



MAKING THE MOST OF BUILD TO RENT

Report

January 2017



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Future of London is an independent not-for-profit urban policy network focused on the challenges facing regeneration, housing, infrastructure and economic development practitioners in the capital. We are a borough-led membership organisation with a number of external partners, which provides top career development, expert-led policy research, and topical networking and speaker-led events.



LSE London is a centre of research excellence on the economic and social issues of the London region, as well as the problems and possibilities of other urban and metropolitan regions. The centre has a strong international reputation particularly in the fields of labour markets, social and demographic change, housing, finance and governance, and is the leading academic centre for analyses of city-wide developments in London.

INTRODUCTION

Build to Rent isn't a panacea for London's housing crisis, but momentum is building – there are four times as many private rented sector (PRS) schemes under construction or in the pipeline at the end of 2016 as were built in the previous seven years.¹ With the gap between social housing and home ownership wider than ever, London needs more decent and well-managed private-rented housing, but this is difficult to achieve within the existing sector. The new wave of institutionally-funded products focus on functional design, bespoke management and greater tenure security, offering a real alternative – though usually with a matching price tag.

At the pan-London level, the justification for supporting good Build to Rent schemes has been made by recent updates to Greater London Authority (GLA) housing planning policy, and in many local authorities, it is officers who need convincing of Build to Rent's benefits, not members.²

Local authorities and housing associations have a significant role to play in this new type of housing; as developers, landowners and planning authorities. Many local authorities are developing their own versions of Build to Rent in response to local housing need and in pursuit of much-needed revenue streams, while housing association L&Q is one of the biggest PRS investors in London's marketplace.

But there are tough decisions to be made: how can section 106 (S106) requirements genuinely address housing need within the viability constraints of the sector? Which development model will bring the biggest long-term investment on public land? Does a local authority or housing association have the capacity to 'go it alone', in terms of

City Mills, LB Hackney (L&Q)



© L&Q

development and management of housing for private tenants – and should this be their role? What's the best way to balance securing a supply of new-build rental housing with having a robust exit strategy? And should the focus be on homes for rent at all when most people would still choose home ownership if it was available?

Although the number of completed Build to Rent homes is still relatively small, there is a substantial pipeline, including some major deals in key growth areas. As good design is integral to the longevity of all housing development, the high proportion of private rent schemes coming to the market through often sub-par office to residential conversions is of concern.

The aim of Future of London's six-month programme was to gather the views and experiences of public- and private-sector players and identify opportunities and stumbling blocks for a sector that is still trying to define itself. Overall, the discussions that have informed this research demonstrate

a real enthusiasm from all parties to maximise the opportunities presented by this fledgling but fast-growing sector of the housing market.

With appropriate support, Build to Rent could provide high-quality housing at scale that offers tenure security, encourages community and has a positive effect on neighbourhoods. Getting it right requires skill, long-term thinking and perhaps a level of compromise from all sides. The examples and experiences in this report are meant to facilitate this work. Of course, a supportive policy environment is also fundamental; the concluding recommendations challenge the Department for Communities and Local Government (CLG) and the GLA to help local authorities make the most of the opportunities the Build to Rent sector presents.

POLICY & MARKET REVIEW

Defining Build to Rent

Arriving at an agreed definition of Build to Rent is not easy when there are so many developers, investors and public authorities in the market. It is becoming clear that a distinct subset of the private rented sector is emerging, aimed at demand from the growing number of people:

- for whom home ownership is wholly unrealistic, but access to social/affordable housing is also unlikely;
- at a stage in their lives when renting may be favourable; and
- with above-average household incomes.

The new wave of Build to Rent developers is keen to distance itself from the rest of the sector and its problems, pointing out that they provide a very different product from the existing PRS stock. Major Build to Rent developments provide blocks or clusters of units under single management and purpose-built functional design for renters. The Urban Land Institute (ULI), a not-for-profit urban education and research organisation, offers a collective voice for the sector, and has published two editions of its Build to Rent Best Practice Guide on design, management and construction.³

In its draft Supplementary Planning Guidance (SPG) on affordable housing and viability, the GLA provides its own definition of Build to Rent, demonstrating its endorsement of the sector and aspiration that it meets strategic, pan-London housing need.⁴ Recognising the distinct economics of the sector, it encourages local authorities to consider viability differently. In return, the homes must have minimum three-year tenancies, be held under a covenant for at least 15 years and be managed professionally by an accredited landlord.

Table 1: Two definitions of Build to Rent

GLA ⁵	ULI ⁶
<p>A development, or block/phase within a development, of at least 50 units;</p> <p>The homes to be held as Build to Rent under a covenant for at least 15 years (affordable units in perpetuity);</p> <p>All units to be self-contained and let separately;</p> <p>Unified ownership and unified management of the development;</p> <p>Professional and on-site management;</p> <p>Longer tenancies (ideally three years or more) with defined in-tenancy rent reviews;</p> <p>Property manager to be part of an accredited ombudsman scheme and a member of a recognised professional body.</p>	<p>Developments at scale (100 units+);</p> <p>Purposefully designed and built with the customer in mind;</p> <p>Typically incorporate dedicated staff (potentially on-site) with a strong management ethos based on maximising the customer experience;</p> <p>A level of on-site amenity befitting the size of the development.</p>

Completed Build to Rent schemes and those in the pipeline involve a range of actors, finance and delivery models, all of which guide the final product. These

roles are not mutually exclusive – a single entity could be landowner, developer and operator – and a housing association or local authority could in principle be

involved at any or all of these stages. As local planning authorities, boroughs will always be involved in some way with the exception of permitted development schemes.

New PRS Development

Build to Rent is emerging as an alternative to the Buy to Let-dominated private rented sector, but it is not the only type of private rented scheme coming onto the market. There is a distinct tier of lower-rent PRS emerging, mostly in the form of office-to-residential schemes⁷ through a **General Permitted Development Order**. This is a concern – while these schemes are not uniformly poor quality, converting an office into rented housing (particularly for vulnerable communities) needs a good level of investment to do properly. By removing them from the planning system protocol, central government has eliminated any

control that local authorities might be able to exercise over their size or quality.

At the other end of the spectrum, some developers are creating premium products, with rents considerably above the local upper quartiles. Highly influenced by the US ‘**multifamily**’ model, these schemes offer high-quality amenity spaces and exemplary standards of management – neither of which are common in traditional private rental accommodation, even at the expensive end. Essential Living’s Vantage Point in Archway is an example of this model (see case study in appendix 3)ⁱ.

Many schemes fall between these two camps, designed and managed with renters in mind, but with fewer amenities than the premium products and probably less attention to the operational aspects of the building. Some developers – including local authorities and housing associations – will be keen to keep rents down with simpler schemes that invest in ‘back of house’ operational systems to keep the building running well, but with limited amenities and communal spaces.

The table below shows some of the variables in schemes going through the planning system.

Table 2: New-build PRS: the key variables

Nature of developer	Private (developer, investor or housing association), public (local authority, council-owned company) or joint (JV, development agreement etc.)
Public support/ subsidy	Support from CLG/GLA loan finance programmes; schemes on GLA/TfL disposed public land; JV with public land component; local authority general fund
How dwellings produced	New-build or conversion (including office-to-residential, or changing tenure from for-sale or social rent); tower block or medium-rise flats (single-family homes outside London); individually-built or built off-site
Type of scheme	Standalone or part of wider public or private scheme (including estate regeneration)
Allocation/ management of affordable	From prioritising local people in employment to housing tenants from local authority waiting lists; managed by operator or separately by housing association
Other public/private finance	Institutional investment; public loans e.g. public works loan board or funds e.g. European Development Fund

Another variable is whether the homes were originally intended for rent and designed with renters in mind. Two of London’s best-known Build to Rent developments – Genesis’s Stratford Halo and Get Living London’s East Village, both in LB Newham – were actually not originally intended for rent or structurally designed with renters in mind; other schemes, such

as L&Q’s City Mills, LB Hackney, were acquired by developers and converted (physically or not) for rental.

Overall, there are a number of ways in which new-build PRS schemes could be delivered, funded and managed. Although it is still early days for the sector, this work programme has examined the spectrum of arrangements

and products: from premium accommodation developed by the new wave of private Build to Rent developer-operators to councils developing their own versions of new-build PRS housing. This is the time for local authorities and housing associations to choose the level and type of involvement that best suits their needs and resources.

ⁱ This development is exceptional as it was also delivered through permitted development.

WHAT IS DRIVING PRS/BUILD TO RENT SECTOR GROWTH?

Building an alternative to the existing PRS

The private rented sector (PRS) is London's only growing tenure – between 2001 and 2011, the size of the sector doubled across London.⁸ The vast majority of the sector comprises existing stock, and management is dominated by Buy to Let landlords with few properties. The result is an inconsistent picture, with recognised problems, particularly at the lower end of the market.⁹ The normal tenancy is six to twelve months, after which the landlord can ask the tenant to leave without giving a reason. The market is so overheated that there is little incentive for landlords to retain tenants as there will be no shortage of replacements.

So far, the public sector has concentrated on driving improvements in the existing

PRS through licensing and other enforcement. The existing sector is the right place to focus: there are estimated to be 1.4m PRS homes in London by 2026; if today's Build to Rent pipeline is built out, the sector will constitute just 3% of that figure.¹⁰ However, the new-build PRS sector is undoubtedly growing; there are currently three times as many units in planning or under construction as there are completed (see Figure 1).

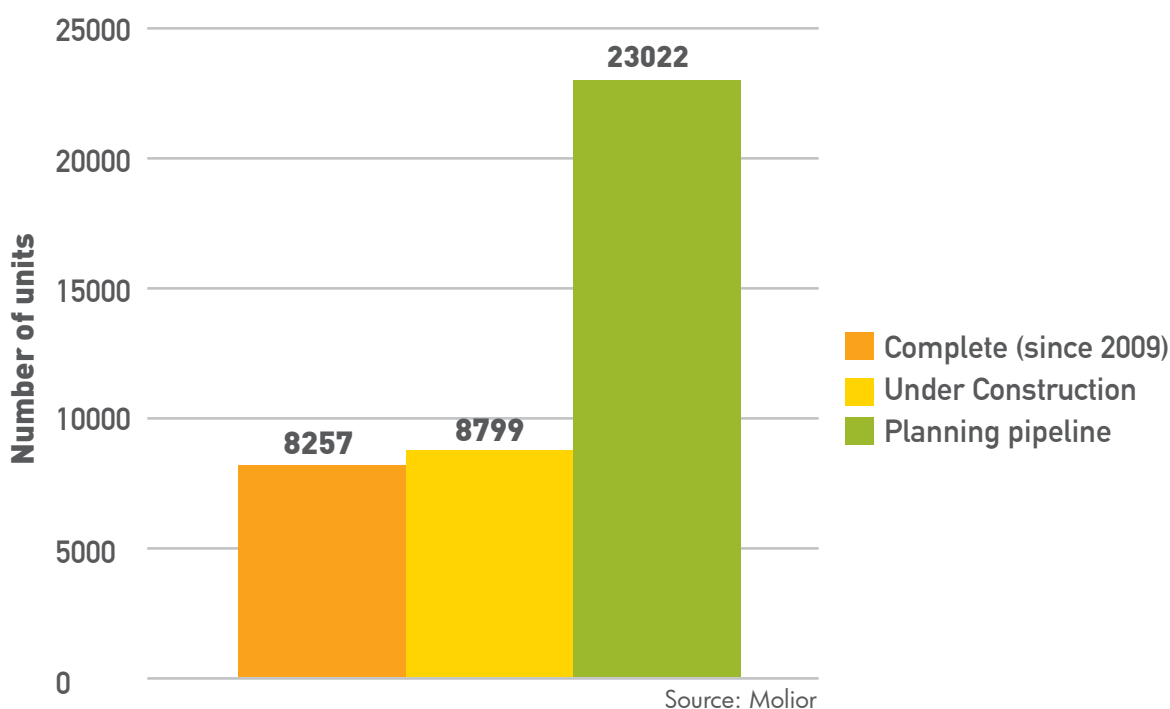
It seems likely that institutionally-funded Build to Rent schemes will remain in the rental market. Many are covenanted for 15 yearsⁱⁱ, and over time a secondary buyer's market for single-ownership rental schemes can be expected to develop.

