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Build to Rent:

A maturing market



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Introduction

The Build to Rent* sector is an integral and evolving part of the housing market and has the ability to significantly contribute to reducing the deficit in the UK's housing supply.

The sector is still relatively small in the UK, but has grown consistently since the 1980s as the number of Council houses has reduced and the costs of home ownership have increased.

This trend is supported by the Department for Communities and Local Government's (DCLG) findings, which indicate that the percentage of owner occupied dwellings in the UK dropped by over 10% between 2001 and 2015 and the number of those renting privately increased by over 100%.

Build to Rent has grown exponentially in recent years with more than £2bn of capital committed to the sector in 2017 and there are now more than 20,000 completed Build to Rent units across the UK. With a further 27,500 Build to Rent units under construction, 58,500 with planning permission and more than £30bn of global capital looking to invest in this sector in the UK, it is clear that there is a clear market acceptance of the advantages of this type of accommodation.

The Unlocking Build to Rent: Who holds the key? report, published by Nexus Planning and Broadway Malyan in 2016, found that almost two thirds of London's Boroughs made no reference to Build to Rent or included policies that clearly focused on the delivery of affordable housing - with just 24 per cent of Boroughs having positive positions on the sector with policies or guidance relating to Build to Rent.

The report argued that the sector offered London Boroughs the opportunity to form their own development companies, independent from but owned by the Council, which could generate a long term revenue stream by using Council land to build large-scale Build to Rent schemes.

In the past 12 months, there has been significant progress with the drafting of new planning policy at a number of London Boroughs, either through the adoption of new policy, the review and update of existing policy, consultation on a new draft policy or the publication of a revised evidence base.

In London today there are approximately 55,000 new Build to Rent homes that have either been completed, are under construction or have been granted planning permission. The importance of this unique sector in delivering high quality housing for the capital is now being reflected in planning policy across London.

**The Build to Rent sector is also referred to as the Private Rented Sector (PRS). While these terms are often interchangeable, particularly in planning guidance documents, PRS also comprises private rented property that is privately owned and being rented out as housing, either by an individual landlord, a housing organisation or institutional investors. The Build to Rent sector refers solely to those developments that are built specifically for renting. This paper relates solely to the evolution of the Build to Rent sector.*





Why Build to Rent is Transforming the Residential Sector

Growth of renting

As private renting has grown, the number of rental units owned by non-professional landlords has increased. These landlords typically have a full time job and rent out a small portfolio of properties for additional income. A lack of regulation in this sector until recently has meant that renters often live in substandard housing and feel a lack of security with leases commonly as short as six months. This can make it difficult for renters to put down roots and become part of a community.

Large scale Build to Rent offer several advantages and opportunities to address some of these problems, with economies of scale, professional management and central locations potentially providing improved living conditions and lower costs for renters as well as positive returns for investors. Build to Rent offers a route to establish a professional and institutional framework within the sector, which should mean a better quality of product and greater security for tenants

Investor interest

The perceived long-term security that Build to Rent currently offers, buoyed at present by a lack of housing supply and in more recent years consistently low interest rates mean that some of the largest portfolios in the world have started investing in Build to Rent.

Typically in the UK residential developers have built housing for market sale, with high home prices meaning instant returns on investment.

The British model in commercial or industrial real estate is quite different, with developers such as British Land and Land Securities more likely to hold on to their assets and rent them out ensuring a long-term steady revenue stream.

With the Annual Residential Property Index (ARPI) consistently demonstrating that residential outperforms both industrial and commercial real estate in terms of yield, investors are increasingly seeing the value of Build to Rent as a source of steady, stable growth in turbulent times.

Investments include existing Build to Rent developments, joint venture projects with housing associations diversifying their portfolios to supplement income losses due to the government right to buy changes and critically, the emerging growth of purpose built new developments.

Investors have adopted a variety of approaches to the private rental offer including investing in the established student market and the emerging young professional and executive living markets.

