Transforming the way we live

A roadmap for taking Alternative Residential mainstream

Table of contents

Executive summary

The way in which people live and spend their free time is undergoing a palpable shift. The real estate sector must continue to evolve to cater to these new demands, particularly in the products available for the growing rental demographic.

But for those in the market, what exactly needs to change, when and how? What does the road ahead look like? How and when will all types of renting (currently still considered to be in the Alternative Residential category) be mainstream?

This report seeks to answer these business-critical questions by way of qualitative research, thanks to the most experienced players in the Alternative Residential market. The consensus is that there are key drivers that will push this way of living to be the norm.

There are those macro drivers that relate to the external environment, such as:

1. a re-calibrated planning system;
2. skills and capacity;
3. availability of affordable debt and investment;
4. a social and political acceptance of renting as a preferred option.

And those that are driven from within the market, including:

5. financial credibility;
6. a sense of home, community and wellbeing;
7. beauty and durability;
8. a great experience of the space;
9. smart buildings;
10. brand.

Like all good road trips, the journey will not be linear but this report argues that if there is enough momentum for each of the above drivers, then the way to mainstream could be paved much sooner for the Alternative Residential market.

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We would like to thank these individuals for having generously shared their thoughts and experiences on this topic.

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Methodology

The research interviews were conducted by Future Places Studio from November 2019 to February 2020. The team interviewed 20 industry experts from across the various Alternative Residential sub-sectors and disciplines, including two Partners from Osborne Clarke. The result was a sector-wide overview that identified the main driving forces that will transform Alternative Residential into a mainstream real estate asset class.

Introduction

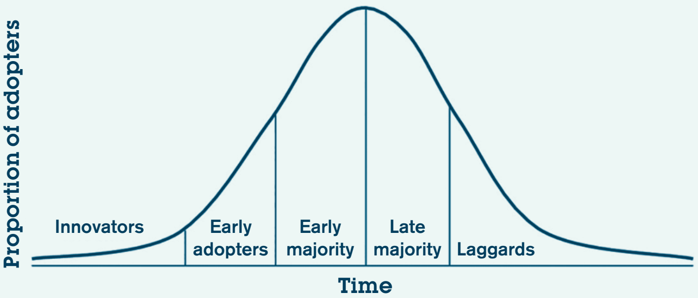
The real estate industry is not known for dramatic revolutions. It has traditionally been slower to innovate and has resisted the transformative impact of a real estate equivalent of services like Uber, Spotify or Netflix.

Nonetheless, change is taking place that is challenging established market beliefs and attitudes that have underpinned the status quo in the sector for decades. This involves a change in the way we live and particularly the development of new products to cater for increased numbers of renters. This growth is driven by a long-term housing crisis, escalating house prices, rapid urbanisation, a millennial generation's new lifestyle demands, and an aging baby boomer population. It's a whole new 21st century urban demographic.

There is a need to appeal to and cater for this rising number of renters across all demographics and Alternative Residential options (which encompass student accommodation, build-to-rent (BTR), co-living and senior-living), which increasingly offer attractive living solutions. However, parts of the sector are still in the early stages of development and remain untested from both a consumer and a market perspective.

A glance at Rogers' innovation adoption curve will make it clear that this journey to mainstream is still in its infancy for much of the sector.

Adoption/Innovation Curve



Mainstream goal

Industry professionals are making great strides in designing, funding and developing alternative living solutions – the result of which is a steady pipeline of developments.

We wanted to find out what conditions need to change before this new way of living is considered the norm by investors, developers, local government and, most importantly, the users.

We also wanted to establish what it would take to encourage operators to work across all Alternative Residential sub-sectors to offer a lifelong service to renters at all stages of life and different rental demands.

We identified the conditions needed for this new way of living to become mainstream. These fell broadly into two areas. The first are macro changes – or "external conditions" – needed in the wider market and in society. The second concern the owners and operators – the "internal conditions" – and the products and developments that they need to build and deliver.

Findings Part 1
External conditions: macro change

1 Re-calibrating planning

It is widely acknowledged that planning is one of the main external challenges that stifles the Alternative Residential sector's growth ambitions. As we know, generally, it can be slow, under-resourced, bureaucratic, resistant to change and at the whim of a changing policy-making landscape (and the frequency of the turnover of housing ministers).

Alternative Residential developers, as with the wider real estate sector, believe the planning system needs an overhaul. Honor Barratt, Managing Director, Birchgrove explains: "We need a planning system that has the resources and funding to take an application and process it in 13 weeks, not two years, so we can build eight developments per year, not two."

Kevin Williamson, Investment Director, Host Students, observes that in cities across the UK there are urban areas that need regeneration – and require a master plan – and local authorities that need housing. "These two needs are difficult to marry up," he says. "There isn't enough resource in local authorities to assist them in what a good master plan looks like."

Although there are people identifying land to develop, delays occur when developments are not viewed in a wider context. Moreover, the planning framework often does not recognise the differences in design and delivery between different types of Alternative Residential developments, or the distinctive features that differentiate Alternative Residential from build for sale.

