



Department for
Communities and
Local Government

Accelerating Housing Supply and Increasing Tenant Choice in the Private Rented Sector: A Build to Rent Guide for Local Authorities



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1. Foreword

Over the last Parliament, the Government has made housing a top priority, with a housing strategy that aims to address the challenges faced by the country's housing market by building more homes across all tenures - owner occupation, social housing and the private rented sector. We have succeeded in reforming the planning system and delivered over 700,000 new homes, with house building now at its highest levels since 2007. However we want to build on these achievements and we are committed to continuing with our plans to invest in every area of the housing market.

The private rented sector is now a major part of the housing market providing homes for over 4 million households, making it the second most prevalent tenure in the country. Furthermore, Savills have predicted this to increase by 20% in the next 5 years. The Government is keen to see the establishment of a professional private rented sector which will be able to give tenants the quality and choice they are looking for.

This Government has introduced a number of innovative schemes to support the growth of the private rented sector. Our £1 billion Build to Rent programme is on track to create up to 10,000 new homes, all specifically for private rent. In addition to this, we're also using our strong economic record to offer £3.5 billion worth of innovative housing guarantees to finance investment in new rented homes.

Local authorities can play a major part in providing renters with the homes they need by supporting the establishment of private rented sector in their areas. This guidance outlines a series of practical options as to how you can support the development of private rented sector homes and the benefits it can offer to your local authority. It also provides a number of case studies of build to rent schemes which are progressing with the support and innovation of their local authorities.

This Government has worked hard to introduce a series of initiatives to kick-start a new kind of private rented sector. A number of local authorities are already actively supporting private rented sector development but I want to see more local authorities recognising the role new private rented sector development has in meeting housing needs. Local authorities have a key role in ensuring we continue to build enough quality homes for those who rent. I hope that this guidance will strengthen your understanding of the private rented sector market and I would encourage you engage with each other to discuss how you can make private rented sector development work for your area.

A handwritten signature in black ink, appearing to read 'Brandon Lewis', with a long horizontal flourish extending to the right.

Brandon Lewis
Minister of State for Housing and Planning

2. Introduction

For the last two decades or more we have been building too few homes. This Government's Housing Strategy aims to address the country's broken housing market by building more housing across all tenures - owner occupation, social housing and the private rented sector.

In 2012, the Government commissioned the Montague Review to look at how to remove barriers to long-term institutional investment in the private rented sector. It responded to its recommendations by launching a number of initiatives aimed at kick-starting the sector and the development of purpose built long-term market rental housing schemes (Build to Rent). The £1bn Build to Rent Fund, Private Rented Sector Debt Guarantee Scheme and Private Rented Sector Taskforce have stimulated considerable interest in the sector.

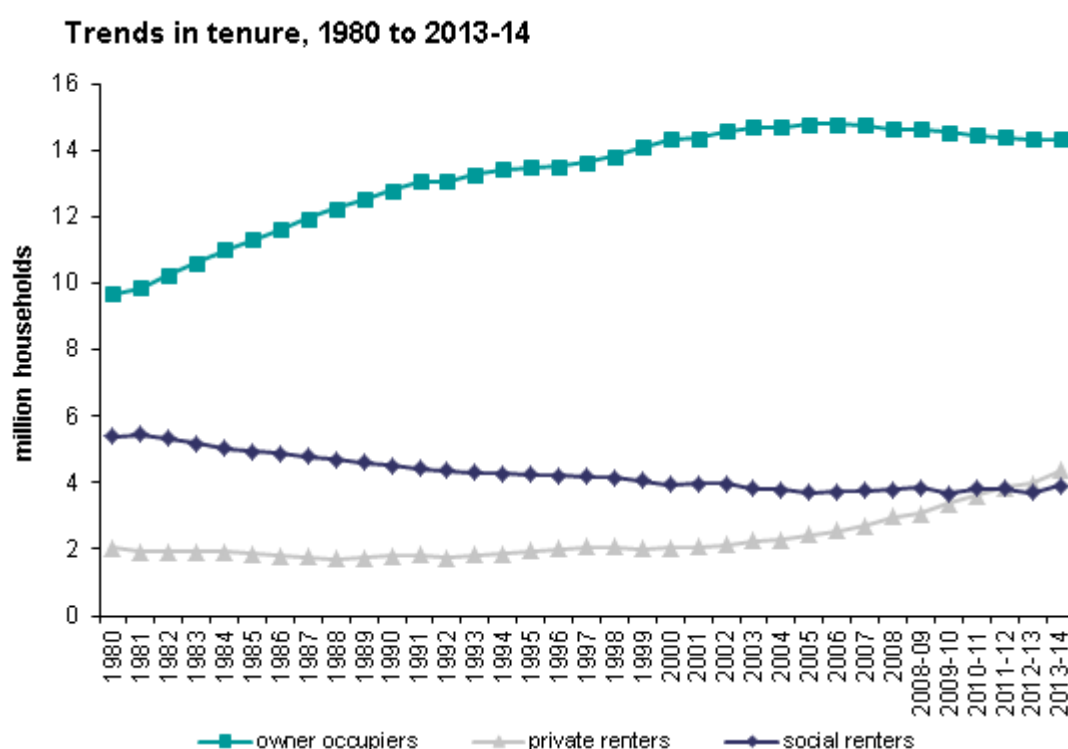
This guide has been instigated following considerable Private Rented Sector Taskforce Local Authority engagement. Many authorities confirmed they wanted to support Build to Rent but that additional guidance on how to do so would be helpful. This guide seeks to address this by providing a number of practical options for Local Authorities to consider and examples of schemes being supported. It also provides some background to the policy and initiatives supporting the development of this new housing sector throughout the country.

