

PRS. AN EMERGING ASSET CLASS IN THE UK. FOUR PRACTITIONERS AT THE COAL FACE.

LAI London Chapter is pleased to sponsor an opportunity to gain new insights into the fast developing PRS sector exploring critical issues of design, specification, market preferences and demand, different approaches by developers and most importantly financing.

WHEN

24 MAY 2017

Wednesday
8:00-10:00

WHERE

JLL'S OFFICES

30 Warwick Street
London W1B 5NH

WHAT

8:00 - 8:30

Coffee & Light Breakfast

8:30 - 9:10

Presentations

9:10 - 9:30

Q&A

9:30 - 10:00

Networking

WHO

ALEX LIFSCHUTZ

Senior Partner
Lifschutz, Davidson, Sandilands
Architects

ANGUS DODD

Chief Executive
Quintain

JOHN COYLE

Director Residential Advisory
JLL

RICHARD GREEN

Partner
Venn Partners

PRIVATE RENTAL SECTOR

Lifschutz Davidson Sandilands





east village
london E20

LONDON 2012 - ATHLETES' VILLAGE

Lifschutz Davidson Sandilands



PLOTS N08 AND N14 - ATHLETES' VILLAGE



11 BUILT PLOTS, 2818 HOMES
1439 MARKET UNITS, 1379 AFFORDABLE

east village
london E20

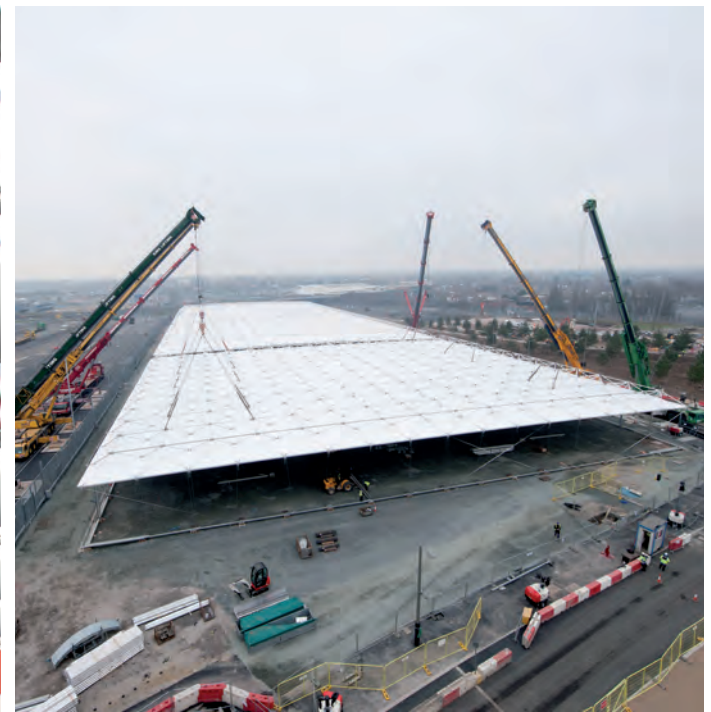


**6 UNBUILT PLOTS, 2075 ADDITIONAL HOMES
2027 MARKET UNITS, 48 AFFORDABLE**

**east village
london E20**



ATHLETES' VILLAGE DINING TENT



Lifschutz Davidson Sandilands



EAST VILLAGE, LONDON E20

Lifschutz Davidson Sandilands



EAST VILLAGE, LONDON E20



EAST VILLAGE, LONDON E20



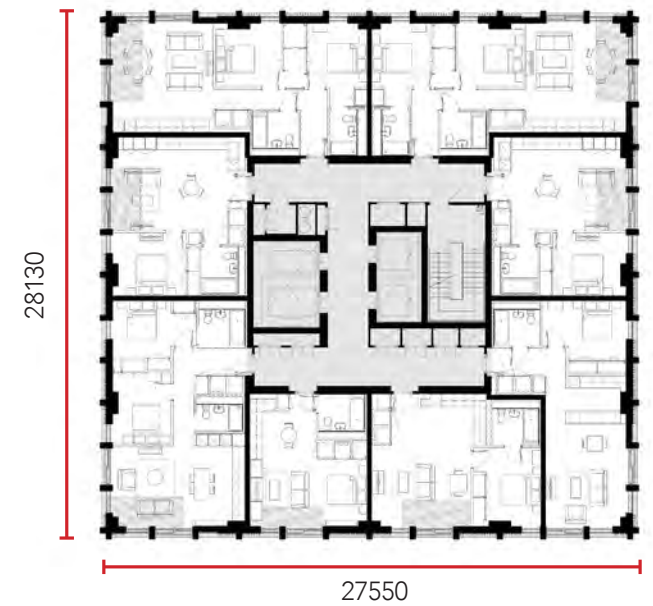
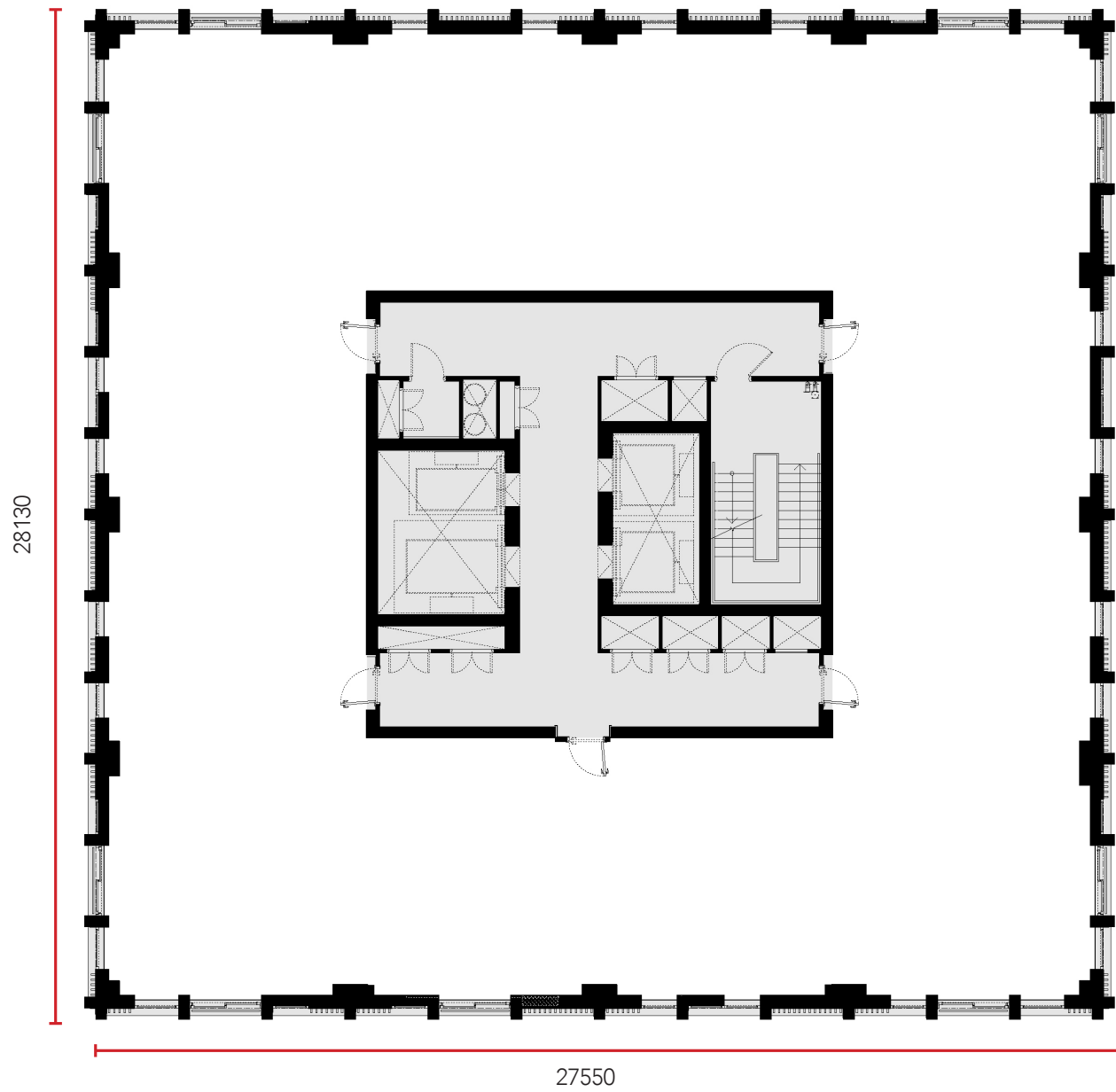
EAST VILLAGE, LONDON E20



