



Institute
and Faculty
of Actuaries

F8: Build-to-rent: An opportunity to bridge the housing deficit?

Miria Whittle (EY)
Ee Vien Soo (PIC)



12 November 2019

Contents

1. Introduction to Build-to-rent
2. Build-to-rent Funding Landscape
3. Investor Considerations



Institute
and Faculty
of Actuaries

12 November 2019

2

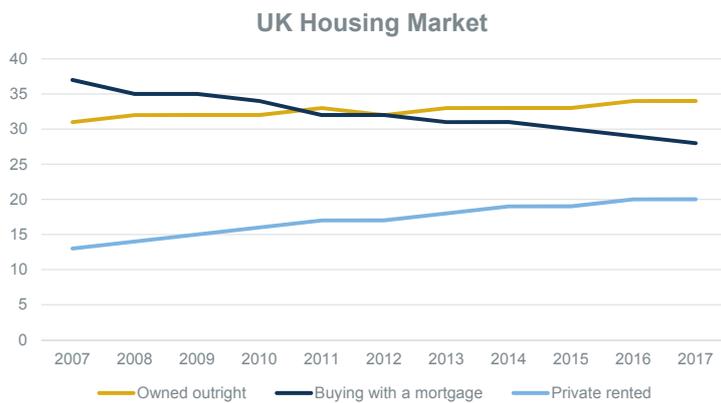


Institute and Faculty of Actuaries

1. Introduction to Build-to-Rent

12 November 2019

Market context: Housing market



36% deficit p.a. in new homes built vs needed

Declining home ownership

20% of the UK population living in private rental accommodation

Source: ONS, Family Resources Survey, Department for Work and Pensions



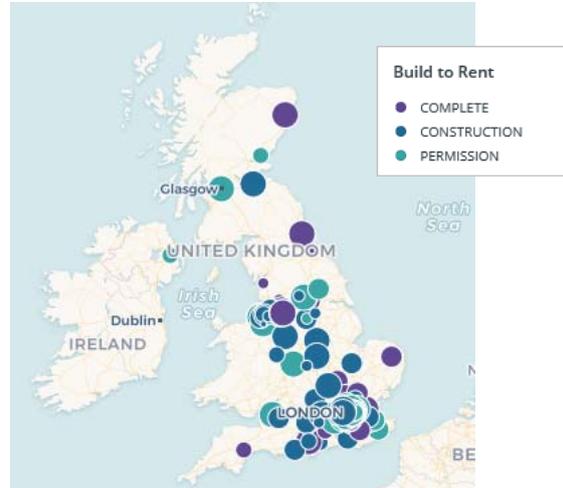
12 November 2019

4

What is build-to-rent?

British Property Federation definition

- Newly-developed
- Clustered (>50 units)
- Residential supply for market rent
- Single owner
- Professional management



Source: Savills Residential Research, BPF



How does build-to-rent work? (1)

$$\text{Profit} = \text{rent per unit} \times \text{number of units} - \text{running costs}$$

How does build-to-rent work? (2)

$$\text{Profit} = \text{rent per unit} \times \text{number of units} - \text{running costs}$$

The grid contains the following elements:

- Durable materials**: Text in a blue box.
- On site maintenance team**: Text in a blue box.
- Energy efficient**: Text in a blue box.
- Single location**: Text in a blue box.
- Easy to clean**: Text in a blue box.
- Interior design**: Text in a blue box.
- Images**: A kitchen scene, a cleaning cart with a person, and a bedroom scene.

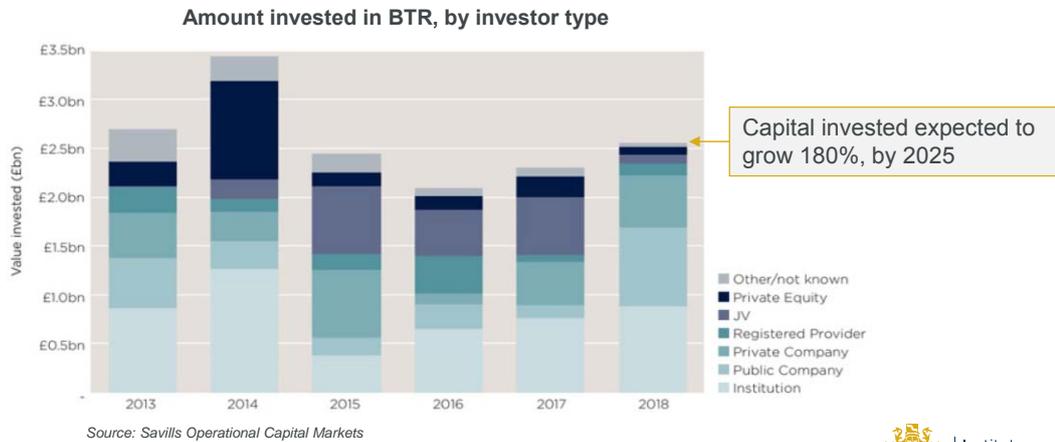
12 November 2019

7

2. Build-to-rent funding landscape

12 November 2019

How can investors get involved? (1)



