IPF Research

UK Residential Property: Institutional Attitudes and Investment Survey 2017

JANUARY 2018

This research was commissioned by the IPF Research Programme **2015 – 2018**

This research was funded and commissioned through the IPF Research Programme 2015–2018.

This Programme supports the IPF's wider goals of enhancing the understanding and efficiency of property as an investment. The initiative provides the UK property investment market with the ability to deliver substantial, objective and high-quality analysis on a structured basis. It encourages the whole industry to engage with other financial markets, the wider business community and government on a range of complementary issues.

The Programme is funded by a cross-section of businesses, representing key market participants. The IPF gratefully acknowledges the support of these contributing organisations:

UK Residential Property:Institutional Attitudes and Investment Survey 2017

Report

IPF Research Programme 2015–2018

January 2018

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1. EXECUTIVE SUMMARY

- Respondents to the 2017 survey own or manage investments worth in excess of £3.5 trillion[1], of which UK real estate comprises c£240 billion (c.7% of all assets).
- The number of contributors to the survey has grown to 56 (from 48 in 2016), of which 46 have exposure to the UK residential sector.
- The overall value of UK residential exposure from the 42 respondents providing data is £18.1 billion, or 8.6 % of all UK real estate assets, the highest percentage since the survey began. The average residential holding of these respondents is £432 million.
- Investment into the private rental sector (PRS) continues to grow in popularity and now accounts for half of the total, whilst development, for either investment stock or market sales, accounts for just under a quarter of the total investment in residential assets.
- Returns profile remains the principal reason for investing in residential, with stability of income the second. Other important criteria are residential's low correlation with other asset classes and its inflation-matching ability.
- Ten of the contributors to the 2017 survey do not invest in UK residential. Their primary reasons for not doing so are unattractive pricing, low income yields and difficulty in achieving investment scale.
- Respondents were questioned about how they measure the performance of their residential investments. Over 70% report that they use an absolute return target. Only two investors mention use of a residential benchmark and, only then, as a comparison, not as a formal benchmark.
- Eighty percent of residential investors state that they intend to increase their exposure to UK residential over the next 12 months, compared to 60% in the 2016 survey. In addition, three non-residential investors are considering entering the sector in the next 12 months.
- A total net figure of just over £8 billion is earmarked for residential investment, the majority of which is expected to be channelled through development land for investment stock (£4.4bn) and the purchase of existing (and newly completed) residential for private (market) rent (£3.2bn).
- Three-quarters of investors intend to work with the UK public sector in the next three years to develop housing. Most are looking to create partnerships , with the public body supplying the land and the investor building the stock.

[1] This excludes two very large investors who did not disclose the relevant data.

2. INTRODUCTION

The IPF survey of institutional attitudes and investment intentions towards the UK residential market is now in its sixth year and utilises previous years' findings to review investment trends and activity.

More than 140 organisations were invited to participate in the research, representing a range of real estate investors, comprising pension funds, life assurance companies, property companies, including real estate investment trusts (REITs), sovereign wealth funds, fund and investment managers and other financial institutions. As with previous surveys, participants represented both investors with and without exposure to the residential sector. Data collection took place over 10 weeks from early July, with interviews taking place during September and early October. An additional survey was undertaken in early December to ascertain respondents' views following the announcement, in the November 2017 budget, of the proposed elimination of capital gains tax relief for overseas investors.

Data was collected via an on-line questionnaire with further comments gathered from interviews with a number of survey contributors. All information was provided in confidence and is reported in aggregate. A total of 56 responses to the survey were received, although, due to issues of confidentiality, some parties declined to answer certain questions, primarily those requesting details of asset values.

Whilst the research does not provide a definitive picture of institutional/large-scale investment in the residential market, it offers a useful snapshot of the sector compared to the wider UK commercial real estate market. As a guide to coverage, the end-2016 value of the UK private rented sector (PRS) was estimated to be £1,110 billion[2], with mainstream investor ownership of residential assessed at £23 billion and another £14 billion in student accommodation. The value of the UK total commercial investment universe was approximately £486 billion at the same date. Survey respondents therefore represent ownership of roughly half of the overall value of the UK commercial investment universe and over £18bn of residential exposure.

[2] The Size and Structure of the UK Property Market, End-2016 Update, IPF 2017

3. SURVEY RESULTS

The primary purpose of the research is to obtain a measure of current levels of investment and future intentions of major investors towards the UK residential sector. In addition, non-investors in the sector have been surveyed to identify the reasons for their lack of investment. Comparative analysis has been undertaken, using data from core respondents that have contributed in every year of the survey over the past six years.

