

DELIVERING BUILD TO RENT: Are you ready?

Part 2

Top ten Build to Rent questions answered

The emergent Build to Rent sector is triggering investment and causing a stir amongst the industry. But with any new trend comes a wealth of questions. In part two of our Build to Rent Briefing Paper, Tracey Hartley, Mark Farmer, Andrew Bulmer and Chiara Zuccon respond to some of the trade's top queries.



This Briefing Paper accompanies the customer service briefing for residential property industry professionals, hosted by FirstPort and held at the Cavalry & Guards Club on Tuesday 5th September 2017.

*This is part two of a two-part Briefing Paper on Build to Rent. In **part one**, Tracey Hartley and Mark Farmer offer their expertise in a bid to facilitate excellence in the delivery of this burgeoning asset class.*

1. What does the BTR customer look like?

Tracey Hartley: Generation rent is perceived as consisting of young professionals, with marketing geared towards that demographic. In practice, it is far more diverse. Research has shown the climate of generation rent is evolving due to various influences, such as mortgage availability and soaring housing prices. In response, a number of older people are turning to the rental sector, to enjoy the amenities and lifestyle which it offers.

2. The US equivalent of BTR is well-established and a success. What elements from their model might be transferrable to the UK?

Tracey Hartley: The US model is very useful in demonstrating how the model can work and work well. The customer-centric approach is king and buildings are developed from the bottom up to meet the needs of the customer. That said, BTR is still in its infancy and the approach to amenities will differ in the UK. Additionally, approaches to building management and the costs associated will also vary from those in the US. In this situation, an experienced management company with the data and understanding of how buildings are run and the cost to deliver, will prove invaluable to the decision-making process.

3. Are there any specific concerns when it comes to BTR financing?

Chiara Zuccon: When it comes to financing BTR, the real challenge to the sector has always manifested itself in the development phase. Historically, residential developments have been funded on the basis of units being sold on. But this exit does not exist with BTR. Instead, finance is provided on what cash flow is generated by the asset once it has been let, in other words, on assumptions. Again, this is where having someone who has a firm grasp of how the asset will be operated is very important, to turn assumptions into more solid predictions.

4. What is the typical debt available for a PRS development scheme?

Chiara Zuccon: As mentioned, debt is still driven by the future cash flow from that building and that is driving the leverage available for development. Currently, 50-60% loan-to-cost for senior debt is typical for a well-located scheme with good rents and a good operator behind it. Debt available from banks is normally five years, allowing for the development to be completed and fully let.



5. So what are the barriers to entry?

Chiara Zuccon: The biggest barriers are centred around making the proposition viable for each local market. There are a range of different BTR opportunities and each must be sized accordingly. This is where designing a building that is fit for purpose in terms of its offering, level of service and economy of scale comes into play. An integrated approach to all these things is crucial, paired with a good operator being involved from day one.

6. Is shorthold tenancy fit for purpose when it comes to BTR?

Andrew Bulmer: The assured shorthold tenancy has to be fit for purpose in the sense that it is the perfect Swiss army knife. It can be held for a minimum of three years. It can also be extended beyond that period by executing it as a deed. It is flexible to any model required which means from a legal perspective there is no real urgency for a different form of tenure.

7. What should property management service providers be utilising in order to meet clients' challenges in the BTR sector?

Tracey Hartley: The answer to this is relatively simple. Use the depth and breadth of knowledge that exists in that business. There is a vast amount of understanding of how people interact with these buildings that is not widely accessible outside of the management space. In short, capitalise on what is readily available at one's fingertips is the best solution.

8. What is the current maximum capacity of Build to Rent in terms of units per year?

Mark Farmer: This is an interesting question. The capacity that exists within this sector can only be seen in the context of the other tenures being built parallel to it. Hence, it requires a perspective from the entire housing industry. That said, current data suggests 20-25,000 are already in build. It also looks likely that a decline in private for sale will occur, freeing up further capacity in the future. One thing is for certain, reaching capacity through traditional construction is not viable. Things need to be done differently through manufacture-led initiatives.

9. How could modular construction prove to be a solution for the industry skills shortage?

Mark Farmer: Modular construction means different things to different people. It can mean 3D volumetric units such as what Pocket Living has done. Equally it can relate to 2D, for example a panel. Ultimately, the industry needs to move towards an approach where everything is not designed on a bespoke basis. That is not to take away from design and architectural quality. Design flair and urban context are still just as important as they always have been.

10. How can the industry train people to meet the standards that BTR customers expect?

Andrew Bulmer: When it comes to service delivery, the customer needs to be front and centre. Consumer facing training is very much part of the Build to Rent qualification that the Institute of Residential Property Management (IRPM) currently provides, which has been written by industry experts and is tailored to industry needs.

Meet the speakers



Tracey Hartley - Asset Manager, Foundation Real Estate

Tracey is a market leader in UK residential investment management and has more than 15 years' experience of the PRS sector.

Tracey previously worked at Grainger Plc, where she was Fund Manager of the GRIP Fund before becoming Director of Residential Operations.

Possessing an extremely credible, granular understanding of the PRS sector's drivers, Tracey served on the government's PRS Taskforce. She also chairs the RICS Property Management Working Group and sits on the RICS Residential Professional Group Board.



Mark Farmer - Founding Director & CEO, Cast

With nearly 30 years of experience in the construction and real estate sectors, Mark is a recognised commentator and thought leader on a variety of issues and has been at the forefront of the emerging Build to Rent market.

Mark is a member of the RICS, Vice Chairman of the ULI UK Residential Council, a member of the BPF Build to Rent sub-committee and co-chairman of Constructing Excellence.

Mark authored the October 2016 UK Government Review of the Construction Labour Market Model entitled 'Modernise or Die'.



Meet the speakers



Chiara Zuccon - Head of Private Rented Sector, The Royal Bank of Scotland Group

As Head of PRS, Chiara Zuccon leads the bank's UK-wide team dedicated to supporting its institutional customers looking to develop large scale purpose-built private rental schemes.

Chiara joined the Bank in 2007 and led the development of a strategy to support the emergence of the Build to Rent sector in the UK which culminated in the bank's commitment of £1bn to financing the development of new schemes for the residential rental market.

She has led the bank's work on a number of deals including the Essential Living's Creekside Wharf which was the first BTR scheme being delivered through Modern Methods of Construction.



Andrew Bulmer – CEO, Institute of Residential Property Management (IRPM)

A Fellow of the Institute of Residential Property Management and the Royal Institution of Chartered Surveyors, Andrew started his own residential lettings and block management practice in 1995, selling a majority in 2011.

Andrew chaired the RICS UK Residential Professional Group Board before becoming UK Residential Director at RICS in 2013 where he was responsible for standards and guidance for all UK Chartered Surveyors working in the residential sectors of valuation, survey, property management and agency.

In October 2016 Andrew took the CEO role at the Institute of Residential Property Management where he is responsible for raising standards in the residential property management sector.

Like to explore more?

FirstPort is the UK's premier property management group, spanning 184,000 homes across more than 3,800 developments in the residential, retirement and luxury markets. With a 30-year track record, we offer home builders and institutional investors a uniquely scalable combination of residential property planning and asset management backed by our national reach.

Our Build to Rent proposition delivers an integrated solution that spans skilled consultancy, property and asset management, residential services, tenancy and lettings management.

If you would like to learn how FirstPort can help support your Build to Rent investment today and well into the future, while providing an exceptional experience for customers, then come and talk to us.



01582 393 756



buildtorent@firstport.co.uk



firstport.co.uk/buildtorent