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Research
United Kingdom | 2023

London BTR

Build-to-rent growth, performance and forecasts for the capital

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Demand and demographics

01

Renters return to the city

Population growth six times the average private home completions

Demand for city living surged in 2022, with London experiencing the highest level of net additions since before the Brexit referendum. The Greater London Authority estimates the population increased by 92,285 people, six times the 15,316 10-year average for new private home completions.

This influx pushed the population to a record 9m in 2022. With almost a third of London's 3.7m households renting, that imbalance is putting great pressure on London's rental market. A scramble for accommodation has seen rental portal SpareRoom report a record seven renters for every one room listed, with Rightmove and Homelet both also recording double digit annual rental growth in the second half of the year.

While 2022's figures reflect a reversal of the pandemic city exodus, looking ahead the GLA forecasts continued population growth in excess of recent pre-pandemic levels.

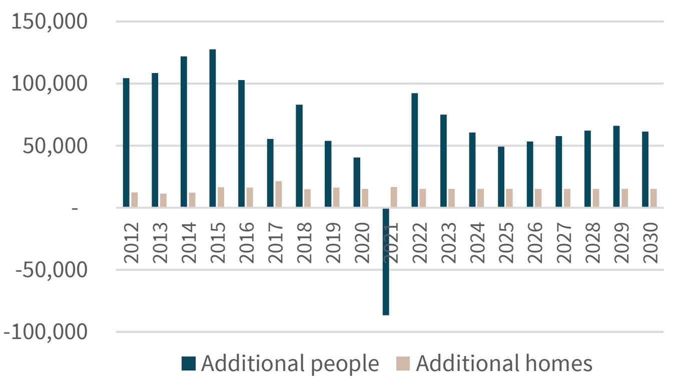
Over the last decade, London has attracted circa 70,000 people aged 20-34 each year and the GLA expects this to steadily grow to over 80,000 per annum over the next six years. Many will be graduating and moving to the capital seeking accommodation close to work and flexibility to support their urban lifestyles. Instead they face an undersupply of quality rental options, despite clear consistent demand.

A long-term trend

Between 2011 and 2021, London's population grew by more than 710,000 people, according to the GLA's population figures, an increase of 9% despite the departure of London residents and the drop in international migration during the Covid-19 lockdowns.

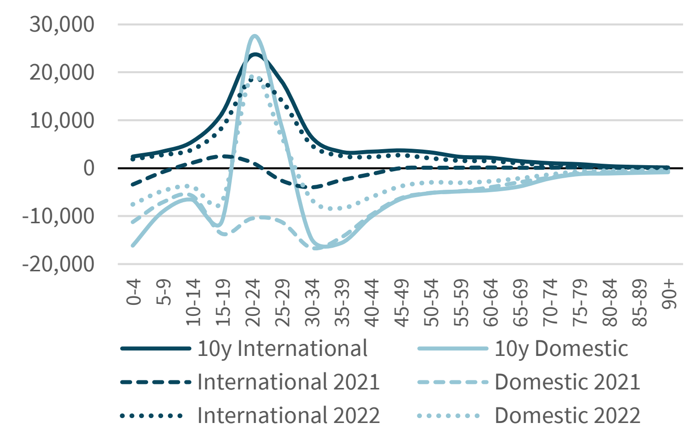
Over the same period, the number of households grew 19%, according to the government's most recent English Housing Survey (2021-22). The number of households renting rose 33%, once again exceeding 1m in 2021-22 and overtaking the number of owner-occupiers with a mortgage. The proportion of households renting has doubled since the EHS began tracking this in 2003-04.

