JANUARY 2025

Packaged Living Community: Merchant's Yard, Ipswich

Growing Homes

Creating additionality through single-family housing

The Living Sector's Golden Child

Institutional capital's drive to diversify away from traditional investment classes in favour of alternatives has set off a sprint in the living sectors, where domestic and international investors are competing for scale. Demand for residential real estate that offers concurrent access to rentalised income streams alongside long-term capital appreciation, now takes capital providers into previously unventured segments of living that are nascent, sophisticated, deeply granular, but ultimately optimised for institutional investment.

We believe that single-family housing is the next frontier for investors in UK real estate. An attractive proposition for capital providers seeking long-term, demographically-supported financial, social and environmental returns, single-family housing strategies offer highly competitive access to a segment of residential that is underpinned by robust market fundamentals. This sector also addresses the need for additionality – providing new sources of supply, tenure and capital – in a housing market characterised by an unprecedented under-supply, both in absolute terms and relative to other developed economies.

Charles Allen, MA, MSc
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Fiera Real Estate

> "We believe that single-family housing is the next frontier for investors in UK real estate. It offers access to a segment of residential that is not only underpinned by robust market fundamentals but addresses the unprecedented undersupply of housing across the UK."

Foreword
The Story of Single-Family Housing in the UK

The growth that has occurred across the living sectors in recent years has been transformational.

Investors with an interest in UK residential real estate once found themselves in a domestic market characterised by the limited choice of for-sale housing on the one hand, and an inefficient private and public rented sector on the other. Pre-global financial crisis, 'purpose-build student accomodation' – arguably the most mature of the newer housing types introduced to the accommodation stock in the UK – had not yet captured the attention of the big agencies, let alone emerging asset classes such as 'senior living' and 'co-living', that were back then still conceptual.

As with all new ideas, there were a few on the fringe talking about the potential of professionally rented housing long before it landed on our shores. But only in the 2010s was this realised in the form of 'multi-family' housing (also known as build-to-rent in the UK) imported from the U.S., which set off an initial wave of residential maturity and a genuine step-change in how the UK market was perceived and treated by institutional investors.

For the earliest entrants to institutionally-backed rental housing, the professionalisation of the living sectors precipitated access to long-term, repeatable and predictable inflation-linked operational income. In addition to capital appreciation, investors with operational infrastructure – typically through relationships with an operational partner – quickly realised that they could generate outsized returns through the cost efficiencies created by active management – in an asset class with high demand and low-to-no supply.

Over time, as new market entrants have expanded their offerings and the range of stock evolves, we've started talking about 'generations' of rental housing within the UK living sector, and where purpose-built, professionally managed and institutionally owned residential housing heads next.

Single-family housing represents a natural evolution in the institutionally-led operationalisation of living. The senior living, student housing, co-living and multi-family build-to-rent sectors, while still in varying degrees of nascency, have proven occupier and investor demand for a professionally

Packaged Living Community: Assembly Park, Telford managed, purpose-built product, with the expansion of the living sector's investable universe – and the availability of investment opportunities across the risk spectrum – responding accordingly.

Whilst each category has its unique characteristics, such as occupier profile, asset specification, and funding models, the investment case in this new group of living sector asset classes is unified by the opportunity to revolutionise the build, management and customer service standards that renters have become accustomed to; and at a time of chronic undersupply across all tenures.

Only recently, over the last half decade, has the latent demand for a professionalised rental experience designed specifically for families been at least partially met by single-family housing. Projections from Savills and Macfarlanes suggest that the total market capacity of single-family housing could reach upwards of £25-28bn in the next ten years,[1] five-to-six times larger than it is today.[2]

