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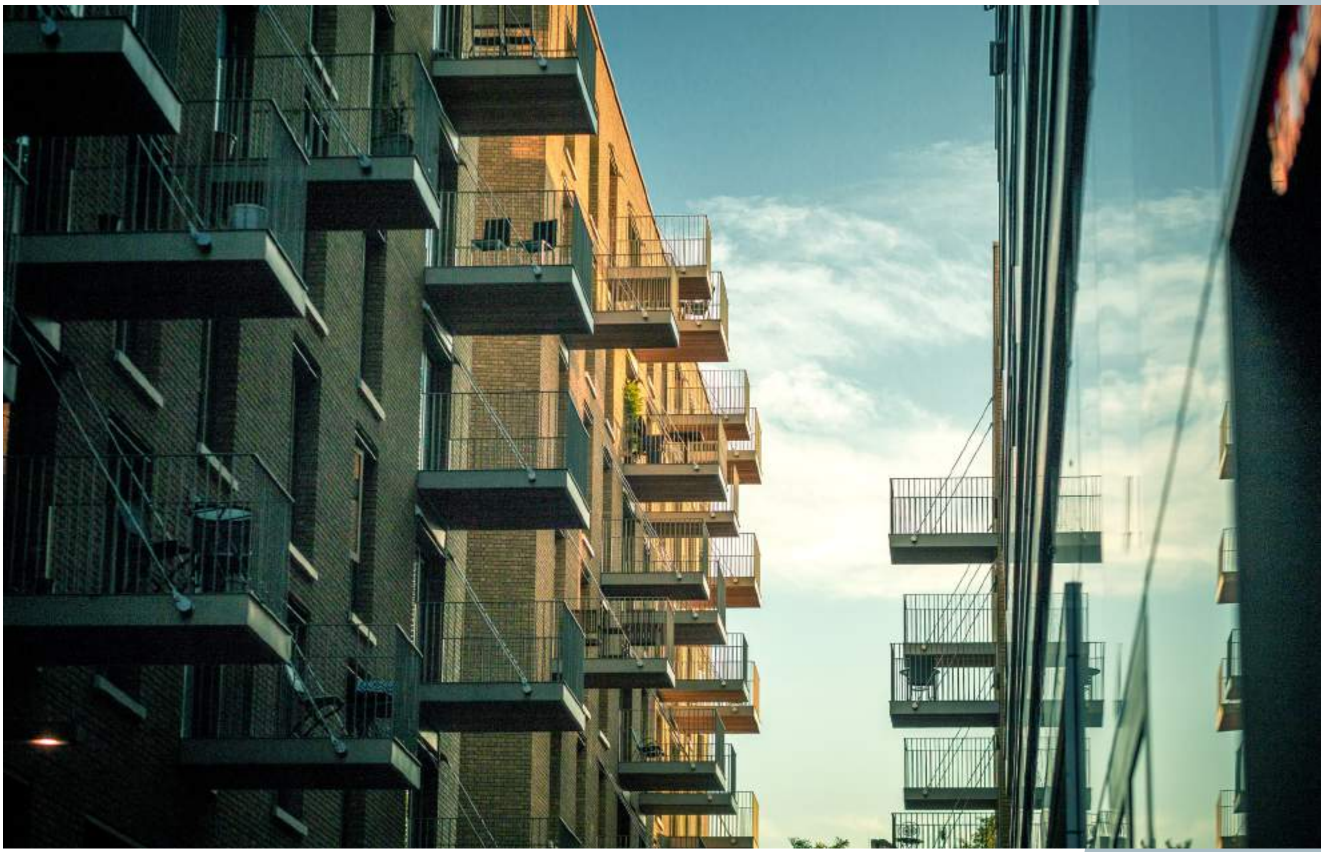

Beds for rent: The golden age

Future Living II report

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Introduction

When we launched our first Future Living report in 2019, it was based on the idea that a new real estate asset class was emerging in the United Kingdom that would hold a powerful appeal for global institutional investors.

I'm happy to say that in our second Future Living report, we have been proved correct. Even a dramatic turn of world events didn't dissuade our view that what are now commonly known as the 'Living', or 'beds for rent' as they are also known, strategies, a term to encompass multiclass private residential property for rent in the UK – private rented sector, student accommodation, retirement living, co-living and serviced apartments, would soar in popularity.

The Covid-19 pandemic has emphasised what has been increasingly obvious to investors in the last few years, with the most appealing real estate investment characteristic being the fact that everyone needs a roof over their head.

From our poll of over 50 global institutional investors, we can now see that they are targeting the 'Living', sectors en masse at the same time as many are exiting traditional property asset classes. This demonstrates that the pandemic set in motion some seismic changes to the real estate market.

With many of the same investment characteristics in their favour, such as demographics, strong demand, shortage of supply and the need for skilled management, we believe we will see closer alignment in investment performance in the 'Living' world.

Quite simply, the 'beds for rent' sectors are now core to investors' strategies and, as long-standing supporters of these use classes, it is exciting to be at the heart of this shift.

As the United Kingdom's recovery from Covid-19 picks up pace, I expect to see an appetite for nationwide investment in 'Living' strategies and a new set of metrics taking hold, with the winners identified for their thoughtful design, development, asset management capabilities and customer care.

At Investec, we made a call on the 'beds for rent' sector a number of years ago, seeing our loan book exposure increasingly weighted towards this part of the market. Encouragingly, the findings of our research point to investors making the same bet.

Mark Bladon

Head of Real Estate, Investec

Executive summary

Covid-19 has transformed the way global institutional investors look at real estate, with the 'beds for rent' sector emerging as the big winner. In the minds of investors, the change is permanent, as they look to grow their investment in the 'Living' world throughout the decade.