3. Background

The private rented sector is England’s second largest housing tenure. The private rented sector has grown on average by 5.4% per annum since 1999 and now accounts for 19.4% (4.4 million) of households (See Figure 1). In 1999 the private rented sector accounted for 9.9% (2.0 million) households. In 2012-13 the number of English households renting privately overtook households living within social housing for the first time since the mid-1960s.

In November 2014, the property consultancy Savills forecast that the private rented sector would grow by another 1.2 million households by 2019.

Figure 1: Trends in English Housing Tenure 1980 to 2013-14



Base: all households

Note: underlying data are presented in Annex Table 1

Sources:

1980 to 2008: ONS Labour Force Survey;

2008-09 onwards: English Housing Survey, full household sample

In 2010, most (78%) landlords owned a single dwelling for rent; only 8% of landlords were full-time landlords. (Source, DCLG Private Landlords Survey 2010). These properties will not generally have been built for rent and there can be varying degrees of quality. Good small-scale landlords play an important role in the housing market and they should continue to do so but they tend to buy existing stock which does not increase housing supply.

Institutional investment in Build to Rent housing can help to increase the supply of good quality housing and offer tenants greater choice.

4. What is Build to Rent?

Build to Rent housing schemes are purpose built large-scale private rented sector developments of flats and/or houses owned by institutional investors, property companies, housing associations and property management organisations over the long-term.

It is not a new phenomenon in the UK. In the 1930s, particularly in central and inner London, many large scale blocks of flats were developed specifically for rent and were owned long-term by institutional investors such as the Prudential.

One of the largest of these was Du Cane Court in Balham, built in 1937, which offered 676 apartments for private rent as well as “modern” amenities such as portage, electric passenger and service lifts, central heating and hot water. It was the largest privately owned block of flats under one roof in Europe at the time.

Figure 2 – Du Cane Court Balham



Institutional investors made a rapid exit from the sector in the 1960s when stringent rent controls and security of tenure were introduced by the Rent Acts. In 2011, only 1% of UK private rented sector housing stock was owned by institutions (*Source IPD, LSE Sept 2011*). This is significantly lower than in other countries such as the USA and Germany, where private rented sector institutional ownership is around 13% and 17% respectively.

Institutional investment in rented property has however increased significantly in recent years in the UK student accommodation market. Large-scale purpose-built self-contained student apartments have been developed in university cities and towns across the country. CBRE estimate that the UK institutional student accommodation market, which has taken around ten years to develop is worth around £15bn, excluding university-owned student halls of residence. Some commentators have suggested that Build to Rent could rapidly exceed this figure with the right support.

5. Government Financial Initiatives

The Government recognises the potential of Build to Rent and that one of the key barriers to institutional investment in the sector has been the lack of schemes to invest in.

It therefore introduced two financial initiatives aimed at stimulating supply: the Build to Rent Fund and the Private Rented Sector Housing Debt Guarantee Scheme. More detail about these schemes is provided below:

a) The Build to Rent Fund

This recoverable Build to Rent development fund was extended from £200m in March 2013 to £1bn following a strong response from the market with the aim of stimulating the construction of up to 10,000 new purpose built homes for rent. In the subsequent two rounds of Build to Rent funding, there were £4.2bn of bids.

As at February 2015, £231m of Build to Rent fund deals have been completed which will provide over 3,000 new homes for rent with some significant deals in the pipeline. Examples of completed funding transactions include CS Capital Partners' 192 home Three Towers scheme in Manchester (see Figure 3) and Bovis-Mill Group's schemes within the South East, including Hemel Hempstead and Cambridge which will provide 190 private rented sector homes (see Figure 4).

Figure 3: Three Towers scheme, Manchester



Figure 4: Build to Rent housing within the Bovis-Mill Group Oak Portfolio



In January 2015, the Homes and Communities Agency (HCA) launched a continuous market engagement prospectus (see link below). The fund will support high quality schemes which can start on site by March 2016. Public sector bodies are eligible as part of a public/private consortium.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/397523/Btr_CME_Prospectus_full.pdf

There have also been a good number of Build to Rent housing schemes that have been financed privately. These include Thames Valley Housing Association's Private Rented Sector subsidiary Fizzy Living, which has invested in various developments including Canning Town and Epsom (see Figure 5).

Figure 5: Fizzy Living development in Epsom



Another example is M&G Real Estate's 152 flat Victoria Square scheme in North Acton which is being developed by Hub Residential.

b) Private Rented Sector Debt Guarantee Scheme

In total, the Government has allocated a total of £10bn for the Affordable Housing and Private Rented Sector Debt Guarantee Schemes. £3.5 billion was allocated to the private rented sector, with a possible share of £3 billion in reserve. The Private Rented Sector Debt Guarantee scheme will use the Government's fiscal strength to raise long-term, low cost investment finance in the bond markets via its delivery partner, PRS Operations Ltd, a subsidiary of Venn Partners. The scheme will support the long-term investment phase of private rented sector developments. Strong market interest has been shown in accessing the programme. Borrowers need to be classified to the private sector.

A copy of the scheme rules can be found at

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/391935/Private_Rented_Sector_Housing_Guarantee_Scheme.pdf

6. Investor Demand

In its engagement with the market, the Taskforce has unearthed aspirations to invest in excess of £10 billion in the sector and investor momentum continues to build. These investors include UK and non-UK pension funds, life funds, fund managers, sovereign wealth funds, housing associations, property companies and developers.

Examples of investor commitment to the sector include:

Realstar – This substantial investor/manager/owner of private rented sector housing in Canada announced in October 2014 a £200m forward funding deal with Mace for a 278 private rented sector home high rise scheme in Elephant and Castle. Realstar are already investing separately in other private rented sector schemes.