Population additions vs new private homes



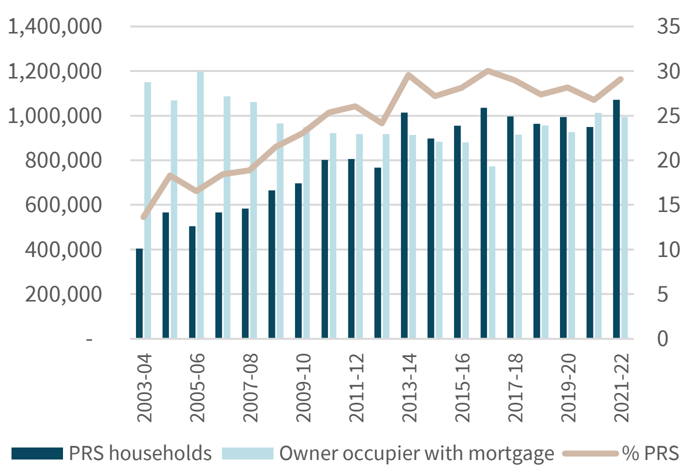
Source: GLA, DLUHC

Net migration highest at 20-34 years



Source: GLA

Private renting households



Source: EHS

Rising house prices drive more to rental

House price to salary ratio

Source: ASHE. Land Registry

Sales Price to Salary Ratio (London, Q3 2022)			
Median 1-bed flat price	£345,000		
Income percentile	25th	50th	75th
Ratio	12.1	8.8	6.2

Source: ASHE, Rightmove

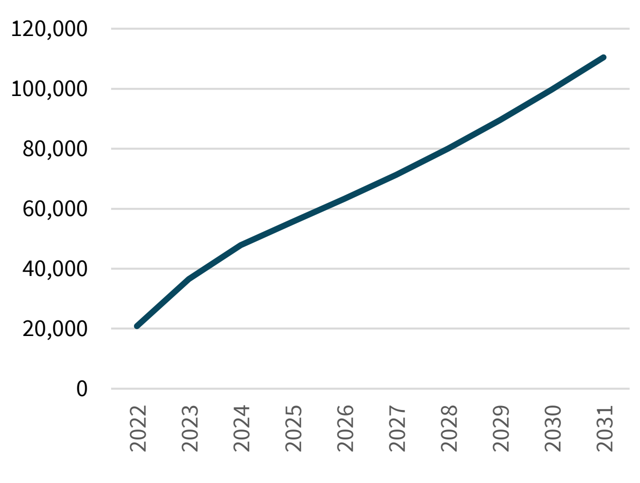
Growth in the popularity of renting comes as the proportion of owner occupier households declines. This has fallen from 61% in 2003-04 to 49% in 2021-22.

The average price of a home in London has increased by 83% since 2011, where average gross pay has risen by just 24% in the same period. A one-bed flat or maisonette averaged £345,000, according to the most recent Land Registry data. This price-tag requires households to earn more than £69,000 pa (based on 10% deposit) only accessible to 26% of London households according to demographic profiler CACI.

Though JLL expects house prices in London to fall 4% on average in 2023, high mortgage rates and the end of Help to Buy will make it harder for prospective homeowners to buy. Rising rates also risk reducing the rental supply, deterring new buy-to-let purchases, with many existing landlords also seeking to exit the market.

Undersupply of 100k homes in 10 years

Cumulative 10-year PRS shortfall



Source: JLL, GLA, EHS, DLUHC

The GLA anticipates that London will again grow by at least 700,000 more people between 2021-31. As the average household size continues to shrink this would call for a further 500,000 homes. Over the last decade 45% of new households were in the PRS; the same trend would see demand for 300,000 additional rental homes.

Current average private home supply levels would only meet 58% of this, resulting in unmet demand for more than 100,000 PRS households over the next decade. Though in reality this could be far higher, given the headwinds to home ownership and challenges for small landlords limiting supply levels.

These demographic trends would see the number of PRS households rise to 1.3m, making up 31% of all households in London. This demand is a call to action to policymakers and local authorities, but also investors and developers who seek to respond with institutionally-backed purpose-built rental homes, more commonly called build-to-rent.