For example, the debate about a specific "use class" is well trodden with arguments put forward for and against its creation for Alternative Residential products. However, there is a view within the sector that categorisation can dictate factors like the number of dwellings allowed on a site, density and other technical standards. The lack of clarity and consistency is a cause of frustration.

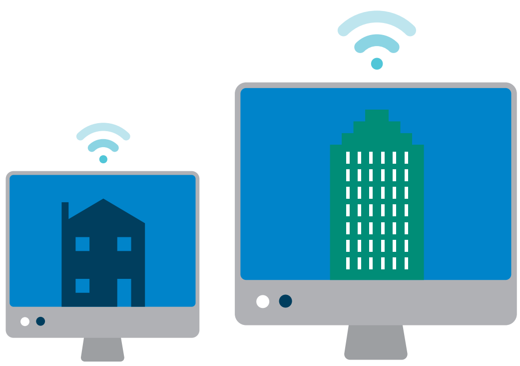
"The planning system needs to shift to where the residential market is going," says Alex Greaves, Fund Manager at M&G Real Estate. "The current system is not an effective system, but that is an opportunity. The sector and local authorities should see where the opportunity lies to make improvements."

Some interviewees talked about planners still insisting on unrealistic and often impractical requirements that only serve to stifle the Alternative Residential sector. The main lack of understanding among local authorities seems to be around the question of affordability, they said.

For instance, it was observed that agreeing with the local authority on what percentage of a development is at a discount market rate is a challenge, especially against the backdrop of for-sale developers being required to deliver 35% affordable units – usually an unviable level for Alternative Residential developments.

Rebecca Taylor, Managing Director, Long Harbour, adds: "In London we will deliver 10-20% at discount market rent, which is 65% - 80% of the market rate. If you calculate the compounded effect over a 20-year investment period, we are actually contributing on a cash basis a lot more than the build-to-sell (BTS) builders, because they typically negotiate out the ability to deliver the affordable housing on site and pay a commuted sum. The nature of a long-term investment model is to deliver long-term sustainable communities and that is done through a mix of demographics and price points."

Jonathon Ivory, Investment Director, Henley Investment Management, continues: "The Alternative Residential investor argues for a discount market rent covenant, which isn't the same as affordable housing. It all comes back to viability. An Alternative Residential developer can't pay as much for land so you generate a lower residual land value."



James Gibson, Development Director, Sovereign Housing Association, explains: "There is significant delay for all of our schemes that are going through planning. By and large, affordable housing is a priority for most local authorities, but they're not really working with us in partnership to help meet that need."

Some interviewees said they considered the Fast Track Route (which enables applications for developments that deliver 35% or more affordable housing to progress without the need to submit detailed viability information or late viability review mechanisms and which was introduced by the Mayor of London) as biased towards build-to-sell products.

They argued that Alternative Residential developers still have to provide viability assessments in case they break the use covenant in their section 106 agreement, prohibiting the change of use from residential rental product to a sales product. This means that, in effect, there is no fast-track route for Alternative Residential.

"Local authorities have found the idea of Alternative Residential difficult. They don't recognise what it is," says Dave Butler, CEO, The UK Apartment Association (UKAA). "There is an image that developments such as co-living or BTR are for rich kids, but actually, if Alternative Residential is going to be successful, it has to be mass market."

There is also an increased push by the Greater London Authority (GLA) for Alternative Residential developers to include social rented units in their developments. But in most cases this is impractical as the operators are not set up to manage social rent if they are not registered as Registered Providers of social housing. This means that they need to bring in a Registered Provider to manage the social units within a building. This negates the entire essence of unity of management that is a key advantage of BTR. Some are considering becoming Registered Providers themselves, but this is a lengthy process that is not always straightforward.

There is also some resentment over the feeling that this social requirement has been imposed on the developers by a planning system that does not always recognise the reality of how an Alternative Residential scheme operates.

This forms part of a wider discussion of affordability and service provision. As the Alternative Residential sector shifts the housing model towards being a more service-led sector, it will create a further challenge in terms of defining what an affordable level of service looks like.

Another issue for investors and developers is the lack of consensus at a local and national level. The National Policy Framework, for example, is not aligned entirely with the London Plan; some local authorities follow the framework, while others don't.

In London, there are added layers of complexity with the GLA often conflicting with local authorities. Some boroughs have already introduced policies to support Alternative Residential, including Camden, which introduced support in its 2015 local plan in order to create a mixed, inclusive and sustainable community; others, such as Islington, adopt a restrictive policy approach.

There are councils in the UK that are increasingly supportive of Alternative Residential, however, including Brighton and Bristol. Manchester, which has a large number of BTR and other Alternative Residential developments, has also taken a supportive and aspirational approach to the sector – both in terms of policy and commercially.

Initiatives to improve the wider planning system include an updated inquiry system. After a planning application refusal, developers would previously have had to wait between a year and 14 months for an inquiry date. Now the same process takes 22 weeks.

