

# UNDERSTANDING BUILD TO RENT

A Guide to the Changing Face  
of the Private Rented Sector

Cubex. 





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# 01 FORWARD

Very rarely does any good news come out of the Private Rented Sector (PRS). Generally, those who depend upon it are critical of their experiences: properties that are cramped, overcrowded or unfit for habitation; or landlords who don't respect the privacy of their tenants, don't respond to requests for urgent repair (or if they do it's to serve notice on the hapless tenant) and keep deposits for spurious reasons; or lettings agents finding ingenious methods to fleece tenants of their hard earned money. In general, it's been a rather negative experience for many.



In addition, a crisis in affordability has meant that ownership has been nothing but a pipedream for many as Buy-to-Let (BTL) investors used their financial muscle to push first time buyers aside and drive prices even higher.

There are nearly 2 million landlords and 5 million tenants in the UK. Analysts expect this to rise to at least 5.4 million<sup>1</sup> by 2023.

Government has responded to this crisis by attempting to rein in the BTL investor with punitive changes to taxation in terms of transactions, operation and mortgage relief. It's now illegal to let a home that doesn't have an Energy Performance Certificate (EPC) rating above 'F' and the Fees Ban came into force on 1st June 2019. In addition, many local authorities have opted for mandatory licencing of landlords.



But this still means that (currently) 5 million tenants are renting from nearly 2 million, largely amateur, landlords. Each with different reasons for investing, very little commonality in approach and reliant upon a disparate lettings network. The PRS system is dysfunctional and adds nothing to the numbers required to alleviate our national housing crisis.

Build-to-Rent (BTR) is the PRS rule book torn up and completely re-written. BTR delivers homes of high quality and at scale, with a strong focus on tenant well-being, community engagement and security of tenure.

This guide will outline the principles of BTR to give some clarity to those who have yet to look at it in detail.

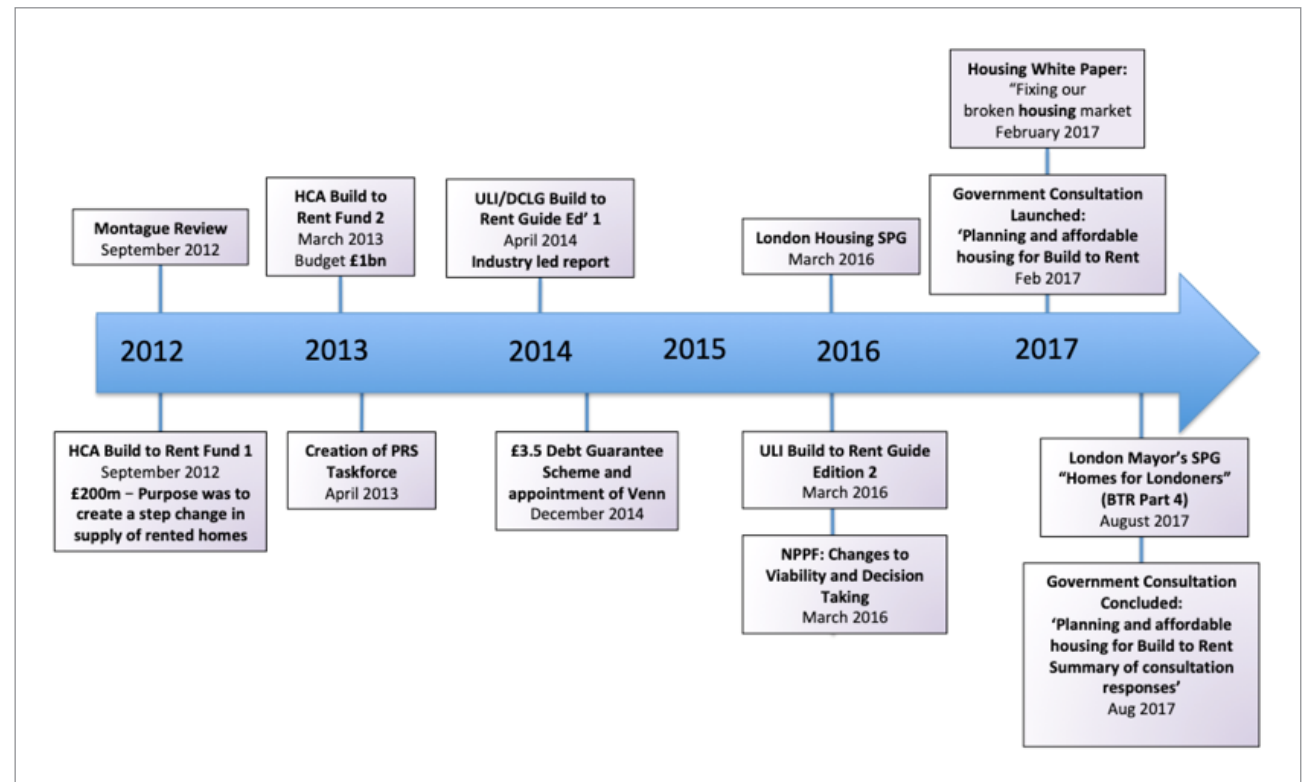
1. Knight Frank. *The UK Tenant Survey 2019*.

## 02 A LITTLE BIT OF HISTORY

In 2012 the Government commissioned Sir Adrian Montague to look at the PRS<sup>2</sup>. Specifically, the barriers to institutional ownership. In it, Sir Adrian made 5 recommendations. Very briefly they were:

1. Local authorities should use existing flexibilities in the planning system to plan for and enable developments of privately rented homes.
2. Government should publish separate information regarding the use of released public land for private rented projects.
3. Government should consult further on the detailed form and scale of incentives, but the most effective interventions are likely to be: Equity or debt funding to support schemes.
4. Government should establish a dedicated Task Force focused on private renting to act as an enabler. The Task Force would work closely with the Homes and Communities Agency.
5. Recommend that the Housing Task Force work with the other industry bodies to develop voluntary standards that could be adopted across the build to let sector, specifically by those schemes supported by government.

This gave rise to the following time-line:



As you will see from the above, Government was (on this occasion) quick to act on the 5 recommendations set out in the Montague Report.