Hermes Investment Management and Countrywide announced in Oct 2014 that they had formed a strategic partnership to launch a residential property fund investing in UK private rented sector. Their vehicle is being established with an initial £95m of seed equity including three assets in Manchester, Birmingham and Nottingham. To quote Chris Taylor, CEO at Hermes - “Within 5 years, this could be a £1bn fund”.

Legal and General made its first major foray into the sector in January 2015 when it confirmed that it was preferred bidder on a site close to Blackhorse Road tube, North London to create a major Build to Rent Housing scheme. The site has outline planning consent for 310 homes. Legal and General intends to become a major owner of rented accommodation, with an appetite to invest up to £1bn in the sector.

Essential Living/M3 Capital are pressing on with ambitions to develop 5,000 homes for rent in London and South East. The joint venture has a number of large private rented sector schemes in its pipeline including a number of schemes which contracted in November 2014 to receive c.£25m of the Government’s Build to Rent round 2 funding to provide 300 private rented sector homes in Maidenhead (68 flats), Archway (100 flats) and Bethnal Green (149 flats). RBS is providing c£25m senior debt funding alongside the HCA.

Notting Hill Housing Trust launched its private rented sector Folio London brand in November 2014 and confirmed that depending on market conditions, it plans to add up to 1,000 new private rent homes to its holdings in the next five years. Marine Wharf in Surrey Quays will be the first to be launched under the new brand. Its recent partnership with Sellar Design & Development there will develop 374 new homes for private rent in 2017 as part of the major Canada Water regeneration.

Sigma Capital Group and Gatehouse Bank announced in November 2014 that it was commencing construction of an initial phase of 927 new private rented sector houses and flats with a total development value of c.£100m on 10 sites in Greater Manchester and 4 in the Liverpool area (see Figure 6). Countryside is its house building partner in the deal.

Figure 6: Sigma's PRS development at Norris Green, Liverpool.



Invesco Real Estate announced in November 2014 that it is raising up to £400m of equity for a private rented sector fund and in May 2014 it completed its UK debut with a £33m purchase of 118 Private Rented Sector home Vinyl Factory scheme in Hayes which it bought from be:here – Willmott Dixon's Private Rented Sector arm.

Other investors include:

**Aberdeen Asset
Management
APG
British Land
Canary Wharf Group
Criterion Capital
Grainger plc
Grosvenor
Hyde**

**L&Q
LaSalle Investment Management
Manchester City Council and Abu Dhabi
United Group
Orbit Group
Places for People
Peabody
Westrock**

Investors advise that they are attracted to the sector due to some or all of the following factors:

- Long-term investment performance prospects.
- Lower risk profile (less volatility) compared to other asset classes.
- Good risk diversification characteristics as its performance is lowly correlated to other asset classes.
- Good liability matching credentials for investors seeking long term index linked income streams.
- Continued Government support.

7. Design and Construction

Good design and high quality construction are key components of the Build to Rent model. Investors will want to know that their Build to Rent schemes will appeal to their target customers over the long-term and be truly sustainable.

Initiated by the Private Rented Sector Taskforce, the Urban Land Institute's UK Residential Council produced a *Best Practice Design Guide for Build to Rent* to address the design, construction and management of these buildings. This guide underlined that Build to Rent schemes can offer additional amenities and make use of space both inside and outside the buildings to create a sense of place and community.

In London, **Grainger plc** and **Assael Architecture** worked together to create one of the first Build to Rent schemes in London, within a conservation area in Kensington and Chelsea (see Annex A). The Young Street development provides 53 new homes with a mix of apartments and family mews houses. The development embraces the ethos of the ULI UK Guide, and a variety of residents' facilities such high-tech lounge, gym and private cinema, as well as a landscaped gardens with dedicated children's play space, have been integrated into the design.

Build to Rent can also offer opportunities for innovative forms of construction, such as build off-site. In Sittingbourne in Kent, **DLS Strategic** has been working with the owner of a former manufacturing site to bring forward private rented homes built using off-site construction. (see Annex A) Planning permission is being sought for 163 affordable and private rented sector homes alongside 78 market sale, using funding from institutional investors and Registered Providers alongside investment in the market sale homes through a Joint Venture agreement with the current landowners.

The use of private rented sector and offsite construction are key to the success of this scheme enabling delivery of all the new housing to be completed within a two year period as oppose to 4/5 years using more traditional construction and housing delivery models. The homes will be built using a new manufacturing facility created within the town, bringing additional benefits to the local economy.

8. Build to Rent Housing – The Benefits for Local Authorities

Build to Rent housing can provide a range of positive benefits to local authorities and the communities which they serve. This is summarised in figure 7 which we consider in more detail below.

Figure 7 – Benefits to Local Authorities of Build to Rent



8.1 Supporting the Local Community

The development of new Build to Rent housing can help Local Authorities to meet local demand for market rented housing and as, generally speaking, tenants only have the option to rent from a small-scale landlord, it will increase tenant choice.

Build to Rent investment is an income focused business model. As a consequence, successful schemes will retain their customers for longer periods and maximise occupancy levels. In order to achieve this, investors will strive to keep their customers happy and this is another reason why they want to create truly sustainable communities. Placemaking, investment in the public realm and engagement with the local community will be interwoven with scheme designs.

8.2 Supporting local growth

Build to Rent can help increase housing supply, particularly on large, multiple phased sites as it can be built alongside build for sale and affordable housing. Large-scale investors in Build to Rent will invest for the long-term and at scale. If they are persuaded by the long-term investment prospects of a large site or regeneration area then they may be willing to commit to a forward purchase of a Build to Rent scheme within it. Some may commit to

developing the scheme themselves.

