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Research shows commercial impact of including amenities such as gyms, lounges and swimming pools in schemes built for rent

Cast, a real estate and construction consultancy, has published new research around the commercial impact of including amenity spaces in build to rent developments.

A rental premium of up to 10 percent can be needed for developers to achieve a yield neutral position, this relates to the rent lost from trading residential space for shared spaces. However, Cast has warned that a lack of data around customer demand for amenity-heavy developments could create investment risk if the commercial impact including long-term management costs is not adequately considered.

Many developers include gyms, group dining and lounge spaces to help differentiate their schemes from existing housing stock. The aim is to improve customer service and drive higher levels of occupancy and tenant retention through creating a more desirable place to live.

Titled 'The Rental Space Race: The commercial impact of amenity spaces on build to rent schemes in the UK', the report has analysed data to set out some examples for different types of amenities, both in London and Manchester. While exact numbers will vary dependent on location, target audience, operational management strategy etc, the indicative findings are the first data published around the topic.

The report has considered the North American rental market where the inclusion of shared facilities is more widespread and established. The widely accepted 'amenities arms race' - where American developers include amenities to out do competition - is something many UK companies are keen to avoid.

Britain's build to rent (BTR) sector is still in its infancy which means the value gained from amenities - both financially and in terms of customer satisfaction - is not yet fully understood. Cast's research, which is supported by the British Property Federation, is designed to help the sector take an informed approach to delivering shared space.

With construction costs largely consistent across the UK and rental prices varying according to the region, the cost incurred by operators for including shared facilities can be relatively greater outside London.

If a developer, investor or operator include a gym, private dining room, cinema room and resident's lounge in the scheme there will be a loss of eight apartments which would require a rent increase of more than 10% (on new build rents) to achieve a yield neutral position.

The BPF estimates over 60,000 BTR units are under construction or in planning, with just over 30,000 units in London alone.

Michelle Hannah, associate director at Cast, said:

"Developers looking to incorporate amenities in the UK need to be sure about the costs and potential rental losses involved, the premiums they would need to charge on top of rent, and the on-going maintenance costs. There is a substantial risk involved with including non-direct revenue generating services within schemes. Especially when it's unknown whether there is sufficient demand in the market to make shared spaces a viable investment asset. There is no 'one size fits all' solution, developers will need to ensure that the level of amenity matches their target customer profile."

Ian Fletcher, director of real estate policy at the BPF, said:

"This is really insightful research that will be a tremendous help to the build to rent sector at this stage of its development. Providers understandably want to differentiate their buildings from the standard buy-to- let offer and deliver a better experience for customers.

However, this must be done in a cost-effective way if it is to best meet the needs of investors, tenants and local planners. We therefore very much welcome this research by Cast, which is timely in its delivery and a must-read for those developing build-to- rent schemes."

Ray Theakston, construction director at Essential Living, said:

"High-quality amenity provision is at the core of our offering, and this sector-leading research by Cast underlines the clear value add carefully thought-out, well-designed shared spaces can bring to a development. But it also carries a warning for developers and investors who have not fully considered the impact these spaces will have on rent, costs and customer experience"

Chiara Zuccon, head of PRS at NatWest, said:

"NatWest has made a significant commitment to supporting the development of build to rent, given Britain's need for new homes and above all, the future prospects for the sector. The inclusion of amenities add an exciting new dimension to housing not seen before in Britain, and having helped fund

Vantage Point, we have seen first hand how this can be successful in driving customer experience.

However, the lack of market-wide data around rents and costs does present challenges for all lenders and valuers in predicting the commercial impact these amenities create. Cast's research is a great starting point that should form part of ongoing discussions we have as a sector. Clearly the focus needs to be on understanding the drivers of net operating income in build to rent schemes, while also full understanding both the cost and rental premium generated through shared facilities."

Jonathan Ivory, managing director at Atlas Residential, said:

"Our experience across North America over the last 20 years has indicated a clear premium for apartments boasting amenities and professional management. However, there is a fine line to tread between driving net operating income and controlling operational expenses.

The size of our US operations offers many scalable benefits, such as being able to use that expertise in Britain. However, the present lack of scale and the dearth of market data reveal a sense of caution among those entering the sector. This report offers a timely reminder that build to rent, like any other asset class, needs to be considered principally on a financial basis.

Furthermore, investors would be wise to observe that whilst onsite amenities can drive rental premiums, they will always be secondary considerations to the primary drivers that are: location, affordability, maintenance and service. No amount of pet spas can compensate owners for deficiencies in these areas!"

Ana Nekhamkin, managing director at Inhabit Residential, said:

"There's huge potential value from including amenities, but to realise this value is critical to ensure the offering is thoughtfully conceived and flawlessly executed. While market data is sparse, the challenge we face is engaging valuers to think about build to rent in terms of net operating income (NOI) and how NOI can be boosted through the inclusion of amenities. This is business critical and something the industry really needs to focus on solving if we're to maximise the huge potential of the sector."

Neil Young, chief executive of Get Living London, said:

"Shared spaces will inevitably become a major differentiator as build to rent matures, and while they are likely to play a key role in customer attraction and retention, there are plenty of issues around the management, design and costs of amenity spaces that everyone from investors to operators need to think about.

This is a welcome report in spelling out the commercial realities of including amenities in developments. We shouldn't constrict our thinking and need to

consider how to provide amenities and whether they should be included in the buildings themselves or in the surrounding communities. It’s important we look at every opportunity on its own merits and create bespoke solutions that fit the needs of each individual neighbourhood.”