

BUILD TO RENT – INVESTMENT STRATEGIES AND MARKET DYNAMICS



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Real Estate for a changing world

RESIDENTIAL CAPITAL MARKET BTR FUNDING

- Market Overview
- Equity Funding
- Debt Funding
- Funding Structures



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Residential Capital Markets

Sectors

- Build to Rent (BTR)
- Single Family Housing
- Student (PBSA)
- Co-Living
- Office to Residential Conversions
- Affordable Housing

Services

- Forward Fund
- Forward Purchase/Commitment
- Debt and Equity arrangement
- Consultancy and research
- Portfolio/Asset transactions
- Valuations and Development advice

Location

- National

Market Update

- Increased investor interest in Living Sectors
- Target Sectors, PBSA, BTR, SFR, Co-Living
- Locations: London, Commuter Belt, Key Regional Cities
- Forward Funding's restructured, overage/promote
- Construction and interest cost increases reducing investor IRR from 20% to 15% Net Levered 5-7 year
- Several large portfolios to be traded in 2026, £1bn+ (establishing pricing bookends)

Investment Drivers

- Yields impact of moving out (stabilised stock trades)
- SONIA Swap rates 3-year(3.64%) and 5-year(3.71%)
- Exit Yield compression?
- Rental Growth assumptions p/a, 4%,3%,3%,3%
- Operational costs – utilities 25% gross to net?
- Political impacts (help-to-buy, affordable housing)
- Regulatory consistency (rent caps, dual staircases)
- Core Capital and exit yields



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LP Equity Investors Requirements

Investor Objectives

- **Prime Locations**, in or near major economic hubs (London, Manchester, Birmingham, Leeds, Bristol and commuter belt to London).
- **Secondary Locations** – Newcastle, Sheffield, Liverpool, Edinburgh, Glasgow, Nottingham, Brighton
- **Critical Mass** = min 100 units in London, min 250 units outside London (investment and operational capacity)
- **Strong counterparty** – delivery track record and financial capacity
- **Difficulty with development viability**, but market picking up
- **More affordable product** targeted by investors – less amenity
- **Preference for low-rise developments** sub-18m (six storey) i.e. not HRB – Gateway 2&3

Investor Target

- 5-7 year hold (including stabilisation)
- **Net Levered (65%) IRR = >15%**
- Professionally Managed/Operated
- Portfolio/pipeline transactions preferred

Key Issues

- Market and Regulatory uncertainty
- Price Discovery – Comparable Trades
- Economic & Political uncertainty
- **Development Viability**



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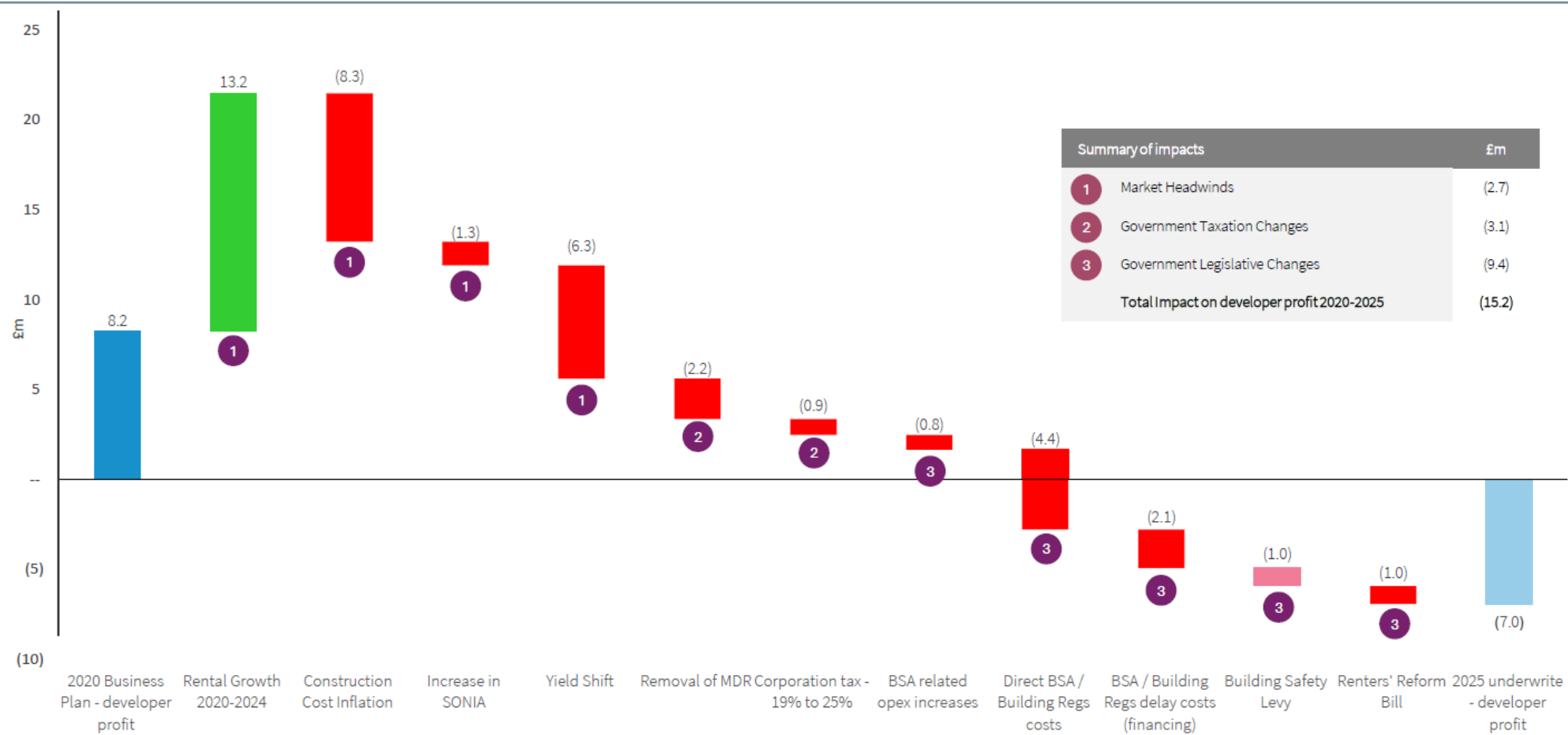
BTR Viability

