

INDUSTRY NEWS

Does Modular hold the key to unlocking the 'Build to Rent' market?

The UK Government has targeted 250,000 new homes per year and Build-to-Rent (BTR) is recognised as a major vehicle to help deliver this ambitious goal. Yet the model still constitutes less than 1% of the country's 5 million rental households.

Those who are supportive of modular construction are right to push for its wider application in BTR. However, hype alone will not be enough to sway the construction industry, which is historically the slowest to adopt changes and innovation.

As BTR construction and project finance experts, BTY is leveraging our experience in the UK and across North America with insights from leading developers, modular specialists, funders and contractors to help the industry understand what changes are needed and the best way modular can be scaled up in BTR to address housing demand.

BTY has provided Project Management and Quantity Surveying services for the housing sector for 40 years. While the BTR story in the UK is still in its early chapters, BTY has advised on numerous BTR schemes in North America. We have seen this sector mature, investment levels grow and amenity offerings diversify, with more than 25 million apartments now serviced by professional property management companies.



KEY POINTS

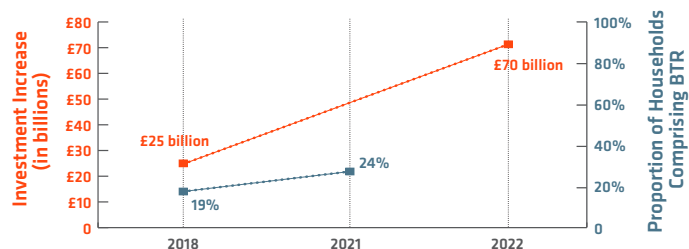
BTR EXPLAINED

The term Private Rented Sector covers all privately owned rented properties, including individual landlords or student housing. As it says on the tin, BTR is specifically designed with a rental occupier in mind, which requires a holistic approach to building design and delivery.

High quality amenity provisions and on-site management help improve occupier experience. This increases the likelihood of retaining tenants, making investment performance of the building more robust. These services are often provided by an expert management company such as one of the leading BTR brands, LIV Group.

Ashley Perry, LIV Consult's London Director explains, "The design of the specific project depends on many factors including location, brand and resident aspirations. We are involved in projects with a wide-ranging level of amenity to augment the residents' experience."

The BTR sector is currently worth £25 billion and is expected to increase to £70 billion by 2022. Projections suggest that the proportion of households renting privately will rise from 19% today to 24% by 2021.



Multihousing 2017, Residential Research, Knight Frank

The design of the specific project depends on many factors including location, brand and resident aspirations. We are involved in projects with a wide-ranging level of amenity to augment the residents' experience.

ASHLEY PERRY
LONDON DIRECTOR,
LIV CONSULT



DRAFT NEW LONDON PLAN HOUSING PACKAGE



SME House-
Building Fund



£1.1 billion to unlock
strategic sites



£8 billion in financial
guarantees for private
house-building



£2.7 billion for housing
infrastructure fund



Creation of 5 new
'garden towns'



Review of delay between
granting planning
permission and homes
being built

The Draft New London Plan issued in November 2017 states that "Build to Rent developments can make a positive contribution to increasing housing supply." There is wide support for the sector, with the chancellor's Autumn Budget unveiling a £4.4 billion housing package that will impact BTR.

The industry is looking to specialists to understand whether modular construction has achieved the efficiencies needed to help deliver BTR schemes quick enough. Johnny Goldsmith, CEO of innovative affordable home provider, Apartments for London (AfL), thinks so.

Goldsmith puts modular's capabilities in perspective, saying, "Our goal is to deliver 3,000 homes by 2023. The modular route will help us achieve this ambitious target. We will be delivering our first 60-unit scheme in under 9 months, from breaking ground to handing over the keys. This would not be possible with traditional construction."

To safeguard the quality of the finished project, AfL focus on ensuring the design is vigorously reviewed and tested with involvement from both the modular provider, their preferred installation Contractor, and award-winning architects.

Our goal is to deliver 3,000 homes by 2023. The modular route will help us achieve this ambitious target. We will be delivering our first 60-unit scheme in under 9 months, from breaking ground to handing over the keys. This would not be possible with traditional construction.

JOHNNY GOLDSMITH
CEO,
APARTMENTS FOR LONDON



MODULAR AND BTR, WHAT'S THE HOLD UP?

BTY, working alongside another leading developer, HUB, is providing Quantity Surveying and Employer's Agent services on BTR projects across London.

Steve Sanham, Managing Director of HUB provided an insight into the future of BTR's cross over with modular construction, saying, "The speed of modular cannot be ignored, albeit providing suitable comfort to funders has a way to come, the question we are repeatedly faced with is, what is your 'Plan B'; should the modular company fail?".

