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RESEARCH

AT A GLANCE Q4 2024

UK LIVING MARKET UPDATE

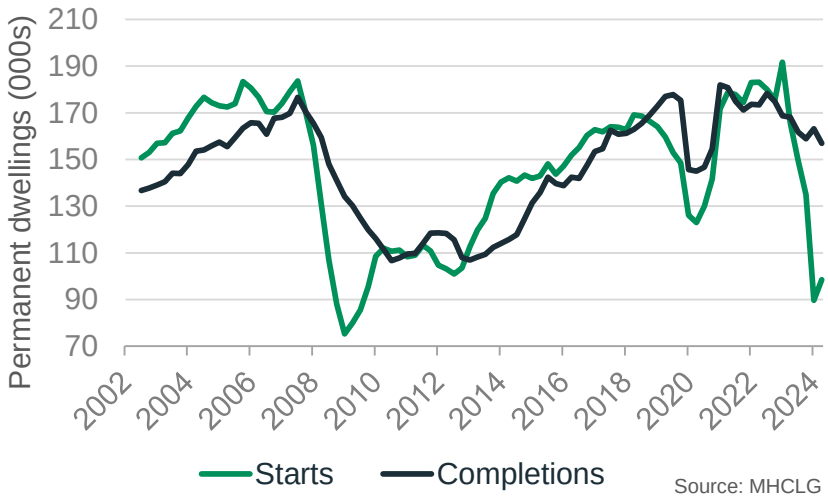
MACRO OVERVIEW

The GDP data at the end of 2024 showed that the UK economy lost significant momentum in the third quarter, with growth slowing from 0.5% q/q to 0.1% q/q, and a continuation of this trend, with no growth in the three months to November 2024. Whilst it is too early to tell how government policy changes from the Autumn Statement are impacting GDP, the GfK measure of consumer confidence edged higher in November which could reflect that the bulk of tax rises in the Budget were directed at businesses, through higher employer National Insurance Contributions (NICs), rather than at households. However, these additional costs are likely to be passed through to households via the labour market.

The CEO at the Confederation of British Industry suggested that a large proportion of firms will respond to higher employment costs by scaling back on staffing levels and pay rises. However, the negative impact from tax rises should soon be offset by the positive impact of higher government spending, and so unemployment should remain low. The Office for Budget Responsibility does not expect a rise in the overall rate of unemployment, but a decline from 4.3% in 2024 to 4.0% in 2025.

Meanwhile long-term inflation expectations rose in Q4 2024, and increased volatility in long-term interest rates. The primary drivers of this were the Government's Autumn Budget and the outcome of the US Presidential Election. The stickiness in inflation is expected to persist throughout 2025, after the large falls in energy prices in 2024, NICs increases, and potential new sources of inflation from US President Trump trade policies.

England House building (rolling annual)



Source: MHCLG

Nonetheless, weakness in the labour market and stagnating economic activity in the second half of 2024, still point to further interest rate cuts. It is still expected that the Bank of England will lower Bank Rate to 3.75% by the end of 2025. Whilst this is considered a gradual pace of easing, it is still faster than what the markets are currently pricing in. Moreover, economic activity should regain momentum over the course of the year, as low unemployment and high savings rates mean that household balance sheets look relatively healthy and strong wage growth continues.

The structural long-term trends underpinning the Living sectors investment rationale have only intensified over 2024. In particular the supply side challenges remains a constraint. Aside from high debt costs, the capacity of the UK's construction industry to facilitate new building is lower than it once was. The number of construction jobs is still down 10% on the pre-GFC peak, and the rolling annual volume of new construction orders is down at historic lows. With construction costs so high, this is likely to keep development pipelines fundamentally constrained for some time.

The combination of the shortfall in adequate supply and the sectors close correlation to wage growth and consumer confidence, combined with high mortgage rates for first-time buyers, has ensured that the Living sectors remain attractive in today's environment.

