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Reading PRS Market & Thames Quarter Project

Report for Lochailort Reading Ltd.

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Table of Contents

Executive Summary

This report has been prepared for Lochailort Reading Ltd. in connection with its Thames Quarter, Reading development project, by Paul Belson PRS Consultant, KRB Project Management Ltd.

The purpose of the report is to assist Lochailort Reading Ltd. by informing its strategy for a new high quality "built to rent" private rented sector (PRS) development in the centre of Reading. The report also considers the residential rented sector of the property market in Reading and prospects for the future as well as forecast demand for purpose-built rented accommodation.

Reading is a dynamic and vibrant centre, with a strong local economy and first class communication links to both London, the rest of the UK and overseas. The town is rapidly expanding and has some exciting plans to sustain and enhance this growth. The "Reading UK 2050 Project" draws together key stakeholders from both private and public sectors, who are working together to realise this vision.

Accompanying Reading's growth as the dominant economic centre of the Thames Valley region, is a recognition that the town's population is also expanding. The prosperity of the town is now closely linked to the economic cycles impacting the IT sector as well as those of London and the professional/service sectors. The additional benefit of Crossrail will enhance the town's connectivity to an even greater extent, resulting in more commuters than ever before – both to London and in reverse from London to Reading. This "reverse-commute" effect has already been identified by one of the town's largest investors, M & G Real Estate, who are constructing "London-style" Grade A office accommodation with a view to attracting new occupiers who are tempted to relocate to Reading from London due to the cost savings.

The consequence of all this is that the town's housing offer is now under greater pressure than ever before. House prices have grown significantly, to the extent that the average home in Reading is now twelve times the average local income. Outside of London, Reading has now become one of the least affordable places to live in the UK. Without a substantial amount of equity, it has become very difficult for would-be house buyers to purchase a home. Eventually, without a suitable housing offer, Reading's economic success will be impacted as employers struggle to find the right calibre and quality of employees who will need to be housed.

The private rented sector (PRS) can and will play an important role in helping the town to continue to achieve its goals. Rented accommodation provides a more flexible solution to housing and is especially well-suited to the needs of a transient and mobile workforce. This is especially relevant for Reading, which now relies upon the ongoing success of the major employers in the town in the ICT and professional services sectors. Organisations such as Microsoft, Oracle and many others can only function with a fluid and highly skilled labour force. Corporate relocation and international transfers are now key to maintaining competitive business practice.

In the past, the small private landlord was the predominant source of flexible rental housing. As this report demonstrates, this trend is changing rapidly due to a variety of factors.

Reading as a centre can no longer rely upon the small private landlord to be the main source of flexible housing. New Government policy and fiscal regulations such as increased Stamp Duty Land Tax (SDLT) have created an environment that is now far less favourable for small investors. It is already having an impact, with private landlords either considering selling their rental properties for alternative investments or refusing to add to their portfolios.

Fortunately, an alternative solution for high quality renting is rapidly emerging with the growth of purpose-built "Build to Rent" developments, which are being invested in by large scale financial institutions such as pension funds. This new generation of PRS property brings with it numerous advantages over the older "buy-to-let" model. This report examines these benefits in more detail and outlines just why this type of PRS development is so important for Reading.

Thames Quarter, is Reading's first bespoke "built for rent" PRS development. It heralds a sea-change in thinking towards rental property and the benefits this will bring to the town. Reading's economic success and vibrancy will be greatly enhanced by this new and exciting addition to the town's property offer, bringing with it professional standards of spatial design, management and a new community.

Authors Note:

Paul Belson is a leading authority on the UK's private rented sector and residential investment. He was part of the UK Government's PRS Taskforce – a special group of industry experts commissioned to help grow and expand the private rented sector with greater institutional involvement. In the two years of the Taskforce's existence, funding for PRS grew from under £1bn to more than £12bn (now estimated at c£60bn by the BPF). Comprehensive engagement with all stakeholders across the sector has given him a unique insight into this rapidly evolving sector of the real estate market. Before joining the Taskforce, he was Head of Residential Investment at leading London property firm Chestertons and has worked in the residential sector for more than 25 years. Also formerly a partner at Knight Frank, where he set up the market leading residential research and consultancy team and undertook numerous research mandates on behalf of banks, building societies and pension funds. In the past he has also set up and run a residential fund himself and was instrumental, whilst working at Colliers CRE in persuading a major property company to invest in the residential sector. Paul is a Member of the Institute of Residential Property Managers (IRPM) and sits on various PRS industry-related panels, including The British Property Federation.

The opinions expressed in this report are those of the author and the information contained herein does not constitute formal valuation advice according to the standards set out by the RICS. Wherever possible, data has been sourced from the most recent statistical references however the author cannot be held responsible for any errors or omissions contained herein.

1 Reading – A Dynamic & Thriving Economic Environment

1.1 Reading as a Centre

Today, Reading is undeniably the capital of Berkshire. The town provides an attractive and vibrant economic and living environment for a wide variety of reasons. Its position on the River Thames and River Kennet, proximity and transport links to London and Heathrow as well as the M4 motorway, it occupies a pivotal position in South East England. The town has grown significantly and now is considered to be one of the UK's top retail destinations. It has over eight hundred listed buildings and monuments, boutique hotels, a world-renowned University, Museums and Michelin Star restaurants as well as a vibrant nightlife. Reading was named the best place to live and work in the "Good Growth for Cities 2015 Index" (PwC/Demos) of the largest 36 economic areas of the UK. The Barclays UK Prosperity Map 2015 ranks Reading as the second most prosperous city in the UK.

Transport Links

Transport links have played a major role in the economic growth and expansion of the town with first class road, rail and air links easily accessible. Reading's train connections to London (Paddington in approximately 25 minutes) has always been a popular choice for commuters and this has recently been further boosted by the announcement of Crossrail services now extending to Reading, which will undoubtedly enhance accessibility to The City and Canary Wharf. Reading Station has recently undergone a massive transformation (part of an £900m expansion programme) and is one of the UK's busiest national rail interchanges. Five new platforms have been added together with a new passenger footbridge and escalators. More than 14 million passengers currently use the station each year – a number expected to double to 28 million by 2030. In addition, the regeneration and revitalisation of Station Hill will provide a welcome boost to the adjacent areas around the station itself.

The M4 has three junctions at Reading and links directly with the M25, M3 and M40. London Heathrow airport is approximately 30 minutes' drive-time via the M4. Gatwick airport can be accessed via rail service or coach from Reading, with a new direct train service planned for 2021.

Transport within the town is also excellent. The town boast's the UK's best bus operation (a recent survey indicated it is the third most-used bus service in the UK) which links the town centre with the University and business parks, a brand new ReadyBike hire scheme and a new pedestrian bridge over the Thames.

Retail and Leisure

The town has a first class retail offer, with the Oracle Shopping Centre at the heart of the town and which provides an attractive mixed-use environment combining both retail and leisure uses, with many of the large multiple retail chains represented. All four of the UK's top retailers are within close walking distance – Marks & Spencer, John Lewis, House of Fraser and Debenhams. In terms of cultural activities there are several Theatres including The Hexagon. In addition, there are two casinos, jazz clubs, cinemas and film theatres. Reading is also home to the internationally famous music festival, second largest in the UK behind Glastonbury. It attracts 80,000 fans each year. Reading also has the Royals (Reading Football Club) who share a 25,000 seat purpose built stadium to the south of the town. There is plethora of sporting facilities with many excellent golf clubs, gyms and both public and private leisure centres.

Education

Schooling and educational facilities are also first class. There are two outstanding grammar schools as well as many private schools considered to be among the best in the UK. The University of Reading is ranked as one of the UK's 10 most research-intensive universities and as one of the top 100 universities in the world. Reading College also serves over 8,500 local learners with further education courses. The Royal Berkshire Hospital is one of the largest district general hospitals in the UK and there are three private hospitals. A new 42 acre science and innovation park is to be built in conjunction with the University of Reading to the south of the town.

Heritage

Reading is surrounded by a diverse landscape comprising rural villages, Thames-side towns and pleasant Chiltern countryside. Royal Windsor and other places of historic interest abound and are within easy reach. Reading itself offers over 400 acres of parkland, riverside meadows and play areas, including Forbury Gardens in the centre of town. The historic former Abbey is now the focus of an ambitious Heritage Lottery bid to create a new quarter in the town, encompassing both medieval and Victorian architecture. Before the arrival of Information Technology (Reading today is viewed as being at the heart of the UK's Silicon Valley) the town had an industrial heritage which was synonymous with the "Three B's" (generally held to be Beer, Bulbs and Biscuits) representing the firms of Simonds Brewery, Sutton Seeds and Huntley and Palmer biscuits. Reading has many international links and is twinned with Dusseldorf, Reading Pennsylvania USA, Clonmel Ireland, San Francisco Libre Nicaragua and most recently Speightstown Barbados.

Housing

Like many major towns and cities in the South-East, Reading has gone through a recent boom in residential development, focussing upon both brownfield sites in the town centre as well as other edge-of-town building. In particular, Kennet Island, West Village and Tamesis Reach, along with exciting new urban developments such as those taking place at Green Park, Kennet Island/Southside, Chatham Place and Kenavon Drive have added significantly to the changing face of Reading. This new development complements the town's traditional offer of Victorian, Edwardian, Inter and Post-War building. Whilst many of the new apartment blocks constructed within the town centre have catered for the needs of professional singles and couples, (as well as proving popular with investors) the traditional suburbs of Caversham, Tilehurst, Southcote, Earley and Woodley have tended to provide housing for family requirements.

Local Government

Berkshire is one of the few regions in the country that does not have a County Council. Instead, all local Government services are provided by six unitary authorities. These include West Berkshire District, Wokingham Borough and Reading Borough Council who between them cover varying parts of greater Reading. Reading Borough itself follows a very tight boundary based around the urban core of the town, servicing a population of approximately 155,000. The geographic area traditionally recognised as Reading is home to circa 275,000 people.

Local Administrative Division

Reading: www.reading.gov.uk

Central Reading, Caversham, Emmer Green, East Reading, Whitley, West Reading, most of Tilehurst

West Berkshire: www.westberks.gov.uk

Calcot, parts of Tilehurst, Purley, Streatley, Theale, Beech Hill, Lower Basildon

South Oxon: www.southoxon.gov.uk

Mapledurham, Sonning Common, Goring, Peppard, Stoke Row, Shiplake

Wokingham: www.wokingham.gov.uk

Earley, Woodley, Winnersh, Sonning, Spencers Wood, Charvil

1.2 Employment – The Business Heart of the Thames Valley

Reading possesses a diverse, well-educated and creative population and is the home of some of the best schools in the UK, as well as a world class university. It is no surprise therefore that the town has attracted some top class employers. Amongst these are Microsoft, Oracle Corporation, BG Group, Verizon and Symantec, to name just a few. Its place at the heart of the Thames Valley – now referred to as "Silicon Valley" is fully justified. The inhabitants of Reading reflect the energy and ever-changing face of the town. *"They come from all over the globe – to learn, to work, to experience the culture and to be part of the exciting way of life in modern Reading. Together, people and place are moving forward, sharing an ambitious vision for a town that is recreating itself with imagination and heart"*

Key to continuing and achieving this goal successfully will be the need for a mobile and flexible labour force, especially as working patterns and trends alter. Intrinsically linked to this success will be the requirement for Reading's housing to meet the needs of this often transient labour force.

1.3 Population

As the largest town in the South East, Reading is already acknowledged as a city in all but name. Reading Borough has around 155,700 people, while the wider urban area has around 275,000 residents (800,000 within an hour's drive) and Reading/Wokingham Urban Area some 318,000. The broader retail catchment for Reading is estimated at 2.75 million.

1.4 Local Economy

The town's proven attractiveness to business puts it at a great advantage in the economic recovery. In its 2012 Outlook, the Centre for Cities once more identified Reading as a "small and nimble" city because of its continued increase in business start-ups and wage levels. It was upgraded to second place for productivity (behind London) in its 2016 Monitor. The report is the fifth published in recent years to have recognised Reading's position as one of the top ten cities driving the UK economy and in fact other reports suggest Reading as having one of the top 5 "city" economies in the UK.

Reading's Functional Economic Area (FEA) stretches from Theale in the West, to Bracknell in the East. This FEA acts as a catalyst, stimulating the wider regional economy. Official statistics show that a fifth of Reading's labour force – 20.6% is employed in professional occupations, much higher than the national average of 13.9%. Similarly, 34.3% of employees are concentrated in finance, IT and business activities, compared to 22% nationally. A larger proportion of workers has NVQ4+ qualifications (50%) and 28% of the population are graduates. Unsurprisingly, these higher level skills result in better earnings.

Accessibility contributes to success in attracting foreign direct investment – almost 20% of such investment in the south east in 2009/10. The Financial Times magazine judged Reading to be the best "micro-city" (under 250,000 population) for infrastructure in 2010. Location was considered key in attracting a major new distribution centre for Tesco and new warehousing for Brakes, another food giant. Over 2,500 new jobs were created, broadening the local economy and proving a vital factor in maintaining Reading's continued success.

Reading can only maintain and increase its regional competitiveness and economic strength, by providing suitable housing to meet the needs of the local population, local employers and their staff.

Recognising that Reading has a strong and mature economy, with hi-tech industries and the creative sector contributing significantly to its success, businesses are attracted to the area by the availability of a highly-skilled workforce, access to international transport hubs, a high quality of life on offer and knowledge intensive business clusters.

1.4.1 Skills & Talent

- The 5th most qualified workforce in the UK
- The highest UK employment rate
- The University of Reading is ranked within the top 1% of Universities worldwide
- 20% of University graduates remain in the Reading area after graduation (NB link to housing requirement)
- 50% of Reading's population are educated to NVQ Level4 or higher
- Reading Borough has achieved the best A level results in the country for the third consecutive year

1.4.2 Investment in Reading

- Network Rail - £900 million in Reading railway station & infrastructure
- M & G – purchase of Reading Bridge House (113,778 sq ft) offices for £35 million to add to their Apex Plaza and Forbury Place investments in Reading. M&G identified a need for "London style Grade A office accommodation" forecasting a "reverse commute" trend from firms relocating from London and achieving economies on the cost of prime office space. A spokesperson commented: "Reading is the focal point for economic growth along the M4 corridor and one of the most accessible office centres for Central London in the Thames Valley".
- Benson Elliott & Stanhope – work is well underway on the new 1 million sq ft redevelopment of Station Hill into an exciting new office/retail quarter.
- Landid & Brockton Capital - £30 million investment into Thames Tower
- University of Reading- £50 million initial investment to develop Science and Innovation Park
- Ikea – new store recently opened in West Reading
- John Lewis - £20m recent investment in their flagship Reading store
- Boultbee Brooks – purchase of King's House office building in Reading town centre
- Muse Developments - £35 million investment in Phase 2 of Chatham Place residential development
- Peter Brett Associates – redesign and refurbishment of their Reading HQ building
- Segro – new postal distribution centre for Geopost
- Reading Borough Council – new Civic Offices and a new pedestrian bridge over the Thames

1.4.3 Key Business Clusters

1. ICT

   Knowledge-intensive business services make up 40% of all central Reading businesses. The town is ranked 1st in the UK as a tech employment cluster, according to KPMG and the Greater Reading area is home to over 20% of the South's most successful private independent tech companies. Businesses based in Reading in the sector include:

- Microsoft
- Oracle Corporation
- Cisco Systems
- Huawei
- CGI
- Open Text
- Datasift
- Verizon
- Ultima Business Solutions

2. Business & Financial Services

   Reading has grown into regional and national hub for financial and business services. Prudential have a long association with Reading and this has become one of the town's key strengths in recent years.

