AT A GLANCE Q2 2024

UK LIVING MARKET UPDATE

MACRO OVERVIEW

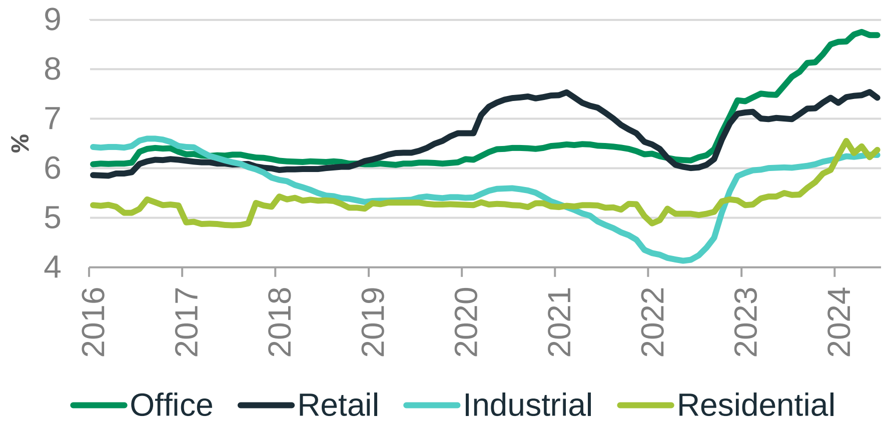
The headline annual rate of CPI inflation returned to the Bank of England's (BoE) 2.0% target in Q2 2024 for the first time since mid-2021. Whilst this was a positive signal, weak price pressures, most notably in the energy sector have been offset by high services inflation. To bring inflation back to target on a sustained basis, the BoE must get a handle on the domestic price pressures that are driving services inflation, in particular, this means cooling wage growth.

Leading indicators are consistent with wage growth continuing to slow in the coming months. The number of vacancies per unemployed persons – a key measure of labour market tightness – has returned to pre-pandemic levels. But given the slow pass-through to date, inflationary pressures in the services sector are unlikely to disappear overnight.

As a result, the BoE kept Bank Rate on hold at 5.25% at its June meeting although cut rates by 25bps to 5.00% in August. However, due to domestic price pressures, markets continue to price in far fewer interest rate cuts than at the start of the year, with Bank Rate at 4% by end-2025 rather than 3% previously.

Meanwhile, heightened political uncertainty in Europe has amplified the attractiveness of UK asset values. British equities dividend yields, at c. 3.5%, are also attractive on a relative basis and may be past an inflection point. The same is also true for UK listed real estate investment trusts (REITs), which since 2016 have considerably underperformed after enduring a series of political and economic shocks but are now pointing to recovery in the wider market.

Average UK equivalent yields by sector



Source: MSCI UK Monthly Property Index, June 2024

Other indicators are also beginning to improve. Debt costs (as measured by the 5y swap rate) are not yet fully accretive to investor returns, but they are trending downwards gradually. This is taking pressure off property yields that have been moving higher for over two years. Valuation metrics are starting to reflect this, with average equivalent yields as measured by MSCI clearly having now topped out in most sectors.

As the quarter came to a close the UK headed straight into a General Election with the Labour party winning a large majority. Whilst the outcome reduces uncertainty around policymaking, the new government will face the same fiscal challenges as before, and it's expected that economic growth will remain more or less on the same path as under the previous government, at least in the short term.

Labour's manifesto had an emphasis on housing and planning and this clearly has implications for the Living sectors. Planning reforms, new towns, and the reimplementation of housing targets should act as supportive measures for growth across Build to Rent, Student Housing and Senior Living and this will become clearer with more detail on the path that will be taken to deliver new homes to meet their 1.5million target.

Whilst the Renters Reform Bill didn't make it through Parliament before the election, it is expected this will resume with the abolishment of section 21 – no fault evictions - as a top priority for the Labour party. Elsewhere, the Older People's Taskforce recommendation report was also delayed but will be welcomed by the industry when it does get published.