Mark Bladon, Head of Real Estate, Investec, said: "Our forecast in the first Investec Future Living report – that investors would increasingly view 'Living' as a defined asset class – has been confirmed. For many, it is now core to their strategies."

52

GLOBAL INSTITUTIONAL INVESTORS

£514 billion

IN ASSETS UNDER MANAGEMENT

Investors who bought into the 'beds for rent' sector over the last three years have seen strong returns despite the Covid-19 pandemic. The sector looks set for an even better performance as demand continues to grow.

Build-to-rent (BTR), defined as new build developments designed specifically for renting, has been key to this success, with retirement living also growing rapidly in influence since we worked with FTI Consulting to first publish a poll of 50 institutional investors in the 'Living' sector in 2019.

Starting in March this year, we spoke to 52 global institutional investors representing £514 billion in assets under management.

Respondents comprised pension funds, hedge funds, private equity, mutual funds, venture capital and sovereign wealth funds.

We also conducted interviews with six of Europe's most influential players in the 'Living' sector: fund management giant M&G, alternative investments specialists Harrison Street, global consultancy JLL, UK real estate private equity fund manager Moorfield, multi-family specialists Long Harbour and BTR owner and developer Get Living.

They were unanimous in their view that 'beds for rent' has proved its resilience during the last 18 months and will emerge stronger than ever having learned valuable lessons from the pandemic.

Within the next five years, investment strategies encompassing student, PRS, serviced apartments and retirement living will be common in the UK

Among our key findings from global investors in 2021 are:

BTR has become core to strategies, with 58% of investors saying they currently invest in the sector and will continue to do so. Another 17% of investors are considering investing.

Retirement living has soared in popularity, with 33% currently investing compared with 20% in 2019.

Whilst purpose built student accommodation has become more appealing to investors, with 40% currently investing compared with 33% in 2019, current uncertainty is impacting on its longer term appeal, with optimism for the next five years for student accommodation (27%) almost halving since 2019 (48%).

The latter point is perhaps a function of the timing of the polling, which was carried out before the vaccine rollout had gathered momentum. It also needs to be viewed in the context of the sector's increasing maturity versus the other 'Living' sectors and therefore the smaller relative upside available to investors.

As the 'Living' sector grows in maturity, there are also perceived barriers on pricing and the returns available from a more affordable product, as well as economic uncertainty and availability of stock.

But given the economic turmoil the world has suffered over the last year and a half, the overall picture is healthy, with 'beds for rent' far outpacing office, retail and hotels in prospects for the next 10 years.

Reflecting a growing consensus that the 'beds' asset classes will coalesce in performance and management, 88% agree that investment strategies encompassing student, BTR, serviced apartments and retirement living will be common in the UK by 2026.

Institutional allocation and the impact of Covid-19

> "Ultimately investors want to take as little risk as possible and achieve as high a return as possible. They want safe, secure, inflation-linked income returns, even more so now than pre-Covid and before the Global Financial Crisis in 2008, especially real estate investors"
>
> **Charles Ferguson-Davie, CIO at Moorfield**

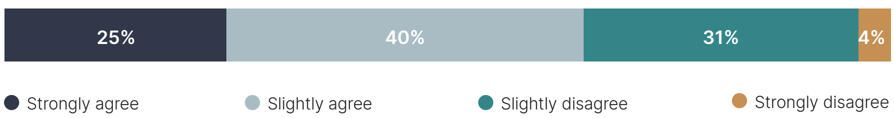
In recent years, particularly in the current low-interest-rate environment, the demand for exposure to real estate as part of a diversified portfolio has grown.

However, a defining feature of Covid-19 has been the unprecedented disruption to what were considered the traditional real estate sectors, which has translated into a major shift in investors' current and future attitudes to real estate allocation.

The acceleration of structural trends led by the move to online has put even more pressure on what was already an ailing retail sector, with knock-on effects for where people choose to live.

At the same time, the search for yield continues to be a defining characteristic for a large proportion of real estate investors. "Ultimately investors want to take as little risk as possible and achieve as high a return as possible. They want safe, secure, inflation-linked income returns, even more so now than pre-Covid and before the Global Financial Crisis in 2008, especially real estate investors", said Charles Ferguson-Davie, CIO at Moorfield.

Covid-19 has permanently altered the UK beds-for-rent outlook



85%

OF INVESTORS ARE EXPECTING TO EITHER INCREASE OR MAINTAIN THEIR PORTFOLIO ALLOCATION TOWARDS THE 'LIVING' SECTOR OVER THE NEXT 10 YEARS

While the 'beds for rent' sector was becoming an increasingly prominent asset class before the pandemic, the defensive characteristics it has displayed during the last year have turbocharged its appeal. Higher rates of both occupancy and rent collection, coupled with investors' growing comfort level with exposure to operational real estate, have fundamentally changed how the sector is perceived.

Our research reveals that 65% of investors either agree or strongly agree that Covid-19 has permanently altered the UK 'beds for rent' outlook.

Alex Greaves, Head of Residential at M&G, was in no doubt that this was a watershed moment for the sector. "I've spent the last 10 years talking to investors about the robust nature and defensive qualities of the residential asset classes.

"Look at what happened with the 90s and noughties crashes, and now we have another crisis. We've seen rent collection stats at 95% plus, which versus other asset classes speaks for itself."

Any questions that this is merely a temporary, Covid-19 led shift are dispelled by the research. 85% of investors are expecting to either increase or maintain their portfolio allocation towards the 'Living' sector over the next 10 years, versus just 58% for office and less than half for retail (46%).

