



*Achieve
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The Build to Rent *opportunity*

Build to Rent



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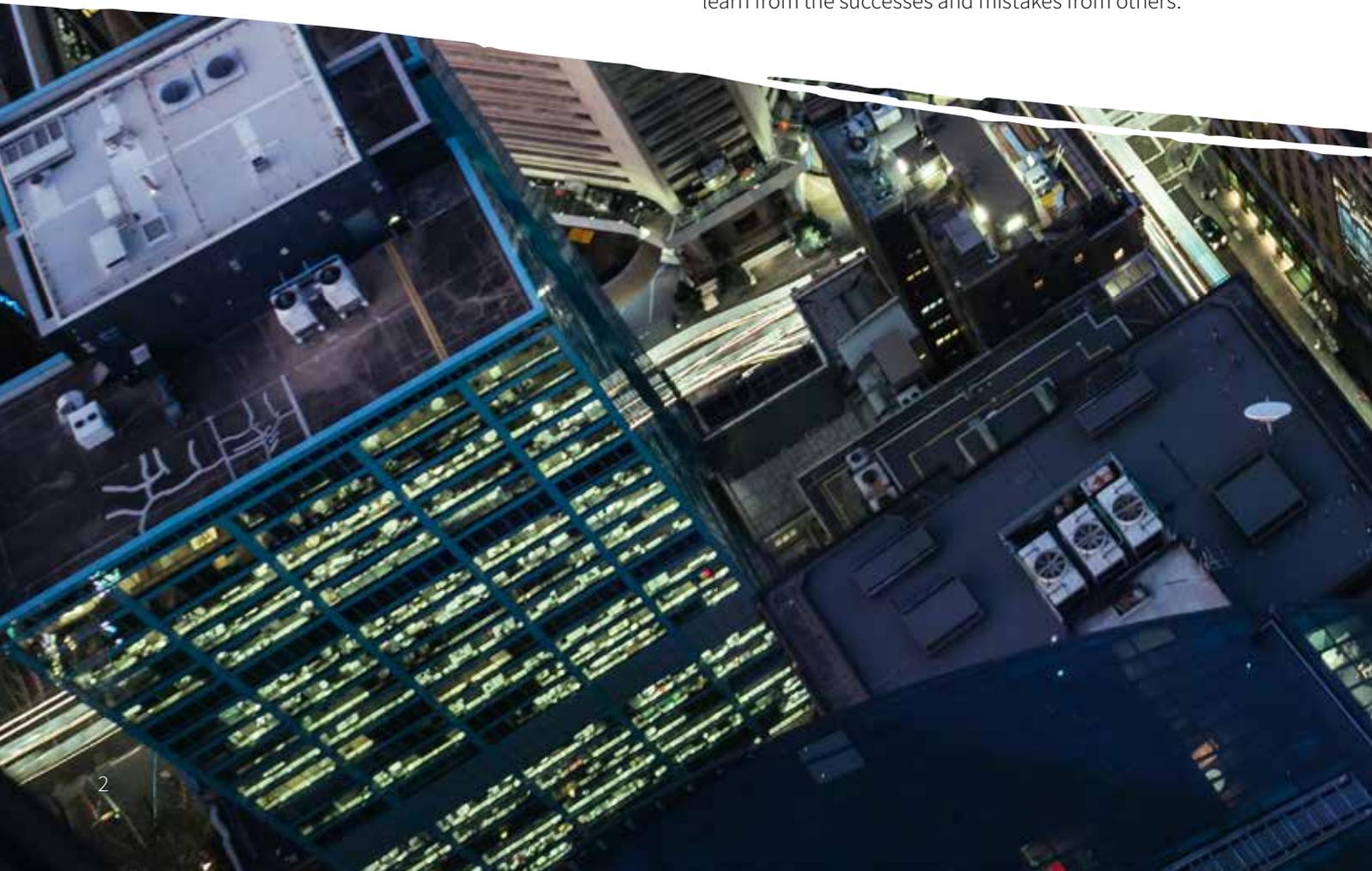
Paul Winstanley is a Senior Director, Research with JLL in New Zealand, having recently moved from the UK after an extensive career in residential property analysis, valuation and consulting. Having seen and been an active participant in the emergence of BTR in the UK over the past decade, this article give Paul's reflections on that journey and some of the lessons that can potentially be learn from the UK experience for industry in Australia and New Zealand as the sector emerges and develops.

