Future living

How global investors will transform UK beds for rent

Investec Structured Property Finance

April 2019

Investec
Private Banking

Welcome to the 'Living' concept

The property industry recognises a variety of asset classes under the umbrella of 'beds for rent' in the UK, and yet we seldom question what unites them – beyond the beds themselves.

I think it's time to challenge the traditional approach to residential real estate investment and explore the idea that there are commonalities, and so opportunities, across all rental segments. Opportunities to incorporate two or more use classes, not in terms of a multi-segment property development, but within a single investment portfolio, with the end target of achieving synchronicity and benefiting from yield compression.

The investment thesis and the underlying structural shifts are clear to see. So too is the demand from occupants and investors. But whether institutional purchasers are willing to put their stock into a new investment framework – I hope they are – is a different question altogether.

Institutional investors have the operational experience to bring underdeveloped segments to the fore. And there are lessons the industry can take from the US, where the investment case for a blended approach has been well proven. While this model is yet to be exploited in the UK, there is a compelling case for it – and the creation of a 'Living' category. The immediate challenge is how it is put into practice.

This report looks at corporate, demographic and investment trends in the US and UK, with crucial insight from property experts. Investec also commissioned a global survey of institutional investors that quantifies their appetite for change and thoughts on the future.

I want to start a new conversation about residential property investment, and spark discussion and debate. I propose that a blended investment strategy could support a single return target, and that the 'Living' strategy will ultimately result in a more joined-up, holistic approach to real estate investment.

Mark Bladon
Investec Structured Property Finance

> It's time to stop putting residential real estate into silos. It's time to pursue the idea that there are commonalities across all rental segments.

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Executive summary: Opportunities in future living

It's time for global investors to look at the UK's residential rental property market differently. With insights from the US market, we believe there is an investment case – and investor appetite – for grouping private rented sector, student accommodation, retirement living, co-living and serviced apartments within a single investment portfolio.

> "It's not a huge leap to suggest that US investors, who already have broader 'Living' strategies, might view it the same way in the UK. If major global players begin to look at these asset classes as one, there will be big changes in the UK market."
>
> Mark Bladon, Investec Structured Property Finance

Investors who succeed in developing – and fine-tuning – a blended residential rental strategy will help to drive the emergence of a new multi-class rental category, one we're calling 'Living'. A new asset class that will compete with other real estate asset classes as global bond yields rise.

We surveyed* more than 50 institutional investors from across UK real estate, representing £338bn in global assets under management, and spoke to numerous industry experts, to conclude that combining complementary use classes in a single structured portfolio will give investors access to strong and sustainable income.

Time for change

- Historically, the 'beds for rent' sector in the UK has been viewed as a mix of independent asset classes. Looking at institutional investment patterns across the Atlantic, and economic and demographic trends at home, we expect that will change in the UK.
- Institutional investors are starting to see the untapped potential in a blended solution encompassing private rented sector (PRS), student accommodation, retirement living, co-living and serviced apartments. We speak not of property developments that include a mix of different rental types – a developing trend in certain locations – but structured investment portfolios.

Taking a blended approach

- The approach most likely to benefit investors is an alternative to the US model, whereby two or more use classes lend themselves in the long term to be incorporated within an overarching investment strategy.
- While each use class in the UK offers different risk/return profiles, expectations for demographic changes and the underdeveloped nature of certain segments suggest there is room for growth, a narrowing of yields and a more uniform investor approach.

Opportunity to inject new life

- We expect the UK's blended solution to evolve beyond the traditional US multifamily model, which typically refers to privately rented units housed within a larger block.
- This new framework will very likely inject life into nascent sectors. And by looking at which asset classes perform best at different stages of the life and/or maturity cycle, investors will benefit from synchronicity of residential rental yields.

Key survey results

90%

Nine in 10 investors believe that within the next five years, investment strategies encompassing student, PRS, serviced apartments and retirement living will be common in the UK.

56%

More than half of global institutional investors believe multi-class residential rentals will compete with other real estate asset classes as global bond yields rise.

85%

Eighty-five percent of investors expect a greater synchronicity of residential rental yields in the UK within the next five years.

* Unless otherwise noted, all figures in this report are drawn from this proprietary research, conducted between 4 and 13 December 2018

Transforming private residential property to rent

Within the next five years, we expect investment strategies encompassing private rented sector, student accommodation, retirement living, co-living and serviced apartments – and the creation of a new ‘Living’ asset class – to be more common in the UK.

A multi-class approach to UK 'beds for rent' is an evolving strategy. Institutional interest is growing, and market fundamentals are strong. But if investors are to adopt the 'Living' solution in the UK, they must first acknowledge the factors that differentiate the UK from the US.

Our research shows that seven in 10 investors believe it could take 10 years or more before the UK real estate market displays the same characteristics as the US. The solution, in our view, lies not in trying to replicate the US model, but in a blended investment approach that plays to the UK's strengths while building on what we know about the US market.

Lessons from the US

Across the Atlantic, institutional investors encompass multiple asset classes within a single investment portfolio. They've benefited from strong institutional holdings, as well as favourable demographics and lifestyle preferences.

"There are similar dynamics across these 'beds for rent' categories in both the UK and the US," says Simon Scott, Lead Director, Living Capital Markets at JLL. "At least as far as huge demand is concerned. Providing or enhancing supply to the market is all about variety. Relying solely on house builders for traditional flats or housing units is not the way to go for this growing institutional demand."

In the UK, however, there are challenges that explain why we're lagging behind. Available land for institutions to build to the desired scale is scarce in the UK, and the market has been more conducive to an individual buy-to-let landlord model, where a private individual will have a comparatively small portfolio. In other cases, an investor might possess a portfolio of disparate units scattered around different markets that generate a large proportion of the rental stock.