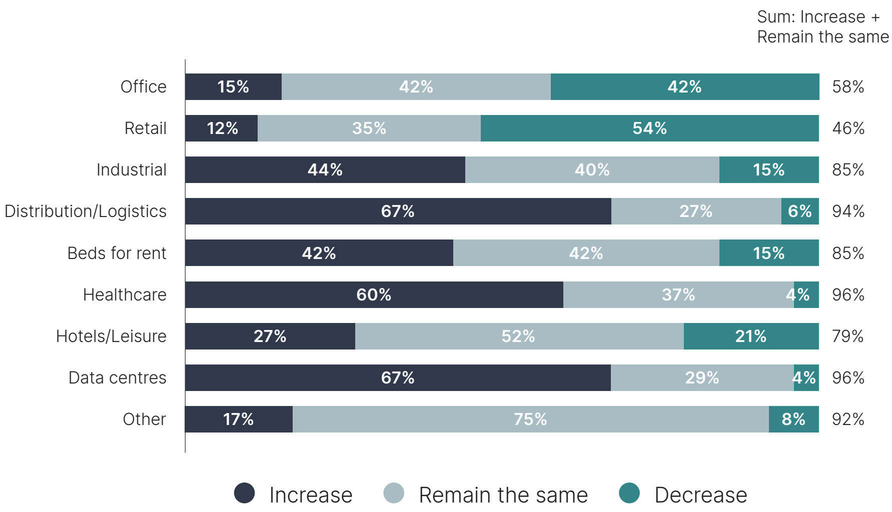
Overall, investors are three times more likely to increase their exposure to the 'Living' sector in the same period versus the office sector and almost four times more likely versus the retail sector.

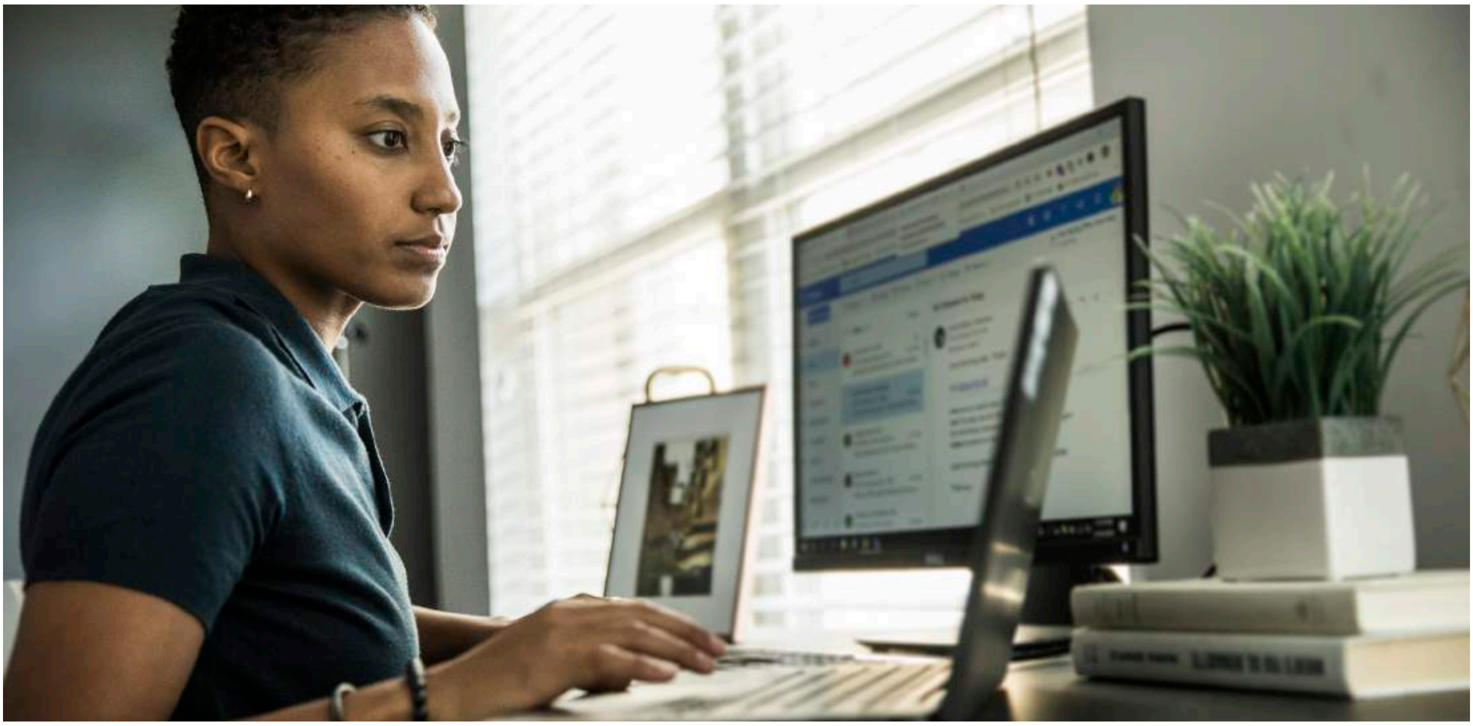
According to JLL's Head of Living Simon Scott, "Investment volumes are only going to grow. There is a lot of focus on logistics as being the most attractive asset class, but frankly it doesn't offer the scale or diversification that the 'Living' sector offers."

A further sign that the sector is increasingly viewed as mainstream is in its risk profile. Compared with the first Future Living report, the percentage of investors that consider the retirement living, BTR, co-living and serviced apartment sectors particularly risky to invest in over the next five years have all decreased.

Q13. How do you expect your portfolio allocation of each of the following use classes to change over the next 10 years?

(Please select one column response for each row)





With 77% of investors citing risk as the most important and influential criteria in their investment decision, the prospects are strong.

