Build to Rent Development Research

MARKET REPORT AND SNAPSHOT OF LONDON BTR DEVELOPMENTS

Prepared for the Greater London Authority (GLA)

Date: September 20th 2021

PROPERTY DEVELOPMENT
TRANSACTION
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CONTENTS

INTRODUCTION

INSTRUCTION

BNP Paribas Real Estate (BNP) were appointed by the Greater London Authority (GLA) in May 2021 to report on the UK and London Build to Rent (BTR) markets and to cultivate a dataset of relevant London BTR Transaction Information.

This initial report was completed in September 2021 but may be updated in the future to reflect the latest data and any new evidence or changes in circumstances.

PART 1

Part 1 of this report comprises the market background and research that has been assembled by our Residential and BTR research teams. This element of the report covers a variety of trends that influence the BTR market – macro and micro economics, demographics, affordability, supply and demand.

It is broken down into three sections:

- **RESIDENTIAL MARKET OVERVIEW**
- **BTR MARKET OVERVIEW**
- **LONDON BTR MARKET OVERVIEW**

PART 2

Part 2 of this report provides details on the types of BTR transactions seen in the market and a Glossary that explains and supports this data. BNP and the GLA agreed that the most appropriate way to do this was to provide detailed breakdown of each element, explaining the nuances relating to each one.

A number of data sources were referred to identify schemes that are likely to or have been delivered as BTR. A snapshot in time of these schemes has been provided for a number of London boroughs for illustrative purposes.

The data comes from combining information from Realyse, Molior, Lonres, Property Data and Real Capital Analytics, along with BNP Paribas Real Estate's in house information (collected from direct project experience and from agent relationships) and Strutt and Parker's data – including from the new homes and lettings teams as well as additional information provided by the GLA from referable applications.

PART 1

RESIDENTIAL MARKET OVERVIEW

1. MARKET CONDITIONS AND TRENDS

1.1 MACRO Economic Outlook

1.1.1 The outbreak of the COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has significantly impacted global economies. International travel restrictions as well as restrictions on individuals' behaviour and activity have been implemented by most countries across the world.

1.1.2 In 2021, some countries (including the UK) had to reimpose further lockdowns as the spread of the virus increased. McKinsey[1] recently reported that, across Europe, approximately 26% of total employment is at risk.[2] Across European sectors, this ranged from agriculture (4%) to accommodation and food (77%) with real estate below average at 17%. Even when the health concerns of the coronavirus pandemic are curtailed, the pandemic has the potential to result in persistent social and behavioural impacts, changing attitudes to travel and human interaction.[3]

1.1.3 A third national lockdown was announced on 4th January 2021. The roadmap announced on 22nd February 2021 allowed for gradual reopening of the economy from late March. In any event, the housing market has stayed open throughout this lockdown, with safety measures in place to reduce the spread of COVID-19.

1.1.4 Moving away from Coronavirus, the Brexit Transition period ended on 31st December 2020. On 24th December 2020, the negotiators form the EU and UK reached an agreement on a new partnership which sets out the rules that apply between the EU and the UK as of 1st January 2021. This agreement has been

1 Mckinsey & Co, 2020. Safeguarding Europe's livelihoods: Mitigating the employment impact of COVID-19
2 Formally defined as at risk of reductions in hours or pay, temporary furloughs, or permanent layoffs
3 Mckinsey & Co, 2020. Reimagining Work Life After Covid-19

approved by the EU member states and the UK Parliament and provisional application of the agreement took effect on 1st January 2021.

1.1.5 Global markets have fallen since the outbreak of COVID-19 and its expected effect on economic growth. The FTSE 100 markets rallied 10% over Q4 2020, ending the year 15% down compared to the start of 2020. The index remained reasonably flat over January and February 2021 but rallied by 4% over March 2021. Economic uncertainty remains a significant factor globally.

1.1.6 In Q3 2020, quarter on quarter (QoQ) UK economic growth was 16%, bouncing back considerably from the Q2 falls experienced (-19%). In Q4 2020, QoQ growth was 1%. Over 2020, the economy is estimated to have contracted by 10%.

1.1.7 In the Office for Budget Responsibility's (OBR) latest forecast (March 2021), growth for 2021 is projected at 4%, lower than the 5.5% which was forecast in the November 2020 forecast. This is on par with the March 2021 HM Treasury consensus forecasts which have an average estimate of 4.8% for 2021. For 2022, OBR projects growth at 7.3%, which is more bullish than the HM Treasury consensus forecasts of 6.1%. The recovery predicted for 2021 and 2022 demonstrates that most forecasters expect the fundamentals of the economy to remain strong and for it to be able to return to growth once the current situation has passed.

1.1.8 In their central scenario, the Monetary Policy Committee expects recovery to pre-pandemic levels by 2022.[4] The OBR's forecasts for peak unemployment were revised after the March 2021 budget, with unemployment expected to peak at 6.5% in 2021, lower than previous estimates.

1.1.9 For the first time since the early 1990s, the UK economy is faced with the prospects of rising prices. Earlier in the year, inflation doubled largely because of increases in energy prices, marking the highest level before COVID-19. Latest data shows the rate surpassed the 2% inflation target in May, with prices rising by 2.1% (the consensus forecast was 1.8%). This is the first time inflation has surpassed the BoE's 2% target since July 2019. In May, core inflation which excludes the price of food and energy increased to 2% up from 1.3%, suggesting businesses are now raising prices to recuperate the losses occurred during lockdowns.

1.1.10 At the end of March 2021, the value of the Pound to the Euro was c.1.17; 15% lower than the 2015 average. However, this value has rallied over 2021, from

4 Bank of England, February 2021, Monetary Policy Report

1.11 at the end of December 2020. It has not been this high since February 2020.

1.1.11 The Chancellor announced an unprecedented package of Government-backed interventions aimed at supporting businesses and individuals through the current situation. This included: a furlough scheme to pay up to 80% of employees' wages, intended to minimise job losses; mortgage holidays agreed with lenders; business rates holidays and loan schemes. At its peak (20th April to 3rd May), an estimated 31% of workers were on furlough across all industries. The worst affected industries were accommodation and food service activities (78%), arts entertainment and recreation (65%) and administration and support activities (36%). Real estate faired just better than average at 28%. On the 17th December 2020, the scheme was further extended until the end of April 2021 by the Chancellor, and then again in the March Budget to September 2021. This date is after the final stage of Boris Johnson's roadmap, which would provide some additional protection against any delays to the reopening of the economy or offer some transitional support as businesses scale back up to full operations.

1.1.12 Additional measures outlined in the March 2021 budget include widening access to grants to include 600,000 more self-employed people and additional funding for vaccine distribution. Importantly for the housing market, the Stamp Duty holiday has been extended until the end of June 2021, tapered until September 2021.

1.1.13 Despite the negative economic outlook, the economic interventions announced by the Government should minimise the rate of unemployment and cushion some businesses. The speed of the recovery will depend upon latent stressors in the economy, which will not be fully realised until all temporary measures (furlough, trading restrictions) are lifted. As a result, considerable uncertainty remains.

2. RESIDENTIAL MARKETS

2.1 Summary

- National house prices defied expectations, growing by 6.3% in the year to Q1 2021, on par with growth in the year to Q4 2020 (6.4%). These two quarters were the highest year on year (YoY) growth since the year to Q4 2014. YoY Q1 2021 growth was driven by the North West, West Midlands and Northern Ireland. London saw the lowest growth at 4.8%.

- Prime Central London (PCL) sales prices finished the year to Q4 2020 with a marginal decline (-0.4%), which was in line with our best case forecast. Prices increased by 0.3% over Q1 2021 - the largest quarterly growth since Q1 2020 (0.9%). Prices still remain c. 21% down from their 2014 peak.[5]

- The impact of the first group of restrictions as a result of the pandemic were felt over the historically busiest three-to-four months of the year, meaning Q2 2020 saw the lowest sales transactions ever recorded. However, the latter half of 2020 and start of 2021 recovered some of these losses; Q1 2021 saw the highest transactions since Q1 2016.

- Agents reported that Q1 2021 was one of the strongest markets they have ever seen. Applicants in the regions are double what they were this time last year. Trade from international buyers has been restricted, but domestic buyers have more than filled the gap in London. Everything is positive except for stock, which is down YoY by a third in the regions. Properties that are best in class will likely experience growth of more than our best case forecast of 5%. Unemployment remains a key uncertainty, however, which may come to the fore once the furlough scheme ends. The forecasts are retained at growth of between 0% and 5% for both the UK and PCL over 2021, but the positive strength of Q1 means all agents expect the year to end at close to the 5% mark. It is too early to say whether the recent rise in the number of COVID-19 cases, and the delay in removing all restrictions, will have any impact on the market.

- The PCL lettings market appears to have more issues. Growth of between -2% and -10% over 2021 is expected. The five year cumulative position of growth of between 7% and 12% is positive.

3. NATIONAL RESIDENTIAL MARKET

3.1 According to the Nationwide House Price Index (NWHPI), UK property prices grew by 6.3% in the year to Q1 2021, on par with growth in the year to Q4 2020 (6.4%). These quarters are the highest YoY growth since the year to Q4 2014. YoY growth over the year to Q1 2021 shows that, on a regional basis, the best performers were the North West (8.2%), West Midlands (7.6%) and Northern Ireland (7.4%). London saw the lowest positive growth at 4.8% and no regions saw negative growth. Quarter on quarter growth in the UK was 1.2% in Q1 2021, down from 3.0% in Q4 2020.

3.2 The November 2020 Bank of England report states: "housing market activity remained strong in most parts of the UK, but contacts reported a modest

[5] When referring to the PCL market it includes those markets which Strutt & Parker operate in (Knightsbridge, Belgravia, Kensington, Chelsea, Notting Hill & Fulham) and as such is reflective of London's most prime markets.

softening in areas where tighter social distancing rules had been introduced."[6] Given the changing nature of the crisis, the outlook remains varied and hard to predict.