Traditional Buy to Let PRS



© Nico Hogg, Flickr

Figure 1: Growth in London's PRS development (including permitted development)¹¹



ii GLA affordable housing SPG defines Build to Rent as having a minimum 15-year covenant

William Street Quarter, LB Barking & Dagenham (BD Reside)



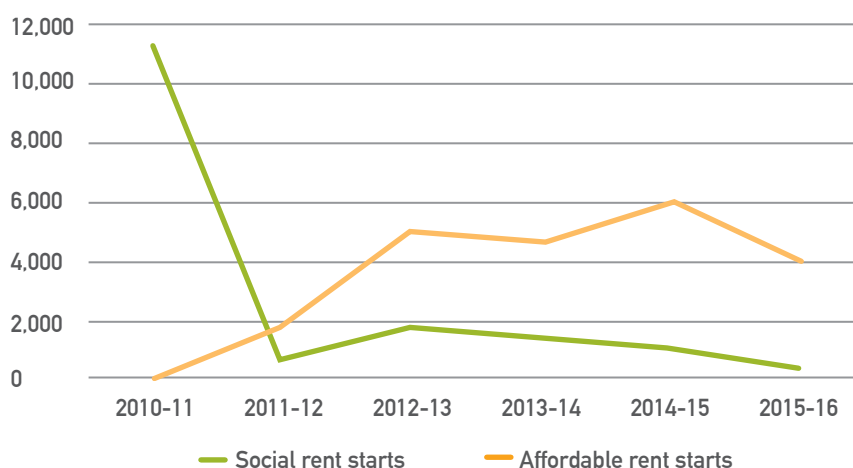
© BD Reside

The need to boost the supply of affordable homes

It is well known that London is failing to build enough homes. Most London boroughs are struggling with growing housing waiting lists, and the failure of the private sector to deliver is an impetus to build their own stock. Housing is traditionally built through councils' housing revenue account (HRA), ring-fenced funds from local authorities' social housing income.

While local authorities are able to use rental income to manage or maintain their social housing, they cannot use it for other types of local authority expenditure, and there are limits (which vary by local authority) on the amount of debt they can incur on these accounts. Furthermore, homes built through the HRA are subject to social housing legislation, such as Right to Buy.¹² This has contributed to the continuing decline in social housing starts, which plummeted in 2011-12 when various kick-start programmes and fiscal support were withdrawn by government.

Figure 2: London's social/affordable housing starts 2010-16¹³



Source: GLA

An increasing number of local authorities are now looking to develop through their general fund, enabled by the creation of a separate company; either wholly-owned by the council or a joint venture with a private-sector

partner. If not using their HRA they are free of borrowing restrictions and, in theory, other social housing legislation such as Right to Buy.

PRS DEVELOPMENT IN LONDON – OVERVIEW AT END OF 2016

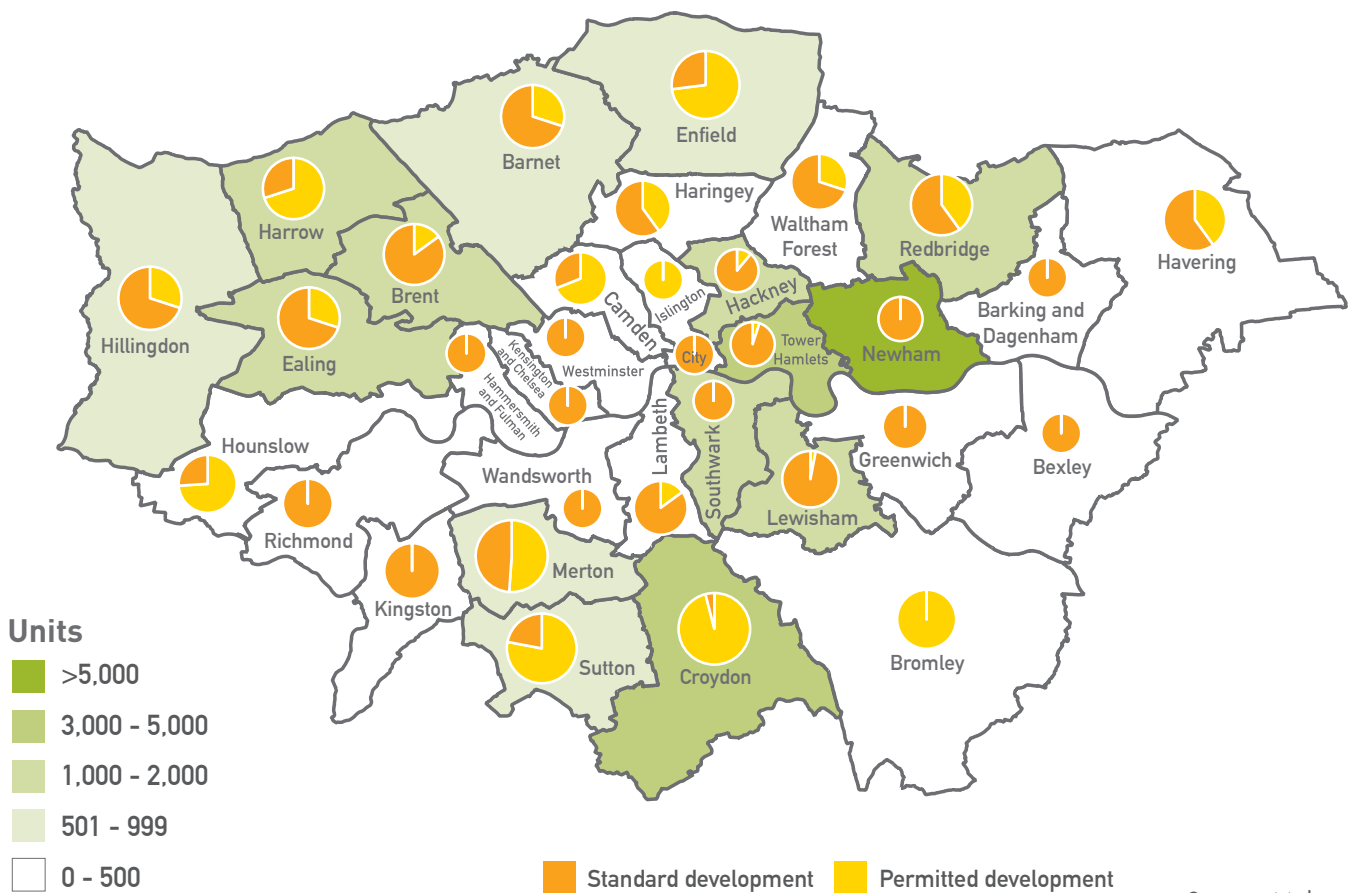
How many?

According to most recent data from Molior, there are 40,000 units on 290 schemes completed since 2009, under construction, or with planning permission in London.¹⁴ Figure 3 shows their spread across London. 14% of these are office-to-residential conversions through a General Permitted Development Order. In some boroughs, nearly all PRS schemes are through permitted development. The majority of the rest are conversions/redevelopments of social rent or for-sale property or purpose-built/designed Build to Rent schemes.

Where?

To date, interest and activity in bringing the US-influenced Build to Rent model to London has mostly been around the development of large-scale apartment blocks in city centres across the UK and in outer London.¹⁶ Zones 3-6 near travel hubs are the most viable as land prices are lower and some of the infrastructure needed for commuting into Central London (or out) is already there.

Figure 3: Volume of PRS development by borough¹⁵



Who is developing?

New developer-operators

There are a number of specialist Build to Rent developer-operators and investors from the private sector on the scene; some established North American companies have entered the London market, and there are also new UK companies delivering

purpose-built homes for private rent across the capital. Both are keen on introducing a new type of housing to the UK, tapping into a growing gap in the market and creating an alternative to the existing PRS for those with enough disposable income.

Housing associations

Housing associations own 40,000 PRS units and have developed 24% of the 27,000 PRS units completed since 2010.¹⁷ The focus of housing associations has changed as government subsidy has fallen away;

Thames View East, LB Barking & Dagenham (BD Reside)



several are developing homes for the private market to cross-subsidise their social house-building. Further legislative changes, such as the 1% reduction in social housing rents and planned Right to Buy extension, are making their traditional role even more challenging.¹⁸

Housing associations, like other developers, are attracted to the counter-cyclical nature of the PRS. While the sector does not offer the high capital returns of for-sale development, it is less volatile and susceptible to macroeconomic shocks. This is particularly relevant given the uncertainty around Brexit. Some housing associations, such

as L&Q and Thames Valley, have created specialist subsidiaries to develop PRS homes with the help of institutional investment partners, while Genesis has stopped building affordable and social rent homes altogether, opting for a 50/50 split of shared ownership and market tenures (sale and rent) instead.

See Appendix 2 for a table of major housing association activity in the PRS.

Local authorities

The Localism Act 2011 granted the “general power of competence” to local authorities, enabling them to undertake any action that an

individual would be legally entitled to do.¹⁹ This provision gives councils the right to establish wholly-owned companies, which could include housing development companies. Many local authorities now intend to deliver Build to Rent through council-owned companies – and some are already doing so.

Their involvement as developers can be controversial; some would argue that local authorities (and housing associations) should focus on their core responsibilities of providing social housing for low-income households rather than market-rent units.

It is still early days for local authorities, with only Newham and Ealing having completed homes for private rent, and Barking & Dagenham having built its own version of Build to Rent with 100% intermediate rents. That said, a number of other boroughs are developing PRS strategies and forming strategic partnerships, or in some cases, planning to deliver housing directly.

“Local authorities need to decide what they want to deliver; are they are trying to get into the PRS market and drive a future income stream, or do they have the very different aim of preserving affordable homes and the local keyworker population?”

– FoL senior roundtable participant

Public-private partnerships

One model is for a private Build to Rent operator to go into partnership with a public or non-profit landowner (local authority or housing association), who will take an equity stake in the partnership in return for providing the site. The details of these partnerships vary, but there are advantages for both parties: in general, the developer gets access to land without having to bid against for-sale house builders, and the landowner gets an equity stake in the completed development and a long-term revenue stream.

In the context of Build to Rent, partnerships often take the form of joint ventures: commercial alliances between two or more separate entities that enable them to share risk and reward. The parent organisations contribute resources, skills or equipment

to the new company; share of ownership generally reflects relative contributions. Parent companies or entities can use such a vehicle to finance a large project without putting the rest of their assets at risk.

