CUSHMAN & WAKEFIELD

MARKETBEAT
BUILD TO RENT
Q1 2025

Better never settles

CUSHMAN & WAKEFIELD

CO-LIVING GAINING MOMENTUM

Co-living is rapidly emerging as a key component of the UK's evolving BTR landscape, offering a modern, flexible housing solution that meets the needs of a growing cohort of urban renters. With 8,730 operational units now in place, equivalent to nearly 7% of institutional BTR stock, co-living has moved beyond the fringes of the rental market and is beginning to scale. Much like the early evolution of the UK's multifamily sector, development to date has been concentrated in London, but strong momentum is building across major regional cities.

Institutional capital is driving this next phase of growth. Our 2025 European Living Investor Survey highlights co-living as the fastest-growing residential segment: 33% of respondents have already invested, and a further 44% plan to do so by 2028. This reflects the increasing appeal of co-living as a route to diversifying portfolios, both by asset typology and tenant profile within a BTR strategy.

The underlying demand drivers remain compelling. The persistent imbalance between housing supply and demand in urban areas, coupled with population growth, shrinking household sizes, and shifting lifestyle priorities, continues to underpin long-term rental demand. Affordability pressures are forcing many potential first-time buyers to delay homeownership, extending their time in rental accommodation. We estimate the target market for co-living in the UK to be around 640,000. Nearly half of this group resides in London, with significant concentrations in Manchester, Edinburgh, Birmingham, and Bristol. With operational supply currently meeting just 1.3% of this market, the opportunity for growth is significant.

As the sector matures, co-living is entering a new chapter of development and design. Today's second-generation co-living schemes are a step change from early iterations: purpose-built, highly amenitised, and community-led. Co-living has the potential to deliver scale and diversity across the UK's rental market. Its success hinges not only on investor appetite and tenant demand, but also on planning systems that understand and support its role. As the sector matures, the imperative is clear – policy must catch up with the market. Unlocking co-living's full potential will require collaboration, education, and a willingness to adapt outdated planning approaches to meet the housing challenges of a new generation.

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KEY TAKEAWAYS

£1.1bn was invested in UK BTR in Q1 2025 alone with development funding the dominant route. Appetite remains strong, with 80% of investors in our European Living Survey planning to increase allocations to the living sector.

UK rental growth averaged 1.2% in the year to March, but constrained supply and upcoming regulation is likely to place upward pressure on rents over the medium term.

The supply-demand imbalance remains, with UK PRS listings 24% lower than pre-pandemic levels, driven by landlord exits amid rising costs and regulatory pressures.

BTR is scaling beyond London into cities like Manchester and Liverpool, offering lifestyle-led living at various price points and commanding significant rental premiums.

BTR stock has increased 16% nationally over the past year, with BTR completions now surpassing 127,000 led by London, Manchester and Birmingham, though construction starts have slowed significantly this quarter.

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MARKET FUNDAMENTALS

		12-Month Forecast
-17% Rental Demand	▼	▲
+9% Homes For Rent	▲	▼
4,500 Q1 BTR Completions	▲	—
50,000 Q1 BTR Under Construction	▲	▼
3.5% Rental Growth, YOY*	▼	▲

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
5.6% Weekly earnings growth	—	—
32.6% *Rent to income ratio	—	—

**Average UK exc. London*

Sources: Cushman & Wakefield Research, Zoopla, Molior, ONS, HomeLet, Realyse, RICS, HomeViewsPro Dashboard, MSCI RCA.

ONGOING SUPPLY SHORTAGES IN THE PRS

The wider PRS continues to grapple with a persistent supply shortage driven by a mix of structural and regulatory pressures. Analysis of rental listings reveals that the number of available properties across the UK was down 24% in the year to March 2025, compared to the same period in 2020. Some regions have experienced even sharper declines, with the North East facing the most acute constraints.