3.3 Further to the Chancellor's Spending Review speech on 25th November 2020, the statement allowed for £20 billion in multi-year capital investment for the long-term housing strategy which includes:

- National Home Building Fund with initial funding of £7.1 billion over the next four years to unlock up to 860,000 homes, including:
  - £4.8 billion of capital grant funding, including for land remediation, infrastructure investment, and land assembly.
  - Delivery of the Brownfield Fund, announced at the Budget.
  - An additional £100 million in 2021-22 to support housing delivery and regeneration, including unlocking brownfield sites, regenerating estates and releasing public sector land – including serviced plots for self and custom builders.
  - £2.2 billion of new loan finance to support house-builders, includes Help to Build for custom and self-builders and funding for SMEs.
  - Re-confirming £12.2 billion for the Affordable Homes Programme - delivering up to 180,000 new homes for affordable homeownership and rent, now with a larger proportion outside of London.

4. PRIME CENTRAL LONDON RESIDENTIAL MARKET

4.1 When referring to the PCL market it includes those markets which Strutt & Parker operate in (Knightsbridge, Belgravia, Kensington, Chelsea, Notting Hill & Fulham) and as such is reflective of London's most prime markets.

4.2 PCL sales index data for Q4 2020 reported positive QoQ price growth of 0.1%, which rose to 0.3% over Q1 2021 - the largest quarterly growth since Q1 2020 (0.9%). This is in line with the flat 2020. A decline of -0.9% was seen in the year to Q1 2021 (-0.4% in the year to Q4 2020). Prices still remain c. 21% down from their 2014 peak.

4.3 In Q1 2021, total sales transactions in PCL recovered to the highest number seen since Q1 2016. YoY growth was 29% and QoQ growth was 12%. However,

6 Bank of England, November 2020, Monetary Policy Report

total PCL transactions in Q1 2021 were still only 68% of the previous peak in Q4 2013. In Q4 2020, YoY growth was -5% and QoQ growth was 26%.

4.4 The previous commentary forecast 0% to 5% growth in sales prices in both UK and PCL over 2021. Agents reporting on buyer market activity in Q1 2021 state that it is one of the strongest markets they have ever seen. The strength of the first quarter means that it would be highly unlikely for the year to end at 0% unless the next three quarters saw consecutive falls, which is not anticipated by any agents to be the case. Applicants in the regions are double what they were this time last year. Transactions were the highest they have been since Q1 2016. Trade from international buyers has been restricted, but demand from domestic buyers has more than filled the gap, removing the uncertainty around the impact the restrictions are having in this respect. Everything is positive except for stock, which is down YoY by a third in the regions. Properties that are best in class are expected to experience price rise of more than 5%.

4.5 The general consensus is a move from the cautious optimism felt at the end of last year to outright positivity given the quarter. Some uncertainties still remain however, namely unemployment, which may come to the fore once the furlough scheme ends. Office policies on home working after the restrictions are lifted are also an uncertainty and could impact housing demand in different ways in different locations.

4.6 With regards to PCL lettings, over Q4 2020, QoQ price growth was still negative at -2.0% and YoY growth was -6.7%. In the year to Q1 2021, prices declined by -8.3%. QoQ change was -1.4%. The outlook for PCL lettings remains negative as market activity has been low.

4.7 In terms of lettings transactions, Q4 2020 and Q1 2021 saw 174% and 132% growth (respectively) on historically low Q2 2020 levels. However, there is still some considerable market uncertainty given the wider economic outlook.

5. FORECASTS

5.1 The economy proved itself more resilient over 2020 than the early forecasts had anticipated. UK-wide house price growth was stronger than our best-case scenario. In the PCL market, prices did not move much in 2020, but finished close to our best-case forecast.

5.2 The 2021 forecasts from the previous commentary are retained at 0% to 5% for both UK and PCL. Whilst the market is one of the strongest the agents have seen for some time, unemployment is still a concern. It is notable that current sentiment is far more positive than during 2020; it is considered likely that the year will end up closer to the 5% mark as opposed to the 0% that was cautiously anticipated three months ago.

5.3 All economic forecasts anticipate a significant recovery from 2021 onwards. Whilst the shape of these recovery projections may vary, none indicate long-lasting impacts of the shock 2020 recession. This translates to a cumulative forecast medium-term impact on UK prices of between +15% and +25% over the five years to Q4 2025. It is expected that PCL prices will rise by a cumulative c.+15% to +35% in the five years to Q4 2025.

5.4 In the year to Q1 2021, PCL lettings prices fell by -8.3%, a larger fall than the year to Q4 2020 (-6.7%), in line with our previous outlook. Whilst there is a lack of product in the PCL lettings market, there has also been a fall in demand. The PCL lettings market is highly dependent on international travellers and corporate lets which have both declined as a result of the pandemic. The previous forecasts for 2021 are retained; it is expected that rents in the midway case will fall by 2% and in the worst case by 10% in the year to Q4 2021. Cumulatively over the next five years we would expect a bounce back, but the scale and speed of this could potentially be more dependent upon longer term behavioural shifts resulting from the current situation. The five year cumulative 7% to 12% is retained and positive, reflecting that the lettings market will bounce back.

Area	2021		5 Yrs to 2025 (inc)
	Max Growth	Min Growth	
Sales			
Prime Central London	5%	0%	15% to 35%
UK	5%	0%	15% to 25%
Lettings			
Prime Central London	-2%	-10%	7% to 12%

6. CONCLUSION

6.1 The strength of Q1 2021 sales has moved sentiment from one of cautious optimism to outright positivity. The market is at some of its strongest levels ever seen in terms of price and transactions, although stock is low in the regions. On the other hand, the lettings market is experiencing issues with low market activity and decreasing prices.

6.2 Despite the positivity experienced so far in 2021, the threat of COVID-19 and its impact on the market is by no means removed. There is still global economic uncertainty around the pandemic. In the UK, uncertainty remains over unemployment and the future of office working, all of which could impact buyer behaviour. The UK is also adjusting to a new status outside the EU which poses potential risks in terms of trade deals and the attractiveness of Sterling.

6.3 Economic and market indicators underpin our house price forecasts. The current economic outlook is optimistic for 2021, but the indicators are currently subject to considerable uncertainty as globally, we face an unprecedented situation.

BTR MARKET OVERVIEW

7. NATIONAL BUILD TO RENT MARKET

7.1 Overview

7.1.1 The Build to Rent (BTR) market is now emerging as a specific subsector of the Private Rented Sector (PRS). Its genesis has many contributing factors, but essentially increased rental demand has come about from a combination of the continued squeeze on housing supply for purchase (both in quantum of new homes and their affordability), coupled with a cultural shift of both young and old considering rental an acceptable lifestyle.

7.1.2 In reaction to this, institutional investors have identified residential as an asset class that is under-represented in their portfolios (particularly given the travails of other sectors such as retail). Traditional investor wariness of reputational risk exposure and management complications from residential is being mitigated by BTR as a distinct purpose-built asset in single ownership enabling effective (and cheaper) professional management. Single ownership, unbroken blocks with standard Assured Shorthold Tenancies (AST) or Private Residential Tenancies (PRT) also enable more straightforward liquidity in line with other property sectors. BTR can encompass family housing as investments and local authority partnerships with funds (such as Sigma) demonstrate this.

7.1.3 Build to Rent should be distinguished from the more amorphous Buy-to-Let sector that encompasses individual amateur landlords and smaller noninstitutional investors, typically with single apartments spread over a range of older buildings or in new builds also sold to owner occupiers with no unified approach to management nor offering any additional facilities.

7.1.4 The BTR sector in the UK is learning from European and American residential models and typically placing the "customer experience" at the centre of their business plans rather than simply filling a building with tenants. New technology facilitates this relationship and builds on the precedent of Purpose Built Student Accommodation from both the investor model and the accommodation expectations of graduates in starting careers in new cities.

7.1.5 There are a range of BTR concepts from different entrants to the sector with varying views on the quality of product, unit mix, target demographic and level of amenities required.

7.1.6 Clearly there is a relationship between rents and the quality of the product and tenant experience. Research by Colliers International of 99 BTR schemes in July 2020 identified an average 9.9% (1 bed) or 9.2% (2 bed) rental premium for wholly owned professionally managed apartment schemes. The three most important elements for establishing a premium were a concierge service, a gym and a resident's lounge.

7.1.7 It is worth noting the RICS has now published an updated Guidance Note "Valuing Residential Property Purpose Built for Renting" (1st edition July 2018) that endorses the investment approach (yield on Net Operating Income) to valuing BTR assets, with the vacant possession value of open market stock not reflective of the market's approach to the analysis of such assets (but offering a potential benchmark). There remains potential for confusion with BTR not having its own planning use class, however this allows for build for sale schemes to be delivered as BtR, of which there are a number of recent examples.

7.1.8 The policy position in London is set out at Policy 11 of the London Plan (2021) with guidance on BtR development initially introduced through the Mayor of London's Affordable Housing and Viability Supplementary Planning Guidance (2017). This sets out town planning criteria for BtR schemes with reference to management, tenancies, rents and fees, complaints, covenants, clawback and affordable housing. BtR schemes are able to follow the London Plan 'Fast Track Route' where they meet the relevant Threshold Level of affordable housing which is 35 per cent and 50 per cent for public and industrial land (where industrial floorspace capacity is not being re-provided) A minimum of 30 per cent of the affordable housing should be provided at London Living Rents published annually by the GLA, with the remaining 70 per cent at a range of genuinely affordable rents which are at 80% of market rent or lower and that meet the Mayor's income and eligibility criteria. Where set out in a Development Plan, boroughs can require a proportion of affordable housing as low cost rent (social rent or London Affordable Rent) to be managed by a registered provider.

7.1.9 Outside of London, Manchester and Birmingham have seen the greatest number of BTR schemes come forward (although interestingly the pipeline in Manchester is still below that of the apartments delivered at the end of the last boom in 2006/07) but other cities, notably Leeds and Liverpool, are also seeing a large number of schemes being developed. . Cardiff is also now seeing an increase in BTR pipeline.

7.1.10 The number of BTR units submitted for planning in London has remained relatively static in recent years, however, the regions have seen a volume increase of 52% in the last year.

7.1.11 In the short to medium-term it is expected that there will be an increase in renters as the preferences of young professionals continue to move towards more nomadic lifestyles. Additionally, historic trends have shown that demand for rental accommodation increases after a recession, with the sector offering a faster and more flexible way of meeting immediate housing needs.

