The Build to Rent Market in Greater Cambridge and West Suffolk

A report for Cambridge City Council, South Cambridgeshire & West Suffolk

Final Report

Contents

List of Figures and Tables

Glossary

Term	Description
Office for National Statistics (ONS)	The UK's largest independent producer of official statistics and the recognised national statistical institute of the UK.
Assured Shorthold Tenancy (AST)	The most common form of residential tenancy, which was introduced by the Housing Act 1988.
Gross Development Value (GDV)	The estimated value on the open market capital value or rental value the development is likely to have once it is complete.
Real Estate Investment Trust (REIT)	A closed-end investment company that owns assets related to real estate such as buildings, land and real estate securities.
Residual Land Value (RLV)	A method for calculating the value of development land by subtracting the costs associated with the development (excluding cost of land) from the total value of the development.
Yield	The return an investor is likely to achieve on their property. It is calculated from the gross rent expressed as a percentage of the investment value of the property.
Affordable Private Rent (APR)	A class of affordable housing specifically designed for build to rent, where the rent is calculate at a discount (of at least 80%) of open market rent.
Discount Market Rent (DMR)	An earlier term for Affordable Private Rent.
Section 106	A legal agreement between the local planning authority and an applicant seeking planning permission. It is used to set out financial and affordable housing obligations relating to a development.
Experian Mosaic / CACI Acorn	Two geo-demographic data sets that classify households across the UK based upon their demographic and financial characteristics.
Business Register & Employment Survey (BRES)	A survey carried out by the ONS to estimate employees and employment across the UK by geography and industry.
Strategic Housing Market Assessment (SHMA)	An assessment of future housing requirements in an area, which informs the Local Plan strategy and housing targets.
Registered Providers	The general name for not-for-profit housing providers approved and regulated by Government through the Regulator of Social Housing. They are independent, not-for-profit organisations that provide homes for people in housing need.
Forward Fund / Forward Commitment	Funding structures that allow investors to acquire unbuilt housing for Build to Rent.
Preliminaries in construction (Prelims)	The cost of administering a project and providing plant, site staff, facilities site-based services, and other items not included in the rates for specific construction phases.

Annual Survey of Hours and Earnings (ASHE)	An annual survey of 1% of PAYE records that provide estimates of average earnings for local authorities and regions.
Design & Build	It is a method to deliver a project in which the design and construction services are contracted by a single entity.

Executive Summary and Report Structure

The report contains seven sections. Below we set out a brief overview of what each of section of the report covers.

Section 1 – Introduction, Remit and Purpose of the Research Report

Section 2 – Greater Cambridgeshire & West Suffolk in Context

This section sets out the housing market context across Greater Cambridgeshire and West Suffolk. This includes analysis of average sales values, affordability of homes for sale, housing need, historic delivery of new homes and the demand for private rented housing across Cambridge, South Cambridgeshire and West Suffolk.

Section 3 – Planning for Build to Rent

This section looks at the actions of central government to stimulate the emergence of Build to Rent, the scale of Build to Rent delivery, how viability is assessed for Build to Rent and why this differs from traditional private for sale development.

Section 4 – The Emerging Build to Rent Market

This section provides an overview of the Build to Rent market, looking at who the investors are, why they are interested in investing in residential, the types of sites that are suitable for Build to Rent, why Build to Rent has not emerged in high value markets and the characteristics of different approaches to Build to Rent.

Section 5 – Build to Rent: The Investor Journey

This section looks at the process an investor goes through when considering a Build to Rent scheme. This starts from how they select a suitable location to invest, how they acquire sites, how they provide affordable housing in the development, how they determine the type of stock they will deliver (i.e. houses or flats), how they assess the scale of development (i.e. the number of Build to Rent homes) and how they gauge what the potential rent could be.

Section 6 – Role of Build to Rent in Delivering Large Sites

This section discusses how Build to Rent can support the delivery of large sites by increasing the number of homes built annually and how Build to Rent can support placemaking.

Section 7 – Policy options from the Research

This report presents six policy options investors and developers might ask to be implemented to encourage the development of Build to Rent in Greater Cambridgeshire and West Suffolk including:

Policy Option 1: Adopt the definition of Build to Rent and Affordable Private Rent in the National Planning Policy Framework to create a framework of how Build to Rent will be treated in planning.

Policy Option 2: Do not be prescriptive about the location and quantum of Build to Rent. Instead allow the market to determine where it is suitable to deliver Build to Rent and the size of schemes.

Policy Option 3: Avoid using onerous clawback provisions when setting out how to handle the change of tenure of Build to Rent schemes, as this will increase the perceived risk from an investor perspective and slow the delivery of Build to Rent.

Policy Option 4: Secure the number of Affordable Private Rent homes as intermediate homes in perpetuity, but allow them to be converted into other forms of intermediate tenure housing in the future if a Build to Rent Scheme changes to a different tenure.

Policy Option 5: Use the flexibility of the discount requirement of Affordable Private Rent homes to meet the needs of different households in each district, while recognising that there is a trade-off between the level of discount and the number of Affordable Private Rent homes that a scheme could support.

Policy Option 6: Use the Section 106 agreement to set out the processes for prioritisation and letting of APR homes.

1. Introduction

The Build to Rent (BTR) sector, although still in its infancy, has attracted significant investment over the past few years and this investment is predicted to continue to rise. Savills estimate that c.£2bn is being invested in delivering new homes across the country.

Renters faced with high housing costs and, in many cases, poor quality housing have pushed the demand for better rental options high on the housing and political agenda.

Introduction of National Planning Guidance for Build to Rent in 2018 means local authorities must now consider the need and provision of rented homes in their local plans.

Cambridge, South Cambridgeshire and West Suffolk have commissioned this report on the Build to Rent market to help inform how they can use BTR to help deliver large sites. The report will feed into the content of new Supplementary Planning Documents, and the development of a new joint Local Plan between Cambridge and South Cambridgeshire and West Suffolk's own Local Plan.

This report is not intended to provide an assessment of need for rented accommodation, as this is considered in a separate work stream.

1.1. The purpose of this report

The objectives for this report are to:

- Enable the councils to understand the potential role that Build to Rent (BTR) housing and Affordable Private Rent (APR) housing, could play across the districts;
- Enable the councils to understand the potential role BTR and APR could play on large-scale new developments, such as North East Cambridge, Northstowe, Haverhill;
- Provide a model which can be used for assessing suitability of BTR on other large scale new developments going forward.

Specifically the report will provide:

- Analysis of the BTR and APR market locally from an investor perspective;
- Analysis of the market from a developer perspective in terms of viability; including: potential locations across the districts; and the extent to which bringing forward schemes may impact on speed, phasing and overall delivery of both housing and infrastructure;
- Provision of advice on how viability appraisals would work for BTR;
- Suggested policy options based on the results of the research.

2. Greater Cambridgeshire and West Suffolk in Context

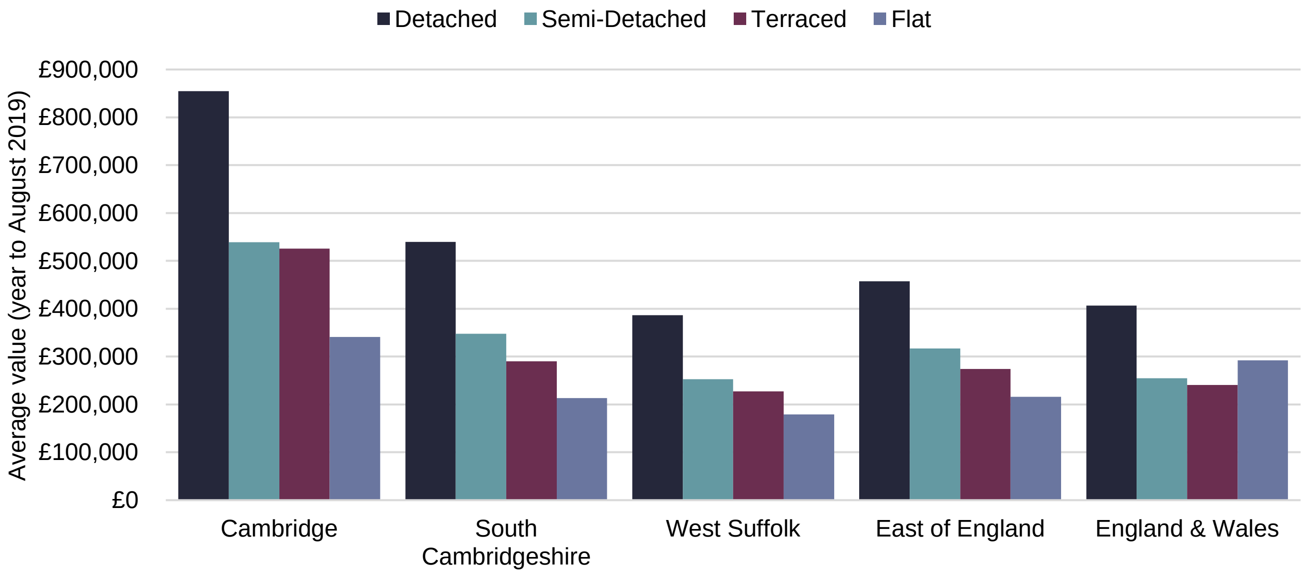
2.1. House prices and affordability

Between 2013 and 2017 house prices across Greater Cambridgeshire and West Suffolk witnessed strong growth. This was especially true for Cambridge, which increased by 35% between March 2014 and September 2016. Even following 18 months of relatively limited growth, and in fact slight declines in Cambridge, house prices across the three local authorities are still 57% (Cambridge), 45% (South Cambridgeshire) and 36% (West Suffolk) above their 2007/08 peak.

Both Cambridge (£518,000) and South Cambridgeshire (£408,000) have average house prices well in excess of the regional (£334,000) and national (£296,000) averages. These values are more in line with those found in London and make these markets some of the most expensive in the country. Furthermore, the average transaction values in the year to August 2019 for a new build property in both Cambridge (£607,000) and South Cambridgeshire (£414,000) were even higher.

In West Suffolk (£288,000) house prices are broadly in line with the national average and lower than the regional average. And while new build transactions also achieved a premium over the second-hand market, at £316,000 on average, the market is more affordable than their Cambridgeshire neighbours.

Figure 1: Average values by property type, year to August 2019



Source: Land Registry

These high values have made the delivery of Build to Rent more challenging, as it is unable to compete with Build to Sell developers when trying to buy land. This is one of the reasons for a lack of Build to Rent coming through in the Cambridge market, which is mirrored in similar high value markets such as Oxford, Brighton and central London. However, as prices and demand for new build sales have softened recently, we have started to see some Build to Rent development come through in higher priced markets.

The rapid price growth witnessed in Cambridge over recent years has made the city unaffordable to many potential buyers. According to the most recent data from the ONS, the median house price to resident earnings ratio in the city was 12.96, which is significantly higher than the national average of 7.83 and is closer to the London average (13.09). This affordability challenge presents a barrier to home ownership and drives demand for rental accommodation in the city. Even in South Cambridgeshire and Forest Heath and St Edmundsbury District Councils—the two previous local authorities that constitute West Suffolk—where the house price to earnings ratios are lower than Cambridge, they remain above the national average and prices are unaffordable to many.

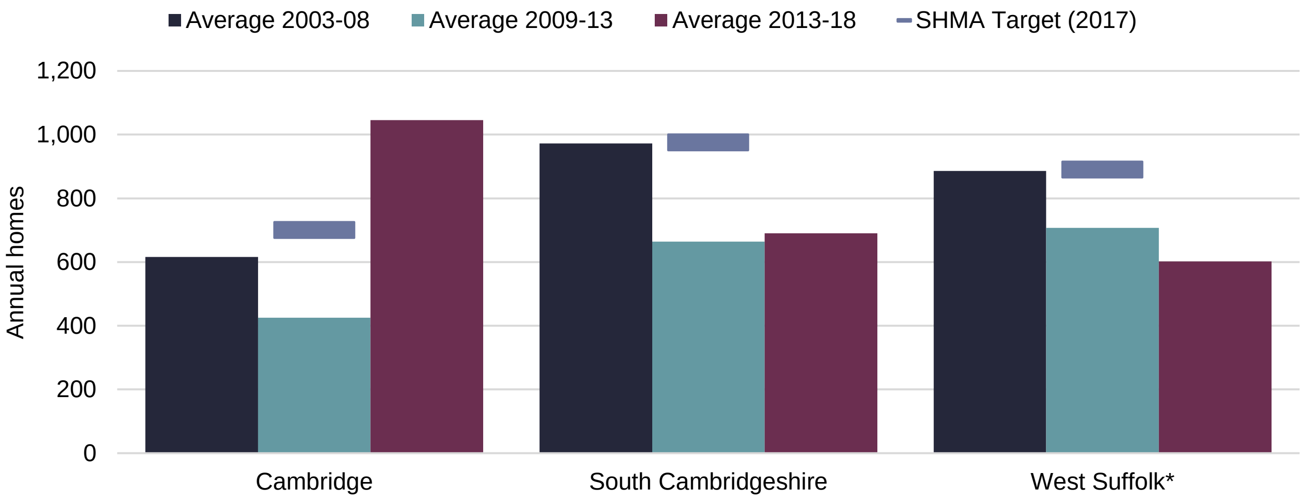
The unaffordability of housing has led to growth in the number of households living in the private rented sector (PRS). At the time of the 2011 census, 28% of households in Cambridge were living in the PRS, with 13% in South Cambridgeshire and 20% in West Suffolk; the PRS is likely higher in West Suffolk due to the presence of two airbases in the district. However, according to estimates from Experian, the proportion of households living in the PRS have increased to 35% and 15% in Cambridge and South Cambridgeshire, respectively. While it remained at 20% across West Suffolk.

2.2. Housing need and the economy

The most recent housing need assessment, published in 2017 set out that there was a need for 700 homes per annum in Cambridge, 975 homes per annum in South Cambridgeshire and 890 homes per annum in West Suffolk. Looking at recent delivery, shows that over the past 5 years, only Cambridge has averaged annual delivery above it’s need, averaging 1,045 new homes per annum, while South Cambridgeshire and West Suffolk have achieved an average of 590 and 602 homes per annum, respectively.

Looking back further, shows that Cambridge had previously averaged substantially lower delivery. The differences between the delivery between Cambridge and South Cambridgeshire is due largely to the planned phasing of developments on the urban fringe of Cambridge, with early phases deliberately being delivered closer to existing city development.

Figure 2: Average annual delivery compared with housing need

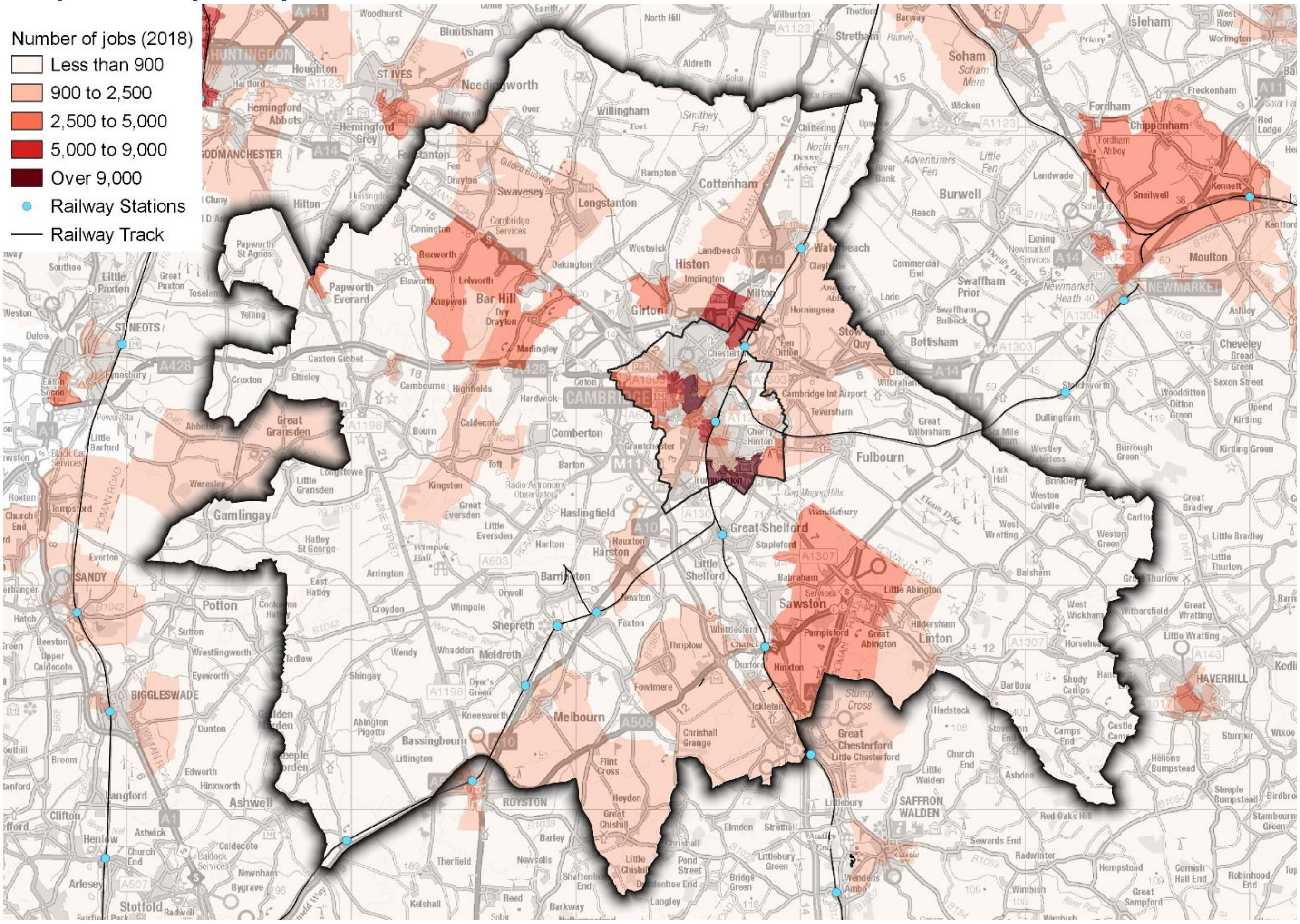


*Source: Ministry of Housing Communities and Local Government, Cambridgeshire & Peterborough Strategic Planning Unit (*we have combined historic figures from St Edmundsbury and Forest Heath)*

There is a strong local economy within the three local authorities. These employment opportunities are a major draw to households and will drive demand for housing across the local authorities. Given the relative unaffordability of many parts of the local authorities, in particular Cambridge, demand for private housing will be acute in the PRS. PRS households typically cluster close to employment opportunities.

Therefore, it is likely that demand will be strongest in Cambridge, its satellite commuter towns, as well as larger built up areas such as Bury St Edmunds and Newmarket in West Suffolk. The following maps show the employment density across the three local authorities, which highlights locations that would likely be suitable for Build to Rent development to service local employment.

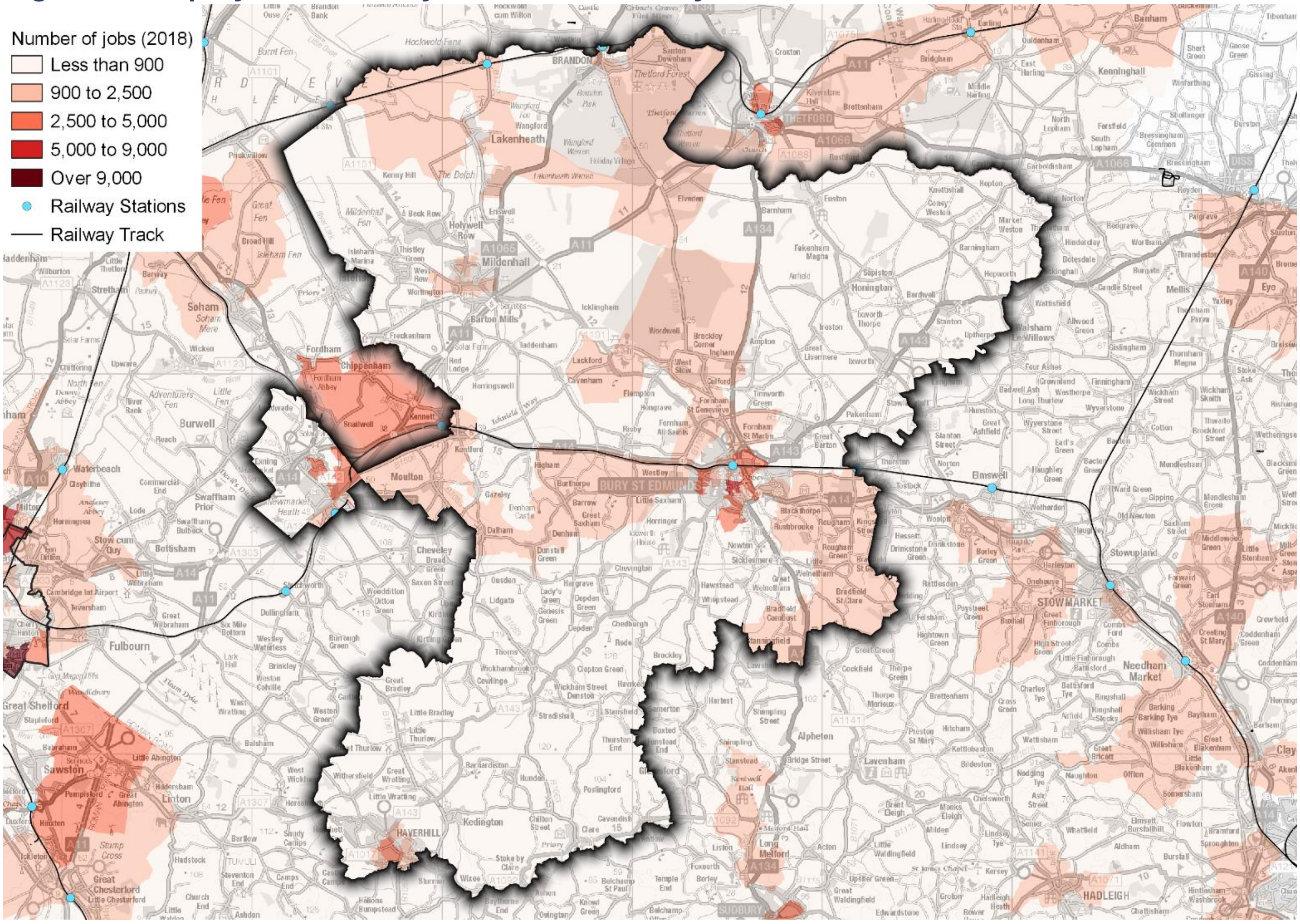
Figure 3: Employment density in Cambridge & South Cambridgeshire by Lower Super Output Area (LSOA), 2018



Source: Business Register and Employment Survey[1]

[1] **Employment** includes employees plus the number of working owners. BRES therefore includes self-employed workers as long as they are registered for VAT or Pay-As-You-Earn (PAYE) schemes. Self employed people not registered for these, along with HM Forces and Government Supported trainees are excluded.

Figure 4: Employment density in West Suffolk by LSOA, 2018[2]



Source: Business Register and Employment Survey[3]

In addition to the strong local economies, the student population in Cambridge and parts of West Suffolk will also drive demand for PRS accommodation. In Cambridge demand will be driven particularly by students at Anglia Ruskin with some from the University of Cambridge, while West Suffolk has a campus of the University of Suffolk at West Suffolk College in Bury St Edmunds.

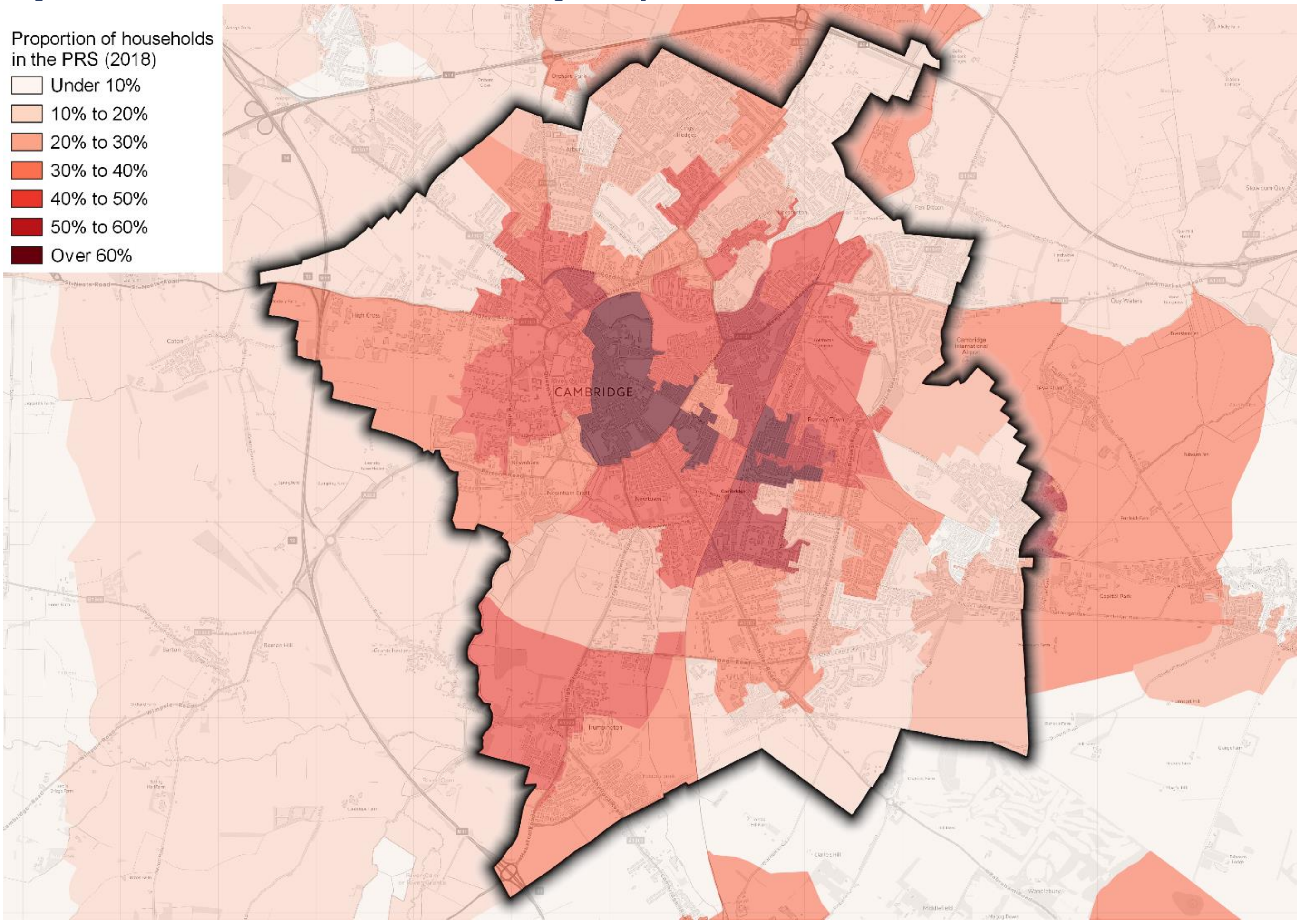
[2] We have removed an anomaly in the data that showed significant employment in the Fornham area of West Suffolk, which was a result of outsourced payroll being undertaken in the area that counted all employees as working within this location.

[3] **Employment** includes employees plus the number of working owners. BRES therefore includes self-employed workers as long as they are registered for VAT or Pay-As-You-Earn (PAYE) schemes. Self employed people not registered for these, along with HM Forces and Government Supported trainees are excluded.

2.3. Rental demand in Cambridge

According to Experian it is estimated that c.35% of households across Cambridge live in the PRS. Figure 5 below shows the spread of these households. It shows the higher density of rented households in the city centre and to the east of the city.

