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# Insights

Cutting-edge analysis of residential trends brought to you exclusively by Dentons



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# The evolution of residential

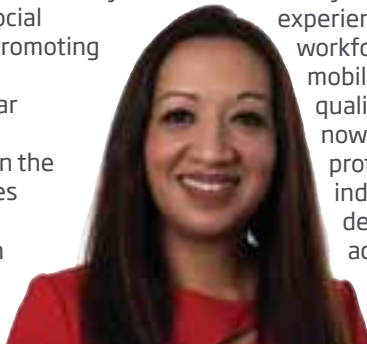
**R**esidential continues to diversify beyond traditional models for investors, developers and operators alike. As a global law firm, Dentons has observed some interesting trends across jurisdictions.

Student accommodation has made the transition from 'alternative' to mainstream in a number of markets. In an increasingly globalised world, educational institutions continue to see an influx of international students requiring sophisticated accommodation.

As in the UK, Dentons Australia reports that the student market is now considered mature due to high levels of urbanisation and the long-standing popularity the country holds as a destination for overseas students. Contrastingly, Dentons Canada is experiencing a market still very much in its infancy. The shortage of off-campus, purpose-built rental student housing and increased enrolment has resulted in a market locally considered around 10 to 15 years behind other countries.

Dentons has observed that co-living schemes in gateway cities such as London, New York and Hong Kong are becoming increasingly common. The emphasis is on supporting community development and facilitating social interaction, with social media promoting the lifestyle.

Multi-family remains a popular choice, with Dentons Canada reporting a threefold increase in the construction of rental properties in the past decade, making it comparable to the construction of homes built for ownership - traditionally the biggest slice of the Canadian market.



This has also been observed in Australia, where players such as Mirvac, Salta and Blackstone are beginning to focus their attention on the sector.

The story in the UK is similar. While challenges remain around valuation and the concept is as yet 'unproven' due to the low numbers of ready-made, trading stock, investors seem undeterred.

Dentons observes that the appetite for investment in the senior living sector is at an all-time high in the UK. It is accepted that the current stock of retirement housing in this country is not fit for purpose. Residents value lifestyle-enhancing facilities such as fitness and leisure suites, retail offerings and restaurants, as well as the opportunity to free up their capital, which has brought about an increase in senior living rental options. Dentons US observes that senior living facilities are outperforming all other commercial real estate asset classes. Contrastingly, Dentons Netherlands considers there is still room for growth, as current projects mainly constitute redevelopments of existing schemes.

Irrespective of the particular asset class, it is clear that residential remains a key focus for investors worldwide; yields are being traded for secure, longer-term income; and an increased premium is being placed on experience, flexibility and community.

In Dentons' experience, the next wave of the global workforce comprises geographically mobile individuals accustomed to a high quality of accommodation who are now seeking similar models for their professional and later lives. As an industry, our challenge remains to deliver the style and quantity of accommodation required to meet these evolving demands.

*Deepa Deb, real estate partner, Dentons*



Alex Greaves  
M&G Real Estate

“ The UK student housing market is more mature than it is in Europe



Michela Hancock  
Greystar

“ Keeping your residents happy will make them more likely to stay longer



Richard Jackson  
Apache

“ Later living is going to be the next growth story for UK alternatives



Steven Ivankovich  
Atlas Residential

“ China's economic growth is continuing to drive urbanisation



VOJTA HEROUT/SHUTTERSTOCK

# UK still not fully sold on diverse appeal of resi

**O**ur view on residential as an asset class in the UK and Europe is crystal clear - it is a core asset class.

And we are actively looking to ramp up our investment in the sector. In March last year, we launched an open-ended pan-European residential fund. A year and a half later and the fund's portfolio stands at 27 assets across six countries with more than €750m committed.

Some commentators felt it simply was not possible to have a fund that invested in multifamily across Europe. The difference in language, laws and currency make it too expensive to manage and too risky for investors. It is fair to say that is a challenge we have risen to.

Further underlining this fund's attractiveness is that we secured more than 16 investors drawn from Germany, Ireland, Switzerland, Luxembourg, France, South Korea and the UK.