All this is in contrast to the US, where stock already exists and where private residential for rent has long been an institutional segment.

"As the UK market begins to adopt the US position, the standards and professionalisation will come," says Justin Curlow, Global Head of Research at AXA IM. But for now, it's in its early stages.

"It's partly our politics and partly our restricted land source," says Alex Pease, Group Investment Director at Watkin Jones. "Plus, in the UK we've always been of the opinion that your home is your castle, and everyone strives for home ownership. But as the world's gotten smaller, as technology has improved, and as the liquid job market has supported a more flexible way of living, the gap may be closing."

The reform of the UK housing market in the 1980s helped to spur home sales and ownership, but this trend has started to reverse. Since the onset of the global financial crisis, the percentage of homeowners in the UK has fallen more than in any EU nation.

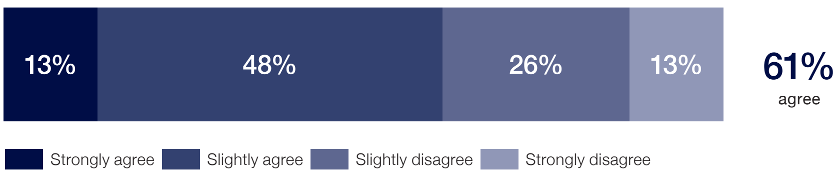
Key takeaways

1. Global institutional investors agree that the popularity of a multi-class rental category, and a blended strategy to it, looks set to increase.
2. Investors are optimistic about 'beds for rent' segments in the UK over the next five years.
3. Taking inspiration from – rather than trying to replicate – the US model is the best way forward in the UK.

'Living' defined

Our term to encompass multi-class private residential property for rent in the UK – private rented sector, student accommodation, retirement living, co-living and serviced apartments – captures the idea that investors will adopt blended strategies in line with the way people live today.

A nation of owners? The UK's cultural focus on home ownership is a prominent reason why the market is behind the US.



In 2007, 73.3% of the population were owner-occupiers, but by 2016 this number had fallen to 63.4%.[1] As long as 'population rent' continues to grow, so will demand for residential rentals.

Appetite for a new approach

The case for a multi-class investment solution is well proven in the US, with firms such as Greystar and Carlyle Group leading the way.

And our survey of global institutional investors showed agreement that the popularity of a multi-class rental category, and a blended approach to a structured portfolio, looks set to increase in the UK. Around nine in 10 believe investment strategies that encompass student, private rented sector (PRS) and retirement living will be common in the UK within the next five years, and 85% believe there will be greater synchronicity between these segments.

So what's next? Forward-thinking global institutions will need to formulate a way of penetrating the UK marketplace.

"On paper, it makes a lot of sense," says Curlow. "There are issues, mostly related to the stock in the UK, but the investment case and the underlying demographic structural shifts are very supportive on paper. There is definitely demand for this kind of model both from occupants as well as investors."

While each use class offers different risk/return profiles, expectations for demographic changes in the UK and the untapped potential of certain segments suggest there is room for growth, a narrowing of yields and opportunity for a more uniform investor approach.

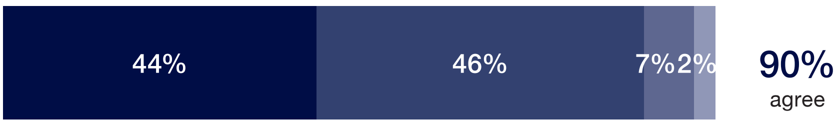
In our view, the approach most likely to benefit institutional investors is an alternative to the US model whereby two or more use classes lend themselves in the long term to be incorporated within an overarching investment strategy.

What's important to realise is that, at least in the short term, institutional investors are overwhelmingly positive about the prospects for the private residential property to rent segments in the UK.

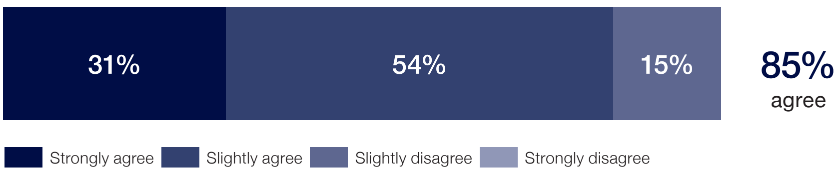
Opportunity to grow

Our research found that PRS is the most popular UK residential real estate asset class among investors, with 54% currently or planning to continue to invest in the sector. Additional external research shows that PRS has doubled in the last 10 years, driven by dynamics in the housing and labour

Five-year strategies: Investment strategies encompassing student, PRS, serviced apartments and retirement living will be common in the UK.



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



[1] Source: "Home ownership falls more in UK than any other EU country"; independent.co.uk; 21 August 2018

By the numbers

25%

By 2021, one in four people in the UK will be renters rather than owner-occupiers. [2]

10 years

Around 70% of investors believe it could take a decade before the UK real estate market catches up to the US.

> "There are similar dynamics across these 'beds for rent' categories in both the UK and the US. At least as far as huge demand is concerned."
>
> Simon Scott, Lead Director, Living Capital Markets at JLL

markets. PRS is expected to expand further over the period to 2021, by 24%, meaning one in four people will rent rather than own.[2]

