INSIGHT

Property Week

A guide to investing in prime London residential property

IN ASSOCIATION WITH

RESIDENTIAL LAND.com
PRIME LONDON PROPERTY CONSULTANTS

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The private rented sector is once again in the spotlight following the recent Montague Report. But it remains to be seen whether the report's central wish for greater institutional investment in residential property will come to pass, which for the time being leaves the field open to a relatively small band of large-scale investors. One of those is Bruce Ritchie.

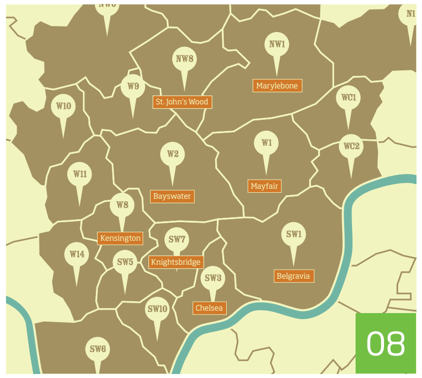
If the City's institutional naysayers want convincing of the appeal of residential investment, they need only look at Ritchie's track record. Since founding Residential Land in 1991, the company has grown into one of the biggest investors in London, successfully traversing several economic highs and lows along the way.

The articles in this guide spell out the Residential Land approach to residential investment, which has proved good enough to attract such heavyweight global investors as Apollo Global Real Estate Management and Ivanhoe Cambridge into partnership with the company.

A recurring theme in this guide is that there is no substitute for market intelligence - in Residential Land's case, a forensic knowledge of every street in prime central London. Nor is there any reason to stint on property management - the investment returns are all the greater when you treat your tenants as customers.

Many individual investors have followed Ritchie's lead into London, attracted by the capital's resurgent property market. But there is more to residential investment than speculating on a rising market. Some properties have been on Residential Land's books for a decade or more. What the company demonstrates here is that when it comes to creating value, there are no short cuts.

Doug Morrison
Editor



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Right: Residential Land's Grosvenor Street head office in the heart of Mayfair

'It didn't take long before I thought, maybe I should do some more of this'

Residential Land's Bruce Ritchie has built a £1bn portfolio based on an innate understanding of the prime London market. But it all began with one £64,000 house...

Residential Land is one of prime London's leading residential investment and development groups, with assets held on its own or in joint ventures worth nearly £1bn. Yet its success owes something to a modest house deal in Bethnal Green in the East End.

It was there in 1986, long before he founded the company, that Bruce Ritchie bought his first home - a three-bedroom property on Albert Close - for £64,000. He remembers it well: 10% deposit paid for with savings and credit card and the rest on mortgage, which was about three times his earnings as a trainee manager at Harrods.

Ritchie let out two of the bedrooms, which covered the mortgage. A year later he sold the house for £92,000 - a handsome profit even in the heady 1980s property boom.

"I'd got to the concept that investing in real estate required both the prospect of capital growth to attract you into it and the security of income to protect you in the debt position you have to take," he recalls. "It didn't take long before I thought, maybe I should do some more of this."

Just weeks later, he bought a slightly smaller house nearby for £74,000. Two weeks after that, he sold it for £86,000. "All of a sudden I learnt about property trading, where arguably you could be in a property for a matter of days and make a profit," he says. "This also gave me an understanding of how residential in London - where you have got a market and there is demand - can work."

By the end of the 1980s property became the day job for Ritchie, and he has been making residential work in London ever since. The fundamentals of renting and trading remain the same for him, albeit the locations have changed and the financial numbers have increased significantly since incorporating Residential Land in 1991. The latest and most ambitious venture is a £320m partnership with Apollo Global Real Estate Management and Ivanhoe Cambridge, the real estate subsidiary of Canadian fund manager Caisse de Dépôt et Placement du Québec (see page 8). If it goes as planned, this partnership alone will be worth £1bn.

To that end, Ritchie's experience will count for a lot. The partnership is working the same ground that has made Residential Land's name over the years - the 24 postcodes in the wealthiest parts of London. As CEO, Ritchie has stuck resolutely with these "golden postcodes" since the very early days of the company, when he made a strategic shift from east London to St John's Wood and Hampstead initially, and then to Mayfair.

Golden postcodes

Property historians will note that Residential Land incorporated during the depths of the early 1990s recession when values plummeted. It was, Ritchie says, "a tough ride". But as he points out too, "the rate of decrease during a recession was less the closer you got towards the centre of town". The company also benefited from the slow-burn impact of the 1988 Housing Act and the onset of assured shorthold tenancies, which put some much-needed legal structure into the market and made residential investment more attractive than before.

With first the move to Hampstead and then St John's Wood came Residential Land's involvement with estate agents Gordon

Profile

Mathews and Hamilton Wood. As Ritchie recalls, estate agency was an important step in broadening the group's experience: learning about sales and marketing, leasehold structure, development costs, landlord service charge issues, planning consents, local authority issues, building control. "The amount there is to learn is substantial and it's all slightly different borough to borough. A great way of learning that is to be an agent, because what you face as an agent are hurdles over every aspect of property," he says. "But it was never going to have the potential for future growth that being a landlord, developer and investor in prime central London was likely to attain."

Ritchie also launched and ran The London Repossession List, collating lists of repossessed properties, cherry-picking those of interest and publishing the balance in the monthly magazine.

There followed a period of frenetic activity in which Residential Land traded through private treaty and auction, and carried out all conceivable development work, even converting blocks of flats back into houses. "Whichever way the market played," recalls Ritchie, "for it to work for us, we would do it."

Residential Land's build-up of experience at the time was invaluable, as Ritchie puts it, "learning about every postcode you operate in, every street in every postcode, every type of building in every street and every floor in these buildings". Then, as now, the "golden postcodes" rule proved lucrative, which he suggests goes back to the old adage that it is better to have the worst house on the best street than the best house on the worst street. "It's always going to be dragged up by the higher values and yet you will never have a problem renting it because everybody wants to live on that road," he says.