However, while in Europe investors are now on board with the notion that residential is an accepted part of a diversified

real estate portfolio, UK investors are still slow to recognise the positive attributes that residential investment can provide.

Only a third of our UK investment mandates will actively consider residential, with only half of those being currently active in the market. And this is still holding true, even with the challenges in the retail market.

## Too opaque

The lack of evidence and data about how alternative residential assets such as build-to-rent (BTR) in the UK perform is partly creating that resistance.

Simply put, there just are not the number of examples and track records of performance needed to build up confidence in the thesis. Right now, it is too opaque.

Eventually a benchmark will appear, but patience will be needed.

The UK BTR market is obviously still in its early phases of growth, and that has led to some disparities in how the asset class is viewed.

Some in the market argue it is a capital growth play, but I would argue that its fundamental defensive nature means this is not the case.

**Protecting cashflow** BTR is about durable income and protecting cashflow. That cashflow will deliver a sustainable income yield, and capital growth will be applied through the rental growth.

Our view is that long-term returns of circa 5% are the most realistic and, on a risk-adjusted basis, that represents a fair level of return against the wider backdrop of general asset inflation.

When you compare that with commercial property, which might see falls over three to four years, and at best might produce a solid income with marginal rental growth, the total return on residential will be higher. Crucially, it also diversifies the risks held in a traditional balanced portfolio.

The case doesn't need to be much stronger than that: this sector is about patience, stability and sensible income return.

*Ed Crockett, head of UK residential, Aberdeen Standard Investments*

## Aberdeen's triple-A strategy

**W**e are investing across Europe, and the fact we have real estate professionals in 11 offices across the continent gives us a real edge. Boots on the ground bring strong local insight and access to off-market investment opportunities. Most crucially, however, we understand the vagaries of the regulation in that market. This knowledge is fundamental to underwriting an opportunity - without it we would not have been able to invest with the speed and scale that we have.

Much of our investment focus is on the upper-middle-market rental demand, and we use a triple-A analysis of affordability, accessibility and amenity to assess every potential investment.

**Affordability:** When underwriting rental value we focus on 50% to 70% of existing local asking rents in any one location, and then look at how affordable those rents are to the wider population. We consider affordability to be around 30% of take-home pay. Not every asset has to hit that target, but that is the context we use.

**Accessibility:** We examine accessibility in terms of public transport and infrastructure, so train stations and bus routes, but also what is driving a local market. For example, proximity of cycle routes in the Netherlands and Copenhagen are crucial. Our analysis also includes pinning down if there are major local employers and if they are easily accessible to residents. Fundamentally, we want to know what is driving employment in any location and how easy they are to reach.

**Amenity:** The amenity offering in the building and the local area is also crucial. Questions we ask include: How vibrant is the location? Is it safe? Does it have a sense of community? What is the profile of the retail and leisure? Is it made up of start-ups or national multiples?

Ultimately, we want to buy assets that offer residents a safe place to live with plenty of leisure options nearby: a place our residents are proud to call home.



## Key facts: Aberdeen Standard Investments' real estate platform

- 40% of our European portfolio is residential - the largest asset class in the region

- 50% of our 2018 acquisition volume was in the residential sector - followed by logistics (25%)

- Aberdeen operates 19,500 units in 160 assets, with another 3,600 units under construction and secured by forward deals

- Our portfolio is spread across seven countries in the hands of six local teams

- Most of the Aberdeen portfolio is newly developed and of high quality

- We have been active in residential since before 2009



Round Hill Capital's mixed-use development in the heart of Lisbon city centre

# Round Hill Capital's core-plus approach

It is fair to say the world has shifted somewhat since the early nineties when graduates didn't have to worry about paying for Deliveroo or Uber while living as digital nomads.

"I didn't particularly enjoy living in a damp and miserable HMO after university," muses Peter Holden, group development director at Round Hill Capital, one of Europe's biggest private landlords. "People now have more choice for rental accommodation, and now co-living provides genuine service, safety and shared space that suits today's mobile consumers."

He admits that there is "a lot more work to be done" for the UK's planning regime to embrace such models.