John Baird, Planning Partner at Osborne Clarke, says that this type of change demonstrates that progress is possible, which should give investors and developers confidence. Baird adds: "People talk about the planning system being a broken system. It's not broken; it just needs to be re-calibrated to catch up with how our built environment is changing."

So how can we start bringing about the necessary changes?

One way is for the Alternative Residential market to educate local authorities and provide successful case studies – in London and the regions – as evidence of how Alternative Residential can benefit a community. Authorities should be helped to recognise the advantages of enabling Alternative Residential models, such as stewardship and long-term investment in the local area. Social integration can be promoted with homes at different price points, as can support for local regeneration programmes, including an element of rental accommodation to speed up occupancy and promote place-making.

Neil MacLeod, Chief Legal Officer, The Collective, said: "We are working proactively with local authorities to develop their understanding of our co-living offer. We are fortunate to be able to use our operating buildings at The Collective Canary Wharf and The Collective Old Oak to do this, providing opportunities for council officers and members to experience co-living firsthand. Alongside the provision of beautifully designed rooms and communal spaces, a fundamental part of our offer is operational excellence and activation of the buildings and spaces. We work collaboratively with local authorities to secure this, often within comprehensive management plans which become embedded in our operative approach for running the buildings from day one."

Other market players are collaborating with housing associations and social investment institutions to help build the credibility of the sector amongst planning teams and local councils. For example, BMO Real Estate Partners (BMO REP) has launched its UK Housing Fund for purpose-built rental accommodation for low to middle-income households.

This fund has an ESG (environmental, social and governance) framework that was developed by BMO REP, in conjunction with Big Society Capital, with a view to helping both BMO REP and the fund build more trusted relationships with local authorities. Jamie Kellett, Business Development Manager, BMO REP, explains: "There can be scepticism within local authorities towards banks or investment managers and their interest in delivering over the long-term. Some local authorities believe these businesses will happily sell their sites for the right price."

However, this couldn't be further from the truth. BMO REP's initiative and governance mean it aligns itself directly with the long-term outcomes local authorities want for their communities and are able to demonstrate this further through its partnerships with (housing association) Home Group. Kellett continues: "Our alignment with Home Group proves our commitment to local authorities and partners for the long-term."

It's these types of initiatives – together with a sustained approach to the education of local authorities – that could well begin to tip the balance in favour of genuine planning support for Alternative Residential.

2 Bridging the skills and capacity gap

Construction capacity is already a recognised constraint across the wider real estate market. According to Long Harbour's Taylor: "If we are to meet the housing target of 300,000, which we haven't done since the 1970s, then there is a labour and skills constraint which needs to be resolved. We are committed to building homes across the UK that expand and sustain the housing supply, and we will continue to work closely with local authorities to make sure we are delivering on this commitment."

This problem is compounded by the likely impact of the United Kingdom's exit from the European Union and the trend for an increasing number of construction workers and operatives to leave the industry for other sectors because of the difficult lifestyle and demands that are associated with work in the sector. Around a quarter of construction workers are considering leaving the industry by the end of this year, according to a survey run by recruitment agency Randstad.

However, there has been a move towards the use of construction technology, known as contech, to help fill the capacity gap experienced across the sector. Contech including modular and off-site construction models are well suited to Alternative Residential sites due to a higher density of units on each site and the confined urban locations in which they often are needed to be built. Technology that can be applied on site in urban environments, such as 3D printing in concrete and robotic brick layers, might also help to close this capacity gap.

Some of the growth in investment in contech solutions has originated specifically from the emerging Alternative Residential market. For example, Round Hill Capital has specialised in the rapid deployment of bespoke, affordable and quality modular homes. However, the uptake of these technologies will need to become far more widespread if they are to have a role in the acceleration of construction schedules.

Skill imports

As the 'hotelification' – in other words the provision of hospitality and amenities within developments that offer renters access to the benefits of specific lifestyles – of the Alternative Residential sector proceeds, operators are having to find ways to attract new skills into the sector. These new recruits need to have the right level of service skills, talent and experience. And in order to bridge this gap, developers are likely to have to turn to the hospitality sector, which might seem more attractive to these individuals given that sector's more well-defined career paths and recognised qualifications.

The recruitment challenge does, however, vary between asset classes. Student accommodation sites have locations that provide a ready-made community of potential employees. However, in the senior market, where fully qualified care staff are required, the shortage can be make or break.

Simon Aw, Executive Director, PGIM Real Estate, observes that senior-living assets need staff – and recruitment is probably one of the most important and difficult factors that this part of the sector now faces. He says: "Finding staff members is probably harder than finding residents. You have to be located somewhere that people can afford to live nearby and can easily travel to work to. If you can't achieve this, your model won't work."

The people challenge

Interviewees were clear that it will be somewhere between extremely difficult and impossible for the Alternative Residential sector to mature without the successful transfer of new sets of skills.

And, as the Alternative Residential market further matures, the sector will need to be able to attract workers with skills in branding and marketing, data analysis, UX design, ethnography and product/service design. The future of the sector will hinge on its ability to step up to this recruitment challenge.

