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Private rented sector

Are amenities key to the success of build-to-rent in the UK?

On Kampus: the 550-bed PRS scheme is being developed in Manchester

As more young people are forced into renting, some BTR developers are recognising the value of providing add-ons such as gyms. Jon Severs reports

The only thing everyone says they know for sure about the build-to-rent (BTR) sector is that no one knows for sure what works. BTR is a "fledgling sector", according to experts. There are no right answers.

Yet they are pretty unanimous on one point: success depends on differentiation, and on-site amenities are a big part of providing that.

"As the BTR sector becomes more established, so does the recognition of the value of add-ons," attests Katy Davis, partner at Carter Jonas.

So what is the safest bet? The British Property Federation estimates that to date, 13,000 BTR units have been completed, 17,000 are under construction and a further 40,000 have planning permission.

"While this is a significant increase on previous BTR supply, it is still quite a way behind the US and Europe, where markets are far more established," says Toby Nicholson, director in Colliers International's BTR team.

Playing catch-up

However, there is reason to believe the UK market will soon catch up. There is an emerging population of young people who can't afford to buy and want reliable landlords and purpose-built homes with a community feel.

"There is a shortage of purpose-built stock in the UK to meet this demand and this undersupply is the fundamental force that has driven the rapid increase in BTR schemes over the past couple of years," says Ronan Murphy, group finance director at contractor-developer Durkan.

> **BTR in the UK is quite a way behind the US and European competitors**
> **Toby Nicholson, Colliers**

Despite the undersupply, developers and landlords are having to work ever harder to appeal to an ever more discerning and demanding tenant base. They are increasingly turning to the multi-family format in the US – as well as university campuses – for inspiration.

"Decisions to build facilities such as a gym are typically driven by the developer's belief that it will drive value [either through rental uplift or ancillary income] or create a draw that a competing development might not provide," says Ana Nekhamkin, managing director of BTR developer Inhabit.

Such amenities are already a fundamental offer in more mature markets such as the US. Get Living chief executive Neil Young goes so far as to say: "In the US it has become an arms race, with providers looking to outdo each other at every turn – from doggy daycare to casino rooms and spa services."

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« Jonathon Ivory, managing director at US firm Atlas Residential, says he fully expects the UK to follow North America's lead.

"As US owner-operators ourselves, we feel well placed to capitalise on this trajectory," he says. "With this in mind, we will soon be launching our first BTR development in Southampton called Bow Square. At Bow Square, we are offering tenancies of up to three years in a scheme that has the feel of a serviced hotel suite."

Plenty of UK developers and agents are of a similar view. Neil Wilkins, marketing supervisor at Genesis Housing, notes that concierge services are now standard, while Henry Smith, chief executive at Aitch Group, highlights the facilities at its Childers Street development in Deptford, which include an on-site cinema, a bike repair centre, a communal roof terrace, a coffee shop and co-working space.

Other schemes are already offering a full suite of add-ons, including gyms, laundry and dog-walking services and cinema rooms. Private dining rooms are also increasingly popular.

Quirky developments

Many of these developments have already delivered the expected returns, and Richard Daver, managing director at Rendall & Rittner, says that even more risky amenity offerings are proving successful.

"Some of our quirkier developments include wine cellars, a private dining facility and virtual golf – all offering a great return," he claims.

It isn't just about boosting rents, but also increasing the length of tenancies. "When it comes to BTR buildings, amenities are a key aspect to encourage tenants to stay for longer," says Alex Greaves, head of residential at M&G Real Estate. "These are an essential addition to this type of asset."

However, not everyone is convinced. Several commentators question whether any firm conclusions can be drawn from such a small selection of case studies.

"It's hard to know exactly what add-ons will be most successful in the long run; this will need to be sense-checked by the developers with research and analysis," says Claire Hughes, real estate partner at law firm Pinsent Masons.

