

UK living

Accelerating the work-life balance

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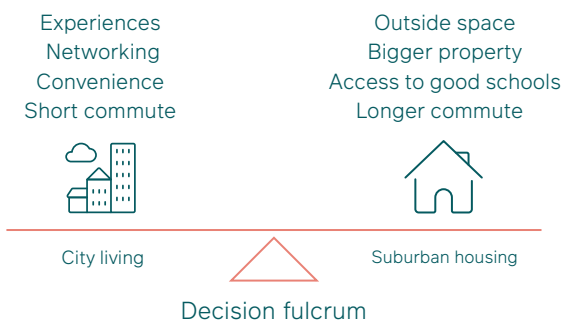
The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested.

The impact of the new environment on our living choices may be less overt than the impact on our working lives and shopping habits, but a shift is underway.

The 'nest' has become our safe haven in recent months, though people are now looking at their living situation through fresh eyes; from access to outside space and a dedicated work area, to where they are located. The importance of community has also come to the fore, with many people dependent on their local communities throughout lockdown.

The pandemic has accelerated trends in consumer behaviour across the board; just as we have seen an acceleration in online retailing, consumer trends that were already in play within the housing market are expected to pick up pace. We call this an acceleration in the 'decision fulcrum': an internal pivot point that drives living choices, based on an individual's priorities.

Figure 1. The decision fulcrum drives living choices

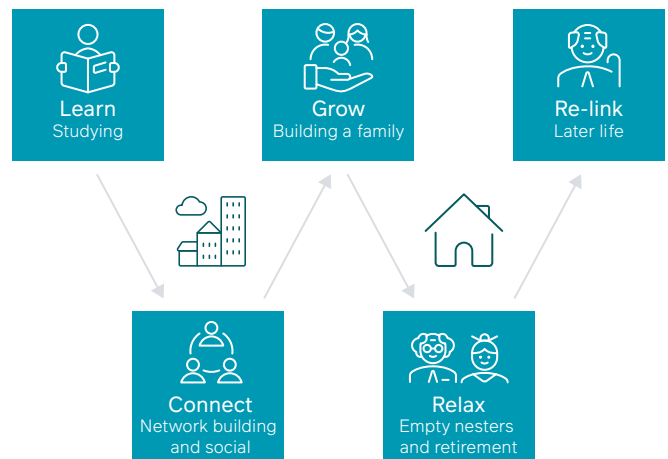


Source: M&G Real Estate.

The decision to rent, expand, or locate close to or further from work, has always been determined by a person's ranking of priorities, which typically include access to employment and length of commute, cost, lifestyle, space needs, and proximity to good schools. This combination shifts as a person progresses through different stages of life; social and professional priorities early on in a person's career often give way to practical requirements as a person starts a family. The trade-off often equates to longer commute times.

We believe the potential to work more flexibly will alter the timing of this trade-off, with certain housing decisions now made earlier in the lifecycle.

Figure 2. Priorities evolve through the lifecycle



Source: M&G Real Estate.



Build to Rent housing offers access to city living

The typical housing journey begins with Alba, a 23-year old graduate, whose priorities are establishing her career, and pursuing an active social life; her decision fulcrum is stacked towards professional and social opportunities. This attracts her to large, well connected employment hubs such as London and the 'Big Six' regional cities, where opportunities and experiences are greatest – but access to housing is most challenging.

Graduating in 2020, Alba has amassed student debt of around £40,000¹. Her average starting salary ranges between £18,000 and £40,000, depending on her chosen profession. The prospect of buying in London, where the average first-time buyer house costs just over £400,000², is scarcely attainable, even taking into account government policies like Help to Buy or First Homes. Without parental or government support, it could take Alba 32 years to take her first step onto the housing ladder³.

Right now, this is not an immediate concern; Alba enjoys city life but she is not necessarily ready to commit to home ownership. Renting suits her current lifestyle, by providing the flexibility to experiment.

In the past, Alba would have started out in shared accommodation in Underground Zone 2 or 3, sharing a four-bed Victorian house with like-minded people – a small leap from her student house share. As her career, salary and social network progressed, she may have moved into a fairly basic two-bed flat with a professional friend or partner, making living in a city like London more affordable.