BUILD TO RENT AND SINGLE FAMILY RENTAL

Average rental growth continued to ease over Q2 2024 from its peak in March 2024, to 8.6% in the 12 months to June 2024. Nonetheless, rental growth remains above the 7.6% recorded in the 12 months to June 2023 (source: ONS). By region, London continues to see the highest rate of rental growth at 9.7% followed closely by the North West at 9.5%. There was a similar trend for rents of new lets where annual rental growth slowed to 6.6% in April 2024 (source: Zoopla).

Despite cooling rental growth, supply in the Private Rented Sector (PRS) remains tight and so competition for properties from prospective tenants is high, according to Zoopla, with 15 households enquiring per rental home. This was also evidenced in the latest RICS Residential Market Survey for June 2024 that noted the net balance of landlord instructions had slipped back which pointed to a renewed decline in rental listings, whilst tenant demand increased again.

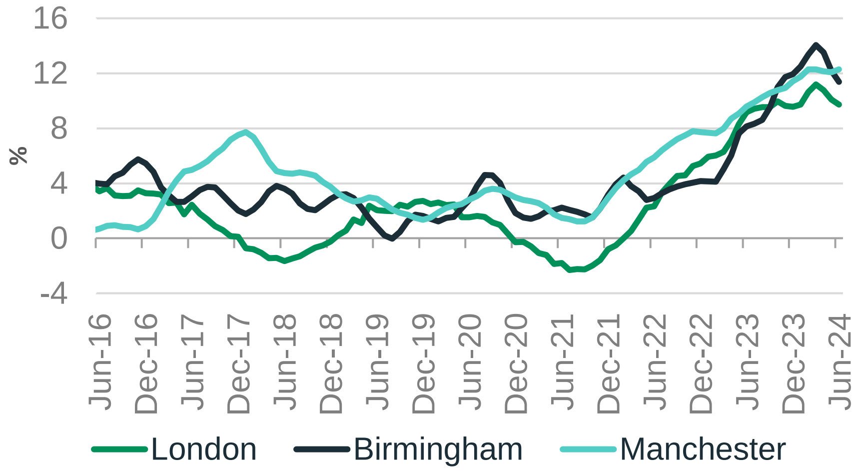
8.6%

Rental growth
12-months to June 2024
Source: ONS

Population growth has been fuelling demand for homes with latest data from ONS reporting the growth between mid-2022 and mid-2023 was the biggest increase since comparable records began in 1949. Additionally, the withdrawal of private landlords from the PRS sector has added to this imbalance. The share of gross mortgage advances for buy-to-let purposes has fallen to the lowest level since Q3 2010 over recent months, according to Bank of England Mortgage Lenders and Administrators Return statistics.

Positively, the BPF's latest analysis showed that 22,000 homes were delivered into the BTR and SFR sector over the last 12 months and indicates a tick up in the delivery rate of new supply in the market, although the number under construction and new starts remain lower. Glenigan reported housing project starts and planning approvals both fell in Q2 2024 when compared to the same period last year This reflects the challenges developers have faced in terms of the viability of projects in a backdrop of high borrowing costs, land values and construction costs.