2. Sir Adrian Montague: Review of the barriers to institutional investment in private rented homes. [Source Link >](#)

## 02 A LITTLE BIT OF HISTORY

Other bodies, particularly the Urban Land Institute (ULI) took the opportunity to re-write the rules of renting. This led to the ULI Build-to-Rent Best practice guide (edition 1) in 2014 which was followed by a much more comprehensive edition 2 in March of 2016 which examined all aspects of design, operational management and standards of customer service.<sup>3</sup>



3. ULI Build to Rent. [Source Link >](#)

## 02 A LITTLE BIT OF HISTORY

Since the publication of the ULI Build-to-Rent: 'A Best Practice Guide' the sector has moved on apace. At time of writing, research by the British Property Federation (BPF) in conjunction with Savills estimate that there are circa 140,000 BTR homes either complete, under construction or in planning.

Whilst initial impetus was generated in London, BTR activity is now roughly split 50-50 between London and the regions, with the NW, especially Manchester and Liverpool, being particularly active.

Outside of London and the North West, Birmingham and Bristol are seen as ideal locations for investors to build more BTR homes. Birmingham because of its central location, economic potential and the fact that it is a large conurbation. Bristol because it's strategically located on the M4 and M5 and acts as a gateway to Wales and the South West. Notwithstanding this, Bristol is seen as an area of significant economic investment and settlement: it is already one of the most important tech hubs in the country.

The potential for BTR developing high quality homes to rent in Bristol is huge.

Legal & General (L&G) together with Dutch pension fund PGGM have already invested in central Bristol BTR and this will soon be followed by M&G, Grainger, Cortland, Invesco and a number of others. Property advisers JLL forecast that 2,000 BTR homes will be available for Bristolians to rent by 2021.

But this is still a tiny fraction of the PRS in general. Currently, £35bn has been committed to BTR. Knight Frank estimates that £75bn will have been committed to the sector by 2025.

Status	Q1 2019 Totals	Q1 2018 Totals	Increase
Complete	30,357	22,575	34%
Under Construction	37,549	34,262	10%
In Planning	72,184	66,776	8%
<b>TOTALS</b>	<b>140,090</b>	<b>123,613</b>	<b>13%</b>

Source: British Property Federation, Savills, Molior. [Source Link >](#)

Status	Complete	Under Construction	Planning	Totals	% of Total
London	16,145	16,507	41,322	73,974	53%
Regions	14,212	21,042	30,862	66,116	47%
<b>TOTAL</b>	<b>30,357</b>	<b>37,549</b>	<b>72,184</b>	<b>140,090</b>	<b>100%</b>

Source: British Property Federation, Savills, Molior. [Source Link >](#)



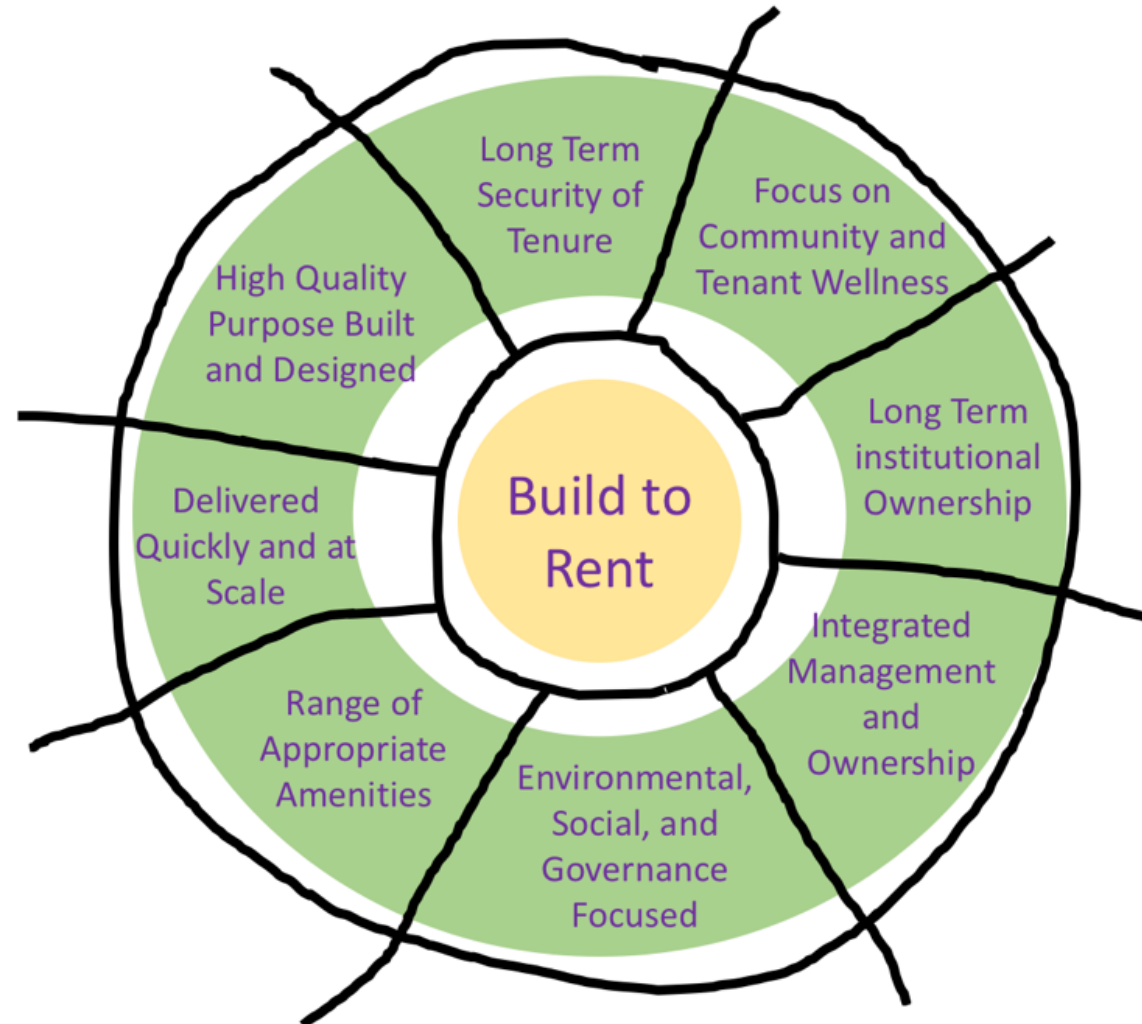
# 03 BUILD TO RENT – THE THREE FUNDAMENTALS

Whilst the Montague Report did not specifically envisage BTR as it has evolved, the industry absorbed the recommendations, took the opportunity to grasp the nettle and looked at all aspects of the PRS to revolutionize the renting experience.

