

Questions on Build to Rent

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

Meeting Demand (1 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 first article, Sebastian Moritz - Director of MORICON, will look at the rental demand, how to meet the undersupply and highlights possible solutions.

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1. Meeting Rental Demand

In February 2017, the British Property Federation published a widely reviewed report on the unlocking of benefits and potential of BTR (Build to Rent) for the UK Housing market¹. The paper highlighted a range of measures undertaken by the government, local authorities as well as the private sector to ensure a steady growth in the housing market in support of the failing house building targets.

In 2020, the BPF (British Property Federation) reported that 43,236 units are complete, 33,505 are under construction with a further 80,771 in planning for a total of 157,512 units² – well short of the envisioned target of 200,000 units.

1.1. What are the main issues for undersupply?

As expected with such a complicated problem, there are several factors that contribute to the lack of supply, the main ones are listed below:

1.1.1. Planning & Knowledge

Many operators feel, that the Local Authorities (Local Authority) play a major role in aggravating the situation: as most Local Authorities are reliant on a few framework policy documents - set out in the National Planning Policy Framework (NPPF)³ and the National Planning Policy Guidance (NPPG)⁴, they lack a set of concise policies assisting them with BTR. At this moment, the framework still favours owner occupiers as well as affordable housing – and both models differ from BTR and more education and explanations are required.

Another issue lies in the application of tenure-blind space requirements via Local Authorities: the mandatory - and sometimes ill-informed planning for the unit mix and size can result in missed opportunities for additional space. Three- or four-bedroom units are not generally required for a BTR property, however this is driven by the Strategic Housing Market Assessment without consideration of which type of tenure this building is designed for.

Size matters: many of the BTR properties have additional amenities as part of the expected offering – to offset higher construction costs due to this more units need to be built which can be a challenge with the limited space available. To encourage developers to plan more BTR properties the standard size of the units could be revisited and the achieved extra space utilised for further units – preferably on a discounted market rent (DMR) scheme.

1.1.2. Mobilisation & Phasing

Once planning has been completed, the building process can be hindered by the long mobilisation periods granted - in England this currently is 3 years⁵. In the worst case, a site can lie dormant for three years until construction starts or before consent can be withdrawn. This, paired with a phased construction, will reduce the available units available in the short term without a reliable supply pipeline.

The phasing of a development - though perfectly legal - aims to avoid a sudden surplus of units, but artificially fuels undersupply and growth of land value and house prices. It is mostly

led by construction considerations and practicalities in site management. Recently the Local Government Association claimed, that only 60% of all permitted buildings have been built and the issue lies with both - the regulator and developers.⁶

1.1.3. Market & Regulatory

The following table⁷ highlights the variety of market & regulatory shortcomings that have an impact on the BTR sector:

Market/Regulatory Failure	Main Type of Failure
Restricted access/mispriced finance	Imperfect information/immature market
Inappropriate planning policy (particularly in relation to: car parking standards; unit space standards; unit mix; and affordable housing requirements)	Regulatory failure
Professional management capabilities	Imperfect information/immature market
Disadvantageous taxes/levies: Value Added Tax (VAT), Stamp Duty Land Tax (SDLT) and Community Infrastructure Levy (CIL)	Regulatory failure
Political and regulatory uncertainty	Regulatory failure
Labour market rigidity as a consequence of restricted rental choice	Externality
External benefits for regeneration and economic benefit of BTR schemes	Externality
Job creation and quality of management	Externality

Source: Savills and LSE, 2016

Whilst job creation schemes, labour markets or external benefits for regeneration have no direct impact on BTR schemes, there are a range of “home-made” issues that need resolution. Extra costs, such as VAT and Community Infrastructure Levy (CIL) are some of the regulations in need of a review as those extra costs hit the viability calculations of a project and can deter a developer from building a BTR project.