By 2001, the company had bought its first £10m apartment block – Garden House in Kensington Garden Square, W2 (see page 16) – which is now part of the Ivanhoe Cambridge and Apollo joint venture. "That was a huge sum of money to us back then," says Ritchie. "When you become a bankable business that lenders will support with debt, particularly with the leveraging that was available, the sky becomes the limit. That's why for us a substantial amount of portfolio growth occurred between 2001 and 2006."

So much so that Residential Land hardly faltered during the 2003 recession. "I didn't feel it," he claims. "We were doing precisely what we'd always done, which was to be in the prime areas but to operate in blocks

When you become a bankable business that lenders will support with debt, the sky becomes the limit

Above: Bruce Ritchie, CEO of Residential Land

of smaller flats. It is absolutely clear when you understand residential investment that you don't want to be trying to rent a 3,000 sq ft penthouse flat when there's a recession going on."

He explains: "The people who write thousands of pounds a week on rent cheques are bright enough to know not to spend that money through a bad time. They are more likely to leave or try and negotiate discounts than people who are paying £400 a week between them and when recession hits can always pay that out of their wages."

Come the crunch

By 2006, Residential Land had carried out about 750 separate property transactions with an average geared IRR (internal rate of return) of 34%, ending up with some £500m worth of assets. At the time, the portfolio extended to more than 40 buildings with more than 800 flats. At MIPIM that year, Ritchie started talks with HBOS's Bank of Scotland Corporate subsidiary over a joint venture that would take nine months to put together. It was in some respects a

All pictures: The Grosvenor Street head office. Having begun life in east London, Residential Land moved to Hampstead, St John's Wood and finally to Mayfair

forerunner of the Apollo/Ivanhoe Cambridge deal but a victim of time and circumstance.

Residential Land and HBOS swiftly acquired 21 buildings together, which with its other ventures took the company's holdings to more than £1bn by mid-2008. However any impetus was lost later that year in the global financial meltdown and subsequent bailout of the financially stricken HBOS by Lloyds Banking Group. As with so many of HBOS's property projects, the assets became snarled up within Lloyds.

The HBOS joint venture was founded upon "relationship banking" – the premise that the two partners would stick together through good times and bad. "That story collapsed," says Ritchie. "Being polite, it was probably not the best example of post-merger integration that you might come across. Lloyds inherited an enormous balance sheet in property and needed to reduce it."

Ritchie's efforts to secure an "exit strategy" took him to Brett Palos, the stepson of retail tycoon Sir Philip Green, both of whom had strong links with Lloyds. After a year of negotiations, those 21 buildings were sold in May 2010 to Prime London Residential Ltd, a joint venture between Palos and Residential Land, and now a portfolio worth around £400m in its own right. Residential Land continued to manage the buildings – 352,044 sq ft of residential and 28,892 sq ft of commercial space.

In a rapidly recovering London property market, Prime London Residential Ltd began selling. From May 2010 to February 2011, the joint venture notched up £100m of sales in 11 buildings as gross yields fell from 5.5% to 3.8%. Ritchie talks glowingly of Palos and Green's "pure retail blood … the minute they owned, they wanted to sell it".

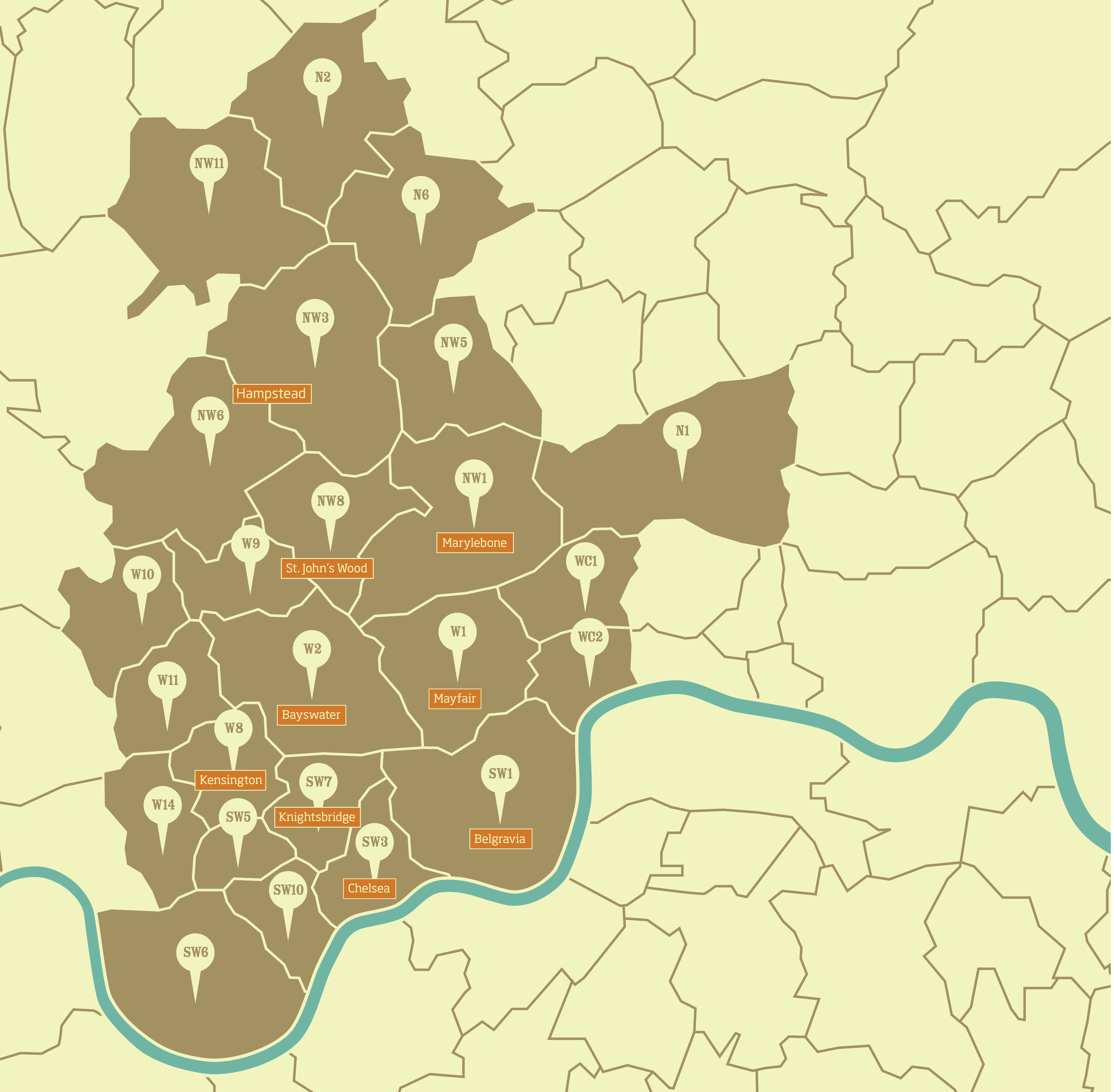
But he also says: "I didn't see that as the right strategy on some of the assets, because for me it's about a future, building a business and a brand, and having an investment that works. So I agreed to take the four largest buildings and sell them into a new concept – what you might call the holy grail of residential – an institutional property investment partnership."