Large scale developers will be critical in delivering the volume required to enable the Build to Rent sector to increase its role in meeting housing demand and the increasing scale in the UK will continue to attract large institutional investors into the sector.

The result of the UK referendum on EU membership created investor uncertainty in the short term although the ongoing lack of housing, and weaker pound and the relatively strong economic fundamentals has ensured that Build to Rent investors are prepared to take the longer term view.

Design

Build to Rent brings its own unique challenges when it comes to design. The variety of approaches that Build to Rent schemes can take offer a range of solutions in terms of layouts, the provision of private spaces and facilities on site and how a scheme is branded.

The UK does not have a history of building rental accommodation for multi-person households, with current rental stock largely made up of converted family homes. Due to this deficiency, private rented housing is more likely to be overcrowded, poorly maintained or ill-suited to the tenants needs compared with privately owned homes or social rented housing. The design of large-scale Build to Rent schemes offers a huge opportunity to tackle these issues and re-think the priorities of renters.

While there are many reasons that people rent, not least rising house prices making home ownership unaffordable, there are also those who rent out of choice. Many young professionals value location, flexibility, lifestyle and facilities more than owning their own home and are willing to rent long-term if they can find a place that fits their needs and budget.

Renters tend to be more concerned about pounds per month than pounds per square foot and a key design challenge for Build to Rent developers is creating compact apartments that are well designed so as not to feel small. If located close to amenities and transport links and with adequate community spaces, renters are more likely to accept smaller living spaces and although it is unlikely that the London minimum design standards will be changed

in the short term, innovative new layouts should be considered if we are serious about driving down costs.

There is an opportunity for Build to Rent developments to brand themselves in a similar way to student accommodation or even boutique hotels. This can be achieved through the architecture and interior furnishings as well as through the offering of shared facilities such as pools, fitness centres, multi-use workspaces and shared roof gardens. Shared facilities help build a sense of community and, when combined with good customer service, will lead to brand loyalty, something that we already see in the US multi-family rental model.

Having shared spaces such as laundry facilities and outdoor terraces can also allow certain spaces to be omitted from the apartments themselves, reducing apartment sizes and consequently costs. At large scale these shared facilities become much more viable.

The design of a Build to Rent scheme also has to consider the long-term rental usage of the building. They should be designed for easy long-term maintenance, as operators will want to attract new tenants on a regular basis. This might mean a higher quality and durability of the finishes and furnishings and the use of the same style and products across multiple schemes.

The limitations of design codes and spatial standards do not at present account for the modern and innovative approaches being taken by Build to Rent developers. For example, as seen above, many providers are focusing on young professionals with shared facilities, reducing the private spaces required. This can fall between the gaps in planning terms.



Communal gardens



Roof gardens/terrace



Shared laundry facilities

Design Case Study: Barking Wharf

Barking Wharf is a new Private Rented Sector (Build to Rent) development on the fringes of Barking town centre, East London for Build to Rent developer be:here. Replacing an unattractive retail park, the scheme benefits from its location between the River Roding and Abbey Park, a public park containing the ruins of a 7th century abbey. It is also conveniently located a short walk from Barking station which offers frequent and fast trains in to central London.

A key consideration was re-establishing the town's historic connection with the river, which had been closed off by the retail park. Two U-shaped apartment buildings frame a central boulevard, activated by retail units, that leads from the park across the site to the river and a new riverside promenade.

The development contains 597 Build to Rent units across two buildings, which step up in height from 7 storeys when facing the park to a maximum of 15 storeys overlooking the river. A central hub for the use of the residents' faces the abbey ruins. This includes Build to Rent management facilities, residents' lounge, gym and workspaces.

Because of the sensitive nature of the site a high quality design approach was essential. Brick cladding is used throughout; creating a simple grid that frames windows and areas of brick corbelling. Anodised aluminium balconies match the window frames to ensure a simple and timeless design and ensure all apartments have their own private outdoor space.



