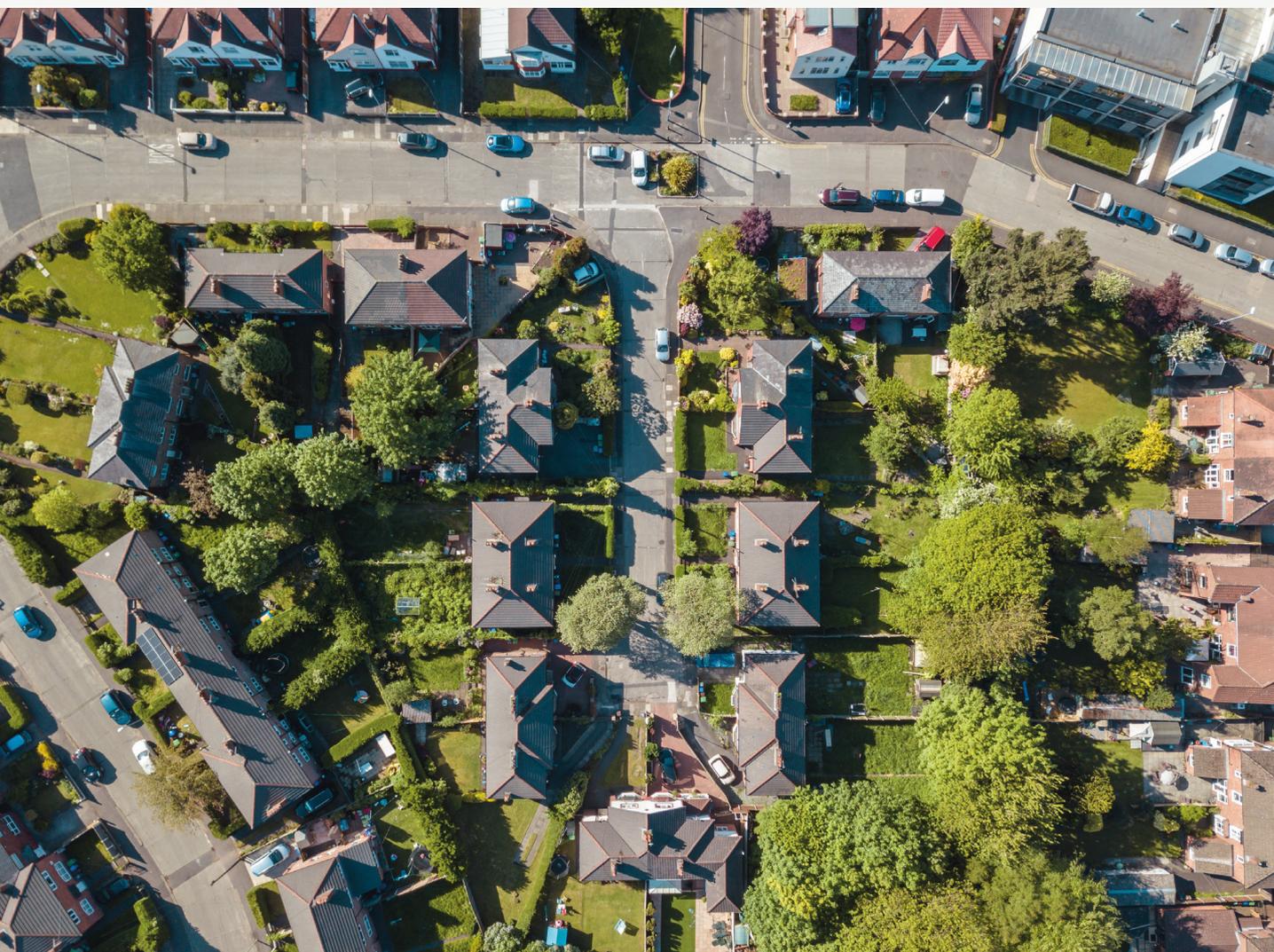


Tech Towns

Analysing the trends driving demand
for suburban rental housing



Executive summary

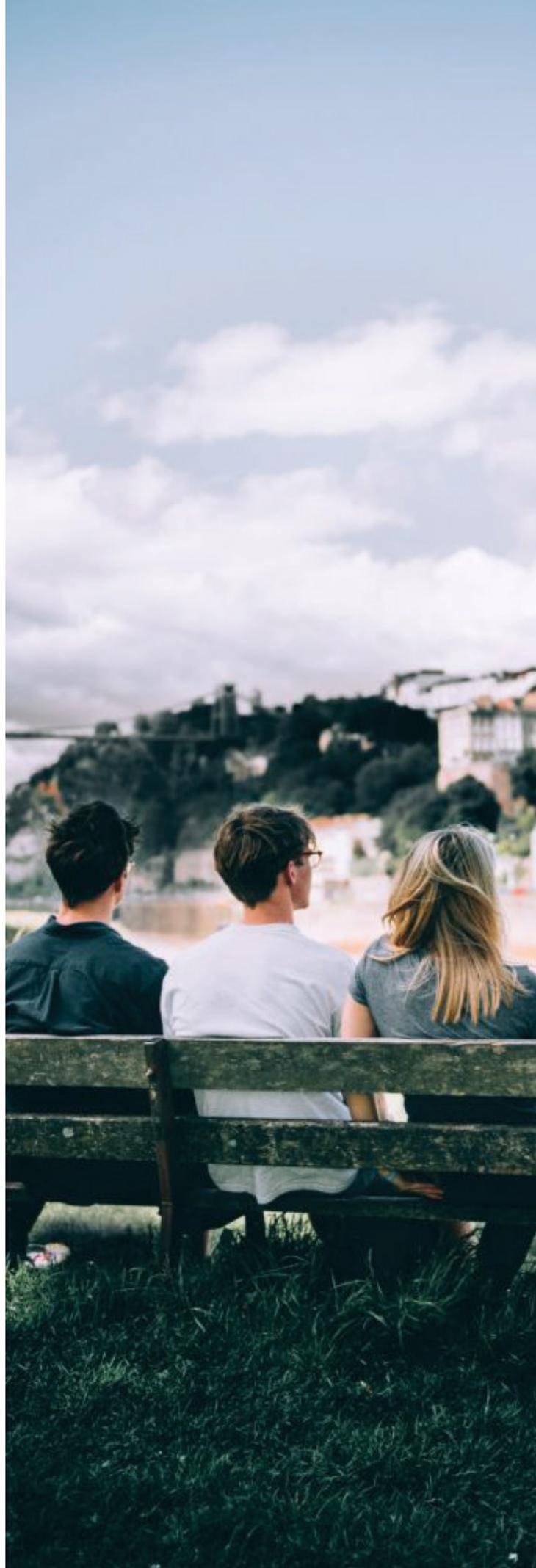
The UK housing market is chronically undersupplied and the private rented sector (PRS) is an increasingly important long-term solution. While the majority of PRS supply to date has been focused on urban, mid-to-high rise apartments, there is a significant and growing demand for semi-urban and suburban PRS. This segment of the PRS market is heavily undersupplied.

MGT has identified high-growth locations in southern England which are projected to significantly outperform the wider market due to a disproportionate share of the tech economy, combined with a highly educated population. MGT has labelled these locations Tech Towns.

Southern England accommodates a network of commercial centres linked to travel-to-work areas (“TTWAs”), which are concentrated and inter-connected. This network of Tech Towns accommodates the largest concentration of technology companies in the UK and Europe. Tech communities identify the interconnected region in which they operate as an “ecosystem”.

MGT has explored the correlation between higher than average technology related output relative to total output, and above average educational attainment levels, and how these factors are vital components for a successful Tech Town. The two largest barriers to continuing growth in the digital tech area are the shortage of skilled workers and the high cost and availability of appropriate housing.

Bespoke research commissioned and undertaken by MGT has created a population pyramid and residential mosaic for each Tech Town. This research shows that the working age population is spread across the age pyramid, demonstrating that there is demand from renters into their 30s, 40s and even 50s. This demographic requires a rental housing product appropriate to their lifestyle and location preferences, with a proportion requiring a product that is suitable for families.



Introduction

