First-time buyers priced out as Wall Street mega-landlords buy up UK new builds

EXCLUSIVE

Private equity firms are increasingly investing in the UK rental market - but experts warn this could be 'disastrous' for tenants and first-time buyers

'Wall Street mega-landlords' are spying an opportunity in Britain's rental market

By Alexa Phillips

February 28, 2024 9:00 am (Updated 8:23 pm)

First-time buyers are being priced out of home ownership because offshore investor "mega-landlords" are buying up new build homes in the UK, experts have warned.

Private equity firms fuelled rising investment in new-build rental homes last year, which reached record levels, according to Knight Frank estate agents.

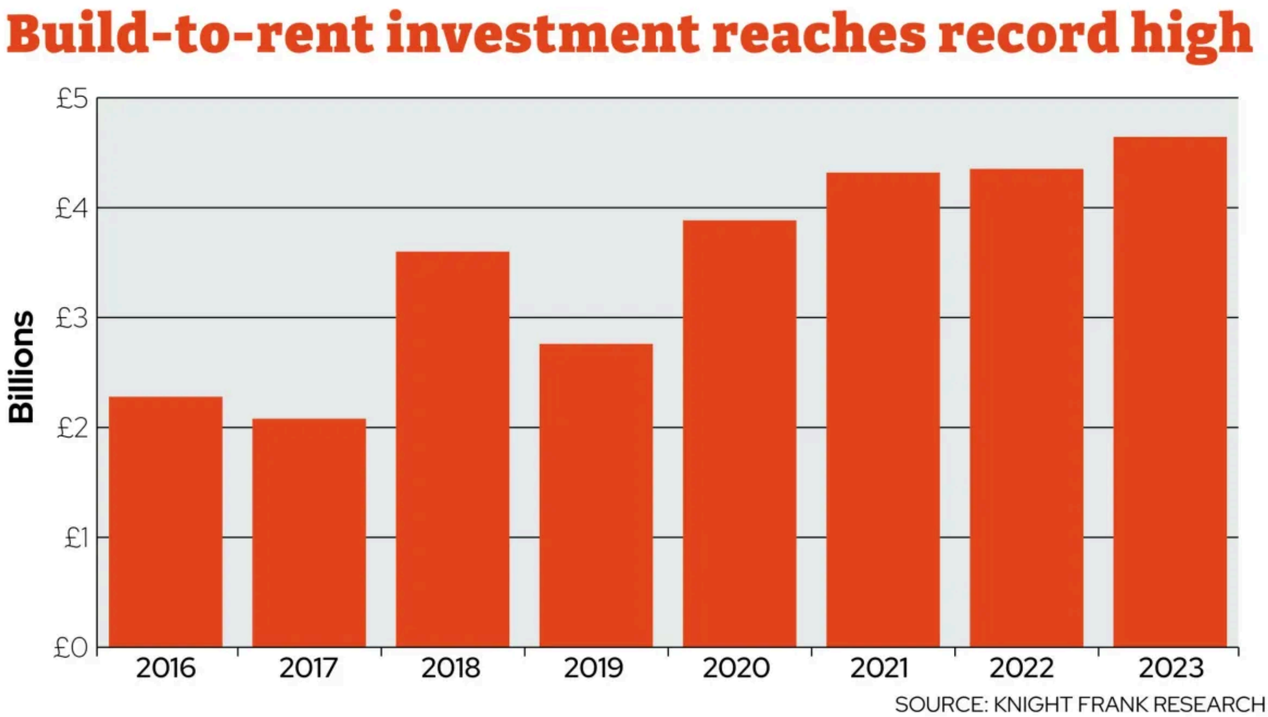
Build-to-rent investors around the world view Britain's housing market as an opportunity because many are priced out of home ownership, there is a shortage of social housing and rental costs are high.

Experts told **i** private equity firms are more focused on large, short-term profits than other types of landlords, which means they are more likely to maximise rents each year and skimp on maintenance.

Large institutional investors, often referred to as "Wall Street mega-landlords", have increasingly expanded their focus from flats to family houses in the UK.

North American companies also accounted for more than a third of the funding, compared with 27 per cent the previous year.

The biggest single purchase last year was of 1,500 family houses across the UK by Leaf Living, which is backed by the US company Blackstone, the world's largest private equity firm.



Investment in new build rental schemes is on the rise (Pic: Brett Dietrich/inews)

Behind the rise

Lizzie Breckner, head of build-to-rent research at Knight Frank, said investors are betting on high demand for family rentals following the removal of government support for first-time buyers and higher mortgage costs.