Introduction

In recent times we have seen the 'Build to Rent' (BTR) opportunity rapidly grow to prominence within property industry discussions at conferences and seminars in Australia and New Zealand. This is perhaps of little surprise given the niche residential rented sector's long standing presence in the USA (where it is known and traded as multi-family housing investments) and the increasing emergence of BTR in the UK and Asia Pacific.

By way of illustration, according to the British Property Federation, in January 2019 there were just over 139,500 designated BTR homes in the UK, whether complete (c.29,400), under construction (c.43,400) or in planning (c.66,700). Given that BTR didn't exist before 2013 in the UK, this represents phenomenal growth. At the other end of the scale, in the USA, there are an estimated 4.4 million multifamily properties.

One thing is clear – there is a lot to play for as an industry if we get this right. And one way to aid a smooth process is to learn from the successes and mistakes from others.



So what exactly is BTR?

For a wide variety of reasons, rental properties have not typically ended up in the hands of professional corporate investors, but are much more frequently offered by small scale 'Mum and Dad' owners via a 'cottage industry' approach. Although far from perfect, this has enabled the rental sector to function over recent years and provide rental homes to many people who have needed them. This type of pepperpotted rental offer in multiple and unrelated ownership, however, is very different to BTR.

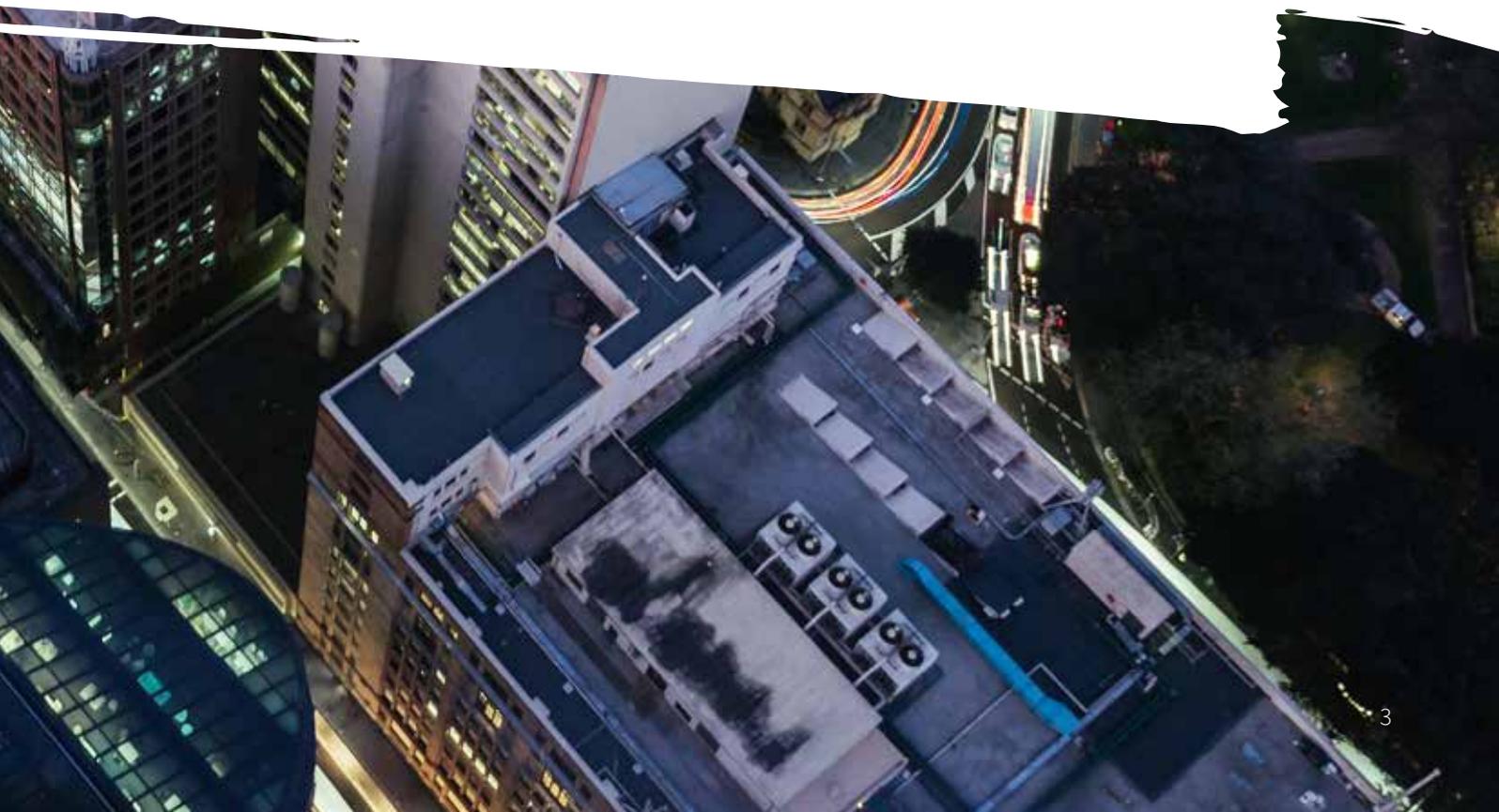
BTR, as an increasingly used phrase in the press and at conferences, must not be allowed to develop into a buzzword to describe the latest fashion in the market – or worse, for all forms of modern rental housing.