This white paper considers rental housing trends in the UK, with a particular focus on high-growth towns which enjoy above average density in technology and higher education levels. Technology rich environments in the UK attract disproportionate levels of innovation and growth, which in turn drives demand for high quality rental housing. A skilled, highly educated workforce is an important driver of prosperity — where there are high levels of education, there are high levels of growth. Tech Towns are locations where technology and an educated workforce intersect.

MGT is convinced that an overwhelming and unquestionable opportunity exists for real estate investors to provide well-managed, semi-urban and suburban rental accommodation in southern England. This paper aims to explore, analyse and understand the demographic makeup of these Tech Towns, and to determine what type of rental accommodation is required to satisfy the demand pool.

One of the main challenges facing the UK today is the provision of good quality housing for the nation's growing population. The chronic shortage of accommodation for all income types, including middle income households, is a major systemic challenge. With home ownership beyond the reach of many, renting offers a flexible, attractive alternative.

Professionally-managed, large-scale, build-to-rent residential is widely recognised as an essential part of the solution and in recent years there has been a significant amount of investment in purpose-built, town-centre rental apartments. While this type of development forms an important component in the rental equation, this paper argues that the UK needs a more diversified rental housing strategy.

The trend to rent

Data confirms that there is a growing propensity among UK households to rent rather than buy their home. Several factors contribute to this, including rising house prices, more stringent equity requirements from mortgage providers, higher stamp duty on home purchases, the increased availability of tenant friendly lease terms, and uncertainty surrounding the terms of the UK's withdrawal from the EU. All of this combines with the younger demographic preference for flexible lifestyles and careers, which in turn influences housing choices in terms of property type, tenure and location. This trend is very clearly identified amongst the so-called "Millennial" generation, with the demand being partially met through the provision of urban, high-density units near public transport (largely in the form of compact studio, one-bedroom and two-bedroom apartments).

