IPF

RESEARCH

DECEMBER 2020

UK Residential Property: Institutional Attitudes and Investment Survey 2020

COMMISSIONED BY THE IPF RESEARCH PROGRAMME

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

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 2020

Report

IPF Research Programme

December 2020

Research author

Rachel Portlock, *IPF Consultant*

Project Steering Group

Stafford Lancaster, *Delancey Real Estates Asset Management Limited*

Mark Andrew, *The Business School, (formerly known as Cass), City, University of London*

Sue Forster, *IPF*

Pam Craddock, *IPF*

CONTENTS

1.	Executive Summary		1
2.	Introduction		2
3.	Survey Results		3
	3.1	Profile of Respondents and Current Investment	3
	3.2	Exposure by Type of Asset and Geography	5
	3.3	Rationale for Investing in Residential Property	6
	3.4	Investment Intentions	8
	3.5	Sub-market Rental Investment	12
	3.6	Barriers to Investment	13
	3.7	Impact of Covid-19	14
4.	Summary and Conclusions		16
	Acknowledgements		18

1. EXECUTIVE SUMMARY

- The survey is now in its ninth and final year, as UK residential is increasingly viewed as a mainstream sector. To commemorate the final publication, a second short research paper entitled 'Achieving Market Maturity' will be published at the start of 2021, exploring the market's future in the coming years.
- Respondents to the 2020 survey own or manage investments worth in excess of £13.9tn[1], of which UK real estate comprises c.£255bn or c.2% of all assets. There were 48 respondents to the survey, of which 40 have exposure to the UK residential sector.
- The overall value of UK residential exposure from the 39 contributors providing data is £30.0bn, the highest amount recorded since the survey began. This represents 12.9% of their UK real estate assets. The average holding of respondents with residential exposure is £769m.
- The majority of investment was divided almost evenly between developments, for either investment stock or for market sales, and investment in the private rented sector (PRS). Combined, they constitute 82% of the total. Sub-market rental properties now account for just under 10% of investment.
- Over 50% of the residential assets, covered by the survey, are located in London, with 31% in inner London (Zones 1-3) and a further 24% in the outer suburbs (Zones 4-6). Other significant locations are the South East and East Anglia (13%), the North West (10%), and the Midlands (8%).
- For the first time, stability of income was the principal reason for investing in residential, ahead of its return profile, which was the most prevalent choice in all previous years. Defensive qualities, inflation-matching characteristics and development potential were also cited as reasons for residential investment.
- Eight of the contributors to the 2020 survey do not invest in UK residential. The primary reasons they give for not investing in the sector are difficulty in achieving scale, lack of liquidity or insufficient market size, and low-income yields.
- Three-quarters of those that have invested in UK residential state that they intend to increase their exposure to UK residential over the next 12 months, ahead of the 2018 (65%) and 2019 (63%) surveys. Only two investors plan to reduce their portfolio sizes.
- A total net figure of £7.9bn is reserved for future residential investment. PRS accounts for £3.5bn, ahead of development land for investment stock (£2.2bn) for the first time in five years. Sub-market rental properties account for over £2.0bn of future intentions, the highest level ever recorded by the survey.
- Geographically, the South East and East Anglia is the most favoured locality for future investment, accounting for 23% of potential investment. Central London (Zones 1-3, 21%), outer London (Zones 4-6, 16%) and the Midlands (15%) are also popular destinations.
- Investors reported that the short-term impact of Covid-19 on their residential portfolios has been limited. Rent collection and occupancy levels remain robust. There was temporary disruption to development sites, as they were made safe for workers on-site, but most short-term investment plans have remained on track.
- In the longer-term, for the majority of investors, Covid-19 has made minimal difference to investment plans; indeed, for a number, these have been accelerated. The pandemic has initiated significant discussion around the design and configuration of apartment buildings to incorporate working from home facilities, either within units or in co-working space.

[1] This excludes one significant investor who did not disclose the relevant data.

2. INTRODUCTION

The annual IPF survey of institutional attitudes and investment intentions towards the UK residential market, started in 2012, is now in its ninth year. Its key aims have remained consistent throughout its lifespan: to investigate the changes in residential investment by institutional and large-scale investors over the preceding 12 months, as well as to identify how plans for future investment are changing. The original survey was prompted as a 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) and nearly 90 organisations have taken part over the life of this series of research.

The sector has been successful in attracting institutional investment during the last decade and hence the necessity to promote the sector has diminished; therefore, this survey will be the last in the series. To commemorate the final publication, a second short research paper entitled 'Achieving Market Maturity' will be published at the start of 2021, exploring the future for institutional investment in the residential market over the next few years.

The primary data source for the current survey was an on-line questionnaire, directed at major institutional and large-scale investors. Additional comments were gathered from interviews with 18 survey respondents, both investors and non-investors. All information was provided in confidence and is reported in aggregate. Data collection took place over 13 weeks from late July 2020, with interviews taking place during October.

Approximately 60 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), sovereign wealth funds, fund and investment managers and developers. As with previous surveys, participants represented both investors with and without exposure to the residential sector. A total of 48 responses were received, although, due to issues of confidentiality, some parties declined to answer certain questions, primarily those requesting details of asset values.

While the survey does not provide a definitive view of institutional/large-scale investment in the UK residential market, it does offer a useful record of the sector compared to the wider commercial real estate market. The total end-2018 value of the UK private rented sector (PRS) was estimated to be £1,205bn[2], with the vast majority of stock owned by non-institutional investors. The £30bn of residential exposure owned by survey participants compares with an estimated institutional investor ownership of residential at end-2018 of £35bn (with a further £21bn invested in student accommodation). The value of the UK total commercial property invested stock was estimated at approximately £512bn at the same date, with survey respondents accounting for half of this total.