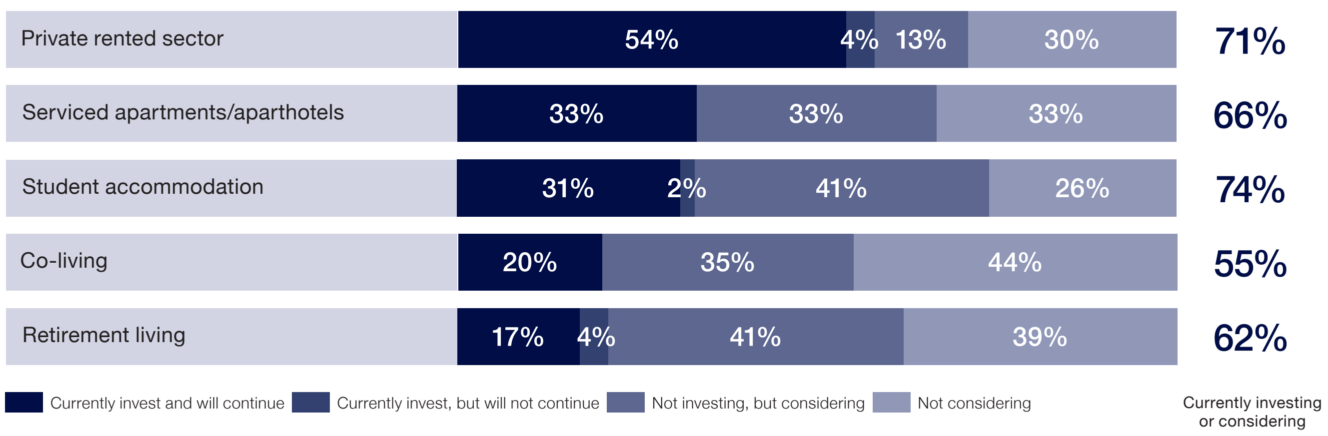
Investors' plans for student accommodation are even more positive, supported by the drive towards overseas study, the boom in city-centre living and the fact that the sector is comparatively well established. With 31% saying they currently invest and will continue to do so over the next five years, 41% say that while they do not currently invest, they are considering it.

Bob Crompton, founder of The Student Housing Company and Threesixty Developments, says that in the last 10 years we've witnessed a "massive wave of popularity." Student, he says, "was, and possibly still is, flavour of the month."

More compelling is that investor appetite across all residential asset classes is roughly the same, and all but PRS could experience a three-fold uplift in investment, with approximately a third of investors considering increasing activity.

"Cities are growing in population and popularity," says Crompton, who stresses that in the UK we're simply not building enough beds for people to sleep in. "And that goes all the way from nursery schools to senior care."

Strong potential for investment uplift: Plans for investment activity per UK real estate asset class over the next five years.



[2] Source: Knight Frank *Multihousing 2017* report

US vs UK / UK vs London

While the multi-class 'beds for rent' model in the US can be used as a case study, the UK landscape will present its own unique challenges. Understanding the geographic and demographic disparities in the UK, and individual UK asset class maturity, is crucial.

> "The investment case for a blended investment model has been pretty well proven in the US."
>
> Justin Curlow, Global Head of Research at AXA IM

Despite the similarities that link the segments within the 'Living' category in the American and British markets, there are challenges, cultural and logistical, that the UK must overcome.

"The investment case for a blended investment model has been pretty well proven in the US," according to Justin Curlow, Global Head of Research at AXA IM. But assuming the same model will succeed in the UK is inherently problematic.

Bob Crompton, founder of Threesixty Developments, has good reason to feel cautious about lifting the US playbook wholesale, having witnessed investors arrive in the UK only to fall foul of American-style assumptions. "It's hubris, really," he says. "They arrive in a new country. They think they know better. And they can't get the planning permission, because what works in Chicago doesn't work south of the Thames."

Brian Welsh, Chief Executive of The Nido Collection, has seen similar, including a new entrant in the UK student market who installed bowling alleys in properties and increased rents. "This isn't something that's going to be well received by a lot of UK students," Welsh says.

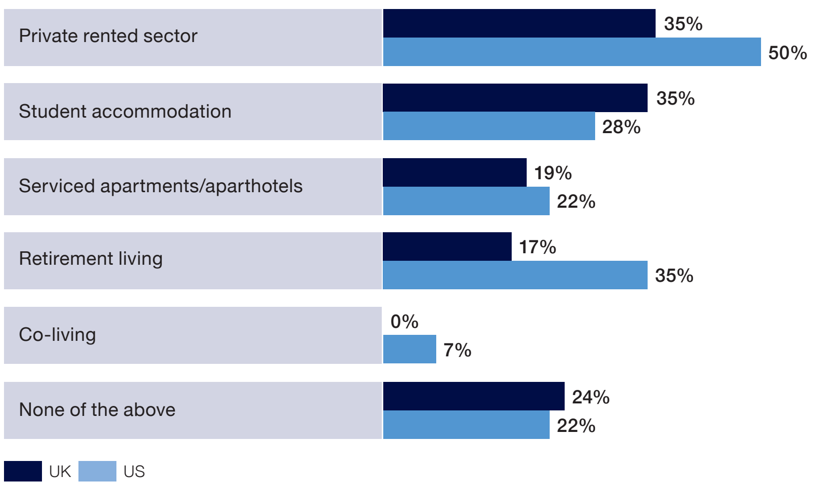
Supply, demand and competition

A lack of land sites suitable for large-scale development represents a very real obstacle to growth in the UK. In addition, investors in the US benefit from a more open, pro-development economy. →

Key takeaways

1. US operators lead on amenities and service provision; however, this is due to high levels of competition in that market – a dynamic not yet seen in the UK.
2. Student accommodation is the only asset class investors believe to be more mature in the UK than in the US.
3. London will always be a fundamentally different market to the rest of the UK, and investment strategies must take this into account.

Room for UK growth: Asset classes viewed as mature by institutional investors, US versus UK.



The larger private residential rental schemes in the US are further set apart by amenity and service provision. US operators are leaders in this space; however, it's a natural consequence of increased competition – which we haven't yet experienced in the UK.

The American story has been called an 'amenities arms race,'[3] while in the UK, the focus falls on providing an affordable product with basic service delivery. "Although the counter argument I'm anticipating is that, frankly, you know your product will face competition, even at a lower level, so differentiating through an amenitised/serviced offer makes sense," says Simon Scott, Lead Director, Living Capital Markets at JLL.

