



Countrywide

How we live: the return of renting

Countrywide Research
Spring 2016



Foreword

The authors of this report hope to lift a little of the fog around the UK’s rental market by adding international context to the UK’s tenure changes and sharing analysis of the intricacies of renting. We encourage any reader who would like to know more about the research behind this report to contact the authors below.

Authors



JOHNNY MORRIS
Research Director
Johnny.morris@countrywide.co.uk



FIONNUALA EARLEY
Chief Economist
Earleyf@hamptons-int.com



OLIVER DU SAUTOY
Head of Commercial Research
odusautoy@lsh.co.uk



DAVID FELL
Research Analyst
David.fell@countrywide.co.uk



MICHAEL ADEFUYE
Research Analyst
Adefuyem@hamptons-int.com



ANEISHA BEVERIDGE
Research Analyst
beveridgea@hamptons-int.com



Contents

- _ 04 | Introduction
- _ 05 | Executive summary
- _ 06 | The end of the ownership dream?
- _ 08 | A realignment of the UK’s private rented sector
- _ 10 | New kid on the block?
- _ 11 | Putting a price on your landlord
- _ 12 | The new build premium
- _ 14 | London’s housing zones

About Countrywide plc:

Countrywide plc’s network of expertise helps more people move than any other business in the UK and is a leading provider of estate agency, lettings, mortgage services, land and new homes, auctions, surveying, conveyancing, corporate property management services and commercial property.

Countrywide plc’s award winning service has earned the business over 180 high profile awards in the last five year, with customers voting Countrywide the Best National Agency Group at the 2015 ESTA awards. Countrywide Surveying Services won the award for the Best Anti Fraud Service at the Mortgage Gazette Awards for three consecutive years – 2013, 2014 & 2015.

Introduction

The rental market needs to be much better understood

There is a perception that the UK has one of the highest rates of home ownership in the world and that's why we are obsessed with house prices. Its not true, most of our European neighbours have higher proportions of owner occupiers as do many developed countries across the world. So it is puzzling and a little worrying that we don't have a better understanding of the rental sector, particularly as it is becoming an increasingly important tenure in the UK. The owner occupier market is well served with good quality data, including official long running house price indices, transactions data and many different surveys tracking the dynamics of the market. For those wishing to unpick its intricacies there is a wealth of publicly available and largely good quality data.

The rental market is much more opaque. Despite valiant attempts, there is still no official government rental price index and official data collected by the Valuation Office Agency is sparse, particularly compared to the Land Registry's line by line publication of almost every sale it records. The longest available time series from the ONS is a little over 10 years, compared to 50 for the sales market.

One might argue that the rental sector is small in comparison; only 4.3 million households compared with 17.5 million who own their homes so doesn't warrant so much attention. But the private rented sector (PRS) is growing rapidly and is increasingly the only option, particularly

for younger households. With this in mind it is imperative that we get a better understanding of this tenure - and how it interacts with owner occupation - to provide decent quality homes for the population of the UK.

The current government's stance on tenure is focussed on home ownership, yet with barriers to entry to this sector higher than ever, and unlikely to fall in the foreseeable future, that dream is a long way off for increasing numbers of people. The rental market will remain a reality for many of these households and a lack of proper understanding presents a problem for policy makers, business, investors and consumers alike. Understanding the whole housing market and the factors that affect tenure choice are essential for making informed decisions, whether it be for policy, professional or personal reasons – and that is true even if a different preferred tenure is the goal.

We believe that a healthy housing market needs to have a balance between both private rented, social rented and owner occupied homes, for flexibility, labour mobility, lifestyle and many other reasons. We also recognise that there needs to be safeguards too. In the private rented sector consistently high standards, security and low costs are the pillars needed to support a fair market. While all three are evident in the sector today, they are not consistently so. Those choosing to rent should have a wide choice of short and long let rentals, which are good quality and well maintained. The benefits of low entry barriers, flexibility and speed that renting offers are important for a healthy housing market, as well as a thriving economy.

A lack of proper understanding of the rental market presents a problem for policy makers, investors and consumers alike. One which will grow with the number of people renting

Executive Summary

The return of renting is shaping the narrative of the housing market

We often present the decline in home ownership and growth of renting as a uniquely British experience. Some factors fuelling the structural shifts in tenure are indeed unique to the UK, but many are not. The private rented sector will have a bigger part to play in housing the world's population in future years. Some countries have much more mature rental markets, with more institutional landlords and more stable tenancies for residents, this puts them in a much better position for a shift towards renting. Others, the UK among them, will have to adapt to ensure that those renting their homes are just as well housed as those that own them.

For the UK creating a link between the growth of the private rented sector and the delivery of new homes offers the opportunity to both increase the volume of homes built in the UK and improve the experience of renters. 2016 will be a formative year in the growth of the institutionally backed build to rent sector. The government should act now to support and encourage the growth of build to rent, cementing its future place in Britain's housing landscape.



- ▶ Institutional investors own c.£5bn worth of rental investments in the UK, but account for a much smaller proportion of the sector than in many other countries. In the US 13% of rented homes are owned and managed by institutional investors, in the UK less than 1%.
- ▶ Investors have become steadily more interested in alternative investments, as they search for value and ways of diversifying risk. A recent LSH survey found that the PRS was the most attractive investment in the sector for 2016, pointing to growth over the year.
- ▶ The interest from institutional investment in the PRS presents an opportunity to increase choice for tenants and overall standards in the sector. Place making, design and services tailored to renters can all make build to rent homes more attractive than the equivalent managed by a smaller landlord.
- ▶ The premium paid by UK tenants to rent a new build home over an equivalent older property was 20% in 2015. But the premium for a new home has not been consistent over the last 15 years, it declined substantially in the mid 2000s. But increases in the number of households renting and a large fall in the number of homes built meant that the premium started to recover in 2008, reaching a peak of 26% in 2010.
- ▶ London's new housing zones are equivalent to building a new London borough, covering an area the size of Brent, and housing the same number of people as in Hammersmith & Fulham. Given the mayor's Housing Strategy's specific target to increase the number of homes delivered by institutional landlords, these areas will likely become build to rent hotspots.

