SUMMARY

Savills Research

The Future of Build to Rent Houses

Summary Report

savills

Prepared by Savills Research & Consultancy.

The research is from a major industry funded piece of research that considered the future role of the single family housing market in meeting current and future rental demand and Government's homebuilding targets.

The research combined desktop analysis with questionnaires and interviews. A total of 25 interviews were conducted with organisations in the residential development and investment industry. We also ran two workshops with local authorities, government agencies and industry bodies.

The research was funded by the organisations shown and we would like to thank them for their support. We would also like to thank the organisations that took part in the research, the work would not have been possible without their support, time and expertise.

Jargon buster

- ***Build to Rent*** *– known as multifamily and single family housing in the U.S.*
- ***Build to Rent Apartments*** *– also called Multifamily and refers to urban apartment blocks for rent*
- ***Build to Rent Houses*** *– also called Single Family Housing (SFH) and Single Family Rental (SFR) – refers to houses and low-rise flats in suburban locations*
- ***PRS -*** *short for Private Rented Sector which includes all households renting privately*

Jacqui Daly
Director, Residential Investment Research & Consultancy

Report highlights

Single family housing is an investor term for Build to Rent Houses

Projected increase of 800,000 to 1 million PRS households to 2031

Demand is large and growing, many Key Workers live in these homes

£250bn investment needed to meet future demand

Supply in the UK Private Rented Sector (PRS) has been static since 2016 creating a wide supply demand gap

Families rental schemes coming forward in locations popular with families on middle incomes

Local authorities see clear community benefits from delivering build to rent houses

Quality investment is adding high quality homes to the PRS, improving standards locally

Housebuilders recognise the long-term role for institutional PRS

Additional build to rent houses provides additional homes on large sites, which creates communities

Investors need to work up sites alongside housebuilders

Delivery directing 30% of the top 50 largest housebuilder's total pipeline would result in 230,000 new homes for rent

Terminology

This summary research paper considers the potential role of the single family housing market in meeting current and future rental demand, as well as the Government's homebuilding targets. Single family housing is a term used by investors to describe Build to Rent Houses. The terms are used interchangeably in this report.

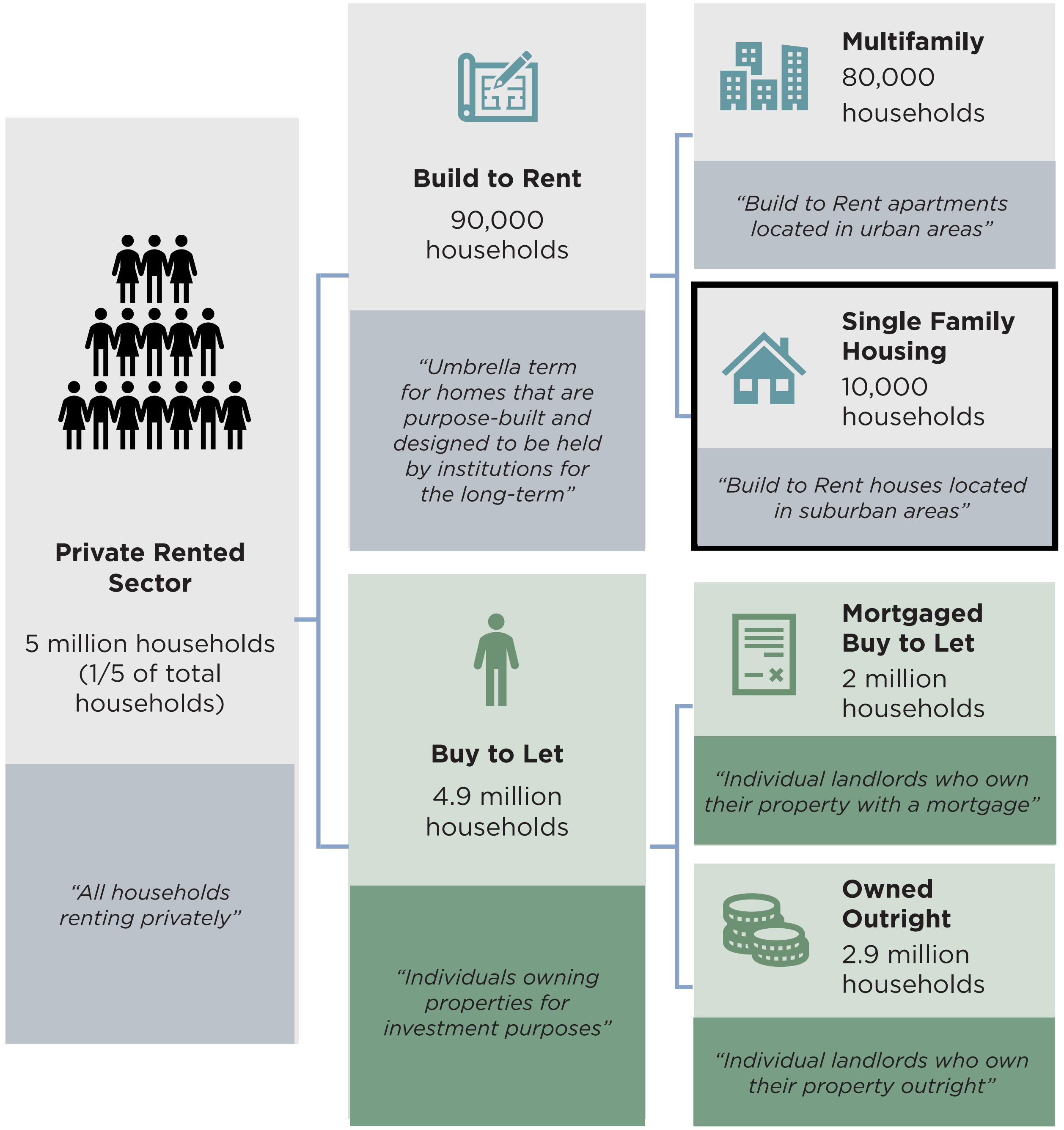
Definition of single family housing

High quality	Typically, SFH homes are newly built. In some instances, homes are second hand and have been renovated/refurbished to match investor requirements.
Low-rise	SFH developments tend to be low-rise, with a higher proportion of open or green space compared to schemes in urban areas.
Mostly houses	The stock predominantly comprises houses with some flats. Flats delivered tend to be low-rise.
Well-located	There isn't a definitive list of attributes that an area must have to qualify, but they will likely have schools on site or nearby, access to road and (in some locations) rail networks, open space and nearby shops.

The term 'single family housing' was not well understood by Local Authorities we interviewed for this research. Respondents asked: "What is the difference between SFH and BTR?" and "What is Single Family? Is it like Buy to Let?".

> **BTR does what it says on the tin: designed and built for the institutional rental market**

The sector should use the terms 'Build to Rent Apartments' and 'Build to Rent Houses' for planning purposes or seek amendments to the NPPF in the upcoming 2024 review to include sub-definitions for 'multifamily' and 'single family housing' so that more Local Authorities can understand the terminology being used within the residential development and investment industry.



Who lives in build to rent houses?

There is a large pool of rental demand in suburban markets, which are popular with young families. The supply of new homes to rent has previously focused on urban markets, whereas rental demand is much larger in suburban locations (54% compared to 35% in urban markets).

Our survey identified that local amenities are the number one priority for SFH tenants. According to our Savills Single Family Housing Investor Survey. This means proximity to local schools, green spaces and health services, given the high proportion of families living in these homes.

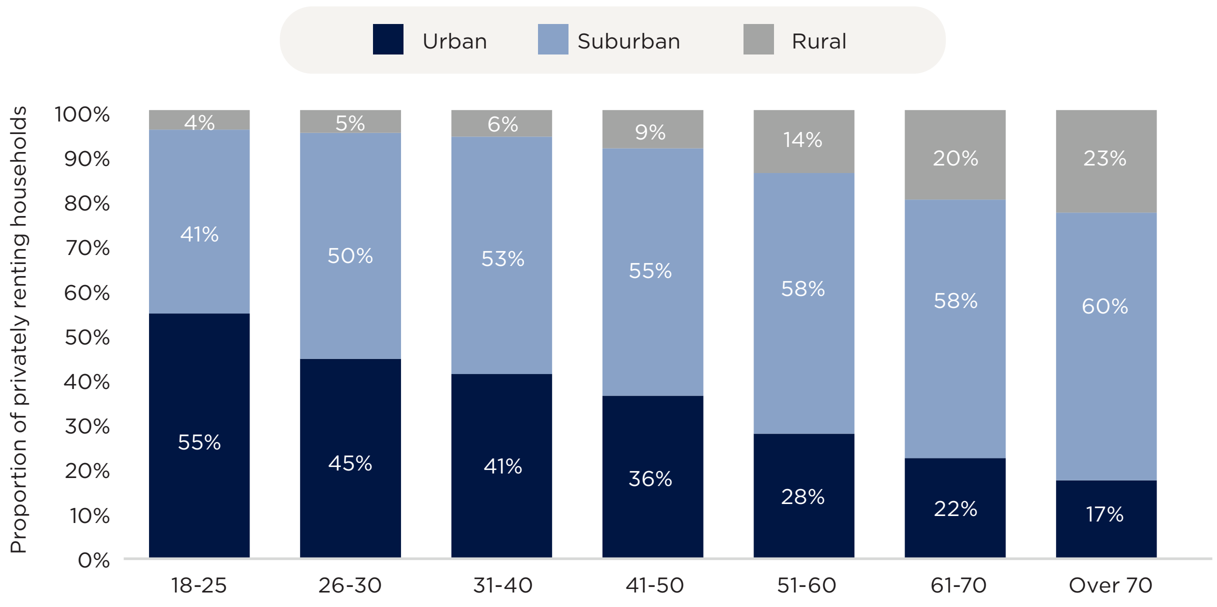
Profile of people living in single family housing based on our Survey Data

	%	*Why they like single family housing*
Young Families	**41%**	Affordable family houses in communities with good schools and safe playgrounds and amenities suitable for young children.
Young couples/ single	**20%**	Exercise, social, and outdoor spaces with opportunities to build a community. Some will be considering starting a family, so nurseries, schools, and safe outside spaces will factor in their choice of home.
Established families	**19%**	Larger homes with affordable rents in good school catchment areas with convenient retail and sports facilities. Will seek stability through children's school years.
Mid-aged couples/single	**12%**	Spacious homes in high-quality environments with a strong community. Space to work at home and access to health services and convenience stores are also important.
Over 60s	**8%**	Homes that need minimum maintenance and are energy efficient. They may be moving to be nearer to their adult children and families. Strong community and proximity to amenities and health services.

“Aimed at working families and co-renters, the offer is better quality than the wider PRS - properties will be cheaper to run with fewer maintenance costs given they are newer homes.”