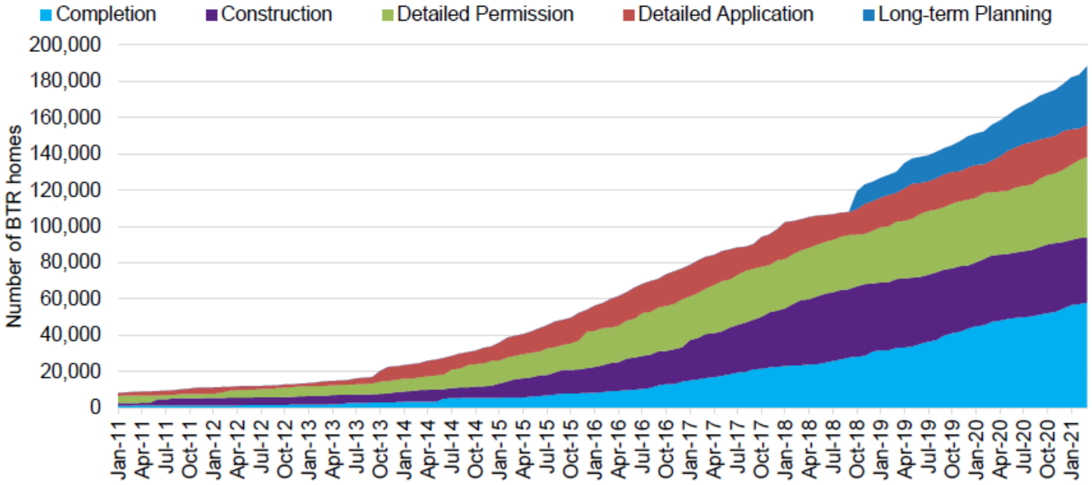
7.1.12 Over the medium term, economic conditions and the underlying lack of affordability in the housing market, will positively impact on demand for BTR. Additionally, the projected growth in the number of households in the UK will continue to add pressure for more BTR stock, and for a broader spectrum of product, including suburban family housing.

7.2 SUPPLY PIPELINE

7.2.1 The development pipeline for the BTR market in the UK is now well established. The Savills/British Property Federation research highlights that there was a total of 188,456 BTR units completed, under construction and in planning at Q1

2021, up from the previous quarter of 179,835. Once completed, this will still only amount to c.3% of the private rented sector volume.

7.2.2 The BTR stock includes 58,038 completed homes with a further 36,054 homes under construction. The future pipeline currently stands at over 94,364 homes, including those in the pre-application stage. This indicates a healthy supply of homes waiting to begin construction.



Source: Molior, BPF, Savills

7.2.3 As at end Q1 2021 there was considerably more units under construction and in planning in the regions than in London. Since 2018 there has been more BTR activity outside of London than in London. Regional BTR activity now accounts for over 56% of all activity in the sector.

7.3 NATIONAL BTR INVESTMENT ACTIVITY

7.3.1 Investment activity in the BTR market has been principally focused on the significant pipeline of developments and funding by long-term investors committing to forward fund (and purchase) schemes throughout the country. The trading of completed and fully stabilised new BTR schemes is not underway as the sector is still focusing on developing and holding new schemes. This means that investment evidence is fragmented and often not directly comparable to the assumption of a stabilised completed asset. In addition, clarity on all assumptions within forward funding transactions can be difficult to obtain – for instance, different metrics on elements such as assumed management costs and rental growth.

7.4 RECENT ACTIVITY

7.4.1 At 2020 year end, it was estimated there were £2bn worth of deals under offer in addition to a couple of substantial deals completed during Q4. A £100m joint venture forward funding deal between Realstar/Quadreal and HUB/Bridges Fund Management completed for the 256 unit Wembley Link scheme, Realstar's 2nd BTR deal in Wembley. Delph Property Group also continued the expansion of their Kooky brand with the acquisition of the 85 unit Buckingham House, High Wycombe for £21.3m and the forward funding of Millbrook Park and Oakleigh Grove, a combined 108 units for £33m.

7.4.2 Prior to this, AXA's acquisition of Dolphin Square marked their first foray into the UK BTR market despite having invested £22bn into residential assets globally. In addition, an increasing number of international investors are allocating capital into residential funds which will feed into BTR. As with AXA, many investors will be looking to deploy capital into UK BTR for the first time.

7.4.3 We have already seen a number of new investors raise significant amounts of capital in the last quarter alone. Delancey Oxford Residential (DOOR), have received £260m and £150m from Allianz and Local Pensions Partnership respectively to be invested in Get Living's existing development pipeline and push them towards a market-leading position.

7.4.4 Meanwhile, Swedish firm EQT Real Estate and Sigma Capital have announced a £1bn joint venture that is targeting an initial 3,000 home portfolio across London (Zones 3-6), with hopes of mirroring the success of Sigma's regional model.

7.4.5 Pension Insurance Corporation also entered the sector with a £130m deal for 520 homes at New Victoria in Manchester. This is the largest deal to occur outside of London in Q3 2020.

7.4.6 In addition, Telford Homes acquired Rotherhithe Gas Works with capacity for 4,500 BTR units.

7.5 LONDON BTR INVESTMENT ACTIVITY

7.5.1 As set out in the table below, the market evidence for pricing of London BTR assets stagnated in 2020 with only eight transactions completing, six of which were forward funding transactions. Most transactions are on forward funded development schemes at various stages of construction. As the table below suggests, the market has been dominated by funds and REITs but some new investors have entered the BTR market in London. Development sites have experienced increased competition with investors keen to establish a presence in the London market and this has led to investor confidence in the market staying buoyant despite obvious headwinds.

7.5.2 Detailed information on transactions is difficult to analyse as each purchaser will have formed their own view on likely rents, growth and management costs and each scheme will have a different amenity offer and market positioning, as well as quantum. However, with these caveats the reported Net Initial Yields provide evidence of current investor views of different schemes around the UK.

7.5.3 All yields stated in this report are public knowledge as reported to the market. The only assumptions made are within the accompanying information and these are highlighted in yellow.

7.5.4 Generally, the comparable evidence above shows that BTR schemes within London are transacting, where scalable enough, between NIYs of 3.25-4.00%.

7.5.5 The agreed forward funding of the other part of the Royal Mail Site in Nine Elms, by Quadrant Estates and Alberta Investment was at a Net Initial Yield of 3.75% due to the strong demographics and investment potential.

7.5.6 Lendlease and CPPI have agreed on a joint venture for two schemes in Elephant and Castle at a NIY of 3.30% and 3.45%. This transaction clearly shows institutional interest in London BTR schemes in areas with a relative lack of BTR stock.

7.5.7 We have also highlighted a few stabilised transactions in the table below to show investment sentiment in London for schemes that are income producing. Project Harmony was bought by Quadreal Property Group at a NIY of 3.50%. This transaction shows that there is a significant amount of investor demand for schemes that are fully operational. This transaction was one of few stabilised investments in the BTR market last year and shows that yield compression can be achieved once operational. This portfolio included some student assets and an asset in Manchester and the yield is reflective of these. Should it have been all stabilised BTR assets within London, further yield compression would have been expected.

Date	Scheme	No. of beds	Structure	Price	Yield	Purchaser	Vendor	Comments
Under Offer	Confectionery House Hayes Village, London	233	Forward Funding	£78m	3.75%	Tbc	Barratt Homes	Forward funding, the developer is Barratt Homes and the scheme is reportedly about to go under offer.
Jun-21	Twickenham Gateway	121	Forward Funding	£50m	3.85%	Meadow Partners	Solum	

GREATER LONDON AUTHORITY

STRUTT & PARKER BNP PARIBAS GROUP

BNP PARIBAS REAL ESTATE

Date	Scheme	No. of beds	Structure	Price	Yield	Purchaser	Vendor	Comments
May-21	The Wiltern, Ealing	278	Forward Funding	£90m	3.75%	PIC	Amro Partners	Forward funding of a scheme in Ealing.
Jan-21	Project Harmony London	1400	Some stabilised and some forward funding	£600m	3.50%	Quadreal Property Group	Real Star	BTR beds - 1,000 and 400 student beds. Includes Uncle schemes in Elephant & Castle, Stockwell, New Cross Gate, Manchester, a forward funding in Stratford and Empire Heights. Student blocks in Hammersmith and Shoreditch.
Sep-20	Dolphin Square London	1233	Investment	£850m	3.00%	AXA		7.5 acre site and the largest single private residential complex in the UK, stabilised asset.
Sep-20	Phase 2 Berol Yard, Southall Tottenham Hale, London	315	Forward Funding	£154m	3.50%	Long Harbour		This was a BTS scheme that has been converted to BTR.
Jul-20	Lewisham Gateway, London	649	Forward Funding	£252m	3.25%	Muse		
June-20	Elephant Park Elephant & Castle, London	123	Forward Funding	£85m	3.30%	Lendlease/ CPPIB JV		
Apr-20	Axe Street Barking	170	Forward Funding	£47m	3.90%	Aberdeen Standard	Lindhill	Forward funding of the Lindhill's scheme in Barking. Former Abbey Sports Centre.
Mar-20	Gloucester House & Durham Court South Kilburn, London	118	Forward Funding	£75m	3.40%	Confidenti al	Telford Homes	
Feb-20	H11A Elephant Park Elephant & Castle, London	118	Forward Funding	£75.2 m	3.45%	Lendlease/ CPPIB JV		18-storey building with 118 Build-to-Rent homes will be located at Elephant Park, the landmark 28-acre regeneration project that is being delivered by Lendlease in south London.
Feb-20	Pioneer Point Ilford, London	294	Investment	£100m	3.85%	Realstar	Kennedy Wilson	This was a stabilised asset and has been up & built for the last four years.