BUILD TO RENT AND SINGLE FAMILY RENTAL

The Build to Rent (BTR) and Single Family Rental (SFR) sectors continued to benefit from structural fundamentals of the UK's housing market in Q4 2024 with demand for homes to rent outpacing supply.

Whilst Zoopla reported that there was a 29% fall in demand for rented homes at the end of 2024 compared to a year earlier, the RICS Residential Survey also highlighted that landlord instructions continued to slip. The combination of these two factors is creating a mixed picture within the rental market with continued cooling of rental growth on new lettings in Q4 2024 (Zoopla) but an anticipation that rents will remain under some upward pressure in 2025.

Meanwhile the ONS measure across all lets continued to record high average annual rental growth at c.9% in December 2024, albeit this was lower than the peak recorded in Q1 2024. There were some differences across the country with Birmingham annual rental growth at 8.9% compared to 11.5% in London and 11.3% in Manchester.

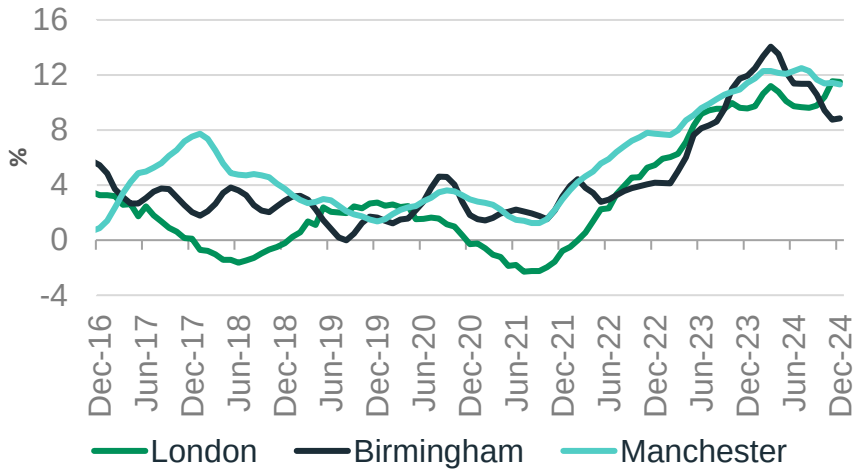
9.0%

UK Average Rental Growth

Source: ONS

There was a noticeable slowdown in residential new construction starts in England in 2024 with the Ministry of Housing, Communities and Local Government (MHCLG) reporting just 98,560 in the 12 months to September compared to a 10-year average of c. 155,000. The Home Builders Federation reported that planning approvals hit the lowest level since records began in 2006, in Q3 2024. Promisingly there were some BTR and Co-living schemes granted permission in the final quarter of the year including Parklane Group's Nursery Street development in Sheffield which will include 102 apartments, Zephyr X's office to residential conversion in Milton Keynes which will create 375 homes, and Watkin Jones announced the approval of an office to Co-living scheme in Leeds. However, the slowdown in planning approvals combined with challenges in development viability suggests that there is is unlikely to be any significant change to the supply/demand imbalance in 2025.

Price Index of Private Rents, Rolling Annual Rental Growth



Source: ONS

INVESTMENT ACTIVITY

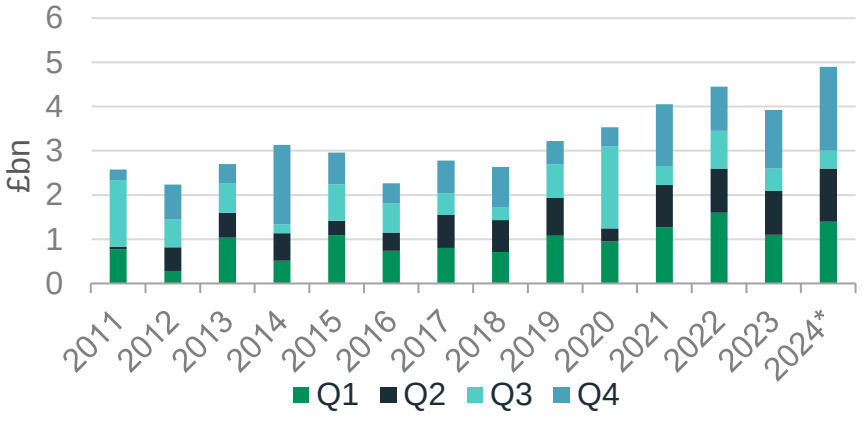
Investors were active in BTR, SFR and Co-Living sectors in the final quarter of 2024 despite the challenging backdrop highlighting the unrelenting appetite from investors for quality real estate in good locations in sectors underpinned by structural factors. Overall investment totalled c.£1.9bn in Q4 and meant that volumes for the year exceeded c.£4.9bn.

