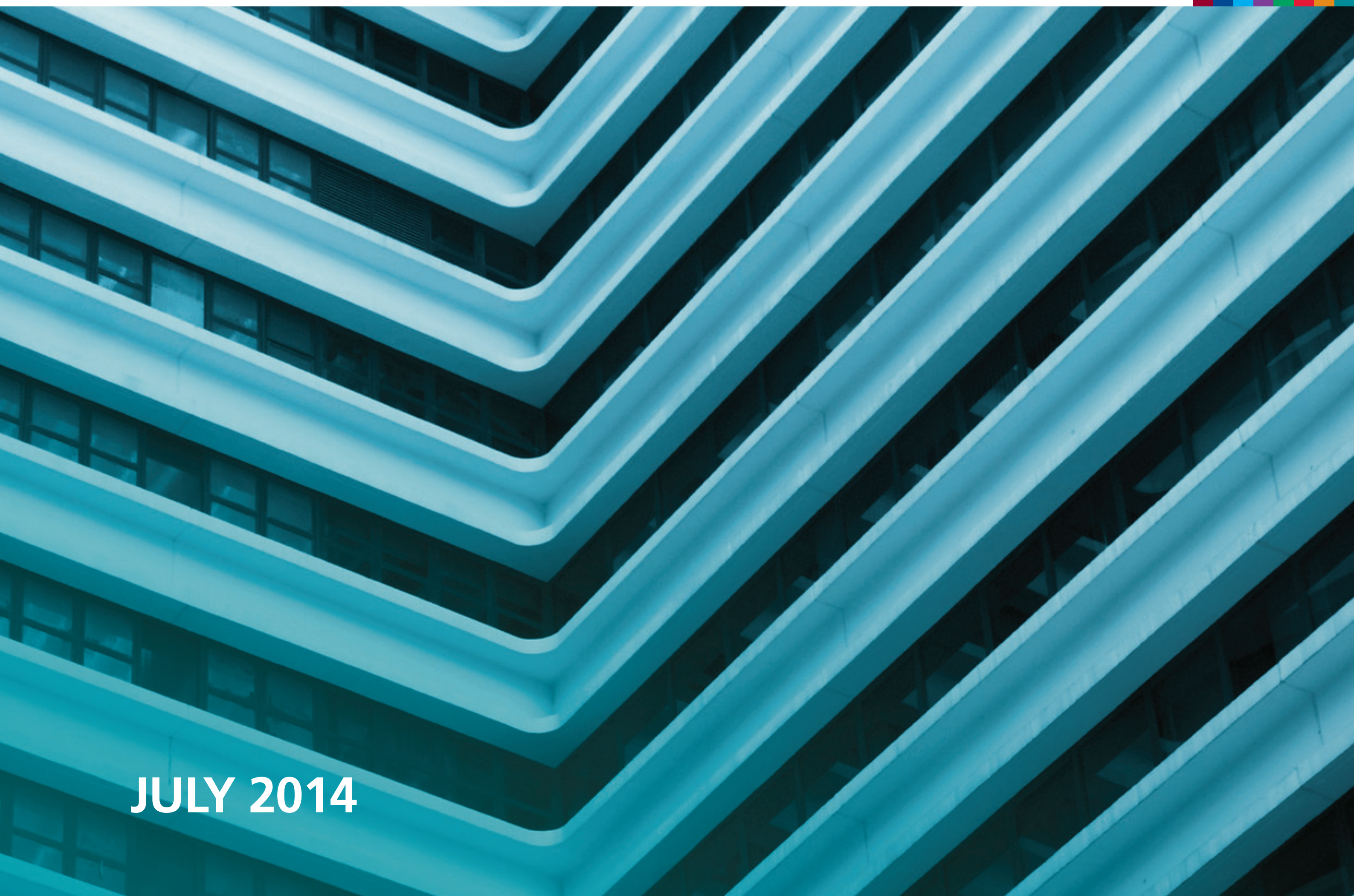
IPF Research Programme 2011–2015

UK Residential Property: Institutional Attitudes and Investment Survey 2014

This research was commissioned by the IPF Research Programme 2011–2015



JULY 2014

This research was funded and commissioned through the IPF Research Programme 2011–2015.

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 22 businesses, representing key market participants. The IPF gratefully acknowledges the support of these contributing organisations:

UK Residential Property: Institutional Attitudes and Investment Survey 2014

July 2014

Research

Pam Craddock, *IPF*

Project Steering Group

Kiran Patel, *Cordea Savills*
Jean-Marc Vandevivere, *The British Land Company PLC*
Charles Fairhurst, *Fairbridge Residential Investment Management*

