RESEARCH

DECEMBER 2019

UK Residential Property: Institutional Attitudes and Investment Survey 2019

COMMISSIONED BY THE IPF RESEARCH PROGRAMME

This research was funded and commissioned through the IPF Research Programme 2015–2018.

This Programme supports the IPF's wider goals of enhancing the understanding and efficiency of property as an investment. The initiative provides the UK property investment market with the ability to deliver substantial, objective and high-quality analysis on a structured basis. It encourages the whole industry to engage with other financial markets, the wider business community and government on a range of complementary issues.

The Programme is funded by a cross-section of businesses, representing key market participants. The IPF gratefully acknowledges the support of these contributing organisations:

UK Residential Property: Institutional Attitudes and Investment Survey 2019

Report

IPF Research Programme

December 2019

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1. EXECUTIVE SUMMARY

- Respondents to the 2019 survey own or manage global investments worth in excess of £9.9tn, of which UK real estate contributes £227bn (c.2% of all assets). There were 48 respondents to the survey, of which 38 have exposure to UK residential.
- The overall value of the UK residential exposure of the 37 respondents providing data is £27.8bn, a substantial uplift compared to 2018 survey (£16.6bn). This increase was mainly from three significant residential investors joining the survey this year combined with a £2.6bn increase in the value of residential portfolios of 2018 respondents.
- Residential investment accounts for 13.5% of UK real estate exposure, the highest percentage since the survey began. The average holding of respondents with residential exposure is £751m, again substantially higher than the 2018 result.
- The private rental sector (PRS) remains the most popular means of investing in the sector and represents a half of total investment. Development for either investment stock or market sales accounts for under a third. There has also been a significant increase in sub-market rent/social housing to around 10% of total residential exposure.
- Returns profile remains the key motivation for investing in residential, closely followed by its stability of income. Development potential, residential's defensive qualities, stability of capital values and inflation-matching ability were ranked some way behind.
- Ten of the contributors to the 2019 survey do not invest in UK residential. Their primary reasons for not investing are low income yields, political risk and unattractive pricing, with political risk cited by more non-investors than in previous years.
- London accounts for just under 70% of current residential exposure, with 41% in central London (Zones 1-3) and a further 27% in outer London (Zones 4-6). However, the focus for future investment is away from central London, where net disinvestment is expected.
- Sixty-three percent of residential investors state that they intend to increase their exposure to UK residential over the next 12 months, in line with the 2018 survey (65%) but behind the 2017 results (80%). Half of the 10 non-investors stated that they are considering exposure to the sector in the next year.
- A total net figure of £6.8bn has been assigned for residential investment over the next year, the majority of which is for build to rent/development land for investment stock (£3.6bn) and the purchase of existing residential for private (market) rent (£2bn).
- While only a quarter of investors have worked with the UK public sector in the last three years, two-thirds intend to collaborate with them in the future, with the main objective to access land sites, owned by these organisations, to develop and retain residential units for rental purposes.

2. INTRODUCTION

The IPF survey of institutional attitudes and investment intentions towards the UK residential market is now in its eighth year. Its key aims are to examine the changes in residential investment by institutional investors over the preceding 12 months since the last survey, as well as to identify any longer-term trends during the past eight years. The original survey, in 2012, was instigated in response to the Minister for Housing and Local Government's call to encourage greater institutional investment into the privately rented residential sector (the Sir Adrian Montague Review).

Data from the survey was collected primarily from an on-line questionnaire, directed at major institutional and large-scale investors. Further comments were elicited from interviews with 15 of the contributors to the survey. All information was provided in confidence and is reported in aggregate. Data collection took place over 12 weeks from mid-June, with interviews taking place during September and October.

More than 70 organisations were invited to participate in the research, representing a range of real estate investors, comprising pension funds, life assurance companies, property companies, including real estate investment trusts (REITs), sovereign wealth funds, fund and investment managers and other financial institutions. As with previous surveys, participants represented both investors with and without exposure to the residential sector. A total of 48 responses to the survey were received, although, due to issues of confidentiality, some parties declined to answer certain questions, primarily those requesting details of asset values.

3. SURVEY RESULTS

The principal purpose of the research was to measure current levels of investment as well as future intentions of major investors towards the UK residential sector. In addition, non-investors in the sector were surveyed to identify the reasons for their absence of investment. Comparative analysis was undertaken, using data from core respondents who have contributed in every year of the survey over the past eight years.

3.1. Profile of Respondents and Current Investment

The headline total value of global assets held or managed by the 47 survey respondents, who provided relevant data for the 2019 survey, was in excess of £9.9tn. One manager did not disclose this information. Of this total, approximately £227bn[1] was UK real estate or around 2% of all assets.

A comparison of responses received from each of the last eight years of the survey is contained in Table 3.1. Thirty-eight of the institutional investors surveyed held residential assets as part of their UK portfolio. Of the 37 that quantified the size of their investment, the overall value was £27.8bn, representing an average 13.5% of their UK portfolio. Both these figures are notably higher than those reported in the 2018 survey.

Table 3.1: Assets under Management 2012-2019 (All Contributors)

	All Investors		Residential Investors		
	Number	UK Real Estate AUM	Number	UK Residential Assets	Proportion UK Real Estate
		£bn		£bn	%
2012	42	180	33	7.6	4.6
2013	43	166	37	10.8	7.0
2014	46	204	37	12.8	6.5
2015	43	221	38	15.4	7.5
2016	46	232	37	15.4	7.3
2017	54	237	42	18.1	8.6
2018	45	224[2]	32	16.6	9.7
2019	**47**	**227**	**37**	**27.8**	**13.5**

Note: Assets under management are imputed; not all respondents provide data. Estimates may include an element of double-counting due to the inclusion of indirect investments managed by other respondents.

A large element of the increase, between the 2018 and 2019 results, stemmed from the inclusion of three large UK residential investors in the 2019 survey, two of whom were first-time contributors and one who had not contributed since one of the early surveys. However, comparing the 35 contributors common to both the 2018 and 2019 surveys, there was also a significant uplift in value in residential portfolios of £2.6bn. This reflected net investment into residential by 17 investors, one who had previously been a non-investor. Thirteen contributors' position towards the sector remained the same, with seven being non-investors. Five investors reduced their allocations to the sector, although none entirely, with disinvestment totalling £574m.

[1] The figures for overall real estate and residential exposure are gross figures and do not adjust for potential double-counting through indirect investment in funds, joint ventures, etc. but are also unadjusted for the respondents unwilling to disclose figures for exposure (AUM).

