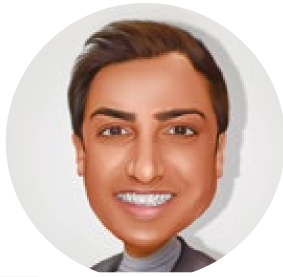
IS BUILD-TO-RENT REALLY THE WAY TO GO?



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I have been reading recently that a lot of people have been utilising the BTR strategy.

For clarity, according to Google …

"Build-to-Rent refers to the emerging sub-market in private rented residential stock in the United Kingdom, designed specifically for renting rather than for sale."

Typically, the kinds of investors who would partake in such strategies would be institutional investors such as hedge funds, etc, and these schemes would be at volume to ensure that the ROI is favourable to the institution.

- **There are 95,918 BTR units either completed or planned across the UK, including 17,001 completed, 24,012 under construction, and a further 54,905 with planning permission.**
- **In London, there is a total of 54,978 units.**
- **Outside London, there are 40,940 units.**

The purpose of this article is to bring it a little more localised to investors like you and I, who may not be working with institutional investors … yet … but still want to consider the pros and cons of whether BTR is the best use of our Time, Money and Resources, and how it compares to BTL.

Before I start, it is worth noting that I sit here not only as a property investor who consistently reviews my ROI, but also as a **FORMER** developer. I will elaborate on that "Former" later. I would also like to state that this article is written on my own observations and previous experiences.

WHY BTR RATHER THAN BTS?

To start with, let's assess the benefits of BTR:

DEMAND

Predicted population growth of 9.7m between 2014 and 2039 indicates demand for housing in the UK will only increase; and should the divergence between median wages and median house prices persist, demand for the PRS over the mid-long term would appear robust.

ECONOMIES OF SCALE

It is easier to build larger quantities and retain control by simply building 'your own neighbourhood'. It is extremely rare to be able to buy whole portfolios where the properties are all within close proximity of one another. Yes, portfolios of properties do come up for sale, but you tend to find that they are scattered nationwide, that management is also scattered and they are generally not well-maintained

CREATING YOUR OWN MONOPOLY

Have you ever thought of owning your own street, town or city. BTR is simply a step towards that direction. Prices are gauged according to neighbouring properties and as such, the developer is able to set their own price.

Scale comes into the definition of BTR when you start thinking about affordable housing. According to the powers-that-be, a scheme should have at least 50 units to qualify as BTR.

To provide an example of this locally, I own the majority of quite a large street in Wolverhampton. I purchased low, renovated and refinanced according to the commercial value. Once one building had been completed, this set the precedence for other properties on the street. For an HMO in this street, I could get a valuation of 10x the gross rental income, which then inflated the market value for my and all other properties in the street.

THE FLIPSIDE

On the flipside, there are a few negatives with BTR …

PLANNING

With a development the size of 50+ units, planning can sometimes become a little difficult. The local authority would have to take into account:

- **Unit space standards**
- **Unit mix**
- **Impact on immediate vicinity / environment**
- **Car parking / Highway**
- **In particular – affordable housing requirements**

For me, the issue with BTR is that fact that almost every site of a decent size would have to offer some form of social housing, which would bring its own issues. Of course, the social housing element can be counteracted with local amenity improvements / contributions, but that's not always guaranteed and is also area dependent.

Other ways to tackle Section 106 on such large scale developments would be to offer discounted market rent (DMR), as opposed to other forms of S106. This would greatly improve the viability of the scheme and thus their ability to be more competitive on bidding for potential opportunities.

BRINGING IT BACK MORE LOCAL TO THE PRS AND PROPERTY INVESTORS

Believe it or not, property investors across the country are either BTL or BTR. I sat down and thought through an example:

- Purchase a property for **£100,000**
- Bank leverage = **£75,000 (75% Lending)**
- Deposit + Buying Costs = **£30,000 (Approximately 30%)**
- Refurbish the property into two self-contained flats = **£20,000**
- **Total capital input = circa £50,000**

What are the potentials thereafter?

- **Rent the properties out and generate a high cash flow / ROI**
- **Refinance against the whole property as one entity**
- **Split the titles and either:**
  - Sell off individually, or
  - Refinance against each title

If you were to built-to-rent from the ground up, I would imagine a scenario such as the following:

- **Purchase the land**
- **Legal and professional costs**
- **Build costs**
- **Timescale and project management**
- **Loss of hair and health (due to stress)**

On a smaller scale project, for me personally it just doesn't seem viable. Yes, it could be that you would be able to build a house a lot cheaper than buying a ready-made property. However the deciding factor for me is that that it would be very capital- and time intensive, which would restrict the amount that I could develop / grow within that year / period.

Many lenders would not lend on virgin sites without planning permission, or on a site that is not already income-generating, therefore you would have to consider alternative finance options, ie bridging, JV finance or even crowdfunding. The next stage would then be to find the development cost, which again would have to come from development finance, JV sources or crowdfunding – which can be quite costly, especially if the project does not go according to plan.

When you look at my initial example of purchasing a ready-made building and start to break it down logically, although it started as a BTL, in essence you actually ended up with a BTR (if you decided to keep it long term). The only difference is that you have utilised traditional methods of funding and also calculated your risks (ie, knowing exactly how much your monthly outgoings are). For me personally, this is the preferred method to a successful project.

It is also worth noting that a lot of BTR projects are actually commercial to residential opportunities.

To conclude, as Generation Rent is here to stay (I hope), BTR will only get bigger and better. Institutional investors will continue to fund large scale projects, which in essence will create more competition within the PRS marketplace, allowing the end user (the tenant) a vaster range of accommodation to choose from.

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