‘This Could Be BTR’s Moment To Make Its Case’

27 May 2020- You don’t really know how resilient a new sector is until it has been through a recession. In that sense, UK build to rent is undergoing trial by fire.

The sector is well-positioned to outperform other areas of real estate, according to a panel of experts on Bisnow’s BTR “During And After Lockdown” webinar, presented by Pinsent Masons. Some of the ways in which the sector operates are changing because of the coronavirus pandemic. But if it can prove itself resilient to its first real test, interest in the sector is likely to increase.

Courtesy of Delancey

East Village, one of the schemes owned by Delancey's Get Living platform.

“There are groups that are already participating, but there are other groups for whom how BTR and BTR platforms behave during this period will be really interesting," Homes England Senior Director Jennifer Murray said. "This could be the sector's moment to make its case — in terms of being a responsible landlord, in terms of the quality of what is being built compared to build for sale, and also in terms of how the investment behaves.

"One of the biggest hold backs to the sector for a lot of groups has been the relative short duration of the data we have, and if the investment holds up during this period, then that will make the case for the sector more widely."

There is little data about the resilience of the rent being paid by tenants of UK BTR, but one datapoint is Grainger, which said it collected 94% of its rent in April.

Cortland Partners Chief Investment Officer Mike Altman gave a view from the U.S., where the sector is more mature. He said the firm collected 98.3% of its May rent from the circa 60,000 units it owns or manages. He said around 2,000 of its customers had asked to be put on payment plans and pay reduced rent, equating to about 3%, but of the customers on those plans, the rent collected was 35%, so even those people struggling were paying something.

On the operational side, he said there had been a 28% slowdown in new site visits, but 57% of expiring leases were renewed in May, compared to a long-run average of 50%.

"That reduced turnover, vacancies, frictional costs, keeps occupancy where we expected and [net operating income] right in line in spite of slight collection loss due to employment issues."

It is that kind of resilient income that will help the sector continue to appeal to investors: As Murray pointed out, the number of new homes completed this year will be lower than anticipated because of the pause on construction precipitated by the coronavirus, and so the long-term imbalance between supply and demand of new homes that makes renting compelling will increase.

"Investors might think it is more attractive now on a relative basis," Get Living chief executive Rick de Blaby said. "If you are in retail you've had a rough few months. It has got to be long-term money rather than private-equity type money, but I think interest will increase."

One downside of the crisis for BTR is that the availability of debt will decrease, which will make it unviable for developers to proceed with some schemes.

He said the social strictures put in place by the virus would increase the appeal of large schemes with significant public realm of the sort it has created at the former Olympic Village in Stratford and Elephant Central near Elephant and Castle.

“We think our strategy of having big sites with a lot of public realm and teams on-site has probably been validated or amplified because I suspect residents won’t forget this episode for a long time, and in our sector people can vote with their feet and break a lease with two months’ notice.

“They are probably looking at this and thinking, I’ve spent a long time in my apartment, am I happy living in the apartment I have, with the public realm I have, with the service I get and in the community with the friends I’ve got?”