Figure 5: PRS households in Cambridge, Experian 2018



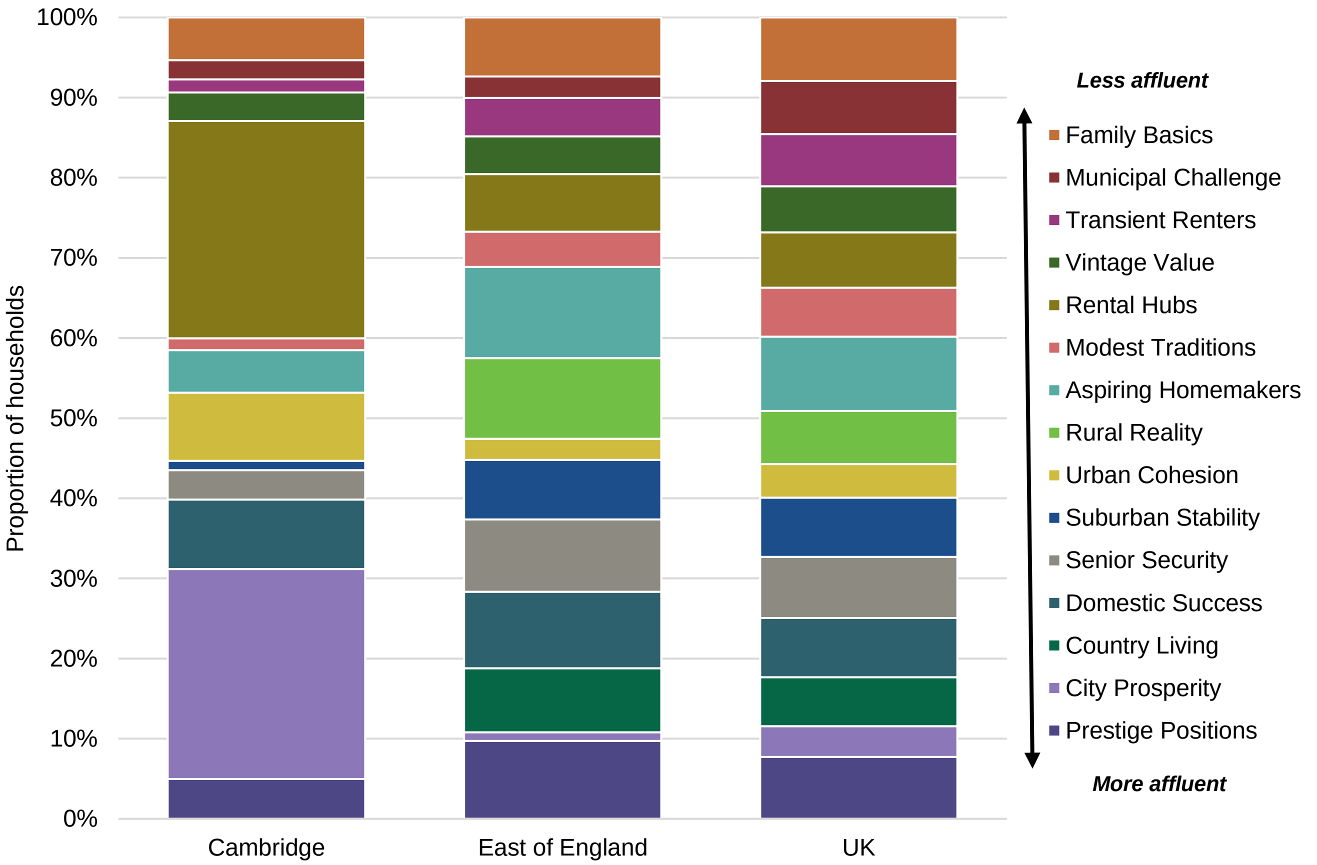
Source: Experian

To understand the demographic profile of Cambridge and the likely demand for Build to Rent, we have looked at the Experian breakdown for the city. This shows that Cambridge has a more affluent demographic profile compared with both the regional and national average. Breaking this down further shows that Rental Hubs (27%, c.12,700 households) and City Prosperity (26%, c.12,600 households) are the dominant groups. These are both groups that are highly likely to live in the PRS, which provides a clear indication of potential demand for Build to Rent in Cambridge.

Further analysis of these groups shows that they are typically young professionals, with very few families. This indicates that apartment led schemes are likely to meet the need from these groups. Households within these groups also have high median household incomes in Cambridge, Rental Hubs (c.£57,000 p.a.) and City Prosperity (c.£82,000 p.a.).

However, there is also a comparatively high proportion of Urban Cohesion households in Cambridge (9%, c.4,000 households) compared with the regional (3%) and national average (4%). This group also contains households that are likely to be renting in the private sector. Although in contrast to Rental Hubs and City Prosperity they have lower households incomes (c.£32,000 p.a.). For more detailed analysis and explanation of the different Experian groups and how they apply locally please see the appendix.

Figure 6: Experian groups Cambridge, 2018



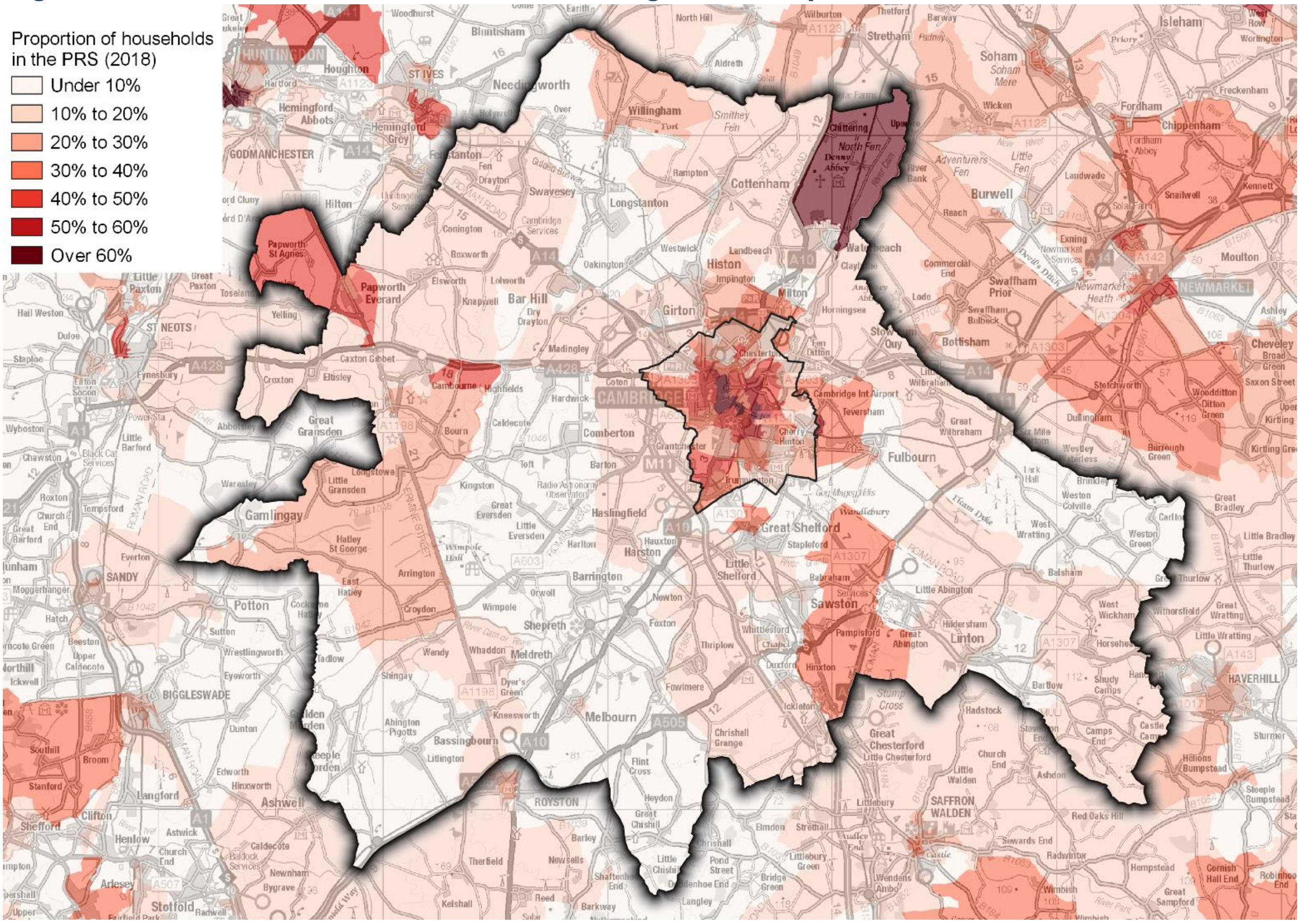
Source: Experian

Cambridge has a very strong local economy, which has seen sustained growth over the past 10 years. The city has developed as a centre of excellence and world leader in education and research and also has concentration of high tech and knowledge intensive industries. The city's economy is forecast to see continued strong growth over the next 10 to 15 years. This will both support continued demand for housing across the city, which given the affordability challenges will likely be most felt in the PRS, as well as strong investor appetite for delivery of Build to Rent homes.

2.4. Rental demand in South Cambridgeshire

According to Experian's most recent estimates c.15% of households in South Cambridgeshire live in the PRS. However, this district level proportion disguises variation across South Cambridgeshire. In general existing concentrations of PRS households are found in areas close to Cambridge, with good connectivity to the city or close to other employment locations like Granta Park.

Figure 7: PRS households in South Cambridgeshire, Experian 2018

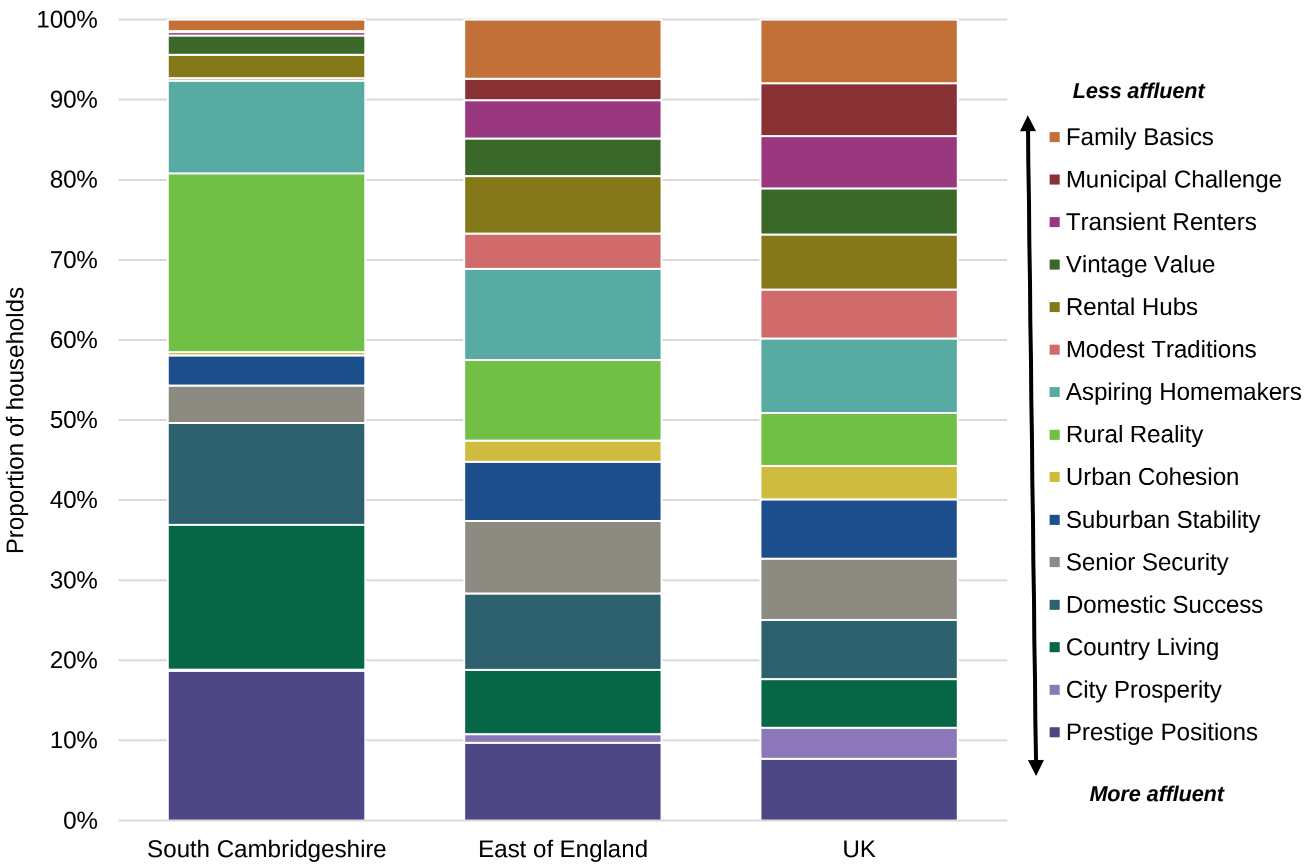


Source: Experian

According to Experian, South Cambridgeshire has a more affluent demographic profile compared with both the regional and national average. The dominant Experian Groups in the district are Rural Reality (22%, c.13,300 households), Prestige Positions (19%, c.11,100 households) and Country Living (18%, c.10,800 households). In general, households in these groups are less likely to be living in the PRS than other groups. But there are still households in these groups that rent.

However, there is also a high proportion of Aspiring Homemaker households (12%, c.6,900 households) in South Cambridgeshire. Within this group there are households that are likely to be living in the PRS. These households are typically young households with a mixture of couples and families. Across South Cambridgeshire they have a median household income of c.£58,000 p.a. For more detailed analysis and explanation of the different Experian groups and how they apply locally please see the appendix.

Figure 8: Experian groups South Cambridgeshire, 2018



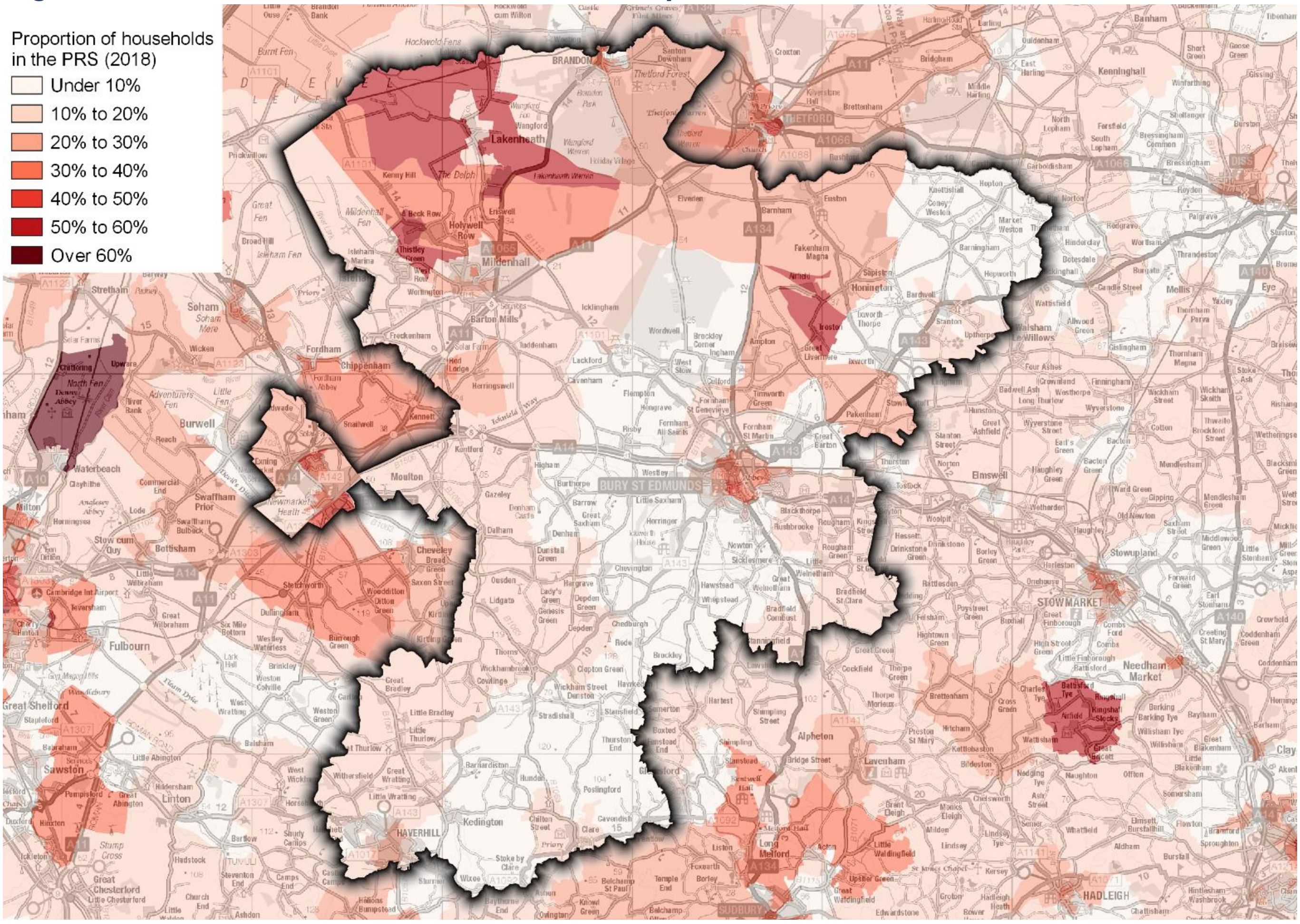
Source: Experian

South Cambridgeshire has a strong and diverse economy, which comprises of high value manufacturing, software development, high tech, pharmaceutical and bio-tech sectors. In the south of the district are a number of major science parks including Granta Park and Wellcome Genome Campus, which offer high value employment and will be drivers of demand for housing. In addition to these, the fact that the district encompasses Cambridge means that it is well placed to support the city and help meet some of its housing need, which will further support demand.

2.5. Rental demand in West Suffolk

Across West Suffolk as a whole it is estimated that c.20% of households are living in the PRS. However, this masks variation across the district, with the highest concentrations of PRS households found mainly around Newmarket, Bury St Edmunds and near Mildenhall. These mirror significant employment areas across West Suffolk, such as RAF Lakenheath near Mildenhall.

Figure 9: PRS households in West Suffolk, Experian 2018



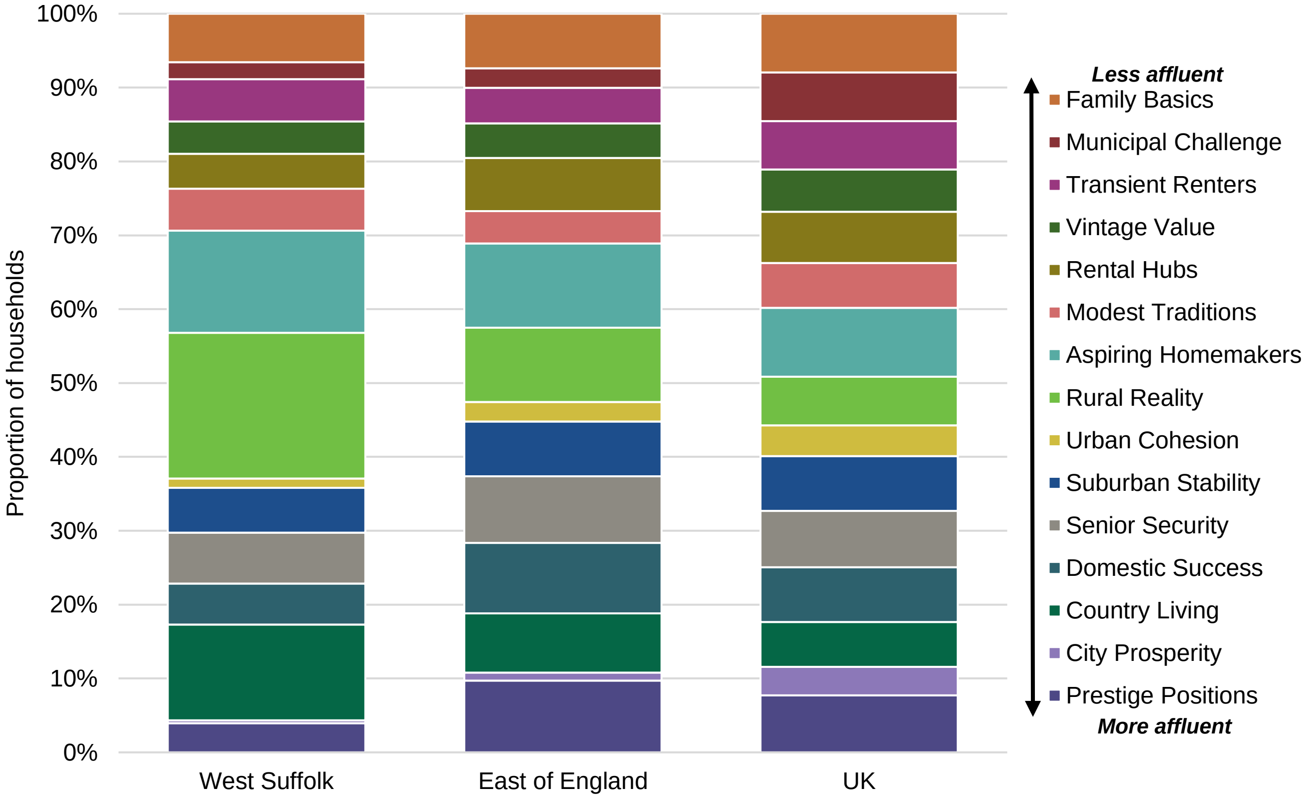
Source: Experian

To understand the demographic profile of West Suffolk we have used Experian's Mosaic to provide a breakdown of households in the district. Reflecting West Suffolk's rural character, two of the most common household groups are Rural Reality (20%, c.13,700 households) and Country Living (13%, c.9,000 households). Households within this group are less likely to live in the PRS compared with other groups in Experian such as Rental Hubs, Transient Renters and Urban Cohesion.

However, there are also a high proportion of households in West Suffolk that are classified as Aspiring Homemakers (14%, c.9,600 households). These households are typically young couples and families who are starting out and have a high propensity to live in the PRS. Looking at the distribution of these households shows that they are generally clustered in Bury St Edmunds, Newmarket, Mildenhall and Haverhill.

While Rental Hubs only account for a small proportion of all households across West Suffolk as a whole (5%, c.3,300 households), they are almost all clustered in either Newmarket or Bury St Edmunds and could therefore be targeted by investors delivering schemes in these locations. For more detailed analysis and explanation of the different Experian groups and how they apply locally please see the appendix.

Figure 10: Experian groups West Suffolk, 2018



Source: Experian

West Suffolk is predominately rural with six market towns. The district has a diverse economy including tourism, life sciences, food and drink and advanced manufacturing. The majority of employment opportunities are clustered in and around the market towns, in particular in Newmarket, Bury St Edmunds and Haverhill, which is where demand for rented accommodation is likely to be highest.

The district also has two US Airforce bases at Mildenhall and Lakenheath, both of which support the local economy and drive demand for rented housing. Furthermore, Airforce personnel receive financial allowances for housing, which means the bases have an impact on affordability for non-Airforce personnel. However, the US Air Force have announced plans to close the base at Mildenhall, which will have an impact on the level of demand for rented housing and the economic strength of the area.

3. Planning for Build to Rent

3.1. NPPF and the emerging rental sector

The Build to Rent market was stimulated by the Montague Review (2012) and a raft of measures that followed the report. The Government responded to the review's recommendations by establishing a PRS taskforce to work with local authorities and investors and introduced two key funding initiatives to help stimulate large scale investment in rented housing in England and Wales.

The Government's White Paper *Fixing Our Broken Housing Market* included encouragement of institutional money into the PRS to assist in accelerated delivery and further professionalise the rented sector. The first funding scheme to support BTR was the HCA Build to Rent Fund launched in December 2012 with £200m of funding available to pump prime the development of rented housing. There were high levels of interest in this funding scheme from a variety of organisations including commercial developers, housebuilders, contractors, PRS landlords and Registered Providers. The appetite was such that the scheme was over-subscribed and the scheme was extended to £1bn in 2013 Budget. The funding scheme effectively provided development finance for PRS at a time when the funding markets were constrained in the aftermath of the Global Financial Crisis.

The second stimuli was a £3bn Debt Guarantee scheme which offered investment finance for completed schemes for longer periods and at cheaper rates than is typically available for PRS schemes. This was a completely new funding product designed to stimulate higher levels of housing supply by lowering the cost of debt more in line with the 'preferential' rates accessed by the housing association sector for the provision of affordable housing. This scheme, open to all classes of investors, is being administered by Venn Partners and they have secured funding for a number of newly completed Build to Rent schemes through the bond markets.

The Government also introduced a number of tax reforms since December 2014 aimed at curtailing buy to let investment. Specifically, the reduction on mortgage interest relief on buy to let properties. The change in tax relief for interest payments has resulted in slower growth in the mortgaged buy to let sector with evidence of some landlords selling their properties. The limit on mortgage interest relief for buy to let mortgages was announced in order to create a more level playing field between those buying a home to let and those buying a home to live in. The change meant that landlords can only claim tax relief on their mortgage interest payments at the basic rate of 20%, rather than their marginal rate (higher rate of 40% or the additional rate of 45%). The impact has been particularly acute in higher value markets, with data from UK Finance showing that buy to let mortgage lending has fallen by over 40% in most local authorities in East of England, South East and London. Reduced buy to let investment activity presents an opportunity for large scale investors to step into the gap created by a fall in the demand from buy to let investors.

More recently we have seen changes to National Planning Policy Framework (NPPF). These changes include a definition of Build to Rent, Affordable Private Rent and an appreciation that Build to Rent requires a different approach to planning and viability testing. In essence the changes to the NPPF mean that Build to Rent now has much greater prominence than before and planning authorities are required to consider the housing needs of all people including those who rent in their local plans.

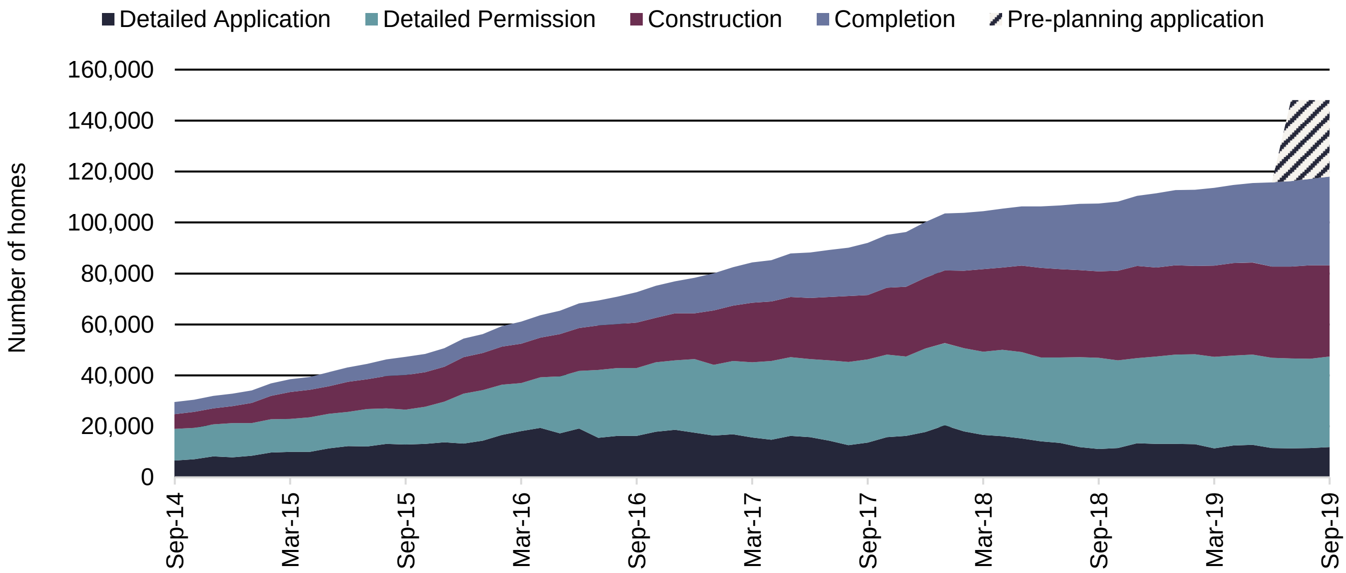
The definition of Build to Rent set out in the revised National Planning Policy Framework is:

> *"Purpose built housing that is typically 100% rented out. It can form part of a wider multi-tenure development scheme comprising either flats or houses, but should be on the same site and/or contiguous with the main development. Schemes will usually offer longer tenancy agreements of three years or more, and will typically be professionally managed stock in single ownership and management control."*

3.2. The Scale of Build to Rent

Despite there being no specific national planning policy, the Build to Rent market has grown to in excess of c.148,000 new PRS homes complete, under construction, or in the planning pipeline as at Q3 2019. This has increased by 400% over the past 5 years. Half of the pipeline is in London and half spread across the UK. The vast majority of the pipeline comprises flats: 87% of the pipeline is on schemes composed entirely of flats.

