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Diversification of returns across the Living sector in the UK

FULL REPORT

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Report

IPF Research Programme

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Research Team

Tim Francis
Malcolm Frodsham
Jeremy Marsh

Project Steering Group

Bill Page, Legal & General Investment Management – *Chair*
Marcus Dixon, *JLL*
Markus Doerrie, *GIC*
Angela Goodings, *Nuveen*
Amanda Newton, *MSCI*
Sue Forster, *IPF*
Rachel Portlock, *IPF Consultant*

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1. EXECUTIVE SUMMARY

Purpose

This report examines how diversification within the Living sector arises from differences in how rental income is generated, how costs and regulation affect cash flow, and how these factors influence risk and return across Living formats.

At its core, an allocation to Living represents exposure to households' ability to pay for housing. However, Living formats differ materially in how rents are set, costs are incurred and recovered, how frequently occupiers move, and how regulation affects income and expenditure. These differences shape cash flow patterns, risk characteristics and investment outcomes in materially different ways.

The Research Team developed a framework to analyse how these drivers affect net operating income (NOI), cash flow uncertainty and target returns for stabilised Living schemes. A forward-looking market model combines historical evidence with alternative inflation and regulatory scenarios to estimate future cash flow uncertainty and the Target Return required to bear that uncertainty. The analysis then considers the implications for portfolio construction and diversification within Living.

Findings

Five core findings emerge.

First, subsector labels only partly explain risk. Schemes within the same broad Living subsectors exhibit materially different risk profiles depending on how rents are set, the level of operating costs, the extent to which costs are recoverable, and exposure to regulation. At the same time, schemes in different Living formats may behave more similarly than expected due to common exposures to affordability, regulation, rent-setting and operating costs. Investors should therefore look beyond broad subsector labels and focus more closely on the underlying drivers of cash flow and risk, particularly those relating to operating platform.

Second, regulated and open-market rent reviews create different risks. Some Living formats are primarily market-driven, while others operate within regulated rent-setting frameworks. In open-market subsectors, rental growth responds more directly to market conditions but remains constrained by affordability. In regulated sectors, rental growth is often linked to policy or inflation formulas, creating more stable income streams with less exposure to economic and market cycles.

Regulation affects Living performance through multiple channels. It can constrain rental growth, increase operating and capital costs through compliance requirements, and create uncertainty regarding future income and capital expenditure. Investors must therefore consider not only current rules, but also the risk of future policy intervention and attempt to price that risk accordingly.

Third, affordability constrains rental growth, but housing need helps sustain occupancy. Living sector rents are not insulated from market cycles, and over time may exhibit little or no growth in real terms. When the economic cycle or local supply conditions worsen, Living rents tend to adjust to support occupancy rates and operating margins. Because households still require housing, occupancy in many Living formats tends to remain relatively high even during weaker market conditions. Rental growth is therefore constrained by household affordability and cannot be assumed to exceed earnings growth on a sustained basis.

Fourth, Living is an operational asset class that is highly sensitive to cost inflation. In Living, operating expenditure is often high, with a significant proportion of costs irrecoverable. This increases the risk that growth in rents does not fully translate into higher cash flow.

1. EXECUTIVE SUMMARY

A key determinant of performance is therefore not simply how much rent is collected, but how efficiently rental income converts into NOI after operating, turnover and recurring capital costs.

Fifth, historical data is an imperfect guide to future performance. Many UK Living subsectors remain relatively young in an institutional context. Reliable historical performance data either doesn't exist or is heavily weighted to assets experiencing development and lease-up, and to operating platforms still evolving through difficult market conditions. Past investment performance has been influenced by volatile interest rates and inflation, with individual subsectors maturing at different speeds.

Historical evidence from the UK remains invaluable, but it should be supplemented by international examples from more mature markets and interpreted alongside forward-looking assumptions regarding rental growth, costs, regulation and operating performance when assessing long-run risk and return.

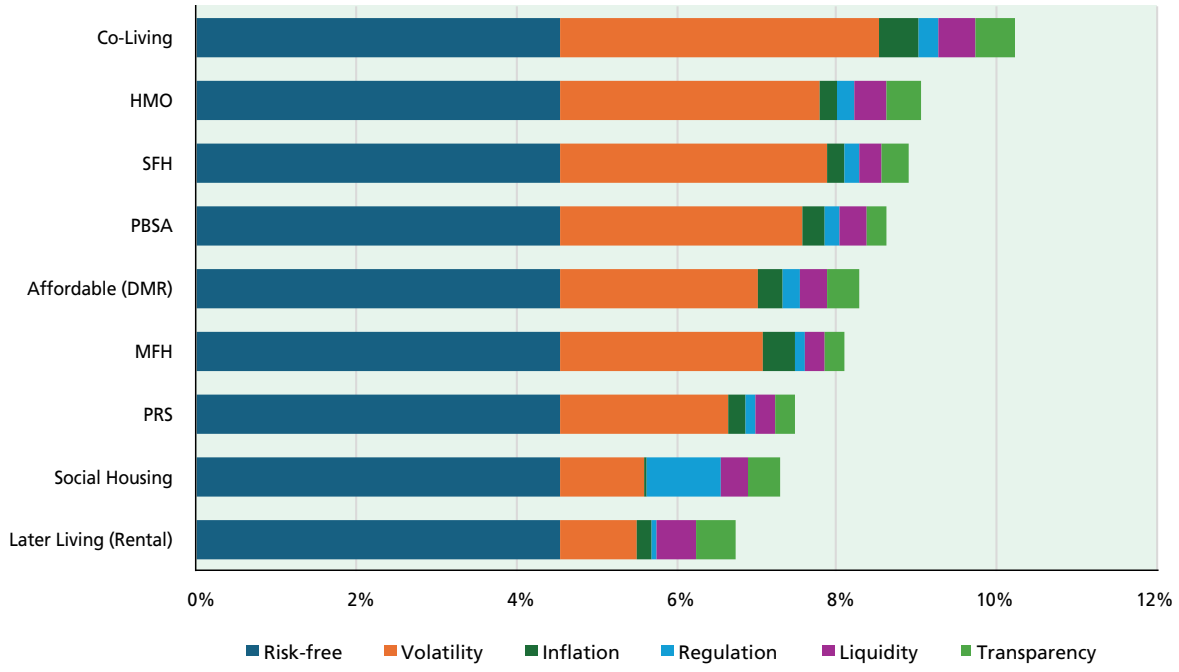
Model framework and results

The framework examines how differences in rent-setting mechanism and operating cost structure affect cash flow uncertainty and required return across representative Living formats.

Indicative target returns range from approximately 6.5% for lower-risk, recoverable-cost Later Living structures to over 9.0% for higher-cost and less liquid operational formats such as Co-Living and Affordable Housing.

Figure 1 shows the indicative target returns produced by the framework for representative Living formats. Target returns are estimated by combining a risk-free rate with calibrated premiums reflecting cash flow volatility, inflation exposure, regulation (risk), liquidity and market transparency.

Figure 1: Indicative target returns by representative Living format



Source: Research Team calculations
Note: Full format names on page 6

1. EXECUTIVE SUMMARY

The findings suggest that broad Living subsector labels may conceal material differences in required return. Variations in rent-setting mechanism, operating cost level and regulation can produce materially different outcomes, even where rental growth assumptions appear similar. Target returns should therefore reflect the specific drivers of cash flow uncertainty within each investment, rather than relying solely on broad subsector classifications.

Portfolio construction implications

The findings have important implications for portfolio construction within Living.

Diversification appears strongest across genuinely different economic exposures, particularly between open-market and regulated rent-setting mechanisms and between high and low operating cost structures. However, individual scheme risk remains significant, meaning greater diversification within a subsector may sometimes reduce risk more effectively than small allocations across multiple Living formats.

In other words, because correlations between Living subsectors are relatively high, often around 0.8, diversification across Living formats may produce only modest improvements in risk-adjusted returns. Differences in platform capability, operating model and scale may therefore have a greater influence on risk-adjusted performance than modest variations in allocation across highly correlated Living formats, reinforcing the best practice recommendations set out in the IPF report Operational Real Estate: Risk and Reward (2021).

What happens next?

Interviewees consistently noted that recent market conditions have been unusually challenging across much of the Living sector. High inflation, rising interest rates and low entry yields have placed pressure on performance at a time when many operating platforms and institutional models remain relatively immature.

The Living sector currently lacks the data transparency and consistency required to support robust valuation, underwriting and portfolio construction at scale. Returns remain highly sensitive to operational execution, cost inflation and regulatory change, while performance evidence is fragmented across platforms and operating models.