CONTENTS

1. EXECUTIVE SUMMARY

- The total value of investments held or managed by 2014 survey respondents exceeds £4.8 trillion, of which real estate comprises approximately £200 billion (c.4.2% of all assets). Almost four-fifths of contributors (37 out of 48) have an exposure to residential assets in their UK portfolios.
- The cumulative value of UK residential investment from those respondents providing data is almost £13 billion, or c.6.3% of all UK real estate assets. The average holding per investor is around £345 million.
- Direct ownership remains the preferred method of holding residential property, with the value of those holdings representing around 58% of all residential assets.
- Around a half of respondents invest via joint ventures and a third of respondents use private funds. Gaining exposure via listed property company shares has limited appeal with only five investors using this route, which represents a little over 1% of total investment.
- Whilst investment in market rents/assured shorthold tenancies (ASTs) is the most popular form of property for investment (at 34% of all assets), development currently attracts around a quarter of total investment.
- Twenty two contributors provided providing data on their development activities. The gross development value of these projects adds up to some £9.8 billion. Over 50% of the current pipeline is earmarked for disposal, with twelve contributors intending to sell on completion, whilst only four are building exclusively to rent.
- The principal rationale for investing in residential remains its returns profile, followed by development potential. Stability of income is also a major attraction. Aside from criteria specified in the survey questionnaire, contributors also identified liability matching, lower obsolescence (than offices, for example) and close correlation with inflation.
- Eleven of the 48 participants in the 2014 survey do not currently invest in residential. Low income yield is cited as the most important issue but notwithstanding this, only two respondents have no intention of investing in the foreseeable future. From the remaining nine responses, up to £500 million may be available for investment over the next three years, with the preference being for investment in student accommodation (five) followed by market rented/ASTs and development sites.
- The majority of existing investors plan to increase their investment in the sector over the next 12 months, with only three expecting to reduce their exposure. The scale of new investment may exceed £5 billion, subject to availability of suitable stock, across the full range of residential assets.
- Planning issues and taxation (including VAT) remain of concern to both potential and existing investors. Unprompted, around a quarter of contributors suggested a commitment not to intervene in the sector would be the most helpful response by Government.
- Subject to further clarification, Labour's suggested reforms to the private rented sector have received a mixed welcome. The prospect of rent control met with mainly a negative reaction although some responses were more pragmatic and greater security of tenure was perceived as be attractive to families and could encourage more institutional investment through greater stability and certainty of income. On balance, no strong views emerged on whether these proposals had impacted adversely or otherwise on investors' attitudes and appetite for the sector.

2. INTRODUCTION

The 2014 survey continues the IPF's study of institutional attitudes and investment intentions in the UK residential sector, commenced in 2012 in 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). The survey has been conducted to monitor what, if any, changes in residential investment have taken place over the 12 months since the last research was undertaken. It also serves to build a data base from which it should become possible to identify trends in investment activity.

As was the case in 2013, this year's research was carried out using an on-line questionnaire, directed at institutional investors, followed by interviews with a significant proportion of contributors to provide more details responses to a number of the questions posed. All information was provided in confidence and is reported in aggregate. Data collection took place over approximately eight weeks, concluding at the end of April 2014. Interviews were carried out during this period and over a number of weeks subsequently, partly to seek reactions to the Labour Party's announcement in early May of proposed reforms to the Private Rented Housing Sector. Responses were sought from survey contributors on whether these proposals affected in any way their appetite for future investment in the sector (positively or negatively). These appear in Section 5 of the report.

The 2014 survey questions appear in Appendix A.

75 organisations were invited to participate in the research, representing a range of investors comprising UK pension funds and life assurance companies, property companies, including real estate investment trusts (REITs), fund and investment managers and other financial institutions. As with previous surveys, participants represented both existing investors in the sector and those without any exposure. Responses were received from 49 organisations, although, due to issues of confidentiality, some parties declined to answer certain questions, primarily those quantifying their assets. The responses of one contributor were subsequently omitted as it is not a traditional investor in property and will ultimately dispose of its residential assets.

3. SURVEY RESULTS

The primary focus of the research was to quantify the current level of and future intentions for investment in the residential sector, whilst also seeking from non-investor respondents reasons for not investing. Less emphasis was placed on investment in student housing (supplemental questions appearing in the 2012 survey were omitted). Those respondents who participated in both the 2012 and 2013 studies, also contributed to this year's research so, where possible, comparisons between responses have been made.

3.1 Profile of Respondents and Current Investment in Residential Property

Although some caution must be attached to the reported figures (due to the potential for double-counting through the inclusion of indirect investment via funds, joint ventures, etc.) the headline total value of investments held or managed by the 46 respondents who provided such data exceeds £4.8 trillion, of which real estate comprises approximately £200 billion or around 4.2% of all assets.

Almost four-fifths of contributors (37 out of 48) have an exposure to residential assets in their UK portfolios. Of the respondents who quantified the size of their holdings/assets under management, the cumulative value of their UK residential investment is now approaching £13 billion. The majority (29) held some or all of their residential investment direct, although this ranges from 100% in the case of 13 investors down to less than 10% in four instances. The danger of double-counting is reflected through the use of indirect investment[1] by some 22 investors, representing over £4.8 billion of asset value.

Reverting to headline totals, these figures imply an average holding of around £345 million per investor (compared to £325 million in 2013). The respective median figures are £200 million and £150 million. These numbers disguise the scale of exposure between investors however, extending from £1 billion or more in four instances to £10 million or less in further four cases. Again, adopting the headline figure of c. £13 billion, these holdings represent around 6.3% as a proportion of all UK real estate assets under management, comparable with 2013's 6.8% average.

A comparison between responses received over the three years of the survey is summarised in Table 3.1. As was the case in 2013, not all respondents provided sufficient data to permit a detailed analysis. Whilst the headline number of investors in residential property remained static over the year, there has been an absolute increase in investment, although the proportion of UK real estate assets represented by residential property has fallen slightly.

Table 3.1: Comparison of Survey Results 2012 – 2014 (All Contributors)

	All respondents				Residential investors		
	Total[2]	AUM (£bn)[3]	No.	Real Estate AUM (£bn)	No.	Residential Assets (£bn)	Proportion UK RE
2012	42	1,299	28	180	33	7.6	4.6%
2013	44	2,904[4]	43	166	37	10.8	7.0%
2014	**48**	**4,845[5]**	**46**	**204**	**37**	**12.8**	**6.3%**

[1] Comprising joint ventures, private funds and/or listed vehicles. The value of their residential investments amounted to £4.876 billion (41% of the total value disclosed by contributors).

[2] Numbers vary for each year dependent upon the number of contributors providing data.

[3] Assets under management (AUM) are imputed; not all respondents provided data; individual returns may include an element of double-counting through indirect investments that may appear within other survey returns.