Such a scatter-gun approach is unhelpful and the key question of 'what's in a name?' must not be brushed off lightly. In the UK, the phrase 'BTR' has, over time, come to describe a specific form of residential property and investment class. It is defined as assets being owned by a certain large-scale investor pool with a focus on quality, durability and delivery that is purposely driven by exceptional customer service goals.

It also seeks to realign the landlord and tenant relationship towards a beneficial partnership and has its own carefully crafted bespoke valuation methodology. It sees an active asset and property management structure and offer being the first, rather than the last consideration. BTR should never only be considered as just more residential property available for rent; it should represent a different product offer with a wholly different customer focus. In BTR, the traditional potentially adversarial 'landlord and tenant' 'them and us' scenario is replaced by a much more collaborative 'provider and customer' working relationship.

Yet going the other way, I would caution the Australasian industry confusing 'BTR' with 'multi-family housing' which is prevalent and successful as an investment sector in the USA. Multi-family housing and BTR certainly share key characteristics and are undoubtedly related, but Multi-family housing is a mature residential asset class, well known by investors and consumers alike, and is often amenity-fueled and to a scale of units not practical as a starting point for an industry here.

When searching for a fit for purpose model here in Australia and New Zealand, I believe BTR in the UK would be the more appropriate industry to look at as a good initial blueprint.





The importance of collaboration

Although the UK now has a very active BTR sector and a steady stream of new assets being delivered to the market, the key takeaway from the sector's evolution in Britain is the fundamental role that industry-wide collaboration played in turning theory into reality.

The key industry facilitators for BTR in the UK were undoubtedly the British Property Federation (BPF) and Urban Land Institute (ULI) who, through different initiatives, brought key stakeholders together from a wide range of disciplines and viewpoints. Planners, architects, cost consultants, Registered Social Landlords (RSLs), property consultants, valuers and agents, investors, developers, politicians and government all had their say and brought ideas and concerns to the table in equal measure. Conversations were frank, debate was controversial at times and progress was slow (or so it felt at the time even though a lot, in hindsight, was achieved). However, over time BTR emerged thanks to the combined efforts of countless people in countless organisations.

The key message is that BTR isn't easy to get right and it will take time to establish in Australia and New Zealand but, from a social, investment, population and economic growth enabler, it is worth it. It is crucial that there is widespread collaboration as early as possible in the process as well as commitment and a clear line of communication with Government to influence policy and re-frame the housing debate to include BTR as part of a solution to housing.

It has taken the best part of 10 years for BTR to become established in the UK; the goal for Australia and New Zealand is to take the lessons learnt and avoid inefficiencies during the journey wherever possible.

Housing crisis? What housing crisis?

As a then member of the Urban Land Institute (ULI) Residential Council in 2016, I was one of the Chapter Lead's in the second edition of the Urban Land Institutes UK Residential Council book entitled 'Build to Rent: A Best Practice Guide' (ULI, 2016). I was responsible for the first chapter entitled 'The Opportunity', which included a passage that stands out as still being very relevant today – especially for Australasia.

“However we elect to term it, we have at the very least a housing shortage, increasingly a housing problem or, to be more emotive a housing crisis – and this link to emotion should not be taken lightly. Emotion drives so much in residential property, how we feel about our home is as important as how much we pay for it.”

The drive towards urbanisation has fostered substantial economic growth and driven large scale development (including significant amounts of residential schemes) in many cities across the world, particularly so in Australia and New Zealand in Sydney, Melbourne, Brisbane and Auckland, among others.