Key Design Considerations

- In city centre locations or when close to strong transport links compact units may be appropriate, however the flat layouts should be well designed so as not to feel small
- There is the opportunity to brand Build to Rent developments through architecture and furnishings to create a distinctive identity
- Shared facilities such as swimming pools, fitness centres and shared workspaces offer the opportunity to build a sense of community for residents
- High quality furnishings and finishes are required so that operators are able to attract new tenants on a regular basis
- Build to Rent schemes should be designed for long-term flexibility.



An Improving Picture

In the last 12 months there have been a number of improvements in terms of policy facilitating Build to Rent development. In February 2017, the Housing White Paper was released, which emphasised the need to diversify the UK's housing market, with Build to Rent developments encouraged. To support this outcome, the Paper introduced two key proposals. The first proposal comprised changes to the National Planning Policy Framework 2012 (NPPF) so that local planning authorities know they should plan proactively for Build to Rent where there is a need. The second proposal was to make it easier for Build to Rent developers to offer affordable private rental homes and to facilitate family-friendly tenancies of three or more years. It is understood the Government's work on these matters is ongoing.

The Draft National Planning Policy Framework released for consultation earlier this month (March 2018) has recognised Build to Rent as a type of development for the first time. The Draft NPPF includes a definition of Build to Rent within the Glossary, and includes Build to Rent within its definition of affordable housing. Whilst the Draft NPPF doesn't actively promote or provided detailed guidance about Build to Rent development, the recognition and definition of the sector within this national legislation is a step in the right direction to putting Build to Rent at the forefront of planning policy.

In August 2017, London saw some key improvements to Build to Rent policy, with the Greater London Authority's (GLA) adoption of the Homes for Londoners Affordable Housing and Viability Supplementary Planning Guidance (SPG) 2017. Amongst other things, this document provides a formalised definition of Build to Rent, which clearly delineated the term from the

'private rented sector', and enabled a degree of consistency across London planning authorities.

The GLA's definition of Build to Rent ensures development must:

1. be a development, or block/phase within a development, of at least 50 units;
2. hold its constituent homes as Build to Rent under a covenant for at least 15 years;
3. provide units that are all self-contained and let separately;
4. operate under unified ownership and management;
5. offer longer tenancies (three years or more) to all tenants, with break clauses that allow the tenant to end the tenancy with a month's notice any time after the first six months;
6. offer rent certainty for the period of the tenancy, the basis of which should be made clear to the tenant before a tenancy agreement is signed, including any annual increases which should always be formula-linked;
7. include on-site management, which does not necessarily mean full-time dedicated on-site staff, but must offer systems for prompt resolution of issues and some daily on-site presence;
8. be operated by providers who have a complaints procedure in place and are a member of a recognised ombudsman scheme; and
9. not charge up-front fees of any kind to tenants or prospective tenants, other than deposits and rent-in-advance.



The SPG also identifies the 'Fast Track Route', which provides that "applications that meet or exceed 35% affordable housing provision without public subsidy, provide affordable housing on-site, meet the specified tenure mix, and meet other planning requirements and obligations to the satisfaction of the LPA and the Mayor where relevant, are not required to submit viability information. Such schemes will be subject to an early viability review, but this is only triggered if an agreed level of progress is not made within two years of planning permission being granted (or a timeframe agreed by the LPA and set out within the S106 agreement)."

The recently released Draft London Plan (December 2017) has also progressed policy guidance relating to Build to Rent. Policy H13 of the Draft relates solely to Build to Rent developments, identifying that such developments can play a huge role in accelerating housing delivery. The Draft London Plan (December 2017) provides a similar definition of Build to Rent as is presented in the Affordable Housing and Viability SPG 2017, including all 9 items listed above. The Draft London Plan (December 2017) also prescribes that Build to Rent development must ensure that "a clawback mechanism is in place to recoup additional affordable housing contributions in the event of the covenant being broken".

