REACT news

RESIDENTIAL EAST MIDLANDS LONDON UK & IRELAND

Q+A: Telford Homes on the shift to build-to-rent and eyeing sites outside the capital

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The residential developer's chief executive Jon Di-Stefano talks to React News about growing a £3bn pipeline and being backed by CBRE

The end of 2019 saw CBRE, through its subsidiary Trammell Crow Company, buy into the UK's residential market through the take-private of housebuilder Telford Homes.

One of the largest developers in London with a £2.9bn pipeline of mid-market homes, Telford had already begun a pivot towards the rapidly-growing build-to-rent sector. With the US giant's acquisition, Telford doubled down on its shift towards acquiring and building institutionally-owned urban developments for rent.

React News caught up with Telford's chief executive Jon Di-Stefano on Telford's ambitions, and the pulling power of being backed by one of the largest property companies in the world.

Now in its next stage of growth, Telford is looking to sites outside of the capital, and following a range of recent site acquisitions is on the cusp of introducing new investment partners to its schemes.

Telford chief executive Jon Di-Stefano

Telford has gone from being a more typical housebuilder to a push towards build-to-rent. What's the current position of the business and your focus areas now?

We've been a residential developer in London since 2000. The mainstay of the business was normal for-sale developments, but with a lot of it effectively sold off plan. From 2015 we started to move into build-to-rent a little bit more, as it was always our intention that it would be a part of the business. We just thought it was a good way of tapping into what seemed like a really good emerging market, and into something where you didn't have to use quite as much capital, and in a relatively medium-sized development business, capital still is usually the biggest constraint on what you do.

We started to gain a bit of success. We worked with a number of partners such as M&G, which was a great start, and then got more and more developments on site. And that's when we got approached by Trammell Crow Company. We became part of Trammell Crow at the end of 2019. And really the idea then, which is the idea now, was to focus completely on build-to-rent. So we've still got a number of sale developments that are being built out and sold, but essentially everything new that we buy is either entirely build-to-rent or predominantly build-to-rent.

Has your focus shifted at all since then, especially with the Trammell Crow acquisition?

We are no longer quite as capital constrained thanks to the ability of Trammell Crow company to fund some of those investments going forward. We can really just grow a pipeline, and focus on growing. The main concentration is still on London, but we are looking at a wider geography outside of London, such as other cities in the UK. The remit really at the moment is "get bigger, do more and tap into that growing build-to-rent market".

We never talk about deploying a certain amount of money or anything like that. Trammell Crow don't do that with its logistics platform either. Especially with CBRE as the parent company of Trammell Crow, it's more about the fact that they do have cash reserves. No one's ever said to us, you've got X amount of money to spend, go and spend it. And actually, I don't think that'd be a very wise way of us developing the business. Because that tends to alert landowners to the fact that you've got a slug of money that they can just get you to spend. It also maybe inspires the wrong driver in terms of trying to very, very quickly spend money.

Having said that, Trammell Crow haven't really put a cap on what we can do either. To some extent the reserves of CBRE are quite strong and in a build-to-rent world, your money isn't going to be out for that long anyway, because the idea really is that you turn a pretty good IRR, from buying it to then selling it to somebody. There's also no cap on scale of individual development size or anything like that, hence why we've got involved in some bigger schemes.

React News revealed last month Telford had bought into Essential Living's £200m Perfume Factory development in North Acton

In London, what would be your sweet spot scheme be in terms of size and location, if you had one?

We're not looking at the centre of London, the real centre, but the zones outwards. That probably means that we're looking at rent in an investor's terms of somewhere between £25 and £40/ft a year. In normal person's terms, that means sort of £1,200 to £2,400. We don't really want to push beyond those rent levels because we see that as a slightly different marketplace.

I've got no concerns at all about the rental market in London and the fears over everyone moving out. If you want to rent and the flexibility of that, you're much more likely to want to go out in the evening, get to work in less time each week, to stay in a city location.

So our schemes need to be somewhere near transport, at least within 10-15 minutes of a good station. Because the whole point is you need that convenience of being able to get into the centre of London. I wouldn't say we have certain parts of town that we would focus on, it's more general than that.

What's your funding and development model?

In terms of the model, what we're not going to do is invest in a scheme and build it out entirely ourselves with all of our own money, then rent it out and sell it on in the future. That's not the Trammell Crow model. What we do though, is we're starting to move perhaps a bit beyond the other extreme, which is to buy a site and immediately sell it to a forward-funder, at a fixed price.

We are at the moment looking at a number of deals where we expect to share in some of that process, essentially that lead to us co-investing alongside an investment fund, or us taking a share in how the rents go or how the actual development performs when it's rented out. It ensures we've got a joint incentive, not just to develop a good scheme, but to develop a good scheme that really works for rent.

Now that you're pushing out in London commuter towns and other regional cities, how does that Telford model you've delivered in London change to respond to the local market?

We're probably looking at three different things. One is our normal apartment-based developments in the commuter belt around London. That was the first thing that we wanted to expand into as part of the Trammell Crow strategy. But that will be very similar to what we're doing now in London. We're the contractor as well as the developer. And we intend to do exactly that in the commuter belt because we're going to be using the same sub-contractors. So in many ways, other than that the markets are a little bit different and the locations are a little bit different, we see a similar process in play.