21%

German house prices sit 21% above 2007 levels, compared to just 2% in the UK

Turn to page 6

50%

The capital gains tax discount offered to investors in Australia who own a property for more than a year

Turn to page 8

£66.3bn

The value of UK property that changed hands in 2015 with alternative investments comprising a third of this figure

Turn to page 10

15-20%

The premium schemes by the best institutional private rental providers have been able to achieve over and above what individual landlords could achieve letting an identical home

Turn to page 11

20%

The premium tenants pay to live in a home built in the last five years

Turn to page 12

66,000

The number of homes projected to be delivered by London's Housing Zones

Turn to page 14

The end of the ownership dream?



Home ownership is often presented as a fundamental tenet to a society’s development, but a growing number of households across the world are unable to achieve it

Successive governments have long heralded the benefits of home ownership and often incentivised it through tax breaks which helped stoke demand and, particularly in the absence of flexible new supply, higher house prices. Since the turn of the century, many housing markets have experienced sustained periods of house price growth, creating barriers to entry for many and leading to declining ownership rates.

In the UK there was a significant tenure shift during the 20th century. In 1918, 23% of the population were owner-occupiers, by 1960 this had risen to 43% and continued to grow peaking at 71% in 2003 after the right to buy policy and relaxation of lending controls. Government policies and economic growth made ownership more accessible, while high inflation served to decrease the value of housing loans in real terms. But despite lower interest rates, deteriorating affordability and lower wage growth means home ownership is declining and is now at its lowest level since 1984.

Sustained population growth since 1982, shrinking household sizes and increasing availability of mortgage finance stoked housing demand. However, construction failed to keep up and the imbalance resulted in continued upward pressure on house prices. As prices continued to rise, incomes failed to keep up, growing at half the rate since the mid-90s, making it increasingly harder to own a home.

The 2007 financial crash accelerated the trend of declining home ownership. As prices recovered after the downturn, incomes continued to stagnate whilst banks also tightened their underwriting criteria, making home ownership more unattainable.

This downward trend in home ownership levels isn’t isolated to the UK and is seen across many major economies. Similar factors have led to stretch affordability locking many out of ownership.

US

The US saw a post-war housing boom which drove owner occupation to become the dominant tenure; home ownership rates rose from 44% in the 1940s to 64% in the 1960s. It remained there until the mid-90s where government policies increased the availability of credit, making it easier for households to own.

In 2004, ownership rates peaked at 69%, since then affordability pressures have taken their toll and the decline in ownership began. By 2005, the house price to income ratio was at its highest level in the US, at 4 times the median income. In New York and San Francisco, respectively, it had risen to 8 and 11 times the median income. The financial crash further accelerated the decline, wiping out most of the gains in ownership seen in the early 2000s. The US has seen a year on year decline in its ownership rates ever since and rates are now down to 64%, their lowest level since 1967.

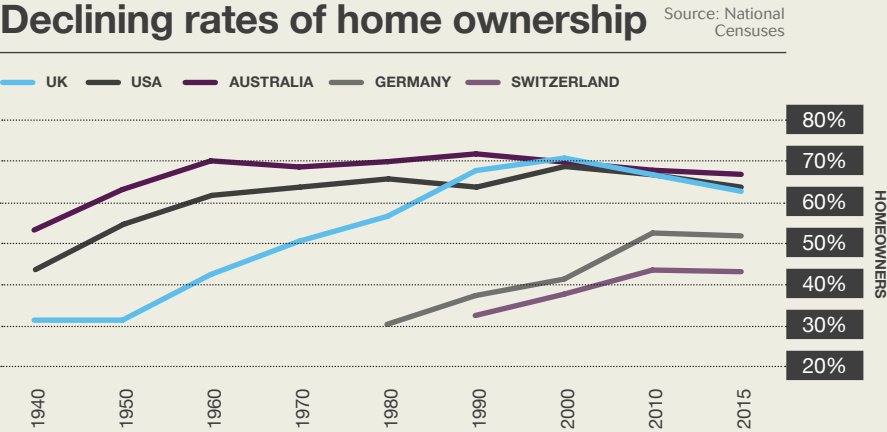
Sluggish economic conditions and weak wage growth since 2007 along with stricter bank lending have erected more barriers to ownership for many households.

Australia

Australia had a relatively high level of home ownership as early as 1911, where 49% of households were home owners. Ownership rates peaked in 1991 at 72%, and have declined since. At the latest estimate the home ownership rate in Australia was 67%, the lowest since the 1950s.

Uninterrupted economic growth for much of the 20th century, and government support, especially for first-time buyers

Declining rates of home ownership



and investors, directed home ownership as the dominant tenure and investment choice. High demand for housing, and increased purchasing power from falling interest rates, coupled with more easily available credit, resulted in a house price boom.

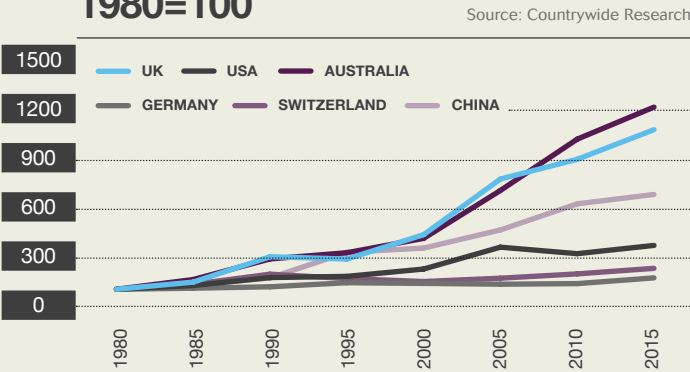
The pressure on prices was exacerbated by construction failing to keep up with growing demand – especially in the larger cities. In 1985, the house price to income ratio was 3.2 times the median income but by 2014 this had risen to 6.3 times average income.