Certainly, the companies behind some of the best examples of BTR are wary of a simple bolt-on approach. While Get Living's East Village development at the former Olympic Park in Stratford is held up as an example of how BTR should be done by many commentators, Young stresses that the focus is not just on attention-grabbing amenities, but also on flexible spaces that can be used to create community cohesion.

Crowd pleaser: local residents flock to Victory Park – a community hub at Get Living's East Village

"In the UK, we anticipate that while amenities and the 'offer' will become more important, amenity spaces themselves will become increasingly flexible to meet changing demands over the lifetime of the development," he explains.

Amenities are a key aspect to encourage customers to stay for longer
Alex Greaves, M&G

Nekhamkin agrees. "I don't see the same amenities race developing in the UK as currently exists in the US," she says. "This is largely because it will take quite some time for the radical shift away from home ownership to materialise. As long as tenants aspire to and are saving up for a home, they are likely to have a cap on how much premium they are willing to pay for services and amenities while they are renting."

While that remains the case, Julian D'Arcy, principal at Foundation Real Estate, which is currently progressing two schemes in Birmingham and Leeds, doesn't see the value in developers laying on too many amenities. Indeed, he argues that developers should stick to doing what they do best rather than moving into areas others are more expert in.

"What we don't intend to do is pretend that we can manage a gym better than Virgin or make a better coffee than Starbucks, replicating amenities that are already available in the immediate environment," he says.

"Developers need to be cautious about attributing long-term revenue growth strategies to amenities, as it is not always appropriate or sustainable – the hospitality sector has taught us that something chargeable one day is tomorrow's expected norm."

Instead, D'Arcy agrees with Young that BTR developers should aim for flexible space that is more akin to a "village hall put to multiple uses depending on the composition of the community it serves".

But they should proceed with caution. Daniel Halstead, real estate partner at law firm TLT, says that legal issues could arise from some of the amenities being offered. "The growth of

amenities-focused commercial arrangements will inevitably lead to greater numbers of disputes between landlords and operators, particularly if an on-site operator comes into financial difficulty," he says.

"The key question will be whether the cost of that ends up being borne by the landlord or by residents through rising maintenance fees. It's quite dangerous territory if the landlord ends up having to divert money away from building maintenance in order to prop up any underperforming or failing commercial arrangements."

> **The growth of amenities will inevitably lead to greater numbers of disputes**
> Daniel Halstead, TLT

That's not to say developers should write off additional facilities. They should simply tailor them to the local market.

Nekhamkin believes that there will be quite a bit of trial and error, with developers adapting their initial approach in response to feedback from residents. Unlike some of her peers, she believes amenities can add value if done well.

"There's huge potential value from including amenities, but to realise this value it is critical to ensure the offering is thoughtfully conceived and flawlessly executed," she says.

Working to scale

Nicholson adds that the scale of the scheme also has to be taken into account. "While the market rent might be higher, the amenity does not generate significant additional value," he explains. "Schemes typically need to be over 200 apartments to justify significant additional amenity."

Location is another factor to consider. There has been significant growth in BTR in the Bristol and Bath area, for instance, but Darren Sheward, head of the South West region at Lambert Smith Hampton, does not think amenities are as important to tenants as they are in London.

"Bristol, with its strong market potential, is especially high on the shopping list for BTR investors and institutions," he says. "But while occupiers in Bristol and Bath will pay for well-designed space, my feeling is that they won't pay a premium rent for extras such as valet parking, 24-hour concierges, on-site gyms and so on."

The current trend of targeting young professionals may also prove short-sighted. Guy Nixon, chief executive of Go Native, says BTR schemes should cater for people at different life stages and that the mix of amenities should reflect that.

"As such, we will see workspace, theatres and performance space, libraries, healthcare facilities and a range of other amenities introduced that make the scheme attractive to a diverse community of residents," he says.

Ultimately, no one really knows whose crystal ball will be the most accurate when it comes to BTR and amenities.

What is clear is that those developers that have a deep understanding of who their target demographic is and what that demographic wants will come out on top. ■