# Uk build-to-rent sector eyes recovery amid regulatory and financing challenges



The UK build-to-rent (BTR) sector, which has enjoyed robust rent increases of 5% to 10% annually over recent years, now faces a challenging period marked by regulatory delays and high interest rates that have dampened investor enthusiasm. However, industry insiders see signs of recovery and renewed expansion on the horizon, despite these persistent obstacles.

At a recent Build-To-Rent Annual Conference in London, key figures from the sector expressed cautious optimism. Mike Keaveney, Director of Land and Development at Grainger, reflected on the current difficulties as part of cyclical challenges but emphasized a belief that conditions will improve. Part of this optimism is fueled by the UK government’s fresh financial commitments to housing, including a headline-grabbing £39 billion allocated for affordable housing over the next decade announced by Chancellor Rachel Reeves. This package also includes a £4.8 billion loan facility via Homes England aimed at encouraging private investment through below-market interest rates. Cath Webster, CEO of Thriving Investments, highlighted the importance of this £4.8 billion as a lever to drive private capital into the housing market, although she cautioned that the details of this funding ("the small print") will determine its real impact.

Despite the headline £39 billion figure, some analysts point out that annual funding levels are in line with current spending, suggesting the new plans may fall short of delivering transformative change quickly. Critics note that until 2029, the government will invest roughly £3 billion per year, rising modestly to around £4.5 billion by the mid-2030s. While this long-term certainty is welcomed, it leaves questions about immediate supply and affordability in a rapidly expanding rental market, where the shortage of homes is acute.

Regulatory roadblocks, particularly the Building Safety Act, have severely disrupted new developments in the sector. Keaveney described the act as a “disaster” for timely building approvals, especially due to the Gateway 2 regulatory process, a bureaucratic step some experts believe ought to be scrapped to accelerate completion and rental readiness. Developers have largely adapted to meet Gateway 3 compliance to avoid investing in buildings that cannot legally be rented out. The government is reportedly aware of these issues and may move promptly to reform the act’s problematic elements.

This regulatory uncertainty is a key barrier to attracting the billions of pounds needed from global investors to fuel new construction. Investors remain keen on living sectors such as BTR due to the imbalance of supply and demand in the UK housing market. There is substantial appetite for acquiring existing rental assets, viewed as more predictable investments amidst rising development costs. However, much of this interest currently comes from value-add investors seeking discounted prices, which does not yet align with vendors’ expectations for stable returns. A return of core, long-term institutional investors would be needed to drive sustained market momentum.

London faces particular challenges due to high land prices making new development financially unviable for many. As a result, more BTR investment shifted to UK regions in early 2024. Still, where developers dare to build in London, prospects are promising given the pent-up tenant demand and a scarcity of new homes started recently. Dan Batterton from Legal & General highlighted that two-thirds of London boroughs saw no new development starts in the last quarter alone, setting the stage for significant opportunities for early movers.

The wider rental market continues to evolve under demographic and economic pressures. Renters over 35, a growing segment of the tenant population, increasingly seek the stability that corporate landlords and the BTR sector can provide, offering longer-term tenancies and professional management absent in much of the private rental market. Yet tenant protections remain limited, contributing to ongoing instability and affordability challenges amid rising rents. Legislative proposals like the Renters' Rights Bill aim to strengthen tenant security by ending “no-fault” evictions, regulating rent increases, and imposing stricter landlord obligations. While these reforms have broad support from tenant advocates, some landlords warn that heightened regulation could reduce rental stock, push up rents, and dissuade investment.

Despite these uncertainties, major investors including Aviva, Legal & General, and other significant asset managers are ramping up funding into the UK rental housing market. Aviva, for instance, has invested £750 million recently with plans to triple that outlay within a few years. This influx of capital is driven by enduring demand outstripping supply and supportive government measures, even though apprehensions persist around potential rent controls and stricter regulations on landlords.

Underlying the investment dynamics is the pressing UK housing crisis. For example, a large proportion of essential workers such as nurses, teachers, and NHS healthcare assistants find renting unaffordable in many parts of England, with London and the South East particularly affected. Shelter reports indicate that rents consume over 30% of gross pay for nearly half of these workers, highlighting the urgent need for affordable housing. Campaigners argue government funding must specifically target affordable homes, noting that relying on the private market alone is insufficient. Meanwhile, challenges like expensive cladding remediation on tall buildings further strain housing providers’ budgets, slowing new construction of affordable units.

The government faces a delicate balancing act—accelerating building safety fixes while bolstering housing supply, especially for affordable homes. Initiatives to integrate social landlords into cladding safety funds could unlock significant new affordable housing delivery, but long-term strategies are awaited. Overall, despite near-term gloom caused by regulation and finance challenges, the UK BTR sector stands at a potential turning point, buoyed by renewed government backing and sustained investor interest, with hopes that recent headwinds will ease to allow the sector’s expansion to resume.