Price Index of Private Rents, Rolling Annual Rental Growth



Source: ONS

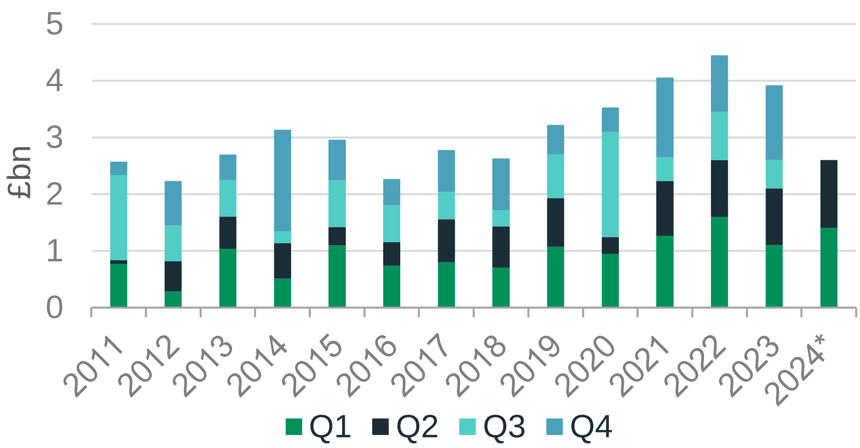
INVESTMENT ACTIVITY

The Build to Rent (BTR) and Single Family Rental (SFR) sectors both attracted a significant quantity of investor interest in Q2 2024, albeit activity in BTR, which is primarily development-led, remained quite challenged by the cost of debt. Initial estimates suggest total investment volumes across these sectors totalled c.£1.2bn which was marginally down on Q1 2024 but higher than a year earlier.

The most significant deal of the quarter in both size and scale was the Blackstone acquisition of 1,750 single family rental homes from Vistry Group for £580m. The homes concentrated in the South East of England, are spread across 36 Vistry developments. Vistry Group were also active elsewhere partnering on deals with Sigma in Bradford, and with Citra Living in Cambridgeshire.

In BTR, it was reported that Hines had agreed a forward-funding of 519-unit net zero Olympian Homes development at Pottery Lane in Newcastle for £121m. This partnership is set to deliver the largest BTR scheme in the city. Related Argent and NTT UD Europe ltd also formed a joint venture to bring forward the next phase of the Brent Cross Town regeneration which will include a 226 BTR units. Elsewhere Berkeley Group announced they were launching a new BTR platform in June 2024 with an aim to deliver 4,000 new BTR homes over the next 10 years across their development schemes in London and the South East.

Build to Rent, Single Family Rental and Co-Living Investment Volumes



Source: BNP Paribas Real Estate, Real Capital Analytics

STUDENT HOUSING

Purpose-built student accommodation (PBSA) continued to be the darling of the Alternative sectors in Q2 2024 and is set to outweigh other living asset classes over the next 12 months. The long-income play on offer along with strong operational performance, track record and an attractive supply demand imbalance in some cities, underpin investor confidence in this sector.

In some key cities, such as those home to Russell Group universities, where there are bed shortfalls and robust demand from both domestic and international students, high occupancy levels is driving solid rental growth. According to the MSCI Student Housing Property Index, rental growth in Q2 2024 was 1.8% and on a rolling 12-month basis was 7.0%. Over the last 10 years, 12-month average rental growth was 2.1%. This was reflected in the latest results for Unite plc who reported 94% of their rooms are now reserved for the 2024/25 academic year and they now expect their portfolio to deliver a minimum of 7% rental growth for the 2024/25 academic cycle.

£1.7bn

Estimated investment into PBSA H1 2024

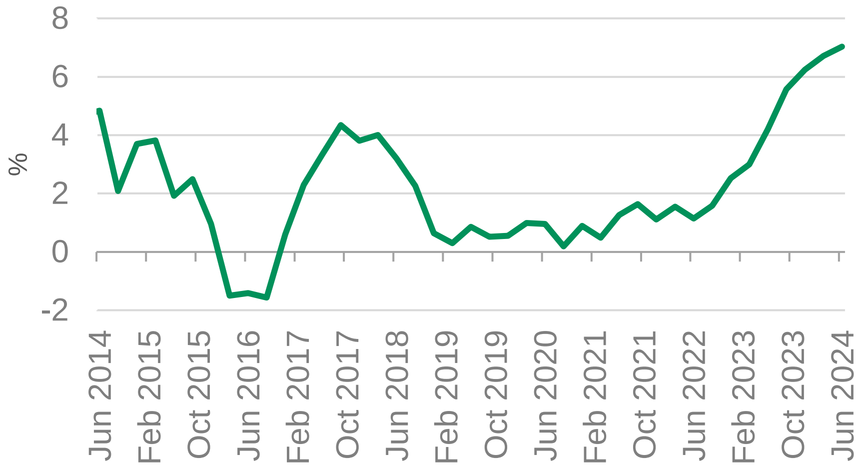
Source: MSCI RCA, BNP Paribas Real Estate

The recent concerns regarding the financial stability of some higher education institutions may result in tuition fee increases. This could increase polarisation in the market and may lead to some consolidation within the sector, with both students and investors favouring higher tariff universities.