Germany & Switzerland

Even major economies where home ownership has generally played second fiddle to the rented sector, have seen ownership rates start to decline. Germany and Switzerland both have two of the lowest ownership rates in Europe. Historically both countries have tougher lending criteria as banks tend to lend at lower loan to value ratios than many of their European counterparts. Additionally, unlike other governments, both countries do not advocate fiscal policies that directly promote home ownership, on the contrary, their tax system and strong rental laws generally mean that renting is cheaper than owning. Transaction costs for buying property are also relatively high in both countries.

Following the recession and interest rates falling to record lows, many more households were attracted to ownership as financing became easier. Pre-2000, home owners accounted for around a third of the population in both countries, but by 2010 this had risen to 53.2% in Germany and 44.4% in Switzerland. The increased demand for homes, from owner-occupier and both local and foreign investors, served to push up prices much faster than historically – between 2007 and 2015 prices grew by 21% & 29% in Germany and Switzerland respectively. By 2014, ownership had fallen down to 52.5% in Germany and 44% in Switzerland.

Global house price index, 1980=100



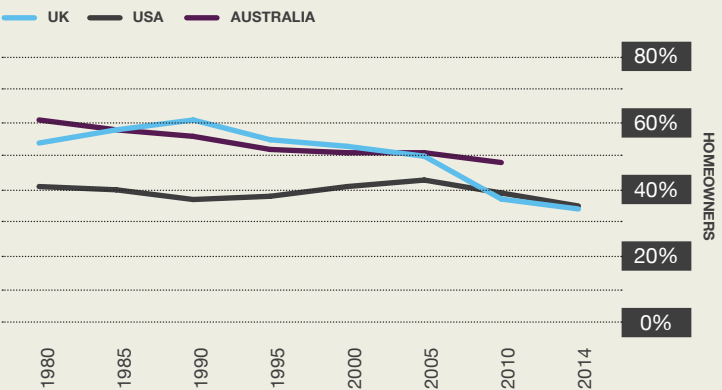
China

China, which is estimated to have one of the highest ownership rates in the world at 89%, is also seeing similar price barriers affecting future ownership. China’s high rate stems directly from government policy to promote ownership. In urban areas, the state allowed most workers to buy their government housing at a large discount whilst in China’s relatively large rural population, people built their own housing on collectively owned land.

But as China’s economy grew since 2000, house prices, particularly in the cities, also rose rapidly. A large rural-urban migration added pressure to housing supply in its cities. In 1980, 20% of China’s population lived in urban areas, by 2014 this had risen to 54%.

With restrictions on investing outside the country, many Chinese households channelled their income into the housing market, putting more upward pressure on prices. In the first decade of the century, house prices doubled. In Beijing, prices tripled in the same period.

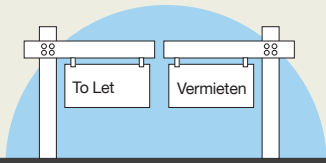
Under 35 home ownership rate



The trend of falling home ownership looks set to continue. Declining home ownership is a key part of the intergenerational fairness debate. The headline figures hide a rapid decline in ownership amongst younger generations. In the UK, since its peak of 61% in the 90s, ownership rates for under 35s have collapsed, falling to 34% in 2014 – the lowest level since records began in 1960. It would take substantial changes in the market or income levels for this trend to be reversed.

As more young would-be first time buyers are priced out of the housing market, national home ownership rates will continue to decline and tenure choice will narrow to remaining in the family home or entering the private rented sector.

A realignment of the UK's private rented sector



As demand in the private rented sector grows, the tenure will need to change

Renting was once the dominant tenure in the UK's housing sector but over the 20th Century homeownership became increasingly popular. In the last decade, this shift has reversed and more and more UK households find themselves living in the private rented sector (PRS). In the last five years alone, 923,000 households have entered the sector. The resurgence of renting has been fastest in London, in the last decade the number of households living in the PRS has increased by 60%. 27% of households in London now live in the PRS – more than both owners with mortgages and the social rented sector. The rapid growth of the PRS has been driven by affordability pressures in the owner-occupier market and demographic changes.

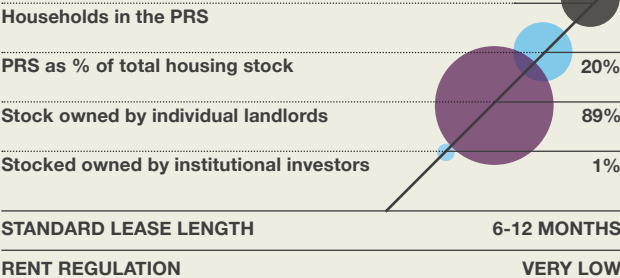
With the PRS playing a more prominent role in housing the nation, the government has made tentative steps to develop renting into a more professional and sustainable sector. At present 89% of landlords only own a single property, with 92% of them combining managing their property with another occupation. The reintroduction of institutional investors into the market could help professionalize the sector and ultimately introduce more choice for tenants.

Institutional investors already own around £5bn worth of rental investments in the UK, but this is small in a sector worth £1.1tn. Indicators point to their involvement growing

as the fundamentals are in place to make it an attractive proposition for investors: more households look set to join the private rented sector; the residential asset class provides better returns than many commercial assets; the government's tacit support for the sector through its Build to Rent Scheme; favourable tax policies for large investors and; newly erected barriers for small individual investors. These all start to tip the balance towards large investors.