While millennials are an important generational cohort, data from numerous sources strongly indicates an unsatisfied demand for, and very restricted supply of, rental homes for other working age groups. These often-overlooked generational cohorts include the 40-55 year age group typically known as Generation X ("Gen X") and Xennials (the "microgeneration" on the cusp of the Gen X and Millennial demographic cohorts).



The importance of technology and education

MGT has explored the correlation between higher than average technology related output relative to total output, and above average educational attainment levels, and how these factors contribute to local economic output. It is clear that technology and education are vital components of a successful economy.

In the period 2008-2017, the UK outperformed all other major EU economies in terms of growth in employment in knowledge intensive activity¹. The UK was in the top three countries in the world for total capital invested in digital tech companies from September 2016 to August 2017, behind only the US and China. The UK raised \$7.98 bn for tech start-ups in 2018, almost double that of Germany and France and by far the highest amongst European countries. Only the US has a higher number of deals, which suggests that the UK does more small deals than China, reflecting the vibrancy of the nation's start-up and scale-up landscape and the appetite for risk from tech investors. It also reflects UK interest in smaller scale, speculative investment in emerging tech such as Artificial Intelligence.

Over the last five years, the UK has emerged as the biggest source of successful technology company exits in Europe, with sales and IPOs worth \$119bn since 2013 . Regardless of the decision of the British people to leave the European Union, the UK technology industry is an example of how a knowledge and innovation-based economy can prosper in the face of political and economic uncertainty.

“

It is clear that technology and education are vital components of a successful economy.

”

MGT's Tech Towns

Tech Towns are commercial centres with a dense technology economy. While Greater London is the largest UK centre of technology activity, the surrounding regions of southern England accommodate a network of commercial centres linked to travel-to-work areas ("TTWAs"). These TTWAs are inter-connected and accommodate the largest concentration of technology companies in the UK and Europe.

As a point of comparison, high-tech sectors (high-tech manufacturing and knowledge-intensive services) at EU-28 level accounted for 4% of total employment in 2017. Against that 4% figure, high-tech employment in the UK counties of Oxfordshire, Buckinghamshire and Berkshire – which comprise core target areas in southern England for Tech Towns – represent 11% of total employment (the highest of any region within the EU)².

Taking the Thames Valley subregion in Berkshire as an example, seven out of the top 10 and 15 out of the top 30 categories of skills in which the Thames Valley exceeds the national average are in the information technology area. Meanwhile employer demand for five out of the top 10 fastest growing specialist skills are IT related.

In Tech Towns, 46% of residents have a degree level qualification, compared with only 33% in the rest of the UK. Considering Berkshire again, 56,300 digital technology specialist employees work within a 25-mile radius of Reading, the highest concentration of programmers and developers in the UK. Specialisms in the regional employment base include data analytics, cloud computing, data centres, cybersecurity, telecommunications and enterprise software. As an example, there are three times the concentration of digital tech specialists in Berkshire than the national average.



Demographic mosaic and renter profile

Understanding the residential mosaic within each Tech Town is of vital importance. Bespoke research commissioned and undertaken by MGT has created a population pyramid and residential mosaic for each area. This demonstrates that the working age population is spread across the age pyramid, supporting the thesis that there is demand for rental product not only for those in the younger demographic (in their 20s) but right across the working age groups. The research clearly indicates that there is demand from renters in their 30s and 40s and these groups require a product more suited to their lifestyle and location preferences, with a proportion requiring product appropriate for families. Analysis of the residential mosaic within each Tech Town has identified the main residential mosaic groups across the geography. From this research, MGT is able to establish the predominant renter profiles who will drive demand across each Tech Town geography.

Conclusion

The two largest barriers to continued growth in the digital tech area is the shortage of skilled workers plus the high cost and availability of appropriate housing. This, in turn, has created a great opportunity for providers of rental housing.

The annual deficit in the supply of housing in the UK continues unabated and is likely to persist, even with a dramatic (and unlikely) shift in planning policy. On the other hand, demand for housing grows fundamentally due to the expansion of the UK population and expectations in living standards.

An overwhelming and unquestionable opportunity exists to provide top-quality, semi-urban and suburban rental accommodation in southern England. Since there is a shortage of existing stock of rental housing in these markets, new units will need to be built, creating favourable conditions for real estate investors.

Tech Towns are locations where housebuilders, developers and land owners have accumulated significant land banks. As the 'for sale' housing market cools, MGT predicts that partnership opportunities will emerge for real estate investors to provide forward-funding and development capital to catalyse delivery of rental units.

Contact



info@mgtim.com



+44 (0) 203 876 4725