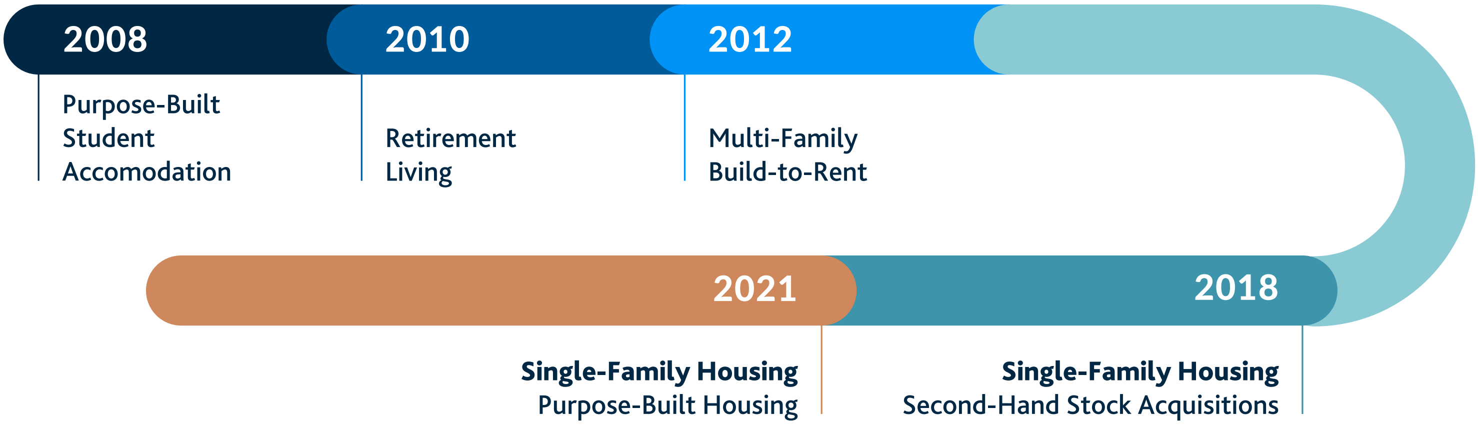
These statistics reaffirm the tremendous headroom for growth in single-family housing from the perspective of supply, but what of demand? As with any category within the living sectors, values are guided by location and quality of the product. In the case of single-family housing, selecting locations where housing additionality is desperately needed to meet the constraints driven by a lack of affordability is essential to create an enduring basis for demand.

The success of multi-family housing and its viability is a mirror-image of what is possible in single-family housing. Multi-family has taken large positions in residential portfolios of many pre-eminent investors, with single-family being seen as a natural successor that benefits from many of the same structural tailwinds and defensive qualities, but with a larger target market and potentially quicker route to achieving scale.

The UK's private rental population now stands at 5 million households, with a substantial 2.65 million of those located in the suburbs – where single-family housing is concentrated.[3] Only 10,000 of those 2.65 million households are currently served by single-family housing products,[4] demonstrating the scale of opportunity for institutional capital to provide much-needed additionality to the market.

By providing housing additionality for a growing generation of family renters, single-family housing provides investors with the opportunity to assemble an institutional-grade portfolio of scale in a needs-based sector, where current stock 'online' only scratches the surface of an enormous market.

Evolution of Professional Living Sectors



Source: Fiera Real Estate

Packaged Living Community: Union View, Dartford

The Market Opportunity
The Institutionalisation of Family Rental Housing

Professionally managed single-family housing for rent is a novel concept in the UK. It was not until around 2020 – six years after Sigma Capital launched the UK's maiden single-family housing strategy – that a sector once dominated by the mom-and-pop buy-to-let investment model would enter a cycle of disruption.

In parallel to other institutional asset classes across the living sectors, it is pension funds, sovereign wealth funds, family offices and insurers, that see the greatest potential in long-term ownership of professionally-managed family housing. At its most basic, these institutional investors with longer-term investment horizons benefit from upside and options for exit at all stages of the asset lifecycle, while growing their exposure to alternatives with inflation-hedging, counter-cyclical and scalable qualities.

