

The rental opportunity

Richard Otten, Partner and Director of Asset Management at Hearthstone Investment Management, outlines how housebuilders can benefit from build-to-rent.

Most builders will be familiar with the very large blocks of apartments being developed in city centres for the build-to-rent market. It is less well known that a number of institutional investors, such as Hearthstone Investment Management, are also making substantial investments in houses.

In the UK, the private rented sector has been largely dominated by individual private buy-to-let investors, each of whom may own a very small number of properties. In some other countries, institutional investment is well-established and is an integral part of housing provision. We anticipate significant potential for the growth of institutional investment into the UK's private rented sector, with investors adopting different models ranging from the city centre build-to-rent apartment blocks, to suburban mid-level housing and low-rise apartment buildings. (See *Chart*)

Institutional investment for the private rented sector brings significant benefits for both housebuilders and tenants. For housebuilders, stable sources of long-term

capital are available to invest into build-to-rent enabling early bulk sales helping to fund development costs and de-risk large schemes. This enables housebuilders to establish a pipeline of sales which can bring forward build programmes and maintain an excellent return on capital. For tenants, it means better managed properties and longer lease terms.

Build-to-Rent growth

A recent report commissioned by the British Property Federation shows that build-to-rent is not only growing year-on-year, up 45% in Q1 2018 from the same period in the previous year, but that build-to-rent in UK regions has now overtaken London. With more people renting rather than buying, the focus on the sector increases.

A major challenge underpinning housebuilders' ability to deliver against these goals, and in particular for the smaller housebuilders taking on the bigger players, is ensuring access to finance in order to build to scale. This is where institutional capital can bring real advantage.

Investment opportunity

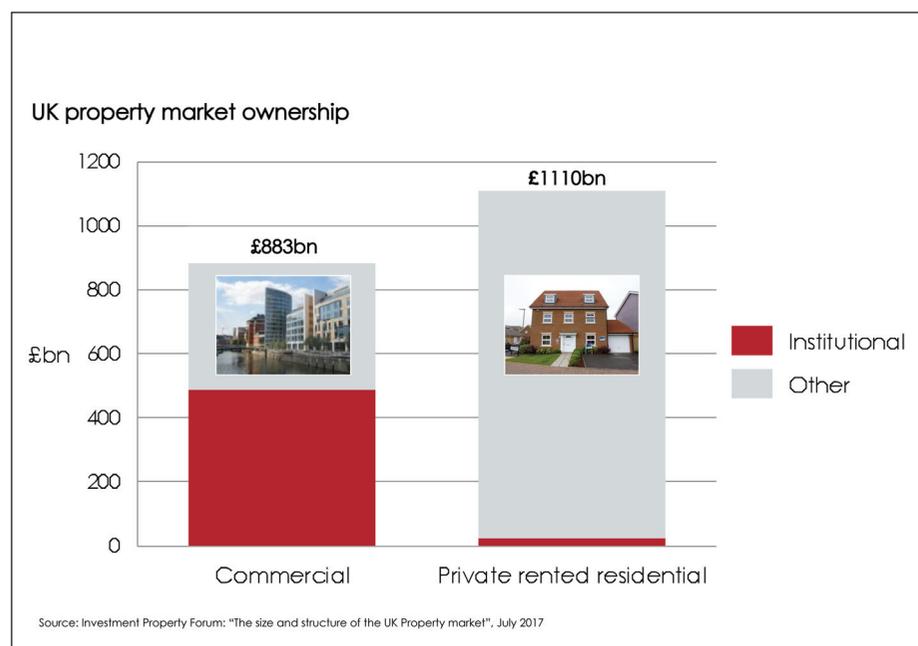
Hearthstone Residential Fund 1 (HRF1) has received commitments of £100m from a group of five local authority pension funds acting as cornerstone investors in a ten-year closed-end vehicle which will invest across the UK regions where there is, or is anticipated to be, strong rental demand. We are already in active discussions with other investors and are confident that more funds will be available within the next 12 months.

“ HRF1 is actively seeking to develop relationships with a small number of quality housebuilders ”

With a final close target of £200m, the Fund is simultaneously seeking to deploy the capital in the private rented sector. HRF1 is actively seeking to develop relationships with a small number of quality housebuilders with a strong regional presence and to purchase newly built family homes.

To date, HRF1 has acquired stock in Birmingham, Cardiff, Manchester, Nottingham, and Yorkshire. The fund is actively seeking – with monies available – to acquire new build homes, preferably clusters of smaller houses and/or low-rise apartments with appeal to young professionals and families. The focus will be on properties in English regions, in or near cities and towns offering good local infrastructure with vibrant economic activity which reinforces sustainable rental demand. Housebuilders wanting further information should contact: Richard Otten raotten@hearthstone.co.uk

Limited UK institutional exposure to residential property...



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