

Design and Construction Group Five Minute Briefing

TITLE	What is 'PRS'?
AUTHOR	Chris Bolland, Managing Partner, Brock Carmichael
BRIEFING	
<p>The Private Rented Sector or 'PRS' is an emerging tenure swiftly gaining traction within the UK property market. The idea is nothing new, and the model has been extensively used across Europe, North America and Asia. Unlike a 'buy-to-let' development, where individual units are built and then sold to private landlords, a PRS development is purposefully designed, built and managed, as one asset, to derive an investment return from the rental income across the whole scheme.</p> <p>From an investment perspective there are also key differences. In pre-recession 2007, UK towns and cities were awash with apartment buildings built for the buy-to-let investor. Apartments were sold off plan, often before even a planning permission was granted, and security deposits and finance were used to forward fund developments prior to sale. It wasn't uncommon for schemes to be sold many times, even before they were built, with investors cashing in on exaggerated capital appreciation. PRS is a very different approach. The key is that the return on the investment is derived from the net rental income generated by the whole development over the long-term. Although residential rental returns offer typically a lower yield than commercial property, they are more consistent and less exposed to volatility in the property cycle. The move away from amateur landlords is seen as the 'professionalising' of the residential rental market and has sparked a trend for institutional investment with PRS developments across the UK backed by sovereign wealth funds, international banks, pension funds and insurance companies, all attracted to the long-term returns</p> <p>These investors see a strong sustainable market for rental property and not just in the south-east, where their assets are protected by strong capital growth and high rental levels, but in the Midlands and across the Northern Powerhouse. This market is fuelled by the relative inaccessibility of housing to young people and families, a shortage of stock in areas where people want to live and shifting attitudes about home ownership.</p> <p>As development and construction projects, PRS schemes require a substantial paradigm shift from the buy-to-let investments of pre-recession times. With the focus on long-term ownership, considerations such as location, quality standards, whole life costs, maintenance and building management become just as important as net construction cost and schemes generally include a 24/7 concierge as well as on call maintenance for residents. As well as providing an attractive offer this is also about protecting the investment. The right design and specification is also vital. As the PRS market becomes more competitive, different locations will offer different incentives to attract tenants. Some schemes offer added value to tenants with an array of in-house amenities including a gym, cinema room and bookable party rooms, whilst other buildings will focus on connectivity and integrated technology. These extras all come at a cost though, and projects require expert attention to balance capital expenditure against rental return to maintain viability. Efficiency is paramount, with net to gross on floor areas typically at 85%.</p>	

PRS is not just about young professionals living in city centre apartments. The sector is seeing strong growth in low-rise family housing developments with high quality detached and semi-detached properties forming successful PRS investments. There is also a growing market for the downsizers, couples in their 60's cashing in the family home and relocating to a city centre market.

The Government also supports PRS, and the sector is becoming part of the solution to the widespread housing shortage. The Home Building Fund is a Government initiative, administered through the Homes and Communities Agency (HCA) that provides development and infrastructure finance from £250,000 to £250M to support new homes for sale or rent.