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UK PROPERTY RENTAL MARKET:

CAPITALISING ON A RESILIENT, HIGH-YIELD OPPORTUNITY UPDATE

MARCH 2025

FOREIGN INVESTMENT DRIVING THE BUILD-TO-RENT BOOM

MARKET OUTLOOK FOR 2025

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GLOBAL CAPITAL: FOREIGN INVESTMENT DRIVING THE BUILD-TO-RENT BOOM

The UK's build-to-rent (BTR) sector has emerged as a magnet for global capital, with international investors reshaping the market landscape. A recent thinktank report titled Open for Business or Up for Sale revealed that foreign-backed corporate landlords now support four out of the five largest BTR developers. These funds, often from overseas private equity, are not only financing developments that account for one in every five new homes but are also responsible for nearly 30% of all new properties in London.

This influx of international capital comes as the UK government embarks on an ambitious housing strategy—aiming to deliver 1.5 million new homes. In this framework, corporate landlords are being positioned to develop significant tracts of land in 12 planned new towns, potentially constructing up to a fifth of the 10,000 new homes per town. Such large-scale projects, however, are largely geared toward the housing needs of singles and couples, with around 90% of BTR homes catering to individuals or dual-income households. This niche focus, while lucrative, contrasts with the broader private rental sector that traditionally serves more family-oriented households.

Critics argue that by prioritising profit-driven investors, the Labour government risks deepening the affordability crisis—especially as corporate landlords tend to release properties gradually to sustain high rental prices. Nonetheless, proponents assert that these developments rapidly deliver modern amenities and much-needed homes in urban hubs like Manchester, Birmingham, Leeds, and Wakefield, where properties frequently attract tenants earning over £68,000 annually. The dynamic interplay between global capital and innovative housing design is setting the stage for a robust rental market, making this sector an attractive avenue for forward-thinking investors.

INSTITUTIONAL INVESTMENTS: PUMPING BILLIONS INTO A BOOMING RENTAL LANDSCAPE

Institutional investors have turned their gaze to the UK rental market, with a record £1.5 billion being funneled into single-family home developments just in the latter part of last year. This significant capital injection is part of a broader trend: since 2015, large-scale residential developments in city centres have attracted investors seeking steady income from consistent tenant demand. Recent shifts in strategy, however, are steering capital

towards suburban single-family homes—a sector perceived to offer more stable, long-term tenancies and reduced volatility in rent collections.

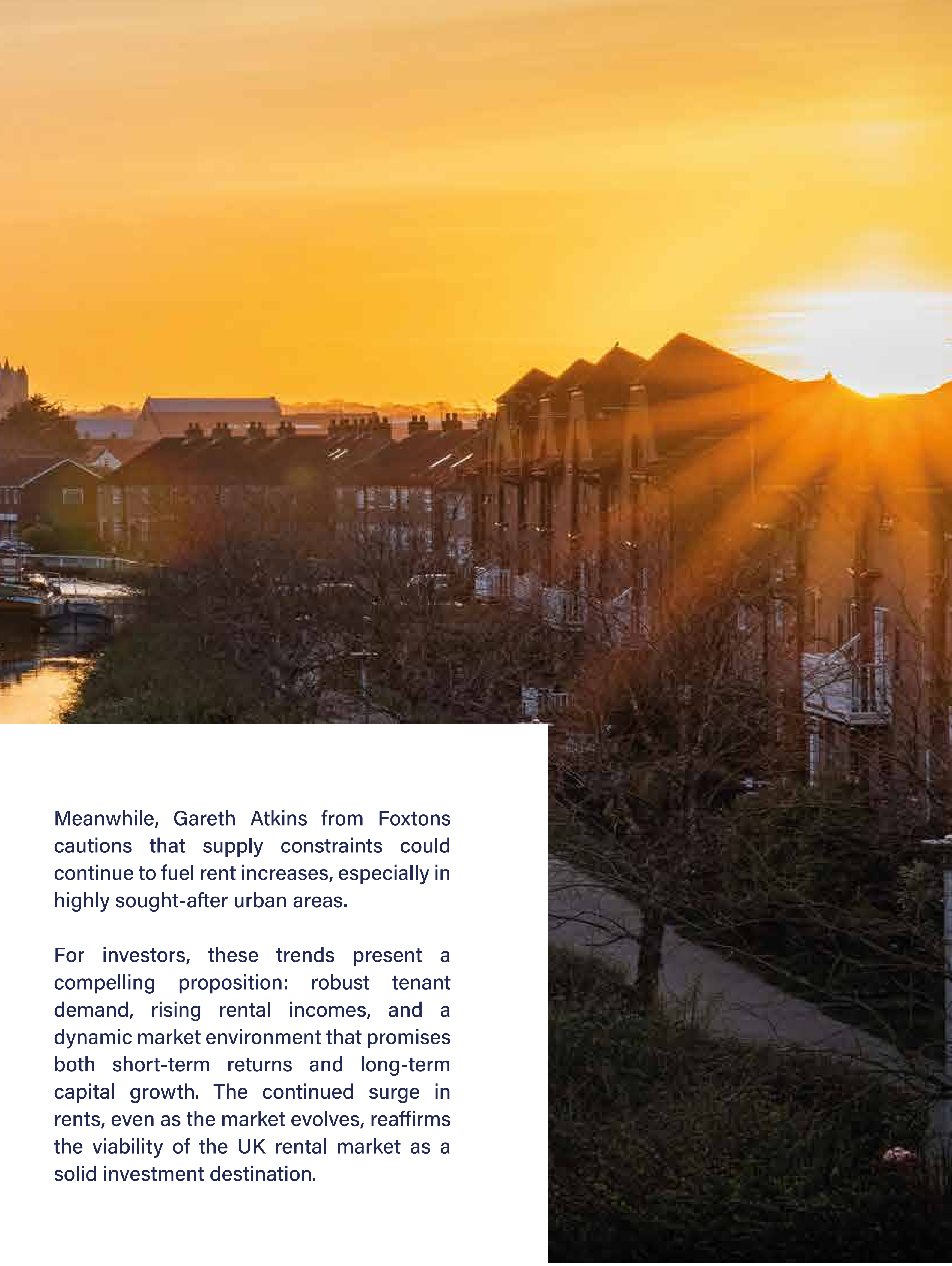
The shift is driven by several critical factors. Rising construction costs and tighter building regulations have made large high-rise projects less economically viable, prompting investors to partner with traditional housebuilders. In 2024, investments in single-family homes soared from 32% in 2023 to 54%, underscoring a strategic pivot toward projects that promise strong rental yields amid economic uncertainties like inflation and rising interest rates. Major players such as Aviva, Legal & General, and Blackstone are spearheading these developments, planning to construct thousands of new homes across key regions.