EAST VILLAGE, LONDON E20



Lifschutz Davidson Sandilands



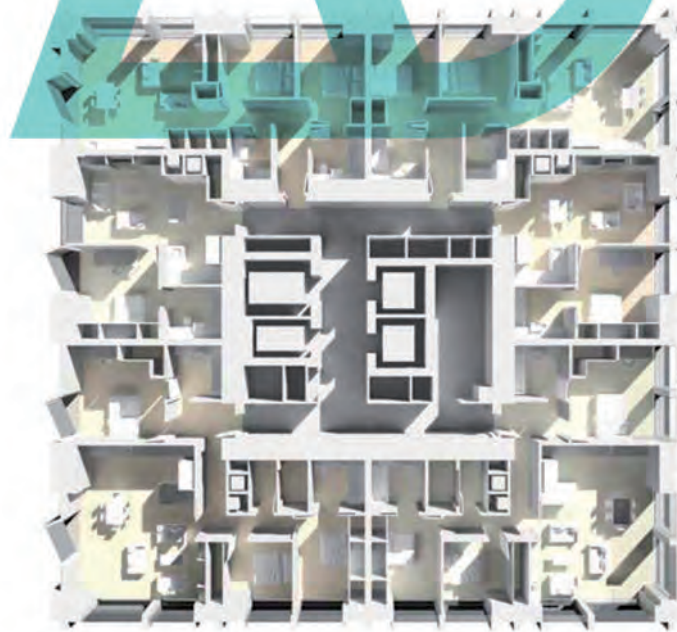


LOOSE-FIT ARCHITECTURE

DESIGNING BUILDINGS
FOR CHANGE

ARCHITECTURAL DESIGN
September/October 2017
Profile No 249

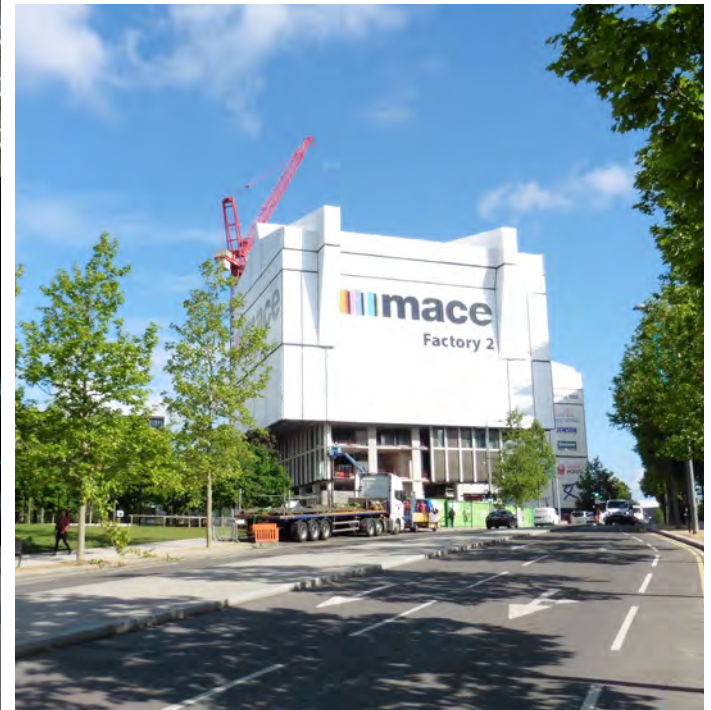
Guest-edited by
ALEX LIFSCHUTZ



05 | VOL 87 | 2017



EAST VILLAGE, LONDON E20



PLOT N08 - EAST VILLAGE, LONDON E20



BROADWALL HOUSING, LONDON SE1

Lifschutz Davidson Sandilands



RAVENCOURT ROAD

GROUND FLOOR PLAN

- 01 • Terraced houses
- 02 • Laytmer house
- 03 • Communal garden
- 04 • Private gardens
- 05 • Car parking





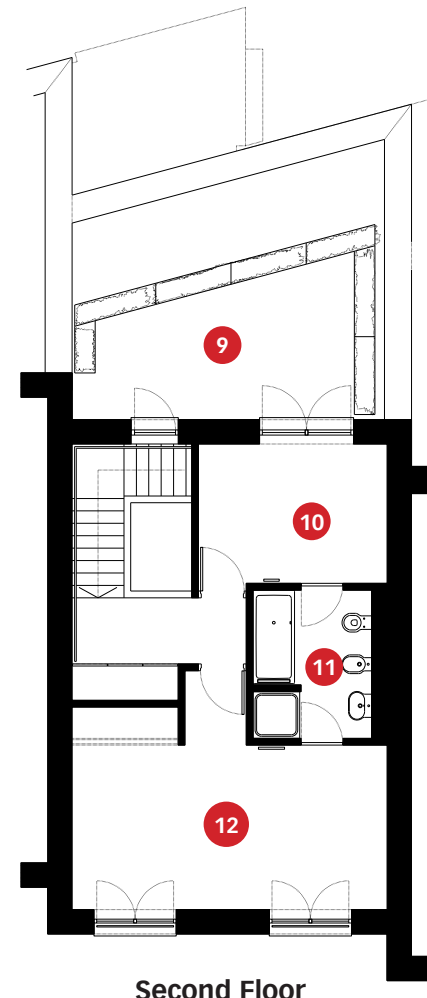
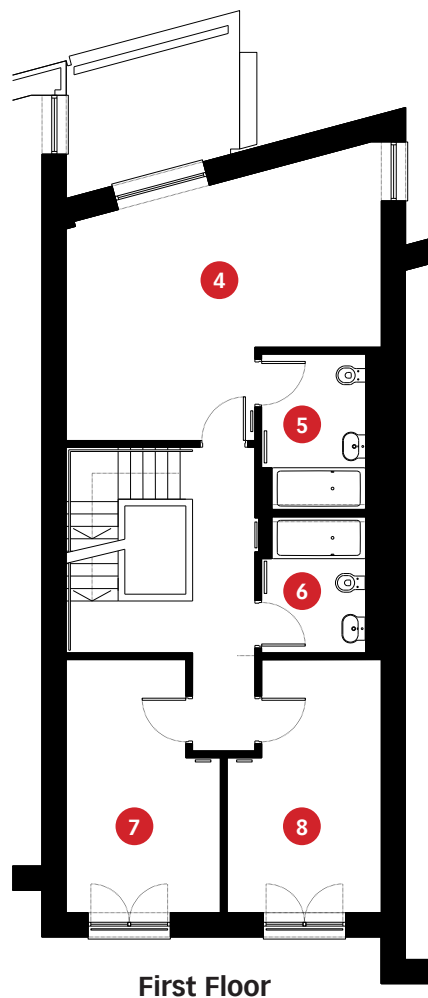
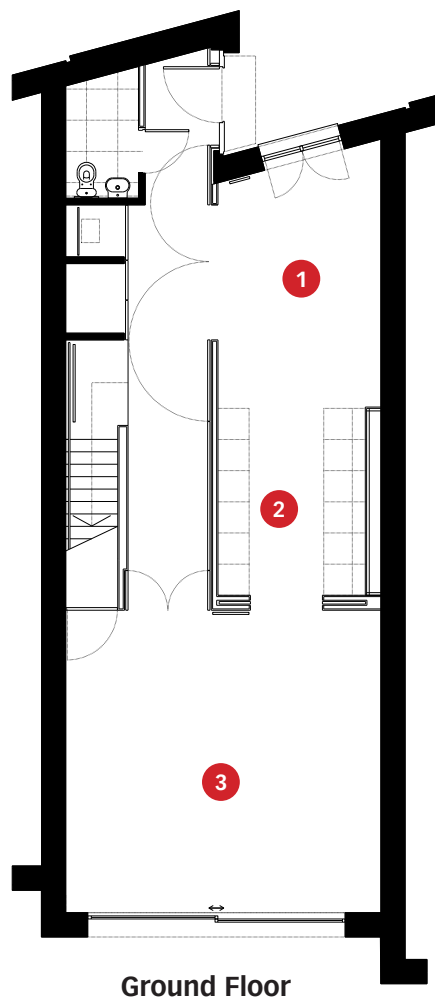
PARADISE GARDENS, LONDON W6