   - Prudential
   - PWC
   - Barclays
   - Visa
   - HSBC
   - Olswang
   - Clarks Legal
   - Blandy & Blandy
   - Ernst & Young
   - Shoosmiths

3. Energy & Renewables

   The Thames valley and Reading in particular is becoming known for innovation in green energy. With the Walker Institute for Climate Systems Research based at the University of Reading and the European Centre for Medium Range Weather Forecasts also in Reading. World leader in natural gas, BG Group have their global HQ in Reading, while Foster Wheeler, who have had a long association with the town, also moved their corporate HQ here in 2013.

   - SSE
   - BG Group
   - Foster Wheeler
   - Thames Water

4. Biopharma & Biotech

   Reading has a growing cluster of biopharma companies based around Green Park business-park with good links to other pharma clusters in Oxford and around the Thames Valley.

   - PRA International
   - Archimedes Pharma
   - Quintiles
   - Symantec

5. Defence & Cybernetics

   World renowned research is taking place at the University of Reading and at AWE just outside the town (Aldermaston). A strong cluster of defence related businesses has grown around the town. Rockwell Collins have recently taken a 70,000 sq ft pre-let deal at Winnersh Triangle (Investors Oaktree Capital Management & Patrizia).

6. Retail

   With an annual turnover of £780 million, Reading is the regional retail centre for the Thames Valley. Two town centre shopping malls, The Oracle and Broad St Mall anchor the retail offer. The Oracle attracts 18 million visitors a year to its wide range of fashion and leisure brands. The Reading Business Improvement District represents the town centre's retail area and has created a thriving high street of independents and chains. The commercial vacancy rate in Reading stands at 11.24%, 28% below the national average according to local commercial property agent Hicks Baker.

   - Hammerson – The Oracle Shopping Centre
   - Ivy Park – Broad St Mall
   - John Lewis Partnership
   - House of Fraser
   - Debenhams

7. Transport & Logistics

   Reading's development as a logistics and distribution hub are supported by strong rail, road and air transport links. Tesco opened a major distribution centre in 2013 alongside the M4 junction 11, creating 1150 new jobs in the area. Segro have also built a new distribution centre for Geopost on Imperial Way. The road transport infrastructure has also been greatly upgraded and improved at J11, M4/A33 in recent years.

Reading UK CIC – The economic development company for Reading

This organisation plays an important role in bringing together a diverse set of stakeholders from all those sectors that have an interest in sustaining Reading's world class economy. The Board of Directors is made up of senior figures from First Great Western Ltd, DTZ Ltd, Hammerson UK

Properties plc, John Lewis Partnership, Muse Developments Ltd, Peter Brett Associates LLP, PRUPIM, Reading Borough Council, Surrey & Berkshire Media Ltd, Oracle Corporation.

Thames Valley Berkshire Local Enterprise Partnership (LEP)
LEP's have been created at the request of the Government to be business-led organisations for promoting the growth agenda in their area. They are independent and serve the interests of their regions at Government level. Reading, as part of Thames Valley Berkshire, has a thriving economy but faces intensified global competition from Europe and the fast emerging Asian economies. To stay ahead, Reading recognises that the region needs to work in a more integrated way. The TVB LEP was one of the first wave of LEP's approved by the Government.

TVB LEP will work hard locally, nationally and internationally to retain businesses and attract more to understand the benefits of relocating to Reading and the Thames Valley region as well as ensuring a "work-ready" skilled labour force. The role of the LEP is also to maximise the partnership between business and local authorities and helps to deliver the infrastructure (business, transport, housing, digital and social) needed to support both the economy and quality of life.

The work of the TVB LEP as well as Reading UK CIV can only be achieved if Reading has the quality and diversity of housing stock to facilitate employers staffing by attracting the right calibre of skills and help to grow this vibrant economy. Key to this will be an increasingly mobile and transient labour force, who will undoubtedly require a flexible solution to their housing needs, as well as expecting high standards of design, accommodation, technological innovation and service.

1.5 Reading's Future

The Reading UK 2050 project provides a smart and sustainable vision for the future. It comprises a partnership led by architects Barton Willmore, Reading University and Reading UK CIC. It was established in 2013 to deliver a strategic long-term vision that will support Reading's growth and prosperity and to create a legacy for a truly smart and sustainable city by 2050. A wide range of organisations are contributing to develop an economically viable and evolving future vision.

"Housing will need to play an integral role in achieving this vision. It is therefore crucial that the town and Local Authority planning team embraces the need for an appropriate mix and range of housing to meet these anticipated future trends. Within this, the private rented sector (PRS) is likely to play an increasingly important role as the requirements of the local population shift, towards a more flexible and appropriate form of accommodation. This will need to encompass higher levels of technology, space planning and service standards than ever before".

- 50% of the world's population lives in cities, by 2050 this will grow by 84% to 70%
- Reading as part of the wider Reading/Wokingham urban area has a current population of 318,000 (2011), this is set to grow to 362,400 by 2037 (source ONS)
- Reading 2050 highlights the town "could and should be a more liveable place"
- Reading has a high proportion of pre 1919 terraced houses (28% according to RBC, higher than the national average of 24%) which are increasingly energy inefficient and many will still be standing in 2050
- The report also highlights the difficulty of this historic legacy & infrastructure when trying to re-engineer or retrofit an urban area like Reading, in order to mitigate for the effects of climate change.
- *"Changing business and people's behaviour in order to tackle these issues is a complex task and will require strategic thinking, new partnerships and even new forms of governance and institutional structures in order for us to succeed"*
- Themes highlighted in the report:
    - A Smart Networked City, the mobility of people, goods and services remains high. (Build to Rent optimises these factors).
    - Compact City – Urban land use, buildings, services and infrastructure is optimised in order to create a dense urban community. Forms that encourage reduced demand and more efficient use of energy and resources. (Efficient Build to Rent design emphasizes smaller living accommodation with more communal space, denser building and more efficient space planning)
    - Self-Reliant Green-City – bio-region living in harmony with nature. Inputs/Outputs are connected. (B2R "best practice" incorporates many features within a shared community. NB Roof allotments, family areas, communal living within a "proper" community)

"Best practice "Build to Rent" design incorporates many of the features deemed appropriate for a "smart and sustainable city" –which is defined as a city that leverages ICT infrastructure to:

- Improve the well-being of its citizens (community creation, shared experiences, design/efficient space planning, connectivity/technology, enhanced purpose and place)
- Establish an environmentally responsible and sustainable approach to development
- Streamline and improve physical infrastructure
- Reinforce resilience to natural and man-made disasters
- Underpin effective and well-balanced regulatory, compliance and governance mechanisms

The report also highlighted what a smart and sustainable Reading should look like. People & lifestyle were considered in some detail. Consideration was given to the fact that Reading is and might continue to be characterised by some polarisation in terms of an affluent and skilled labour force vs a semi-skilled labour force with housing access issues. The groups contributing all agreed that a smart and sustainable Reading will have to tackle this through improved housing provision. Community cohesion must be supported through better support networks. Innovative designs will make much better use of river frontage and Brownfield land development will be maximised.

The provision of high quality, purpose-built rented stock, with excellent spatial planning, advanced technology and exemplary management focus will greatly contribute to the achievement of this vision.

Also, the report and its contributors agreed that attracting younger people to live and stay in Reading must be a key focus and developing the right mix of housing across the city will be important. Housing is relatively expensive in Reading, by UK standards and affordability constrained, therefore the provision of high quality rented accommodation with good management must remain a high priority for Reading. The requirement for "Build to Rent" (B2R) development is specifically mentioned within the report as being one way of moving closer to this vision.

1.6 Population & Demographic Overview, Current & Forecast Growth

Census data from 2001 and 2011 indicate there has been an increase of 11,300 people in the population of Reading Borough. Statistics suggest that the main drivers for this have been international migration and natural change. Reading has a strong economy and low unemployment as well as a large University, which are key drivers behind population migration and increase. Those migrating to the UK have been found to be in the 25-44 age group (source ONS). In addition, the largest increase by age group has been amongst the 30-59 age group, accounting for approximately half of the total population increase. Population changes in Reading are likely to continue to be driven by a high rate of international migration and high birth rate. There is also likely to continue to be an increase in the number of working age people living in Reading, with the 20-64 age group predicted to increase from 100,000 to 103,800 by 2037. In addition, there is also predicted to be an increase in the number aged over 65 years (from 18,400 to 31,300) in the same period. Reading as part of the wider Reading/Wokingham urban area has a current population of 318,000 (2011), this is set to grow to 362,400 by 2037 (source ONS)

1.6.1 An Increase in the number of Households

Earlier this year, DCLG released the 2014 based sub national household projections (SNHP). This provides a new trend based projection of household formation across all Local Authorities in England. It is anticipated that Planning Practice Guidance (PPG) will be updated imminently to confirm that this dataset represents a new "starting point" when establishing the objectively assessed need for housing. Across England the SNHP shows that 210,000 households will form every year until 2039. This highlights the widely acknowledged gap between the level of housing projected to be needed and new housing completions.

1.6.2 Implications for Reading's Housing Market

A continued rise in the working population,

Increase in international migration & birth-rate,

Ageing population,

Students seeking post-graduate employment,

An increasing need for more flexible accommodation to meet the town's economic profile,

Improved connectivity to London bringing inward migration & "reverse-commute"

1.7 How can the PRS and "Build to Rent" assist?

Clearly, the implications for Reading's forecast population change will have an impact on the demand for housing in the Borough. The Private Rented Sector can play an important role in housing the future needs of Reading's population:

- The PRS provides a flexible option for housing a mobile and transient population (identified as key components of Reading's current and future economic well-being)
- Housing affordability is less of an issue or a constraint when renting
- "Build to Rent" appeals to both younger as well as older groups who are attracted to embrace community living with higher standards of service, management and technology
- International migrants will seek a more fluid and flexible option for short-medium term living arrangements
- Professional landlords will implement improved management services & offer longer term rental contracts thus improving the tenure mix and covenant

2 Reading's Housing Market, House Prices & Affordability

Reading has a broad mix of housing which reflects its history and heritage. Much of the town centre is dominated by Victorian terraced housing which was constructed during the important industrial area of the 19th Century to provide housing for a rapidly expanding local population. This accompanied the growing importance of the town as major local employers such as Huntley & Palmers and Simonds Brewery as well as the Great Western Railway expanded and became major commercial enterprises, with a requirement for housing for a rapidly growing labour force. During the inter-war period, Reading once more experienced a surge in house-building and it was at this time that the town's suburbs grew and were linked to the town centre by ribbon development and a tram system. Post-Second World War, the town council participated in constructing affordable council-housing and this also formed an important component of new development. During the 1970's and 1980's, large estates were constructed by speculative house-builders, including Caversham Park Village and Lower Earley. In more recent years, the Government's Brownfield development agenda has seen a surge in development of land and sites within and close to the town centre. Within the last couple of years, the relaxation of planning policy around the conversion of office buildings to residential (Permitted Development) as also resulted in a number of former office being converted (310 Kings Road, by Thomas Homes & Kennet House, by Crest Nicholson being two examples).

2.1 Cyclical Market for Development, the Economy & Impact of Government Legislation

It is however important to state that these surges in development and the development pipeline for Reading, are very cyclical and mirror to a large extent economic cycles, the availability of land and costs of labour and construction materials. During periods of strong economic growth, where confidence is high, land can be acquired at market prices with developers (and their funding partners/investors) confident of a successful sales programme to provide an exit. The Reading housing market is now inextricably linked to the fortunes of both the local economy as well as London. Inevitably, this means that should for example, the IT industry experience a recession, or London be impacted by global factors then the resilience of the local housing market will also be impacted. In recent years, this was most evident in the aftermath of 2007/8 (the "Credit Crunch") which greatly impacted the local housing market and saw confidence wane for a period. It still remains to be seen how far-reaching and deep the consequences of a "Post-BREXIT" scenario will impact the local housing market. Furthermore, Government policy can also have a dramatic effect and impact on the housing market. The introduction of new, higher rate Stamp Duty, particularly effecting 2nd home owners has had a significant impact on the private small investor and "buy to let" landlord market. Alongside the phased withdrawal of mortgage interest relief, this has caused a widespread damping down of demand.

2.2 Residential Development Pipeline

Since 2012, the Greater Reading planning system has delivered an increased number of new homes consents, reversing the downturn experienced during the previous six years. 2011 saw a reduction in open market supply of units, a fall of 80% from the peak of 2006, a pattern which reflects the impact of the economic slowdown experienced after the 2007/8 recession. The volume of units actually in the planning system has however declined considerably since 2013, as the number of remaining sites in or close to the town centre wanes and the difficulties apparent with an increasingly burden-some planning system and labour/materials costs impact the development process. In the 2013 Reading Development & Investment Review, across Reading, Wokingham and West Berkshire, there were 6423 units (4623 open market) in the planning system at varying stages.

Current Residential Planning Pipeline – Central Reading:
According to local agents Haslams, in Central Reading there are currently some 2894 units at varying stages of planning/under construction, including some very long-term projects which may or may not be delivered within the next 5 years.

Figure 1 - Residential Development Pipeline:

Reading		
Site	**Total Units**	**Timing/Status**
Under Construction / Imminent		
Caversham Rd / Weldale St	25	Application approved
10 Church Street	32	Permitted development
Kings Point	103	Construction underway
Kings Reach	70	Permitted development
In Planning / Long-Term		
Royal Mail, Caversham Road	400	May be developed within the next 5 years
Three Sisters (Coopers BMW Site)	354	Initial application refused. Revided plans expected to be submitted shortly
Weldale Street (Iceland)	430	Pre-application
Station Hill	400	Consented - phased over next 5 years
Broad Street Mall	450	Application submitted
Royal Elm Park	630	Public Consultation

Wokingham and Shinfield		
Under construction/ Imminent Launch		
Heritage Park, Bookers Hill, Shinfield	126	Application approved
Cutbush Lane, Shinfield	126	Launch antipated Autumn 2016
The Willows, Swallowfield	38	Launch anticipated late 2016

Bearwood Park	26	Site Cleared
Shinfield Meadow	1200	Phase 1 to launch Autumn 2016
In Planning/ Long Term		
Reading Gateway	122	Consented
Remaining phases of Arborfield Green	1300	awaiting approval of final scheme

Lochailort's Thames Quarter site (referred to in Figure 1 as Three Sisters Coopers BMW Site) is Reading's only purpose built "Build to Rent" PRS project. This sets it apart from the other residential projects for very important reasons, as demonstrated within the report.

2.3 Reading's Housing Affordability

Before examining the latest set of house price indices for Reading, it is important to set local prices in the context of national values. Reading is an expensive place to live on a national basis and therefore affordability is relatively constrained in the context of earnings.

In housing affordability terms, Reading has perhaps become a victim of its own commercial and economic success. The imbalance that exists between the supply of new housing and the growth of households means that this scenario is unlikely to change in the short, medium or long term.

Reading's house prices and the rate of house price inflation are now also inextricably linked to the most expensive place in the country - London. Improved connectivity, commutability and the relative cost of housing in Reading vs London is likely to mean that house prices (and house price inflation) in Reading will to a large extent mirror that of London.

Earnings

In 2014, Reading had a working age population of 109,000, equivalent to 67.8% of the total population. This is a slightly higher proportion than the rest of the South East (62.4%) and the rest of Great Britain (63.5%). Overall, full time workers in Reading earn more than the average for all of GB, but slightly less than the average for all full-time workers in the South-East. ONS annual population survey data indicates that 29.7% of Reading residents who were in work were employed in professional occupations, a higher proportion than in the South-East (21.7%) or in GB (21.7%).

According to ONS; in April 2015 employees in Reading UA earned an average of £519 per week (Median Gross Weekly Earnings) or circa £25,000 per annum.

