

Policy starts to recognise value of Build to Rent

There has been a notable shift in planning policy across London in terms of recognising the important role of the Build to Rent sector say Amanda Balson and Heidi Duncan

The Build to Rent sector is now making a significant contribution to London's housing needs. In London, there are approximately 60,000 new Build to Rent homes that have either been completed, are under construction, or have been granted planning permission¹.

It is worth clarifying upfront that the Build to Rent sector is sometimes referred to as the Private Rented sector. Despite sometimes being used interchangeably, the terms mean different things. In particular, the private rented sector comprises any property that is privately owned and being rented out as housing, and as such covers a wide range of property types and tenancy lengths. The Build to Rent sector solely refers to those developments that are built specifically for renting. The primary motivation of Build to Rent investors is to keep their developments, fully-occupied with satisfied tenants. As such Build to Rent developments offer a number of additional facilities and services that sets them apart from other private rented properties, including longer term tenancies, good onsite amenities, and onsite management.

As the market continues to mature, established developers and institutional investors are embracing the evolving opportunities offered by changing home ownership attitudes. However, despite an increasing market acceptance of the advantages of this type of accommodation, the Build to Rent sector faces a number of challenges.

Planning Policy

In the last 12 months there have been a number of improvements in terms of planning policy facilitating Build to Rent development. In February 2017, the Housing White Paper was released, which emphasised the need to diversify the UK's housing market, with Build to Rent developments encouraged. To support this outcome, the Paper introduced two key proposals. The first proposal comprised of potential changes to the National Planning Policy Framework 2012 (NPPF) so that local planning authorities know they should plan proactively for Build to Rent.

The second proposal was to make it easier for Build to Rent developers to offer affordable private rental homes and to facilitate family-friendly tenancies of three or more years. It is understood the Government's work on these matters is ongoing.

The Draft National Planning Policy Framework released for consultation in March 2018 has recognised Build to Rent as a type of development for the first time. The Draft NPPF includes a definition of Build to Rent within the Glossary, and includes Build to Rent within its definition of affordable housing. Whilst the Draft NPPF doesn't actively promote or provide detailed guidance about Build to Rent development, the recognition and definition of the sector within this national

legislation is a step in the right direction to putting Build to Rent at the forefront of planning policy.

In August 2017, London saw some key improvements, with the Greater London Authority's (GLA) adoption of the Homes for Londoners Affordable Housing and Viability Supplementary Planning Guidance (SPG) 2017. Amongst other things, this document provides a formalised definition of Build to Rent, which clearly delineated the term from the 'private rented sector', and enabled a degree of consistency across London planning authorities. The GLA's definition of Build to Rent ensures development must:

1. be a development, or block/phase within a development, of at least 50 units;
2. hold its constituent homes as Build to Rent under a covenant for at least 15 years;
3. provide units that are all self-contained and let separately;
4. operate under unified ownership and management;
- 5 offer longer tenancies (three years or more) to all tenants, with break clauses that allow the tenant to end the tenancy with a month's notice any time after the first six months;
- 6 offer rent certainty for the period of the tenancy, the basis of which should be made clear to the tenant before a tenancy agreement is signed, including any annual increases which should always be formula-linked;
7. include on-site management, which does not necessarily mean full-time dedicated on-site staff, but must offer systems for prompt resolution of issues and some daily on-site presence;
- 8 be operated by providers who have a complaints procedure in place and are a member of a recognised ombudsman scheme; and
- 9 not charge up-front fees of any kind to tenants or prospective tenants, other than deposits and rent-in-advance.

The recently released Draft London Plan (2017) has also progressed policy guidance relating to Build to Rent. Policy H13 of the Draft relates solely to Build to Rent developments, identifying that such developments can play a huge role in accelerating housing delivery. The Draft London Plan (2017) provides a similar definition of Build to Rent as is presented in the Affordable Housing and Viability SPG 2017, but also requires that such developments allow for "a clawback mechanism is in place to recoup additional affordable housing contributions in the event of the covenant being broken".

The Draft London Plan (2017) also enables Build to Rent developments to be assessed through a 'fast track route'. This process enables certain Built to Rent schemes that meet or exceed minimum affordable housing provisions, comply with certain tenure mixes, and address other planning requirements and obligations, to proceed through 'fast-tracked route' without the submission of a viability assessment.