Looking across Europe – where Round Hill has dominated the student sector since being set up in 2002 – it is a different story. The company has been at the vanguard of change with its expansion into multifamily and co-living, and Holden sees continental markets as more progressive on planning.

"There are some benefits to a codified planning system that offers more flexibility around design," he explains. "But different legal systems and land-use regimes

mean the state has a different role and regulation can be more predictable, as we see in the Netherlands, Spain and Portugal."

This has not dissuaded Round Hill. Its recent acquisition of 2,100 purpose-built student accommodation (PBSA) units across nine German cities in a JV with TPG followed the disposal of a €1.4bn Dutch residential portfolio. Holden says the firm is also seeking other opportunities in the Netherlands.

## Maturing markets

"Our strategy has been to look where markets are maturing and access these opportunities to create value using our scale, consolidation and operational expertise," he explains. "If you look at the US, the UK and Germany, you see a range of mature asset classes, whether they're PBSA, multifamily or later living. Maturity spreads out, and the reason we work with top-tier institutions is because of our track record in being one step ahead."

As a mature business with more than 230 employees globally, Round Hill is actively seeking to move down the risk curve. "That doesn't mean that we won't enter

new markets," Holden points out. "But we are increasingly focused on asset classes that we understand where we have a track record in operational excellence."

When identifying what is core-plus, value-add or further up the risk spectrum, Round Hill's view is that many mature markets remain outside the crosshairs of investors. "When the credentials of those markets are held up to the light, you can see the quality of the assets, income streams, low risk of credit default and good trading track record that create excellent core-plus opportunities."

The company's shift towards a successful core-plus approach is underpinned by an operational presence that has allowed it to move from Hamburg to Helsinki. It acquired a 3,263-unit Finnish portfolio last year, underscoring Holden's views about such opportunities.

Development has a central role to play, however. "We seek wherever possible to reduce risk, so we're very comfortable working with third-party developers that deliver around half our pipeline through forward-funding strategies," Holden explains.

Round Hill's European development

business is providing an array of accommodation solutions directly responding to market requirements. In Lisbon, its TPG JV is committed to developing high-quality PBSA and residential apartments.

"The project will provide 390 student beds and up to 250 residential apartments, with amenities and common areas for all residents," says Holden. "It's right in the middle of the universities, colleges and business schools, providing a much-needed housing solution to the increased demand for convenient and centralised accommodation."

In Dublin, together with its JV partner QuadReal, Round Hill recently completed Bridgefield, a high-quality development of 216 homes to rent. The first occupancy is anticipated in early September 2019.

## Appetite for development

"Our latest projects in Portugal and Ireland perfectly demonstrate our increasing appetite for development and our commitment to creating places with purpose, providing solutions to housing needs across Europe," says Holden.

In the Netherlands, Round Hill is building 1,877 homes for students and young workers. In the US, it has committed to a further 250 homes.

As experts in the development of European residential, Round Hill is acutely aware of the importance of data, both qualitative and quantitative, and embraces new tech when it drives efficiencies and adds value to its development programme.

"Through the provision of good data from our operating businesses and sharing this knowledge across our local development operations, we've been able to help shape local municipalities' development plans, which are more relevant to the asset class and are better suited to their city planning needs," Holden explains.

One common theme affecting developments relates to digital engagement: car parking is shrinking and shared services are expanding. "Our occupiers are more likely to ask to see how the Amazon and Deliveroo deliveries are managed, or where the Uber pick-up point is located rather than where to park a car," says Holden. *Peter Holden, group development director, Round Hill Capital*

# Getting to the core of European residential property dynamics

European cities have embraced residential property for decades. While purpose-built student accommodation (PBSA) and multifamily have led the way in some markets, many cities boast significant scope to create value. A wealth of opportunity now exists to replicate success by using operational, local expertise to drive true economies of scale across different core cities and across multifamily, co-living, retirement and student housing. Alternatives are at last becoming mainstream in the eyes of institutions.

Three megatrends are responsible for driving demand in European residential markets: urbanisation, an ageing population and declining owner-occupier rates.