Build to Rent also has the potential to increase the speed of housing delivery and place-making as the market absorption rate for private rented sector is higher than build for sale. This enables communities to become established more rapidly, bringing forward the speed with which new local amenities such as shops, leisure and schools can be supported by local demand. Increased house building also brings wider benefits to the local economy, including providing employment and training opportunities to local people and supporting local businesses. Build to Rent also has the potential to provide new housing in a market downturn.

Examples of build to rent increasing the speed of housing delivery:

a) Aberfeldy Village, East India, London E14 - Poplar Harca/be:here

This Build to Rent 158 home scheme forms part of an overall estate regeneration for 1,200 homes over 8-10 years. The inclusion of Build to Rent housing with homes for sale enabled 338 homes to be delivered at the same time. 75 affordable homes were provided by the cross-subsidy generated. The overall regeneration programme reduced by 2-3 years as a consequence. M&G Real Estate is funding the development via a sale and leaseback arrangement with the housing association Poplar Harca.



b) Wembley Park, London HA9 – Quintain plc

Quintain plc has planning consent for 5,000 homes and aims to develop 25-35% of these homes as Build to Rent housing. It estimates that the inclusion of Built to Rent within its plans will accelerate the delivery of the entire scheme by four to five years.

c) Eastwick and Sweetwater, East London – London Legacy Development Company/Places for People and Balfour Beatty

Places for People and Balfour Beatty were appointed by the London Legacy Development Corporation on 2nd March 2015 to bring forward plans for up to 1,500 new homes with up

to 30 per cent affordable and 500 private homes to rent on Queen Elizabeth Olympic Park, six years ahead of the original master-plan (see Annex A).

David Goldstone, Chief Executive of London Legacy Development Corporation commented “We are delighted by the high quality of the bid from Places for People and Balfour Beatty...and we hope it can provide a model for speeding up housing delivery across London.

8.3 Financial

Some Local Authorities may opt to become directly involved in the provision of Build to Rent given the potential to generate income or capital receipts and demonstrate best value. This might be by building homes themselves, via joint ventures with Build to Rent investors or by offering land for development.

Increasing new housing supply will also generate additional income for local authorities through the New Homes Bonus, with an average of £8,000 for each new property built. It will also increase the local Council Tax base, providing an additional steady long-term income stream.

9. How can Local Authorities support Build to Rent?

9.1 Background

Local Authority support is critical to the development of Build to Rent schemes, particularly in the early stages of the sector's development. The conversion of institutional investor demand into actual investment relies on there being a sufficient supply of Build to Rent schemes. Without Local Authority support there is a considerable risk that this supply will not be forthcoming and the potential that Build to Rent has to increase housing supply, meet local housing needs and provide greater tenant choice will not be fulfilled.

Appetite to support Build to Rent already exists amongst a number of Local Authorities across the country. Authorities such as Birmingham, Manchester, Ashford, Wandsworth, Derby, Croydon and Ealing have recognised the benefits that Build to Rent housing and the private rented sector can bring. They are leading the way in promoting private rented sector through their housing strategies, planning processes and in some cases directly delivering new high quality, purpose-built private rented accommodation.

One local authority, **Derby City Council** has established a specific fund, the City Living Fund, (see Annex A) which consists of a £6.5m recoverable fund made available to owners of vacant/under-occupied commercial properties for conversion to residential accommodation, including private rented schemes.

9.2 Why is Local Authority support needed?

The principle reason why Local Authority support is needed is due to the infancy of the Build to Rent sector and a residential valuation conundrum.

As things currently stand, housing which is let on market rents is generally valued at a discount to the freehold vacant possession value of the property. This is because the vast majority of buyers of residential property in the market want to buy vacant property in order to live in it and when a residential property is tenanted, the market to which the property can be put is significantly reduced.

The majority of buyers for tenanted market rental housing schemes buy these properties at a discount to the freehold vacant possession value with a view to obtaining vacant possession over time and realising the uplift in value from an open market sale. These traders are generally not long-term, income focused investors.

As this sector develops and more institutional investors enter the market, it is likely that large-scale built for purpose private rented sector housing schemes will be traded between other investors based upon the net operating income that these schemes produce rather than at a discount to the freehold vacant possession value of all of the homes within the development. In the United States which has, according to CBRE, a \$22 trillion Build to Rent housing sector (called Multi-Family Housing) these schemes are mainly valued according to their net operating income. Depending on the market cycle and the continued interest in the sector from institutional investors Build to Rent schemes have the potential to contribute similar levels of section 106 or other contributions as build for sale.

However, in order to get to that position the sector does need continued Local Authority support either via planning or on their own land.

9.3 Planning

Local authorities have a key role to play in providing local leadership to meet the housing needs of their communities. Authorities such as the **London Borough of Wandsworth**, have identified the importance of the private rented sector in meeting existing and future local housing demand. They have responded to this by adopting a specific Private Rented Sector Strategy to support private rented development, with housing and planning policies developed to encourage developers to consider structured private rent options with marketing and letting terms to favour allocations to local residents and workers. (See Annex A)

Through their statutory planning functions, local authorities can create an environment that supports and encourages the delivery of Build to Rent.

Local authorities have powers under the National Planning Policy Framework to plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community which can include support for Build to Rent and can promote its development on its own land. Additionally, revised planning guidance issued in March 2014 guides local authorities to assess tenure need including private rented sector, to inform housing policies in local plans.

It also underlines that from a planning viability perspective, developments of multiple units held in single ownership as private rented sector housing intended for long term rental (ie Build to Rent) can require a different approach to planning obligations or an adjustment of policy requirements to take account of scheme economics which will differ from build for sale.