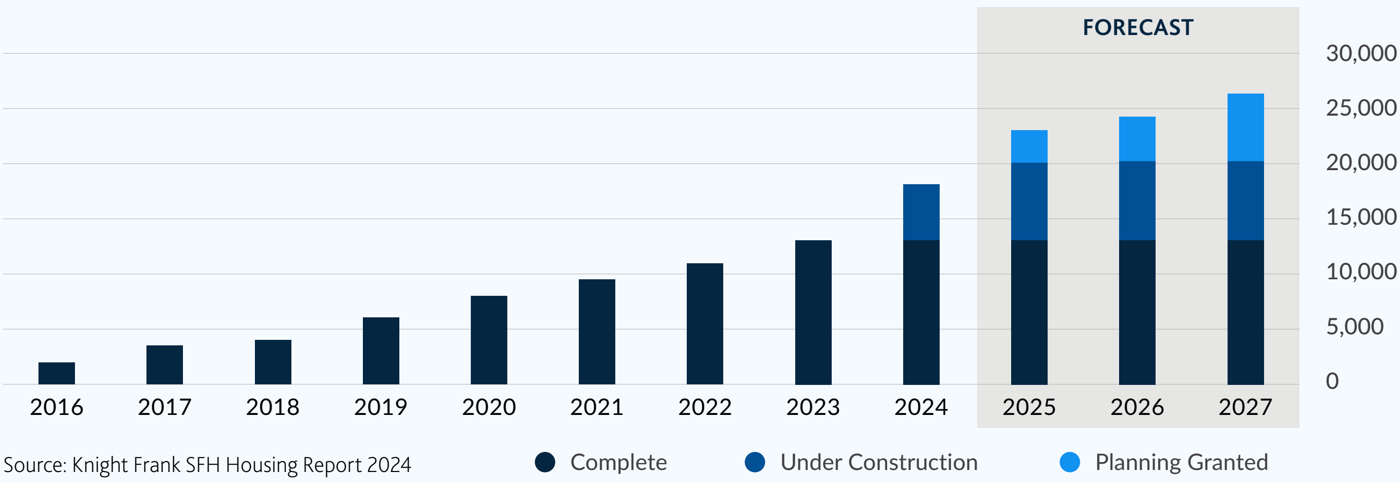
By supplying, owning and operating housing that is purpose-built for renters to a high-specification; which is sustainable and professionally managed, institutions open the door to a long term, inflation-linked income stream and rental growth in one of the UK's most defensive sectors – where the growth outlook is overwhelmingly favourable.

Relatively new and emerging asset classes within the living sectors with the potential for structurally solvable 'catch-up' growth are of particular interest to institutional capital. That is fundamentally because single-family housing is a response to a prevailing imbalance between supply and demand – optimised for and suited to institutional investors – in which rental stock is shrinking as buy-to-let landlords grapple with an evolving regulatory backdrop and high interest rate environment, while existing housing is taken out of circulation through the Right to Buy policy in a context of spiralling affordability issues in key UK regions. The pandemic-induced fall in private-sale construction starts, work from home revolution, technology advancements and low interest rates were other early-stage tailwinds.

At this moment in time, institutional penetration rates in the single-family market are fractional; just 0.4% of privately rented homes in the suburbs are operated by institutional investors,[5] indicating that while the sector is still at an embryonic stage, an immense opportunity for growth exists.

Institutional capital's £1.9bn of investment in 2023 marked a five-fold increase on 2022's total,[6] with investors making clear they are ready to satisfy the opportunity.

Single-Family Housing supply has nearly trebled since 2018
Total number of complete and pipeline homes



Source: Knight Frank SFH Housing Report 2024

Supply-Demand Dynamics

The supply-demand dislocation in the UK rental market has widened in recent years.