12 November 2019

How can investors get involved? (2)

	Equity	Debt
Construction phase	Local Govt Pension Schemes M&G REAL ESTATE Legal & General HERMES INVESTMENT MANAGEMENT Aberdeen Standard Investments Invesco apg	Build to Rent Fund RBS pbb DEUTSCHE PFANDBRIEFBANK LLOYDS BANK HSBC UK Home Building Fund AIG
Operational Phase		PRS Housing guarantee scheme

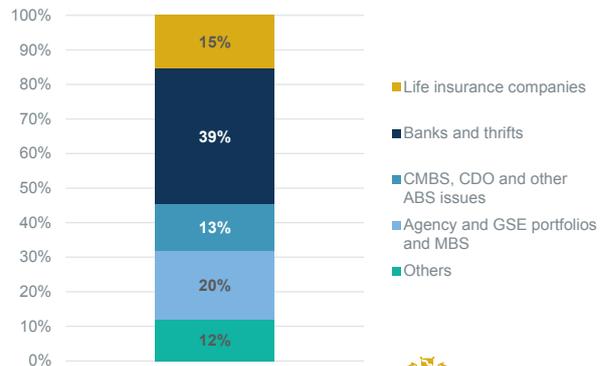
12 November 2019

10

U.S. Multi-family housing

- **36%** of the U.S. population lives in rental accommodation
- **14.5m** multifamily units
- **\$3.3tn** of multifamily rental properties
- **\$1.5tn** multifamily debt outstanding
- **15.4%** of multifamily debt held by life insurance companies

Multifamily debt held, by investor type



Source: MBA 2019 Quarterly book, National Multifamily Housing Council

12 November 2019

11



Institute and Faculty of Actuaries

3. Investor Considerations

12 November 2019

What's in it for investors?

- **Attractive investment opportunity:**
 - Net initial yield* of 3 to 5% depending on location
 - 6 – 9% IRR depending on gearing levels
 - Defensive characteristics and a growing asset class
- **MA eligible debt:** Guaranteed, long duration, inflation-linked cashflows
- **Structured to investor needs:**
 - Duration and cashflow matching
 - CPI-linkage
 - ESG/investment ethos considerations

*Net initial yield (NIY) = Net operating income / purchase cost



Institute
and Faculty
of Actuaries

12 November 2019

13

What are the risks?

Construction phase

- Construction and property related risks
- Counterparty default risk
- Repayment risk
- Capital value risk (Final sale valuation risk)

Operational phase

- Revenue risk
- Revenue inflation risk
- Operational cost risk
- Operational cost inflation risk
- Capital value risk (Final sale valuation risk)
- Operational risks



Institute
and Faculty
of Actuaries

12 November 2019

14

What are the risks?

Other general risks

- Due diligence risks
- Residual construction or property related risks
- Regulatory risks
- Political risks
- Demand risks related to trends around rental versus home ownership
- Reputational and conduct risks

What are the main challenges?

New market with
little track record
in the UK

Specialist
knowledge may
not be available

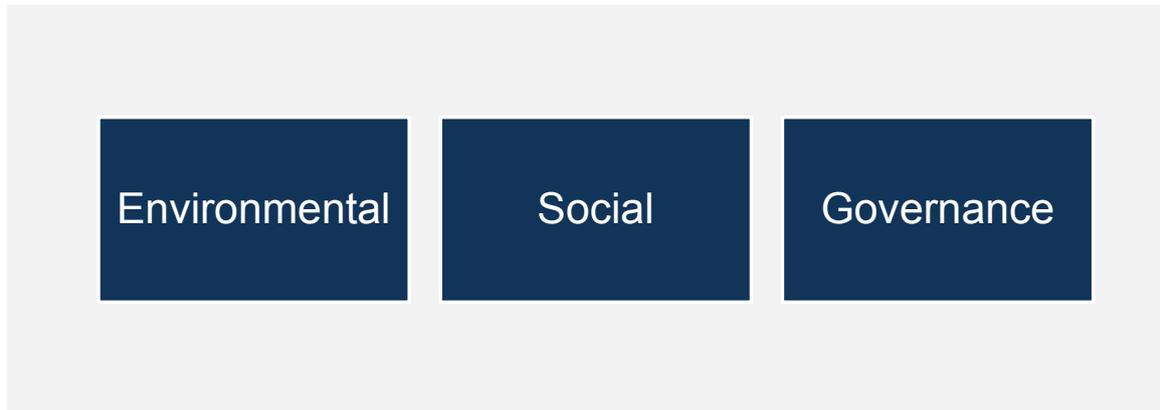
Barriers of entry /
competition from
other types of
investors

Pricing

Monitoring the
performance of
asset

Increased focus
by the regulator
on real assets

Environmental Social Governance (ESG)



Questions

Comments

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this presentation and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this presentation be reproduced without the written permission of the IFoA [or authors, in the case of non-IFoA research].