3.1 Profile of Respondents and Current Investment

The headline total value of investments held or managed by the 53 survey respondents providing relevant data is in excess of £3.5 trillion[3]. Two very large managers did not disclose this information. Of this total, UK real estate comprises approximately £237 billion or around 7% of all assets.

Forty-six of the institutional investors surveyed hold residential assets as part of their UK portfolio. Of the 42 that quantified the size of their residential holdings, the total value is £18.1 billion, representing an average 8.6% of their UK portfolio. Given the high proportion of residential investors in the survey (over 80%), is it not surprising that this is above the residential value of the IPD UK Annual Property Index at 6.0% for end-2016.

The average residential exposure is £432 million, compared to £422 million per investor, in 2016 (with median values of £200 million and £190 million respectively). These figures disguise the wide range of exposure between investors – extending from six with residential assets valued at £1 billion or more to four investors with assets worth less than £50 million each. This range of residential investment holding is also reflected in the number of residential units (apartments or houses) held by investors. The average number of units held is 1,200 but ranges from approximately 5,000 to under 20.

Table 3.1: Assets under Management 2012-2017 (All Contributors)

	All Respondents				Residential Investors		
	No.	Global AUM	No.	UK RE AUM	No.	UK Resi. Assets	Proportion UK RE
		(£bn)		(£bn)		(£bn)	
2012	42	1,299	28	180	33	7.6	4.6%
2013	44	2,904	43	166	37	10.8	7.0%
2014	48	4,845	46	204	37	12.8	6.5%
2015	47	3,040	43	221	38	15.4	7.5%
2016	44	3,398	46	232	39	15.4	7.3%
2017	**53**	**3,531**	**54**	**237**	**42**	**18.1**	**8.6%**

Note: Assets under management (AUM) are imputed; not all respondents provide data. Returns may include an element of double-counting due to the inclusion of indirect investments managed by other respondents.

A comparison of responses received from each of the six years of the survey is contained in Table 3.1. With increasing levels of investment, the proportion of UK real estate represented by the residential sector has risen to its highest ratio since this survey began.

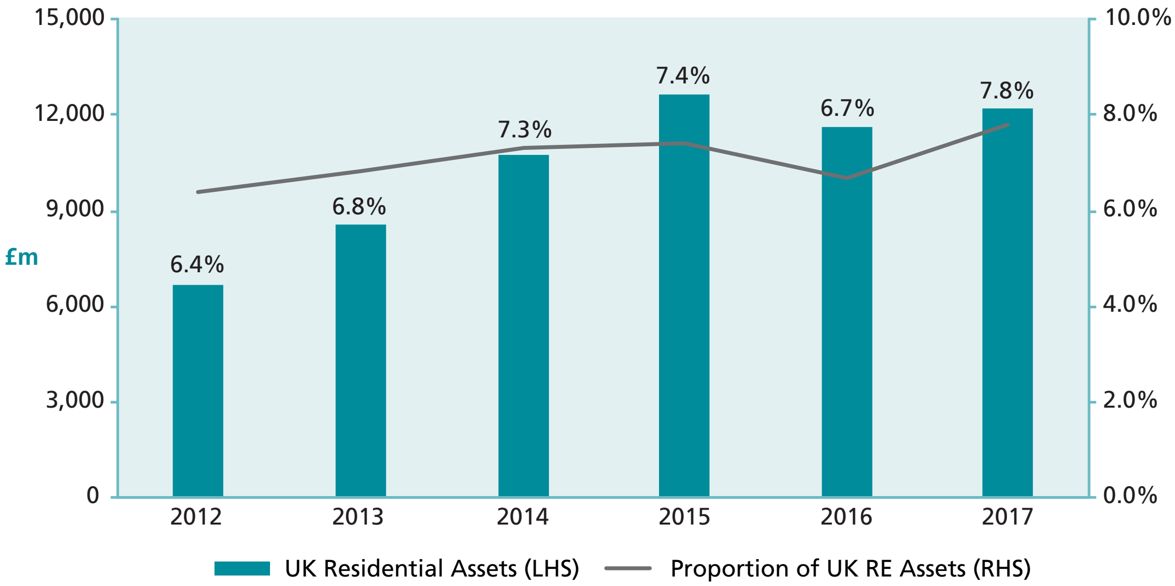
[3] The figures for overall real estate and residential exposure are gross and do not adjust for potential double-counting through indirect investments in funds, joint ventures, etc. Nor are they adjusted for those respondents that declined to disclose data concerning their AUM.

3. SURVEY RESULTS

Investment in the residential sector by both domestic and overseas institutional/large-scale investors is more commonplace outside the UK, in markets such as the US, the Netherlands and Germany. Respondents were asked if they held residential assets overseas. Interestingly, five non-investors in UK residential have exposure to the sector outside the UK. Overall, there is almost an even split between those that invest in residential abroad (29) and those that do not (27).