Two priorities therefore emerge:

- Scale and operational capability are likely to become increasingly important determinants of performance.
- Greater transparency and standardisation are required if Living is to mature into a scalable institutional asset class.

Traditional real estate performance metrics alone are insufficient to understand risk and return in operational Living schemes. Performance measurement frameworks should expand to include operational metrics such as occupancy duration, renter turnover and reletting periods, operating cost ratios, cost recoverability, recurring capital expenditure, rent collection and bad debt.

Operational performance and management quality should also be more consistently evidenced through recognised codes of practice. Greater transparency and accountability may improve market confidence and help reduce the risk of adverse regulatory intervention.

1. EXECUTIVE SUMMARY

More broadly, the availability and comparability of data must improve. Establishing common classifications and a comprehensive publicly available list of Living schemes across subsectors held by an independent organisation would support stronger evidence on rents, returns, transactions, supply and occupancy, and running costs enabling more informed investment decisions and more effective engagement with policymakers.

Importantly, future classification frameworks may need to distinguish more explicitly between differing economic models, including open-market versus regulated rent-setting, and differing cost structures, rather than relying solely on broad subsector labels.

2. INTRODUCTION AND PURPOSE

Living should not be treated as a single homogeneous allocation, and historical returns alone are an incomplete guide to future diversification benefits.

2.1 Why diversification within Living matters

The Living sector is increasingly viewed as a source of diversification alongside traditional commercial real estate. In their report on Large Scale UK Residential Investment: Achieving Market Maturity (2021), IPF cited half their Residential Survey contributors stating that diversification was a fundamental reason for entering the sector.

However, less well understood is the extent to which diversification arises within the sector itself. Living subsectors differ materially in how returns are generated, including differences in rent review mechanism, level of operating costs, occupancy and reletting risk, exposure to regulation and capital expenditure requirements. As a result, Living should not be viewed as a single homogeneous exposure, but as a collection of income models with different drivers of risk and return.

The purpose of this report is to examine how diversification within the UK institutional Living universe arises and to assess the implications for portfolio construction. The analysis focuses on how differences in these underlying drivers influence income stability, growth and risk across Living subsectors.

The consequences for portfolio construction may be significant. Treating Living as a single homogeneous allocation risks investors overstating diversification benefits between similar Living formats, understating concentrations in common risk exposures, or failing to recognise where diversification arises from genuinely differentiated income models. Understanding these differences is therefore critical to strategic allocation decisions within Living.

2.2 Scope of the report and subsectors covered

The analysis focuses on stabilised income-producing Living schemes. Development-stage risk and individual asset selection are outside the scope of the report.

This report focuses on nine Living subsectors: Single Family Housing (SFH), Multifamily Housing (MFH), Purpose-Built Student Accommodation (PBSA), Co-Living, Houses in Multiple Occupation (HMOs), Social Housing, Affordable Housing (Discounted Market Rent), Shared Ownership and Later Living.

The analysis considers how differences in rent review mechanism, level of operating costs, occupancy and reletting risk, regulation and capital expenditure requirements may influence risk and return across Living formats.

2.3 Definition of Living subsectors

The Living sector comprises residential assets that derive income directly or indirectly from households. While these subsectors are often grouped together, they differ materially in operating model, return generation and exposure to risk.

2. INTRODUCTION AND PURPOSE

For the purposes of this report:

- SFH, MFH, PBSA, Co-Living and HMOs rely primarily on open-market rent review mechanisms, although they differ materially in level of operating costs, occupancy patterns and reletting risk.
- Affordable Housing, Shared Ownership and Social Housing operate within regulated or policy-linked frameworks, with differing degrees of exposure to regulated rent review mechanisms.
- Later Living combines residential exposure with varying levels of operating costs.

Understanding diversification within Living therefore requires analysis of how income is generated, constrained and converted into net operating income (NOI) across subsectors.

Full definitions of subsectors and key terminology used throughout the report are provided in the Glossary.

2.4 The challenge of relying on historical data

Studies of portfolio diversification rely heavily on analysis of historical investment performance data across representative samples of stabilised assets. However, many Living subsectors remain institutionally immature, with observed performance often being shaped by lease-up, institutionalisation and falling interest rates, and operating structures at different stages of evolution. Historical Living returns may therefore provide an incomplete guide to future risk and return, particularly where market structures, regulation and pricing are changing.

While historical evidence provides important context, a forward-looking framework is required to understand how Living subsectors may behave under different operating, regulatory and market conditions.

2.5 Evidence base

The analysis draws on multiple sources of evidence. Given the institutional immaturity of parts of the Living market, no single dataset is sufficient to understand diversification potential.

The report draws on:

- **International historical investment and market evidence,** including rental growth, occupancy, costs, yields and returns where data are available. It should be noted that in the UK, historical performance data prior to 2016 was dominated by traditional landed estate portfolios.
- **Industry interviews and surveys** conducted over the three months to March 2026 with operators and investors to understand operating structures, income models and emerging risks. Response numbers for subsectors including Later Living, Co-Living, HMO and Affordable (DMR) were particularly low.
- **Public disclosures by listed REITs (both UK and non-UK)** providing evidence on growth, cost levels and occupancy (see Appendix A). There was a paucity of data in the least mature subsectors, such as Co-Living, while disclosures frequently did not differentiate between subsectors, notably Single Family Housing and Multifamily Housing.
- **Forward-looking analysis,** examining how differences in rent-setting mechanism, operating cost levels, regulation and inflation linkage may influence risk and return outcomes (see Appendix B).

Rather than relying solely on historical correlations, the report combines available international evidence with a structured analytical framework to assess the extent to which Living subsectors may offer differentiated sources of diversification.

3. HOW RETURNS ARE GENERATED IN LIVING

Diversification within Living arises from differences in how income is generated, constrained and converted into NOI, rather than subsector labels alone.

This chapter examines the principal drivers of performance across Living schemes and explains why differences in income structure may produce materially different patterns of growth, volatility and resilience.

3.1 What does an allocation to the Living sector represent?

At its core, an allocation to Living represents exposure to household income under supply constraint. However, differences in rent-setting mechanisms, operating structures and regulation mean that similar demand conditions can produce very different cash flow and return outcomes.

Unlike for traditional commercial real estate, where Fully, Repairing, and Insuring (FRI) leases can secure income for extended periods and many costs are recoverable, income in Living must be continually re-established through occupancy, reletting and rent review. The level of operating costs and the extent to which they are recoverable also differ materially across Living formats.

For example, a Single Family Housing scheme with relatively low operating costs and limited reletting may behave very differently from a Co-Living scheme, where returns are more dependent on frequent reletting, higher irrecoverable operating costs and operational execution. Similarly, Social Housing and Affordable Housing operate within policy-influenced frameworks, where income growth may depend more heavily on regulated rent review mechanisms than open-market reviews.

Understanding diversification within Living therefore requires analysis of the underlying drivers of cash flow.

3.2 Key drivers of Living sector risk and return

The underlying drivers of income and risk can be grouped into seven broad categories.

Household income and affordability

Living income ultimately derives from households and is therefore constrained by affordability. Strong demand does not guarantee unlimited rental growth, as achievable rents are ultimately limited by household incomes and, in some cases, political or regulatory intervention.

Structural demand is influenced by demographic trends including household formation, ageing populations, migration and participation in higher education. These factors affect the depth of occupier demand across Living formats and influence occupancy, reletting periods and pricing power.

However, strong structural demand does not guarantee pricing power. Supply conditions are highly localised, and individual schemes may experience materially different outcomes depending on local competition, delivery timing and relative product quality.

Rent review mechanism and regulation

Living subsectors can be broadly divided into open-market and policy-linked rent review mechanisms. In regulated subsectors, including Social Housing and some Affordable Housing, income growth is influenced by policy-linked formulas rather than open-market reviews.

3. HOW RETURNS ARE GENERATED IN LIVING

Regulation also affects operating and capital costs through compliance, safety and decarbonisation requirements. Importantly, regulatory risks are asymmetric: intervention may constrain rental growth or increase costs, while offering limited scope for upside. Investors must therefore consider not only the current regulatory framework, but also the likelihood and possible impact of future policy intervention.

Table 1 provides examples of how regulatory changes in different markets have influenced cash flows and investment performance, together with the implications for modelling assumptions.