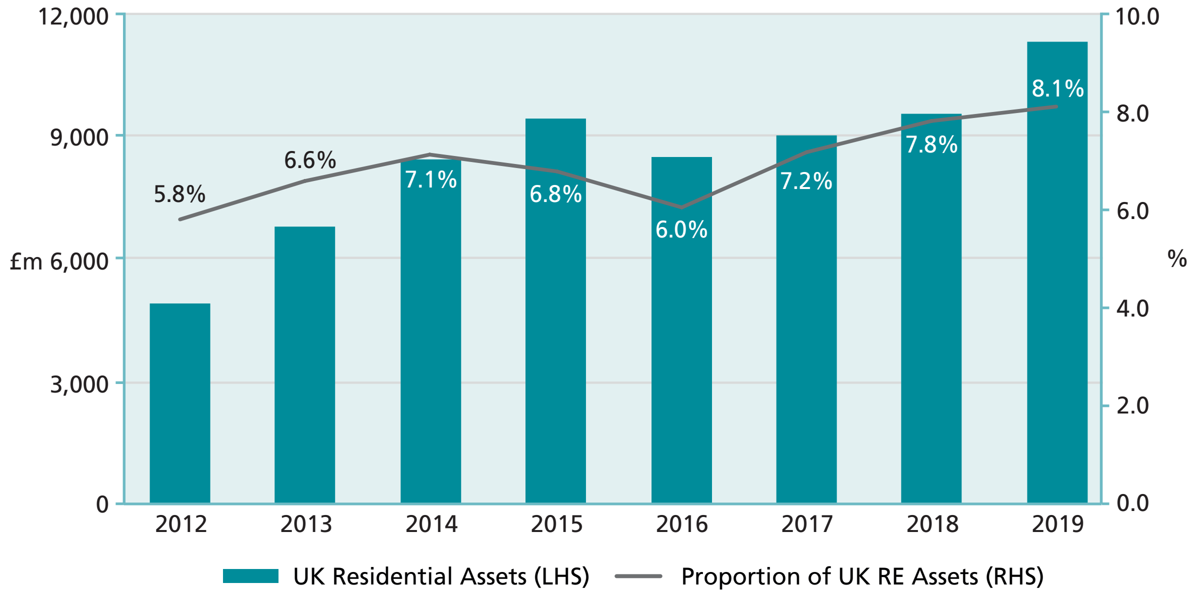
[2] The 2018 figure required revision due to incorrect categorisation of data by two investors. This also impacted on the Proportion of UK Real Estate figure for 2018.

3. SURVEY RESULTS

The average value of residential portfolios of those investors with exposure to the sector was £751m, considerably higher than the previous two years (£520m in 2018 and £432m in 2017). This figure disguises a wide range of exposure between investors – extending from four with assets valued at £2bn or more to seven investors with assets of less than £99m. The size of residential portfolios has grown consistently over the years since the first report. In 2019, over 40% of residential investors had portfolios valued at £500m or more, compared to just 18% in 2012.

Residential investment by institutional or large-scale investors is more commonplace in markets beyond the UK, hence survey respondents were questioned over whether they hold assets overseas. There was an almost even split between those that had residential assets abroad (25) and those that had no exposure (23) but, interestingly, of the 10 non-investors in UK residential, all bar two held overseas residential.

Figure 3.1: Residential Assets under Management 2012-2019 (Regular Contributors)



Note: There were six fewer regular contributors in the 2019 survey than in 2018. One contributor merged with another organisation during the last year and a further five did not participate in the 2019 survey.

An analysis of the residential portfolios owned by the 18 investors who have contributed to the survey in every year is shown in Figure 3.1. Since 2012, there has been an upward trend in the percentage of residential held within real estate portfolios and the continued interest in the sector is reflected in a figure of 8.1% in 2019, the highest reported in all survey results.

These values do not adjust previous years' results for capital appreciation or depreciation but the MSCI UK Annual Residential Index recorded capital value growth of 1.7% in 2018, while the sub-market of Residential Market Lets experienced a capital decline of -0.8%.

3. SURVEY RESULTS

3.2. Exposure by Asset Type and Geography

Contributors were invited to provide details of which residential asset types they have exposure to. Five categories of assets were defined:

- Standing investment (market rent – PRS);
- Standing investment (sub-market rent/affordable – Social Housing);
- Development land for investment stock;
- Development land for market sales; and
- Other.

A comparison of previous years' results is provided in Table 3.2, with an analysis of the breakdown between the different asset types.

Table 3.2: All Contributors by Asset Type

Year	All Assets £m	PRS £m	Sub-Market Rent £m	Devt. Rent/Sell £m	Other £m
2012	7,594 (28)	n/a (21)	n/a (5)	n/a (15)	n/a (16)
2013	10,855 (37)	n/a (23)	n/a (3)	n/a (19)	n/a (18)
2014	12,792 (36)	4,389 (23)	369 (6)	3,064 (22)	4,970 (25)
2015	15,399 (38)	4,547 (30)	606 (5)	4,148 (21)	5,158 (28)
2016	15,545 (35)	5,854 (24)	622 (6)	4,039 (23)	4,041 (15)
2017	15,980 (39)	7,990 (29)	1,120 (7)	3,770 (24)	3,100 (12)
2018	16,644 (32)	7,776 (23)	1,070 (7)	4,917 (23)	2,881 (9)
2019	**27,802 (37)**	**13,899 (28)**	**2,856 (11)**	**8,291 (26)**	**2,756 (11)**

Note: Number of respondents holding asset type in brackets.