[2] The Size and Structure of the UK Property Market, End 2018 Update, IPF 2019

3. SURVEY RESULTS

The primary purpose of this 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 lack of investment. Comparative analysis was undertaken, using data from core respondents who have contributed to every survey over the past nine 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 2020 survey, was in excess of £1.9tn, indicating the large institutional nature of these investors. One manager did not disclose information on asset holdings. UK real estate accounted for approximately £255bn[3] of assets under management or around 2% of all assets.

A comparison of responses received from each of the last nine years of the survey is contained in Table 3.1. In 2020, 40 institutional investors surveyed held residential as part of their UK portfolio. Of the 39 that quantified the size of their investment, the overall value was £30.0bn, the highest level reported in any year and nearly four times the size of the coverage of the first survey.

Table 3.1: Assets under Management 2012-2020 (All Contributors)

	All Investors		Residential Investors		
	Number	UK Real Estate AUM	Number	UK Residential Assets	Proportion UK Real Estate
		£bn		£bn	%
2012	28	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	32	16.6	9.7%
2019	47	227	37	27.8	13.5%
2020	**47**	**255**	**40[4]**	**30.0**	**12.9%**

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.

In 2020, residential assets represented 12.9% of the UK portfolios covered by the survey, a little lower than in 2019. This is not necessarily an indication of a weakening interesting in the sector but more a reflection of the differing composition of investors in the two surveys. Two large UK real estate investors began a residential investment programme in the past year, hence their proportion of residential exposure is currently low.

[3] 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).

[4] Data received from only 39 survey respondents.

3. SURVEY RESULTS

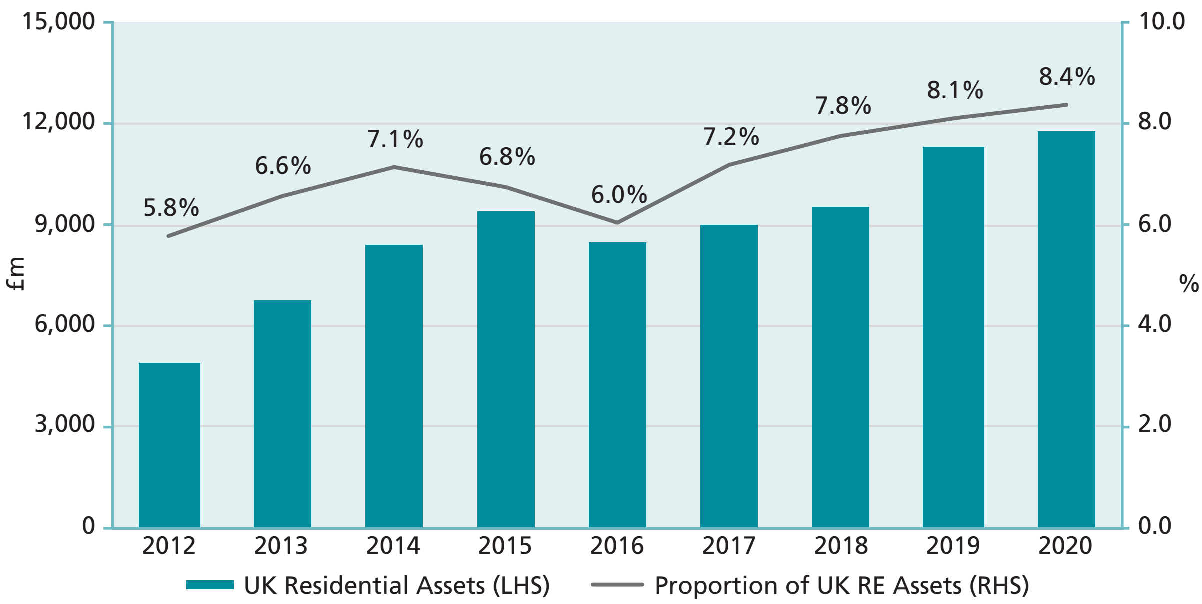
Comparing the portfolio values of the 38 contributors common to both the 2019 and 2020 surveys, there was an overall uplift in their total exposure to residential of just over £150m. This reflected net investment into the sector by 17 investors, one being new to residential. The majority of these remain positive towards the sector with plans to reinvest in either the short- or medium-term. Eight investors reduced their allocations to the sector, five by at least £150m, although none disinvested entirely. The position of 13 contributors is unaltered, including seven non-investors.

In 2020, the average value of residential portfolio per contributing investor was £769m – the highest figure since the survey began, just ahead of the 2019 figure of £750m, and considerably higher than the average holding size in 2012 (£271m). The overall value of residential portfolios has grown consistently over the years since the first report. In 2020, nearly 50% of residential investors had portfolios valued at £500m or more, compared to just 18% in 2012.

As residential investment by institutional or large-scale investors is more commonplace in overseas markets, survey respondents were questioned over whether they held assets abroad. Thirty UK investors also had residential exposure overseas while the remaining 18 had no exposure. Interestingly, of the eight non-UK investors, six held residential assets abroad.

Eighteen investors have contributed to each residential survey over the last nine years. A summary of their residential portfolios 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 this continued in 2020, with a figure of 8.4%, the highest reported to date.

Figure 3.1: Residential Assets under Management 2012-2020 (Regular Contributors)



Previous years' results have not been adjusted to reflect capital appreciation or depreciation although the MSCI UK Annual Residential Index achieved capital value growth of 0.9% in 2019, while the sub-market of Residential Market Lets was reported to have declined by 3.1% in capital value.

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 (social/affordable house – sub-market rent);
- 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 a breakdown between the different asset types.

Table 3.2: All Contributors by Residential Asset Type (£m)

Year	All Residential	PRS	Sub-Market Rent	Devt. Rent/Sell	Other
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)
2020	**29,990 (39)**	**12,273 (27)**	**2,871 (13)**	**12,350 (31)**	**2,496 (13)**

Note: Number of respondents holding asset type in brackets.