Other countries where renting is more common than in the UK have more institutional investors, and the UK looks set to emulate them. However individual landlords still own the majority of homes in these countries and will too in the UK.

UK PRS Snapshot



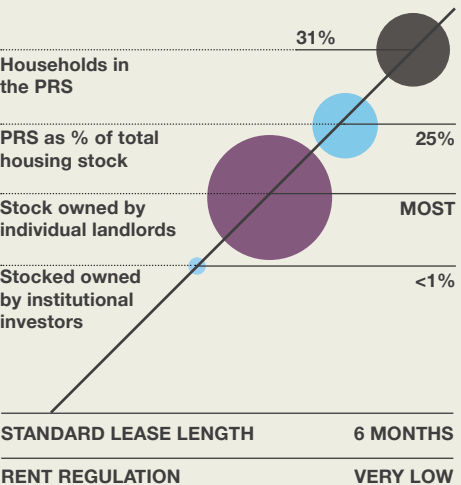
Australia has the most similar rental market to the UK, colloquially 'Mum & Dad Investors', with next to no involvement from institutional investors.

An advantageous tax system in the form of the reintroduction of "negative gearing" tax reduction and discounted capital gains tax incentivised many to buy rental property as a way to accumulate wealth. When negatively geared, investors are allowed to deduct losses made on rental properties from other income like wages making it an attractive asset for those who face high tax rates.

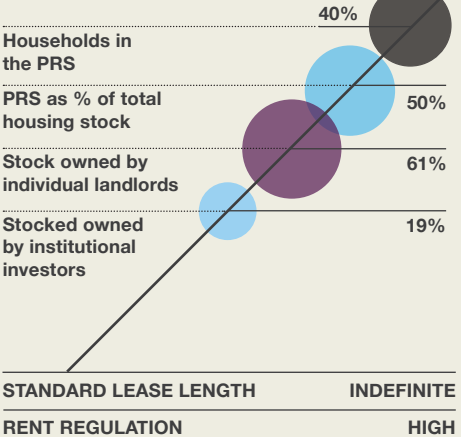
Additionally, in 1999, the government changed capital gains tax laws giving investors a 50% capital gains tax discount when selling their property as long as it has been held for more than a year.

This creates barriers for institutional investment as it pushes the market into a low income yield, high capital gains position which isn't conducive to large scale investments. The low rental yields in the market, typically around 4-5%, compared to yields of 8-10% for other alternative investments deter investors. The focus on capital gains also increases a portfolios risk to volatility in the housing market.

Australia PRS Snapshot



Germany PRS Snapshot



Germany is oft-cited as the ideal model for a rented sector. Its strong tenant laws provide greater security for those who call the sector home making it a preferable alternative to ownership.

It is still dominated by small individual landlords who benefit from profitable tax incentives especially relative to home ownership. But institutional investment plays a much larger role here.

Many institutional investors joined the market after the German housing market slumped in 1998 and 2003, against international trends. Large

investors saw the opportunity to pick up existing stock particularly from federal and regional states who were unloading what they owned. Cheaper entry costs meant that investors were able to achieve profitable yields.

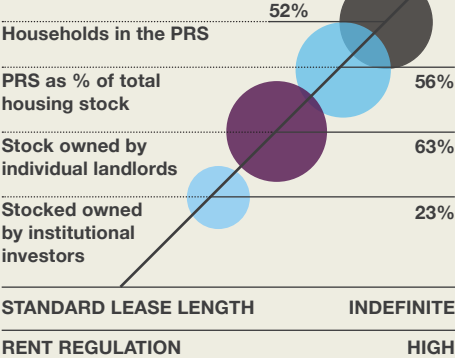
Germany is still seen as the key destination for institutional investment due to its established rental sector model, the relatively cheaper market, and the stability of the income stream generated. 2015 saw over £17bn in capital invested in the market, more than double the amount in the UK.

Like its neighbour Germany, Switzerland also has a very established rented sector with most of its population living in a rented home. High house prices make ownership difficult and the tax system works against it too as home owners see their imputed rent taxed.

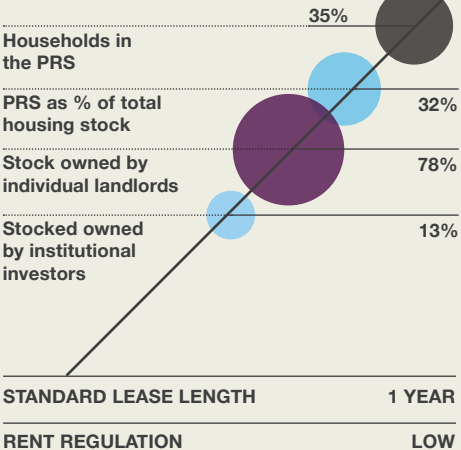
It has the largest level of institutional investors in Europe largely as a result of Swiss law dictating that institutions are required by law to invest in real estate, so the residential sector forms a large part

of many portfolios assets. In 2014, it was estimated that 47% of Swiss Real Estate portfolios are residential assets. These institutional investors focus on long-term income yield so the strong tenancy laws prove to be attractive in ensuring low vacancy rates. Despite having rent controls, landlords are allowed to increase their rents to cover costs which allows flexibility for investors.

Switzerland PRS Snapshot



US PRS Snapshot



Build to Rent follows closely to the US multi-family household model where funds develop large apartment blocks to rent. The US is the largest institutional real estate market in the world and residential investment accounts for around 22% of portfolios (In the UK, residential allocation accounts for just 4%).

The rise of the sector began in the 1980s supported by cheap loans from the government. Support was given as long as new developments had between 20-40% of homes let below market rents. Tax breaks for REITs also increased the financial

viability for the schemes. As home ownership rates increased, interest waned in the sector but following the 2007 financial crash, it came to the forefront again and accounted for 15% of all residential construction between 2008 & 2011.

