

Questions on Build to Rent

Views on the current situation of BTR market and its influencers in 5 articles

Barriers to Completion and Profitability (2 of 5)

MORICON Consultants shares thoughts on the Build to Rent market in the UK over a series of 5 short articles. The topic was part of the IRPM Build to Rent Level 4 course assignment and reflects only the authors' opinion.

In this second article, Sebastian Moritz - Director of MORICON, will look at the barriers to completion of projects, what barriers exist in the short and long term, how will profitability be impacted and highlights possible solutions.

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1. Barriers to completion & profitability

With COVID-19 causing a significant delay to the continuation and completion of projects, questions regarding short-and long-term profitability are asked as well as what barriers could prevent operators from being profitable.

1.1. Short Term Barriers

The most immediate impact on completion lies in the stillstand of sites and the lack of non-UK workers available. These factors are completely outside the control of the developer whilst the impact on cost is considerable. In May about 80% of all sites were closed due to Coronavirus Act 2020 (the “CA”) legislation.¹

For completed schemes the mounting rent arrears will have a major impact on the short-term profitability – currently the number of rent-arrears for BTL property owners is rising² - especially with the younger generation of renters. A recent study suggests that one in 15 tenants are in default and one in five tenants are at risk of losing their job in the next three months.³ This will have a significant impact on operator cashflows.

Planning and Regulatory hurdles – as discussed in my previous article “Meeting Demand” under points 1.1.1 to 1.1.3 – are also short-term barriers that need to be addressed.

1.2. Long Term Barriers

Once lockdown is lifted, permissible costs for construction business will mount to comply with new legislation, for example: multiple trips of workers to site, higher costs for PPE, higher site welfare hygiene cost. All of these must be managed proactively inhouse and with clients⁴.

The other area impacted are cashflows: as outlined in 2.1, COVID-19 also resulted in a crash of the short-let market (+45% increase of listings) and a decline in the Sales.⁵ The knock-on effect are more cost-conscious renters as trends in London (rents dropping by up to 15%)⁶ show. Demand for rentals will be slower, fuelled by renters moving out of cities, lack of international students and relocations put on hold, which will keep the rents lower than planned.

1.3. Profitability Outlook

Profitability is influenced by the two main drivers for any organisation|:

1.3.1. Financial

Access to cheap capital is crucial – yet only 70 companies are listed on London Stock Exchange as tax-preferred REIT – compared with 225 listed at NY Stock exchange and a volume of \$1 trillion vs. £70 billion in the UK.

Tapping into the private investor market can be a long-term strategy securing access to capital, as private investors prefer the higher yield above those of bonds. REIT structures might help in unlocking extra capital with the tax incentives thus allowing a bigger investment pot to acquire undervalued assets/develop fewer desirable sites – that can be turned around together with the local authorities.