Source: Experian

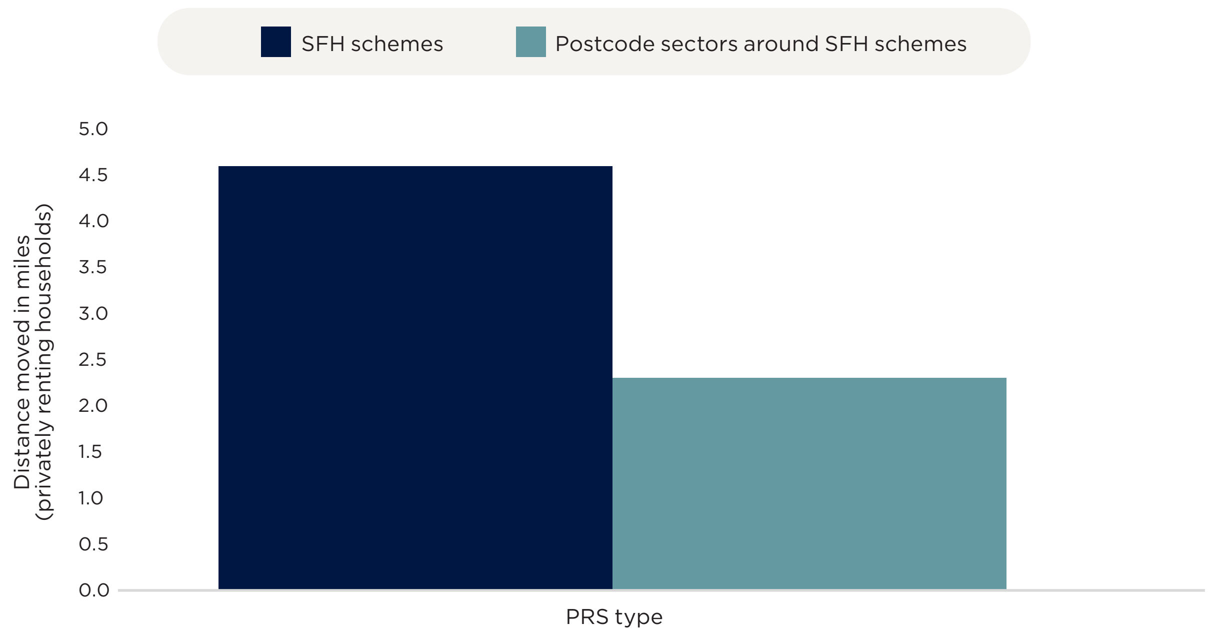
The majority of private renters in most age groups live in suburban markets



People tend to move further to access these homes, indicating that new rental homes that are professionally managed with good connectivity to schools and transport are attracting renters from further afield.

Suburban locations with access to road networks are an important attribute for single family housing schemes as most workers are car-dependent.

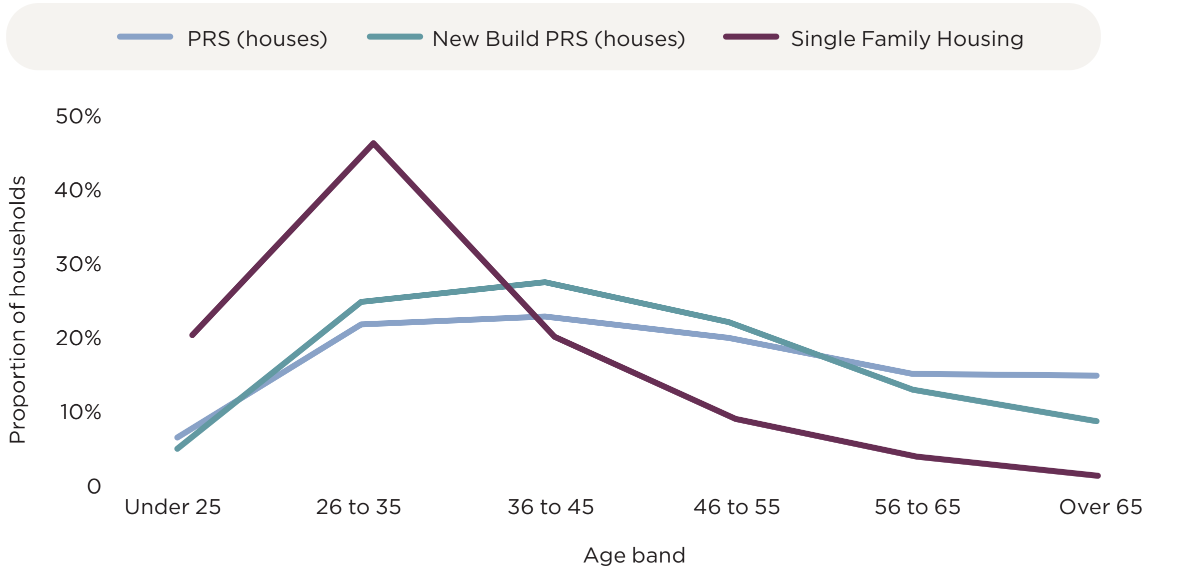
Distance moved to single family schemes compared to PRS



Why are build to rent houses popular?

SFH is popular with the younger demographic of the private rental market, with nearly 90% of occupiers under 45 compared to 51% across the whole PRS and 57% for new builds.

Age profile of people living in Build to Rent houses compared to wider PRS

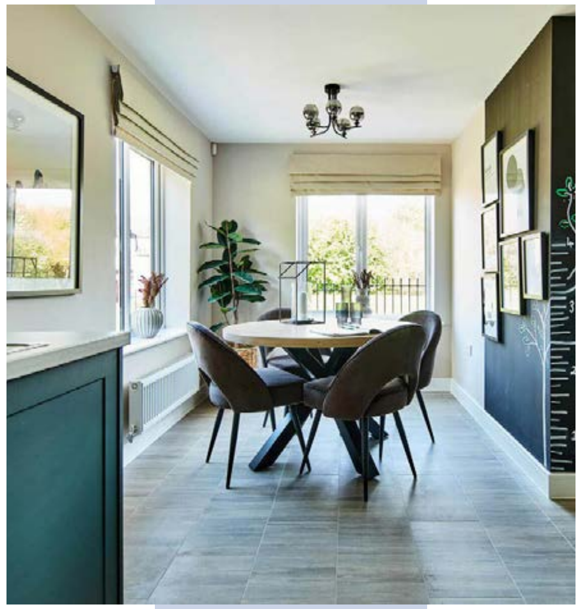


These renters are either young families or young couples who are looking to start a family and/or settle into a more permanent community, and so are searching for a long-term product.

We would expect in the future to see the spread of ages shift to more closely match the wider PRS, as families stay in SFH through children's school years so there is a balance of established families as well as new families moving in.

Source: Experian, Investor Survey Data

The incomes of households living in SFH are above average compared to the wider PRS. As a consequence, the median amount that Single Family households spend on rent is 25% of gross income. This is slightly less than the median spend in the English PRS (33%) and within what the ONS defines as affordable rent (less than 30% of gross income).



Using data provided to us by the research sponsors, the most common employment sector for SFH tenants is 'Professional occupations', which is a fairly broad category. This group includes nurses, teachers and social workers and is much more common in SFH (31%) compared to the wider PRS (19%).

The next top 4 largest occupier groups are broadly similar in proportion to the wider PRS. This suggests that SFH is catering to a wide range of employment sectors and incomes.

> **Welsh Streets appears to be an ideal home for key workers. The 254 houses are currently home to 90 key workers from the Health & Social Care, and Education & Research occupation groups.**

Top 5 SFH occupier groups	Example professions	% of SFH households	% PRS households
Professional	Vets, nurses, midwives, teachers	**31%**	**19%**
Managers, directors and senior officials	Managers and directors	**14%**	**12%**
Administrative and secretarial	School secretaries, receptionist, PA	**9%**	**7%**
Skilled trades	Electrician, mechanic	**8%**	**12%**
Associate professional and technical	Paramedics, police officers	**8%**	**13%**

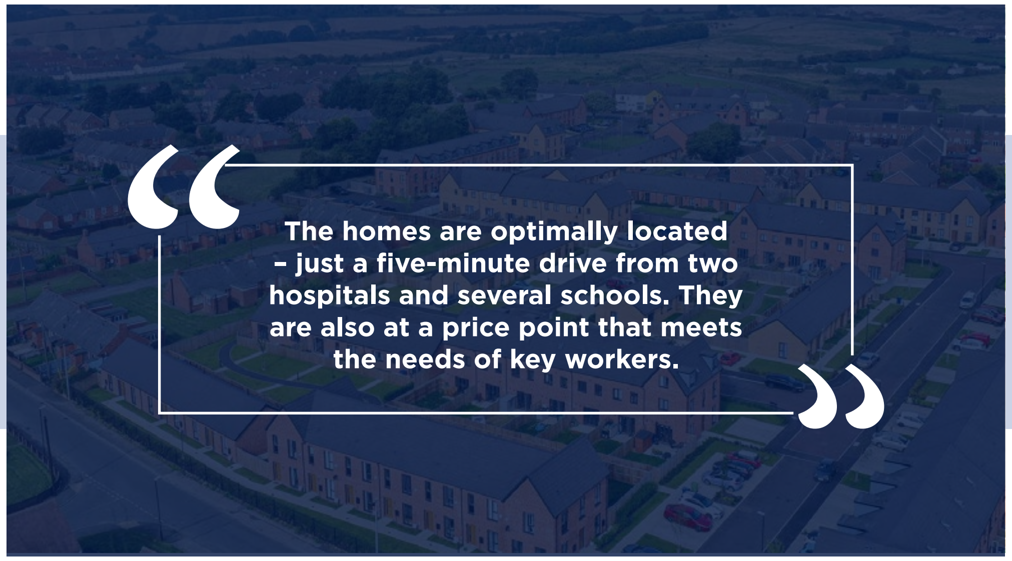
What attracts people to build to rent houses?

Our survey participants rate their developments highly. Ascend are the largest manager of operational single family housing in the UK and manage on behalf of PRS REIT and Gatehouse Investment Management. Each investor has consistently reported high occupancy rates and high renewal rates.

The PRS REIT reported 98% occupancy across its 5,129 homes in September 2023. This implies residents are satisfied with their housing choice and that those who move out are quickly replaced by new tenants.