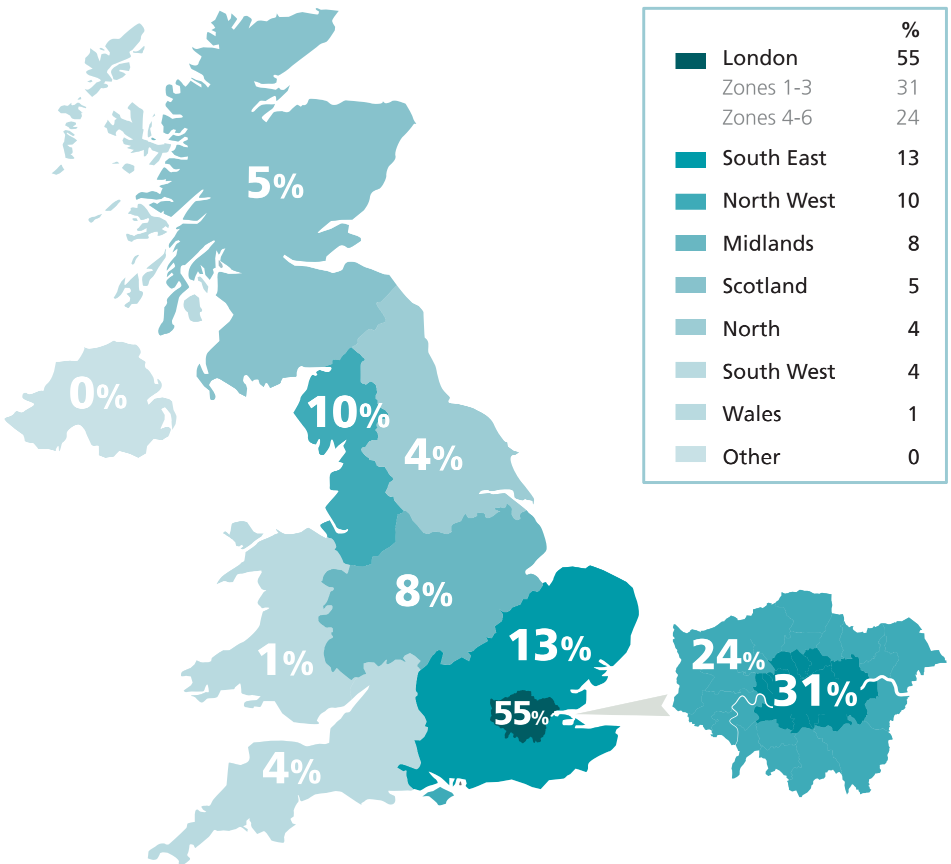
The majority of residential assets covered by the survey were either PRS investments or developments (either to hold as investments (also known as "build-to-rent") or for sale). This reflects an increase in development activity amongst respondents compared to last year's survey. In 2020, exposure to land and development for investment stock to be rented was almost double that of development stock to be sold, amounting to approximately £8.1bn and £4.3bn, respectively.

Sub-market rental or affordable housing, accounted for almost £2.9bn, in-line with 2019, but significantly ahead of previous years. Exposure to the 'Other' category continued to decline, amounting to £2.5bn, or 8%, of the residential total in 2020. This largely reflects a decrease in the amount of student accommodation. Further examples of the type of asset in the 'Other' category include ground rents, senior living/retirement housing and residential care homes.

In 2020, 36 respondents provided breakdowns of the geographical locations of their UK residential assets, shown collectively in Figure 3.2. London remained the most favoured region, with inner London (Zones 1-3) and outer London (Zones 4-6) amounting to 31% and 24% respectively. However, this is below the 2019 figure, when London accounted for 68% of exposure. Other notable locations were the South East, including East Anglia (13%), the North West (10%) and the Midlands (8%) – the upturn in exposure to the South East, relative to last year's survey, is of particular note, increasing from 6% to 13% of total value.

3. SURVEY RESULTS

Figure 3.2: Distribution of Current Residential Investments



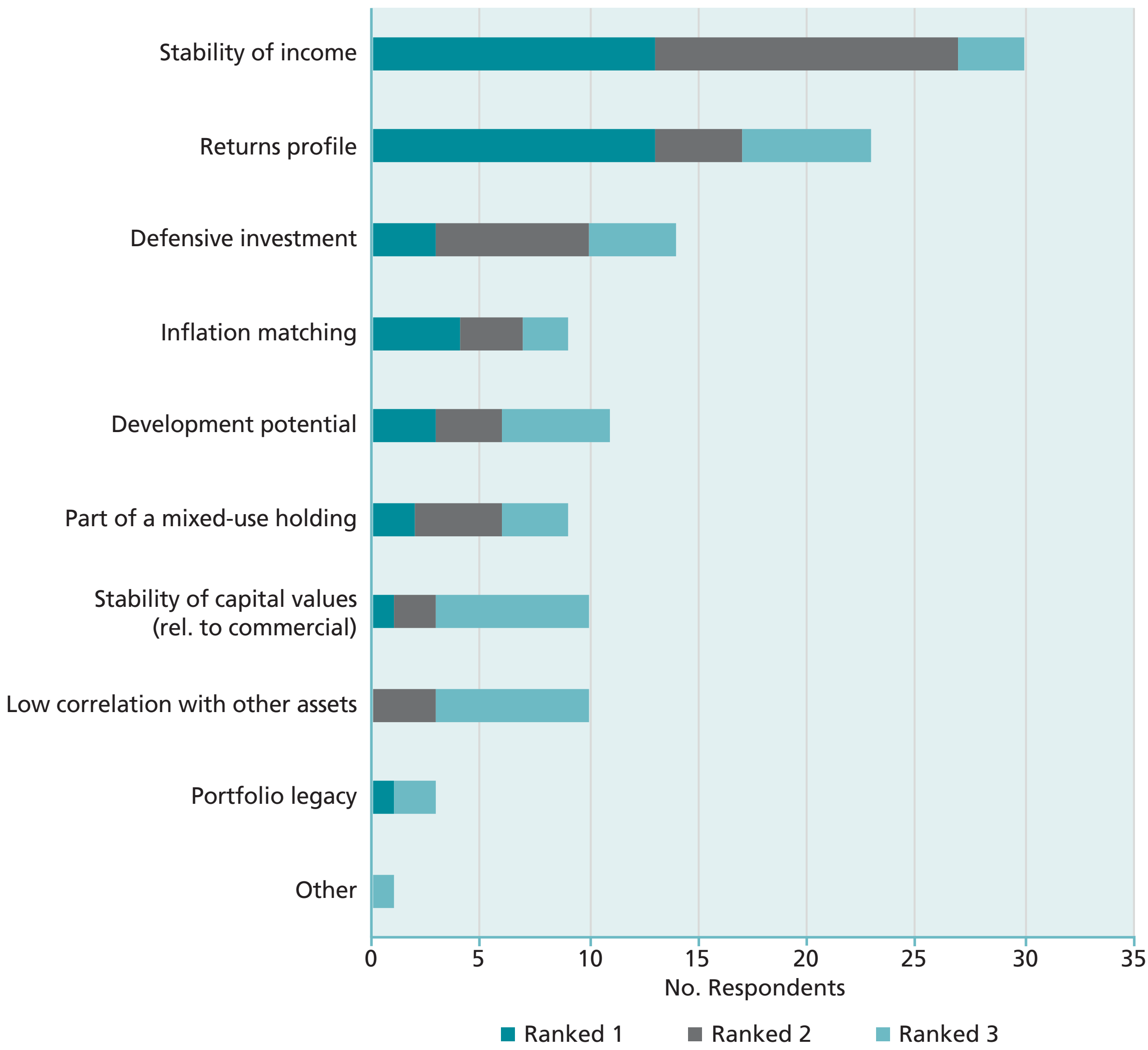
Note: Data collection amalgamated a number of regions: South East comprises South East and East Anglia; Midlands: East and West Midlands; North: Yorkshire & Humberside and North East.