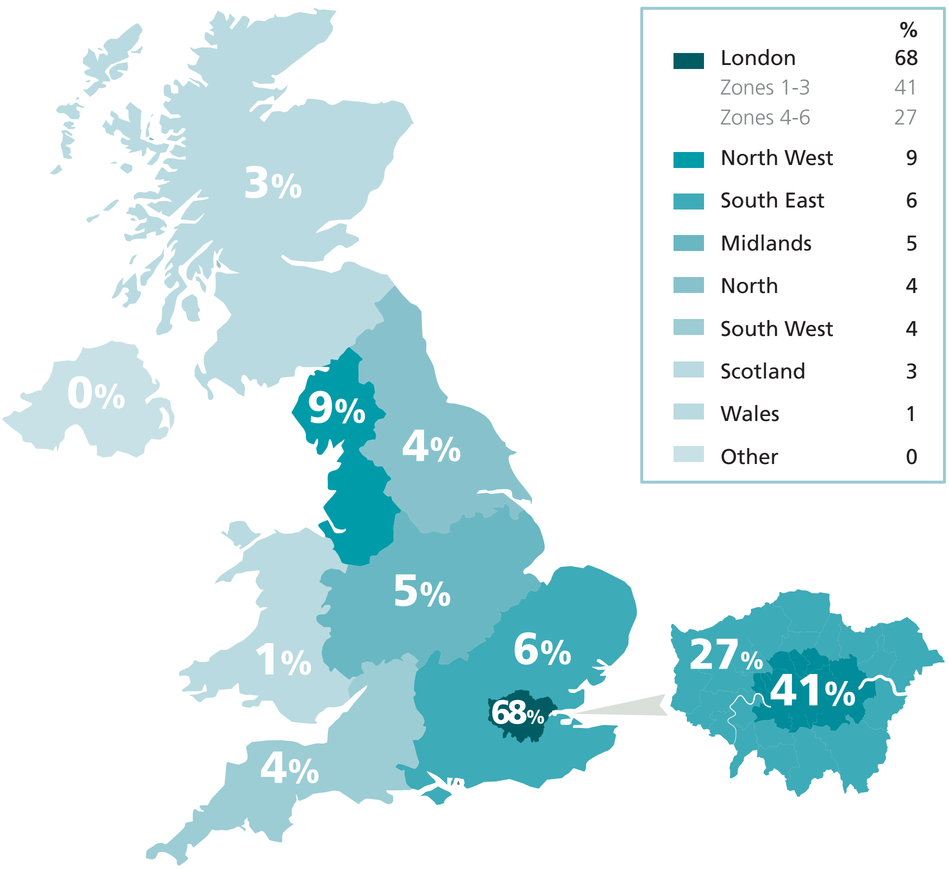
The increase in the extent of residential assets, covered by the survey, was reflected in the values across all of the categories, with the exception of 'Other'. Consistent with the last few years, PRS remained the most popular asset type in 2019, accounting for just over half of the residential exposure recorded (£13.9bn). Development, for either investment stock (also known as 'build-to-rent') or for sale, was again second with over £8.3bn of exposure. In 2019, exposure to land and developments of investment stock to be rented and of stock to be sold extended to £4.8bn and £3.5bn respectively.

Sub-market rental or affordable housing amounted to £2.9bn, or 10% of total residential investment, substantially ahead of previous years. Exposure to the 'Other' category has fallen consistently since 2016 and accounted for £2.8bn of the residential in 2019, reflecting a decline in the amount of student accommodation covered by the survey. Examples of the type of asset in this category include ground rents, senior living/retirement housing and residential care homes.

In 2018, contributors were questioned for the first time about the geographical location of their UK assets. In 2019, 35 respondents provided breakdowns which are shown collectively in Figure 3.2. As in 2018, there was still a strong bias towards London, with residential in inner London (Zones 1-3) and outer London (Zones 4-6) amounting to 41% and 27% respectively. Other notable locations were the North West (9%), the South East (6%) and the Midlands (5%).

3. SURVEY RESULTS

Figure 3.2: Distribution of Current Residential Investments



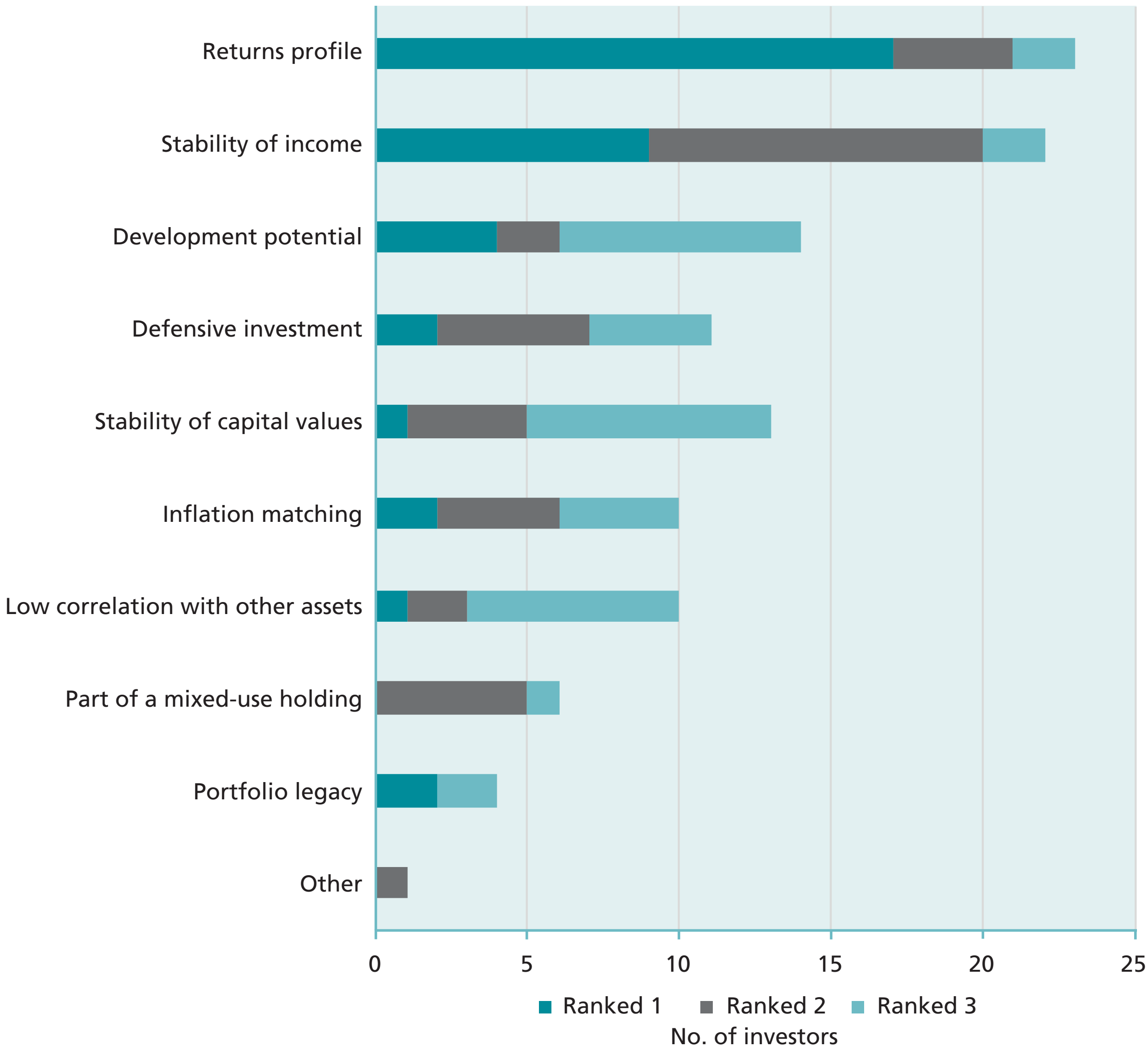
Note: Data collection amalgamated a number of regions: South East comprises: South East and Eastern; Midlands: East and West Midlands; North: Yorkshire & Humberside and North East.

3.3. Rationale for Investing in Residential Property

Contributors to the 2019 survey were questioned over their motives for investing in UK residential. They were asked to rank the top three reasons from 10 criteria. These criteria are listed in Figure 3.3, which also illustrates the range of responses and the relative importance to contributors.