Amenities within 1km radius of existing schemes

Amenities	Access to main road	Primary School	Bus Stop	GP/ Dentist	Supermarket/ Convenience Store	Secondary School	Train Station
% of existing SFH schemes	**100%**	**97%**	**97%**	**85%**	**59%**	**48%**	**45%**

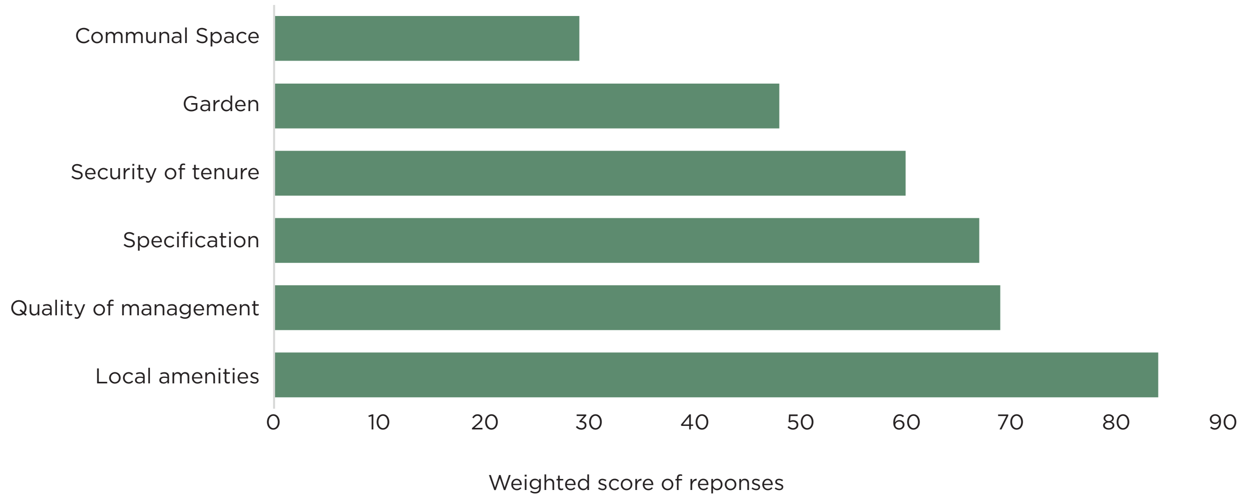


Source: Savills Single Family Housing Investor Survey (September 2023) – 20 respondents, Homeviews

According to our Savills Single Family Housing Investor Survey, local amenities are the number one priority for tenants. In practice, this means proximity to local schools, green spaces and health services, given the high proportion of families on SFH sites. SFH developments are characterised by high levels of connectivity to local infrastructure with all schemes near main roads.

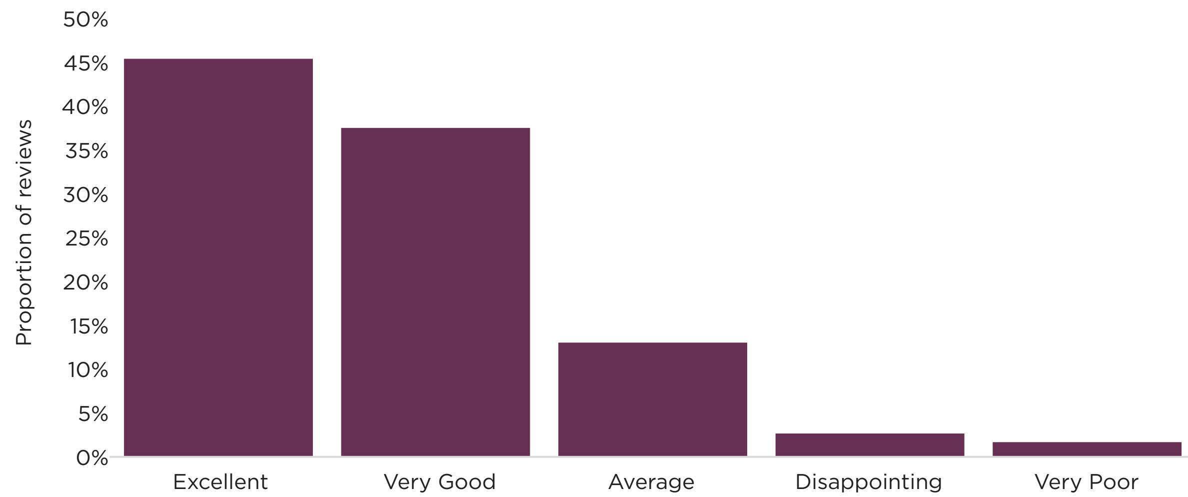
Ease of access to major roads is important given around two-thirds of households drive to work in markets with operational SFH sites. Nearly all schemes have access to bus stops, primary schools, GP surgeries and dental practices.

SFH Investor Survey – "In your experience, what do tenants value most?"



Residential property review site Homeviews also found high levels of satisfaction among SFH residents, 83% rated their home as either "Excellent" or "Very Good".

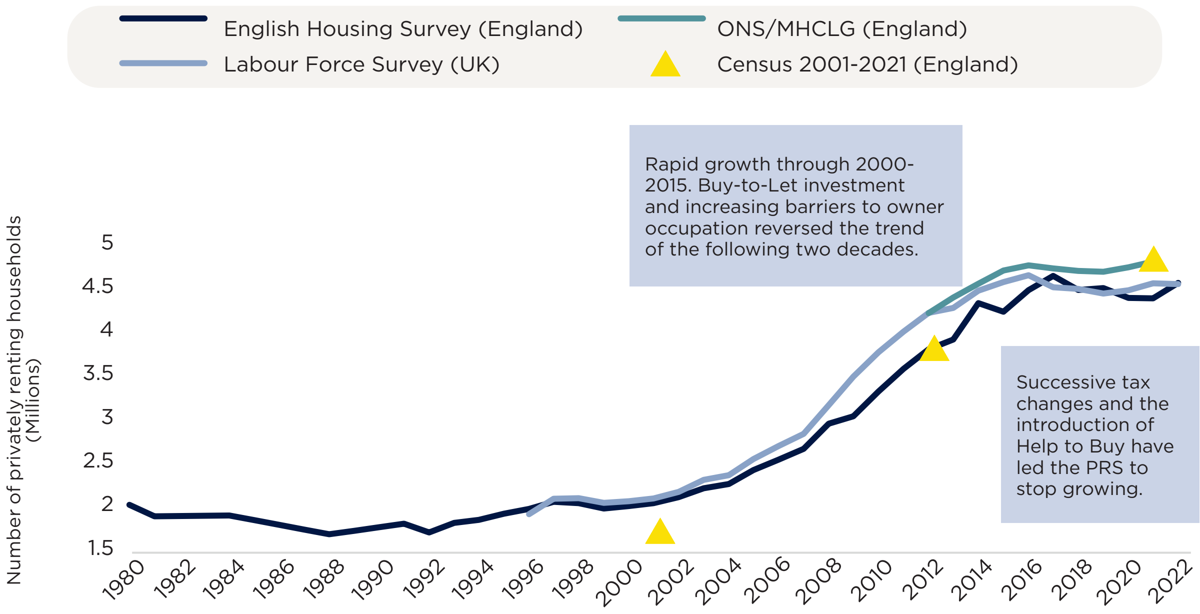
What overall score would you give your development?



Why do we need more rental homes?

The private rented sector has stopped growing. Various data sources (Census, ONS, English Housing Survey and the Labour Force Survey) show that the supply of PRS is static.

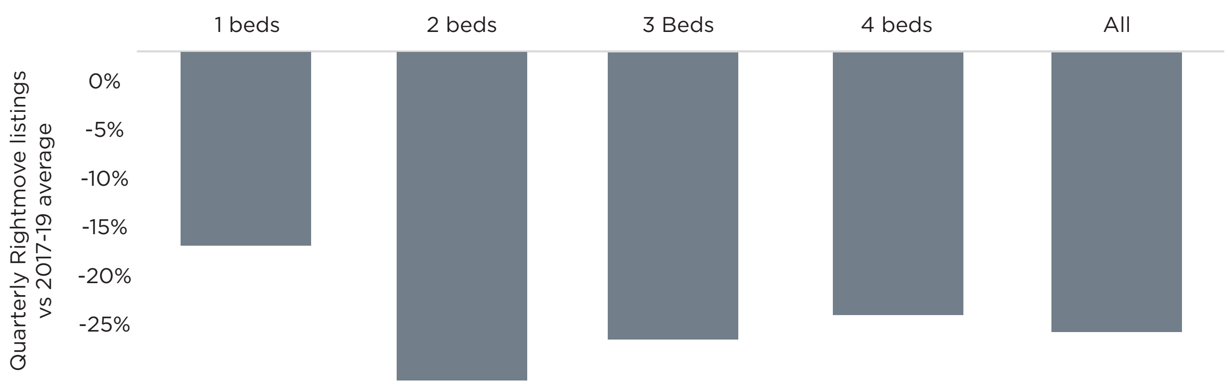
The number of private rented sector households



It is increasingly difficult for prospective tenants to find properties because the number of homes available to rent nationally has greatly reduced. The reduction in portal listings results from a combination of factors, including tenants staying in properties for longer, with tenancy lengths increasing, so fewer properties are becoming available to re-let.

There has also been a significant increase in the number of private rental properties being listed for sale. Two and three-bedroom supply is the most constrained nationally. SFH is well-placed to support that segment of the market.

Reduction in Rightmove listings by number of beds



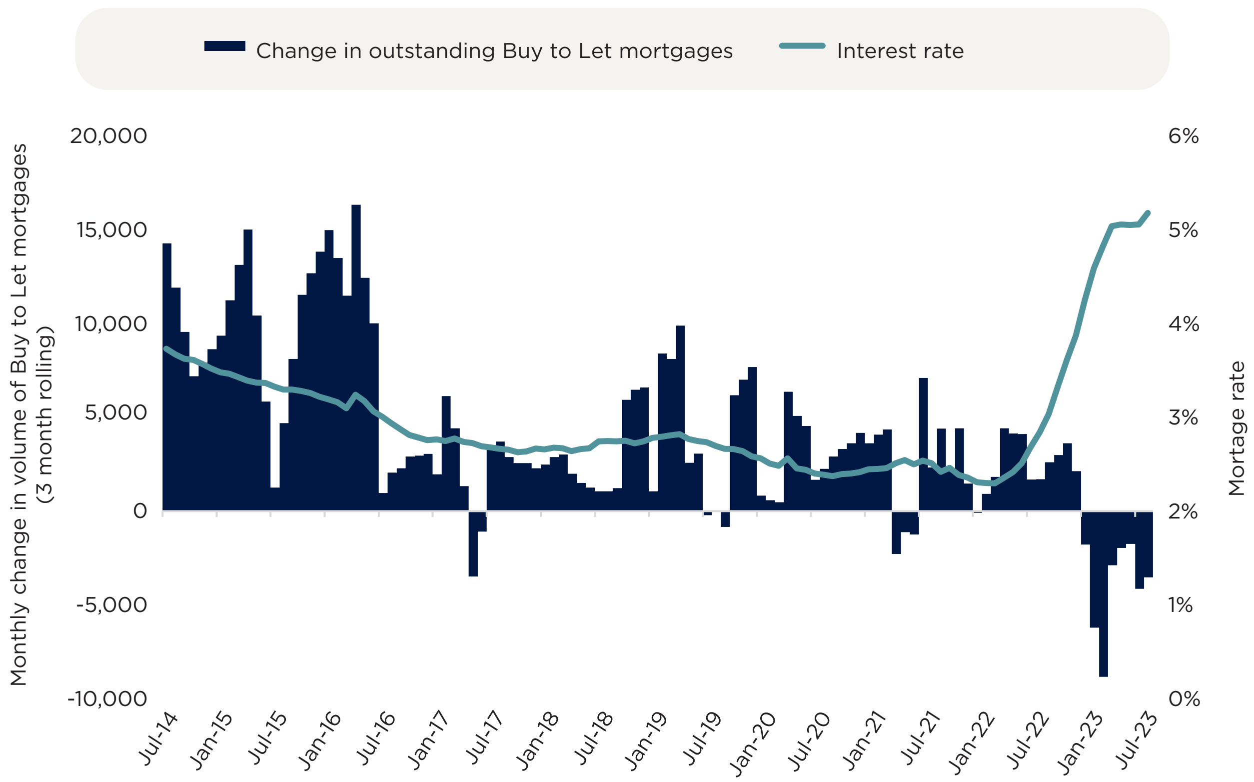
Source: Rightmove (Q3 2023)

Source: English Housing Survey, ONS, MHCLG, Labour Force Survey, Census (2001-2021)

In Q2 2023, a survey by the NRLA suggested that at least in the short term, there are far more landlords intending to sell property in the next 12 months (43%) than buy (10%). With the prospect of further house price falls in 2024, it is unlikely that many investors will be actively looking to expand their portfolios.