Further to providing a definition for Build to Rent, the Draft London Plan (December 2017) also enables Build to Rent developments to follow the previously discussed 'fast track route'. Whilst the SPG introduced the Fast Track Route, at the stage of its release (August 2017), this process was not applicable to Build to Rent. The Draft London Plan 2017 prescribes that as long as Build to Rent developments deliver "at least 35% affordable housing, of which at least 30% should be at London Living Rent Level, with the remainder being at a range of discounts below market rent to be agreed with the Borough and/or the Mayor where relevant", they are eligible for fast track.

Overall, there has been significant progress with respect to Build to Rent in planning policy over the past year within London. As noted above, the Housing Affordability and Viability SPG (2017) and Draft London Plan (December 2017) have introduced key policy guidance for identifying, categorising and incentivising Build to Rent developments. Whilst it is positive to see that the GLA is beginning to provide central guidance to support the evolution of the Build to Rent sector, it is still considered that the onus is on individual planning authorities to take the lead with respect to facilitating delivery.

Are London's Local Authorities Playing Their Part?

Of the 33 Local Authorities operating in London (32 London Boroughs and the City of London), approximately half make no reference to Build to Rent in their adopted or emerging planning policy. Just 30% of Local Authorities in London have clear, positive positions on the sector, evident through policies or guidance relating to Build to Rent. Whilst the remaining Local Authorities' planning policy and/or guidance documents acknowledge the Build to Rent sector, they do not provide clear policy to assist with delivering such developments.

Of those Councils with a positive policy position towards Build to Rent, the **London Borough of Hammersmith and Fulham**, for example, has made marked progress; with their new draft Local Plan, which was submitted for consultation in February 2017, identifying Build to Rent as a key avenue for boosting accommodation across the Borough.

The Borough's draft policy includes a range of affordable housing outcomes for Build to Rent schemes such as discount market rent using the London Living Rent as a benchmark as well as a new policy regarding ongoing site management.

The **London Borough of Southwark** has more than three times the national average of social housing and more than any other London Borough at 44%. This commitment to affordable accommodation for its residents is reflected in the New Southwark Plan, a Preferred Option, published in June

2017, which includes a detailed policy regarding the Build to Rent sector.

In particular, Policy DM4 of the New Southwark Plan states that:

"Planning permission will be granted for purpose built, private rented homes:

1. *Which are secured for the rental market for a minimum 30 year term with tenancies which last a minimum of three years;*
2. *That meet Southwark's Private Rent Standard;*
3. *That provide a high standard of security and management;*
4. *That provide an equivalent amount of affordable housing to conventionally funded schemes, in accordance with DM1."*

Policy DM4 is unashamedly pro Build to Rent development, and provides qualified support for schemes that meet specific criteria, such as providing more than 100 new homes and meet obligations around issues such as site management and rent affordability. This approach enabling the swift, positive assessment of purpose-built Build to Rent schemes within Southwark.

Another local authority making headway with Build to Rent planning policy is the **London Borough of Camden**. The Borough was one of the first local authorities in London to adopt a positive position in regard to the Build to Rent sector. In July 2017, the new

Camden Local Plan was adopted, which takes a clear and positive position on Build to Rent, and is likely to facilitate continued growth in the sector within the Borough.

The new Local Plan recognizes that "financial viability for build-to-let development is different from developments built for sale because returns are realised over a longer period and may mean that the appropriate level of affordable housing provision is lower." The Council also prescribes that they "will be flexible in the application of affordable housing and dwelling size policies to develop build-to-let housing where we consider such housing will help create mixed, inclusive and sustainable communities."

These outcomes are recognised in Policy H2 – Maximising the supply of self-contained housing from mixed-use schemes; Policy H4 – Maximising the supply of affordable housing; Policy H6 – Housing choice and Mix; and Policy H7 – Large and small homes of the Camden Local Plan. As such, it is evident that the London Borough of Camden understands that the viability of Build to Rent developments differs from the viability of build for sale schemes, and should therefore be assessed accordingly.

The **London Borough of Wandsworth** has seen the proportion of its residents living in the private rented sector increase from 25% to 33% in the past decade and was one of the first boroughs to introduce a proactive Build to

Rent policy when it adopted the Wandsworth Local Plan Core Strategy in March 2016.

