

Residential FRI

Could it be a Reality?

Residential property investment in the UK has outperformed gilts, equities and commercial property for over 30 years, yet investors still struggle to get a realistic foothold on the £3trillion plus housing ladder. Barrier after barrier is put up for the willing investor to overcome.

By **DAVID TOPLAS,**
CEO, **MILL GROUP**

Most of the focus in the UK is on the potential of the UK private rented, buy to let and build to let markets, which have the attraction of large blocks and multiple tenants collectively delivering (what is currently) above inflation growth in rental yields. When analysed more closely, though, it is within these sectors that the main investor barriers are to be found. Barriers such as repairs, maintenance, insurance and voids collectively can account for as much as a 35% reduction in net yields. It is enough to turn what initially looks like a good investment into a marginal one, especially when compared to other major asset classes, particularly commercial property investment.

Mill Group, a leading property and investment group with about £1billion of funds under management, has developed a new residential property investment model to overcome these barriers.

We asked ourselves the following questions: What if it were possible to develop a model that provided the residential property investor with a long term occupier with full repairing and insuring liability, as opposed to short-term leaseholds? What if it were possible to ask that same tenant to also assume responsibility for voids, maintenance and even, potentially, the ultimate sale of the property, with no extra cost to the investor? What if that tenant was also

willing to pay a superior rental yield that increased annually by RPI and was rebased every 5 years?

We decided that if we could positively answer all of these questions, it would open wide the doors to the residential market for large and small, institutional or direct property investors.

Our solution is a new housing tenure, which we call Co-investment. It's a model that enables the occupier to think, act and, in fact be a homebuyer, by acquiring an initial small share of the home they want, with a view to ultimately buying out the investor share at the prevailing price, in a number of years time. It is a genuine joint venture between investor and occupant.

In a nutshell, here's what Co-investment can deliver for investors and how it appeals to home buyers:

This unique partnership delivers a solution that both the investor and the occupier are individually searching for, and can only be delivered through Co-investment:

- A secure, longer term and risk free foothold onto the residential property ladder
- A quality investor matched with a pre-qualified 'blue chip' occupant
- Predictable, indexed income for investor and fixed real term costs for occupier
- Ownership of a property that has been researched and pre-vetted and classed as a 'good investment'
- Participation in HPI growth
- Gearing only as and when required – not a pre-requisite (no mortgage needed for either party)
- Discretionary incentives and multiple exit strategies

Even with HPI projections set at lower than the London average forecasts, Co-investment can deliver an Internal Rate of Return (IRR) in excess of 10% over 5 years, net of all costs. This makes it a much more attractive investment proposition than commercial property. It still includes all of commercial's benefits, but without the concentration of investment into a limited number of prime properties.

Co-investment brings the reality of residential FRI to the investor by creating this partnership and offering both parties a solution to their search for prime London real estate and prime London rental yields.

For the investor

- Up to 95% ownership of the property
- A rental that increases annually by RPI
- Pre-vetted occupant
- Scale & availability of stock
- Pre-vetted prime properties
- Discretion to sell extra share of property
- Can sell outright to occupier

For the home buyer

- Down to 5% deposit required
- Fixed real term costs
- Full occupation rights
- Unlimited choice of homes
- Reassurance of choice made
- Option to buy more when can afford
- Can buy outright from investor