Figure 11: Number of PRS homes by development status, England and Wales, Q3 2019



Source: Savills, British Property Federation, Molior

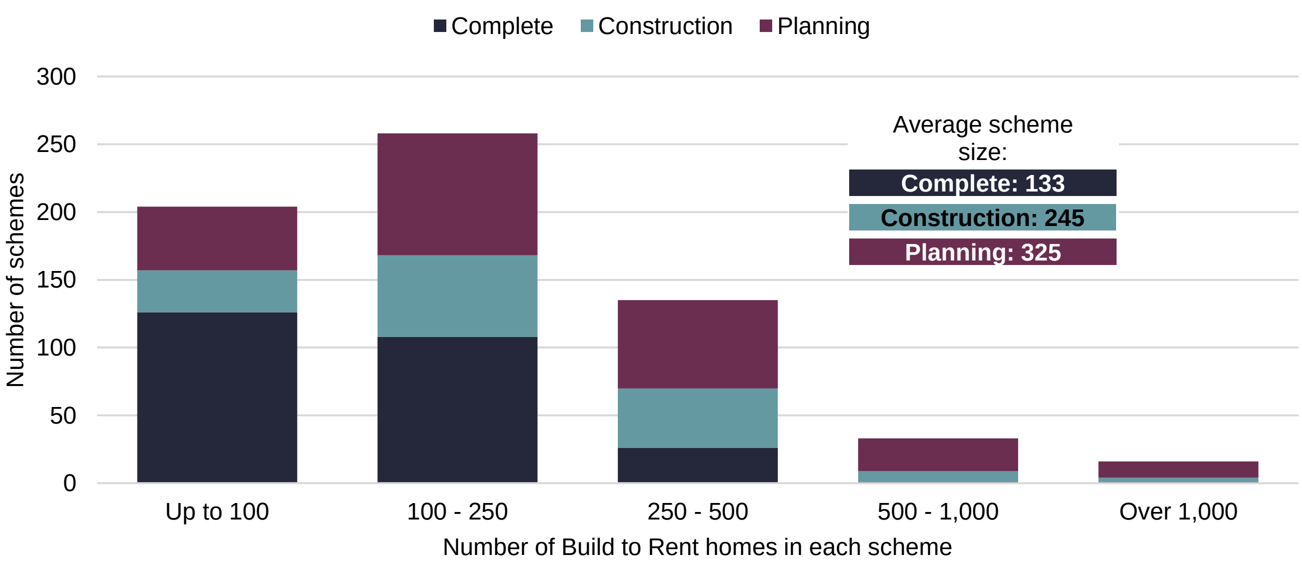
There are a total of 262 completed Build to Rent schemes, comprising c.34,800 homes. Developers are the leading players in the delivery of PRS having supplied almost half of all completed schemes. The majority of early schemes comprised of homes originally planned for market sale which were subsequently purchased for the rented sector. A good example is the Athletes Village in East London, which was bought by Delancey and Qatari Diar and has been retrofitted to be delivered as a rental village of c.1,500 rented homes alongside a similar number of affordable rented homes. Going forward, there are much higher numbers of developments using a Build to Rent delivery model with house builders and contractors delivering on behalf of investors and property companies.

The existing stock of Build to Rent homes has primarily been delivered in smaller volumes. Few of the Build to Rent homes completed have been in groups of over 250 homes, with the average size of a completed development being 133 homes. Developments which are under construction and in the planning process are those able to deliver higher volumes of Build to Rent stock. Developers and regeneration specialists are making use of blocks within large strategic sites to deliver these volumes of Build to Rent homes. Of developments looking to bring forward over 1,000 PRS homes, 84% are located in London with the majority based around North and East London.

There are currently over 146 Build to Rent schemes currently under construction delivering over c.36,000 homes within the next three to five years. Of these, over 48 are believed to be institutionally backed with companies like M&G Real Estate, L&G, Invesco, Westrock and Criterion Capital funding schemes in London and the South East. The largest number of Build to Rent homes is coming through in urban city centres with over 9,000 homes currently under construction across Manchester and Salford alone. Developers are the key deliverers of Build to Rent homes in schemes which are currently under construction.

A further c.77,500 homes are currently in the planning pipeline being brought forward as part of 238 Build to Rent schemes across the UK. The largest proposed volumes of Build to Rent homes are sat within wider strategic sites like Barking Riverside, Brent Cross Cricklewood and the former Olympic Park.

Figure 12: Number of Build to Rent schemes by status and size band, Q3 2019



Source: Savills, British Property Federation, Molior

3.3. The Viability of Build to Rent schemes

Much of the growth of the Build to Rent market occurred before changes to the NPPF. As a result, viability testing for Build to Rent is relatively new.

A distinct characteristic of Build to Rent is that schemes are run under a single ownership and management structure. As a result, the NPPF states that on Build to Rent schemes the affordable housing contribution should be delivered as Affordable Private Rent (APR), also known as Intermediate Rent or Discounted Market Rent (DMR), which can be owned and managed by the investor. It is an intermediate housing product that does not absorb housing grant and therefore does not need to be transferred to a Registered Provider. Tenants in Build to Rent schemes do not pay service charges so an investor can own and manage the scheme in its entirety, simplifying the management and maintenance of the investment.

APR tenancies are let on an Assured Shorthold basis and the number of homes is usually agreed within the Section 106. The majority of projects we have worked on have adopted the RICS definition of Market Rent in their planning agreements:

"the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

In order to be considered APR, the rents are capped at 80% of Market Rent in line with national policy guidance. Some districts adopt their own mechanism for determining rents, based on:

- Target household incomes (in line with identified local demand);
- Reference to other rental caps locally such as Local Housing Allowance (LHA) levels.

However, LHA levels apply to households that are more usually on a local authorities' Housing Waiting List and so more eligible for Social Rent. As an Intermediate tenure, Affordable Private Rent is aimed at a different occupier group and we have not identified any formal policy guidance that requires APR homes to be within LHA levels.

Clearly, depending on districts' local priorities, the household income bands for APR might vary. The proportion of market rent that would be applicable to APR will vary depending on:

- The market rents of the proposed scheme;
- The household income bands in the district that cannot afford market rent but are too high for other forms of affordable housing; and
- The balance between the proportion of affordable housing sought and the level of rent / household income bands. Here there will be a trade-off between the number of APR homes and the total level of the discount (as shown in the example in Figure 13).

The proportion of market rent for APR is set at the time of the planning application and set out in the Section 106 agreement. Accompanying provisions in Section 106 agreements then focus on:

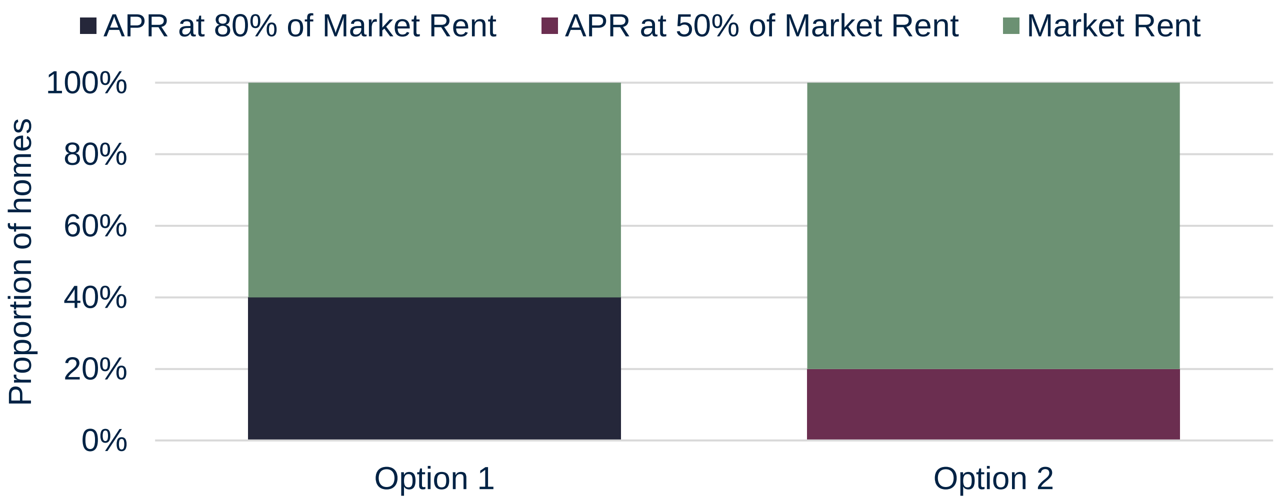
- Rental growth over the life of a tenancy: often capped at CPI+1% or in line with the provisions for the market homes;
- At new-lets or new tenancies then the rents revert to the percentage of market rent set out in the Section 106.

In practical terms, the rent for an APR unit is set by first establishing the Market Rent for the unit and then applying the discount. The Market Rent would be demonstrated by a valuer, and would take account of the achieved rents in the building and the achieved rents locally, with appropriate adjustments in line with valuation practice. Market rents are inclusive of service charge costs but are normally exclusive of typical household bills such as Council Tax, internet, heating and water. A distinction with Build to rent is that rents are often inclusive of utilities.

As a guide, assuming a consistent overall income for the scheme, the following chart sets out a figurative example of how the rent levels and number of affordable homes might change to ensure a deliverable scheme. This notional example is based on a 100 unit scheme where the Market Rent is an average of £200/week and assumes that a scheme delivering 40% affordable housing at 80% of Market Rent is viable. Actual financial performance and the viable level of affordable housing delivery will vary depending on the scheme.

It shows two equivalent options for the hypothetical scheme; firstly delivering 40% of homes as APR at a 20% discount to market rent, or secondly only 20% of homes as APR if the discount is increased to 50% of market rent. This highlights the trade-off required between the level of discount and overall number of affordable homes.

Figure 13: Comparison of APR levels



Source: Savills

In terms of delivering a Build to Rent scheme from an investor or developers perspective, the question is whether the scheme is viable based on scale (number of homes that demand could support) and the rents that could be achieved, both market and APR combined. The Greater London Authority (GLA) have pioneered the viability guidance in respect of Build to Rent. The London Plan specifically recognises the distinct economics of the sector relative to mainstream build for sale market housing. The guidance sets out:

> *"first, a reliance on a revenue income through rent rather than upfront return on sales; and second, that Build to Rent often cannot compete on an equal footing with speculative build for sale when competing for land, as it can generate lower returns" (Homes for Londoners, Affordable Housing and Viability Supplementary Guidance 2017).*

The guidance acknowledges that in developing the London Plan policy framework that Build to Rent does not perform financially as well as a typical for sale scheme and that in order to promote delivery, planning obligations may need to be relaxed, in terms of the unit mix, the target number of homes per core or the number and type of affordable homes.

In practice, Build to Rent developments frequently provide either less affordable housing overall, or affordable housing of alternate types to other developments. In London, this has translated to a relaxation of the 'threshold' approach for affordable housing that has been developed in respect of mainstream developments (i.e.) there is a specific expectation that the normal target of affordable housing cannot be delivered. In addition to this relaxation in policy target, developments are assessed using different criteria, particularly in expected developer return.

Since Build to Rent is not a discrete use class and might otherwise be delivered as market sale, in order to ensure that homes are maintained for rent, planning consents typically include:

- A period of covenant in the Section 106 (minimum 7 years, typically 10-15 years) where the homes are restricted to rent;
- A financial clawback mechanism in the event that homes are sold (above a threshold number of homes) during the covenant period.

In order to give comfort to investors, funders, and long-term operators of Build to Rent, provisions to waive the clawback are normally required in Section 106 agreements in the event of market failure, to ensure that the assets can secure finance. The financial viability of development proposals is determined using the residual land valuation method. A summary of this valuation process is set out below:

Built value of Proposed private residential and other uses	+	Built Value of Affordable Housing	=	Gross Development Value
Gross Development Value (GDV)	**-**	**Build Costs, Finance Coats, Section 106, Costs, CIL, Sales Fees, Developers Profit, etc.**	**=**	**Residual Land Value**

The Residual Land Value (RLV) is then compared to a Site Value Benchmark. If the RLV is lower and/or not sufficiently higher than the Benchmark the project is not technically viable. Valuation guidance for Build to Rent is set out by RICS in "Valuing residential property purpose built for renting" (1st Edition 2018). Viability practitioners should have regard to this guidance.

GDV can be calculated using a discounted cash flow over the life of the asset, or by applying a yield (the rate of return)[4] to the net rent (rent as charged to tenants, less operating costs)[5]. Whilst neither approach is explicitly prescribed, the most common approach (and that adopted by the GLA in London) is to divide the net rent by the yield to calculate the GDV. The yield will vary depending on a number of factors but indicative Forward Funding yields outside of London are currently (as of Q4 2019) between 4.0% and 5.25%.

The asset is then typically assumed to be sold at the point where the rental income is stabilised (i.e. the building is occupied). Viability appraisals should take account of the income received over the stabilisation period. A summary of the income from the Rented Unit is as follows:

- Comparable evidence to demonstrate likely market rents;
- Deductions for operating costs, usually based on industry data (often adopted at an average of 25%);
- Net rent capitalised at an initial yield, based on market evidence;
- Purchaser's costs to be deducted from the sale price, as well as appropriate marketing, sales agent and sales legal fees.

All other provisions typical in viability assessments in respect of affordable housing would apply, which might include (for example) review mechanisms.

The majority of affordable policy favours delivery on site and the affordable housing policy structure in respect of Build to Rent has developed in order to facilitate delivery of schemes overall.

[4] The yield is the return the investor is likely to achieve from renting the property.

[5] By dividing the net rent by the yield you calculate the investment value for the asset, which is the amount an investor would pay for the performing asset.

Individual housing authorities may prefer to target Affordable Rent that would be appropriate to discharge their statutory housing duty and reduce their housing waiting list. In that event, authorities might prefer to seek a payment in lieu or off-site affordable housing provision rather than Affordable Private Rent on site. Payments in lieu are most commonly sought in the case of co-living schemes, which typically target homes with a much smaller than standard unit profile. The extent of a payment in lieu would be determined by the viability assessment.

4. The Emerging Build to Rent Market

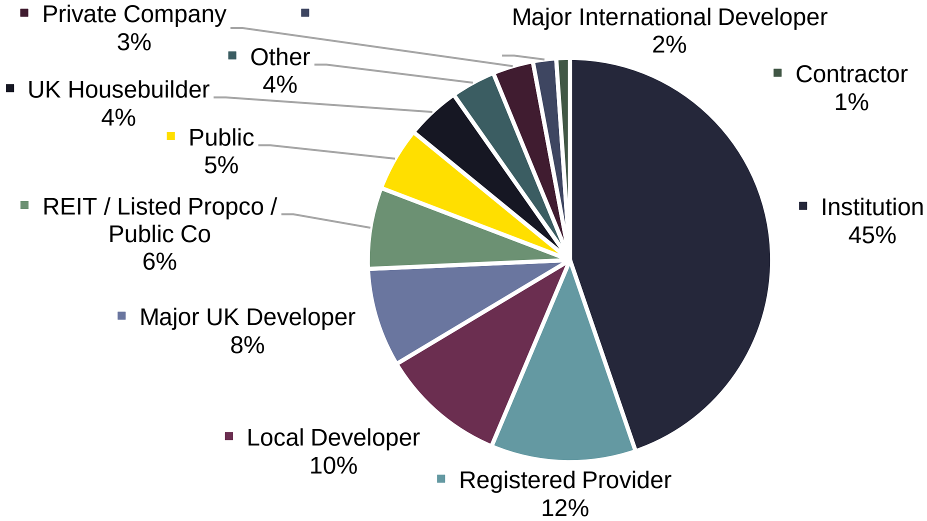
4.1. Who are the investors in Build to Rent?

The most active investors in Build to Rent are institutions. This includes the large pension funds such as M&G Real Estate, Aberdeen Standard and Legal & General, alongside others like Apache Capital, LaSalle Investment Management, Invesco and Kennedy Wilson. In total, institutions control 45% of the schemes in the Build to Rent pipeline, which equates to c.290 schemes. Institutions are the most active investors because despite the lower returns from investing in residential compared to other asset classes, the returns are long term, secure, counter-cyclical (people still pay their rent when the economy is in decline) and match institutions liabilities (i.e. the income coming in pays people's pensions).

The second most common investor group are Registered Providers, in total they control 12% of schemes in the pipeline. The most active Registered Provider in the Build to Rent sector is L&Q, which has a total pipeline of over 6,600 homes. Registered Providers were attracted to the Build to Rent sector by the management synergies it offered with their core business alongside a new income stream that would help to cross-subsidise their affordable homes programmes.

There has also been a rise in the level of investment by Real Estate Investment Trusts (REITs) and listed property companies. This segment currently funds c.6% of schemes in the BTR pipeline. The most active of these is Grainger, who have nearly 8,000 homes in their pipeline across 36 schemes. However, this segment also includes traditional estates such as Grosvenor, who are currently bringing a c.1,000 homes scheme forward in Southwark, London. It is likely that this segment will increase over the near term, as there have been a number of announcements of intent by large REITs including Landsec, British Land and Intu to actively bring forward Build to Rent schemes. Similarly to institutions, these investors are attracted to residential investment for the stable return profile and are making long term investments. Their move into residential springs from the decline of other sectors such as retail, shopping centres and traditional offices.

Figure 14: Funders of Build to Rent schemes, Q3 2019



Source: Savills, British Property Federation, Molior

Table 1, below, provides a brief overview of the three largest investor types in Build to Rent, including examples of the types of organisations that are active and their characteristics.

Table 1: Examples of investment types and profile of returns

Investor Type	Characteristics	Examples
Institutions	Preference for secure long term income that matches liabilities.	Legal & General M&G Real Estate Invesco LaSalle IM
REITs / Listed Property Companies	Preference for long term secure income to generate sustainable returns for shareholders.	Sigma Grainger British Land LandSec
Registered Provider	Looking for long term income to cross-subsidise their Affordable Housing programmes.	L&Q A2Dominion Notting Hill Genesis

One of major benefits of institutional ownership of PRS stock is that they are concerned with the long term performance of their assets, which manifests in a range of ways. Firstly they are typically offer longer term tenancies (3 years). This was shown in Get Living's scheme in Stratford, where they offered 3 year tenancies from the start, before the recent changes to the NPPF. Secondly, they are concerned with achieving and maintaining occupancy during the life of the investment. as a result they set rents at a level that is affordable to the deepest pool of local demand and set up-front mechanisms for adjusting rents. For example agreeing that rents will only increase in-line with inflation during the life of the tenancy. Finally, they incentivise managers to ensure regular upkeep and maintenance to protect the value of the underlying asset.

There are 273 different investors active in the Build to Rent sector. However, almost half of these (49%) have less than 200 homes in their portfolios. Whereas the 20 largest investors account for 53% of the total pipeline. The investor with the largest total pipeline is Grainger. They are active across the country and are actively investing in town and city centres including Bristol, Milton Keynes, Birmingham, Manchester and London, targeting mid-market rents.

The second largest investor is Sigma Capital, who are primarily targeting housing led schemes in commuter areas close to major employment hubs. The third largest investor is Get Living, who were initially founded to operate and manage the former Athletes Village in Stratford. However, they have now expanded and are bringing forward further schemes in Elephant & Castle, Manchester, Leeds and Glasgow. These are the potential funders of BTR on sites in Cambridgeshire and West Suffolk.

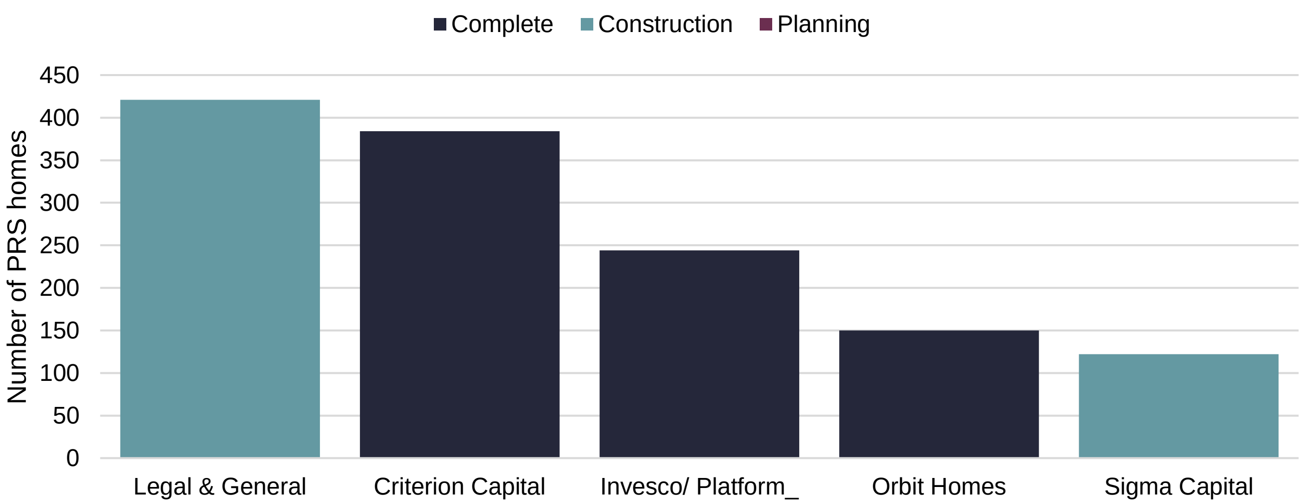
Figure 15: Largest owners of Build to Rent stock in the UK, Q3 2019

Source: Savills, British Property Federation, Molior

Looking specifically at the East of England, there are currently seven Build to Rent schemes across the pipeline, totalling c.1,320 homes. Of these, four are completed and operational, totalling c.780 homes. The completed schemes have been delivered in Basildon, Bedford, Stevenage and Norwich. Most of the homes delivered or under construction are apartments. The only exception is the scheme being delivered by Sigma.

There are currently no Build to Rent schemes in the planning pipeline within Cambridge, South Cambridgeshire or West Suffolk. However, Cambridge are actively involved in pre-app discussions in relation to two Build to Rent proposals.

Figure 16: Owners of Build to Rent in East of England, Q3 2019



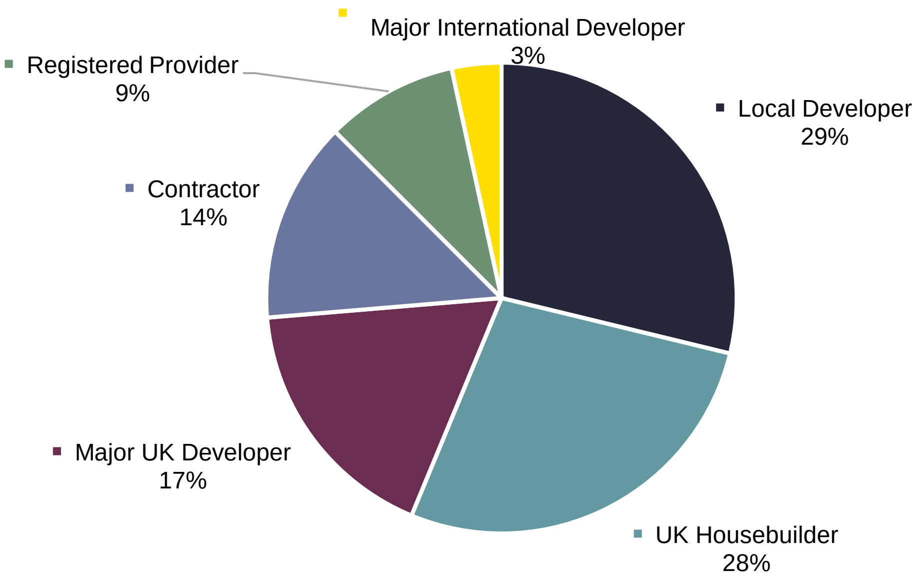
Source: Savills, British Property Federation, Molior

4.2. Who are the developers?

The majority of investors in Build to Rent do not have construction capabilities. This means that many are funding developers or housebuilders to deliver stock. This is reflected in the breakdown of who is actually delivering schemes in the Build to Rent pipeline. With UK housebuilders delivering 28% of all schemes, while developers (either local or major nationals) account for a further 29% and 17%, respectively. The difference between housebuilders and developers is that developers will also under take construction of other types of real estate such as offices, shopping centres and/or industrial units.

There have also been recent announcements by housebuilders, such as Telford Homes, of new strategies that have pivoted away from developing homes to sell. Instead they are setting up partnerships with investors to source land and develop Build to Rent homes on their behalf.

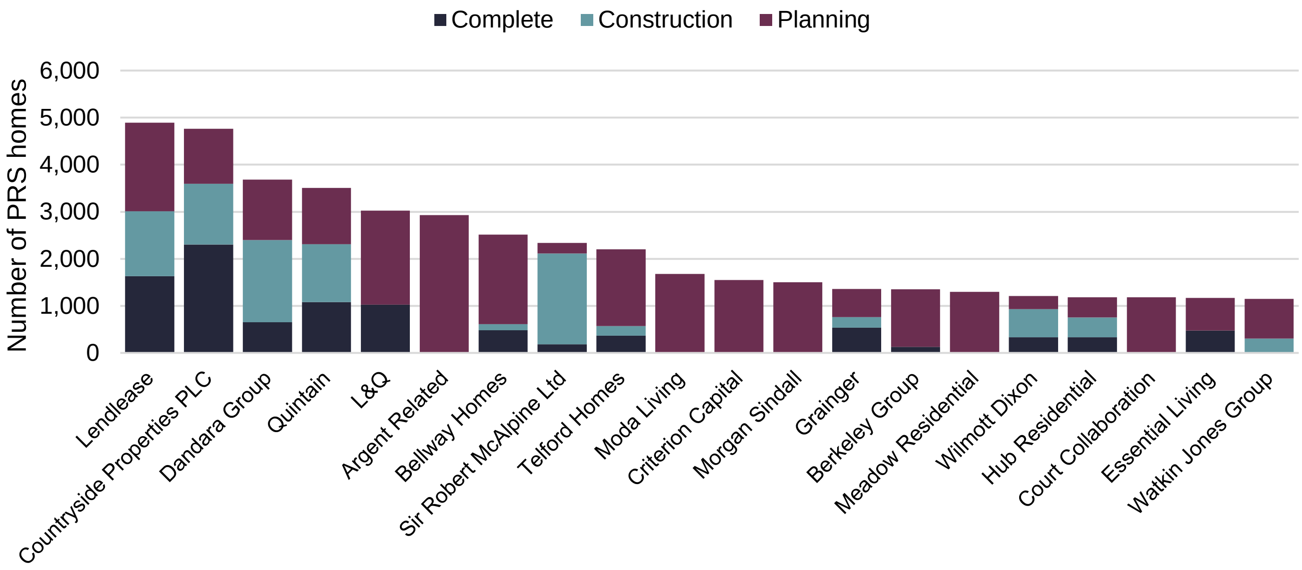
Figure 17: Builders of Build to Rent schemes, Q3 2019



Source: Savills, British Property Federation, Molior

In total there are c.300 different organisations undertaking the delivery of Build to Rent schemes across the UK. As mentioned above, the majority of these are either developers or housebuilders. These companies will have sold all or part of a scheme on to an investor and will now be delivering the homes on their behalf.