Although availability has improved slightly year-on-year (+9%), private landlords remain under sustained pressure. The phased withdrawal of mortgage interest tax relief, more stringent lending conditions, rising compliance costs related to environmental standards, and higher interest rates have led many landlords to exit the sector. At the same time, affordability challenges and a lack of viable alternatives are prompting tenants to remain in their homes longer, further reducing turnover and limiting the number of properties coming to market.

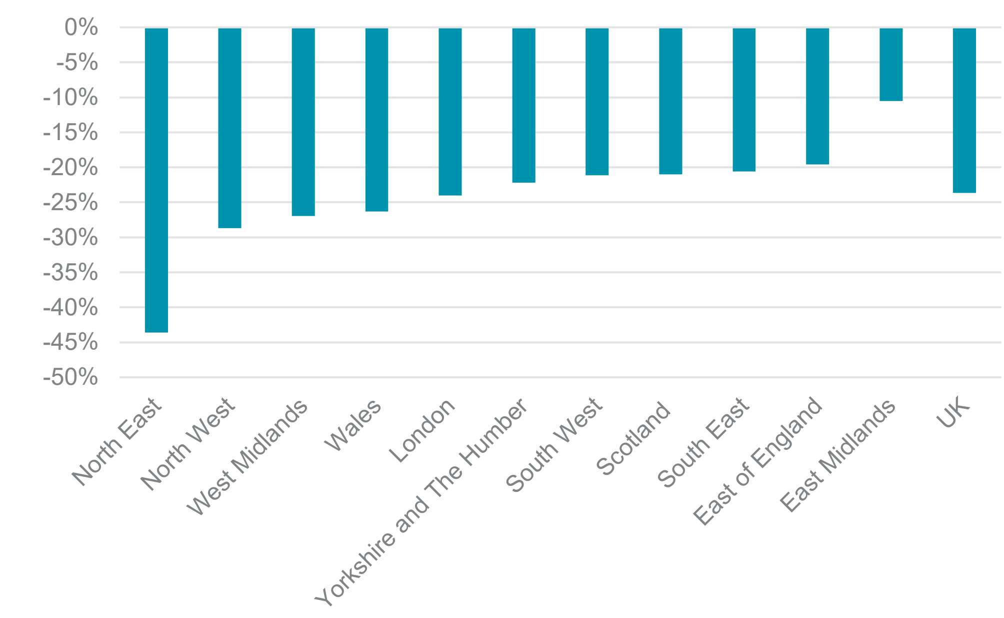
These dynamics are reflected within the BTR sector. According to HomeViews, 39% of reviewers have lived in their BTR development for over two years. Further evidence shows that average tenancy lengths tend to typically range between 20 and 26 months. Tenants most commonly move out due to relocating (36%) or buying a property (22%), highlighting BTR's role as a stable, transitional housing solution.