“We chose a JV delivery model because the council doesn’t currently have all the skills/resources to deliver high quality Build to Rent development, and a 50% share of net income over the whole period is appealing”

– FoL senior roundtable participant

LB HARROW’S DIRECT DELIVERY MODEL

Harrow Council is considering direct delivery of up to 600 Build to Rent homes. The council would commission architects to masterplan sites and design housing, then secure planning permission and procure and manage contractors to construct the new housing. The benefit of the direct delivery model is that it would enable the council to retain 100% of the income from its Build to Rent stock, providing a critical revenue stream for essential services. Upon completion, the units would be transferred to a council-owned company to manage. At the same time Harrow is exploring other delivery mechanisms for private sale and affordable rent properties.

LB LEWISHAM’S JOINT VENTURE

In 2015, Lewisham published its five-year housing strategy, Homes for Lewisham, which committed the council to supporting the development of new models of private renting. The council plans to create a more sustainable private rented sector in the borough, and its Besson Street project will set the benchmark.

Lewisham is seeking a 50/50 partner to help innovate in a market that is not currently serving the needs of its residents. The vision is for a joint venture model that can take a long-term view, provide a revenue stream for the local authority and in time, consider other sites and opportunities.

The proposed JV will develop, market and manage a 250-home scheme. Some 65% of the units will have market rents with increases capped in line with inflation; the remaining 35% will have income-linked London Living Rents. Regardless of the rent level, tenants should have more certainty and security as well as a much higher quality product than the existing small-scale PRS offers.

The council has invited bids from the market and expects to announce its shortlist early in 2017.

Other Public Landowners active in the PRS

In response to the phasing out of grant funding by 2020, **Transport for London (TfL)** needs to generate £3.4bn in commercial revenues, £1.1bn of which will come from property development. TfL is one of the largest landowners in the capital, owning around 5,700 acres.²⁰ It plans to release more than 300 acres to housing

developers and unlock new sites through transport projects. TfL has a development framework in place to deliver 10,000 new homes by 2020 across 75 sites. The organisation sees the potential of Build to Rent, and already receives revenue from leasing land for Essential Living's Vantage Point scheme in Archway (see case study in Appendix 3).

Network Rail Property was set up in April 2016 to ramp up sales of surplus land and property to fund £1.8bn of railway upgrades.²¹ Network Rail is partnering with developers and releasing land for over 12,000 new homes, 5,000 of which are in the capital. Solum Regeneration (Kier Property/ Network Rail JV) plans to build PRS homes with institutional funding.

Who is investing?

A recent survey of institutional investors by Knight Frank indicated that by 2020, they would commit a total of £50bn to Build to Rent projects nationally.²² Professional investors are responding to demand and returning to the PRS after fleeing the sector due to rent controls in 1970s. High-net-worth companies are entering the market to create Build to Rent as an institutional asset class. Pension fund managers favour its long-term investment potential, and some have been investing in Build to

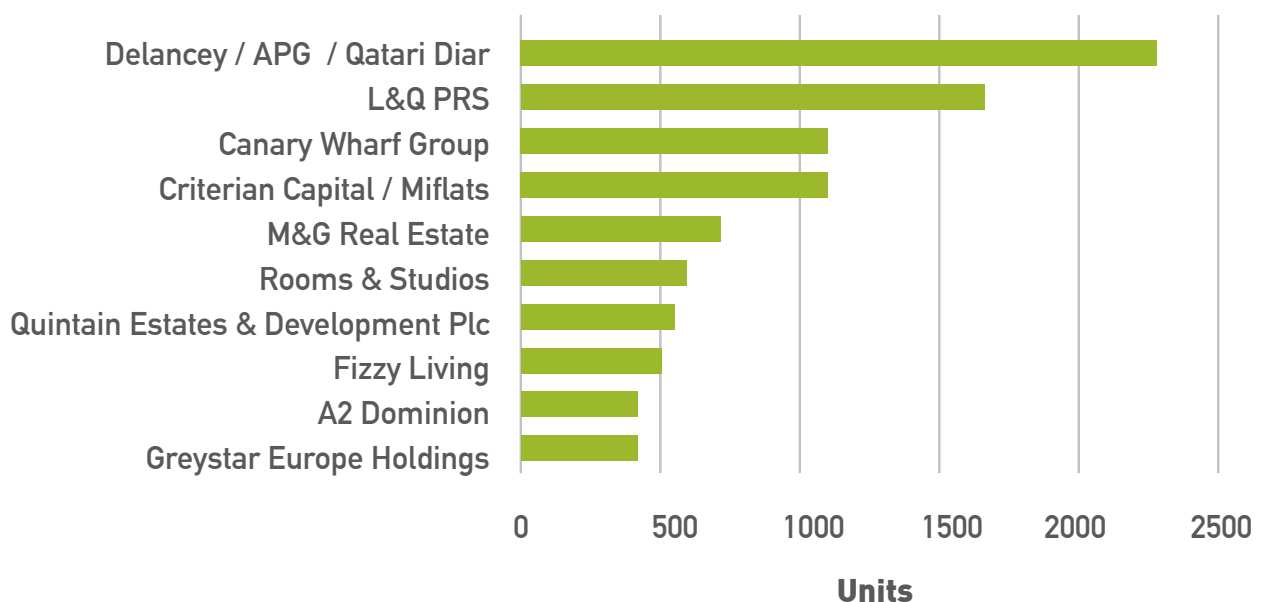
“A couple of years ago, no investors would forward fund PRS, but now Build to Rent is more established, investor appetite has grown”

– FoL senior roundtable participant

Rent housing in other countries for decades. Figure 4 shows the mix of investors, including commercial joint ventures (Delancey/APG/ Qatari Diar, Criterion Capital/ Miflats); individual private

developers (Canary Wharf Group/ Quintain); housing associations and subsidiaries (L&Q PRS, Fizzy Living, A2 Dominion); asset managers (M&G Real Estate) and Build to Rent developer-operators (Greystar).

Figure 4: Top 10 Build to Rent investors 2016 Q3²³



Source: Molior

Rehearsal Rooms, LB Ealing (Hub/M&G)



© Hub Group

Asset manager M&G Real Estate forward-funded the £43.5m Rehearsal Rooms scheme developed by Hub Group. The build comprises 173 apartments and amenity space, and is due for completion in February 2017.

INVESTOR PERSPECTIVE

“Competition from build for sale and subsequent land pricing remains one of the investors’ biggest challenges. Build for sale developers take a shorter term view and often pay more for land than Build to Rent investors can. Any deduction for Build to Rent specific schemes in S106 contributions and/or CIL would help us be more competitive. 15-year covenants for PRS-only work are institutionally acceptable, but restrict our exit route, which impacts on liquidity, even if it is not currently our intention to sell individual units. This has an impact on risk and therefore pricing.

Planning authorities should remember the advantages of Build to Rent over build for sale. For example, we can let four or five times faster than for-sale units, which creates communities more quickly and contributes to placemaking. Investors also want to protect the future value of an area and are more likely to build with a longer-term view.

There could be real advantages in institutions collaborating with local authorities or other public landowners on a scheme, as it could provide long-term income streams to the council as well as further investment in the borough. Local authorities need to decide what they want to get out of a development from the outset: is it highest land values, largest amounts of affordable housing, long-term income streams or straight capital receipts?”

Alex Greaves, Fund Manager, M&G Real Estate

OVERCOMING CHALLENGES

Many of Build to Rent's challenges are common to any fledgling industry; however, evidence

is building that the sector has unique characteristics in terms of development economics and the

type of tenant it can best serve. Build to Rent is an emerging industry that may need short-term support.

Appetite

Do people want to live in the private rented sector? Although the number of people in London's PRS has doubled over the past 10 to 15 years, many are not there by choice. The PRS used to serve a minority of people requiring a home on a temporary basis. In theory, the number of people for whom this might be the case has grown in line with lifestyle changes – people are more transient, and start families later in life, making home ownership a less obvious choice.²⁴

The sector's known issues are a disincentive. Assured shorthold

tenancies (ASTs) (the standard contract used for renting) offer little security; retaliatory eviction is a real risk and the ending of ASTs is by far the biggest cause for households losing their homes and requiring temporary accommodation.²⁵ An increasing number of boroughs are using local enforcement such as discretionary licensing schemes to target the significant problems with conditions and management.

Build to Rent is no replacement for regulation – while there may be trickle-down effects in terms of standards, this will be gradual and such a small proportion of

the PRS can only ever have a limited effect. But renting may suit a growing number of people, and not necessarily just young sharers – downsizing couples, divorcees and older people could all benefit from its simplicity and service provision. Major Build to Rent developers are building their brands and listening to what tenants want; consequently, they are offering high standards of management and in many cases longer tenancies. This good practice is being rewarded with evidence of high satisfaction and levels of retention.

Viability

Perhaps the key challenge for expanding Build to Rent is viability. Most new housing in the UK is speculative for-sale development by private house builders. They work out their likely income from the final product and subtract their costs and required profit; what's left is the amount they can afford to pay for land. For a site with several bidders, the winner will be the bidder whose eventual scheme will be worth most.

Build to Rent developers are at a disadvantage because the gross development value of a rental scheme is based on yield. It is typically calculated in the same way as for a commercial scheme – that is, as the capitalised value of the future rental stream, without taking account of any potential future capital gains. This yield-based figure is usually less than what a for-sale scheme would fetch, so for-sale

developers can often outbid Build to Rent developers for land.

The development industry agrees that the playing field should be more level, but the best route is uncertain. A separate planning use class and land use allocation system would insulate the price of land from influence by the for-sale market. However, this approach has been dismissed by most as it would reduce the flexibility of the planning system and the housing stock itself by removing the possibility of selling units individually.

Other requests from the industry to facilitate viability include relaxing space standards and reducing developer contributions, including Section 106. In its draft updated Housing SPG, the GLA's Build to Rent planning guidance is moving in the industry's direction. The SPG highlights the fact that the London Plan already allows for space

standard exceptions and suggests that this flexibility could be applied to Build to Rent schemes.

The affordable housing requirements are less clear. Given that the Mayor aspires to achieve 50% affordable housing overall in new development, these private schemes need to play their part. However, the SPG recognises the viability gap, so Build to Rent developers do not necessarily need to meet the 35% affordable housing threshold being encouraged in for-sale schemes.²⁶ On the other hand, the SPG suggests that affordable housing within Build to Rent schemes should be priced at local London Living Rent levels. As these are generally much lower than standard discount market rents (which could be up to 80% of market levels), the guidance recognises that this will have "impacts on the quantum of affordable housing".

WHY SHOULD THE PUBLIC SECTOR SUPPORT BUILD TO RENT?

There are a number of reasons why London's public sector should support Build to Rent:

1. Meeting local housing need
2. Contributing to local housing strategies
3. Retaining assets and providing a long-term income stream
4. Building communities and placemaking

Meeting local housing need

The twin challenge for the Mayor and the boroughs is providing enough new housing overall AND ensuring that it meets the needs of local households. Build to Rent can contribute to overall numbers, but what about affordability?

In London there is a longstanding gap between housing for higher-income households and the various forms of affordable housing for those on lower incomes. The middle ground – those who can't afford to buy but don't qualify for social or affordable rent – can be difficult to cater for, and this is the market that Build to Rent targets. Build to Rent should address some (though not all) of that market and many local authorities and housing associations see this as a strong reason to be involved.