"You have a bit of a disconnect between local authorities, who know they have a housing crisis and need to build more houses, and planning departments who argue on a viability basis that you need to deliver 40% affordable housing," says Welsh. Focusing less on the affordability question and more on operations could benefit all parts of the 'Living' category.

"As the market becomes more sophisticated, and as your occupier base develops an understanding of how the build-to-rent (BTR) product works, and how the institutionally run multifamily block differentiates itself from buy to let, that pressure on what the offer is, both at a service and amenity level, is going to come through," says Scott.

Each individual use class is also evolving. Student accommodation, for example, has become more institutionalised in the US in the past five to 10 years, and the yield spread to BTR has come down. We believe an investment portfolio incorporating one or more asset classes can offset the losses in a given stage of the maturity cycle, but cultural and geographic differences in the UK mean this isn't easily done.

Offsetting market challenges: Institutional investors' ranking of obstacles to non-occupier residential real estate growth in the UK.

1.	**Political uncertainty**
2.	**Unattractive pricing**
3.	**Low income yields**
4.	**Regulatory uncertainty**
5.	**Restricted access to opportunities**
6.	**Currency fluctuations**
7.	**Availability of stock**
8.	**Regional polarisation across the UK**
9.	**Lack of historical information on asset classes**
10.	**A mentality fixed on building for scale**

Maturity and cultural considerations

"A big attraction in the US is that people are regularly moving, allowing you that constant churn in multifamily, which gives you a more regular mark to market," says Curlow. "The difficulty in the UK is that you've got a student accommodation market that's far more institutionalised."

Student accommodation is the only asset class investors say is more mature in the UK (35%) than in the US (28%). Private rented sector and retirement living are considered far more established in the US than they are the UK, explained largely by the culture of homeownership that still presides in the UK. Around six

[3] Source: "Build to rent sector is blossoming"; ribaj.com; 25 May 2016

> The American story has been called an 'amenities arms race'. In the UK, the focus falls on providing an affordable product with basic service delivery.

out of 10 investors agree that the UK's focus on home ownership is a prominent reason the market is behind the US.

With investors believing it could take a decade or longer before the UK property market catches up to the US, the solution lies not in replicating the US model, but in finding our own way – a blended approach to structured portfolios that capitalises on the UK's strengths while building on the US experience.

London versus the rest of the UK

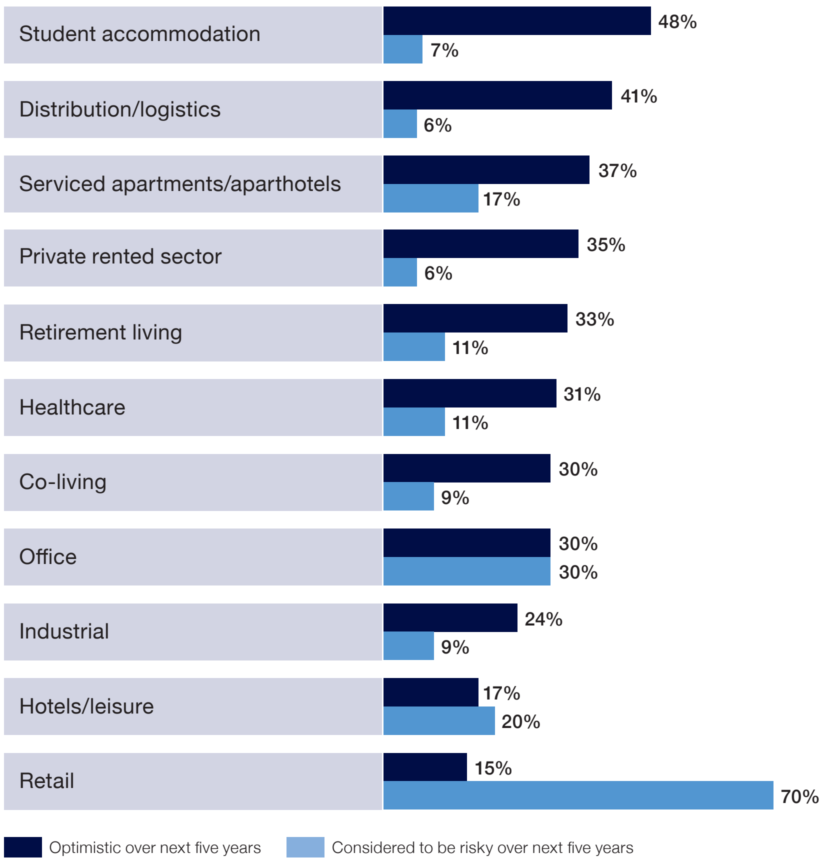
A 'London versus the rest of the UK' dynamic means there is polarisation in the maturity, and therefore yield profile, of each use class depending on location. This disparity – and the direction each is headed – is key in assessing how investor strategies will evolve in the UK.

Respondents to our survey believe that London will always be a fundamentally different market to the rest of the UK, with 78% strongly agreeing with this statement. Nearly a fifth (17%) say that regional polarisation across the UK is a clear obstacle to the growth of non-owner-occupier real estate in the UK.

Other challenges include political uncertainty, which is currently seen as the biggest obstacle to growth (72%), followed by unattractive pricing (57%) and low income yields (50%).

This isn't to say investors are overly cautious about the direction the 'Living' category is headed – the number of those who are optimistic far outweighs those averse to each class.

Positive on residential: Real estate segments investors view optimistically and asset classes considered particularly risky.



Employing the blended approach

Segments in the 'Living' category will, at different stages in the cycle, support a single return target. Investors who understand the strengths and weaknesses of each and view them as complementary use classes will benefit from yield convergence, the expansion of nascent sectors and the emergence of a new investment model.