SUPPLY SHORTAGES UNDERPINNING RENTAL GROWTH

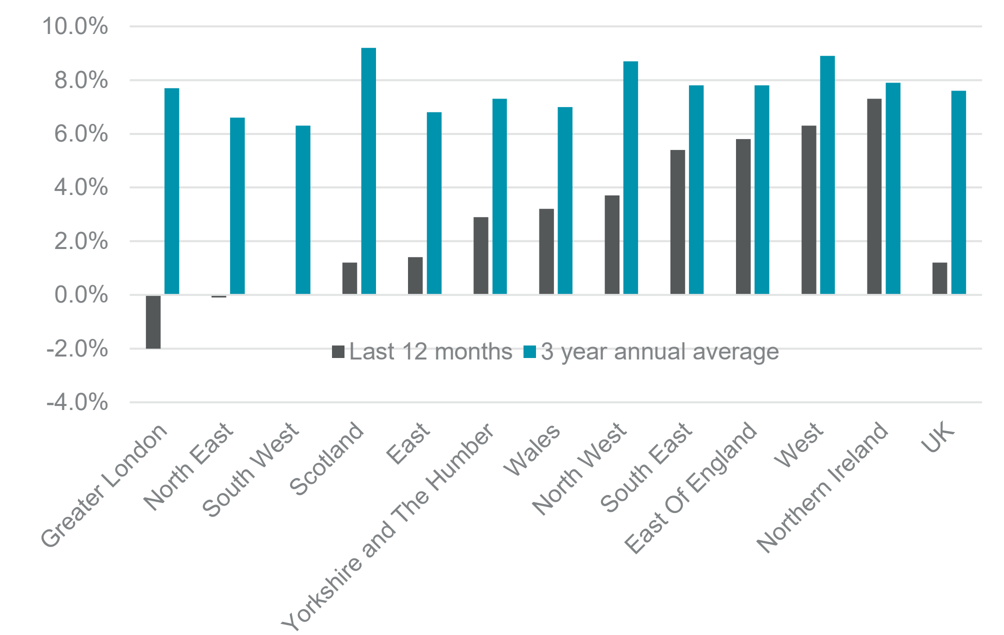
The imbalance between supply and demand continues to place upward pressure on rents. However, affordability constraints are now acting as a cap, especially in London where rents are 2% lower than they were a year ago. Nationally, average PRS rents rose by just 1.2% in the year to March 2025, the first few months of this year marking the slowest rate of growth since 2020 and significantly below the 7.5% inflation seen in the prior year.

This slowdown reflects tempered demand. The March 2025 RICS Residential Market Survey reports that tenant demand has moderated from the peaks of 2021, while landlord instructions continue to fall. The anticipated introduction of the Renters' Rights Bill later in 2025 is expected to reset tenant-landlord dynamics but may also further disincentivise supply growth due to increased complexity and costs for landlords. This is expected to continue to exert upward pressure on rents.

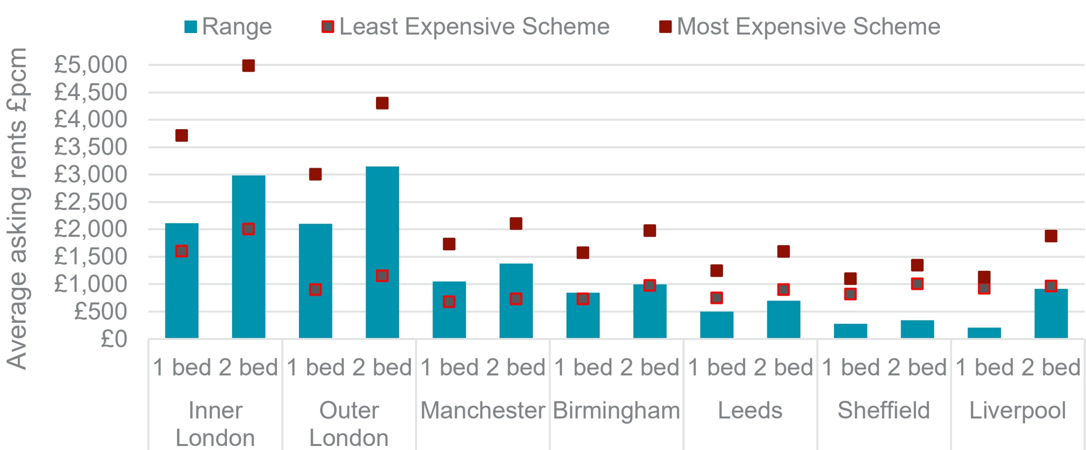
CHANGE IN NUMBER OF LISTINGS: 12 MONTHS TO MAR-25 VS MAR-20



