Institutional attitudes to investment in UK residential property

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Considerable interest was generated by the research conducted in 2012 to inform the IPF's response to the Minister for Housing and Local Government's call for evidence of how to encourage greater investment in privately rented properties (the Sir Adrian Montague Review), subsequently published by the IPF Research Programme as Short Paper 16 under the title 'Institutional Attitudes to Investment in UK Residential Property'. As a result, the IPF's Residential Special Interest Group considered that a further survey of investor attitudes and intentions was warranted in order to see what, if any, changes in residential investment have taken place over the last 14 months.

Over 60 parties were invited to participate in the survey, representing a range of organisations – from UK pension funds and life assurance companies to property companies, including REITs, as well as fund managers, local authorities and other financial institutions. As with the 2012 study, these bodies included both investors in the sector and those without any current exposure to residential property within their investment portfolios. Responses were received from 44 organisations, 34 of which also contributed to the survey in 2012.

Profile of the respondents and current investment in residential property

As may be seen in Figure 1, the total assets under management (AUM) of the 44 respondents providing data is estimated to be over £2.9tn, of which UK real estate comprises over £166bn or around 5.7% of all investment. More than 80% of contributors (37) hold residential property in their UK investment portfolios, which includes student accommodation and development land. Of these, 33 respondents quantified the size of their holdings, which average around £325m although the range of exposure is considerable, from over £1.8bn down to £1m or less (three respondents).

Methods of investment and preferred asset types

By far the most popular method of holding residential property is through direct ownership (33), whilst around a third of investors may also participate via joint ventures (12) or investment in private funds (10). Only one respondent identified listed vehicles as a means of exposure to the sector.

Figure 1: Profile of survey participants

Type of organisation	No. respondents	Total AUM (Global) £m	Real Estate AUM £m	No. residential investors	Residential Investment £m
Fund manager	16	1,465,197	87,973[1]	12	3,101[2]
Investment manager	10	1,305,692	29,450	9	1,450[3]
REIT	5	26,193	25,989	5	992[4]
Pension fund	5	69,879	4,586	3	135
Other[5]	8	37,192	18,435[6]	8	5,176[6]
Total	**44**	**2,904,154**	**166,433**	**37**	**10,854**[7]

Note: The values shown for assets under management (AUM) are based on the proportion that real estate represents of total AUM, where sufficient information was provided to facilitate this calculation.

Figure 2: Type of assets (2012 figures in brackets)

		MR/ASTs	Development Land	Student Housing	Ground Rents	Social Housing	Other[8]
Total no. respondents	37 (28)	23 (21)	19 (15)	20 (11)	10 (10)	3 (5)	8 (6)

Note: 2012 survey included regulated tenancies as an asset category in which 25% of respondents were invested.

1 14 responses

2 11 responses

3 Eight responses

4 Four responses

5 Includes sovereign wealth funds, private investors, listed & private propcos

6 Seven responses

7 15 respondents identified their holdings to include joint ventures, private funds and/or listed vehicles. Therefore, this figure is likely to overstate the total investment in residential due to an element of double-counting.

8 Examples of 'Other' types of residential asset included: development, retirement village development, equity release, retirement housing, shared ownership, residential care homes, houses in multiple occupation and statutory tenancies.

Figure 3: Reasons for investing by existing investors

	Rank									
Reason to invest	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Score**
Returns profile	11	7	2	0	2	0	3	2	3	195
Development potential	8	5	1	4	1	5	2	2	1	179
Stability of income	4	5	7	2	3	2	4	0	3	175
Stability of capital values	1	3	8	5	3	2	5	0	2	159
Low correlation with other assets	2	4	5	1	8	2	4	1	1	154
Part of mixed-use holding	8	0	1	2	4	1	2	2	3	128
Defensive investment	2	3	1	4	6	0	5	1	1	121
Portfolio legacy	7	3	1	1	1	0	1	3	6	120
Other	4	0	0	0	1	0	2	1	3	61

The spread of residential property invested in is primarily concentrated in three principal types: market rents/assured shorthold tenancies (MR/ASTs), student accommodation and development land, although 10 or more contributors have exposure to ground rents and/or social housing (see Figure 2). More than half of respondents (20) identified student accommodation as forming part or all of their residential investment, of whom 17 hold other types of residential investment.

There were insufficient responses to allow further analysis by reference to percentage holdings other than five investors indicated that they have only invested in market rented/AST property (in excess of £290m), two wholly in development land (£142m) and one in social housing (sub-£1m).

Rationale for investing in residential property

Figure 3 summarises the reasons that existing investors gave for investing in residential property. A significant majority (30) identified the returns profile as being a key consideration, of whom 11 considered it to be the leading driver. Whilst slightly fewer (27) respondents identified development potential are their primary consideration, this may be due to interests in commercial property with residential development potential. In terms of overall importance, stability of income was the third most highly valued criterion, followed by capital value stability and low correlation with other asset classes. A number of respondents identified their exposure as forming historic holdings, being incidental to larger commercial investments.

Existing investors were asked whether they intended to change their residential investment exposure over the next 12 months to three years. Fifteen anticipate they might increase their exposure over this period with another 16 definitely intending to do so. Only four respondents might or will decrease their exposure over the next 36 months. The extent of new investment disclosed by contributors could be up to £3.84bn, their main focus of interest being in MR/AST properties.

Non-investor reasons for not investing

Only seven of the 44 participants in the 2013 survey, i.e. 16%, do not currently invest in residential property. The survey questionnaire suggested a number of factors as potential deterrents to investing in the sector and asked participants to identify those applicable to them. The summary of their responses is set out in Figure 4. The foremost reason identified was that of low income yield. This contrasts with the 2012 survey responses, when the main barrier was perceived to be management issues.

Asked if they would commence investing in the residential sector within the next 12 months or over the next three years, only one of the seven has no intention of doing so. Of the remaining six, three contributors may or intend to invest in the next year, with the other three possibly investing within the next three years. None of the respondents would indicate how much they might be willing to invest but identified their preferred types of residential investment to be MR/ASTs (three), student accommodation (three) and social housing (one). Other categories mentioned that may be of interest were affordable rents and lending, i.e. debt.

What else can government do?

All respondents were invited to give their views on what more government could do to make residential more attractive or to increase existing investors' commitment to the sector. Comments fell into broad categories, including:

- Do nothing or pledge not to tinker with the sector;
- Changes to the planning framework, such as establishing a separate use class order, and S.106 agreements, reducing or eliminating the social housing element of developments for private rented stock;

Figure 4: Reasons for not investing (2012 responses in brackets)

Total no. respondents 7 (13)

Factor	No. responses	%
Income yield too low	5 (9)	71 (64)
Lack of liquidity/ insufficient market size	3 (9)	43 (64)
Pricing not right	3 (6)	43 (43)
Reputational risk	3 (5)	43 (36)
Just too difficult/ management issues	2 (12)	29 (86)
Difficulty of achieving sufficient scale	2 (9)	29 (64)
Political risk	0 (4)	0 (29)

- Tax treatment: reduction or removal of VAT; introduction of taper relief on CGT to encourage more longer term investment;
- Change in REIT rules to make indirect investment possible through residential REITs.

Summary

Overall, the survey findings indicate a continued commitment and gradual increase in investment in the UK residential sector. The potential pipeline, presuming there is sufficient stock to meet these aspirations, is in excess of £3bn from existing investors.

What is also worthy of note is that capital is flowing in both directions, as mature investors are actively managing their residential asset exposures, increasing and reducing their positions in order to match individual fund strategies.