



‘Cool’ is the new hot... will the UK see a buy-to-rent model that caters for all?

As the buy-to-rent sector matures and more purpose-built BtR homes enter the marketplace, in response to rising numbers of people renting long-term, companies are rushing to maximize their brand recognition. Advertising and brand are becoming the battleground for the premium end of the market.

Co-living underpins the BtR model and the vision is to create developments with a sense of community. This especially appeals to younger renters, so-called Millennials and Gen Z, who want somewhere to socialize as well as sleep, with branding predominantly targeting young professionals.

Single living is also on the rise, through personal choice or life circumstances, with urban living and new technology also leading some people to feel isolated and seeking interaction. Current developments attempt to sell this place-making vision and to demonstrate their schemes are more than just real estate.

The young higher-end rental market will, of course, have its capacity, so BtR developers may also need to broaden their offerings to include the needs of young families and older people, providing long-term options for those choosing renting.

Some areas, like Manchester in northern England, are already suffering potential oversupply and so developers and investors will be forced to consider other parts of the market that have been left untargeted. Early signs are developers such as Godwin Developments, Sigma and Places for People Capital focusing on family homes outside major towns and cities. It will be interesting to see the marketing and branding changes needed to attract a different demographic to these schemes and to make them “cool”.

“Companies are rushing to maximize their brand recognition in the BtR marketplace”

Battle of the BtR brands

Tipi, which own the UK’s largest BtR development, is a leading player in the race to gain substantial brand recognition. Its Wembley Park site in London comprises a 5,000 home complex with apartments designed with 24-hour concierges and stylish high-end interiors, using brands such as Samsung and John Lewis. Each Tipi building on the development has its own unique personality and design. Another emerging brand is Uncle, which operates in London and Manchester. It offers onsite resident managers, flexibility for tenants to change their minds within the first two weeks of tenancy, all repairs resolved within 48 hours or one day’s rent returned, and free parcel collection.

Both brands sell a lifestyle and product in a way that is still new and hip for this market.

The UK is also seeing companies partner with investors to launch global co-living platforms.

The Collective has BtR properties in London and recently partnered with DTZ Investors, a European property fund. The new fund will seek to acquire or forward between 6-10 co-living assets in London, with a target gross asset value of GBP1 billion over the 10-year life of the fund¹. The fund announced its first acquisition in 2019 with a deal to forward fund The Collective Harrow. This development will comprise a 9-storey building with 222 shared living rooms, 465 square meters of

incubator employment space targeted at local start-up businesses and 632 m2 of shared spaces including concept dining, gym, library, cinema, mindfulness lounge and communal kitchen on the top floor. With completion targeted for 2021, The Collective has attracted a cult following of renters who buy-in to the communal living aspects of the BtR market.

Impacts on BtR deals

The market is clearly maturing and, for some people, renting is becoming “cool”. What effect will this have on the structure of BtR deals?

Funding is one area that could change. As the majority of funding deals for BtR developments are one-off forward funds, this will not be practical if developers are to achieve the potential scale and numbers envisaged by some players in the market. There is little debt funding in the market as it's hard for funders to price: BtR developers haven't yet built a strong track record in what is a relatively new sector, so the debt on offer is likely to be expensive. Developers are also put off by the long borrowing terms necessary for acquisition, planning, development and stabilization. One possible alternative is for developers to turn to the capital markets to provide funding. By borrowing corporately against the business and portfolio, developers would avoid funding on a site-by-site basis. In the same way as registered providers, leverage would probably come via bonds. Although this would be expensive initially, the cost of finance as the portfolio grew would be reduced and the costs of funding on each scheme would not be necessary.

As portfolios grow, mature and stabilize, the market will become far more fluid for new entrants who can invest directly in trading stock. The interest in the Wembley Park site when it came on the market shows how much interest a transaction of this scale and potential can generate. This type of deal will make the value of the “brand” even more important, with portfolios judged to be “cool” surely demanding a premium from other less known equivalents.

With the continued evolution of Proptech including artificial intelligence (AI) in property management, future developments will have to show knowledge and application of the latest technology to attract the type of tenants they want. As in the student sector, developments will sink or swim on the services the management and real estate can provide to users. With tenants voting quickly with their feet, a building that receives bad feedback or doesn't provide the necessary technology and management services will see voids almost immediately.

Data from the British Property Federation confirms the scale of the BtR revolution. The market saw a 31% growth in completions between Q3 2018 and Q3 2019. The pipeline of new projects is also strengthening, with growth in the sector across the country showing how BtR is making an important contribution to housing delivery. With the market running so hot, the race is on to spread the feeling of “cool”.

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¹Property Funds World – <https://www.propertyfundsworld.com/2019/10/14/279503/dtz-and-collective-launch-institutional-co-living-fund>