BTR, in particular, has enjoyed a meteoric rise in the two years since the publication of our inaugural research, with 13% more investors particularly optimistic about it over the next five years (up from 35% to 48%). “Ultimately, the professionally managed private rental sector is only going one way, and I think we’re only on the tip of that iceberg, in terms of the scale of investment and people reallocating from other sectors,” said Scott.

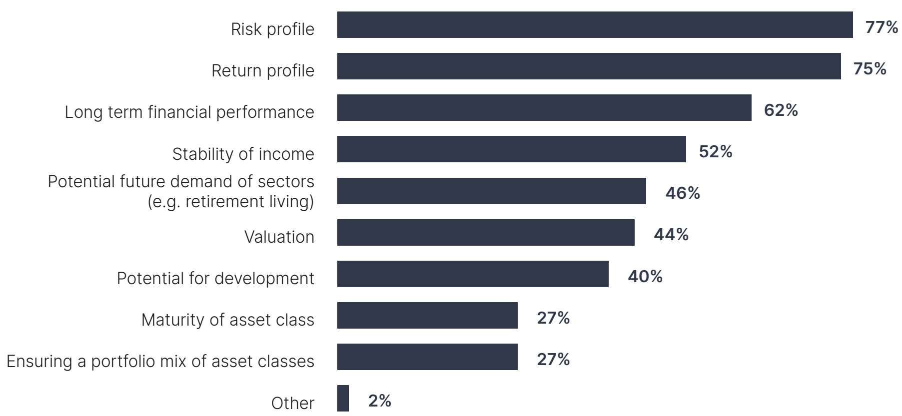
The prospect of rising inflation looks set to further increase the sector’s appeal. “Inflation is now more of a topic post-Covid. We might see some inflation because of the various government support measures and it’s likely that central banks will let it run a little more than previously” added Ferguson-Davie.

“Look at what happened with the 90s and noughties crashes, and now we have another crisis. We’ve seen rent collection stats at 95% plus, which versus other asset classes speaks for itself.”

Alex Greaves, Head of Residential at M&G

Q3. Which of the following criteria would you consider to be IMPORTANT and INFLUENTIAL upon you overall UK real estate investment decision making?

(Please select all that apply)

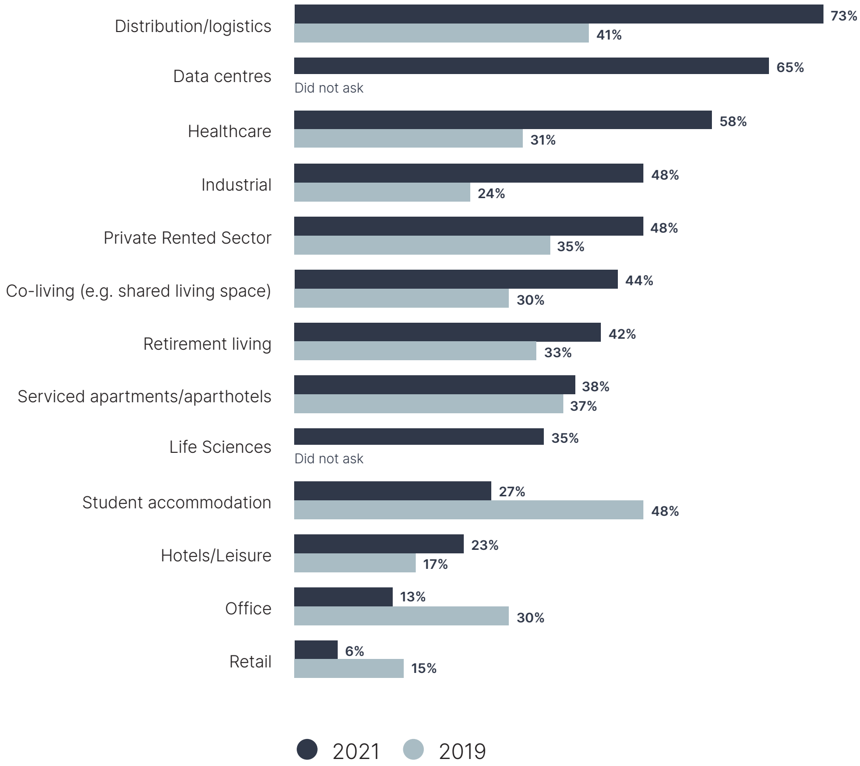


"Some parts of the real estate world are better suited to track inflation: the only sector where rents have tracked inflation over the long term is residential."

"The other sectors' losses have been residential's gain" surmised Greaves. Given that the risk and return profile continues to be considered the most important criteria upon investors' decision making, Ferguson-Davie added a note of caution: "Investors currently want to be in the 'Living' sectors because, at present, they offer better risk/return dynamics. If that were to change, investors would switch. If in a post-Covid world there was a political, legislative or major societal shift, which might shift the desirability of the 'Living' sectors, then the situation could change."

Q5-2. Which of the following UK real estate asset classes are you particularly optimistic about over the next five years?

(Please select all that apply)



Build-to-rent shines and student accommodation comes under pressure with the end of Covid-19 in sight

"Build-to-rent in the UK is still in its early stages, but there is a huge amount of capital support.

"Investors can get a good read on build-to-rent; they understand the demographics, the stability of cash flow and that their capital will be serving the community, which is aligned with the needs of their own stakeholders."

Christian-West, Director of Real Estate at Get Living

"Build-to-rent in the UK is still in its early stages, but there is a huge amount of capital support.

"Investors can get a good read on build-to-rent; they understand the demographics, the stability of cash flow and that their capital will be serving the community, which is aligned with the needs of their own stakeholders."

This was the view of Ailish Christian-West, Director of Real Estate at Get Living, the UK's top owner and operator of BTR homes. Its East Village regeneration of the former Olympic Village in East London's Stratford has been the trailblazer for so much of the BTR development that has followed.