3 Finance

Real estate investors and lenders need reassurance that alternative residence schemes are viable if the market is to mature. The financial challenge for these investors is that it's difficult to dabble in this market and the scale of most developments require large loans.

But, with limited information to underwrite the deals, lenders attach a higher risk weighting to the debt. Consequently, providers need to hold more cash on their balance sheets.

Moreover, there is a lack of empirical evidence for investors to assess appropriate yields in the UK. Instead, they are reliant on assumptions and guidance from other markets such as North America and Europe. This can make capital expensive and getting into this market more difficult.

Are we there yet?

As providers generate a track record over time, lenders will develop familiarity with the business model and borrowing conditions should ease. But when will they reach this point? Part of the challenge is that Alternative Residential developments take time to come to market and their return is in the longer term so there is a delay in establishing proven viability.

Lowe of BMO REP explains: "A lot of this stock needs to be created and built out and that takes time and patience. In many cases you need to be able to accept the first 18 months of build and arguably the first three years if you are looking at a planning 'lead in' , as part of your business plan, and price the construction and development risk, or at least have a partner in place who can adequately manage this delivery."

Madeleine Clark, Partner and Head of Banking at Osborne Clarke, says: "In the next five to 10 years, we should be at point where there is sufficient stock that has been through the stabilisation period and we will start to see these being traded. This will be the tipping point where Alternative Residential becomes mainstream and you will have more lenders willing to enter the market."

Ivory of Henley agrees: "When the first institutional portfolio trades from one institution to another that will be a watershed moment for the sector."

But what is it worth? At a very basic level, getting an accurate valuation is still a major hurdle for lending given that the lenders are still using gross-to-net value models when the true cost of managing these assets is actually much more complex because of their amenity- and service-rich nature.

Impact investing: acceleration towards maturity?

Debt and government grants have historically powered housing associations and the social and affordable end of the residential market. But there is only so much more borrowing housing associations can now do as they face 50% gearing levels.

If the UK needs to deliver 300,000 new homes a year with a third affordable then funding will be needed for 100,000 affordable homes a year. If these homes cost £150,000 per unit – a conservative estimate – the capital requirement is £15 billion a year. Over the next decade that will be £150 billion, which the government cannot afford and the sector cannot meet as it runs up against its borrowing requirements.

Impact investing (and sustainability targets) could help deliver more affordable homes with recent funds being established by BMO REP and CBRE Global Investors. Ian Wilson, Senior Director, CBRE Global Investors, explains: "As a country we need to provide more residential property at below market levels for renters or assistance for people to purchase (e.g. Shared Ownership), so those who cannot afford to rent or buy in the private market can access places to live. We are seeking to provide good quality housing and meet a core social need. We are providing equity to the social housing sector, which is a part of the market that has previously utilised mainly debt and government funding. We believe the previous model of funding is unsustainable in the medium term and that looking forward different financing models will be needed. Our investors do however, expect a core property return for taking equity risk rather than providing debt."

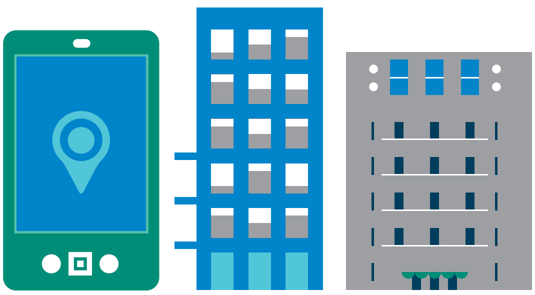
Tax considerations

VAT on construction costs: In an Alternative Residential development, it is not possible to reclaim VAT on construction because it is classified as a zero-rated supply. This affects the viability of any Alternative Residential project as it adds a considerable cost for the developers and investors.

VAT on maintenance and repairs: For commercial properties, a landlord can generally reclaim VAT on maintenance and repairs and commercial tenants are usually VAT-registered businesses. Residential occupiers, who do not produce any VAT-chargeable supplies, are unable to reclaim VAT on rent and it is not possible to opt to tax a residential property. This puts 20% on the cost of holding an Alternative Residential investment compared to a commercial property, which has a substantial impact on viability.

Community Infrastructure Levy: This is a local planning obligation charged over the development of new space. In general, it should be paid when the construction process begins. Each local authority has its own rate, which is calculated by assessing: the residual land values; viability; assumptions on affordable housing; and the requirements of Section 106. Viability is calculated with reference to BTS schemes but these do not necessarily reflect the Alternative Residential value per square metre.

Council Tax: Alternative Residential landlords will generally be liable for council tax when units are empty.



4 A change of heart?

The biggest hurdle to Alternative Residential going mainstream is societal. The UK has a culture of home ownership and to many, renting has negative connotations. It is seen, at best, as a temporary necessity or a stepping stone toward home ownership.

While there are different nuances between the sub-classes as to what would make developments accepted by potential tenants, for the sector to become mainstream a greater proportion of individuals and families will need to truly regard renting an attractive life-long model.