Amanda Balson is executive director at Nexus Planning and Heidi Duncan a senior planner

Overall, there has been significant progress with respect to Build to Rent in planning policy over the past year within London. The Housing Affordability and Viability SPG (2017) and Draft London Plan (2017) have introduced key policy guidance for identifying, categorising and incentivising Build to Rent developments. Whilst it is positive to see that the GLA is beginning to provide central guidance to support the evolution of the Build to Rent sector, the onus is still on individual planning authorities to take the lead with respect to facilitating delivery.

At a local level however, of the 33 Local Authorities operating in London, approximately half make no reference to Build to Rent in their adopted or emerging planning policy. Just over 30 per cent of Local Authorities in London have clear, positive positions on the sector, evident through policies or guidance relating to Build to Rent. Whilst the remaining Local Authorities' planning policy and/or guidance documents acknowledge the Build to Rent sector, they do not provide clear policy to assist with delivering such developments.

Of the Council's with a positive policy position towards Build to Rent, London Borough of Hammersmith and Fulham, for example, has made marked progress; with their new draft Local Plan, which was submitted for consultation in February 2017, identifying Build to Rent as a key avenue for boosting accommodation across the Borough.

The Borough's draft policy includes a range of affordable housing outcomes for Build to Rent schemes such as discount market rent using the London Living Rent as a benchmark as well as a new policy regarding ongoing site management.

London Borough of Southwark has more than three times the national average of social housing and more than any other London Borough at 44 per cent. This commitment to affordable accommodation for its residents is reflected in the New Southwark Plan, a Preferred Option, published in June 2017, which includes a detailed policy regarding the Build to Rent sector.

In particular Policy DM4 of the New Southwark Plan states that: "*Planning permission will be granted for purpose built, private rented homes:*

- 1. Which are secured for the rental market for a minimum 30 year term with tenancies which last a minimum of three years;*
- 2. That meet Southwark's Private Rent Standard;*
- 3 That provide a high standard of security and management;*
- 4. That provide an equivalent amount of affordable housing to conventionally funded schemes, in accordance with DM1."*

Policy DM4 is unashamedly pro Build to Rent development, and provides qualified support for schemes that meet specific criteria, such as providing more than 100 new homes and meeting obligations around issues such as site management and rent affordability. This approach is enabling the swift, positive assessment of purpose-built Build to Rent schemes within Southwark.

Another local authority making headway with Build to Rent planning policy is London Borough of Camden. The Borough was one of the first local authorities in London to adopt a positive position in regard to the Build to Rent sector. In July 2017, the new Camden Local Plan was adopted, which takes a clear and positive position on Build to Rent, and is likely to facilitate continued growth in the sector within the borough.

The new Local Plan recognises that "*financial viability for*

build-to-let development is different from developments built for sale because returns are realised over a longer period and may mean that the appropriate level of affordable housing provision is lower." The Council also prescribes that they "*will be flexible in the application of affordable housing and dwelling size policies to develop build-to-let housing where we consider such housing will help create mixed, inclusive and sustainable communities."*

These outcomes are recognised in Policy H2 – Maximising the supply of self-contained housing from mixed-use schemes; Policy H4 – Maximising the supply of affordable housing; Policy H6 – Housing choice and Mix; and Policy H7 – Large and small homes of the Camden Local Plan. As such, it is evident that London Borough of Camden understands that viability of Build to Rent developments differs from the viability of build for sale schemes, and should therefore be assessed accordingly.

The policies outlined above provide some of the best practice approaches currently in place within current and emerging local planning legislation across London.

Design Considerations

Build to Rent brings its own unique challenges when it comes to design. The variety of approaches that Build to Rent schemes can take offer a range of solutions in terms of layouts, the provision of private spaces and facilities on site and how a scheme is branded.

The UK does not have a history of building rental accommodation for multi-person households, with current rental stock largely made up of converted family homes. Due to this deficiency, private rented housing is more likely to be overcrowded, poorly maintained or ill-suited to the tenants needs compared with privately owned homes or social rented housing. The design of large-scale Build to Rent schemes offers a huge opportunity to tackle these issues and re-think the priorities of renters.

While there are many reasons that people rent, not least rising house prices making home ownership unaffordable, there are also those who rent out of choice. Many young professionals value location, flexibility, lifestyle and facilities more than owning their own home and are willing to rent long-term if they can find a place that fits their needs and budget.