Erosion of BtR viability from 2020-2025

Changing market and governmental headwinds have made previously viable projects undeliverable



Illustrative BtR underwrite in major north England city (c.350 apartments)



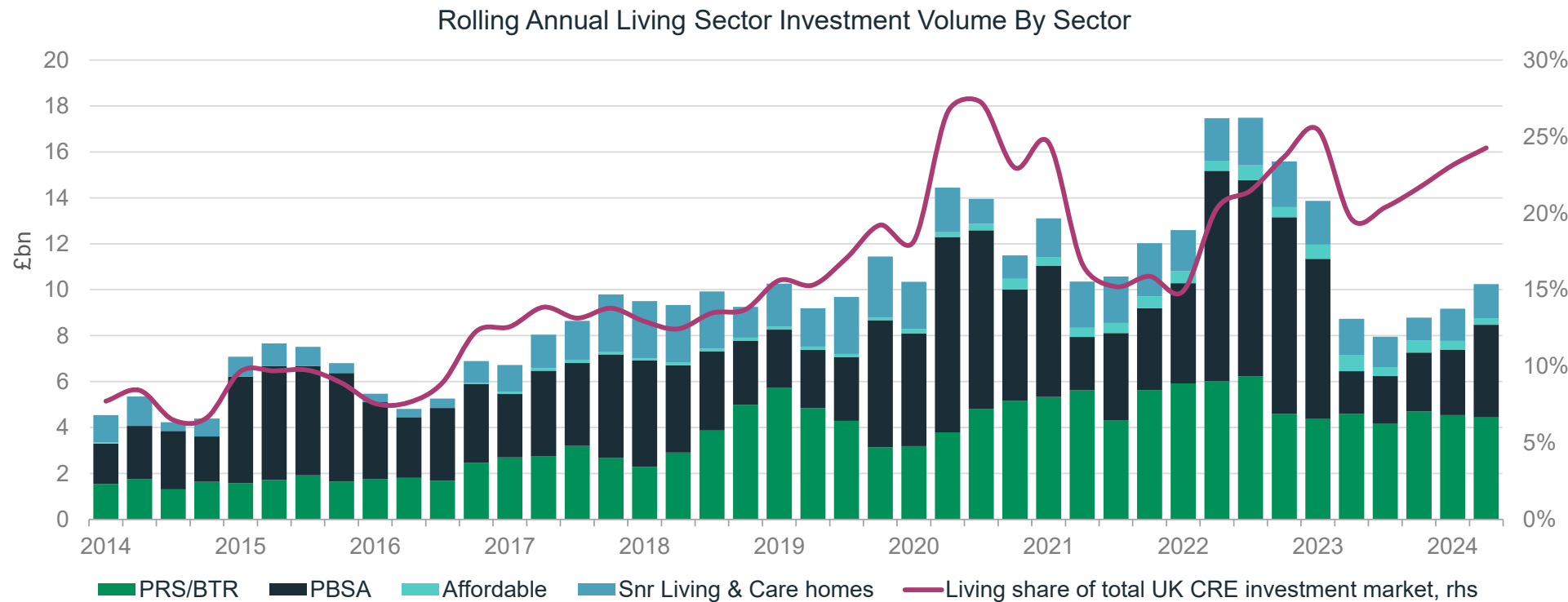
Note: Building Safety Levy still to be confirmed

EQUITY FUNDING

- Investor Interest
- Investor Return Requirements



UK Living Sector Investment Volume



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Source: BNP Paribas Real Estate, MSCI. Data as at 24.07.2024. Includes care homes