Some local planning authorities are already putting these powers into action. The **London Borough of Ealing** (see Annex A) has recently negotiated an s106 agreement where the affordable housing element was discounted in favour of market rent homes to facilitate the development of institutionally funded private rented sector housing in North Acton. In Wandsworth, the Council has secured 114 private rented sector homes within a 500 home scheme in Nine Elms on the basis that the homes will be made available on tenancies for up to 5 years and prioritised for people who live or work within the Borough (see Annex A).

Westminster City Council recently agreed to the reduction in affordable housing planning obligations in return for the delivery of a private rented sector scheme, following negotiations with DS2. The viability analysis illustrated that on a present day basis the private rented sector scheme was less viable than an open market for sale scheme and this was considered reasonable by the local authority. The resulting s106 included a 'private rented sector covenant' so that if any of the homes are returned to market sale within a specified period of time (15 years), a payment is made to Westminster City Council, compensating the authority for the loss of affordable housing receipt.

9.4 Local Authority Ownership and Management of the Private Rented Sector

Some local authorities are leading the way in embracing new private rented sector development and are moving into the private rental market themselves as landlords. Stock-holding authorities already have the capacity and the skills required to develop new homes and effectively manage large-scale housing schemes.

Ashford Borough Council has recently developed a local property company (A Better Choice for Property Ltd) which has purchased private sector properties to rent directly to the local market. The company is looking at the opportunity to purchase land and to work with developers to bring forward new purpose built private sector accommodation. (See Annex A)

Direct provision of private rented sector homes can help local authorities to directly respond to their local housing need, whilst also providing an important and long-term source of revenue and increasing their capital portfolios. **South Cambridgeshire District Council**, set-up Ermine Street Housing, a market rent pilot which sought to invest £7million to purchase private rented sector properties on the open market (Annex A). The purpose of the pilot is to generate an income stream for the Council and for the Council to have an equity investment in a property portfolio. The Council are looking at ways to attract further investment in the local private rental market.

9.5 Build to Rent on Local Authority Owned Land

Not all local authorities are in a position to start adding a private rented sector portfolio to their housing stock. However, many local authorities own land and consideration could be given to using some of it to support Build to Rent schemes. Using their own land can enable local authorities to both meet local housing need and secure a financial return, either through a capital receipt or by drawing a rental income for use of the land.

Attracting institutional investors to fund new Build to Rent schemes could help to bring forward local sites that would otherwise be unviable for housing development.

Birmingham City Council has recently sought planning permission for its first residential Private Rented Sector scheme (Annex A). The Embankment development will provide 92 apartments in the centre of Birmingham, close to one of the city's major regeneration areas. The Council aims to set a new standard for private rented sector housing in the city, and to incentivise other private rented sector providers to follow in its example. At the time of the announcement, Clive Skidmore, Head of Housing, Birmingham City Council said "This scheme is all about sending a clear message to the market...if Birmingham City Council can do it, so can other housing developers."

Manchester City Council has invested its own land into a Joint Venture with the Greater Manchester Pension Fund, known as Matrix Homes Ltd, to bring forward a new and innovative partnership model for residential development. This model was run as a pilot project to invest £24m across 5 sites in the City; with the initial aim to build a mix of 240 new low rise family homes for sale and high quality market rent. Of the 240 homes, 121 are being offered for sale, with the remaining 119 homes being rented privately through

Touchstone. Matrix Homes receives a percentage income of the gross rental value (see Annex A).

Croydon Council has created an urban regeneration vehicle with John Laing, to redevelop the town centre. In conjunction with **Essential Living**, they are bringing forward a Build to Rent scheme on the site of the Council's former offices. The scheme will provide 240 private rented sector homes alongside homes for sale, as well as an upgrade of the adjoining Queens Gardens (see also section 6 above).

Local authorities can also encourage other public sector land holders to bring forward sites for purpose built private rented sector accommodation. The **Kier Kent Initiative** (see Annex A) is an innovative land deal that packages together a number of sites owned by **Kent County Council** within 3 areas of Kent, Swale, Sevenoaks and Canterbury, to be used to deliver a range of housing tenures, including private rented scheme. The properties are professionally managed by a Housing Association and the investment comes from a pension provider seeking a regular return from the rental income. The land is made available on a long lease and the local authority will receive a mix of capital receipt and revenue income over the life of the initiative.

10. Conclusion

Build to Rent housing can help to fix the country's broken housing market by providing another source of good quality housing supply which can also accelerate the speed of housing delivery. The Government has introduced a number of initiatives to kick-start the sector but ultimately, it needs to stand on its own two feet without fiscal support.

Local Authorities are critical to the establishment of Build to Rent housing over the long-term. They have the powers to support the sector's development under the National Planning Policy Framework and on its own land and there are an increasing number of Local Authorities who are actively supporting its development. Dialogue between Local Authorities is encouraged.

This guide aims to help Local Authorities to develop their understanding of this housing sector. It also seeks to provide a further catalyst for a sustainable supply of Build to Rent housing schemes. This will not only meet the growing demand from long-term institutional investors but it will meet the needs of tenants who are the ultimate beneficiaries of the Government's Build to Rent initiatives.

Appendices

Annex A – Case Studies provided by organisations actively engaged in Build to Rent in the Private Rented Sector

1. 19 - 27 Young Street, Kensington - Assael Architecture

19 - 27 Young Street was one of the first schemes in London to be designed specifically for the private rented sector and a rare opportunity to design a new building on the edge of one of London's oldest squares in Kensington. The development replaces a 1960's car park and provides 53 new homes with a mix of apartments and family mews houses, catering for the high end market. The building will be rented, managed and maintained by Grainger for 125 years.