Table 1: Regulatory example details and modelling implications

Category	Location	Measure	Period	Outcome	Modelling implication
Income constraint	Berlin	Rent cap (Mietendeckel)	2020–2021	Introduced then overturned by court	Truncation of rental growth, potential reversibility
Income constraint	New York	Rent stabilisation / freeze proposals	Ongoing	Periodic tightening in high growth periods	Limits on income growth in strong markets
Income constraint	Dublin	Rent pressure zones	Ongoing	Caps linked to inflation	Income growth linked to inflation rather than open-market rent reviews
Cost escalation	UK	Post-Grenfell Tower fire safety regulation	Post-2017	Significant increase in compliance costs	Step change in capex assumptions
Cost escalation	UK / EU	Energy efficiency (EPC) requirements	Ongoing	Progressive tightening of standards	Higher capex and operating costs
Liquidity and pricing	Canada	Foreign buyer restrictions	Recent	Reduced investor access in some markets	Impact on liquidity and pricing
Liquidity and pricing	UK	Stamp duty surcharges	Ongoing	Increased transaction costs	Higher required returns / lower exit values
Regime risk	Berlin	Rent cap reversal	2021	Policy overturned	Highlights reversibility and legal risk
Regime risk	Multiple markets	Ad hoc policy responses	Various	Often temporary or diluted	Supports scenario-based modelling

Source: OECD, national regulatory sources

These examples highlight that regulatory risks are often asymmetric, with greater scope for downside intervention than upside. This reinforces the importance of incorporating regulatory uncertainty within forward-looking modelling assumptions (see Appendix B for methodology used in this report).

3. HOW RETURNS ARE GENERATED IN LIVING

Occupancy and reletting risk

Occupancy risk varies materially across Living formats. Some subsectors benefit from relatively stable occupation, while others depend on more frequent reletting and shorter occupation periods.

At the same time, supply is highly localised. While aggregate housing supply changes only gradually, individual Living schemes may face materially different conditions depending on local competition, delivery timing and relative product quality. As a result, occupancy and reletting risk can differ significantly between schemes, even within the same subsector.

Operating costs and cost recoverability

The level of operating costs varies across Living formats with important implications for NOI. Some formats incur relatively limited irrecoverable costs, while others require materially higher expenditure on leasing, building management, amenities and resident retention.

The extent to which costs are recoverable also varies. Some costs may be passed through to occupiers via service charges or bundled payments, while the operator bears others. Differences in operating costs and cost recoverability may therefore be as important as rental growth or occupancy outcomes when explaining performance across Living formats.

Capital expenditure and depreciation

Over time, schemes physically deteriorate and may become less competitive relative to newer stock as occupier expectations, design standards and amenity provision evolve. This can limit the extent to which schemes capture underlying market rental growth and maintain occupancy.

Capital expenditure is therefore required not only to maintain buildings, but also to preserve rental competitiveness and income, in addition to ensuring compliance with evolving environmental requirements.

Interest rates and pricing

Interest rates affect Living schemes primarily through pricing rather than income alone. Higher interest rates increase required returns, placing downward pressure on values through yield expansion.

Income effects are generally slower and more indirect, usually through the impact of wider macroeconomic conditions on household income and affordability. For example, higher mortgage costs may increase demand for renting while simultaneously reducing household affordability.

As a result, Living sector returns can be influenced by the capital markets through impacts on household affordability and the underlying rental cash flows, as well as the pricing of those cash flows by investors as required returns and valuation yields shift.

Liquidity and transparency

Living subsectors differ materially in investment market maturity. Some benefit from established investor participation and relatively transparent pricing, while others remain less liquid and more operationally specialised.

Liquidity affects the ability to transact schemes at or near prevailing prices. Transparency affects the confidence with which those prices are formed. Less mature subsectors may therefore require higher target returns to compensate for greater uncertainty around pricing and exit conditions.

4. WHY HISTORICAL DATA IS NOT ENOUGH

Historical performance reflects lease-up, institutionalisation and repricing, as much as mature operating characteristics.

Historical evidence is important for understanding the drivers of Living sector income, costs and risk. However, much of the available UK performance data reflects a market still in transition rather than a mature, stabilised investment universe. Rental housing tenure, operating models, regulation and investor participation have all changed materially over time.

This does not imply that historical evidence is unhelpful. Rather, it highlights the need for a forward-looking framework that combines historical evidence with explicit assumptions regarding how different Living formats may behave under more mature and stabilised market conditions.

4.1 A century of structural change in UK rental housing

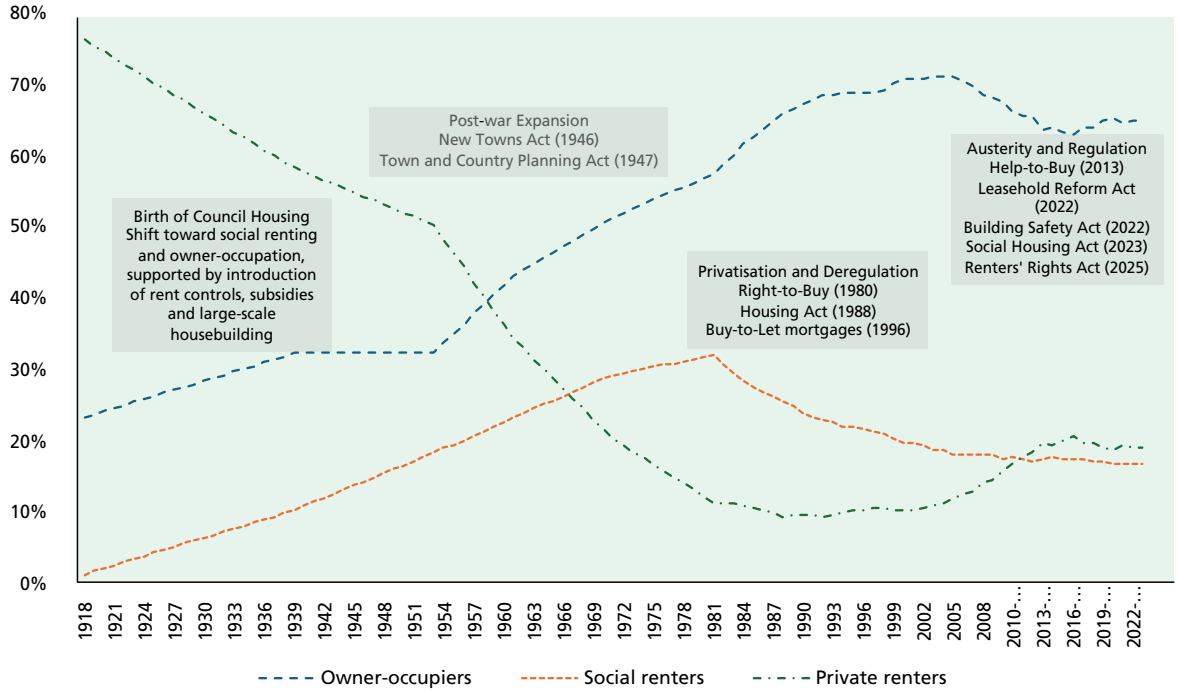
The UK housing market has undergone repeated structural change over the past century, shaped by shifts in policy, demographics and financing conditions. As Figure 2 illustrates, private renting dominated the housing tenure in the early 20th century, before declining materially following rent controls and the expansion of council housing after the Second World War. The introduction of Right to Buy in 1980 accelerated the shift towards owner occupation, while the emergence of Buy-to-Let finance in the mid-1990s and affordability pressures contributed to renewed growth in private renting.

Today, rental housing accounts for around one-third of housing stock, with privately rented households slightly outnumbering social rented. This tenure breakdown has been broadly stable since 2010, despite increased policy intervention in support of first-time buyers and private renters, together with measures to improve building safety and environmental standards across Living schemes.

Historical housing performance therefore reflects changing policy regimes, ownership structures and financing conditions, limiting the extent to which long-run historical averages can be treated as stable guides to future Living sector behaviour.

4. WHY HISTORICAL DATA IS NOT ENOUGH

Figure 2: Long-term housing tenure trends (England & Wales)



Source: Office for National Statistics (Table FT1101)

4.2 Institutionalisation of Living

Although rental housing is not new in the UK, many professionally-managed institutional Living subsectors have emerged only recently. Prior to the Global Financial Crisis (GFC), institutional ownership of open-market rented Living assets was limited, with Living often viewed as operationally complex, difficult to scale and relatively low yielding.

Following the GFC, lower interest rates, strong structural demand and the search for stable income accelerated institutional investment. PBSA and MFH developed first, followed by growing investor interest in SFH, Co-Living and Later Living. According to MSCI, Living sector allocations within UK institutional real estate portfolios have risen over the past 20 years from 2% to c.11%.