An analysis of residential assets owned by the 27 investors who have contributed to the survey in every year is contained in Figure 3.1. Unlike 2016, the heightened interest reported in the sector is reflected in an uplift in residential exposure. In addition, the proportion of residential held within real estate portfolios has increased to 7.8%, the highest since the survey began. Two regular contributors have disinvested from the sector, albeit with limited exposure before divestment.

Figure 3.1: Residential Assets under Management 2012-2017 (Regular Contributors)



These values do not take into account any capital appreciation in stock held throughout the year. However, as the IPD Annual Residential Property Index reported virtually flat capital value growth for the residential sector in 2016, no adjustment has been made.

Comparing contributors common to 2016 and 2017 (35), there is a net increase in asset values, of £1,081m, reflecting increases in investment by 20 investors. Two contributors are new investors in residential, although they did not disclose the size of their exposure.

Eight investors have reduced their weightings to the sector (two disinvesting entirely), with these disposals totalling just under £600m. Of the seven contributors that maintained a stable residential investment position, five of these are non-investors.

3. SURVEY RESULTS

3.2 Exposure by Type of Asset

Contributors were requested to provide details of which residential asset types they have exposure to. Five categories were defined in the 2017 survey: Standing investment (market rent – PRS); Standing investment (sub-market rent/affordable – Social Housing); Development land for investment stock; Development land for market sales; and Other. Table 3.2 provides a comparison with previous years' responses, with an analysis of the breakdown between different asset types.

Table 3.2: All Contributors by Asset Type (£m)

Year	All Assets	PRS	Social Housing	Devt. Rent/Sell	Other
2012	7,594 (28)	n/a (21)	n/a (5)	n/a (15)	n/a (16)
2013	10,855 (37)	n/a (23)	n/a (3)	n/a (19)	n/a (18)
2014	12,792 (36)	4,389 (23)	369 (6)	3,064 (22)	4,970 (25)
2015	15,399 (38)	4,547 (30)	606 (5)	4,148 (21)	5,158 (28)
2016	15,545 (35)	5,854 (24)	622 (6)	4,039 (23)	4,041 (15)
2017	15,980 (39)	7,990 (29)	1,120 (7)	3,770 (24)	3,100 (12)

Note: Number of respondents in brackets; figures may not sum to All Assets as not all contributors provided a breakdown by type.

PRS exposure has increased and now accounts for the bulk of residential investment exposure, at almost £8 billion. The value of the social housing/sub-market rent investments also increased in 2017. Development, for either investment stock (also known as 'build-to-rent') or for sale, is still a common method of investment in the sector, albeit with a slight fall in exposure compared to 2015 and 2016. In 2017, investment in each asset class amounts to £2.5 billion and £1.3 billion respectively.

Examples of the type of accommodation contained in the 'Other' category include: ground rents, student accommodation, senior living/retirement housing and residential care homes. Amongst contributors, 'Other' exposure has fallen over the last two years – this is, primarily, a reflection of the decline in the amount of student accommodation held by contributors.