Investment and supply landscape

02

Long Harbour's The Mall, Walthamstow

Investment in BTR

Annual investment climbed by 46% in 2022 despite headwinds

A record £2.7bn was invested in London build-to-rent in 2022. Funders targeting London backed more than 10,000 homes in the sector in a year that saw a 46% rise in transactions volumes.

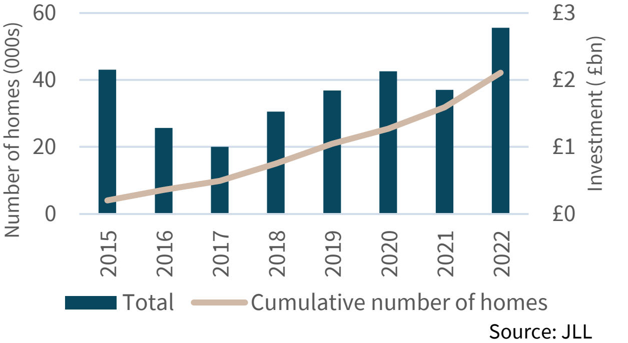
Notable deals in 2022 included Long Harbour's joint venture funding of a £260m BTR scheme in Walthamstow (pictured) and Greystar's purchase of Grosvenor's Biscuit Factory site in Bermondsey, which has planning consent for 1,548 homes.

Investment was 26% higher than the previous record set in 2015. Against a backdrop of rising interest rates and market uncertainty, investor interest in BTR remains strong, underpinned by a structural undersupply of rental homes.

Some £15bn has been invested in London BTR since the start of 2015, with 188 deals funding 42,147 homes. In 2022, 21 active investors completed BTR acquisitions, also a record for the capital. Excluding corporate entity acquisitions and smaller land deals, the average London BTR transaction has doubled during the period, rising from £48m in 2015 to £100m in 2022.

London BTR pricing has been less volatile and less impacted by a challenging economic environment than other commercial sectors. In the past year, while interest rates have increased by 325 percentage points, BTR's fundamentals have allowed it to absorb external pressures, with prime London yields at the end of 2022 having moved by 25 points, compared to a 75 point movement in the City office market. The sector also offers generous returns relative to other European markets, with prime yields higher than cities such as Paris, Berlin and Copenhagen.

Annual investment and homes



Source: JLL

London Prime BTR Yields (Stabilised)

Yields	Q4 2021	Q3 2022	Q4 2022
Prime Inner London	3.50%	3.25%	3.50%
Prime Outer London	3.50%	3.50%	3.75%
Prime MSCI UK PRS	3.68%	3.85%	4.70%
European Multifamily	2.87%	3.21%	3.65%

Source: JLL

In the early days of London BTR, corporate entity deals and built assets made up a larger share of investment. A lack of existing institutional-grade rental homes has since seen the majority of investment deployed through development. Since 2015, £11bn has been invested in London in this way, accounting for 75% of total funds, of which two-thirds came from forward funding deals (48% of total investment).

More recently, a rise in built stock and demand from core investors has seen built assets grow to 34% of investment in 2022. At the same time, new home construction has increased and diversified as more buyers pursue direct development and joint venture partnerships with greater control over the final product. As a result, in 2022, forward funding fell to just 25% of investment.

Steady supply

At the end of 2022 there were 37,800 completed BTR homes in London, accounting for just 3.5% of the rental market. A further 27,600 with plans approved and under construction would see London rise to 65,400 over the coming years, adding at least £10bn further in investment.

The sector maintained momentum throughout the pandemic, on average delivering 5,400 homes a year over the last three years, contributing 33% of new homes. However, the current pipeline would allow this to continue for just five more years.