He adds: "Brett was sympathetic and agreed, to be fair – two years after that the market has gone in our favour and Brett was able to take a profit and we were able to invest those buildings in our new fund."

All of which takes Residential Land to the present day. It has been an eventful few years – partnerships with HBOS, Palos and now Apollo and Ivanhoe Cambridge. But there has been a constant thread running through this story: Ritchie's entrepreneurial eye for a deal, Residential Land's knowledge of its market, and its management strength.

Given "the commitment that both Apollo and Cambridge have made to us", the new venture will understandably take priority. "We have co-invested with them heavily," says Ritchie. "Making the best return from that co-investment and jointly making a return for our co-investors – that's going to be the primary focus."

But then again, significant though the latest venture is – a landmark deal, even – it would be a mistake to regard it necessarily as the defining moment for Residential Land. As Ritchie himself says, "There's still a multi-hundred-million portfolio to look after and another one to buy."



Left: Residential Land's self-imposed boundary of 24 prime postcodes

London's golden postcodes

Residential Land scoured the world for equity partners to build a long-term, £1bn property portfolio in the capital's best boroughs. The result is Prime London Ventures

One of the most important deals in London's private rented sector took place earlier this year when Residential Land secured the backing of two of North America's leading real estate investors for a new £1bn partnership.

Ivanhoe Cambridge, the $30bn property arm of Canadian fund manager Caisse de Dépôt et Placement du Québec, and New York-based Apollo Global Real Estate Management have gone where UK investors have feared to tread.

For so long, UK institutions have baulked at residential investment despite superior returns over commercial property, especially in the resurgent prime central London market. "Too much management hassle and not enough income yield", has been the familiar refrain from the City's naysayers.

But the North American opportunists have shown no such reticence and, what is more, in joining forces with Residential Land they have a partner with a 20-year track record in the market.

The three-way partnership is called Prime London Ventures, and has already dipped into its initial £320m war chest – split evenly between debt and equity – for its first four

Prime London Ventures

Clockwise from far left: Garden House in Bayswater, 56-60 Lancaster Gate near Hyde Park, Elliot House in Marylebone and Roland House in South Kensington

assets (see box, opposite). The plan is to buy prime property, mainly from distressed sellers, and grow a portfolio to the scale that Ivanhoe Cambridge and Apollo have achieved in Manhattan with their Stonehenge venture – 3,000 apartments worth a total of $2bn. The partnership will look to acquire existing buildings, off-plan and new-build opportunities. It will also consider acquiring debt attached to the kind of assets it would want to buy, where existing lenders are looking to recapitalise their balance sheets.

As revealed by Property Week in February, the partnership ends an 18-month search by Residential Land for the correct equity in an era of scarce bank debt. Or as CEO Bruce Ritchie puts it, this has been a particularly careful exercise in how to raise equity finance for a new platform in an unsure investment class through a difficult market.

"It became clear to me that this taboo over getting an institution to invest in the private rented sector revolves mainly around a lack of track record, a lack of institutional grade information, a belief that the only place you could do it was London," he says, "and ultimately a lack of professional property operators looking for this type of partner as a first choice."

Early on in the process, Ritchie talked to UK institutions, such as Aviva and Legal & General. "The lack of enthusiasm, the lack of a real commitment to engage, was astonishing," he says.

Undeterred, he consulted widely, including Simon Berrill, senior adviser to Macquarie Capital; Simon Hampton, Jefferies's European head of real estate; and entrepreneur Nick Leslau, Ritchie's partner on a residential scheme in Barbados. He formally appointed Macquarie Capital as adviser two years ago.

"The best advice I got from these people was that investors want to invest in a deal. They don't want to invest in a concept," he says. "Therefore you have to come with a deal. So having the time to be able to deliver specific buildings that could be analysed, valued, surveyed, watched – all the things an institution likes to do – was fundamental."

With Berrill, Ritchie's search for equity took him from wealthy families in the Far East to European institutions. Central to that global marketing trawl was Ritchie's "taster" of the sort of assets that would reside in the portfolio – the four buildings. Macquarie found potential buyers for them "in an instant, but that was not good enough for me", says Ritchie, whose aim from the outset was to use this mini portfolio as a platform for a long-term investment.

He realised that he needed to go to "a traditional real estate expert", who arrived in the form of Roger Orf, Apollo Global's head of real estate in Europe and one of the City's most respected property financiers.

