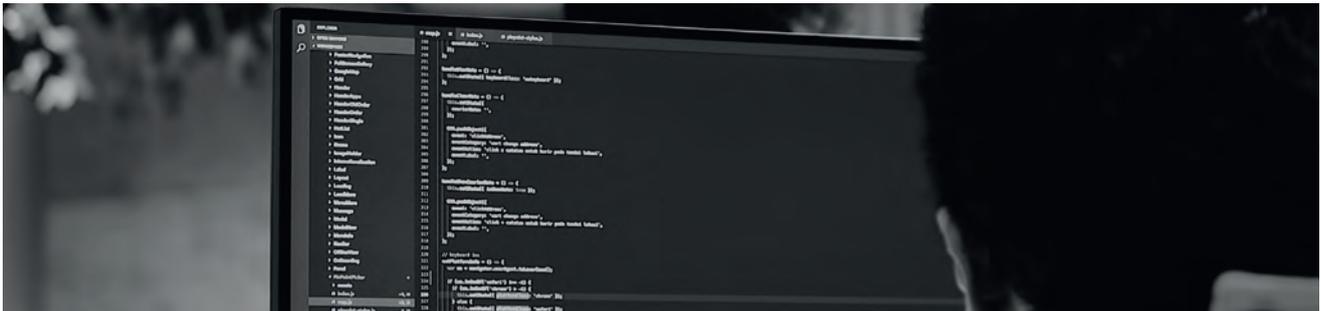




**9.19** Whilst it may not be in the mind of institutional investors who intend long-term stewardship of their portfolios, it is worthwhile pointing out that there are more investment and exit strategy options open to them that do not create the 'broken assets' resulting from selling off apartments within an investment block.

**9.20** As an alternative investment strategy, investors could explore 'rent-to-own'<sup>99</sup> or shared ownership (in either its open market or social forms). These strategies will require a more holistic approach to housing supply delivery.

**9.21** Similar exit strategies to that employed by Gatehouse (9.13), an institution-to-institution transaction, will be dependent on the quality and scale of the portfolio. Since most institutions will be focussed on both quality and scale, this will be the most common form of exit.



**9.22** However, as portfolios age and the sector and the housing environment evolves, it is possible that some assets begin to perform less well, become obsolete in investment or asset management terms, or simply are surplus to requirement.

Such homes could be sold to smaller investors, albeit not at institutional capitalisation rates.

Or perhaps to the renters or to prospective homeowners.



<sup>99</sup> Investopedia explainer. Rent to Own. <https://www.investopedia.com/updates/rent-to-own-homes/>

**9.23** Selling off individual houses does not intrinsically damage a portfolio of houses in the same way it might an apartment block unless the whole of the site is for rental.

So, it is important for investors to look at long term exits and shape their acquisitions with exit flexibility in mind.

Particularly if SFH is held as part of a wider strategic residential investment in living assets which may have differing performance characteristics over time.



**9.24** No commentary on the investment characteristics of houses would be complete without touching upon the contribution that houses can make to the environment. Indeed, funds are now finding that being green is becoming measurable. Particularly if they wish to call themselves a 'green fund'.



**9.25** The Sustainable Finance Disclosure Regulation (SFDR)<sup>100</sup> imposes mandatory ESG disclosure obligations for funds and other financial institutions. Level one disclosure was introduced on 10th March 2021 and ensures that funds declaring themselves to be 'green' actually are. This has implications for the real estate sector looking to take advantage of green finance since such funds will not be able to provide support unless the scheme is demonstrably green.

<sup>100</sup> PWC. SFDR Explainer. <https://www.pwc.ch/en/publications/2020/sustainable-finance-disclosure-regulation.pdf>

**9.26** SFH has a clear advantage here as houses are significantly easier to construct to meet carbon zero targets and ongoing sustainability.

Apache Capital's Present Made model focusses on MMC, carbon zero and sustainability.



**9.27** Turning to cost of management. The expectations are that the SFH sector will exhibit an improvement in gross to net income over BTR. Logically, given that on-site management isn't and won't generally be the norm, and the M&E characteristics of houses are simpler and significantly less costly to maintain, it can be assumed that these expectations would be born out.



**9.28** In their 2020 accounts, Sigma Capital made a gross to net assumption of 22.5%. Less than a typical BTR building, but not, perhaps, the saving one would expect. Sigma are not necessarily a typical case as their costs are not just operational management.



**9.29** My estimation of gross to net, given the high quality operational management and the concomitant cost associated with delivering a high level of customer engagement and care, would be between the range of 17.5% and 22.5%.

Naturally, advanced digital processes and integrations will be more cost efficient.



<sup>99</sup> Investopedia explainer. Rent to Own. <https://www.investopedia.com/updates/rent-to-own-homes/>

## Conclusion



In summary we can see that SFH yields are being driven down as investors recognise the highly defensible nature of houses as an investment class.

The metrics are better in fact than those of apartments. But they also understand that their acquisition approach needs to be different in order to achieve the scale they require.

Investors also recognise the ageing of the renter class and the implications that has for the type of home renters want to live in and what they want from life. This is especially pertinent in a post pandemic world.

There is also the question of sustainability as we enter an age where we cannot afford to pollute the world to the extent we have done in the past.