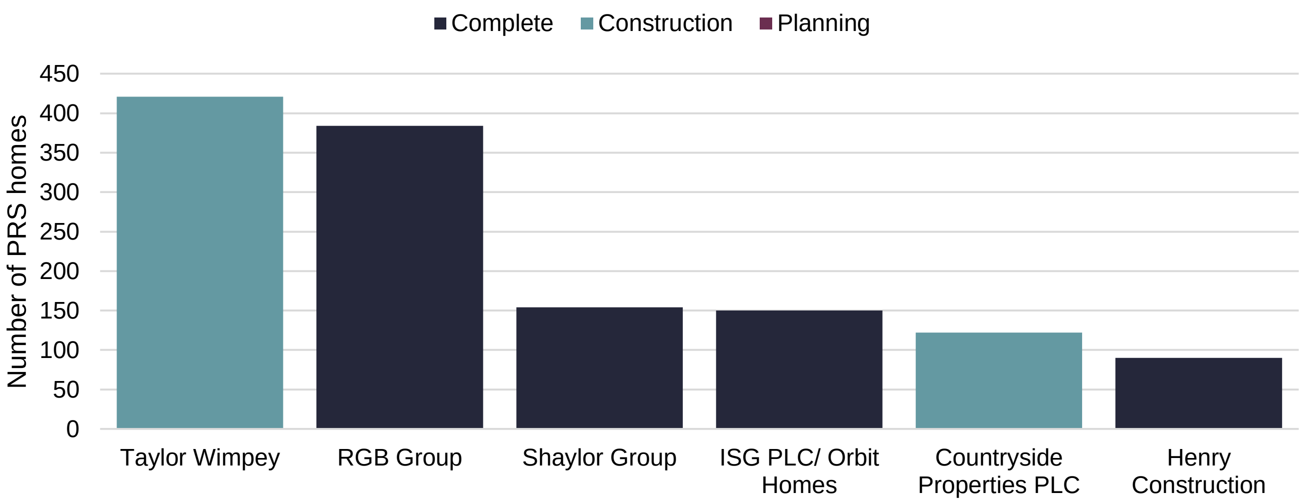
Figure 18: Top 20 builders of Build to Rent stock in the UK, Q3 2019



Source: Savills, British Property Federation, Molior

Looking specifically at the East of England the majority of homes are being, or have been, built by contractors, such as Shaylor Group and RGB Group. The remained are being built by two housebuilders, Taylor Wimpey and Countryside.

Figure 19: Builders of Build to Rent stock in East of England, Q3 2019



Source: Savills, British Property Federation, Molior

4.3. What type of sites work?

Build to Rent can work on almost any site where build to sell development can work. Although to date, the majority of Build to Rent schemes have been brought forward in more urban locations. This is in part due to the lower level of competition for these sites with housebuilders, who prefer to deliver lower density housing led schemes on the outskirts of conurbations. Furthermore, the delivery of Build to Rent in urban locations more closely aligns with where PRS demand is typically highest.

In terms of scale, early Build to Rent schemes were typically on the smaller side, of between 50 to 100 homes in size. However, as the sector has matured, investors have become more comfortable with the market dynamics and they are seeking to leverage economies of scale. This means that we have seen the average size of schemes increase to between 200 and 300 homes. There are also very large schemes emerging in major cities, such as London and Manchester, where upwards of 1,000 homes are being built on a single site for rent. The scale of delivery is limited only by the size of the existing rental market and the underlying demand drivers of a particular market.

At present the majority of Build to Rent schemes are delivering apartment only, or apartment led, schemes. This reflects the dominance of urban town and city centre development. However, we are starting to see increased appetite for the delivery of housing led, family targeted, Build to Rent schemes, such as those being delivered by PlaceFirst and Sigma. Where these investors have brought forward house led schemes they have been of a much broader size range compared with apartment led schemes. Sigma for example has operational schemes ranging from 14 homes to 350 homes in size, while PlaceFirst has schemes ranging from 51 homes to 294 homes. If delivering smaller sites (sub-50 homes) then the investors will look to have multiple smaller sites within a relatively close proximity of each other to still allow efficient management.

Table 2: Case studies of common characteristics of suburban Build to Rent

Factor	The Green, Kilnwood Vale, Crawley	Arborfield Green, Arborfield
Access to local employment markets and/or link major local employer	Close to Gatwick airport (18 minute drive), which provides significant local employment. Crawley itself also has an active employment market and London is only a short commute.	Close to Reading (20 min drive), Wokingham (10 min drive) and Bracknell (20 min drive). Has easy access to the M4 corridor employment hub, Heathrow and London.
Access to transport infrastructure, road and/or rail	Adjacent to A264, which connects the site to Crawley, the M23, Horsham and Gatwick Airport. Mainline train station in Crawley that provides easy access to Brighton and London.	High connectivity. Adjacent to A roads providing direct links to Reading, Wokingham. Major access roads M4 and M3 proving access to south west and west. Mainline stations to London in Wokingham and Reading.
Access to open space	The scheme includes two parks and a multi-use all weather sports pitch.	Very green, redevelopment of old Ministry of Defence garrison and surrounded by farmland and country parks.
Deep local demand for product	Strong local rental market for sharers, especially those working at Gatwick Airport, and families.	Strong local rental market for sharers and families. Adjacent to high value markets (Wokingham and Reading). Large student market.
Social infrastructure	There is a primary school being delivered as part of the wider development. Local secondary schools in close proximity to the site.	Local secondary and primary schools near the site.

4.4. Why has Build to Rent not emerged in high value markets?

To date, there has been very limited delivery of Build to Rent in higher value markets. And in fact in high value markets outside of London, such as Oxford and Cambridge, there is yet to be any Build to Rent development brought forward or proposed.

The main issue is high land values that make ‘viability’ a barrier to delivery - that is, the difficulty developers have in competing for land against owner occupation and other uses. There is no separate planning use class for private rented property, so any site suitable for residential development could be used either for homes for sale or homes for rent. Since the price of development land is a residual sum (the amount remaining after construction cost and profit), the price will be determined by the highest-value use of the land. Selling homes to owner occupiers or individual private investors almost always produces higher values than PRS use, which is generally calculated by the capitalised value of the rental income, so developers of purpose built PRS often find it difficult to compete against for-sale developers in the open market for land.

This has severely limited the potential for Build to Rent developers to acquire and bring forward sites in high value markets such as Cambridge and Oxford. However, with prices softening, demand for high value new build properties easing, reduced demand from buy to let investors and the potential impact on demand from foreign buyers due to the additional 2% Stamp Duty there is potential for Build to Rent development to become more competitive. This has started to feed through in London, where Build to Rent is becoming more active in higher value inner London markets, that have to date been the almost exclusive territory of build to sell developments.

4.5. Types of Build to Rent

Investors use a variety of approaches for the delivery of new rented homes. The UK Build to Rent database, identifies three broad delivery approaches in the private rented sector (PRS):

1. Approach 1 - homes that are purpose built and designed for the rental market (Build to Rent);
2. Approach 2 - homes that are retained for PRS by the developer (who is also an operator);
3. Approach 3 - homes that are purchased for PRS. Approach 2 and 3 tend to be designed as private for sale.

The three separate forms of delivery are described in more detail below. The commonality across the three delivery methods is that the homes are delivered in bulk, held in single ownership and professionally managed.

Looking at the development pipeline highlights that most investors are pursuing the purpose built and designed route (approach 1), especially moving forward. Currently 89% of homes under construction and 96% of homes in planning are coming forward on purpose built and designed Build to Rent schemes (approach 1). However, looking at completed stock shows that only 56% of completed homes were purpose built and designed Build to Rent schemes (approach 1). This reflects the nascent sector and the lack of purpose built stock in the early days of the sector.

Purpose built “Build to Rent” is stock that has been designed and built with the rental market in mind from the start (approach 1). Since this stock is delivered with rent in mind, there tends to be more consideration to how communal areas are used and the inclusion of shared space and amenities. Investors are also increasingly conscious of how design impacts on the management of properties and the associated running costs. These homes are typically delivered in blocks as part of wider developments or as stand-alone developments and they are often forward funded by investors. The way in which this stock is delivered in single blocks means they can be easily managed as an asset which makes them more attractive to institutional investors.

Approach 1 - Case study – Greenford Quay, London

Greenford Quay is an example of a scheme that can be classified as Build to Rent (approach 1). The site is the former headquarters for GlaxoSmithKline in west London. Greystar, a major US operator of Build to Rent homes, purchased the site in 2016. The site already had an outline consent for 593 homes, which had been designed with the for sale market in mind. However, on their purchase of the site, Greystar resubmitted planning for a Build to Rent development comprising 1,965 homes, of which 1,018 are for open market rent, 421 discount market rent homes, 358 for private sale and 168 shared ownership. Construction started on the first Build to Rent block, comprising 379 homes, in mid-2018 and the first homes are now complete and occupied.

Stock that is retained for PRS (approach 2) is generally stock that was built for sale where a developer/investor or registered provider might decide they want to hold several homes for use as private rented stock. The decision to hold these homes for PRS usually comes during or after construction but could come as soon as the site gains planning permission. This delivery method differs from the previous two in that these PRS homes may sit within blocks alongside built for sale and affordable stock. If a site is delivering market sale and Build to Rent, then normal affordable planning obligations would apply to the market sale element but Affordable Private Rent would be delivered by the Build to Rent element.

Furthermore, homes delivered through this method are more likely to deliver without the private rented sector in mind so little or no discussion around communal space or in-house amenities would have taken place; for example Fizzy Living's Epsom scheme, which doesn't have any resident amenities or communal space.

This is not a delivery approach currently pursued by investors, but was used in order to test appetite for Build to Rent by both investors and renters in the early stages of the sectors emergence.

Approach 2 - Case study – Thurston Point

Thurston Point is an L&Q scheme on Jerrard Street in Lewisham, a short distance from the Lewisham gateway regeneration project. Around 230 of the 415 private homes delivered on site were retained for private rent within the PRS arm of L&Q. The scheme completed in Q1 2016 and all PRS homes were ready for occupation by Q2 2016.

Commentators have said that, while the scheme is situated a short distance from the Lewisham Gateway regeneration project, the area still maintains its older charms. The regeneration project itself, however, has transformed the area around the station beyond recognition. L&Q PRS retaining homes at Thurston point is good example of a company holding onto homes for use in the private rented sector in a newly vibrant and lively area and demonstrates the flexibility that this method of PRS delivery allows.

Homes that are purchased for PRS (approach 3) generally include private for sale stock that was purchased upon completion (through a forward purchase). In general, these are large-scale and often blocks within larger schemes or phases of developments. The homes are purchased by investors (used in its broadest sense) looking to take advantage of quality new-build stock or by other developers looking to extend their PRS portfolios. The very nature of purchasing homes for PRS means that, prior to the purchase completing, the risk sits squarely with the deliverer. While this is an attractive prospect to many investors, it also means they have little to no control over the design of the finished product.

Approach 3 - Case study – East Village, Stratford, London

East Village is the former Athletes Village from the 2012 London Olympics. The scheme is owned jointly by Get Living (a company backed by Qatari Diar and Delancy) and Triathalon Homes (a joint venture between London & Quadrant, Southern Housing Group and First Base). The homes were converted from athletes accommodation to new homes by Lendlease and in total over 2,800 new homes were delivered, 1,439 private and 1,379 affordable.

The conversion works started in late 2012 and finished in phases from mid-2013 in to 2014. The scheme achieved letting rates of c.15 homes per week, which meant the whole scheme was fully let in 1 year 10 weeks. If the scheme had been delviered for sale, it would have likely taken around 8 years to complete and sell all of the homes. This is an example of where delivery for rent can signficantly accelerated delviery of housing.

4.6. Characteristics of the different approaches

The following table shows the characteristics of the different types of new PRS. The common factors across these different methods of delivery are that the rental homes are all new multiple homes, in single ownership that are professionally managed. As more PRS stock is delivered, we expect to see an increase in the variety of deliverers and funders.

Investors in PRS have used the full range of delivery methods to amass scale in the market. M&G Real Estate for example, have acquired existing PRS stock across 50 Berkeley Homes sites in London and the South East, they have forward purchased stock on built for sale schemes and they have developed a purpose-built Build to Rent scheme in Acton, called the Rehearsal Rooms.

Table 3: Characteristics of the different PRS approaches

Retained for PRS	Purchased for PRS	Build to Rent
• New multiple homes • No minimum size • Large-scale investor • Not necessarily purpose-built • Could be multiple homes in different blocks / phases of development • Assured Shorthold Tenancies (AST) contracts with potential to offer longer tenancy options • Limited amenity offer	• New multiple homes • No minimum size • Large-scale investor • Not always purpose built • Generally blocks and unbroken investments • Single phase of development • Risk sits with developer • Little control over design and product • Purchased before or during construction • AST contracts with potential to offer longer tenancy options	• New multiple homes • No minimum size[6] • Large-scale investor • Purpose built for PRS • Blocks / groups of houses and unbroken investments • Risk shared between deliverer and funder • More control for funder over design and product • AST contracts with potential to offer longer tenancy options

[6] Apart from in London, where the draft London Plan introduces a 50 unit minimum for schemes to qualify as Build to Rent

5. Build to Rent: The Investor Journey

5.1. Location selection

The first step on a Build to Rent investor's journey will be assessing the suitability of a location for investment. To do this investors will undertake detailed analysis of the demand drivers for rent in a given location. These include factors such as the level of private renting in the local area, the strength of the local economy, local house prices and affordability, local incomes, rents, population and household growth forecasts and the demographic profile of the local area. The appendix shows the typical demographic information that investors would consider.

The strength of a local economy and its employment prospects, both current and future, are fundamental to the underlying demand for rented housing. Investors want to make sure that sites they are bringing forward are linked to a strong employment market that will create demand for rented accommodation. Investors will also look at whether there is any potential demand from student households.

Beyond the strength of the underlying local economy, investors are interested in understanding the local housing market. This is for a couple of reasons. Firstly, an investor wants to know how affordable local housing is to potential first time buyers and therefore the likely level of demand created for rental accommodation by households being priced out of ownership. Secondly, investors want to understand whether values in the local market make Build to Rent viable; if values are too low then they will not be able to support the construction of new build development and if they are too high it will make competing with open market sale bids more challenging.

Other factors, such as rental levels, local incomes, forecast household growth and demographic profile, will then be used to assess the viability of schemes, the quantum of homes that can be supported and the potential rent levels.

Table 4: Matrix of Investment drivers

Factors that investors consider when looking at whether an area is suitable for Build to Rent
▪ **Employment** – a key aspect that investors will want to understand is whether a site is located near and/or has good transport connectivity to a strong employment market. They will also want to understand the makeup of the local employment and whether it is reliant upon a single employer.
▪ **Transport infrastructure** – investors will want the site to have access to good transport infrastructure. This will mean different things for urban and suburban sites. For urban sites this will largely be public transport infrastructure (i.e. bus routes and trains). However, suburban sites will need to have good access to the road network, such as motorways and A roads to provide access to employment, social infrastructure and local amenities.
▪ **Social infrastructure** – does the site, or the surrounding area, have the right social infrastructure. The type of infrastructure sought will depend on the profile of rental demand for a particular site/area. For example, if the site is in a suburban market that is seeking to meet the demand from young families, then schools will be an important factor.
▪ **Local amenities** – a local area will also need to have (or have good access to) suitable amenities, such as supermarkets, retail and leisure facilities that will meet the needs of potential renters.
▪ **Size of the local rental market** – investors will also consider whether there is an existing rental market in the location, whether the site can attract households from the catchment area for new settlements, and the scale of the market. This will then feed into the size of the development – an investor will want to limit their exposure in any market – they will only want to deliver a number of homes that forms part of the market (i.e. if there are 100 lettings per annum in the local market they may only want a third of the market).
▪ **Profile of local rental demand –** investors will want to understand the profile of this rental demand (i.e. is it families or young professional couples or sharers). This will then inform the type of product and the amenity offering.
▪ **Capital values** – are capital values supportive of Build to Rent, if they are too high then Build to Rent will not be able to compete with for sale development and if they are too low they will not support the costs of the new development.
▪ **Rents** – what are rents in the local market and where is the deepest part of the market. Investors will want to target the rents at their schemes towards the deepest part of the market where there is greatest demand. However, rental values will need to be sufficiently high to make development viable and ensure profitability of the investment.

5.2. Buying sites

Build to Rent schemes tend to produce a lower value on development than private for sale appraisals. Where developers can sell on a retail basis to owner occupiers (or investors paying retail prices - i.e. buy to let investors) this has been the preferred route to market as values tend to exceed institutional investment pricing.

Institutions invest in residential for the long term rental income so when they price an investment they are valuing the strength of the rental income rather than the bricks and mortar. They apply a multiple to the rental income to produce a capitalised value. This focus on rental income is described as a yield based pricing model. This means that when appraising sites, an investor will base their pricing on the interplay between the estimated rental value and their target rate of return. The target rate of return is usually determined by the return that an institutional investor must make on the monies invested to be able to meet their obligations (to say pension holders) and pay their investment costs.

The fact that the investor is focused on yield and rents, rather than capital values, means that they typically produce a lower value than a for sale scheme. This means that housebuilders are often required to sell to investors at a perceived ‘discount’ to the price they would sell at if they sold it in the open market.

However, the notion of a ‘discount’ is complex. The discount the investor requires will also reflect the higher cost of management. Where an investor has large numbers of homes, professional management is a necessity and this costs more than the buy to let investor will typically have to pay and more than the consumer is willing to pay. Rents can not necessarily be pushed higher to absorb the higher management cost. So normally the price an institutional investor will pay compared to a buy to let investor is lower because they provide professional management across a portfolio of assets.

For a housebuilder/developer selling in bulk to an investor means that they have lower marketing and sales costs, they often use the investor’s monies in a forward funding deal so they borrow less development debt, the investor de-risks the scheme so potentially lowers the housebuilders debt costs. These benefits enable the housebuilder/developer to sell at a lower price to the investor. In addition, some housebuilders/developers will take account of the fact that the scheme is accelerated by involving an investor so the development period is shorter and they will offer to construct the homes at a lower profit margin. Sigma and Countryside is a good example of this.

Increasingly housebuilders/developers are interested in return on capital and as they are entering into forward funded structures they are essentially deriving profit without having to employ their own capital, so they are happy to look at a reduced margin. Additionally if the housebuilder/developer receives the land payment from the investor at the commencement of the deal, they can use it to fund some or all of the prelims. There is also advantage to their business overall as they are working their supply chain harder thereby making savings on materials through larger and more visible long term orders.

5.3. Forward commitment or forward funding schemes

Unlike housebuilders and developers of build to sell stock, the majority of Build to Rent investors are not buying land outright and building schemes themselves. Instead they acquire homes through funding their construction. There are two primary structures that are used by investors to do this:

Structure	Description	Advantages & Disadvantages
Forward Fund	▪ The investor makes an initial payment upfront to reflect the transfer of the interest in the land; ▪ This is followed by stage payments throughout the development that will cover construction costs, a percentage of profit for the builder and a development management fee; ▪ There may also be a final profit payment upon completion of the scheme.	▪ Advantage for the developer/housebuilder: it de-risks the development by effectively guaranteeing the sale of all of the homes to an investor at completion; ▪ Advantage for the investor: development risk is more evenly shared between the developer, main contractor and investor making it less resource-intensive for the investor. This means that an investor can spread investment more easily across a range of schemes at the same time; ▪ Advantage for the investor: this also allows for greater control over the end product.
Forward Commitment	▪ A down payment is made by the investor to the developer/housebuilder (c.10% of total); ▪ The remainder is paid upon completion.	▪ Advantage: Simple and fast way to aggregate stock; ▪ Disadvantage: the investor has very little control over the end product or the delivery of the scheme.

5.4. Provision of affordable housing on Build to Rent sites

What is clear from the Build to Rent stock delivered to-date is that planning has had to be very flexible to ensure the delivery of new homes. Every scheme that we have worked on has had a unique and different affordable housing agreement.

The provision of affordable housing on Build to Rent sites varies and is dependent on how the homes have become Build to Rent. Where investors have acquired rental stock from housebuilders and the homes were intended for open market sale, these homes will have gone through a traditional Section 106 viability route.

In this circumstance, there will have been some benefit to the housebuilder/developer to sell in bulk to an investor, normally at a discount to the open market sale price of each individual unit. For example, where a housebuilder is coming to the end of a development, a bulk sale might make commercial sense because it allows the housebuilder/developer to finish the development and move the supply chain (sales, marketing, construction) to a new site. Alternatively, the housebuilder/developer might be experiencing weaker sales rates due to market conditions or increased competition which would mean a bulk sale makes more commercial sense than pursuing individual unit sales.

In other circumstances, an investor might agree to acquire homes from a housebuilder/developer programmatically on many sites. Countryside and Sigma have used this model in the North West region where Sigma have acquired thousands of Build to Rent homes from Countryside. In general, on these sites the homes that Countryside deliver for open market sale have gone through a normal Section 106 negotiation whereas the homes they deliver for Sigma as Build to Rent have not had any affordable housing obligations. This is because the Build to Rent homes have accelerated delivery and helped to make sites viable. Also on occasion, the local authority has an interest in the land and affordable housing has been treated more favourably to get the site delivering homes.

We have also assisted with negotiations on M&Gs acquisition of PRS stock from Crest at Kilnwood Vale in Crawley. The PRS stock was delivered as part of Phase 2 of the development. The Section 106 in the original outline permission had agreed for 20% affordable across the whole of Phase 2 with a tenure split of 30% Affordable Rent, 30% Shared Ownership/Intermediate and 40% Alternate Tenure Affordable Housing[7]. Pre-app discussions and agreements with Horsham District Council agreed that the PRS homes met a housing need and that at the time the NPPF did not sufficiently differentiate the viability of for sale and PRS. It was therefore agreed that the PRS phase would attract no affordable housing contribution.

The affordable housing provision across the remainder of Phase 2 was adjusted to account for the lack of affordable homes in the PRS element. This ensured that the number of Affordable Rent properties delivered remained the same, despite no Affordable Housing on the PRS element. The proportion of Affordable Rent properties increased to 39% from 30% and the proportion of intermediate tenure homes was reduced to 21% from 30%, which “takes account of the fact that PRS housing will meet an identified need within the intermediate sector”. The approved Section 106 agreement from the outline consent enabled the council to agree adjustments to the affordable housing tenure split.

In another example, M&G acquired PRS homes at the Rehearsal Rooms in North Acton in London. The original consent was for a traditional for sale residential scheme where the affordable provision was ten Affordable Rent homes and seven Shared Ownership. HUB Residential, the developer of the scheme, negotiated a change in the affordable housing provision to twenty Discount Market Rent (DMR) homes. There was an agreement with the Local Planning Authority (LPA) on how the discounted homes would be marketed but the LPA accepted no nomination rights. The number of DMR homes was increased to thirty when a subsequent application was approved to increase the total number of homes delivered on the site.

Finally, at Greenford Quay a scheme of 1,965 homes being developed by Greystar, the agreed Section 106 states that the DMR homes must be let on the following conditions:

[7] The final tenure of these homes is set according to the bidding process for Registered Providers outlined in the s106 agreement. This aims for the delivery of these homes as Affordable Rent, however, it includes provisions for them to be delivered as Shared Ownership/Intermediate if there isn’t sufficient grant funding to make this viable.

- The occupier is an Eligible Person and has been chosen in accordance with the Marketing Plan;
- Not rented or made available to rent for longer than 5 years;
- Let on an AST;
- The location of specific DMR homes within the development may be altered from time to time by the relevant block owner, but provided the total number of DMR and relative mix remains broadly in line with the agreed mix (no more than 10% difference);
- Nothing shall prevent the owner from increasing the total number of DMR above the agreed level. At any time after the DMR homes have been made ready for occupation, written notice may be served to the council that they wish to have further flexibility of the location and number of DMR homes within the rental blocks;
- There is an Affordable Housing Review of viability at any time between the delivery of 983rd and 1,572nd unit in the development. This is to ensure that 223 is still the maximum number of DMR homes that can be provided at 80% discount;
- If the scheme is viable with more than 223 DMR homes then the Block Owners shall chose to either increase the number of DMR homes provided, the amount of discount provided or make a payment in lieu.

What these examples demonstrate is that the delivery of Build to Rent has required flexibility from planning. We have included a selection of other projects that we have worked over the last 5 years which illustrate that the delivery of affordable housing varies from scheme to scheme.

Client	Borough	Scheme Name	Affordable Provided
Hub Residential	LB Greenwich	Abbey Place, Cross Quarter	10% Affordable Housing provided at levels equivalent to Social Rent
	LB Brent	Chesterfield House	33 Homes at Local Housing Allowance Levels 35 homes at 70% of Market Rent
Essential Living	LB Ealing	Perfume Factory	35% of homes averaging at circa 65% of Market Rent
	LB Camden	100 Avenue Road	30% affordable of which 60% is APR.
Aberdeen Asset Management	LB Newham	180 High Street, Stratford	Provision at 70% of Market Rent
Lindhill	LB Barking and Dagenham	Axe Street	35% at average of 75% of Market Rent

Client	Borough	Scheme Name	Affordable Provided
TFL / Grainger	Lambeth, Newham, Greenwich, Enfield, Ealing	Various Sites	Ongoing negotiations

5.5. What type of stock meets demand?

There are a wide array of households living in the PRS across the country, from young individuals and households at the start of their adult lives and careers, to families with children and older households. In order to deliver the right type of homes and amenities, investors will undertake analysis to understand the local demographics and profile of rental demand.

This analysis will draw upon a range of sources such as Experian or CACI geodemographic data, census, Higher Education Statistics Agency, ONS and local market intelligence to create a picture of who rents in the local market; including the proportion of rental households that are families, couples or sharers. This will then be used to inform the optimal mix and the type and quantum of amenities that investors would provide.

To date, the majority of the properties being delivered for Build to Rent have been apartments. Of completed schemes, 88% comprise entirely of apartments, which is due to the initial focus on urban schemes. However, some investors, in particular Sigma and Placefirst, are instead focused on the delivery of suburban family focused schemes. These have been largely housing led schemes due to the different locations that they are delivering homes in and the demand they are fulfilling.

Case study – PlaceFirst

PlaceFirst is a Build to Rent investor and developer who focuses on delivering schemes in suburban and edge of urban locations in northern towns and cities.

Schemes typically target family renters and comprise a mixture of flats and houses and are a mixture of new build and refurbishments.

All of PlaceFirst's developments offer car parking, private gardens, 24-hour emergency repairs, leisure spaces for residents, yearly 'health-checks' for homes and a family residents service team. After 12 months residents are allowed to decorate their own homes. The rents are reviewed once a year to CPI + 1%. The purpose of this is to create new communities and allow families to settle down for the long-term.

Case study – Sigma

Sigma are one of the largest Build to Rent investors in the UK. Their initial focus has been on delivering rental housing as part of large regeneration sites in suburban locations across the North and Midlands.

They aim to create mixed communities and so have delivered a mixture of house types suitable for a wide range of ages and life stages. Their developments also provide gardens and open space for children to play.