Apollo was the link to Ivanhoe Cambridge. With Stonehenge, Ivanhoe Cambridge had a successful joint venture in New York that had grown to 3,000 apartments in a little over a decade, with notable success. "They have analysed through up-cycle and down-cycle the performance of that investment and it has shown them a 15% IRR (internal rate of return) on average every year for the last 10 years – almost unaffected by what was going on in 2008 and 2009," says Ritchie. "A decision had been made before we came in the door that they should be doing this in other capital cities around the planet. So we were knocking on the door when someone else was going out looking, which has normally been a reason for our success – we tend to get the timing right."

The fact that Ritchie speaks French was, he says, an important ice-breaker with Ivanhoe Cambridge before the latter embarked on extensive due diligence over the initial quartet of assets. Residential Land "passed with flying colours", something Ritchie attributes to the financial disciplines and reporting put in place for the company's joint venture funds with HBOS in 2007. "A lot of good came out of that," he says. "It enabled us not to be frightened about the quantity of information that these guys want. Most entrepreneurs would run a mile."

In all, it took Ritchie 15 months to put together Prime London Ventures. Ivanhoe Cambridge is in it for the long haul – up to 10 years – and though Residential Land may choose to depart as co-investor earlier on some assets, the company will remain as property manager for the duration.

One option for the partnership could be as a REIT. Orf describes flotation as a "strong possibility" if current restrictions on property trading, which have scuppered any residential REITs, are relaxed.

For the time being, the task is simply to buy properties using up to 60% leverage and with the strong advantage of capital from Ivanhoe Cambridge with no upper limit.

Starting blocks

Prime London Ventures has been seeded with four assets acquired for more than £100m from Prime London Residential Ltd, the joint venture between Residential Land and entrepreneur Brett Palos.

The properties are 207 flats in Roland House in South Kensington (SW7); 56-60 Lancaster Gate near Hyde Park and Garden House in Bayswater (both W2); and Elliott House in Marylebone (W1).

These are assets that Residential Land managing director Bruce Ritchie knows well. Garden House in Kensington Garden Square was on Residential Land's books as long ago as 2001 (see page 16).

Ritchie says: "When you believe your stock is worth money and when you know that in the long term, even in the medium term, it will improve, it's not a difficult choice to re-invest in it, particularly in an area where you have other positions that keep you in touch with the market place. I have a strong belief that to invest in a market, you have to be a consistent buyer and seller, otherwise you don't really understand its price."

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Destination London

Already the world's third most expensive residential location, investor and tenant demand in the capital is continuing to grow

The enduring strength of London's prime property market has become inextricably bound up in the capital's global reputation as a safe investment haven – and research points to more of the same over the coming years.

Knight Frank and Citi Private Bank's annual Wealth Report says that London, New York and Hong Kong are seen as the most important world cities for high net worth individuals.

Following a survey of 5,000 such individuals – people with at least $25m of investable assets – Knight Frank and Citi conclude that prime property remains a key part of their investment portfolios. They point to a global rise in allocation to real estate of 19% in 2011 although bonds and cash showed greater increases.

The report claims that those markets considered safe-haven locations continue to attract private investors looking for both prime residential and commercial property. Political and economic uncertainty across the world underpins the trend.

With average prime values of £2,900 per sq ft, London ranks alongside Hong Kong as the world's joint third most expensive residential location, behind Cap Ferrat (£3,100 per sq ft) and Monaco (£3,500 per sq ft).

"With English a popular second language and a relatively weak pound, the global wealthy have confidently focused their interest on London and the wealth preservation it can afford," says Luigi Pigorini, chief executive of Citi Private Bank, Europe, Middle East & Africa.

This bullish view of London is shared by Bruce Ritchie, CEO of Residential Land. He believes the high-end residential investors are "warehousing their cash" but that the big draw – capital growth – is common to all investors, domestic and foreign, the rich and not so rich.

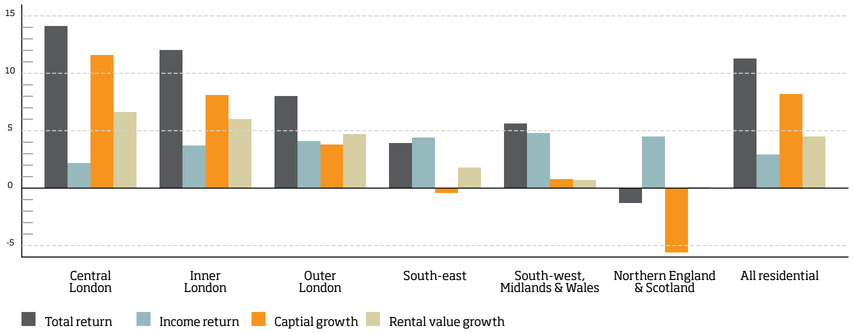
"It's a simple equation," says Ritchie. "The more demand you have for a specific product with limited new supply the more the price is going to rise. It's basic economics. London at the moment is in demand and I can't see that changing, given the quantity of investment that's going into

The London market

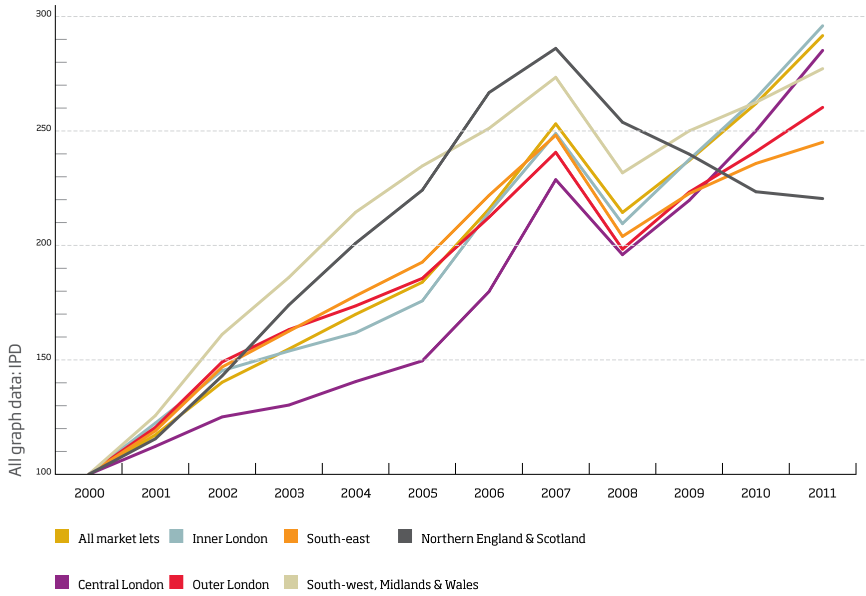
14.1%

Returns delivered in the central London private rented sector

Regional residential investment performance: 2011



UK residential market let, total return: 2001-11



its infrastructure and regeneration and the number of people bringing businesses and their lifestyle here. We're certainly dealing with, in our eyes, constant growth."