These fundamental aspects can be broken down as follows:

- Design
- Management
- Ownership

Within each of these 'fundamentals' are elements that characterize the unique nature of BTR.



Source: Adapted from ULI Build to Rent Guide 2016

## 1. DESIGN

Design is about more than aesthetics. It incorporates everything that determines the physical: from scale of development, construction techniques and speed of delivery, through to life-cycle values of materials, technology and sustainability. All of which should reflect the operational model: if it doesn't reflect it, it might dictate it.

What that means in essence is that consideration of how the building is going to be lived in and used and by whom, managed and maintained, drives the initial design studies and ultimately the finished product.

Understanding the tenant's needs, anticipating their future requirements and creating attractive welcoming spaces is all part of an architect's brief:

Communal spaces to relax, entertain and work; gyms and yoga studios, parcel and chilled delivery rooms for those Amazon packages and Tesco groceries. Storage and bicycle facilities keep common parts clear and a home free of stuff that isn't needed right now, but could be useful in the future.

Of course, the level of amenity provided within the building is dependent on the quality of local amenity: It wouldn't be a sensible use of space to provide an on-site gym if there's a really good local gym nearby.

Technology and 'future-proofing' is high on the agenda: high quality fibre optic broadband, keyless

entry, smart building technology and EV charging points. Even drone delivery landing pads are considered.

Sustainability is a key feature of BTR; both in terms of design and construction, the future operation of the building and the well-being of the occupants.





**CREATING AN  
ATTRACTIVE ENVIRONMENT.  
FOSTERING A SENSE  
OF COMMUNITY.**

### 03 BUILD TO RENT – THE THREE FUNDAMENTALS



CGIs FOR ILLUSTRATION ONLY

### 03 BUILD TO RENT – THE THREE FUNDAMENTALS

#### THE NEED FOR SPEED

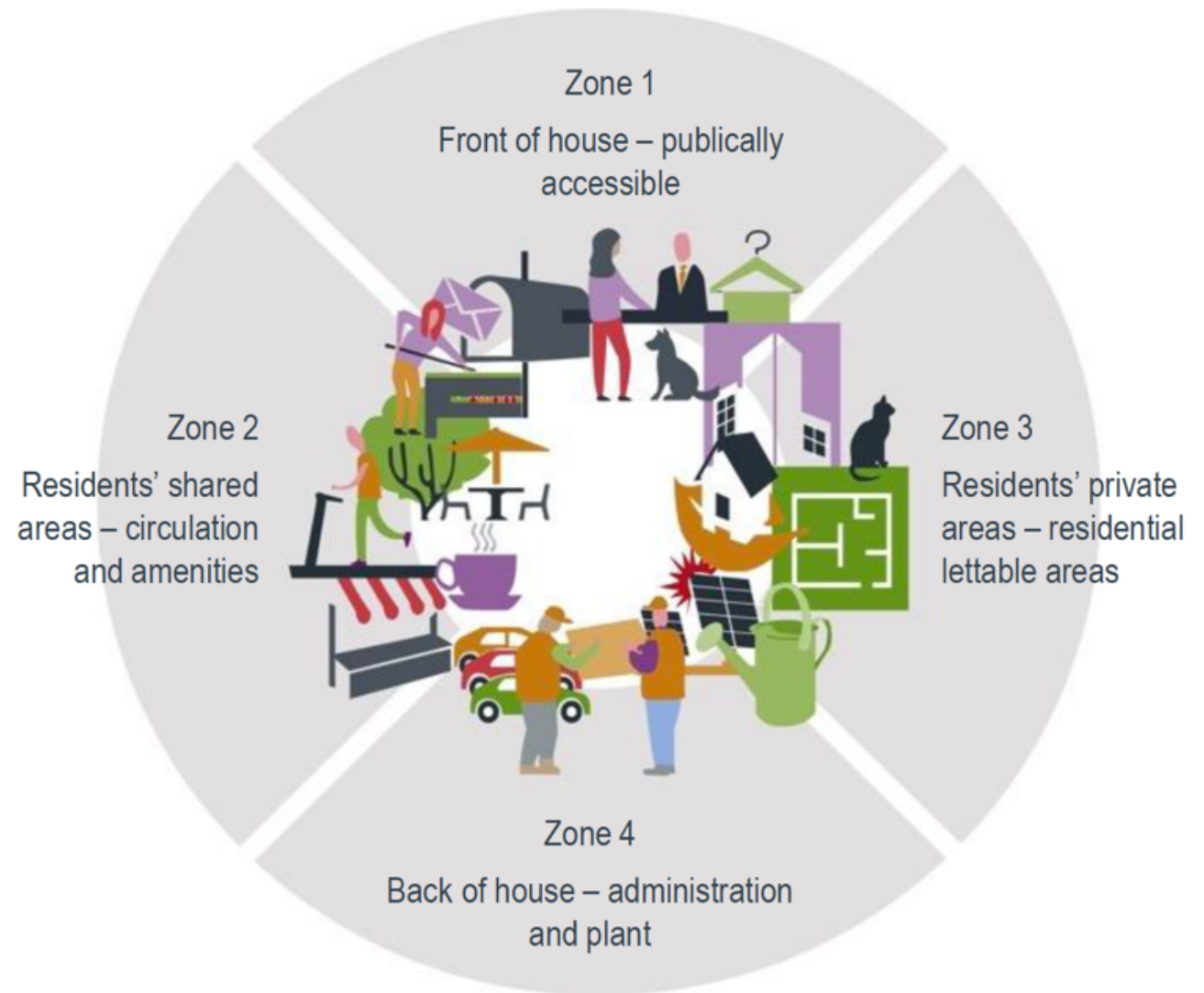
A key element in the design process is the need for speed of delivery. BTR owners and operators often forward-fund the development and their operational model depends upon producing income as quickly as possible.