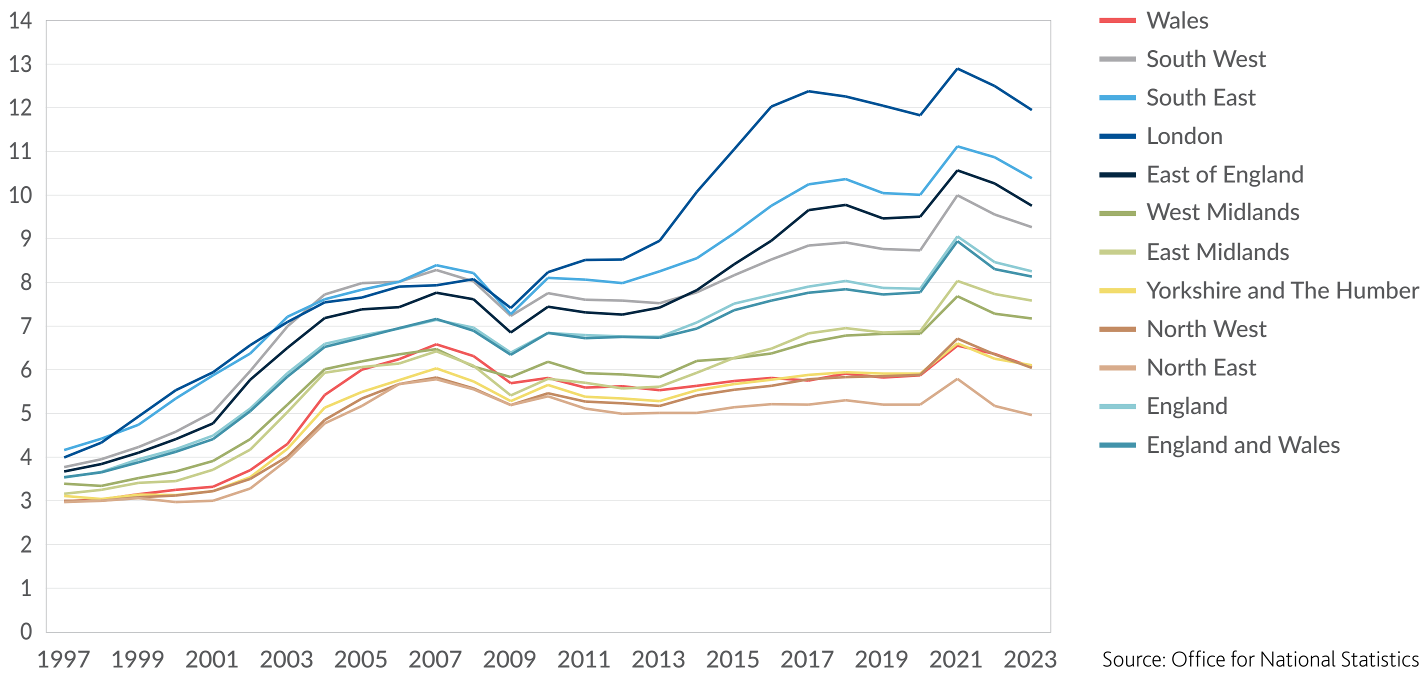
The basis for this is the affordability ratio. That is, the median property price relative to median annual earnings. In 1983, a prospective mortgage holder could expect the cost of their house to be, on average, around three times their earnings each year. Over four decades later, that has almost tripled to 8.38-times average earnings, as house prices have ballooned while wage growth lagged.

At the same time, housebuilding has dramatically slowed since its peak immediately post-war, when initiatives such as Homes for Heroes and the ratification of the Town and Country Planning Act 1947 pioneered New Towns, promoting population drift from overcrowded urban centres. Today, we build annually as many houses as we did in the 1920s, when the country's population was half of what it is today.

The stall in housing delivery naturally means fewer homes, but consider also that our existing housing stock is, on average, the oldest in Europe. Most existing rental housing will not capably meet the legally mandated minimum of EPC C by 2030, with the costs projected to meet this standard among private tenancies to be £8,000 per home, or c. £25bn in total.[7]

This also interacts with what some commentators have called 'the buy-to-let landlord exodus', with a critical source of supply withdrawing from the market due to incoming regulations and structurally higher interest rates. Private landlords are exiting the market at a record pace,[8] and the prospect of a meaningful re-entrance looks highly unlikely.

Ratio of median house price to median gross annual workplace-based earnings in England and Wales



Source: Office for National Statistics

Inflationary pressures and policy impacts have also intensified affordability constraints in the sales market. Cost and material inflation and the rising cost of finance have had a depressing effect on construction starts, while mortgage costs and the end of demand-side stimulants such as Help to Buy and mortgage relief have been dampening transactional activity.

The net impact of these prevailing market conditions in the private for-sale market–and one that forms the bedrock of the single-family investment thesis–is a growing pool of demographically diverse consumers seeking alternatives in rental housing.