Investors Emerging Trends

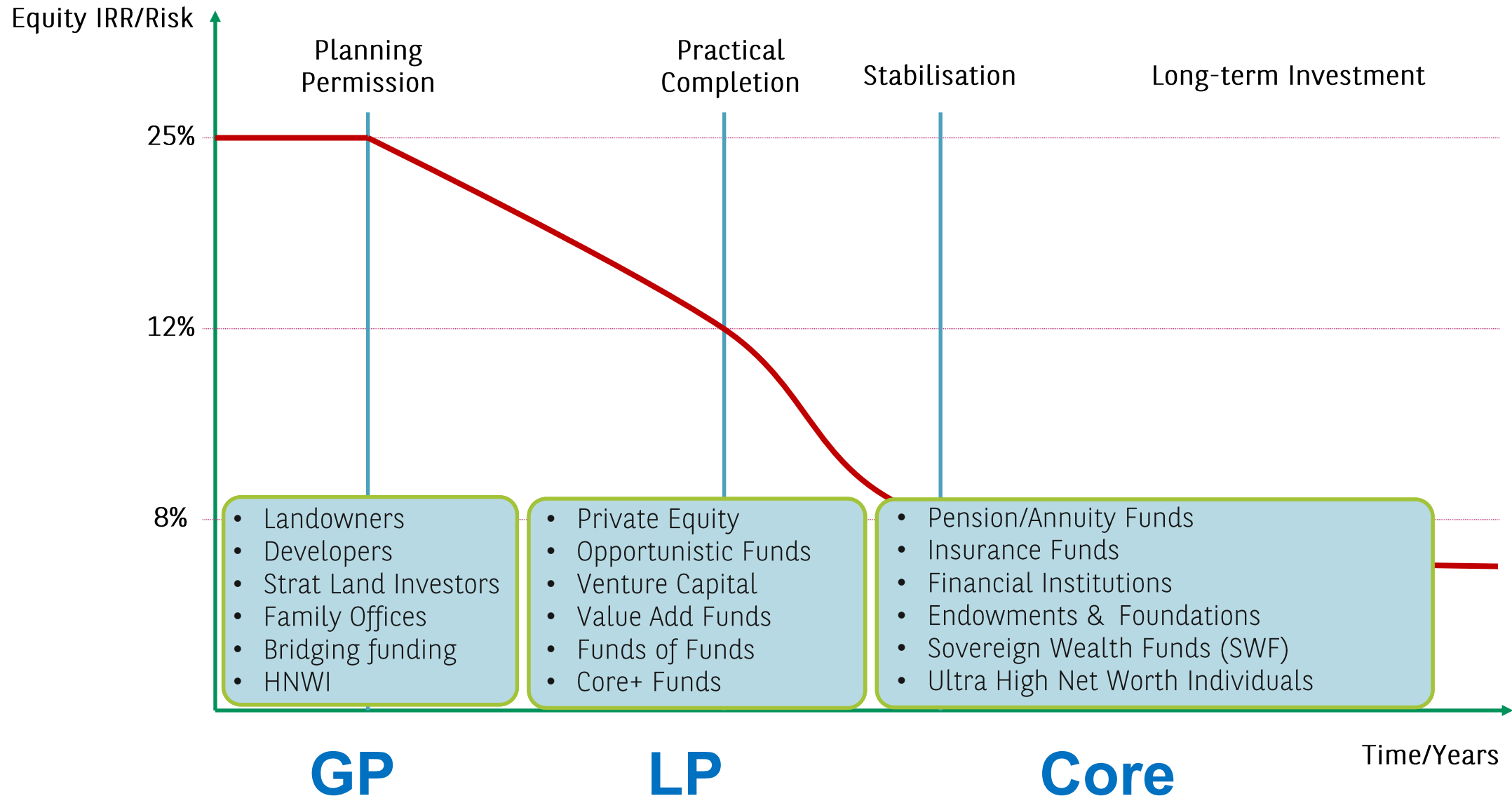
Rank	Sector
1	Data Centres
2	New Energy Infrastructure
3	Student Housing/PBSA
4	Logistics
5	Private rented residential/BTR
6	Self-storage facilities
7	Retirement/ Assisted Living
8	Co-living
9	Educational real estate
10	Serviced apartments
11	Affordable housing
12	Healthcare
13	Industrial/warehouse
14	Other storage facilities
15	Social housing