3. SURVEY RESULTS

Figure 3.3: Ranking of Investment Criteria 2019



The returns profile offered by the residential sector was the key motivation for investing. Seventeen investors classified it as their primary reason and just over 60% of respondents ranked it as one of their top three criteria, a similar level to 2018, although below the 2017 result of 70%.

As with the two previous years, stability of income was also a popular objective for investing, with just under 60% selecting it as one of their top three reasons. Development potential, defensive qualities and inflation-matching abilities were also cited as reasons for residential investment. Stability of capital has become increasingly important in 2019, with 34% ranking it in top three, compared to 18% in 2018.

Before 2017, survey contributors were invited to rank all reasons for investing in residential that were relevant, so a direct comparison over more significant periods of time is not possible. However, returns profile has been the most common motive for exposure to the sector in every year since the survey began.

3. SURVEY RESULTS

3.4. Investment Intentions

Investors were questioned over how they intended to change their UK residential exposure over the next 12 months. Of the 38 current investors that responded, 63% (24) anticipate increasing their exposure to the residential sector over the next 12 months. This is in line with the 2018 survey results although lower that the 2017 result of 80%. Five investors believe their residential portfolio will remain stable while four indicated that they will be looking to sell down some of their assets. Five investors were unsure of their future intentions at the time of the survey.

Non-investors in residential were also questioned about how their UK portfolios are expected to change over the next 12 months. Half of the contributors (5 out of 10) responded that they intend to commence investment into the sector, a significant uplift from the previous two years' results. Three non-investors responded that they have no intention to invest in the sector in the next 12 months and a further two were unsure at the time of survey.

Respondents to the survey were invited to clarify their investment intentions by providing details of the type of property and approximate amount expected to be invested or disinvested over the next 12 months. The responses of 22 current investor and three non-investors are summarised in Table 3.3. Net investment intentions towards residential amount to £6.8bn.

Acquiring development sites for investment stock (build to rent) accounts for 54% of the net investment into residential, with £3.6bn intended to be invested. The acquisition of completed properties including standing PRS investments for PRS is expected to attract a further £2bn in the next year, with a small amount of disinvestment. The intended investment in sub-market rented (social/affordable) housing is expected to be £823m, the highest level since 2015. Finally, 'Other' residential uses are expected to attract net investment of £265m.

Disinvestment intentions amount to £447m, predominately in the 'Other' category.

Table 3.3: Investor Intentions Over the Next 12 Months

	PRS	Sub-Market	Devt. Rent	Devt. Sales	Other	Total
Invest (£m)	2,115	828	3,645	95	525	7,208
No.	12	7	15	3	2	39
Disinvest (£m)	82	5	0	100	260	447
No.	3	1	0	1	2	7
Net Invest (£m)	**2,033**	**823**	**3,645**	**-5**	**265**	**6,761**
No. Net Investors	**12**	**7**	**15**	**3**	**2**	**38**

Note: A number of investors expressed intentions to invest/or disinvest in more than one type of residential asset. The table includes the results from both current investors and non-investors.

3. SURVEY RESULTS

To comprehend more fully the extent to which investment intentions translate into actual changes in exposure, analysis was undertaken to compare future intentions, as indicated in the 2018 survey, with actual investment activity measured during the year to the 2019 survey.

Table 3.4 presents the results of the 28 residential investors who provided answers to both surveys, which permits comparison. Four investors were unsure of their intentions at the time of the 2018 survey and have therefore been excluded from the analysis. It appears that three of these four increased their allocation to residential in the last 12 months while one reduced their exposure.

Only 14 investors (or 59%) matched their broad expectations (to increase, decrease or maintain existing exposure). This is in line with the 2018 result but lower than in 2017 (74%). Just under two-thirds of investors who intended to increase their exposure to residential were successful in their goal. Of the three investors who expected to maintain a stable residential portfolio only one did so, with one investing further and one reducing exposure. Of the two respondents who expected to reduce the size of their portfolios over the past year, only one did while the other invested further.

Table 3.4: Investment Intentions versus Outcome

		Actual 2018-2019		
Intention in 2018	**No.**	**Decrease**	**Remain Stable**	**Increase**
Decrease	2	1	0	1
Remain stable	3	1	1	1
Increase	19	2	5	12

Investors were asked to clarify the geographical location of their intended future residential investments. Investors provided locations on just over £4bn of assets out of the total £6.8bn anticipated to be invested in the next 12 months. Outer London (Zones 4-6) is expected to attract over £1.3bn of future investment, followed by the Midlands with £1bn. Other popular areas include Scotland (£471m), the North West (£434m) and the North (£425m). Central London (Zones 1-3) was the only region which showed a decline, with disinvestment of £250m. Figure 3.4 shows the results for all of the regions.