The latest figures from Investment Property Databank (IPD) reflect this growth. Its annual residential index shows that central London property drove the private rented sector's 11.3% total returns for 2011. In fact, central London delivered returns of 14.1% and inner London 12% compared with 5.6% in the south-west, Midlands and Wales. The relatively broad spread of property covered by IPD's index scotches any notion that the sector's impressive performance can be attributed solely to the super-prime end of the London market.

Indeed, a separate study of the private rented sector by Savills and Rightmove reveals that, in London, private renting already accounts for 27% of all homes (900,000), having overtaken social renting in 2010, which now accounts for 24% of tenure (783,000 homes).

Richard Cotton, Residential Land's portfolio director, suggests the growing importance of the private rented sector in housing people in London is one reason why such a broad spread of investors are drawn to the capital.

"It's a strong economy, mostly driven by the financial sector being based primarily in London, so that draws in people from the rest of the country. There are more professional sharers in London than other cities. Their jobs are more secure than in the regions, and they're paying higher rents," he says. "And for investors of scale you can buy bigger blocks in London, and for the professional investor you've got to buy bigger blocks to get the economies of scale. That's why London works for the private rented sector and that's why you see this higher percentage of rental stock in London than anywhere else in the country."

Even when capital values in London fell in the immediate aftermath of the Lehman Brothers collapse and financial crisis of 2008, Ritchie says he was still confident in both tenant and investor demand in rental property. "When you understand a market place and you believe in that product because you're buying and selling in it every day, then it's not difficult to see that, when there's a temporary drop in value, the fundamentals of the building - the yield, its capital value in comparison to what other people are having to buy in London - are still reasonably secure," he says.

If there is a market threat today, it is fiscal and regulatory uncertainty, following chancellor George Osborne's introduction in the March Budget of a new stamp duty land tax (SDLT) of 7% for residential properties over £2m, and 15% for such properties bought through companies. As property website Zoopla points out, 77% of properties sold over £2m are in London and the south-east, so the 7% rate "is as much a tax on Londoners as it is on the wealthy".

Meanwhile, the 15% rate - up from 5% - is clearly aimed at tax avoidance by the super-rich buyers from overseas. But it has had the unintended consequence of penalising professional investors, such as pension funds, which can only operate through corporate vehicles. They are disadvantaged by paying 8% more on acquisition that an oligarch who buys in his own name. Ritchie, in his position on the residential committee of the British Property Federation, is working to try to bring a sense of balance back to these taxes for professional landlords.

> **The more demand you have for a product with limited new supply the more the price is going to rise. It's basic economics**

Knight Frank believes the new 7% stamp duty, at least, can be absorbed by market forces. It is an assertion that is no doubt informed by the bullish investor sentiment it uncovered for its Wealth Report. But Liam Bailey, Knight Frank's head of residential research, says: "It is important to bear in mind that, on average, prime London prices have risen by 42% since 2009, with no pause in the increase in values since the introduction of the 5% £1m-plus SDLT rate in April 2011. It seems unlikely therefore that the new 7% rate will result in dramatic price changes."

Certainly the reform of the stamp duty regime has given 2012 an unwelcome fiscal legacy to take the shine off the Olympic year. It remains to be seen whether it will have a lasting detrimental impact on London's property market.

Prime performers

Residential Land has further enhanced the value of two of its prize assets through a combination of high-quality refurbishment and expert long-term management

Garden House, Kensington Garden Square, Bayswater, W2

Residential Land bought its first building of over 30,000 sq ft as long ago as 2001 when it acquired the grade II-listed Garden House – an investment of enduring appeal.

Garden House is in Kensington Garden Square, Bayswater, W2, and it was deployed this year as one of the seed assets for the new Prime London Ventures partnership with Ivanhoe Cambridge and Apollo Global Real Estate Management.

Though not large, Garden House's mix of 58 one-, two- and three-bedroom apartments have always let well, predominantly to sharers and students from overseas. But a pilot refurbishment of two ground-floor flats in 2006 paid immediate dividends when they were re-let at 50% more than the prevailing rents.

The intention is to upgrade the remaining apartments through a rolling programme over the next 18 months, which will include new air-conditioning, new lifts, draft-proofing of the windows and a high-specification refurbishment of the interiors.

The higher specification will help tap the demand in the area for smaller units, not just from overseas students but professionals and corporate tenants. The refurbishment will also underpin Garden House's position as one of the few unbroken blocks in London with direct access to a garden square.

The partnership should benefit from continuing growth in a property that will remain as a long-term investment. When it was purchased, Garden House was worth £325 per sq ft. Today it is valued at over £1,000 per sq ft, based on a total rent roll of £1.1m per year. The rental target is £1.8m a year when refurbishment is complete.

Forset Court, Edgware Road, W2

Residential Land's interest in Forset Court began in 2004 when the company acquired a portfolio of 50 apartments in the 115-unit block on the Portman Estate before embarking on a long and involved process of value-enhancement.

The company followed up its initial investment with acquisitions of the head leasehold interest and superior head lease, which gave management control over all the apartments and service charges, as well as income from telecom masts on the roof.