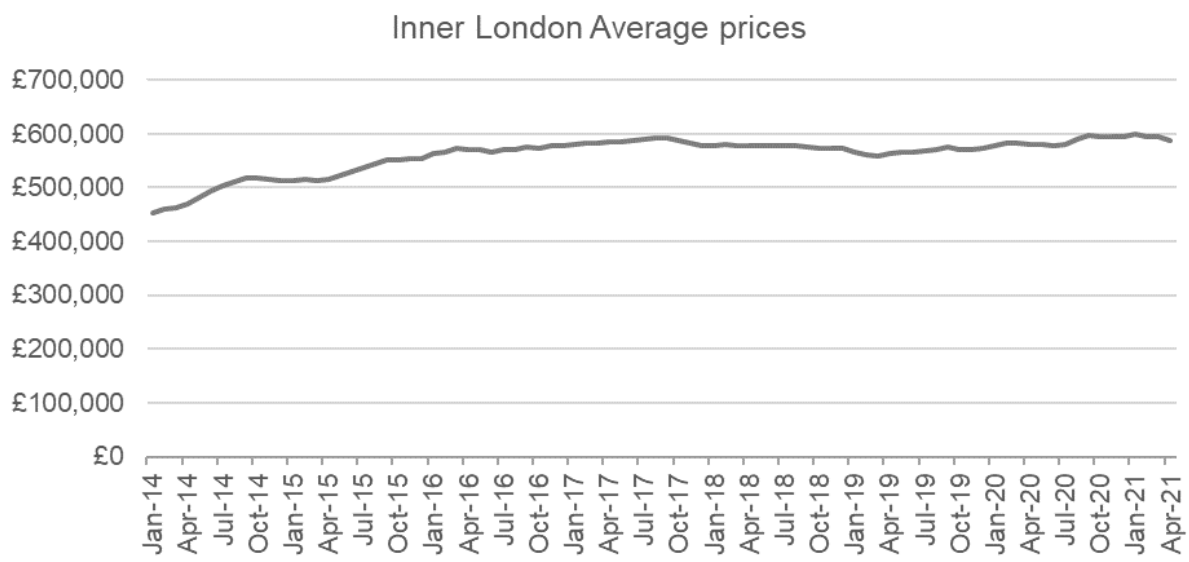
Date	Scheme	No. of beds	Structure	Price	Yield	Purchaser	Vendor	Comments
Feb-19	Equipment Works Walthamstow, London	257	Forward Funding	£105.5 m	3.50%	Greystar/Henderson Park	Telford Homes	The transaction comprises the sale of the freehold interest in the land and the construction of 257 build to rent homes for a net consideration of £105.5 million.
Jan-19	East Wick Hackney Wick, London	161	Forward Commitment	£136m	3.75%	Realstar	-	BTR scheme with half of the scheme being three-bedroom apartments for families

LONDON BTR MARKET OVERVIEW

8. INNER LONDON MARKET OVERVIEW

8.1 Historic House Prices

8.1.1 Below we have detailed the average house price data from the Land Registry for Inner London:



Source: Land Registry

8.1.2 The data for Inner London is drawn from the City of London, Camden, Greenwich, Hackney, Hammersmith and Fulham, Islington, Kensington and

Chelsea, Lambeth, Lewisham, Newham, Southwark, Tower Hamlets, Wandsworth, and Westminster.

8.1.3 The data shows that Inner London house prices in the have broadly followed an upward trend between January 2014 and April 2021, increasing over the period by c.30%. Inner London recorded their highest average house price over the period in January 2021, at £598,479. Looking in particular at the last 12 months, the impact of the COVID-19 pandemic and closing of the housing market between 23rd March 2020 and 13th May 2020 is evident, with negative growth seen over Q1/Q2 2020, but a return to positive growth in July 2020. Rising house prices in Inner London continues to impact on affordability, challenging the opportunities for home ownership in Central London.

8.2 Demographics – Central London

8.2.1 We have used CACI to assess the demographic characteristics within Central London (CL) (identified as a 4 mile search radius.)

8.3 Economic Activity

8.3.1 There are 1.34m people between the ages of 16-74, of which 74.2% are economically active, 5% higher than the Great Britain (GB) average.

8.3.2 Although unemployment in CL is higher at 2.9% versus 2.4% across GB, the percentage of people in full-time employment and self-employed are 12% and 31% higher respectively, with the percentage of people in part-time employment 40% less in Central London versus Great Britain.

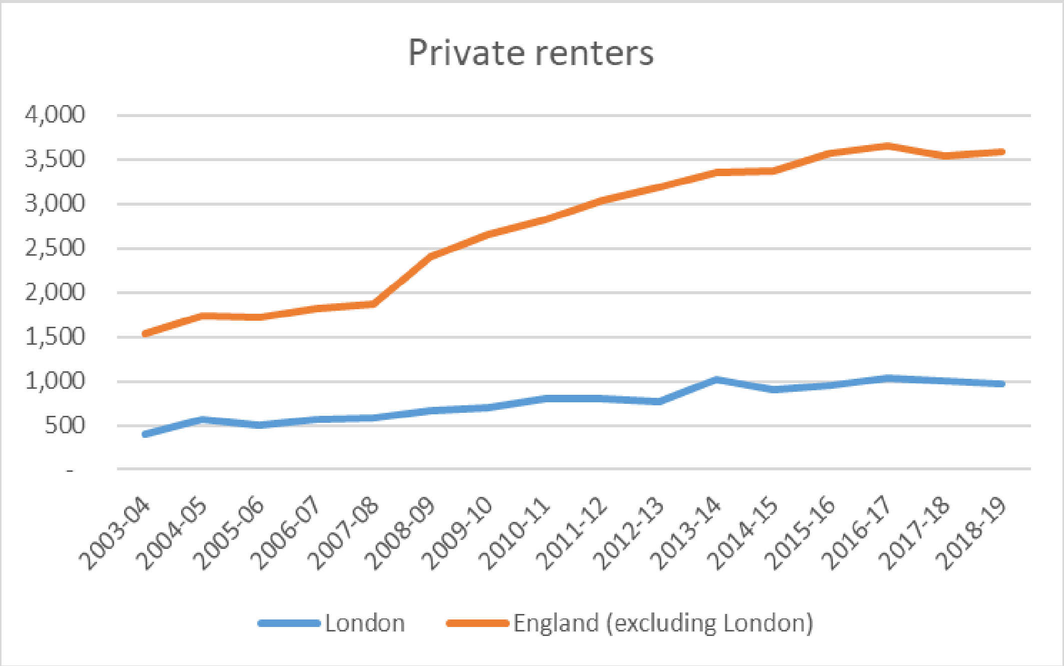
8.3.3 When looking closer at the underlying socio-economic makeup of the population, it is evident that Central London has a much greater proportion of people at the higher end of the scale. This is to be expected with a predominance of high skilled, professional employment within the capital.

8.3.4 18.5% of the population are classified as scale 1, 'Higher Managerial, administrative and professional occupations', and 25.8% as scale 2, 'Lower managerial, administrative and professional occupations' These are higher percentages than the national averages. Conversely, grades 5 'lower supervisory and technical occupations', 6 'semi-routine occupations' and 7 'routine occupations', are all c.45% less represented within CL than the GB. The percentage of full-time students within Central London is also 54% greater than the rest of GB.

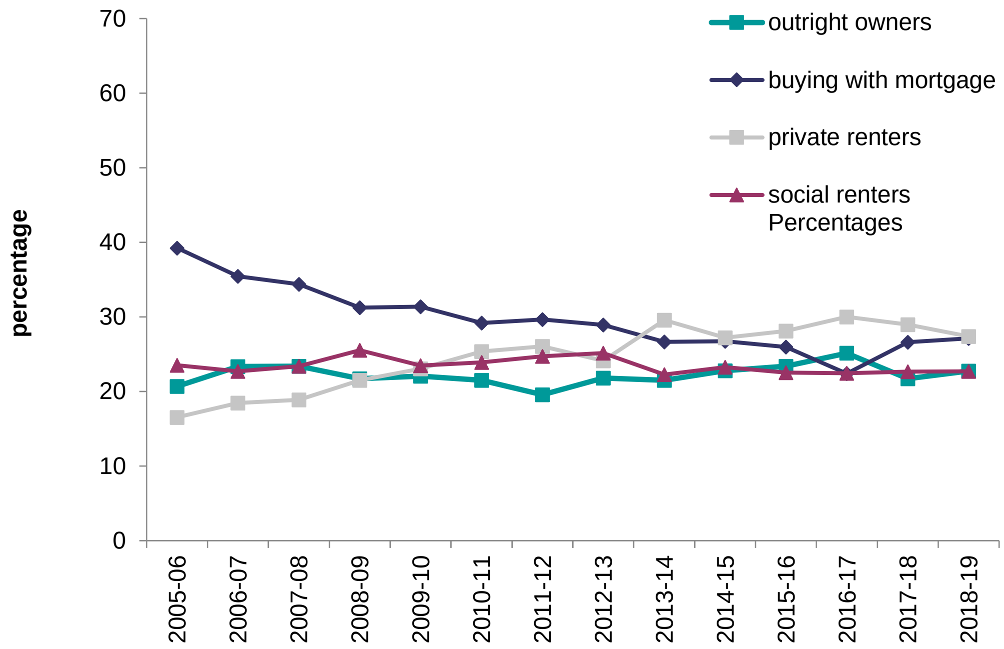
8.4 Household Type & Composition

8.4.1 The higher socio-economic characteristics of the population translates into predominately 'Higher and intermediate managerial/admin/professional households, with this type represented 70% more than across GB at 38.2% of all households within Central London (CL).

8.4.2 The tenure split between owned, socially rented and privately rented is fairly equally split within CL but, as is expected, this equates to a rate of home ownership much lower than the rest of GB, with the proportion of people owning property outright 55% less and the proportion of people owning with a mortgage 49% less. Shared ownership is a much more significant tenure type in London than across GB, but the absolute proportion is still very low at only 1.4% in CL versus 0.7%. Socially rented housing is 85% more prevalent within CL and privately rented housing is 96% more prevalent.



8.4.3 The private rented sector has become an increasingly important tenure type throughout England over the past 15 years. In 2005/06 the private rented sector accounted for 16.5% of households in London and 9.5% in the rest of England. This has grown to now account for 27.4% of all tenure types in the capital, whereas only 17.9% across the rest of England.



8.4.4 During the same course of time, the percentage of social renters has remained fairly stable, so too has the level of outright ownership albeit with slightly greater volatility. The percentage of people buying with a mortgage, however, has steadily declined from 39.2% in 2005-06 to 27.1% in 2018/19.