Key Worker Earnings

Of particular concern is the level of earnings for Key Workers in Reading. Like many towns in the South East, Reading relies upon a large number of Key Workers to perform essential roles across the Public Sector. Many are employed at the Royal Berkshire Hospital in the medical industry whilst others undertake equally valuable work to support the local infrastructure. Finding suitable affordable housing for this category of workers is a difficult task. The role of the PRS and its provision of a flexible form of housing tenure, which is not reliant upon finding large deposit monies in order to house Key Workers is a major factor to be considered in Reading's housing offer. Key Worker jobs website indeed.co.uk provides a useful indication of the current level of earnings for a wide variety of Key Worker roles across Reading and the Thames Valley region, for example:

Residential Child Support Worker – Reading: £17,500 pa
Team Leader Childcare Solutions – Reading: £22,250 pa
Senior Support Worker – Reading: £22,254 pa
Ambulance Care Assistant – Berkshire: £15,521 - £17,978 pa
Nursery Nurse – Reading: £14,000-£16,000 pa

An influx of much needed homes for Reading's Key Workers was provided within Chatham Place, where 96 one and two bedroom affordable apartments were acquired by Catalyst Housing Group for both discounted market rent and shared-ownership purchase.

As will be illustrated below, with house prices in Reading having grown to the level they are today, this now puts the cost of purchase, even on a shared-ownership model, well beyond the reach of Key Workers leaving renting as the only real choice of accommodation.

National Average House Prices (according to ONS/Land Registry)

- According to ONS/Land Registry, the UK Average House Price in Jul 2016 was £216,750
- Annual Price Change: 8.3%
- Monthly Change 0.4%
- Demand – Volume of Lending Approvals fell by 5.1%
- Impact of Stamp Duty changes
- UK Homes Sales fell by 0.9% compared to previous month
- Home sales on a monthly basis remain below 2015 & 2014
- RICS reported a fourth consecutive month of falling new buyer enquiries
- Supply, new sales listings falling
- Output in the construction industry down, new build housing falling by 0.4% (June) compared to May, but up by 3.5% compared to June 2015
- Reduced demand from Buy to Let Landlords* (NB: see impact of changes on private "buy to let" supply)
- South East England average house price: £313,315 (11.9% increase annually)
- London: £484,716 (12.3% increase annually)
- Average By property type:

- Detached £325,943
- Semi Detached £203,734
- Terraced £176,013
- Flat £195,178
- All £216,750

Reading Average House Prices (Source ONS/Land Registry)

- Reading Average House Price £307,718 (Jul 16)
- Percentage annual change 18.5%
- Average by property type:
  - Detached £614,831 (18.5% increase)
  - Semi-Detached £382,487
  - Terraced £304,969
  - Flat £228,523

Evidently, house prices in Reading are now extremely unaffordable. With average house prices across Reading now in excess of £300,000(£307,718), this implies a multiple of average earnings (£25,000) of more than 12 times to be able to get on the housing ladder. Even when considering the most affordable housing option (flats: £228,523), this still implies a multiple of 9 times earnings would be required to purchase a property. When faced with the requirement to raise a substantial deposit, clearly would-be home-owners are being priced out of the local market and face little choice but to rent their home.

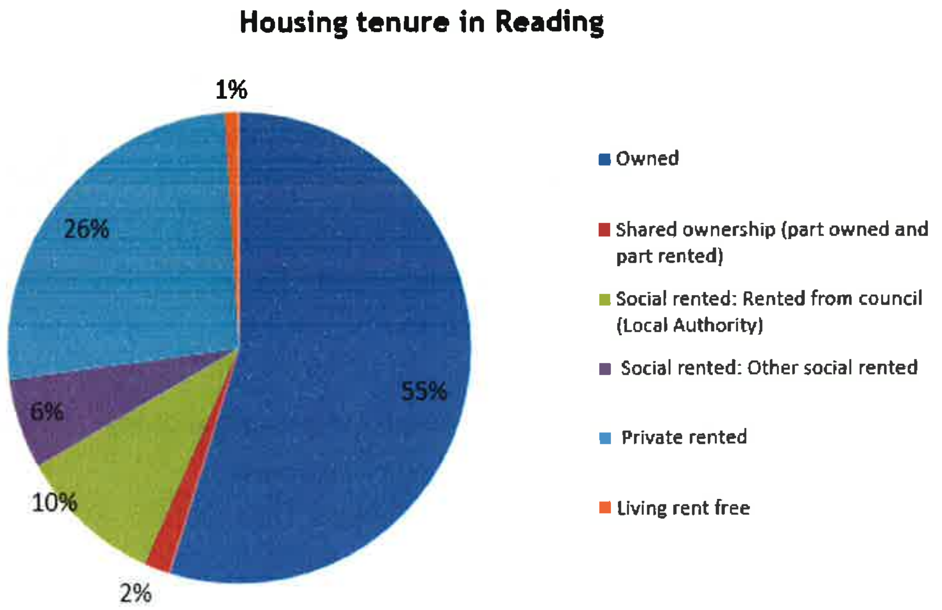
2.4 Impact of Crossrail

In 2014, the Government announced that Crossrail will be extended to Reading. The Crossrail property Impact Study 2012 predicted that property prices will rise 2% and rental prices will rise 1% in the first stage of the scheme (2012-2017), increasing from 2018 onwards to 3.5% for property prices and 2% for rental prices. The impact and effects of this infrastructure improvement are already being felt across Central Reading and on property and rental prices for dwellings located within walking distance of the new station.

2.5 Tenure Type in Reading

The 2011 census found that home ownership is the most common tenure type in Reading, followed by private rented (26%) and then social housing tenants (16%). The Private sector Housing Stock Condition Survey 2013 indicated that 28.5% of dwellings in Reading were in the PRS, compared to an average of 21.4% nationally (21.4%).

Figure 2 - Breakdown of tenure type of Reading residents (2011 census, source: RBC):



Reading Borough Council has highlighted the need for increased use and accessibility to the Private Rented Sector in its Homelessness Strategy Report 2016-2021. The report stated: *"Demand for private rented accommodation locally is fuelled not only by the buoyant economy, but also fewer households buying property, the student and young professional markets and households moving out of London to seek more affordable accommodation – all competing with those on a lower income."*

Evidently, there is a strong and continued demand for rented accommodation across the Borough. Unless, this demand is met by a continuing supply of good quality rental housing, it seems inevitable that rental levels for the existing stock (which is of variable quality) will continue to rise.

With house prices at current levels across Reading, there is a significant unmet demand for housing from those who are caught in the scenario of earning too much to be eligible for social housing, either from the Council or a Registered Provider (RP) and yet do not have enough income or savings to be able to afford to purchase their own home. Especially relevant to this are young professionals, post-graduates in their first job and those who require a temporary solution to their housing needs.

Figure 3 - Market rent and resulting affordable rent (where set at 80%) by property size:

	Market Rent			Affordable Rent (set at 80%)		
	Average[8] per month	Average per Week	Income required	Per month	Per Week	Income required
1 bedroom	£759.00	£175.15	£27,600.00	£607.2	£140.12	£22,080.00
2 bedrooms	£1,056.00	£243.69	£38,400.00	£844.80	£194.95	£30,720.00
3 bedrooms	£1,349.00	£311.31	£49,054.55	£1,079.20	£249.05	£39,243.64
4 bedrooms	£1,589.00	£366.69	£57,781.82	£1,271.20	£293.35	£46,225.45
5 bedrooms	£1,737.00	£400.85	£63,163.64	£1,389.60	£320.68	£50,530.91

Local Housing Allowance Rates for Reading LA (October 2016)

Shared Accommodation Rate: £78.78 per week

One Bedroom Rate: £153.02 per week

Two Bedrooms Rate: £188.33 per week

Three Bedrooms Rate: £221.79 per week

Four Bedrooms Rate: £315.12 per week

In an effort to support increased use of the PRS locally, Reading Borough Council has launched a number of new initiatives including:

- Deposit Guarantee Scheme – further enhancements planned
- Council Owned Housing Company – a new platform for RBC, entailing the acquisition of suitable homes for rent within the PRS
- Draft PRS Charter

Reading Borough Council recognises that many homes in the PRS provide good quality housing which is managed well by landlords and agents. However, in some cases the sector can be seen as offering poor security of tenure, with indifferent management. Institutionally-backed PRS offers a much higher level and standard of management, with an increased degree of security of tenure. Typically, rental agreements are now being offered for two, three or four years by the new breed of professional landlord.

2.6 Reading's Private Rental Market

In recent years, Reading's PRS has mostly been catered for by private landlords who have been attracted to the investment returns offered by the residential investment sector. The typical profile of a "buy-to-let" investor is one who owns a small portfolio of properties (usually less than four or five homes) and is usually interested in the medium to long term investment returns that accrue from both rental return (yield) as well as capital growth. In many cases, these private landlords have arisen almost by accident, perhaps as a result of inheritance, enabling the purchase of a second home for renting out. Over the last two years, as a consequence of the relaxation of pension fund rules and regulations regarding capital withdrawal, there has been a surge of investment from new "buy-to-let" landlords utilising their pension fund investments and attracted to the higher returns available from PRS. Private landlords are a valuable source of rental stock and in the UK comprise by far the largest group of owner-investors. Management solutions are usually provided by High Street or on-line letting agents, however standards and the level of professionalism is highly variable. Furthermore, the sentiments and attitudes adopted by small private landlords towards their tenants and their approach to management can be often irrational.

This scenario is set to change by the arrival of new purpose built "Build to Rent" PRS buildings, funded by Institutional Investors, with much higher standards of professionalism and customer service which will herald a transformation of the PRS and provide tenants with far greater choice.

2.7 Supply of Homes to Rent in Reading

According to data analysed by home.co.uk, there are currently 1,364 homes for rent within a four mile radius of the town centre:

Summary of Properties for Rent in Reading

Total properties for rent in Reading:	1,364
Properties for rent in Reading listed in the last 14 days:	342
Average property rents in Reading:	£1,061 pcm
Median rent:	£950 pcm
Average Time on Market (ToM) in Reading:	89 days

Properties for Rent in Reading by Price

	No. of properties	Average ToM
Rent under £250 pcm	1	43 days
£250 to £500 pcm rent	95	141 days
£500 to £1,000 pcm rent	688	93 days
£1,000 to £2,000 pcm rent	503	77 days
£2,000 to £5,000 pcm rent	75	61 days
Rent over £5,000 pcm	2	73 days

Property Rents in Reading by Number of Bedrooms

	No. of properties	Average rent	Median rent	Average ToM
One bedroom	388	£844 pcm	£794 pcm	85 days
Two bedrooms	446	£1,173 pcm	£1,095 pcm	80 days
Three bedrooms	147	£1,327 pcm	£1,275 pcm	50 days
Four bedrooms	59	£1,851 pcm	£1,798 pcm	74 days
Five bedrooms	26	£2,091 pcm	£2,002 pcm	46 days

Property Rents in Reading by Type

	No. of properties	Average rent	Median rent	Average ToM
Room	206	£632 pcm	£594 pcm	117 days
Flat	725	£1,057 pcm	£950 pcm	93 days
House	336	£1,325 pcm	£1,248 pcm	52 days

Summary of Properties for Rent in RG1

Total properties for rent in RG1:	652
Properties for rent in RG1 listed in the last 14 days:	161
Average property rents in RG1:	£1,063 pcm
Median rent	£949 pcm
Average Time on Market (ToM) in RG1:	93 days

Properties for Rent in RG1 by Price

	No. of properties	Average ToM
Rent under £250 pcm	1	43 days
£250 to £500 pcm rent	36	145 days
£500 to £1,000 pcm	343	93 days
£1,000 to £2,000 pcm	235	90 days
£2,000 to £5,000 pcm	36	53 days
Rent over £5,000 pcm	1	73 days

Property Rents in RG1 by Number of Bedrooms

	No. of properties	Average rent	Median rent	Average ToM
One bedroom	218	£907 pcm	£849 pcm	93 days
Two bedrooms	247	£1,250 pcm	£1,148 pcm	81 days
Three bedrooms	30	£1,315 pcm	£1,224 pcm	41 days
Four bedrooms	12	£1,679 pcm	£1,626 pcm	73 days
Five bedrooms	1	£1,452 pcm	£1,452 pcm	55 days

Property Rents in RG1 by Type

	No. of properties	Average rent	Median rent	Average ToM
Room	92	£726 pcm	£624 pcm	121 days
Flat	441	£1,119 pcm	£975 pcm	93 days
House	89	£1,080 pcm	£1,049 pcm	51 days

According to local letting agent Haslams, who manage circa 760 properties for small "buy to let" landlords, the following pattern is fairly typical for Reading's private landlords.

Figure 4 - Reading PRS Landlords Profile (source: Haslams):

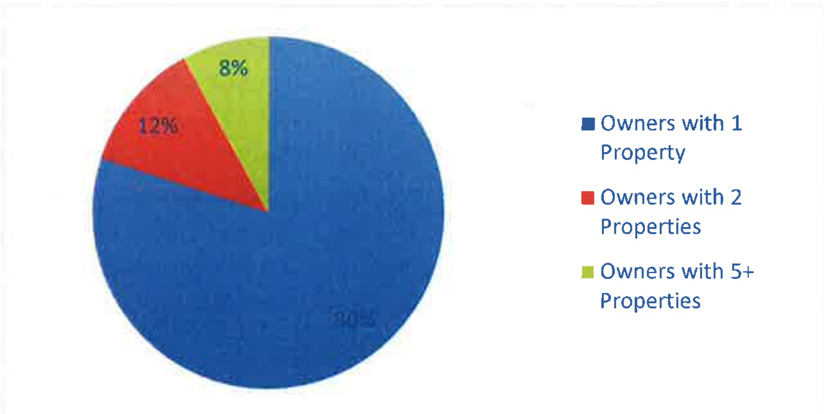


Figure 5 - Reading PRS Property Profile (source: Haslams):

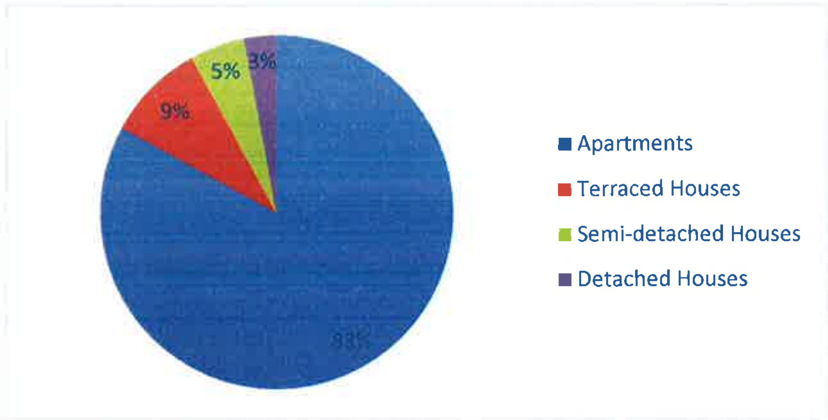
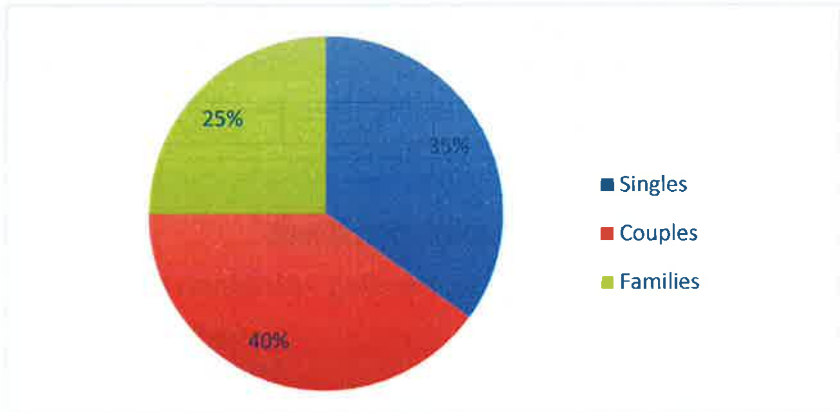


Figure 6 - Reading PRS Tenant Profile (source: Haslams):



It is fairly evident that the supply of rental housing in Reading is predominantly as a result of small private landlords, reflecting the trend across most of the UK. As can be seen above, 80% of the properties being let with a letting agent in Reading are owned by landlords with just one property and 80% of these properties are flats.