They also have management teams that arrange resident events and welcome packs for new residents.

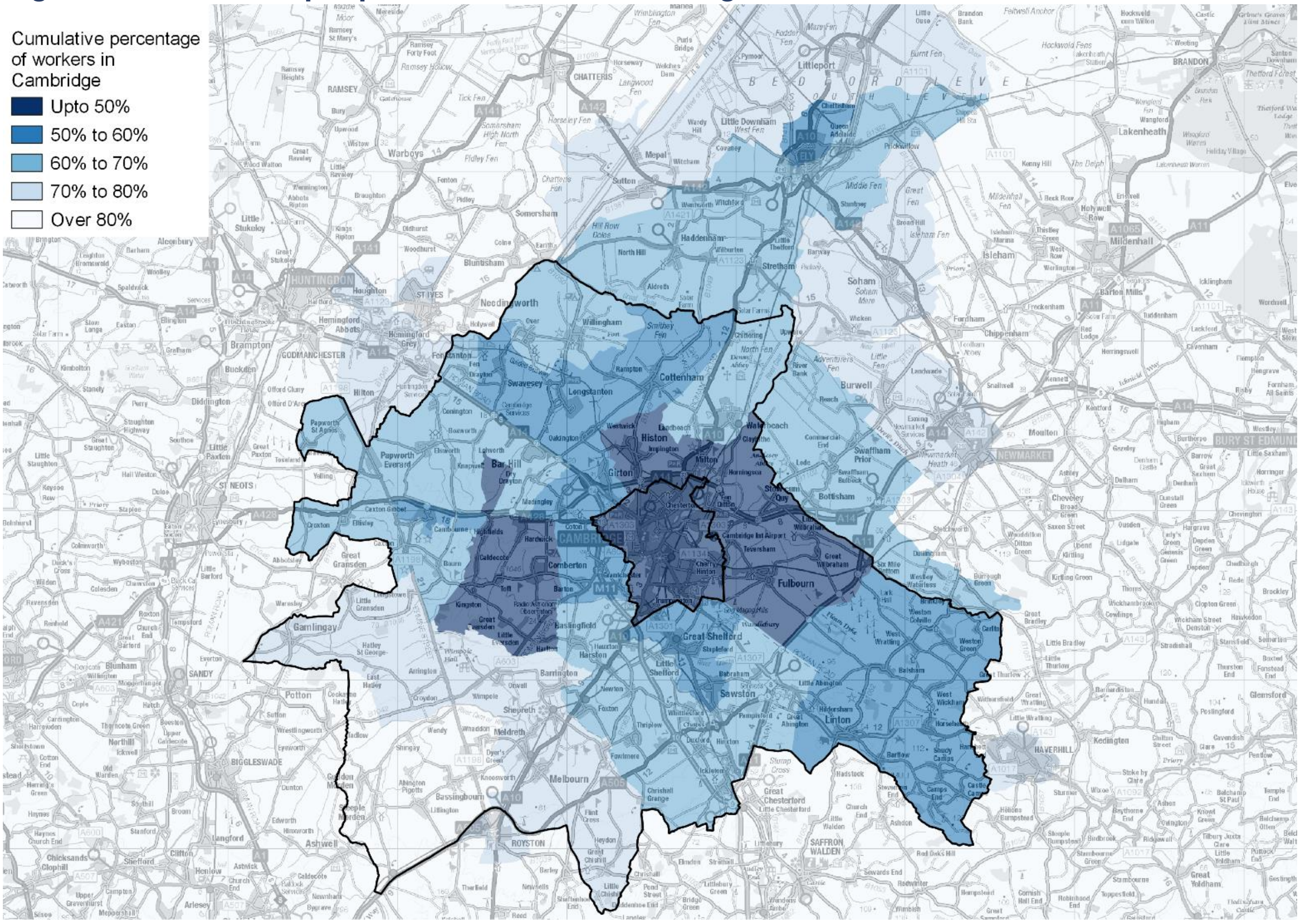
5.6. Defining the local market/catchment

Access to employment is the most important factor for Build to Rent, therefore investors will look at travel to work patterns of the area around a site and nearby employment centres to define the local market and catchment area for a scheme. This analysis will highlight the settlements from which a site could potentially draw rental demand from, or whether the location is more self-contained.

The size of the catchment will vary from location to location and will depend upon the level of employment locally and the connectivity of an area to other nearby employment locations. If an area is well connected then it will have the potential to draw households from a wider area. Below we provide two examples that show how we would approach defining the catchment area for people who work in Cambridge and Bury St Edmunds.

For Cambridge the majority of workers live within its boundaries or in adjacent settlements in South Cambridgeshire. Although there is also a concentration of workers living in the north of South Cambridgeshire in Ely. This indicates that Build to Rent schemes being delivered around the fringe of Cambridge, in South Cambridgeshire, would be able to draw upon Cambridge for their catchment for at least one of their sources of demand.

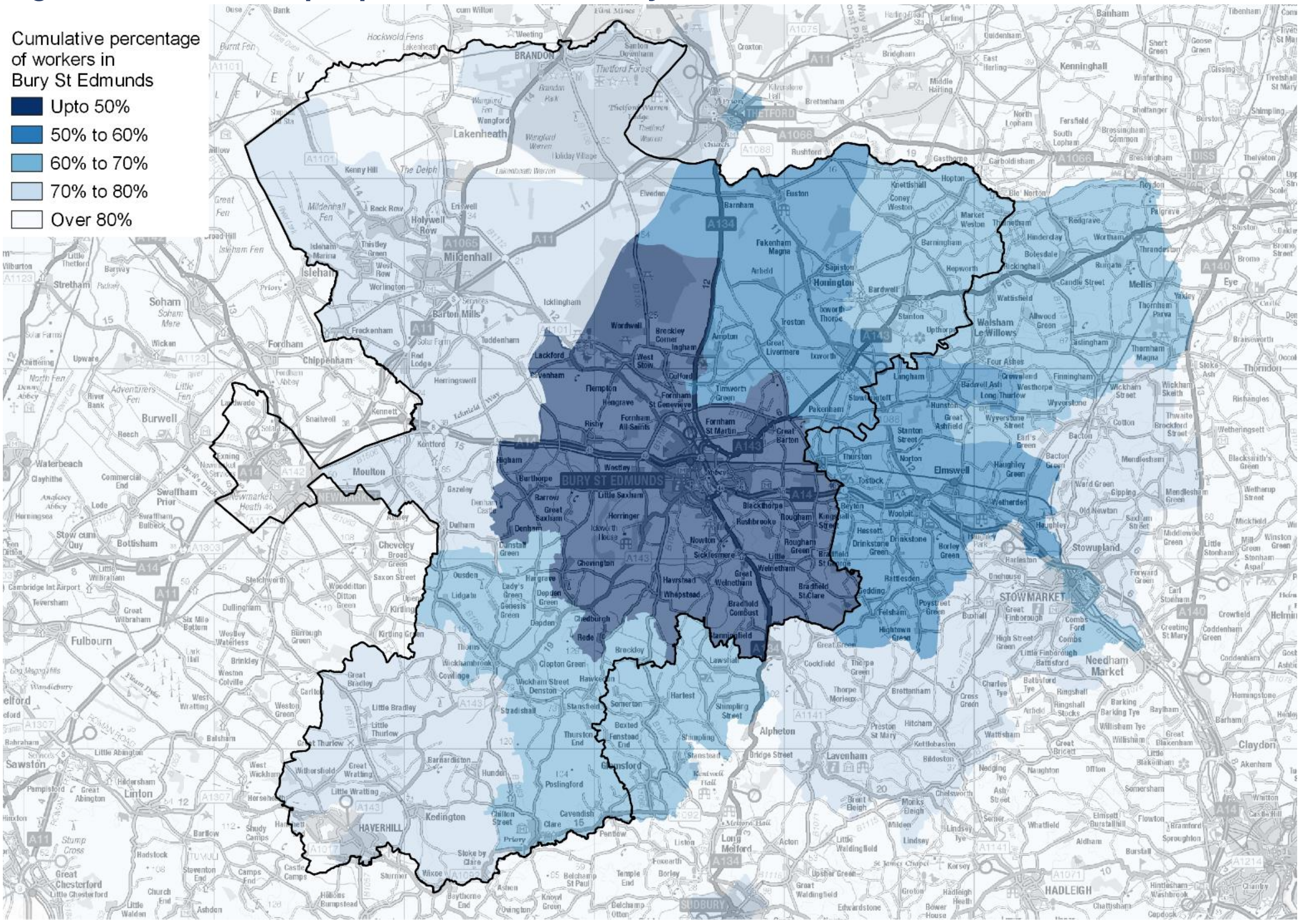
Figure 20: Where do people who work in Cambridge live?



Source: 2011 Census – Location of usual residence and place of work (MSOA)

For Bury St Edmunds, again the majority of workers live in or immediately surrounding the town. But there are also a high proportion of workers who live to the east in Mid Suffolk. In contrast, there are far fewer households living in the west of the district and in South Cambridgeshire. This shows that for a scheme to have Bury St Edmund workers within its catchment, it would need to be in the east of the district.

Figure 21: Where do people who work in Bury St Edmunds live?



Source: 2011 Census – Location of usual residence and place of work (MSOA)

5.7. How many homes can the market absorb?

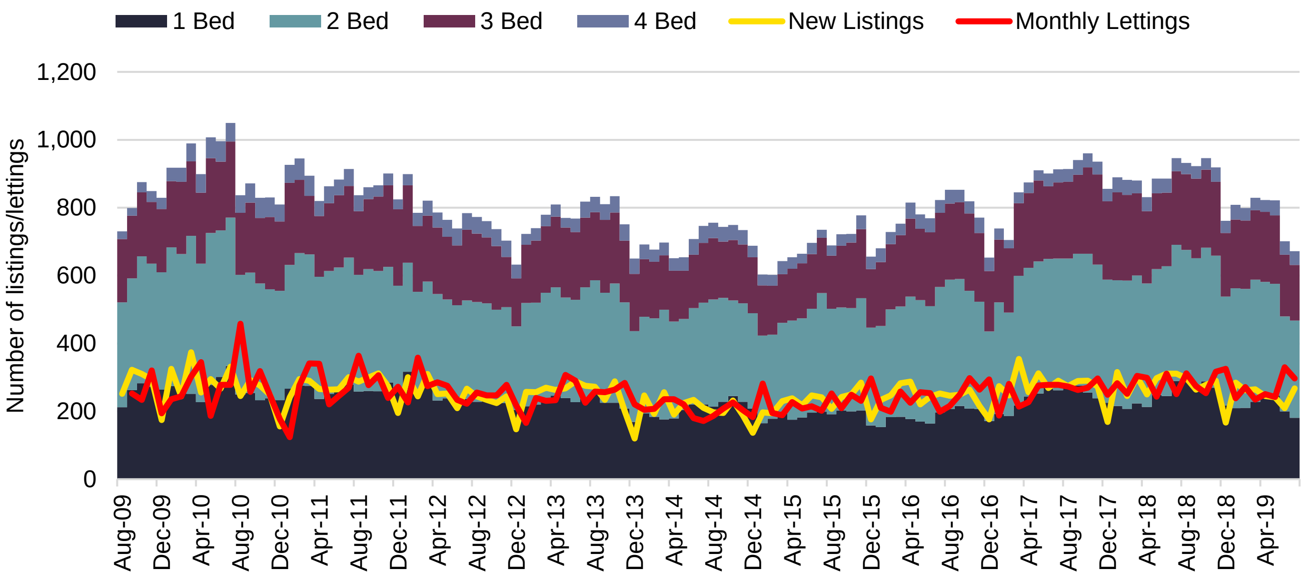
Developers and/or investors undertake a range of demographic and economic analyses of locations to determine the scale of potential demand and the suitability of a site for Build to Rent. Once this has been done and locations have been selected, the next question is around the scale of development that could be supported (i.e. the number of Build to Rent homes) and the market rents that could be achieved.

In order to determine the potential scale of demand for a new Build to Rent development the first step is to analyse the existing rental market. Our approach is to analyse rental listings data from Rightmove to identify the scale of the market in terms of how many properties are available to let and how many properties are let every month. At the same time we will look at whether rents are growing to give an indication on the scope to supply additional homes and the size of homes. If the analysis identifies that rents are falling in the market over a prolonged period for a particular size of property (number of beds) then this will impact on the investors' decision-making.

When assessing new markets, for example an urban extension, its catchment would be drawn from the rental market in the existing settlement. Therefore analysis would be undertaken on this settlement and an assumption would be made about how much of this could be captured and so the quantum of Build to Rent that could be supported.

Investors will want to understand the health of the local rental market and if new stock is being let. To do this an investor will check to see if new rental listings (shown in the yellow line below) and monthly lettings (shown in the red line below) are tightly correlated. If these move in a similar pattern, as they do below, then it indicates that demand is absorbing supply. If rents are also moving upwards for the different property sizes (number of beds) then this indicates demand for a particular size and that the market could absorb new stock.

Figure 22: Example of Rightmove listings analysis



Source: Rightmove

The final step is to look at annual absorption (lettings) in the local market, both in total and by bed number. This provides the baseline for the activity in the local market that is used, alongside insight into the strength of the rental market from recent rental growth, to determine how large a Build to Rent scheme could be.

PRS managing agents use a rule of thumb whereby they would not want to increase a local rental market at a particular price point by more than 30% in any 1 year. In the hypothetical example provided in Table 5 below, there are 3,350 lettings each year. An increase of 30% would equate to 1,005 homes. If rents had been growing more strongly then the decision may be to increase supply by more than 30%.

Table 5: Example of absorption analysis

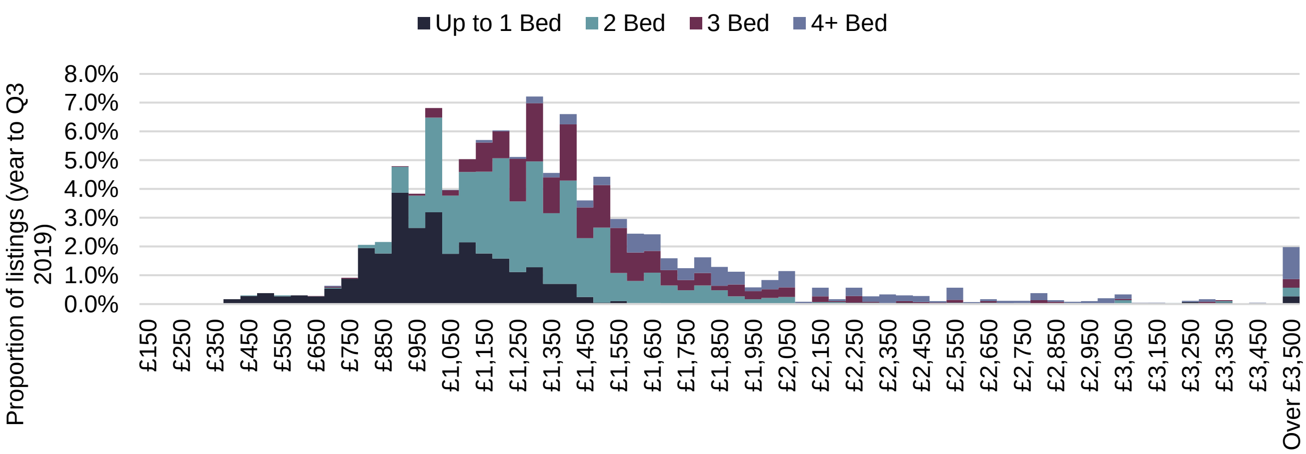
Beds	Total annual lettings year to Jul-19 (absorption)	Total number of homes that could be delivered annually		
		10% increase	20% increase	30% increase
1	1,000	335	670	1,005
2	1,400			
3	800			
4	150			
Total	**3,350**			

Source: Rightmove

5.8. What are the rents that people can afford locally?

Another important factor that investors need to consider is the potential rents. In order to determine this, they assess the depth of the current rental market in the local market, as shown below. In general investors aim to target the deepest part of the local market to ensure that they are able to capture the widest pool of demand. However, as with new build housing for sale, Build to Rent, due to it being shiny and new, is likely to achieve rents at the upper end of the price bands.

Figure 23: Example of depth of the market analysis



Source: Rightmove

An additional piece of analysis that is undertaken to sense check potential rents is looking at local household incomes and the rent they could support. This is done by looking at local median and upper quartile earnings using ONS's Annual Survey of Hours and Earnings (ASHE). To determine the maximum affordable monthly rent, an assumption that a household would spend 30% of their gross income is typically taken. This is the target for housing costs, but in more expensive locations, such as London, households are likely to spend more of their incomes on rent. Furthermore, rental households will typically look at total monthly outgoings (i.e. rent, travel costs etc.) rather than just rent in isolation so may accept a higher proportion of their income being spent on rent if they save costs elsewhere, such as travel.

The 30% spend analysis is then done for a range of different combinations of earnings, as shown in the example in Table 6 below. In this example a single median earner could afford a rent of £750pcm, while a household of two upper quartile earners could afford up to £2,250pcm.

These levels can then be compared with rents proposed for a scheme to determine whether or not they are in line with what is affordable in the local market. And what types of households would be required to afford proposed rents; i.e. are 1 bed rents only actually affordable to dual upper quartile earners.

Table 6: Example of earnings and rental affordability analysis

	Gross Household Income	Maximum Monthly Rent (assuming 30% of income spent on rent)
Single median earner	£30,000	£750
Single upper quartile earner	£45,000	£1,125
Dual median earners	£60,000	£1,500
One median earner and one upper quartile earner	£75,000	£1,875
Dual upper quartile earners	£90,000	£2,250

Source: Annual Survey of Hours and Earnings

6. Role of Build to Rent in Delivering Large Sites

6.1. Perceived benefits of Build to Rent

A recognised benefit of Build to Rent is that it can accelerate housing delivery especially on large sites. It offers other benefits around the ability to unlock sites, intensification of sites, placemaking and regeneration benefits, improved management and service to tenants, provision of on-site jobs and enhanced labour mobility. In essence Build to Rent enables higher levels of output on sites because it offers a different end user / buyer from a traditional build to sell delivery approach. It allows housebuilders to continue to deliver homes to buyers while also delivering homes to large scale investors. Hence the intensification and acceleration effects.

Build to Rent also speeds up development which may reduce costs, especially in terms of finance (although other costs might increase). The ability of Build to Rent to effectively create sales of homes before they are constructed also reduces risk for developers and their financiers. Build to Rent investors are seeking to maximise net operating income from sites, not just consider the property types that can deliver the best profit on cost through a sales programme.

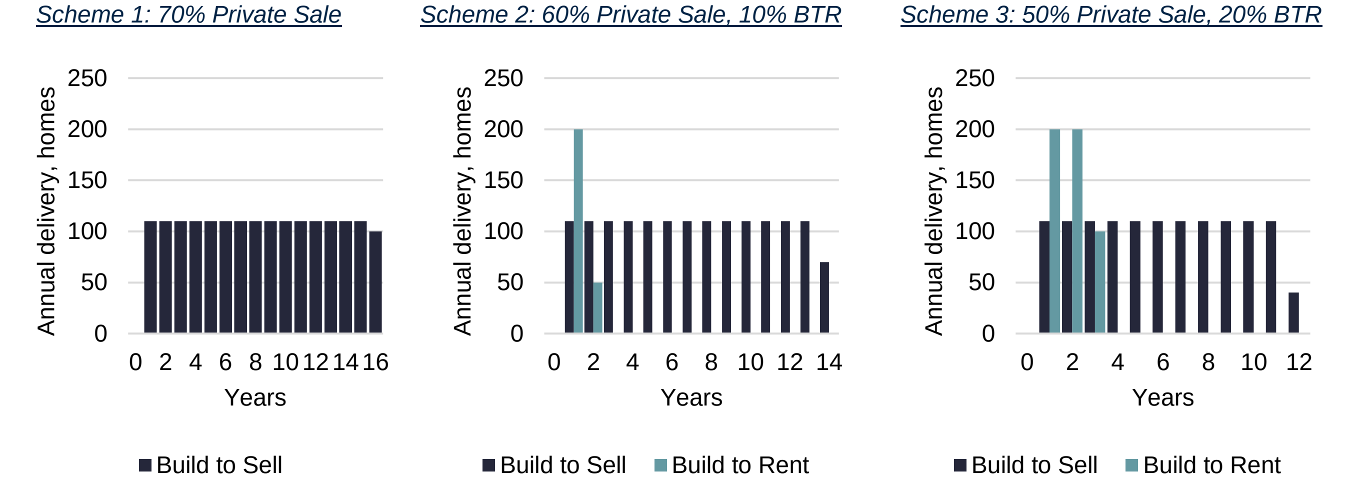
6.2. How can Build to Rent support delivery of large sites

On large sites, delivering Build to Rent can allow an increase in delivery rate over and above the normal annual target for open market sale. For traditional housebuilders, the pace of delivery is determined by the rate at which homes can be sold, which according to the most recently published accounts of national housebuilders is c.0.7 homes per week per sales outlet. By delivering Build to Rent homes alongside homes for sale, the pace of delivery can increase. This is because the delivery of Build to Rent is complementary to open market sale because the end homes are not competing for the same pool of demand. This allows both tenures to be delivered on the same site at the same time. Furthermore, the pace of absorption of rental homes is faster than sales, with some evidence of c.5 homes being let per week on suburban Build to Rent sites.

To show why developers of large sites will consider disposing of homes to a Build to Rent investor we have created a hypothetical example of a 2,500 home site and looked at three scenarios to see the potential to increase the pace of delivery.

In Scheme 1, where there is only build for sell, it would take nearly 16 years to deliver all of the private homes. By delivering 10% or 20% of the homes as Build to Rent it is possible to reduce the overall time to deliver the complete site to between 13.5 years and just over 11 years, respectively.

Figure 24: Hypothetical example of accelerated delivery on a large site (2,500 homes) by including BTR, private homes [8]



Source: Savills

An additional key feature of Build to Rent is its ability to de-risk development by providing certainty of demand for the scheme (i.e. speculation of sales rates is removed) that uses a different source of funding. This can be particularly important for large multi-phased sites, where increasing the potential sources of funding will reduce reliance on housebuilders as the only route to market.

Furthermore, as well as providing a greater volume of housing more quickly, Build to Rent can also improve the quality of developments through better stock, enhanced placemaking and better management. On regeneration sites Build to Rent might attract households who wouldn't have considered buying in an area to try it out as tenants. Also the investor/operator of Build to Rent schemes tend to invest more in their external areas of the schemes to enhance placemaking and potential revenues.

[8] Assumes a site of 2,500 homes where 30% (750 homes) are Affordable Housing. For private sale, we have assumed that there are 3 private sales outlets selling 0.7 homes per week, which is in line with the average sales rate per outlet reported by listed housebuilders (Barratt, Crest Nicholson, Taylor Wimpey, Persimmon, Redrow, Galliford Try and Bovis). For Build to Rent we have assumed a letting rate of 4 per week.

Case study – Kilnwood Vale, Crawley

Kilnwood Vale is a 2,500 home development on the edge of Crawley. The site is being brought forward by Crest Nicholson, who have delivered part of the scheme themselves for the sales market and sold land parcels to other housebuilders (Taylor Wimpey and Linden Homes). They have also delivered 227 homes as a Build to Rent scheme for M&G, who forward funded the development.

The sale of homes to M&G enabled Crest Nicholson to accelerate delivery on the site through building homes for rent alongside those for sale. This is a pattern that more housebuilders and developers are exploring as a way to increase delivery rates and de-risk large sites.

The best example of where Build to Rent has been successful in accelerating delivery on large sites is Sigma. In terms of the actual delivery of Sigma's rental homes, they are largely being built on sites by Countryside. In practical terms, Countryside is building homes for market sale and affordable use, while also acting on a Design & Build basis for Sigma on these sites. This means that Sigma is accelerating the delivery of homes by Countryside and, because they do not compete for sales with Countryside, there is a much faster rate of delivery. They are also de-risking an element of delivery for Countryside by being an end user. Sigma's rate of delivery has been approximately 3 times faster than Countryside's delivery for open market sale. An additional point is that Sigma have used alternative sources of funding from Countryside, which has permitted higher rates of delivery. Importantly, many of the sites are in regeneration areas in the North where development values enable a Build to Rent model.

Case study – Sigma Capital

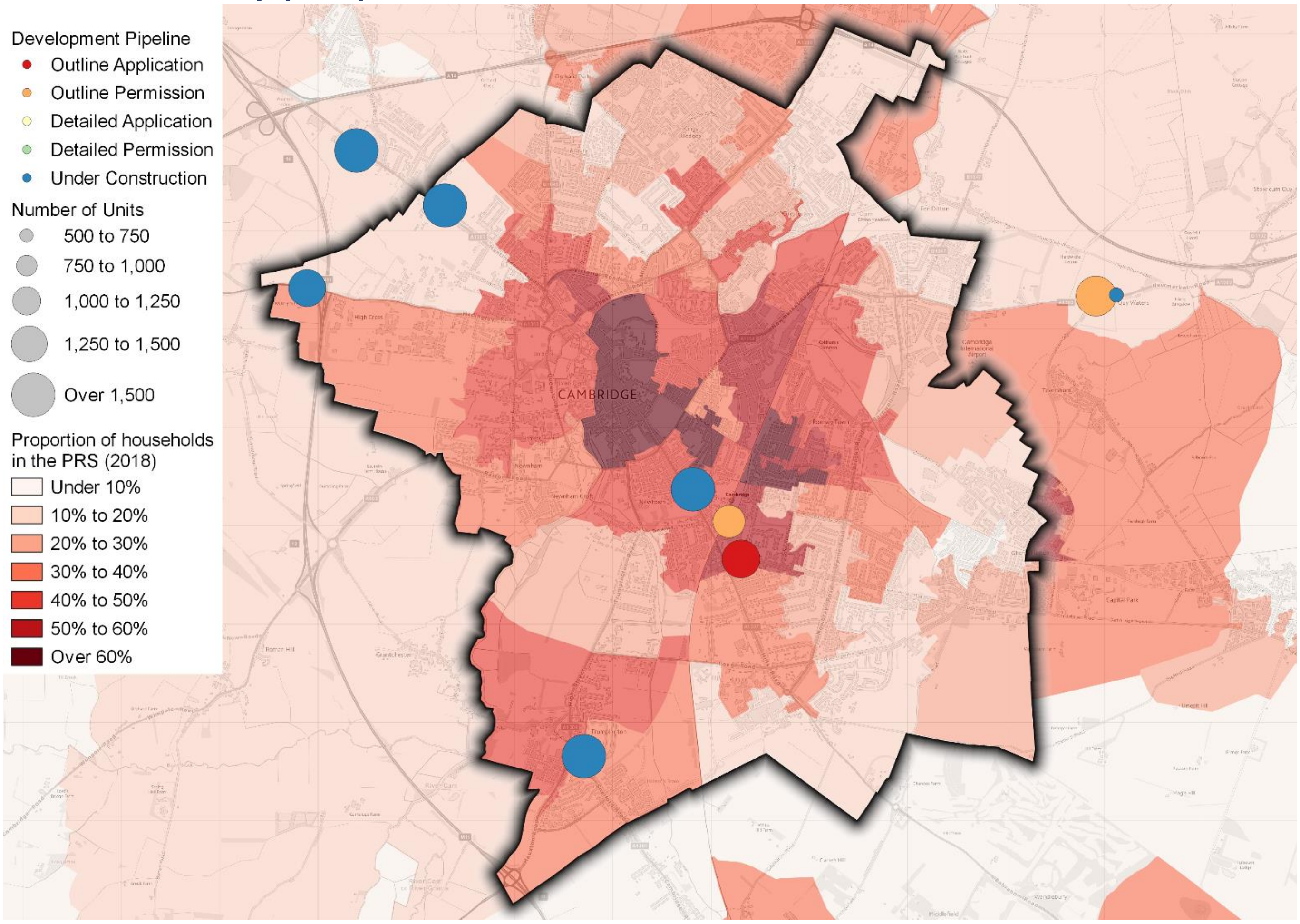
Sigma Capital works alongside a handful of partners, including Countryside to deliver Build to Rent schemes.