This rapid growth in the UK has been driven by PBSA and MFH subsectors, which have dominated Living sector investment volumes since 2010 as shown in Figure 3. This differs from the USA and much of Europe, where institutional residential investment has historically been concentrated in MFH.

Observed UK Living performance therefore partly reflects the composition of the investable market rather than a mature, stabilised allocation across Living formats. Many Living subsectors remain relatively young institutional markets with evolving operating models and limited stabilised performance histories, with important implications for long-run assumptions.

4. WHY HISTORICAL DATA IS NOT ENOUGH

Figure 3: Breakdown of historical Living sector investment transactions

Source: MSCI (transactions > USD 10 million)

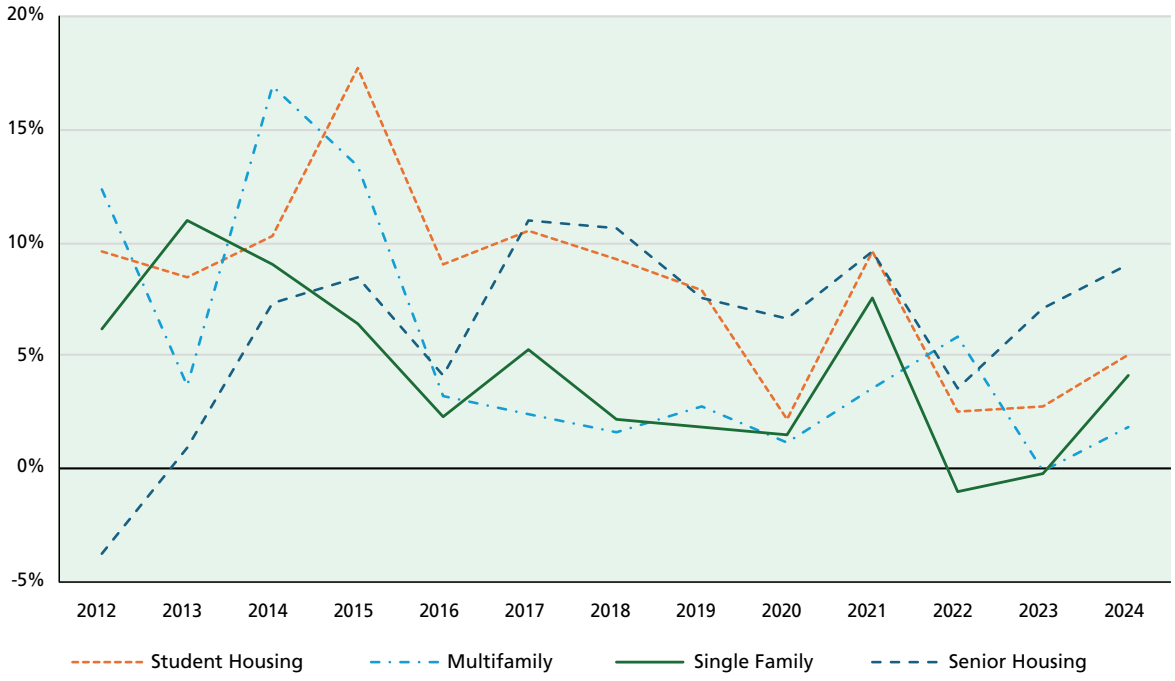
4.3 Historical returns reflect transition, not equilibrium

Historical performance data nevertheless provides useful evidence. According to MSCI, Living subsectors have delivered mixed returns over time. Since 2012, PBSA and Later Living have outperformed the All Property, while MFH has performed broadly in line and SFH has underperformed.

However, these outcomes should not automatically be interpreted as evidence of long-run relative performance. Observed returns in emerging Living sectors may reflect lease-up, development gains, repricing and changing investor demand, as much as stabilised operating characteristics.

4. WHY HISTORICAL DATA IS NOT ENOUGH

Figure 4: MSCI UK Living subsector total returns



Source: MSCI UK Annual Index

Historical Living returns have also been influenced by falling interest rates and yield compression. Following the GFC, lower bond yields and strong demand for stable income contributed to a repricing of residential schemes, particularly in institutionally emerging Living sectors. As required returns declined, capital values increased, boosting total returns beyond what underlying income growth alone would imply.

Historical performance may therefore overstate the returns achievable in a more mature market environment where further yield compression is less likely. Distinguishing between returns generated by underlying cash flow growth and those driven by repricing is therefore important when calibrating long-run assumptions.

4.4 Implications for long-run assumptions

Rather than relying solely on historical returns or observed volatility, long-run assumptions should be derived from the underlying drivers of income and risk, including rental growth, occupancy, operating costs, depreciation, regulation and pricing.

For this reason, the analysis places greater emphasis on the structural drivers of cash flow and risk than on observed historical performance alone. Where appropriate, UK evidence is supplemented with information from more established international markets to provide a stronger basis for estimating long-run income characteristics and deriving indicative target returns across Living subsectors.

5. WHAT THE EVIDENCE TELLS US

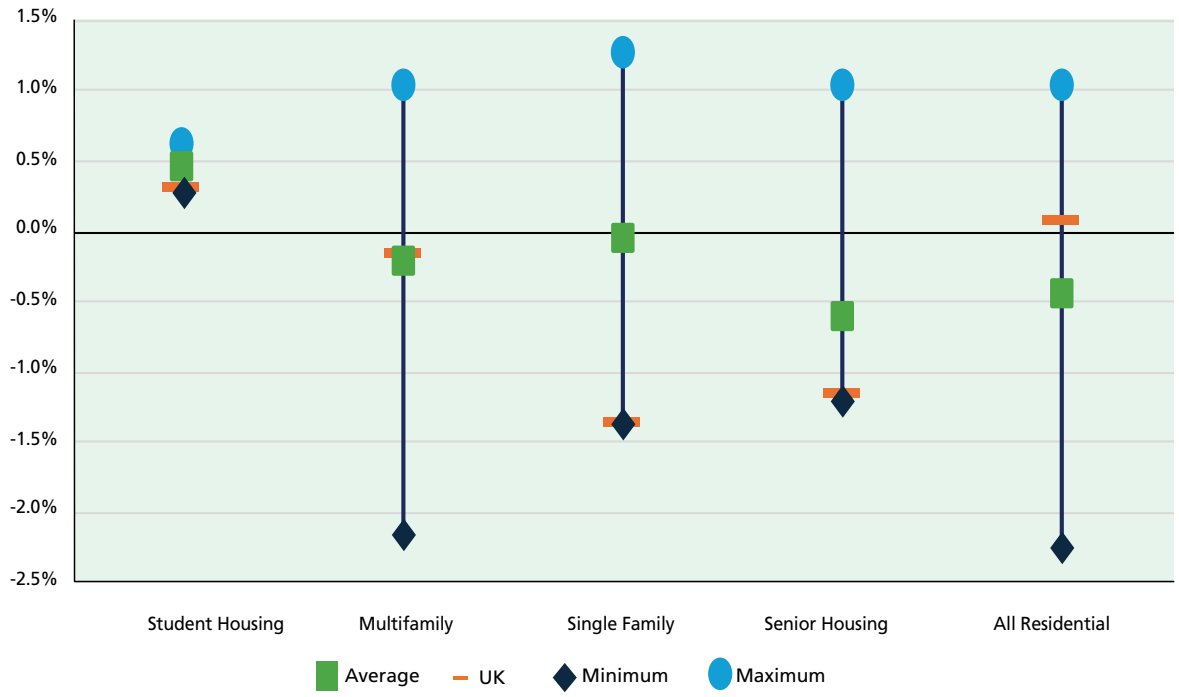
The breadth of evidence considered does show meaningful differences in income behaviour, operating costs, regulation and pricing across Living subsectors, but also highlights the importance of forward-looking assumptions.

5.1 Rental growth, affordability and occupancy

Evidence from MSCI, international listed companies and unlisted funds suggests that nominal residential rental growth has generally been positive across markets and Living subsectors over longer periods, typically ranging between 2% and 5% per annum. Stronger nominal growth has been observed in certain markets and operational subsectors, including PBSA and Senior Housing. However, real rental growth has generally been materially lower and, in many cases, close to zero or negative over longer periods. Across several developed markets, including parts of Europe and the UK, rental growth has often failed to materially exceed inflation over sustained periods.

Variation between subsectors is also significant. Operational Living formats, including PBSA and Senior Housing, tend to exhibit greater dispersion in outcomes, with periods of both stronger nominal growth and weaker or more volatile real performance. At the same time, evidence does not suggest a simple hierarchy of rental growth outcomes across Living subsectors. Instead, realised performance varies materially across markets, operating models and local conditions.