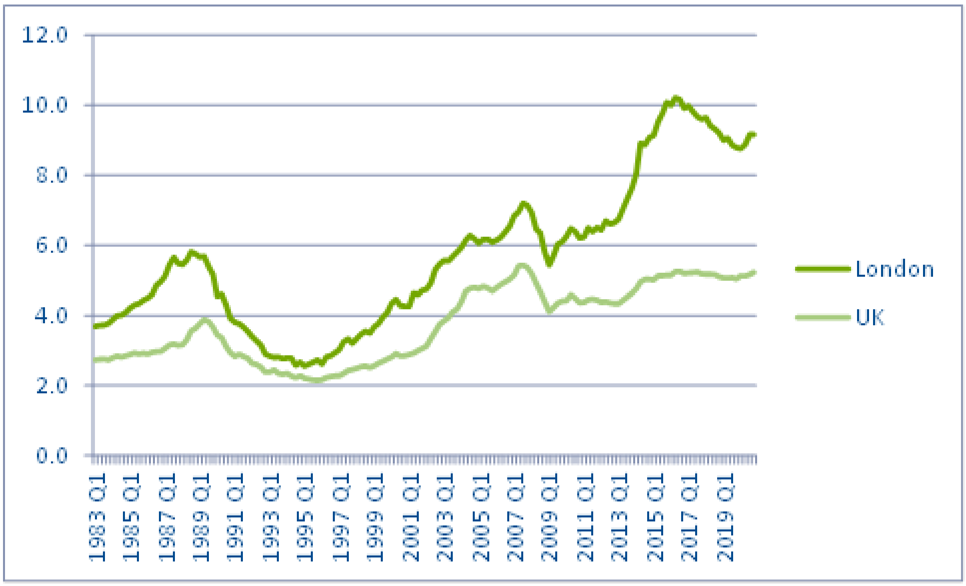
8.4.5 The trend towards lower levels of home ownership and a growing private rented sector is well established. Affordability is the biggest contributor to this shift and continues to be a constraint within the housing for-sale market; long-term house price growth across the UK – and in particular, across London – has been significant, with average house prices across England & Wales now 24% above their previous market peak in 2007 (not adjusted for inflation).

8.4.6 In 1997 the ratio of median house price to median gross salary across England was 3.54x; regional variations were fairly modest with London operating a ratio of 4x, the South East the least affordable at 4.17x and the North East most affordable at 2.98x. House prices have since become less affordable across the board. The average ratio across England in 2019 was 7.83x with regional variations particularly stark; the North East remains the most affordable region operating at 5.2x, however London has now outstripped all other regions to be the least affordable at a ratio of 12.05x median house price to median salary. These variances become even more pronounced at the lower quartile ranges of house price and salary within London at 13.0x whilst the average across England is 7.27x.

8.4.7 Whilst government schemes such as Help-to-Buy have gone some way to support homeownership, the rise in house prices at a faster pace than income growth, combined with the stricter lending conditions that were introduced post-financial crisis, has made affordability constraints in the for-sale market acute.

Income multiples on new loans are capped at 4.5 x, restricting the amount would-be homeowners can borrow. As such, the typical Loan to Value (LTV) ratio is now lower than it was before the financial crisis, with the difference needing to be made up with a larger deposit. As house prices increase, affordability is stretched, but above an income multiple of 4.5x banks are restricted in terms of what they can lend.

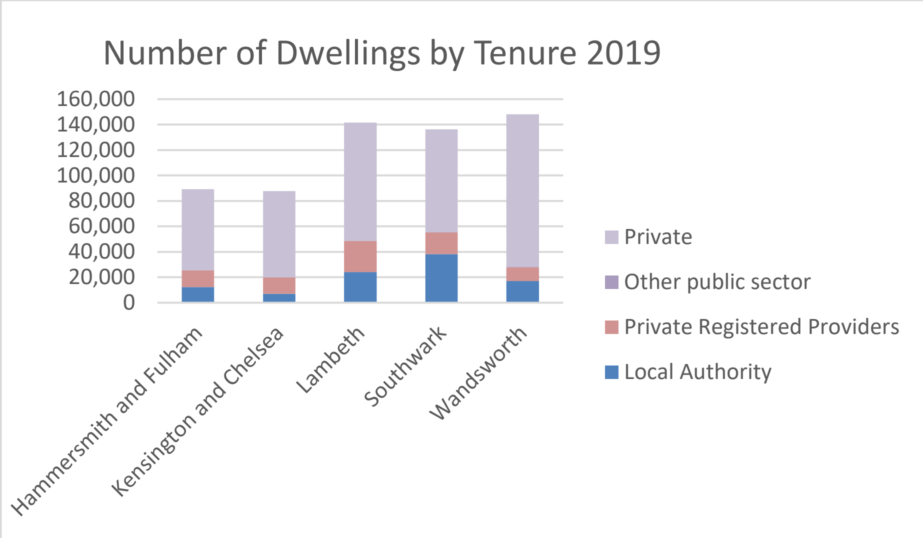
8.4.8 The graph below shows First Time Buyer House Price to Earnings Ratio for London and the UK as a whole since 1983 and shows the growing disparity of affordability for First Time Buyers in London vs the UK:



Source: BNPPRE / Nationwide

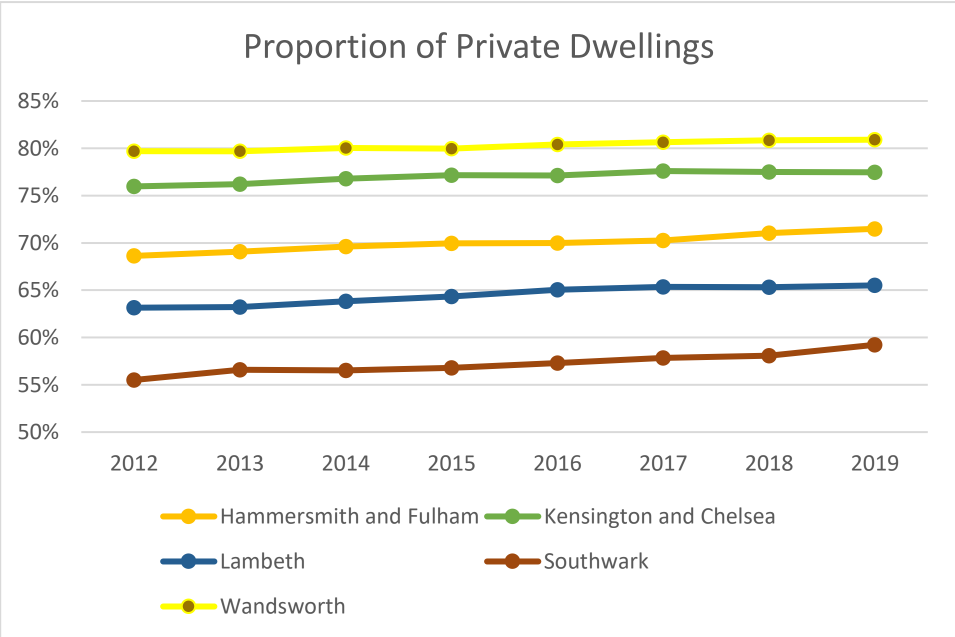
8.4.9 It is worth noting, that whilst the impact of Covid-19 on the CL residential market is not yet evident, lending is likely to become stricter still and with increased employment uncertainty, the demand for rental properties is most likely to increase further, as people are prevented from buying during this economic down time.

8.4.10 We have analysed MHCLG data for some of the most populous central London boroughs below. Of the comparative set, Wandsworth has the greatest number of dwellings at a total of 148,075, with Lambeth and Southwark in 2nd and 3rd with 141,507 and 136,178 respectively. Compared to the data from 2012, Wandsworth and Southwark have experienced similar levels of growth in total no. of dwellings at 9.2% and 9.5% respectively, Southwark, however, has seen 16.9% growth in private sector, significantly higher than Wandsworth, which has experienced 10.8% growth in private dwellings, broadly in keeping with the overall increase in dwellings in the Borough during the same time period.



Source: MHCLG

8.4.11 Analysing the proportion of private stock over time, Wandsworth has consistently had a much higher proportion private dwellings than most of the other Boroughs, with this tenure type fairly stable around 80/81% of the total over the time period. Starting from a much lower base, Southwark, meanwhile, has experienced nearly a 7% growth in the proportion of private dwellings, increasing from 55.5% to 59.2% of its total dwellings.