Europe today is already predominantly urban and the number of people living in cities will continue to rise in the coming decades. According to the UN, the share of the population living in urban areas will rise to more than 80% by 2050 compared with 74% at the moment. In terms of ageing population, the median population age rose from 28.9 in 1950 to 41.7 in 2015 and is expected to increase to over 46 by 2050. Owner-occupier rates have been declining steadily in the last two decades, from just under 70% around the millennium to around 65% now.

It is no secret that these three trends are already shaping the way we live in Europe and many investors have seized this opportunity early on with one in five euros now invested within the residential universe.

In addition, recovering markets across southern Europe - typically with younger workforces - provide opportunities for growth, while other locations offer greater stability at the expense of lower returns.

While cashflow remains king in property investment, over our



Later living: the median population age is expected to rise to over 46 by 2050

35 years' experience investing across European residential, data has become our main competitive advantage. An unparalleled on-the-ground presence allows us to respond nimbly to opportunities and, with our founder and chief executive Wolfgang Egger very much still at the helm, we have an incredible focus on using new technology to create value for around 350 global institutional and 5,000 retail clients.

## Blended approach

The bedrock of our Living Cities Fund is a blended approach to pan-European residential that offers core returns through a mix of income-producing investments in mature markets and opportunities in core cities where we see growth potential. What's exciting right now is that a variety of subsectors have emerged - PBSA, multifamily, co-living, later living - alongside traditional for-sale housing.

Different cities offer varying levels of maturity and what we see is that this can shift city to city and

country to country. While the UK has a mature PBSA sector, build-to-rent is nascent and co-living barely exists.

While countries such as the Netherlands and Germany have mature - and often heavily regulated - markets, these bring with them opportunities: regulation generally drives up occupancy as much as it reduces returns.

The upshot is that with the right management expertise there is still scope to drive value from core assets.

Although concerns now exist around economic growth in some leading European economies, the nature of the residential rental segment is that it is countercyclical and I would expect allocations to grow to residential as more investors become

comfortable with the asset class.

Although headline writers think about housing markets at a country level, our strategy is very much about cities. For example, between 2017 and 2025, only a third of European regions will see growth in working-age populations.

While this creates an opportunity to develop later-living stock, for multifamily and student housing it will also reinforce the yield compression we have seen in many areas driven by an undersupply of new stock.

Although it is not imperative for us always to be the first mover into a location, understanding the fundamental drivers of value is key and being prepared to mix things up will ultimately create the optimum outcome if what you seek

is a vintage performance.  
*Allen Chilton*  
*head of fund capital markets,*  
*Patrizia*





**£223bn**

Total value of UK's operational real estate

**£880bn**

Expected value at maturity



**£51.2bn**

UK student accommodation value (sector already at maturity)