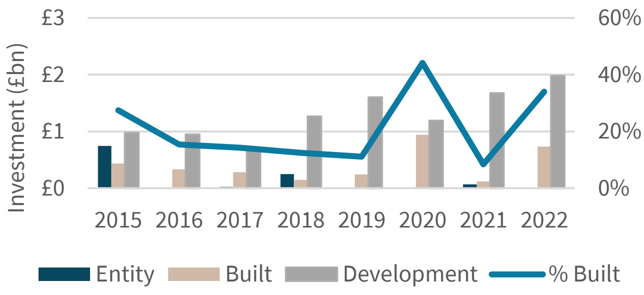
If the market were to stay at just over 1m PRS households, this would see the proportion of BTR rise to just 6% of PRS homes. This is still half the penetration of the US, where institutional investment makes up 12% of the rental market.

Prime products

The first BTR homes were largely delivered through private sale blocks sold to investors and conversions. In 2015, 58% of homes completed were classified as Grade C, not purpose-built and with limited amenity. In 2022, just 10% of homes fell into this category, with 79% being Grade B (mid-market) and the remaining 10% being Grade A product (luxury). This top tier product provides the highest level of amenity and service in prime locations.

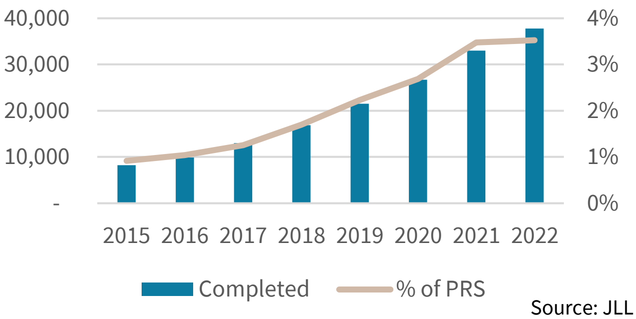
Get Living's East Village, Stratford

Transaction types



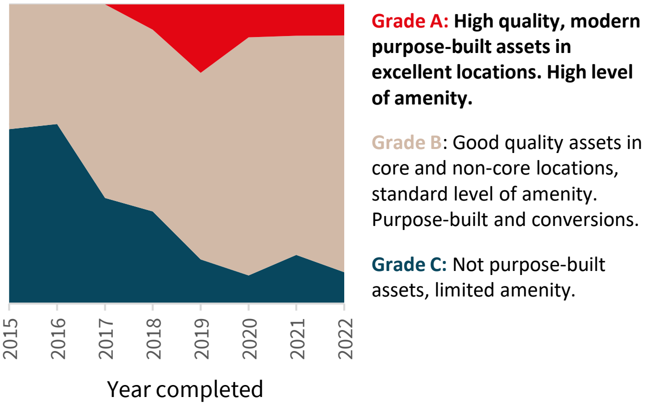
Source: JLL

Completed BTR homes



Source: JLL

BTR grading



Source: JLL

Rental performance

03

Lack of supply drives rental rebound

Listings dive 35% in 2022 compared to pre-pandemic 2019 levels

Consistent declines in available rental homes and a lettings frenzy drove record rental growth in 2022. The number of listings fell 35% compared to pre-pandemic levels in 2019 and rents rose 21% from the end of 2019 to the end of 2022.

This trend is also reflected in data from tenant referencing service Homelet, which saw achieved rents on new lets rise 14% in 2022. Across all rentals, including renewals, rents increased 4% during the year, according to the Office for National Statistics.

In London, this has been supported by wage growth. Homelet reported the average rent taking 36% of the average income at the end of 2022, higher than the UK average of 31%, but below the pre-pandemic level of 37% at the end of 2019.

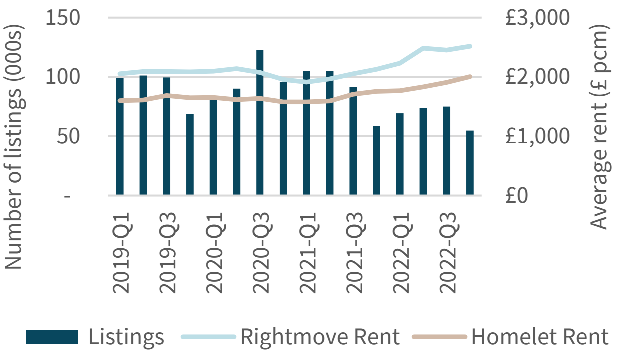
JLL's 2022 Tenants Survey found BTR residents are typically higher earning, with an estimated salary 47% above the median London salary. The majority claim to spend just 30% of their income on BTR, despite the higher costs to include services and amenities, such as concierges, gyms, wifi and events. This has supported BTR rental growth of 16% for new lets in London.