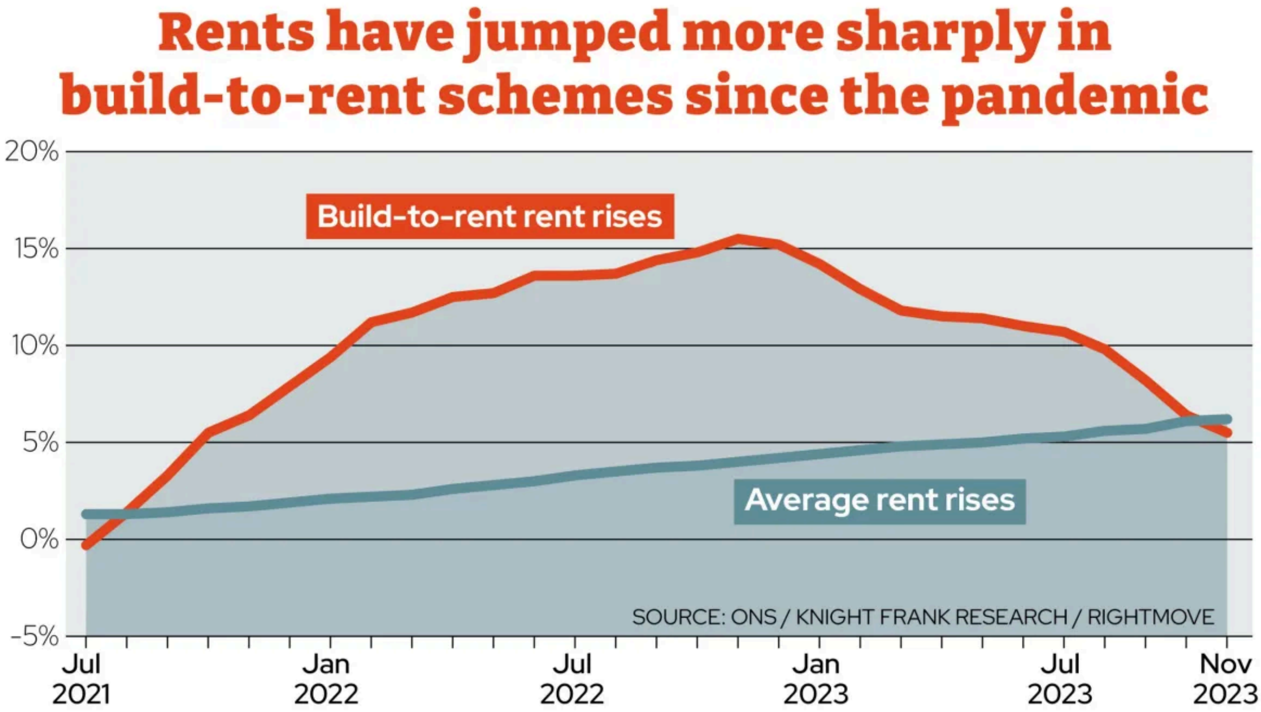
The government had previously subsidised the cost of buying new build homes via its Help to Buy Scheme, which gave first-time buyers equity loans of up to 20 per cent of the purchase price – 40 per cent in London – to help them afford a new build home with just a 5 per cent deposit.

The initiative, which closed to new applications in 2022, meant new builds were suddenly too expensive for many first-time buyers, leaving developers searching for other ways to make sales.

New-build rentals for working professionals only account for 100,000 homes in the UK but their number is expected to keep rising, according to Knight Frank.

Rent rises on these homes have been outpacing the national average since the pandemic, peaking at 15.5 per cent increase in the year to November 2022.

Ms Breckner said higher interest rates and tax changes have pushed out small-time landlords – for instance, pensioners with just one or two homes – and created a gap in the market for institutional investors such as private equity firms and pension funds.



Rents on new homes have risen sharply in recent years (Pic: Brett Dietrich/inews)

'Disastrous' for renters

Leilani Farha, former UN Special Rapporteur on the Right to Housing, said private equity moving into new builds in the UK was "disastrous", warning of poor outcomes already witnessed in other countries.

She said build-to-rent schemes backed by such firms were not typically aimed at those on a lower income level or those "really struggling to make ends meet".

"That's where the housing crisis is actually situated," she said. "The housing crisis is an affordability crisis."