Single-family housing meets at the intersection of these structural changes, and strengthens the case for investment into a sector where the story of rental growth looks set to be one of upward pressure for the foreseeable future.

Perhaps more importantly, single-family housing introduces additionality to the UK's housing inventory–which relatively recently lacked choice beyond for-sale or (for those without the purchasing power to front a deposit) a comparatively fragmented and generally low-quality mom-and-pop private rented sector.

Packaged Living Community: Spinning Fields, Braintree

Single-family housing could reach upwards of £25-28bn in the next ten years[9]

Single-family housing represents over 50% of all build-to-rent investment in 2024[10]

400,000 rental homes have left the market since 2016[11]

Just 0.4% of privately rented homes in the suburbs are operated by institutional investors lagging construction starts[12]

The volume of lending for buy-to-let (BTL) house purchases fell by more than half over the course of 2023[13]

25% fewer rental properties available in 2024 compared to 2019[14]

Housing starts fell 41% in 2023/2024 compared to previous year[15]

65% of investors plan to increase their exposure to single-family housing in the next five years[16]

Housebuilder and Institutional Capital Partnerships

The maturity of the single-family rental market has seen the scope of investment models diversify, and the sources of delivery expand.

The most significant of those has arguably been the advent of housebuilder-institutional capital partnerships, from SME through to mid-market and PLC. Through this model, rental housing is delivered by housebuilders (delivery partners) and funded and operated by institutional investors. Institutional capital will enter into forward funding or forward commit/purchase transactions at the pre-development phase, either on a single or multi-site basis; the latter being the preferred structure for two parties in pursuit of scale.

Faced with the reality of a weakened housing market, cost inflation, and a growing recognition of the social benefits of mixed-tenure communities, housebuilders are turning to institutional capital to help de-risk sites and secure a new source of income.

The growing popularity of the partnership model – which is Fiera Real Estate and Packaged Living's preferred investment structure – is a reflection of its mutual commercial benefits. For housebuilders, accelerated housing delivery, diversity of tenure, and improved returns on equity capital employed are all central considerations.

From the capital allocation perspective, institutional investors can achieve a number of benefits by entering into forward-funding and forward-commitment agreements with housebuilders.

INVESTOR BENEFITS

1. **Downside protection**
   Investing at scale is a proxy for doing wholesale deals. Investors can leverage the scale of their investments by acquiring homes at discounts to vacant possession values. This spread between the 'break-up' value and the strike price provides downside protection in the event of a change of business plan.

2. **Reduced construction risk**
   Investors receive financial compensation by house builders in the event of programme delay and or budget overrun. Put simply, development risk sits with the developer, not the investor who is acquiring the homes on a fixed price / programme basis

3. **Specification**
   Forward funding allows the investor to inform the design and specification of each community. Specifically, improving the traditional house builder product to make each rental homes more sustainable, marketable and durable

4. **Diversity**
   Diversity of tenure, housing type and occupier mix enables a more desirable living proposition and placemaking qualities, which supports institutional ESG objectives and diversified income risk

5. **Scale**
   With an average deal size of 100-200 homes, single-family housing offers granular access at scale with £1bn+ achievable in potentially fewer than 20 individual transactions

The Decarbonisation Agenda

Of the many challenges facing the real estate market, the requirement to meet decarbonisation targets is arguably the most formidable.

Owners of existing assets that fail to meet the regulatory targets outlined in the UK government's Future Home Standards – including the requirement for a minimum EPC C by 2030 – face the real and imminent prospect of stranded portfolios, whether small or large. Institutional owners have two options: intensive green-focussed capex programmes, or an exit to an investor willing to take on that task.

New development of single-family rental housing provides the opportunity to bring to market a product that comfortably meets the threshold of institutional capital's sustainability criteria and provides the opportunity to capture a green premium.

By adopting principles of decarbonisation at the build and operational phase, large portfolios can be both future-proofed and aligned with the expectations of the increasingly sustainability conscious consumer.

Fiera Real Estate and Packaged Living's bespoke impact strategy seeks to achieve these key decarbonisation goals via the adoption of ten measurable metrics. Each of these will be independently audited on an annual basis to ensure adherence to the strategy.