Her views reflected those of the global institutional investors we polled, with BTR continuing to grow in appeal even from a high-water mark of 2019.

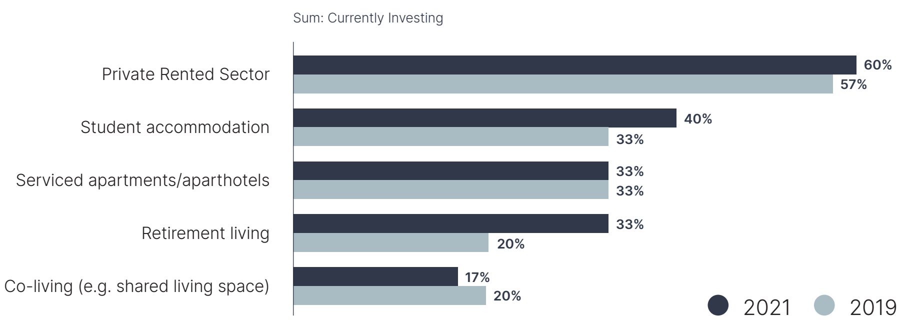
Prospects for the coming years are good too, with BTR having fared better than the office, retail, and leisure sectors during the pandemic when looking at the rent collection statistics, share price performance of the listed companies investing in these sectors, and the yields at which assets have traded.

Paul Bashir, CEO Europe at alternatives real estate investment specialist Harrison Street, said: "There have been a lot of trends in real estate which have been influenced by Covid-19.

"Build-to-rent is benefiting from significant tailwinds as a result, with people becoming more focused on affordable homes, flexibility and amenities because they are spending more time in their homes. City centre build-to-rent is still compelling but there is also a growing argument for suburban or commuter build-to-rent."

Q4-2. How would you describe your company's investment activity in each of the following UK real estate asset classes over the next five years?

(Please select one column response for each row)



Both Christian-West and Bashir pointed to a growing sense of community within BTR developments during the pandemic, with East Village becoming one of the banner locations for the NHS 'Clap for Carers' phenomenon in spring 2020's first lockdown.

Bashir continued: "Throughout the pandemic, we have had very high rental collection in BTR: 90%-plus across Europe.

"Lockdown has helped the take-up of experiential activities in build-to-rent, like yoga on the balcony and cookery courses on Zoom. It has strengthened these new communities."

According to British Property Federation[1], Molior[2] and Savills[3] research, BTR development continued apace during 2020 with 53,750 BTR units completed by Q4 2020, compared with 43,598 a year before.

In total there were 179,835 BTR homes completed, under construction or in planning in the fourth quarter of last year, compared with 151,722 at the same time in 2019 – a 19% rise.

The rate of increase was sharpest in the regions, with a 28% rise in the total figure to 99,114. In London, there was also an 8% rise in completions, projects under construction and those in planning, which takes the total up to 80,721.

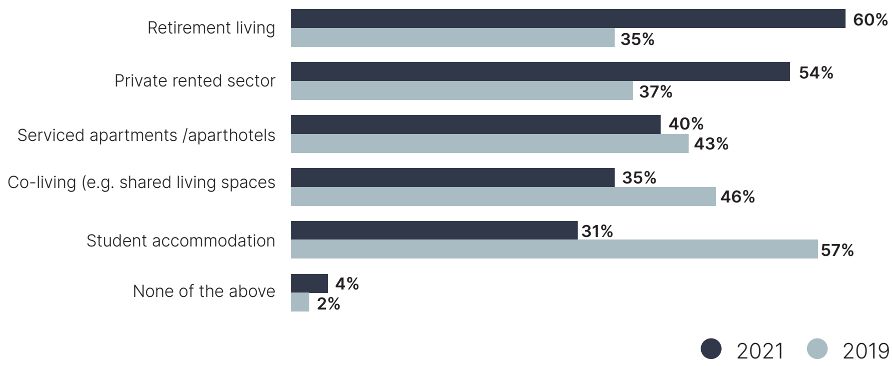
"Throughout the pandemic, we have had very high rental collection in BTR: 90%-plus across Europe.

"Lockdown has helped the take-up of experiential activities in build-to-rent, like yoga on the balcony and cookery courses on Zoom. It has strengthened these new communities."

Paul Bashir, CEO
Harrison Street

Q7-2. Which of these UK asset classes do you believe will be particularly appealing from an investment perspective over the next five years?

(Please select all that apply)



1. British Property Federation, UK build-to-rent housing supply grows in 2020 despite Covid-19, 2021 (Link)
2. Molior, BTS + BTR January 2021, 2021 (Link)
3. Savills, UK Build to Rent Market Update – Q4 2020, 2021 (Link)

Student accommodation investment hangs in the balance

Whilst investor exposure to the student accommodation sector has grown since the last Future Living report, it is the 'Living' sector asset class that has come under the most pressure, as restrictions on foreign travel and in person teaching have driven down occupancy.

Whilst slightly skewed by Blackstone's record-breaking acquisition of iQ Student Accommodation, investors spent £5.77 billion on the sector last year, a 5.7% increase on 2019[4], with other new investors entering the sector during 2020 including Crosstree, Barings, Ares and Franklin Templeton.

Harrison Street's Bashir, a major investor in the student sector, said: "2020 was difficult for the student accommodation sector because operators were playing catch-up to a `point-in-time' event.

"But student accommodation has really proved itself now, with online teaching proven to be inferior to face-to-face, students still keen to be based away from home and a significant increase in 18-and-19-year-olds on the way. The sector will rebound quickly in 2021."

Savills reported that investor confidence started to grow again at the end of the year off the back of the UK's Covid-19 vaccination programme, and this has been borne out in recent months, with investors including Lone Star, Patron Capital and Ares Management, all buying in the sector.