3. SURVEY RESULTS

Figure 3.4: Future Investment Intentions by Region

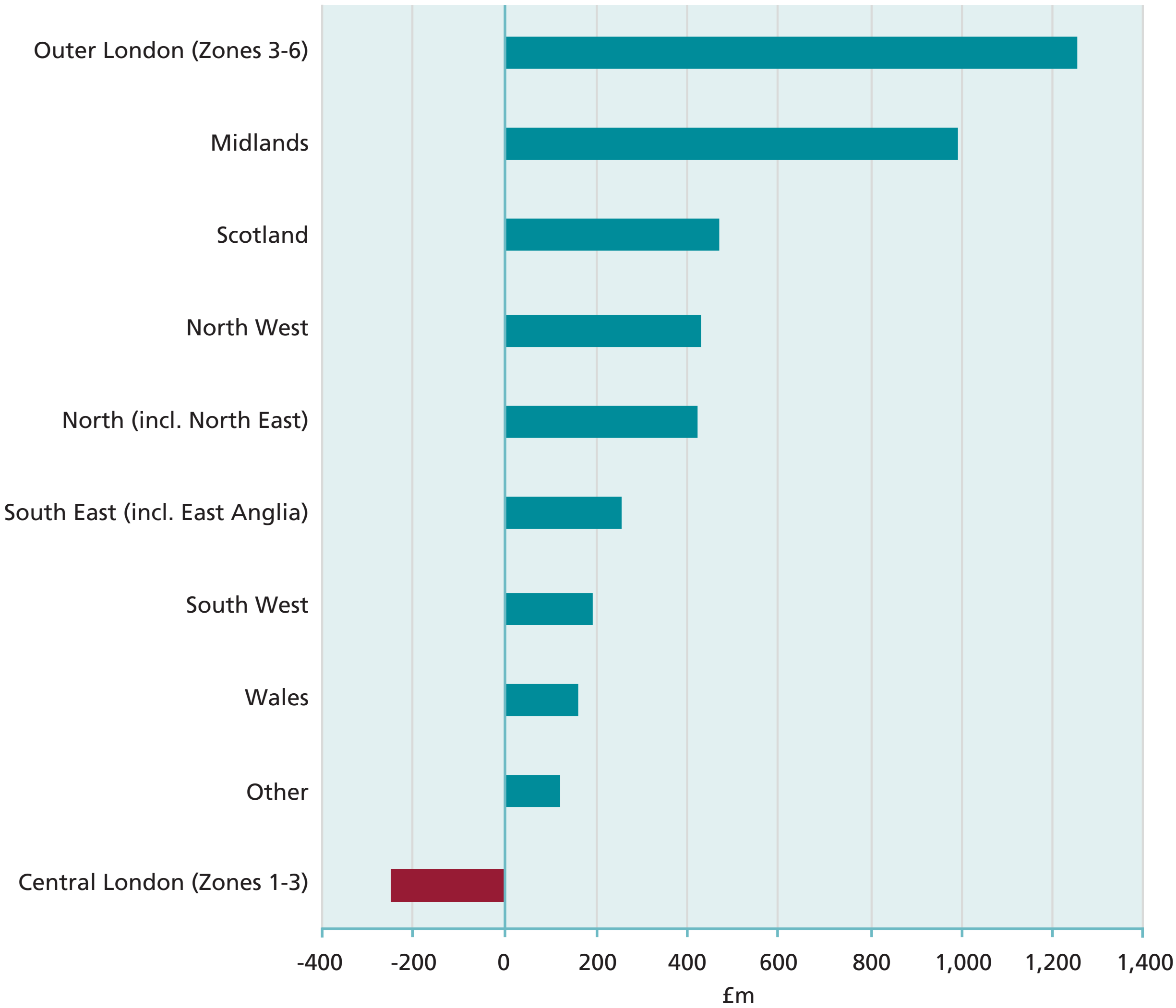
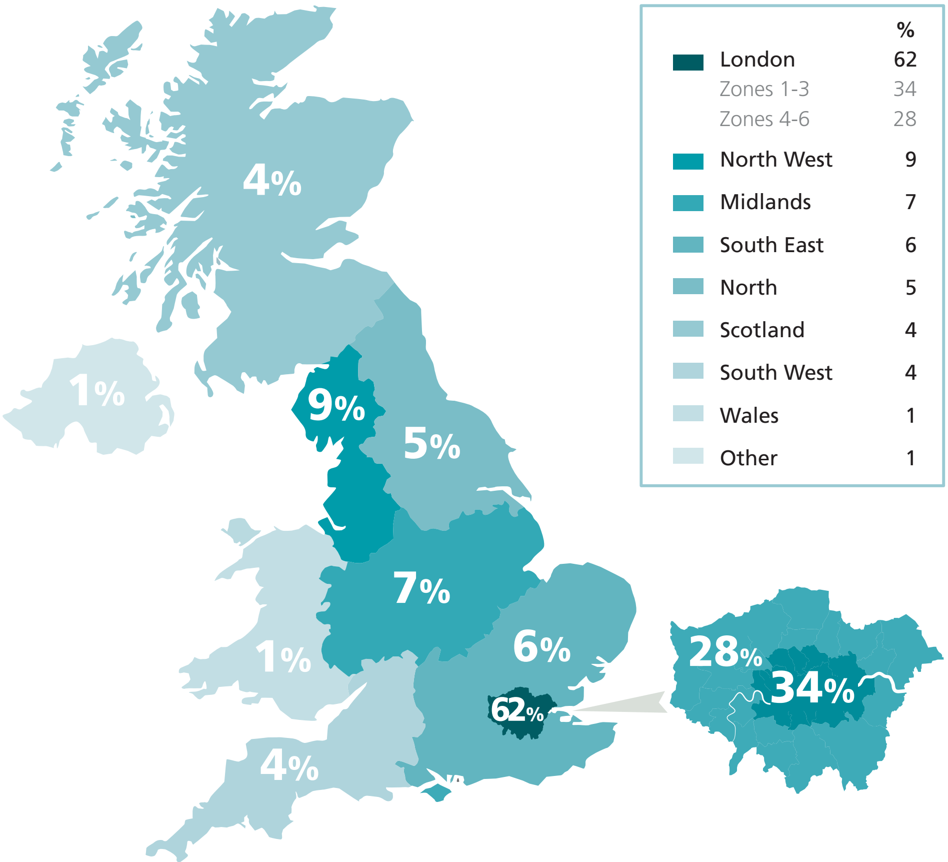


Figure 3.5 displays the location of current residential investment and future intentions combined. When compared to the current allocation in Figure 3.2, London has a lower weighting. This is purely down to the expected disinvestment in Central London. The weighting to outer London remains almost the same. The Midlands benefits most, in relative terms, accounting for 7% of current and future investment, compared to 5% of the present allocation.