3.3 Rationale for Investing in Residential Property

Respondents to the 2020 survey were questioned about their reasons for investing in UK residential and asked to rank the top three motives from 10 criteria, listed in Figure 3.3. The chart also illustrates the range of responses and their relative importance to contributors.

3. SURVEY RESULTS

Figure 3.3: Ranking of Investment Criteria 2020



Stability of income was seen as a key driver for investing in residential, the first time that this factor has been ranked as the leading motivation, with 13 investors categorising it as their primary reason and three-quarters of all respondents identifying it as one of their top three criteria.

In preceding years, the return profile offered by residential was the most common reason for investment and, in 2020, it was still a prevalent choice, with just under 60% of correspondents selected it as one of their top three drivers for investment. The defensive qualities of residential was also a popular criterion.

Of the 18 core contributors referred to in Section 3.1, 13 were invested in residential in 2012. At that time, the key reasons for their investment were the returns the residential market offered and its low correlation with other sectors.

3. SURVEY RESULTS

3.4. Investment Intentions

Investors were questioned about their intentions to change their UK residential exposure over the next 12 months. Nearly three-quarters (29) of current investors anticipate increasing their exposure to the residential sector over this period, which compares favourably with 2018 (65%) and 2019 (63%) survey results, although less than the 2017 result of 80%. Only two investors plan to sell down some or all of their assets, although one of these investors stated that they will be looking to re-invest into the sector in the medium term. Four investors believe their residential portfolio will remain stable over the next year, while five investors are unsure of their future intentions at the time of survey.

Non-investors in residential were also questioned about their strategy towards UK residential over the next 12 months. One respondent has clear intentions to invest into the sector, while another contributor has no plans. The remaining six are unsure of their plans for residential over the coming year, although, interestingly, when interviewed, two of these non-investors stated that they intend to commence a residential investment programme in the medium-term.

Contributors 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 26 current investors and one non-investor are summarised in Table 3.3. Net investment intentions towards residential amount to almost £7.9bn.

Table 3.3: Investor Intentions over the next 12 months

	PRS	Sub-Market	Devt. Rent	Devt. Sales	Other	Total
Invest (£m)	3,631	2,010	2,220	250	53	8,165
No.	18	7	15	4	3	47
Disinvest (£m)	122	0	0	155	0	277
No.	3	0	0	2	0	5
Net Invest (£m)	**3,509**	**2,010**	**2,220**	**95**	**53**	**7,887**
No. Net Investors	**17**	**7**	**15**	**2**	**3**	**44**

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.

The purchase of standing PRS investment accounts for 45% of net intentions towards residential in the next year, representing net investment of £3.5bn. A further £2.2bn is allocated to the acquisition of development sites for investment stock (build to rent), which accounts for 28% of the net investment into residential, considerably lower than intentions in the preceding three years.

The 2020 survey results indicate a strong upward trend in intentions towards the sub-market rental (social/affordable) sector, with over £2.0bn earmarked for investment.

Disinvestment intentions are limited in comparison to investment intentions, amounting to £277m, split between the acquisition of development sites for sales and standing PRS investments.