Figure 5: MSCI annualised real rental value growth, standing investments, (international* minimum, maximum and unweighted average vs UK), 10 years to end-2024



Source: MSCI, Research Team calculations * Including Austria, Canada, Denmark, France, Germany, Ireland, Italy, Netherlands, Spain, Sweden, Switzerland, UK

5. WHAT THE EVIDENCE TELLS US

Survey and interview evidence broadly supports this interpretation and provides a useful cross-reference for the rental growth assumptions used in the subsector models (shown in Table 2). Respondents generally reported base-case rental growth assumptions clustered within a range of approximately 3% to 4% per annum, with relatively limited variation between open-market and regulated Living formats. This is broadly consistent with long-run nominal earnings growth of approximately 3.5% per annum.

Respondents in regulated sectors frequently reported underwriting assumptions based on CPI plus an increment, commonly CPI+1%.

At the same time, respondents consistently identified earnings growth, housing supply and affordability constraints as the principal determinants of achievable rental growth, particularly within open-market Living sectors.

Table 2: Survey evidence on rental growth assumptions

	Rental growth (% pa) all countries		
	Weak	**Base**	**Strong**
Single Family Housing	0.7	3.3	6.3
Multifamily Housing	0.8	3.3	5.0
Co-Living	1.5	3.1	4.5
Retirement/Senior/Later Living	-	3.0	-
Purpose-Built Student Accommodation	-0.1	2.7	6.3
House in Multiple Occupation	0.0	4.3	6.5
Affordable Housing	-	-	-
Shared-Ownership	3.0	3.5	4.0
Social Housing	2.4	3.1	4.4

Source: Research Team calculations. Respondents were asked "What is your long-term annual rental growth expectation for stabilised assets in your primary living sector?". Strong and weak conditions were defined as those occurring "in roughly one out of six 5-year periods".

Respondents were also asked to identify the principal drivers of, and risks to, rental growth within different Living subsectors (see Tables 3 and 4). For open-market Living sectors, earnings growth and housing supply-demand conditions were consistently identified as the principal drivers of achievable rental growth, with renter affordability, local supply and asset quality viewed as the key risks.

By contrast, respondents operating within regulated Living sectors placed greater emphasis on government policy, rent-setting frameworks and inflation. In these sectors, policy intervention and regulatory change were frequently viewed as more important determinants of rental performance than local market dynamics.

5. WHAT THE EVIDENCE TELLS US

Table 3: Survey evidence on drivers of rental growth

	Drivers of rental growth (%)					
Percentages show the proportion of respondents in each subsector selecting a driver of rental growth as being either 'primary' or 'secondary' importance	**Average earnings**	**Demographics**	**Gov't Policy & Regulation**	**Inflation**	**Housing Supply and Demand**	**Housing Product Perception**
	All countries					
Single Family Housing	41	5	5	9	41	0
Multifamily Housing	33	0	7	13	40	7
Co-Living	50	0	0	0	50	0
Retirement/Senior/ Later Living	50	50	0	0	0	0
Purpose-Built Student Accommodation	0	40	10	0	50	0
House in Multiple Occupation	25	0	50	0	25	0
Affordable Housing	-	-	-	-	-	-
Shared-Ownership	0	0	33	67	0	0
Social Housing	9	0	36	45	9	0
All sub-sectors	27	8	14	15	34	1
Open Market	32	11	9	7	40	2
Regulated	7	0	36	50	7	0

Source: Research Team calculations. Respondents were asked "What are the main drivers of rental growth for your primary living sector? Please indicate one primary driver and one secondary driver".

5. WHAT THE EVIDENCE TELLS US

Table 4: Survey evidence on risks to rental growth

	Risks to rental growth (%)					
Percentages show the proportion of respondents in each subsector selecting a risk to rental growth as being either 'primary' or 'secondary' importance	**Average earnings**	**Demographics**	**Gov't Policy & Regulation**	**Inflation**	**Housing Supply and Demand**	**Housing Product Perception**
	All countries					
Single Family Housing	20	20	8	36	8	8
Multifamily Housing	45	9	9	27	9	0
Co-Living	25	50	0	0	25	0
Retirement/Senior/ Later Living	0	50	0	50	0	0
Purpose-Built Student Accommodation	18	9	27	27	9	9
House in Multiple Occupation	50	0	0	0	50	0
Affordable Housing	-	-	-	-	-	-
Shared-Ownership	0	50	50	0	0	0
Social Housing	20	0	0	0	20	60
All sub-sectors	24	18	11	26	11	10
Open Market	25	18	11	29	11	5
Regulated	14	14	14	0	14	43

Source: Research Team calculations. Respondents were asked "What do you see as the primary and secondary risks that could prevent you from achieving the rent assumed in your underwriting? Please indicate one primary and one secondary risk".

The evidence suggests that long-run rental growth across Living formats remains broadly anchored to affordability, household incomes and inflation. While local supply-demand imbalances may support periods of stronger growth, the evidence provides limited support for assumptions of permanently elevated rental growth.

5. WHAT THE EVIDENCE TELLS US

5.2 Occupancy and reletting risk

Occupancy patterns appear consistently resilient across Living formats. Evidence from MSCI, REITs and fund disclosures suggests vacancy rates are typically low, generally ranging between approximately 1% and 4%, with relatively limited cyclical variation over longer periods. Correspondingly, occupancy rates frequently remain within a range of approximately 96% to 99%.

Variation across Living subsectors appears relatively modest. Later Living and PBSA typically exhibit the lowest vacancy rates, while Multifamily and Single Family Housing tend to experience slightly higher, although still comparatively low, vacancy. More operational Living formats, including PBSA and Later Living, may nevertheless exhibit greater short-term variability, reflecting shorter occupation periods and higher operational complexity.

Survey and interview evidence similarly identified occupancy as structurally robust across most Living subsectors and provided a useful cross-reference for modelling assumptions. Base-case occupancy assumptions generally clustered within a range of 95% to 99%, with only modest improvements anticipated during periods of stronger rental growth. Even under weaker market conditions, occupancy assumptions typically remained above 90%, suggesting relatively resilient income characteristics across most Living formats.

Letting periods exhibited greater variation across subsectors. Within established open-market sectors, including Multifamily and Single Family Housing, base-case reletting assumptions typically ranged from three to five weeks, rising to six to eight weeks during weaker market conditions. Respondents nevertheless repeatedly emphasised the importance of local market conditions, asset quality and competitive positioning in determining realised occupancy outcomes.

Table 5: Survey evidence on occupancy and reletting assumptions

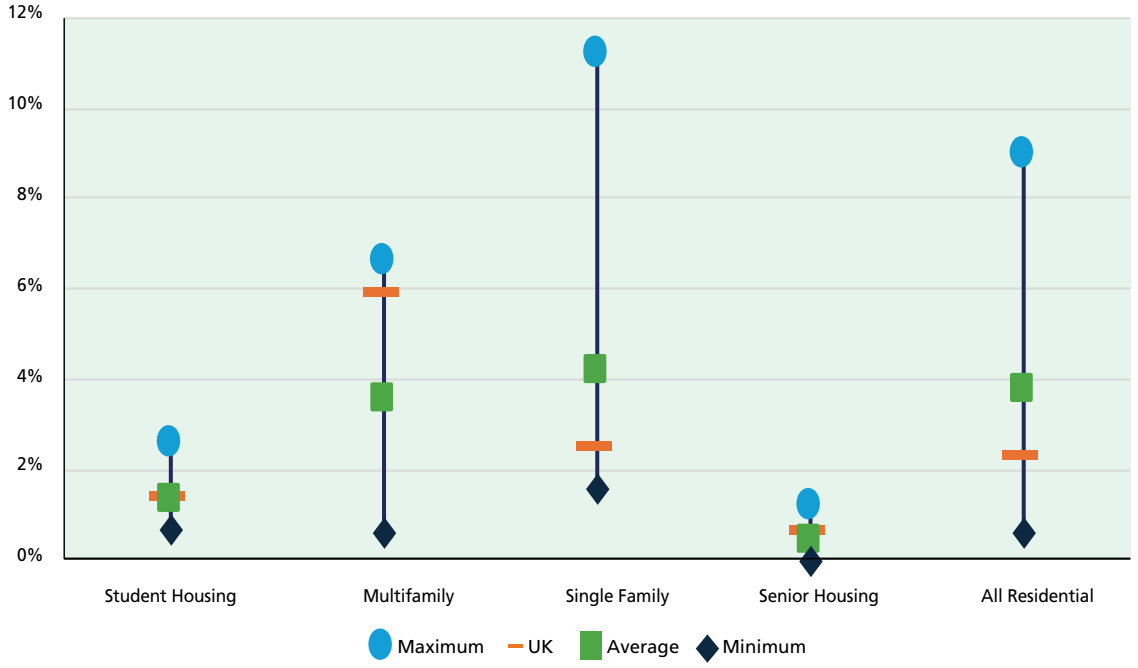
	Occupancy (% pa) all countries			**Letting period (weeks)** all countries		
	Weak	**Base**	**Strong**	**Weak**	**Base**	**Strong**
Single-Family Housing	91.3	96.7	98.3	8.0	4.5	3.3
Multi-Family Housing	91.3	96.1	98.9	7.3	3.8	1.8
Co-Living	90.0	95.5	98.0	8.0	4.0	2.0
Retirement/Senior/Later Living (incl. Age Restricted)	-	-	-	-	-	-
Purpose-Built Student Accommodation	85.1	94.5	98.4	-	3.0	-
House in Multiple Occupation						
Affordable Housing (Affordable, Intermediate, DMR)	-	-	-	-	-	-
Shared-Ownership	-	99.0	-	-	2.0	
Social Housing (Registered Provider)	93.6	96.8	94.9	14.3	12.0	10.0