In the meantime, the supply demand imbalance between accommodation and students in some locations is acute and this has presented opportunities for investors to fund and develop new accommodation. This has been somewhat exacerbated by the withdrawal of private landlords from the HMO (houses in multiple occupation) sector, which also play a key role in housing students.

Positively, the Glenigan Construction Review Q2 2024 noted a 78% increase in student accommodation project starts in the three months to June, compared to a year earlier, accounting for 8% of all housing project starts over the quarter (source: Glenigan). Planning applications submitted have however, been targeting a small pool of locations with London and Glasgow at the top of the list, according to StuRents.

Student housing annual rolling rental growth



Source: MSCI

INVESTMENT ACTIVITY

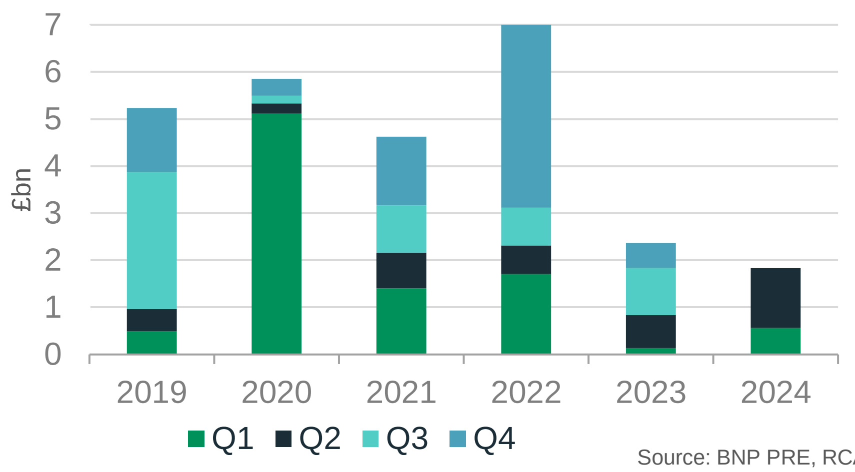
In what was a challenging and slow Q2 2024 for real estate markets, the standout sector was PBSA where a number of large portfolio transactions boosted investment volumes, which totalled £1.3bn for the quarter. This was a 256% increase on Q2 2023. H1 investment volumes in the sector totalled £1.7bn and was 245% higher than H1 2023. This market activity has highlighted the strength of investor appetite for well-located PBSA, with investors enticed by the relative attractive pricing in this sector.

The largest deal of the quarter involved Singaporean investor Mapletree's purchase of 31 assets in the UK and Germany and an operating platform from Cuscaden Peak Investments for £1 billion.. Already a significant investor in UK PBSA, this transaction has increased their UK presence to over 17,000 beds.

Another significant transaction was PGIM's purchase of a six-asset portfolio from Unite plc for £184m. The disposal was reportedly part of Unite's strategy to increase exposure to high and mid-ranked universities with the strongest outlook on student demand and sustainable rental growth. This mirrors a trend of polarisation in the market between those cities and towns with top-tier, best-in-class universities, and those with lower tariff establishments.

The UK PBSA sector also welcomed a new entrant in Q2. Legal and General launched their Student Living Platform and purchased their first direct-let PBSA acquisition from GSA (Global Student Accommodation) in April 2024.