Higher interest rates will also make it difficult for renters to get out of the PRS by buying a home, keeping rental demand high.

Mortgaged Buy to Let market has started to contract



Source: UK Finance, Bank of England

How many rental homes do we need?

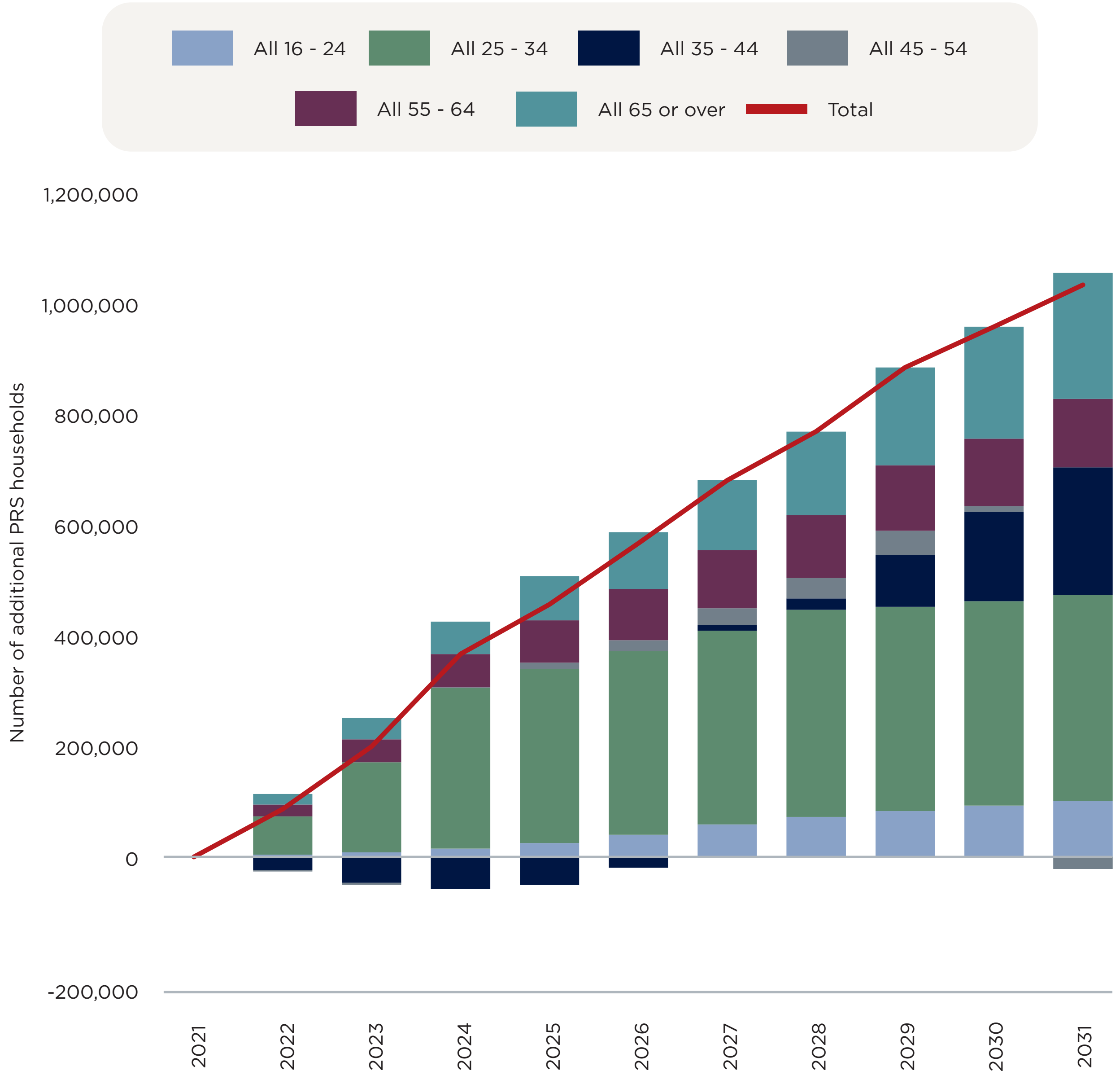
To assess future rental demand, we have used the propensity of different age groups to rent and applied these to Government household projections.

These projections point to an additional 800,000 to 1,000,000 Private Rented Sector households by 2031, under 3 scenarios.

Our base case scenario identified that between 2021 and 2031 the greatest growth in the number of PRS households will be in the 25–34-year-old age group, with an additional 370,000 during this period.

There will be an additional 229,000 35–44-year-olds.

Base case scenario of additional PRS households by age



Source: English Housing Survey, Census, ONS

Other scenarios involved a 'Help to Buy 2' stimulus or an 'Affordable Home Building Programme'.

Our projections indicate that a stimulus package similar in scale and impact to Help to Buy would soften future PRS demand by 20% (c.200,000 households) and an affordable homebuilding programme would soften demand by 11% (c.110,000 households).

While a Help to Buy 2 would deliver more houses, it would come at the cost of fuelling further house price inflation, which has the dual effect of (i) pushing home ownership further out of reach for middle-income earners, whilst (ii) simultaneously putting increased pressure on PRS rents.

Projections for the Private Rented Sector indicate a need for investment of £300bn

Suburban | **Urban** | **Rural**

550,000 Homes — **£160bn**

360,000 Homes — **£110bn**

110,000 Homes — **£28bn**

Household projections under 3 scenarios

	Base Case		Help to Buy 2		Affordable homebuilding programme	
Suburban	553,767	£160bn	437,162	£125bn	493,017	£110bn
Urban	358,923	£110bn	283,346	£90bn	319,548	£80bn
Rural	112,804	£28bn	89,051	£22bn	100,429	£20bn
Total Additional PRS Households	1,025,494	£298bn	809,559	£237bn	912,994	£265bn

What are the benefits of build to rent houses?

There are a number of benefits for Local Authorities in securing investment in suburban rented homes.

The number of Local Authorities with SFH in their construction pipeline has grown steadily from just 4 in 2013 to 114 in 2023, which encompasses 33% of Local Authorities in England and Wales. Large scale investors can help support the delivery of energy-efficient, sustainable homes that are available to rent for the long term. Single family housing has an important role to play in upgrading the quality and energy efficiency of the nation's overall housing stock.

23% of privately rented homes in England are non-decent. Whilst this has halved since 2006, it is still more than twice as many as homes owned by Housing Associations (9%) and Local Authorities (10%).

Between 2017 and 2021, the proportion of non-decent owner-occupied homes fell from 19% to 13% and the proportion owned by Housing Associations fell from 15% to 9% over the same period. Meanwhile, the proportion in the Private Rented Sector only fell 2%, from 25% to 23%.

Key benefits of single family housing

- Boost housing delivery
- Accelerate delivery
- Delivery at pace of build (not sale)

- Deliver mixed tenure communities
- Improve housing diversity and tenures
- Provide 'additional' homes

- Meets local housing needs
- Add quality homes to the PRS
- Provide wider housing choice

- Enable housing and labour mobility
- Movement with the housing market
- Support the economy

- Align with government policy – NPPF, Levelling Up, 'Build Back Greener' Net Zero strategy

E	Energy efficiency	S	Supply good quality rental homes, that are affordable to working families	G	Professional management

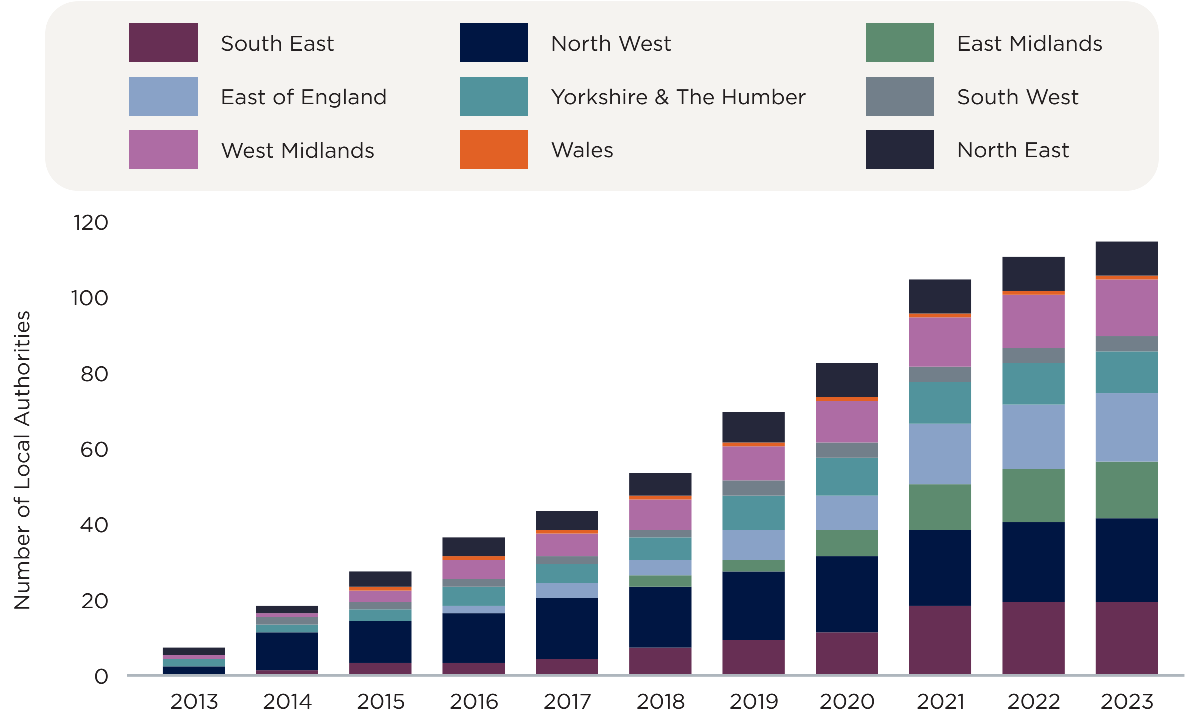
Source: Savills, British Property Federation

72% of SFH homes have been delivered with EPC ratings of 'B' or above, whereas only 12% of existing privately rented dwellings meet this standard. 90% of investors we surveyed are targeting a minimum of EPC 'B' across their portfolios, with 20% targeting a minimum of EPC 'A'.

They aim to reduce the embodied carbon and lifetime emissions of their developments and meet their commitments to achieving Net Zero.

This is supportive of the Government's decarbonisation ambitions for the UK, pledging to reach Net Zero by 2050. Many investors are looking to incorporate highly sustainable features into their developments.