BTR lettings frenzy

Strong demand for BTR in London is visible in recent record lease-up for new schemes. Abrdn's 158-unit Stratford Studios scheme, managed by JLL, was fully let and stabilised in less than two months this summer. High levels of new lettings continued beyond the summer months, according to JLL analysis of 109 new schemes in London. Average monthly lettings velocity rose to a peak of 40 in November 2022, more than double the 18 lettings average for a scheme one year earlier.

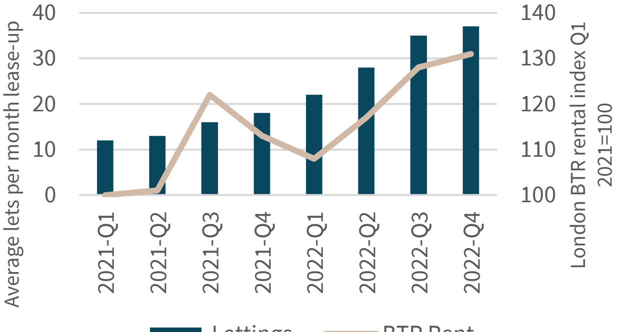
Ongoing demand for quality BTR, met with expected continued wage growth next year supports long-term stable growth. JLL forecasts that rental growth in London will outpace the regions over the next three years, and BTR will maintain a premium.

PRS new listings



Source: JLL, Rightmove, Homelet

BTR lease-up velocity rises



Source: JLL

JLL rental forecasts

Rental growth (% pa)	2023	2024	2025	2026	2027
UK	**4.0**	**3.5**	**2.5**	**2.5**	**2.5**
Central London	6.0	4.5	3.0	2.5	2.5
Greater London	4.5	4.0	3.0	2.5	2.5
UK BTR	6.0	5.0	4.0	3.0	3.0

Source: JLL

London submarkets

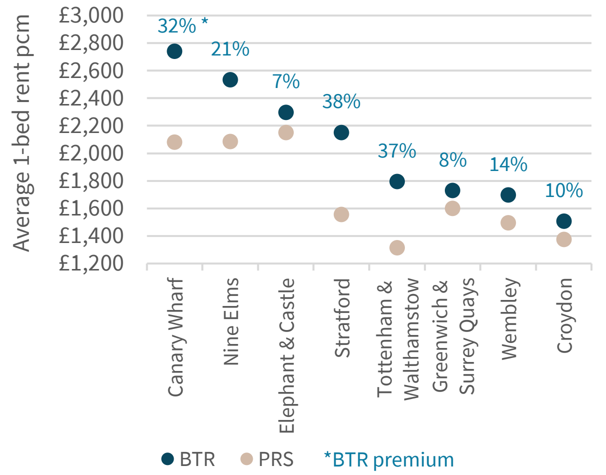
BTR expands with a range of markets, product and price points

As the BTR market has expanded in London, a range of distinct submarkets has emerged. While the first schemes tended to be concentrated in large regeneration zones, for example in Stratford and Wembley, recent transport projects like Crossrail and HS2 have opened up new markets and product types.

Rental values and the premium achievable over local PRS vary considerably between submarkets. JLL analysis of 15,000 BTR listings in London over the past year reveals an average rental value of £46 per sq ft or £2,414 pcm. The average one-bed rent is £1,886 pcm, achieving a 20% premium over local market rents on average in the largest eight submarkets. However, rents range broadly from Croydon, where renters expect a more affordable product, to Canary Wharf's high-end city centre offering.