3. SURVEY RESULTS

Figure 3.5: Distribution of Future Residential Investment

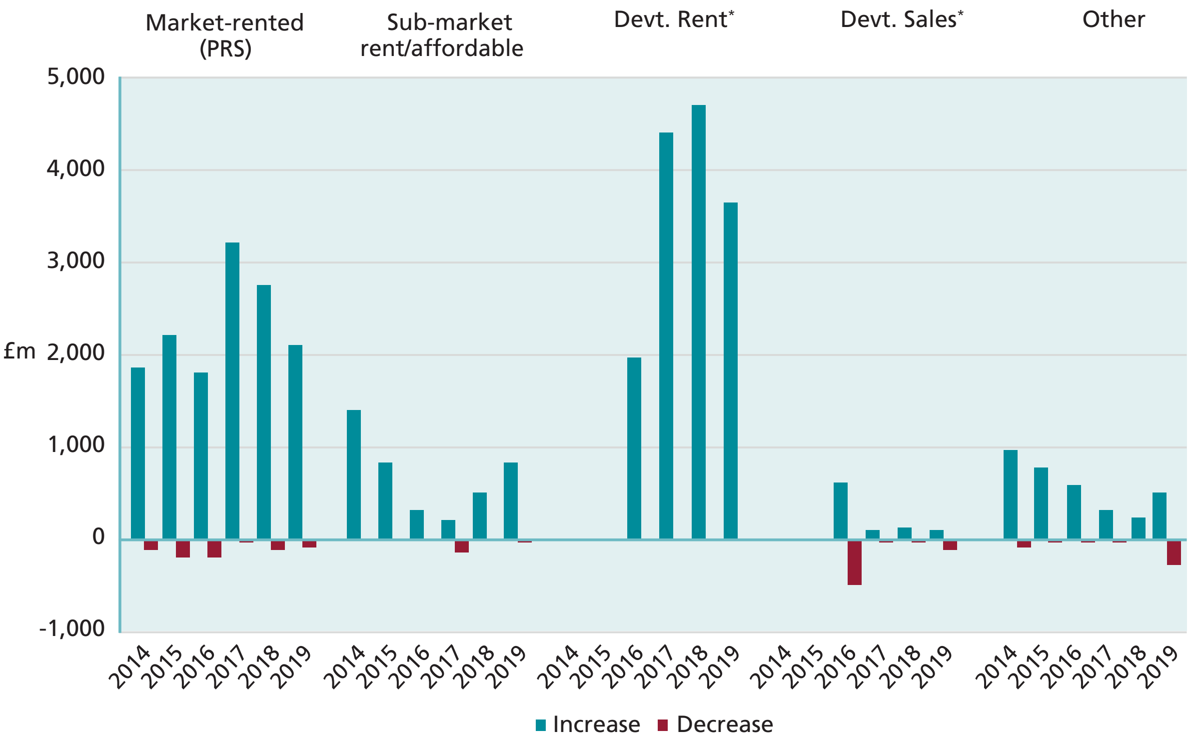


Note: Data collection amalgamated a number of regions: South East comprises: South East and Eastern; Midlands: East and West Midlands; North: Yorkshire & Humberside and North East.

Investment intentions over the past six years are displayed in Figure 3.6. Over the last three years, it is clear that the most popular route to access residential has been through the development of investment stock (build to rent), significantly ahead of acquiring PRS standing investments. This reflects the continuing shortage of suitable large-scale investment stock for institutional investor purposes and the requirement for investors to build for themselves. Over the next 12 months, £6.8bn is expected to be invested in residential, below 2017 (£8.1bn) and 2018 (£8.3bn), but ahead of 2015 (£6.5bn) and 2016 (£4.7bn). However, one contributor, who noted significant investment intentions in the 2018 survey, was not able to provide relevant figures for 2019.

3. SURVEY RESULTS

Figure 3.6: Change in Investment Intentions 2014-2019



Note: Development for investment stock or for selling units into the private market are not available for the 2014 and 2015 surveys, as they were not separate categories.

3.5. Barriers to Investment

Ten of the 48 respondents do not currently invest in the UK residential sector. They were asked to explain the main reasons for non-investment. The survey options provided are listed in Table 3.5, alongside a comparison of results from preceding years.

The primary objections for holding residential as an investment included: low income yields, political risk and unattractive pricing, with political risk cited more frequently than in previous years.

3. SURVEY RESULTS

Table 3.5: Reasons for not Investing, 2012-2019

		2012	2013	2014	2015	2016	2017	2018	2019
Factors	**(no. respondents)**	**(14)**	**(7)**	**(11)**	**(9)**	**(9)**	**(10)**	**(14)**	**(10)**
Income yield too low		9	5	5	4	3	5	8	**6**
Political risk		4	0	4	2	1	3	4	**5**
Unattractive pricing		6	3	1	1	2	6	9	**4**
Too difficult/management issues		12	2	4	2	2	2	2	**3**
Difficult to achieve scale		9	2	4	4	4	5	4	**2**
Lack of liquidity/insufficient market size		9	3	5	1	1	1	3	**2**
Development risk*		n/a	n/a	n/a	n/a	n/a	0	0	**2**
Currency risk*		n/a	n/a	n/a	n/a	n/a	1	1	**2**
Reputational risk		5	3	5	2	2	3	3	**1**

Notes: Total number of respondents in brackets. One investor did not select any of the above options; instead non-investment was attributed to off-benchmark risk.
*Criteria added in the 2017 survey.

It is interesting to note that some of the most significant reasons for non-investment in the first years of the survey, such as complexity of management, difficulty in achieving scale and lack of liquidity were rarely seen as barriers in 2019.

In the past 12 months, one non-investor has become a residential investor. No residential investors have disinvested from the sector.

3.6. Partnerships with the UK Public Sector

A fundamental challenge faced by the UK residential sector is the shortage of suitable land sites for development. The UK public sector potentially holds the key to unlocking access to many potential sites around the country. To gauge the amount of current and future interest in working in partnership with local or central government, several questions were posed in the survey.

Firstly, contributors were asked whether they had had any involvement with the UK public sector over the previous three years, either by way of a land purchase or by entering into a partnership or joint venture to develop a site. Of the 37 respondents who provided an answer, a quarter (9) had been involved with the UK public sector over the preceding three years, a rise on the 2018 result of 13%. This activity amounted to a gross development value of over £1.1bn.

Contributors were also questioned over their future intentions towards the UK public sector, and whether they would consider working with them to develop housing in the next three years. Two-thirds of those that replied expect to operate in some way with the UK public sector, the same level noted in the previous two surveys. The main motivation, by some margin, is to access land for the development of PRS housing.

3. SURVEY RESULTS

3.7. Performance and Key Metrics

Contributors were surveyed regarding some of the key metrics used to measure or analyse the performance of their residential investments.

Firstly, they were asked to quantify the range in reduction in gross to net income for maintenance and expenses that best fitted their experience (over the preceding five years). Thirty-one responded, with nearly two-thirds reporting that a reduction of between 25% and 29% most closely matched their experience. Five investors thought that the gap ranged between 20% and 24%. Three respondents felt that leakage of less than 20% was more reflective of their portfolios, while a further three thought their leakage was greater than 30%. Two contributors mentioned the benefits of economies of scale, with one stating that a reduction of "below 25% requires scale and efficiencies which are not achievable with small geographically diverse portfolios".

Investors were also questioned over the average rental growth levels achieved on their residential standing investments in the past three years. Twenty-nine respondents provided an answer, with 45% (13) benefitting from growth of 2% to 3% per annum on average. This is marginally lower than the 2018 result. However, just under a quarter of investors (7) stated that they had achieved rental growth in excess of 3%, exceeding inflation – a little higher than the preceding year. Six contributors achieved growth of between 1% and 2%, while another's growth ranged from 0% to 1% on average. Two contributors experienced rental decline in their residential portfolios in the last three years.

4. CURRENT THEMES AND ISSUES

The UK residential market is influenced by many factors: political, economic, and also by its lack of maturity. A number of these issues were explored during 15 interviews with survey contributors, all of whom are currently invested in the sector.

4.1. Current Risks

Investors were asked to elaborate on the greatest risks currently faced by the UK residential market. Nine interviewees stated that a lack of clarity around rent regulation and, in particular, rent control is causing the most concern. Three investors acknowledged that regulation has its place, with one stating that "sensible regulation directs property activity, management and good relations. However, regulation that is politicised is dangerous".

Five interviewees commented that the possibility of rent reductions, alluded to by the Greater London Authority (GLA), are "extremely harmful" to the encouragement of further institutional investment in the capital. A further three investors expressed concern with some of the Labour Party's housing policies and, in particular, its stance on 'right to buy' for private tenants.

Since the 1980s, the development of the residential market has been influenced by a 'free market approach', with minimal regulation. The lack of transparency around what will happen over the next three to five years may result in investment that would increase housing supply, going elsewhere. This is particularly true for overseas capital.