Purpose Built Student Accommodation Investment Volumes



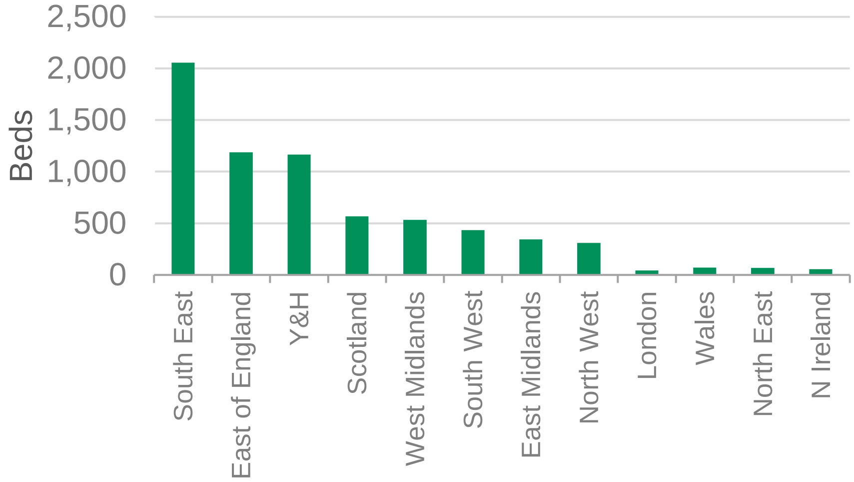
Source: BNP PRE, RCA
* Provisional

CARE HOMES

The care home sector remained resilient in Q2 2024 with demand underpinned by demographics and as a result of rising care needs across the UK. Average occupancy rates in elderly care homes at c.89% (source: Carterwood). Investors remain confident in the sector attracted by the long leases and rental indexation, as well as diversity of the market.

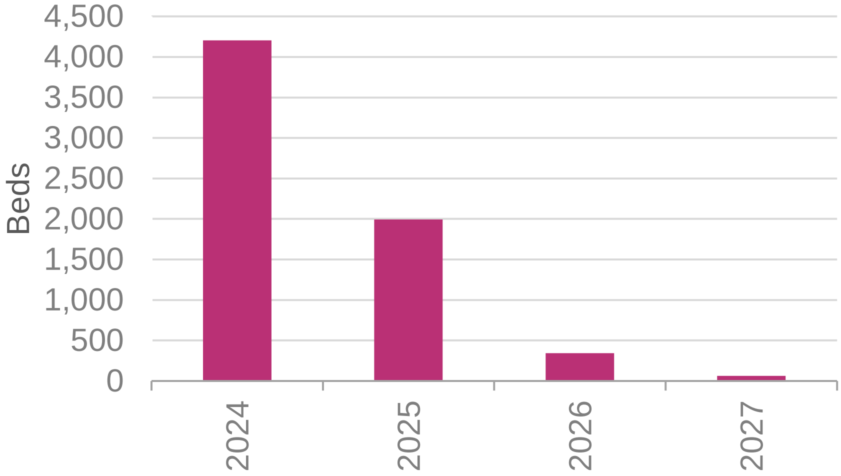
The need for the delivery of new care home beds will continue to grow. There is a projected 53% growth in the 85+ population over the next 15 years; c.1m additional people. At present the development pipeline is low, with just over 6,800 care beds under construction in Q2 2024; an average of 52 beds per home (source: Glenigan). The majority are due for completion this year. Activity continues to be focussed in the South East, where there are over 2,000 beds under construction (source: Glenigan).

Care beds under construction by region



Source: Glenigan, BNP Paibas Real Estate

Care beds by year of completion



Source: Glenigan, BNP Paibas Real Estate

SENIOR LIVING

The need for growth in the senior living sector has increasingly been recognised by investors. There remains a significant shortfall of supply and specifically, variety of tenure, across retirement living, to match the projected growth in older people in the UK over the next 20 years.

In May 2024 the government gave a legal definition to event fees as part of the Leasehold and Freehold Reform Bill. This was welcomed by ARCO (Associated Retirement Community Operators) who noted that the lack of formal definition had held back the development of dedicated consumer protection regulation for event fees. Furthermore, the Older People's Taskforce report, which was delayed due to the election, is anticipated to make recommendations for how this sector can be best supported to grow.

ACUTE AND PRIMARY CARE

Rising demand for healthcare services in the UK continue to highlight the need for support from the private sector alongside public sector investment. NHS England waiting lists increased further with a reported 7.6 million patients waiting to start treatment in May 2024 (source: NHS Statistics), the number of people economically inactive as a result of long-term sickness remained at record highs in Q2 2024, and it is well-recognised that the UK is facing a growing mental health crisis.

These challenges continue to divert demand for healthcare into private services, with networked private acute hospital operators, such as Spire Healthcare and Circle Healthcare continuing to benefit from patients turning to the private sector to receive their treatment.