In terms of supply, Reading's rental market is highly exposed to the vagaries of the small private "amateur" landlord, who will be subject to a wide variety of arbitrary factors influencing their future decisions.

2.8 The Impact on Private Landlords of Budgetary Changes – Stamp Duty Land Tax, Mortgage Interest Relief & BREXIT

The imposition of new legislative changes by the Chancellor in last autumn's Budget Statement surprised many in the residential investment sector - and may prove to be a short-sighted move by Government. The changes specifically focussed on increasing Stamp Duty Land Tax (SDLT) for second home owners as well as introducing a phased withdrawal of Mortgage Interest Relief. This has had a dramatic effect of dampening demand for both existing and would-be "buy to let" investors. This can be clearly demonstrated in the following chart, which shows the impact on sales of a number of newly built properties to both home purchasers and investors both pre and post the Budget announcement.

Figure 7 - Sales to Investors Pre and Post Stamp Duty and Brexit (Source: Haslams):

Launched pre stamp duty changes and Brexit

Tamar House, Station Road, Reading - Shaviram Group

Total number of apartments: 20
Total number sold: 20
Launch Date: 13th January 2016
Date of first reservation: 13th January 2016
Date of last reservation: 12th February 2016
Marketing duration: 4 weeks
Rate of sale: 5 per week

% Investors: 95%
Expected yield: 5.14%
Average discount: 0%
Parking arrangement: None
Smallest unit (Sq Ft) (£ Sq Ft): (340) (£581)
Largest unit (Sq Ft) (£ Sq Ft): (696) (£429)

Type	Minimum achieved price	Sq ft	£ sq ft	Maximum achived price	Sq ft	£ sq ft
1 bed	£260,000	487	£537	£200,000	340	£581
2 bed	£300,000	696	£429	£280,000	647	£434

Launched post stamp duty changes and Brexit

Summit House, Grey Friars Road, Reading - Shaviram Group

Total number apartments: 21
Total sold: 21
Launch date: 29th May 2016
Date of first reservation: 29th May 2016
Date of latest reservation: 24th September
Marketing duration: 17 Weeks
Rate of sale: 1.24 per week

% Investors: 53%
Expected yield: 4.77%
Average discount: £2958 (1.16%)
Parking arrangement: To rent
Smallest unit (Sq Ft) (£ Sq Ft): (360) (£626)
Largest unit (Sq Ft) (£ Sq Ft): (598) (£539)

Type	Minimum achieved price	Sq ft	£ sq ft	Maximum achived price	Sq ft	£ sq ft
1 bed	£257,500	396	£647	£222,500	360	£626
2 bed	£320,000	598	£531	£292,000	508	£583

57 Castle Street, Reading - Valedene Estates

Total number apartments: 12
Total sold: 12
Launch date: 20th July 2016
Date of first reservation: 20th July 2016
Date of latest reservation: 24th September
Marketing duration: 11 weeks
Rate of sale: 1.09 per week

% Investors: 67%
Expected yield: 4.80%
Average discount: £3375 (1.73%)
Parking arrangement: None
Smallest unit (Sq Ft) (£ Sq Ft): (313) (£641)
Largest unit (Sq Ft) (£ Sq Ft): (477) (£496)

Type	Minimum achieved price	Sq ft	£ sq ft	Maximum achived price	Sq ft	£ sq ft
1 bed	£245,000	424	£584	£195,000	317	£625

Whilst these legislative changes may result in an increase in revenue to the Government from the PRS, it is also likely that the net effect will result in many private buy-to-let landlords selling their existing portfolios in order to reinvest in other sectors, or to dissuade new entrants from making an investment purchase. This will result in a reduction in supply of private "buy to let" homes to rent and could even lead to an increase in rental levels as the supply of rental stock diminishes and demand increases, leading to unaffordable rents in Reading.

Institutional Investors in "Build to Rent" PRS are less impacted by the budgetary changes. As long-term investors, with a focus on improving standards across the sector these costs are already reflected in their development costs. Consequently, it will become increasingly important for the supply of new rental stock, to ensure that this segment of the UK's PRS continues to flourish. For Reading, this is likely to prove to be an essential element in ensuring the supply of rental stock and for the maintenance of a healthy rental market.

3 Government Initiatives to Improve the UK's PRS

Early stage initiatives to kick-start institutional support and re-activate interest in large-scale residential investment were driven by the Labour Party, who have been active supporters of a more professionally managed approach to PRS (PRSi 2009 was a Labour Party initiative). The 2014 Lyons Review was also a Labour Party commissioned report, investigating the barriers to institutional investment in the sector. The Montague Review took up the baton.

The Private Rented Sector has now overtaken social housing as the UK's second largest tenure and "Build to Rent" is being promoted as one remedy to the housing shortage.

Research from Savills indicates that by 2019, demand for private rented housing will account for almost one in four of all households (currently c19% according to DCLG) at 6.04 million households, up from 4.86 million at the end of 2014. A survey of leading investment houses by the British Property Federation has identified a collective ambition to invest over £60bn in the UK private rented sector, with over 50% from UK investment houses.

The Government, via the DCLG and The PRS Taskforce has promoted the creation of the PRS and has been instrumental in making a number of important taxation and regulatory changes. These changes combined, suggest that high quality, professionally managed rental accommodation will be in very high demand over the coming years.

According to a report by law firm Addleshaw Goddard and the British Property Federation (BPF), Britain is on the verge of a "rental revolution" with around £30bn of institutional investment earmarked to build and manage homes for rent. The shift towards a professionally run rental market such as exists and is well established in the US and EU markets such as Germany, with developments owned by single companies rather than multiple speculators and buy-to-let investors, could offer Britain's estimated 9 million renters higher standards, better value and greater transparency, with homes purpose designed for renters. Institutions such as Hermes, Legal and General, Aviva, M & G, Aberdeen Asset Management and many others are now entering the sector along with developers and house-builders. It also comes as Chancellor George Osborne has reduced tax incentives for buy-to-let investors in last Autumn's budget which will see many small investors exit the sector and the size of this market for house-builders likely to decline significantly in the next few years. The report "Funding Britain's Rental Revolution" says Build to Rent could bring in substantial additional finance for housing.

Investors who have traditionally developed offices, shopping centres and warehouses do so to generate long-term income. Experts agree that growing demand for housing presents a prime opportunity to create steady, long-term returns that can be used to fund the liabilities of pension or insurance companies. In rental terms, the UK still has a lot to learn from its counter-parties in the US and Europe where these markets are far more mature and offer a level of sophistication and customer service far in advance of our domestic market with its predominance of small and often indifferent landlords.

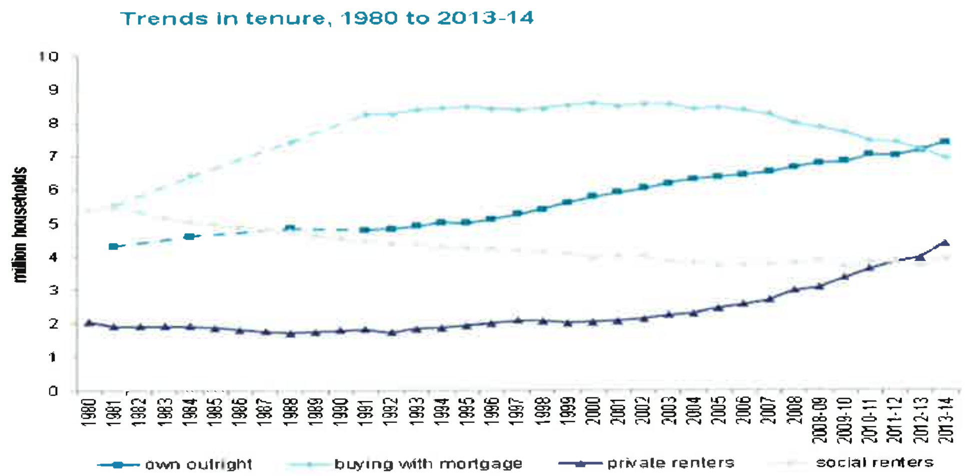
If a private rented sector development can demonstrate it is of a superior quality, residents may pay a premium or show a preference to rent accommodation where they are looked after as a valued customer and where they enjoy a strong sense of community. Build to Rent has emerged as a separate new asset class, distinct from commercial real estate and buy-to-let properties that dominate the housing and private rental markets.

Around 29% of housing starts in the first quarter of 2015 were homes for rent, while many predict that renters could soon outnumber homeowners, making the delivery of homes for rent crucial.

Former Housing Minister Brandon Lewis MP stated: “We are determined to create a bigger and better private rented sector, encouraging greater investment by professional landlords to build homes specifically for rent”. With more than £30bn of investment already in the pipeline and nearly a third of new homes planned in London for the private rental market, the sector is set for some very radical changes.

According to Ben Sanderson, Director of Fund Management at Hermes Real Estate, “As a low levered, low risk investment, Build to Rent plays into the institutional investor space. I think this is the next phase of residential real estate developing as an investment sector and will help make the case for PRS as a “grown-up” asset class which forms an essential part of institutional investors’ portfolios.

Figure 8 (source: DCLG):



Base: all households
Note: underlying data are presented in Annex Table 1.1
Sources:
1980 to 1991: DOE Labour Force Survey Housing Trailer;
1992 to 2008: ONS Labour Force Survey;
2008-09 onwards: English Housing Survey, full household sample

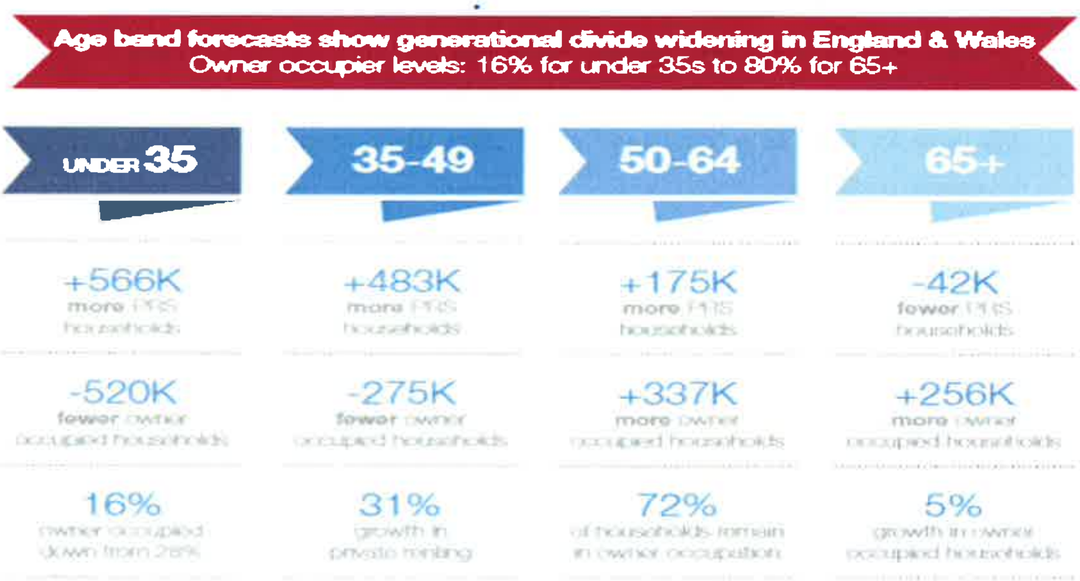
The above figure charts the growth of the private rented sector since the 1980's. In fact since 2000, there has been a rapid increase in renting privately, to the extent that in 2011/12 it has now overtaken the social renting sector to become the UK's second largest form of housing tenure with more than 4 million households renting privately (almost 20% of all households).

Figure 9 (source: Savills):

TENURE FORECASTS TO 2019

Forecasts show large rise in Private Rented Sector households

	5-year forecast	No. of Households (Millions)		Forecast change		% of Households	
		2014	2019	Millions	%	2014	2019
ENGLAND & WALES	Owner Occupiers	14.87	14.67	-0.20	-1.4%	62%	59%
	Private Renters	4.86	6.04	+1.2	+24.3%	20%	24%
	Social Renters	4.09	4.04	-0.05	-1.1%	17%	16%
LONDON	Owner Occupiers	1.56	1.46	-0.10	-6.8%	47%	42%
	Private Renters	0.99	1.24	+0.25	+24.8%	30%	36%
	Social Renters	0.78	0.77	-0.01	-1.1%	23%	22%



Source: Savills Research, 2011 Census, DCLG

Savills are predicting that by the end of 2019, over 24% of all households across the UK would be in the private rented sector. Among the under 35's the proportion increases to 66% with homeownership falling to just 16% of the total. Even in the next age band (35-49 year olds), homeownership would fall to just 55% of all households – rising to 38% in London. This trend will present opportunities for investors and major challenges for Government. This forecast growth in the private rented sector (to 2019) is illustrated in figure 2.

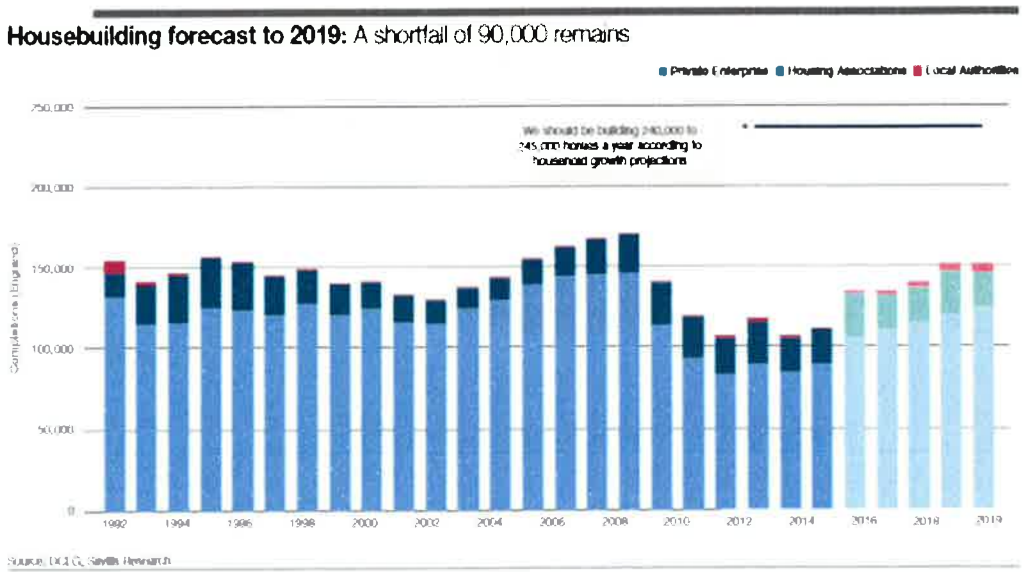
3.1 Why such a large increase in renting?

Over the past seven years it has become abundantly clear that the credit crunch has fundamentally altered the way the UK housing market operates. Combined with the recent regulation of the mortgage market, accessibility to the debt required to step onto and up the housing market has been fundamentally altered. Whatever the best intentions of the various political parties, the legacy of the credit crunch means the generational divide in the UK housing market will continue to widen, as private renting grows and homeownership among both the under 35's and 35-49 year olds falls further. At the end of 2004, the average UK house price had risen by 63% in just three years, resulting in a significant shift in house prices to household income ratios. Together, these two factors mean that the housing market has been, and will continue to be shaped as much by the affordability of a mortgage deposit as by servicing that mortgage on a monthly basis.