Irrespective of whether it is a development company or an operational owner planning a new BTR scheme, nine times out of ten there's an institution or a fund that has already committed to the investment. This means a very high degree of certainty that the scheme will be built and next to no lag between gaining planning consent and construction beginning. Delivery of much needed homes into the community is therefore accelerated.

Modern methods of construction (MMC) also form part of the BTR developers thinking and contribute to both the quality and the speed of delivery.

Bearing in mind that BTR buildings are likely to be owned and operated long term, whole-life considerations inform the specification and quality of design and build. This leads to the delivery of a very high quality building both in terms of design and of the materials used.

To a large part, the operational management determines the design/layout and the BTR Building tends to form four distinct zones, each with its own function.



Source: ULI Build to Rent: Best Practice Guide 2016.

## 2. MANAGEMENT

Whilst the design of a BTR scheme is subtly different to that of an Open Market Sale development, it is the management of a scheme that is fundamentally different to anything that has gone before.

As can be seen above, the ethos of BTR management is akin to that of a hotel with different zones requiring the operational managers to have a range of customer focused abilities. The important thing to remember though, is that BTR management is not about copying the hotel model, or aiming to create some sort of 'premium' offer; it is distilling learning from hospitality experts, understanding what it is customers value and applying this learning to the PRS.

Traditional property management has three skill silos:

Estate/Asset Management	Property/Unit Management	Unit Letting Function
<ul style="list-style-type: none"> <li>• Estate Manager</li> <li>• Estate Management teams (common parts repair and maintenance; full time or shared teams across buildings)</li> <li>• Front of house/concierge</li> <li>• Data analysis and asset management reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Property management team</li> <li>• Arrangement and scheduling of emergency and routine repairs and maintenance from initial instruction to final payment</li> <li>• Voids repairs/refurbishment</li> <li>• Rent collection/credit control</li> <li>• General customer liaison</li> <li>• Emergency helpline service</li> <li>• Record keeping and reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing/Tenant find</li> <li>• Viewing/Offer</li> <li>• Negotiating and agreeing terms of AST</li> <li>• Reference/Credit check</li> <li>• Check in/check out</li> <li>• Inventories</li> <li>• Tenancy deposit liaison</li> <li>• Handover/intro to Property Manager</li> </ul>

These silos have evolved from managing different types of residential property in different ways.

- **Asset managers look after large blocks of flats and administer service charges/ground rents and are responsible for maintenance of the common parts, health and safety etc.**
- **Property managers look after the individual home, carry out routine repairs and collect rent.**
- **The lettings function is carried out by lettings agents who undertake the marketing, show the properties, negotiate rents, carry out references and hand over the property to the tenant.**

Since a BTR block is wholly owned, often by an institutional investor, (pension fund for example) it's logical that the three functions should be combined holistically within one management operation. This unified approach makes it easier for the management company to have control over all aspects of tenant interaction and ensure consistency in approach.

### 03 BUILD TO RENT – THE THREE FUNDAMENTALS

BTR is ultimately owned by institutions, such as pension funds who intend to manage and operate the scheme for a considerable length of time, social housing considerations, integration into the community and investment into the locality, means that BTR is both conscious of and respectful of local housing needs.

Where possible, BTR offers an intermediate housing type known as Discounted Market Rent or DMR. Government suggests that this should be 20% of the scheme and at 20% discount to open market rents.

In reality, councils and developers have worked together, both on quantum and the range of discount, to more closely reflect local policies and demographics. Crucially, although DMR is an intermediate tenure, planning conditions can shape it to reflect social housing if the planning authority deems it appropriate.

The key advantage to DMR is that it can be owned and managed by the BTR owner/operator. Unified ownership and management, unified tenants.

Where DMR isn't an option, the specific expertise that BTR developers have in design excellence and creating great places to live, can be translated to an affordable social housing product for either a local authority or registered provider to take on.

But it isn't just the control of the tenant interaction, reporting or a unified approach to tenure types

where BTR operational management is different. It's about a fundamental shift in the landlord/tenant relationship driven by a desire to create an unmatched positive customer experience.

#### CUSTOMER EXPERIENCE

**'Customer experience?'** A phrase that only a few years ago was the very antithesis of anything to do with the Private Rented Sector. But now is at the heart of it.

Outside of the desire to radically improve the customer renting experience, it is clear from evidence from the US that a positive relationship between the operational management company and the tenants benefits both parties. Engaging constructively with the tenant creates a mutually trusting and beneficial environment, fosters community and encourages long-term occupancy. The outcome for both landlord and tenant is a happy one.

Who needs friends? As it happens, both landlord and tenant benefit from friendship groups developing within a BTR building. Research also shows that such groups grow, as tenants not only stay longer, but also encourage friends from outside to move in and rent in the same building.

Benefits to the wider community are obvious as BTR renters are more settled, stay longer and invest more time and energy into the local area and facilities.

#### CUSTOMERS

The 'big' agents have all carried out research into the profile of the BTR tenant. The results might surprise you. In fact, it surprised everyone. Originally it was thought that BTR would be 'millennial nirvana'. Well qualified young professionals who were ambitious and mobile; not wanting to put down roots or have the responsibility of ownership, but rather preferring the flexibility of BTR with an added bonus of professional management and various amenities.

Here's what it really looks like:



So whilst the average age is bang in the middle of the vast millennial cohort, (as one might expect) there is by no means a 'typical' tenant. Renters of all types, professions and ages are attracted to BTR. In this sense, BTR communities reflect the wider community with a healthy mix of people; young and old, individuals and families, friends and strangers. No different, in fact, to any other thriving neighbourhood.

### 03 BUILD TO RENT – THE THREE FUNDAMENTALS

BTR has been confused with Purpose Built Student Accommodation (PBSA). But the only similarity is that both are specifically designed and built for purpose. There the similarity ends.