Lifschutz Davidson Sandilands



PARADISE GARDENS, LONDON W6

Lifschutz Davidson Sandilands



TYPICAL TERRACE HOUSE FLOOR PLAN

- | | | |
|------------|--------------------|----------------------|
| 1. Dining | 5. Bed one ensuite | 9. Terrace |
| 2. Kitchen | 6. Bath | 10. Bed four |
| 3. Living | 7. Bed two | 11. Bed five ensuite |
| 4. Bed one | 8. Bed three | 12. Bed five |



PARADISE GARDENS, LONDON W6

PRIVATE RENTAL SECTOR

Lifschutz Davidson Sandilands





Q U I N T A I N

Angus Dodd

Chief Executive

PRS. An Emerging Asset Class in the UK
Land Economics Society



Wembley Park

2002



Wembley Park

2016



Build to Rent

Emerald Gardens - 2017



The rental experience

Redesigning renting with Tipi

- **No unnecessary fees**

No agent fees like referencing, check-in/out, cleaning or unclear 'admin' charges. And you get a reduced deposit

- **Utility bills included**

Water, electricity and 40mb/s broadband included as part of your rent

- **A landlord you can rely on**

We're the landlord you can trust, the one who picks up the phone, who listens, who's on-site and always available

- **Social space**

Social and communal spaces that are an extension of your apartment. From lounges, cinema rooms, gyms and more

- **Thriving community**

Within Tipi - resident socials and prize giveaways;
Within Wembley Park - LDO, SSE Arena, Wembley and the Yellow Pavilion with more to come



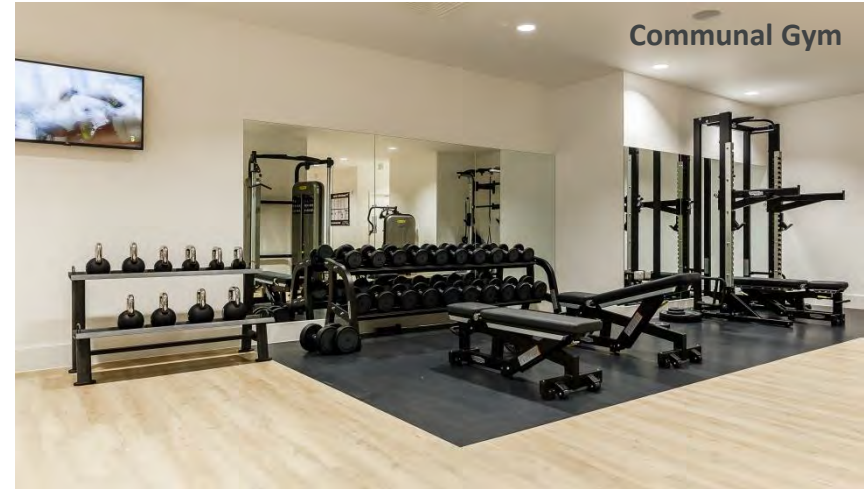
Our Product

Emerald Gardens Development: Montana and Dakota



Our Product

Communal Spaces at Emerald Gardens



Wembley Park 2026



Estate Management

Long-term management right across the Wembley Park area



- Social and employment infrastructure
- Transport improvements
- Energy and sustainability commitments
- Construction commitments
- Car parking
- Animating the public realm
- Lighting and security