To summarise, the prime drivers of rental growth have been:

- Lack of house-building (supply of new homes) vs demand (household formation)
- Affordability constraints (ratio of house prices to incomes, Mortgage Market Review – tighter lending constraints)
- Ageing demographic - more homeowners owning outright for longer and consequent impact on housing market turnover
- Changing UK attitudes by younger renters towards home-owning in favour of more flexible living ie the "European Model"
- Supply of affordable homes for rent by Local Authorities – since the Conservative sale of Council Homes during the 1980's, Local Authorities have not been able to replace their stock of affordable homes for rent.

Figure 10 (source: DCLG):



The situation with the lack of supply of new homes is illustrated in the above figure.

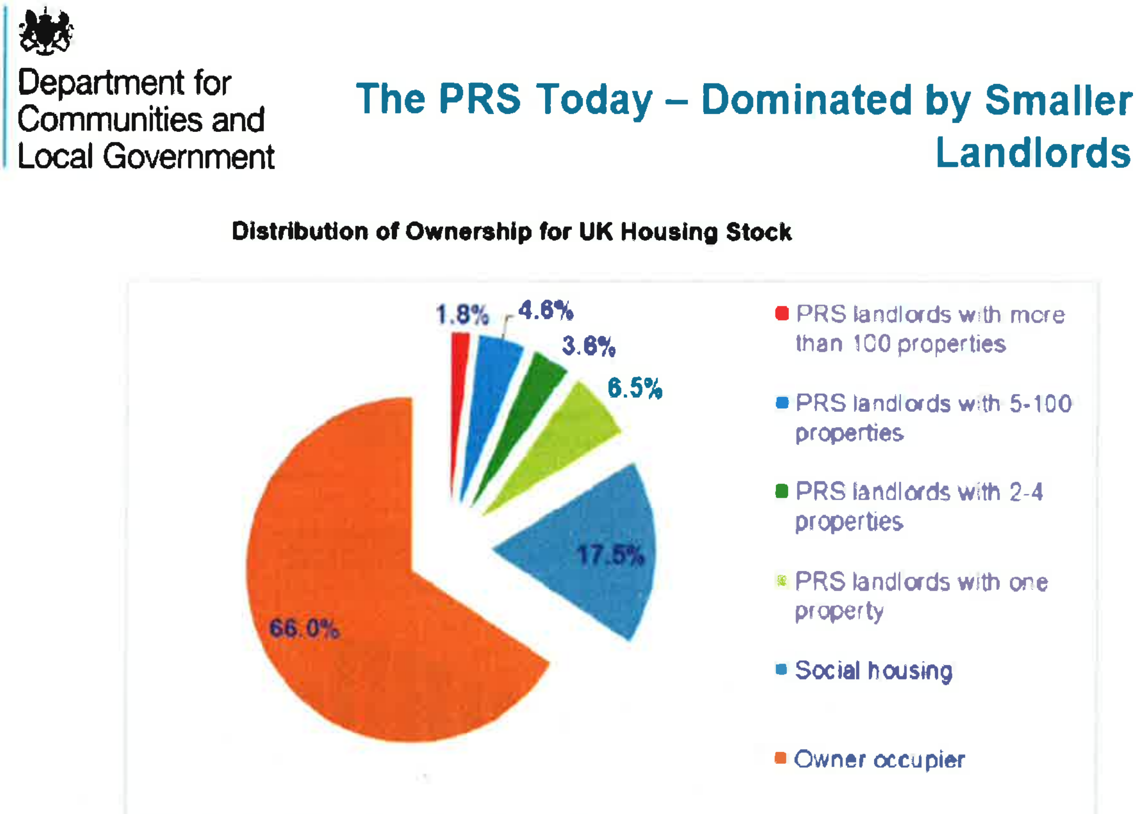
It is generally acknowledged that the UK's needs around 250,000 new homes to be constructed each year in order to keep up with demand. As figure 3 shows, this target has been dramatically underachieved - by around 90,000-100,000 dwellings per annum since the early 1990s.

The recognition that the UK is facing a housing crisis has pushed housing to the top of the political agenda and all three main parties agree that house-building needs to increase in order to meet the needs of a growing population.

3.2 The UK's PRS – Dominated by Smaller Landlords

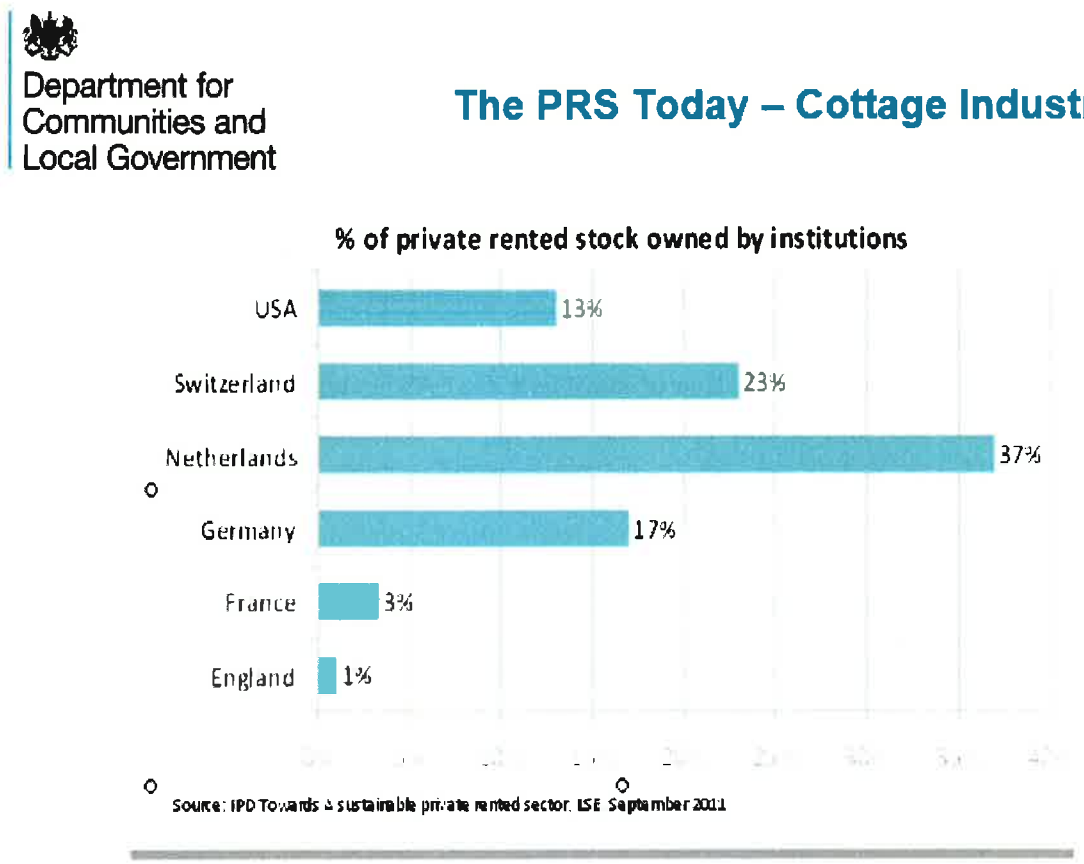
Unlike other countries in Europe, as well as the US; the UK's rented sector is very heavily dominated by small private landlords, most of whom only own and rent out one property. A very small percentage (less than 2%) of landlords have portfolios of more than 100 properties. The breakdown of this is shown in figure 10 (Source DCLG, Private Landlords Survey 2010).

Figure 11 (source: DCLG):



Source: DCLG, Private Landlords Survey 2010

Figure 12 (source: IPD):



Overseas, the situation with private rented housing varies quite dramatically to the UK. In the Netherlands for example, 37% of the housing stock is owned by institutions and in Germany it is 17% (source IPD). The UK has a paltry 1% of its private rented stock in institutional ownership. This might be termed a "cottage industry" and the UK clearly has a long way to go to catch-up with its European colleagues.

3.3 UK Government Initiatives

The UK Government has been monitoring this imbalance in terms of rental sector structure and supply of rented accommodation for some time. It commissioned The Montague Review with the sole purpose of building a bigger private rented sector in the UK and to look at what initiatives were needed to encourage more supply of purpose-built rented accommodation. In particular, the role of the larger institutions and pension funds was closely examined, with a view to encouraging them back into the sector and becoming once more, active owners and managers of substantial, privately rented portfolios. In addition to this, The Government was keen to address the imbalance structurally between the UK and other countries in terms of large scale institutional portfolio ownership.

The findings of the Montague Review brought about a number of quite significant initiatives:

- The founding of The PRS Taskforce (2013-2015)
- Build to Rent Fund
- PRS Debt Guarantee Scheme
- Planning Guidance Changes

3.3.1 The PRS Taskforce

The Taskforce's role was to "kick-start" the creation of a larger and more institutionally backed private rented sector. By engaging with all stakeholders across the sector including funds, management companies, local authorities and central Government. In the two years since The Taskforce was created, the level of investment into PRS increased from under £1 Billion of capital to more than £12 Billion when the work of the taskforce was completed (both real and aspirational). In fact according to the British Property Federation there is now more than £60 Billion of investment targeting PRS.

3.3.2 The "Build to Rent" Fund

The fund comprised of a £1 Billion Government funding package designed to stimulate development of "Build to Rent" projects. The scheme proved to be highly popular with a variety of developers and house builders. The key features of the scheme were:

- Up to £1Bn of recoverable loans for large scale Build to Rent development
- £4.2Bn of bids received
- £231m deals done to February 2015 will provide over 3,000 new homes for rent
- Round 1: 11 projects contracted. c£150m – UK wide, southern core
- Round 2: £3Bn of bids received
- £81m of deals completed
- 290 homes for rent in London
- 700 in Manchester and Salford

3.3.3 The "PRS Debt Guarantee Scheme"

The scheme is focused primarily on investors and provides a pool of Government backed long term (up to 30 years) debt financing at very attractive rates (currently c1.00% over Gilt rates). The features of the scheme are:

- £10 Bn of affordable housing and PRS Debt Guarantees available
- £3.5 Bn allocated to PRS. £3Bn in reserve
- Government's fiscal strength to support long term investment loans
- Over 100 parties have expressed interest
- Discussions under way with large borrowers over direct guarantees

- PRS Operations Ltd, a subsidiary of Venn Partners, were appointed as delivery partner in December 2014.

3.3.4 Planning Guidance Changes

A fundamental and much needed overhaul of the planning system took place when the new National Planning Policy Framework (NPPF) was introduced. This greatly condensed the former heavyweight policy document into a more compact system of planning rules and regulations and was designed to speed up and simplify the planning process. For PRS, it was recognised that some further changes to the NPPF would have to be created in order to make the commercial model for PRS (or "Build to Rent") development more attractive. Without any further change, the requirement for speculative residential development to attract Section 106/Affordable Housing and Community Infrastructure Levy (CIL) would mean that only in very exceptional cases would "Build to Rent" development be as attractive as "build for sale". In simple terms, a developer or house-builder would have to sell all of the units on a development where particularly onerous Section 106 or CIL levies were required to make the development viable.

Quite recently (during the latter part of 2014), some further modifications were made to planning policy within the NPPF, that now potentially favour "build for rent" schemes. This now means that Planning Officers in all areas have to review planning applications for "build for rent" projects in a different way – and they must be treated separately to "build for sale" development applications in terms of Section 106 treatment and CIL. This gives the planning officers and Local Authorities scope to apply different and potentially lower Section 106 and CIL calculations to a rental project. Although the specific interpretation of this new caveat to planning policy is yet to fully work its way into the market, there are already signs and case studies starting to appear whereby the different treatment of S106 and CIL is resulting in an increase in the number of schemes that developers are bringing forward as "build for rent". It is to be expected that more detail, in terms of the precise definitions of planning policy, will be added to the NPPF as time goes on and more case studies appear. PRS schemes are already starting to emerge where the developer or PRS operator has, in effect "swapped" the affordable housing component for an affordable rented component to improve viability. Some Local Authorities favour this approach, especially in areas where there is a need for more affordable rented accommodation in the Borough and the S106 obligations are stifling speculative development.

Although still new in planning terms, the new legislation is now being actively adopted in a number of London Boroughs, as well as more widely across the UK and is seen as an instrumental piece of legislation in bringing forward new "Build to Rent" planning applications. The practical application of this approach is still relatively new – and varies, but the basic premise is that the PRS scheme covenants to provide a proportion of the homes at reduced rent to people within certain income bands, in lieu of other forms of affordable housing. The benefits posited are that since the units are designed, built and managed as an integral part of the development, there are efficiencies in density, construction costs and operating costs which can improve viability and so allow a greater proportion of affordable units to be provided overall. The "pepper-potting" of the discount market rented units also provides a social cohesion element to it too.

The approach has recently been given further emphasis through Supplementary Planning Guidance issued by the GLA earlier this year (see 3.3.10 of https://www.london.gov.uk/sites/default/files/housing_spg_revised040516.pdf).

The GLA SPG refers to the definition of intermediate housing in the NPPF – see the definition of affordable housing – and the definition of intermediate housing nested within it on page 50 of: https://www.gov.uk/government/uploads/system/uploads/attachments_data/file/6077/2116950.pdf

The Mayor of London's Implementation Framework document (Supplementary Planning Guidance March 2016) specifically states in favour of PRS:

"The Private Rented Sector (PRS) is the only housing sector to have seen relative growth in recent years. It now houses 30% of all households in London, up from 14% in 2003/04.The sector is becoming increasingly important in supporting labour market mobility, accommodating over half of the one in eight households who move in London each year."

Government and the Mayor support provision of more private rented homes (Policy 3.8B a1) and the 2015 London Plan recognises that the planning system should take a more positive approach in enabling this sector to contribute to the achievement of housing targets. Positive support should be given for long term private rented products through the land use planning system at local as well as strategic level, e.g. recognising in Local Plans how the private rented sector can meet a range of needs and be particularly suitable for certain locations; as well as through development management.

Long term, purpose built, private rented (Build to Rent) developments in block ownership and managed as a single development could make a particular contribution to meeting housing need. Such schemes are beneficial in a number of ways; they have the potential to accelerate delivery and not compete with nearby for sale developments; they can offer longer term tenancies/more certainty over long term availability; they can ensure high quality management through single ownership; and they can ensure a commitment to, and investment in, place making. They can also meet a wide range of needs, including those of singles, sharers, families and older people. Such schemes are strongly encouraged to sign up to the London Rental Standard.

As part of encouraging the development of this type of housing the Mayor has made clear that LPAs should recognise the distinct economics of the sector relative to mainstream market housing and take account of this when undertaking viability assessments for covenanted Build to Rent schemes. These distinct economics is normally taken to mean two separate but connected things. Firstly, a reliance on an annual revenue income through rent rather than upfront capital receipts; and secondly, even taking this into account, that Build to Rent cannot compete on an equal footing with speculative build for sale, as it has inherently lower returns. However, in many cases affordable housing will be viable and the policy continues to encourage onsite affordable housing as far as possible. These distinct economics should also be taken into account when disposing of public land.

Covenanted schemes are schemes that are secured as private rent for a fixed period either through a covenant, a Section 106 agreement or other legal agreement typically for 15 years or more and are retained in single ownership (overall ownership may change over this period). The appropriate covenant length will differ on a case by case basis and it is envisaged that the typical length of covenant will increase as investor confidence in the product grows.

If a Build to Rent scheme delivers the same level of affordable housing as a market sale scheme, generally there would be no requirement for a covenant. However, covenants are necessary where the distinct economics of Build to Rent lead to reduced viability in terms of meeting affordable housing and other section 106 and policy requirements relevant to the development.