There is no doubt, though, that Covid-19 has rattled some global investors. Many higher education establishments are persisting in plans for online learning despite frustration among students and until there is clarity on this front, optimism is likely to be subdued.

£5.77 billion

SPENT BY INVESTORS ON THE SECTOR LAST YEAR, A 5.7% INCREASE ON 2019

4. Savills, Spotlight: UK Purpose-Built Student Accommodation, 2021 (Link)

This is reflected in the survey, with student accommodation considered "particularly appealing" by just 31% of respondents over the next five years, and 25% over the next 10 years.

Moorfield's Ferguson-Davie said: "For PBSA, the next 12 to 18 months may be challenging. But if you look forward 10 years, there are no reasons why the sector should be of any less interest. But you should get a higher yield for student accommodation than build-to-rent at the moment and if you can buy at a higher yield, it compensates for that added risk."

Mark Bladon agrees "We're currently seeing significant growth in GDP, in part due to the unlocking of the economy and massive government stimulus, so a number of commentators are questioning the possibility of excessive inflation, which could ultimately lead to an increase in interest rates. This could further increase the appeal of 'Beds for Rent' as the ability to reprice rents annually offers investors greater protection than more traditional full repairing and insuring FRI leases common for office, retail or industrial assets, for example."

Student accommodation occupancy was lower than expected in 2020, with the sector's largest operator Unite reporting a fall from 98% in 2019/20 to 88% in 2020/21.

However, while rent collection and occupancy have decreased in student accommodation, they have fallen less than in other sectors. For example, landlords collected just 42% of shopping centre rents in the fourth quarter of last year.

There has been very little outward yield movement, though, with yields remaining stable at 3.90% for prime London, 4.75% for super-prime regional and 5.25% for prime regional assets[5]. This suggests that investors see Covid-19's challenges to the sector as temporary rather than symptomatic of a structural decline.

5. CBRE, UK Bed Sectors Property Investment Yields June 2021, 2021, p.1 (Link)

Retirement & co-living: community spirit igniting once nascent sectors

Covid-19 shone an uncomfortable light on the state of the UK's retirement living provision and with the population of over 75s set to increase by 56% over the next 20 years, a once nascent sector looks set to explode in the coming years[6].

The investment tailwinds are well known, and as JLL's Scott explained, they are only heading in one direction:

"Life expectancy is growing, baby boomers are moving into later year provision, while there is serious undersupply. These are all pretty fundamental drivers for a compelling investment in my view."

Indeed, the baby boomer generation represents a key turning point for the sector, not only due to the number of people in it but also the size of its wealth.

Baby boomers are living longer and are wealthier than previous generations. For the first time, this demographic is wealthier than the generation that follows them, meaning they need to pass that wealth onto their less affluent offspring. By 2040, it is predicted that the combined housing wealth and later retirement living power of the over 75s will have increased by 182%, which presents a significant opportunity for investors[7].

Our research supports this view, with 60% of respondents seeing the retirement living sector as particularly appealing from an investment perspective over the next five years, up from 35% in the first Future Living report, and 69% over the next 10. For investors surveyed, retirement living is now the most appealing of the 'beds for rent' sectors, significantly ahead of the well-established BTR and student accommodation sectors.

This trend looks set to continue, with 83% of respondents agreeing or strongly agreeing that retirement-for-rent will be an established asset class in the UK in five years' time.

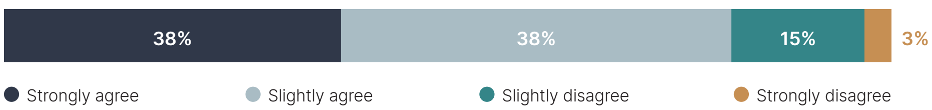
It is a severe lack of supply that presents the greatest opportunity for developers and investors. The development of state-built retirement properties first seen in the 80s and 90s has dropped off. This has left insufficient stock to meet the current demand of occupiers. Developments that do exist often have poor amenities and are of a quality that does not meet the demands of a generation which has generally become accustomed to living somewhere desirable.

M&G's Alex Greaves agreed that work still needs to be done to persuade people to sell their homes and move into retirement communities. "This is the generation that has probably created the highest level of wealth through homeownership. So, getting them to change their psyche, both in terms of what retirement living can offer and to sell their homes, is a big ask."

Time will be an influential factor here. As more people become accustomed to a highly amenitised offering at all stages of the 'beds for rent' lifecycle, so the appeal of amenities such as cinemas, gyms, as well as the ease of onsite care will become more appealing.

Location and amenities will play a pivotal role in attracting retirees into senior accommodation, as well as the appeal of living within a thriving community; just one example is the offering from the Goldman Sachs backed retirement living developer Riverstone, which features swimming pools, a concierge service and fitness studios across its communities. The pandemic has amplified this.

Retirement-for-rent will be an established asset class in the UK in five years



6. Cushman & Wakefield, Senior Living – The imminent demand & emerging opportunity, 2020, p.3 (Link)
7. Ibid. p.9

The appeal of co-living spaces is growing

The same factors are at play in co-living, which Simon Scott described as "that connection between students and multi-family in its purest sense," and is seen as a way for millennials to experience the same community living benefits while still having their own private space. Furthermore, the focus on social events and communal spaces sets co-living apart from traditional BTR.

This is reflected in our findings, with 44% of investors particularly optimistic about the co-living sector over the next five years, compared with 30% in 2019.

Paul Bashir said that "there will be a huge demand for a product between student accommodation and BTR, for 22-25-year olds rather than 28-30-year olds."

Indeed, with co-living suited to cities like London, where buying a property is out of reach for many and renting has risen from 22% to 30% since 2008, the convenience, flexibility and quality of co-living is being increasingly seen as an attractive alternative to shared houses, which are often poorly managed by private landlords[8].