[4] 41 responses

[5] 46 responses

3. SURVEY RESULTS

Thirty-three organisations have contributed to all three surveys conducted to date, although not all have provided full data on the value of their investments, as summarised in Table 3.2. Whilst the headlines indicates a stable picture in relation to the number of investors in UK residential, two contributors have exited their holdings over the last 12 months, albeit both had only small exposures (of around £1 million or less). This has been countered, however, by two other respondents investing for the first time: one has taken a modest exposure in development via a joint venture and the second a rather more substantial position (over £50 million) in student accommodation, invested directly and through listed property company shares.

The net situation is one of increasing investment, although, as a proportion of all UK real estate under management, the average percentage exposure has declined slightly. An explanation of this fall in share is open to conjecture but may be due to one or more of a number of factors, including a lack of investment stock within residential compared to commercial investment opportunities or revised mandates focussing on other real estate sectors.

Table 3.2: Comparison of Investors Common to 2012 – 2014 Surveys

	Total	AUM (£bn)	No.	Real Estate AUM (£bn)	No.	Residential Assets (£bn)	Proportion UK RE
2012	28	1,145	29	150.3	22	7.1	6.0%
2013	30	1,604	32	151.1	29	9.5	6.9%
2014	**32**	**2,083**	**32**	**177.8**	**29**	**11.8**	**6.6%**

Note: Not all respondents provide data on the value of their assets.

3.2 Methods of Investment and Preferred Asset Types

Direct ownership continues to be the most preferred method of holding residential property (29 investors, against 28 in 2013), with the value of those holdings representing around 58% of all residential assets. However, approaching a half (18) of investors participate via joint ventures (two of whom invest exclusively via this route). Around a third of respondents use private funds, including one solely gaining exposure through this means. In value terms, these methods of investment represent 19% and 22% respectively. Compared to only one organisation in 2013 identifying listed vehicles as a means of holding assets within the sector, this has risen to five in 2014 although, in value terms, this remains a very small proportion of the total. These are summarised in Table 3.3.

Table 3.3: Exposure to Different Investment Vehicles by Proportion of Funds Invested

Proportion of investment	Direct		Joint Venture		Private Fund		Listed Property Company Shares	
	No.	£m	No.	£m	No.	£m	No.	£m
100%	13	4,826	2	202	1	40	0	0
50% - 99%	7	1,336	5	1,282	5	1,953	1	113
25% - 49%	3	263	2	152	1	23	1	25
10% - 24%	1	200	5	507	1	8	3	35
Under 10%	4	117	2	16	1	20	0	0
Not disclosed	1	-	2	-	3	-	0	0
Total	**29**	**6,741**	**18**	**2,159**	**12**	**2,044**	**5**	**173**

3. SURVEY RESULTS

The pattern of residential property invested in remains primarily within the three categories of market rents/ assured shorthold tenancies (ASTs), student accommodation and development land, although development has overtaken student accommodation as the second most favoured form of exposure. This is summarised in Table 3.4.

Table 3.4: Number of Respondents Investing by Type of Asset, 2012 – 2014

Year	Total no. respondents	MR/ASTs	Student Accomm.	Social Housing	Devt. Land	Ground Rents	Other[6]
2012	28	21	11	5	15	10	6
2013	37	23	20	3	19	10	8
2014	36	23	18	7	23	8	9
2014 Total (£m)		**£4,389**	**£1,983**	**£369**	**£3,064**	**£1,510**	**£1,477**

The majority of contributors hold a range of property types; less than a third (nine of the 34 who provided detailed responses to this question) have investments within solely one form of residential investment. Of these, four favour market-rented/ASTs and a further three are wholly invested in development. The highest average holding is within the category of market rents/ASTs, followed by ground rents, although individual exposures vary considerably as can be seen from Table 3.5.

Table 3.5: Investor Exposure by Type of Property, 2014 (£m)

	MR/ASTs	Student Accomm.	Social Housing	Devt. Land	Ground Rents	Other	All
Mean	£191	£110	£53	£136	£189	£164	£347
Median	£55	£75	£24	£54	£185	£60	£200
Minimum	£1.2	£8	<£0	£2	£20	<£0	£1
Maximum	£880	£500	£140	£500	£664	£625	>£1,500
Total value	**£4,389**	**£1,983**	**£369**	**£3,064**	**£1,510**	**£1,477**	**£12,792**

As a supplementary question, those with an exposure to development were invited to attribute a gross development value (GDV) figure to their activities and their long-term intentions for these projects, in an attempt to gauge how much development is being pursued as a means of creating rental stock or whether the attraction of development is more driven by rising capital values. Of the 22 contributors providing a response, where disclosed, the GDV of their investment activities totalled some £9.8 billion, with well over 50% of the current pipeline earmarked for sale. Twelve contributors intend to dispose on completion, whilst only four are building exclusively to rent. Of the remaining responses, more than 50% of the developed stock (c. £2.75 billion) may be sold on completion. The fate of a further 10% of projects by value was not categorised. Responses are summarised in Table 3.6.

[6] Examples of 'Other' types of residential asset include: serviced apartments; promotion agreements; senior living/retirement housing, shared ownership, residential care homes; debt: on student/student development and residential development; 'un-enfranchiseable' ground leases; houses in multiple occupation and statutory tenancies.

3. SURVEY RESULTS

Table 3.6: Development Intentions, 2014

Asset type	No.	GDV (£m)	Proportion
Build-to-sell	12	3,406	35%
Build-to-rent	4	539	6%
Part sell/part rent	4	4,850	59%
Not disclosed	2	1,000	10%
Total	**22**	**9,795**	

3.3 Rationale for Investing in Residential Property

As with previous surveys, contributors were invited to select from eight specified criteria for investment and to rank these in order of priority, as well as to provide additional reasons for holding UK residential property. Thirty six respondents selected some or all of the criteria identified in this question.