As part of the viability testing process to provide an understanding of the distinct economics an applicant should submit a 'for sale' viability appraisal alongside the appraisal for the covenanted Build to Rent scheme. Where viability testing of covenanted schemes demonstrates that affordable housing contributions at the level supported by private sale are unviable because of the distinct economics of Build to Rent, 'clawback' mechanisms should be included as part of the planning permission to recoup this loss of affordable housing if the market homes are sold out of the long term PRS market and to ensure schemes deliver the maximum reasonable level of affordable housing in line with Policy 3.12. The clawback period should run with the covenant but should not be less than 15 years. Therefore, if the covenant period is shorter than 15 years, the clawback period will run beyond the covenant.

The clawback agreement could base the clawback amount on the level of affordable housing that would have been viable on the scheme if it was for traditional market sale (less any on- site affordable homes delivered as part of the scheme); where appropriate this approach could also include a review mechanism (see part four). Alternatively it could be based on an agreed proportion of the sale price of each property when it is sold. The clawback could be in the form of additional onsite affordable homes or be in the form of a commuted sum. To encourage long term institutional investment, this clawback requirement could proportionately reduce over time and be waived for schemes that are kept in the PRS market for the longer term.

Section 106 agreements and covenants should be carefully worded in order for the construction of the units to be VAT zero-rated. In addition to meeting the other VAT conditions, it is also necessary that the separate use or disposal of a unit is not prohibited by any covenant, statutory planning consent or similar provision. This means, within the granting of any planning consent, it must be clear that buildings or individual units can be sold out of the long term PRS market which may result in any affordable housing contribution being 'clawed' back. The Section 106 should also clearly set out the how the clawback will operate (see paragraph above), including how it will be calculated. Additionally, overall ownership of the building(s) in which the units are located may be allowed to change over the covenanted period without triggering 'clawback' if they remain as single ownership PRS.

Where viability suggests that traditional affordable housing products are unviable on covenanted schemes due to the distinct economics of such schemes, developers and LPAs could consider including only discounted market rent (intermediate rent) as the affordable offer. To be counted as affordable housing, the discounted market rent units must meet the NPPF definition of intermediate housing, and be affordable to those eligible for intermediate housing in London. It should also be noted that being a Local Authority or a private registered provider is not a requirement to deliver or manage intermediate dwellings and thus the units can be owned and/or managed by private sector landlords. In addition, some discounted market rented products not let by a private local authority/registered provider also qualify for mandatory CIL relief172. Discounted market rent units can also easily be 'tenure blind' and pepper potted through the development. Where discounted market rent units are being supplied and are owned and or managed by a non-registered provider LPAs are encouraged to ensure that they are accredited by the London Rental Standard.

Build to Rent can be particularly suited to higher density development within or on the edge of town centres or transport nodes. Local policies requiring a range of unit sizes could be applied flexibly to Build to Rent schemes in these locations to reflect demand and the distinct viability challenges faced by Build to Rent. Potential yields and investment risk can be affected by increases in the number of large units within a scheme. Policy 3.5D and the standards in Part two of this SPG provide flexibility to consider innovative designs where they meet identified need and are of an exceptional design and standard. Moreover, it should be noted that the nationally described space standard is not prescriptive in regard to the layout of dwellings.

In line with the NPPG, borough SHMAs should identify the future need for private rented sector housing; this can be informed by current tenure patterns, analysis of market signals and data sources such as the English Household Survey.

Further support for Build to Rent can be given through broad-based spatial planning policies, whether these be in LDFs or through more specific, local housing and other related strategies. Such support could include: encouraging long term institutional investment, with boroughs working with the GLA and delivery partners supporting institutional investment on public land, including that owned by the GLA. In particular, boroughs may wish to explore the use of joint ventures or deferred receipts as a way to take account of the distinct economics of, and to encourage institutional investment in the private rented sector. Innovative approaches to capturing planning gain through use of covenants or other mechanisms to ensure the delivery of affordable housing within Build to Rent developments.

Maximising the potential of reforms to Real Estate Investment Trusts to attract investment

In addition to the measures in the London Plan, the Mayor has set out policies in his London Housing Strategy to promote institutional investment in PRS and to improve the quality and the management of the PRS. The Strategy seeks to ensure that developers and registered providers deliver at least 5,000 purpose-built long term private rented homes a year, and implements the London Rental Standard to improve management standards, with a target to accredit 100,000 landlords and agents by 2016.

More detailed information can be found on the Housing SPG at section 3.3 of:

https://www.london.gov.uk/what-we-do/planning/implementing-london-plan/supplementary-planning-guidance/housing-supplementary.

Case Studies

ESSENTIAL LIVING, CREEKSIDE WHARF:

Creekside Wharf is situated on Deptford Creek, just 500 metres from Greenwich town centre. It gained planning approval in July 2015 for the delivery of 249 new homes and recently received the Housing Project of the Year award at the 2015 Sunday Times British Homes Awards.

The scheme includes a range of one, two and three-bed homes and along with a block dedicated entirely to families. Creekside Wharf is Britain's first private rented scheme designed for families and includes:

- A new onsite nursery
- Additional acoustic insulation
- Extra wide corridors to assist push chair mobility
- Large storage areas for push chairs, scooters and muddy shoes
- Balconies designed to enhance child safety
- Large utility cupboards to accommodate a separate washer and dryer
- Children's communal workshop areas and a secure external rooftop play area

It also includes a pioneering Discount Market Rent (DMR) model to provide more affordable homes for local people.

The discount market rent model

A primary concern of the developer was to tenure blind affordable housing. To ensure it could provide as much affordable housing as was viable given this scheme is for rent, not sale, it worked with Greenwich to create an innovative Discount Market Rent (DMR) product. A quarter of the 249 units at Creekside Wharf will be available under DMR, which will allow local people to rent properties in Creekside Wharf at rates of 55%, 65% and 75% of open market rent. An additional 24 DMR units will be available for Greenwich families, at the same specification as the market rent units. By providing affordable housing rents across a number of bands (and by managing it themselves) the developer is able to offer numerically more affordable units than under a traditional affordable housing scheme, meaning in total it will be offering around 85 affordable units as part of the scheme.

DMR residents will be selected by Greenwich Council based on their income band, and rents have been benchmarked against local key worker affordability criteria. Should a DMR customer leave Creekside Wharf, their replacement will again be selected by the council, ensuring that the 25% affordable housing provision is maintained. The development will be a 'tenure blind' affordable housing solution that has the same standards and amenities, as market-rent customers.

GRAINGER/APG/BOUYGUES, CANNING TOWN:

A Build to Rent scheme is to be delivered as part of the Hallsville Quarter in Canning Town, funded by a £33.25m agreement between Bouygues Development and GRIP, the PRS fund backed by Grainger and Dutch pension fund APG. Due for completion in summer 2017, the scheme of 134 apartments, over 16 storeys, is an example of the willingness of investors to invest in schemes subject to local authority restricted covenants, and their commitment to investing in the PRS for the long-term. All 134 apartments in the Canning Town development are subject to a restrictive covenant, which will see their use restricted to letting on a private rented basis for a minimum of eight years.

This is Grainger's third Build to Rent project with Bouygues, demonstrating that partnerships between developers and investors are proving a successful formula for delivering market rented stock (see image below).

3.4 What is "Build for Rent"

The UK's private rented sector is by its nature quite diverse and the market for rented accommodation is evolving quite fast. It can encompass many different types of property and historically this has been the case (see figure 12). Ranging from a 1930's built Mansion Block (top left) to an office to residential conversion under permitted development rights (top right), student housing (bottom left) and conventional family housing being developed as "buy to rent". Increasingly however, the market is starting to embrace a whole new range of design thinking around purpose built buildings which embrace a whole range of features typically found in more developed PRS markets around the world.

Figure 13 (source: DCLG):

3.5 How large is the UK's PRS Sector

According to estimates from property advisors CBRE and Savills, the sector is worth approximately £1.16 Trillion – a figure that has risen by 57% in five years and 127% in ten years (overall, the UK's housing wealth is estimated in excess of £5 Trillion).

3.6 Growth of the UK's PRS

Property advisors Savills have undertaken some further research which indicates the UK's PRS is set to increase by 1.2 million households over the next 5 years. Over the past 10 years, strong rental growth in mainstream housing across the UK has tended to be limited to London and a select group of regional towns and cities, where demand from a growing pool of tenants has outstripped supply. These conditions exist mainly in locations with major universities or employment centres and where development has not kept pace with demographic changes. At a national level there is a clear historic relationship between the strength of the sales market and the amount of stock which finds its way onto the rental market, a pattern that typically dictates the relative pace of rental growth. Against the context of less volatile and consistently positive demand from a growing pool of tenants, this has been an important determinant of the pace of rental growth. Looking forward, tighter mortgage regulation is likely to restrict people's ability to get on and trade up the housing ladder, capping transaction levels (this is already taking place) across the country and underpinning rental demand. In addition, as interest rates rise over the medium term so the costs of ownership relative to renting are likely to rise, further underpinning demand for renting.

"Savills are predicting that the number of households in the private rented sector will rise by 1.2 million over the next 5 years".

As can be seen earlier in this report, a significant proportion of this growth is likely to arise with the over 35 age bracket and is likely to increase demand for family housing in the sector as much as for smaller properties.

Savills forecast for rental growth in the mainstream market over the next 5 years is a little ahead of expected wage inflation, as tenants either pay more of their income to secure properties in locations with good amenities and transport links or make greater use of sharing to maximise individual budgets.

Figure 14 (source: Savills):

RENTAL MARKETS: FIVE-YEAR FORECAST VALUES

	2015	2016	2017	2018	2019	5-year
Mainstream UK	3.5%	3.5%	4.0%	4.0%	4.0%	20.5%
Excluding London	2.0%	2.5%	3.0%	3.0%	3.5%	14.8%
Mainstream London	5.0%	5.0%	5.5%	5.5%	5.5%	29.5%
Prime London	2.5%	3.0%	3.5%	3.5%	3.5%	17.1%
Prime Commuter Zone	2.5%	2.5%	3.0%	3.5%	3.5%	15.9%

3.7 The Evolution of "Build to Rent" – The New Chapter

The growth and expansion of the UK's private rented sector has opened up the market to a completely new concept around the design of buildings for PRS. In more developed PRS markets such as the US and Europe, it is very common to find complete rental communities which embrace renting and are single tenure from the outset, rather than mixed tenure. Organisations such as Urban Land Institute (ULI www.ulieurope@uli.org) have been at the forefront in promoting much closer attention to the architectural design, specification, communal facilities and the creation of successful bespoke rental communities within developments. The first edition of their "Build to Rent – A Best Practice Guide" was published in 2014 and has proved very popular in influencing the planning and design of PRS focused buildings and communities. The Guide was sponsored by The PRS Taskforce with ULI and identifies the key points of difference between property that is built to rent and property that is built for private sale. The Guide is becoming increasingly used as the benchmark tool for everyone involved in the design, delivery and ownership of Build to Rent property (see selected extracts in Appendices).

This new way of thinking for PRS communities can only take place if all stakeholders – landowners, planners, developers and investors make a concerted effort.

Of the 10 million or so renters already living in the UK, only a very small proportion are living in purpose built stock.

The ULI Guide suggests that purpose built PRS developments should consider the following key factors:

- The Site – Accessibility, Demand, Strong Local Economy
- Demand – determined by local factors
- Accessibility – location, proximity to transport links, local amenities
- Target Market – Young Professionals, Families, Empty Nesters
- Resident Profiles – determined by area and prevalence of certain groups
- Scale – sufficient critical mass in one or more blocks
- Place-making – clear vision and deliverability, management enhanced, sustainable
- Mixed-Use – potential to attract & accommodate a mix of uses
- Public Realms – adjacent high quality public realm enhances appeal
- Re-Use of existing buildings – especially listed/historic buildings/structures
- Phasing and temporary uses – less critical than sales, accelerates place-making
- Layering – The site, the vision, the building designs, quality of public realm, management
- Land values - build for rent versus build for sale
- Planning - policy in the new NPPF creates a stronger commercial imperative
- Regeneration Schemes – PRS fits with creating vibrant, mixed use schemes & accelerating place-making

The figure below illustrates the growth of "Build to Rent" schemes across the UK (source BPF), together with the volume of units now under construction and built.

Figure 15 (source: BPF):

Market Overview – BTR Pipeline – UK and Regional Breakdown

UK WIDE	October 2015	April 2016	% increase
Units completed	3,884	7,495	93%
Units in construction	7,102	13,759	94%
Units with planning permission	10,642	23,464	120%
TOTAL	21,628	44,718	107%

REGIONS	October 2015	April 2016	% increase
Units completed	240	2,731	1038%
Units in construction	2,645	8,389	217%
Units with planning permission	4,227	12,092	186%
TOTAL	7,112	23,212	226%

LONDON	October 2015	April 2016	% increase
Units completed	3,644	4,764	31%
Units in construction	4,457	5,370	20%
Units with planning permission	6,415	11,372	77%
TOTAL	14,516	21,506	48%

Source: BPF "Build to Rent – A Progress Report"

Figure 16 (source: BPF 'Build to Rent – Progress Report'):

Market Overview – BTR Pipeline – 2016 Funding Commitments

Since the start of 2016 a number of major investors and institutions have committed to PRS and BTR schemes across the UK, together with providing further funding commitments in specialist PRS funds. Some examples include:

Locations		Investor	£ Price	Units	Comments
	Various – including Walthamstow (London), Bristol and Salford (Manchester)	Legal & General/ PGGM (Dutch Pensions)	Up to £600m	Up to 3,000	First project locations include London, Bristol and Salford Targeting yield profile of 3.5% - 5.00% PGGM have already invested c. £3bn in residential projects in the Europe and the US
	London, Leeds	Lasalle Investment Management	£55m (as part of £500m in Build to Rent Fund)	270	Waterside Apartments in Leeds was an existing residential block, generating a yield at 6.7% Rathbone Market, East London, was a forward funding commitment based on a gross yield of 5.2%
	Salford Quays, Manchester	Grainger	£98.7m	600	Grainger at looking to invest up to £850m into the UK PRS Sector over the next 5 years

Figure 17 (source: BPF 'Build to Rent – Progress Report'):

Market Overview – BTR Pipeline – 2016 Funding Commitments

Locations	Investor	£ Price	Units	Comments
 Greenford, West London	Greystar Europe	Confidential	26.5 acre site (proposals currently being designed) To be the largest private rented development in the UK	Former GlaxoSmithKline HQ Greystar have established a multifamily housing model in the US and is a large student accommodation provider in the UK
RBS UK Wide	RBS	£1bn (Capital Support for Purpose Built PRS Sector)	Various	RBS to provide development finance and early stage investment finance RBS have already worked with Homes and Communities Agency to provide funding to UK operators such as Essential Living

3.7.1 PRS Tenants – Who Are They & What Drives Demand

Unlike North America, Canada and Europe where much greater qualitative and quantitative data on the rental market exists, in the UK by comparison, detailed information on the rental market is much sparser. The rental market is also characterised by an extremely wide "bandwidth" of tenants, spread across many market sectors. From young people leaving home and University, perhaps in their early 20's and seeking their first place away from the family home right through to people in their mid and late 30's who are more established in their careers but seek greater flexibility in their lives which renting can provide, or are perhaps unable (for whatever reason) to save the necessary deposit to fund the outright purchase of a home. Bearing in mind this diversity and the desire to create a new community within a built for rent building, it is unlikely that a "one size fits all" solution, in terms of building design and management/provision of services will exist. Therefore, it is possible, as the sector matures, that different buildings and designs will evolve to suit the needs of differing sectors of the rental market.

