



# Single-Family Housing is Leaving its Sandbox

By Charles Allen, Head of European Real Estate

**If I had to draw a line separating a 'before' and 'after' of UK real estate, it would be early in the 2010s. That feels recent for what is often described as the world's oldest asset class, but back then the investable universe available to institutions was a slither by both scale and sophistication, to what it has now become.**

A decade-and-a-half on and investors have a very different opportunity, with the living sector arguably the subject of greatest change. Capital no longer finds itself in a domestic market characterised by a binary choice of for-sale stock on the one hand, and an inefficient rental sector on the other.

The explosion of interest in professional rental as an asset class has been seen most noticeably in multi-family build-to-rent, where there are over 100,000 homes across 500 schemes, and a healthy secondaries market exists. Stabilised

first and second generation (depending on one's definition) stock is trading, supported by regular transactions activity and the uptake of debt – making it easier to value and underwrite an increasingly transparent market.

At what point multi-family build-to-rent came out of its sandbox is up for debate. Best practice in funding structures as well as operational and asset management – while recognising variance in investment models – has arguably taken longer than some had anticipated.

Single-family housing, on the other hand – which enjoys the benefit of proven demand for professional rental products and lessons in best practice – is maturing at a faster pace. The curtains on the early mover advantage window are drawing in.

Some of this can be put down to a global paradigm defining event that multi-family didn't benefit from in its earliest years of maturity; a pandemic. From a yield perspective in single-family, the low-rate environment supported the investment threshold for institutional capital on a risk-adjusted basis. The work from home revolution bolstered the appeal of suburban living. Forced technological innovation in house viewings and operational management lowered a technological barrier to entry in the sector.

Most importantly, housebuilders are still recovering from plummeting construction activity that resulted from the pandemic – now compounded by the return to a mid-rate environment and a struggling for-sale market. The impact for single-family has been the emergence of a partnership model that will bring sophistication, quality, and scale to a market at a stage of its maturity that was not comparable to that of multi-family's.

Housebuilder requirements for new income streams and site de-risking solutions are seeing a rise in forward-funding agreements or joint ventures on a single or multi-site basis. Investors are increasingly competing for scale through ground-up development, and the risk-reward for granular aggregation – or 'pepper potted' – strategies is under question more than ever.

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uplift while reducing planning and construction risk. They can secure downside protection by virtue of exit optionality between phases. ESG targets are more easily attainable through access to mixed-tenure communities and the development of modern, future-proof assets. Ownership of larger, dense schemes make the operational management process more efficient. Homes are designed for rental living, meaning operational efficiencies can be accounted for from the outset.

That isn't to say development strategies don't come without risk. Relationships with housebuilders; build cost inflation; risk sharing; and conflicting approaches to how partnerships are fundamentally managed are significant risk factors to confront.

Those who entered the asset class in the late 2010's and early 2020's are best positioned to overcome them, and more so those with integrated investment, development and asset management

capabilities where alpha can be generated alongside improved deal flow that comes through a strong delivery partner network.

Single-family housing is beyond its early phase of experimentation, when a first-mover advantage was enough to generate alpha on its own. Out of the sandbox, and into an established asset class, it will be those who take in the lessons learnt in build-to-rent, and who offer diversified value creation at all points of the asset lifecycle, that will lead the pack.



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