Source: PwC/ULI Emerging Trends Europe Survey, 2025

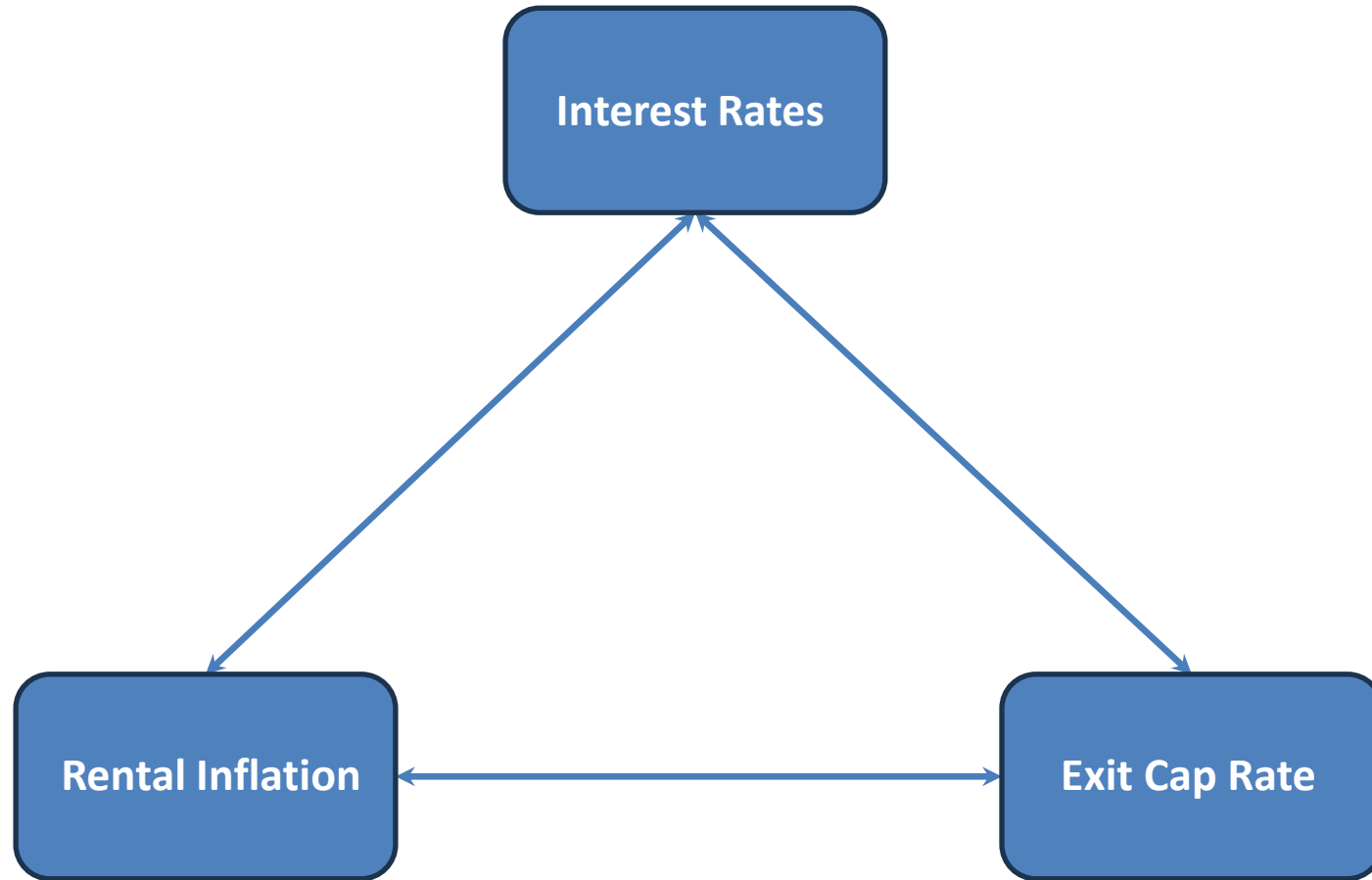


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Investment Returns



Magic Value Triangle



DEVELOPMENT DEBT FUNDING

- Debt Funder Liquidity
- Debt Funders
- Terms & Conditions



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Debt Funding – Availability

Debt Funding Liquidity

- Everybody wants to be a debt funder:
 - SONIA 3-Year swap rate = 3.66%
 - SONIA 5-Year swap rate = 3.72%
 - Total Funding Interest Rate = SONIA + Margin = 3.7% + 4.5% = 8.2%
- Debt funders target IRR = 10%-11%
- Debt funders receive 11% IRR for a secured first covering charge ranking ahead of investors 15% IRR
- Is debt funding accretive = project IRR (unlevered) must exceed debt funding rate i.e. 11%
- Investor IRR returns calculated based on Net Levered (65%) debt funding, i.e. after capital gains taxation on exit.
- 20-30 lenders targeting every development and investment transaction



Development Debt Sources

Clearing Banks

- Barclays
- HSBC
- Lloyds
- Natwest
- Royal Bank of Scotland
- Santander

- Shorter term/tenor – 3 years
- Lower LTC = 50%-55%
- Lower loan amounts <£50m
- Lower margins = 3.25%-4.00%

Pension & Insurance Funds

- Aviva
- AIG
- Allianz Insurance/Pimco
- CPPIB
- Canada Life
- Rothesay
- AgFe

- Longer term – 5-10 years
- Higher LTC = 60%-70%
- Higher loan amounts >£70m
- Medium margins = 3.75%-4.25%

Opportunistic Debt Funds

- Maslow Capital
- Alliance Bernstein
- Barings
- Bentall Green Oak (BGO)
- Blackstone
- Brookfield
- BNP Paribas
- Cheyne Capital Management
- Investec
- Nuveen
- Precis Capital
- OakNorth

- Medium term – 3-5 years
- Higher LTC = 65%-80%
- Higher loan amounts >£50m
- Higher margins = 4.25-6.00%



Debt Funding – Typical Terms, Fees and Security

Terms

- LTC (including capitalised interest) of 65%-75%
- Interest cost, fixed base (SONIA 3.7%) + Margin (3.5%-4.5%) = 8%
- Senior Loan secured by first covering charge over the assets
- Floating charge in favour of the lender over the SPV
- Loan term/tenor 3-5 years with possible margin stepdown at PC or Stabilisation
- Cost overrun and/or interest service guarantees

Lender Fees, Margins

- Interest cost, fixed base (SONIA) + Margin (3.5%-4.5%)
- Arrangement fees c1%
- Exit fees c1%
- Commitment fees c£250,000
- Non-utilisation fees 30%-50% of interest rate on undrawn amount
- Refinancing fees if broken before term end c1% and SPENS (make whole)

