

Investment

BTR brings in the money



Radius

Investment

Inside the biggest year yet for BTR investment

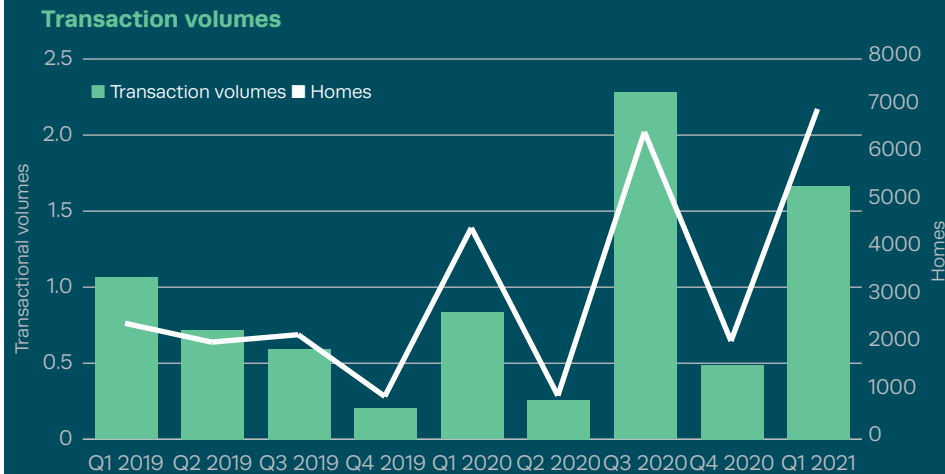
Investors committed almost £5bn to the sector. Emma Rosser investigates what they are buying.



As fears for the future of the office and ailing high streets grow, the case for residential investment has never been stronger. While a year of lockdown saw transactions in most areas of commercial real estate put on ice, investment in the UK's burgeoning build-to-rent sector doubled to £4.7bn.

EG Radius recorded 48 completed deals in the 12 months to the end of March, totalling 16,229 homes. This compares to 35 deals across 9,420 homes worth a combined £2.3bn in the previous 12 months.

Momentum continued throughout lockdown and into the new year, with some £1.7bn recorded in the first quarter of 2021. That marks the second highest quarterly investment total on record, with the largest number of homes at 6,906. Investor appetite now looks set to continue, with billions targeting the sector and funds closing in on major landmark deals.



£5bn

Investment into the UK's build-to-rent sector over the last year

16,229

Number of homes funded by 48 deals linked to lockdown investors in the last year

Source: EG Radius,

Top Q1 2021 Deals

Scheme	Homes	Purchase price	Location	Buyer	Vendor
Uncle portfolio	1,335	£570m	London/Manchester	QuadReal	Realstar
Thistle portfolio	918	£150m	Manchester/Liverpool	Goldman Sachs	Gatehouse Bank and Sigma Capital
Electric Boulevard	92	£150m	London	MGT backed by Oaktree Capital Management	Battersea Power Station
Holland Park	433	£100m	Glasgow	Apache & Harrison Street	Moda Living
The Residences	375	£70m	Birmingham	Private investor	Patrizia and Homes England
Suffolk House	300	£65m	Cardiff	Fiera Real Estate/Packaged Living	Dovey Estates
Finzel's Reach	231	£63.1	Bristol	Grainger	Fiera Real Estate and Cubex
Tower Works	245	£57m	Leeds	L&G/PGGM	Ask Real Estate and Richardsons
Circus Street	114	£55m	Brighton	M&G	U+I
Idaline Court	108	£55m	London	DWS	Notting Hill Genesis