Their homes are delivered on sites alongside traditional build to sell stock. This means that the delivery rate on these sites where Countryside and Sigma are working together is five times faster than sites pursing private for sale only. This clear acceleration is a key reason why the government in England is encouraging higher rates of Build to Rent delivery. As a result of Sigma's investment activity, the regional markets in England have a higher proportion of Build to Rent homes as opposed to flats.

6.3. Large development sites in Cambridge

In terms of supply of new homes, there are 6 large sites (over 500 homes) in the planning pipeline across Cambridge. In total these comprise of c.10,500 new homes. Three of these are being brought forward around the train station to the south of the city centre. The remaining sites are closer to the boundary with South Cambridgeshire. Most of these sites are being delivered in areas with high concentrations of PRS households and have good connectivity to the city, and its employment centres, which mean in principle they are likely to be suitable for Build to Rent; however, the quantum and type would depend on site specifics.

Figure 25: Large development sites in Cambridge (schemes over 500 homes) and PRS household density (2018)

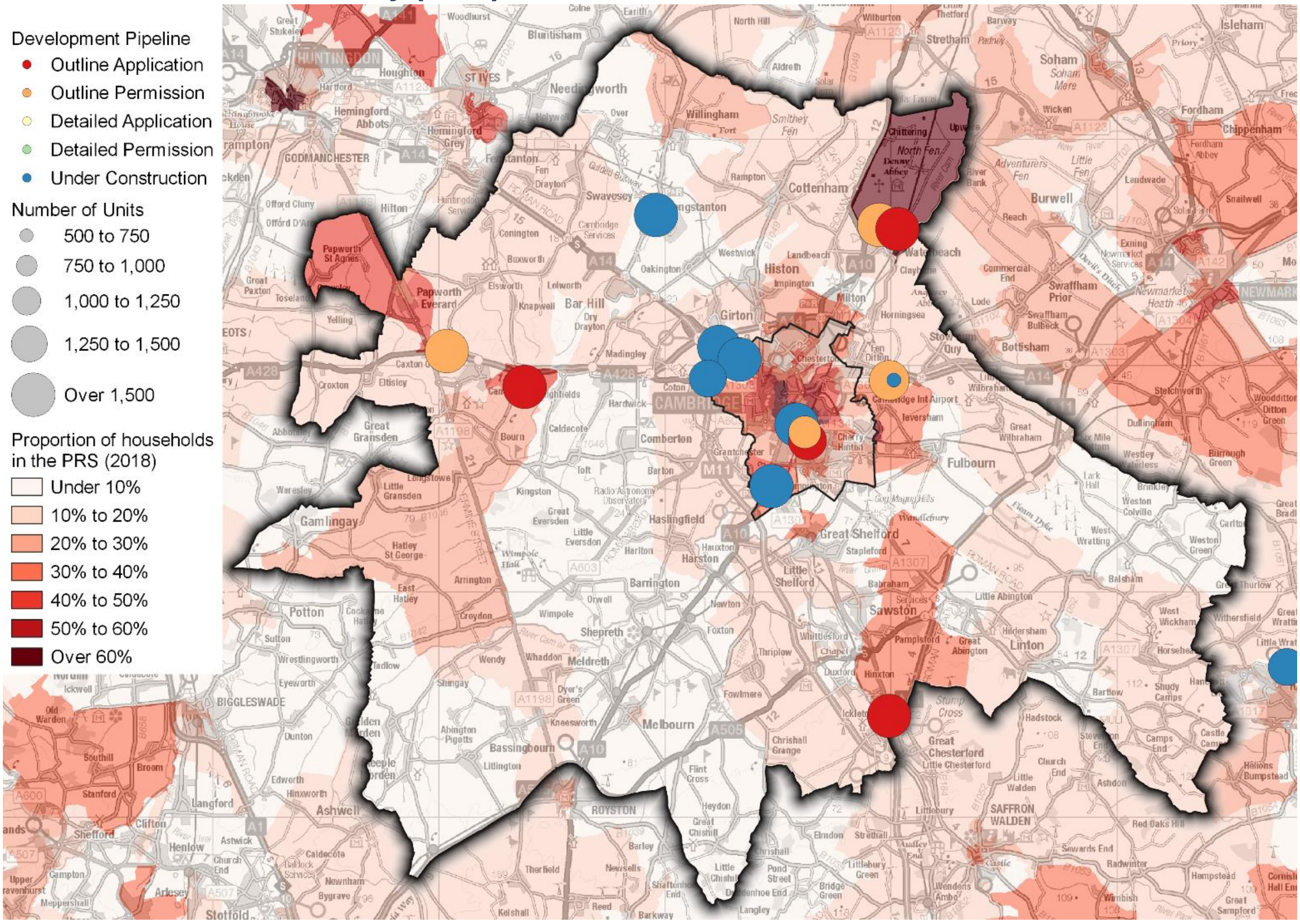


Source: Savills Development Database, Experian

6.4. Large development sites in South Cambridgeshire

In terms of new supply, across South Cambridgeshire there are 9 large schemes being brought forward totalling c.33,000 new homes. Most of these are being brought forward in, or near areas, that have existing concentrations of PRS households. Furthermore, the majority are also near employment locations or have good connectivity to Cambridge. These mean that generally there is likely potential that Build to Rent could be brought forward on these sites.

Figure 26: Large development sites in South Cambridgeshire (schemes over 500 homes) and PRS household density (2018)

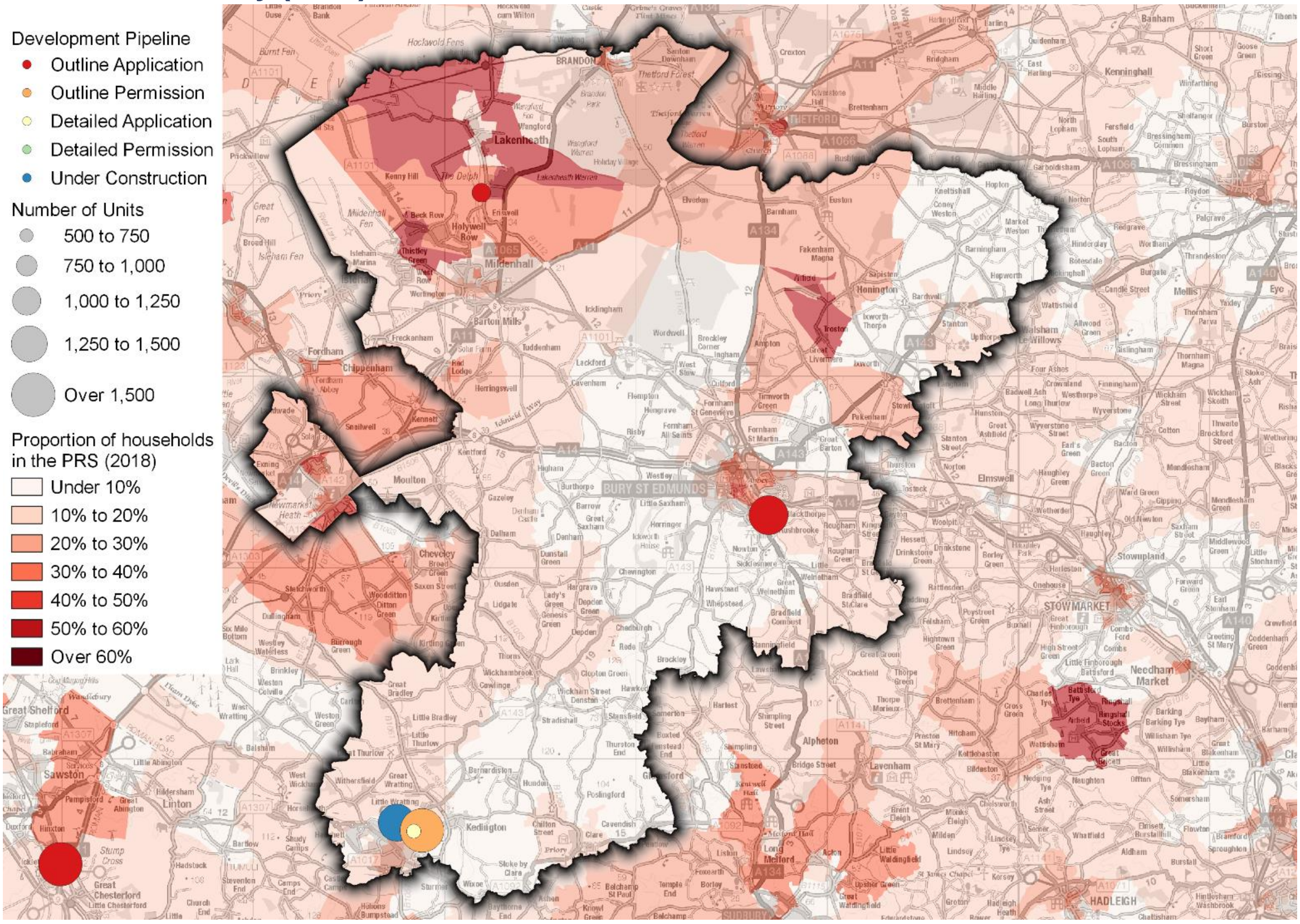


Source: Savills Development Database, Experian

6.5. Large development sites in West Suffolk

In terms of new supply coming forward, there are 4 large sites (over 500 homes) that comprise a total of c.6,000 new homes. These are all being brought forward near existing settlements and employment areas, which means they could potentially support the delivery of Build to Rent. However, more detailed site specific analysis would need to be undertaken to determine the scale and viability of any development.

Figure 27: Large development sites in West Suffolk (schemes over 500 homes) and PRS household density (2018)



Source: Savills Development Database, Experian

7. Policy Options

7.1. Policy Options

This report presents six policy options investors and developers might ask to be implemented to encourage the development of Build to Rent in Greater Cambridgeshire and West Suffolk including:

Policy Option 1: Adopt the definition of Build to Rent and Affordable Private Rent in the National Planning Policy Framework to create a framework of how Build to Rent will be treated in planning.

Policy Option 2: Do not be prescriptive about the location and quantum of Build to Rent. Instead allow the market to determine where it is suitable to deliver Build to Rent and the size of schemes.

Policy Option 3: Avoid using onerous clawback provisions when setting out how to handle the change of tenure of Build to Rent schemes, as this will increase the perceived risk from an investor perspective and slow the delivery of Build to Rent.

Policy Option 4: Secure the number of Affordable Private Rent homes as intermediate homes in perpetuity, but allow them to be converted into other forms of intermediate tenure housing in the future if a Build to Rent Scheme changes to a different tenure.

Policy Option 5: Use the flexibility of the discount requirement of Affordable Private Rent homes to meet the needs of different households in each district, while recognising that there is a trade-off between the level of discount and the number of Affordable Private Rent homes that a scheme could support.

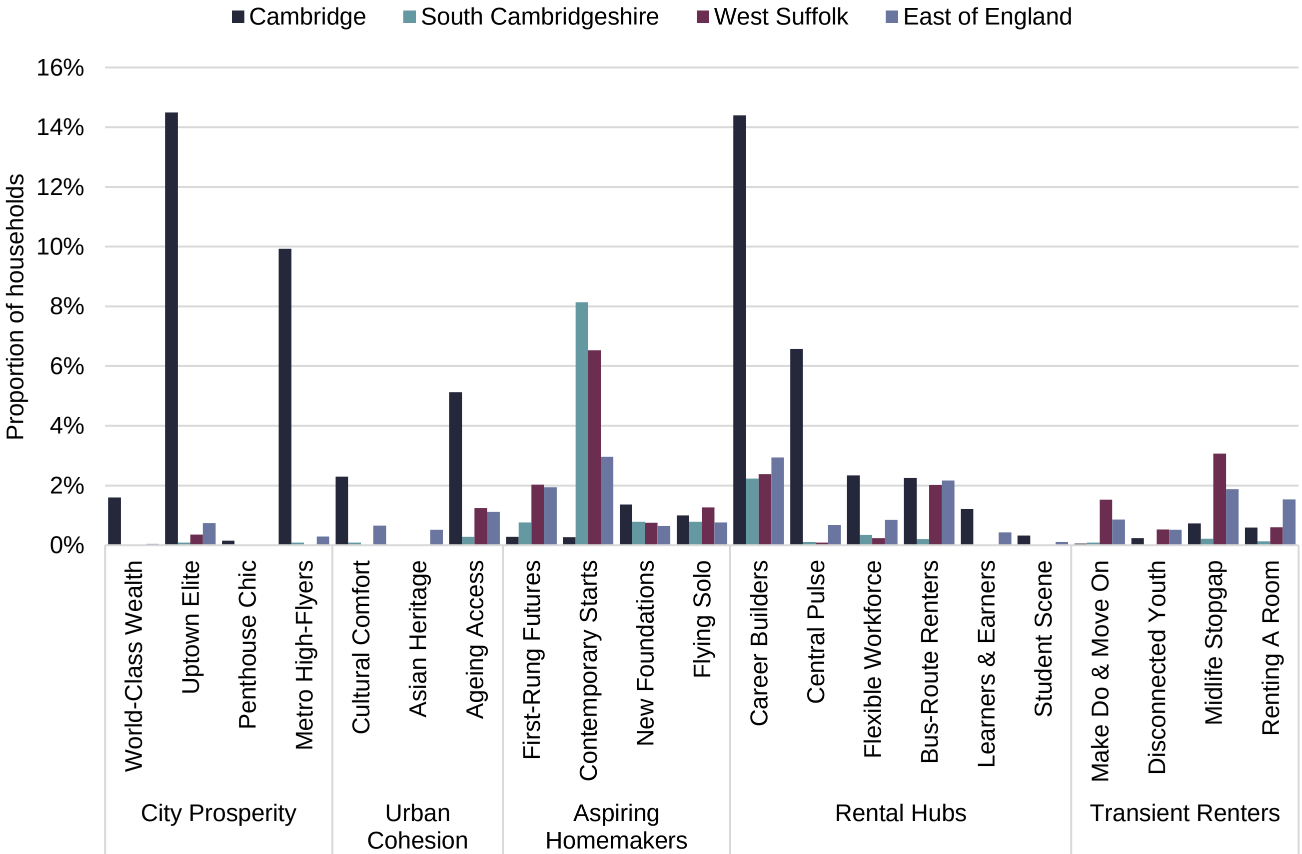
Policy Option 6: Use the Section 106 agreement to set out the processes for prioritisation and letting of APR homes.

8. Appendix

8.1. Renter profiles in Cambridge, South Cambridgeshire and West Suffolk

The graph below shows the breakdown the Experian Mosaic household types with a high propensity to rent across the three local authorities. What this shows is the diverse make-up of each of the authorities and the different types of households that are likely living in the PRS in each. For instance, Cambridge has significantly higher proportion of households from the City Prosperity types, as well as Career Builders and Central Pulse from Rental Hubs. In contrast South Cambridgeshire and West Suffolk have higher proportions of households from Contemporary Starts in Aspiring Homemakers. West Suffolk also has a higher proportion of households in Midlife Stopgap type in Transient Renters. This different make-up of the local demographic will mean that different types of housing, at different price points, will be needed to meet the local need for PRS housing.

Figure 28: Experian households with a propensity to rent, 2018



Source: Experian

In the following sub-sections we discuss each of the five groups that have a propensity to rent privately; looking at what their characteristics are, where they are found across the three local authorities, what their household incomes are and their household composition.

8.1.1. Rental Hubs

Rental Hub households contain predominantly young, single people in their 20s and 30s who live in urban locations and rent their homes from private landlords while in the early stages of their careers, or pursuing studies. They are four times more likely than average to rent their home from a private landlord, with a minority purchasing their homes as a first step on the housing ladder. Their homes are typically purpose-built developments of small flats or older terraces. Around half of Rental Hubs have been at their address for two years or less. In addition to students, those in Rental Hubs work in administrative and technical roles or are climbing the corporate ladder in professional or managerial roles.

There are 6 types within the Rental Hub group. The table below provides an overview of these.

Table 7: Rental Hub household types

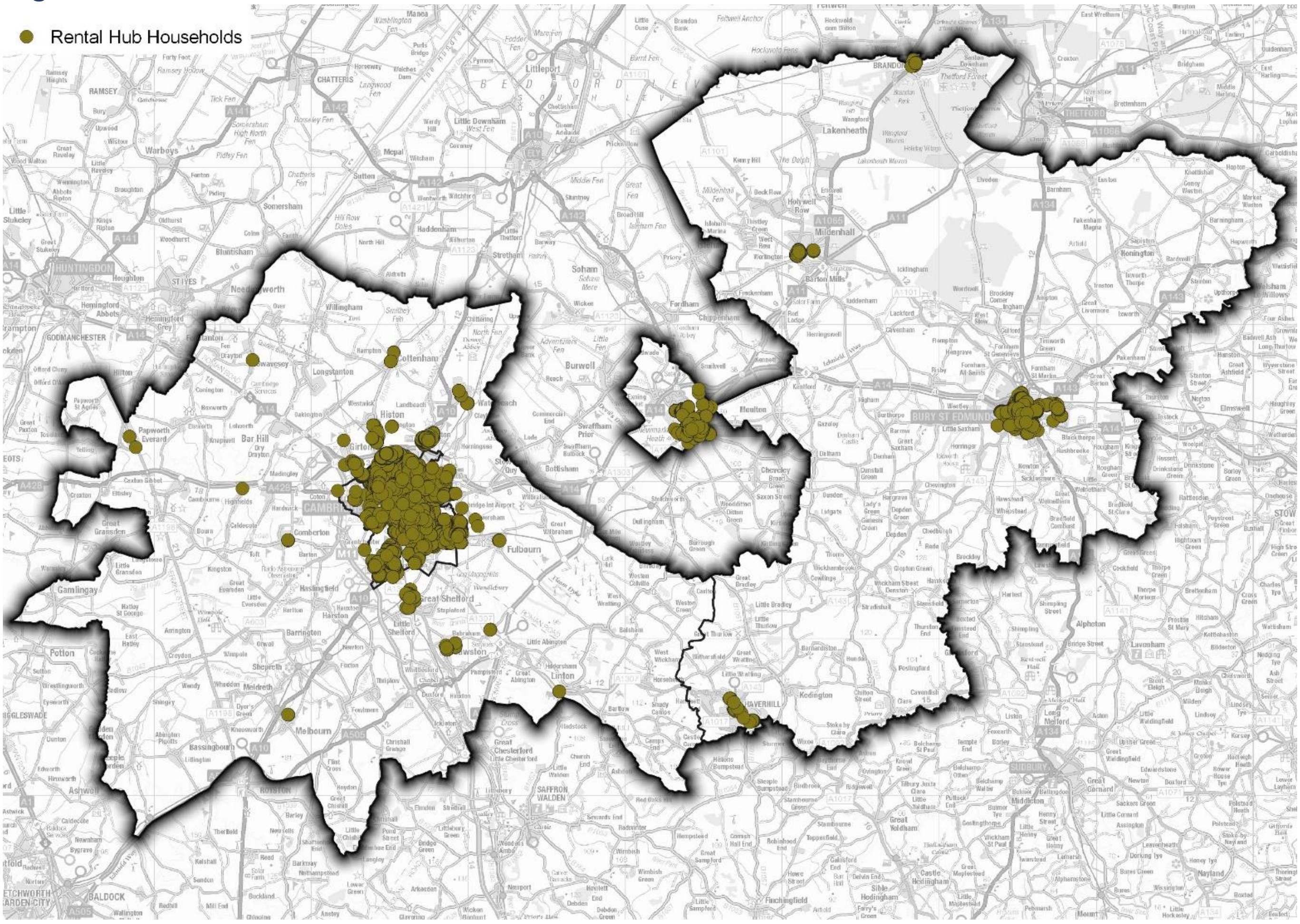
	Description
Career Builders	Career Builders are young people educated to degree level who are establishing themselves in professions such as accountancy and law or in managerial roles within the financial services, information services, technology and communications industries. With good incomes and good prospects, they can afford to live in well-appointed one or two bedroom apartments or small houses in desirable suburbs within easy commuting distance of their full-time roles in the city centre. While some have bought their properties, the majority rent from private landlords. They are more settled than other young people who rent – it is not uncommon for them to have lived at the same address for a number of years.
Central Pulse	Central Pulse are predominantly under 35 and single and can often afford to live alone rather than having to share. The vanguard of the regeneration of urban areas in and around the centres of larger cities, Central Pulse live in flats in new build residential developments and apartments in recently converted warehouses.
Flexible Workforce	Typically aged in their late 20s and 30s, Flexible Workforce live in highly transient areas alongside other relatively short-term renters. A combination of single households and homesharers, 70 per cent rent from private landlords and will tend to stay at an address for between one and three years before moving on. They live in one and two bedroom flats, either purpose-built or older properties converted into smaller, more rentable flats and bedsits. These are in reasonably high value locations from which they can easily commute to jobs in the city centre.
Bus-Route Renters	Bus-Route Renters are typically aged between 25 and 40 and tend to live alone. Their one or two bedroom flats, are mostly rented for a few years before they move on. Sixty per cent of these properties are rented from private landlords.
Learners & Earners	Learners & Earners are a mix of undergraduate students who share rooms in houses close to universities, recent graduates who have stayed on at university for further studies or have moved to the area with graduate jobs, and older people, sometimes with university positions, whether academic or administrative.

	Description
Student Scene	Student Scene are full-time students, mostly on undergraduate courses, who live in high density student accommodation close to universities and colleges. They live in traditional halls of residence, privately-built student complexes or on residential streets where students dominate the local population.

Source: Experian

The map below shows the geographical distribution of Rental Hub households across the three local authorities. These households are primarily clustered in built up areas, such as Cambridge, Bury St Edmunds and Newmarket. There are also smaller concentrations of households in Haverhill and Mildenhall. The clustering of these households in built-up areas reflects their desire to be near places of employment and leisure amenities. These households will likely form a key element of demand for Build to Rent schemes that are delivered in town centres.

Figure 29: Rental Hub households, 2018



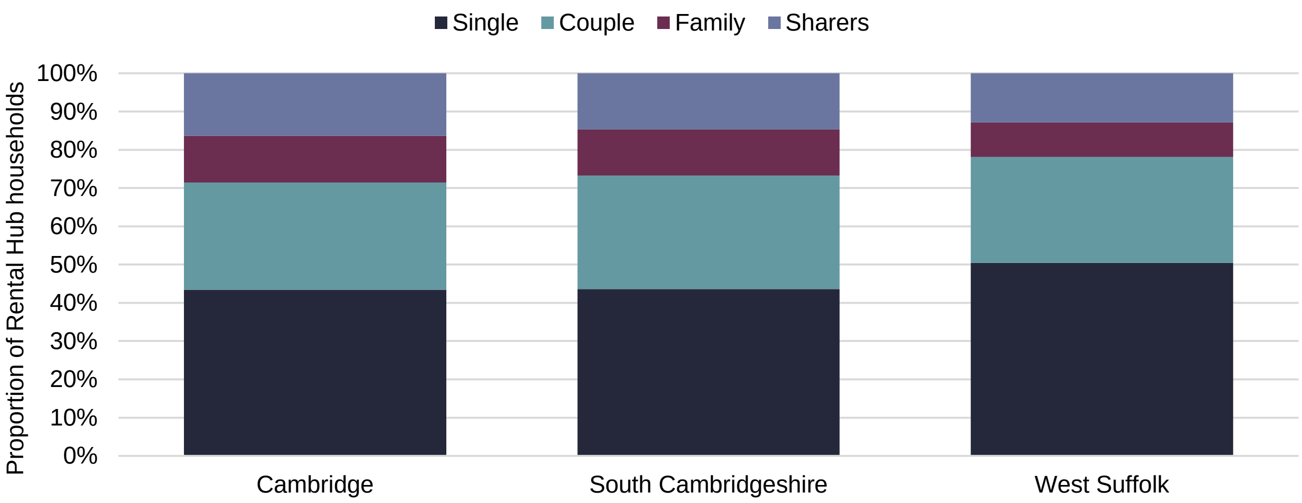
Source: Experian

The majority of Rental Hub households across the three local authorities comprise either individuals or couples without children; 71% of Rental Hub households in Cambridge, 73% in South Cambridgeshire and 78% in West Suffolk.

There are very few families within Rental Hub households in the local area, they only account for 12% of Rental Hub households in Cambridge and South Cambridgeshire and 9% in West Suffolk. However, within Rental Hubs, there are a reasonably large minority of Sharer households, which account for 16%, 15% and 13% of Rental Hub households in Cambridge, South Cambridgeshire and West Suffolk, respectively.

The dominance of single and couple households within Rental Hub's in the local area highlights the need for Build to Rent to offer smaller (1 and 2 bed) properties as part of their mix to service the likely demand from this group of renters.

Figure 30: Household composition of Rental Hub households



Source: Experian

Rental Hub households are reasonably affluent. In Cambridge they have a median household income of £57,082pa, which is only slightly lower than the local authority median of £57,495pa. In South Cambridgeshire they have a median income of £54,884pa, which is lower than overall local authority median of £57,973pa. However, in West Suffolk they have a higher median income than the district average, £37,276pa compared with £35,865pa.

These relatively high incomes mean that Rental Hub households are typically able to afford higher rents. In the table below we have looked at what rent Rental Hub households could afford assuming they spend 30% of their gross income on rent. This shows that median earning Rental Hub households could afford a rent of £1,427pcm in Cambridge, £1,372pcm in South Cambridgeshire and £932pcm in West Suffolk. These are broadly in line with upper quartile rents across each of the local authorities.