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* Paragraph 7 – [[5]](https://moneyweek.com/investments/buy-to-let/renters-rights-bill-landmark-reforms-to-put-an-end-to-no-fault-evictions)
* Paragraph 8 – [[6]](https://www.reuters.com/world/uk/major-investors-pile-uk-rental-homes-despite-regulatory-fears-2024-07-12/)
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* Paragraph 10 – [[4]](https://www.ft.com/content/66e5478a-8e90-4366-a264-37860ab431e9), [[1]](https://www.bisnow.com/london/news/build-to-rent/uk-btr-may-already-be-through-its-darkest-hour-129802)

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## Bibliography

1. <https://www.bisnow.com/london/news/build-to-rent/uk-btr-may-already-be-through-its-darkest-hour-129802> - Please view link - unable to able to access data
2. <https://www.ft.com/content/92a18fb0-7df1-4007-a51d-05249f6214cb> - Despite Chancellor Rachel Reeves' announcement of a record £39bn, decade-long investment in affordable and social housing in England, analysis reveals that actual yearly allocations are less generous than presented. The plan provides around £3bn annually until 2029, increasing to £4.5bn by 2035/6, which is comparable to current spending. Critics argue that the initiative falls short of the transformative changes promised, particularly as the government aims to build 1.5 million homes this parliament amid a housing crisis. While the government touts the programme as a landmark in housing investment, many in the sector caution that the headline figures require scrutiny and that real spending increases will be modest in the short term. Nonetheless, officials highlight the certainty offered by long-term funding and note the sector's broadly positive reception.
3. <https://www.ft.com/content/93fd5258-8648-49ed-b76f-44dace53df0d> - Irene, a middle-aged film production worker, has faced instability in London's rental market for decades and has been priced out of homeownership. This issue reflects a broader trend in the UK, where over 35s, who now make up a significant portion of renters, struggle with affordability and stability in the private rental sector. Corporate landlords and the growing build-to-rent sector are stepping in to address this demographic by offering more stable, long-term tenancies and targeting investments towards this expanding market. However, the UK rental market still lacks sufficient legal protections for tenants, contributing to ongoing instability and high costs. Renters also face pressure from rising rents and limited housing supply, creating an urgent need for regional housing strategies and legislative reforms to improve tenant conditions and affordability.
4. <https://www.ft.com/content/66e5478a-8e90-4366-a264-37860ab431e9> - Councils and housing providers in the UK have urged the government to include affordable housing in the "Building Safety Fund" and "Cladding Safety Scheme" to prevent leaseholders from bearing the cost of removing unsafe cladding. Currently, social housing providers only receive funding for the portion of costs that could be passed to leaseholders. As a result, money needed for cladding fixes comes from development budgets, hindering the construction of new affordable homes. An estimated £3.8 billion is needed to remediate buildings, and including social landlords in the funds could allow for building 91,000 new affordable homes. The government has promised to speed up cladding remediation and pledged additional funding but faces a dilemma between funding safety work and increasing housebuilding, especially for social homes. The Ministry of Housing plans to publish a long-term strategy later this year. The crisis is particularly severe in London, where many tall buildings still need cladding work.
5. <https://moneyweek.com/investments/buy-to-let/renters-rights-bill-landmark-reforms-to-put-an-end-to-no-fault-evictions> - The Renters' Rights Bill, currently progressing through the UK Parliament, aims to substantially strengthen tenant protections in England. Key reforms include the elimination of Section 21 "no-fault" evictions, limitations on rent increases to once per year at market rate, the abolition of fixed-term tenancies in favor of periodic tenancies, and penalties of up to £7,000 for landlords failing to meet housing standards. The Bill also prohibits discrimination against tenants on benefits or with children. While tenant groups support the measures for improving housing security and reducing homelessness, landlords and some Lords express concern over increased regulation and reduced control, which could drive landlords from the market. This potential exodus may decrease rental property supply and raise rents. Exemptions are in place for student housing in larger HMOs, but smaller landlords feel excluded. Industry bodies like the NRLA and Propertymark warn that reforms could burden landlords further, raising costs and affecting student rentals and tenancy consistency. Critics argue the legislation might inadvertently harm tenants by sparking rent increases and more legal disputes. The government emphasizes the bill’s aim to modernize rental standards and enhance housing security for over 4.5 million households.
6. <https://www.reuters.com/world/uk/major-investors-pile-uk-rental-homes-despite-regulatory-fears-2024-07-12/> - Despite concerns over potential stricter rental regulations from the new Labour government, major investors like Aviva, Legal & General, M&G, and Royal London Asset Management are significantly increasing their investments in the UK rental housing market. Aviva alone has invested £750 million in the last 18 months and aims to triple this in three to four years. The demand for rental homes continues to surpass supply, making this sector attractive despite regulatory uncertainties and high interest rates. Foreign investors, including PGIM and Blackstone, are also entering the market, motivated by long-term returns and supported by government pledges to boost housing development. However, investors are cautious about proposed renter protection legislation, particularly rent controls, which could deter investment. Campaigners argue that rent controls are necessary to address inflation and wage stagnation issues. Overall, the residential rental sector remains a preferred investment avenue for European real estate funds, driven by a significant increase in portfolio allocations in the last decade.
7. <https://www.ft.com/content/09586dd7-3ba4-4433-beb5-8c58278d4e52> - According to the charity Shelter, renting a one-bedroom flat is unaffordable for new nurses, teachers, and NHS healthcare assistants in almost half of England due to high housing costs. Rent for an average one-bed property consumes more than 30% of gross pay, which the Office for National Statistics deems unaffordable, affecting 45% of newly qualified nurses, 43% of teachers, and 69% of healthcare assistants. The housing shortage is most severe in London and the South East. Shelter highlights the need for the government to invest in affordable housing, emphasizing that private market solutions alone are insufficient. In light of rising construction costs and high interest rates, the supply of affordable homes is expected to decline. An appeal by 40 economists, including Nobel laureates, urges increased spending on affordable housing in upcoming financial reviews. Although the government has promised significant boosts to affordable housing and new home construction, challenges remain due to financial pressures on housing associations and a decline in social housing stock. Campaigners argue that more investment in affordable homes could yield long-term economic benefits and cost savings.