Fiera Real Estate & Packaged Living's Single-Family Housing Impact Framework

Our Goal:

To increase the delivery of high-quality, low-carbon homes to underserved communities

Impact Objectives	Three Outcomes	SDGs
Increase access to high-quality rental homes in underserved areas that provide residents with financial security	Improved quality of life and financial security for residents	3 GOOD HEALTH AND WELL-BEING
Reduce carbon emissions through sustainable building practices and energy efficiency	Low-carbon homes, in construction and operation	7 AFFORDABLE AND CLEAN ENERGY
Leverage partnerships to drive local economic growth and strengthen community resilience	Strengthened local economies and communities	8 DECENT WORK AND ECONOMIC GROWTH
		17 PARTNERSHIPS FOR THE GOALS

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Drawing Distinctions
Placing Clear Water Between Secondary Stock and Purpose-Built Strategies

In the UK, the single-family housing market suffers from a distinct case of terminology confusion. The impact is a fundamental miscommunication of the investment case and the nuances that exist within it.

Some media commentators and other public-facing stakeholders display a preference to position single-family housing as a homogenous sector, which fails to recognise the individual merits of strategies in ground-up, purpose-built development on the one hand, and acquisitions of existing, built stock on the other.

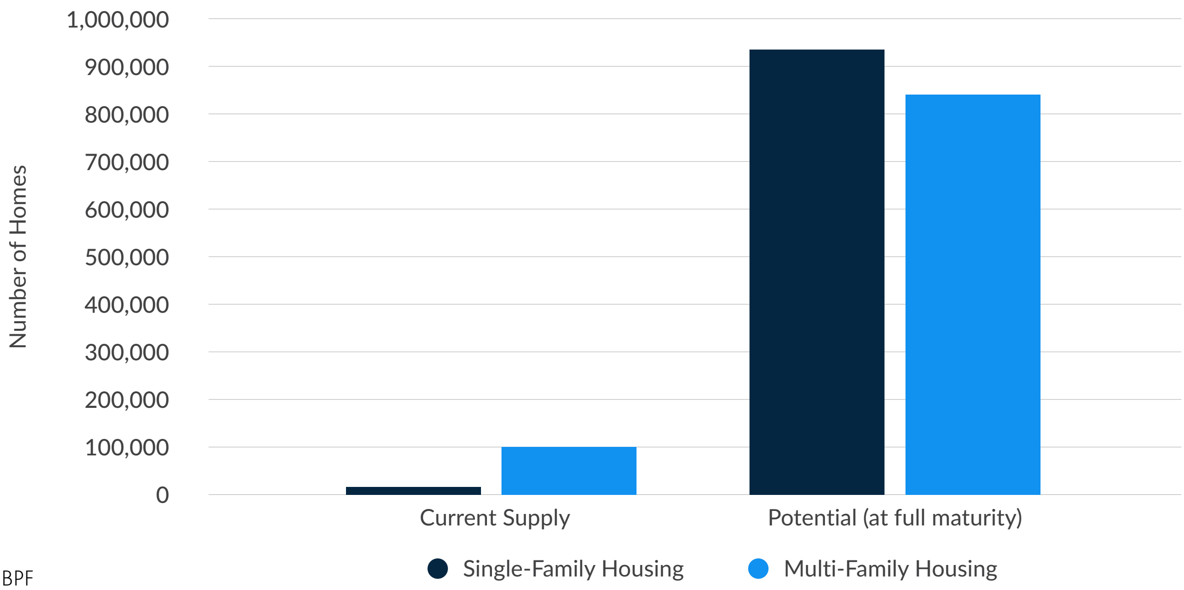
Confusion around single-family housing as a concept is a legacy of how it was conceived; mass foreclosures across the US in response to the global financial crisis, and the influx of institutional ownership that would soon follow.

The earliest iteration of the market was one of institutional owners acquiring smaller developments or multiple houses of existing stock that could be aggregated into a portfolio of scale. But as the market matured and the investment case was proven, purpose-built, ground-up development strategies began to prevail as the dominant model in the US.