Opportunities to replicate the scale and values of Canary Wharf, Nine Elms and Stratford are limited by a lack of suitable sites. As such, developers and investors are now turning their attention to outer London and the commuter belt, places with strong transport links and demand for quality rental homes, driving the next stage of London's BTR evolution.

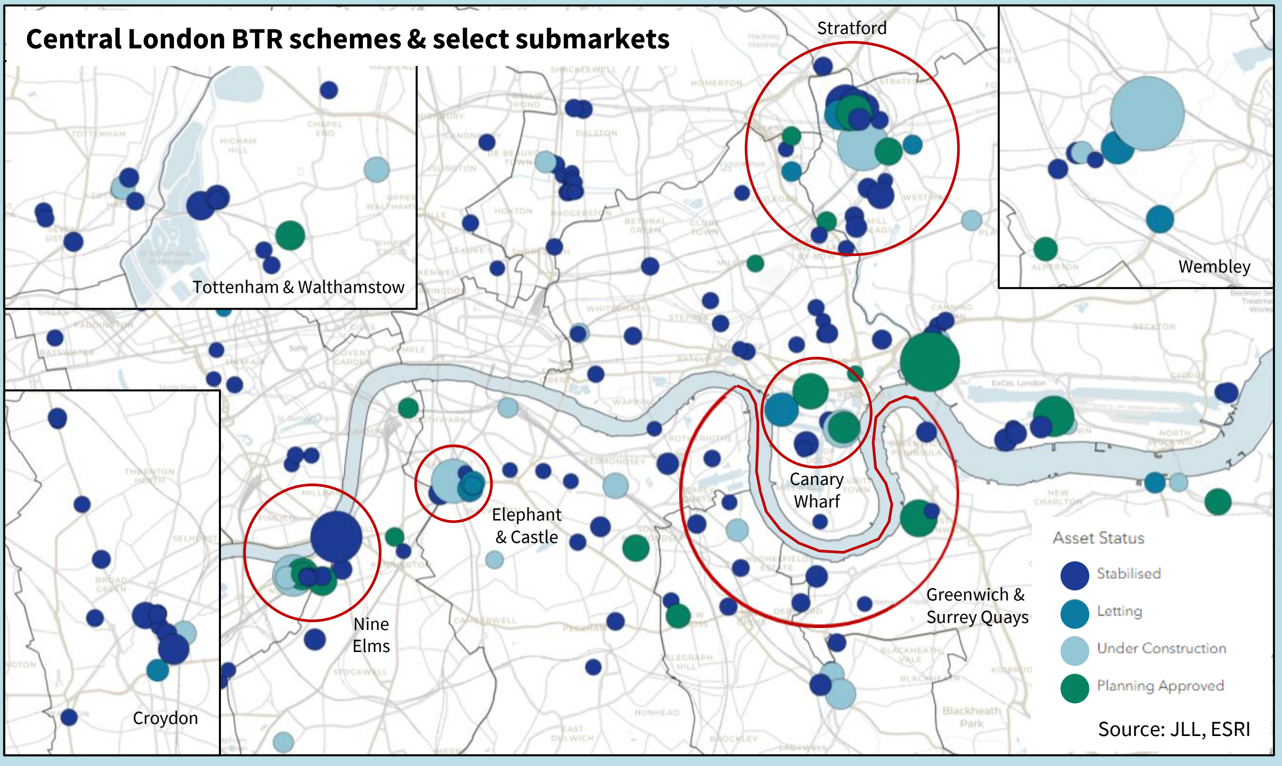
BTR rents by top submarkets



London BTR listing analysis

No of beds	No of listing	Avg BTR rent pcm	Avg £psf
Studio	1,861	£1,630	£48.9
1 bed	5,800	£1,886	£45.2
2 bed	4,776	£2,719	£46.6
3 bed	2,489	£3,634	£43.6
All	14,926	£2,414	£45.9

Source: JLL, Rightmove



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