MORICON CONSULTANTS LTD

Registered Office: Kemp House, 152 City Road, London, EC1V 2NX

Company No.: 11282307

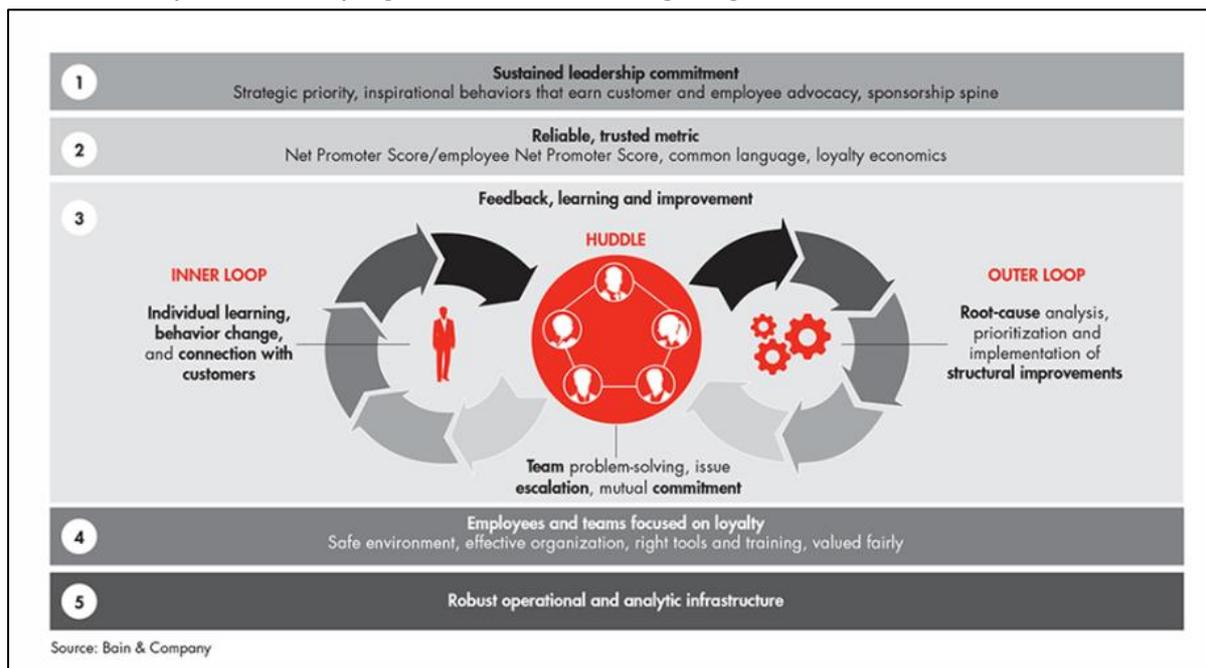
1.3.2. Operations

With the market in flux, the BTR sector should focus on their customers with a long-term view of profitability: driving down vacancies, minimising turnover by good estate management and by improving services, all to increase the lifetime value of customers.

A favourable public representation of the organisation will attract more customers – portals such as HomeViews will play an important role in allowing customers to familiarise themselves with the scheme and the management culture, community activities and your customer service. This in turn minimizes voids, creates faster tenancy churn and results instable income.

Using technology as much as possible to streamline operations without losing the human touch will be rewarded by better yields and improved synergies across the portfolio. New management systems that measure customer loyalty and how effectively the company values are practised should be used.

For example, the Bains Net Promoter Score is a very powerful instrument to align the organisation regarding loyalty, commitment and culture : referral fees / incentives are cheaper than new acquisition campaigns and worth investigating.



1.4. Tech Opportunities

Social distancing has accelerated the property sector’s tech innovation in the last two months by at least five years: virtual viewings are now replacing the traditional agent viewing, contactless communication and payments are gaining acceptance. A well trained and rehearsed agent can be more meaningful and informative during a virtual viewing and is able to host more clients.

The next big significant change lies in the further development and acceptance of BIM⁷ and the drive to move from BIM Level 2 to Level 3 with scan-to-BIM technology. This will increase

collaboration speed between teams, allow a more exacting measure of spaces for renovations or sales presentations and reduces construction overheads.

The Whole Lifetime Cost (WCL) calculation can be managed easier, allowing accurate predictions on replacements and maintenance works and costs and have major impact on the net yield of the scheme.

1.5. Conclusion

The industry will suffer in the short-term because of unplanned operational expenses, a general upheaval in the market and a higher risk of tenants defaulting on payments. These, however, are events that should in the long-term view play a lesser role -real estate has always been the most stable of all asset groups and COVID-19 should not be different.

An open-minded approach to new technologies and business practises should help to secure margins and to lead the industry back to profitability and stability.



Sebastian has more than 25 years of global luxury hospitality and customer service experience. He worked in senior management roles on three continents with a variety of hotel companies, including Fairmont Hotels and Resorts, Intercontinental, The Hazelton Hotel Toronto and Shangri-La Hotels.

His residential experience covers senior management roles at [One Hyde Park Residences](#) (Mandarin Oriental Group), [Ten Trinity Residences](#) (now Four Seasons Hotels) and [Belgravia Gate](#), before founding MORICON Consultants. He consulted [Lodha Group UK](#) on their three London projects – Lincoln Square, No. 1 Grosvenor Square and Kensington Odeon with a combined sales value of £ 1.6B and provided strategic advice for the [Amaala Project](#) in Saudi Arabia, a new super-prime resort destination at the coast of the Red Sea.

Professionally educated in Switzerland, he holds an MBA from Henley Management College. Sebastian has Member status at IRPM and Assoc. RICS and achieved Level 4 BTR Accreditation from IRPM.

<http://www.moricon.net/about/>

¹ <https://www.building.co.uk/news/work-stops-at-80-of-uk-housebuilding-sites/5105470.article>

² <https://www.landlordtoday.co.uk/breaking-news/2020/5/rising-rent-arrears-likely-to-mount-as-tenants-face-financial-hardship>

³ <https://www.landlordtoday.co.uk/breaking-news/2020/6/sharp-rise-in-rental-arrears-as-300-000-tenants-fail-to-pay-on-time>

⁴ https://www.building.co.uk/news/in-pictures-social-distancing-on-willmott-dixon-sites/5106047.article?utm_medium=email&utm_campaign=Daily%20Building%20Daily%20News&utm_content=Daily%20Building%20Daily%20News+CID_9a7e27fd008d742e677466c3a102229c&utm_source=Campaign%20Monitor%20emails&utm_term=In%20pictures%20Social%20distancing%20on%20Willmott%20Dixon%20sites

⁵ <https://www.propertyinvestortoday.co.uk/breaking-news/2020/5/the-world-has-changed-what-next-for-build-to-rent>

⁶ <https://www.landlordtoday.co.uk/breaking-news/2020/5/london-rents-drop-by-up-to-15-amid-the-coronavirus-crisis>

⁷ Building Information Modelling

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