While a strategy of granular aggregation remains a popular investment strategy, development of communities that are purpose-built for family rental living is emerging as the preferred choice for institutional capital – a trend that is also playing out in the UK.

Our conviction in a strategy of ground-up development is underpinned by the belief that investors can secure outsized returns by owning a product that exemplifies best-in-class build quality and ESG characteristics, the latter of which supports liquidity. There is also the added benefit of more efficient operational strategies by overcoming the challenges associated with management of granular, pepper-potted assets.

Build-to-Rent Supply by Sub-Sector



Source: BPF

Building With Purpose
De-Risking and Value Creating Through Ground-Up Development

Our belief that investors can benefit from outperformance through ground-up development strategies is predicated upon a multitude of complementary factors that are both de-risking and value-creating in their nature. These can be briefly summarised as:

Sustainability

Development of future-proofed assets that are best-in-class across embodied and operational carbon indicators, thus supporting investors in their pursuit of net-zero targets. Ground-up development ensures sustainability considerations are incorporated across the entirety of the asset lifecycle, from construction through to operations and eventual exit, where a green premium can be realised and greater liquidity achieved. Renters are willing pay a 13% premium for low carbon rental housing in the UK, according to some research.[17]

Designing for rental living

Incorporating the preferences of renters from the outset means homes are designed with rental living in mind, helping to improve the overall desirability of the community and its functionality.

Operational management

Operational and amenity management strategies are simplified through a centralised function that can be easily implemented across the portfolio, where economies of scale can be achieved, and a distinct brand identity created. Pepper-potted strategies are highly fragmented and do not benefit from the same economies of scale.

Scale

Acquiring large sites means investors can achieve scale more quickly, and avert the complexities associated with acquiring individual assets of smaller developments from multiple vendors – a traditional barrier to the deployment of institutional capital at scale into the UK residential sector. Secondary stock on the market is also exposed to complications in the transactional chain.

Mixed tenure

Opportunities to invest in the for-rent allocation of mixed-tenure or 'tri-tenure' (for-sale housing, rental housing, and affordable housing) sites diversifies the occupier mix and supports placemaking characteristics.

Location

Proximity to employment, schools, healthcare, green spaces and other local infrastructure are central considerations of larger new housing communities, which will support demand and resident retention.

Local housing delivery targets

Investing in new-build development is conducive to efforts to increase housing supply at a national and local level.

Quality

New-build development is of a significantly higher-quality than that of second-hand assets and assumes a lower cost of maintenance spend.


Packaged Living Community: Ebbsfleet, Kent

Single-Family on the Operating Table
Driving Performance Through Operations

As we discussed earlier in this paper, single-family housing is the latest in a suite of operational living products coming to market. By implementing effective asset and operational management strategies at single-family communities, investors have the opportunity to capture upside potential by improving gross-to-net income and the overall performance of the asset.

Single-family housing has the benefit of years of learning from student-housing, retirement living, and multi-family build-to-rent, where investors have become familiar with aspects that were historically reserved for asset classes such as hotel, retail and office; including facilities management, technology, the supply chain, and use of communal space.

Investors that are early movers in the sector and manage a portfolio of operational assets have a competitive edge. They have the benefit of first-hand knowledge of how centralised procedures and management methods can be applied to achieve economies of scale, with the end objective of managing gross-to-net by limiting void periods, increasing tenancy renewals (boosting operational income) and limiting leakage.

Unpacking a Good Operational Strategy

1 Vertical Integration

A 360° view of the asset lifecycle ensures operational and asset management strategies are deeply intertwined with investment objectives. Speed of decision making, economies of scale, brand consistency and standards also benefit.

2 Data-Driven

Centralised management systems and processes must be underpinned by proprietary data-sets. Data capture and analysis helps inform operational and asset management decision making in key areas, supporting better business plan execution.

3 Use of Communal Space

A flexible use of communal space can facilitate local community interaction, support for local businesses and encourage resident events, helping to raise standing in the local community and boost resident satisfaction.

4 Customer-Centric

'Customer-first' principles adopted in retail and hospitality should be applied to boost resident satisfaction.

5 Local Community Interaction

Local community initiatives should be encouraged to ensure asset owners are seen as responsible members of the local area and residents.