Q U I N T A I N

www.quintain.co.uk



DRS Valuation

An evolving methodology

John Coyle
Director, Residential Advisory

24th May 2017



Introduction



- *RICS Guidance*
- *What constitutes PRS product?*
- *Basic valuation approach*
- *Circumstances of developments – and influence upon return*
- *Cash flow methodology*

RICS Guidance - BTR



In Progress Guidance

“Valuing residential property purpose built for renting” – 2nd Edition (2017)

- *Government support for BTR and increasing appetite from institutional investors.*
- *Previous guidance outdated and too restrictive in scope.*
- *Valuers in need of unambiguous guidance.*
- *RICS Built to Rent Working Group.*
- *2nd edition currently being drafted / due to be published in 2017.*
- *Valuer Caveat / Health Warning! Subject to consultation and revisions.*

6 Valuation Approach

Reviewed by Paul Weststarley, Allsop, Matt Green, JLL, Adam Burney, Knight Frank, Nigel Chapman, Standard Life and Jason Hedman, CBRE

6.1 The market for assets

6.1.1 When assessing Build to Rent assets, as in the case for any valuation, valuers should consider the likely categories of purchasers and buyer profile relevant to the asset being valued.

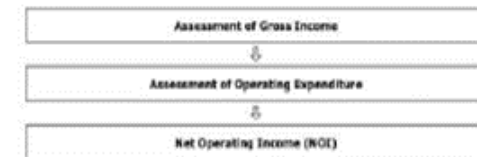
6.1.2 Given the scale of Build to Rent developments in terms of dwelling numbers and lot size, the likely purchaser of developments will be large scale investors. This could include (but is not limited to) financial institutions and Funds both from the UK and abroad, medium and larger corporate investors, or Registered Providers of Affordable Housing. For smaller schemes, the market may also include speculative investors who wish to target a medium to long term break up sales opportunity of units into the individual investor/owner-occupier market.

6.1.3 The primary driver for the majority of parties interested in large scale Build to Rent is the value they attribute to the potential net income stream that an asset will generate over an appropriate holding period. Therefore the key considerations when considering the valuation of the block as a single entity are:

- security of the income based on market conditions in relation to the rental market for residential dwellings
- the potential for rental growth
- an assessment of the effectiveness of the asset management strategy to control expenditure but provide a product suitable to meet rental expectations
- an assessment of any additional factors which could materially affect the market for the subject build to rent (such as legal or planning considerations)
- an assessment of the likely returns an investor could expect from investment in the subject development
- as a 'sense check' the underlying potential to sell off the individual units, one by one for sale (often referred to as the 'break-up potential') both at the valuation date and in the future assuming break up is permitted in planning/legal terms

6.2 Summary of Valuation Approach

6.2.1 The figure below illustrates a summary of the valuation approach for Build to Rent assets:



¹ See section 1. The scale of product will be upwards of 50 units.

When and to what will the guidance apply?

Characteristics of Build to Rent Assets

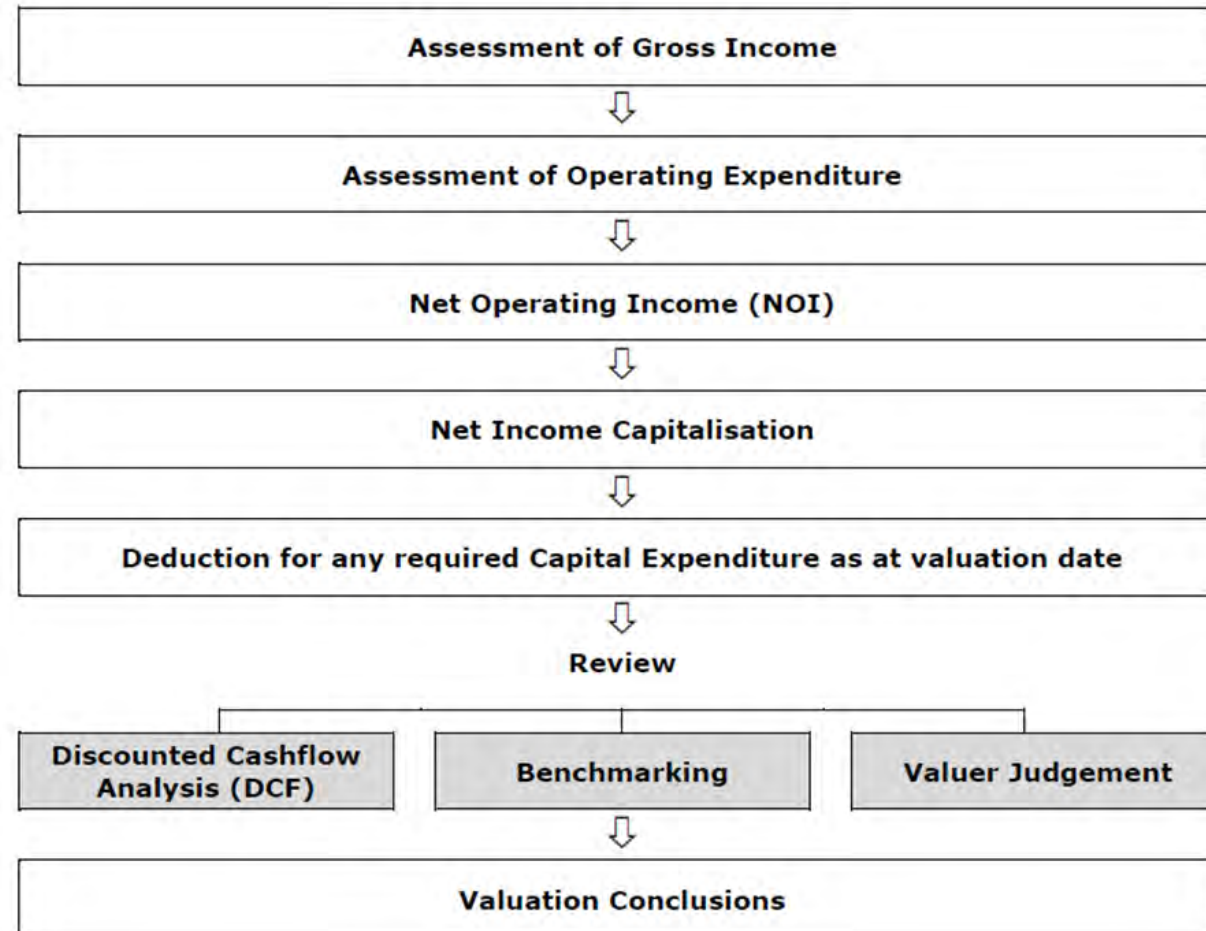
- *Completed residential blocks of at least 50+ self contained dwellings.*
- *Most likely operated by single entity.*
- *Possible on-site presence.*
- *Designed or adapted to rent.*
- *Likely let or intended to be let on AST's of up to 3 years.*