Since the downturn renting has increased and so too has institutional investment demand. The steady income stream in particular has proved to be attractive. IPD figures show that the residential sector's 5 year returns in the US have outperformed all other real estate sectors as at 2014.

New kid on the block?



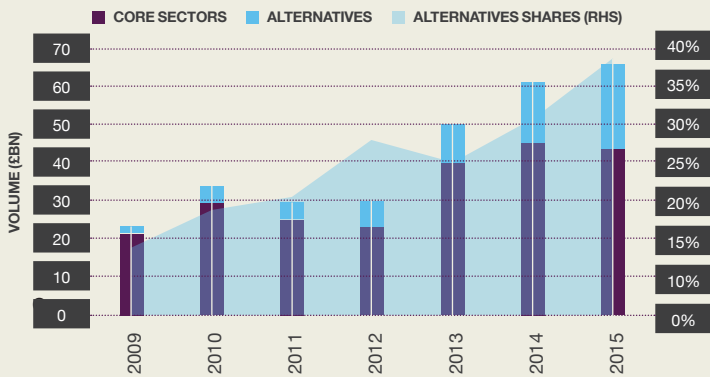
A commercial view of the Private Rented Sector

In the lexicon of commercial property, the private rented sector (PRS) is classed as one of a variety of alternative investments, including sectors such as hotels, healthcare and student accommodation. The term ‘alternative’ is ascribed to property assets outside of the three core sectors which institutional investors have traditionally invested into, retail, offices and industrial. Alternative sectors have diverse investment characteristics and risk profiles. Some are now considered mainstream, such as hotels, while others are considered emergent, such as automotive and roadside and PRS. Investment into alternatives has increased steadily in recent years. 2015 was a record year for investment in UK property overall with £66.3bn of assets changing hands, investment in alternatives assets made up a record 34% share of this volume, twice the proportion in 2009.

The rising tide of alternative investment can be attributed to two factors. First, in search of value, the volume of money in the investment market has forced investors to consider other assets. Significant investment into alternatives has also boosted market transparency and reduced perceived levels of risk around them. As a result, the yield discount which alternatives once boasted to the core sectors has now been eroded in many cases.

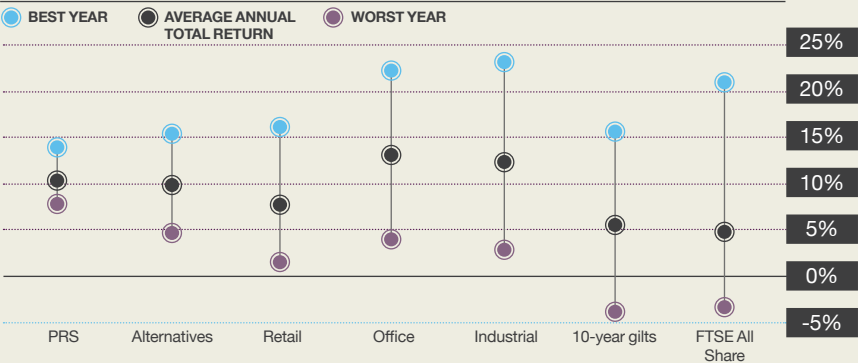
UK investment volume

Source: LSH



Total returns 2010 to 2015

Source: LSH



Second, alternative assets provide property investors with a means of diversifying risk across their portfolios. The specific demand drivers and risks associated with the alternative sectors differ from the three core sectors and alternatives generally have a less volatile return performance.

According to MSCI data, the private rented sector has seen strong annual returns of 10.3% per annum over the past five years, a figure which compares favourably against both other alternative assets (9.9% p.a.) and commercial property's other core sectors. The PRS has also been less erratic when compared to other sectors, reflecting a combination of both steady capital value growth and rental growth.

Investment into Build to Rent may be in its very early stages, but the groundswell of demand has increased over the past 12 months. Reflecting the compelling fundamentals around PRS, the majority of the UK's major institutions, together with experienced overseas players from Germany and North America, have significant funds at their disposal to invest either directly or indirectly in the sector. This strength of appetite was confirmed by a recent survey of Lambert Smith Hamptons' (LSH) major investor clients, which scored build to rent as the most attractive alternative sector for investment in 2016, marginally ahead of student accommodation.

One of the main perceived challenges to investment in build to rent is management complexities and costs associated with this type of asset relative to more conventional types. Build to rent shares these key traits with direct-let student accommodation assets, and growing experience and investor confidence in that sector has arguably been key to increasing interest in build to rent. In the not-so-distant future, Build to rent is likely to be a major form of property investment. The key to driving returns and maximising income will be in understanding the dynamics and geography of the sector.

Putting a price on your landlord



The growing role of reputation in renting

For the most part tenants find out who their landlord is and what they're like only after moving into their home. The gradual emergence of an institutional rented sector however has the potential to change how tenants choose where they live. The rise of branded providers means that more tenants will know who their landlord is and have an expectation about the service they will receive in advance of signing on the dotted line. The early signs are that institutional investors have been able to achieve a premium over and above the new build rental market which is almost exclusively made up of individual landlords offering a comparable home. There are three main ways that they're able to achieve this premium.

PLACEMAKING

The build to rent sector is playing a growing role in regeneration schemes across the country, allowing tenants to live in some of the country's newest neighbourhoods and enjoy some of the benefits regeneration can bring. An institutional investor's ability to take a long term view and provide cash up front means they're becoming the partner of choice in many big new developments. This was the case in the Olympic Village, Stratford, where there were no homes for private sale in early phases. In the Olympic Village institutional investors have been able to achieve rents well in excess of the surrounding area. The quality of design, amenities available and growing business confidence all contribute to tenant satisfaction and achieving a premium.