Table 8: Rental Hub household incomes and rental affordability

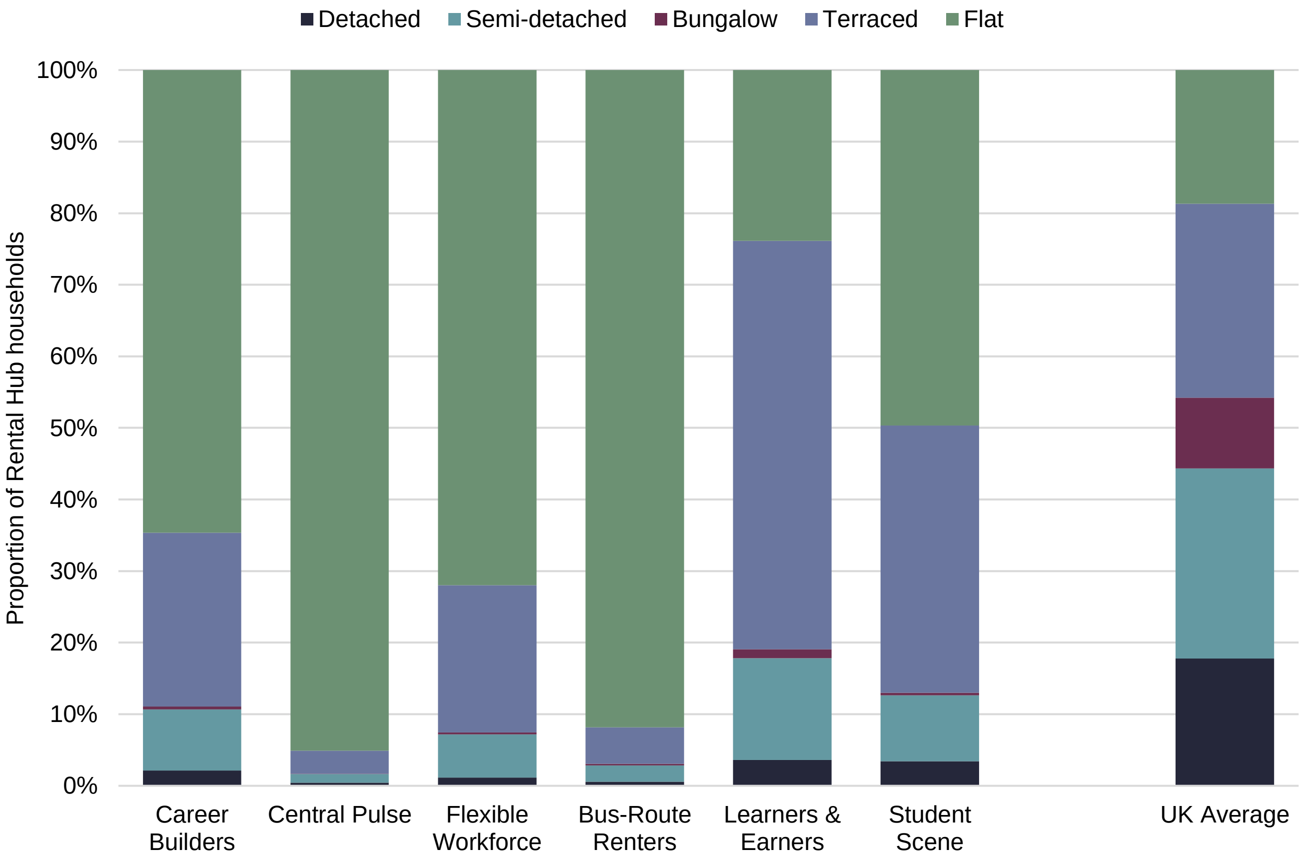
	Household Income				Max Rent (assuming 30% spend)*		
	Lower Quartile	Median	Upper Quartile		Lower Quartile	Median	Upper Quartile
Cambridge	£40,244	£57,082	£74,864		£1,006	£1,427	£1,872
South Cambridgeshire	£40,503	£54,884	£68,196		£1,013	£1,372	£1,705
West Suffolk	£27,675	£37,276	£49,441		£692	£932	£1,236

*Source: Experian, Savills *we have assumed households would spend up to 30% of their gross income*

Experian's Mosaic data also provides a breakdown of the type of property that different households typically live in. This data is only provided for a UK level and therefore might be slightly different at specific local levels. However, it does provide a broad guide as to the type of property that different households are likely to require.

In Figure 31 below, we have charted up the breakdown of property type for Rental Hub households compared with the overall national average. This clearly highlights that these households all have a very high propensity to live in flats, with the exception of Learners & Earners, who have a higher propensity to live in terraced properties.

Figure 31: What type of properties do Rental Hub households typically live in?



Source: Experian

8.1.2. Transient Renters

In contrast to Rental Hubs, the Transient Renters group describes the less affluent renter households. Households in this group are largely single people who pay modest rents for low cost homes. Mainly younger people, they are highly transient, often living in a property for only a short length of time before moving on. Their properties are often older terraced properties, primarily rented from private landlords with a few social landlords. Many work full-time, however their lower skilled jobs mean that incomes for Transient Renters are often limited. Others may be trying to improve their situation by studying for additional qualifications. These are renter households that may benefit from the provision of APR housing within Build to Rent schemes.

There are four types within the Transient Renter group. The table below provides an overview of these.

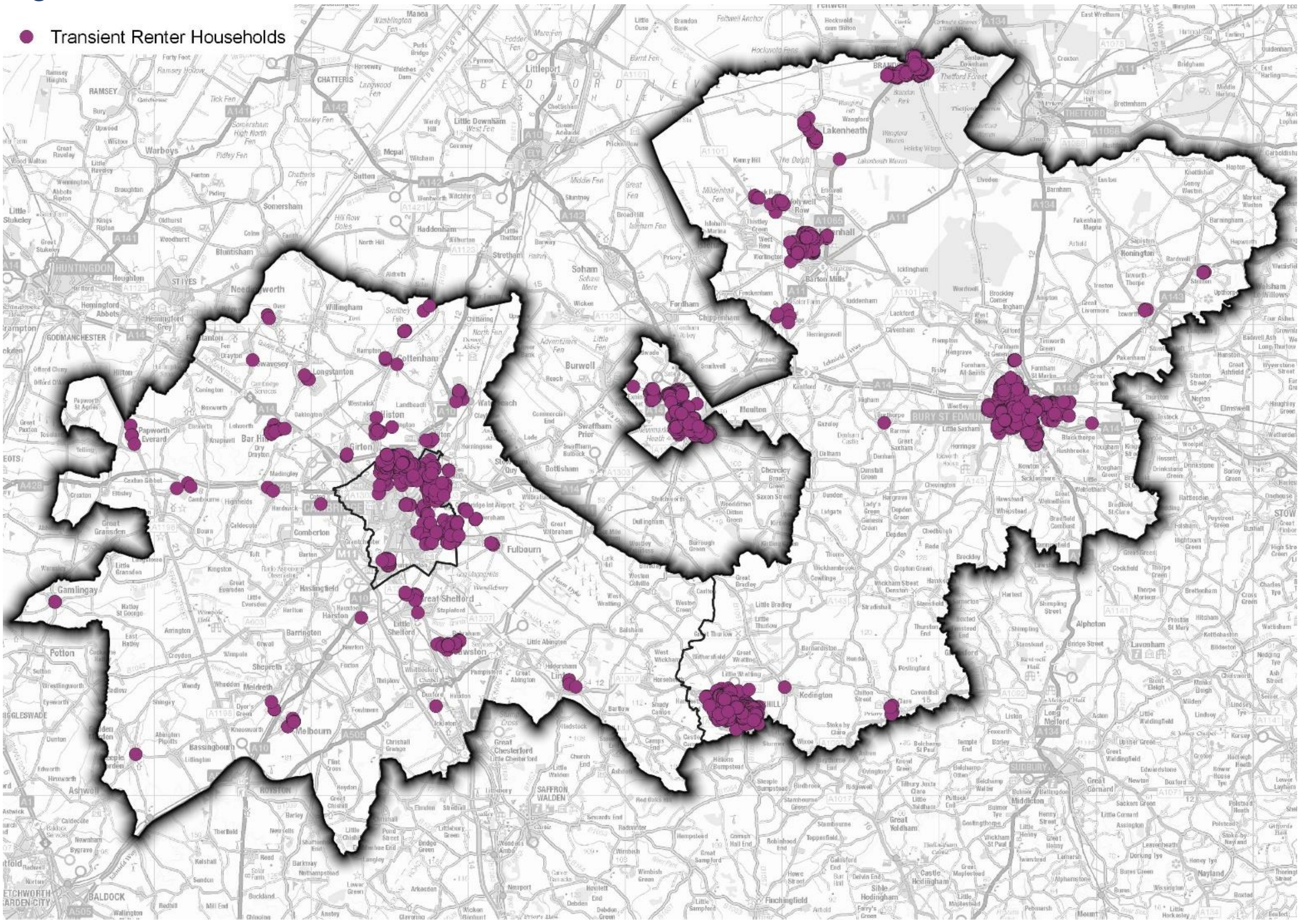
Table 9: Transient Renter household types

	Description
Make Do & Move On	Make Do & Move On are young adults, typically in their late 20s and early 30s, who are living alone or with a cohabiting partner. As yet without children, this is very much a home for now and almost half will stay for less than three years before moving on. Their homes are two or three bedroom terraces found in low value areas of towns and cities. Two-thirds of these homes are rented, either from private landlords, the council or housing associations, while the remainder are owned.
Disconnected Youth	Disconnected Youth comprises young people aged under 25 living on their own in low income areas where employment options are limited. A minority are single parents with usually just one child. Homes are low cost, one or two-bedroom terraces or purpose built flats, rented from private landlords, the council or housing associations. Most are fairly recent residents, having moved in less than three years ago.
Midlife Stopgap	Midlife Stopgap are older people, typically aged between 35 and 55, renting small, affordable homes from private landlords. They don't live with children and they've usually lived in the property for less than three years.
Renting a Room	Renting a Room consists of people predominantly aged 26 to 45, who are transient renters of low cost accommodation from private landlords. They can be single or homesharers, living in low value terraced housing or larger houses that may have been adapted as bedsits.
Make Do & Move On	Make Do & Move On are young adults, typically in their late 20s and early 30s, who are living alone or with a cohabiting partner. As yet without children, this is very much a home for now and almost half will stay for less than three years before moving on. Their homes are two or three bedroom terraces found in low value areas of towns and cities. Two-thirds of these homes are rented, either from private landlords, the council or housing associations, while the remainder are owned.

Source: Experian

Transient Renter households are more widely spread across the local authorities than Rental Hubs. However, they remain mainly concentrated in urban areas, such as Bury St Edmunds, Haverhill and Newmarket. There are fewer Transient Renter households found in Cambridge compared with Rental Hubs, which is likely reflective of the cost of renting in the city.

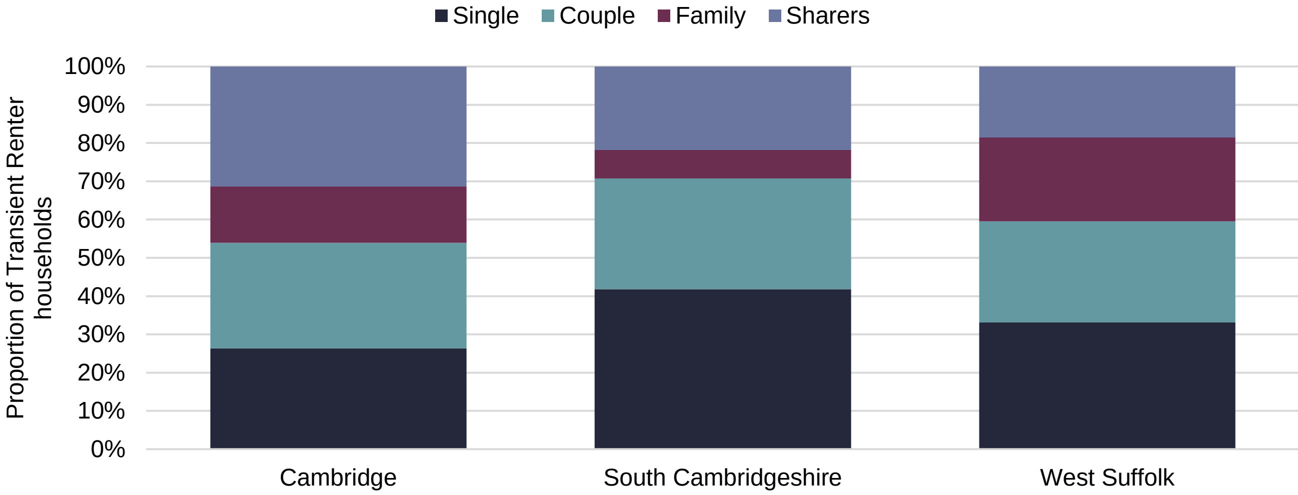
Figure 32: Transient Renter households, 2018



Source: Experian

There is a much higher proportion of sharer households within Transient Renters compared with other four Mosaic groups. This is especially the case in Cambridge, where they account for 31% of Transient Renter households. This is likely reflective of the cost of renting in the city and the need for lower earning Transient Renters to share to cover the cost of rent.

Figure 33: Household composition of Transient Renter households



Source: Experian

Transient Renter households are less affluent and have lower incomes than any other group with a propensity to rent. The maximum rent affordable to median earning Transient Renter households across all three local authorities are in line with lower quartile asking rents in the local authorities. This highlights the need for a mixture of rents to be offered to meet need, which could be achieve by Build to Rent through the provision of Affordable Private Rent accommodation.

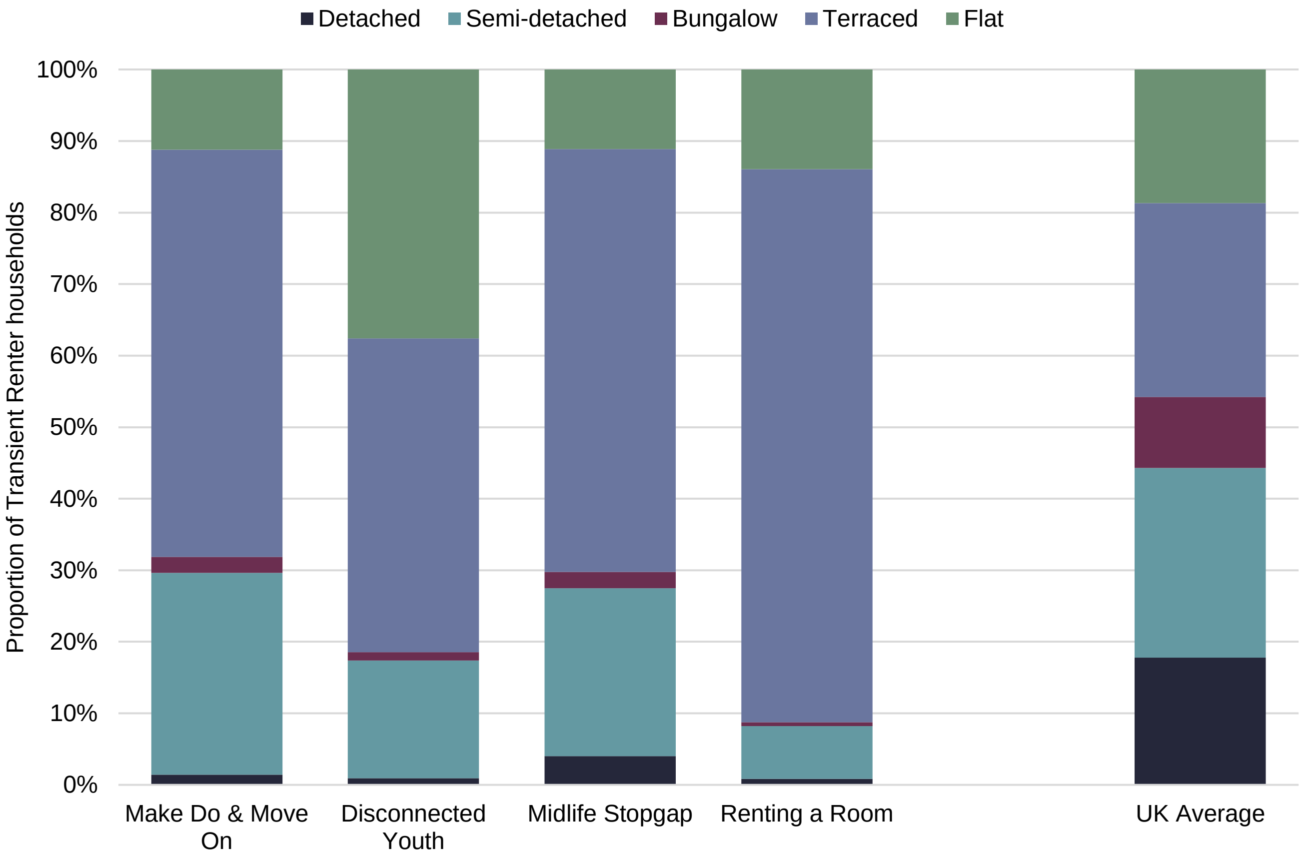
Table 10: Transient Renter household incomes and rental affordability

	Household Income			Max Rent (assuming 30% spend)*		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Cambridge	£25,714	£35,153	£45,476	£643	£879	£1,137
South Cambridgeshire	£21,136	£28,529	£37,778	£528	£713	£944
West Suffolk	£20,561	£28,359	£36,833	£514	£709	£921

*Source: Experian, Savills *we have assumed households would spend up to 30% of their gross income*

In Figure 34 below, we have charted up the breakdown of property type for Transient Renter households compared with the national average. This clearly highlights that these households have a high propensity to live in terraced properties. They have a lower propensity than Rental Hubs to live in flats, with the exception of Disconnected Youth.

Figure 34: What type of properties do Transient Renter households typically live in?



Source: Experian

8.1.3. Aspiring Homemakers

Aspiring Homemakers are typically younger families, couples who are yet to have children, and singles in their 20s and 30s. A good number are setting up homes for the first time. Most Aspiring Homemakers are driven by affordability when it comes to choosing where to live. Homes are likely to be semi-detached and terraced properties, modest in size but with three bedrooms and mostly owned; three-quarters of Aspiring Homemakers are in the process of buying their house with a mortgage. The majority of Aspiring Homemakers are in full-time employment with a few part-time workers. The starter salaries they earn mean that most can manage their household budgets.

In total there are 6 types within Aspiring Homemakers, however, only 4 of these have a high propensity to rent. The table below describes these 4 in more detail.

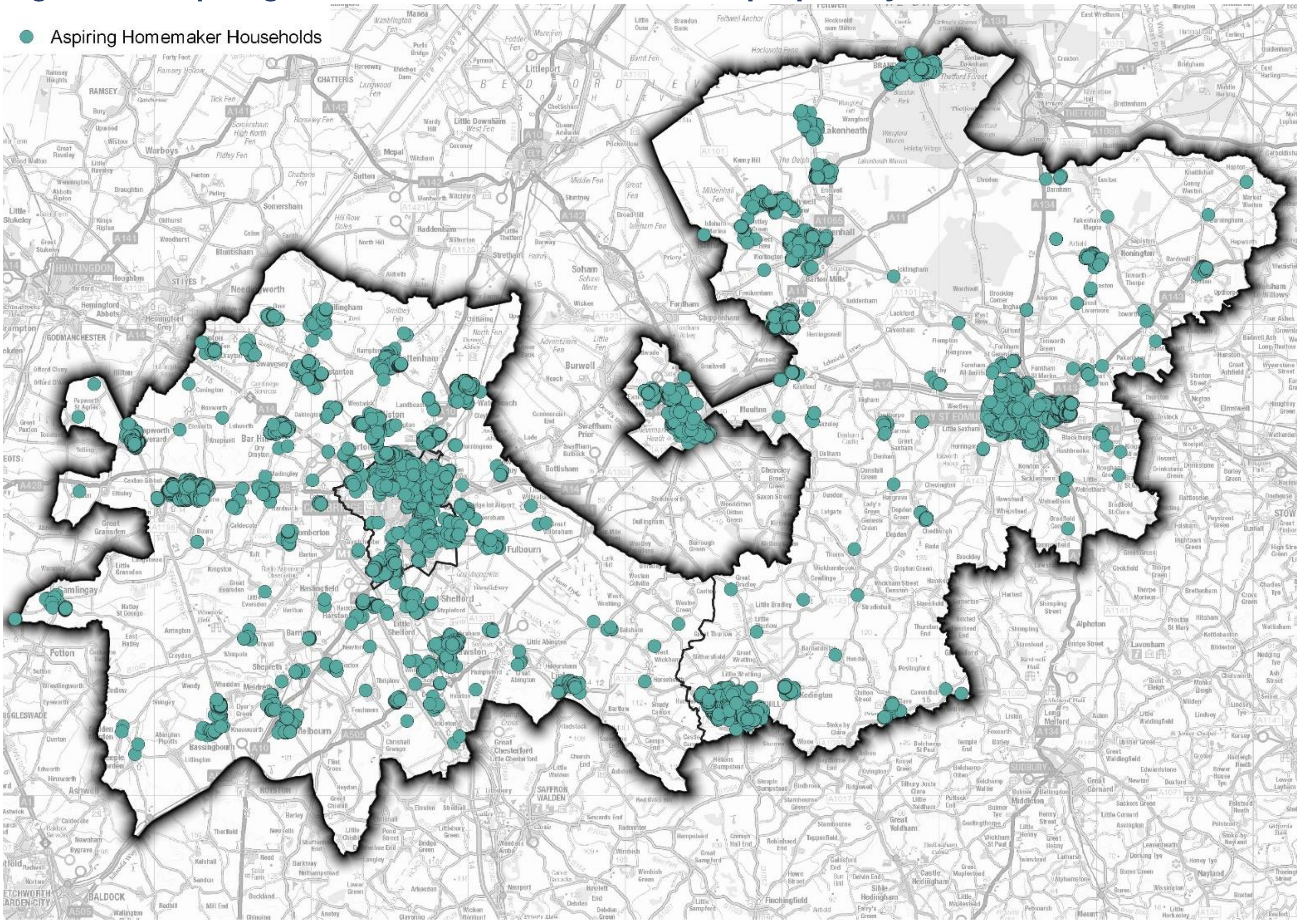
Table 11: Aspiring Homemaker household types with a propensity to rent

	Description
First-Rung Futures	First-Rung Futures are pre-family young couples and singles who have bought good value homes with space to grow in established neighbourhoods. Their neighbourhoods are often more traditional than these young newcomers. They have a slightly lower propensity to rent than the national average but there may be some households in the PRS.
Contemporary Starts	Contemporary Starts are fashion conscious younger couples and singles in their 20s and 30s setting up home in neighbourhoods attractive to themselves and their peers. Most do not yet have children and are instead focusing on building their careers. Those that have been able to put together a deposit have bought their own homes but many rent from private landlords. This means that they have a relatively high propensity to rent privately.
New Foundations	New Foundations are people who live in a brand new home with a newly designated postcode on a development that will often include a mix of housing styles. These people are often younger and single but all on these new developments have recently moved in. In terms of ownership these new homemakers are split between those who own their property with a mortgage and those who rent from a private landlord.
Flying Solo	Flying Solo are young singles living in homes in affordable but pleasant suburbs. In contrast to many other young people, they do not live in shared houses or flats but instead live on their own, or occasionally with a partner, in what are traditionally family neighbourhoods. Flying Solo are split between owners and private renters. Given the small number of years they have had to earn and save, those who have purchased their homes may have had help putting together a deposit.

Source: Experian

In contrast to the other Mosaic groups Aspiring Homemaker households are more widely distributed across the three local authorities. While the main concentrations remain in the urban areas, there are Aspiring Homemakers present in most towns and villages.

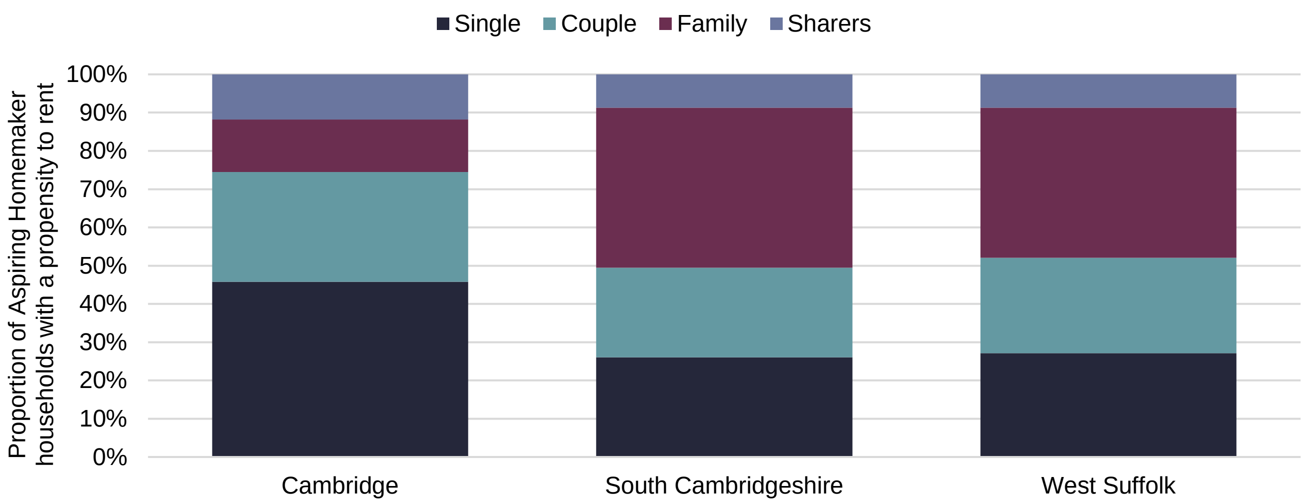
Figure 35: Aspiring Homemaker households with a propensity to rent, 2018



Source: Experian

A further difference between Aspiring Homemakers and the other groups is that there are a higher proportion of families present. In South Cambridgeshire and West Suffolk families are the largest group, accounting for 42% and 39% of households, respectively. The exception is Cambridge, where families only account for 14% of households. This is likely a reflection of families within Aspiring Homemakers needing to move out of the city to find affordable accommodation.

Figure 36: Household composition of Aspiring Homemaker households with a propensity to rent



Source: Experian

Median incomes for Aspiring Homemaker households across all three local authorities are above their relevant borough averages. This feeds through to these households being able to afford rents between the upper quartile and upper decile, even when looking at rents for larger 3 and 4 bed properties.

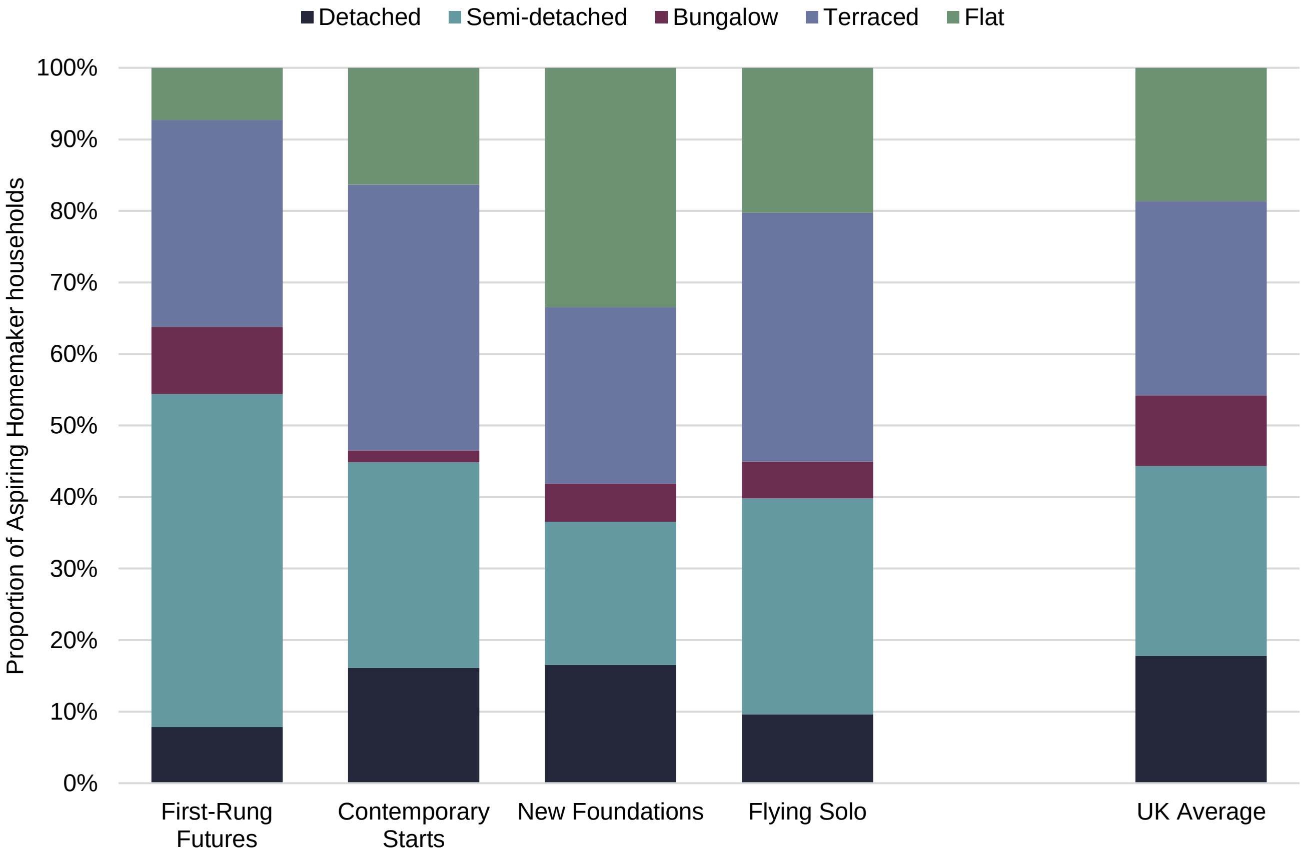
Table 12: Aspiring Homemaker household incomes and rental affordability

	Household Income			Max Rent (assuming 30% spend)*		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Cambridge	£54,149	£69,507	£102,573	£1,354	£1,738	£2,564
South Cambridgeshire	£42,781	£58,453	£76,778	£1,070	£1,461	£1,919
West Suffolk	£35,347	£45,520	£56,814	£884	£1,138	£1,420

*Source: Experian, Savills *we have assumed households would spend up to 30% of their gross income*

In Figure 37 below, we have charted up the breakdown of property type for Aspiring Homemaker households compared with the national average. This shows that in comparison with the other household groups we have looked at they have a more diverse spread of properties, which are generally close to the UK average. New Foundations have a slightly higher propensity to live in flats that other types.