However, the proliferation of Build to Rent (BTR) accommodation in Zones 3 to 5, in line with rising urbanisation, has opened up the private rented sector (PRS) over the past ten years, providing access to accommodation that is higher quality but also has the benefit of professional management and on-site amenities, close to transport links, at an affordable cost. With a friend, Alba is able to rent this two-bed apartment for much less than she would a one-bed flat on her own elsewhere in London, yet still have her own space. Sharing rental costs also allows Alba to save for a deposit to buy a house, when she is ready.

¹The House of Commons Library, Briefing Paper #1079: Student Loan Statistics, 28 June 2019.

²Nationwide, House Price Index, UK and regional quarterly series – by buyer type, Q2 2020.

³Resolution Foundation, Housing Outlook Q3 2020. Figures as at end 2019.

Lockdown has amplified appreciation of BTR

It's not just about affordability; renting also provides the convenience of amenities as well as the social aspect of living in a community. Lockdown has crystallised appreciation of many of the features BTR housing offers; Alba is grateful to have access to multiple outside spaces and high speed internet. Residents also value a strong sense of community from where they live, providing support to both vulnerable residents and local businesses. Working from home on a prolonged basis, the benefit of COVID-safe facilities such as socially distanced home working areas and a well-managed, sanitised, residents-only gym, has made a big difference to Alba's quality of life.

On the basis that housing is a basic need, and people value their homes and communities highly, residents prioritise paying their rent. This is reflected in high rental collection rates and low default rates. The presence of on-site property managers also encourages communication with residents, allowing landlords to identify early and work with vulnerable people to help provide the support they need.

Equally, the pandemic has prompted some people to seek more space. In certain cases, couples have opted to move from one bedroom, to two bedroom apartments in order to gain dedicated office space.



The Green, Kilnwood Vale, Crawley, UK

Households on course to move out of town are likely to relocate sooner

Typically, the next step for Alba would be to move from a flat to a house in a more affordable part of London, with a potential partner. By now, Alba is seeking more space, a private garden and, ultimately, a more balanced lifestyle. Her decision fulcrum is skewed towards professional and practical priorities, over social engagement. Alba's housing needs are changing but home ownership may still be out of reach.

Alba now has a new factor to incorporate in her decision fulcrum; the importance of commute time has shifted. Commuting less often each week, on a long-term basis, makes it feasible to move further out of town, for those already on that path. This could tip a cohort of households into relocating a few years earlier than they might otherwise have done, bypassing 'stage two' altogether. The upshot is likely to be increased demand for single-family housing for rent in suburban locations with good transport infrastructure.

When the time comes that Alba becomes a parent, her priorities become a quest for space and the need to be close to a good/outstanding OFSTED rated school. Often, housing near to good schools in London is heavily competed for, and does not necessarily reflect the nature of housing that families require; in London, flats comprise 50% of housing stock, compared with 16% in the rest of the UK⁴. This makes single-family housing outside of London more attainable, whether to rent or buy.

Getting onto the housing ladder is challenging

The point at which Alba may exit the PRS comes as she seeks to get onto the housing ladder. However, affordability pressures are high in most parts of the country, particularly in London and the South East, where rising demand and a lack of supply drive the highest national house prices. The same pressures are reflected in large employment hubs found in and around the Big Six or wealthy cities such as Oxford and Cambridge.

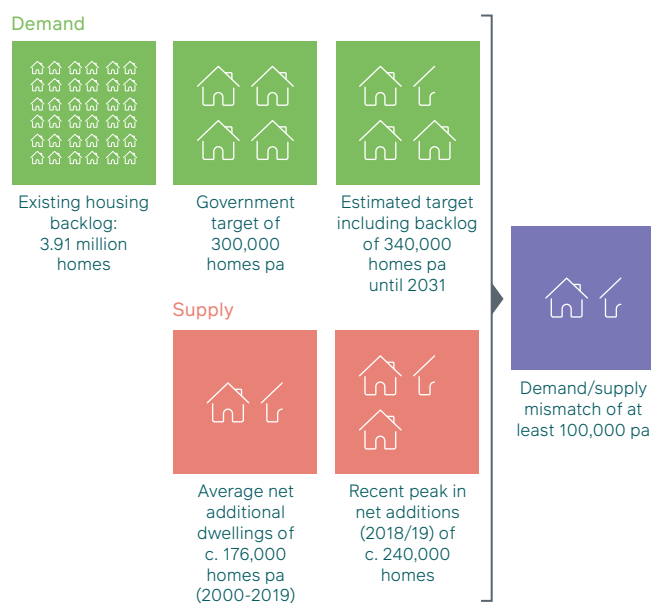
Figure 3. First-time buyers face difficulty getting onto the housing ladder, particularly in London



Source: M&G Real Estate; Office for National Statistics, House price data: quarterly tables, August 2020.