Buyer Profile for Build to Rent Assets

- *Typically buyers looking to hold for rent over the long term.*
- *Acquisition decisions driven by net income returns and longer term investment criteria. Likely therefore to include:*
 - *Larger scale investors.*
 - *Financial institutions and funds.*
 - *Registered Providers of Affordable Housing.*
- *Smaller schemes: will include investors looking at medium to long term break up opportunities.*

VALUER JUDGEMENT

RICS - Valuation Approach





*Approach to
development
projects*

Forward Fund

- *Developer and funder relationship*
- *Maximum commitment*
- *Development Finance Agreement*
- *Legal interest retained by fund*
- *Coupon.*

Forward Commitment

- *Debt funded*
- *Contracted commitment*
- *Purchased by fund/operator on PC*
- *Staged deposit payments*
- *Developers profit typically 12.5% - 15%*

Developer Operator

- *Developer funded (debt)*
- *On PC operated*
- *Ultimate strategy investment hold*
- *Developers profit typically 10-15%*

Our Valuation Methodology



Analysis of Net Operating Income

- *Period until completion*
- *Analysis of local and if available PRS rental evidence*
- *Void / bad debt provision*
- *OPEX considerations*
- *Comparison against in house database*
- *Analysis per bed*
- *In hands of reasonable operator*

Asset name: Example		Total	Per unit	% ERV
Number of flats: 102				
Residential Income	Annual ERV	£1,115,400	£10,935	
Total Income		£1,115,400	£10,935	
Voids		£22,308	£218.71	2.00%
Void Costs		£2,231	£21.87	0.20%
Write Offs		£6,692	£65.61	0.60%
Maintenance		£34,150	£335	3.06%
Insurance		£15,000	£147.06	1.34%
Utilities		£9,450	£92.65	0.85%
Management Costs (JLL)		£85,680	£840.00	7.68%
Service Charge		£113,700	£335	10.10%
Other		£15,100	£148	1.35%
Total Expenditure		£304,311	£2,204	27.28%
Net Operating Income		£811,089		72.72%

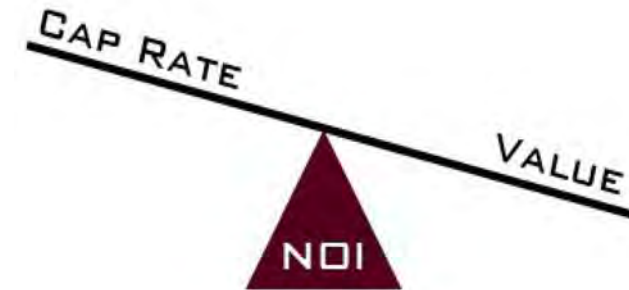
Typical Gross to Net



<i>Operating Costs</i>	
<i>Voids</i>	<i>2.0%</i>
<i>Write-offs/bad debt</i>	<i>1.0%</i>
<i>Expenditure on voids</i>	<i>0.2%</i>
<i>Maintenance</i>	<i>2.0%</i>
<i>Insurance</i>	<i>1.0%</i>
<i>Utilities (Landlord only)</i>	<i>2.0%</i>
<i>Management & Letting</i>	<i>7.6%</i>
<i>Service Charge/Lifecycle costs</i>	<i>9.0%</i>
<i>Other & unallocated</i>	<i>0.2%</i>
<i>Total Operating Expenditure</i>	<i>25.0%</i>

Determination of Capitalisation Rate

- *Limited stabilised evidence*
- *Immature sector*
- *Market sentiment*
- *Consideration of other sectors e.g. student*
- *Regular contact with institutional investors / operators*
- *Property characteristics e.g. locational, legal and planning*



Our Valuation Methodology



Cashflow
analysis/financial
modellina

- *Excel modelling*
- *Assumed typical 10 year holding period*
- *Rental growth assumptions*
- *Discounted on a monthly basis*
- *Pre-stabilised and stabilised approach*
- *Consideration of appropriate IRR output*
- *Model adapted as consequence of evolvement of market*
- *Argus Developer*
- *Argus Enterprise*

[illegible]

A large, textured red circle with a brushstroke-like edge, containing the text "Allowances for lifecycle costs" in a white, cursive script font.