There is potential for rapid growth in 'beds for rent' segments in the UK, driven by increased institutional activity, rising investment volumes and underlying demographic changes. All this will, in turn, pave the way for a more uniform investor approach to the 'Living' category.

According to our research, investors believe residential rental yields will coalesce within the next five years. The extent of this convergence rests on identifying a strategy that plays to the strengths of each individual asset class – and finding the 'perfect blend'.

Individual yet complementary

"I don't think private rented sector (PRS), serviced apartments, student accommodation, co-living and retirement living are, or ever will be, uniform from a return perspective," says Justin Curlow, Global Head of Research at AXA IM. "There are definite similarities in that they fit within the 'Living' concept, but I think the supply/demand income prospects vary from time to time and require differences in pricing."

Charles Ferguson-Davie, Chief Investment Officer at the Moorfield Group, agrees. "Investors are looking across all residential-focused sectors – they buy into the demographic demand across these property types, but they also see them delivering different yields."

With global investors confident about the prospect for a multi-class residential rental strategy, optimistic about the future of each asset class, and planning to continue – and in many cases increase – their investment across the board, we see a case for a 'Living' solution. But while there is evidence of some recent yield convergence, long-term data suggest each asset class presents a different risk/return profile. A successful 'Living' solution, therefore, is better viewed as a collection of complementary use classes.

Finding commonalities

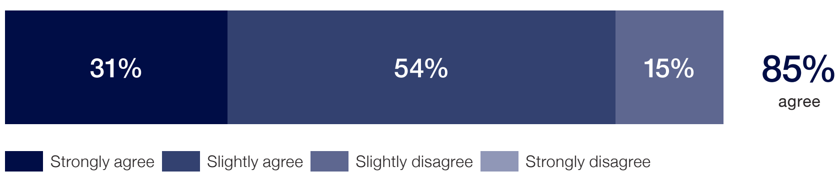
While there are similarities that tie residential rental use classes together, it's the differences that will indicate whether a mixed investment portfolio is justified. Particularly given that certain classes perform better – or worse – at different stages of the economic cycle.

Asked which criteria they consider most important when making investment decisions, global institutional investors rank return profile (80%) and risk profile (76%) top, followed by stability of income (48%), potential for development (43%), valuation (39%) and long-term financial performance (41%).

The fact that the classes within a 'Living' solution meet these criteria to varying degrees underlines the complexity of a mix-and-match approach to an investment portfolio. In our view, the ideal combination will balance more mature classes with nascent segments to reduce risk while at the same time narrowing overall yield spread.

Student accommodation, for example, finds similarities with aparthotels and retirement living. "When you've got that operational component, when you've got that specificity

Greater than the sum of its parts: Investors expect a greater synchronicity of yields in the UK within the next five years.



Key takeaways

1. The extent of yield convergence rests on identifying an approach that plays to the strengths of each use class – finding the 'perfect blend'.
2. Understanding the risk/return profile of each individual rental segment will determine which are most complementary.
3. Beyond yield convergence, grouping use classes that make sense from an operational angle will help to balance risks.

> “Supply/demand income prospects vary from time to time and require differences in pricing.”
>
> Justin Curlow, Global Head of Research at AXA IM

in running those types of units, to me as an investor I would require some kind of premium for that,” says Curlow. “As soon as you put an operational component on top, I would suggest a risk premium is warranted.”

Build to rent (BTR), on the other hand, yields less than student accommodation despite its relative immaturity, with the pool of BTR renters deeper than in student or retirement. BTR is characterised by its scale, as well as its unified ownership and professional management in a more income-driven business model – something institutional investors are more interested in, but which accounts for only around 25% of the PRS market in the UK.[4]

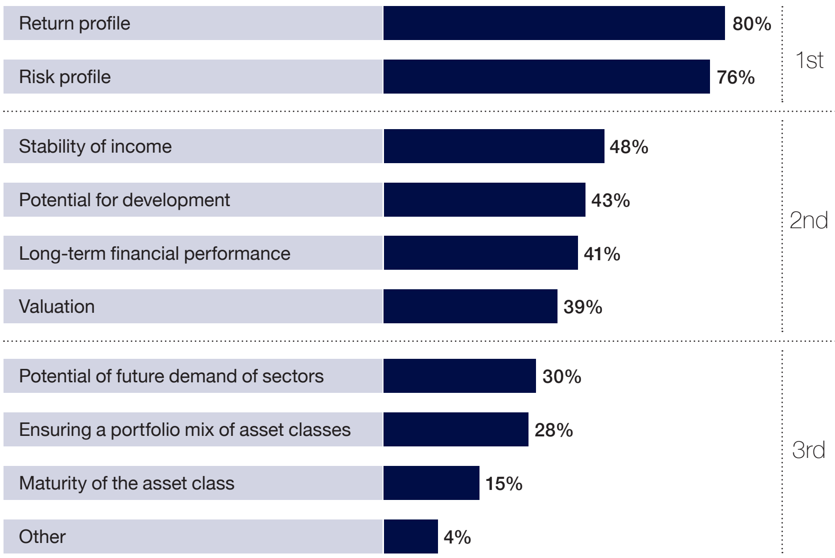
Brian Welsh, Chief Executive of The Nido Collection, notes that purpose-built rental properties are designed to house more people per square foot than a smallholder landlord-owned property, offering the high-density solution often sought by institutional investors.

“There are many efficiencies you can make in the fabric of a building,” continues Welsh. “It’s a good thing, because these buildings are much more efficient, more functional and more sustainable than 500 people living in 500 studio apartments.”