In particular, Policy IS5 – Achieving a mix of housing including affordable housing of the Local Plan Core Strategy 2016, provides policy direction regarding build to rent housing schemes. Specifically, this policy identifies that "where developers are willing to enter into legal agreements securing such housing for local needs or lower to middle income households with security of tenure, any impacts on the market value of such developments will be taken into account in viability assessments."

In addition to recent changes to the Build to Rent planning policy, in the last few years some London Boroughs (such as Barking & Dagenham, Camden and Croydon) have started to form their own "development companies", independent from, but primarily owned by the Council. As these companies are independent from the Council's respective planning policy, they have not been discussed above. However, it is considered that such companies could make a major contribution in terms of progressing Build to Rent throughout London. In particular, London Borough development companies could use their own land to build large scale Build to Rent schemes with the rent achieved providing a long-term steady revenue stream which could be reinvested in essential services and in funding additional forms of affordable housing including more Build to Rent.

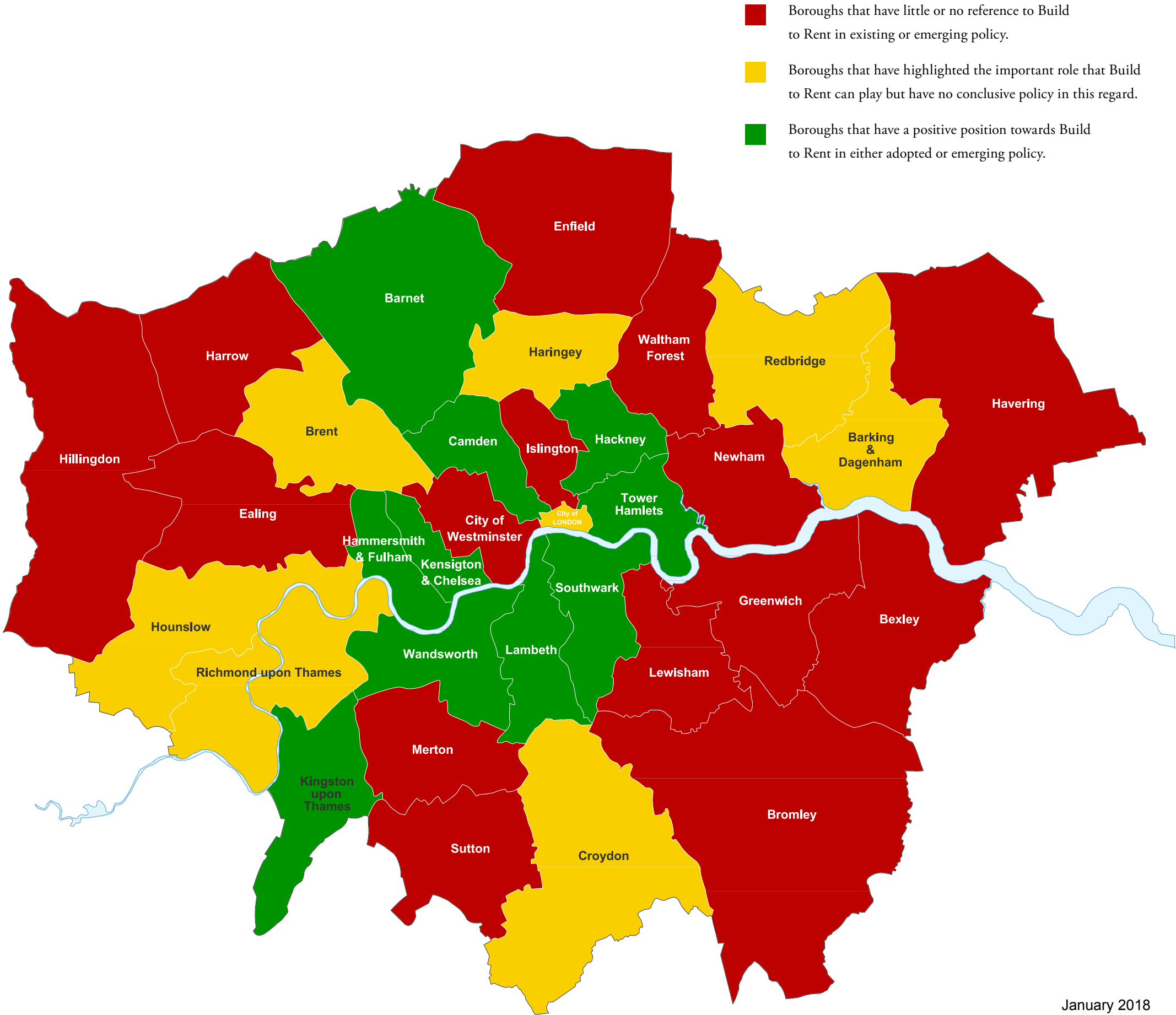
Conclusion

The Build to Rent sector is currently worth £25 billion and set to rise to £70 billion in the UK over the next five years with London accounting for more than half of the new homes either under construction or in the pipeline.

Over the last 12 months, there has been a notable shift in planning policy across London in terms of recognising the important role of the Build to Rent sector in helping provide quality homes in the Capital. However there is still much to do.

In particular, the GLA has made significant progress in terms of providing centralised guidance for the Build to Rent sector, with the release of the Housing Affordability and Viability SPG 2017, and the Draft London Plan December 2017. These documents provide a clear definition of ‘Build to Rent’, which now allows for the unified discussion and consideration of the sector across London.

This research has identified some of the best practice examples of planning policy facilitating Build to Rent across London, and it is good to see some clear cases of local planning authorities facilitating the growth of this sector. It is important to note, however, that only 30% of local authorities have a positive policy position towards Build to Rent, and that currently the remaining 70% have limited or no regard for the sector.



BroadwayMalyan^{BM}

About Broadway Malyan