The need for this mind shift is not an issue in the student accommodation market but it is exceptionally challenging for the senior market. Greaves of M&G comments: "You are trying to convince a generation that has probably generated the biggest amount of wealth to use that capital appreciation and to move into a rental product."

And this obstacle is exacerbated by the fact that the wider family – including the next generation who might otherwise expect to inherit the family home – will often also need to be convinced of the wisdom and the financial case for the move.

In order to address this reticence among potential renters, Birchgrove has a 'try before you buy' approach with tenants able to temporarily live in one of their units before making a final commitment that would usually include selling the family home. This option can also be helpful for those who need time to achieve the best price for their previous home.

At the other end of the age scale, GenYs and Millennials are already known to welcome the flexibility, convenience and community benefits of build-to-rent and co-living spaces. But what happens as they get older, settle into relationships and have their own families? Will they feel differently about renting? Will they be confident of their financial prospects in retirement given that they will still need to meet rent obligations? Only time will tell the answers to these questions.

This change of attitudes already needs to be shared among policymakers if lifetime renting is to become a reality in the UK. The balance of political and policy support for Alternative Residential versus home ownership needs to shift. In practice this is likely to include a lesser focus on the help-to-buy schemes and more on incentives for retirement planning options that are not contingent on having a mortgage-free-home.

Findings Part 2
Internal conditions: market deliverables

5 An investment that stacks up

Investment is flowing into Alternative Residential assets but not on the scale required to create a mainstream investment class. Large-scale institutional funding into and across these sub-asset classes is needed for the sector to deliver sufficient product to demonstrate its attractiveness as an established asset class.

A major obstacle to establishing the financial credibility of Alternative Residential is the competition between BTR and the traditional BTS models over access to suitable land. Henley's Ivory observes that around 90% of the time the most valuable use of land is for market sale. "Residual land values are typically greater for Build to Sell developments than they are for Build to Rent. The business models are fundamentally different," he explains, "which makes it hard for a BTR developer to compete for land with a BTS developer on an 'apples and apples' basis."

With many of the more cautious real estate investment funds adopting a wait-and-see mandate, pioneers in the sector are looking to build greater financial certainty and appeal by looking at some of the following: scaling up to create a blend of occupants (which can have appeal for investors and occupiers); delivering the right balance between service and price; and ensuring that each development is designed for its specific location in order to deliver appeal, relevance and, importantly, value. All these factors can help build financial credibility.

Scaling up and blending well

While scaling up is the obvious solution for greater financial viability – with economies of scale at both the build and the operational stages of the development – it was clear from the interviews that scale is best achieved through blending different types of residents and doing so delivers socio-economic benefits as well as important investment diversification.

Simon Aw, Executive Director, PGIM Real Estate, says scale is a practical approach to the scarcity of development land, particularly in the south-east of England. He comments: "Within the M25 you have to build up because of the shortage of land. We are seeing some proposals to build up but with a mixture of occupier types, some senior-living, some standard residential and possibly some student. It's the way to achieve scale."

This type of blending is also a practical way to achieve scale where it might otherwise be problematic. For example, in London it is difficult for senior-living developments to go beyond six storeys due to fire safety regulations. A blended development offers senior-living units on lower floors and others above.

Crucially, blending occupants of different ages and groups together diversifies revenue streams and risk – which is paramount for investors and financial credibility. Williamson of Host Students notes that a 20-storey building, with student, co-living and senior-living layers, would offer diversity both in terms of community and investment. He adds: "There is risk-averse, steady money willing to consider this type of model."

Many developers and investors prefer a mix of asset classes in developments. James Bishop, Head of New Business at U+I, says mixed schemes are central to the firm's successes. Bishop says: "We like the diversity of a mix of student, residential and offices. The result is a balance of activity. Different asset classes are active at different times of the day and season. This avoids dead times and creates socio-economic benefits."

Service-price balance

Service is the heart and soul of the Alternative Residential movement. However, the reality is that it's expensive to deliver lifestyle features and amenities, such as Wi-Fi, 24-hour care, wellness gurus and onsite counsellors, roof gardens, swimming pools, luxury lounges and dining rooms.

Developing a viable model that delivers this level and range of services has been a challenge for an industry that is new to providing these features and this is particularly important when trying to attract mainstream lenders into the market. Providers will need to understand, for example, how often a site or its units have to be refreshed and what the lifecycle costs really are. Ivory explains: "Getting operators and valuers to coalesce around a generally agreed set of BTR operating expenses remains a challenge in the absence of enough empirical data."

As more schemes are delivered, Ivory says that acquiring this financial evidence, which is essential to developing investor appeal and confidence, is becoming easier and the financial credibility of Alternative Residential can be more accurately assessed – and the balance of risk and return more easily weighed up by prospective and existing investors.

As more schemes are delivered, Ivory says that acquiring this financial evidence, which is essential to developing investor appeal and confidence, is becoming easier. Clearly, as more investors get more evidence of costs, the financial credibility of Alternative Residential can be more accurately assessed – and the balance of risk and return weighed up by prospective and existing investors.