Local authorities with single family pipeline by region



Increase housing delivery

- Homes are 'additional' as new stock is created rather than recycled between tenures
- Accelerates delivery as homes can be let faster than they can be sold
- Speeds up delivery of local infrastructure (schools, roads)

Improves housing stock

- New build housing improves the quality of overall housing stock
- Improved energy efficiency of homes
- Synergy with Modern Methods of Construction

Placemaking & mixed communities

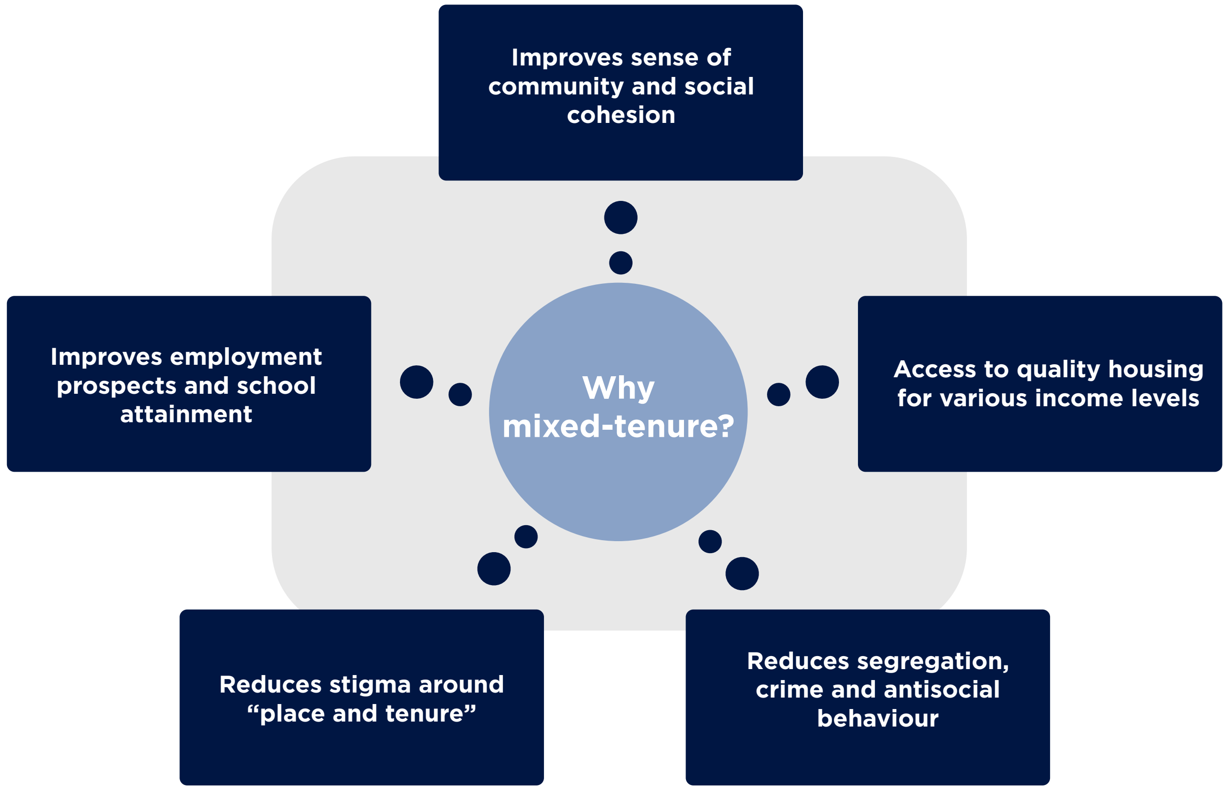
- Capital injection in early phases helps to establish early placemaking
- Affordably-priced homes for local families
- Delivers key worker housing
- Supports a multi-tenure approach with mixed-tenure communities
- Refurb model regenerates and revitalises deprived areas

Why build to rent houses are crucial to the delivery of large mixed tenure sites

Part of investor's ESG strategy for housing is delivering a mix of tenures on sites.

There are very few sites coming forward that are seeking a mixed tenure planning consent. With an increasing proportion of the planning pipeline coming through as large sites, there is more that could be done to help deliver mixed tenure developments.

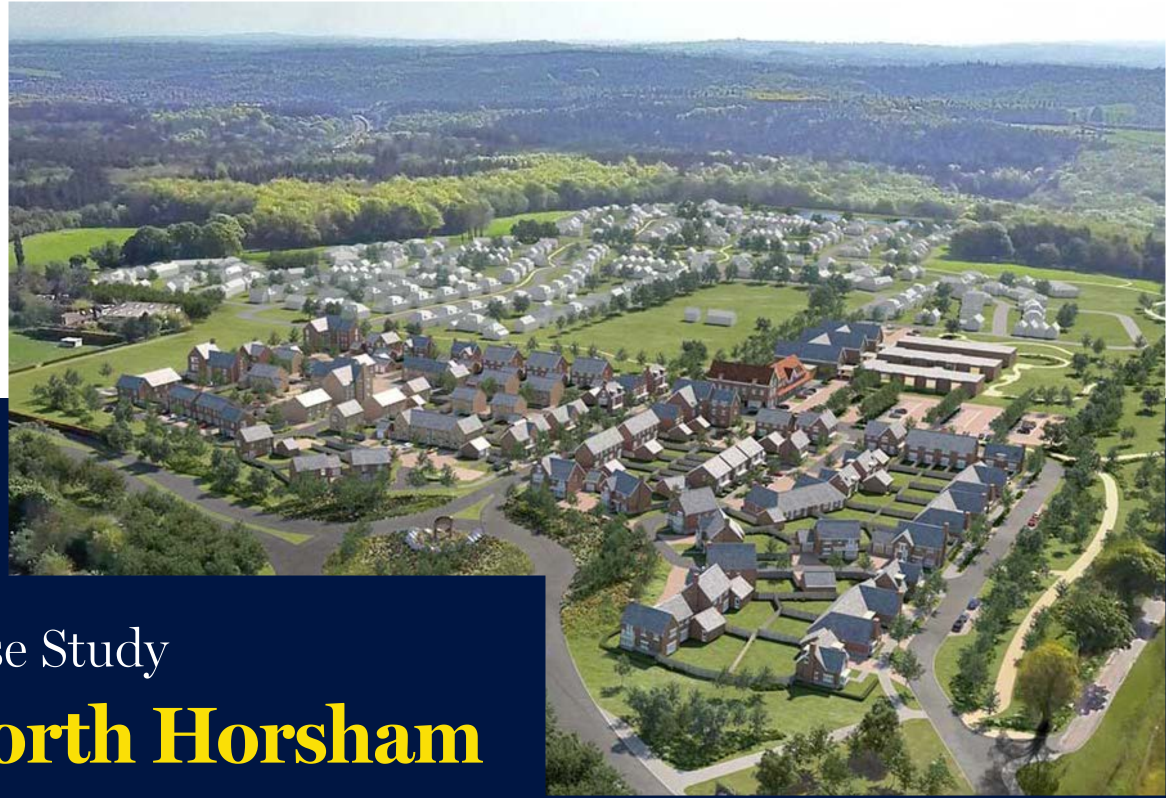
Proactive local authorities that identify a range of housing needs within their local plan should logically earmark sites for delivery of the identified tenures. This could take the form of identifying sites for mixed tenure delivery where there is a clear variety of housing needs.



From a delivery perspective, land that is intended to deliver a mixed tenure scheme will produce a different land value to a site delivering private for sale with the associated affordable housing.

If local authorities identify 'need' in the way that Horsham has done, land bidding and land competition will reflect the value of the mix of tenures.

One of the benefits of mixed tenure developments is that it allows households to move between tenures as their circumstances change, while staying within their community.



Case Study
North Horsham

The North Horsham masterplan is a 500-plus acre multi-tenure development site in Horsham, West Sussex. The site has outline consent to deliver 2,750 new homes over three phases.

Alongside homes for open market sale, the scheme will deliver single family housing, Later Living accommodation and Affordable Housing (Social Rent, Affordable Rent and Shared Ownership).

Horsham Local Authority needs affordable homes for rent, with a specific need identified in the Local Plan: The cost of housing is high which can make it hard for [families] to stay or move back to the District. There will be a high proportion of two and three-bed houses delivered which are well-suited for families, across a range of price points.

Homes delivered on-site will meet demand from a range of household types, income brackets and age groups. The various tenures will co-exist, promoting a strong sense of community and social cohesion.

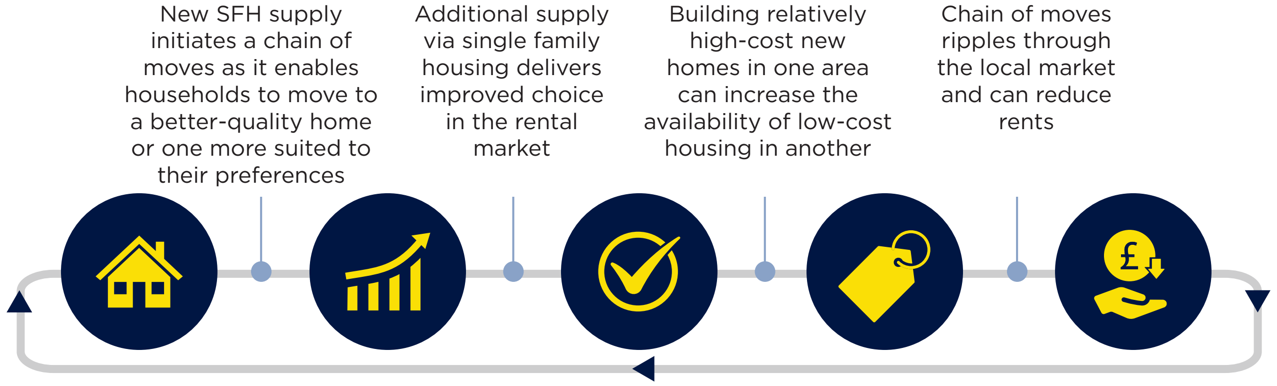
How is affordable housing delivered on build to rent housing sites?

The stakeholders we surveyed did not fully understand how to treat Affordable Housing on single family housing developments. There is an element of misunderstanding around its delivery and what the potential impact may be on the delivery of social and affordable rent.

The main concerns were around the covenant, Discounted Market Rent (DMR) and the duration (in perpetuity).

DMR is understood as an appropriate form of affordable provision on build-to-rent developments, and the rents are frequently set at different levels to allow for a range of household incomes (and housing needs) to be accommodated.

However, local authorities were concerned that over time the DMR would switch back to market rent rather than another form of Affordable Housing.



2 options for delivering Affordable Housing in the context of build to rent houses:

1	2
Discounted Market Rent where the rent is up to 80% of local market rents and the units are provided throughout the development (often grouped in specific cores/floors) that are owned and managed by the investor with no nomination rights to the local authority.	Provide traditional 'Affordable Rent' where the rent is up to 80% and meets the local housing allowance. Taking this approach would meet Affordable Housing requirements where the units would be transferred to a Housing Association and the rent is capped at Local Housing Allowance, inclusive of service charges. Affordable Rent and other traditional low-cost rented homes are subject to nominations and provision on-site will need to consider the design requirements, such as separate cores, to enable the RPs to manage effectively.