Market rents in the major private Build to Rent developments tend to be above the upper quartile. This comparison with the existing sector, dominated by small Buy to Let landlords, may be unfair; Build to Rent generally includes an array of amenities and facilities, professional management, service-charge inclusive rents and better tenure security. Average rent calculations are fairly blunt instruments, but comparing with the borough median or ward-level London Living Rent demonstrates that these products will not be suitable for everyone. (See case studies in appendix 3 for some comparisons.)

Some Build to Rent operators state that their developments can be regarded as affordable given that they are designed for sharers. For example, Be:here's Aberfeldy Village found a third of its tenants earned less than £30,000, and 74% less than £50,000.³⁰ While it is positive that they are able to live in a well-managed and designed home, if sharing is a condition of affordability, is it really affordable?

There is also a level of geographical variability. It is generally easier to provide lower rents in zones 3-6, where land is cheaper. As market rents are also lower in these areas, even upper quartile rents may seem relatively inexpensive compared with inner London boroughs. Zone 1 and 2 rents are naturally higher, so the demographic for these schemes will

be even more limited, and spreading the rent through sharing popular. L&Q's four-bed townhouses in its City Mills scheme in LB Hackney are market rents; unsurprisingly, they are occupied by sharers rather than families.

Some boroughs may choose to use their housing development companies to build intermediate rental housing and allocate it to local people, rather than allowing the market to set the rents. LB Barking & Dagenham has used this approach to great effect (see below). However, a more common model for local authorities and housing associations is to mimic private developers by letting a proportion on the open market and using the profits to cross-subsidise some at a discounted rate.

BD'S RESIDE'S AFFORDABLE BUILD TO RENT OFFER

BD Reside is a wholly-owned housing development and management company. It was established to develop and operate affordable PRS homes through the borough's general fund. The first two schemes, Thames View East and William Street Quarter, received institutional investment from Long Harbour. Subsequently, the council procured funds directly through the European Investment Bank and the Public Works Loan Board, enabling more revenue feedback and provision of affordable housing in perpetuity. BD Reside provides one-, two- and three- bedroom apartments and four-bedroom houses at blended rents of between 55 and 75% of market value. The level of discount is determined by the tenants' household income. Tenants must be in employment, and those who have a local connection (live and/or work in the borough) are prioritised.

Affordable housing provision

Recent GLA guidance recommends that affordable Build to Rent provision be rented at local London Living Rent levels. But this is only guidance; boroughs are free to decide what kind of sub-market rent to charge. There is a confusing (and growing) plethora of designations for the various forms of submarket rent, some of which are statutory

and some not. Table 3 sets out the main varieties of rent (current and proposed) in London, and shows the range of price points they generate. In LB Harrow, an outer London borough with relatively low market rents, the difference between London Living Rent and 80% discount market rent is £110 per month – but in inner London, the difference will be much higher.

Where Build to Rent schemes are elements of much larger developments, blended viability (i.e. offering discounts at more than one price point), may allow more extensive affordable housing provision. Deeply discounted housing is costly for the developer, so there may be a choice between a few units at London Living Rent or more sub-market homes with higher rents.

Table 3: Comparison of rent levels in LB Harrow³¹

Name	Definition	Eligibility	Typical rent for 2-bed flat in LB Harrow ⁱⁱⁱ	Available in Build to Rent?
Social rent	Old model of affordable house-building; homes built by local authorities or Registered Providers using government subsidy; target rents generally 40% of market	Housing register	£565	No
London Affordable Rent	New subsidised rent product		£611(London-wide benchmark)	No
Intermediate rents	Mid-market rental products including:			
London Living Rent	New type of intermediate rent (London only) based on one third of ward median income paying rent on a two-bed property.	London residents, income ceiling, currently renting	£1,050 (mean of Harrow wards)	Yes
Discount Market Rent	Intermediate rent; required discount agreed with planning authority (could be a 'blended' range e.g. of market rent up to 80%; or based on proportion of median incomes and may apply to a specified proportion of homes rather than specific units)	Agreed with local authority – includes income ceiling	£1,160 (80% i.e. maximum threshold)	Yes
Market rent	Open market	No	£1,450	Yes

CALCULATING DISCOUNT MARKET RENTS, LB EALING

As planning authority on The Rehearsal Rooms, a private Build to Rent scheme developed by Hub, LB Ealing needed to ensure that its S106 contributions were in line with local need. Through negotiations with Hub, Ealing agreed that the affordable housing component could be Discount Market Rent. To demonstrate the discounts could be classed as 'affordable', proposed rents were compared to those in the surrounding area as well as average monthly rents in Acton in the Strategic Housing Market Assessment. When the scheme completes in early 2017, initial lettings will be advertised on the council's website, with priority for the 30 discounted lettings going to those who work in Ealing or neighbouring boroughs.

iii | social, market and mean LLR rents obtained from LB Harrow

The role of covenants

Following the example of many local planning authorities, the GLA's latest planning guidance recommends that all Build to Rent developments have 15-year covenants. These ensure that the building(s) will be rented out for that period, rather than sold off unit-by-unit. When the covenant expires, the future owner is free to sell the units individually.

In one way, such covenants may prove unnecessary; those with experience in the US market predict that a secondary market will emerge and the schemes, if sold, will be bought *en bloc* by other operators rather than broken up, in which case any affordability requirements (e.g. a proportion of DMR units) would pass to the new owners. However, from the perspective of the local authority and the GLA, a covenant

brings certainty that an asset will remain in the rental market long-term with a proportion of affordable homes for rent. Covenants may disincentivise investors and affect the risk profile of the development. But the public sector should not dispose of sites that are not protected in terms of tenure or affordability.

Contributing to local housing strategies

Cross-subsidising other tenures

One reason for housing associations or indeed local authorities to invest in Build to Rent is to produce a profit that can be used to cross-subsidise their affordable or social rental housing. This cross-subsidy might take place at the level of the individual estate, or at the level of the organisation as a whole.

Accelerating estate renewal

Incorporating Build to Rent on large sites, including major estate renewal schemes, means more housing can be built quickly – and this is important in London at the moment. The major house builders dominating the UK new-build market tend to release units at a 'market-led' pace of about 150 to 200 units per site, even on schemes that will eventually have thousands of homes. This is a rational profit-maximisation strategy for individual firms, but the market at large would benefit from faster output. Build to Rent schemes, which may consist of hundreds of units, are usually released all at once and let as fast as logistics will permit (one limiting factor tends to be lift capacity for moving in).

Acceleration benefits apply equally to mixed-tenure estate renewal schemes, where social and affordable units are often occupied first but private for-sale units are released relatively slowly. Build to Rent can accelerate the delivery of the whole scheme and bring tenure and income balance to regeneration areas.

The Estate Regeneration National Strategy, the culmination of the Heseltine expert panel's work in 2016, states clearly that new PRS development has multiple benefits for major estate schemes, not least their financial viability:

"In addition to creating opportunities for people who cannot, or choose not to, buy their own home, market rented accommodation can help to create certainty of capital and revenue income for a project. At the early stages this can help to populate and activate a scheme without being subject to open market sales or the need for pre-sales. This can speed up delivery and lead to greater programme and funding efficiencies."³²

L&Q'S CROSS-SUBSIDY APPROACH

With 1,500 units on c25 schemes, and an ambition to deliver a further 2,500 units within the next three years, L&Q is one of the biggest investors and developers of PRS in London. It is committed to investing substantial capital through a wholly-owned subsidiary to create one of the largest PRS portfolios in the UK. As the only equity investor, all rental income is recycled into social housing provision and development by the L&Q Group. L&Q regards its PRS operation as a long-term investment and is diversifying its tenure mix. The company has PRS homes in several boroughs, including Thurston Point in Lewisham and City Mills in Hackney, the latter of which is part of a major estate renewal programme.

ACCELERATING ESTATE RENEWAL AT ABERFELDY VILLAGE, LB TOWER HAMLETS

Be:here, Willmott Dixon’s specialist PRS subsidiary, embarked on a joint venture with Poplar HARCA to deliver 170 homes in the first phase of the regeneration of the Aberfeldy estate in Poplar. M&G’s institutional investment levered in an alternative mix of funding, enabling immediate delivery of Phase 1 and bringing forward Phase 2 by two years. Subsequent phases are focused on social housing; all social units on the site are being replaced as minimum.



Retaining assets and providing a long-term income stream

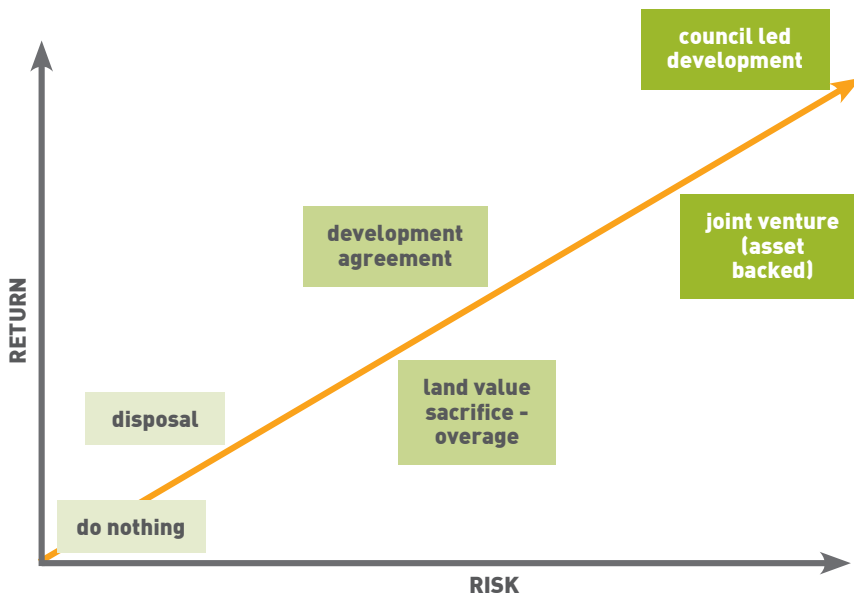
Government guidance requires public bodies, including local authorities, to seek ‘best value’ when selling assets, and many local authorities interpret this to mean the highest financial value. If local authorities simply sell land to the highest bidder they are unlikely to end up with Build to Rent development on that land, as for-sale developers can generally pay more for land than Build to Rent providers (see Figure 6 below). Using a joint venture model allows

local authorities to ensure that Build to Rent is built without facing best-value restrictions with land disposal. This could signal a move away from housing development being a short-term economic exercise towards one that is able to value social return. It also means they can shape the eventual offer to tenants, although not control it completely. Councils receive a steady rental stream which they can use to cross-subsidise their affordable/social provision, but they forego any capital receipt from

outright sale of the land – which for many public organisations now could be seen as crucial.

Council-led development requires a lot of in-house capacity, and probably the land economics of a cheaper outer-London borough. As investors/direct developers, local authorities will (and should) remain a tiny proportion of the PRS market, and will not have the resources to build at scale on their own.

Figure 6: Comparison of risk and return in local authority housing delivery models³³



Source: GVA

“Public-sector PRS development is different: local authorities are long-term stewards, and it’s their responsibility to consider strategic impact”

– FoL senior roundtable participant

Building Communities and Placemaking

The homes: A standard model?