Figure 37: What type of properties do Aspiring Homemaker households typically live in?



Source: Experian

8.1.4. City Prosperity

City Prosperity work in high status positions. Commanding substantial salaries they are able to afford expensive urban homes. Well-educated, confident and ambitious, this elite group is able to enjoy their wealth. City Prosperity are found in senior and well-paid positions in financial and professional organisations, as well as in high status roles in politics, media and the arts. Highly educated, very ambitious and focused on their careers, many of this group are single and are less likely than others to have children.

Their homes are luxurious and often found in the most prestigious neighbourhoods. They are not always the most spacious homes though and are extremely expensive. Around half of these properties are owned, with many rented for, sometimes, astronomically high rents. Homes are often chosen because of their central locations and the easy commutes their locations offer to the office.

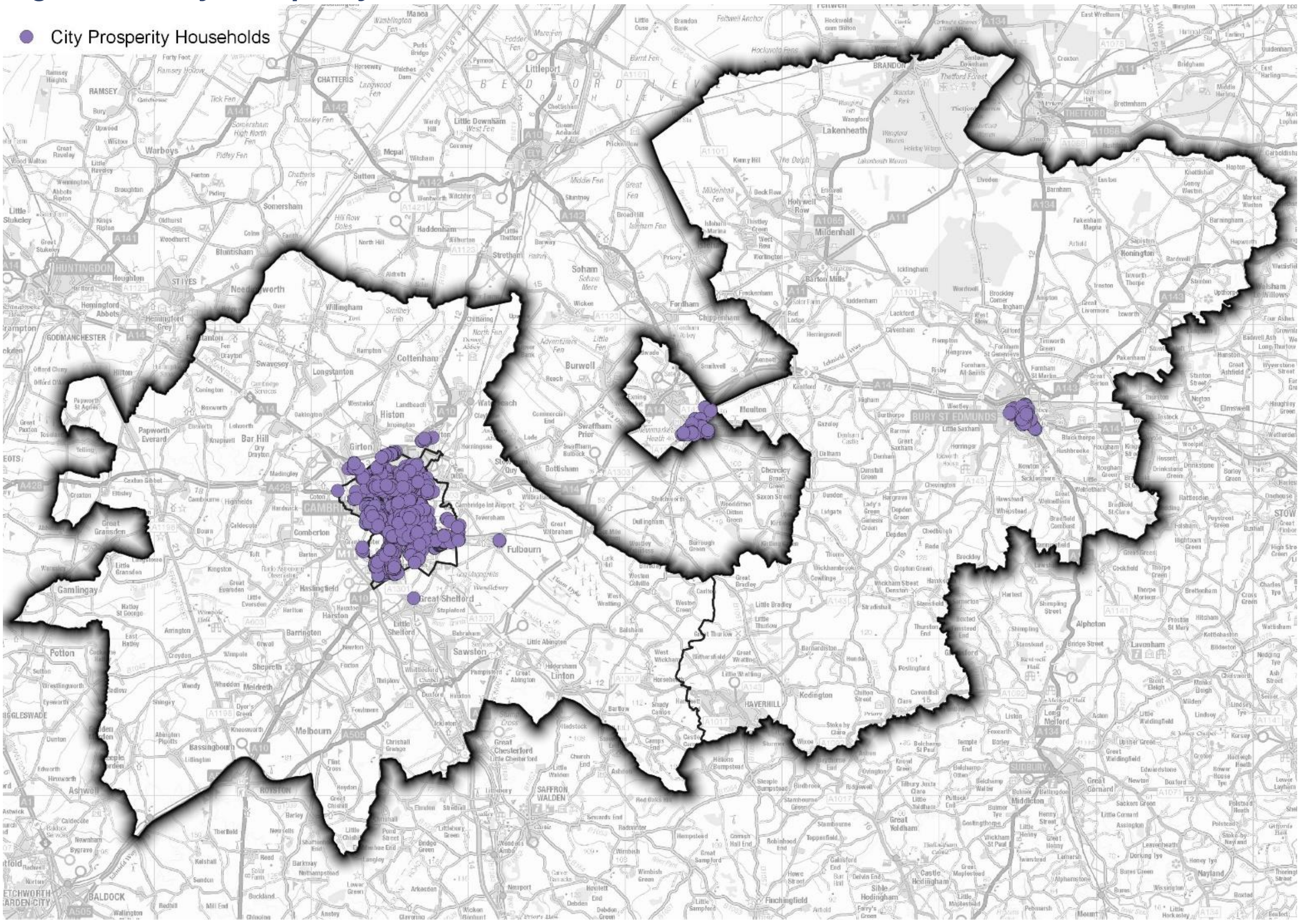
Table 13: City Prosperity household types

	Description
World-Class Wealth	World-Class Wealth are the most affluent group in UK society. Almost exclusively found in London, they live in extremely expensive city homes or apartments in grand terraces in elite central London locations. They are people for whom money is no object. They are highly educated, having gained masters degrees and doctorates from leading universities. They now occupy top positions in financial institutions as well as other highly skilled and qualified professions.
Uptown Elite	Uptown Elite are high status professional families owning expensive and elegant homes alongside equally successful neighbours in upmarket and accessible inner suburbs. Often aged between 45 and 65, Uptown Elite are high status families with older or adult children living in smart city suburbs, where expensive property prices exclude all but the most successful. Homes are typically very smart, period terraced properties. Three quarters of Uptown Elite own their own home. The others rent privately.
Penthouse Chic	Penthouse Chic are young, highly successful City workers renting in prestige locations in central London. Spectacular salaries from demanding jobs in the City pay for their premium-priced flats. Almost exclusively found in central London, these young people are typically aged under 35 and can afford to live on their own in apartments in very expensive locations. Penthouse Chic rent their luxury apartments in purpose built residential developments, converted warehouses or subdivided period buildings from private landlords for, often, exorbitant amounts.
Metro High Flyers	Metro High-Flyers are highly educated and ambitious 20 and 30-somethings renting expensive apartments, either on their own or with a partner. These ambitious high-flying graduates, typically from one of the UK's leading universities, are aged between 26 and 35 and are most common in the wealthy suburbs of the capital, easily commutable to jobs in the City and central London. They live alone or with partners in expensive private rented properties, often in neighbourhoods of large Victorian terraced houses now converted into luxury one and two bedroom apartments.

Source: Experian

Across the three local authorities, City Prosperity households are almost exclusive found within Cambridge, where they account for just over a quarter (26%) of households. However, there are small groups of these households in Newmarket and Bury St Edmunds in West Suffolk and on the outskirts of Cambridge in South Cambridgeshire.

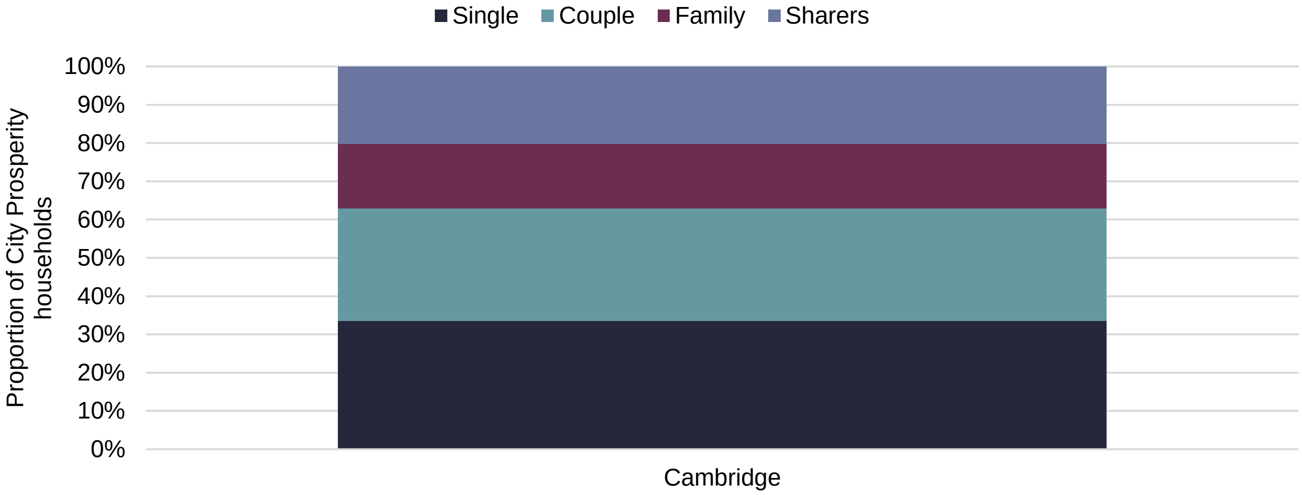
Figure 38: City Prosperity households, 2018



Source: Experian

Due to small sample size it is not possible to look at the household composition for City Prosperity households in West Suffolk or South Cambridgeshire. Looking at Cambridge, around a third (34%) of City Prosperity households are individuals with a further 29% being couples. To meet the needs of these households, Build to Rent schemes will need to provide smaller 1 and 2 bed homes. Mirroring the composition of Rental Hubs, within City Prosperity there are few families than sharers. These households will need the provision of larger homes to meet their need.

Figure 39: Household composition of City Prosperity households



Source: Experian

City Prosperity households in Cambridge are very affluent, with median incomes of nearly £82,000pa, compared with the borough median of £57,495pa. These high incomes mean that City Prosperity households can afford the upper decile rents within Cambridge.

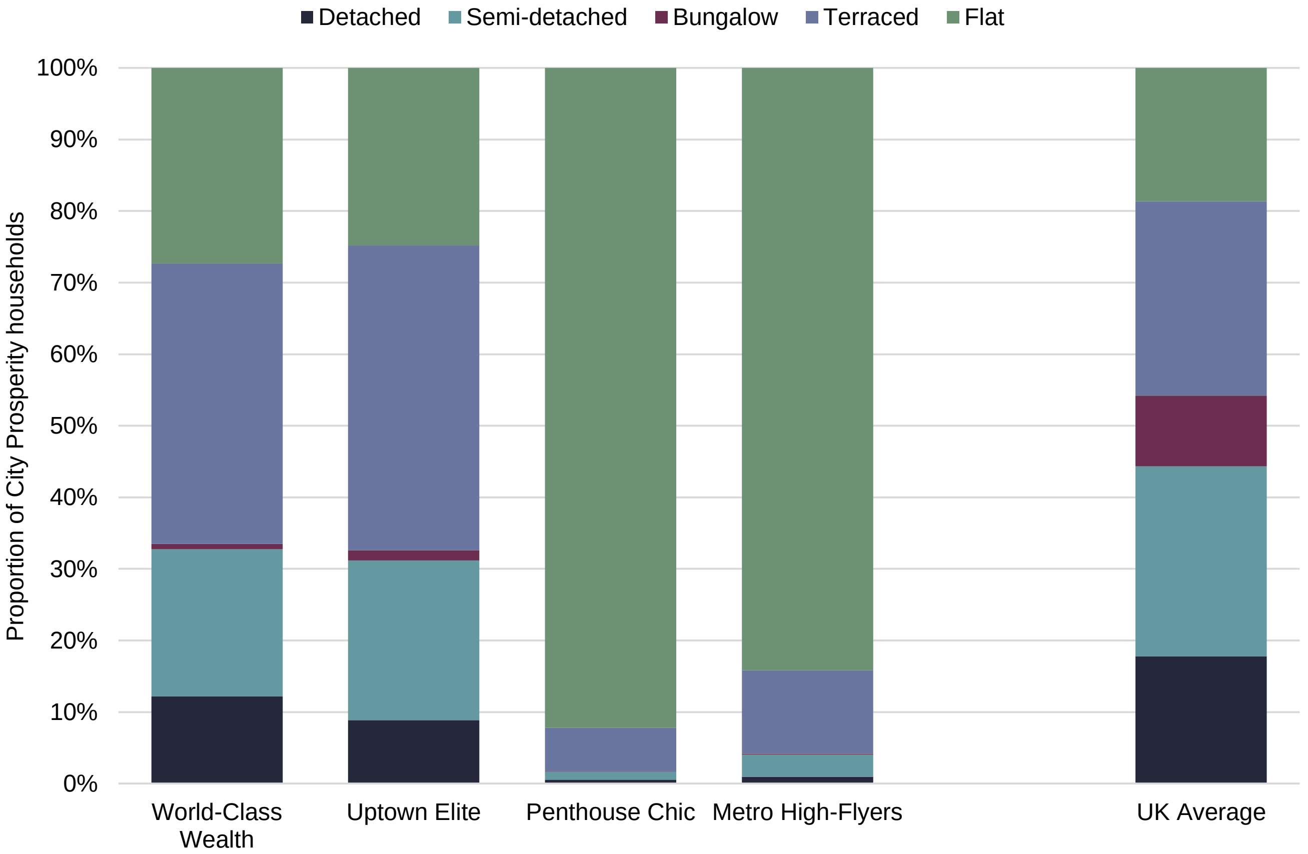
Table 14: City Prosperity household incomes and rental affordability

	Household Income			Max Rent (assuming 30% spend)*		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Cambridge	£58,028	£81,945	£112,919	£1,451	£2,049	£2,823
South Cambridgeshire	n/a			n/a		
West Suffolk	n/a			n/a		

*Source: Experian, Savills *we have assumed households would spend up to 30% of their gross income*

In Figure 40 below, we have charted up the breakdown of property type for City Prosperity households compared with the national average. This shows a significant divergence between the four household types. Penthouse Chic and Metro High-Flyers have very high propensity to live in flats, which is likely reflective of them typically being found in city centres. In contrast, Uptown Elite and World-Class wealth both have a higher propensity to live in Terraced properties.

Figure 40: What type of properties do City Prosperity households typically live in?



Source: Experian

8.1.5. Urban Cohesion

Urban Cohesion are settled extended families and older people who live in multi-cultural city suburbs. Most have bought their own homes and have been settled in these neighbourhoods for many years, enjoying the sense of community they feel there. Typical homes are Victorian terraced houses or pleasant semi-detached and terraced houses built between the wars. A minority live in more modern purpose built flats. Often Urban Cohesion's homes are relatively expensive because of their central locations and proximity to London. The majority of people are homeowners, many without the need for a mortgage. Household incomes overall are moderate, derived from work in lower managerial, intermediate and semi-routine occupations.

There are 4 household types in total within Urban Cohesion, however, only 3 of these have a propensity to privately rent. The table below provides an overview of these 3 types.

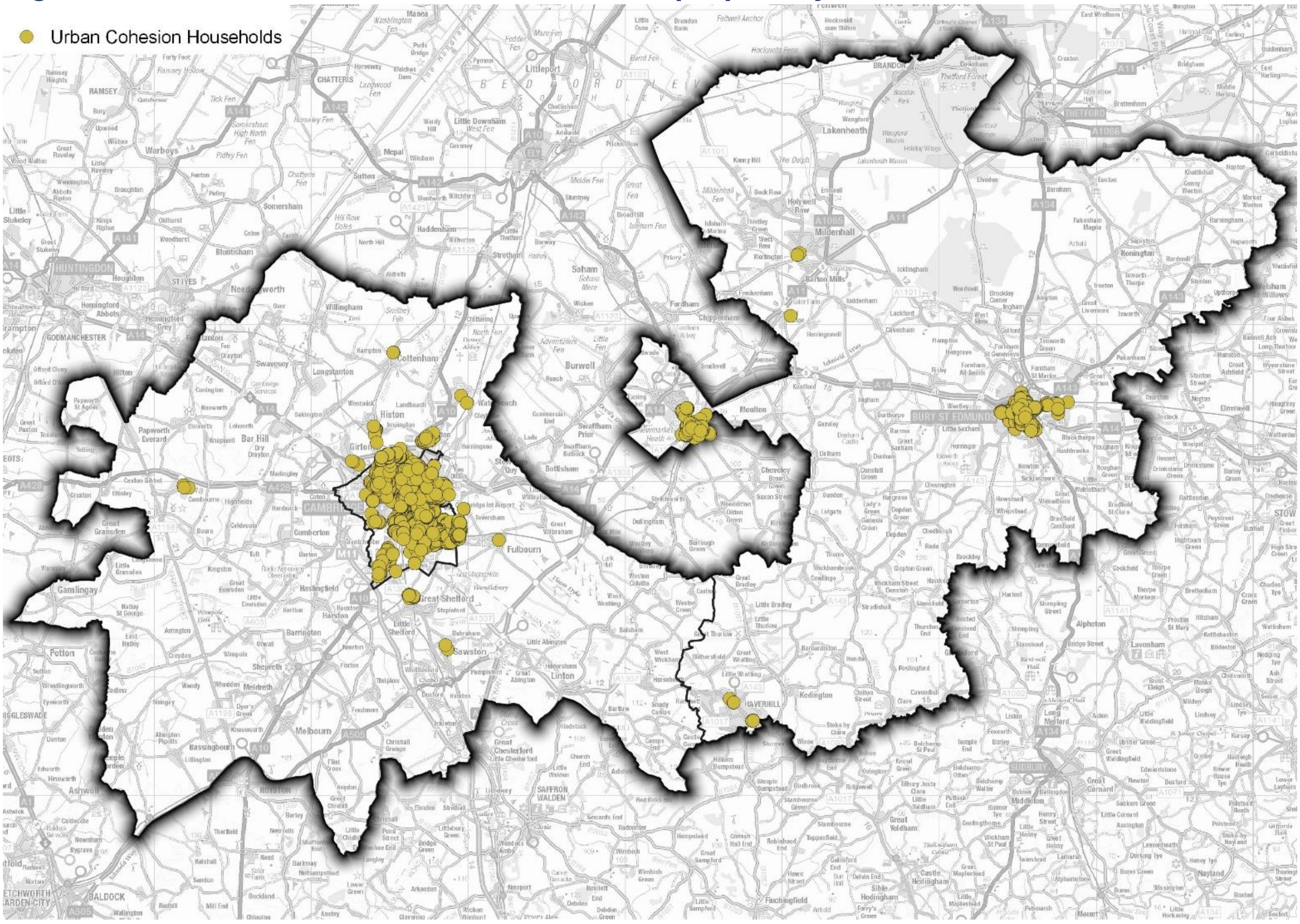
Table 15: Urban Cohesion household types with a propensity to rent

	Description
Cultural Comfort	Members of Cultural Comfort are mostly aged 35 to 55 and married, typically with school age children. They are often extended families who will also have an elderly parent living with them. They live in neighbourhoods of semi-detached and terraced suburban homes usually with three bedrooms which, because of their locations in pleasant city suburbs, are reasonably expensive. Seventy per cent of Cultural Comfort own their homes – many with no or only a comparatively small mortgage. People are settled in these neighbourhoods and have lived, on average, at the same address for 8 years.
Asian Heritage	Asian Heritage is characterised by larger families often with several children. Households can also include children in further or higher education as well as elderly parents, who live alongside other children ranging in age from under-fives to teenagers. Homes are inexpensive, close-packed Victorian terraces usually with three bedrooms and are a mix of owned and rented, usually from private landlords. A significant proportion of those that own their homes do so outright without a mortgage.
Ageing Access	Ageing Access describes people approaching or beyond pensionable age, many single, who enjoy living in small yet well-appointed homes in pleasant inner suburbs. Homes themselves are tasteful but simple one and two bedroom flats and terraces, sometimes converted from large Victorian or Edwardian houses. Although incomes are not high, those who have retired have some additional pension income and most people own their homes.

Source: Experian

Mirroring Rental Hubs, Urban Cohesion households with a propensity to rent are primarily found within major urban centres, such as Cambridge, Bury St Edmunds and Newmarket, or in commuter towns and villages around Cambridge, such as Milton, Histon and Great Shelford.

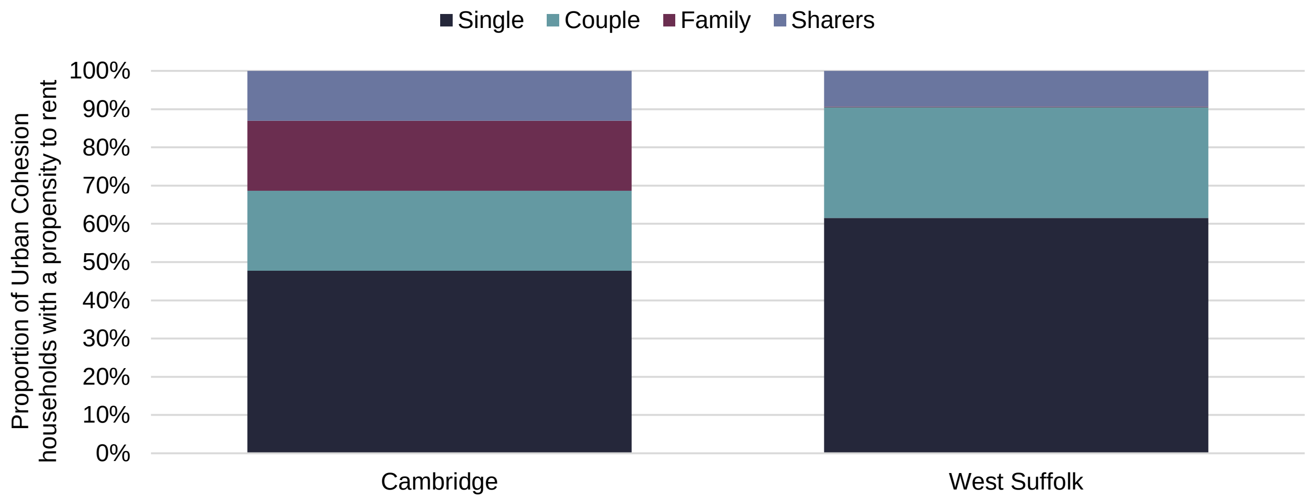
Figure 41: Urban Cohesion households with a propensity to rent, 2018



Source: Experian

Due to a limited sample size it has not been possible to analyse the household composition or income profile of Urban Cohesion households with a propensity to rent in South Cambridgeshire. In both Cambridge and West Suffolk, single people account for the largest proportion of Urban Cohesion households, 48% and 62% respectively, with couples accounting for the second highest proportion of households, 21% and 29% respectively. This indicates that demand from these households is likely to be for smaller properties.

Figure 42: Household composition Urban Cohesion households with a propensity to rent



Source: Experian

Median household incomes for Urban Cohesion households in both Cambridge and West Suffolk are lower than the wider borough averages. This highlights the need for more affordably priced rental accommodation to meet the needs of this group, similarly to Transient Renters. There is potential for Build to Rent to provide affordably priced homes through the provision of Affordable Private Rent.

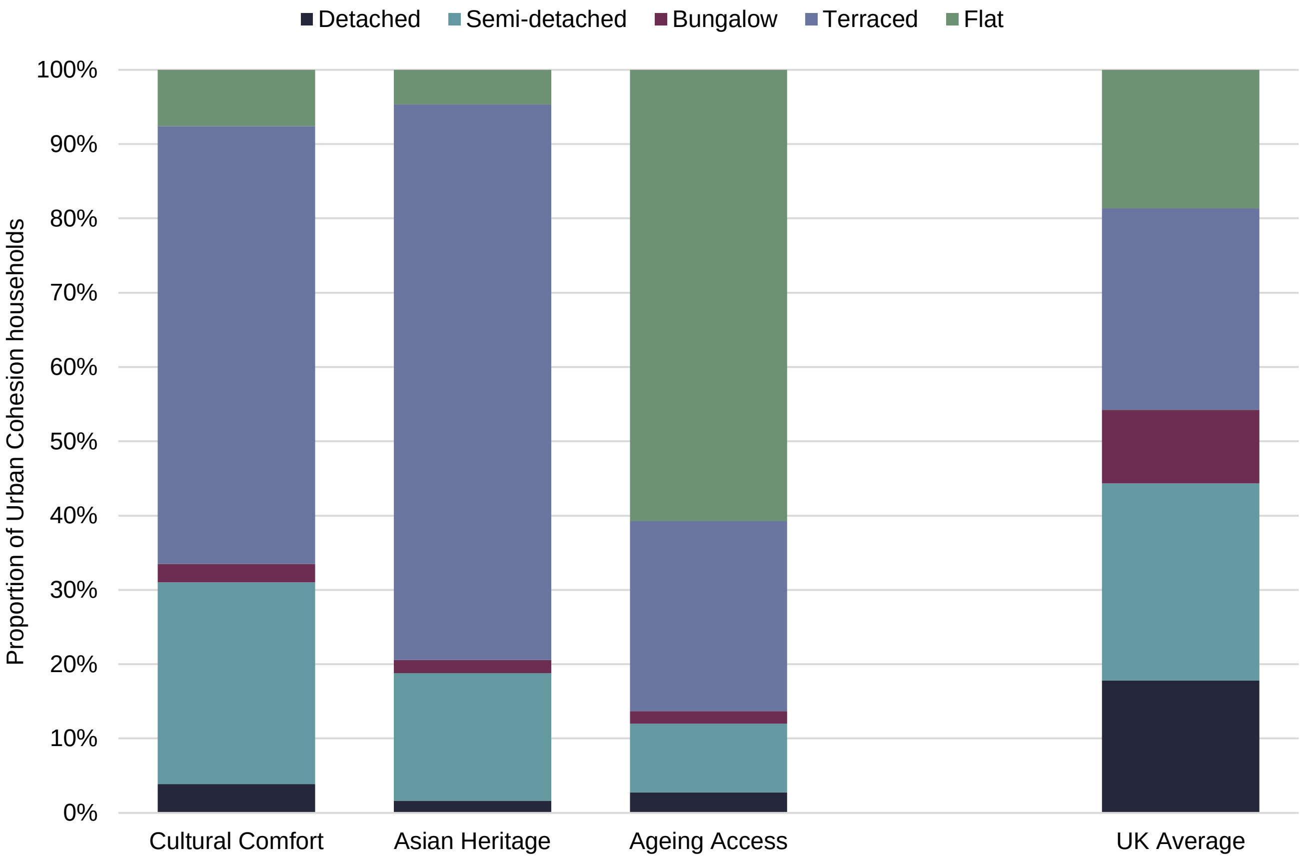
Table 16: Urban Cohesion household incomes and rental affordability

	Household Income				Max Rent (assuming 30% spend)*		
	Lower Quartile	Median	Upper Quartile		Lower Quartile	Median	Upper Quartile
Cambridge	£17,843	£31,715	£50,528		£446	£793	£1,263
South Cambridgeshire	n/a				n/a		
West Suffolk	£13,613	£22,207	£32,449		£340	£555	£811

*Source: Experian, Savills *we have assumed households would spend up to 30% of their gross income*

In Figure 43 below, we have charted up the breakdown of property type for Urban Cohesion households compared with the national average. This shows that Ageing Access households have the highest propensity to live in flats. While Cultural Comfort and Asian Heritage have a significantly higher propensity to live in terraced properties

Figure 43: What type of properties do Urban Cohesion households typically live in?



Source: Experian

Important Note

Finally, in accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.