Renters tend to be more concerned about pounds per month than pounds per square foot and a key design challenge for Build to Rent developers is creating compact apartments that are well designed so as not to feel small. If located close to amenities and transport links and with adequate community spaces, renters are more likely to accept smaller living spaces. Although it is unlikely that the London minimum floorspace standards will be changed in the short term, innovative new layouts should be considered if we are serious about achieving viable units for the Build to Rent market.

There is an opportunity for Build to Rent developments to brand themselves in a similar way to student accommodation or even boutique hotels. This can be achieved through the architecture, interior furnishings or through the offering of shared facilities such as pools, fitness centres, multi-use workspaces and shared roof gardens.

Shared facilities help build a sense of community and, when combined with good customer service, will lead to brand loyalty, something that we already see in the US multi-family rental

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>>> model. Having shared spaces, such as laundry facilities and outdoor terraces, can also allow certain spaces to be omitted from the apartments themselves, reducing apartment sizes and consequently costs. At large scale these shared facilities become much more viable.

The design of a Build to Rent scheme also has to consider the long-term rental usage of the building. They should be designed for easy long term maintenance, as operators will want to attract new tenants on a regular basis. This might mean a higher quality and durability of the finishes and furnishings and the use of the same style and products across multiple schemes.

The limitations of design codes and spatial standards do not at present account for the modern and innovative approaches being taken by Build to Rent developers.

Ongoing Management

Quality of management of Build to Rent schemes post-completion is key to the viability and confidence in the sector long term. However, many developers do not have the skills in place to become long-term managers, and so may pass management of their schemes on to third parties. Only the emerging specialist Build to Rent developers are geared up for this, but they make up only a small number of developers in the market building new homes.

Again, housing associations have the potential to become key players as many will be able raise the capital to finance large private rented schemes. In addition, their existing affordable housing portfolios give them both "asset management expertise" and "a strong platform to offer a professional service to tenants."

The viability of large-scale Build to Rent developments can hinge on strong long term management structures to ensure

that the upfront investment can be returned over a known period. Issues such as viability are likely to be eased as the sector matures and the optimisation of management practices long term improves security of investment upfront.

Next Steps

One avenue worth investigating further is whether London's Boroughs could become Build to Rent developers themselves. In the last few years some London boroughs have started to form their own development companies, independent from, but owned by the Council. These companies could use their own land to build largescale Build to Rent schemes with the rent taken in, ensuring a long-term steady revenue stream which could be reinvested in essential services and fund more affordable forms of housing.

Build to Rent is an important and growing part of the UK housing market with the potential to substantially increase housing supply. The Build to Rent sector is currently worth £25 billion² and set to rise to £70 billion³ in the UK over the next five years with London accounting for more than half of the new homes either under construction or in the pipeline.

Over the last 12 months, there has been a notable shift in planning policy across London in terms of recognising the important role of the Build to Rent sector in helping provide quality homes in the Capital. There is still much to do however. A number of challenges facing the Build to Rent sector exist, some of which have been discussed above.

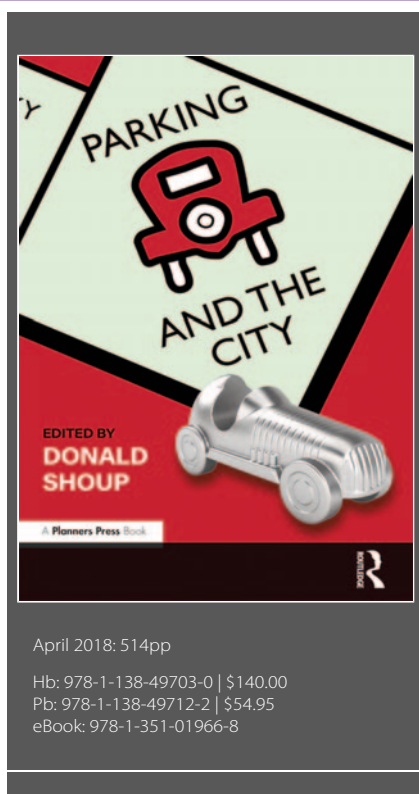
Nonetheless, it is important to continue to identify and address the challenges affecting the sector and to ensure that Build to Rent can continue to grow, evolve and improve. If carried out effectively, the sector can prove itself able to make a real and positive impact on housing supply in London and throughout the UK. ■

FOOTNOTES:

1 <http://www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk>

2 <https://www.propertywire.com/news/uk/private-rented-sector-uk-likely-grow-24-2021/>

3 <https://gkstrategy.com/build-rent-sector-can-solve-housing-crisis/>



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