3.3 Rationale for Investing in Residential Property

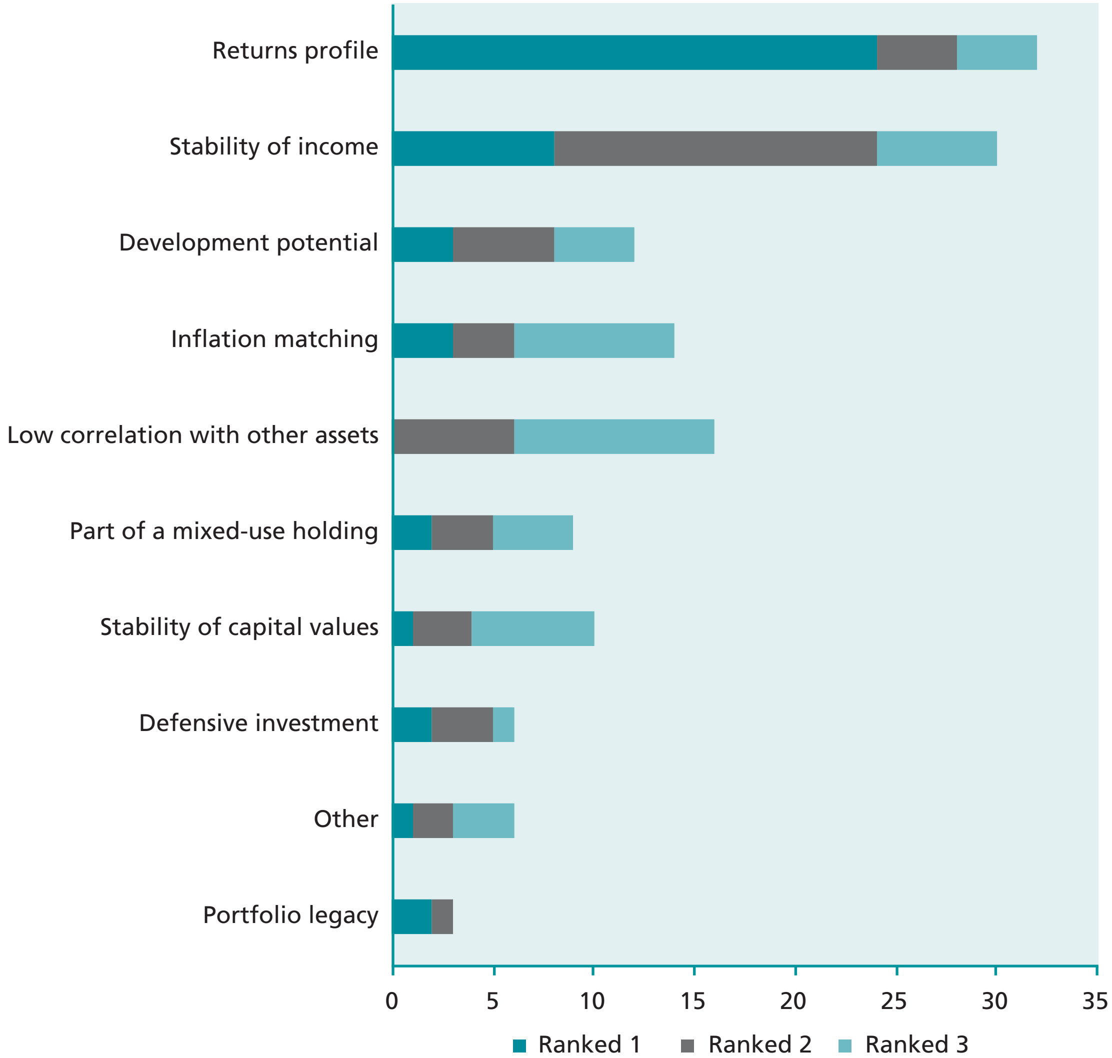
The 2017 survey invited contributors to rank the top three reasons for investing in UK residential from nine criteria, with inflation-matching included for the first time.

The profile of returns is the main motivation for investing in residential, with 24 respondents classifying it as the principal reason. Another eight respondents rank it as either their second or third criterion for investing. Stability of income is also identified as a primary incentive for acquiring residential: 30 respondents selected it as one of their top three reasons. Other important criteria are residential's low correlation with other asset classes and its inflation-matching ability, followed by development potential.

Figure 3.2 illustrates the range of responses and the relative importance to contributors in 2017.

3. SURVEY RESULTS

Figure 3.2: Ranking of Investment Criteria 2017



In previous years, investors were invited to rank all reasons that were relevant, so a direct comparison is not possible. However, in each year of the survey, the returns profile of residential investments has been the most common reason for the decision to have exposure to the sector. In both 2016 and 2017, stability of income has been ranked as the second most common reason, overtaking development potential, which was the second highest rank criterion in 2013-2014.

3.4 Investment Intentions

Investors were asked whether they intend to modify their exposure to UK residential over the next 12 months. Of the 46 current investors, 80% (37) stated that they intend to increase their exposure further. This is a more positive stance than in 2016, when 60% of respondents were expecting to increase their exposure to the sector. Four investors believe their residential exposure will remain stable while only three indicate that they will be looking to sell down from their residential portfolio. Two investors were unsure at the time of the survey.

3. SURVEY RESULTS

Non-investors in residential also were asked how they expect their exposure to the UK residential sector to change over the next 12 months. Five responded they have no intention of investing in the sector in the near future while three state they are looking to enter the market. The final two non-investors were unsure at the time of the survey.

Respondents to the survey were invited to clarify their investment intentions by providing details of the type of property and approximate amount expected to be invested or disinvested over the next 12 months. The responses of 30 contributors are summarised in Table 3.3. Acquiring development sites for investment stock is the most popular, with £4.4 billion allocated to this investment strand. The acquisition of standing investment PRS is also expected to be a major component of increased exposure, attracting £3.2 billion of potential investment. Other residential uses, principally student accommodation, ground rents and retirement/care homes, attract potential commitments of £320 million.

Disinvestment intentions are minimal, amounting to £190m, the majority of which is represented by a reduction in social housing by one investor.