DESIGN

Second the vast majority of homes in the rental market today were built to be sold. As the institutional sector grows, the creation of purpose built rental homes offers the opportunity for developers to tailor design to exactly what tenants are looking for. Ensuring every home has only double bedrooms, is energy efficient and has access to amenities and services in the building means a developer can provide a better product for tenants.

SERVICE

Third and most importantly the level of service which institutional landlords can provide is a major selling point to tenants. While the sector is still relatively new, the biggest names are now beginning to trade on their reputation. Irrespective of the property, a tenant knows in advance they will receive a certain level of service. Broadband from day one, an onsite building manager, greater security of tenure and complete refurbishment between tenancies are increasingly common. While this is attractive to domestic tenants, it's a massive draw for someone coming to live in a country or city for the first time.

Today a typical tenant's search for a home can be split into 4 stages:



Although the number of institutional providers is still limited, the early signs suggest that those who trade on their reputation and have begun to build a brand have been able to achieve the biggest premiums. Some schemes by the best providers have been able to achieve a premium in the region of 15%-20% over and above what an individual landlord could achieve renting an identical home. As the premium end of the market gets more crowded, institutional investors will increasingly find themselves in competition with each other. With pressure to achieve returns from investors, providers will have to be ever more innovative to distinguish themselves from the crowd. For tenants this can only be good news.

The new build premium



Landlords who let new homes can charge a premium but it hasn't always been this way

For many buying their own home, finding a property with the potential to add some value by doing work offers the opportunity to move up the housing ladder faster than they otherwise might have been able to. But what a tenant is looking for in a home tends to be rather different.

The difficulties faced by Generation Y (those born between 1980 and 2000) getting on to the housing ladder has meant that people who would have bought 10 or 20 years ago find themselves paying rent to a landlord. The English Housing Survey shows that today one in three tenants has dependent children, up from one in seven in 2003. With people renting for longer and more affluent households in the private rented sector, demand increasingly exists for a higher quality product.

Until the downturn this demand was mostly met by landlords buying and then letting new build homes. Developers liked this arrangement as they were able to sell some homes off plan, especially in periods of rising prices, securing an advance commitment to buy and so reducing the risk to the developer, enabling it to secure finance for schemes. In this sense landlords were enabling new house building while also providing tenants with homes that no-one else had lived in previously.

Being brand new and more desirable in terms of low maintenance and decorative order, these new build homes tended to attract higher rents, even without additional services. In 2000 the average new build rental stood at 12% over and above what could be achieved for a comparably sized 'second hand' home. But with large numbers of

virtually identical homes coming onto the market, often at the same time, tenants were able to compare apartments and negotiate down rents, meaning that between 2004 and 2007 the rental premium attached to a new build home was completely wiped out.

It took the financial crash to restore the new build rental premium. Between 2008 and 2010 the private rented sector grew by more than a third as first time buyers were hit by the downturn particularly hard. This drop off in owner occupier demand had a big knock on effect on housebuilders, with many smaller ones going bust and larger ones taken over. Regional housebuilders Cotswoldgate, Meadgate and Consort all ceased to exist in 2008 while Taylor Wimpey made a loss of £1.5 billion in the second half of 2008 while Barratts posted one of £592 million. Those housebuilders that did survive mothballed many of their developments, allowing them to cut costs and sell when the market finally picked up.

With fewer new homes delivered than at any time since the Second World War, landlords faced much less competition. At the same time, the credit crunch meant more would be first time buyers were pushed into the rental market. Higher demand and lower new supply meant landlords found themselves in a strong position and those who had bought new or off plan homes found they were able to command a premium once again. By 2010 the premium attached to a rented home that had been built in the last five years stood at 25%. While this premium has narrowed in the last six years, it remains well above pre-recession highs.

Almost nine years after the downturn and the landscape has begun to change for small investors buying into new developments. Looking into the not too distant future, it seems likely the rental premium carried by new homes will be determined by the squeeze on smaller landlords and the level of competition they face from institutional investors offering a similar product.

The additional Stamp Duty levied on small landlords from April 2016 is part of a wider attempt to nudge the provision of privately rented homes into the hands of larger landlords. Additional Stamp Duty alongside the removal of higher rate mortgage interest relief may serve to put off some prospective landlords. In the short term a drop off in landlord purchases, particularly of newly built homes, has the potential to place a degree of upward pressure on rents and the new build rental premium.

It's in the medium term that there is potential for the new build premium to come under pressure from the rising number of build to rent providers. While institutional landlords only supply a small proportion of rented homes now, their business plans have been underpinned by their ability to achieve a premium above the existing market. At the top end of this range some providers are achieving in the region of 15%-20% above what a comparable new build home achieves on the rental market. As more providers enter

the sector, competition between individual landlords and new build to rent providers looks set to be fiercest at the premium end of the rental market. Small investors letting new homes will increasingly find themselves fighting over the same tenants as institutional investors who are offering a level of service for which they believe carries a premium.

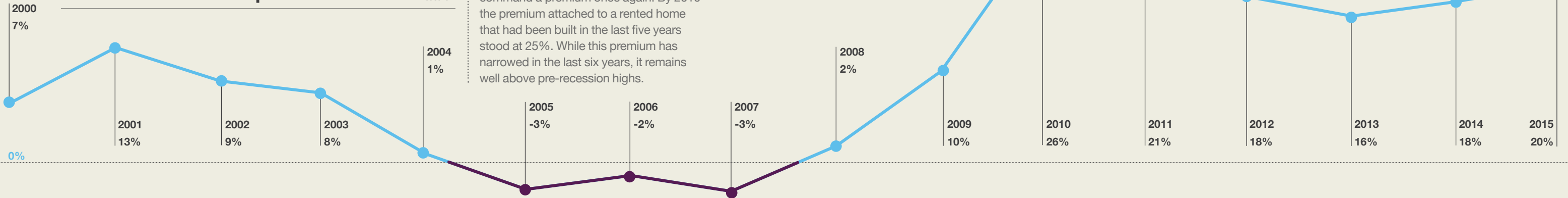
Given the level of government support, it looks almost inevitable that institutional investors will provide more homes for tenants a decade from now. We expect the vast majority of these homes will be in single tenure, purpose built schemes. Tenants willing and able to pay a premium for higher quality and services will find themselves increasingly well catered for. With more choice available it is likely that the rental premium attached to new homes and additional services will come under pressure. Whether institutions can become the dominant players in the wider rental market will depend on their ability to appeal to a greater cross section of tenants. While institutional investors in the UK have so far mainly focused on city centre homes, a growing proportion of the rental market is found outside 'multifamily' city centre blocks, living in homes owned by small landlords. The ability of the institutional sector to develop 'mass market' appeal to those who are more likely to be renting through necessity than choice will define the bounds of its growth.