Average Age of Tenants in PRS:

Age 25-34 = 35%
Age 35-44 = 22%
Age 16-24 = 15%
Age 45-54 = 14%
Age 55-64 = 6%
Age 65-74 = 4%
Age 75+ = 4%

Source: English Housing Survey 2011/12

LSL Survey on Tenants:

There is a notable lack of data and reliable information on the UK's PRS. Earlier this year, LSL Property Group (with the author of this report) undertook a survey of almost 40,000 resident tenants across the UK, with the intention of gaining a better understanding of their demographic characteristics, intentions and likes and dislikes about renting. The results were quite revealing (see appendix). Ranked in order of importance when renting, tenants cited:

Property Condition (46%), Quality of Landlord (46%), Value for Money (45%) as the most important factors.

When questioned about "happiness with renting", an overwhelming 81% said renting suits their lifestyle. 64% of tenants also expressed a desire to participate in community activities, rating barbeques and social evenings as their preferred form of social activity.

Figure 18 (source: LSL Tenant Survey 2016):

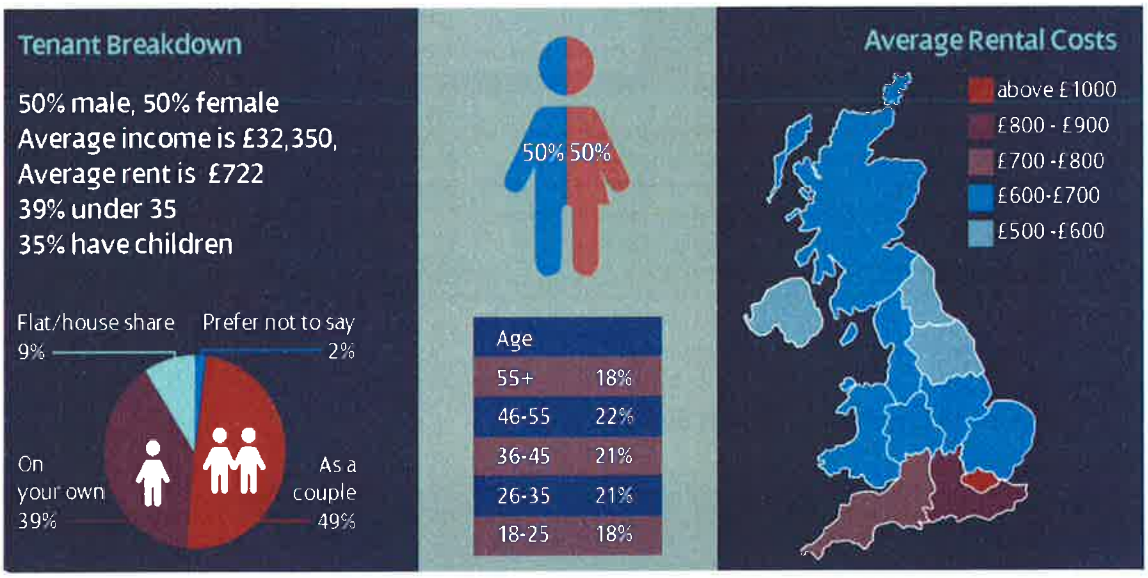


Figure 19 (source: LSL Tenant Survey 2016):

Most tenants fall into 1 of 3 key lifestage groups:

We don't see one single 'type' of tenant but rather different needs based on their lifestage and circumstances. This report will highlight the differences between these groups and illustrate how best to approach them based on their unique needs.

Younger Independents (YI)

- Average rent £659
- 24% Happy with renting
- 80% want to own in future

Younger Independents are usually aged 18-25, new to renting and 3 times more likely to be in a flatshare.

Often they are single or in a new relationship and flexibility is important to them.

These renters have an 'idealistic' outlook with most feeling confident about owning in the next 5 years but not fully aware of the process and the costs involved.

"I'm in a new relationship and want to rent before making the commitment of buying"

Moving up (MU)

- Average rent £770
- 30% Happy with renting
- 53% want to own in future

The Moving Up group are typically aged 35-45 couples, often married with kids.

They are realists and understand the costs and challenges facing first time buyers and despite a higher income are striving to save for a deposit or plugging a gap between house moves

"The rent is quite expensive I would rather the money I pay for rent was going towards something that I personally owned such as contributing to mortgage payments."

Reconciled with Renting (RwR)

- Average rent £667
- 46% Happy with renting
- Just 19% want to own in future

Those Reconciled with Renting are more likely aged over 55 without kids at home.

Often renting due to change in circumstances or lower income they have less desire to own and feel happier with their position as a tenant.

A core priority is having the freedom to make changes to their home.

"I think that renting is quite restrictive as you are not allowed to redecorate if you want to."

Younger Independents want to own but are focused on flexibility above all else wanting shorter tenancies to work around new relationships and job opportunities. Moving Ups also have a strong interest in buying and are more likely to be stretching their disposable income to save a deposit.

Reconciled Renters see renting as a long term solution. They are looking for longer tenancies and more flexible relationships with their landlord to reduce restrictions.

Figure 20 (source: LSL Tenant Survey 2016):

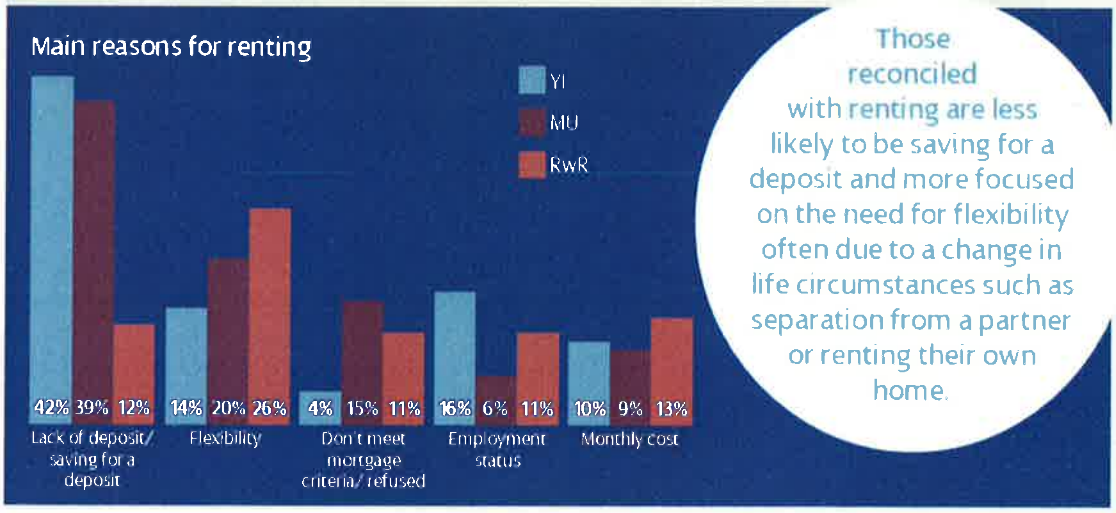


Figure 21 (source: LSL Tenant Survey 2016):

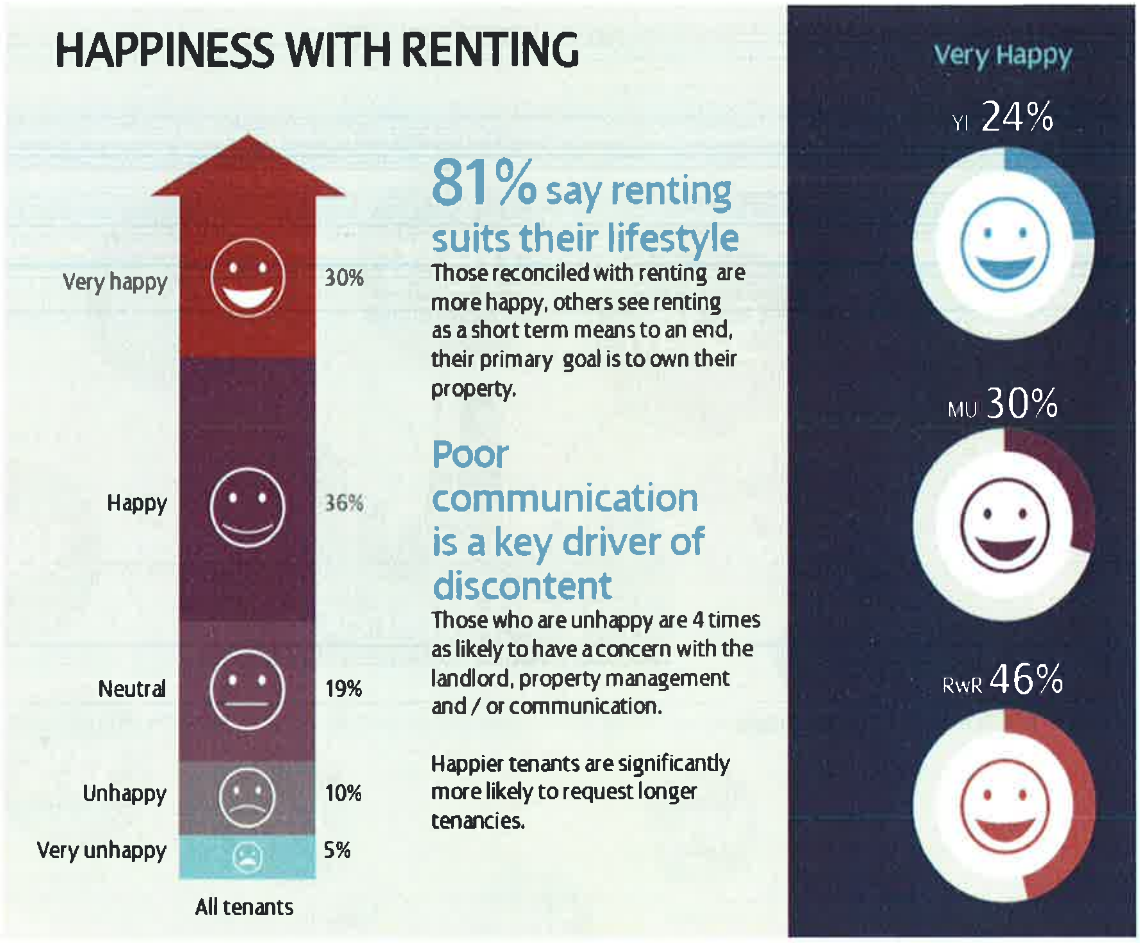
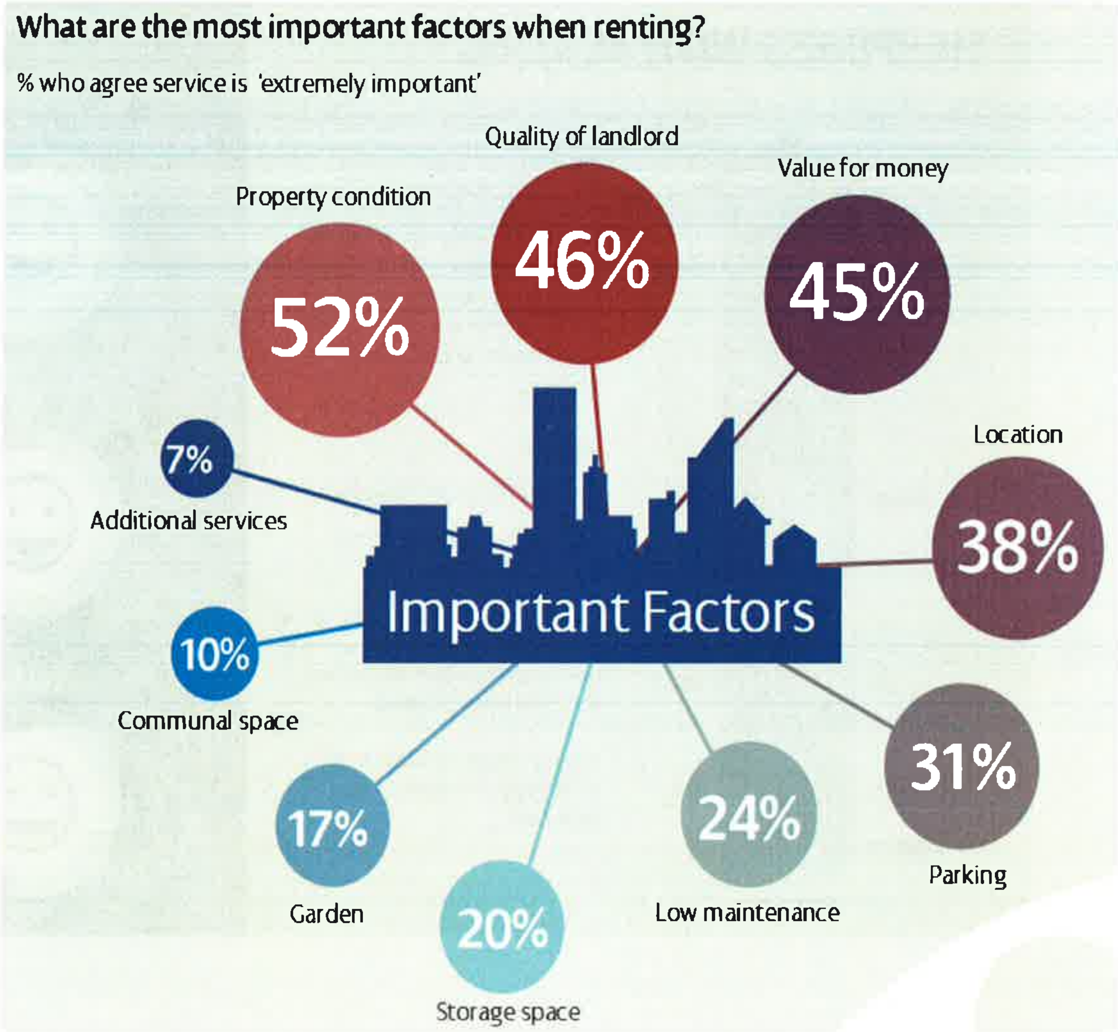


Figure 22 (source: LSL Tenant Survey 2016):



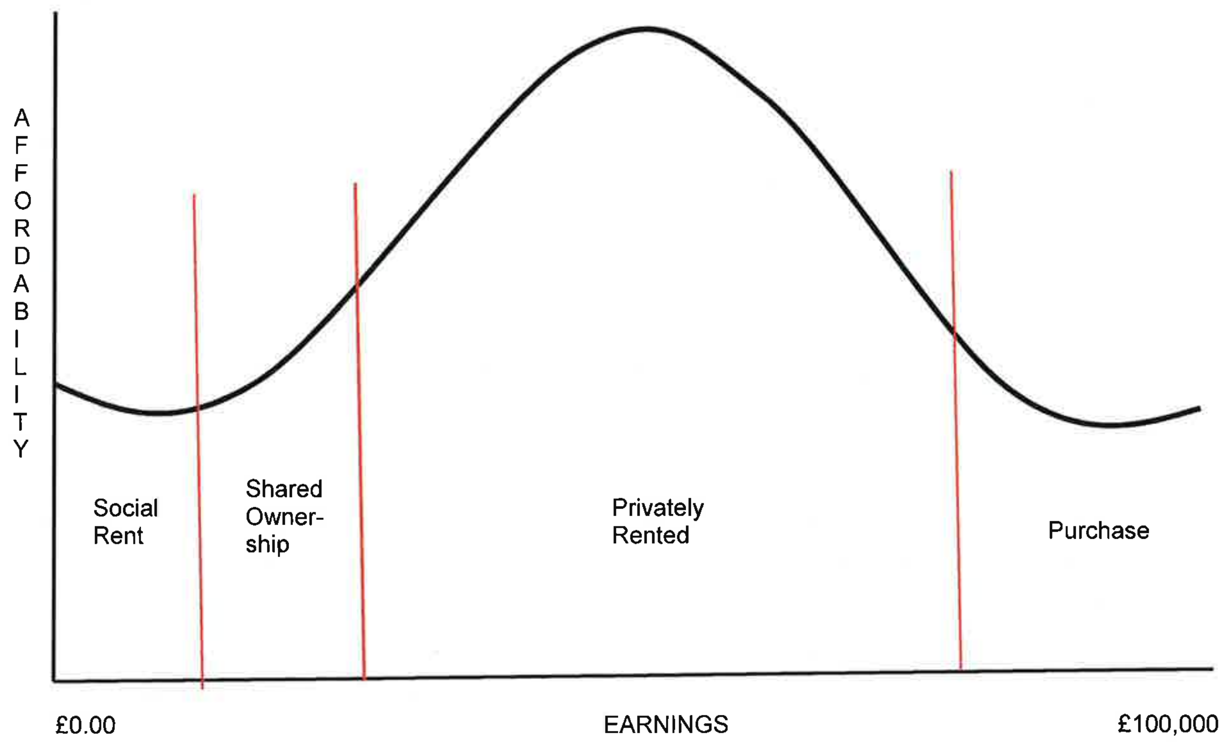
Clearly, the survey demonstrates that most tenants are happy to continue to rent and this suits their lifestyle. A survey undertaken by IPSOS/MORI also revealed that for younger people, the ultimate aspiration is still to own their own home eventually, but in fact social trends are prevailing amongst the "Generation Y" sector to put this off until later in life. In fact, building their careers, travel and gaining new experiences were all rated of higher importance.