The ethos behind this scheme is for tenants to 'rent the entire building', not just their apartment. Residents' facilities, amenity space and services are integrated into the design including a high-tech lounge, a gym and private cinema, concierge and storage for deliveries, all of which will be professionally managed. A new basement car park will provide 25 parking spaces and 55 secure cycle spaces for residents. At the heart of the scheme sits a landscaped courtyard creating a lush, green, managed amenity space for residents. Secluded areas for outdoor dining and relaxation are incorporated along with children's play space.

The scheme is a high-quality brick building with stone detailing complimenting the unique character of the conservation area. Due to the adjoining conservation areas and the historic listed nature of most of the surrounding buildings, the team undertook significant consultation with the local authority and local residents to ensure that the impact of the scheme would further enhance the characterful area. The scheme won the 'Private Rented Sector' Housing Design Award in 2014.



Figure 1: 19 - 27 Young Street development

2. Abbey Apartments, London Road, Barking – Grainger plc

Abbey Apartments is a 100 unit purpose-built Build to Rent development in the London Borough of Barking and Dagenham, providing a mix of one, two and three bedroom apartments. Also included are a variety of amenities such as parking, cycle storage, communal garden area, fitness studio and communal residents lounge.

Grainger have forward purchased the scheme, developed by Bouygues Development and will acquire a 150 year lease for the residential elements of the building upon completion. This scheme is the first of three Build to Rent projects that Grainger and Bouygues are working on together.

Grainger collaborated with Bouygues to ensure that the building is suitable for the rental sector and any hardware and software relating to daily operations allow Grainger to manage the building efficiently. Further to this, Grainger carried out research on the local area, the lettings market and tenant preferences and priorities in the private rented sector in order to develop a customer proposition for the product and service being offered. For example, equal sized bedrooms in the two and three bedroom apartments, decent storage and good sized balconies.

Grainger's lettings proposition will offer tenants transparent fees and processes and allow tenants both security of tenure and flexibility through 1-3 year tenancy agreements with tenant break clauses after the initial 6 months. A dedicated on site lettings team will be present for 6 months to ensure tenants are informed about Grainger's product and service offering in a consistent and professional manner.

Grainger's management service prioritises good customer service by offering services such as tenant inductions with the property manager upon move in, complimentary WiFi and a reliable repairs service.

The site will be ready for occupancy by June 2015. Grainger intends to closely monitor the scheme in order to refine the offering on this site and future projects.

3. A Better Choice for Property Limited - Ashford Borough Council

Ashford has produced the 'Ashford Model' to deliver for the Community, led by the Community and with a desire to support quality housing growth and real economic activity.

A Better Choice for Property (ABC Property) was set up by Ashford Borough Council in 2014 to help the Council become a commercially led organisation, less risk adverse and to become a leader of innovative approaches to service delivery. The company is 100% owned by the Council.

ABC Property currently has five properties within its portfolio and has agreement to purchase another four in the near future. The company is looking at the opportunity to purchase land and to work with developers to bring forward a local private rented sector offer. The current private rented sector in Ashford is limited and there are no large landlords with any volume of housing. Currently the Council is developing a commercial

quarter adjacent to the International Railway Station and ABC Property is well placed to expand the nearby residential opportunities, looking for a commercial return over an extensive period, and generating a return for the General Fund.

ABC Property will enable the Council to meet the needs and aspirations of the Borough's residents and increase provision of local high quality housing as well as promote house building activity to boost the local economy. The market housing it delivers can be used to cross-subsidise the provision of local needs housing and maximise housing delivery on sites without government grant.

4. Buildoffsite Housing Hub – DLS Strategic

Following the initial roundtable meetings between DCLG and representatives from the housing industry, it was decided that the industry needed a voice going forward. The Buildoffsite housing hub has been established to co-ordinate and focus on delivering new homes to market with the express intent of narrowing the gap between current housing delivery and housing demand.

Part of the plan is to bring land and opportunity to the table that embraces and delivers new homes using offsite construction to a high quality, quickly to meet increasing local demand.

Planning permission has been submitted for a scheme in Sittingbourne in Kent for 241 new homes on a former manufacturing site. The scheme will provide 163 affordable and private rented sector units alongside 78 market sale, using funding from institutional investors and Registered Providers alongside investment in the market sale through a Joint Venture agreement with the current landowners.

The use of private rented sector and offsite construction are key to accelerating the pace of delivery and to the success of this scheme. Delivery of all the new housing is expected to be completed within a two year period which would normally have taken between 4/5 years using more traditional construction and housing delivery models.

All housing on the site will be constructed using house types and designs that provide accommodation to the same design and space standards, offering flexibility of tenure throughout its development phase. The scheme in its entirety has been designed around the use of offsite construction. The offsite process will utilise facilities opposite the site establishing a new factory which will not only manufacture elements of the new homes for this site, but will also provide much need resource to the wider Kent housing market, creating much needed employment and training for local residents.

Subject to planning permission, it is expected that work on the site will commence in September 2015.

5. Christies Auction Warehouse site - London Borough of Wandsworth

The former Christies Auction Warehouse site is one of 33 sites with planning consent in the Nine Elms Vauxhall Opportunity Area. The area is the largest regeneration scheme in construction in London, estimated to deliver 18,000 – 20,000 new residential homes and 25,000 new jobs over the next 10 – 15 years.

Wandsworth Council has a thriving private rented sector that has expanded considerably over the past decade. As a proportion of total housing stock, the private rented sector represents 33% of total dwellings in Wandsworth. The Council sees the private rented sector playing an important role in meeting a broad range of housing demands and allowing flexibility and access to housing in higher value areas.