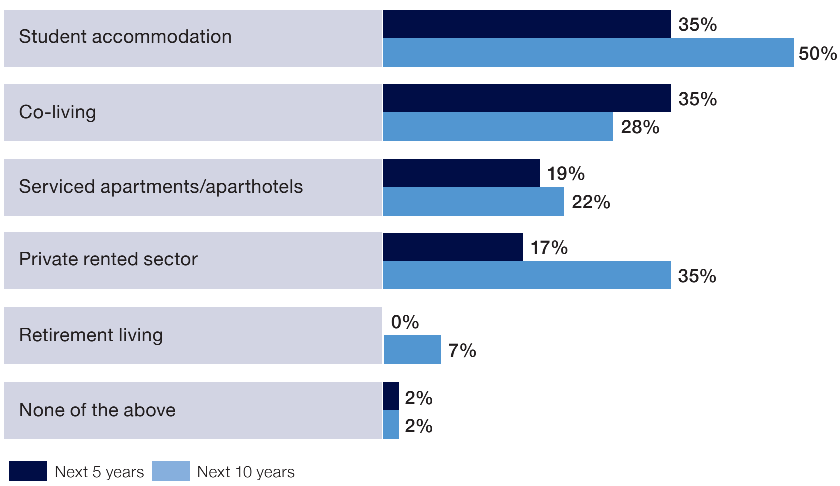
These BTR projects also tend to command a premium rent, which is reflected in the amenities provision and which gives institutions more flexibility in the day-to-day running of the asset.

There are commonalities between student and BTR, starting with the investor base. Both are income- and yield-driven, with a similar ethos on the financial underwrite. There’s

Key factors: Important and influential criteria in making UK real estate investment decisions.



Positive sentiment: UK asset classes viewed as appealing from an investment perspective over five and 10 years.



[4] Source: *Private Residential Rental Market Report – UK 2018-2022*; AMA Research

By the numbers

80%

A significant majority of investors view return profile as a key factor in their UK real estate decision-making.

15%

Only 15% of investors view asset class maturity as a key factor in their real estate investment decisions.

also crossover in geography. 'BTR hotspots' such as Brighton, Oxford and Cambridge double up as popular university towns for much the same reasons, namely strong economic prospects and affordability constraints. However, there remains a disconnect between the top-ranked locations for student and BTR, as well as forthcoming supply.[5]

Student is more established, with stabilised assets and a history to benchmark against, and it delivers a higher yield than BTR because of characteristics like tighter planning restrictions and sector-specific leasing requirements. Yet UCAS figures show that while the overall number of applicants to British universities has declined over recent years, the number of 18-year-olds applying is set to reach a record high in 2020.

Given the complementary nature of BTR and student, grouping them in a single portfolio makes sense from an operational angle as well as from a yield convergence point of view.

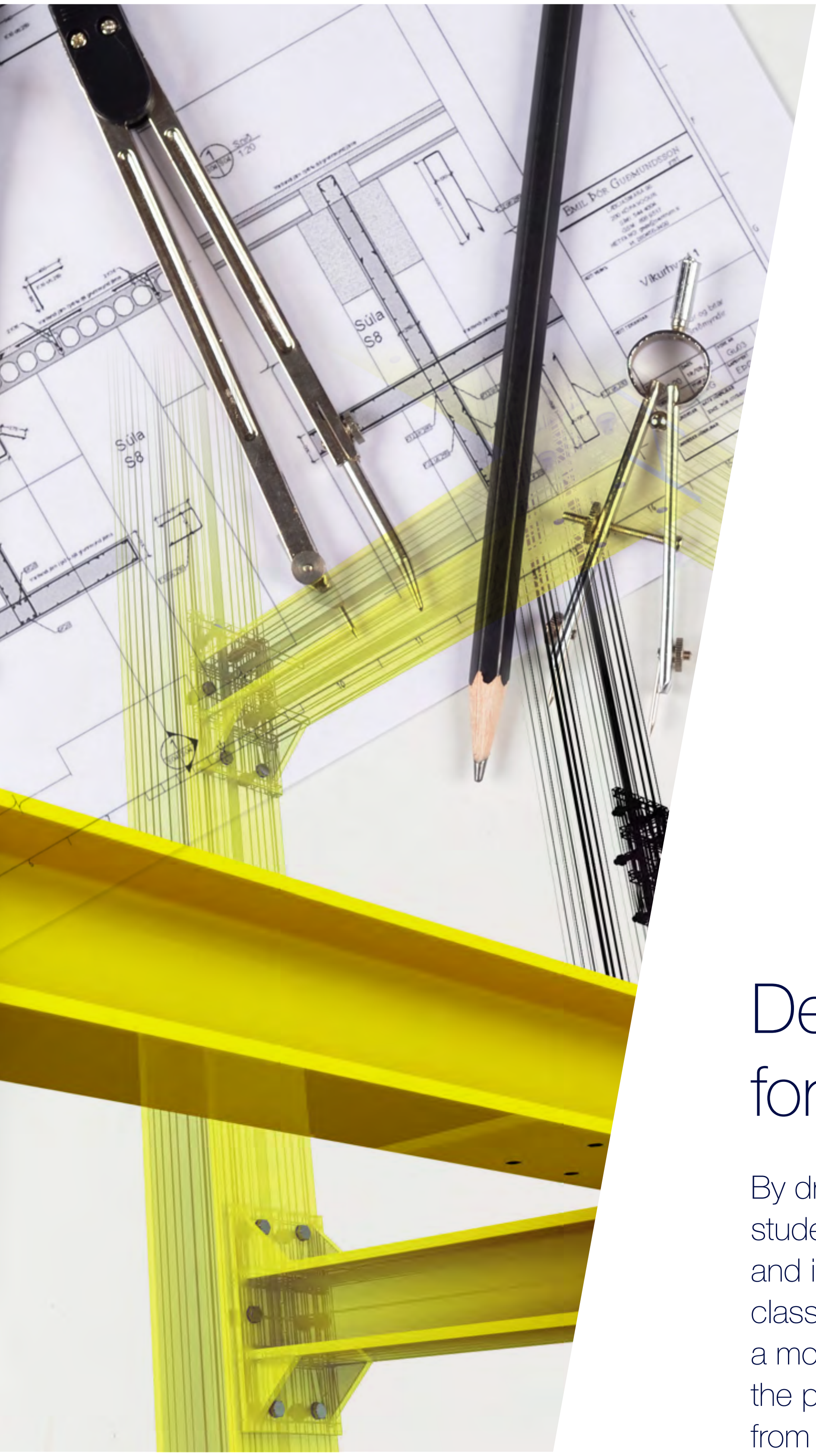
Increased interest in retirement

Though the retirement living segment is as yet undeveloped in the UK, investors are showing interest – more than half of the investors we surveyed (56%) feel that retirement living will be particularly appealing over the next 10 years – more than student accommodation (43%) and PRS (44%).