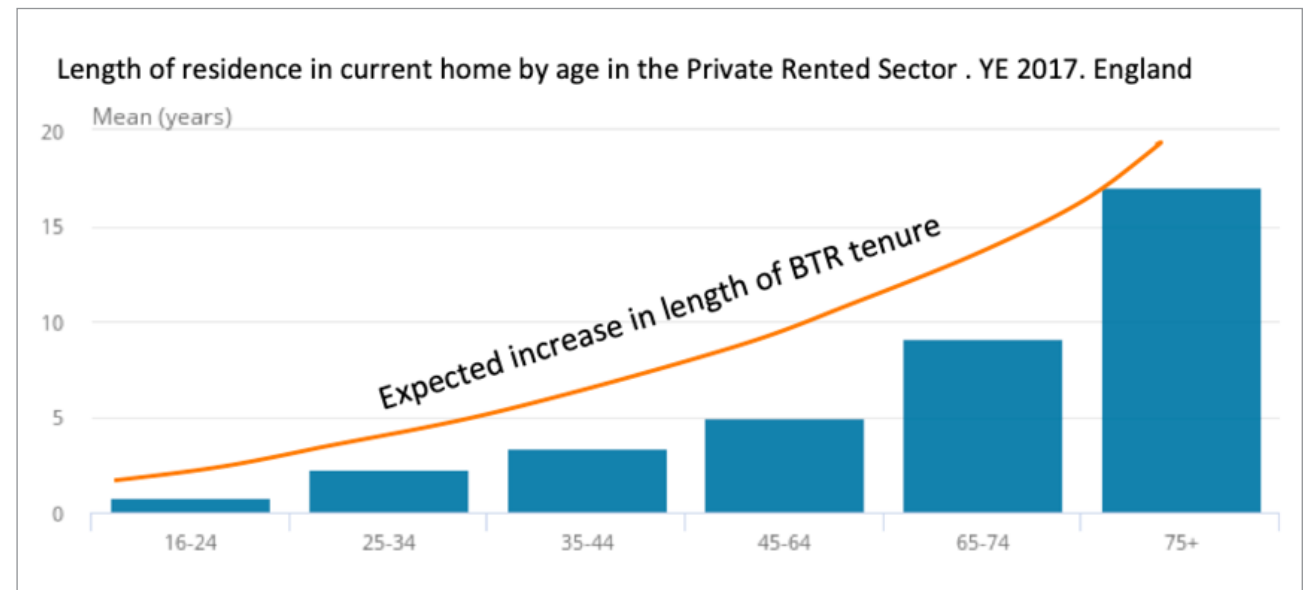
PBSA often has shared facilities, (kitchen, laundry etc) whereas BTR is entirely self-contained but with the option of using communal and amenity areas by choice.

Just as BTR is often confused with PBSA, it is also widely conflated with a much more recent innovation; Co-Living. In both PBSA and Co-Living the expected length of stay is relatively short; PBSA because it reflects the ephemeral nature of a student, and Co-Living as it is seen as a stepping-stone to a more permanent home.

BTR, by its very nature, promotes long-term residency; the investors want an investment with a long-term stable, reliable income. That can only be achieved by creating an inclusive, welcoming environment where tenants can feel secure and settled. The sector was the first to offer three-year tenancies by default and tenants are actively encouraged to stay longer.

Data from the English Housing Survey and The Ministry of Housing, Community and Local Government (MHCLG) below illustrates the current length of time by age group that tenants stay in residence. As is to be expected, the older one gets the longer the length of tenure.

The graph below gives some context to the actual length of stay, irrespective of age. Since the introduction of BTR to the PRS, those staying for less than one year have fallen dramatically. Whilst those staying longer; one to three years, and 3 years to ten years, have increased. This data is born out by initial findings from early investors into the BTR sector.



Source: English Housing Survey & MHCLG



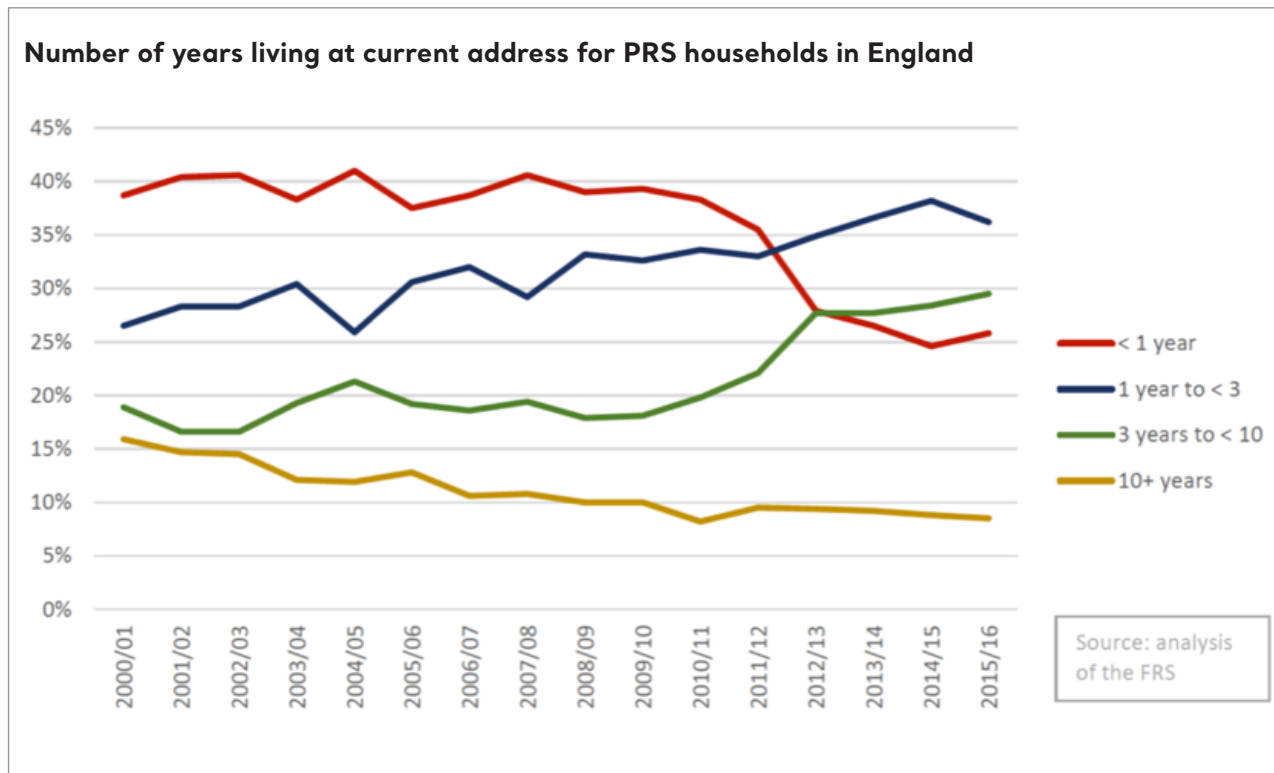
### 03 BUILD TO RENT – THE THREE FUNDAMENTALS