1.2. Possible Solutions

1.2.1. New Approach to Planning

To overcome the planning hurdle and to avoid alienation of the Local Authority’s planning committee, I advocate the forming of partnerships between the Local Authorities and Housing Associations wherever possible.

This helps to alleviate misconceptions and closes knowledge gaps while helping to smoothen out the planning process⁸:

- Joint planning groups
- Open community discussion forums
- Workshops to highlight BTR characteristics

Education of the Local Authorities on the differences between BTL and BTR schemes could lead to more understanding of the issues with current planning. This approach could result in a different view on space requirements at planning stage and soften the stance of Local Authorities regarding slightly smaller DMR units rather than a fixed set of affordable units as demanded in housing strategies.

Another way to increase stock could be to concentrate more on Permitted Development Rights (PDR) as seen at the very successful Office-to-Residential Conversion at the Boulevard Crawley by Platform: the change resulted in extra 27 units above the borough's space standards – which boosted the profitability of the development as well.⁹

1.2.2. Faster & Meanwhile

To shorten the construction period and maintain a profitable development, modular construction techniques or timber frame construction should be reviewed – this would not only lower cost but also increase sustainability.

Developers could prepare the full spectrum of qualifying mobilisation works¹⁰ as soon as new sites are going into the planning cycle, triggering the building process, whilst separately working on a range of out-of-the-box / table top scenarios for a swift mobilisation for future projects, Local Authorities might incentivise responsiveness with business tax breaks, utility discounts, reductions in CIL (community infrastructure levy), etc.

To maximise the site utilisation, I recommend the use of meanwhile - modular units: whilst starting on phase 1 companies could – permission pending – install modular housing units. This allows site-maximisation on one side and creates sales for the developer on the other hand. Initial site-housing might be on termed contracts, i.e. for 5 years and allows rapid deployment of excellent timber frame, modular units.

Based on the meanwhile concept these can move, first within the maturing of the site and once the site is completed, to a new project altogether. This allows more stock to be available whilst creating a community from the beginning.

1.2.3. Changing the regulatory framework locally

Close relationships with the Local Authorities will help to ensure full understanding of BTR and its differences to other schemes. The main issues currently are space planning, parking¹¹ as well as affordability requirements. A review of the local framework could result in a more flexible approach to space standards thus creating more units across the country. The more openminded the developer and the Local Authority are, the easier and faster changes, such as below, could find its way into the regulatory framework:

- changes to fixed number of affordable units
- more viability-led approach of DMR units
- new standards for car parking space allocation

1.3. Conclusion

The fact that the housing market needs reform is undisputed – due to the complexity of the regulatory framework as well as decades of inertia on both sides (local authorities & industry) a new approach is needed. The industry can work on local level with the housing authorities to create a mutual vision and roadmap to pledge swifter and faster results:

- Creating knowledge base for authorities to educate about BTR
- If profitable, look to PDR processes
- Avoid mobilisation delays to show good intentions
- Use increased modular components, meanwhile structures or timber-frame construction to speed the build-process up.



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¹ BPF: Unlocking Benefits and Potential of Build to Rent, Feb 2017

² BPF: Build to Rent Map of the UK, Q1 2020

³ Ministry of Housing, Communities & Local Government (MHCLG): National Planning Policy Framework, Feb 2019

⁴ Ministry of Housing, Communities & Local Government (MHCLG): National Planning Policy Guidance, July 2018

⁵ Town and Country Planning Act 1990, Section 92

⁶ <https://www.theconstructionindex.co.uk/news/view/40-of-houses-with-planning-permission-not-built>

⁷ BPF: Unlocking Benefits and Potential of Build to Rent, Feb 2017, pg. 48

⁸ Successful examples include Barking Riverside Regeneration Project – a cooperation between L&Q and GLA

⁹ BPF: Unlocking Benefits and Potential of Build to Rent, Feb 2017, pg. 41

¹⁰ Town and Country Planning Act 1990, Section 56

¹¹ Transport London, 2012: Residential Parking provision for new developments

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