Source: Savills

Case Study

Bilston Urban Village

One of the best examples of the acceleration benefits SFH can provide is Bilston Urban Village, 3 miles south-east of Wolverhampton.

Bilston Urban Village is a major initiative to build 420 new homes on a former piece of derelict brownfield land immediately to the south of Bilston, one of the major urban areas in the north-west of the Black Country.

The site was delivered by Countryside with 46% of homes for private sale, 25% of homes being affordable, and was sold to Accord Housing. The final 29% were forward funded by Sigma Capital / PRS REIT.

Sales commenced in Spring 2019 with the site complete and sold by mid-2021. It took just over 2 years to absorb 420 units into the local market (4 homes per week), showing the efficiency of a tri-tenure approach.

The market rent homes were handed over between June 2020 and April 2021. The pace of letting kept up with the pace of delivery and the last unit was let 12 days after it was handed over.

How does build to rent housing accelerate housing delivery?

SFH accelerates housing delivery, especially on large sites. By delivering SFH homes alongside homes for sale, the pace of delivery can increase. Housebuilders recognise the long-term role SFH can play in de-risking and accelerating large sites.

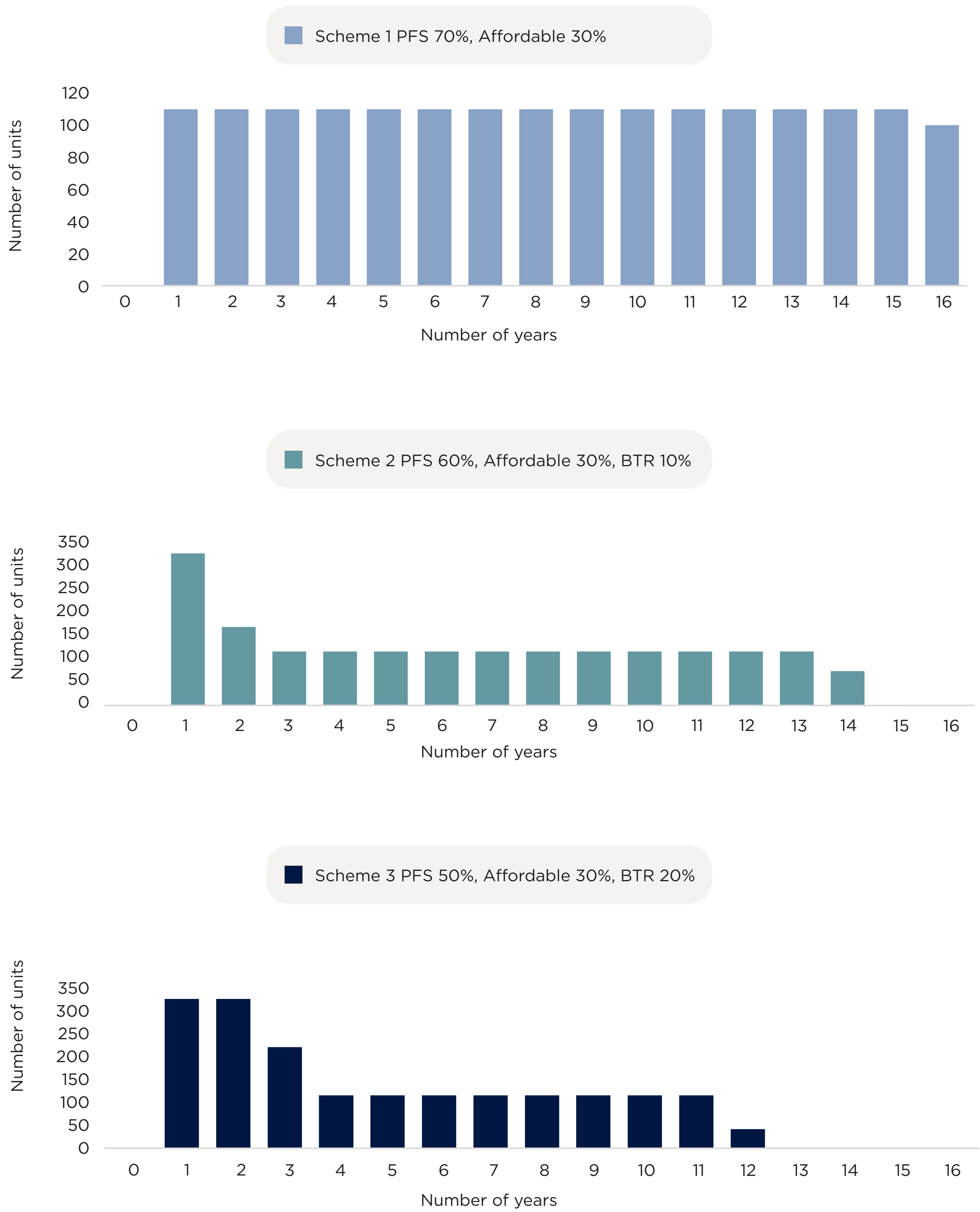
SFH is complementary to open market sales because the homes are not competing for the same demand pool. It allows housebuilders to continue to deliver homes to buyers whilst also delivering homes to investors.

SFH speeds up development, which reduces costs. It also effectively creates sales of homes before they are constructed, which reduces development risk.

On large sites, SFH can allow an increase in delivery rates over and above the normal annual target for open market sales. The need to take a multi-tenure approach to housing development was identified as critical to accelerating housing delivery in the Letwin Review.

The pace of absorption of rental homes is also faster than sales. Private sales are seasonal with faster sales at certain times of the year. SFH is not impacted in the same way and can offer greater consistency.

Development duration reduces by including build to rent



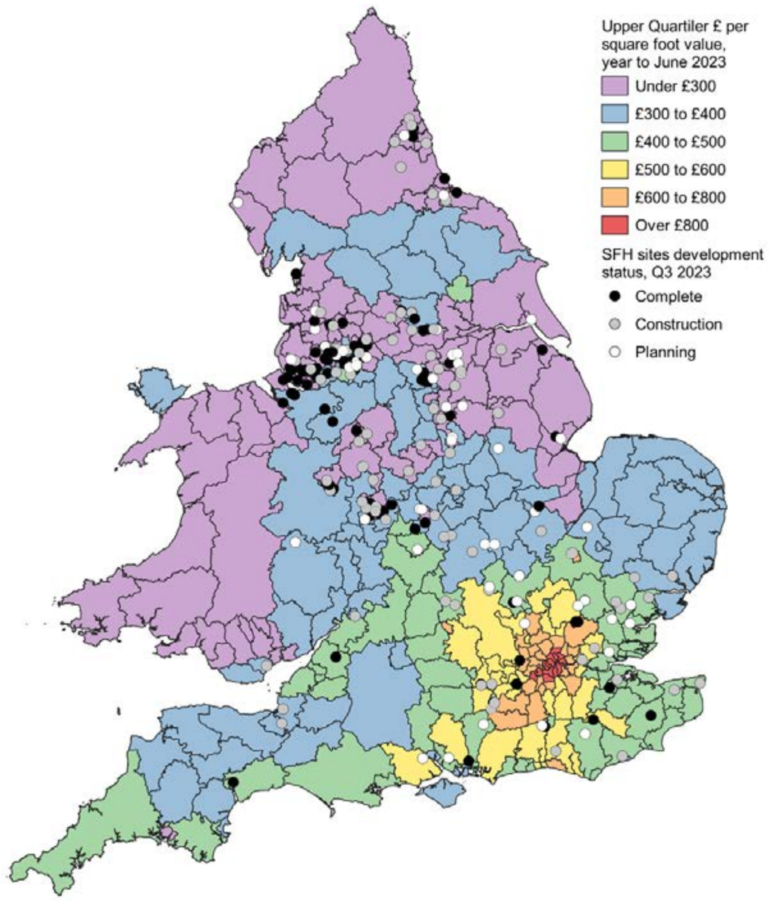
Where are build to rent houses being delivered?

There are many viable locations for housebuilders to deliver single family homes. Single family homes were initially heavily concentrated in the North West, within commuting distance of Liverpool and Manchester, but development has expanded South.

There are now homes under construction in the West Midlands and the southern regions. Countryside has been responsible for completing the most SFH units in England and Wales.

10 largest developers of single family housing

	Deliverer	Earliest Completed Site
1	Countryside	2015
2	PlaceFirst	2015
3	Crest Nicholson	2022
4	Barratt	2021
5	Keepmoat Homes	2015
6	Vistry Partnerships	2017
7	Wates Construction	2021
8	Evenbrook Estates	2022
9	Lovell Homes	2019
10	Northstone	2022



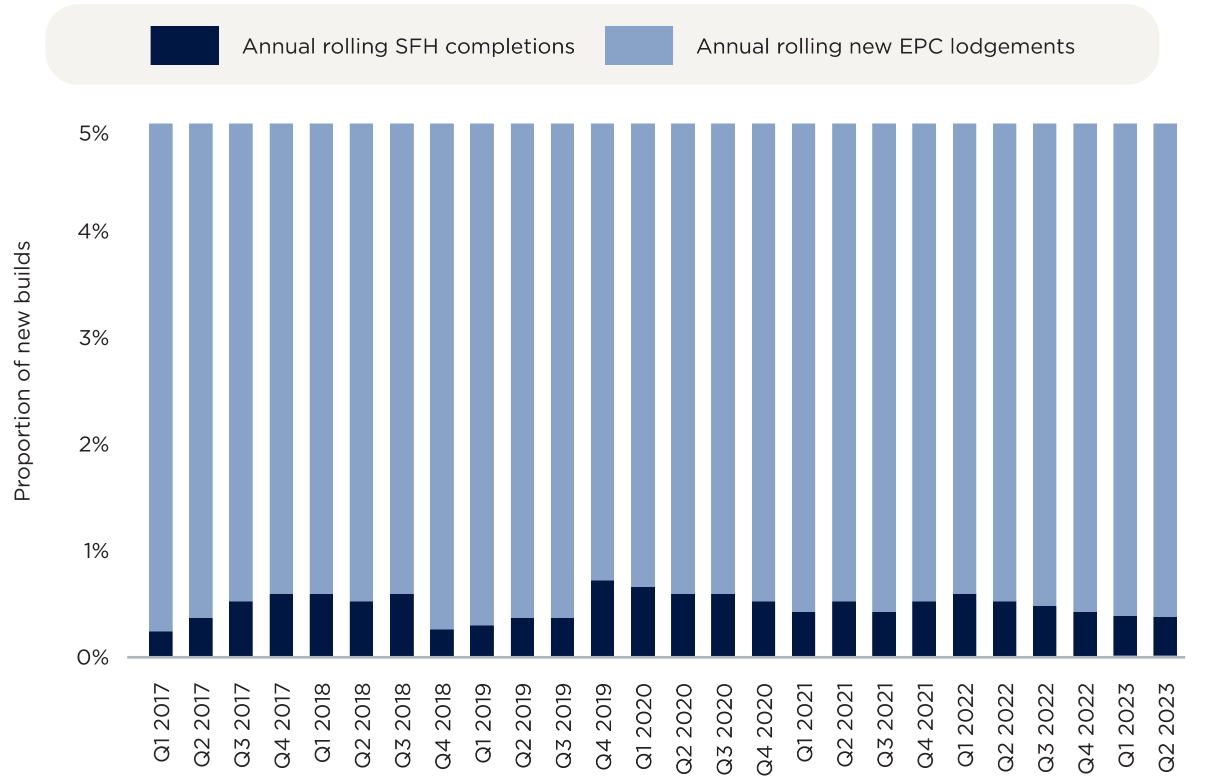
> **Single family housing should eclipse multifamily in scale. There are an infinite number of locations where you can deliver between 50 and 100 homes. It is a more scalable sector**

Source: Savills, British Property Federation, DLUHC

SFH currently makes up a tiny fraction of new build stock - it has averaged 0.5% of annual new completions since Q1 2017.