3. SURVEY RESULTS

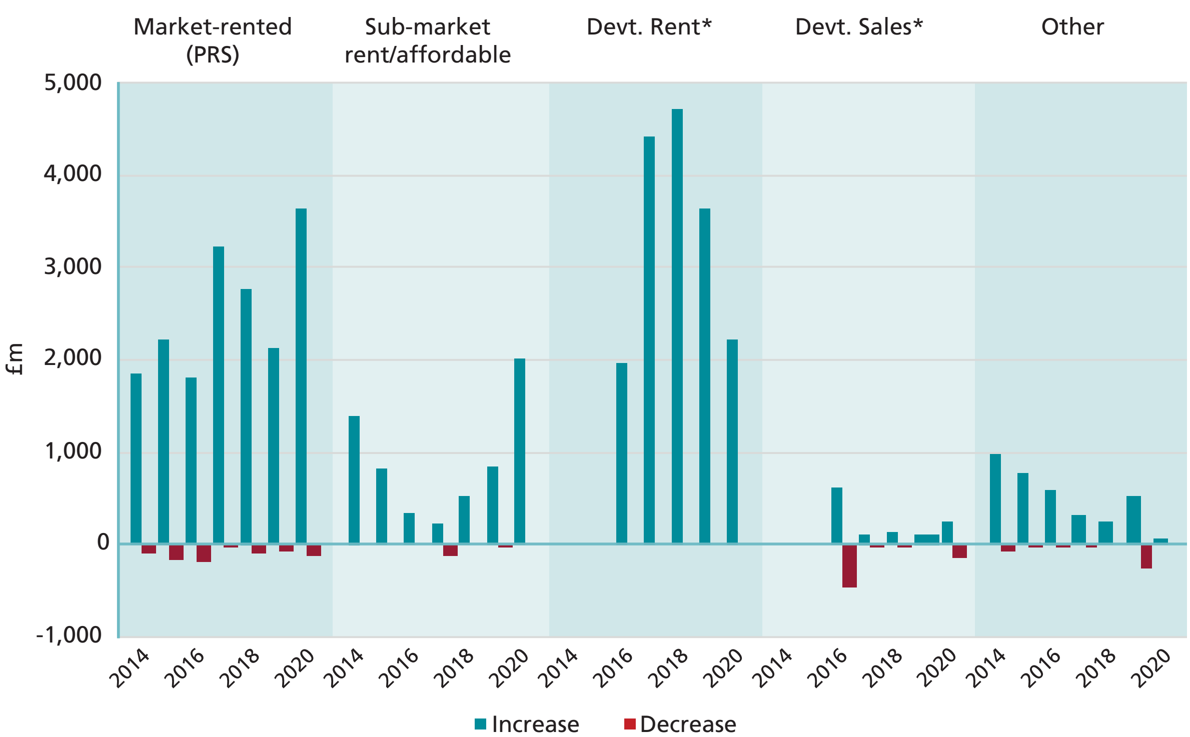
For the first time, investors were asked to quantify the source of capital to fund the intended residential acquisitions over the next 12 months. Twenty-seven contributors were in a position to do so. An increased allocation to real estate was given as the source by 22 investors. A third (seven), of the 22, stated that, in addition to an overall increased allocation to real estate, further capital would also be raised from selling down assets from other sectors. It was not possible for contributors to clarify the source of the increased allocation to real estate where originating from third parties. Five respondents reported new capital would come solely from disinvestment from other parts of the real estate market, with no overall increase to real estate.

Nine investors expect real estate portfolios to be reweighted away from retail to fund new residential purchases and seven expect offices to be sold. Three further investors foresee disinvestment from other parts of the real estate market to finance residential acquisitions. No investor reported that industrial sales will fund new residential acquisitions.

Investment intentions over the past seven years are displayed in Figure 3.4. For the first time in five years, acquiring PRS standing investments is the most popular route to access residential, ahead of developing investment (built to rent) stock. Investment intentions in this sub-sector were considerably lower than in the preceding three years. The chart also depicts a clear upward trend in intentions towards the sub-market rental market, with levels in 2020 substantially higher than levels reported in previous years.

Over the next 12 months, a total of £7.9bn is expected to be invested in residential, ahead of 2019's figure (£6.8bn), but a little below 2017 (£8.1bn) and 2018 (£8.3bn).

Figure 3.4: Change in Investment Intentions 2014-2020 (£m)



Note: Development for investment stock or for selling units into the private market were not separately categorised in the 2014 and 2015 surveys.

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 2019 survey, with actual investment activity measured during the year to the 2020 survey. Table 3.4 presents the results of the 31 residential investors who provided answers to both surveys with figures of what they planned to invest in the 2019 survey and what they did invest in, from this year's survey.

Table 3.4: Investment Intentions versus Outcome

		Actual (2019-20)		
Intention in 2019	**No.**	**Decrease**	**Remain Stable**	**Increase**
Decrease	4	4	0	0
Remain stable	3	0	3	0
Increase	20	3	3	14
Unsure	4	1	0	3

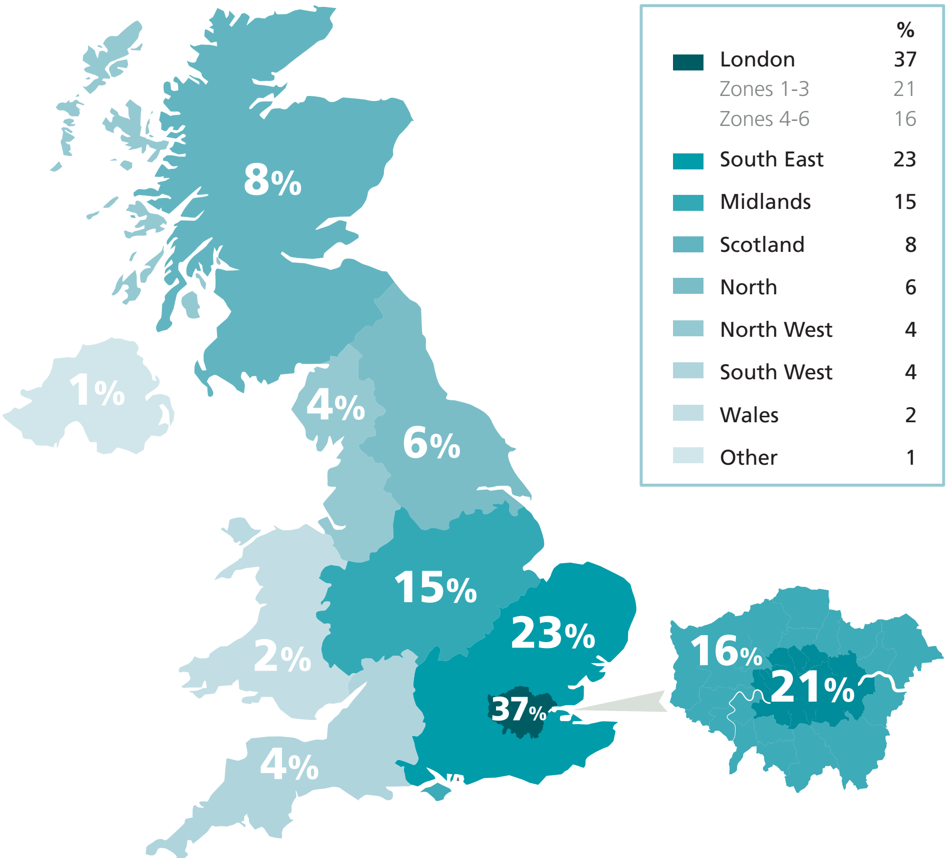
Of the 27 investors who quantified their intentions for the coming year (to increase, decrease or maintain existing exposure), over three-quarters (21) matched their expectations. This is generally ahead of the figure from recent years (74% for 2016/2017 and 59% for both 2017/2018 and 2018/2019). Over two-thirds of investors who intended to increase their exposure to residential were successful in their goal. All four investors who intended to reduce their residential portfolio achieved their goal, as did the three investors who anticipated retaining a stable portfolio.

