

INVESTMENT INSIGHTS UK COMMERCIAL & RESIDENTIAL REAL ESTATE

July 2024



Investing in Homes



INTRODUCING RESIDENTIAL FUNDS

Residential funds are pooled funds that invest in a wide range of residential homes such as build-to-rent (BTR), single family housing, multi-family housing, affordable housing, senior living and student accommodation. Residential funds professionalise the rental sector as they are responsible and long-term landlords who rent out energy-efficient, good quality homes, of varying sizes and tenures. They provide secure tenancies and create stable communities for their tenants. As the number of residential funds has grown many are becoming members of AREF.¹

SHORTAGE OF NEW HOMES

As is widely acknowledged, the UK has a shortage of homes; particularly good-quality affordable homes. According to the National House-Building Council, 133,213 new homes were completed in 2023 which was down from 2022 when just over 151,000 new homes were completed.² This is way below the 300,000 new homes ideally required each year.

Of the new homes completed in 2023, only 45,649 were for the rental or affordable sector. One reason for this is that housing associations, due to fiscal controls, cannot fund anywhere near the number of social homes required.³ Also, many housing associations have old housing stock and they have to use whatever funds they have to bring this housing up to modern standards. Furthermore, in recent years, it has become less attractive for private individuals to buy properties to let leading to a shortage of rental properties.

In the UK, the main source of new housing has been provided by housebuilders whose model is mainly to sell homes to individual buyers. New sources of capital are required to enable the additional housing needed, in particular affordable and built-to-rent (BTR) housing.

[1] The Association of Real Estate Funds ([AREF](#)) represents the UK real estate funds industry and has over 50 member funds with a collective net asset value of more than £50 billion under management on behalf of their investors.

[2] [Record numbers of affordable homes completed in 2023 as private house building slows](#)

[3] [Regulator of Social Housing Value for money metrics and reporting 2023](#)



HOW TO FUND THE BUILDING OF MORE HOMES FOR RENT

Institutional investors, from the UK and overseas, are keen to diversify into the residential sector as it provides a long-term investment proposition with regular, low-risk income. Institutional investors investing in residential funds could provide additional homes for rent over and above the ones being built by housing associations.

Another untapped source of capital is DC pension schemes. Investment by pension schemes into the residential sector has been shown to be successful in other jurisdictions such as Australia. We have set out in our Insight Paper “Investing in Places to Live and Work” reforms required to enable this.

If housebuilders, big and small, could be encouraged to sell more houses off plan to residential funds this upfront funding will enable them to build even more houses each year. This would provide the opportunity for more local skilled jobs and it would be a way of easily providing mixed tenure developments.

HOW TO ATTRACT CAPITAL TO BUILD NEW HOMES

To give institutional investors confidence to invest in new homes at the scale required in the UK they need certainty around legislation and regulation. This includes: a coherent planning strategy; sensible leasehold and rent reforms; and a clear strategy for reaching net zero. All of this would be assisted by having a Housing Minister in post long enough to build relationships with stakeholders and fully understand the issues so they can address them in a well-reasoned manner.

Leasehold and rent reforms

Any leasehold and rent reforms should be thoroughly thought through to ensure there are no unintended consequences with the aim to provide new homes. The uncertainty around the possible introduction of longer-term rent controls in Scotland has led to no new investment in BTR homes. Rent controls in other countries have been shown to reduce supply of homes and damage social mobility. We believe that rent controls are not the answer to providing more homes at an affordable level of rent; this can only be achieved by building more houses for rent.

Planning reform

Planning reforms are required to kickstart the building of large numbers of new homes for sale and rent in the UK and provide the infrastructure to support them such as transport, clean energy, town centres, enterprise zones and logistics. When planning for housing requirements in their area, councils should consider the level of housing required for rent as well as affordable and senior living housing requirements. It is also important to ensure local authorities have the funding to invest in the planning system.

To make it easier to raise capital and start projects clarity is required in the planning system. Time delays in planning and inconsistencies between local authorities mean that it is difficult for developers and fund managers to demonstrate certainty in their appraisals to investors, and thus unnecessarily difficult to raise capital.

The availability of land in city centres and urban areas alone is insufficient to meet the demand for family housing and accommodate the growing number of smaller households. Planning law should permit local authorities to adjust land use allocations more efficiently. This could include: repurposing and retrofitting commercial buildings, which otherwise may become stranded assets; permitting greater density building within urban areas; and making slight modifications to Green Belt boundaries.

Skills reform

Building a large number of new homes at reasonable cost will require an increase in skilled contractors. Local colleges and businesses should be incentivised to provide high-quality apprenticeships, training and upskilling opportunities in the building industry, particularly in new technologies. Also, there needs to be the ability for skilled workers to be able to afford to move to areas of the country where they are required.

Net zero carbon emissions

To protect their investment, institutional investors want to invest in energy-efficient housing and support the drive to reach net zero carbon emissions by 2050. Therefore, residential funds invest in homes that have the infrastructure, such as solar panels, heat pumps, efficient boilers and charging points for cars, that ensures they are meeting, as close as possible, net zero carbon emissions.

Additional Reading

- [BPF – The Impact of Rent Control on Private Rented Sector](#)
- [Rent Control Effects through the Lens of Empirical Research: An almost Complete Review of the Literature](#)



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