This is a question being asked time and time again, with the industry not yet in a position to provide a robust answer. Given the USP of each modular provider currently appears to be the individuality of the systems; the standardisation and commonality across competing systems is limited, making it very difficult for the modular system to change once construction has commenced. There is no simple solution, however, the introduction of digital design guidelines and platforms for commonality across systems will assist. To go a step further, systems could gain accreditation and display a modular housing Kitemark, regulated and backed by the Government in the event of difficulty during and after construction.

It's difficult to argue against the case for modular given the programme efficiencies, quality control and cost benefits. So what is the resistance?

A major barrier is the perceived lack of confidence in quality, a hangover stigma from post-war modular construction. Critics traditionally questioned the robustness of the product, particularly, early off-site constructed bathroom pods and student housing.

Whilst modular at a large scale is relatively new, the UK has been delivering low-rise, high quality modular products for decades. Paul Ruddick, Managing Director of specialist modular company Reds10 noted, "Our UK based facility has been producing modular products for over 10 years, on average we realise a construction programme reduction of between 30-40% compared with traditional construction methods."

Due to the nature of modular, there is approximately 30% more steel required, however, the overall construction costs see reductions of between 5-10% depending on many factors such as design efficiencies and unit types.

With controlled conditions and a factory workforce taking ownership of the process and maximising precision, the industry is moving closer to guaranteeing the quality of the end product.

MODULAR AND BTR, WHAT'S THE HOLD UP?

continued



BTY have seen this first hand in cities such as Leeds, as the appointed Quantity Surveyor to Citu, one of the UKs most innovative residential development companies.

Development Director of Citu, Jonathan Wilson explained their mission, "Our 60,000 sf modular facility has the capacity to produce up to 750 low-carbon homes each year. The controlled conditions allow us to achieve extremely high-quality homes, for example, we achieve an air tightness over ten times better than the building regulation requirements."

This quality helps minimise whole life costs through improved air leakage rates and energy consumption. It also significantly increases design life, reducing the need for maintenance and refurbishment but also making these quicker, easier and cheaper when they are required.

There are also concerns around significant up-front payments with suppliers, bringing legal risks associated with off-site construction. It's commonplace to request over 30% payment up front on receipt of design. Whilst this is a difficult concept to accept for funders and investors, this is a reality contractors have been faced with for decades when procuring specialist items such as lifts and pods.

The speed of modular cannot be ignored, albeit providing suitable comfort to funders has a way to come, the question we are repeatedly faced with is, what is your 'Plan B', should the modular company fail?

STEVE SANHAM
MANAGING DIRECTOR,
HUB



Our UK based facility has been producing modular products for over 10 years, on average we realise a construction programme reduction of between 30-40% compared with traditional construction methods.

PAUL RUDDICK
MANAGING DIRECTOR,
REDS10



MODULAR AND BTR, WHAT'S THE HOLD UP?

continued



BTY advises that these risks are best managed through careful contract drafting, including clear obligations for evidencing ownership of goods, transfer of title, transit risks and insurance obligations.

Robust checks on the capacity of the chosen modular provider along with regular visits to the facility to inspect progress can ensure product quality, schedule and budget targets are being fulfilled.

BTY's UK Director, Joe Cutler, points out that modular construction is directly compatible with BTR's scale of 100 units, which the Urban Land Institute notes in its BTR best practice guide.

Cutler adds, "Whilst funders and investors are wise to be cautious over financial security, providing clear contractual drafting and collaborative relationships will create a promising future together for BTR and modular. Industry support on transfer of design liability, in the event of the supplier failing, and an accredited kitemark system will be welcomed by all."

Our 60,000 sf modular facility has the capacity to produce up to 750 low-carbon homes each year. The controlled conditions allow us to achieve extremely high-quality homes, for example, we achieve an air tightness over ten times better than the building regulation requirements.

JONATHAN WILSON
DEVELOPMENT DIRECTOR,
CITU



Whilst funders and investors are wise to be cautious over financial security, providing clear contractual drafting and collaborative relationships will create a promising future together for BTR and modular. Industry support on transfer of design liability, in the event of the supplier failing, and an accredited kitemark system will be welcomed by all.

JOE CUTLER
UK DIRECTOR,
BTY



CONNECT WITH US

Since our inception nearly 40 years ago, BTY has grown into a global organisation that specialises in supporting developers and owners plan, build and maintain major property and infrastructure projects around the world.

Currently, BTY is advising on development and infrastructure projects totalling more than £50 billion worldwide. Our dedicated Quantity Surveying and Employers Agent UK Residential team combines international expertise with deep local roots, delivering notable projects throughout London and major cities across the UK and Ireland.

SELECT BTY RESIDENTIAL PROJECTS

CHESTERFIELD HOUSE London, UK



CITU INNOVATION DISTRICT Leeds, UK



OUR UK TEAM

Connect with our UK team to learn more about BTR and modular project delivery



Joe Cutler

Director

E jocutler@bty.com

T +44 (0) 20 7887 6149



Rachael Foster-Scoles

Associate Director

E rachaelfoster-scoles@bty.com

T +44 (0) 20 7887 6148