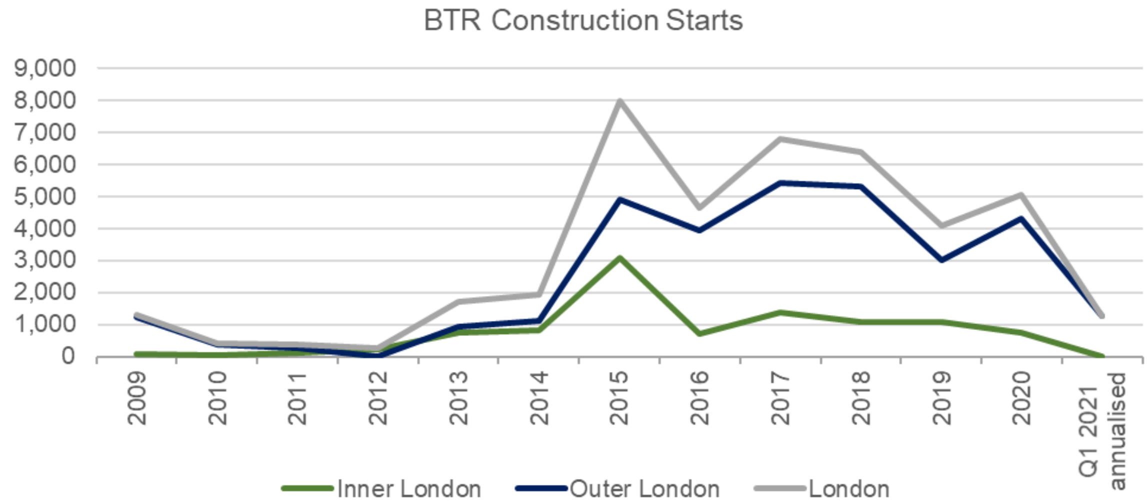
Source: MHCLG

9. BTR SUPPLY PIPELINE

CONSTRUCTION STARTS

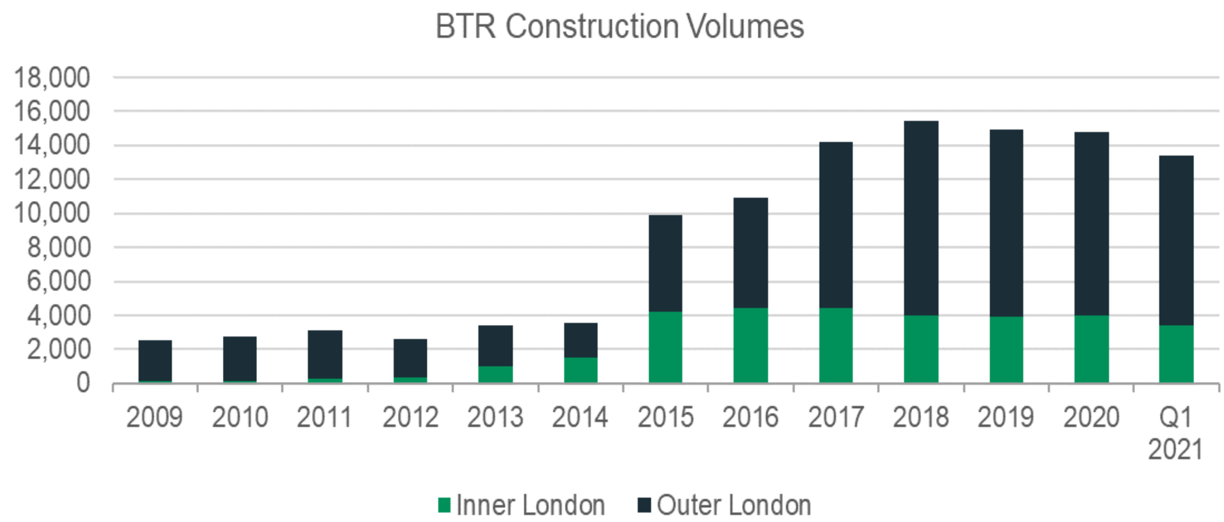
9.1 According to Molior London, construction started on just 312 BTR units in Q1 2021. On a 12-month basis Q1 2021 marked the lowest number of construction starts since Q1 2017 and marked a 16.6% drop in activity since Q1 2020.

Source: Molior Quarterly Analysis, Q1 2021



BTR CONSTRUCTION VOLUMES

9.2 At the end of Q1 2021, some 13,443 BTR units were under construction in London. 75% were in Outer London, 25% in Inner London. This represents 23% of all private residential construction underway in London at the end of Q1 2021.



Source: Molior Quarterly Analysis, Q1 2021

9.3 The ten schemes with the most BTR units underway at the end of Q1 2021 were:

Scheme	Developer	Units
Stratford City Z1 Cherry Park, E20	Westfield	1,224 BTR units
Biscuit Factory, SE16	Grosvenor	1,066 BTR units
Nine Elms Parkside B/D, SW8	Greystar	733 BTR units
Newfoundland, E14	Canary Wharf Group	636 BTR units
East Village N06, E20	Get Living	524 BTR units
Brentford Community Stadium Phase 1, TW8	Eco World London	487 BTR units
Lewisham Gateway Phase 2, SE13	Muse / Get Living	424 BTR units
York House, HA9	Dandi Living	368 BTR units
Oaklands South, NW10	Notting Hill Genesis	363 BTR units
Uncle Colindale	Realstar	347 BTR units

Source: Molior Quarterly Analysis, Q1 2021

9.4 The construction volume of BTR units over the last ten years to Q1 2021 in Inner London is broken down by Local Authority as follows:-

Local Authority	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End Q1 2021
Camden			40	22	305	272	387	367	263	242	242
City of London		41	41	41	41	41					
Hackney			65	106	310	293	137	232	201	63	63
Hammersmith & Fulham					44	177	178	520	368	394	394
Islington				53	140	118	125	29	29		
Kensington & Chelsea							26	61	61	128	100
Lambeth				118	162	186	159	147	167	262	262
Southwark		89	490	792	1,026	1,026	1,073	831	855	1,048	586
Tower Hamlets	158	169	342	392	1,977	2,086	1,936	1,428	858	718	718
Wandsworth					165	165	220	193	947	1,063	961
Westminster	86	24	44	20	44	64	161	177	157	67	67
Inner London	244	323	1,022	1,544	4,214	4,428	4,402	3,985	3,906	3,985	3,393

Source: Molior Quarterly Analysis, Q1 2021

9.5 The construction volume of BTR units over the last ten years to Q1 2021 in Outer London is broken down by Local Authority as follows:-

Local Authority	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End Q1 2021
Barking and Dagenh	0	0	156	137	62	100	0	457	983	1,026	847
Barnet	0	0	0	0	250	401	310	490	321	665	598
Bexley	0	0	0	0	0	51	33	33	0	0	0
Brent	132	132	102	242	411	670	2,495	2,689	2,733	1,715	1,467
Bromley	0	0	0	0	146	0	0	46	89	89	43
Croydon	0	0	59	248	1,229	818	1,021	1,162	1,028	997	502
Ealing	149	149	0	0	289	642	542	975	865	835	835
Enfield	0	0	0	27	347	136	0	0	0	0	0
Greenwich	0	0	0	20	0	187	400	464	219	176	245
Haringey	0	0	84	84	30	0	104	104	370	404	404
Harrow	177	177	202	177	236	131	350	40	53	151	159
Havering	0	0	0	0	140	87	53	66	56	6	28
Hillingdon	0	0	0	274	361	410	662	569	395	266	266
Hounslow	0	0	0	0	124	105	339	1,220	1,099	762	762
Kingston Upon Than	0	21	0	0	0	78	0	0	0	0	0
Lewisham	138	0	393	461	518	464	333	0	0	424	424
Merton	0	0	20	73	202	182	0	0	0	0	0
Newham	2,006	1,841	1,327	139	660	1,404	2,122	2,218	1,740	2,817	2,976
Redbridge	294	0	23	44	178	60	238	344	238	0	0
Richmond Upon Tha	0	0	0	0	0	0	0	0	0	0	0
Sutton	0	0	0	27	269	402	288	0	136	136	167
Waltham Forest	0	0	0	83	238	178	512	558	701	327	327
Outer London	2,896	2,320	2,366	2,036	5,690	6,506	9,802	11,435	11,026	10,796	10,050

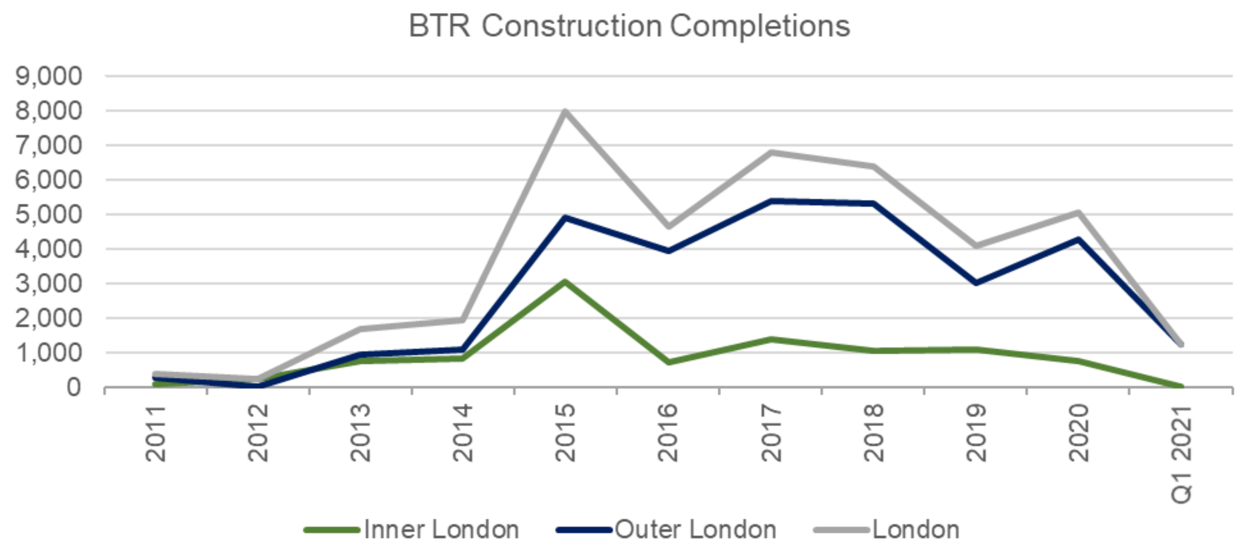
Source: Molior Quarterly Analysis, Q1 2021

BTR CONSTRUCTION COMPLETIONS

9.5 During the first three months of 2021 some 1,650 BTR units completed construction in London. On a pro-rata annualised bases this would equate to 6,600 BTR completions. 64% were in Outer London, 36% in Inner London.

This represents 30% of all private residential completions in London during Q1 2021.

9.6 When compared pro-rata with recent history, this would be 27% more units completing than in 2020 and 44% more than 2019.



Source: Molior Quarterly Analysis, Q1 2021

9.7 Below are notable London BTR completions from Q1 2021:

Scheme	Developer	Units
Ten Degrees / The Croydon	Tide Construction	437
UNCLE Southall	Realstar	166
Wembley Park - Madison	Quintain	248
Wembley Park - Robinson	Quintain	426
Elephant Park – Park Central West	Lendlease	354
Elephant Park – Park Central East	Lendlease	309

Source: Molior Quarterly Analysis, Q1 2021

9.8 The completion of BTR units over the last ten years to Q1 2021 in London is broken down by Local Authority as follows:-

Local Authority	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End Q1 2021
Camden	0	0	0	40	29	108	21	20	253	21	0
City of London	0	0	0	0	0	0	41	0	0	0	0
Hackney	0	0	0	0	106	145	236	69	31	138	0
Hammersmith and Fulham	0	0	0	0	0	0	20	21	157	0	0
Islington	0	0	0	35	53	118	22	96	0	29	0
Kensington and Chelsea	0	0	0	0	0	0	0	0	20	26	28
Lambeth	0	0	0	0	0	44	141	68	0	91	0
Southwark	0	0	0	89	0	0	415	583	28	24	462
Tower Hamlets	0	95	63	125	217	41	405	508	570	174	0
Wandsworth	0	0	0	0	0	0	114	51	46	80	102
Westminster	0	62	0	24	0	44	0	64	51	90	0
Barking and Dagenham	0	0	0	56	100	62	100	0	71	146	179
Barnet	0	0	0	0	0	114	135	338	169	64	67
Bexley	0	0	0	0	0	0	51	0	33	0	0
Brent	0	0	132	64	101	224	195	304	869	1310	248
Bromley	0	0	0	0	0	146	0	0	0	0	46
Croydon	0	0	0	0	320	637	54	572	154	31	495
Ealing	0	0	149	0	0	67	222	366	161	469	0
Enfield	0	0	0	0	40	211	136	0	0	0	0
Greenwich	0	0	0	0	20	0	0	0	273	219	0
Haringey	0	0	0	0	84	57	0	104	0	104	0
Harrow	0	0	0	25	177	236	93	310	213	77	0
Havering	0	0	0	0	0	77	87	31	44	56	0
Hillingdon	0	0	0	0	33	228	0	270	228	166	0
Hounslow	0	0	0	0	0	103	21	0	334	521	0
Kingston Upon Thames	0	0	21	0	0	0	78	0	39	0	0
Lewisham	0	138	0	0	121	367	151	364	0	0	0
Merton	0	0	0	0	202	20	182	0	0	0	0
Newham	0	165	588	1253	41	185	274	721	607	583	23
Redbridge	0	294	0	0	21	178	60	0	106	405	0
Richmond Upon Thames	0	0	0	0	0	0	0	0	0	0	0
Sutton	0	0	0	41	0	155	114	288	0	0	0
Waltham Forest	0	0	0	0	0	60	154	24	114	374	0
London	**0**	**754**	**953**	**1752**	**1665**	**3627**	**3522**	**5172**	**4571**	**5198**	**1650**

Source: Molior Quarterly Analysis, Q1 2021

PART 2

GLOSSARY

Introduction

This Glossary provides additional descriptions for terminology used in Part 1 and the columns used in the supporting information which is provided in the form of spreadsheets.