Measuring the rental premium

The new build rental premium is calculated by working out how much more a tenant pays to live in a home that was built in the last five years compared to an equivalent older one in the same location.

The new build rental premium

Source: Countrywide Research



London's Housing Zones

Will a new approach to building homes bear fruit?

Housing Zones represent a brand new way of delivering homes in London. Each Zone represents a partnership between the local council, private developers and the Greater London Authority to help build a large number of homes. In total there is £400m worth of funding (much of which the government believes it will recover) that can be spent on whatever is needed to ensure the development goes ahead – anything from new infrastructure to affordable housing.

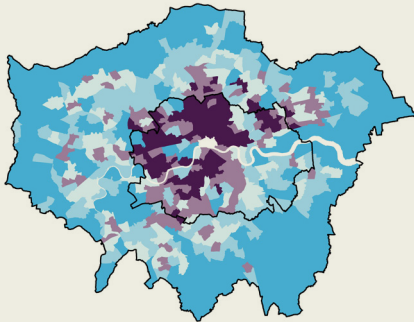
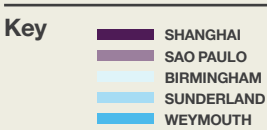
Collectively the zones equate to the creation of a new Borough – covering an area the size of Brent and housing the population of Hammersmith and Fulham. They are projected to deliver 66,000 new homes over the next decade, which at current rates equates to around three years of

supply on a good year. It also seems likely that a large number of these new homes will end up in the private rented sector. In 2014 the Mayor's Housing Strategy set a specific target for the number of homes delivered by big landlords for the first time who were envisaged as a mechanism to quickly generate forward funding for new developments. Housing Zones look to be the first real test of this strategy.

London's population density

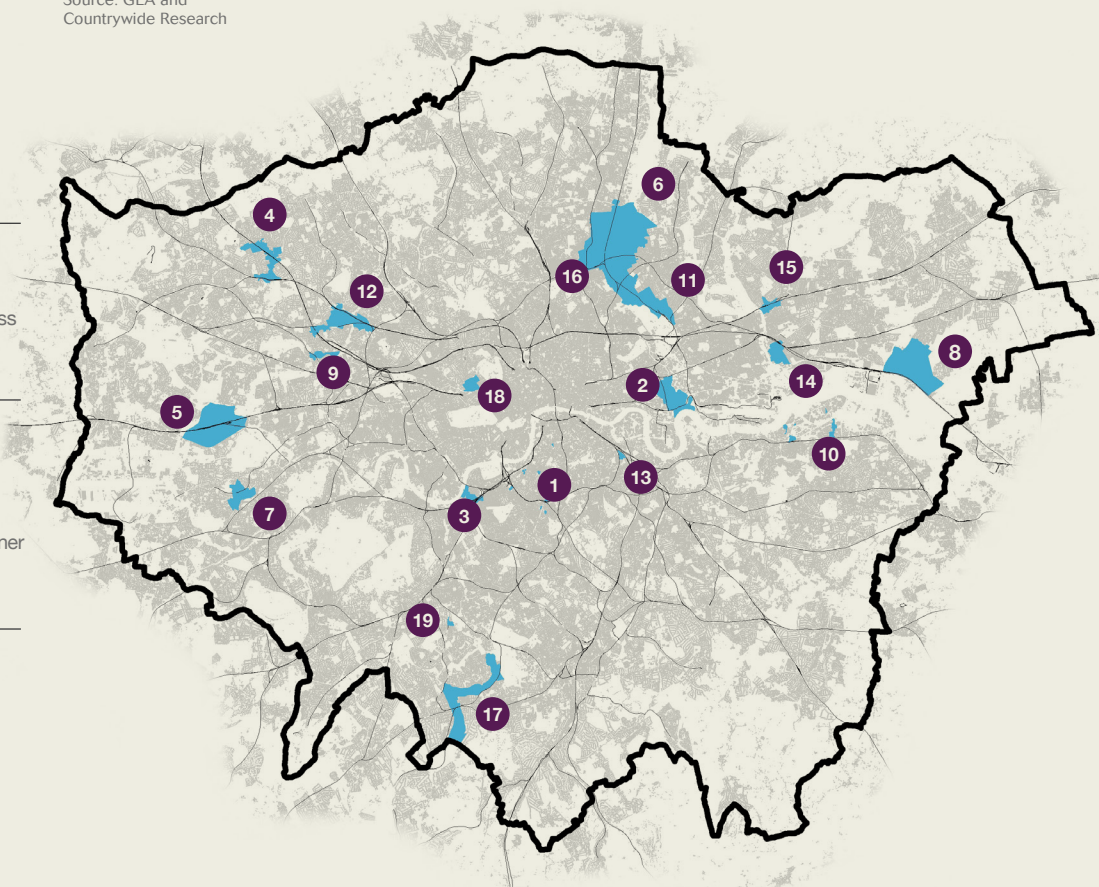
There is still plenty of room to build inside the M25. Here's how the density of London compares to some other towns and cities.