A further 14 flats were purchased while an option on the head lease allowed the acquisition of 90-year lease extensions on the 64 apartments owned by, and on 35 apartments not owned by, Residential Land.

These latter units are owned by individuals or companies, and currently have around 20 years remaining on their leases. If they want to extend their leases they now serve notice on Residential Land rather than the freeholder, Portman. This has further streamlined the management of the block, and also means that Residential Land can potentially acquire more of the apartments if any of the short leaseholders are looking to sell.

Management control has been vital. The building had suffered from numerous problems, including high levels of unpaid capital works bills, unpaid service charges, short-term lettings, high insurance claims and generally poor management.

Residential Land has spent much time introducing best practice management in the building. The company retained the original managing agents to handle the service charges but has managed them in terms of collecting unpaid bills.

It has also brought the building up to date with regulations and has worked with Westminster City Council to stop the short-term lettings. Unnecessary building insurance claims have been curtailed, which has reduced the annual insurance premium from over £70,000 to around £42,000.

In early 2011 Residential Land decided to sell the apartments under its direct ownership while retaining the head leasehold interest and lease extensions for the foreseeable future.

However, each flat required refurbishment if Residential Land was to maximise the value, considering the property's close proximity to Marble Arch. The company also decided to refurbish the exterior of the building and its communal areas as well as replace the lifts and install a new reception.

The apartment works have had to be carried out on a rolling basis as the company has marketed the flats to prospective buyers in the Far East. Effectively, the upgraded flats have been marketed off-plan.

The strategy has worked well for all concerned. The other leaseholders in Forset Court have benefited from the overall refurbishment to the communal areas but it has also helped Residential Land achieve sale prices of about £1,100 per sq ft on its apartments. To date, all but four of the 64 apartments have been sold.

Where are the UK investors?

Residential property enjoyed capital growth of 8.2% last year, so why is it only overseas institutions that are grasping the opportunities in the prime London market?

Residential property has continued to perform better than commercial property, delivering returns of 11.3% in 2011, according to the IPD residential annual index.

The index shows that total returns were underpinned by capital growth of 8.2% while income return was steady, at 2.9%. As IPD explains, the shortage of mortgage finance has caused demand in the private rented sector to remain strong – rents rose by 4.5% last year – and limited stock, particularly in London, is putting a premium on values.

This is no flash in the pan. For years, IPD has demonstrated the sector's superior performance over commercial property and other asset classes, and in many respects the trends reflect wider changes in society.

Renting is increasingly seen as meeting the accommodation needs of younger people as the housing shortage worsens, while the sector is taking over the role of social housing amid a climate of local authority cuts. The flexibility offered by renting also chimes with the need for mobility of labour during prolonged economic uncertainty.

As a result, private rented housing has soared in value by 42% in five years to £840bn, according to research by Savills and Rightmove. They estimate that the number of privately rented homes in Britain has almost doubled to 4.8 million since 2002. They also warn that the sector needs another 1.1 million homes by 2016. Research by Jones Lang Lasalle suggests that the percentage of English households renting had risen to 17% by the end of last year.

Yet most UK institutions continue to resist the supply and demand argument, invariably favouring commercial property. Mark Weedon, IPD's head of UK residential services, suggests that the relatively low residential income yield "may be off-putting to investors, who are constantly looking for secure, long-term income streams".

Richard Cotton, portfolio director at Residential Land, says: "UK institutions don't like the very demanding management that goes with residential property, and they don't like short-term leases. There is also a shortage of suitable stock. To make it sensible for their asset management, they do need blocks of 50 flats or more."

But Jonathan Rust, Residential Land's finance director, says that sentiment is changing: "Certainly prices in the prime central London market that we operate in are at a level that addresses the scalability issue, and the values are there."

Rust also believes that the banks are more favourable to residential investment acquisitions than a couple of years ago. "We are seeing more private banks entering the sector – Credit Suisse and Deutsche Bank, for example," he says. "It is relationship banking again and we are not far off where we were previously, with gearing of up to 75% available on some of our type of stock."

Rust adds: "In raising finance, it's the same old story – you need a good track record. When you are funding an acquisition, the banks do like to see rents, which is perhaps counter-intuitive to us because we make our money from taking an asset and turning it into something better. When we refurbish it, we can drive better yields and values."

However, the key to successful residential investment arguably lies in equity finance, which means attracting institutional investors. When Residential Land brought in Canadian fund manager Ivanhoe Cambridge and New York-based Apollo Global Real Estate Management this year for its new Prime London Ventures partnership, it was a clear acknowledgement that the days of highly leveraged deals are long gone.

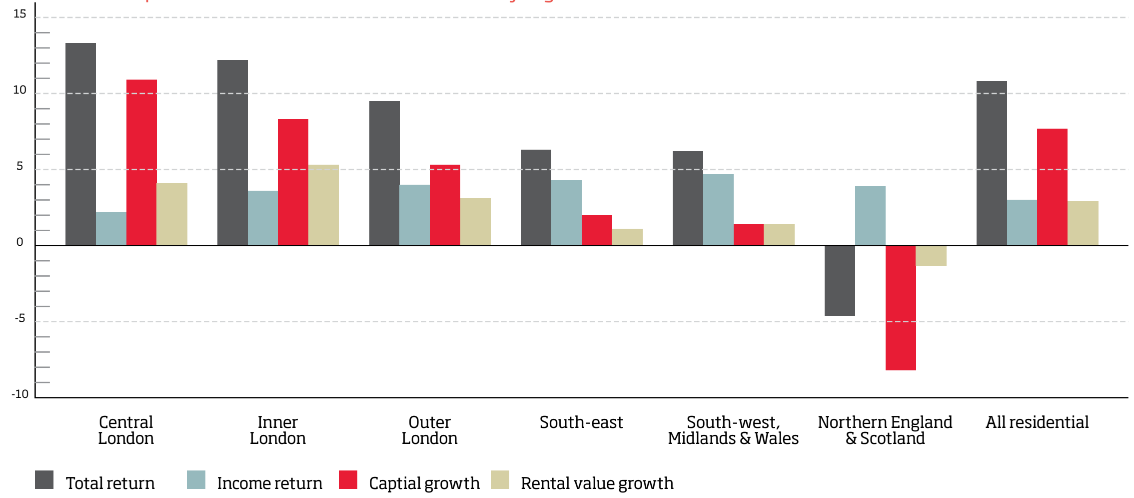
Akelius, one of Sweden's biggest investment groups, has also stepped up acquisitions in its bid to build a £1bn residential portfolio, largely based on the outskirts of London and the south-east. So will the UK blind spot continue where these overseas institutions see value?