The pool of renters for retirement is small, and there is a strong operational requirement. However, the UK is an ageing population – in 50 years' time, there are expected to be an additional 8.6 million people aged 65 and over, making up 26% of the total UK population, an increase from 18% in 2016.[6] This goes some way towards explaining increased investor interest.

In much the same way that grouping student and BTR makes sense, a solution encompassing retirement living alongside student or BTR also holds potential, particularly from an operational point of view. Or for those with a low appetite for risk, a strategy that incorporates mature segments alongside more nascent asset classes helps to offset risk.

[5] Source: *Build to Rent: Reaching out to the Hotspots*; Lambert Smith Hampton [6] Source: Office for National Statistics



Developing for the future

By drawing on lessons from the student accommodation experience, and identifying the ways other asset classes overlap, investors can build a more uniform 'Living' strategy, with the potential to massively benefit from yield convergence.

Within this discussion of UK rental real estate development, institutions have a crucial part to play. The success of student in the UK serves as an example of the opportunities on offer. Demographics here are compelling, and, in student, investors now have a template for how to negotiate the market.

Simon Scott, Lead Director, Living Capital Markets at JLL, says: "There are similar dynamics across private residential property for rent as far as demand is concerned. Providing or enhancing supply to the market is all about variety. Just relying on house builders to provide traditional flats or housing units is not the way to go. That's what encapsulates the idea of 'beds for rent' – or 'Living'."

This underlying demand for rental accommodation creates a positive driver and incentive to build; however, an emphasis on affordability means it's often difficult to green-light projects. For example, those in planning departments may argue on a viability basis that developers need to deliver 40% affordable housing. And yet, a lot of these projects with 50% affordable housing don't get off the ground in London.

Ultimately, this is a consumer-led industry. And there are touchpoints around hospitality, retailing and experience that purpose built student accommodation (PBSA) has brought to the table.

"Our expectation is that these experiences of overseeing operational real estate flow just as readily into build-to-rent (BTR) as they would into retirement. If you think about the owner-occupier sector in retirement housing, they all offer a high level of service that could easily be adapted for other use classes," says Scott. "That's where you see that continuance and overlap among segments."

The success or failure of a strategy that incorporates different asset classes within the same structured investment portfolio rests on the ability to translate operational experience from one sector to another. Looking at the 'Living' category as a life journey, starting from a student and running through to retirement, you're expecting high-quality concierge services, management, security and other amenities. And that applies across all segments.

Opportunity for first-movers

The concept of an overarching 'Living' category is still in its early stages in the UK, but our research shows only 33% of investors would prefer to wait for others to move into riskier asset classes before they consider it – even if that means missing out on potentially higher returns. That translates to a higher proportion keen to be early entrants, willing to accept the risk given the promise of reward.

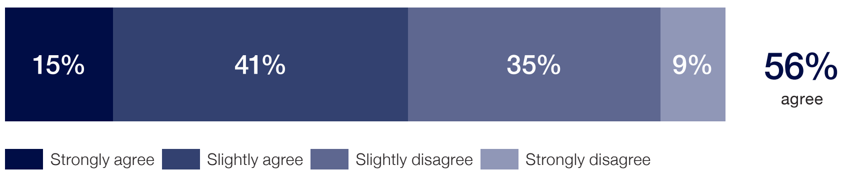
Investors have jumped more quickly into BTR. They've seen how PBSA has succeeded in the UK, and are more familiar with residential asset classes and their income streams. BTR and PBSA are driven by similar dynamics: a lack of supply, strong demand, the ability to capture year-on-year rental growth, and inflation-linked rental growth – all attractive to investors.

Commonalities even stretch to the investor base and geography: →

Key takeaways

1. Expertise gained from the success of student accommodation in the UK can carry over to other use classes.
2. Institutions have a part to play in the growth of 'beds for rent' segments in the UK.
3. A majority of global investors expect a multi-class 'Living' investment strategy to compete with other real estate classes as global bond yields rise.

Promising: Investors expect 'Living', with its low but stable returns, to compete with other real estate asset classes as global bond yields rise.



> "Challenges around management and development are not as severe now that institutions have experience in the student sector. And now we are moving that expertise into BTR, which is proving the thesis for 'Living' strategies."
>
> Simon Scott, Lead Director, Living Capital Markets at JLL

the towns and cities that work for student often work for BTR, given that the latter – and to some extent the former – is fuelled by employment zones.

"You're no longer having to persuade people of the merits," says Scott. "The challenges around management and development are not as severe now that a lot of these institutions have experience in the student sector. And now we are moving that expertise into BTR, which is proving the thesis for bedded strategies – or 'Living' strategies."