Distinguished by its global reach with 16 studios across world centres, unrivalled diversity with 500+ design experts and distinctive client focus with over 75% income from repeat business, Broadway Malyan creates world-class and fully-integrated cities, places and buildings to unlock lasting value.

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Peter has over 20 years' experience working across all areas of the built environment and has been responsible for the design and delivery of major projects in the UK and internationally. Currently based in the London studio, he is strongly focussed on local solutions and a team approach delivered through workshops and client involvement.

Peter has extensive experience in the design of large scale residential/mixed-use schemes including the multi award-winning, mixed use waterfront development Battersea Reach. He is currently leading the design and delivery of the Brentford Community Stadium – a residential-led mixed use development which includes a substantial PRS component.

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About Nexus Planning

Nexus Planning is a highly skilled and experienced team of planning and regeneration consultants who offer the very best bespoke planning, regeneration and development advice. Based upon our wide-ranging knowledge and expertise across a variety of sectors, we deliver planning strategies and developments to both the private and public sectors.

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Amanda has extensive experience in the private sector including over 20 years in planning, with a focus on major mixed use schemes including residential, retail and leisure development. She specialises in co-ordinating complex planning and development projects with emphasis placed on securing planning permissions through consultation and negotiation in accordance with the client's objectives.

Amanda's clients have included M&G Real Estate, Hermes, Henderson Global, Kajima, Capital & Regional, Simons Group, Lloyds Bank, Countryside and Grainger PLC.

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Heidi is a qualified Town Planner with several years' experience working in both Australia and the United Kingdom. She has experience in both the private and public sectors, and her work to date includes development planning, analysing demographic and socio-economic trends, addressing land use compliance issues, undertaking detailed planning research, project management, tender evaluation, development feasibility investigations and undertaking market analysis for clients.

Heidi's experience with development planning is underpinned by her ability to identify and respond to client needs, maintain an efficient working relationship with Council Officers and her colleagues, and her skills in accurately interpreting statutory planning instruments.

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