Simon Scott thought that with the way we work evolving, there may be a market for older people to have a co-living base in a large city alongside their main home further out. "Thinking about the future and perhaps spending less time in the office, the question is 'am I better off moving further out as my full-term residence?' and taking a co-living self-contained unit, which is cheaper than something found in the multi-family market, as an urban base.

"Suddenly you've gone from having an early 20s to 30s cohort to now pitching to an early twenties up into mid-fifties/sixties, pre-retirement cohort. That expanded market is where the demand might come from, which I think actually makes co-living investment even more compelling."

It's clear from our findings that investor attitudes to retirement and co-living have evolved since our previous report. Some of that can be attributed to the continuation of long-term trends: the UK's ageing population and the continued rise of 'Generation Rent'. However, the impact of Covid-19 should not be underestimated. The pandemic has made people appreciate the importance of social interaction, and when co-living and retirement developments are executed well, they put community at the heart.

44%

OF INVESTORS PARTICULARLY OPTIMISTIC ABOUT THE CO-LIVING SECTOR OVER THE NEXT FIVE YEARS, COMPARED WITH 30% IN 2019

8. CBRE, Europe Co-living Report, p.14 (Link)

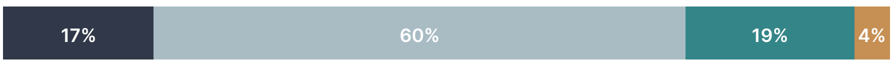
The future of ‘beds for rent’

Two central hypotheses of the first Future Living report were that over the next five years the UK market would see a move towards a blended approach to investment in the ‘Living’ sector and that yields will continue to align.

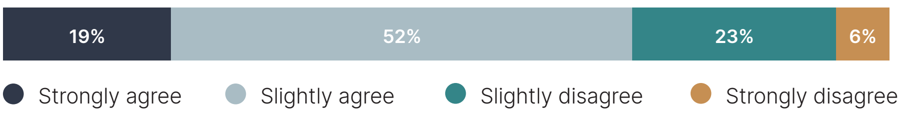
While more than three-quarters of investors are still convinced by both, there was an 8% decrease since 2019 when it came to yields coalescing, suggesting that the various sectors are maturing at different speeds.

The past two years have seen very different rates at which individual asset classes are maturing. Over 7 in 10 respondents (71%) said the ‘beds for rent’ sector today can be viewed as two-tiered, with BTR and PBSA fully established versus the other asset classes.

There will be a greater synchronicity of student, PRS, serviced apartments and retirement living yields in the UK within the next five years



The UK beds for rent sector can now be viewed as two tiered, with the BTR and PBSA fully established and the remaining asset classes still in their infancy



It's becoming apparent that while they share similarities, each sector has different challenges which underpin a different risk and return profile. "Investors shouldn't necessarily look at them as one 'Living' category.

Yes, there is the similar origination approach, similar design challenges and opportunities, similar operational focus, similar funding structures. But ultimately, they have very different risk profiles." said Moorfield's Ferguson-Davie.

Driven by changing consumer attitudes, retirement living will be the next use class to firmly establish itself. The demand/supply dynamics have become increasingly difficult to ignore and the hunt for yield has intensified, which could be the start of "all the sectors coming together" according to Alex Greaves. "Collecting rent, cleaning, refurbishing – whether people are 18, 50 or 75, there are a lot of synergies between them."

Reflecting the changing macroeconomic backdrop and increasing competition for assets, the barriers to the 'Living' sector's growth have evolved. When compared to the 2019 report, twice as many respondents agreed that the availability of stock was a particular obstacle to growth.

This is unlikely to change in the near term with significant amounts of dry powder ready to be deployed.

Focusing specifically on the 'Living' sector, the planning system is a major frustration. Simon Scott argued that "planning, and the knock-on effect on certainty and timing, is undoubtedly a major challenge. There's still talk about simplification of the planning process to come, but until there's clarity on that front, scale will be difficult to come by."

Rebecca Taylor, Managing Director of BTR at Long Harbour, commented on how the business is evolving its strategy in response to this challenge: "We're having to because of viability and access to land. The sheer volume of capital looking for exposure means that investors are having to increase their risk appetite to meet return targets."

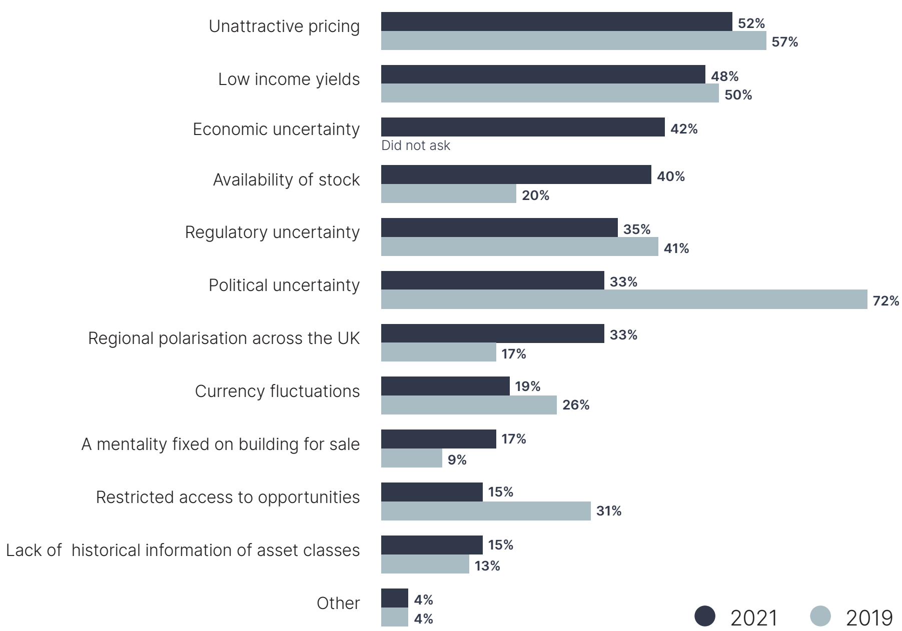
The pandemic has brought the 'London-versus-the-regions' debate into greater focus. More than 8 in 10 respondents believe the outlook for the 'beds for rent' sector is more attractive outside of London.