The amount invested into SFH in 2023 suggests we will see the proportion of completions increase in the coming years, though this depends on the pace of delivery.

SFH as a proportion of all new build completions



Larger housebuilders are more likely to be delivering at a scale that can incorporate SFH into mixed tenure sites.

The ideal minimum size for institutional investors is 80 to 100 units on a site, which is more likely to come from a large housebuilder.

The majority of units in Joint Ventures or partnerships have come where large housebuilders are the deliverers.

Additionally, in later-term Forward Purchase deals, large housebuilders are more likely to have stock available on larger sites where they are delivering 500+ homes.

Institutional buyers are less likely to seek small numbers of homes on a site, unless there are multiple sites within the same area, because this leads to higher management costs.

Why delivery of build to rent houses makes sense to housebuilders?

Housebuilders articulated to us clearly why delivering to investors makes sense for them in both the short and long term: they are looking for sustainable pools of housing demand. Institutional PRS is ideally placed to tap into private rental income given the pressure facing small and individual landlords.

For housebuilders, the cost savings which can be factored into the pricing in terms of interest payments are significant. Diversifying the source of funds is also a key attraction of the PRS delivery route.

The efficiency savings through PRS in terms of overheads and the visibility of an order book provide a cushion, especially during economic turbulence.

Delivery of PRS is also a faster asset turn model for housebuilders than private for sale. This means there is an ability to make a margin which may not be as high as private for sale but once all the other costs are factored in it becomes competitive.

> **The Bank of Mum and Dad (BOMAD) and extending the mortgage length can only go so far to help first time buyers.**

Housebuilder SWOT

Strengths

- Appetite to de-risk development
- Resilient to cyclical ups & downs
- Alternative sources of capital
- Sharing risk and reward
- Accelerated delivery

Weaknesses

- Need firm commitment to buy land
- Risk profile of investors
- Risk around delivering higher ESG
- Difficult to retrofit land & product to PRS
- PRS income is lumpy unlike PFS & s106

Opportunities

- Large sites
- Mixed tenure – creates places
- Delivery at pace of build
- Diversification benefits
- Housing affordability, decline in FTBs

Threats

- Local authority not amenable to PRS
- Political interference
- Investor behaviour
- Rising affordable housing requirements
- Land market competition

- Institutional PRS makes sense at 20% to 40% of a site.
- A guaranteed sale to a PRS investor accelerates delivery - PRS is completed quickly, which helps to establish occupancy and scale.
- There will still be a 'need' for rental stock when market conditions improve because of the unaffordability of buying.
- Housebuilders are seeking to be aligned with central and local government policies by proving a diverse mix of tenures.
- On larger sites (500+ units), in theory, there should be a place for PRS with a significant upside to housebuilder's return on capital employed where the PRS benefits the expenditure on infrastructure and placemaking.

> **By default, there is an opportunity and demand for institutions to deploy capital into the space.**

What makes a good partnership?

Investors and housebuilders identified that a Partnership approach works well for both parties. Moving away from single transactions, partnerships enable investors to programmatically fund sites. Typically, they will receive a number of sites across the UK, paying sequential building costs and using broad types of funding.

Housebuilders identified that Partnerships work well because before committing to a land acquisition there is security of a pre-sale.

They universally agreed that investors need to be involved much earlier and a partnership model enables that early engagement.

Programmatic funding deals are key to getting to scale for investors and they also match housebuilders' aspirations. Housebuilders are keen to bring in partners from the beginning for new bids, to give certainty on delivery and can optimise build rates if 30% is pre-sold on a forward funding basis.

Housebuilders are investing time and money in securing partnerships to overcome some of the perceived barriers. The main concerns of delivering homes to the Single Family market were around:

» The need to be competitive in the land market.

» Risks around build cost inflation.

» Rising Affordable proportions, which impacts the quantum and mix of private.

» ESG requirements of investors.

» Political interference.

» Size of transactions and impact on balance sheet.

» Local Authorities not supportive of PRS.

Housebuilders have been delivering houses for a long time and are well set up to do so.

They have decades of experience in buying land, taking sites through planning and delivering homes quickly.

Investors recognise that to build portfolios of sufficient scale, they will need to leverage housebuilder expertise.

> **Housebuilders buy land and develop - that's what they are good at. Long-term partnerships with investors, where sites are exchanged on a programmatic basis, will significantly accelerate delivery.**

What makes a good partnership

EARLY INVOLVEMENT

The preference for both sides is the investor coming into the development process early. This means investors can feed into the design of homes and help fund some of the early placemaking and community aspects.

COMMITMENT

Public statements can offer more certainty that this is a long-term strategy. Sigma and Countryside issued press releases after signing their framework agreement to deliver 5,000 homes together.
The commitment allows companies to map out continuing expansion with significantly greater clarity and is good for companies' Boards.

RISK-SHARING

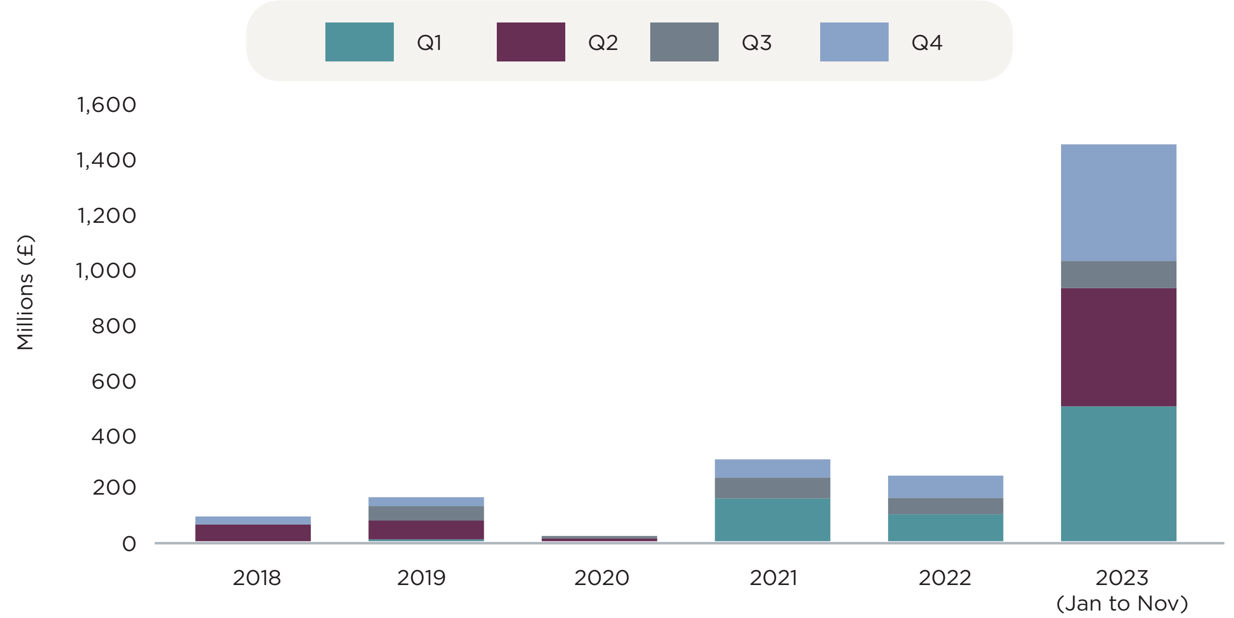
Partnerships allow risk to be distributed with each party taking a share of the costs and profits.

What is driving investment in build to rent housing?

UK SFH has attracted over £3.5 billion of investment to date, despite being a relatively nascent sector. This year marked a step change in the pace of SFH investment, with nearly £1.5 billion deployed to November 2023. Housebuilders' increasing sales to SFH will help to grow the market moving forward.

According to its latest trading statement, Barratt Developments Plc is actively increasing reservations in the private rented sector in order to drive revenue.

Single family housing has attracted £3.5bn of investment to date



Q2 2023 saw the UK's largest development deal, between Citra Living and Barratt, a forward purchase for £168m of a portfolio of 604 homes across multiple sites.

PGIM purchased a single family housing portfolio from Goldman Sachs in the North-West. The portfolio totalled 918 homes and is owned by the PGIM Real Estate UK Afforda-ble Housing Fund. It is the largest UK SFH deal to date.

This is the second time this portfolio has traded. It previously did so under the name 'Project Thistle', where Gatehouse IM sold it to Goldman Sachs – the first UK single family housing portfolio of scale to transact.

In November 2023, Vistry signed a landmark partnership agreement with PRS provider Leaf Living. The investor will acquire more than 1,500 homes for PRS. This deal aligns with Vistry Group's strategy to pre-sell around 65% of all units across its business.

> **Investors assess the ESG and life-cycle costs of the buildings in a way Buy to Let investors would not.**

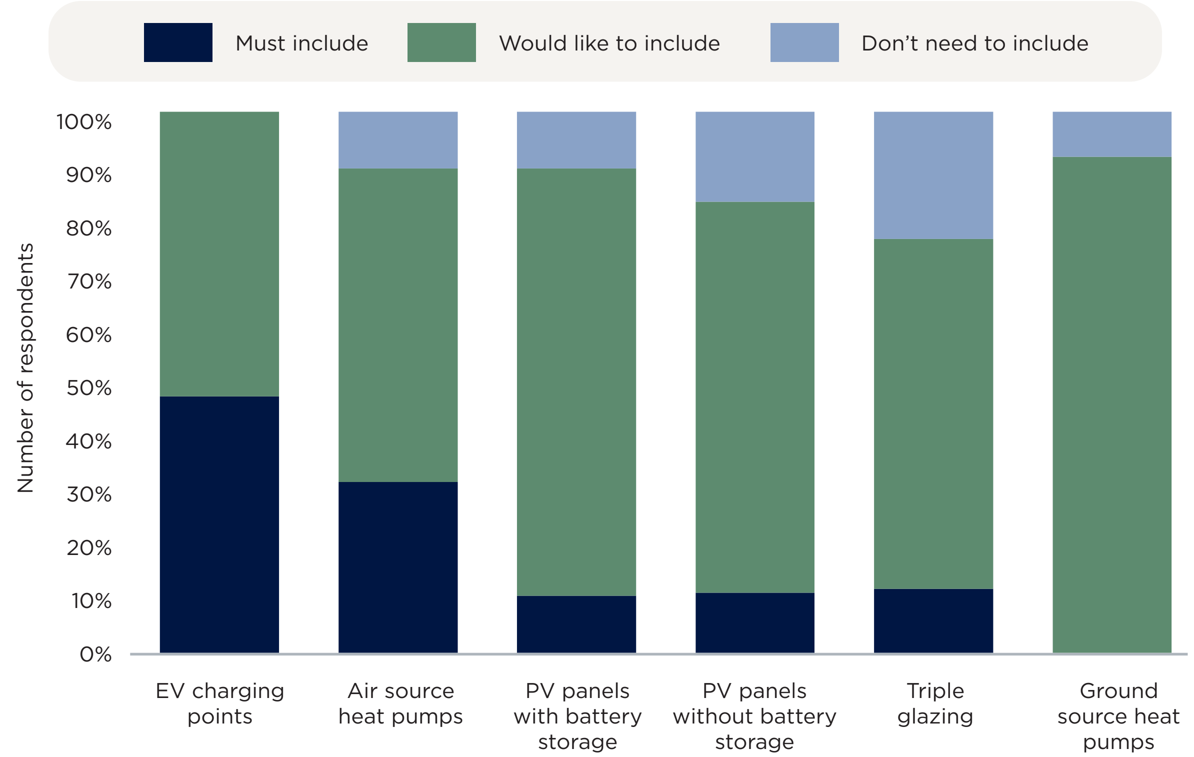
Source: Savills

The primary driver of SFH investment is to tap into inflation-matching rental income. SFH is intended to be owned and operated as a rental product for the long term. Portfolios are viewed as a single entity and investors are not seeking to break up the homes to be sold individually.