Real Estate has a leading role and houses especially can begin to deliver carbon zero, sustainable living to a wide range of the population and fulfil the obligations that green funds place upon investors.

Thank you for reading this document. We feel it is an important contribution to Single Family Housing as an emerging institutional asset class. We hope that we have provided a banquet of food for thought and a starting point for the many discussions to come. We welcome any comments or insights and are happy to discuss further.

Richard Berridge. June 2021

8000

Lets per year

85

Colleagues across  
three offices

£1 billion

Assets Under  
Management

## Howsy Solution

Howsy is a digital managing agent. We represent Institutional PRS & BTR clients to manage their lease-ups, homes and reputations. Howsy has made the process of renting a home simple, fair and transparent. We have achieved this by using our proprietary technology, 24/7 customer service and national coverage.

### Lease-up

Acting as the agent we find renters, using our intelligent market data and Howsy's extensive existing database to source customers nationally.

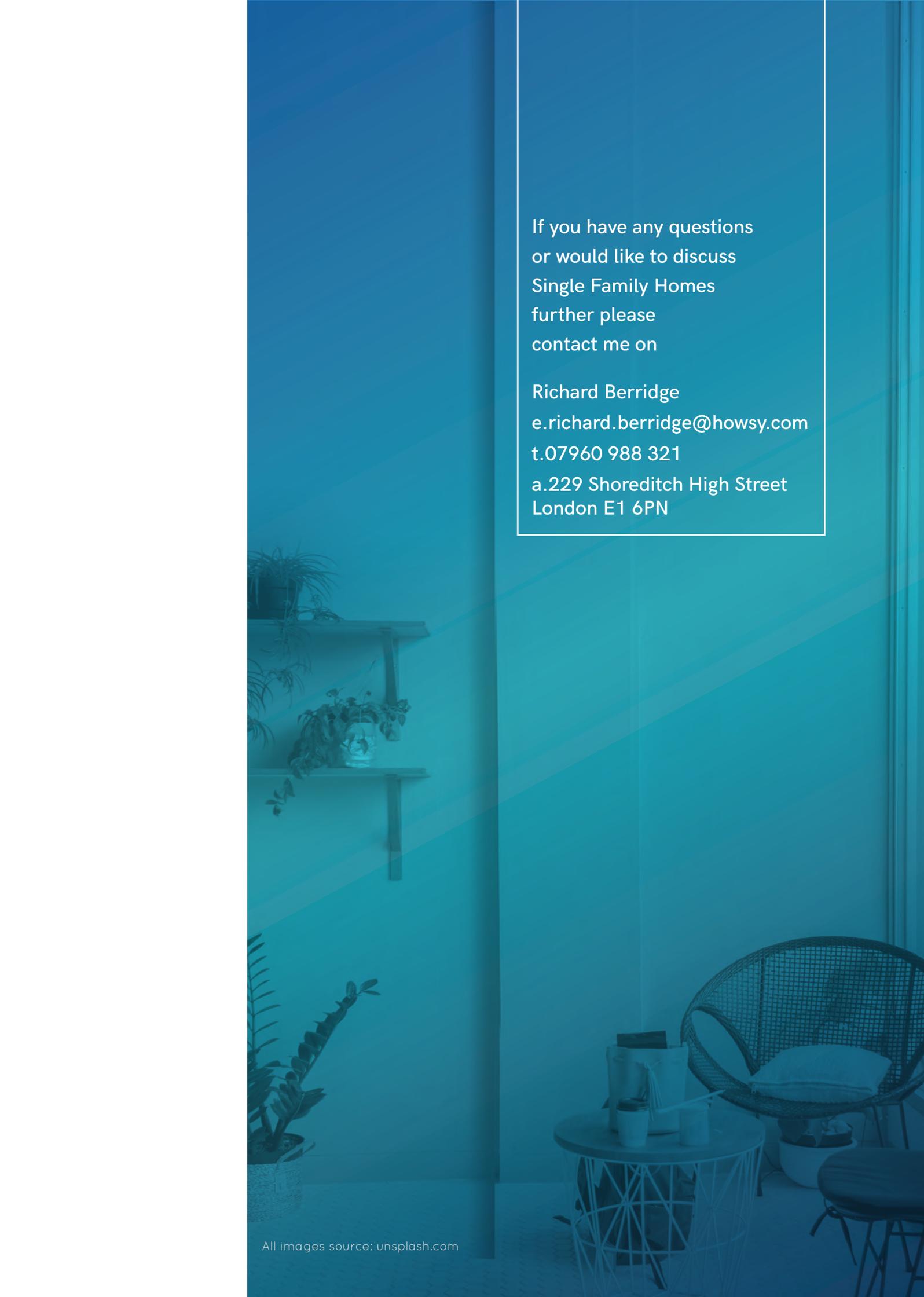
### Tenant Engagement

We create technologies that improve people's lives. We find that engaged happy renters stay longer, have lower rates of arrears and end-of-tenancy charges.

### Property Management

We achieve the combined management of buildings, individual homes and their residents through technology. All designed with residents, asset owners and third party providers in mind.





If you have any questions  
or would like to discuss  
Single Family Homes  
further please  
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