Given Reading's position within the centre of the UK's silicon-valley, it's connectivity, the role of the University and increasingly the economic profile and interdependence of the town on the tech-sector, it seems highly likely that in the near future the town's renting community will be seeking a different solution to their rental needs.

3.7.2 Rental Market vs. Home Ownership & Affordability

Figure 23 illustrates the relationship between the different types of housing tenure and affordability/earnings. At the lower end of the scale of earnings, the social rented sector is the primary source of housing tenure. As earnings increase, a wider range of options become available, with both shared ownership and private renting being accessible. It is interesting to compare how the grid expands and contracts in areas of greater and lesser house prices. In locations such as Reading, where house prices are high and affordability is constrained, the function of the private rented sector is key to the supply of housing. The entry point to home ownership in Reading has now grown to the extent that only those with a significant equity deposit and/or very high earnings can afford to purchase their own home.

Figure 23 (source: QUOD, renting cycle and home ownership):



The role to be played by the institutional "Build to Rent" sector will become absolutely vital in providing high quality accommodation to this rapidly expanding sector of Reading's housing market.

4 Thames Quarter – Reading's First Purpose-Built PRS Development

Thames Quarter is Reading's first purpose-built bespoke "Build to Rent" development. It comprises a part twelve storey, part twenty-three storey building totalling some 315 apartments. There will be a mix of studio, one bedroom, two bedroom and three bedroom units, residents lounges, tech-hub, dining room and cinema room, various rooftop outdoor amenity spaces, concierge/reception with coffee meeting area, residents storage facilities, postroom, ancillary back-of-house facilities, 315 secure cycle parking spaces, car parking spaces, landscaping and associated works. Demolition of existing multi-storey car park.

Occupying a very key location close to the centre of town, immediately adjacent to the new North Station entrance, it represents an opportunity to create an exemplary new rental community at the heart of Reading. Access to transport links via the station could not be better. It is highly desirable also for its proximity to the River Thames, Reading's new Station Hill Quarter, the emerging Abbey Quarter and excellent local shopping and recreational facilities. A large Tesco store is a few minutes' walk away. In terms of the rapidly developing PRS and "Build to Rent" sector, it has all the constituent elements to become a really outstanding example of its genre.

Institutional funding appetite to back this exciting and ambitious PRS project is likely to be very high, representing a real long-term stake in Reading's aspirations and visions to execute many of its "Reading 2050; Towards a Smart and Sustainable Future" ambitions.

Accompanying this will come a new and highly professional customer-friendly approach to the management of the building, which will deliver a far more rental market appropriate mix of housing units. Reading's rental market is changing rapidly and Thames Quarter possesses the inherent design and approach to PRS to attract and retain residents who are contributing to the changing shape and face of Reading, As well as underwriting the town's future economic success. The current rental stock of the town is already dated and in many cases, the carbon credentials of older rental homes will become more marginal and outdated with time. Thames Quarter provides cutting-edge design and exemplary standards of build to reflect it's purpose-built for renting credentials.

Creating a new rental community in Reading

The new approach to management by branded, institutionally-backed management operators focuses highly upon customer service and the provision of services, such as concierge, to help forge a community within a development. Building upon experiences learnt elsewhere such as in the US and Europe, this new approach to property management places great emphasis on creating a culture within a rented building where it's residents will want to stay as long-term tenants, a model which is mutually advantageous to the institutional owner. Longer-term tenancies are often part of the management offer, with two, three and four year durations. This represents a significant shift away from the often indifferent management attitude and vagaries of the small private landlord market. New technology is employed with "apps" and portals providing 24/7 contact and responsiveness to solving problems.

Thames Quarter is ideally placed to lead the way in the new evolution of PRS by setting new standards of space, design and become Reading's first true "built for rent" scheme.

Reading, Thames Quarter development

The development is designed to provide 315 Apartments for rent in the following mix, including a small number of larger duplexes at tenth floor level.

Area Summary Square Feet:

Total Residential NIA	202,816

Unit Type	Total Units	% of Total	Average unit size
Studio	16	5%	417
1 Bed	116	37%	499
2 Bed 3P	53	17%	675
2 Bed 4P	114	36%	758
3 Bed	16	5%	1,004
	315	100%	3,353

Total Commercial NIA	1,184
Total NIA	204,000

The accommodation is arranged over predominantly Ground plus ten floors with a tower element reaching 22 floors above the Ground floor. The building is served by three lifts in a main core which include an off peak move in move out lift. This is supplemented by a second move in move out lift in a secondary core serving the lower levels.

At Ground level the development has a 24 hour concierge and reception area providing secure access with back of house staff facilities and a leasing suite. Also at ground level it is envisaged that an ancillary commercial offer will provide amenity for residents directly accessed from reception.

Being town centre location, cycle storage is provided on the basis of one per unit and is independently accessed from the adjacent pavements. Residents will be able to access the reception directly from the cycle store which will contain general storage and secure containers for higher value bikes.

A loading bay is available for Move in and out which will also receive deliveries with parcel and cold room storage facilities available staff managed for resident collection.

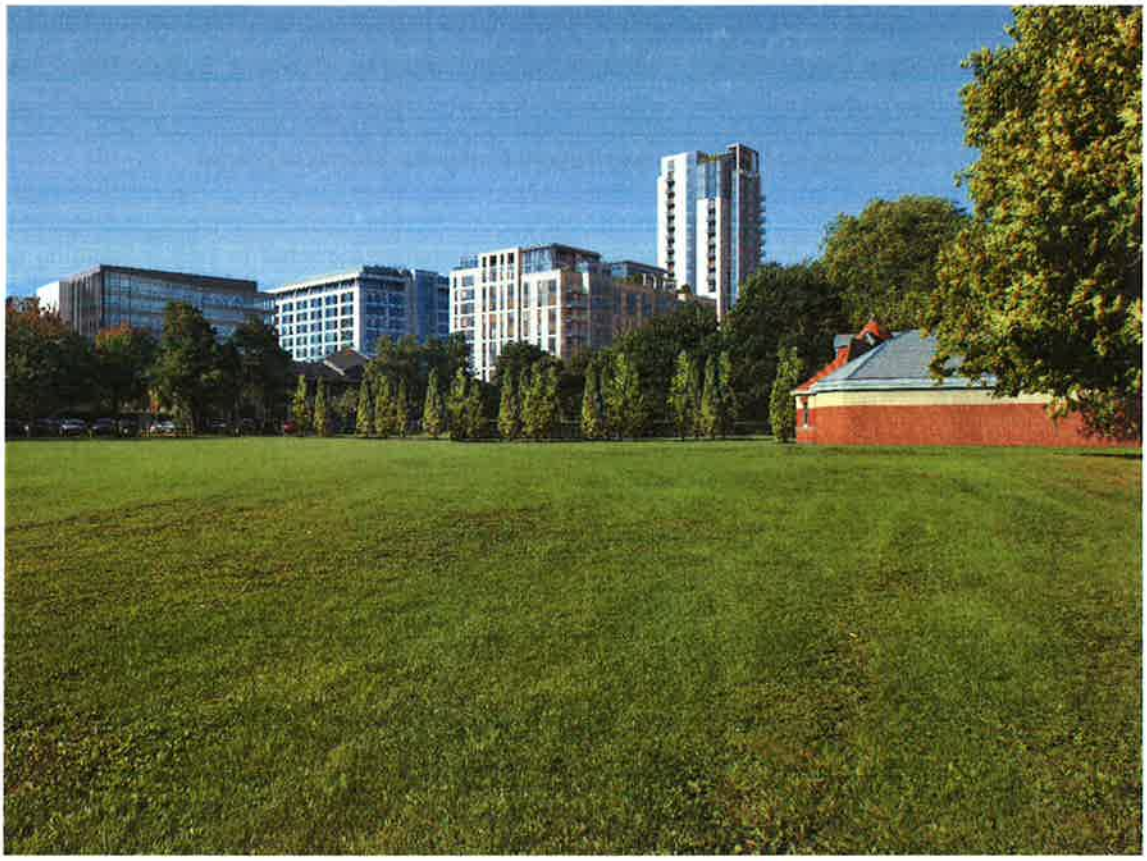
At tenth floor level the main guest amenity is provided this consists of Private Dining facilities, resident lounges providing a range of amenity, media room and live work space. Allied to the internal offer are external terraces to the South and North taking advantage of high level views of the Thames and Reading. Other resident accessible terraces are available at third floor and eleventh floor.

The development will benefit from private car park spaces dedicated for resident use.

The development incorporates many of the features highlighted by Urban Land Institute (ULI) in its Best Practice Design Guide – which is the benchmark for PRS and "Build to Rent" design.

"Reading & Generation Rent" – Likely Tenant Profile for Thames Quarter:

- Post-Graduates from Reading and other Universities attracted to stay in Reading and who are in their first job.
- Local, younger (Age 21-30) tenant residents, who are unable to afford to get onto the housing market. Mix of singles and sharers.
- "Generation Rent" tenant residents who have elected to rent long-term for lifestyle reasons or who prefer the flexibility that renting allows.
- Professionals seeking either temporary or semi-permanent accommodation – some of whom may be supported by the employers, or on corporate relocation contracts.
- "Reverse Commuters" - residents who wish to retain their existing home and simply rent in the area they are now working in.
- International Tenants – residents who are on an overseas contract. The Thames Valley has numerous international firms who require specialist employees.
- "Mature Renters" – increasingly this will become a more important group, comprising older resident tenants, who are seeking to release capital in their existing home and move to more appropriate accommodation close to facilities.



5 Conclusion – Reading & PRS & Thames Quarter

Reading is an economically vibrant and progressive small "City" in all but status. It is at the heart of the UK's "Silicon Valley" and the capital of the Thames Valley, one of the UK's most rapidly growing and successful regions. Possessing first-class transport links, including a new £900m station, which will incorporate the western-most extension of Crossrail, connectivity to London for commuters is excellent. All of these factors are resulting in a rapid transformation and expansion of the town and its captive population.

The key business and growth sectors are ICT, Professional Services and technological innovation, driven by the world-class University of Reading. International organisations such as Microsoft, Oracle and Verizon, have chosen to base their operations in Reading for very good reasons. Connectivity to London, the rest of the UK and worldwide as well as proximity to a highly skilled workforce are the principal factors for choosing Reading.

- Reading has ambitious plans to stay ahead of the competition and if the vision of projects such as "Reading UK 2050" are to be realised, the town must look towards it's housing offer as part of a broader plan to remain attractive.
- If the town is to continue to be successful, it must respond to the changing housing needs of the population which is contributing to its success. This highly skilled, well-educated and mobile labour force will have different housing requirements.
- Organisations such as Microsoft and Verizon are frequently relocating staff from overseas. Their economic success also hinges upon having a flexible, mobile workforce who will require appropriate housing close to the workplace.
- Retaining post-graduates from Reading University to live and work locally and contribute to the economic success of Reading, rather than being "lost" to other regions of the UK where there is more affordable housing.
- The report identifies the temporary housing needs of a "reverse-commute" trend from London, which is likely to be another facet of a rapidly evolving Reading.

In terms of housing affordability, it could be argued that Reading is a "victim of its own success". With average house prices across the town now more than twelve times average income, outside of London, Reading has become one of the most expensive places in the country to live. Housing is no longer "affordable" for most people without large amounts of equity. Furthermore, the changing demographic of the town, coupled with its economic "DNA" means that a different housing need is imminent.

- The impact of Crossrail on house prices close to the town centre and station is already being felt. Over the next few years as the line becomes fully operational, this will have the effect of further increasing house prices in the town centre resulting in even greater strain on house price affordability and leading to greater demand for a private rented solution.

- Private renting provides a flexible and immediate solution to the demand. However, as demonstrated in the report, the responsibility for this currently lies with small private landlords. Reading can no longer rely upon this source of rental accommodation to meet the needs of its changing circumstances and to provide the standard and type of rented accommodation that will be required to maintain the economic growth and stimulus being witnessed.

- Recent Government policy has been to deter rather than encourage the private "buy to let" landlord with punitive tax measures and new legislation. Furthermore, there is strong evidence to suggest that the traditional landlord and tenant model is becoming extinct (see section 2.8). The report highlights the impact of these new legislative and tax changes on the appetite of private buy-to-let landlords by referencing clear anecdotal evidence of the drop in sales of property in Reading to would be landlords.

- The new breed of renters, which are particularly relevant to Reading's economic and labour force, are seeking improved security of tenure, better spatial design and a more customer focused service offer, as they often experience in their native countries. In fact, Reading will need to provide a range of rented accommodation, appropriate to its changing demographic profile and sensitive to the needs of Key Workers, Commuters, International Contract Workers, "Downsizers" and those "Generation Y/Millenials" attracted to the flexibility that renting provides.

Fortunately, a solution exists. There is a rapid expansion in the growth and popularity of new, institutionally-backed "built for rent" developments. Backed by various Government funding and planning initiatives, a completely new approach to the rental sector is emerging. Reading is in need of such flexible housing solutions in order to meet the changing circumstances of an increasingly sophisticated labour pool. Indeed, London is now starting to provide a number of precedents and both The Mayor and the GLA recognise the importance to be played by large investors in the provision of the capital city's rented sector.

Long term, purpose built, private rented (Build to Rent) developments in block ownership, managed as a single development can make a particular contribution to meeting housing need. Such schemes are beneficial in a number of ways; they have the potential to accelerate delivery and not compete with nearby for sale developments; they can offer longer term tenancies/more certainty over long term availability; they can ensure high quality management through single ownership; and they can ensure a commitment to, and investment in, place making. They can also meet a wide range of needs, including those of singles, sharers, families and older people.

- Thames Quarter represents an opportunity to create an exemplary "Build to Rent" development. It brings with it new spatial design standards, incorporating communal living areas and very green carbon-friendly credentials. A different and much more customer-focused approach to property management by the PRS operators, who are adept at creating a community within the building, will also be a further unique element for Reading. This high-tech building with its own community, located very close to Reading's new station and cross-rail links will undoubtedly contribute to the town's flexible rented housing offer and contribute to the economic success of Reading.

- Thames Quarter is the only such purpose-built, bespoke "Build to Rent" development currently being planned in Reading (other such projects are already underway in nearby Maidenhead and Slough).

- Thames Quarter will serve a vital and essential role in fulfilling the rental housing needs of Reading's increasingly transient population and represents the evolution of a transformational rented housing sector.

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