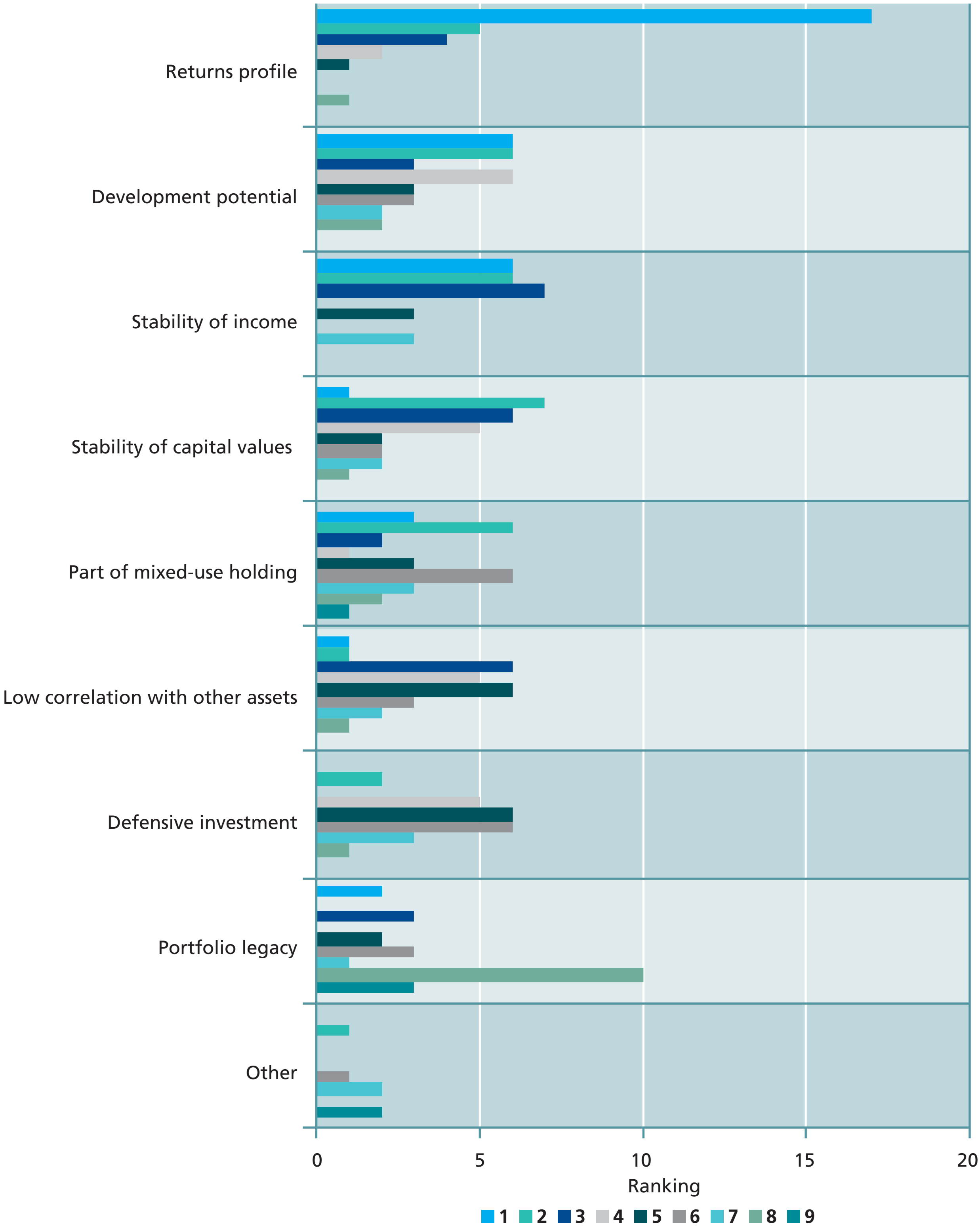
Once again, a significant majority (30) identified the **returns profile** as being a key consideration, with almost half of all respondents (17) ranking it as their principal consideration. More respondents (31) cited **development potential** to be an important factor, six ranking it above all others, but on a scored basis, this appears to rank second to returns profile. These characteristics are followed by **stability of income** (six of the 27 who ranked this also selecting it as their number one priority). Capital value stability, part of a mixed use portfolio and low correlation of performance with other asset classes were all rated as being of similar significance.

Other reasons identified included liability matching, lower obsolescence (than offices for example) and close correlation with inflation over time. Figure 3.1 illustrates the range of responses and relative importance to contributors (a full table of responses appears in Appendix B).

One respondent observed that it was difficult to rank the criteria as the rationale for investing may differ between different types of residential asset. For example, stability of income is clearly not a consideration when evaluating a development opportunity. Also, the nature of a fund mandate may dictate the choice of asset type.

3. SURVEY RESULTS

Figure 3.1: Reasons for Investing by Ranking



3. SURVEY RESULTS

A comparison of the drivers to invest between the three years of the survey is summarised in Table 3.7, which reinforces the primacy of returns as the most important criterion for investment.

Table 3.7: Investment Drivers (Existing Investors), 2012 – 2014

Year (no. respondents)	2012[7] (28)	2013 (34)		2014 (36)	
Factor	**Rank 1**	**Rank 1**	**Score**	**Rank 1**	**Score**
Returns profile	13	11	195	17	240
Development potential	n/a	8	179	6	196
Stability of income	3	4	175	6	187
Stability of capital values	2	1	159	1	163
Part of mixed-use portfolio	n/a	8	128	3	148
Low correlation with other asset classes	2	2	154	1	139

The decline in prominence of holdings forming part of mixed-use assets, i.e. as an adjunct to commercial investment, implies that more investors are proactively investing in residential real estate rather than having an incidental exposure.

A respondent indicated that with multiple mandates, different characteristics proved attractive to different clients. The relative importance of development potential, both in terms of six respondents identifying this as the most important factor as well as its overall being the second highest score,

3.4 Investment/Disinvestment over the Next 12 Months/Three Years

Investors were asked whether they intended to change their residential investment exposure over the next 12 months to three years. Of the 38 respondents replying to the question, over the next 12 months 10 indicated that they expected their investment to remain stable. A further 24 plan to increase their investment in the sector and three may reduce over this period. Looking to the three year picture, the respective figures are seven (remain stable) 26 (expect to increase) and four (expect to decrease).