FUNDING STRUCTURES

- **Forward Purchase/Commitment**
- **Forward Funding**
- **Joint Venture**



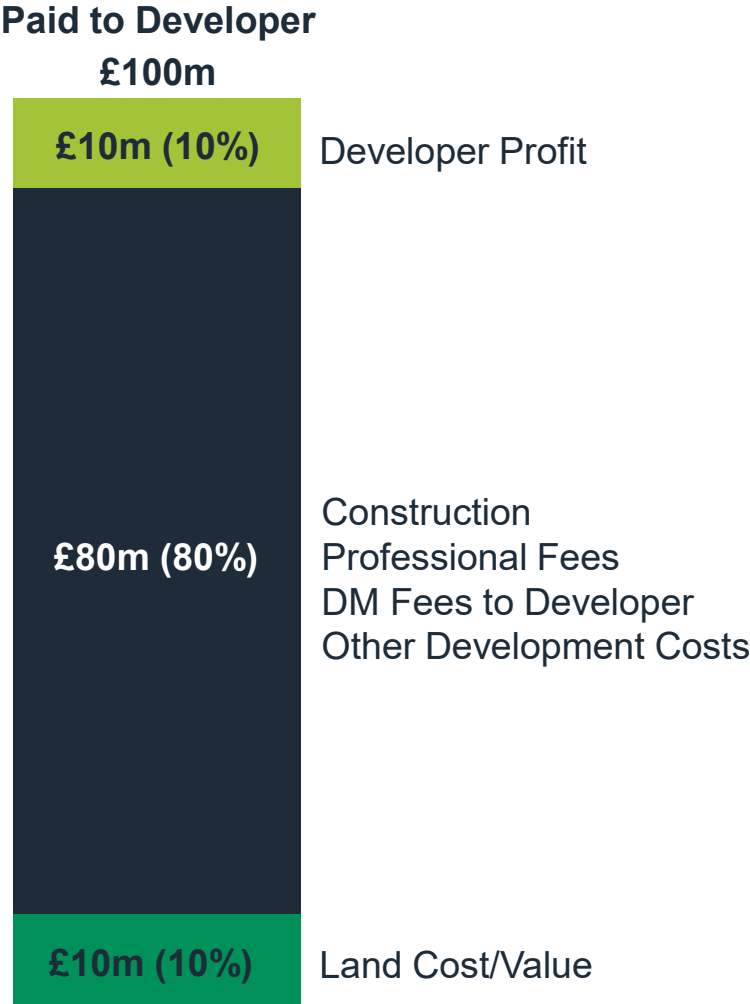
BUILD TO RENT PROPOSED DEVELOPMENT

- 350 BTR units
- Prime Regional City Centre
- Has obtained planning and has contractor
- Construction Period 3 years
- Leasing up Period 1 year
- **Investor Net Levered IRR 15%**