One investor urged the industry to engage with policy makers and be on the "front foot" to help shape future regulations. They also highlighted the need for a consistent approach across all political parties, to ensure a level of stability and longevity to new policies.

In terms of other threats, two investors stated that the greatest risk to the residential market was construction cost inflation. Other reasons given were the lack of the right stock and challenges faced by the sector due to its immaturity. One investor voiced concern that the sector may be "over-promising" in terms of returns, rents and rental growth. They had witnessed aggressive underwriting, during sales processes, which may result in the sector "under-delivering to investors in three years' time". The investor expressed unease that this might "stigmatise" the sector for future investment.

Interestingly, while there was concern around the uncertainty caused by Brexit, only one interviewee mentioned it as the greatest threat to the current residential market.

4.2. Leasing

In 2018, the UK government introduced three-year lease terms for the residential market. The aim behind the longer lease is to prevent landlords from removing tenants at short notice, however, tenants are able to vacate the property before the end of the minimum term. A year on, investors were questioned over the impact of these new leases.

All of the investors interviewed welcomed the three-year lease, as they want to encourage greater certainty of tenure and reduced voids and reletting costs. Most of them were already offering longer leases to tenants, when the three-year lease was initiated.

4. CURRENT THEMES AND ISSUES

However, all of the interviewees with direct experience, stated that the vast majority of tenants still preferred to sign a traditional assured shorthold tenancy (AST) agreement. Take-up levels of less than 5% were cited by a number of investors. One interviewee provided an example of an asset in Scotland where the lease lengths granted were getting shorter, despite new legislation allowing tenants the right to remain indefinitely.

Some investors thought that longer leases would be more popular with families. However, one investor, who deals predominantly in the family housing market, stated that this segment of the market was equally reluctant. They had just bought a portfolio of houses, built in the last 10 years, with an average length of tenure of more than five years. However, the tenants still opted to sign AST agreements.

A desire for flexibility and not to be 'tied in', as well as a lack of education, were cited as the main reasons for the scarcity in take-up of longer leases. A distrust of landlords was also stated as a possible issue.

One investor had, however, been very active in educating tenants about the benefits of longer leases, particularly in person through their concierges, and was now realising the benefits. Another interviewee explained that where they were re-letting assets to the same tenants, longer leases were being granted as a level of trust had been established, between tenant and landlord, through familiarity.

Interviewees were also questioned over their experiences of gaining vacant possession at the end of leases. The issue was relevant for 13 interviewees, six of whom had had no problems. They explained that their portfolios were relatively new, so were dealing mainly with first lettings or that their tenants tended to be young professionals, with good job security. One commented that they had taken advantage of tenants vacating a property to sell it, if that fitted with the business plan. Another interviewee mentioned that when they are looking to undertake piecemeal refurbishments of a property, they engaged with tenants to encourage them to move to one of the newly refurbished units and free up the non-refurbished space to help ease objections. There had been no requirement, by any of these investors, to gain vacant possession to either sell or develop an asset.

A further seven investors stated that, in their experience, having to forcibly gain vacant possession was rare, but when it did occur the process of removing a tenant was "painful" and "diabolically slow". If a court process was involved, it could last up to six months, despite clear and justifiable reasons to serve notice, such as severe anti-social behaviour. They believed the courts are insufficiently staffed to deal with the current workload.

There was further nervousness around the government's announcement that it intends to remove section 21 notices, to prevent "retaliation evictions by slum landlords", as currently these notices allow landlords to remove a tenant at the end of a fixed-term contract without a reason. However, this change may result in difficulties for institutional landlords, as a section 21 notice is commonly used for resolution of issues such as rent arrears, as it does not involve a requirement to go to court. This development will lead to more disputes going through the court system and, without appropriate investment, the already stretched legal system will be unable to cope.

4. CURRENT THEMES AND ISSUES

Three investors mentioned that as part of the changes in law concerning tenancies in Scotland, the court process had been made much smoother and that this needs to be repeated in England. However, another investor, very familiar with the Scottish system, explained that there was still a major issue with a backlog of cases.

4.3. Social and Affordable Housing

Investors were questioned over how the industry can best support social and affordable housing, where it is in short supply, and encourage the development of mixed tenure schemes. Conversations reflected an increased interest in this sub sector of the residential market, as alluded to by the rise in investment intentions in Section 3.4 of the report.

There was general consensus among investors that they were comfortable with the concept of discounted market rents as a means of providing more affordable housing. Schemes worked well where this type of tenure is blended, with tenants paying full market rent, in the same building and under the same landlord. The quality of fit out and services provided are identical for all tenants.

For other types of tenancies where there are wider social needs, investors preferred to partner with a specialist operator, such as a housing association. To encourage a level of integration and a sharing of facilities, some investors said that their schemes had different tenures blocks located around a central shared area. Full integration was described as difficult, due to requirement for different landlords. It was stated that the blocks of separate tenure should ideally look the same but, in practical terms, they did not. Only one investor stated that they would rather see truly mixed tenure blocks, as they "struggled with the concept of separation".

One investor commented that, in terms of social housing investment, the funds market had made little impact. Housing associations are comfortable with borrowing money from the bond markets to finance properties, hence they do not have a pressing need for institutional funding. Going forward, a number of interviewees stated that there was appetite from some pension funds for this type of investment, but they needed to find the right approach.

One investor stated that more could be done between public and private organisations to encourage social housing development. To help develop appropriate funds, buying land at a discount would offset the lower rents received. The public sector could make land more available for the private sector to deliver social housing, alongside other residential types. The findings in Section 3.6 demonstrate the desire by institutional investors to work with UK public bodies.

Another investor suggested that to improve the viability of schemes, so more space could be allocated to affordable housing, the government should reduce relevant taxes, such as stamp duty and VAT.

Tenants in local authority properties already have the 'right to buy' their homes. However, if this initiative was to be introduced into the private sector, as recommended by the Labour Party, it could have major implications for institutions. They could potentially lose complete ownership control of their assets, which in turn would reduce returns and their appetite for investment.

5. FUTURE INFLUENCES

As well as current themes and issues impacting the UK residential market, the 15 interviewees were also questioned over two factors that may influence the sector over the next five years: technology and sustainability.

5.1. Technology

It is clear from the interviews that the residential market is entering an exciting time, in terms of technological advancement. Almost all of the interviewees stated that technology's influence, on the sector, would be "huge", with one commenting that "what we know today, will be nothing like residential in five years' time" and another explaining that it will be the "largest single influence in developing buildings". Only two investors were more cautious, with one commenting that they believed that any real influence would be restricted to high-end properties, with less impact on mass-market housing. Another investor stated that they were "real estate investors not technology investors" so would only utilise technology where it provided a greater service to tenants.