Site specific

The student accommodation market's approach of developing sites specifically for university locations has been successful. Similarly, Alternative Residential providers could target industry clusters or hubs, where there are start-ups and developing businesses, different demographic groups, and vibrant services for work and lifestyle.

In the UK's capital, areas such as King's Cross, Stratford and White City have been transformed into business and creative districts, offering clusters of innovation that are an attractive draw for large anchor institutions looking to focus on tech and science investment and development.

A close collaboration between the relevant parties in these hubs – including local authorities and large employers – can ensure that such residential solutions can generate value by creating desirable living and working spaces that help to attract and keep the best talent.

Leaving town

While much of the Alternative Residential activity started at the top end of the market and in city locations, there is increasing interest in the low-to-middle tier of the market in more suburban locations outside inner city environments.

Henley Investment Management is currently developing a suburban, low-rise BTR community in the South East, located adjacent to a major shopping centre and benefiting from proximity to excellent transportation. We believe that future rental communities on the edges of towns and cities near transport or employment-led locations, such as airports, schools, shopping malls or hospitals will perform well with "renters of necessity" and "grey-collar workers" who require quality, affordable and professionally managed rental accommodation that to date has is only being enjoyed by city dwellers. Ivory explains: "These locations are traditionally build-to-sell territory which, at the moment, is largely being propped up by the Help to Buy programme. As these incentives are gradually reduced you will see more BTR developers delivering a similar type of product into these locations."

6 A sense of home

A common aspiration across Alternative Residential sub-classes is the creation of a feeling of home, belonging and wellbeing. Unlike the traditional BTS model, this sector relies on the long-term vibrancy and openness of the resulting communities because it's this that drives the high long-term occupancy rates that underpin the financial model.

Product design is viewed as crucial for this goal, as has been proven in the more established student accommodation market. Williamson of Host Students, says: "What student accommodation has done – alongside the other types of Alternative Residential – is recognise that it's not just about the room, but about building communities and how people interact within that building."

The Collective, a co-living provider, aims to achieve this by offering compact rooms alongside more generous shared facilities, such as lounges, swimming pools, cinemas, gyms, co-working spaces and cafés. Social interaction is further encouraged through resident-curated events. Christian Birrell, Associate Director, DTZ Investors (one of The Collective's main funders), says: "When I visit a Collective building I am always amazed to see the variety of activity and events."

The encouragement of social interaction in these developments can help combat loneliness and social isolation, which many consider to be at crisis levels in UK cities. While the co-living space is largely targeted at a younger market, the need for social interaction is recognised as important for the wellbeing of all ages.

Mike Leto, Project Director at Amber Infrastructure, comments: "We have residents moving into our Later Living developments who value the sense of community around them for general support and friendship."

Honor Barratt, of Birchgrove, says it designs senior-living developments to encourage residents to interact with each other and to be active for as long as they can. "The role of a senior-living product should be to help residents stay as happy and as a healthy as they can for as long as they can."

When the Alternative Residential sub-classes are combined into a single development, the result is often an increased well-being benefit. In 2017, Nightingale Hammerson, a specialist provider of residential, nursing, dementia and end-of-life care, opened its first children's nursery based within a care home.

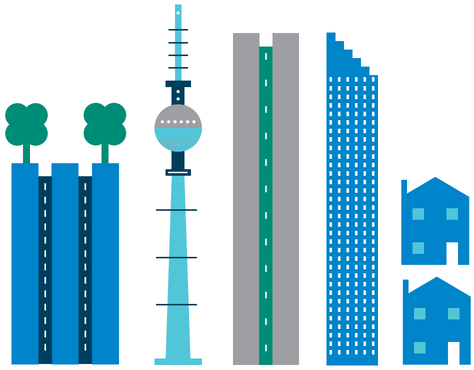
Children from the Nightingale nursery take part in activities, like baking and singing, with older people. Benefits observed in the adults included relief from being the object of care, a break from thinking about aches and pains and increased physical movement. Adults with dementia benefited too.

Altruistic deliverables

While creating communities with a sense of home, belonging and wellbeing is altruistic, it is also a vital business deliverable for these types of living assets if they are to reach market maturity. The design and operation of these developments will need to be carefully drawn up to embed altruism as a fundamental output. But this investment makes good business sense.

Unlike the traditional BTS model, an Alternative Residential development relies on the long-term vibrancy of site communities. Crucially, getting this right and delivering it in a sustainable way will drive the high long-term occupancy rates that underpin the financial model.

7 Built for beauty and sustainability



There is strong political and consumer demand for more thoughtful design in the residential space. This demand specifically calls for aesthetically pleasing and environmentally friendly places to live but if these assets are going to stand the required test of time then they also need to deliver on durability.

The government's Building Better, Building Beautiful Commission advises on how to increase the use of high-quality design for newbuild homes and neighbourhoods. One of it its aims is "*promoting better design and style of homes, villages, towns and high streets, to reflect what communities want, building on the knowledge and tradition of what they know works for their area*".