This reflects a range of factors, including the market's growing comfort with a pan-UK approach, the depth of the opportunity and the cost of land. Affordability remains a key issue across all sectors.

Population growth is also predicted to be greater in regional centres. Added to this are pandemic-related factors including demand for more outside space and the impact of businesses embracing remote working.

Q8-2. Which of the following do you feel are particular obstacles to the growth of non owner-occupier residential real estate in the UK?

(Please select one column response for each row)



Charles Ferguson-Davie believed it's simply about viability. "There are a lot of investors out there who want to be in London and would prefer to be in London. The issue is that there is more competition for land."

Reflecting how concentrated the market has been on London, there is much less room for yield compression in London versus the regional market. At the same time, the percentage of investors citing regional polarisation as an obstacle to growth has nearly doubled from 17% to 33% since 2019.

One of the big unanswered questions raised by the pandemic was whether urban centres will still hold the same level of appeal as before. Alex Greaves said that is a question which "is being re-examined by many people. But you can bet that once people are going back to the office and city centres are more vibrant, people won't want to be stuck out in the countryside."

The political landscape also looks very different today. In 2019, political uncertainty was the standout concern for investors. This is no longer the case, with a significant 39% decrease in the number of investors citing it as an obstacle to growth, down from 72%.

"The UK is now in quite a good position. We no longer have so much uncertainty about the direction of Brexit, concerns about a Corbyn government or the associated disruption of the general election," said Ferguson-Davie.

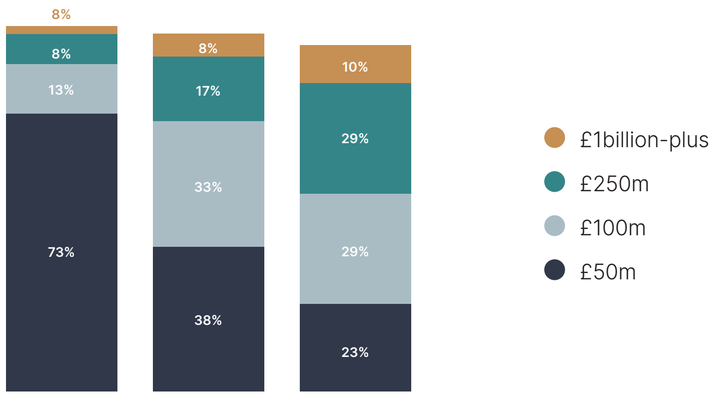
Investor optimism and appetite for exposure has increased substantially in the two years since the first Future Living report. This has been driven by a number of factors. Primarily, long-term structural trends have been accelerated by Covid-19. There is also growing investor demand for secure, stable income, with significant questions now being asked as to whether the office and retail sector can offer this.

As the real estate industry adapts to the new normal, there will be significant variation in performance across the 'Living' sectors. However, perhaps the most compelling finding from our research is that there will be a five-fold increase in the next five years in the number of investors committing over £1bn to the 'Living' sector, accompanied by a changing investment approach from providing space as a product to embracing space as a service.

Gross Investment into 'beds for rent' sector

Q10. What will be your gross investment in the beds for rent sector in the one, three and five years?

(Please select one response)



Conclusion

- Covid-19 has shown the resilience of the 'Living' sector and fundamentally changed investors' perspectives. Rent collection rates have been high across 'beds for rent' segments and the increased focus on flexibility, community and amenities suits asset classes such as BTR and co-living particularly well.
- All signs point to a continuation of the retirement living boom. The current batch of retirees are wealthier and are living longer than ever before. Investors see the opportunities which this presents and predict that retirement living will become an established asset class in the UK within the next five years.
- The convenience, flexibility, resilience and quality of co-living and BTR assets make them attractive alternatives to shared houses. This will likely attract a broad church of renters of all ages. Furthermore, the increased spotlight on social interaction and community plays into the hands of investors in BTR and co-living.
- PBSA and BTR are firmly established in investors' eyes as attractive and stable asset classes. Next to join them, our research leads us to believe, will be retirement living. However, there still exists a number of points of division in the 'beds for rent' sector:
  - Firstly, there is a clear distinction between those established assets and those yet to firmly plant their flag in investors' 'beds for rent' portfolios. However, given the direction of travel noted in our research, it shouldn't be long before more and more 'Living' assets become particularly attractive investment prospects.
  - Secondly, the rise of 'Living' strategies has brought to the fore the 'London-versus-the-regions' debate. The bulk of survey respondents are looking outside of London for the future of 'beds for rent'. One of the pandemic's unanswered questions is whether urban centres, particularly London, can hold their appeal. An answer will likely surface when more workers return to the office.
  - For investors, the appeal of any use class continues to be driven by the risk return profile. From this perspective, the 'beds for rent' sector looks attractive, but despite the many similarities between the component parts, there remain fundamental differences between each of them which will impact the pace at which blended 'Living' strategies become commonplace.

Methodology:

Research was conducted by FTI Consulting online from 24 – 31 March 2021 with n= 52 Global Institutional Investors investing in UK real estate representing £514 million in global assets under management.

The convention on rounding was followed, so sums may not always add up to 100%. For more information on the research methodology please contact:

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