In addition to this, SFH can help meet criteria from investor's ESG strategies, which adhere to the three main pillars of sustainability: Environmental, Social and Governance. Delivery of new homes for rent naturally supports an ESG strategy in the following ways:

- New homes are energy efficient and can aid investors in transitioning to Net Zero and decarbonising their real assets.
- Homes delivered are helping to meet housing needs and provide homes priced affordably to local incomes. New homes also improve the overall quality of homes in an area, delivering Social benefits.
- The nature of institutional investors means there is reputational risk in managing homes for rent and their accountability will drive up standards in the sector.

"How likely are you to include the following sustainable features on your sites?"



How much investment could be directed to housebuilders supply?

The rental market will require greater investment from institutions

The PRS has stopped growing since 2016 and there are signals that Buy to Let investors are exiting the market. Our analysis of UK Finance data shows that between December 2022 and August 2023, an average of 4,500 Buy-to-let mortgages were redeemed every month.

Assuming these lead to sales, we will lose more than half a million homes in ten years. This leaves a large supply gap that will need to be filled by new investment.

To meet demand, investors will need to leverage the expertise of existing developers and housebuilders, who already have a substantial pipeline of new homes.

Across England, there are currently 2.8 million plots over 13,900 sites, with an average site size of 196 homes.

The immediate opportunity to acquire stock

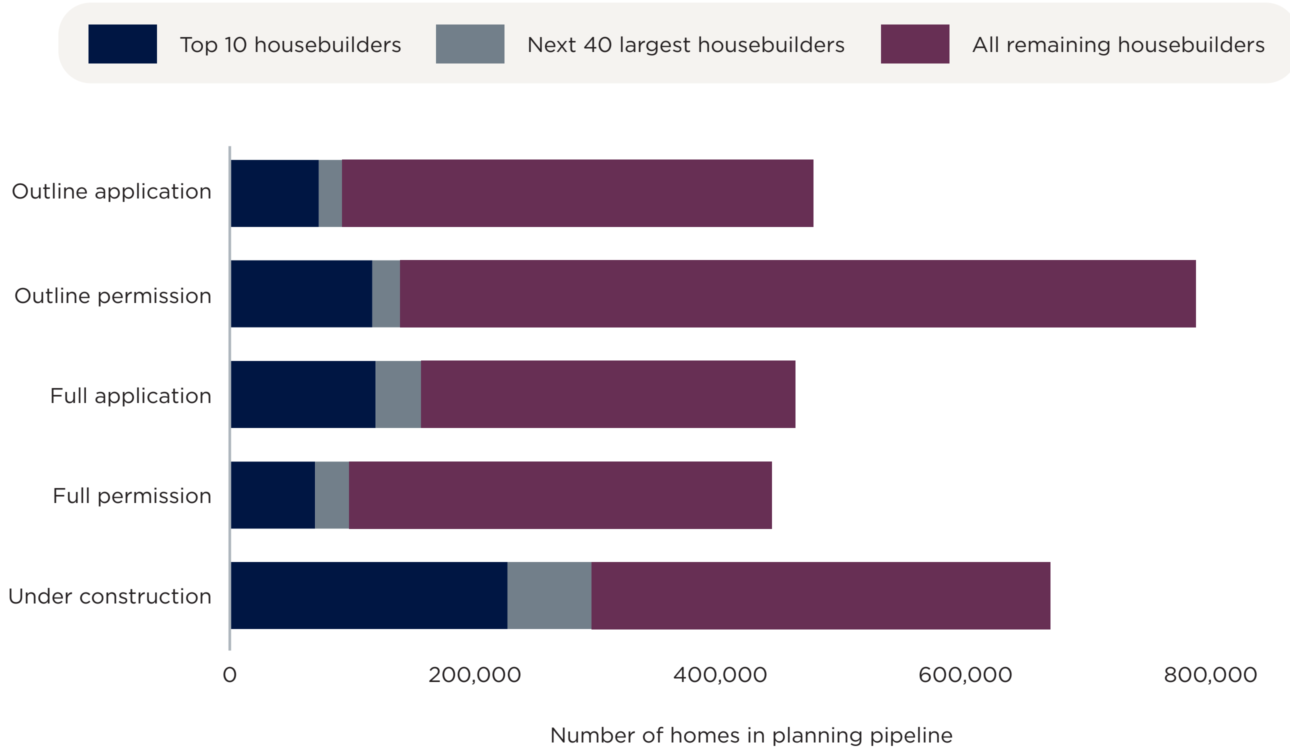
In the short term, there are 655,000 plots currently under construction, a third of which are being delivered by the 10 largest housebuilders (220,000). A further 10% are being delivered by the next 40 largest housebuilders but the greatest share (54%, 366,000) sits with small and medium housebuilders.

Arguably, this segment of delivery will be under the greatest pressure from current market conditions and should not be overlooked.

Longer-term, investors will need to partner with housebuilders and take greater development risk. Partnerships will grant investors access to housebuilder's planning pipelines and supply chains. SFH works best on large sites and the planning pipeline is trending towards sites with 500 homes or more.

Between 2015 and 2017, 11% of homes granted full planning consent were on large sites (>500 homes). In 2022 this nearly doubled to 20% and rose to 25% in the Year to June 2023.

Number of homes by planning status



Planning Pipeline of Top 50 UK Housebuilders	Short term Under Construction	Medium term Full Permission	Longer term Application / Outline	Total Planning Pipeline
Number of Homes	288,266	94,581	376,177	**759,024**
50% Sale to Institutional PRS	144,133	47,291	188,089	**379,512**
30% Sale to Institutional PRS	86,480	28,374	112,853	**227,707**

Source: Savills Research using UK Finance, Glenigan

What are investors future aspirations?

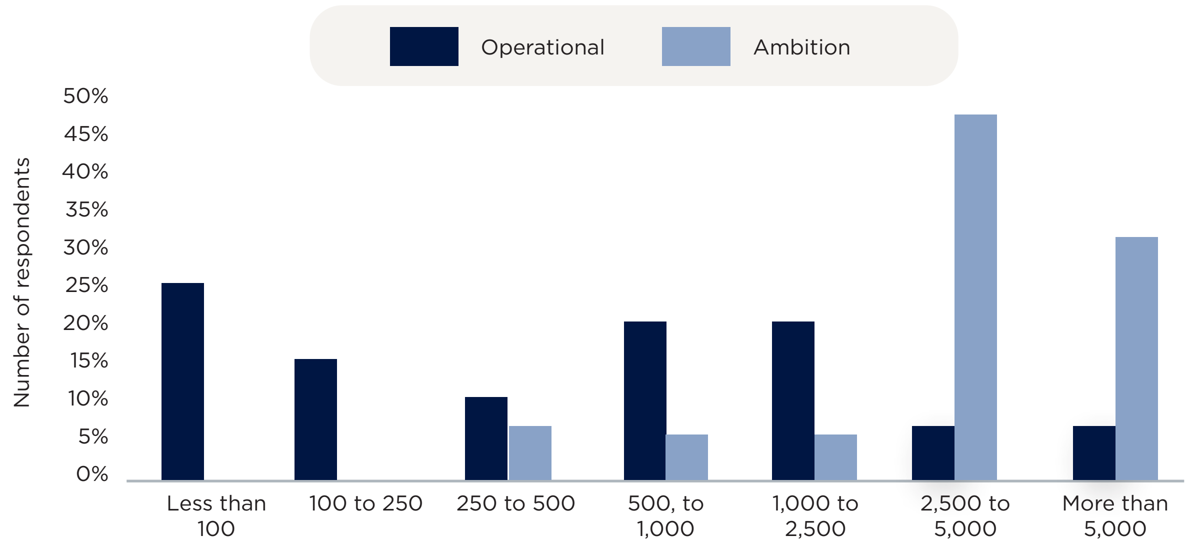
Our recent Single Family Housing Investor Survey (September 2023), showed that most investors are looking to expand significantly in the next 5 to 10 years.

The size of operational SFH varied between investors, from less than 100 units to over 5,000 units. More than half are looking to scale up within the next five years, with a further third looking to achieve their ambitions within the next 10 years.

It took The PRS REIT plc more than 5 years to secure 5,000 homes, so efficient partnerships between developers and investors will be crucial in the future to meet investor's targeted timelines.

90% of investors surveyed said they are targeting portfolios of over 2,500 units, or a value of over £1bn.

"How many operational Single Family homes do you have and what is your target portfolio size?"



> **A really attractive proposition: a long-term source of inflation-protected, diversified income.**

As the market matures, many early investors who made up the largest owners of completed stock in 2017 have since been overtaken by new entrants who have scaled up faster in the last 5 years.

Ten of the top 20 largest owners of completed BtR in Q3 2023 are new entrants to the sector.

These have predominantly been in Multifamily, but also include some SFH owners.

To grow the single family housing market, attracting new investors to the sector is key. Looking at the current pipeline, we are due to see another five new entrants to the sector once these developments complete.

Source: Savills Research using UK Finance, Glenigan

Savills Research

We are a dedicated team with an unrivalled reputation for producing insightful analysis, research and commentary across all property sectors throughout the UK, Europe, Americas, Asia Pacific, Africa, India and the Middle East.

Jacqui Daly
Director, Residential Investment
Research & Consultancy
+44 (0) 7968 550 399
jdaly@savills.com

Guy Whittaker
Head of UK Build to
Rent Research
+44 (0) 7970 033 630
guy.whittaker@savills.com

Alistair Walters
UK Residential
Research Analyst
+44 (0) 7890 982 718
alistair.walters@savills.com

Corranne Wheeler
UK Residential
Research Analyst
+44 (0) 7890 958 981
corranne.wheeler@savills.com