But occupiers are also becoming more demanding, especially the younger generations. Williamson, of Host Students, says a more environmentally focused generation of students expects a sustainable residential product. He explains: "Developers and operators need to be coming up with different concepts to show that they care about the environment and tenants can buy into it."

Residential sites will need to be aesthetically pleasing and sustainable, not only for the occupiers and planners but also increasingly for funders, who are looking for opportunities to meet targets around impact investing and sustainability.

Given the fundamental principle of longevity in these sites, there is relatively more need for these sites to be built to look good and to perform well not just in the short term but over decades and beyond. This will, of course, mean that the design and construction of these buildings will need to allow for as much future-proofing and durability as possible.

8 A quality experience

The concept of property-as-a-service first came to prominence in the co-working space but it has become very much a feature of the Alternative Residential market where "tenants" are now "customers".

Common to both asset classes is the need to create a great experience of real estate. In the residential market, this translates into ensuring that the user of your space derives value while they are there – however they define 'value'.

Leto of Amber Infrastructure illustrates: "Our focus is where we see real estate meeting infrastructure and service, and this is applicable to senior-living; a sector which I believe is moving away from being a pure real estate product and into more of a service focused product."

Front-of-house teams are important, Leto adds: "The great teams we have on site are key in developing a sense of community at our developments."

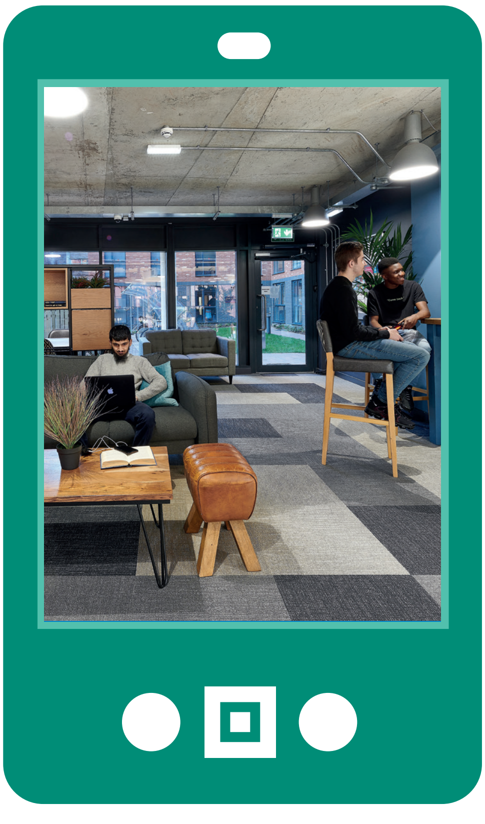
A good on-site community team is vital but good experience is also the result of effective and responsive maintenance solutions, flexible tenancy lengths, good security systems and all-inclusive bills among other things. Of course, service priorities differ across the range of sub-asset classes. For example, a frictionless on-boarding process and all-inclusive bills are important factors in the provision of co-living and BTR developments but at the senior end of the market it is the access to qualified care that is core.

While the provision of this level of care can be a challenge, it can also be seen as a competitive advantage. Aw at PGIM explains: "The main issue with senior housing is that you have CQC (Care Quality Commission) regulation which is scary because the regulators can shut you down if you are not operating at a high enough standard. For us, it is a good thing because it is a barrier to entry. It scares off the cowboys and, because of that, you can make better returns."

Outsourced relationships

While service in its broadest definition is central to the attractiveness and success of an alternative way of living, providers of these services are often challenged to meet all of the requirements expected of them by residents, authorities and regulators. The rise of mixed-residency and intra-generational sites will further add complexities. How will operators cater for the various and nuanced differences between the pockets of a single site's population?

In response to this challenge, some owners choose to develop their own technology-based solutions (see next section); others – in fact, most of those interviewed – choose to outsource the entire operations function to third parties. Outsourcing has its attractions for site owners, but it means that the crucial experience of the site – and any loyalty being built with the customers – will effectively stay with the operator rather than the building owner. This might raise future challenges because, as is recognised in most B2C environments, the entity that has the relationship with the customer, and their loyalty, has the greatest position of power.



9 Smart buildings

Disruptive technology is often seen as something to fear but the Alternative Residential market largely embraces technology as an enabler. This viewpoint is prevalent among those in the student accommodation, BTR and co-living spaces where speed and responsiveness are crucial for service deliverables.

Most of those interviewed already use technology to provide, for example, frictionless and subscription living experiences. The result is that renters no longer have to endure the clunky process of finding a home to rent. Instead, operators like The Collective offers a sign-up process that takes no more than one hour and when tenants move in they will already have in place council tax, Wi-Fi, Sky and home insurance.

All those interviewed felt that technology is critical to delivering on the promise of their asset class. William Bateman, Managing Director at Round Hill Capital, says: "To stay relevant to the next generation, you need to have the ability to embed tech into what you are offering."