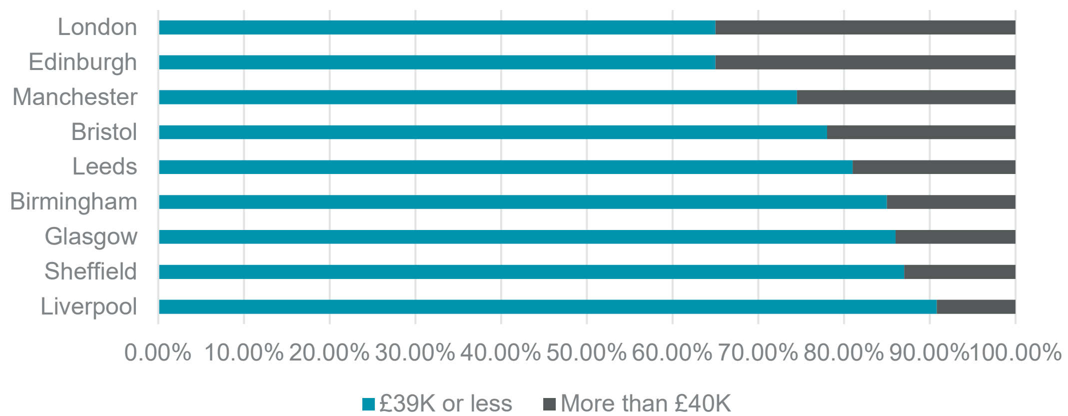
RENTAL GROWTH BY REGION



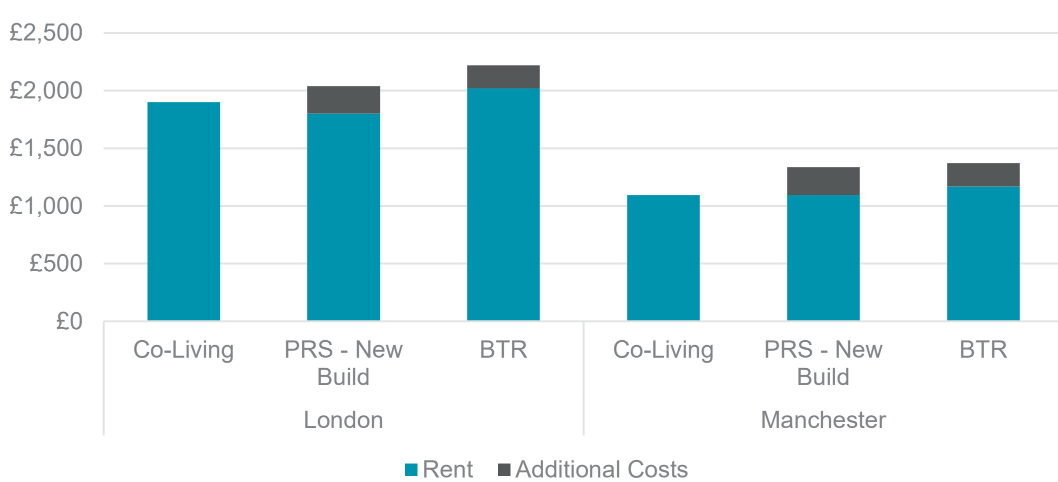
RANGE OF BTR RENTS ACROSS KEY UK MARKETS



PRIVATE RENTER EARNINGS



LONDON AND MANCHESTER: BTR VS. CO-LIVING RENTS



BUILD TO RENT EXPANDING ACROSS PRICE POINTS

The UK BTR market has evolved rapidly, expanding from London into regional cities supported by growing investor confidence and evolving tenant expectations. First-generation schemes largely focused on location, unit size, and functional amenities. In contrast, today's second-generation developments place far greater emphasis on lifestyle, offering high-end amenities such as branded gyms, co-working lounges, wellness spaces, and rooftop terraces. These elements not only enhance resident satisfaction but are also closely linked to stronger tenant retention and higher ratings.

This evolution has broadened the BTR offering both geographically and across rental price points. Amenity led BTR schemes are now increasingly seen in cities beyond London, like Manchester and Liverpool. These developments tend to command rental premiums due to the elevated living experience they offer.

In London, where the target pool is wider and more affluent, the premium for these lifestyle-led schemes is most pronounced. Significant rental spreads are now being seen in cities outside of London, with this most evident in Manchester – the difference between the least and most expensive schemes can approach £1,400.