Source: Research Team calculations. Strong and weak conditions were defined as those occurring "in roughly one out of six 5-year periods".

Interestingly, the evidence also suggests a positive relationship between vacancy and irrecoverable operating costs. Formats associated with greater operational complexity frequently exhibit both slightly higher vacancy and higher operating costs, implying greater sensitivity of NOI to leasing performance and operational execution.

5. WHAT THE EVIDENCE TELLS US

Figure 6: Vacancy rates (international* minimum, maximum and unweighted average vs UK) 20 years to end-2024



Source: MSCI, Research Team calculations. * Including Austria, Canada, Denmark, France, Germany, Ireland, Italy, Netherlands, Spain, Sweden, Switzerland, UK

Implication for modelling

Taken together, the evidence suggests that long-run rental growth assumptions should remain anchored to affordability and inflation, while occupancy and reletting risk should be modelled dynamically and differentiated by subsector and operating model. Local supply conditions and asset quality may create material differences in realised performance within subsectors, implying that portfolio outcomes may differ materially from subsector averages.

5.3 Operating costs, depreciation and operational execution

Evidence from MSCI, international listed residential companies, unlisted funds and project interviews suggest that Living subsectors differ materially in cost structure, with important implications for how efficiently gross rental income converts into NOI. Differences in irrecoverable operating costs, capital expenditure requirements and operational execution may therefore be as important as rental growth or occupancy when explaining long-run performance.

Across most markets, Multifamily and more operational Living formats tend to exhibit higher irrecoverable operating costs than simpler housing models. Evidence from MSCI suggests that operating costs, measured both per square metre and as a proportion of gross income, remain relatively stable over time, with most markets exhibiting broadly consistent cost ratios across extended periods. However, meaningful variation exists across subsectors and jurisdictions.

5. WHAT THE EVIDENCE TELLS US

Operational Living formats frequently exhibit higher expenditure requirements associated with leasing, management and resident-related services. At the same time, international comparisons suggest that apparently similar subsectors may operate under materially different business models. For example, observed expenditure in Later Living varies significantly between countries, implying different levels of service provision, cost recoverability and operating models.

Two complementary measures of expenditure are relevant for modelling purposes. Costs expressed as a proportion of gross income provide insight into the sensitivity of NOI to changes in occupancy, pricing and operating efficiency. Higher cost ratios imply greater operational leverage, with income shocks translating more directly into changes in cash flow.

By contrast, expenditure measured on a per square metre basis provides insight into the underlying operating model and specification of different Living formats. This measure is particularly useful for stylised modelling, as it can be translated directly into forward-looking cash flow assumptions and facilitates comparison across markets where rent levels differ materially.

Table 6: Irrecoverable costs as % of gross income, standing investments

	20 years to end 2024				10 years to end 2024				10 years to end 2014			
	International markets				International markets				International markets			
Subsector	**Min**	**Avg**	**Max**	**UK**	**Min**	**Avg**	**Max**	**UK**	**Min**	**Avg**	**Max**	**UK**
PBSA	21	31	47	22	21	31	44	22	20	30	41	20
MFH	15	31	49	24	15	31	53	24	21	31	62	22
SFH	18	29	45	19	18	29	45	19	21	27	38	21
Later Living	2	10	27	5	2	10	28	6	7	16	29	9
All Residential	**18**	**31**	**49**	**27**	**17**	**31**	**49**	**27**	**15**	**33**	**53**	**32**

Source: MSCI, Research Team calculations

Table 7: Irrecoverable costs (psm) - in real terms, standing investments

	20 years to end 2024				10 years to end 2024				10 years to end 2014			
	International markets				International markets				International markets			
Subsector	**Min**	**Avg**	**Max**	**UK**	**Min**	**Avg**	**Max**	**UK**	**Min**	**Avg**	**Max**	**UK**
PBSA	33	76	157	33	39	81	172	39		117		
MFH	24	72	123	100	24	70	143	99	49	92	118	104
SFH	15	50	84	55	15	47	66	65	32	55	97	35
Later Living	1	17	57	3	1	15	52	4	1	34	68	1
All Residential	**32**	**69**	**116**	**79**	**32**	**68**	**139**	**72**	**25**	**76**	**115**	**88**

Source: MSCI, Research Team calculations

5. WHAT THE EVIDENCE TELLS US

Survey evidence on operating expenditure and risks

Survey and interview evidence broadly reinforced the observed operating cost patterns and provided a useful cross-reference for underwriting assumptions. Reported operating expenditure assumptions generally clustered within a range of 20% to 30% of gross income, broadly supporting the findings from MSCI and listed market evidence. Shared Ownership appeared to exhibit lower cost assumptions, although the survey response rate for this subsector was comparatively limited.

Interestingly, the range between low and high operating cost assumptions was widest in Multifamily and Single Family Housing, despite these being among the most established Living formats. Respondents suggested this may reflect differences in specification, amenity provision and operational efficiency, including the extent to which larger portfolios benefit from procurement efficiencies and platform scale.

Table 8: Survey evidence on operating expenditure assumptions

	Op ex (% of gross income) all countries			**Op ex (% of gross income)** UK only		
	Low	**Avg**	**High**	**Low**	**Avg**	**High**
Single Family Housing	8.0	21.9	30.0	8.0	21.9	30.0
Multifamily Housing	15.0	24.2	30.0	25.0	27.5	30.0
Co-Living	25.0	25.0	25.0	25.0	25.0	25.0
Retirement/Senior/Later Living (incl. Age Restricted)	-	-	-	-	-	-
Purpose-Built Student Accommodation	25.0	25.7	27.0	25.0	25.7	27.0
House in Multiple Occupation	30.0	30.0	30.0	30.0	30.0	30.0
Affordable Housing (Affordable, Intermediate, DMR)	-	-	-	-	-	-
Shared-Ownership	5.0	5.0	5.0	5.0	5.0	5.0
Social Housing (Registered Provider)	20.0	20.0	20.0	20.0	20.0	20.0

Source: Research Team calculations. Respondents were asked "In a typical underwrite for a stabilised asset, what would you assume [operating expenses]?"
Note: There was insufficient data for some formats

Respondents were also asked to identify the principal risks to operating expenditure. Across both open-market and regulated Living sectors, compliance and regulation were consistently identified as the most important risks, followed by wage inflation, maintenance costs and operator or contractor capacity. By contrast, energy costs were generally perceived as less significant, potentially reflecting business models that partly mitigate energy price volatility through contractual arrangements or hedging.

Capital expenditure and depreciation

Capital expenditure also varies materially across Living formats and may influence long-run income sustainability, rental competitiveness and achieved investment performance. Across multiple markets, Multifamily, Later Living and more operational Living formats frequently exhibit higher recurring capital expenditure than simpler housing formats such as standard Single Family Housing or PBSA. Although evidence of a sustained upward trend in expenditure over time is mixed, some markets have experienced higher costs associated with changing building standards, decarbonisation requirements and safety regulation.