Allowances for lifecycle costs

- *Treatment of cap ex on entry*
- *Analysis on a per bed basis*
- *Adequate treatment in overall operational cost*
- *Separate refresh treatment on 10 year exit*
- *Purpose built new build assumed fully warranted*
- *Build quality and furniture package*

Our Valuation Methodology



- *Property circumstances*
- *Commercial rate on land acquisition*
- *Analysis of commercial vs residential / MDR*
- *Modelling on entry and exit*
- *Other acquisition costs*





- *Sense check – Investment value vs break up value*
- *True break position for sale e.g. affordable housing, conversion of amenity space*
- *Ease of breakup e.g. unit mix and S106 / planning restrictions*

Thank you

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Residential Advisory

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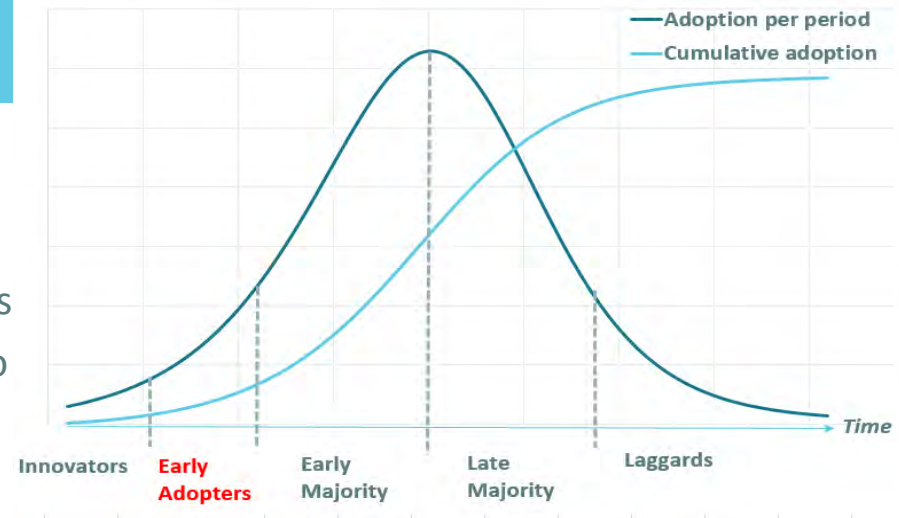
John.Coyle@eu.jll.com

Financing Institutional PRS

PRS Market Evolution

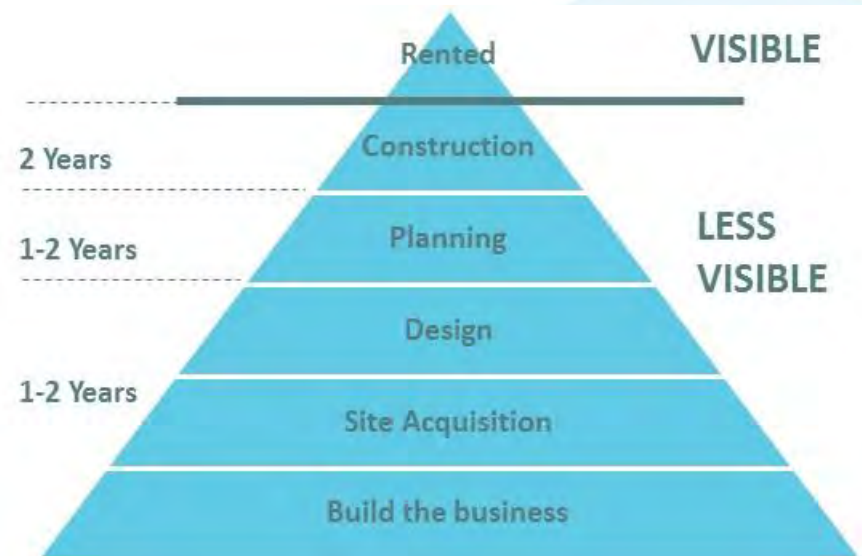
A New Product

- Dominated by >2 million buy-to-let investors
- Institutional PRS is a new product to the UK
- In the “Early Adopter” phase of equity investors
- Same phase student housing was 10+ years ago
- Debt always lags equity – new to many lenders




Needs Time

- Housing has a long lead time
- “PRS Iceberg” – limited finished, visible product
- Man on the street doesn’t know what it is yet
- Financing markets will mature with the industry