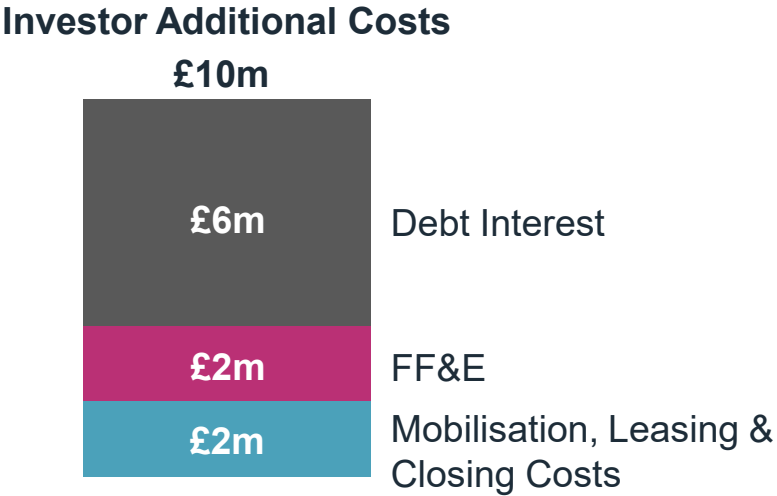


BUILD TO RENT

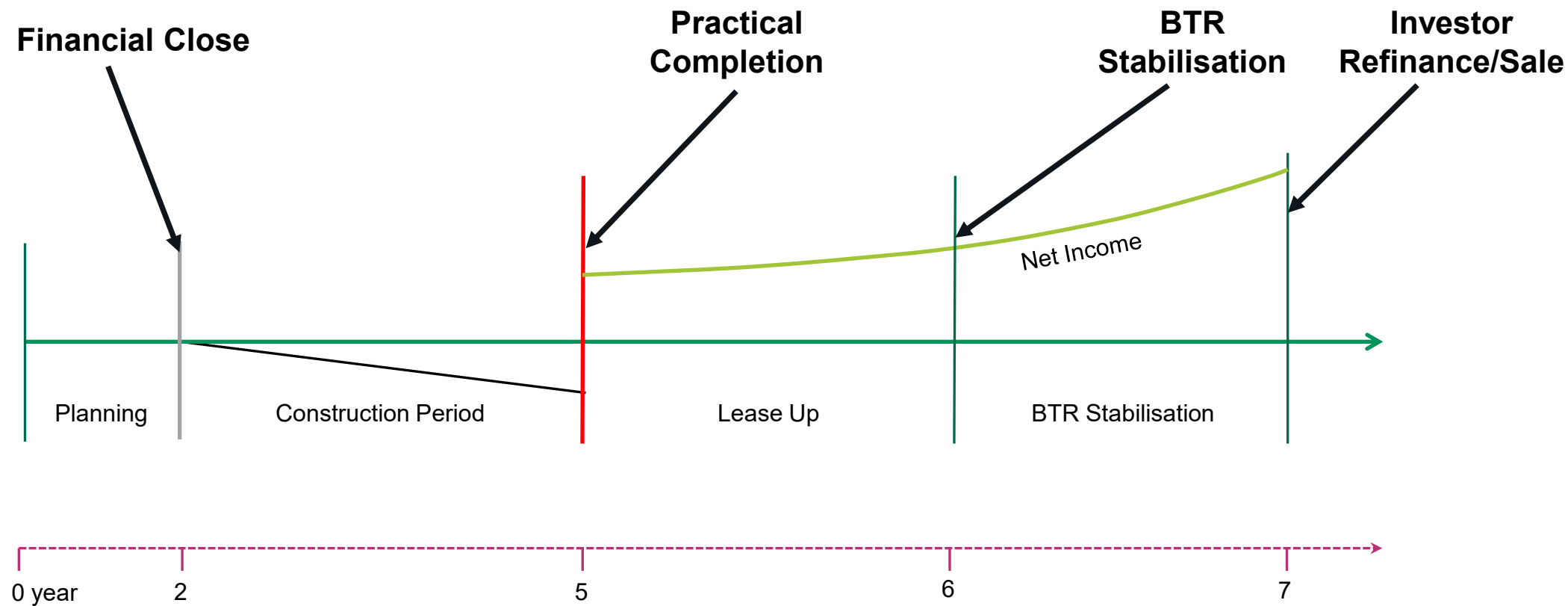
DEVELOPMENT & INVESTMENT COSTS



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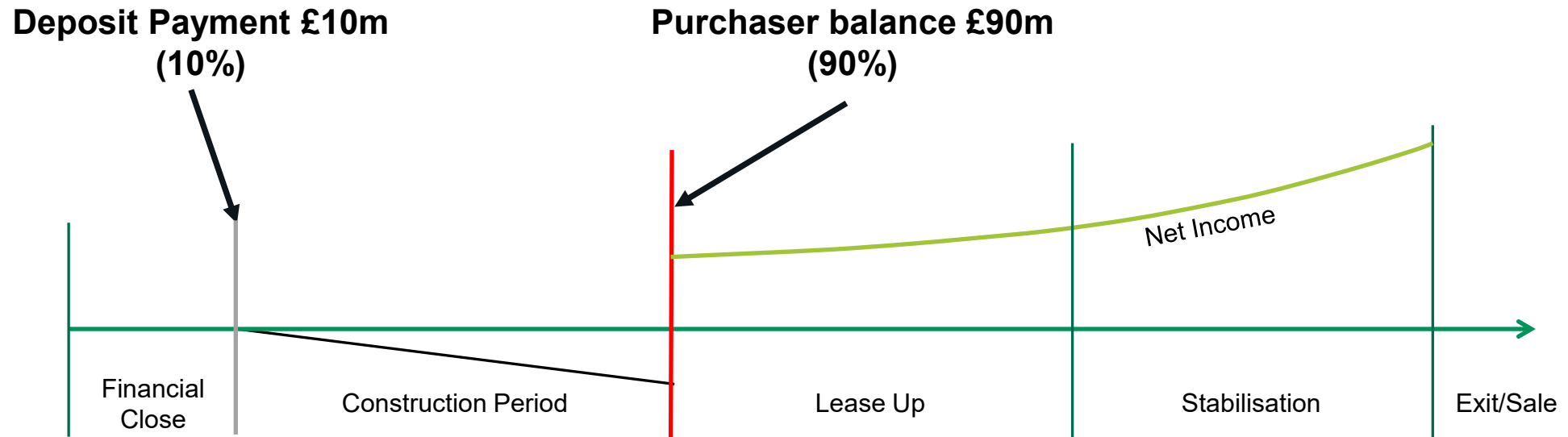