**35%**

Of full-time students live in student accommodation

**1.8m**

Size of full-time student target market

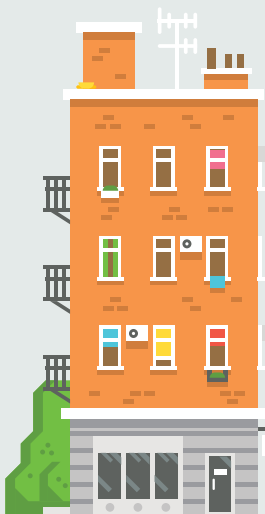


**£9.6bn**

UK build-to-rent value

**£543.6bn**

Expected value at maturity



**30k**

Complete BTR homes in the UK

**140k**

Pipeline under construction or in planning



**£2.6bn**

BTR investment 2018  
+11% on 2017

**1.7m**

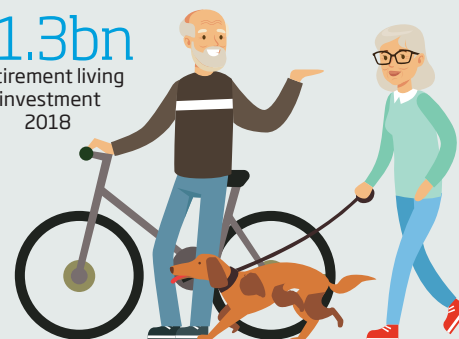
Households at full maturity

**£1.3bn**

Retirement living investment 2018

**1.7m**

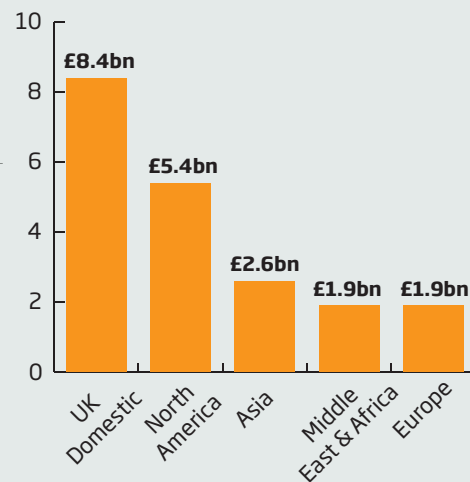
Homes for over-75s at full maturity



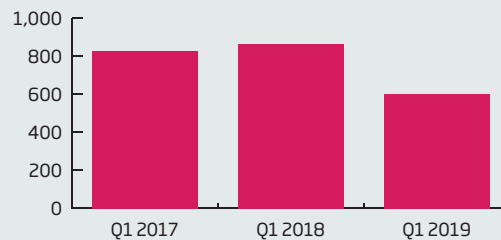
**138%**

Over current stock

**Total global investment in UK BTR, student accommodation, retirement living 2016-18**



**Student accommodation investment Q1 2017-19 (£m)**



Source: Savills/British Property Federation

# Why Britain is raising the roof on institutional investment

On the edge of Manchester's Northern Quarter, over the road from Amazon's new HQ, Moda Living's Angel Gardens landmark scheme is about to welcome its first tenants. The first phase of the gleaming, 35-storey tower has successfully been pre-let as locals flock to the UK's first fully purpose-designed rental building. Many have adapted traditional residential consents and added small amenity areas, but Moda's premium, experience-driven community will raise the bar for renting.

"There's a huge opportunity to change the face of this sector," says Moda managing director Johnny Caddick. "It comes down to service and ambition. Hospitality has to be at the heart of everything and it's something that the UK market is really embracing."

Some argue that build-to-rent (BTR) is merely a fad that only works when the sales market is in the doldrums. Yet Savills research doesn't just suggest otherwise; it implies we could blow the roof off BTR's current market ambitions with a potential mature market ballooning to £543.6bn.

One of the first UK institutions to embrace BTR was M&G Real Estate. "The UK student housing market is more mature than it is in Europe, yet the continental residential market is more advanced than in the UK. International capital flows are similar across both sectors in each jurisdiction, for different reasons," says Alex Greaves, its head of residential investment.

Atlas Residential's chief executive Steven Ivankovich says the UK is a prime investment target. "We are still very bullish on the UK when it comes to PRS, particularly the major cities outside London. The only area where we are reluctant to invest is mainland Europe as the laws and regulations you



Landmark scheme: rooftop of Moda Living's Angel Gardens in Manchester

find in many locations there just make it too difficult to operate efficiently as a residential landlord," he comments.

## The operations game

One fundamental difference between the new wave of alternative residential assets and traditional housing is that they all - whether purpose-built student accommodation (PBSA), BTR or later living - are essentially services industries.

"The focus is on mixed-use and placemaking. Real estate is moving away from goods towards services," says Deepa Deb, real estate partner at Dentons.

Ensuring operations and services in alternative residential developments are spot on is key.

As Michela Hancock, managing director at Greystar, explains: "Thoroughly considering the operational aspects of PBSA and BTR developments from the outset is critical. Bringing in your operational team to the start of the design process is key as it ensures that the customer service offering and design of spaces for both residents and the onsite team are robust and well-thought-through elements."

Hancock adds that UK operators should look to emulate the service

standards found in US BTR or multifamily - a mature market.

Indeed, having the right type of staff at assets like BTR and PBSA is so crucial that many operators are looking to recruit experienced hotel and leisure workers.

"There is speculation about whether the UK has the 'right' talent pool to provide the service standards required by such experience-driven operations," says Deb. "We are seeing an increasing influx of people from the hotels and leisure industry into multifamily."