In July 2013, the Council endorsed a Private Rent Strategy to support “structured” private rented development (with conditions), with housing and planning policies developed to encourage developers to consider structured private rent options with marketing and letting terms to favour allocations to local residents and workers.

In 2014, an opportunity arose to apply the strategy in negotiations with the developer Bellways on the former Christies Auction House site. The Bellways proposals were for 510 residential units across the scheme, split into two distinct sites, East (320 units) and West (190) units. The Council’s housing and planning policies for this location required a minimum of 15% affordable housing. Bellways originally proposed 15% affordable housing on the West site with the balance being private sale, although they expressed an interest in the 114 private sale units on the West site being delivered as private rent. The difference in value of the 114 units as private rent as opposed to private sales was then taken into account in determining both the onsite and offsite affordable housing offer.

The Council negotiated with Bellways preferred housing association partner on offering a private rent scheme on the West site as a form of structured private rented housing.

The final scheme provides 76 affordable units and 114 private rented sector units to be available for a minimum of 15 years, to be managed by a housing provider with tenancy terms of between 12 months and five years and a marketing plan that prioritised Wandsworth residents and/or employees.

6. City Living Initiative - Marketing Derby/ Derby City Council

Derby has sought to capitalise on the high levels of vacant office space and development site opportunities by encouraging residential development in the city through student accommodation, build for sale and specifically, private rented sector. The city is determined to be at the forefront of private rented sector development as it starts to spread into the regions. Recognising the extra incentives necessary in attracting developers beyond the core cities, Derby adopted the City Living Initiative.

Marketing Derby launched a City Living brochure in 2014, as an introduction to the city for developers unfamiliar with the city. The brochure provided key facts and figures for developers alongside a “shopping list” of over 20 potential development sites.

Derby City Council have established a City Living Fund to develop housing provision in the city centre through a loan based fund of £6.5m, made available to owners of vacant/under-occupied commercial properties for conversion to residential accommodation. There is also be a £250k grant fund to support projects where there are specific viability issues due to conservation, design, sustainability and other issues related to viability for new build schemes on brownfield sites.

Derby city centre has been shortlisted to become one of 10 new regional Housing Zones. This would provide fast-track, experienced planning guidance and support from central government, remove all unnecessary planning restrictions and increase the City Living Fund by £10m. The city should find out whether it has been successful by mid-March 2015

7. Embankment, Ladywood - Birmingham City Council

In February 2015 the City Council submitted a Planning Application for 'Embankment' its first private rented sector residential scheme. Given the rising importance of private rented sector as a positive tenure choice in the UK, it was a logical decision for the Council to move into this market. Located in the heart of the city centre, Embankment is strategically placed in the Westside area of the city, which hosts many of Birmingham's international-class visitor attractions and forms a hub for shopping, nightlife and entertainment activities.

Embankment is a 92 unit apartment scheme, with a number of design features which set it apart from speculative apartment developments. The apartments are spacious, and set within landscaped grounds, with onsite parking and cycle stores. The external space is as important as the apartments with a welcoming reception lobby. Embankment aims to set a new standard for private rented sector housing in the city, and to incentivise other private rented sector providers to follow in its example.



Figure 2: Birmingham City Council's Embankment scheme in Westside

8. Ermine Street Housing – South Cambridgeshire District Council

In November 2013 the Council decided to embark on a market rent pilot project. The aim of the pilot was to test the market to purchase homes and either resell at a profit or let out at market rents. The pilot was allocated £7million capital to purchase on the open market. The purpose of the pilot is to generate an income stream for the Council and for the Council to have an equity investment in a property portfolio.

South Cambs Limited was registered by and wholly owned by the Council; it trades as Ermine Street Housing and currently has a portfolio of 27 properties and a lease agreement with the Ministry of Defence to manage 28 dwellings. Ermine Street Housing provides the Council with an opportunity to Build to Rent in general terms on some of

development sites that have been identified, but our core business at the moment is to buy existing properties. We would welcome any further initiatives to assist with working capital and equity investment.

A full appraisal of the pilot project will go to Cabinet in November 2015 with a series of recommendations based on robust business modelling.

9. Fizzy Living

Fizzy was the result of an initiative to attract institutional investment into the residential housing market after the collapse of Lehman in 2008. The trick was to address the hurdles that were keeping the institutions out. These included property management, reputational risk, scale, target market, shared investment risk and a range of Unique Selling Points to manage the competition.

Thames Valley Housing Association (TVHA) decided to develop the initiative with a £30M equity investment. Their track record as a market leading Housing Association delivered the required property management and development skills, while their investment not only secured the first two buildings, but developed the brand (reputational risk), established the portal and management platform (property management), identified and named the target market (“Rentysomethings”) and developed the institutional investment. Silver Arrow, a subsidiary of the Abu Dhabi Investment Authority, committed to investing £200M in March 2014. This commitment has since been extended by a further £100M. Fizzy is now a joint venture between TVHA and Silver Arrow.

Fizzy now owns 4 completed buildings which are fully let. Two buildings are under construction in Lewisham, which will deliver the next 136 apartments. Fizzy has agreed to forward purchase 348 in the major Silvertown Way regeneration project in Canning Town, where Fizzy is partnering TVHA and Galliford Try in their Opal joint venture. A further 600 units are in the pipeline and ready to exchange

Fizzy’s current ‘average tenant’ is 32 years old, earns just under £35,000, is self-sufficient and will stay for an average of 2 years. Both Silver Arrow and TVHA are committed to a long term investment in Fizzy, which is a direct benefit to its tenants who can plan a tenancy which suits them rather than the short term variables of a Buy to Let landlord.

Currently Fizzy is targeting London and the South East, but expects to expand nationwide over the next two years. The Private Rented Sector is becoming an acceptable tenure of choice and we anticipate that this will remain the case well into the future, particularly in relation to the young professional dynamic.