The second thing is building in some of the other cities, and we've targeted a few of them that we want to focus on. In particular, we've started with Birmingham as our first focal point. But the idea is that we wouldn't be building schemes ourselves. So we will have to do something that's a little bit different in that we will be looking after the development, managing the process, working with an investor, but getting a contractor to build it for us. That takes a little bit of thinking around making sure you're on the ground to manage it properly.

Then the third part is we are also beginning to think a little bit about the single family housing side of things. But that's a bit further down the track.

Telford is Sainsbury's joint venture partner to deliver more than 1,000 homes in Ilford

Developments face different viability challenges in the regions compared to in London due to high construction costs and lower rental levels. Does that shape the kind of schemes you will deliver, such as size, amenity, unit numbers?

Yes, it does. Although Birmingham is an odd example because Birmingham appears to be always encouraging the building of some extremely tall towers around the centre. And actually we'd probably rather not build 700 or 800 homes in 50 storeys because, while it doesn't mean it won't work, it's just a challenge from the viability point of view, frankly. In London we would do pretty much anything. We've got developments of around 1,200 homes. But we've cut our cloth accordingly in other cities, such as Birmingham, and we're also looking at Cambridge, for example, Bristol maybe, loads of places. There it would be a lower number of homes, less than 500 maybe.

The amenity space remains pretty critical actually. You don't want to dumb down the amenity space, because we firmly believe that it's your friend for appealing to this kind of demographic, that is really driving interest in a professionally-managed building. So although I know others don't necessarily agree with that, we think amenity is quite an important part of what we do.

What are your plans with Ilford and working with Sainsbury's? And do you have other developments which also involve this retail-to-residential element?

Sainsbury's has been actively looking at a number of its supermarkets and sites, and occasionally it involves reprovision of a similar-sized store with residential above, which is usually quite tricky to do. The Ilford project is a lot easier from our point of view. We'll be developing a big scheme across the site, but with a local Sainsbury's going back in so that the company can reconnect with all their customers. The real advantage here is they don't need a temporary store, which normally really slows down the development. The whole scheme is part of Sainsbury's strategy of asking "where do we need big stores? Where do we need local stores? How many people are shopping online versus going to the store?"

It's pretty exciting for us because we don't get many opportunities to develop a whole place on a cleared site. Whereas at the other end of the spectrum, we have Crisp Street Market, north of Canary Wharf, which is an existing retail hub. It's the only real big retail space between Stratford and Canary Wharf in that location. We now own that area and we've got a planning consent to build more than 650 homes. And there's about 190,000 square feet of retail there.

The previously London-centric developer is now looking at site in Birmingham, Cambridge and Bristol

It's interesting that as a build-to-rent developer you are still involved in other uses, especially where you benefit from them sitting alongside the homes

In the Crisp Street case we're developing all of the retail, partly because a lot of the previous tenants have come back in and so you're not necessarily taking the same leasing risks that you might be in a new scheme. Having said that, we built City North in Finsbury Park, which has £60m of commercial land, which we built and let out ourselves too.

It's creating amenity that is not just in the building, it's what's around you as well, sometimes nothing to do with you. In certain situations you can create additional amenity which just makes it more of an attractive place to live. Like creative workspace, studios, appealing to musicians and artists. Which in theory doesn't benefit a resident directly, unless they're an artist, but it's just something that's a bit more interesting and exciting about the development, which can attract the residents to want to live there as much as the actual gym and coworking space.

How are you finding buying land and sites to deliver your pipeline, especially competing with the prices housebuilders can pay as the for-sale market continues to do very well?

Why we started doing it back in 2015, was that the dynamics work so that the low returns you typically get from build-to-rent in terms of absolute profit, because people pay less, work in conjunction with the timing that your cash is out. You haven't got as much money invested, so your overall absolute IRR returns are better. So we are doing quite well in those terms.

A good example is Capital Interchange Way in Brentford. That was a site that Redrow had in partnership with Catalyst to develop. Redrow then made the decision to exit the London market. They were going to do it for-sale, but we stepped in to do it for build-to-rent.

But we've also been buying sites where we're competing against the for-sale developers, Sainsbury's being a great example of that. So I'm not overly concerned about that competitive environment, especially in light of my view that rental is going to be a huge and increasing part of the London market.

Telford bought out Redrow's share of the £180m Capital Interchange Way in Brentford this summer

What are your priorities for the next six months?

They're twofold. We're always out there looking for new sites. We hope to do more sites, but actually just as important as that, we've bought a few things recently and we're now getting quite well progressed in terms of defining investment partners for them. So the next thing you'll see from us are the investment partners for the Perfume Factory, Capital Interchange Way, International Way in Stratford, all of those are now progressing with potential investment partners.

The target for the next year is, one, keep buying stuff, and two, demonstrate who we're doing it with and who our partners are going to be, and how that market is getting increasingly competitive, in a good way, from our point of view.

Are you bringing in different partners for different schemes or do you have one partner that might do multiple?

A little bit of both. We expect to be working with a range of different partners. That's number one. We're never going to partner up with one investor or two investors, that's not going to happen. But on the other hand, all investors want to build a pipeline and they really need scale. And if you look at some of the guys who've been raising money recently, once you raise a sum of money, they need to deploy it within a pretty quick period. So they're quite interested in talking to developers where it's not just one scheme, but where they feel like there'll be a flow through of other developments. So that's where we can come in.