5. WHAT THE EVIDENCE TELLS US

Table 9: Improvement Expenditure (psm) - in real terms, standing investments

	20 years to end 2024				10 years to end 2024				10 years to end 2014			
	International markets				International markets				International markets			
Subsector	Min	Avg	Max	UK	Min	Avg	Max	UK	Min	Avg	Max	UK
PBSA	-	-	-	-	1	35	63	19	-	-	-	-
MFH	8	35	80	80	8	36	69	68	1	42	143	143
SFH	4	30	52	52	4	31	58	32	9	38	79	79
Later Living	0	15	55	55	0	16	61	61	0	11	19	0
All Residential	**7**	**34**	**59**	**55**	**7**	**35**	**67**	**50**	**4**	**29**	**62**	**62**

Source: MSCI, Research Team calculations
Note: There was insufficient PBSA data due to lack of market before 2014

The distinction between revenue and capital expenditure also affects how performance is reported. Costs treated as capital expenditure are reflected through capital growth, while those treated as revenue expenditure reduce income return. Although total return is unaffected, comparisons of income and capital performance across markets and managers should therefore be interpreted with caution.

At the same time, evidence from rental growth suggests that achieved asset-level performance may diverge materially from wider market rental growth. Flats appear to exhibit a greater gap between refreshed-sample market rental growth and held-asset rental performance than housing formats such as SFH, suggesting stronger depreciation effects arising from ageing, obsolescence and changing occupier preferences. Capital expenditure therefore performs an important economic role, helping maintain competitiveness, occupancy and rental performance rather than simply preserving physical condition.

Operational execution

Larger operational platforms were frequently viewed as benefiting from procurement efficiencies, leasing capability and stronger cost control. Respondents repeatedly highlighted operator quality as an important determinant of realised performance, particularly in sectors with higher operating costs and more intensive management requirements.

Implication for modelling

Taken together, the evidence suggests that long-run performance depends not only on rental growth and occupancy, but also on recurring operating expenditure, capital requirements, depreciation and operational execution. These factors may justify meaningful differences in target return between superficially similar Living formats.

5.4 Regulation shapes income and costs

Regulation represents one of the clearest distinctions between Living subsectors, influencing both income behaviour and cost structures and, in some sectors, acting as a primary determinant of cash flow risk.

5. WHAT THE EVIDENCE TELLS US

Income stability and regulation

Across markets, regulated sectors typically exhibit relatively stable income profiles and near-zero vacancy. Social Housing and Affordable Housing generally experience lower observed volatility than open-market sectors, reflecting policy-linked rent review mechanisms and structurally supported demand. By contrast, open-market Living sectors exhibit greater variation in rental growth and stronger sensitivity to affordability and local supply conditions.

However, lower observed volatility does not necessarily imply lower economic risk. Evidence from project interviews and international examples suggests that regulation affects returns through three principal channels:

(i) Income constraint

Regulation may constrain income growth. In many regulated systems, rental growth is linked to inflation or policy formulas rather than open-market rent reviews. This reduces volatility but also limits upside during stronger market conditions. Observed stability may therefore partly reflect income constraint rather than economic resilience. Refer to Table 1 which shows international examples of regulatory income constraints in Berlin, New York and Dublin.

(ii) Cost escalation

Regulation may increase operating and capital expenditure. Compliance requirements associated with building safety, decarbonisation and energy efficiency standards can materially increase expenditure, often independently of underlying rental performance. Survey respondents repeatedly identified the Building Safety Act (2022) and environmental compliance requirements as important drivers of recent cost escalation.

(iii) Policy and regime risk

Regulation introduces policy and regime risk. International evidence demonstrates that regulatory intervention is often episodic and politically driven rather than systematic. Rent caps, rent stabilisation measures and ownership restrictions have frequently been introduced, revised or reversed in response to affordability pressures or wider political conditions. In the UK, permitted rent increases in regulated housing (e.g. CPI+1%) have changed over time, illustrating that future income growth cannot be assumed to follow the current framework indefinitely. Regulatory risk therefore arises not from the current rules themselves, but from uncertainty regarding how those rules may evolve and the impact this may have on future cash flows.

Examples of how regulation may affect Living cash flows through income constraint, cost escalation, liquidity and regime risk are shown in Table 1.

Implication for modelling

The evidence therefore supports modelling regulation through its economic consequences, including income constraint, cost escalation and regime risk, rather than through fixed legal assumptions alone. For regulated sectors, this implies rental growth linked more closely to inflation, reduced volatility and constrained upside during stronger market conditions. At the same time, forward-looking analysis should allow for step changes in operating or capital expenditure and recognise the asymmetric nature of regulatory risk.

As discussed in Chapter 4, historical residential performance has been materially influenced by falling interest rates and yield compression. A significant proportion of historical capital growth appears attributable to repricing rather than underlying cash flow growth alone. Historical returns should therefore be interpreted cautiously when inferring long-run equilibrium performance or required returns.

5. WHAT THE EVIDENCE TELLS US

This is particularly relevant in Living, where investment market maturity, transparency and liquidity vary materially between subsectors. Similar cash flow profiles may therefore justify different valuations depending on pricing certainty, market depth and exit liquidity.

According to the IPF's research report, the Size and Structure of the UK Property Market, the residential market was valued at approximately £8 trillion in 2023, substantially larger than the commercial property market, although institutional ownership remains concentrated in a relatively small proportion of stock. As a result, the scale of the underlying residential market should not be confused with the liquidity or maturity of institutional Living investment markets.

Survey respondents and interviewees generally rated liquidity highest in more established sectors such as PBSA, MFH, SFH and Affordable Housing, while more operational or emerging formats, including Co-Living, Later Living and HMOs, were perceived as materially less liquid. Relative liquidity was assessed against a liquid benchmark, CBD offices, allowing comparison across subsectors. Regulated sectors, including Shared Ownership and Social Housing, were perceived to exhibit liquidity broadly comparable to the average for open-market Living formats.

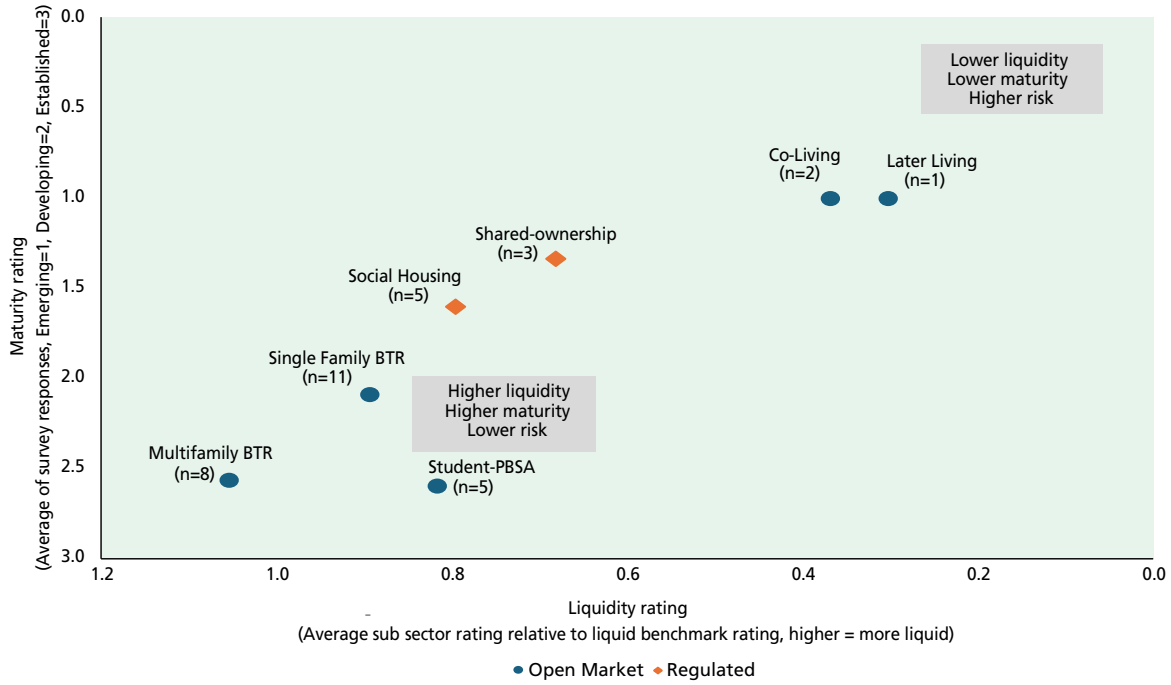
Perceptions of market maturity broadly followed the same pattern. Multifamily and PBSA were generally viewed as more established institutional markets, while regulated Living sectors were more commonly characterised as developing or emerging. As Figure 7 illustrates, subsectors perceived as more mature also tended to be viewed as more liquid, suggesting that stronger pricing transparency and transaction depth may reduce uncertainty around pricing and exit conditions.