For investors, the focus will increasingly be on delivering operationally driven, experience-led environments that resonate with the local demographic. Nationally, 18% of private renters earn over £40,000 a year – schemes priced at lower to mid-price points would target a wider market. Though there is still plenty of potential for amenity-led schemes, particularly in cities like Edinburgh and Manchester which boast a higher proportion of higher-income private renters.

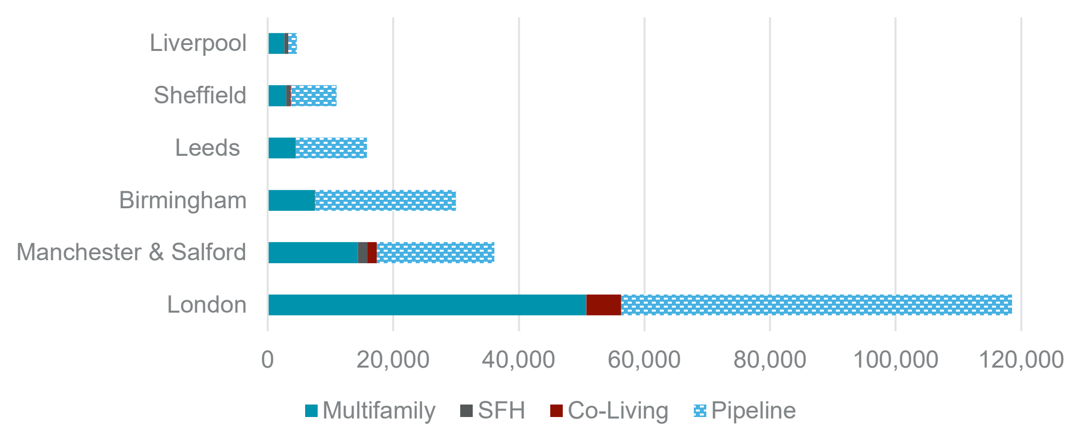
CO-LIVING PRICING: THE VALUE BEHIND THE PREMIUM

Although co-living schemes often carry a headline rental premium compared to wider PRS stock, this is offset by their all-inclusive nature, covering council tax, utilities, Wi-Fi, and access to on-site amenities. In London, this translates to a 7% discount on total living costs compared to traditional PRS, and a 14% discount relative to multifamily homes with similar amenity packages.

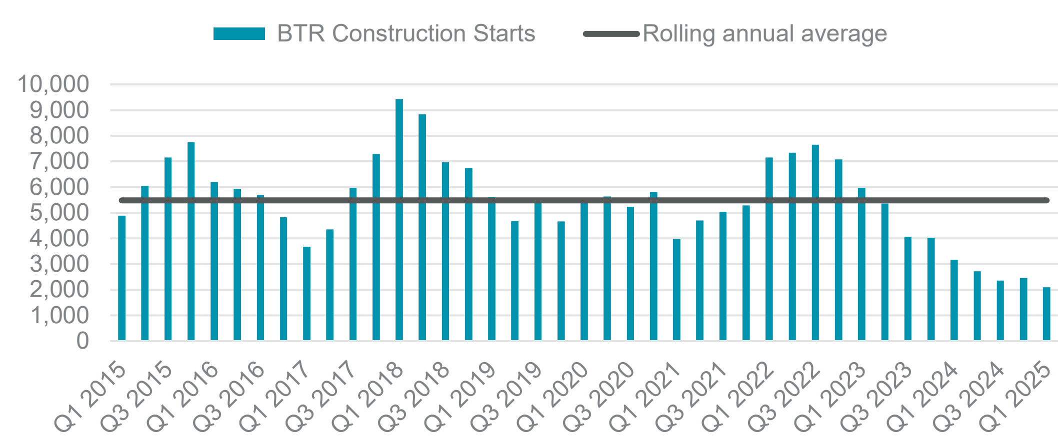
In Manchester, where co-living is gaining momentum, the discount is even more pronounced – 18% compared to the PRS and 20% versus multifamily. These price points position co-living as a cost-effective alternative for young professionals seeking flexibility, convenience, and community.