It was the BTR sector specifically that accounted for the majority of transactional activity and these were in the form of portfolio deals and standing stock sales, marking a shift from the traditional forward-funding route to entry, and reflecting market conditions. Noticeably the largest BTR portfolio deal to date took place, involving LRC Europe purchasing five assets from Invesco Real Estate and Platform_ for £120m. The quarter also witnessed Royal London Asset Management make their first foray into the sector with the purchase of two assets in Bracknell and Slough.

In October, Citra Living, the SFR arm of Lloyds Banking Group further expanded their exposure with the acquisition of 821 single family rental homes across nine different schemes from Gatehouse Bank, and CPP Investments announced it had partnered with Kennedy Wilson to launch a SFR JV with an initial target of £1bn of asset value. In Co-living, Realstar acquired 63 units from Node Brixton.

Other noteworthy activity in the quarter included Marrico and Helios Real Estate acquiring a site for the second phase at Lisbon Street, Leeds, which was financed by Ardent and marked their first UK loan into the BTR sector, and Greystar secured a £600m debt facility for its major residential development in Bermondsey.

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



Source: BNPPRE, MSCI
* provisional

STUDENT HOUSING

The final quarter of 2024 provided the student housing sector with some positive news, with a 1.3% increase in applicant numbers meeting the October 2024 deadline. Whilst this deadline is specifically for medical, veterinary, and Oxford and Cambridge candidates, it can be a forward indicator for the trajectory of applications for the 2025/26 cycle. A deeper dive showed that whilst domestic application held at the same level as last year, international applications increased by 4.7%, driven by students from the likes of India, China, and the US. Applicants from these markets increased 13.3%, 14.5% and 15.4% respectively. In absolute terms, Chinese and US applications were the highest on record in terms of the October deadline. The international student body plays a central role in relation to demand for Purpose-Built Student Accommodation (PBSA) sector and therefore the uptick from these markets will be well received by PBSA investors and operators.

1.3%

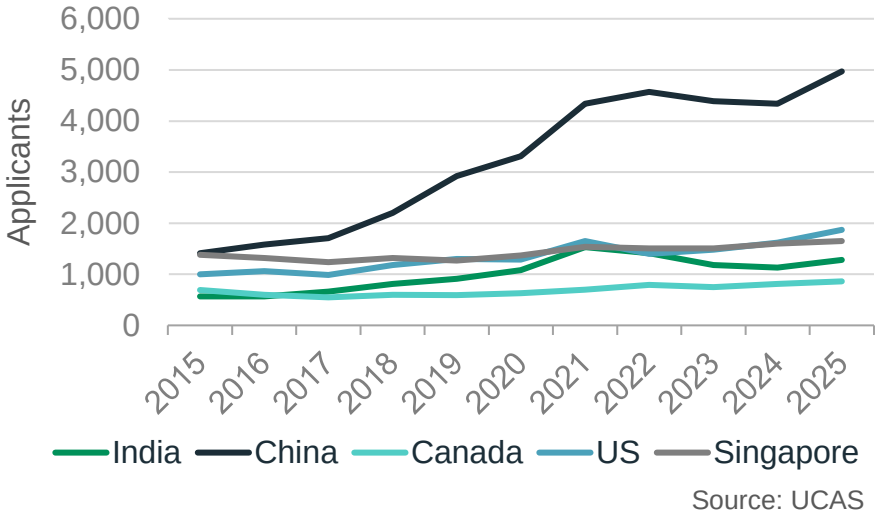
Increase in applicant numbers meeting 15th October 2024 deadline

