Property Week

INSIGHT

High debt costs and low yields to affect BTR appetite

By Daniel Austin Thu 10 November 2022

In response to your recent article 'BTR sector set to keep growing as economic situation worsens', I would agree with the effects of rising demand due to a chronic shortage of rental property and a growing tenant pool.

However, this still nascent business model has only seen a low-interest-rate environment and while rents and income growth recovered quickly post-pandemic, the article places little emphasis on rising debt costs and falling yields, both symptomatic of the current macro-economic situation.

According to Savills and Oxford Economics data, net multifamily yields for both prime regional BTR and prime London BTR stabilised assets have fallen below 4% this year. At the same time, 10-year gilt yields have been steadily rising and are at 3.46% at the time of writing, having reached a high of 4.54% at the end of September.

This convergence is likely to affect investor appetite for the asset class, which has been rising, compressing yields as increased competition has seen prime sites achieve premium prices.

Financing BTR projects is not straightforward and these metrics make underwriting more difficult, where yields are tight and residual land values uncertain. Yields will continue to move but the question is by how much and ultimately whether the tailwinds this sector is experiencing can offset the headwinds we continue to face.

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