

It Is Not Developers Who Are Driving Quality In BTR, It Is Investors

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20 September 2019 NHBC Felicity Francis, Bisnow

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As investment in BTR schemes has increased, so has investors' interest in quality. These investors aren't interested in constructing a scheme, then profiting from sales. These investors are in it for the long term, in partnership with BTR operators who have a strong interest in customer satisfaction.

"People are making a lifestyle choice when they choose to live in BTR," NHBC Senior Business Development Manager Graham Sibley said. "As the market gets more competitive, the design will improve even more. If a site pops up half a mile down the road, the customer might move if it is better quality. Operators want to retain occupants. One way to do that is to ensure top quality right from the beginning."

Investors Turn To Designers

NHBC provides warranties and insurance for new home construction. The organisation's role is to ensure standards are met and to provide insurance against something going wrong further down the line. Sibley described how demand from the BTR sector has increased over the years.

"We register about 160,000 homes a year and today about a third of those are BTR including affordable housing," he said. "This is a huge increase in the last five years. We can see that shift continuing as the market consolidates."

As the pursuit of quality has increased, investors have stipulated the involvement of NHBC earlier on in the construction process. They have become keen for NHBC to provide assurances to lenders about what protections can be put in place to mitigate the risks of forward funding a scheme, for example. Some investors, such as pension funds keen to secure long-term returns that match their pension liabilities, are even specifying that designers have this in mind from the start.

"Forward funding helps the contractor with cash flow, but it also raises the awareness of the potential risks in construction," Sibley said. "We're being asked to get involved in the design of the building even before the first spade hits the ground. We can review development before it's locked down, identify potential risks, work with designers on aspects such as fire safety which has become a big issue."



Pexels/Anamul Rezman

Construction Must Be Spot On, First Time

There are many aspects to a building that can be given varying levels of attention. Installing technology that is future-proofed takes forward-planning, but is as vital for customer satisfaction as investing in excellent acoustic performance. If a building is to stand the test of time, to bring those long-term returns, structural decisions need to be robust.

“Generally, BTR is built very well,” Sibley said. “We’re trying to drive quality up, to specify how new methods of construction should ensure quality, such as modular construction from factories. How are they put together on-site to ensure minimal defects? Will building control be sufficient? Will the final home meet standards?”

Of course, raising the standards of design is likely to increase initial capital expenditure. Putting more effort into getting all aspects of a building right the first time, rather than relying on a defect period, requires closer attention to detail.

“Increasingly, investors are willing to spend more upfront on BTR,” Sibley said. “Ultimately, investors want the long-term value of an asset to be retained and operators want to provide the best possible customer experience. This all needs to be backed up by the knowledge that warranties are in place that can step in if need be. The more you can do to minimise defect repairs, for example, which would cause disruptions to tenants, the better.”

As new materials and methods of construction hit the market, investors' interest in mitigating risks is only going to increase. This can only be good news for investors and asset owners, protecting their investment, and for the final end user: the people who are going to live in all these BTR schemes.

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