Not all columns have been completed for each scheme where this information was not available.

1. LOCATIONS/ POSTCODE/ BOROUGHS/ SCHEME NAMES

1.1 The spreadsheet sets out the city, specific postcode and borough of each individual scheme, as well as providing the scheme name or development site name.

2. DEVELOPER/ OPERATOR/ PURCHASER

2.1 The spreadsheet includes the names of the Developer, the Operator and the Purchaser of each scheme.

2.1.1 The Developer

- The Developer is assumed to be the party who acquires the land originally (either outright, via an option, or via a subject to planning (STP) deal) and takes on the development risk to secure planning consent for the scheme.

- The majority of the time this party will be responsible for delivery of the development (either using an internal or external contractor). In some cases, the Developer will also be the Purchaser and they will buy the site with planning consent and will develop the scheme out themselves – where this is known, the detail will be stated under the Transaction Type column.

- Examples of some developers include:

- Pure Developers: Watkins Jones, Barratt, London Square, Telford Homes, Amro.
- Developer and owner/ operators: Moda, Grainger, Greystar, Quintain, Argent, Lendlease, Canary Wharf Group, L&Q, Criterion Capital.

2.1.2 The Operator

- The Operator is assumed to be the party who manages the asset and is responsible for property management, lettings and upkeep of the asset. This may be an operator which is owned by the developer/ purchaser etc. or it may be an external operator.

- Examples of some operators include:

  - Owner/Operators: TIPI (owned by Quintain), Moda, Grainger, Greystar, Essential Living, MiFlats by Criterion Capital, L&Q PRS,
  - Independent Operators: Fresh, CRM, City Living, LIV, STAY, Firstpoint, Urban Bubble, Touchstone (mostly social housing), local estate agents.

2.1.3 The Purchaser/Investor

- The Purchaser is assumed to be the party who acquires and ultimately owns and holds the asset as an income producing asset. The purchaser may acquire the asset via a forward funding or forward commitment (more details of which are set out in section 5), or via an acquisition of the standing stock – either post PC or a stabilized asset.

- This ultimate owner can be an outright purchaser who acquires standing stock (these are usually long term holders such as UK institutions), a developer/ owner/ operator, who looks to hold the asset for the long term (usually as part of a portfolio that they may look to sell later on), or a forward funder (who is not developing the site but is acquiring the asset from the developer via funding the development programme and in turn becoming the end owner).

- Examples of some purchaser/investors include:

  - Developer/Owner/Operators: Moda, Grainger, Greystar, Quintain, Argent, Lendlease, Canary Wharf Group, L&Q, Criterion Capital.

- Straight Purchasers/ forward funders: L&G, M&G, Aberdeen Standard, BP Pension Fund, Patrizia, Realstar.

3 STATUS

3.1 The spreadsheet sets out the status of the development. The following options are seen within this column:

- Planning application submitted
- Planning application granted
- Planning application refused
- Planning appeal lodged
- Under Construction
- Completed Development
- Completed Development with units sold/ let

4 COMPLETION DATE

4.1 It also states the date at which the most recent relevant transaction completed. This could be the acquisition of the land, the forward funding transaction, or asset sale – whichever of these was the latest to occur.

4.2 If it is the land transaction date, this date will come from the land registry documents. If it is the forward funding or asset sale transaction then the date will be provided by the developer/ funder or agent working on the transaction, or from 'PropertyData' or property news such as Costar.

5 TRANSACTION TYPE

5.1 The spreadsheet sets out the type of transaction or transactions that took place. This will fall under one of the following categories, each of which are defined below:

- Site Purchase
- Direct Development
- Forward Funding
- Forward Commitment
- Standing Stock Sale/ Stabilized Asset Sale
- Joint Venture (JV)

5.2 Site Purchase

This type of transaction is a land transaction. The developer may have acquired an existing building or a vacant site, with the intention of gaining planning consent for a BTR scheme. This building or land may have been acquired on an unconditional basis (where the developer takes all the planning risk), or on a subject to planning basis (where the site is acquired upon grant of planning – reducing risk to the developer, who is usually required to pay more money for this site on this basis).

5.3 Direct Development

This type of transaction is when a developer/ owner/ operator acquires the site (either with or without planning) and then once planning is granted, develops the scheme to hold and own and operate themselves.

5.4 Forward Funding

This type of transaction is when a funder acquires the scheme from a developer, prior to the asset being constructed and keeps the developer in place to deliver the scheme up until practical completion.

The funder will acquire the site from the developer at day one of the transaction and will provide a maximum commitment (a sum allocated to a 'development account'), from which capital to fund the construction will be drawn down over the construction period. In this case, the funder will usually charge interest on the capital deployed (known as a 'coupon'). Once practical completion is achieved, the developer's profit (or 'balancing payment') is paid and then the asset is owned wholly by the fund. The funder is then responsible for letting the units and stabilization of the asset. The funder will then hold the asset for its income.

5.5 Forward Commitment

This type of transaction is when a funder legally agrees to acquire the scheme from a developer upon practical completion, prior to the asset being constructed. The funder will acquire the site at day one and then the developer is responsible for delivering the scheme and is paid the GDV (minus any initial deposit) upon completion of the development.

Once practical completion is achieved, the asset is owned wholly by the fund. The funder is then responsible for letting the units and stabilization of the asset. The funder will then hold the asset for its income.

5.6 **Standing Stock Sale/ Stabilized Asset Sale**

This type of transaction is when an investor acquires an asset that is already developed and often already stabilized (up and let to full occupancy). This is a standard operational investment transaction, however there are fewer of these transactions seen within the BTR sector than within other operational asset sectors (such as PRS, Student Accommodation etc), due to the immature nature of the BTR market. As development within the sector increased and more forward funding's take place, standing stock transactions are expected to increase in frequency within the coming 5-10 years.

5.7 **Joint Venture (JV)**

This type of transaction is when a developer and funder both contribute financially towards the development (perhaps the developer provides the land and the funder provides the capital to fund the construction), and then the profits are shared upon completion of the development.

6 FREEHOLD/ LONG LEASEHOLD

6.1 Information is also provided where known on whether the land sold was a long-leasehold or a freehold site. This is important information as this may impact pricing of the asset. Whilst some long leaseholds are akin to a freehold (or called 'virtual freeholds'), other long-leasehold interests may be compromised, or have conditions and limitations attached to them. They may also incur ground rent payments. A freehold, or 'virtual freehold' acquisition is a cleaner transaction and therefore can often be worth more.

7 LAND OR ASSET PRICE/ LAND PURCHASE DATE/ LAND PRICE PER UNIT

7.1 The spreadsheet includes the the price that was paid for the land or the completed property asset, the date the land or property asset was purchased and the land price per unit. (where available)

7.2 The price paid for the land and the date the land was purchased will, for the most part, be information taken from the land registry on the title document for the site. Sometimes this information is unclear from the title documents and therefore the price may be provided by the developer/ investor/ agent working on the transaction, or from other data sources such as Barbour ABI, or LonRes. Alternatively, it may come from property news such as Costar, or Property week. In some cases, where the completed property is transferred, the price paid will not be a land price and therefore the land price per unit may be inflated.

7.3 It is worth noting that in BTR transactions (due to the range of transaction types seen above), the land price may not be reflective of the actual land value. This is seen particularly during forward funding transactions, where the developer may want more money upfront as part of the negotiations and therefore this will go into the land value rather than the profit within the development account.

7.4 The land price per unit is calculated as this provides a good benchmark for comparing the land transactions across London and therefore ultimately noticing where a land transaction looks too high on a per unit basis. To calculate this, the planning documents are reviewed to observe how many units the land has got planning consent for.

8 CAPITAL VALUE

8.1 Where known, information is also provided in respect of the capital value that the up and built scheme either has transacted at, will transact at (as part of a forward funding or forward commitment deal), or is valued at. This information is provided by online data sources, developers, investors or agents working on the deal, or from property press.

9 YIELD/ YIELD INFORMATION

9.1 Where known, information is provided in respect of the yield that scheme transacted at. This is usually a net initial yield, but in some instances may be a gross yield. Where this is a gross yield this will be stated. The yield will either be a forward funding yield or a yield upon stabilisation. Details will be stated within the additional information tab where this is known.

9.2 Where there is a forward funding yield, it is usually implicit of rental growth, as the Net Operating Income (NOI) which the yield is generated from will have assumed rental growth throughout the development period. Forward funding yields tend to be higher than stabilised stock yields (*depending on location/ scheme quality/ scheme size etc), to reflect the risk associated with stabilisation and development.

9.3 Where there is a stabilised asset yield, this will be based on NOI information and will also be implicit of future growth potential. Since the NOI information is proven there is much less risk associated with the rental levels achievable within this asset and therefore there is generally yield compression to reflect this (*depending on location/ scheme quality/ scheme size etc).

9.4 This information is either a fact (provided by online data sources, developers, investors or agents working on the deal, or from property press.

10 PURCHASERS COSTS/ PURCHASERS COSTS INFORMATION

10.1 Purchaser's costs are assessed on the exit (end disposal of the completed asset – i.e. the GDV/NDV) for the specific transaction. This information is often not made public.