A large part of the discussion focussed on how technology can improve operational systems. Investors thought that new technology would have a crucial role to play in communicating with tenants and making them feel better connected to landlords. This would improve customer service and also drive cost efficiencies. A number of investors mentioned that they already use apps that enable tenants to notify their landlord if something is not working in their property and will provide the necessary means to resolve the problem, including mobilising relevant tradespeople. However, one interviewee mentioned that their company had adopted such an app for communication with tenants, but it was hardly ever used, as tenants preferred human contact and would rather speak to the concierge to resolve problems.

One investor highlighted another management tool, that is expected to become more prevalent, which lists all of the individual components in a building to make replacement quicker and easier. Other technology advancements discussed included virtual viewing tours and the use of fobs or codes rather than keys for access. Fobs and access codes may provide an answer to gaining access to a property, for maintenance, without the tenant needing to be present. They would allow a tradesperson to gain entry for a short period of time to resolve an issue. One interviewee explained that they were also using fobs, provided to their tenants, as a means of collecting data on the extent to which amenity space, such as the gym, was being used. This is proving useful in shaping decisions on future projects.

These operational systems will help enable thousands of tenants to be managed together efficiently. However, there was a note of caution, from one investor, that the industry must not get carried away with prop tech companies. Another commented that, at present, "there are 100s of apps out there but there are very few companies that can stitch together all the systems required to monitor buildings".

Technology is also expected to have an impact in the construction of buildings, in the next five years. Modular construction was discussed by five investors. It is only in its infancy, so the benefits are not yet fully apparent. One investor anticipated that it may provide a solution to project overruns, by speeding up the construction process, and would also result in building work on site being less intrusive. The modular units could also be built in areas of plentiful, cheap labour, assisting with the issue of high labour costs. Another interviewee commented that, while the construction process should be quicker, the greatest improvement would be to the quality of the fit out as precision technology, such as robotics, could be utilised in the manufacturing process.

5. FUTURE INFLUENCES

One investor mentioned that the use of 3D plans of buildings will become more prevalent in the future, which will provide a much more detailed view on composition of the final building and where all the fittings and fixtures will be installed.

The question of future proofing across all aspects of the residential market was raised by a number of investors, given the rapid advances in technology. There will be a requirement to keep all operational systems up-to-date and at the forefront of technology to attract tenants. In addition, one investor questioned how modular units can be reconfigured in 20 or 30 years' time to meet future requirements.

5.2. Sustainability

As with technology, interviewees believe that sustainability will have a growing importance on the residential sector over the next five years. Comments included "what is appropriate today will be behind the curve in two to three years' time" and it is "no longer lip service" or "a box-ticking exercise".

Five interviewees commented that the main driving force for increased sustainability came from their own internal teams and company ethos.

Another five discussed the major influence that investors were having, with two singling out overseas investors as being particularly active. Three mentioned that the desire for sustainability needs to be balanced with a consideration of construction costs. For example, one interviewee commented that adding solar panels provides a draw for tenants, but they will not have a positive influence on rents, and hence investor returns.

Interviewees were split in terms of how influential tenants are as a driving force for increased sustainability. Half of the investors, who commented on the issue, said that tenants were a major influence. A large proportion of their tenant base is young and have strong views about the environment. Other interviewees stated that consumers were not really demanding increased sustainability at present, as affordability was a more important consideration. One investor commented that the lack of residential supply was holding sustainability back as a differentiator when tenants are deciding where to live.

One investor mentioned that where they were refurbishing properties, they were actively improving the sustainability credentials of the building, for example, by putting in insulating walls and using electricity rather than gas, to increase efficiency and benefit tenants in terms of running costs.

Two interviewees stated that there will be an increase in accreditations, around the subject of sustainability, as institutional investment in the residential market grows.

Linking up the two themes of technology and sustainability, an investor commented that the operational side of residential will also benefit from an increased focus on sustainability. They are using current technology to collect information on tenant energy usage, with the aim to create benchmarks for each property which will be shared with tenants to help influence greener behaviour.

6. SUMMARY AND CONCLUSIONS

The residential survey is now in its eighth year and has its widest coverage yet, £27.8bn worth of UK residential assets, compared to £16.6bn in 2018 and just £7.6bn in 2012. This reflects the inclusion of three major residential investors, this year, as well as the rise in value, by £2.6bn, of those contributors' portfolios present in both surveys. Residential now accounts for 13.5% of the UK real estate portfolios of those contributors who have provided the relevant data.

PRS remains the most popular route for gaining exposure to the sector, accounting for half of all residential investment. Development, for either investment stock or for sale, accounts for just under a third of investment, at £8.3bn, the highest level reported since these numbers were first published in 2014. Undoubtedly, this increased popularity is a reflection of the scarcity of modern, purpose-built property, preferred by institutional investors. London remains the most common destination for investment, accounting for 70% of residential assets covered by the survey, with 41% allotted to central London (Zones 1-3).

Net investment intentions are a little lower, than in the preceding two years, at £6.8bn, compared to £8.1bn in 2017 and £8.3bn in 2018. This reflects some of the appetite for residential already being satisfied but may also indicate a more cautious approach to the sector, given uncertainty in the UK investment market. Development land for investment purposes is the preferred route to access new residential stock and outer London (Zones 4-6) and the Midlands are the most favoured locations with a reduction expected in inner London.

While the shortage of housing stock remains a major issue, current investors voiced most concerned about the lack of consistency and transparency around industry regulation and, in particular, rent control. While political parties have intimated that changing policies would help resolve issues caused by dubious landlord practices, much needed institutional money, particularly from overseas, may be scared away. There is concern that the sector is still too immature to be overly or crudely regulated.

On a positive note, advancements in technology and sustainability will ensure that the next five years are exciting times for the development of new product and operational systems that will enhance the UK residential market, for both investors and tenants.

ACKNOWLEDGEMENTS

The IPF would like to thank all those participants in the 2019 survey for contributing data and opinions, including the following organisations that consented to be named:

Aberdeen Standard Investments
Allianz Real Estate Partners
Amro Real Estate Partners
Apache Capital Partners Ltd
Aviva Investors
AXA REIM
Barings Real Estate
BlackRock
Brookfield Asset Management
CBRE Global Investors
Cording Real Estate Group
Delancey Real Estate Asset Management Ltd
Dorrington
DWS Group
Fidelity International Ltd
Fizzy Living
Grosvenor Estate Holdings
Hearthstone Investment Management Ltd
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LaSalle Investment Management
LGIM RA
M&G Real Estate
Mayfair Capital Investment Management
Moorfield
Old Park Lane Management Limited
PfP Capital Limited
PLATFORM_
Quintain
Realstar Group
RPMI Railpen
Savills Investment Management
Tesco Pension Investments Ltd
The Crown Estate
Tristan Capital Partners
UBS Asset Management

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