As such, getting a foot on the housing ladder is challenging and first-time buyers are likely to continue to struggle without additional financial support in the form of the 'Bank of Mum and Dad' or housing accessibility schemes like Shared Ownership. This dynamic is likely to intensify, with house prices facing further upwards pressure over the long term as the number of households in the UK continues to grow, while supply remains restricted.

Figure 4. Housing supply will struggle to meet future housing need



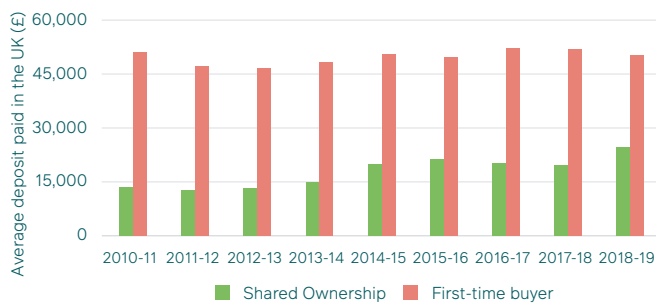
Source: Crisis/National Housing Federation, Housing supply requirements across Great Britain: for low-income households and homeless people, November 2018. Data relates to England; Heriot-Watt University, May 2018; Ministry of Housing, Communities and Local Government, June 2020. One house icon represents 100,000 homes.

⁴Ministry of Housing, Communities and Local Government, English Housing Survey: Stock profile and condition, 2017.

Shared Ownership offers a more affordable route

Shared Ownership allows people like Alba, as well as the likes of key workers, who are priced out of the housing market, to enter into home ownership sooner, by offering a gradual route. The part-buy, part-rent model enables Alba to acquire a share of a home with a significantly lower deposit than would be required for a typical first-time buyer property, with the option to buy additional shares in the property should she choose to. Alba benefits from security of tenure, in addition to any house price growth. Rents are set at a subsidised level and increase only in line with inflation, with managers subject to regulation by the 'homes regulator'.

Figure 5. Smaller deposits make Shared Ownership a far more affordable way of getting onto the housing ladder



Source: Office for National Statistics, House price data: quarterly tables, August 2020; Ministry of Housing, Communities and Local Government, Table 697: financial data on shared ownership sales for England, September 2020. FTB data as at Q1 of each year.

With the delivery of affordable housing a political priority, Shared Ownership has the potential to become a mainstream housing tenure, open to the vast majority of UK households. The private sector is likely to play an increasing role in this part of the market going forward, particularly given the new demands on public spending. The advantage of having designed and managed successful PRS buildings will help property providers to create high quality Shared Ownership homes, both in urban and suburban locations.

Well balanced portfolios will meet housing needs throughout the lifecycle

The housing journey will continue to play out in a way that reflects individual priorities, as well as deep-rooted structural and demographic trends. Cities will remain the anchor, but an acceleration of the decision fulcrum among young couples and new families is likely to expand commuter belts surrounding large cities. This will drive increased demand for single-family housing for rent in suburban locations with good transport infrastructure. Equally, young people will continue to face difficulty getting onto the housing ladder, meaning solutions like Shared Ownership have an essential role to play.

Clear demand for more affordable housing that serves peoples' evolving needs, represents a compelling opportunity for investors. Particularly in the current risk-off environment, the defensive nature of the residential 'Living' sectors holds major appeal: while e-working is possible, e-living is not.

For investors, the PRS offers the potential to generate strong, stable income streams, with improved capital preservation and proven diversification benefits. Shared Ownership offers a supplementary means of exposure to Living. Investors are able to access stable, long-term, inflation-linked income with exposure to house price growth, while also addressing the UK housing shortfall. However, it is important to understand the difference in risks and returns; while both sectors reflect defensive qualities, PRS reflects full leasing risk while Shared Ownership reflects partial sales risk.

Well balanced portfolios will therefore include property that takes into account housing needs at each stage of the lifecycle. □

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