Buyers stick to the capital

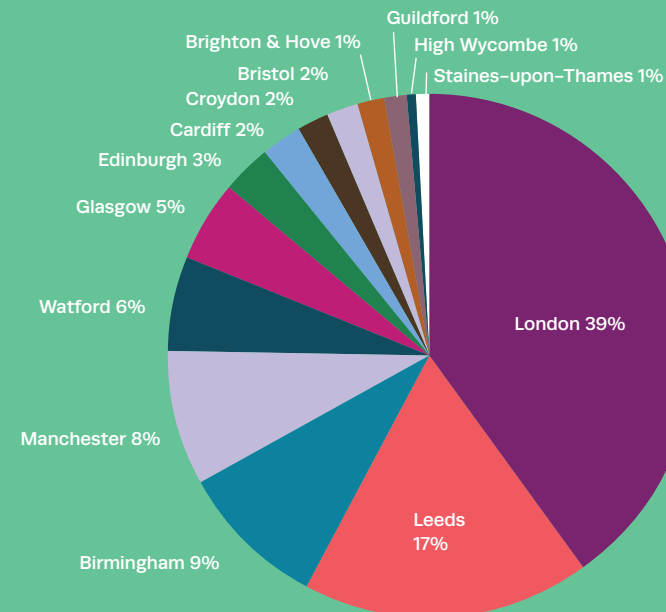
More than half of investment in BTR over the past year (53%) was concentrated in London, through a mix of portfolio deals and high-value standing stock acquisitions. These deals funded 39% of the total homes, with a further 34% across Leeds, Birmingham and Manchester combined.

Across the board, some 16% of capital committed was through portfolio deals, a slight dip on 20% a year earlier. Acquisitions of built assets surged to 35% of funds from just 1% over the same period a year earlier.

Completed stock consistently quotes core yields of 3.5%–4.5%. This dips lower in London, as seen in QuadReal's £570m acquisition of Realstar's 1,335 portfolio at a 3.6% yield, compared to the regions, for example with Aberdeen Standard Investment's Clarendon Quarter in Leeds at a 4.25% yield.

The biggest purchase of the year was AXA IM's £800m investment of Dolphin Square, comprising 1,233 homes in Pimlico, SW1. Other significant deals included Long Harbour's £156m forward funding commitment for 315 flats at Berkeley Square Development's Berol Yard in Tottenham Hale, N17, backed by a £120m debt facility from Wells Fargo.

Regional split





Long Harbour has subsequently exchanged to acquire Capital & Regional's The Mall in Walthamstow, in a deal that will see the investor expand into direct development. The purchase was made from Long Harbour's £500m joint venture with a Canadian pension fund, which is weighted 70% to the capital.

"The pandemic has demonstrated the resilience of the sector, which is something that we've always talked about, but maybe didn't have hard, tangible facts on," says Rebecca Taylor, managing director of BTR at Long Harbour.

“ The pandemic has demonstrated the resilience of the sector, which is something that we've always talked about, but maybe didn't have hard, tangible facts on,”
Rebecca Taylor, managing director of BTR at Long Harbour

Those facts are now clear to see in Knight Frank's 95% of rents collected from 22,000 tenants in the first three months of this year, or in listed landlord Grainger's 90% occupancy and 98% rent collection in the four months ending January.

But, London's story has had "two tales", Taylor adds. While zone one and two locations have seen rental squeeze, there is continued demand for outer London and commuter areas. However, the city also has a high barrier to entry.

"We haven't seen price drops on land or access to land, and we are still competing against the develop-to-sell model. It's still quite a difficult sector to unwrap in London," she adds. Further concerns over planning have been raised by groups including the British Property Federation, amid fears that these hurdles could dampen investment into the capital despite demand from renters.

"There's been maybe a miscommunication when people see premium product – they think that means premium returns and I think there is still an education piece for planners and the Greater London Authority, that it's a stable income not a profit on cost model," adds Taylor. "That education piece in terms of planning, clawback, section 106 is something that the sector is positioning ourselves for."



53%

More than half of investment in BTR over the past year was concentrated in London, through a mix of portfolio deals and high value standing-stock acquisitions



Stabilised stock attracts attention

Long Harbour is a long-term investor, typically holding assets in a fund for 20 years. However, last year as a seven-year fund came to an end it sold the 129-flat Skyline in Manchester to L1 Developments after interest from several investors.