Round Hill, which bought student accommodation provider Nido in 2012, has a venture capital arm specifically for real estate technology. Bateman adds: "If you look at a tenant's journey from their first hearing about a building through to tenancy, tech has a role in making each step in the process easier."

Tech and data can be used to profile and target potential occupants to speed up the process of finding suitable occupiers. It can improve maintenance and security via smart cameras and app-based reporting facilities, and can be instrumental in delivering on energy and sustainability improvements.

Rich data

Digital transformation provides rich data that can point to operational and design improvements. In the senior-living sector, care tech continues to create opportunities to improve cost-effective solutions with the use of sensors and alarms that detect falls, rising blood pressure, levels of glucose and lung capacity. Further developments are likely to include the introduction of more sophisticated "carebots".

The best way for the market to build a sufficient data set is for greater collaboration and transparency between its players, particularly in terms of sharing experiences, as well as successes and failures. However, commercial and potential anti-competitive issues could be seen as an obstacle to creating this type of collaboration.

10 Brand or location?

As the Alternative Residential market matures, there is a greater investment in branding. Brand strength across B2C markets is valued for its impact on loyalty, sales volumes, referrals, repeat purchases, maintaining high price points and market positioning.

However, the degree of enthusiasm for this investment among those interviewed was not unanimous. Interestingly, those catering for the more senior residents placed much less significance on brand.

Taylor of Long Harbour, which caters for younger occupiers, said: "We see brand as inherently important. Consumers probably don't know what BTR is yet, but, as more and more products become available and as people increasingly choose to rent for the long term, people will start to understand the offering. And people will have an affiliation with it."

Bateman of Round Hill agrees: "Consumers care about brands in other parts of their life, so why not where you live? As a market becomes more saturated then it's important for the market to understand what your brand stands for."

Rob Moyle, Operations Director of Arlington Advisors, a student accommodation provider, explains: "Five years ago, brand wasn't important. Now students are looking for something different. Your brand is a way of showing who you are and what you stand for. Universities are looking for a provider they can trust. If you can build a quality, reputable brand, it can help significantly with getting support from a university."

The market's stand-out brand builder is Tipi, with an extensive marketing campaign that articulates the revolutionary disruption they see themselves bringing to a renter's living experience. Their advertising promotes the sociable, convenient, flexible and fun lifestyle they can provide for an experience-hungry generation of renters.

Is this greater appreciation of brand among those targeting younger occupiers driven by the reality that there is a comparatively larger lifetime value to be captured from their audience?

The lack of enthusiasm amongst our interviewees in the senior markets was for far more traditional reasons – Location! Location! Location!

Barratt of Birchgrove explains: "Brand is not important for our audience. What is important is how close are they to their family, whether they will they be happy and looked after. Brand isn't on their list," she adds. Leto of Amber Infrastructure concurs: "I'm not sure that someone would go and live in an area because there is a particular branded product there. There are other more important drivers in location choice."

Lowe of BMO REP suggests that local amenities as well as location are important when encouraging lifelong renters. "What we actually want is tenants to stay for three, five or 10 years, so wellbeing, community, local infrastructure such as schools, gyms and retail become more important."

Brand benefits

As the sector becomes more crowded, developers will need to articulate the benefits – and the experience – of living with them. If the brand experience has been positive then residents are likely to seek out the same brand when they move, in the same way that travellers seek out their favourite hotel chains.

Dave Butler of the UKAA suggests: "Build to rent is a great industry name but it doesn't mean anything for people who are looking for a home. Over time, we will see a name change from build to rent to something else."

Findings Part 3
Common threads

While there is a clear set of levers of change – both external and internal – it would seem that there are also some strong common threads.

The first is the need for a long-term view to be taken when considering the value (financial or otherwise) of these new ways of living because the reality is long-term success ticks the requirements box for everyone from planning to investors, operators and customers.

Common long-term goals

The current Alternative Residential delivery teams – whether developers or operators – already take a longer-term view because their returns will be longer term in nature. They are heavily invested in developing sustainable and durable products and creating vibrant and supportive communities because these characteristics are key to their success.

Likewise, more investors and lenders need to get comfortable taking a longer-term view on the rent return and social value of these assets to ensure that there is enough funding to support the necessary growth of the sector.

And, of course, the government, local councils and planning teams need to do the same. They want to work with developers and operators who have a long-term commitment to their communities but their policies and incentives (and especially those around planning and help-to-buy) actually favour the much shorter-term view and commitment that is characteristic of the home ownership development model that relies on a short-term capital gain rather than long-term income.

Sharing experiences

The second is collaboration and transparency. This is because real change takes real data, without which the adoption of Alternative Residential will sit with the pioneers rather than the masses. Creating a suitably large data set will require everyone involved in the sector to share as much as possible with regard to what does work and what doesn't work.

Collaboration will be the key, not just amongst developers and operators but also between them and housing associations, planning bodies, investors and resident groups. In this way, Alternative Residential can more quickly pull on the levers of change to provide living solutions that are relevant, sustainable, accessible and enjoyable.

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