In the design of Build to Rent units and buildings, a US-influenced typology is emerging. The flats themselves are most often designed for sharers, and comprise two-bed 'dumbbell' units with equal-sized bedrooms and en suite bathrooms at each end of an open-plan kitchen and living space. Major Build to Rent schemes offer furniture packages, and attention is given to robust fixtures and fittings that can potentially withstand multiple occupant usage and churn.

Perhaps the biggest difference between schemes is the level and amount of amenities the buildings offer. There is a spectrum emerging from high-end developments that maximise profitability (through rental values and retention) by providing an array of amenities at one end to low-cost conversions at the other.

Management

One of the defining features of Build to Rent is that the entire building/development is in single management. This is an essential requirement for many big investors and operators, who want to control the whole property for efficiency reasons, and to have complete autonomy over their asset.

The standard practice in for-sale schemes is for the developer to sell affordable units to a housing association. Most commercial Build to Rent operators do not want to split the ownership of their sites this way as the secondary market, when it develops, will be for unbroken blocks. They argue that they should be allowed to fulfil any affordable housing obligations by renting an agreed proportion of their units at discounted market rents, keeping ownership and operation

Table 4: Emerging Build to Rent design good practice

Layout	Equal-sized bedrooms with en suite bathrooms Open plan living area/kitchen Floor to ceiling windows/balconies
Management	On-site management team/ dedicated property manager Entire building in single management Management fostering a sense of community
Amenities	Concierge Communal social space Amenity add-ons fitting customer profile and rental values
Tenancies	All-inclusive offer, no service charge Secure tenancies, fixed rent increases Long tenancy options up to 3/5 years

in their own hands. By making buildings tenure-blind, the exact units offered at DMR could differ. This is standard practice in some countries with more established private-rented sectors, such as the US, but some local authorities in the UK are reluctant to go down this route.

Quality of service is fundamental to the Build to Rent model due to the strong focus on tenant retention and community-building. The buildings generally have concierges and on-site maintenance teams. The size of a building determines whether it is economical to provide a full-

time concierge; 220 units should support a part-time concierge, while full-time staffing makes sense only for schemes with at least 500 units. Build to Rent tenants appreciate the fact that concierges can accept deliveries, so buildings need appropriate storage space for these (possibly including refrigeration for groceries). There may be common areas such as function rooms, and the schemes often provide facilities that target young professionals such as gyms and co-working spaces. Purpose-built rental buildings also need good access for moving, including possibly a separate service lift.

Eastcote Lane, LB Ealing (Broadway Living)



© Broadway Living

Space standards

Build to Rent buildings must meet the same London Housing Design Guide standards as for-sale schemes.³⁴

However, the latest GLA guidance suggests that exceptions could be made for some Build to Rent schemes. Existing operators argue that they should be allowed to provide smaller units as many tenants stay for relatively short periods and would prefer to trade off some floor area to get a lower rent or live in a better area, especially if the communal facilities are good.³⁵

Smaller units are clearly less costly, and this will be attractive to many tenants. One suggestion has been to offer a range of sizes in a block that average out to compliance with space standards. However, any deviations from the London Design Guide standards would produce buildings that were less flexible and might be harder to sell in future; and less space for storage is problematic for sharers and families alike. More fundamentally, these standards were hard won and reflect society's views about what constitutes acceptable housing. Some niche developers, such as Pocket and The Collective, are arguably making smaller accepted, but more research is needed into these schemes and their tenants.

Build to Rent developers also argue that the limit of eight units per communal corridor should be lifted for schemes that will have on-site managers. This restriction was put in place to discourage antisocial behaviour, and makes sense if residents are responsible for upkeep, but a manager or concierge can manage higher densities; in this sense major Build to Rent developments function more like hotels. That being said, any move away from standards would need to be strictly regulated; not all Build to Rent developments will offer the same level of professional management. Arguably, standards should not change until there is evidence that management is effective.



FAMILY PRIVATE RENTAL ACCOMMODATION IN GREENWICH

Essential Living's Creekside Wharf development, close to the town centre in RB Greenwich, received planning approval in July 2015. Designed by Assael Architecture, this scheme is the first in London to provide a purpose-built rental block designed specifically for families, with features such as an on-site nursery, additional acoustic insulation and balconies to enhance child safety. It was one of the first bespoke rental developments to adopt modular construction.

Of the 249 new homes, a quarter will be Discount Market Rents, which will be fully integrated ('pepper-potted') throughout the scheme, meaning DMR tenants will have access to the same amenities as residents paying full market rent and live in apartments of a similar specification. RB Greenwich will select the DMR tenants.

THE COLLECTIVE

The Collective's new 'co-living' scheme in Old Oak is mostly made up of 'twodios' – two-bed units with private rooms of around 12sqm with bathroom and shared kitchenette. Average rents are £250 per room per week, inclusive of service charge, on-site management, fortnightly cleaning and an array of high-spec communal facilities, such as shared kitchens and dining rooms, games room, library and cinema. Contracts are generally nine months.

Modular construction

There is growing industry interest in the use of offsite construction and modular housing methods to build new housing developments, and evidence that they are well-suited for Build to Rent. Institutional investor Legal & General has invested £55m in a factory to produce modular units for its Build to Rent schemes.³⁶ Modular construction is not necessarily cheaper than traditional building techniques, but it does reduce the cost and time on site, which means rental income will start flowing sooner.

The schemes: Contribution to placemaking

What role does Build to Rent play in community-building? Build to Rent blocks tend to be built and occupied quickly, perhaps within weeks of completion. This contributes to the creation of neighbourhood and community on large schemes, including estate regeneration projects. The new residents should create the critical mass to support local services such as shops, schools and GP surgeries, which might not otherwise be provided for some time.

Traditionally owner-occupiers and social tenants are seen as the bedrock of communities, given that they have long-term investments in and commitment to a particular area. Private tenants are generally more mobile and may not tap into local networks and groups. The Buy to Let landlords who dominate the PRS generally offer six- to twelve-month ASTs with no guarantee that the tenant can stay on. As Build to Rent is a retention model based on rental yield, it makes sense to incentivise tenants to move in and stay. Some of these new residents may become long-term, which will help create more rooted local communities.

But Build to Rent alone cannot create genuine mixed communities – or at least not yet. In this country it currently tends to cater for younger couples and single sharers, and the standard building typology reflects that. Some planning authorities require ‘family’ units with three and four bedrooms, but in practice they are occupied by groups of sharers, as families very rarely live in these schemes. This may change, as early residents pair up and have children. Both middle-income and more affluent sharers and families offer benefits for estate regeneration: their disposable income often mean they are active

Greystar’s Greenford Green scheme, LB Ealing



© Greystar

BUILDING A NEW NEIGHBOURHOOD IN GREENFORD GREEN

Greenford Green will be the UK’s largest purpose-designed Build to Rent scheme to date. Build to Rent developer-operator Greystar will deliver approximately 2,000 homes for private rent and revive the currently derelict 20-acre site. A range of new amenities – including shops, cafes, offices and green spaces – will serve both new residents and the existing local community. Reopening Berkeley Avenue and a new pedestrian bridge over the Grand Union Canal will improve access and encourage wider use. The proposals also include a new two form entry primary school and accommodation for a new on-site healthcare centre.

users of services like restaurants, pubs and gyms, and can contribute to a lively street scene.

Build to Rent schemes may benefit residents of the surrounding area by improving the public realm and offering facilities open to the wider public. Typical Build to Rent amenities such as gyms and co-working spaces may or may not be open to the wider public, but as residents won’t necessarily provide critical mass, it may make commercial sense to open them up. This is a huge opportunity to regenerate and improve areas by providing services bolstered by long-term investment. This could

be somewhere that local authority development partners could provide leadership: ground-floor units could be used for cafés and shops (although these don’t work in all locations), or alternatively for public facilities. Lewisham and Harrow are both discussing using ground floor units for GP surgeries and other services that would benefit the wider community. Realstar and Mace’s Newington Butts – a Build to Rent development on GLA land completing in 2018 – will also provide a new home for the Southwark Playhouse.

CONCLUSIONS AND RECOMMENDATIONS

City Mills, LB Hackney (L&Q)



© L&Q

To what extent does/can Build to Rent respond to London's housing crisis?

- Build to Rent can contribute to London's housing market in several ways: by accelerating the overall pace of development, especially on large sites; bringing a concentrated influx of (mostly) younger people to specific areas; boosting local economies; and improving demographic mix. Despite being relatively expensive products, these developments are meeting genuine demand with quality design, greater tenure security and levels of management that should ensure their longevity.
- Build to Rent is centred on long-term gains and tenant retention, which should offer a degree of stability, in comparison to the volatile for-sale market that is overly responsive to the market cycle. But even if the sector grows rapidly, overall numbers will remain small, so its ability to improve existing PRS standards or transform the short-term focus of the development market will be limited.
- To date, investors tend to see their exit strategy as selling to the ownership market, and some see covenants as a limitation, despite the likelihood of a secondary market emerging. Will local authorities and housing associations take a different view? They always have the option to sell, but local authorities in particular are the ultimate long-term stewards: they don't have to meet the same short-term financial/performance metrics as private sector investors, so can be expected to be long-term players.
- Although it is possible that local authority involvement in PRS development will turn out to be a phase, the impetus for local authorities and housing associations to create products with long-term revenue streams is strong, and developing PRS housing is a way to do this. Of course, wider housing policy – some of which will be revealed in the imminent housing white paper – will have some influence on the direction of travel. While renting remains an inevitability for a growing number of Londoners, this must be reflected in national housing policy.

Recommendations

National policy-makers

- **Clarify the Build to Rent policy landscape.** Build to Rent can be an effective way to bridge the gap between social housing and home ownership; a gap which is particularly wide in London. Since the 2012 Montague Review, the UK government has developed policy and financial support for new PRS development, but there is arguably a conflict with support for home ownership, notably Starter Homes. CLG should recognise the value of Build to Rent and clarify the policy landscape, to provide more certainty to investors.
- **Ensure that permitted development schemes contribute affordable housing through S106.**^{iv} Currently, schemes with permitted development rights are exempt from S106 contributions. This gives them an unfair market advantage, while limiting their contribution to the wider housing market.
- **Empower London local authorities to improve their existing PRS.** All new-build housing is, and will remain, a tiny fraction of PRS, with limited influence. With the PRS London's only growing tenure, and more and more families with children and vulnerable communities dependent on it, CLG should not hinder local authority enforcement and intelligence gathering, such as licensing schemes and rogue landlord taskforces. CLG should devolve large selective licensing scheme sign-off back to local authorities, or to the GLA.