Source: Countrywide Research & ONS



London's Housing Zones by number of homes

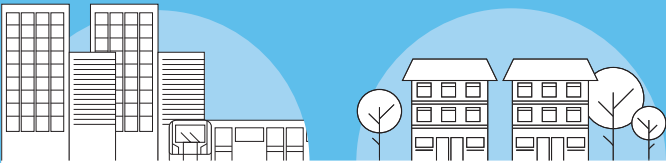
Source: GLA and Countrywide Research



- 1** **Name:** Lambeth (Brixton, Fitch Court, Town Hall, Knight Walk, South Lambeth, Westbury Estate, Hemans Estate)
Transport: Brixton
Projected homes: 12,144
Planning status: Adopted local plans in place
Projected new build £/f²: £1,050
Projected 2 bed monthly rent: £1,700
- 2** **Name:** Popular Riverside
Transport: Canary Wharf & Stratford
Projected homes: 6,404
Planning status: Master planning in progress
Projected new build £/f²: £950
Projected 2 bed monthly rent: £2,200
- 3** **Name:** Clapham Junction to Battersea Riverside
Transport: Clapham Junction (and potentially Crossrail 2)
Projected homes: 5,396
Planning status: Seeking development partner
Projected new build £/f²: £1,050
Projected 2 bed monthly rent: £2,100
- 4** **Name:** Heart of Harrow
Transport: Harrow & Wealdstone (and potential Crossrail extension)
Projected homes: 5,294
Planning status: Around half of sites have full planning
Projected new build £/f²: £600
Projected 2 bed monthly rent: £1,300

- 5** **Name:** Southall
Transport: Crossrail station to open 2018
Projected homes: 4,345
Planning status: Minority of sites have full planning
Projected new build £/f²: £480
Projected 2 bed monthly rent: £1,250
- 6** **Name:** Meridian Water
Transport: New station from 2018
Projected homes: 3,650
Planning status: Masterplan adopted but no sites have planning
Projected new build £/f²: £540
Projected 2 bed monthly rent: £1,450
- 7** **Name:** Hounslow Town Centre
Transport: Hounslow Stations
Projected homes: 3,478
Planning status: Minority of sites have full planning
Projected new build £/f²: £520
Projected 2 bed monthly rent: £1,350
- 8** **Name:** Rainham and Beam Park
Transport: Beam Park station to open in 2019
Projected homes: 3,457
Planning status: Largest two sites have full planning
Projected new build £/f²: £360
Projected 2 bed monthly rent: £1,150
- 9** **Name:** Alperton
Transport: Alperton and Stonebridge Park
Projected homes: 3,213
Planning status: Alperton Area Action Plan in place
Projected new build £/f²: £550
Projected 2 bed monthly rent: £1,400
- 10** **Name:** Abbey Wood, Plumstead and Thamesmead
Transport: Abbey Wood Station (Crossrail from 2018)
Projected homes: 2,826
Planning status: Most sites have full planning
Projected new build £/f²: £420
Projected 2 bed monthly rent: £1,150
- 11** **Name:** Blackhorse Road and Northern Olympic Fringe
Transport: Blackhorse Rd and reopening of Lea Bridge
Projected homes: 2,477
Planning status: Minority of sites have full planning
Projected new build £/f²: £550
Projected 2 bed monthly rent: £1,300

The Countrywide view



Building the right homes in the right places is the best way of making the Capital more affordable to the average Londoner. Housing Zones are well placed to deliver large numbers of homes, offering a sought after mix of shovel ready sites that are viable to housebuilders. Three quarters of the housing zones lie outside Zone two, predominantly in places where big sites attractive to volume housebuilders are becoming available,

a by-product of changes to where people work and the nature of their employment. 20 years of growth alongside sweeping demographic changes have left the Capital's traditionally more conservative Outer Boroughs at the forefront of the push to build more homes over the next five to ten years. Housing zones aim to take advantage of these changes, bringing together land, developers and perhaps most importantly, political will.

- 12** **Name:** Wembley
Transport: Wembley Central and Wembley Park
Projected homes: 2,380
Planning status: Area action plan in place
Projected new build £/f²: £700
Projected 2 bed monthly rent: £1,500
- 13** **Name:** New Bermondsey
Transport: New London Overground Station
Projected homes: 2,372
Planning status: Outline planning consent granted in 2012
Projected new build £/f²: £950
Projected 2 bed monthly rent: £1,800
- 14** **Name:** Barking Town Centre
Transport: Barking
Projected homes: 2,295
Planning status: Around half of sites have full planning
Projected new build £/f²: £400
Projected 2 bed monthly rent: £1,250
- 15** **Name:** Ilford Town Centre
Transport: Ilford Station (Crossrail from 2018)
Projected homes: 2,189
Planning status: Most sites have full planning
Projected new build £/f²: £440
Projected 2 bed monthly rent: £1,350
- 16** **Name:** Tottenham
Transport: Potentially Crossrail 2
Projected homes: 1,956
Planning status: Minority of sites have full planning
Projected new build £/f²: £575
Projected 2 bed monthly rent: £1,350
- 17** **Name:** Sutton One
Transport: Sutton and Hackbridge Station
Projected homes: 1,672
Planning status: Half of sites have full planning
Projected new build £/f²: £480
Projected 2 bed monthly rent: £1,450
- 18** **Name:** Edgware Road
Transport: Marylebone
Projected homes: 1,113
Planning status: Half of sites have full planning
Projected new build £/f²: £1,650
Projected 2 bed monthly rent: £3,400
- 19** **Name:** Morden Town Centre
Transport: Alperton and Stonebridge Park
Projected homes: 1,070
Planning status: Merton Core Strategy Adopted in 2014
Projected new build £/f²: £820
Projected 2 bed monthly rent: £1,500