The extent of new investment aspirations disclosed by all contributors (including current non-investors[8]) is in excess of £5.7 billion. The majority of investors contributing to the research indicated an intention to increase their investment in the sector over the next 12 months and three years. Disinvestment is most likely to originate from private investors rather than fund/investment managers.

The main area of interest continues to be in market rented/AST properties but there is appetite for the full range of residential asset types. Prospective disinvestment is primarily from the development pipeline, where respondents have identified the majority of the projects planned or under construction will be sold rather than held on completion. The results are summarised in Table 3.8.

[7] Only four factors were suggested in the 2012 survey.
[8] See Section 4.2 for further details.

3. SURVEY RESULTS

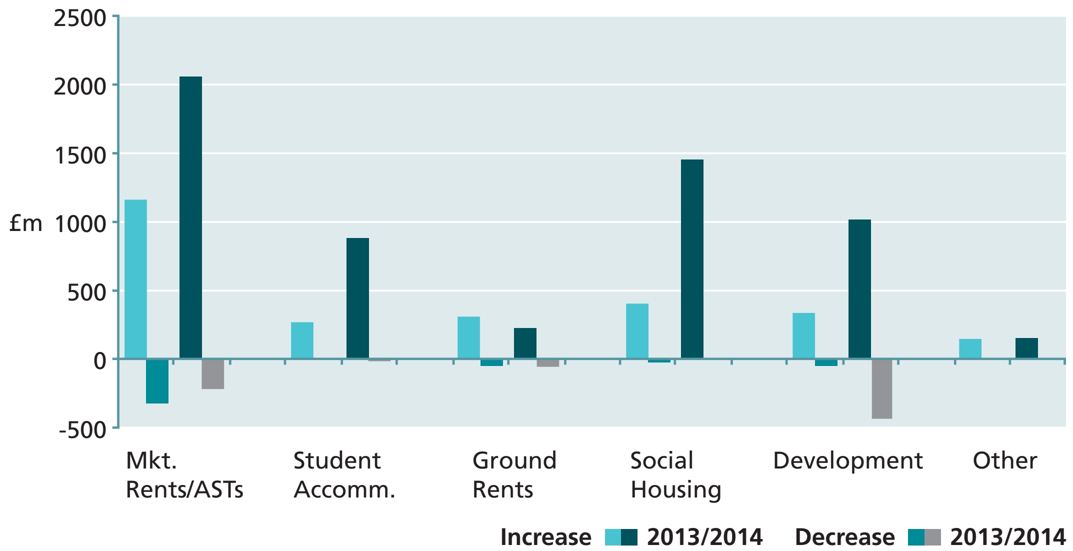
Table 3.8: Investment Intentions over Next 12 Months (values £m)

	Mkt. Rent/ ASTs	Student Accomm.	Ground Rents	Social Housing	Devt. Land	Other	Total
Increase	2,055	880	225	1,450	1,015	150	5,775
No.	17	11	3	9	14	1	28
Decrease	225	20	60	0	433	0	738
No.	6	1	1	0	4	1	9
Net Investment	1,830	860	165	1,450	582	150	5,037
No. Net Investors	12	10	2	9	10	1	22

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

Figure 3.2 illustrates the change in investment intentions over the last 12 months (the 2012 survey did not ask contributors to quantify their proposed investment).

Figure 3.2: Change in Investment Intentions, 2013 – 2014



The potential volume of outflows from development reflects the intention to sell the majority of schemes rather than retain them for rental on completion. Market rents and social housing are the two principal targets for increased investment, with appetite for the latter more than three times greater than a year ago.

4. NON-INVESTOR RESPONSES

4.1 Reasons for Not Currently Investing

Eleven of the 48 participants in the 2014 survey, or just under a quarter, do not currently invest in residential property. These are not insubstantial investors – the 10 organisations providing such data have over £18 billion of real estate assets under management, representing 5.8% of their total holdings.

Invited to provide reasons for their organisation not having an exposure to UK residential property, unprompted, respondents volunteered a number of grounds, including uncertain returns/inappropriate to meet mandates with an income focus; reputational and political risks; taxation issues; a lack of scale/small lot sizes/access to pipeline; short lease/licence duration; not an institutional asset class; high management time/cost/difficulty; a highly regulated market; or focused elsewhere.

In two instances, however, contributors are in the process of building a platform to support residential investment or have been researching the UK market and establishing an internal resource to allow it to target UK and European residential.

The survey questionnaire then went on to identify a number of factors as potential deterrents; responses to these suggested reasons are summarised in Table 4.1. Of the eight contributors replying, their concerns are spread across a number of issues, with political risk re-emerging as a concern, although the survey pre-dates the Labour Party's announcement of potential reform to the private rented sector (PRS).

Table 4.1: Reasons for Not Investing, 2012 – 2014

Factor (no. respondents)	2012 (14)	2013 (7)	2014 (11)
Income yield too low	9	5	5
Lack of liquidity/insufficient market size	9	3	5
Reputational risk	5	3	5
Just too difficult/management issues	12	2	4
Difficulty of achieving sufficient scale	9	2	4
Political risk	4	0	4
Pricing not right	6	3	1

Other factors mentioned – both by the two organisations actively developing their strategy for investment – were: missing investable stock (from a continental European perspective) and lack of internal resource (now rectified) preventing access to the sector. Proxies or substitutes for the sector, such as house builders, nursing homes, residential mortgages, were not alluded to as reasons for not investing, although debt funds were proffered as an alternative in one instance.