Table 3.3: Existing Investor Intentions over the next 12 months

	PRS	Social Housing	Devt. Rent	Devt. Sales	Other	Total
Invest (£m)	3,220	210	4,415	110	320	8,275
No.	15	4	19	3	3	44
Disinvest (£m)	30	130	0	25	5	190
No.	2	1	0	1	1	5
Net Invest (£m)	3,190	80	4,415	85	315	8,085
No. Net Investors	15	4	19	3	3	44

Note: A number of investors expressed intentions to invest/or disinvest in more than one type of residential asset.

To understand better the extent to which investment intentions translate into actual changes in exposure, analysis has been undertaken to compare future intentions, as indicated in the 2016 survey, with actual investment activity measured during the year to the 2017 survey.

Table 3.4 displays the results of the 35 investors providing answers in both surveys which allows comparison. Three-quarters of investors (26) matched their broad expectations (to increase, decrease or maintain their existing exposure). This is a considerable uplift on the 2016 result when only around one-third of contributors (10) matched their investment activity with their stated investment intentions in the 2015 survey. The vast majority of investors looking to increase their residential holdings have done so over the past year, as did those considering a reduction in their residential portfolio size. Of the 10 respondents who expect to maintain a stable residential portfolio, six have, whilst three decreased and one increased their holdings.

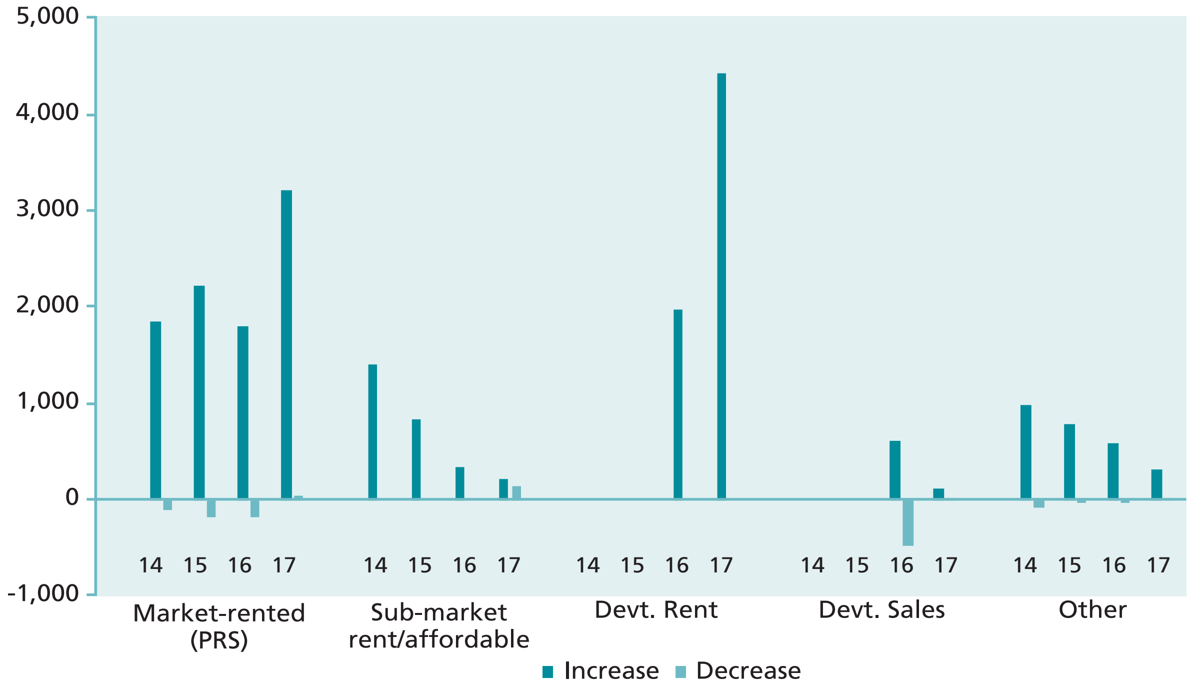
3. SURVEY RESULTS

Table 3.4: Investment Intentions versus Outcome

		Actual (2016-17)		
Intention in 2016	**No.**	**Decrease**	**Remain Stable**	**Increase**
Decrease	4	3	0	1
Remain stable	10	3	6	1
Increase	21	3	1	17

Figure 3.3 records changes in investment intentions over the past four years. Access to the sector through development for investment stock is again the most popular route, although by a much greater margin compared to investing in PRS than reported in 2016. This is not a surprising outcome given comments in several interviews about the lack of suitable investment stock.

Figure 3.3: Change in Investment Intentions 2014-2017 (£m)



3.5 Barriers to Investment

Ten of the 56 contributors to the survey do not invest in UK residential property. The primary reasons cited for not holding residential include: unattractive pricing, low income yields and a difficulty in achieving scale of investment. The view of some investors that residential pricing is unattractive is noticeably more common in 2017 than in preceding years. One non-investor mentioned that, as residential is such a small part of the benchmark they are measured against, it is not worthwhile investing in the sector.