Despite this, rising house prices (admittedly less so in recent times in Australasia) have placed increasing pressure on affordability while simultaneously societal attitudes are

shifting – particularly so for those who dominate the rental sector when they are in their 20s and early 30s. The growing influence of the millennial age group is not just prevalent in rental housing though; there is an increasing influence of a generation where lifestyle and experience is as important as financial wealth progress in our workplaces and as key consumers. We are in a changing world where these values certainly appear to be permeating through society and influencing people of all ages.

While home ownership has long been promoted as the preferred tenure of many mainstream political parties in Australasia, renting is increasingly being acknowledged as an important alternative tenure of housing which should not be considered second class. While there remains nothing wrong in aspiring to secure home ownership, whether that tenure is appropriate for everyone today must form part of the debate.

Housing crises all around the world demonstrate that there is no one-size-fits-all solution to housing. Owner-occupation or renting on their own can't house everyone effectively; a mixed tenure approach is the only viable long term strategy.

BTR on its own is not a silver bullet solution. However, while it isn't likely to be the sole solution to ANY housing crisis, I strongly believe that it should form part of the solution to EVERY housing crisis.

So what does good look like?

Our five key BTR pillars for Australasia purposefully illustrate the need for a holistic approach to development from initial concept and planned customer offer through to management strategy, design, mobilisation and delivery of added value.

1. Vision



- Have a plan, have a story that is not fantastical, deliver and exceed expectations.
- Start with the customer and work backwards.
- Know what good looks like and have a commitment to delivering it with a long term focus (developers and investors alike).

2. Strategic



- Be strategic when asset management planning, know your customer, have efficient front and back of house operation systems, deliver quality, take responsibility and see the vision through. Deliver a genuine product.
- Make sure target rental levels feel like very good value for money even if they will be priced more than other inferior accommodation nearby.

3. Lifestyle design



- Remember first and foremost you are creating peoples' homes; the look and feel of everything is important (even if not expensive).
- Design needs to be efficient and cost effective (as margins are certainly tight) but not compromised. It is undoubtedly a tricky balance.
- Amenity is important but must be concentrated on adding value to customers rather than purely as marketing material.

4. Detail



- Location, location, location is important but as for BTR so is due diligence, due diligence, due diligence. The profit is in the detail.
- Large scale investors won't buy just anything – the holistic vision, management, design and story are equally important. Do not underestimate how vital the level of verifiable detail is.
- Traditional agency comprising a marketing brochure and publicised campaign is unlikely to work in isolation. Developers need proper advice and investors demand full and transparent knowledge.
- Fund Investment Committee sign-off on any project is by no means a given and therefore due diligence up front needs to be taken very seriously.

5. Added value



- The main focus of pricing levels to scale investors is the quality and sustainability of the net income stream, supported by capital values of the underlying product.
- Yields tend to be lower for BTR than other commercial investment sectors due to the potential of break-ups, a lack of obsolescence, and investment in a need rather than a want.
- Valuers reflect and not lead the market so judge schemes as to how successfully they tick all the BTR boxes.