	PRIVATE	PUBLIC
DEBT	<p>DEVELOPMENT PHASE</p> <ul style="list-style-type: none">• CORE OF BANKS, SOME FUNDS• HCA <p>INVESTMENT PHASE</p> <ul style="list-style-type: none">• PRS GUARANTEE SCHEME• SMALL NUMBER OF INSURERS	<ul style="list-style-type: none">• 2019...?
EQUITY	<ul style="list-style-type: none">• INSTITUTIONAL INVESTORS• HOUSING ASSOCIATIONS• ESTATES & FAMILY OFFICES• IMPORTANCE OF FOREIGN INVESTMENT	<ul style="list-style-type: none">• 1ST BROADLY SOLD REAL ESTATE INVESTMENT TRUST (REIT) CURRENTLY BEING MARKETED



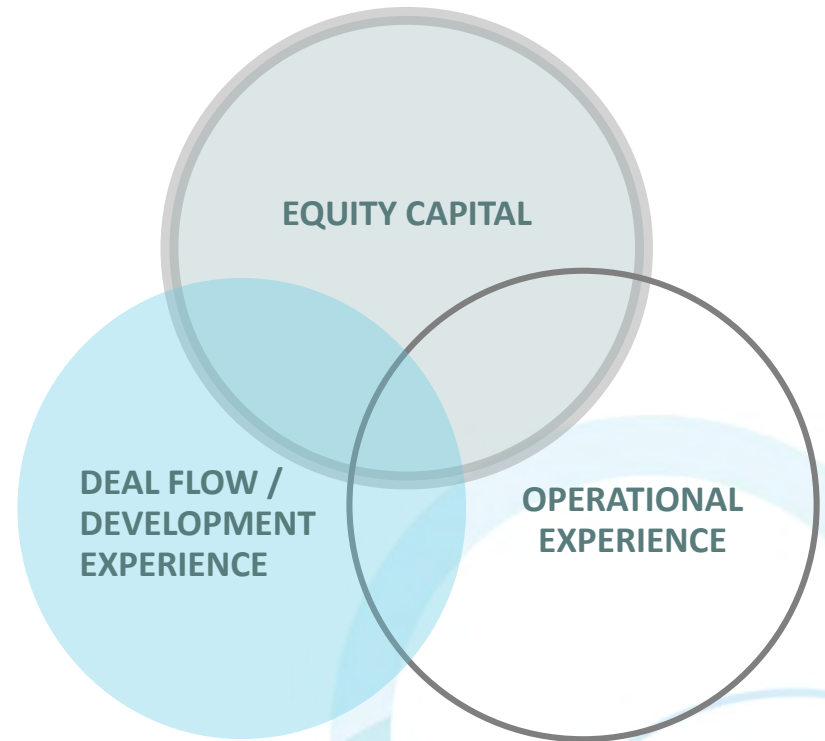
LOCATIONS LONDON, THEN MANCHESTER, THEN BIRMINGHAM, THEN LEEDS...ETC

SOURCES OF EQUITY

- Significant foreign investment
 - Big home PRS markets: US, Canadian, German, Dutch
 - Others: significant Middle East, some Far East
- Mostly institutional – pensions, insurers, SWFs etc
- Housing associations, estates, developers, some family offices – little retail, yet
- Traditionally want finished product
 - Developers fund construction, but
 - More investors now forward fund or purchase

VARIOUS INVESTMENT MODELS

- Most invest via a manager
 - New, resi specialists, traditional, private equity
- Early platforms often involved 1-3 major investors
- Some now pooling together more investors
- Active & passive investors; in and outsourcing
- High and low leverage
- Speed dating - people seek to emulate innovators



PRS Debt Finance Markets

	Development debt		Investment debt		
	Phase 1	Phase 2	Phase 1	Phase 2	Phase 3
Debt source:	Domestic banks and HCA	+ Foreign banks, funds, HCA	PRS Scheme / Insurers	+ Private placement & structured bonds	+ Public listed bonds
Debt security type:	Secured	Secured	Secured	Secured	+ Unsecured corporate bonds
Debt seniority available:	Senior	Senior + mezzanine	Senior	Senior + mezzanine	Senior + mezz + other
Leverage	c55-65% loan to cost	c75% loan to cost	c65% loan to value		
Pricing	cL+300+bps	Mezz at 10+ IRR	cG+150+		
Tenor	5 years – to build and lease-up		10 to 30 years		

Market Status:

UK

US + Europe

WHAT WOULD SUCCESS LOOK LIKE?

- **Roadmap:** can look to more mature US and European markets
- **Data / benchmarking:** more track record will attract more capital, to institutionalise it like student
- **Market conventions:** around valuations, buildings trading, definitions of key industry terms
- **Diversified sources:** a large number of committed sources from a range of different channels
- **Diversified products:** capital structures that match long term assets – long term / permanent equity, debt for combinations of construction, lease-up and stabilisation phases
- **Financing large and SME borrowers:** financing usually favours larger borrowers
- **Financing across UK:** currently a strong south east and major city focus, need further trickle down
- **Government support:** Likely to lessen over time, but even in the large developed US multi-family market government still maintains a lending role