Investment

There was flurry of investment activity in the care home sector in Q2 2024 including the sale of 4 care homes by Target REIT plc for £44.5m, a c£100m purchase of care home provider, Hartford Care by Foundation Partners JV Deer Capital and Anavo Group purchased 5 care homes in Scotland in April 2024.

In the senior living sector, PGIM Real Estate alongside Elevation Advisors announced they had purchased Signature Senior Lifestyle in June which included 13 Senior Living communities. Elsewhere, Marstead Living secured financing from Federated Hermes for the purchase of a site for a retirement community in Mill Hill, North London.

The other significant announcements in Q2 2024 included the news that Assura and Universities Superannuation Scheme (USS) had entered into a new £250m joint venture with the plan to support investment in essential NHS infrastructure, and US REIT Medical Properties Trust (MPT) completed a £631m refinancing of its UK hospital portfolio.

KEY LIVING SECTOR ACTIVITY

Investor	Location	Details	Sector	Date
Mapletree Investments	National	Portfolio and operating platform acquisition including 8,100+ beds in UK and Germany	Student	Apr-24
PGIM Real Estate	National	Portfolio acquisition of just under 3,000 beds from Unite Group plc; 6-assets across regional cities	Student	May-24
Sama Investments	Sheffield/ Wolverhampton	Portfolio acquisition of 2 assets in Sheffield and Wolverhampton; 900 beds	Student	Jun-24
Legal and General	Exeter/ Glasgow	Portfolio acquisition of 2 assets in Exeter and Glasgow; 700+ beds	Student	Apr-24
Undisclosed	National	Acquisition of 4 care homes from Target Healthcare Reit plc for £44.5m	Care Homes	Jun-24
Foundation Partners JV Deer Capital	South of England	Acquisition of Hartford Care, care home provider, for c.£100m; 19 care homes	Care Homes	Apr-24
Assura JV USS	National	Assura and USS new £250m joint venture to support investment in NHS infrastructure	Primary	May-24
Vistry Group / Blackstone	National	Agreement to purchase 1,750 homes to rent from Vistry Group across 36 developments for c.£580m	Single Family	Jun-24
Hines / Olympian Homes	Newcastle	Forward funding of a 519-unit scheme in Newcastle for c.£121m; net zero homes	BTR	Apr-24
Vistry Group / Citra living	Cambridgeshire	Land acquisition in Great Haddon from O&H Properties; to deliver 150 single family homes	Single Family	Jun-24
Related Argent / NTT UD Europe Ltd	London	Joint venture to bring forward the next phase of Related Argent's Brent Cross Town regeneration; 226 units	BTR	May-24
Starlight Investments	Leeds	Acquisition of 84 Kirkstall Road; 111-unit Build to Rent scheme from abrdn	BTR	May-24
PGIM Real Estate / Elevation Advisors	National	Acquisition of the real estate and operating platform of Signature Senior Lifestyle; 13 retirement communities	Senior Living	Jun-24

> **"There is an unprecedented amount of capital targeting the UK Living sector at the moment and student is the primary target. Investor funding allocations for PBSA have increased by £5bn in the last six months, with high demand for build-to-core and value add, mainly targeting London, prime regional cities, Russell Group and STEM university locations. Investors with allocations over £250m are focussed on multiple-development, programmatic joint ventures, or larger development opportunities."**
>
> *Andrew Screen, Head of Residential Capital Markets*

MARKET OUTLOOK

The Living sectors continued to experience growth in Q2 2024 with investors recognising the important role they now play in the UK housing landscape. The PBSA sector in particular has been favoured by investors and this trend is expected to continue. However there is also an anticipated rise in investment into BTR and SFR particularly when the rate environment improves.

Underpinning all these markets is this undeniable supply-demand imbalance, which ensures positive sentiment towards these sectors and although the planning backdrop is expected to loosen up under the newly elected government, the delivery of new supply is unlikely to meet this demand in the short or medium term. Additionally, it is expected that the healthcare sector is also set for growth, with its ability to deliver on social value along with the challenges in the UK system presenting opportunities with a growing appetite amongst real estate investors for a share in the sector.

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