This robust institutional involvement not only signals confidence in the UK rental market but also underscores its resilience as a long-term asset class. Investors benefit from a market characterised by high occupancy rates and consistent tenant demand, even in the face of broader economic challenges. As these institutional investors continue to reallocate their portfolios and inject billions into the market, the UK rental sector remains a cornerstone for those seeking both capital appreciation and stable rental income.

RISING RENTS AND ROBUST DEMAND: A PROFITABLE LANDSCAPE FOR INVESTORS

In Wales, the rental market shows a steady 8.5% annual increase, with tenants paying an average of £777 per month, while Scotland's market has experienced a 6.9% rise, with average rents at £991. The diverse landscape of rental growth demonstrates that high demand is not an isolated phenomenon but a national trend, driven by the ongoing shortage of affordable housing and the ever-increasing demand from a growing population.

Industry experts have noted that while rent growth is expected to moderate slightly in the coming year—with forecasts suggesting an increase of 3-5%—the fundamental dynamics of the market remain strong. Nathan Emerson, CEO of Propertymark, emphasizes the need for the government to boost the supply of rental properties to balance tenant demand.



Meanwhile, Gareth Atkins from Foxtons cautions that supply constraints could continue to fuel rent increases, especially in highly sought-after urban areas.

For investors, these trends present a compelling proposition: robust tenant demand, rising rental incomes, and a dynamic market environment that promises both short-term returns and long-term capital growth. The continued surge in rents, even as the market evolves, reaffirms the viability of the UK rental market as a solid investment destination.

MARKET OUTLOOK FOR 2025: RESILIENCE AND OPPORTUNITY AMID CHALLENGES

As we look toward 2025, the UK rental market is positioned at a critical juncture - a blend of rising costs, evolving policy landscapes, and a resilient demand that continues to defy economic headwinds. Data from the Office for National Statistics reveals that, despite a slight tapering to an 8.7% increase in rental costs in the year leading to January 2025, the market remains buoyant. Even as inflation lags at around 3% and wage growth hovers near 5.9%, the gap between rising rents and affordable housing remains wide, driving continued demand for rental properties.

The affordability crisis is palpable. Research from the Joseph Rowntree Foundation points out that rent inflation has stayed above 8% for 18 consecutive months, with many tenants now paying significantly more than they did the previous year. In London, for instance, tenants face an extra monthly burden of over £220, while elsewhere the pressure is similarly acute. Mounting concerns have led to calls for policy interventions—Scotland has already implemented temporary rent controls and eviction bans, and Wales is weighing similar measures. In England, however, substantive policy shifts remain on the horizon, which many believe will further stimulate investor confidence in a market where demand vastly outstrips supply.

Moreover, the National Housing Federation's estimates underscore the urgent need for new housing—projecting that England requires 340,000 new homes annually, with at least 145,000 deemed affordable. Labour's commitment to 1.5 million new homes by 2029 is a bold vision, yet the pace of construction remains a challenge, as evidenced by previous years' shortfalls. With the advent of the Renters' Rights Bill, which aims to provide greater tenant protections by abolishing no-fault evictions and curbing bidding wars, there is cautious optimism that a more balanced market could emerge. Nonetheless, analysts such as those from the Resolution Foundation warn that rental costs for existing tenants could still rise by as much as 13% over the next three years.

Despite these challenges, the overall outlook for 2025 remains positive for investors. The market's resilience, bolstered by strong institutional backing and an ever-present demand

for rental housing, offers a wealth of opportunities. Investors can expect continued growth in rental yields, capital appreciation, and the potential for strategic advantage as the government and private sectors work to address the supply-demand imbalance.

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