Source: UCAS

Planning applications remain low in a historical context, according to StuRents and activity is focussed on a small number of locations, with 71% of all beds in the pipeline in ten locations (source: StuRents). Additionally, the delivery of new supply has been trending down. The inertia on the supply side has partly been a result of construction challenges, including the cost of materials, shortfall of labour and cost of debt. However, it also reflects investors' focus on a shrinking number of top university towns and cities, where there are fewer concerns with regards to declining international student numbers.

Meanwhile demand in Russell Group university cities remains high and is not matched by adequate levels of supply. Annual rental growth in the sector reached record highs in September 2024, at 7.2% (source: MSCI). In their latest trading update, Unite plc reported an expectation of 97%-98% occupancy in the 2025/26 cycle and rental growth of 4%-5%.

2025 cycle applicant figures – 15th October 2024 deadline



Source: UCAS

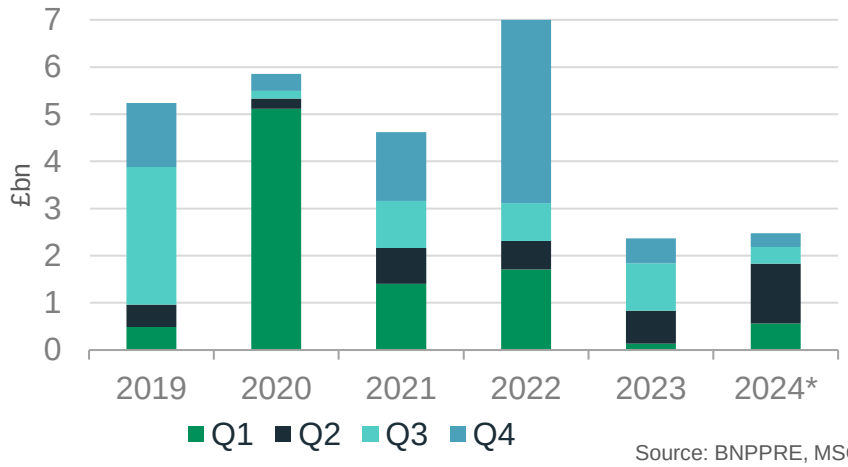
INVESTMENT ACTIVITY

Investment activity was fairly muted in Q4 with initial estimates suggesting student volumes totalled c.£290m. This reflected overall market conditions as well as the fact that investors have been focussed on a small number of locations, rather than any lack of appetite for this sector. This took 2024 total investment volumes to c.£2.5bn which was marginally above 2023 levels. One deal in particular, the £110m acquisition of the AIG portfolio by Generation Estates and Goldman Sachs, accounted for the lion share of total volumes. This also marked the return of Goldman Sachs to the student sector, after it sold iQ in 2020.

Elsewhere Singaporean CDL Hospitality REIT invested in their first PBSA asset with the purchase of Benson Yard in Liverpool for £37.3m whilst SAV Group purchased a development site in Edinburgh with consent for 112 student studios in December. In the refinancing space, Melburg and TPG Angelo Gordon secured a £75.5m development finance facility from Maslow Capital for South Plaza in Bristol.

Investor demand remains focussed on opportunities within Russell Group university towns and cities and this trend is expected to continue into 2025. The INREV Investment Intentions Survey 2025 noted that whilst Residential retained the top position as the preferred sector, Student Accommodation climbed to third place for the first time since the inception of the survey. The European report notes that the growth in preference has been driven by consistent tenant demand, stable rental income and yield compression potential.