3. SURVEY RESULTS

Table 3.5: Reasons for not Investing, 2012-2017

Factors	(no. respondents)	2012 (14)	2013 (7)	2014 (11)	2015 (9)	2016 (9)	2017 (10)
Political risk		4	0	4	2	1	3
Reputational risk		5	3	5	2	2	3
Unattractive pricing		6	3	1	1	2	6
Too difficult/management issues		12	2	4	2	2	2
Income yield too low		9	5	5	4	3	5
Difficult to achieve scale		9	2	4	4	4	5
Lack of liquidity/insufficient market size		9	3	5	1	1	1
Development risk*		N/A	N/A	N/A	N/A	N/A	0
Currency risk*		N/A	N/A	N/A	N/A	N/A	1

Notes: Two investors chose not to select any of the options, although one commented that it is more a matter of other priorities at the time rather than any disinclination to invest in residential.
*Criteria added to 2017 survey.

Over the last 12 months, two survey contributors disposed of their investments in the sector. The reasons for this were not disclosed but one intends to re-invest in the sector in the next 12 months while the other is unsure about their investment intentions at this time. Two former non-investors have invested in residential in this period.

3.6 Partnerships with the UK Public Sector

One of the critical issues in the UK residential sector is the difficulty of accessing suitable land for development. The UK public sector holds the key to unlocking access to many potential sites. To measure the amount of current and future interest in working in partnership with local or central government, several questions were posed in the survey.

These questions were first introduced in 2016 and include whether respondents have had any involvement with the UK public sector, either by a land purchase or by entering into a partnership or joint venture, in the last three years. Of the 45 contributors who responded to the question in 2017, eight have been involved with the UK public sector over the previous three years, the same number as in 2016. This activity amounts to a gross development value of just over £3 billion, ranging in deal sizes between £100 million and over £1 billion. Two investors state that their primary objective is to access land to develop then manage the units to generate a PRS cashflow. The remaining six investors indicate that, as well as the former objective, they are also motivated by an intention to develop and sell units on the private market.

Respondents were also questioned about their future intentions and whether they plan to work with the UK public sector to develop housing in the next three years. Two-thirds of those that replied anticipate working in some way with the UK public sector. This is a markedly higher figure/proportion than responses in 2016, when only half of contributors stated that they were looking to engage with the UK public sector in the next three years.

3. SURVEY RESULTS

3.7 Performance Measurement

The 2017 survey introduced the concept of performance measurement, asking survey contributors on what basis they measure the performance of their residential investments and, if applicable, the benchmarks they use to assess performance. Over 70% (31) of those responding report that performance is compared to an absolute return target. Eight contributors indicate that they use a benchmark, some use more than one. A further four comment that they use a combination of an absolute return target and a benchmark to measure their UK residential performance.

Of those investors that stated that they use a benchmark as a primary form of performance measurement, the IPD UK Quarterly Property Index is mentioned by five investors, with one using the IPD Global Property Index. One respondent uses the AREF/IPD UK Quarterly Property Funds Index and two others use the AREF/IPD All Balanced Funds Index. Two non-real estate benchmarks are also mentioned - an indexed gilt rate and Retail Price Index (RPI) plus a margin.

Only two investors use the IPD Annual Residential Property Index and then only for comparative purposes, not as a formal benchmark, which raises the question of why there appears to have been so little take up in usage of such benchmarks, when the IPD Residential Index has been published since 2000

Investors were invited to comment on the main issues facing benchmarking of the UK residential market. Most observations were directed towards the IPD Residential Index, the most prevalent criticism being its lack of size. In addition, the stock contained in the Index is not seen as representative of the modern, purpose-built stock that institutions are currently acquiring and, geographically, it has a strong bias towards London. Developments are also difficult to benchmark and relevant comparisons are therefore challenging. One investor also commented that some of the detailed metrics calculated (for example capital value growth), although improving, need further refining to be more pertinent.

In addition, during interviews, two investors commented on the lack of good historical rental data on a city-by-city basis, implying it is not just the index that requires expansion.

This feedback, in many ways, reflects the state of institutional/large-scale investment in the UK residential market, which, in its current form, is still in relative infancy compared with overseas markets, such as the US or Germany.

4. POLITICAL INITIATIVES AND IMPACTS

Previous surveys recorded that residential property attracts considerably more political intervention than commercial real estate. Some of the current and potential issues were explored during 16 interviews with respondents to the survey, of whom, 15 currently invest in the UK residential sector.