Renting in the PRS often means trade-offs between location, space, and cost. Co-living bridges that gap, offering well-designed private space, shared amenities, and a built-in community, delivering what many traditional rental options lack.

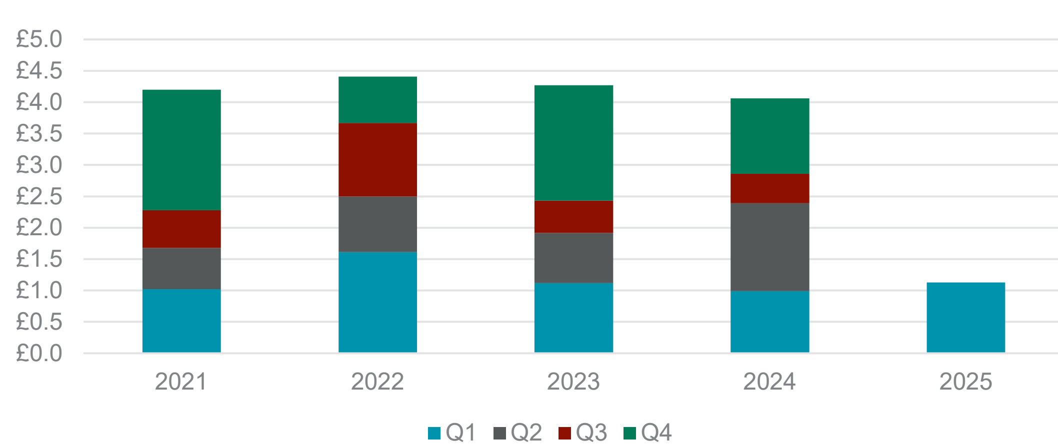
OPERATIONAL AND PIPELINE HOMES ACROSS KEY MARKETS



LONDON BTR CONSTRUCTION STARTS (ROLLING ANNUAL AVERAGE)



BTR INVESTMENT VOLUMES (£ BILLIONS)



BTR SUPPLY AND PIPELINE TRENDS

The UK's BTR stock has now surpassed 127,000 completed homes, a 16% increase nationally over the past year, driven by activity in London, Manchester, and Birmingham. The North West is emerging as a regional growth area, supported by a robust development pipeline. However, construction starts have slowed significantly, particularly in London, reaching their lowest level in over a decade. This is largely due to ongoing viability challenges, elevated construction costs, and increasing regulatory requirements. As of Q1 2025, there are 12,400 units under construction and more than 40,000 with planning permission in London, though delivery timelines remain uncertain.

Geopolitical instability and inflationary pressures continue to present risks, with potential for further build cost inflation that could weigh on future delivery. On a more positive note, the recent relaunch of the government's Private Rented Sector Guarantee Scheme is expected to support development by unlocking access to more favourable financing, helping to bring forward some of the stalled pipeline.

BTR INVESTMENT ACTIVITY

Q1 2025 saw over £1.1 billion invested in UK BTR, a 14% increase on the same period last year, demonstrating the sector's resilience amidst broader market volatility. Single-family housing (SFH) continues to gain traction, accounting for 26% of quarterly transaction volume. Investors are still accessing the market principally through development, accounting for 44% of transactions in Q1. Acquisitions of stabilised schemes also remain an important part of the market (38%). With the cost of debt and rising construction costs impacting viability, investors are exploring a range of entry points to meet demand for new rental supply, with joint ventures also featuring, accounting for 18% of the transaction volume.

Our European Living Investor Survey reaffirms the UK's strong position, with 80% of respondents indicating plans to increase allocations to living segments. PRS and co-living continue to be viewed as key areas for growth, as investor focus shifts towards more defensive, income-focused strategies. While global macroeconomic developments, such as renewed trade tensions create broader market volatility, the residential sector continues to be seen as a relative safe haven, likely supporting increased investor activity in the year ahead.

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