Four investors were unsure of their future intentions at the time of the 2019 survey. The 2020 results indicate that three of the four increased their allocation to residential while one reduced their exposure.

Contributors were asked to clarify the geographical location of their intended future investments, which are shown in Figure 3.5. Investors were able to provide locations for £4.4bn of assets, just over half of the total. The South East is expected to the most sought-after location for future investment, with £1.0bn allocated, followed by inner London (Zones 1-3, £945m), outer London (Zones 4-6, £720m) and the Midlands (£665m).

3. SURVEY RESULTS

Figure 3.5: Distribution of Future Residential Investment Combined

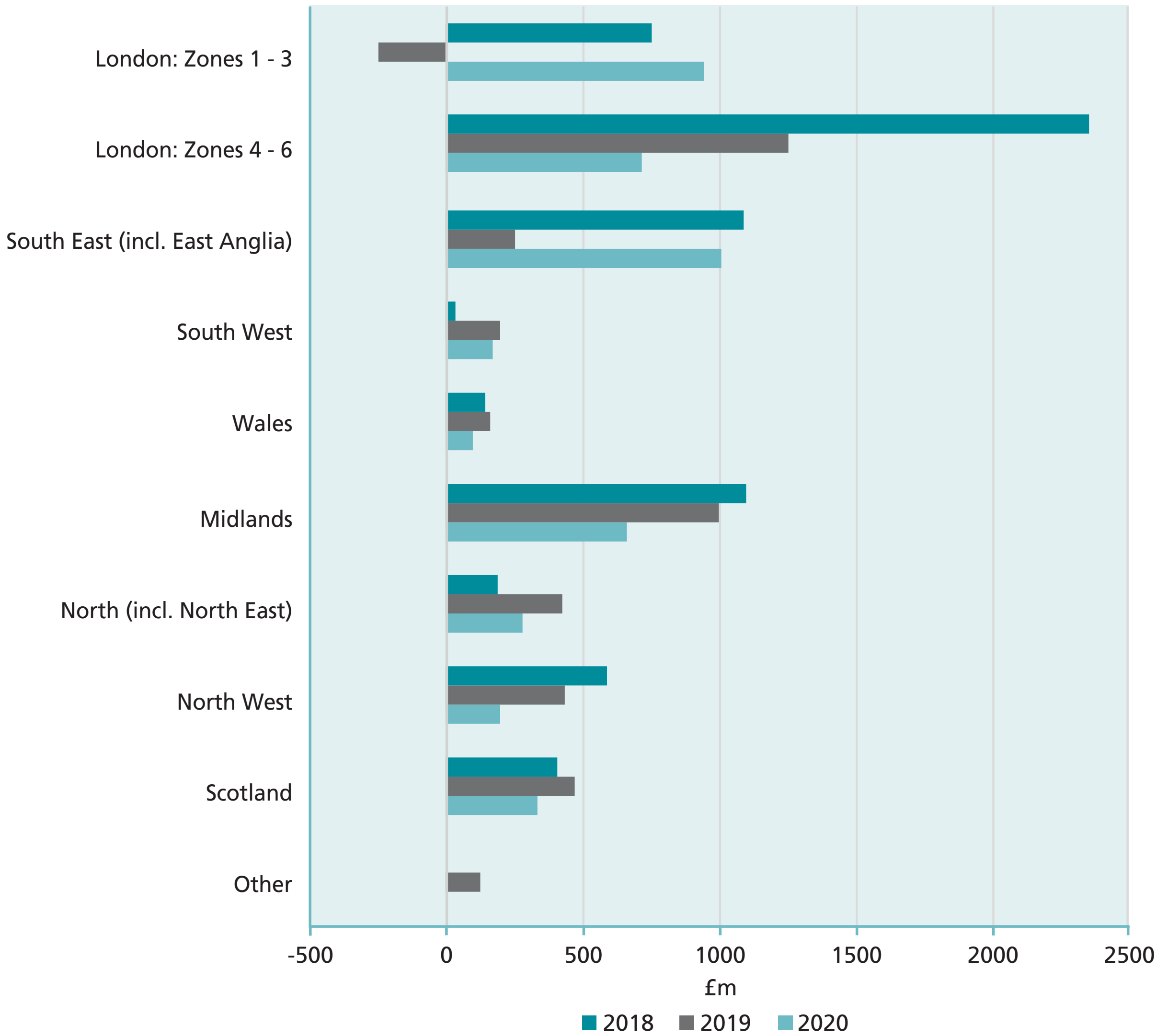


Note: Data collection amalgamated a number of regions: South East comprises South East and East Anglia; Midlands: East and West Midlands; North: Yorkshire & Humberside and North East.