4.1 Impact of the 3% stamp duty premium

On 1 April 2016, government implemented new stamp duty land tax (SDLT) legislation, requiring owners of more than one residential dwelling to pay an additional 3% charge on current SDLT levels. The purpose of this tax was stated as helping to make the residential market fairer for first-time buyers. The tax, while primarily targeted at smaller scale private landlords, also encompasses investments made by institutional investors. Interviewees were asked how this change would impact on their future investment intentions.

Of the 15 current investors interviewed, six stated that it has had a material impact on their plans. None were deterred entirely but the additional premium has made the underwriting of investments more challenging and some schemes have not proceeded as a result. Comments include: "It has not made things easier" and "There is not enough profit for the risk".

The remaining nine investors said that the change in SDLT has not dampened their investment intentions towards residential despite its impact on return expectations. Reasons provided include that residential investment is viewed as a long-term hold, the sector is being accessed through development or assets are being bought via a company structure.

Several investors opined that large-scale deals of interest to institutional investors should be exempt from this stamp duty tax, as is in the case under the Scottish Land and Building Transaction Tax (the equivalent of SDLT) system, where properties with six units or more are exempt from the 3% Additional Dwelling Supplement. In addition, one investor proposed that Build-to-Rent schemes allocated to affordable or discounted market rents should be free of SDLT.

There was a consensus that the new tax was unhelpful for a sector that needs to encourage the involvement of institutional investors to help tackle the supply/demand imbalance. Along with changes in tax relief, however, data indicates this initiative is having the desired effect of dissuading small-scale private landlords to invest. However, it may also discourage some larger scale investors, who may preferto direct their investment into commercial real estate without this additional negative premium.

As an interesting aside, during discussion on stamp duty changes, it was mentioned by several investors that the government needs to consider ways of supporting and encouraging the older generation who are considering downsizing from larger family homes into retirement accommodation, either bought or rented. Removing or reducing stamp duty on the purchase of such assets would encourage this downward shift and help free up the housing chain, and ultimately benefit first-time buyers.

4. POLITICAL INITIATIVES AND IMPACTS

4.2 RPI-linked rent regulation

Interviewees were asked if they thought the introduction of RPI-linked rent regulation would impact on their investment plans for PRS.

Several investors felt their current offer to tenants is not far from what is viewed as "fair" or the main terms being discussed in terms of regulation, lease length and annual reviews. One investor explained that they offer leases with annual rent rises matching inflation but with no addition premium, with the aim of attracting long-term tenants by providing an affordable rental option.

Some investors discussed the advantages of having assets let on longer leases; this provides greater security of income and, potentially, leads to a decline in bad debts and voids, which is a positive attribute for underwriting purposes. Longer-term occupancy was felt to encourage tenants to view their property as a home.

Interestingly, one interviewee described a scheme they owned, whereby tenants had the right to choose the length of their lease, varying from six months to five years. The average lease length was just 14 months.

Common among the proposals discussed is the landlord's ability to set the initial rent (i.e. a market rent) with the rent moving to market value at the end of the lease. During several interviews, strong opinions emerged regarding any potential increase in regulation, leading to enforced rent capping and rent control. One investor stated that any introduction of rent control would "decimate the industry". Another suggested that "institutional investors would run for the hills!".

Some investors mentioned that they are wary of investing in Scotland where, from December 2017, local authorities can apply to the Scottish Government to designate an area a 'rent pressure zone' if they can demonstrate that rents are rising too fast and therefore causing local inhabitants undue hardship. If an area is nominated as such a zone, a cap will be placed on how much rents can be increased each year. Any cap will be at least CPI plus 1% and ministers will have the power to add an additional percentage to this, if they consider this appropriate. A cap may last up to five years and apply to rent increases for existing tenants. One investor did comment, however, that responsible landlords should not be concerned by such controls.

4.3 Impact of Brexit

This report could not be concluded without a comment on Brexit. The uncertainty wrought was commented on by many interviewees, although investors generally do not appear unduly worried about the situation. While some investors unfamiliar with the market may be deterred from investing in UK residential, particularly foreign investors, those already exposed to the sector are not. The fundamentals of the residential market, principally a lack of supply, are still seen to make it attractive, particularly against other sectors, such as City Offices. This is borne out by the 2017 survey results and the high level of positive intention towards the UK market over the next 12 months.

Several interviewees commented that Brexit might provide investment opportunities, as some current investors may choose to sell and there is the potential for the market to become less crowded in terms of buyers. Pricing may therefore become more attractive.

4. POLITICAL INITIATIVES AND IMPACTS

Unsurprisingly, there are negative issues associated with a UK withdrawal from the EU and several investors are watching closely the potential impact on migration, avoiding locations popular with EU citizens and city bankers. An additional concern is that build costs will escalate through rising imported material costs, with consequences for the viability of projects.