Cotton takes heart from the coalition's current review of REITs, which it hopes will lead to the UK's first residential REIT. "I think the government is on board although I guess they're reluctant to give too many freebies to institutional investors when they see such a lot of private money coming into the sector anyway. There will be concessions. Whether they will be enough to encourage greater investment remains to be seen," he says.

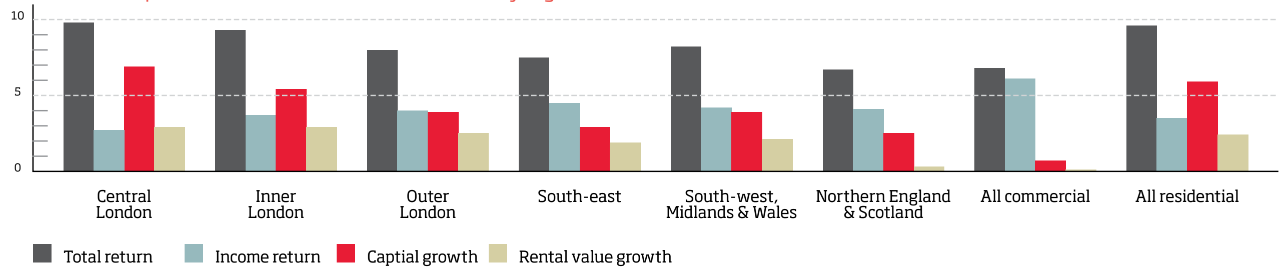
Bruce Ritchie, Residential Land's CEO, recalls the early days of the company in the 1990s when it regularly sold properties to stock market companies formed under the old Business Expansion Scheme – a tax-efficient scheme designed to attract institutional investors. "That initiative worked and it got institutional money into the private sector," he says. "I could see at that stage there was a demand for the compound return of capital growth and rental yield. But that was a very specific time period when the money was speculated more upon the bottom of the market growing upwards and getting the cycle right, as opposed to long-term institutional investment."

Fast forward to the present day and the concern is that if UK institutions fail to grasp the opportunities, others will happily step into the breach, and not just their overseas peer group. Ritchie adds: "There are a lot of wealthy people in residential in London. Those people have substantial reserves, and will continue to operate their businesses through ups and downs without ever wanting to go to institutional investors."

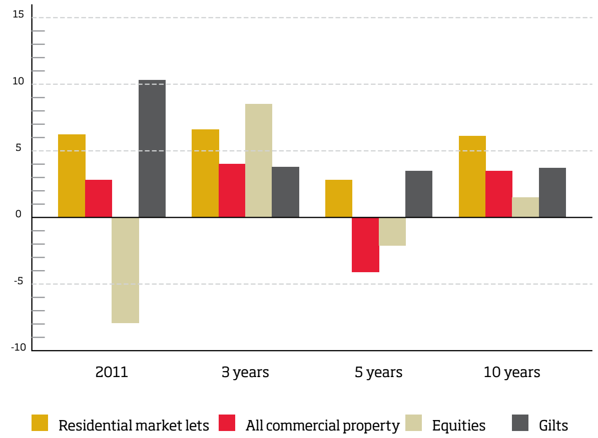
Investment performance of residential market lets by region: 2009-11



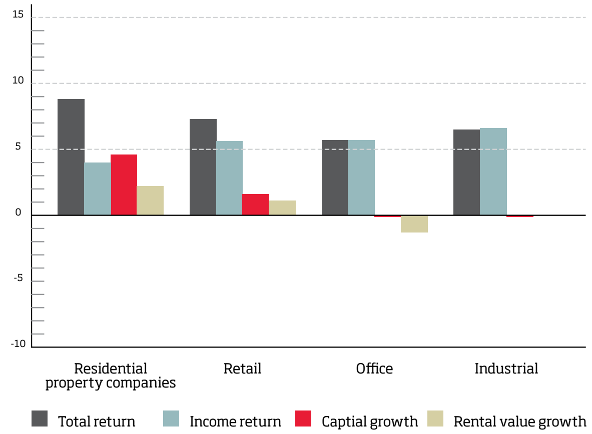
Investment performance of residential market lets by region: 2002-11



Investment performance by asset class: 2002-2011



Investment performance by sector: 2002-2011



All graph data: IPD

Management

'It is almost like a concierge service'

Unlike many landlords, Residential Land keeps its building management in-house. Here, its team explain the advantages, both for the company and its 2,000 tenants

With rising tenant demand and a limited supply of accommodation, it is easy to assume that occupancy levels will look after themselves for London's landlords. But Residential Land guards against complacency by setting a lot of store in the quality of its management.

"It's still a competitive market. You have still got to try hard and give a good service," says Stuart Birke, Residential Land's corporate lettings manager.

Birke talks of the "professional friendship" the headquarters management and lettings team and the individual building managers have with the company's 2,000 tenants.

Gaynor Whiting, Residential Land's portfolio manager, stresses the importance of keeping management in-house rather than outsourcing it to an agent – the customary practice for residential landlords.

The spread of experience includes staff membership of the main professional bodies – RICS, the Association of Residential Managing Agents and the Association of Residential Letting Agents – which helps Residential Land keep on top of the growing list of health and safety regulations governing landlords.