Fiera Real Estate and Packaged Living

The Partnership

The experienced partnership has a proven track record in single-family housing and is well placed to capitalise upon the opportunity.

Access to full lifecycle capabilities across underwriting, structuring, origination, planning, delivery and operations ensures investors can comprehensively navigate the sector's barriers to entry and accelerate portfolio delivery.

Packaged Living

Packaged Living is a leading sustainable living specialist, spanning investment in and development of best-in-class rental homes in the UK. It has a pipeline of over 5,000 homes, representing a GDV of £1.6 billion.

The company manages over £500 million in assets across 1,100 single-family homes, alongside a multi-family portfolio of over 3,500 homes, making it one of the UK's largest purpose-built rental developers and a market-leader in operating rental living assets in the sector.

Fiera Real Estate

Fiera Real Estate, a shareholder in Packaged Living brings over 30 years of experience in European real estate and development across key commercial and residential sectors.

The firm globally manages over USD7.8 billion of commercial real estate through a range of investment funds and accounts.

Fiera Real Estate is wholly owned by Fiera Capital Corporation, a leading independent global asset management firm with more than USD122.5 billion of AUM. Fiera Capital provides Fiera Real Estate with access to global investment market intelligence, which enhances its ability to innovate within a framework that emphasises risk assessment and mitigation.

FIERA REAL ESTATE + PACKAGED LIVING

Fiera Real Estate and Packaged Living have:

30+ years experience in the industry

5,000 homes in the pipeline

£1.8bn AUM across UK residential strategies

8,200 residential planning approvals achieved

Source: Fiera Real Estate, Packaged Living, December 2024.
Past performance is not necessarily indicative of future results. Performance targets are not guaranteed. Inherent in any investment is the potential for loss.

Key Takeaways

The living sector of choice

UK single-family housing has emerged as a living sector of choice for institutional investors, with investment volumes growing year-on-year and forecast to remain on an upward trajectory. As LPs increase their exposure to private market alternatives, single-family housing is predicted to occupy a larger weighting in residential investment strategies, with the offer of inflation-hedging rental growth and capital appreciation in a scalable portfolio forming the bedrock of the investment thesis.

Additionality

Consumers are seeking alternative housing solutions in response to the widening supply-demand dislocation and the resulting affordability crisis. Single-family housing brings much needed additionality to the market, disrupting an inventory that has been encompassed by for-sale housing and a private rented sector dominated by the mom-and-pop model model and sub-standard built stock up until this point.

Scale through housebuilder partnerships

Partnership between institutional capital and housebuilders is prevailing as the dominant investment model in single-family housing, where investors can benefit from downside protection, reduced construction risk, and accelerated pipeline build out by entering into delivery partner agreements with established housebuilders. Despite an improving housing market, housebuilders continue to display their long-term confidence in single-family housing.

Filling the void

Private buy-to-let landlords are leaving the market at a record pace, deterred by a penal tax environment, structurally higher interest rates and environmentally-focussed regulatory changes. Single-family housing helps to counteract the impact this has on the rental housing supply-demand imbalance.

Building with purpose

Ground-up development of purpose-built family rental housing is, on balance, institutional capital's preferred investment strategy. While granular aggregation of pepper-potted second hand stock still occupies a share of the market, the overwhelming consensus is that the delivery of new-build rental housing exemplifying best-in-class build quality and ESG credentials supports outperformance.

Institutional-grade ESG

Ground-up development of single-family housing comfortably satisfies institutional-grade ESG criteria. Investors can deliver high-quality, low-carbon housing – that falls on the right side of regulatory change – to underserved local communities, as well as a plethora of socio-economic benefits. These advantages support future portfolio liquidity and help avoid a stranded asset scenario.

Value creation through operations

With investors increasingly seeking access to operational real estate products, single-family housing provides the opportunity to capture upside potential through value-creating asset and operational management strategies. Vertically integrated models ensure that these strategies are deeply intertwined with wider investment objectives, while speed of decision making, access to economies of scale, and consistency of brand standards are other significant benefits.

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Endnotes

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Version STRENG003