10.3 The different types of BTR purchaser's costs are stated below:

- Full purchasers costs – 6.8%
- Multiple Dwellings relief (MDR) purchasers costs – 4.8%-5% (but varies)
- Special Purpose vehicle (SPV) purchasers costs – 1.8%
- Golden Brick purchasers costs – variable

10.4 From our experience, in most cases, SPV costs are the most common type of purchasers' costs seen in BTR transactions, due to the significant stamp saving that can be made from transacting the company rather than the asset. Full costs are rarely paid on BTR schemes, as in situations where SPV purchases are unable to be made (ie. within some UK institutional funds), multiple dwellings relief is applied in order to reduce stamp duty, whilst still acquiring the asset instead of an SPV. There are some situations where MDR costs are not able to be applied and this is where the units are not all self-contained (ie. in some co-living schemes), or in some situations where the commercial elements of the property cannot be carved out from the rest of the scheme. Only in these situations are we likely to see full purchaser's costs being paid.

10.5 Golden Brick deals can help save additional stamp duty on the way into the deal, i.e. when the site is acquired and so often this is used to reduce stamp duty on entering a forward funding deal and SPV or MDR are used to reduce the purchaser's costs on the exit.

10.6 Full Purchaser's Costs

These costs are assumed on standard commercial transactions. They are not commonly seen on BTR schemes, unless MDR is not achievable due to the units not being self-contained, or due to the scheme having commercial elements that cannot be split out. These costs comprise full stamp duty, legal and agents fees and VAT.

10.7 Multiple Dwellings Relief (MDR) Purchaser's Costs

These costs are assumed on the majority of BTR schemes which are sold outside of an SPV and where a golden brick agreement is not in place. The SDLT relief information below for multiple dwellings is taken from gov.co.uk site.

You can claim relief when you buy multiple dwellings where a transaction or a number of linked transactions include freehold or leasehold interests in more than one dwelling.

If you claim relief, to work out the rate of tax HMRC charge:

- Divide the total amount paid for the properties by the number of dwellings
- Work out the tax due on this figure
- Multiply this amount of tax by the number of dwellings
- The minimum rate of tax under the relief is 1% of the amount paid for the dwellings.

Example:

- You buy 5 houses for £1 million.
- £1 million divided by 5 is £200,000.
- The amount of SDLT you pay on £200,000 is £1,500 (0% of £125,000 + 2% of £75,000).
- £1,500 multiplied by 5 is £7,500.
- As this is less than 1% of £1 million (which is £10,000), the amount of tax you pay is £10,000.
- Higher rates of SDLT might be charged from 1 April 2016 on purchases of additional residential properties.

The higher rates from 8 July 2020 to 30 June 2021

Purchase price	Rate
up to £500,000	3%
over £500,000 to £925,000	8%
over £925,000 to £1.5 million	13%
over £1.5 million	15%

For non-UK residents, with effect from 1 April 2021 the rates are increased by 2%.

The higher rates from 1 July 2021 to 30 September 2021

Purchase price	Rate
up to £250,000	3%
over £250,000 to £925,000	8%
over £925,000 to £1.5 million	13%
over £1.5 million	15%

For non-UK residents, with effect from 1 April 2021 the rates are increased by 2%.

The higher rates from 1 October 2021

These rates also apply if you bought a property before 8 July 2020.

Purchase price	Rate
up to £125,000	3%
over £125,000 to £250,000	5%
over £250,000 to £925,000	8%
over £925,000 to £1.5 million	13%
over £1.5 million	15%

When multiple dwellings relief does not apply:

- The relief does not apply to the transfer of a freehold reversion or head lease where a dwelling has a long lease of 21 years or more.
- The rate of tax HMRC charges for this sort of freehold reversion or head lease, or for any non-residential property included in the transaction, is the usual rate without any relief.
- You might need to fill in another return and recalculate the tax due if the number of dwellings is reduced within 3 years of the transaction. For example, if you combine 2 flats into 1.

10.8 Special Purpose vehicle (SPV) Purchaser's Costs

These costs are assumed on the majority of BTR schemes, as funders chose to acquire the asset within a company to benefit from the stamp duty saving. In this case there will be no stamp duty and so the purchaser's costs comprise the agents and legal fees and the VAT.

10.9 Golden Brick Purchaser's Costs

These costs can save money to the funder on the way into the BTR development scheme/ land purchase. These are assumed on a number of BTR schemes, where the development has already commenced. The term 'Golden Brick' refers to a specific point in a development, when HMRC designates that a building has become 'residential' for tax purposes. Before this point, HMRC argue that a building could be either residential or commercial and since residential is zero-rated for VAT purposes, but commercial isn't, this can make a large difference financially.

There is no actual legal definition of ‘Golden Brick’, but it is generally accepted that it is the point at which the foundations have been finished and a Damp Proof Membrane (DPC) has been installed. The concept ‘Golden Brick’ came about when Housing Associations would pay developers for land that they were buying.

Due to the VAT treatment, developers could claim back the VAT for the infrastructure and Housing Associations would not have to pay VAT on the land. It was therefore the most tax-efficient point at which money could be transferred between the two.

11 OPEX COSTS

11.1 Columns AA states the OPEX costs (management costs) that have been assumed for each scheme. It is highly unlikely that these costs will be made public information/ will be known and therefore BNP have used their experience to try and produce the most accurate view on opex costs for each scheme.

These opex costs tend to range between 18% and 25% depending on a number of factors including:

- The size of the scheme (and operational efficiencies)
- The management company being used and the scale of them
- The level of amenity within the scheme
- The rents achievable
- The number of affordable units

12 RENTAL GROWTH/ RENTAL GROWTH PERIOD (YEARS)

12.1 BNP’s latest Central London Residential Research and growth forecasts has been included the Part 1 of this report. We have also highlighted below the latest growth forecasts for London, whereby we can see that Prime Central London (PCL) rents are expected to grow between 7-12% over the next 5 years (or 1.4%- 2.4% per annum).

Area	2021		5 Yrs to 2025 (inc)
	Max Growth	Min Growth	
Sales			
Prime Central London	5%	0%	15% to 35%
UK	5%	0%	15% to 25%
Lettings			
Prime Central London	-2%	-10%	7% to 12%

12.2 The rental growth period can either run in the development appraisal from the date of purchase (of a forward funding/ forward commit), until either the scheme reaches practical completion, or until it reaches stabilization. This information is usually confidential to the developer/ funder/ operator, as is whether growth is assumed and at what rate.

13 TOTAL PRIVATE BTR UNIT NUMBERS/ TOTAL UNIT NUMBERS (INC BTR AND AFFORDABLE)

13.1 The spreadsheet shows total number of private BTR units in the scheme.

13.2 It also shows the total number of all units in the scheme (including any build to sell units and any affordable BTR and BTS units).

13.3 As these figures are taken from the planning consent documents, they are often likely to change as the owners of the assets make minor amendments to the scheme design.

14 STOREYS

14.1 The information includes the number of storeys that the property has. This usually starts at Ground and then goes to first. It will also include basement levels where this information is available.

15 OCCUPANCY AT STABILISATION/ TAKE-UP PERIOD

15.1 The occupancy at stabilisation refers to the average occupancy of the scheme once the scheme has been fully let to tenants. This allows the investor to have an accurate understanding of the level of revenue being generated.

15.2 The take-up period is the amount of time it has taken the scheme to become fully-let. This can range depending on the size of the scheme and the strength of their marketing campaign.

15.3 Where a stabilized scheme is sold this information is likely to be made available as part of the sale.

16 AMENITIES

16.1 In this column a list of known amenities that are available within the property are listed. Amenities are an important part of BTR schemes as they are essential in attracting occupancy and setting the scheme above a regular PRS scheme in terms of demand and rent. The level of amenity is important to gauge an understanding of the rental tone in the property. Some amenities that can be seen within BTR schemes include:

- Concierge
- Residents Lounge
- Co-Working Space
- Roof Terraces or Gardens
- Swimming Pools
- Gyms
- Cinemas
- Football Pitches
- Library Space
- Private Dining Rooms
- Wellbeing Spaces

17 ADDITIONAL INFORMATION (INCLUDING RETURN PROFILES)

17.1 The last column sets out any additional information/ comments. For example, if the scheme is being built out by a housing association or is made up of an affordable element.

Return Profiles

Profit on Cost (POC) – The POC is the return to the developer for undertaking the project. This is typically targeted at between 10-20%, depending on risk. The lower 10% POC targets will be for quick, smaller and risk free schemes (ie. there is no or limited planning, construction, cost over-runs, risk taken by the developer). The highest 20% POC targets will be for schemes where the developer is taking on a greater risk profile with regards to planning, construction (perhaps the site is contaminated or access is difficult) and therefore the cost over-runs to the developer could be far higher.

Interest to the Funder (COUPON) – This is the level of interest that a forward funder would receive on their payments into the development account, ie. The finance rate accrued throughout the development. This level is determined by the forward funding partner and usually forms part of the deal negotiations. This is typically in line with the yield paid for the asset, however in some instances, where the yield is particularly low, the funder may look to charge a higher coupon on their capital deployed. Finance is usually assumed to be between 4-6%, depending on the return profiles of the funding partner.

Internal Rate of Return (IRR) – The IRR is the metric used to estimate the profitability of the potential investment. The IRR is actually the discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis. Investor's typical IRR target will again depend on the risk associated with the asset and the timescales involved in the development project/ length of hold period. All investors assumed hold periods will vary, but are typically analysed on a 5/10/15 year period, as anything longer than this becomes too hypothetical.

The IRR expectations for a stabilised asset will be lower than on a repositioning project and that again will be lower still than on a development project where the investor will look for a higher IRR to reflect the risk.

18 DATA SOURCE/ DATE OF DATA

18.1 A data source is the initial location of where the data is originated from. The data sources may include a database, a flat file, live measurements from physical devices, website data or streaming data services from across the internet.

The primary data sources for this research piece include:

- BNP Paribas
- Strutt & Parker
- LonRes
- Molior
- Realyse
- Property Data
- RCA
- CoStar
- Barbour ABI
- Land Registry
- Planning Portal
- EGI
- BizNow

18.2 The date of the data refers to the day the information was collected by BNP. The data date allows the consumer to understand exactly when the data was collected as some of the data may be out of date from the day of origination.

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