“We saw those traditional funds starting to reallocate funds and they wanted to get into standing stock residential,” says Taylor. “Last summer we saw an increase in appetite for that kind of stock and I’m sure that will continue as specifically designed BTR stock starts to come onto the market.”

Anticipating new acquisition opportunities in the wake of the pandemic led Canadian developer investor Realstar to pitch a near-£600m portfolio last summer

“Our investors looked at the valuation and said it is a good time for us to think about recycling capital, given what new opportunities may present themselves coming out of the pandemic,” says Ryan Prince, vice chairman at Realstar and founder of its BTR platform Uncle. “This was a good example of an extraordinary event.”

Realstar brought the 1,335-flat completed portfolio to the market in July and completed the £570m deal in just six months, following significant interest from domestic and international funders.

“The blue-chip universe of investors would come as no surprise. It was a largecore, core-plus portfolio, it required a lot of equity and therefore there was a range of large, institutional, pension fund investors.”

Ryan Prince, vice chairman, Realstar





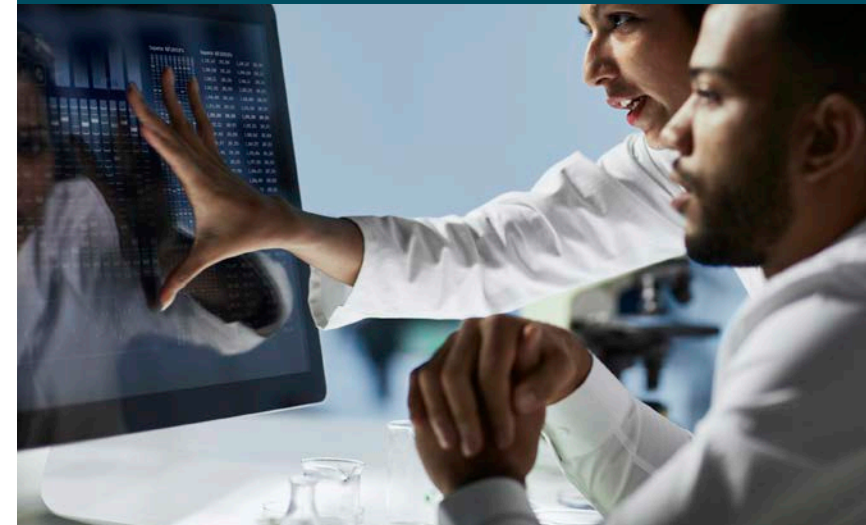
“The bluechip universe of investors would come as no surprise. It was a large core, core-plus portfolio, it required a lot of equity and therefore there was a range of large, institutional, pension fund investors,” says Prince. That risk profile opened the way for new movers in the sector, as investors from the UK, Europe, Asia and North America closed in.

“We always place certainty of execution pretty high on the list, although we had one group that was highly credible but hadn’t actually pulled the trigger on anything large of this nature in this asset class,” says Prince.

Having completed the Project Harmony sale, Realstar is now on the hunt for new acquisitions. During the period the developer completed a £100m acquisition at HUB’s Wembley Link and has since signed two more deals, conditional on planning.

Prince is also scoping out cities for UK expansion. “I like the dispersion, the choice, the different nature of the buildings,” he says. “That’s how we’ve been approaching it and trying to pick off locations where we can find the sweet spot – that Goldilocks bit where we can afford the deal and yet it is convenient and an appropriate product for the customer.”

“ We always place certainty of execution pretty high on the list
Ryan Prince, vice chairman, Realstar





41

Over the past 12 months, 41 investors have committed funds to BTR, double the number that did so in the previous year

BTR movers, shakers and new players

Over the last 12 months, 41 investors have committed funds to BTR, double the number that did so in the previous year.

Delph Property's new BTR brand, Kooky, was the most prolific purchaser, scooping up five sites in a fresh strategy that saw it opt to acquire completed assets around London from developers ready for occupation. Aberdeen Standard Investments, Grainger and Federated Hermes' Hestia, backed by BT Pension Scheme, also each completed three

acquisitions during the period – each with further schemes under offer.