4.4 Proposed Changes to Capital Gains Tax Relief

In the November 2017 budget, the government announced plans to eliminate capital gains tax relief for overseas buyers of UK commercial real estate, with this change due to come into force in 2019. Whilst the government has indicated it will exclude foreign pension funds from the proposed changes, other potential sources of capital for the residential market, such as private equity firms and high net worth individuals, will not be exempt.

As a result of this announcement, contributors to the survey were invited to comment on the proposed changes. Responses were received from 35 participants, comprising the majority of the overall sample, by both number and value of assets owned. For these respondents, roughly a third of all assets are estimated to be owned by foreign investors.

Contributors were asked for their views on the potential impact the proposed tax relief changes may have on overseas investment in their UK residential investment programme. The most common response (13 investors) was that the changes will have a significant detrimental impact - one respondent believes this will be quite pronounced in the short-term, while foreign investors investigate the most efficient investment routes. Given the uncertainty created by the announcement, the perception is that a large number of real estate funds are currently considering the impact on existing investment vehicles and new funds (including residential funds) are deferring their decisions on whether to proceed with proposed structures.

In the longer term, on the current proposed basis, while tax exempt overseas investors and sovereign wealth funds are expected to invest via onshore vehicles, non-exempt overseas investors will be at a disadvantage, due to the prospect of being liable to pay tax both in the UK and in their own country of-origin. One investor suggested a wider impact for private equity and opportunity fund investors, potentially facing a less efficient tax environment. This capital is often more willing to take on development risk and create new stock, which the residential market urgently requires. A number of investors proposed that larger-scale housing delivery in general should be exempt from these tax changes to encourage the delivery of this type of stock.

This negative reaction was not unanimous, though, as four overseas pension and sovereign wealth funds (or managers of these funds) commented that, as long as the provision for tax efficient structures is still open to them, the proposals will have minimal impact. Five UK-based investors also indicated the impact would be negligible on their residential portfolios and their appetite for residential investment. One foreign investor remarked that, as they invest equity for long-term income flows, the changes, whilst of relevance, are not important. One criticism, however, mentioned by a fund manager of overseas investment, was that the proposed change in taxation sends out a negative message to foreign investors in terms of how welcome their investment is in the UK.

4. POLITICAL INITIATIVES AND IMPACTS

Reactions to the elimination capital gains tax relief were sought shortly after the proposed policy changes were announced. Following a period of reflection, the potential consequences may not be as severe as initially thought. However, a repercussion of this statement of intent has been to create uncertainty – within both the residential and wider commercial real estate market. Introducing such uncertainty is unlikely to be conducive to supporting a continuous flow of new housing.

5. CONCLUSION

The residential survey is now in its sixth year and has it widest coverage yet, based on UK residential assets worth £18.1 billion, compared to £7.6 billion in 2012. Not only has the number of respondents been expanded, but the amount invested by those contributors who have responded to the survey in every year since it began continues to increase.

One of the most striking findings of the 2017 survey, is the potential weight of money earmarked for residential investment over the next 12 months by residential investors who responded, at over £8 billion. This capital is attracted by the supply issues in the sector and continued robust demand alongside the ability to provide more modern, institutional quality stock.

There are many issues that investors face in deploying this capital. Firstly, the capacity to buy or develop assets at an attractive price – the IPD UK Annual Residential Property Index reported a gross yield of 3.8% at the end of 2016. Several investors commented that there needs to be some weakness in the market or a failure of a housebuilder or developer to provide more realism in pricing. There are also issues around how assets are valued and benchmarked given the issues with availability of data.

However, it appears the greatest difficulty the market faces is finding suitable product, either investment stock or land for development. The survey suggests government policy needs to be directed at encouraging the delivery of both. In addition, measures to encourage institutional investors and other responsible landlords prepared to offer longer term and/or inflation-linked leases would be appreciated. Nonetheless, certain government interventions would be unwelcome, including any rent regulation or the recently announced elimination of capital gains tax relief for overseas investors.

6. ACKNOWLEDGEMENTS

The IPF would like to thank all those participants in the 2017 survey for contributing data and opinions, including the following organisations that consented to be named:

Aberdeen Asset Management
Apache Capital Partners Ltd
Atlas Residential
Aviva Investors
AXA REIM
Barings
BlackRock
BP Investment Management
British Land
Brunel Pension Partnership
Church Commissioners, The
Delancey Real Estate Asset Management Ltd
Deutsche Asset Management
Dorrington
Fidelity International
Fizzy Living
Grosvenor
Hearthstone Investments plc
Hermes Investment Management
Invesco Real Estate
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