Figure 3.6 shows the breakdown of geographical exposure of investment intentions over the past three years. In 2020, the South East was the first region to overtake outer London (Zones 4-6) as the most popular region for future investment. Inner London (Zones 1-3) has also become more attractive, following an intention to disinvest £250 million in 2019, although how much this will be affected by the COVID-19 pandemic is yet to be known. (See Section 3.7.) Outside London and the South East, the Midlands has been a favoured region for future investment over the three-year timeframe.

3. SURVEY RESULTS

Figure 3.6 Comparison of Future Residential Investment Intentions (£m), 2018-2020



3.5 Sub-market Rental Investment

In 2020, investment intentions indicated an increasing interest in sub-market rental or affordable housing investment. The survey records over £2bn as likely to be allocated to the sub-sector over the next 12 months, representing over a quarter of the entire allocation to all types of residential and the highest figure reported in any year of the survey. As a result, views on sub-market rentals were explored in more detail in the 18 interviews.

The most favoured affordable housing type is discounted market rent (DMR), where units are offered for rent at significant discounts to market price. Thirteen interviewees expressed their interest in this residential type, with investors favouring the DMR operating model as it does not require a specialist property manager and units can be dispersed throughout schemes where other homes are at full market rent and amenities are shared. One further investor said they would consider DMR but it was the least favoured affordable housing option as it offers the shortest leases.

3. SURVEY RESULTS

Social housing, where homes are rented through not-for-profit organisations, such as housing associations, at sub-market rents, was of interest to seven contributors. This type of residential is typically let on longer-term leases to specialist operators, who are responsible for the letting and managing of the properties. Complex operational issues were stated as a barrier to investment by a number of non-investors, however.

Over a third (seven) of interviewees expressed interest in shared ownership, where residents own a share of their home and rent the remainder at a reduced rate. These units tend to be located in separate blocks and are not integrated with other types of rental properties. Three interviewees, who were non-investors, expressed concerns about potential loss of ownership control with this type of affordable housing, while the impact of future redundancies, wrought by Covid-19, was stated as a reason for not investing by another contributor.

Only two residential investors expressed no interest in affordable housing and one interviewee was only in the early stages of determining its residential strategy so was unable comment.

3.6 Barriers to Investment

Eight 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: difficulty in achieving scale; lack of liquidity or insufficient market size and low-income yields.

Table 3.5: Reasons for not Investing, 2012-2020

		2012	2013	2014	2015	2016	2017	2018	2019	2020
Factors	**(no. respondents)**	**(14)**	**(7)**	**(11)**	**(9)**	**(9)**	**(10)**	**(14)**	**(10)**	**(8)**
Difficult to achieve scale		9	2	4	4	4	5	4	2	**5**
Lack of liquidity/insufficient market size		9	3	5	1	1	1	3	2	**5**
Income yield too low		9	5	5	4	3	5	8	6	**4**
Unattractive pricing		6	3	1	1	2	6	9	4	**3**
Too difficult/management issues		12	2	4	2	2	2	2	3	**2**
Reputational risk		5	3	5	2	2	3	3	1	**1**
Development risk*		n/a	n/a	n/a	n/a	n/a	0	0	2	**1**
Currency risk*		n/a	n/a	n/a	n/a	n/a	1	1	2	**0**
Political risk		4	0	4	2	1	3	4	5	**0**

Note: One investor did not select any of the above options; instead, non-investment was attributed to a lack of expertise in the UK residential market.
*Criteria added in the 2017 survey.

3. SURVEY RESULTS

It is interesting to note the contrast in results compared to those from 2018 and 2019. Difficulty in achieving scale and lack of liquidity were not noted as primary reasons for non-investment in the previous two years. Non-investors are less likely to be deterred by market pricing but are finding a lack of product a major hurdle to investment. Political risk, i.e. the influence of both local and central governments on residential policy and legislation, was not perceived as a key barrier in 2020, but ranked second in importance in 2019.

Difficulties with managing residential stock was the main barrier to investment in 2012 and 2014 but has proved much less of an issue in subsequent years.

In the past 12 months, two non-investors in previous surveys have become residential investors. No residential investors have totally disinvested from the sector.

In 2012, five of the 18 core respondents, referred to in Section 3.1, were non-investors. Reasons given, at the time, for a dearth of residential assets were: a prioritisation of other parts of the commercial real estate market; its absence from benchmarks and difficulty in operational management. In 2020, there were four non-investors within the group, two of whom are considering residential investment for the first time in the near future. One of these contributors stated that this decision was driven by the need to diversify away from the traditional real estate sectors, as well as the availability of many more professional management companies.

3.7 Impact of Covid-19

Survey respondents were questioned over the impact of the Covid-19 pandemic on their residential portfolio. Of the 39 investors who responded, over 60% (24) stated that Covid-19 is directly linked to an increased allocation to residential, either in the short or long-term. Six investors stated that the pandemic had made no difference to allocation decisions and two that they would be looking to decrease their allocation to the sector, as a result of the pandemic. In addition, 12 contributors will be reviewing the design or configuration of their residential offering and six indicated that they would be seeking to change target locations.

The impact of Covid-19, both in the short and long term, was also discussed in the 18 interviews.

In the **short term,** interviewees commented that the residential sector appears to have been resilient to the impact of the virus, compared to some other sectors. Eleven investors had seen little difference in rent collection levels, remaining in excess of 95%. A small number of payment plans have been put in place to support tenants in financial distress and unable to pay rent. Occupational levels have remained relatively stable, although two contributors commented that they had experienced a decline in occupancy rates in markets favoured by non-UK nationals, for example some areas of London, where some have left the country due to the pandemic. One further interviewee stated that they had experienced a spike in vacancies in the early part of the year but occupancy rates were now back at normal levels. Unsurprisingly, London properties and those favoured by students were hardest hit.