BUILD TO RENT CASH FLOW



BUILD TO RENT

FORWARD PURCHASE / COMMITMENT



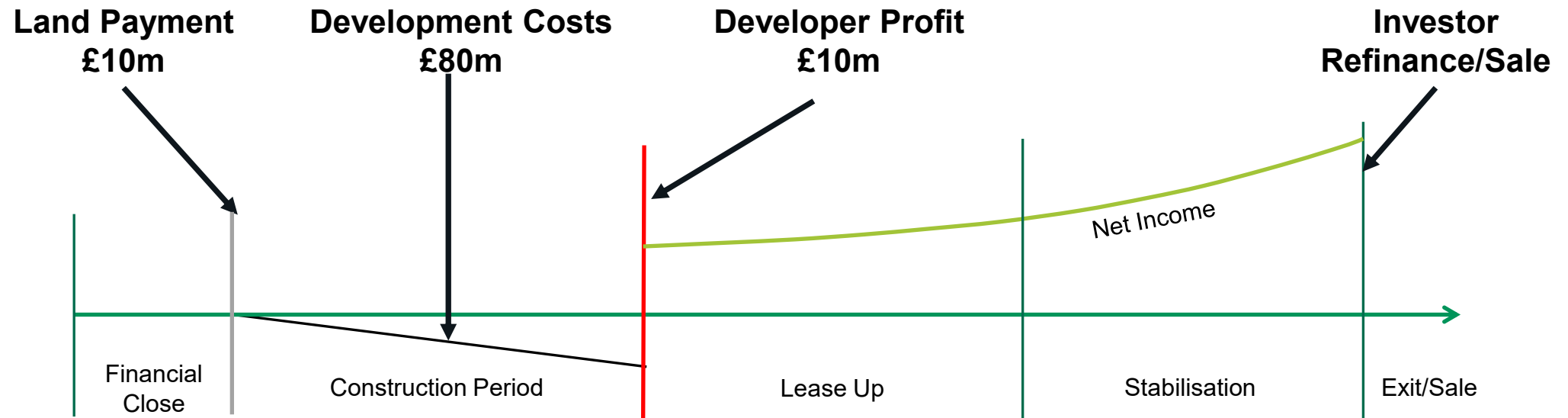
Forward Purchase / Commitment

- Purchasers pays deposit at financial close 10% which may be used to fund development costs or Escrowed
- Developer funds all development costs and will need to raise debt and possibly equity funding
- Purchaser pays remaining 90% at Practical Completion – no guarantee of purchase

Costs
Land Cost = £10m
Development Costs = £80m
Developer Profit (10%) = £10m
Total Cost = £100m

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FORWARD FUNDING



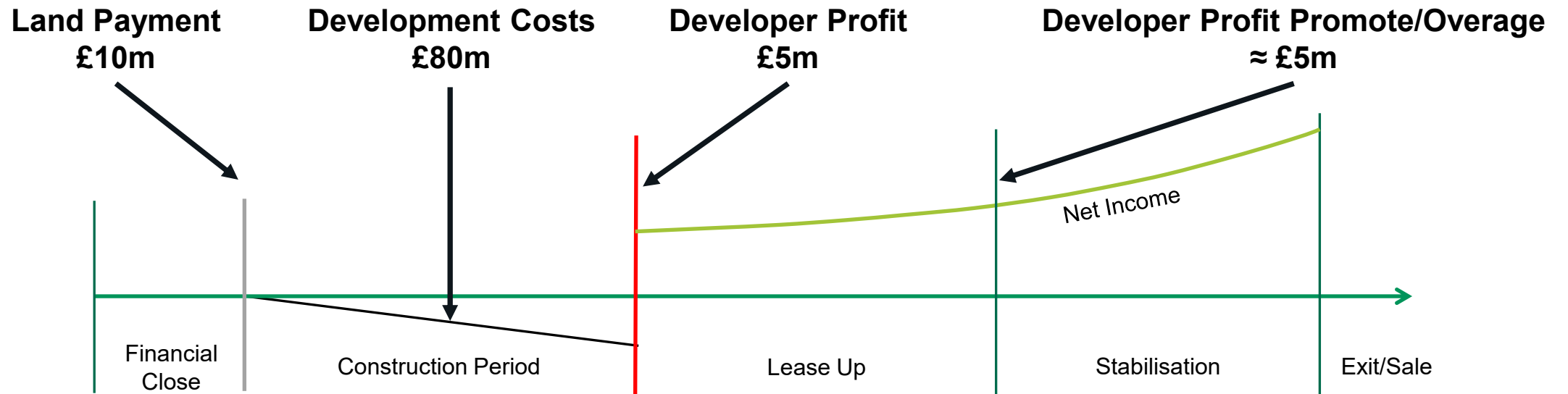
Forward Funding

- Land is transferred to the investor at financial close when the land payment is made
- Development is funded by the investor during construction (often levered with debt)
- Forward funder/investor will need to lease-up and operate the asset
- Final profit payment is made to the developer at Practical Completion

Costs
Land Cost = £10m
Development Costs = £80m
Developer Profit (10%) = £10m
Total Cost = £100m