Purpose Built Student Accommodation Investment Volumes



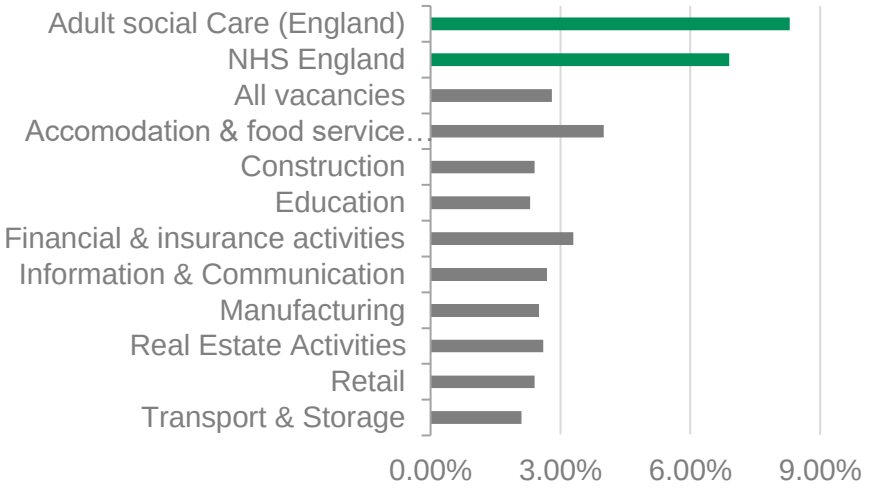
Source: BNPPRE, MSCI
* Provisional

CARE HOMES

Whilst occupancy in care homes has stabilised, care home fees have continued to increase in 2024 albeit at a marginally slower pace. Self-funded personal care fees increased 9.2% down from 11.8% in 2023 and nursing care increased 7.1% down from 10.1% a year earlier (source: Carterwood). Moreover, the announcements in the Autumn statement point to further increases in fees. Both the increase in NICs and rise in minimum wage are likely to feed through to self-funded fees as operators pass on these costs. The sector has already been under pressure over the last few years from rising staff costs, food and utility costs.

Focusing on development activity, care homes accounted for 17% of project starts in the healthcare sector in 2024 which in absolute terms marked a 25% increase on 2023 (source: Glenigan). This is positive for this sector which is expected to see demand continue to increase as the UK's population ages, and care needs increase.

Estimated job vacancy rate by sector, 2023/24



Source: Skills for Care Estimates, NHS England, ONS

Changes in Health Starts and Planning Approvals; 2024 vs 2023

Source: Glenigan

SENIOR LIVING

Whilst Senior Living remains a growth sector in the UK, the challenging conditions in Q4 2024 meant that it was a fairly quiet end of the year. Activity of note included the opening of Birchgrove's Artyom House in Mill Hill in October and planning was secured by Thrive Living for a 144-home scheme in Chigwell in November.

The quarter was also marked by the publication of the independent Older People's Housing taskforce report which made ten recommendations for the sector including standardised definitions of Older Peoples Housing, incentivising a wide range of housing options, expansion of the sector considering affordability, a strengthen of planning policies, an enhancement of innovation and research in the sector, and creation of collective leadership.

ACUTE AND PRIMARY CARE

The Autumn Statement included various support for the acute and primary care sectors including £1.5bn capital funding in total for new surgical hubs and diagnostic scanners to build capacity for over 30,000 additional procedures to relieve some of the pressure on the NHS. Waiting lists for consultant-led elective care were at 7.48 million in November 2024, although this has come down from highs in Sept-23. Moreover, the Government announced a 10-year health plan that will be published in Spring 2025.

Demand for acute and primary care services is only set to increase, and this has been reflected in rising demand for private services and should present some new opportunities for private sector investment in this part of the Healthcare market.

Investment

The Healthcare and Senior Living sectors remained in the spotlight for investors in Q4 2024. They continue to recognise the sectors rental fundamentals, based on long-term trends, and weaker correlation with economic cycles, in addition to its attractive yields. However, investors are also aware of the risks in this sector, particularly the importance of strong relationships with robust operating partners and understanding the fairly diverse nature of the sector. The current economic climate has seen operators under increased pressure particularly from rising costs.