The value proposition of BTR

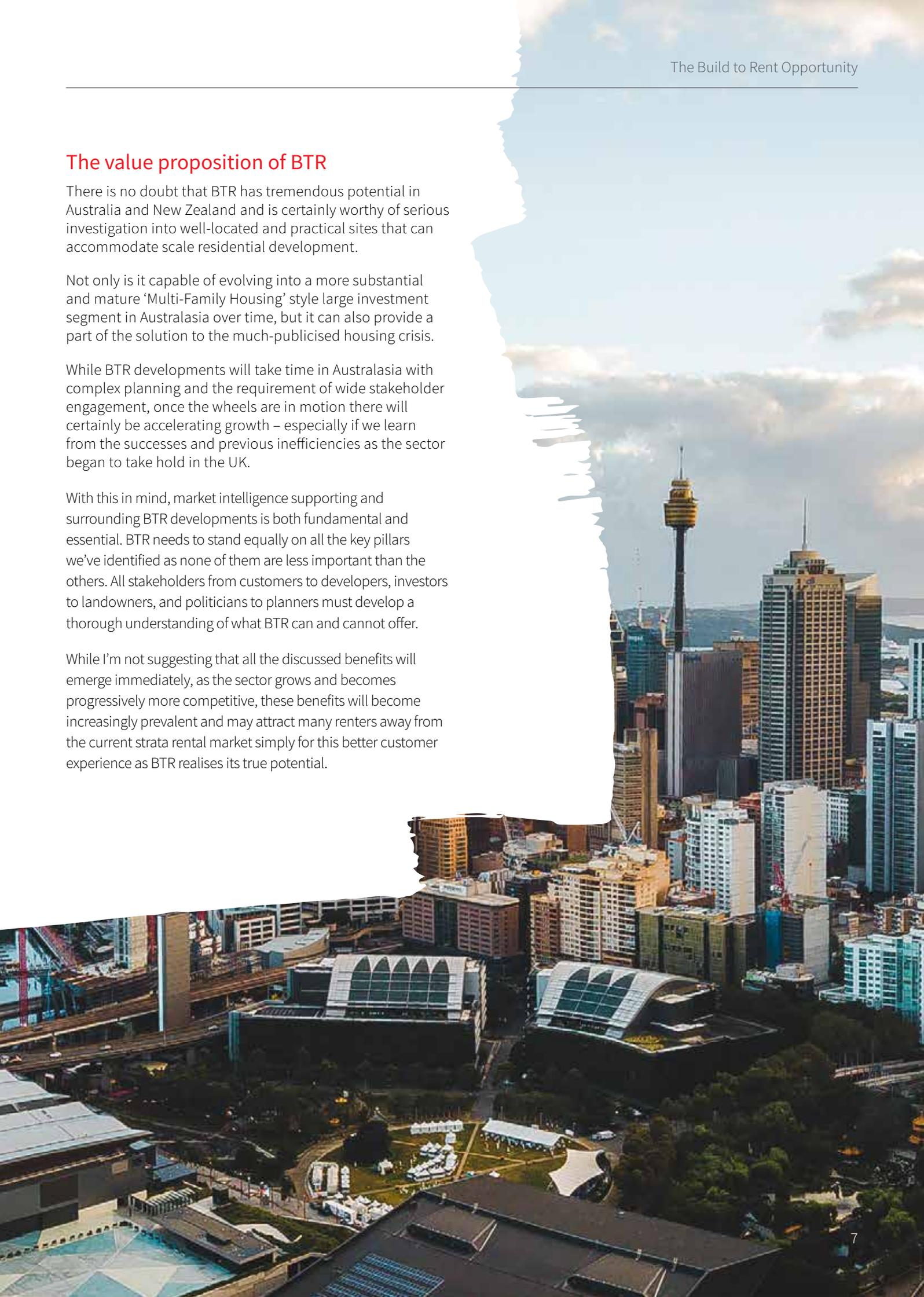
There is no doubt that BTR has tremendous potential in Australia and New Zealand and is certainly worthy of serious investigation into well-located and practical sites that can accommodate scale residential development.

Not only is it capable of evolving into a more substantial and mature ‘Multi-Family Housing’ style large investment segment in Australasia over time, but it can also provide a part of the solution to the much-publicised housing crisis.

While BTR developments will take time in Australasia with complex planning and the requirement of wide stakeholder engagement, once the wheels are in motion there will certainly be accelerating growth – especially if we learn from the successes and previous inefficiencies as the sector began to take hold in the UK.

With this in mind, market intelligence supporting and surrounding BTR developments is both fundamental and essential. BTR needs to stand equally on all the key pillars we’ve identified as none of them are less important than the others. All stakeholders from customers to developers, investors to landowners, and politicians to planners must develop a thorough understanding of what BTR can and cannot offer.

While I’m not suggesting that all the discussed benefits will emerge immediately, as the sector grows and becomes progressively more competitive, these benefits will become increasingly prevalent and may attract many renters away from the current strata rental market simply for this better customer experience as BTR realises its true potential.



It has been a long journey, but Build to Rent has finally arrived in Australia. For years we have been anticipating a purpose built and managed private rental sector.

In 2018, JLL worked with Grocon in delivering Australia's first Build-to-Rent housing scheme The Smith Collective (the former Commonwealth Games Village) on the Gold Coast in 2018. Using our superior resources, we are excited to take this project forward with UBS Grocon, taking a community of residents, tenants and visitors with us on a journey of creating Australian real estate history.

Services we offer

-  Placemaking
-  Fit-out
-  Valuation and strategic advisory
-  Project management
-  Residential leasing
-  Marketing
-  Property management

Meet our committee

JLL's Build to Rent department is supported by our expert committee of members.



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