GLA

- **Ensure that affordable housing contributions on Build to Rent schemes are genuinely affordable.** Discount Market Rent makes sense for Build to Rent, but it needs to be truly affordable. The GLA's current guidance that London Living Rents set by ward are an appropriate way to set DMR levels is a considerable step forwards, even in recognition that it may decrease the number of affordable homes that are viable without subsidy. There is a balance to be struck between affordable housing numbers and rent levels. There is another between insisting on appropriate developer contributions and encouraging (or not discouraging) development. Insisting on a proportion of London Living Rent units, plus some at a higher sub-market level, might facilitate this balance.
- **Produce case studies of public-private PRS delivery partnerships.** Many London councils are seeking, or planning to seek, developer and investor partners for delivering new PRS housing. These provide scale and capacity with real understanding of local need. GLA should track these partnerships' efficiency, risk and return and the quality of the final product they deliver, and share best practice with all boroughs. This will benefit both private and public sectors, and accelerate delivery.
- **Do not move further away from space standards without evidence.** Many in the industry would like space standards to be changed to reflect that Build to Rent development provides a lot of communal and amenity space in addition to the individual units. However, there is already some flex: the London Plan states that exceptions can be made if the design is right, and this was recently reiterated in the affordable housing Supplementary Planning Guidance. It is up to developers and local authorities to utilise this flexibility where appropriate. Before considering any further deviation from space standards, the GLA should research the realities of living in smaller homes and benefits of communal spaces.

iv | This was also recently recommended by the LSE in their Rising to the Challenge report: <http://bit.ly/2iyPZJ6>

Local authorities, housing associations and council-owned companies

- **Agree local PRS/Build to Rent strategy.** Local authorities and housing associations need to decide the role or roles they wish to play in new-build PRS and Build to Rent developments.³⁷ Local authorities can take advantage of their low cost of borrowing to build market and affordable homes, and developing Build to Rent through a council-owned company allows them to avoid the constraints of HRA. Furthermore, it could offer a long-term revenue stream, vital as resources become ever more strained.
- **Establish a more socially-minded version of Build to Rent.** Councils and housing associations developing PRS housing provide lower-cost housing than many of the major Build to Rent developer-operators. Using simple designs and providing fewer add-ons might allow for greater affordability without space standards being sacrificed. They could also be exemplars of community-focused amenity spaces, designing ground floor uses that provide for the wider community, such as GP surgeries, community centres and shops.
- **Consider business models and branding.** Many housing associations are already providing some PRS housing as part of a mixed-tenure approach, though business models vary. Some blend PRS units into existing blocks or schemes at a range of rents, which can be integrated into the existing corporate identity; others are developing market products to cross-subsidise their traditional business, which may call for a new brand. The National Housing Federation and GLA could support this decision-making by disseminating evidence and best practice.
- **Include PRS/Build to Rent clauses in planning policy.** If a local planning authority has chosen to support Build to Rent, writing it into policy will signal to investors and developers that it is open for business, as well as guiding decision-making and reducing delays in getting schemes off the ground.
- **Augment in-house skills and capacity.** If developing PRS housing directly or through a council-owned company, consider in-house skills and capacity, adding expertise at necessary stages, such as design or operation and management. It is important to remember that private-rented housing is not the same as social housing. PRS housing tenants may have different requirements to social tenants, and the key to success is tenant retention.

Developers and investors

- **Seek to understand the wider housing context of a borough.** Local authorities are essential to enabling Build to Rent development, from granting planning permission to leasing their land. On mixed-tenure schemes, they will have a long-term vested interest. In all cases, they face significant and urgent challenges with housing their communities and need all developments to play their part in reducing these challenges. Local authorities will want to support developers who understand this context.
- **Accept the role of covenants.** Covenants may disincentivise some investors, many of whom argue that established secondary Build to Rent markets, such as the US, demonstrate that covenants are not required. However, if these developments are being publicly subsidised in any way (including provision of land), they should be protected as blocks of units for rent. Converting individual units for sale cancels out many of the advantages that made them worthy public investments. It is therefore reasonable to expect this level of certainty.
- **Build evidence of tenant experience.** It is worth doing regular tenant satisfaction surveys and research, both to improve the product and to demonstrate the positive outcomes of a good scheme. This research should be shared with councils as a useful prelude to negotiations.

APPENDIX 1

KEY BUILD TO RENT POLICY INTERVENTIONS

National Policy Intervention	Recommendations/output
Montague Review ³⁸ (8/2012)	Proposals to encourage investment in Build to Rent and speed up delivery: <ul style="list-style-type: none"> • councils use flexibilities in planning system to enable development; • government looks to provide targeted incentives to encourage Build to Rent development e.g. sharing risk short-term; • government allocates some public land being released for housebuilding to Build to Rent specifically; and • a task force be set up to encourage private-sector investment.³⁹
Build to Rent Fund ⁴⁰ (9/2012 - 10/2016)	Fund to invest in viable projects; government loans up to 50% of development costs.
PRS Housing Guarantee ⁴¹ Scheme (9/2012 - ongoing)	Government-guaranteed bond programme to finance long term loans to eligible PRS operators: <ul style="list-style-type: none"> • £3.5bn of total £10bn for PRS debt guarantees specifically • Venn Partners responsible for establishing and managing the scheme.⁴²
Build to Rent: Guide for local authorities ⁴³ (3/2015)	Additional guidance on how local authorities can support Build to Rent, providing: <ul style="list-style-type: none"> • practical options to consider; and • examples of schemes being supported.
Home Building Fund ⁴⁴ (10/2016 - ongoing)	£3bn of development and infrastructure loan funding administered by the HCA Combined funds from previous HCA programmes, including Build to Rent fund.

Pan-London Policy intervention	Recommendations/output
Mayor of London Revised London Housing Strategy ⁴⁵ (12/2011)	<ul style="list-style-type: none"> • Developers and RPs to deliver at least 5000 purpose-built long term PRS homes a year • LPA and GLA to promote institutional investment and improve PRS standards.
The Mayor's Housing Covenant Making the PRS work for Londoners (12/2013) ⁴⁶	London Mayor utilises planning powers and GLA landholdings to support new PRS housing, including: <ul style="list-style-type: none"> • deferring land receipts; and • retaining an equity stake where appropriate.
The London Plan (3/2015) – Policy 3.8B – part a1 ⁴⁷	Planning system to provide positive and practical support to enable the PRS to contribute to targets through land use planning at local and strategic level.
Housing SPG ⁴⁸ (3/2016)	LPA's recognise the distinct economics of Build to Rent when undertaking viability assessments and disposing of public land, through: <ul style="list-style-type: none"> • inclusion of DMR (intermediate rent) as affordable offer; • local policies requiring a range of unit sizes able to be applied flexibly; and • appropriate use of covenants and 'clawback' mechanisms.
Draft Affordable Housing and Viability SPG (11/2016) ⁴⁹	The Mayor is proposing a Build to Rent 'pathway' through the planning system, with key principles: <ul style="list-style-type: none"> • a clear definition of Build to Rent and guidance on how/when a covenant should apply; • affordable homes remain under single management, delivered at DMR/London Living Rent; • design flexibility as set out in London Plan Policy 3.5d; and • a specific Build to Rent viability approach taking account of distinct economics.

APPENDIX 2

BOROUGH AND HOUSING ASSOCIATION PRS DEVELOPMENT ACTIVITY

Council-owned Companies

Council-owned company	Established	PRS delivery objectives	Progress
<u>Lewisham Homes</u> (LB Lewisham)	2007	To develop PRS at market-rent to cross-subsidise new-build council homes.	Seeking investment partners. ⁵⁰
<u>BD Reside</u> (LB Barking & Dagenham)	2012	To develop affordable homes at intermediate rents.	Provides 621 PRS units across three schemes. A further 200 under construction.
<u>Lampton 360</u> (LB Hounslow)	2013	To develop homes at the ratio of 40% social rent, 20% private rent and 40% private sale.	Identified council-owned sites on which to develop homes, e.g. plans for up to 940 homes on Civic Centre site. ⁵¹
<u>Broadway Living</u> (LB Ealing)	2014	To build mixed-tenure housing outside HRA borrowing limitations using a loan from General Fund.	Committed to building 500 homes over five-year period. Currently letting market rent homes at Eastcote Lane.
<u>Red Door Ventures</u> (LB Newham)	2014	To develop rented homes at a 30% affordable, 70% market-rent ratio.	Completed 36 new homes with more on site; aim to complete 3,000 new homes over next 13 years. ⁵²
<u>Southwark Housing Company</u> (LB Southwark)	2015	To deliver homes of all tenures.	Aims to deliver 11,000 new homes over the next 30 years.
<u>Mercury Land Holdings</u> (LB Havering)	2015	To deliver homes for private rent, and some for sale.	First site identified; others currently being considered. ⁵³
<u>Homes for Lambeth</u> (LB Lambeth)	2015	To build homes for council, intermediate and private rent.	Estate regeneration schemes with PRS components. ⁵⁴
<u>Brick by Brick</u> (LB Croydon)	2016	To develop private and affordable homes for rent.	Aims to deliver 1,000 new homes by 2019. ⁵⁵
TBC (LB Barnet)	TBC	To create a council-owned company to develop PRS homes.	Recommendation in February 2016 to create a council-owned company. ⁵⁶
TBC (LB Redbridge)	TBC	To develop homes for private rent and sale.	Council recommendation in April 2016 to create a council-owned company; ambition to develop over 8000 homes over five years. ⁵⁷
<u>Homes for Harrow</u> (LB Harrow)	TBC	To develop new homes at a range of tenures.	Identified potential sites on existing estates. ⁵⁸

G15 Housing Associations

Housing association	PRS delivery objectives
<u>A2 Dominion Group</u>	PRS portfolio of 850 homes Plans to have 2,000 PRS homes by 2020 – 5% of housing stock. ⁵⁹
<u>Affinity Sutton</u> (subsidiary <u>Grange Property</u>)	800 PRS properties on 16 schemes Plan to build up a PRS portfolio of around 2,000 PRS units. Merger with Circle Housing. ⁶⁰
<u>Family Mosaic</u>	Intention to set up standalone vehicle to develop PRS housing. ⁶¹
<u>Genesis Housing Association</u>	Increased focus on intermediate and market products. Partnering with M&G investments and Centrus Advisors to unlock institutional investment for PRS properties. ⁶²
<u>The Hyde Group</u>	Developing homes across all tenures; sale and PRS subsidise affordable homes Developed 54 PRS homes in New Cross (Spark in Kender Triangle). ⁶³
<u>L&Q</u> (subsidiary L&Q PRS)	Plans to deliver 25,000 PRS homes over 10 years 1,500 units completed. ⁶⁴
<u>Metropolitan</u>	PRS component on regeneration schemes and new developments. ⁶⁵
<u>Network Homes</u>	Partnership with developer Stanhope to purchase, develop and manage assets for Build to Rent. ⁶⁶
<u>Notting Hill Housing Association</u> (subsidiary <u>Folio London</u>)	950 PRS homes in portfolio; 500 under development. ⁶⁷
<u>Southern Housing Group</u>	£630m housebuilding programme to deliver 3,500 new homes over four years Flats for affordable and market rent. ⁶⁸

APPENDIX 3

CASE STUDIES

LB EALING – THE CROSSRAIL BOROUGH

Introduction

Ealing is taking a proactive approach to Build to Rent, encouraging private developments to the area whilst acting as developer and development partner on a number of schemes through its council-owned company Broadway Living. Although clearly a pro-development council, it is negotiating hard to ensure the most appropriate S106 contributions, ensuring DMR is pegged to residents' incomes. Through seeking a minimum 20-year covenanted period, Ealing ensures the borough's PRS housing needs remain met.

Housing context

- Population: 338,449 – London's third most populated borough⁶⁹
- Average house price: £500,000
- Proportion in PRS: 28% – in line with the London average (34,200 households)⁷⁰

Between 2001 and 2011, the proportion of households renting in Ealing increased from 16.6% (2001) to 27.5% (2011). 1,995 new homes per year are needed in Ealing up to 2026, but it is only averaging 860 completions per year.⁷¹ The temporary accommodation shortfall is costing more than £6m a year.