Despite this, there were some noteworthy investment transactions which took place in Q4 involving a range of investors. Newcore Capital, a specialist investor in social infrastructure, acquired 15 primary healthcare properties in London and the South East for £50m. In November, Swiss Life Asset Management purchased the Neem Tree Care Centre, in Ealing, for £11.3m; with the operator to remain in place, and in a large deal, Housing 21, a not-for-profit providers of Extra Care and Retirement Living completed its largest ever acquisition of 23 schemes from Midland Heart, which included 1,567 units.

c.7,000

Elderly accommodation units delivered in 2024

Source: Elderly Accommodation Council

KEY LIVING SECTOR ACTIVITY

Investor	Location	Details	Sector	Date
Generation Estates Ltd, Goldman Sachs	National	Acquisition of a 2-asset portfolio for £110m from AIG; 907 beds	Student	Dec-24
CDL Hospitality REIT	Liverpool	Acquisition of Benson Yard for £37.3m from Niveda Realty; 404 beds	Student	Dec-24
SAV Group	Edinburgh	Acquisition of a site in Edinburgh from Thistle Property Group; 112 beds	Student	Dec-24
Cain International JV Olympian Homes	Bristol	Acquisition of a hotel to be redeveloped into 442 student beds and 132 co-living units; completion estimate Q4 2028	Student/Co-living	Oct-24
Realstar	London	Acquisition of Node Brixton from Node Living; 63 units	Co-living	Nov-24
LRC Europe	National	Acquisition of 5 stabilised BTR assets for £120m from Invesco Real Estate and Platform_; 608 units	Build to Rent	Dec-24
Starlight Investments	Leeds	Forward purchase of Flax Place from Torison Group; 300 units	Build to Rent	Dec-24
Starlight Investments	National	Forward purchase of 3 BTR assets in Basildon and Manchester for c.£500m; 1,541 units	Build to Rent	Nov-24
Grainger plc	Cardiff	Acquisition of a site on John Street in Cardiff to develop into BTR; 400 units	Build to Rent	Nov-24
RLAM	Bracknell/Slough	Acquisition of 500 BTR homes in Bracknell and Slough from Weston Homes	Build to Rent	Oct-24
Europa	Glasgow	Acquisition of Granary Quay from Dandara Group; 342 units	Build to Rent	Oct-24
Lloyds Banking Group	National	Acquisition of 821 single family rental homes across 9 schemes, from Gatehouse Bank	Single Family	Oct-24
Newcore Capital	London/South East	Acquisition of a 15-asset portfolio of primary healthcare properties for £50m	Healthcare	Nov-24
Primary Health Properties	National	Secured an £170m loan from Barclays to refinance debt maturities	Healthcare	Oct-24
Swiss Life AM	London	Acquisition of Neem Tree Care Centre, Ealing, for £11.3m; 57 units	Care Home	Nov-24
Undisclosed	National	Sale and leaseback of a 3 care home portfolio by Country Court for £50m	Care Homes	Oct-24
Signature Senior Lifestyle / Elevation Advisors LLP	London	Completion of debt financing and construction agreements for 3 developments in Enfield, Surbiton and Hornchurch	Care Homes	Oct-24
Housing 21	National	Acquisition of 23 extra care and retirement living schemes from Midland Heart; 1,567 units	Senior Living	Oct-24

"Whilst the macroeconomic and sector-specific challenges have resulted in a complex backdrop for investors, appetite for greater exposure to the Living sectors is unwavering, driven by the recognition of the structural drivers underpinning these sectors.

This has really been demonstrated by the emergence of standing stock and portfolio transactions in BTR and marks a new era in this submarket, whilst supply/demand imbalances in certain university towns and cities, as well as higher yields compared to other parts of the Living sector, continue to ensure strong investment conviction towards PBSA.

We expect to see significant core capital investing into stabilised PRS and BTR assets over the next 12 to 18 months which will also stimulate investment into development but will be influenced by interest rates and economic confidence in 2025."

Andrew Screen, Head of Residential Capital Markets

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