4. NON-INVESTOR RESPONSES

4.2 Future Investment Intentions

Asked if they would commence investing in the residential sector within the next 12 months or over the next three years, only two of the 11 have no intention of doing so. Of the remaining nine, two contributors intend to invest, and four may invest, within the next year.

Asked to identify the type of residential property they might invest in in the next 12 months, the preferred option was student accommodation (five), followed by market rented/ASTs (two). Two of the potential investors in student accommodation will also contemplate investing in development sites (with the intention of targetting build-to-rent opportunities) or care homes. Social housing and ground rents do not currently feature as target sectors for these organisations. Funds available for such potential investment could exceed £500 million.

5. 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, in addition to the reduction in Stamp Duty Land Tax for bulk residential purchases and changing the REIT rules to make residential more attractive.

Thirty-one survey participants chose to provide a response to this enquiry, including seven non-investors. Comments fell into a number of broad categories, with planning and "do nothing" being the most frequently referred to (by 13 and 10 contributors respectively). Tax issues also featured in a number of cases. Detailed comments are documented in Appendix C.

Following this open question, the survey proposed four suggested changes which attracted a range of support. Consistent with the issues volunteered initially, planning and VAT remain the most prevalent issues identified, as summarised in Table 5.1.

Table 5.1: Changes Government could Make to Encourage an Increase in Investment

Proposal	2012	2013	2014
Change S.106 planning requirements/charges for market rent housing	23	23	28
Remove/materially reduce VAT on repairs & management fees	25	21	25
Encourage/permit SIPPs to hold in (un-listed) residential property	11	8	11
Mortgage REITs[9]	n/a	8	8

[9] The 2012 survey asked whether ISA accounts should be permitted to hold AIM-listed REITs.

6. LABOUR PARTY PROPOSALS FOR REFORM OF THE PRIVATE RENTED SECTOR (PRS)

Labour used the launch of the Party's European and local election campaign in early May 2014 to announce Labour's new 'rent pledge'. To accompany Labour's previous promise to regulate landlords and letting agents, the Party announced a number of reforms looking at stabilising rent levels and tenancies. These include:

- Introducing long-term three year tenancies, whereby tenancies would start with a six month probation period at the end of which a landlord could terminate the contract if the tenant fails probation. The landlord would also be able to terminate contracts with two months' notice for a number of reasons, including the tenant falling into rent arrears, or if the landlord wants to sell the property.
- Predictable rents through landlords and tenants setting initial rents based on market value and conducting a rent review no more than once a year. A Labour government would place an upper ceiling on any rent increases.
- A ban on letting agents charging tenants fees for entering a tenancy agreement.

Labour's 'cost of living' contract, which contained their proposed reform of the PRS, detailing the proposals above, also promises to introduce regulation for letting agents and a national register of landlords, to permit action against the those landlords who exploit their tenants.

6.1 Respondents' Reactions to Proposals

Survey participants were invited to comment on whether Labour's proposals had affected their appetite for future investment in the sector (positively or negatively) and, if so, which part of the announcement caused greatest interest/concern.

There were some initially negative reactions to the proposals, chiefly in relation to the threatened introduction of rent controls. A number of responses were rather more pragmatic, recognising the need for some form of rent control to allow the lower waged to live and work in London for example.

A response that perhaps summed up several non-investors currently not committed to enter the sector or those with no desire to increase their exposure, was to the effect that the proposals had a fairly neutral effect on their views, although if pushed, they would be more likely to have a negative effect rather than a positive one, given thoughts about the introduction of measures to control rent increases.

One respondent asked whether rent regulation would improve the supply side and that if not, then what would be the reason for introducing rent controls? If certain groups of tenant need support; then this should be directed to them rather than across the board.

In terms of the length of tenure, some supported calls for higher security of tenure, particularly in the case of families renting and that, potentially, these measures could encourage increased institutional investment through the creation of greater stability and certainty in income.

It was also suggested this may point towards a more continental system of rented housing provision, although proposals to overhaul the current system in Germany are causing considerable debate.

Some felt these statements are unhelpful to the sector as a whole and may have a negative impact on institutional interest if the implication is a return to regulated housing).

6. LABOUR PARTY PROPOSALS FOR REFORM OF THE PRIVATE RENTED SECTOR (PRS)

One criticism was that the announcements lacked significant detail and that that those investors less involved or engaged in the sector are more likely to be put off as they are open to being misconstrued. The injection of any additional uncertainty into current arrangements could ultimately affect pricing of risk. However, the fundamental problem of providing enough housing in the UK is still not being adequately addressed and, for so long as this imbalance between supply and demand exists, it is unlikely that any party will implement policies that might adversely affect current house prices/values or jeopardise an increase in the amount of housing becoming available through the development pipeline.

On balance, no clear consensus has emerged from contributors' responses to these measures and perceptions vary. Very few respondents indicated, however, that their appetite for the sector had been affected adversely or otherwise.

7. SUMMARY AND CONCLUSIONS

The 2014 survey has provided a further snapshot of investor attitudes and intentions and confirms a continuing commitment to and gradual increase in investment in UK residential property by institutional investors.

The volume of residential investment by the 37 contributors holding residential property totalled £12.7 billion in the current year's survey. This compares with totals of £10.8 billion and £7.6 billion in 2013 and 2012 respectively. The increase from 2013 to 2014 may reflect the improvement in the London market or contributors may be better at measuring their residential exposure than in preceding years of the survey, encouraged by increased interest in the sector.

Potential investment within the next 12 months, presuming there is sufficient stock to satisfy this demand, could exceed £5.5 billion, around 10% of which could come from investors new to the sector.

Notwithstanding concerns that Government could do more to encourage investment, particularly through changes to the planning system, a recurring theme amongst contributors, wholly unprompted, is that they can work within the existing regime and would much prefer no further intervention. Indeed, a formal commitment to leave the sector alone would be welcome in many quarters.