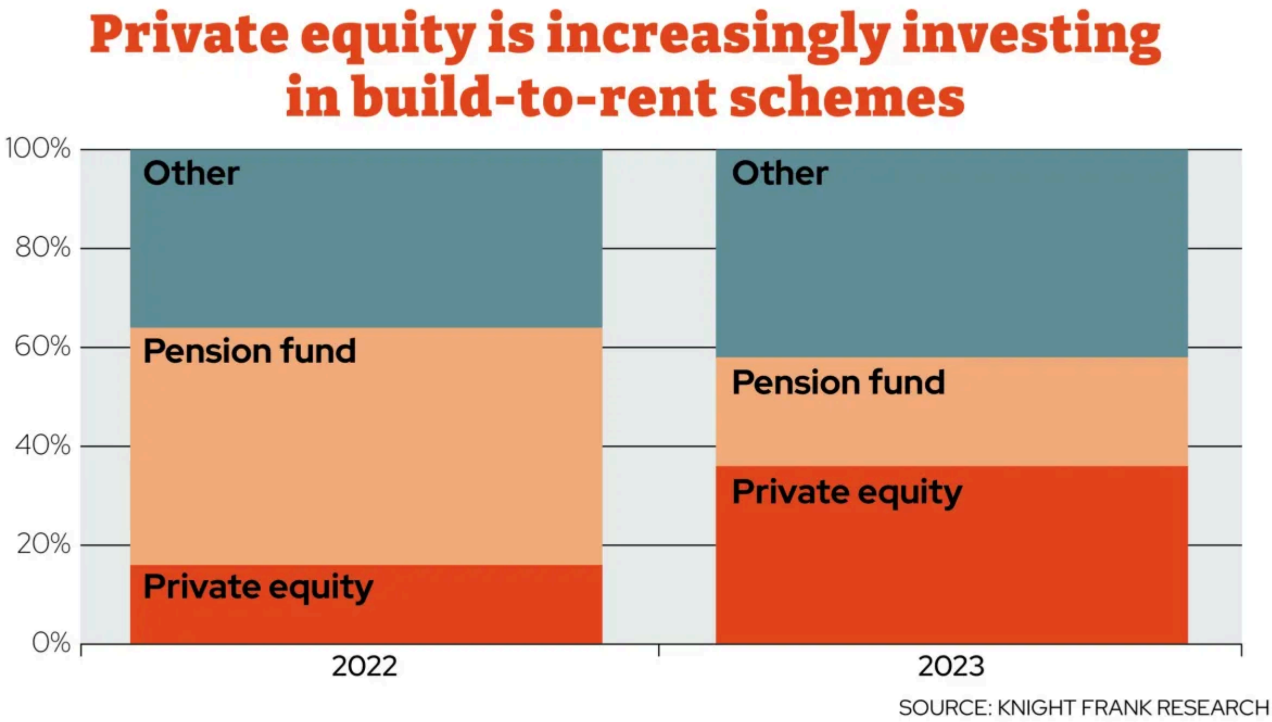
Ms Farha, a human rights lawyer and now global director of The Shift campaign group, has seen examples of developers building family houses intended for first-time buyers in places like Ireland, which were bought up by private equity firms and turned into rentals at an "exorbitant price".

"Young people and young families are getting the worst of both worlds," she said. "They're getting crappy rental conditions and unaffordable homeownership options. Talk about being stuck between a rock and a hard place. It's totally unfair to the younger generation."

While she was appointed by the UN, she singled out private equity firms such as Blackstone and its subsidiaries for allegedly inflating rents, imposing heavy fees and charges for repairs, and undertaking "aggressive evictions" to protect rental streams. Blackstone strenuously denies the allegations.

Since then, she said she continues to see similar problems linked to private equity firms.

"I would expect private equity to spend as little as they can building and charge as much as they can in terms of rent," she said.



Private equity firms are increasingly investing in the UK rental market (Pic: Brett Dietrich/inews)

Priced out

Jae Vail, of the London Renters Union, said tenants in build-to-rent complexes in the US report "regular rent increases, really unaffordable housing and poor maintenance".

"Often the rent is going up but there's really serious issues with the building that haven't been fixed," they told **i**. "Their entire business model is these really high returns, really short-term thinking, get money in quick and then get out again in seven years. They really don't have any interest in the long-term stewardship of the quality of the buildings.

"For a while, these kinds of investors were less interested in the UK. The fact that they are now taking more interest tells us something about the UK housing system, particularly since COVID, with these just skyrocketing rents."

In Manchester, the local council has relaxed affordable housing quotas to attract offshore investment, Vail said. In Scotland, a scheme was introduced to ensure that the government would cover some of the income of developments if it didn't meet projections, in order to reduce the risks for investors.

"We're seeing money come into these built-to-rent properties that are likely to be very expensive and likely to use very aggressive strategies of increasing the rent every year and not necessarily having much of an incentive to keep them in a good state," they said.

"This investment isn't money that the people who are living in these areas are going to benefit from. It's money that's going to lead to rents rising."

When new developments charge high rents, it's not long before other private landlords follow suit. "Rising rents hurt everyone," Vail said.

This is already being seen in London, close to new build developments in Tottenham Hale and Elephant and Castle – and near developments around Ancoats and Canal Street in Manchester.

It's not just the price of rent that is affected. Tony Stillo, an economist at Oxford Economics, a research consultancy, said a surge in institutional investors can push the dream of homeownership further out of reach for young people by boosting house prices.