During lockdown, Pension Insurance Corporation completed a debut BTR deal with the £130m forward funding of Muse and Network Rail's New Victoria in Manchester. This year has also seen investment from DWS and a return to UK BTR for Patrizia with new client mandates funding schemes in London and Birmingham.

Top 10 Q1 Buyers

Buyer	Capital committed
AXA Investment Managers – Real Assets	£800,000,000
QuadReal	£570,000,000
Get Living investors	£252,000,000
Latimer	£200,000,000
Grainger	£177,100,000
L&G/PGGM	£157,000,000
Long Harbour	£156,000,000
MGT backed by Oaktree CM	£150,000,000
AIMCo & Ridgeback Group (JV)	£150,000,000
Goldman Sachs	£150,000,000





Gerald Eve partner Bobby Barnett notes the variety in capital sources targeting the sector today. “Large scale investment into the UK residential market seemed to start with largely defined benefit pension money using specialist vehicles, cautiously forward purchasing purpose-built city centre blocks for the higher end rental market to achieve long-term income streams with a perceived inflation hedge,” he says.

But as developers add sub-sectors like single family housing, affordable housing, mid-market and small blocks to the mix, different buyers are coming to the table. Barnett says “a broader and deeper pool of capital with private equity is looking at development and delivering fully let stabilised assets to the market as well as bulk purchases from housebuilders”.

He adds: “Alongside institutional investors, property companies, sovereign wealth, family offices and now balanced UK real estate funds are all looking to allocate to the sector.”

Goldman Sachs has taken the leap into single family housing with Sigma Capital and Gatehouse Bank’s Thistle portfolio. Meanwhile, Canadian fund AIMCo is building a portfolio of regional sites to develop in joint ventures, including three sites with Ridgeback and a £75m equity deal with Platform_ in the works.

As schemes progress, the sector will no longer be considered alternative, says Barnett. Proof of rental returns and greater data from operational assets will support underwriting, giving confidence to the next generation of investors.

Gearing up for new investment

As investors pile into the sector, developers are also adjusting their businesses to take advantage of the BTR boom.

Developer London Square has pivoted its business to gear up for BTR and is in the process of setting up a joint venture with Moda Living for a 760-flat scheme at Royal Mail’s Nine Elms site. Having committed £1bn to the regions, Moda Living has now set its sights on the capital to expand its 8,000-home pipeline, with a number of schemes in the works, including a £300m scheme in Kingston with Apache Capital Partners. Developer Regal London has also shifted its attention from smaller luxury for-sale assets to larger regeneration with mixed tenures in the outer boroughs.

New appetite for single family housing has seen L&G launch a dedicated Suburban Build-to-Rent business, which recently appointed Grainger acquisition director Tom Henry to lead on new purchases. Residential developer Pitmore has poached from Knight Frank and CBRE to drive forward its rental strategies including major ventures with Goldman Sachs.



“A broader and deeper pool of capital with private equity is looking at development and delivering fully let stabilised assets to the market as well as bulk purchases from housebuilders”.

Bobby Barnett, partner, Gerald Eve



Those businesses are readying for continued spend from seemingly bottomless cash piles. EG data estimates more than £6bn targeting UK BTR through funds already secured and active fundraises.

At the start of April, AXA IM announced it had raised €800m (£691m) in the first close of its fifth generation development strategy – targeting BTR and offices in Europe. The equity was raised from five

Asia, North American and European institutions which see opportunity for BTR through converting old office stock and new-build development.

Federated Hermes' Hestia platform is also in talks with new investors with a plan to deploy £1bn in cash in under three years

Macquarie Bank is also planning for its first BTR deals looking to raise £1bn from investors in a tie-up with the founders of

Essential Living and Greystar has yet to tap the £750m dedicated to BTR closed in 2019.

While fund managers continue to court prospective investors the pipeline of schemes is swelling. And with a growing hit-list of cities and sub-sectors, we can expect more deals and greater diversity in BTR investment outside of lockdown.