ACKNOWLEDGEMENTS

The IPF thanks all participants in the 2014 survey for contributing data and opinions, including the following organisations that have consented to be named:

Aberdeen Asset Management, Aviva Investors, AXA REIM, BlackRock, BP Pension Fund, CBRE Global Investors, CCLA Investment Management Limited, Church Commissioners for England, Cordea Savills LLP, Cording Real Estate Group, Cornerstone Real Estate Advisers, Deutsche Asset & Wealth Management, Delancey, Fidelity, Great Portland Estates Plc, Greater Manchester Pension Fund, Grosvenor, Hearthstone Investment Plc, Ignis Asset Management, Invesco Real Estate, JP Morgan, Kames Capital, L&G Property, LaSalle Investment Management, Lend Lease, M&G, Mayfair Capital Investment Management, PATRIZIA Immobilien AG, Realstar Capital LLP, Rockspring, Schroders, Scottish Widows Investment Partnership, TIAA Henderson Real Estate, The British Land Company, The Crown Estate, The Wellcome Trust and UBS Global Asset Management.

APPENDIX A: IPF RESIDENTIAL INVESTMENT SURVEY 2014

N.B. Not all survey questions were posed to participants, being dependent upon responses – for example, a "No" answer to Q4 (Do you have any residential property holdings?) would cause the survey to skip to Q13 (Reasons for not holding residential investments).

In 2012, in response to the Government's consultation on the private rented sector (conducted by Sir Adrian Montague), the IPF undertook a survey of UK institutions to gauge their appetite for investing in residential property in its various forms. As a result of the interest generated by this original research, the survey is now repeated annually and continues to ask institutions about their appetite as well as their views of what more Government could do to increase investment and attract new investors to the sector. The results of the 2012 and 2013 surveys can be downloaded from the IPF website: www.ipf.org.uk.

We would be grateful if you would take part in this year's survey, which should only take a few minutes to complete.

The findings, and a comparison with the results of the 2012 and 2013 surveys, should be available in May/June, when a copy of the report will be sent to you.

About you and your organisation

Q1. Please provide your contact details. All information provided will be treated in absolute confidence by the IPF and we confirm that all data analysed and published will be presented in aggregate form only.

First name: ____________________

Last name: ____________________

Organisation: ____________________

Position: ____________________

Email address: ____________________

Q2. Are you willing for your organisation to be acknowledged in the published report of the 2014 survey findings?

☐ Yes
☐ No

Q3. What is the approximate value of your organisation's total UK property holdings and what proportion do they make up of your total assets/investment portfolio(s)?

Value (£m): ____________________

Proportion (%): ____________________

Q4. Do you have any residential property holdings (including student accommodation and development sites) in your UK investment portfolio(s)? *

☐ Yes
☐ No

APPENDIX A: IPF RESIDENTIAL INVESTMENT SURVEY 2014

About your residential holdings

Q5. What is the approximate value of all your UK residential holdings and what proportion do they make up of your UK property investment portfolio(s)?

	Value (£m)	Proportion (%)
Residential property assets		

Details of your residential investments

Q6. In what form do you hold your investment in residential property? (Please select as many options as relevant, entering the percentage by value each represents of your total residential investment holding.)

	%age
☐ Direct holding	
☐ Joint venture	
☐ Private fund	
☐ Listed company shares	

Q7. Please specify by percentage and/or value the type of residential property are you invested in.

("Development sites" includes buildings in the process of being redeveloped and buildings that are vacant, awaiting redevelopment through change of use, and may be standalone or part of mixed-used schemes.)

	%age	£m
Market rent/ASTs		
Social housing (including investment in/via Housing Associations)		
Ground rents		
Student accommodation		
Development sites (residential element only where mixed use)		
Other (please specify)		
Total		
Other type(s) and approximate amounts if more than one		

Other: ____________________

Q8. Development sites

If you have residential development sites:

	£m / %
What is the total estimated gross development value (GDV) of your development sites?	
What proportion (%) by GDV is develop-to-sell?	
What proportion (%) by GDV is develop-to-rent?	

APPENDIX A: IPF RESIDENTIAL INVESTMENT SURVEY 2014

Reasons for holding residential property

Q9. Why does your organisation have investments in residential property? (Please tick all that apply and rank in order of importance, 1 being the most important, 9 being the least.)

	1	2	3	4	5	6	7	8	9
Returns profile									
Stability of capital values (relative to commercial)									
Stability of income									
Low correlation with other assets									
Defensive investment									
Part of a mixed-use holding									
Portfolio legacy									
Development potential									
Other (please specify)									

Other: __________

Future intentions re your residential holdings

Q10. How do you expect your residential investment exposure to change over the next 12 months? Please select one option.

☐ Remain stable
☐ Intend to increase exposure
☐ Intend to decrease exposure

Q11. How do you expect your residential investment exposure to change over the next 3 years? Please select one option.

☐ Remain stable
☐ Intend to increase exposure
☐ Intend to decrease exposure

Future intentions re your residential holdings

Q12. Please provide further details of your investment intentions by type of property and approximate amount you expect you may invest/disinvest over the next 12 months (as applicable).

	Invest (£m)	Disinvest (£m)
Market rent/ASTs		
Social housing (including investment in/via Housing Associations)		
Ground rents		
Student accommodation		
Development sites		
Other (please specify)		
Total		
Other (type(s) and approximate amounts if more than one):		

Other: __________

APPENDIX A: IPF RESIDENTIAL INVESTMENT SURVEY 2014

Reasons for not holding residential property

Q13. What are the principal reasons for your organisation not having an exposure to UK residential property?

For example, is this because you invest in other assets that are treated as proxies or substitutes for the sector (i.e. house builders, nursing homes, residential mortgages, etc.)?

Q14. Are any of the following factors discouraging you from investing in the sector? Please tick all that apply.

