London's Forced Renters Fuel Apartment Investing Boom: Mortgages
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June 10 (Bloomberg) -- Londoners are increasingly becoming renters whether they like it or not after the U.K. capital's average home price passed 500,000 pounds ($778,000) last month. With first-time buyers having to borrow more than ever and save longer to afford a down payment, leasing demand is set to soar, and developers and investors are building like never before. The Greater London Authority estimates households renting privately owned apartments or single-family homes will increase to 37 percent by 2025 from 25 percent last year.

"It's one of the most exciting, if not the most exciting asset class in the market today," said Nick Joplin, executive director of Grainger Plc, the U.K.'s largest publicly traded residential landlord. "Institutions are recognizing that too."

Investors including Grainger, Dutch pension-fund asset manager APG and developer Quintain Estates & Developments Plc are already seeking to profit while others, such as New York-based private-equity firm KKR & Co., have said they're considering entering the London market. Savills Plc estimates at least 210,000 more U.K. households will seek to rent in the next three years, most in the capital.

Multifamily home buyers got total returns of 8.9 percent in the U.K. last year, compared with 2.7 percent for commercial real estate, according to Investment Property Databank Ltd.

Government Incentives

They're also set to benefit from measures introduced by Prime Minister David Cameron's government aimed at stoking construction and reviving the economy. The government's March budget announcement included 1 billion pounds of incentives aimed at spurring multifamily residential development and easing a housing shortage.

"These projects represent a wide range of innovative models and will provide a good spread across England, with around one quarter in London," Housing and Local Government Minister Mark Prisk said in April

A month after the incentives were introduced, about 700 million pounds had been allocated to 45 projects around the U.K. The developments could produce as many as 10,000 homes, the government estimates.

"Those are the seed assets that we will see in future years acquired by institutional money once they're built, leased up and tenants are paying their rent," Grainger's Joplin said in a telephone interview.

Cultural Shift

The shift toward companies and investors owning swaths of rental housing is as much cultural as it is economic. Like the rest of Britain, home ownership in London is engrained in the culture. Moving up the so-called housing ladder and renting out an apartment once a new home is acquired, or investing in a few buy-to-let properties, has become a cottage industry. That's different than places like the U.S. and Germany where homeownership rates are lower and companies own thousands of rental apartments.

About 70 percent of Britons own their own home compared with 53 percent in Germany, data compiled by LBS Research shows. In the U.S., the figure is 65 percent.

To rent a home to Londoners unable or unwilling to buy one, multifamily investors are focusing on neighborhoods with access to transportation links like the London Underground, such as Paddington as well as Balham and Putney, which are in the south and southwest of the city, according to Adam Challis, head of residential research at broker Jones Lang LaSalle Inc.

"It's all about orientating the asset around the demand profile of future occupiers," Challis said. "Renters typically are going to be young professionals, car free, and as a result transport access is going to be a hallmark of the successful locations."

Underground Zones

The Underground's zones 2 and 3, which ring the city center, were the country's best-performing areas for renting houses and apartments last year with returns of 10.7 percent, researcher IPD said in February. The average rent in greater London climbed to 1,236 pounds in April, up 4.8 percent from a year earlier, according to an index compiled by HomeLet, the U.K.'s largest referencing and rentals insurance company

Quintain, a London-based developer, decided it will rent out about 100 apartments in building projects in the Greenwich area and another 100 in the city's Wembley neighborhood, rather than sell as they had typically done, because of increased demand.

"It's the new phenomenon of this year," Quintain Chief Executive Officer Max James said by telephone. "There is a growing institutional demand for this kind of product, so you begin to see this triangle where developers, tenants and institutions are all coming together in the same space."

APG's Acquisition

APG, Europe's largest pension-fund asset manager with 325 billion euros ($430 billion) under management, teamed with Newcastle, England-based Grainger to buy about 1,200 U.K. homes for about 350 million pounds in January. The trust set up to buy the assets will focus on renting out properties in greater London and may also invest in developing homes for leasing.
Prudential Plc's M&G Investments last month bought 534 homes through a unit for 105.4 million pounds from Berkeley Group Holdings Plc. Berkeley, the U.K.'s third-largest homebuilder by market value, is keeping an undisclosed minority stake after the project is done. It also may develop homes to rent, according to a statement at the time.
A unit of Qatar's sovereign-wealth fund has also been buying and selling in the London multifamily market. Qatari Diar Real Estate Investment Co. and Delancey Estates Plc paid about 557 million pounds for the 2012 London Olympics athlete's village in a deal that included about 1,400 homes, most of which will be leased rather than sold, according to an August 2011 statement. LondonMetric Property Plc was part of a venture that bought a luxury multifamily complex in the affluent Chelsea neighborhood from Qatari Diar last June for 147 million pounds.

'Ludicrous' Yields

Not every company is enthusiastic about U.K. multifamily residential assets. Axa Real Estate Investment Managers, Europe's largest property manager, prefers to put its money into housing for students and seniors, Chief Executive Officer Pierre Vaquier said in a March interview.
Pension funds, asset managers and insurers are less likely to buy multifamily property in London's best residential areas because rents aren't high enough compared with purchase prices, according to Jones Lang's Challis. "The yield can seem fairly ludicrous in comparison to traditional property investment," he said.

Record Prices

London home asking prices increased 3.3 percent to a record 509,870 pounds in May, property-website operator Rightmove said in a report last month. The price of London homes is now more than nine times the average earnings of residents and buyers typically need a deposit of 59,000 pounds, according to a report by Savills.
The typical first-time London buyer borrowed 3.6 times their household income last year for the purchase, the most

ever, according to data compiled by the Council of Mortgage Lenders going back to 1974.

The U.K. multifamily housing market had about 1.6 billion pounds worth of transactions last year, little changed from a year earlier, according to Savills. The London-based broker estimates purchasers may spend 2.5 billion pounds this year, about 50 percent more than 2012. That's still small by international standards.

The dollar volume of apartment-building sales in Manhattan alone more than doubled in 2012 to $9.1 billion, according to data compiled by New York-based Real Capital Analytics Inc. In Germany the value of multifamily-building sales rose 46 percent last year to 10.4 billion euros, according to Savills.

U.K. buyers have about 2.85 billion pounds to spend on apartment buildings and other multifamily assets, 185 percent more than last year, according to data compiled by Chicago-based Jones Lang.

"This is likely to be just the tip of the iceberg," Jones Lang said in a statement. It "doesn't take into account potential investment from U.K. institutions such as pension funds, insurers and third party fund managers -- the majority of which are currently either deploying or looking to deploy capital into the residential sector."

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