Indeed, understanding not just operations but the technology needed to make things more efficient is critical.

One technology firm that works with Greystar and CBRE is flatfair, a payments platform that enables landlords to rent apartments instantly while replacing deposits with a system that holds a renter's debit card details precisely, like a hotel would do.

"By making things easier for customers with instant referencing and booking, forward-thinking businesses can save a fortune in admin costs and avoid the risk of a potential tenant going elsewhere because referencing or reservation took too long," explains Franz

Doerr, chief executive of flatfair.

And it is not just at the start or the end of a tenancy when operators can harness the power of technology to improve residents' experience.

According to Henry Pethybridge, director of WiredScore Home, a connectivity rating service aimed at the residential market, connectivity is already driving premiums across BTR as residents seek out apartments that allow them to seamlessly shift between work and play.

## What's next?

If BTR is where PBSA was 15 years ago, then later living may be next up the maturity ladder. Compared with more mature markets like Australia, New Zealand and the US, Britain currently has a tiny later-living market, with only 0.6% of over-65s in 2017 living in retirement communities, according to a Local Government Association report.

However, the UK's ageing population, with the Office for National Statistics predicting that 15 million people will be over the age of 65 by 2030, means there will be latent long-term demand for retirement stock.

Apache Capital's managing director Richard Jackson, one of the early-moving pioneers funding both PBSA and later-living developments, believes the sector is set for growth.

"Later living is going to be the next growth story for UK alternative residential assets," he says. "Much like BTR attracted swathes of institutional capital by driving home a narrative of long-term, stable income underpinned by market fundamentals such as a changing attitude to renting, the same will be true of later living. I think this marketplace is in its absolute infancy and we're going to see a huge amount of growth over the next five to 10 years."

# Redevco: the new kid on the block

In December 2018, pan-European real estate investment manager Redevco launched a €500m fund to invest in residential real estate.

*Property Week* caught up with Redevco's chief executive Andrew Vaughan to find out more about the investor's plans for residential.

## Why did Redevco decide to start investing in residential?

Our retail assets have historically been based in inner-city centres and many of these have had spaces above the shops that have been utilised as residential. For example, our shopping centre in Bordeaux had 130 residential units, so for us it was a natural extension really to make a move into the PRS.

Our residential strategy is firmly targeting the mid-rental segment, with units priced between €800 and €1,200. We will also be exploring mixed-use developments, as that ties in nicely with our retail background.

We have acquired our first site in Amstelveen in the Netherlands where we plan to build 300 rental units and currently have three other opportunities at advanced stages of negotiation.

## Why are you aiming for the mid-rental market?

We see this as the sector of the market where there is most demand for this type of product.



Residential strategy: Redevco is firmly targeting the mid-rental segment

Schemes that target the four- or five-star segments are really tapping into a thinner seam of demand - we want to be right in the middle where the bulk of the market is.

## Which cities are you initially targeting?

Our primary markets will be Germany and the Netherlands with cities like Berlin and Amsterdam, which are both mature markets, followed by the UK and Spain with cities like London and Madrid, for example.

The ultimate aim is to develop around 2,500 units comprising high-quality, sustainable product aimed at the mid-rental segment.

## What is your house view on these investments - core, core-plus or opportunistic?

These are core investments for us. We want to take existing stock or develop new sites up to an institutional-grade level and create long-term cash income from the assets. I think our commitment to the sector is evident from the fact that we are funding these acquisitions on balance sheet.

## How important do you consider the amenity offering to be for your developments?

The amenity offering at our developments will be important, but we will most likely be developing in central locations, with many facilities already within walking distance. Certainly,

compared with the US, the European market typically has less of an amenity offering. Often this is down to the fact that developments are already in bustling and vibrant urban areas where many of the amenities such as bars or gyms that you could install are already available close by for residents.

## Are there any concerns you have about the market going forward?

Regulations, particularly rent regulation. For example, Amsterdam and Berlin are both looking to start regulating rents, which could hold back developing the required housing instead of stimulating investors and developers to start because such measures could make some schemes unviable in the future.



“  
The ultimate aim is to develop around 2,500 high-quality units aimed at the mid-rental segment

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