As an example, BTR apartments in the Athletes Village, managed by Get Living, which were converted following the 2012 Olympics are currently achieving an occupancy length of a year longer than average in the PRS. As affordability in London continues at crisis level, Get Living expect this trend to continue upwards.

BTR management was the first to introduce a 'no fees' letting environment and the sector actively campaigned for the Tenant Fees Act<sup>4</sup>. Tenants deal directly with the landlord and only pay rent and (in some cases but not all) a deposit.

#### SECURITY OF TENURE

Tenants are offered a three-year tenancy by default with break clauses to suit them. Flexibility is built into many agreements, which allows tenants to move between flats as their circumstances change. With larger landlords who have a more extensive portfolio, there exists the option to move to a different location or city should the tenant change jobs and relocate. As BTR continues to grow, it will become common-place for landlords, whose tenant's situations change, to help relocate them to an appropriate location.



Source: *The Evolving Private Rented Sector: Its Contribution and Potential*. Dr Julie Rugg & David Rhodes 2018.

4. [Source Link >](#)

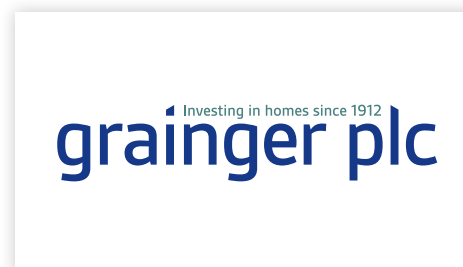
### 3. OWNERSHIP

Key to understanding BTR is how the fundamental elements of the sector have the same ethos but different goals.

Design is all about creating the right environment to revolutionize the tenant experience; Management is about delivering that experience and Ownership is about laying the foundations of long term investment in environmental, social and governance (ESG) principles that are now an intrinsic part of institutional investment thinking.

What this means in principle is that investors are strongly aligned with the BTR determination to completely transform the landlord/tenant relationship for the better.

Owners are attracted to BTR, not for the opportunity to make a quick buck, but for the stability of long-term income. Bearing that in mind, investors in this sector are institutional and professional, with a long-term outlook focused on sustainability. They also have significant sensitivities around reputational risk. These sensitivities and ESG principles are drivers to professionalism.



# 04 MARKET COMMENTARY

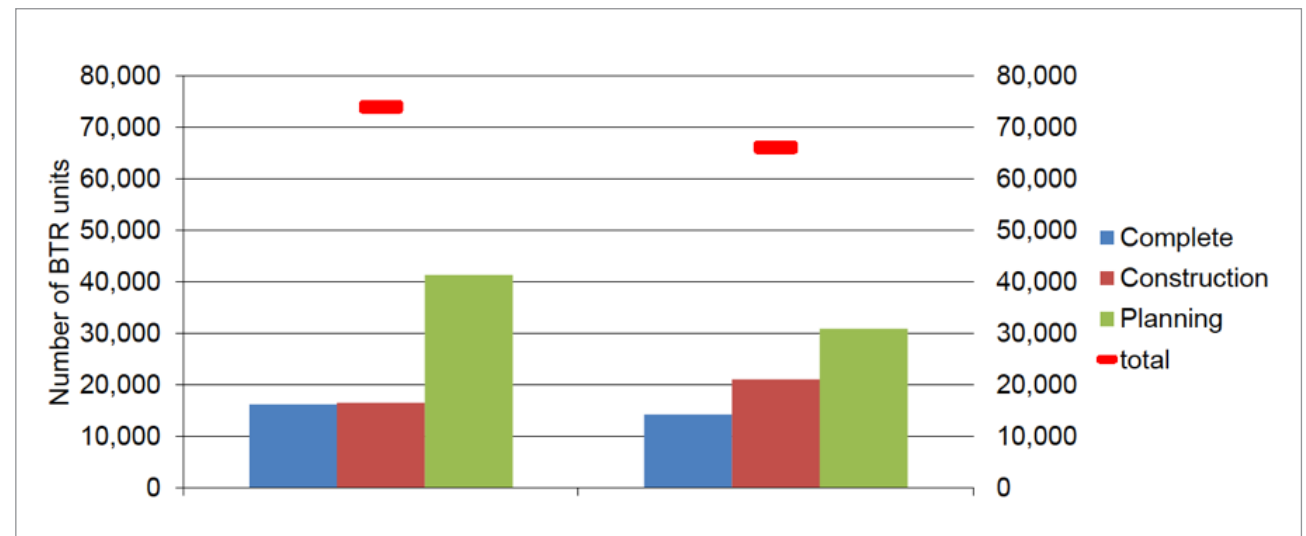


## So where does BTR sit at the moment and how far have we come?

Industry bodies track the growth of the sector and report quarterly on progress. From small beginnings around 2012, the current numbers are as follows:

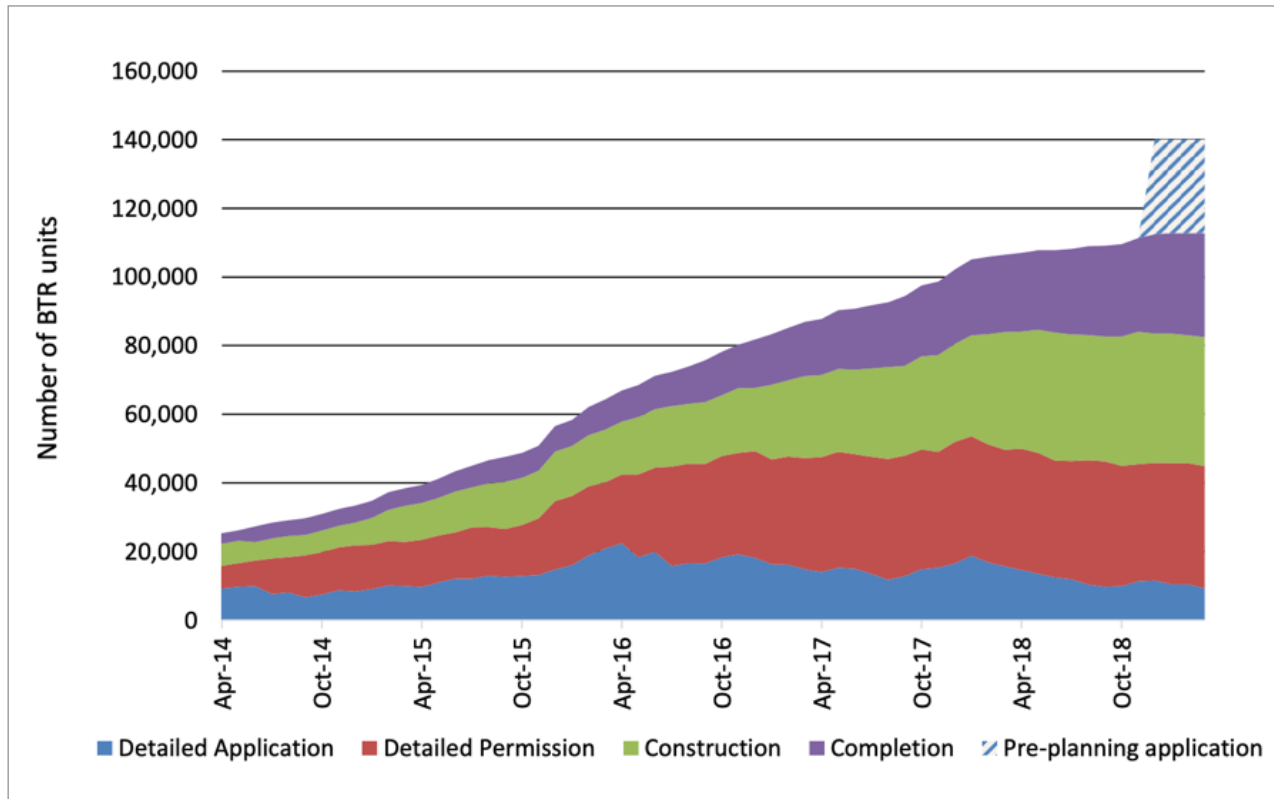
**Q1 2019:**

As noted in the introduction, (A little Bit of History) currently there are just over 30,000 completed BTR homes. Another 37,500 are under construction and a further 72,000 are in planning/pre-planning.



### 03 BUILD TO RENT – THE THREE FUNDAMENTALS

#### THE RISE AND RISE OF BUILD TO RENT.



Source: British Property Federation. Savills. Molior.

Supporting the raft of schemes coming forward is an equally impressive operational management, advisory, contractor and supplier network underlining the professionalization of the industry.

The BTR industry set up a membership organization, the United Kingdom Apartment Association (UKAA) which now has over 150 members nationally. The UKAA acts as a conduit through which best practice can be achieved through cultural change, peer oversight and further education.

BTR now has its own professional qualification via the Institute of Residential Property Managers (IRPM) A two year course which saw the first cohort of candidates qualify in April 2019.

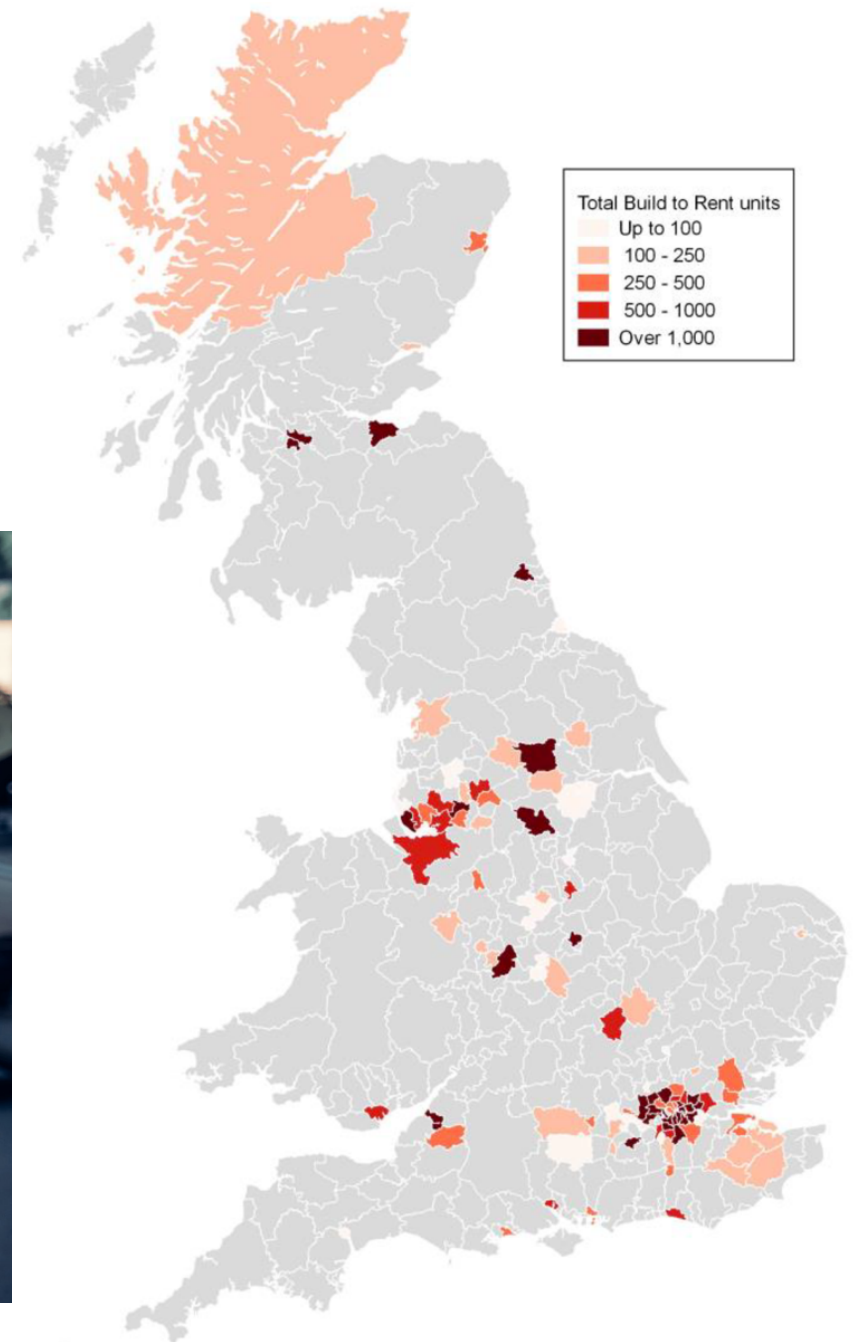
A central pillar of BTR is to transform the PRS by adopting strict ethical and professional standards.