10. Kier Kent Initiative – Kent County Council/Kier Living

The Kier Kent Initiative (KKI) is an innovative land deal between Kent County Council (KCC) and Kier Living, which uses public sector land and private sector institutional investment to build new homes for rent and open market sale. The initiative has packaged together KCC owned sites in Sevenoaks, Canterbury and Swale which would have struggled to deliver housing on an individual basis, and introduced institutional funding to finance the building of the new homes.

The rented homes are to be managed by a leading Kent-based housing association. Kier is currently seeking planning permission and it is hoped that once completed, the deal will bring forward more than 150 new homes. The new homes will be a range of affordable rent, intermediate, private rent and open market sale, enabling new cross tenure homes to be delivered without the requirement for Government grants.

The use of public sector land within the KKI model is vital to its success. In a world of diminishing public sector finances, land is a critical form of resource that the public sector has to offer.

11. Matrix Homes Limited - Manchester City Council

In April 2014 Manchester City Council and the Greater Manchester Pension Fund (GMPF) set up a Joint Venture, Matrix Homes Ltd, to bring forward a new and innovative partnership model for residential development. This model was run as a pilot project to invest £24m across 5 sites in the City; with the initial aim to build a mix of 240 new low rise family homes for sale and high quality market rent. The five main elements within the investment are:

- An investor (GMPF) funding the construction costs of the development
- A landowner (the Council and HCA for one of the sites) providing the sites to build the units upon
- A development contractor designing and building the properties
- A head tenant (management company) to lease and manage the privately rented units
- A sales and marketing team to market the development and sell a specified number of homes for home ownership.

An initial tenure mix on the sites was developed through scenario modelling to ensure the regeneration outcomes were delivered for the Council and that appropriate levels of owner occupation and private rented units were achieved across the portfolio of the sites. The tenure mix of the 5 sites changed throughout the scenario modelling period as inputs to the financial model were confirmed with actual costs from the delivery partners to ensure sufficient investment returns for the partners.

Of the 240 homes, 121 are being offered for sale, with Plumlife, the Manchester based affordable sales arm of Great Places Housing Group, handling sales and marketing. The remaining 119 homes are retained by Matrix Homes and are being made available for private rent through Touchstone, part of the Places for People group.

In order to ensure effective management of the rental units, Matrix Homes is granting a series of leases to Places for People, the head tenant for a period of 21 years. The rent payable to Matrix Homes is a percentage of the gross rental value, reflecting the risks and costs the head tenant will hold in performing the obligations of the lease. All management, repairs, insurance, void and bad debt risk sits with Places for People as the head tenant.



Figure 3: Matrix Homes development, Manchester

12. Newington Butts - EC Harris, Elephant and Castle, London Borough of Southwark

The Newington Butts site in Elephant & Castle is the first time the GLA has supplied land to build homes for rent using institutional backing. The ground-breaking deal is part of the GLA's commitment to securing further investment from institutions such as pension or insurance funds in delivering vital new homes.

The 44-storey tower at the Elephant & Castle is being developed by Mace Real Estate and Realstar and will include 278 homes for private rent owned and managed by Realstar whilst Peabody Housing Association will be the landlord for 179 affordable homes for rent and shared ownership. Work on the tower began in late 2014 and it is earmarked for completion in 2018.

The homes are designed specifically for rent – rather than just being regular homes converted for renters. As well as high quality design, renters will benefit from professional management services and attractive communal areas. The homes in the tower, designed by Rogers Strik Harbour architects, will also be available on long leases and will mirror similar style longer-term rental apartments in large cities in the US.

Specific focus on the design and spatial quality both of the apartments and communal amenity space provides for excellent facilities. Providing this quality is considered critical in maintaining long term tenancies, which in turn considerably reduces extensive turnaround of tenants and void costs.



Figure 4: Newington Butts development in Elephant and Castle

13. North Acton Private Rented Sector Scheme - London Borough of Ealing

The London Borough of Ealing recently converted a conventional residential for sale planning consent into a consent for private rented sector properties in North Acton. Ealing has been keen to facilitate the development of institutionally funded volume private rented sector housing and North Acton is an ideal location.

The new planning consent included an s106 agreement which provided for the affordable housing contribution to be in the form of discounted private rented sector units with a mechanism to determine rent levels.

The opportunity to facilitate the development of an existing residential consent into a private rented sector scheme by working with the building's new owners was an attractive prospect for the Council, but necessitated a new approach to negotiating the affordable housing provision so that it could be delivered within the proposed management structure without the need for a separate Registered Provider to take some of the stock.

14. Queen Elizabeth Olympic Park - Berwin Leighton Paisner LLP/ London Legacy Development Corporation/ Balfour Beatty/Places for People

The regeneration of Queen Elizabeth Olympic Park in East London is being delivered by Balfour Beatty and Places for People through a 50:50 joint venture, which will create two new neighbourhoods, to be called East Wick and Sweetwater with up to 1500 homes, of which 500 will be private rented sector. LLDC retains a substantial equity stake in the rented housing sector demonstrating the Mayor of London's commitment to this new and exciting asset class.

The scheme will provide LLDC with long term revenue as well as the chance to share in capital growth through a retained interest in the private rented sector development.

Until the recession, it was fairly common for local authorities to use geared leases to enable them to share in the ongoing success of retail projects on their town centre sites. As more established investors move into the residential sector, there is an increasing range of potential investment partners who can bring in both the investment expertise and residential management experience that could enable local authorities to both encourage and profit from private rented sector in their area. This necessitates a careful consideration of private rented sector management obligations, ability to select and approve managers, exit routes and the best approach to valuation as the market stabilises.