In return, tenants can expect a 24-hour-a-day, "tailor-made" service from the company, says Whiting. As she puts it: "The building manager is almost like a concierge service to the tenants."

The reward for Residential Land is 98% occupancy across a portfolio that ranges from £250-a-week studios to £3,000-a-week houses. More often than not, tenants arrive at Residential Land's door by word of mouth.

Here Residential Land's experts outline their approach to property management.

Q. What is the most important aspect of property management for you?

A. "It is important to stay proactive when managing properties and to maintain a high level of customer service. We have to remember that the properties that we own are peoples' homes, where they should be at their most relaxed. Taking a long-term view and keeping up to date with regular maintenance means less reactive maintenance, which provides tenants with a better level of customer service and cost efficiencies for us as landlord."

Gaynor Whiting, portfolio manager

Q. Have you ever considered outsourcing property management?

A. "Many residential landlords do outsource the management part of the operation but this does not fit with our business model. We have a unique system where each property has a building manager who is the first point of contact for the tenant. They visit the building often and try to maintain a friendly relationship with the tenants. This level of communication with tenants and contact with the building enables us to retain tenants, keep voids and arrears to a minimum and also ensure maintenance is carried out where required and effectively. Outsourcing would not provide the level of control that we currently have over the portfolio."

Khalid Sharifi, portfolio director

Q. How often do you change the asking rents across the portfolio?

A. "Rents are constantly reviewed depending on availability and demand, location and the time of year. An annual full review of each unit is also carried out by the lettings team along with the finance team. It

We have to remember that the properties that we own are peoples' homes, where they should be at their most relaxed

Above: The Tenants Guide details landlord responsibilities and contains useful contact information

is important to review each unit individually rather than using a broad-brush approach across a portfolio, as rental value can vary within a block dependant on the floor the unit is located on, whether or not there is outside space, the view and any other unique aspects."
Stuart Birke, corporate lettings manager

Q. How difficult is it to evict a non-paying tenant?
A. "The key is to spot a potential 'non-payer' early and to have a face-to-face conversation about it, not to hide behind formal letters or rent demands. Often, terms can be negotiated or the tenant will agree to leave of their own accord. If this is not possible it is important to follow the correct legal route to eviction. This can take up to six months depending on the level of arrears, the willingness of the tenant to cooperate and also the amount of other cases in the queue to be reviewed at the time. It is not a perfect system and can require patience and money - it is important to have a good solicitor to hand to assist as the law can be complex."
Matthew Callaghan, credit controller

Q. What is your average occupancy level and how do you maintain it?
A. "We aim to keep the portfolio fully occupied and enjoy occupancy levels of around 98% year round. Dependant on the property there can be fluctuations for seasonality; however, this is something that can be managed by spotting it in advance and using lots of channels of marketing to ensure that occupancy can be maintained. We do around 50-60% of our rentals in-house but also rely on the huge network of estate agents and letting agents in central London to rent the properties."
Stuart Birke, corporate lettings manager

Q. How do you qualify tenants who want to move in to one of your properties?
A. "From the beginning we have been comfortable that it doesn't matter where the tenants come from, whether they are foreign or English, if they are working or if they are students with a budget. If they are prepared to occupy our property, pay on time and behave in a fashion that doesn't disrupt the neighbours - they are in. The ability as an owner to be able to judge, face to face, the calibre and character of a tenant is a key reason for our occupational success levels."
Bruce Ritchie, CEO

Q. What separates you from other large landlords?
A. "We try to be flexible and innovative, whether by offering each of the properties to rent furnished or unfurnished, offering flexible terms dependant on tenants' needs and also where possible by using technology to ensure that all of our tenants and suppliers can get in touch with us whenever they need to. We also take the ever-changing regulatory requirements very seriously and make sure that we are always ahead of the game.

"We hope that tenants feel confident that living in a Residential Land property means they are somewhere secure, safe and reliable. This, in turn, gives us the security of high levels of occupancy and good-quality tenants. Furthermore, as owners of the properties we operate a fully integrated business model from acquisition through to exit strategy. This provides our investment partners an end-to-end service, and our tenants benefit from our complete management and intimate knowledge of the property.

"I see our tenants as our customers and our role is to serve them."
Bruce Ritchie, CEO

RESI Awards
Winner
Landlord of the year

Treating tenants as customers

Residential Land beat off strong competition to win the title of Landlord of the Year at Property Week's inaugural RESI Awards in May 2012.

The award reflects the importance that Residential Land attaches to providing a high level of service when it comes to renting and managing residential property.

Residential Land wants to change the traditional stereotype of the rapacious landlord and the "call centre" mentality often associated with property management. To that end, the company regards tenants as customers and offers flexibility in terms of length of tenure and provision of furniture.

Its commitment to professional service is encapsulated in the Residential Land tenants' charter, contained within the guide provided to each tenant when they move in:

- Residential Land is the landlord, not an agent, and has a vested interest in the maintenance and rental of the property.
- Tenants can move in within 24 hours of agreeing the rent.
- All apartments are professionally cleaned before tenants move in.
- A helpline is manned by a member of staff during out-of-office hours to deal with any emergency issues.
- Residential Land aims to respond to and identify any maintenance issue within 24 hours of it being reported. If this is not possible, the company will offer a timescale of works within a further 24-48 hours.
- All properties, including the communal areas (internal and external), are well maintained.
- Each property has a dedicated member of staff who is available to assist tenants and answer any questions throughout the tenancy.
- At the end of a tenancy, the company endeavours to return the deposit within 14 days.
- Residential Land is a member of the British Property Federation and the Housing Ombudsman Service, reflecting its support for the industry and the future of the private rental sector.
- Residential Land's lettings and management team are members of professional organisations such as MARLA, ARLA & RICS.

Above: Residential Land's integrated business model has enabled them to operate successfully by ensuring full control over each aspect of the investment process

Who's Who at Residential Land

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