BUILD TO RENT

FORWARD FUNDING – DEFERRED PROFIT / PROMOTE PAYMENT



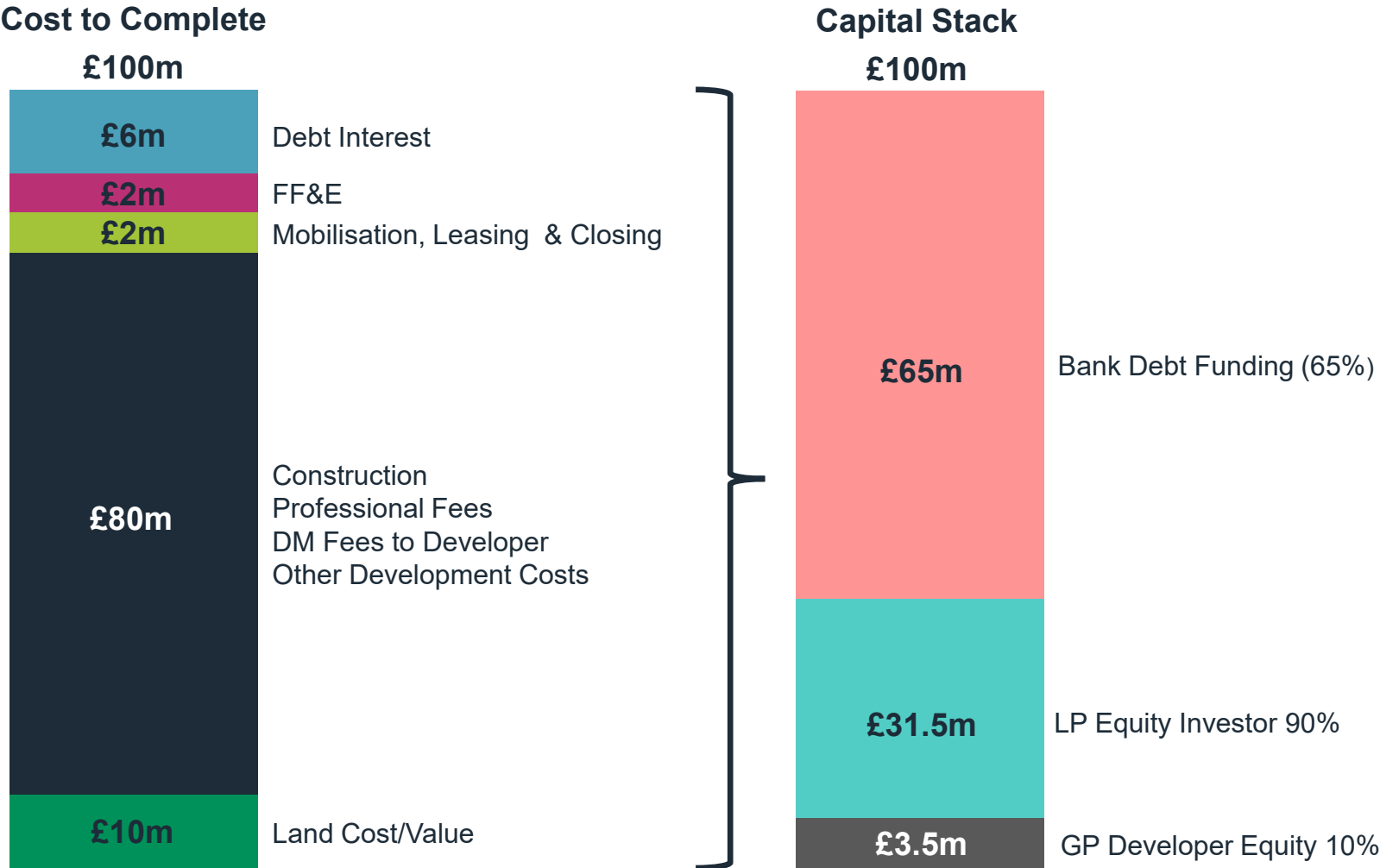
Forward Funding – Deferred profit / promote payment

- Land is transferred to the investor at financial close when the land payment is paid
- Development is funded by the investor during construction (often levered with debt)
- Half of the profit payment is made at Practical Completion
- Remaining profit is based on the final sale price/revaluation of the asset

Costs
Land Cost = £10m
Development Costs = £80m
Developer Profit (10%) = £10m
Total Cost = £100m

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JV FULL CAPITAL STACK - DIY

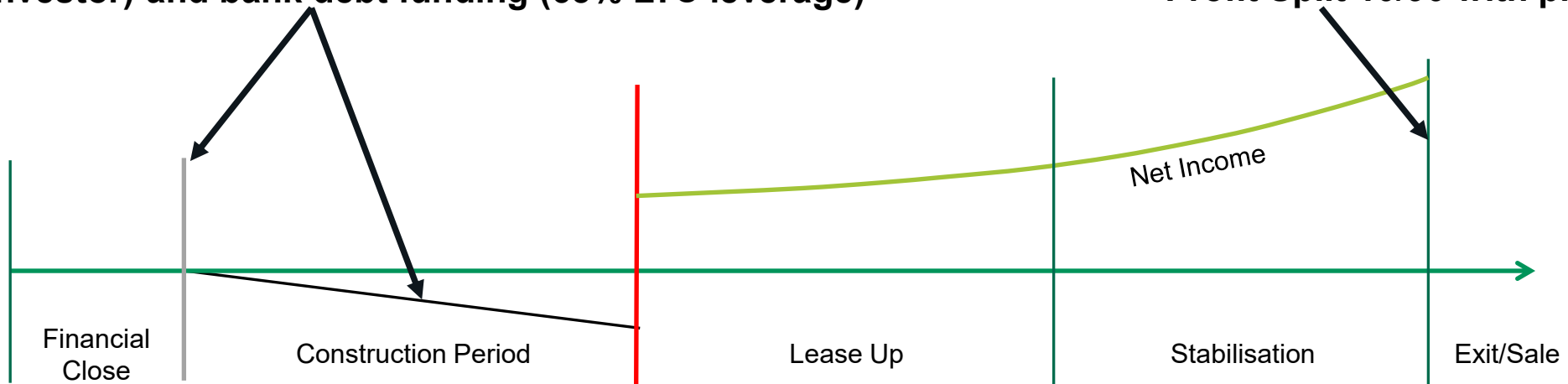


BUILD TO RENT

JV FULL CAPITAL STACK

Land and Development Costs funded with equity (10/90 – Developer/Investor) and bank debt funding (65% LTC leverage)

Stabilisation Calculation & Debt repayment
Profit Split 10/90 with promote



JV Full Capital Stack

- Developer and Investor enter into an SPV Joint Venture for the development (usually 10%/90%)
- The joint venture raises debt funding (65% LTV) to fund the development costs
- The joint venture sells the development after stabilisation based on a 5-year investment period and splits the profits 10/90 often with a promote in favour of the developer

Costs
Land Cost = £10m
Development Costs = £80m
Debt Interest = £6m
Furniture Fitting & Equipment = £2m
Mobilisation, Leasing & Closing = £2m
Total Cost = £100m

Residential Capital Markets

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