"Anytime you have investors in housing, they're another source of demand," Mr Stillo told **i**.

'My rent is going up to £2,250 a month – I've got no choice'

Tom Moreton's rent is going up 16 per cent this year (Pic: supplied)

Tom Moreton, 31, lives in a new build rental flat in New Cross, London, and faces a 16 per cent rent increase this year.

He and his flatmate were told their rent will be raised from £1,940 to £2,250 a month.

His landlord, UNCLE, is owned by Canadian real estate investor Realstar – one of the biggest investors in the build-to-rent market.

"You've got no choice, right?" he said. "There isn't really a market for renters. You just need to live somewhere."

He said he worries that rising institutional investment will fuel a "bubble" and house prices will never come down to become more affordable for first-time buyers.

Realstar and UNCLE did not respond to a request for comment. In their email to Mr Moreton, UNCLE said it was a build-to-rent scheme with services such as on-site maintenance and parcel collection, which meant it operated completely differently to other landlords.

'Poor maintenance' warning

Brett Christophers, a professor of economic geography at Uppsala University in Sweden, said: "The evidence is fairly compelling now that you get worse outcomes for tenants with private equity-owned housing than when housing is owned by other types of professional landlord, whether that's a public sector landlord or other types of private sector landlords. Above average rent increases are certainly part of that."

Private equity firms tend to mainly invest money from clients such as pension funds, sovereign wealth funds and insurance companies, promising them very high returns.

Mr Christophers, the author of '*Our Lives in Their Portfolios*', said they also pay fund managers very high salaries and look to return their initial funding back to their investors within short time frames.

In the UK, private equity investors often aim to sell their housing stock within five to seven years, according to Knight Frank.

"If you know that you're only going to be invested for a relatively short time horizon, you don't have a particularly strong interest in, for example, carrying out upgrades, maintenance, and things like that where a significant part of the benefits of that activity are going to be realised 10, 15 years down the line – because you know that you're not going to be the owner anymore," said Mr Christophers. "There's a fundamental problem with the short-termism of the industry."

In the US, Germany and Spain, where private equity firms own more homes, he said there have been widespread complaints from tenants about declining levels of maintenance.

Because private equity firms' funds tend to be domiciled in tax havens, he said it can be difficult for tenants to take legal action when problems arise.

Evidence from the US shows eviction rates tend to be higher when housing is owned by private equity firms and institutional investors have also pushed ordinary buyers out of the housing market, Mr Christophers said.

'I cannot afford to survive paying what I do to live in London'

Eleni Bourou, 34, has been told the rent on her new-build flat in Tower Hamlets, London, will soon increase from £1,850 to £2,400 a month – a 30 per cent jump.

She had an agreement with the property manager, be:here, that the rent would stay the same if she changed the tenants on the contract, which she is having to do because her flatmate is buying a home, but they told her they would not honour this. She fears being pushed out of the community because the rent rise is so unaffordable.

Ms Bourou, an architect, said she loves her job and her life in the city but she's considering moving abroad.

After **i** contacted be:here and Poplar HARCA, which are both involved in the development, they apologised and said they will keep her rent the same during the current term of the tenancy. A spokesperson for Poplar HARCA said: "We are sorry for any upset or worry caused to Eleni. Having reviewed our contacts with this tenant, we should have offered a continuation of the current tenancy terms, including rent levels, to the end of the current term. We are contacting Eleni today to apologise for our mistake."

A spokesperson for Blackstone said: "Blackstone is a leader in responsible investment in housing and we deliver the highest operating standards for our tenants. Wherever we operate, we scrupulously follow all housing laws at national, regional and local levels. Blackstone rents are consistent with other properties in the market. As has been widely documented, the way to reduce rent increases is to build more housing."

A spokesperson for the British Property Federation said: "Build-to-rent investors, who are mostly pension funds, have a long-term economic interest in their local area and the satisfaction of their tenants, and invest heavily in the maintenance of buildings ... as our research shows, residents in the build-to-rent sector do not typically spend a bigger proportion of their income on rent than in the wider Private Rented Sector." i

Topics

First-time Buyers / Housing / Mortgages / Renting / Subscribers

Most Read By Subscribers

NEWS

Former My Chemical Romance drummer Bob Bryar 'found dead at home'

POLITICS

The unanswered questions for Keir Starmer after Louise Haigh's brutal exit

TRAVEL

The seaside village starring in a new movie - with crabs and cosy pubs

WORLD

A doctor was raped and murdered at work. Now India's women are fighting back

LABOUR

'She felt like a misfit': How Haigh's forced exit wasn't just about her conviction

OPINION

Drunk MPs and my pretend G&Ts – Westminster's booze problem has gone too far

Essentials

Useful links