The renter life cycle

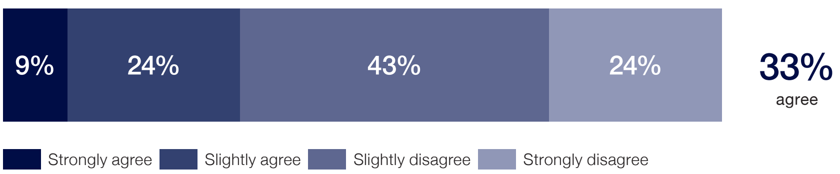
Guy Nixon, who founded aparthotel operator Native, also expects to see investors graduate from student accommodation to BTR development, because "while the customer changes, the business model is exactly the same". We can apply the same logic to co-living models – like The Collective and WeLive, which are almost halfway between student accommodation and BTR.

"If you go back a step, co-living is effectively student living for grown-ups," says Scott. "It's a wide residential product, so if you continue on that journey it's just as applicable to senior living. It has the same dynamics, just a different demographic. I suppose if I'm challenged on why we don't see such a well-developed market as we do with younger age groups, it's because we've been brought up as a nation of homeowners. My sense is psychologically that is changing – further underpinning the investment thesis."

He and other experts acknowledge that the similarities among use classes are themselves a reason to pursue a blended investment approach. Bob Crompton, founder of Threesixty Developments, says: "The case for that blended portfolio is massive. Particularly if you have a relationship with someone who is learned in service-orientated or operational real estate."

The job for property firms, says Welsh, is to "turn this complexity into a simple revenue stream for investors. We have become, as operators, managers and purpose-built accommodation providers, much better at doing that. But to mature as a sector, we need investors to be able to dip in and out of different profiles, depending on the categories and age ranges involved."

Ready and able: Investors prefer to wait for others to move into riskier asset classes, even if that means missing out on potentially higher returns.



Conclusion

Next steps: Employing the new strategy

Learnings from America and the student success story in the UK make a compelling case for a shift in the real estate investment model. One that recognises private residential property not as independent, unrelated sectors but as complementary asset classes within a wider investment portfolio.

> The market has become more supportive of institutional capital and now looks closer to fully facilitating a blended investment strategy.

Forward-looking global institutional investors are set to contribute to the creation of a new private residential rental property model in the UK. One where investment decisions are no longer focused on individual asset classes in isolation, but made holistically, employing a combined 'Living' model that predicts and adapts to ebbs and flows in the market.

In the US, it's not uncommon for investors to take a view on 'beds for rent' in this way. And while the UK and American experiences are – literally – miles apart, the private rented sector (PRS), student accommodation, retirement living, co-living and serviced apartments segments are complementary use classes.

In the UK we're at a different point in the curve. We've always been a nation of homeowners, and a less-than-pro-development environment has inhibited the maturation of all but PRS and student accommodation. But the market has become more supportive of institutional capital and now looks closer to fully facilitating a blended investment strategy.

More than 90% of global investors believe that investment strategies encompassing student, PRS, serviced apartments and retirement living will be common in the UK within the next five years, and 85% expect there will be a greater synchronicity of student, PRS, serviced apartments and retirement living yields in the UK over the same period.

Our investment thesis and the underlying structural shifts are evident, and there is demand for an overarching 'Living' framework from occupants and investors.

Are institutional purchasers ready to pursue a new investment paradigm? We eagerly await signs of what's next.

If investors are to pursue a new private residential rental property model in the UK, we believe they will need to:

- Draw from appropriate operational experience
- Display a willingness to accept risk
- See the potential in the UK's still-nascent segments
- Understand the risk/reward profiles, and maturity, of each asset class – as well as the difference between London and the rest of the UK.

If they succeed in doing so, the benefits will include:

- Synchronicity and compression of yields
- Growth in each rental segment as they become more mature, established and institutionalised
- Stability in comparison with other real estate asset classes, such as office, commercial and retail.

About Investec Structured Property Finance

Providing development and investment funding solutions for property professionals across residential, commercial, mixed-use and student accommodation sectors, Investec's 25-strong Structured Property Finance team matches stability with flexibility in tough market conditions and today's shifting times.

We partner with some of the UK's most respected property companies and entrepreneurs, typically lending between £5m and £50m. To help our clients achieve the best possible return on their equity, we examine each case on its merits; we don't follow a set of pre-defined rules. Our number of repeat clients is testament to the service we provide and the valuable relationships we have been able to build with them. For us, it's the client we want, not the deal.

With more than 35 years of senior development lending experience, Investec's Structured Property Finance team is agile and flexible, with a depth of expertise across a wide range of segments.

Get in touch with our Structured Property Finance experts today.

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I am a qualified Chartered Surveyor with over 30 years' experience in the property industry. I started my career at CBRE working in the valuation, occupational and investment teams before moving to the Prestbury Group.

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I have 15 years of experience in property finance. Since joining Investec in 2012, I have enjoyed much success in loan origination across a broad spectrum of asset classes. I also provide bespoke equity when appropriate, including pari passu investment with national house builders.

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I joined Structured Property Finance in March 2016 to focus on opportunities within the origination team. I qualified as a Chartered Accountant with Ernst & Young LLP while working in their banking and capital markets department and have an economics degree from the University of Nottingham.

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About Investec

We're an out of the ordinary, specialist bank and asset manager driven by our commitment to our clients and their ambitions. Through our Specialist Banking, Wealth & Investment, Asset Management and Property services, we fashion strategies and solutions focused on our clients' needs and goals, not ours.

About this report

This report was produced by Investec using research and analysis led by FTI Consulting, in collaboration with August Media. The research included exploratory discussions and interviews with key residential property industry experts, and a survey of global institutional investors.

For this survey, a sample of 54 investors active in UK real estate representing a cumulative £338bn in global assets under management were presented with 13 questions, with research conducted between 4 and 13 December 2018.

Of the total, 54% of participants were based in the UK; 19% in Europe (excluding the UK); 7% in North America; and 20% predominantly in MENA and Asia.

Note

As a consequence of rounding up percentage results, the answers to some questions might not always add up to 100%.