- ☐ Political risks, e.g. legislation too uncertain
- ☐ Reputational risk
- ☐ Pricing is not right
- ☐ Just too difficult to deal with/management issues
- ☐ Income yield is too low
- ☐ Difficulty of achieving sufficient scale
- ☐ Lack of liquidity/insufficient market size
- ☐ Other, please specify: __________

Future intentions regarding residential investment

Q15. If your organisation has not already invested in residential, will you start investing in the residential sector in the next 12 months to 3 years?

12 months	☐ Yes	☐ No	☐ Possibly
3 years	☐ Yes	☐ No	☐ Possibly

Q16. If you intend to invest in the next 12 months, in what type of residential property will this be?

	Amount (£m)	**Proportion of investment (%)**
Market rent/ASTs		
Social housing		
Ground rents		
Student accommodation		
Development sites		
Other (please specify type)		

Other: __________

APPENDIX A: IPF RESIDENTIAL INVESTMENT SURVEY 2014

The impact of government policy on your future investment intentions

Q17. The Government has reduced SDLT for bulk residential purchases and is changing the REIT rules to make residential more attractive. Recommendations have also been made following the Montague Review.

What else could Government do to increase your investment/cause you to invest for the first time in residential property?

Q18. Would any of the following specific changes cause you to increase your investment/invest for the first time?

	Yes	No
Change S.106 planning requirements from affordable housing to housing for rent		
Materially reduce VAT on repairs and management fees (so increasing net yields)		
Encourage/permit SIPPs to invest in (un-listed) residential property		
Mortgage REITs		
Other (Please specify)		

Other:

Further comments/follow-up interview (optional)

Q19. Should you have any queries regarding any aspect of this survey or wish to provide additional comments, please note these in the box below. Alternatively, please contact Pam Craddock, IPF Research Director (tel. no. 020 7194 7925; email: pcraddock@ipf.org.uk).

Q20. It would be greatly appreciated if you would be willing to participate in a follow-up interview, to discuss in detail your responses to some of the survey questions. This will provide you with an opportunity to identify any other issues not currently covered and to share your views on these, as well as to feed back directly on the survey itself.

- ☐ Yes
- ☐ No

APPENDIX B: REASONS FOR INVESTING BY EXISTING INVESTORS 2014

Rank Reason to Invest	1	2	3	4	5	6	7	8	9	Cum. Score[10]
Returns profile	17	5	4	2	1	0	0	1	0	240
Development potential	6	6	3	6	3	3	2	2	0	196
Stability of income	6	6	7	2	3	0	3	0	0	187
Stability of capital values	1	7	6	5	2	2	2	1	0	163
Part of mixed-use holding	3	6	2	1	3	6	3	2	1	148
Low correlation	1	1	6	5	6	3	2	1	0	139
Defensive investment	0	2	0	5	6	3	3	1	0	111
Portfolio legacy	2	0	3	0	2	3	1	10	3	87
Other[11]	0	1	0	0	0	1	2	0	2	20

[10] Rank 1 = 9, rank 2 = 8, etc.

[11] 'Other' reasons included liability matching, lower obsolescence (than offices for example) and low correlation with inflation over time.

APPENDIX C: INDIVIDUAL RESPONSES TO WHAT MORE GOVERNMENT CAN DO TO ENCOURAGE INVESTMENT

Planning

Make planning easier to long-term letting by understanding it delivers a social purpose and therefore minimise section 106 obligations.

Produce strategic guidelines to local authorities around foregoing Section 106 requirements for social housing (in return, put in place time restrictions on the use for 10-20 years).

Remove/reduce Section 106 liability for PRS

Create a separate use class for PRS

Create planning changes for PRS

Place planning restrictions to ensure that private rented developments remain as private rent property in perpetuity.

Facilitate/simplify planning further - still too complicated.

Government has to encourage Local Authorities to adjust section106 arrangements, using the new National Planning Policy Framework, for PRS schemes.

Non-interference

All political parties undertake never to mention rent control.

Undertake not to put rent controls in place.

Keep legislation away from the sector but seek to regulate rogue Landlords.

Continued lack of regulation of the market rented sector.

†No taxation changes that impact on institutional investment.

†Give certainty that future legislative changes would not affect the current leasing regime.

Nothing - happy with a number of changes. Speed of implementation of policies would be only criticism.

No mansion tax or other wealth taxes for investors

Stop creating uncertainty on the taxation of residential property.

Taxation

Reduce/remove VAT on property management fees and repairs.

Reduce Community Infrastructure Levy payments on PRS component (to reduce the entry price and force developers to incorporate PRS into larger schemes; also reflecting what is actually happening in the change in tenure types.

†More favourable tax treatment, including introducing taper relief on capital gains tax (could encourage longer term investors into the sector and encourage more development.

Remove/reduce CIL liability for PRS.

Create tax incentives for PRS.

Remove anti foreign rhetoric, give clarity on mansion tax.

†Indicates currently non-investor in residential sector

APPENDIX C: INDIVIDUAL RESPONSES TO WHAT MORE GOVERNMENT CAN DO TO ENCOURAGE INVESTMENT

Other

Encourage fund structures that enable retail investment.

†Gift land for new schemes.

Encourage co-investment in public sector land.

Government support to unlock larger schemes that would appeal to institutional investors.

Cut back Help to Buy.

†Make a clear statement for rental or for owner occupier, help to buy scheme is not an encouragement for rental investments.

Clarifying the status of government grants to registered providers of social housing will help encourage institutional investment in that part of the market.

†Indicates currently non-investor in residential sector

IPF Research Programme 2011–2015

Investment Property Forum
New Broad Street House
35 New Broad Street
London EC2M 1NH

Telephone: 020 7194 7920
Fax: 020 7194 7921
Email: ipfoffice@ipf.org.uk
Web: www.ipf.org.uk

Printed on recycled paper