### 03 BUILD TO RENT – THE THREE FUNDAMENTALS

#### MAP OF BUILD TO RENT UNITS ACROSS THE UK.

As noted in the introduction, (A little Bit of History) currently there are just over 30,000 completed BTR homes. Another 37,500 are under construction and a further 72,000 are in planning/pre-planning.



# 05 SUMMARY OF FEATURES AND BENEFITS

The case for BTR is a compelling one. As noted in the foreword, the Private Rented Sector has been long overdue a radical overhaul. Government intervention can only go so far. Whilst it can legislate for change, it's unlikely to improve attitudes or culture.

The three fundamentals of BTR: Design, Management and Ownership, interdependently emphasize tenant wellbeing, inclusiveness and community.

The accelerated speeds at which BTR schemes are completed ensure delivery of much needed homes into the community. This, in turn, benefits the local economy at a much faster rate.

Long-term institutional ownership means an emphasis on design, sustainability and life cycle values of construction materials. Resulting in a high quality building, which will be well maintained and managed.

Focus on integrated and smart building technology significantly improves health and safety considerations, reduces power consumption and reduces the building's carbon footprint.

The high quality of the buildings and management combine to ensure outstanding customer experience, which leads to longer tenancies. This encourages further integration and social investment in the neighbourhood. BTR practices also positively influence the wider PRS by normalizing best practice and raising tenant expectations.

Build to Rent has a positive long-term impact on the environment, renting community and local neighbourhood.

It would not be an overstatement to suggest that BTR is radically influencing the way people rent in the UK. Tenants should be safe, they should feel secure and they should feel valued. They must be confident that the landlord takes every concern seriously and that problems can be resolved quickly and efficiently. Renting should not be a 'hit or miss' experience, but reliable and consistent.



## THIS IS WHAT BUILD TO RENT OFFERS AND CONTINUES TO IMPROVE UPON.



This report was commissioned by Bristol based developer Cubex and written by Richard Berridge, July 2019.

# Cubex.

Cubex believes that working with the local and wider community is not just the right way to go about things, but it also enables projects to proceed more smoothly than they would otherwise. This consultative and open approach helps improve the local environment for those who live there and enables them to feel a sense of ownership in the development.

This attention to the local environment in Bristol, creating distinctive but sensitively and sustainably designed buildings, is something they will continue at the next phase of Finzels Reach, having seamlessly knitted together the area's historic past with sympathetic new buildings in a vibrant mixed-use community with its own sense of place and identity.

Construction of 194 Build to Rent apartments in two schemes at Hawkins Lane and George's Wharf will complete in 2019 and will be the first Build to Rent scheme of scale delivered in Bristol. It was important to Cubex that these were specifically designed to be, long term rental homes. These high-quality homes will meet a real need for rental homes in Bristol.

With a strong track record in delivery and plans to create another 400 homes in Bath and 1,500 in a

Bristol city centre scheme at the gateway to the city, Cubex is a developer that demonstrates an ability to deliver and has the full confidence of the City Council to develop sites and not create a legacy of stalled sites across the city.

A well-designed Build to Rent scheme is based on an increased level of communal amenity and a hospitality-focused management culture to encourage social interaction. These are key lessons that Cubex have learnt in delivering a Build to Rent scheme which has influenced the designs for Millwrights Place.

Using local teams wherever possible for all aspects of the work, Cubex has been successful in creating vibrant, residential neighbourhoods in their own right. They design and develop cost-effective, technology-led, purpose-built rental schemes which integrate into the local community.

Cubex is committed across the entire lifespan of the project and invest in people first, whether that's business partners, suppliers, customers or staff, and the team strives to deliver relevant, effective and value-enhancing solutions.

## RICHARD BERRIDGE

MLH-Investments. Institutional PRS, Multi-family & Build to Rent

37 years in real estate and fundamentally, Richard is a residential investment specialist. He has been involved in pretty much every aspect of acquiring, operating and disposing of residential investment assets. Along the way Richard has picked up agency, development, design, planning and management experience. He has even acted as a consultant for a timber frame company in the early days of 'off site manufacture'.

When it comes to Build-to-Rent, you could say that Richard has an holistic understanding of the sector. This gives him a very clear picture of what Build-to-Rent is, how to deliver it, key operational differences, best practices, and strategies to deliver efficiencies maximising capital value.

Richard has an interest in the politics of housing; governmental, social and private sector and is committed to being part of a progressive, more equal society and to create a new PRS and a peerless living experience which better caters for the demands of the 21st century.