The council sees the role and value of developing the PRS, and in its specific PRS strategy outlines recommendations to provide more affordable homes, including: to "begin developing homes for private sale and rent to provide cross subsidy for social housing and help create sustainable and mixed tenure communities".⁷²

Build to Rent approach

LA-led: Broadway Living

Council-owned company Broadway Living is a developer-operator of homes for rent and sale, as well as joint venture partner on large sites and/or S106 partner on private developer-led schemes. Broadway Living is 'another tool in the box', complementing Ealing's Housing Revenue Account development programme and the use of corporate assets to build new homes.

The council provides equity and loan facility for construction and set-up costs; Broadway Living provides

Council- and developer-led Build to Rent in Ealing



the council with income stream from ground rent, on lending margin and dividends. Development by Broadway Living enables the council to retain its assets where it is financially more viable than disposing and helps achieve the borough's economic regeneration objectives.

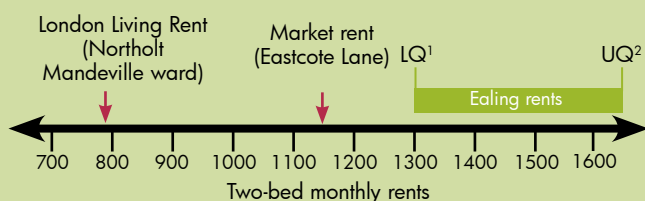
As developer, Broadway Living is purchasing or building 1,000 homes over five years; so far, development finance has come from the council's general fund. Eastcote Lane was completed in November 2014. The council delivered 43 homes, including 10 for private rent let on the open market by Broadway Living. Recognising that the units would need to be managed differently, the council brought in management specialists BMA Property Group. The company also set up an online property management portal. The company is currently developing 100 PRS homes as part of the Copley Close estate renewal programme.

Broadway Living is also proposing to be a joint venture (JV) partner on High Lane and Perceval House redevelopments (130 DMR homes across the two schemes) and potentially a S106 partner on private developments, such as Greenford Green.

Rent profile

Contrasting well-designed, well-managed property rents with the Valuation Office Agency's (VOA's) sample of private rents in a borough is not necessarily a fair comparison; nor with London Living Rents that require some sort of subsidy. But it does put the developments within the context of the wider marketplace, and their affordability in real terms.

- The base private rent for a two-bed flat in Eastcote Lane is £150 below the borough lower quartile, perhaps reflecting the company’s wish to let units quickly (though also that the properties are in a less affluent part of the borough).
- In comparison with the London Living Rent for Northolt Mandeville ward, the Eastcote Lane base rent is £350 more.



Private schemes

The council encourages institutional investment to promote standards in the PRS, and has seen a notable increase in PRS investor interest in the last couple of years. The housing team understands that market rent and homes for sale are a vital part of the borough’s housing mix, and is keen to engage with developers who recognise the need for a range of rent levels. Through seeking a minimum 20-year covenanted period, the council ensures that the rental schemes it supports are secured long term.

The Rehearsal Rooms is the development of land at the junction of Chase Road and Victoria Road. The residential scheme is being developed by Hub, with M&G as investor and manager. It will provide 173 apartments, 30 of which will be at DMR levels agreed by the housing planning committee. The scheme will be completed in February 2017.

Greenford Green will be the UK’s largest purpose-designed Build to Rent scheme to date – a mixed-use neighbourhood on the former GlaxoSmithKline site. Greystar is both the investor and developer-operator, and has consulted extensively with LB Ealing, the GLA, local businesses, residents and other stakeholders to deliver approximately 2,000 homes and bring the currently derelict 20-acre site back to life. Approximately 75% will be available for private rent, with the rest for sale. Broadway Living is looking to be S106 partner on 200 discounted homes.

The development will also create new amenities for residents and the local community, including shops, a supermarket, restaurants, cafes, offices, curated and managed open spaces, as well as new connections through Greenford, including the reopening of Berkeley

Avenue and a new pedestrian bridge over the Grand Union Canal. The proposals also include a new two-form entry primary school and accommodation for a new healthcare centre.

Key themes

Crossrail as key component of viability

With the arrival of Crossrail services in 2019, the speed of travel from Ealing to central London will improve considerably, with journey time to Bond Street from Ealing Broadway reducing from 25 to 10 minutes. Five Crossrail stations are located in Ealing, more than any other borough, making Ealing a Crossrail property hotspot. Connectivity improvements, and the subsequent increase in Ealing’s attractiveness to developers and investors, make Build to Rent developments increasingly viable.

PRS management strategy

As the council had not previously been developing or operating PRS homes, capacity needed to be built and some PRS-specific tenancy management outsourced to BMA Property Group. Building/estate management of both social and private rent tenures is carried out by the council.

Influencing Discount Market Rent and allocations

On the Rehearsal Rooms development, Ealing consented to DMR fulfilling affordable housing contributions, in line with the National Planning Policy Framework (NPPF).⁷³ To demonstrate that DMR could be classed as ‘affordable’, proposed rents were compared to those offered in the surrounding area as well as the average monthly rents in Acton. On completion, initial lettings will be advertised on the council’s website, with priority for DMR lettings going to those who work in the borough or neighbouring boroughs.

Lessons/replicability

Ealing council is taking a range of roles in Build to Rent to ensure it brings maximum benefit to the borough. It is using Broadway Living to try something new – developing homes with council investment, but creating a different product from council housing. This provides the council with an income stream to cross-subsidise other council-led development.

Through its support of private schemes, the council is balancing its general pro-development stance with negotiating hard on S106 contributions. This requires a level of in-house skill that other councils may not have.

1 | LQ - VOA lower quartile

2 | UQ - VOA upper quartile

LB BARKING & DAGENHAM – VARYING THE RENTAL OFFER

Introduction

LB Barking & Dagenham is taking a varied approach to developing its rental offer. Through BD Reside, the council is developing intermediate housing to meet population growth and housing need across the income range, in tandem with the regeneration of Barking town centre. The council is also welcoming private schemes, from Grainger’s 100-unit town centre scheme to major developments at Barking Riverside.

Housing context

- Population - 185,911
- Proportion in PRS - PRS increased from 5.19% in 2001 to 16.59% in 2011 i.e. PRS tripled in 10 years (the biggest proportional growth in London).⁷⁴
- Of the borough’s c.71,000 dwellings; c.19,200 (27%) are council rented – almost three times the average for England and Wales.⁷⁵

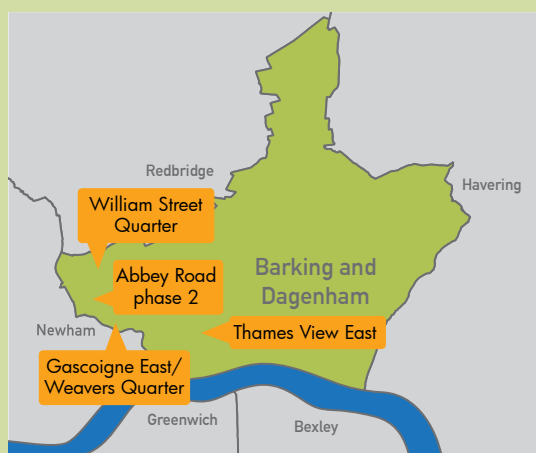
In its housing strategy, the council recognises the need to both improve standards of PRS homes in the borough and on “delivering homes for working households... who might not be able to access home ownership”.⁷⁶

Build to Rent approach

BD Reside

The borough established council-owned company BD Reside vehicles are used to develop and operate affordable PRS homes through its general fund. The first two schemes, Thames View East and William Street Quarter were funded by institutional investment from Long Harbour. Subsequently, the

BD Reside schemes



council has not gone to an institutional investor, but rather procured public investment itself through EIB and Public Works Loan Board funding. This change enables more revenue to support the housing in perpetuity.

There are currently 621 BD Reside units in the borough, 345 of which are within the town centre. BD Reside has a further 200 units under construction, and more planned beyond that including artists live-work PRS units.

BD Reside vehicles deliver and let new intermediate homes through a model of income-based blended rents. Rents are set below residents’ 30% gross household income, where possible. Income level is determined before tenancy agreed, and there is no mechanism in place to monitor changes during the tenancy period. Those who have a local connection e.g. living or working in the borough are prioritised, and residents must be in employment.

Schemes

	William Street Quarter; completed June 2014	Thames View East; completed June 2014	Abbey Road 2; completed July 2015
Type of scheme	Estate renewal; social and intermediate housing	Estate renewal; 100% intermediate	New build; intermediate and market rent.
Size	201 DMR homes 1-,2-,3- bedroom apartments and 4-bedroom houses	276 DMR homes 1 & 2-bed flats, duplex flats and family houses	Phase 2 - 144 DMR homes 1-,2- and 3-bed apartments
Rent levels	65-80% of market	50-80% of market	c.75% at 80% of market

All BD Reside schemes are subject to the borough’s licensing scheme, and pay a fee per unit. While there was debate on this, the decision was made to be consistent with the rest of the sector. The council is

also incorporating intermediate housing into the multi-phase renewal of Gascoigne East, shifting it from 84% social rent to equal thirds affordable (social and DMR), shared ownership and private sale.

Developer-led

The council facilitates commercial schemes to complement their own provision. One scheme is complete, with many more in the pipeline.

Abbeville Apartments is a 100-unit new-build, mixed-use scheme developed and managed by Grainger. Grainger offers tenancies of up to three years, and rents are market rates. With Assael as architects, the scheme also includes a residents' lounge, concierge, fitness studio, communal garden and bicycle storage.

Other schemes in the pipeline are Barking Wharf (597 units; Be:here) and Trocoll House (198 units; Coplan Estates/Patrizia).

Rent profile: 2-beds

- Valuation Office Agency (VOA) data shows that rents in Barking & Dagenham are some of the lowest in London.
- Average rents at William Street Quarter and Thames View East are below the lower quartile; at Thames View they are equidistant from the lower quartile and the median.
- Thames View East rents are £58 lower than the local ward London Living Rent; William Street Quarter is a little higher and Abbey Road is almost £100 higher.
- The base rent at Grainger's Abbeville Apartments is £250 above the borough's upper quartile and £563 above the local London Living Rent.



- 1 | LQ - VOA lower quartile
2 | UQ - VOA upper quartile

Key themes

Town centre regeneration

As well as providing intermediate housing in the town centre to mix its demographic, Barking & Dagenham is supporting private mixed-use developments that to offer work and cultural spaces, and enhance both day and nighttime economies.

Planning

Keen to ensure that rental homes are not converted to market sale too quickly, the authority has been implementing 15-year covenants in S106 agreements. In addition, Trocoll House included clauses to employ local people in construction.

In 2015, the borough began consultation on its Issues and Options report for the council's new Local Plan (Regulation 18).⁷⁷ The report recognised that there is a difference between professionally managed Build to Rent and the existing small-scale, poor quality PRS accommodation. The emerging policy in the Local Plan will seek to recognise the benefits of Build to Rent by ensuring that proposals which come forward are supported where they meet local and strategic need, meet high design standards, and maximise affordable housing. It will also be important to secure the homes as being in PRS in the longer term. Consultation on the draft Local Plan is targeted to take place in summer 2017.