Five interviewees noted a short period of disruption in development activity at the start of the pandemic, with delays of a few weeks while sites were made safe for construction workers to return. One investor commented on the difficulties that this had caused, from introducing new procedures, such as regular temperature checks, to changes in on-site facilities, for example installing larger cabins to hold catering facilities.

3. SURVEY RESULTS

Investors noted that the virus had had minimum impact on short-term investment trends. Two commented that they were able to delay "pushing the button" for a few months but others were continuing their investment programme as planned. One investor stated that they were accelerating their buying programme, taking advantage of other purchasers' inability to complete deals at the present time.

Questioned over the impact of Covid-19 in the **longer term**, the general consensus was that Covid-19 will have little impact on the positive growth trend in residential investment. One investor stated they were "backing a mega trend so there may be a pause, but the macro picture is the same". Again, as with short-term investment, the pandemic had accelerating the speed of investment for six investors.

There was little mention of change in the geography of UK residential portfolios as a result of the pandemic. Four interviewees mentioned a shift in favour of suburban locations, ahead of inner cities but another questioned whether the temporary shift to more suburban living would continue in the long term. Only one investor mentioned that they were considering a change in residential type as a result of the virus, with more interest in single family homes.

Covid-19 has initiated a significant level of discussion on how a better working-from-home environment can be created within rental properties. Six interviewees stated that they were considering how to re-configure homes to better encompass home-working. Another four investors are reviewing options for co-working space within buildings, although two investors questioned the commercial sense of giving up chargeable space for this amenity. Three investors stated that they already offer significant co-working space.

New technologies, such as keyless entry, as well as the addition of anti-virus materials, such as copper, in high usage areas, are being investigated as a means to help 'Covid future-proof' homes.

4. SUMMARY AND CONCLUSIONS

The ninth and final survey of institutional and large-scale investor attitudes and intentions recorded the highest level of exposure to UK residential assets to date. The 2020 figure, of £30.0bn, compares to just £7.6bn in the first survey in 2012. Residential now accounts for 12.9% of the UK real estate portfolios of those contributors who provided relevant data, almost three times the amount recorded in 2012 (4.6%) and, generally, is no longer viewed as a niche sector, hence the decision to bring this research series to a close.

For the first time, development for either investment stock or development for sale is the most popular type of residential held within residential portfolios, accounting for £12.4bn. PRS investment is second for the first time since the start of the survey, albeit marginally so, at £12.3bn. This variation is indicative of the involvement of longer-term investors in the development of the modern, purpose-build stock which they desire. In addition, the 2020 results demonstrated a greater recognition of the importance of income security, with stability of income ranking as the top reason for investing in residential for the first time.

Investor exposure and interest in sub-market rental properties has increased steadily since commencing this type of data collection in 2014 and, in particular, an acceptance for the discount market rental model. At that time, sub-market rentals accounted for just under 3% of total investment, whereas they now constitute nearly 10%. The sub-sector can offer more reliable cashflows than mainstream rental properties, as well as delivering a significant social impact, which is an increasing priority for many investors. London remains the most popular location, accounting for 55% of residential allocations covered by the survey, with the South East, North West and Midlands also favoured destinations.

There is still substantial demand for further investment into the sector overall. Nearly three-quarters of contributors anticipate expanding their portfolios over the next 12 months. Of those that were able to quantify their future investment intentions, this amounts to £7.9bn and, while most of this is expected to come from an increased allocation to real estate per se, some disinvestment from the retail and office sectors is also anticipated to fund this.

For the first time in five years, the acquisition of PRS assets is expected to be the most popular route for investment in the next year, amounting to £3.5bn. Development sites for investment stock (build-to-rent) has been the most popular route for new investment since 2016, was second in 2020, accounting for £2.2bn in allocated capital. This is an interesting change, given the frustration voiced by many residential investors who cannot find the right quality and scale of standing investment stock. The 2020 survey results also indicate a strong upward trend in intentions towards the sub-market rental sector, with over £2.0bn earmarked for investment.

The South East is the region where planned investment is highest. In 2018 and 2019, outer London was the most sought-after region but fell back to third in preference in 2020, with inner London the second most popular location for planned investment.

Opinion, from both the survey and interviews, suggests that Covid-19 will not provide a barrier to future investment in the residential sector. There have been some minor adjustments and delays in the short term,

4. SUMMARY AND CONCLUSIONS

but a number of contributors commented that it has actually triggered an acceleration in future investment plans. It will also be interesting to see whether Covid-19 will have a long-term influence on the design and configuration of the next generation of residential, with considerable debate taking place on how working from home can be better provided for.

ACKNOWLEDGEMENTS

The IPF would like to thank all those participants in the 2020 survey for contributing data and opinions, including the following organisations that consented to be named:

- Aberdeen Standard Investments
- AEGON Asset Management
- Apache Capital Partners Ltd
- Aviva Investors
- AXA IM Real Assets
- BlackRock
- CBRE Global Investors
- Cortland
- Delancey Real Estate Asset Management Ltd
- Dorrington
- DWS Group
- Edmond de Rothschild REIM
- Fidelity International Ltd
- Fiera Real Estate UK
- Grainger plc
- Grosvenor Estate Holdings
- Hearthstone Investment Management Ltd
- Invesco Real Estate
- JP Morgan Asset Management
- LaSalle Investment Management
- Legal & General Affordable Homes Limited
- Legal & General IM Real Assets
- M&G Real Estate
- Mayfair Capital Investment Management
- Moorfield
- Nuveen Real Estate
- Old Park Lane Management Limited
- PfP Capital Limited
- PLATFORM_
- Realstar Group
- RPMI Railpen
- Savills Investment Management
- Tesco Pension Investments Ltd
- The Crown Estate
- The PRS REIT
- UBS Asset Management
- Watkin Jones

RESEARCH

Investment Property Forum
Hana Workspaces
70 St. Mary Axe
London EC3A 8BE

Email: ipfoffice@ipf.org.uk
Web: www.ipf.org.uk