Modular construction

On William Street Quarter phase 2, the high-rise blocks were manufactured offsite using Laing O'Rourke's design for manufacture and assembly (DfMA) model. The buildings' structure, floors, cladding and balconies all arrived as complete components and assembled on-site. The build process was efficient and safer, and as all components are code for sustainable homes level 4, the building is cheaper to operate. The council is considering further offsite methods for other developments.

Lessons/replicability

The council used institutional investment to develop two intermediate rent schemes through its wholly-owned company BD Reside. These have been used as a springboard to develop further intermediate housing, both new developments and on their largest housing estate. Along with facilitating commercial Build to Rent developers into the area, these schemes are contributing to town centre regeneration aims.

LB Barking & Dagenham is delivering discount market Build to Rent at a proportion not seen in other London boroughs. Whether the approach of this London borough is replicable elsewhere depends upon attitudes to risk and commerciality, though the borough undoubtedly has low land values on its side.

ABERFELDY VILLAGE/BE:HERE EAST INDIA, LB TOWER HAMLETS

Introduction

Be:here, a subsidiary of Willmott Dixon, has developed 158 market rent Build to Rent homes on Poplar HARCA's Aberfeldy estate. Developed with investment from M&G, they are the first institutionally-invested purpose-built PRS homes on the market. Incorporating PRS has accelerated the overall estate renewal by over two years.

Scheme information

- Timescale: Build to Rent units completed Q3 2015 to Q1 2016
- Tenure mix (Build to Rent component): 158 market rent homes; 75 affordable (8 DMR and 67 social rent); 1,200 homes in total across the wider regeneration

Partners:

- Overall regeneration – Prime Place (subsidiary of Willmott Dixon & housing association Poplar HARCA)
- Build to Rent – Be:here with institutional investment from M&G.
- Type of scheme: New, purpose-built single block within mixed-tenure estate regeneration
- Operator – Be:here
- Investor – M&G
- Landowner – Poplar HARCA
- LA role – planning authority

Delivery model

Phase 1A (106 private sale homes) was delivered with 1B, the Build to Rent component; dual-delivery was made possible by the institutional investment from

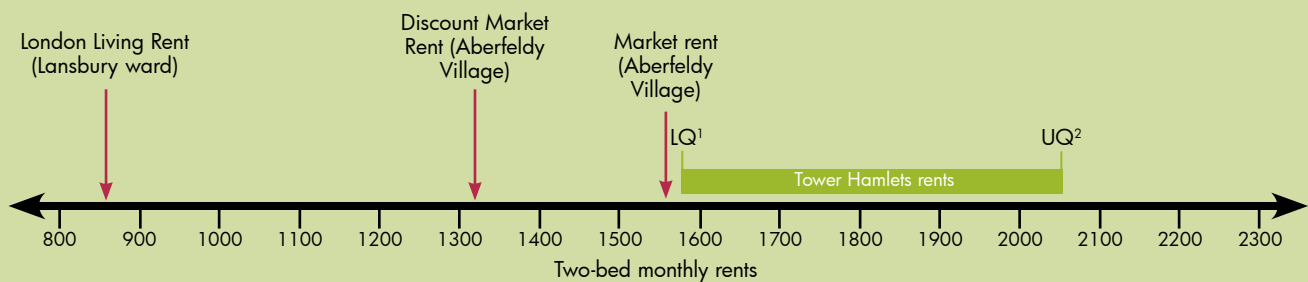


M&G. The head lease granted by Poplar HARCA to M&G for a 250-year period. A sub-lease was granted to Poplar HARCA for a 30-year period on phase 1B, and the Build to Rent cross-subsidises the 75 affordable rent homes.

Rent profile

Contrasting well-designed, well-managed property rents with the Valuation Office Agency's (VOA's) sample of private rents in a borough is not necessarily a fair comparison; nor with London Living Rents that require some sort of subsidy. But it does put the developments within the context of the wider marketplace, and their affordability in real terms.

- The base rent for a two-bed apartment is just under the lower quartile for LB Tower Hamlets, and £65 over the inner-London lower quartile.
- It is significantly higher (£682) than the local London Living Rent.
- The discount market rent is 16% lower than the base market rent and 33% higher than London Living Rent.



1 | LQ - VOA lower quartile
2 | UQ - VOA upper quartile

Themes

Estate renewal

A component of institutionally funded Build to Rent in phase 1 enabled the entire scheme to be brought forward. The Build to Rent levered in alternative funding, unrestricted by speed of sales, increasing the level and speed of development on a regeneration scheme that includes an element of social housing.

Bespoke design

Be:here is one of the first developer-operators to let Build to Rent specifically designed for renters. Be:here's design strategy was evidence-based, informed by consumer surveys and focus groups.

With singles/couples sharing two-bed rental properties becoming increasingly common for affordability reasons, be:here's consumer-led design makes sharing as favourable as possible.

Build to Rent units have a 'dumbbell' layout with central, open-plan communal space and bedrooms on either side with en suite, 'Jack and Jill' bathrooms. They are fully furnished with convenient, renter-minded features such as removable sofa covers and hardwearing floors, fittings and fixtures. The management and amenity offer is also specific to renters, including an on-site property management team, package collection service, communal coffee/seating area, on-site dry cleaning, prompt rectification of repairs and additional storage units available.

Amenity space is tight, due to the estate being densified, making installing further amenities challenging. Tenants have expressed interest in a gym. The strategy for commercial units is not fixed; units have been vacant since the building opened. Be:here are also interested in co-working space.

Tenure blind

Although the private rental block is separate from the other tenures on the estate to allow for its special management treatment, tenures are not distinguishable from the exterior – the scheme aims to be 'tenure blind'. This encourages residents to interact beyond their blocks, supporting the notion of a mixed community. Be:here facilitate this through organising social events that are open to all estate residents.

Dumbbell apartment layout



© Be:here

Lessons/replicability

The inclusion of Build to Rent within estate regeneration schemes provides many benefits including wider mixed tenure opportunities and the potential to considerably speed up delivery. At Aberfeldy the overall regeneration was brought forward by two years.

The Aberfeldy area's accessibility is limited by the River Lea, A12 and A13, as well as low PTAL ratings. However, infrastructure improvements are a key aspect of the Poplar Riverside Housing Zone package, which encompasses the Aberfeldy site.

The fact that there are ground floor units that have been unable to be let has created flexibility for additional amenities to be included in response to feedback from renters. The ability to allow for future flexibility should potentially be included in regeneration schemes which will evolve over a long period of time.

In terms of whether the more mixed tenure community is integrating to bring about placemaking benefit, it is early days and something worth monitoring. Effort through design have been made to help facilitate this, for example shared gardens, shared playground, and it being impossible to tell tenures apart from the street, providing a more inclusive and cohesive environment.

VANTAGE POINT, LB ISLINGTON

Introduction

Vantage Point is the conversion of the 17-storey Archway Tower into bespoke private rented development consisting of 118 high-quality flats designed specifically for renting. Essential Living, a developer and operator of private rented housing, has created a premium product in LB Islington, reflected in the levels of service and amenity provision covered by its customers' rental payments.

Being the first standalone development in London designed for market rent, it is a unique product that aims to make renting aspirational. Target demographics include young professionals, downsizing couples and foreign students. As the scheme was enabled through permitted development, affordable housing provision was not required under planning regulations.



Scheme information

- Timeframe – the developer acquired the site leasehold in 2013; completion and letting commenced in September 2016.
- Tenure mix – 100% market rent
- S106 contribution – not applicable (permitted development)
- Size of scheme – 118 units; studios, one- and two-beds

Partners:

- Developer – Essential Living
- Investor – M3 Capital
- Operator – Essential Living
- Landowner – TfL (London Underground)
- LA role – none.

Rent profile

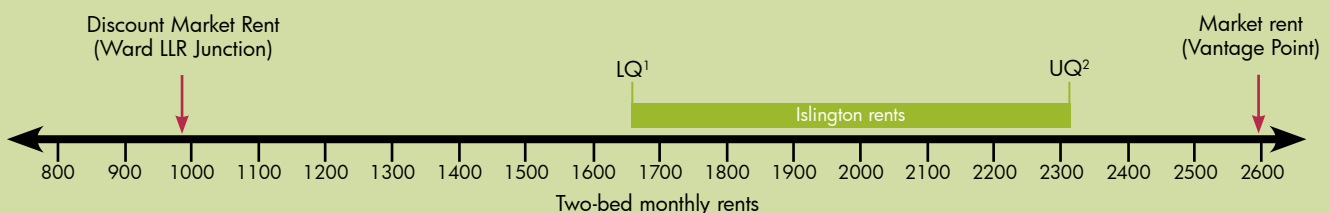
Contrasting well-designed, well-managed property rents with the Valuation Office Agency's (VOA's) sample of private rents in a borough is not necessarily

a fair comparison; nor with London Living Rents that require some sort of subsidy. But it does put the developments within the context of the wider marketplace, and their affordability in real terms.

The base rent for a two-bed property in Vantage Point is £282 (12%) higher than Islington's upper quartile and £1,634 (170%) higher than the ward London Living Rent, although the rent includes all utilities, ZipCar membership, £5,000 worth of contents insurance and use of amenities.

Delivery model

London-based M3 Capital Partners put forward \$200m to fund Essential Living's PRS portfolio, providing equity to purchase sites, including Vantage Point. The Government's Build to Rent fund also helped to finance the scheme.⁷⁸ The site freehold is owned by London Underground; Essential Living acquired a long lease from the previous leaseholder in 2013 for £6m. Both equity and debt funds have been used to fund the build; Essential Living will re-finance once the homes are fully let and bringing in a regular income stream. As landowner, TfL takes 9% of monthly rental earnings.



1 | LQ - VOA lower quartile
2 | UQ - VOA upper quartile



© Essential Living

Themes

High-end design and management

Although converting a building has its constraints, Essential Living has successfully designed the interior for the rental market. The building's external appearance and energy efficiency have also been improved through recladding the façade and reroofing.

The apartments and communal spaces have been designed and furnished to a very high standard, with floor-to-ceiling windows and hard-wearing fixtures and fittings. The high-quality amenity spaces and management exemplify the value attributed to the communal spaces, as is popular with the US 'multi-family' model. The property offers a 24-hour on-site resident team, along with access to a library, penthouse social space and terraces equipped with pizza ovens and barbeques. Residents can reserve sections these communal spaces to entertain large groups of guests. Additional benefits are free Zip Car membership, contents insurance and pet-friendly floors.

Permitted development

With assent of The Town and Country Planning (General Permitted Development) (England) Order, Essential Living no longer needed to fulfil the

planning obligations of a section 106 agreement with the local planning authority.⁷⁹ As a result, there are no affordable homes are offered on site; nor is there an opportunity for the scheme to contribute to the council's wider public realm improvements, even though the scheme stands to benefit.

Lessons/replicability

Essential Living has developed a premium product unique to Archway, which has undoubtedly produced high-quality housing and brought a vacant building back into use. Rents are higher than borough and inner-London upper quartiles, and the lack of any discounted units means that the development will not meet local need.

Although it was delivered with permitted development rights, the quality and high specifications are not indicative of other office-to-resi conversions.

This was an interesting first development opportunity for Essential Living, and the scheme's immediate proximity to an underground station was a significant opportunity and fitted with the company's aim of making renting hassle-free. Other schemes under construction, such as Creekside Wharf in RB Greenwich, will include homes at a variety of price points as part of their agreement to provide DMR at a blended range of rents.

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