Market transparency follows a similar pattern. More mature subsectors generally benefit from stronger reporting standards, more observable pricing and deeper investor participation. By contrast, less mature sectors often exhibit limited comparable evidence, inconsistent definitions and weaker market transparency.

The evidence therefore suggests that similar cash flows may justify different valuations depending on market maturity, pricing transparency and exit liquidity. Required returns should not be inferred solely from income characteristics, but should also reflect differences in market structure, liquidity and pricing certainty.

5. WHAT THE EVIDENCE TELLS US

Figure 7: Survey evidence on perceptions of liquidity and market maturity, by Living subsector



Source: Research Team calculations. Respondents were asked to rate the liquidity of their primary Living subsector relative to a liquid real estate asset (well-let CBD office), and to describe the maturity of that Living subsector according to the following descriptions: Emerging (currently on the fringes), Developing (attracting interest, becoming mainstream), Established (already considered to be a mainstream real estate sector).

5.5 Evidence on target returns in practice

Survey evidence indicates that explicit target return frameworks are widely used across the Living sector. Approximately 75% of respondents reported using explicit target returns in underwriting and investment decision-making.[1]

However, the evidence does not suggest a simple hierarchy of required returns by subsector. While some sectors, including PBSA, exhibited relatively narrow ranges of target returns, others displayed much wider dispersion. Reported target returns frequently varied within subsectors according to asset quality, location, operating model and investor strategy.

From evidence to modelling

The evidence reviewed in this chapter highlights major differences in income generation, occupancy, operating costs, regulation and pricing across Living subsectors, while also illustrating the limitations of currently available market data.

The modelling framework that follows draws on this evidence to examine how differences in cash flow structure, inflation exposure, regulation, operating costs and market maturity may justify differences in required returns and diversification outcomes across Living formats.

1 For a discussion of Target Returns see An Investigation of Hurdle Rates in the Real Estate Investment Process, IPF, May 2017

6. MODELLING FRAMEWORK AND FINDINGS

Differences in operating intensity, rent-setting and regulation may justify material differences in required returns across Living subsectors.

Guide to the modelling framework

Living schemes can operate very differently. Some generate relatively stable income streams with limited operating costs, while others depend more heavily on day-to-day operations and are more exposed to inflation, regulation, or renter turnover. These differences can affect the predictability of future cash flows and justify differences in pricing, even within the same broad sector.

The purpose of the framework is not to prescribe a single set of target returns, but to provide a structured process for understanding how differences in cash flow risk may justify differences in pricing across Living schemes. Investors may apply different assumptions, but the underlying logic remains the same: required returns should reflect differences in exposure to cash flow risk.

Put simply, the analysis asks the following question:

If two Living schemes generate income in different ways, how much difference in pricing might those differences in cash flow risk justify?

To explore this question, the framework combines Monte Carlo simulation with scenario analysis to capture different forms of uncertainty.

Monte Carlo simulation is used to test how variation in rental growth and renter turnover may affect cash flow stability. Scenario analysis is then used to test more structural shocks that may not be fully captured by normal patterns of variability, such as a prolonged period of inflation or changes in regulation. The two approaches therefore serve different purposes and are used together rather than as substitutes.

The framework should not be interpreted as a prediction of exact market pricing or a description of how investors explicitly make decisions in practice. Rather, it provides a structured way of comparing relative risk and return across Living schemes and testing whether observed differences in pricing are broadly consistent with differences in underlying cash flow characteristics.

Over time, differences in underlying cash flow risk would be expected to influence relative pricing. More operational Living formats, with higher running costs or greater exposure to inflation, regulation risk or renter turnover, may require higher target returns than more stable income streams. These calibrated target returns can then be translated into implied yields and capital values per square foot, providing a basis for comparison with observed market pricing.

6.1 Overview of the modelling approach

The analysis proceeds from stylised operating structures to calibrated target returns before being applied to representative Living subsectors. Detailed assumptions, stylised operating structures and intermediate outputs are provided in Appendix B.

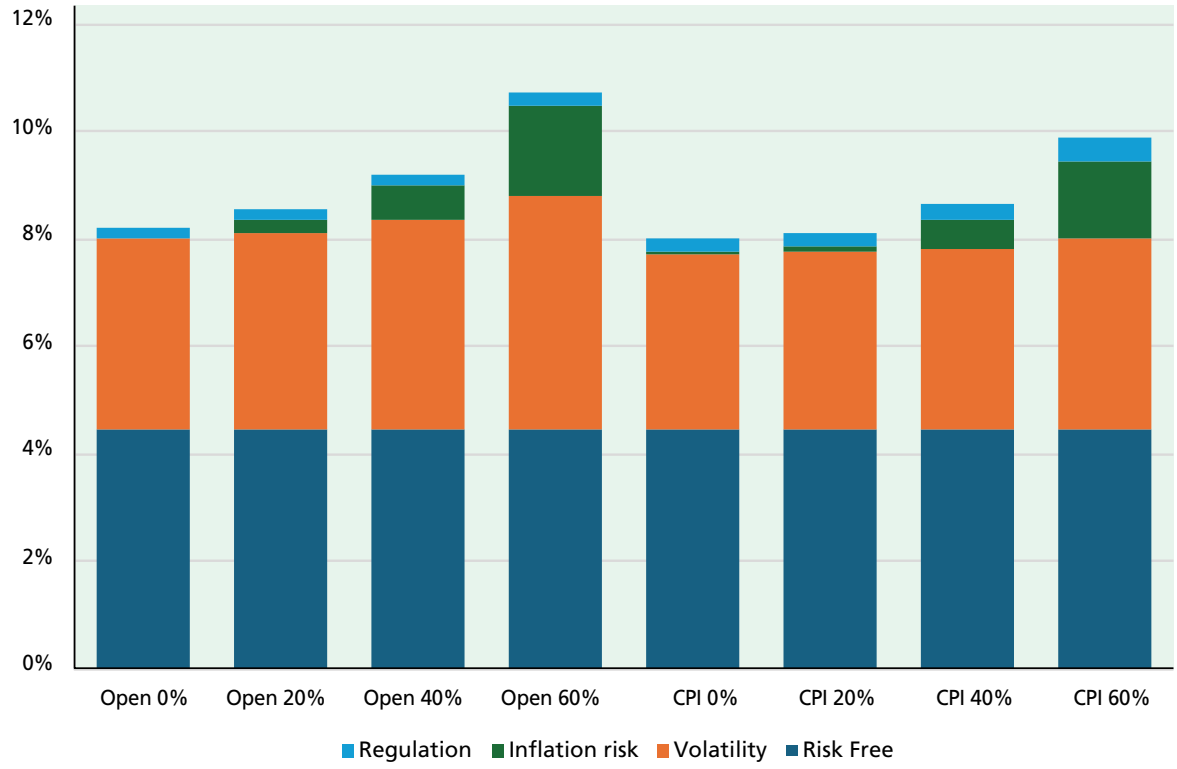
The first stage of the modelling examines stylised operating structures to isolate the effect of different rent-setting mechanisms and operating cost levels on cash flow uncertainty. This provides a simplified framework for understanding how underlying economic characteristics may influence risk.

6. MODELLING FRAMEWORK AND FINDINGS

6.2 Key findings from stylised operating structures

The modelling shows that higher operating costs and open-market rent-setting mechanisms are associated with greater return volatility and higher calibrated target returns.

Figure 8: Target return breakdown by operating cost and rent review structure



Source: Research Team calculations.

Interpretation

The stylised modelling suggests that operating structure matters materially for pricing. Schemes with higher irrecoverable costs exhibit greater operational leverage, meaning that changes in occupancy or inflation translate more directly into NOI. Similarly, sectors relying on open-market rent reviews exhibit greater exposure to affordability and local supply conditions than inflation-linked formats.

These stylised results provide the foundation for the subsector analysis that follows.

6.3 Application to Living subsectors

The framework is now applied to representative Living subsectors using stylised assumptions informed by the evidence presented earlier.

6. MODELLING FRAMEWORK AND FINDINGS

Key modelling assumptions

Table 10 maps Living subsectors to the stylised operating structures used in the earlier stages of the framework.

Table 10: Mapping of Living subsectors to modelled operating assumptions

Living subsector	Format		Rent review Mechanism	Regulated	Inclusive rent	Cost Recovery
SFH	House	Leased	Open-market	✗	✗	✗
MFH	Flat	Leased	Open-market	✗	✗	✗
Co-Living	Flat	Leased	Open-market	✗	✓	✗
HMO	House	Leased	Open-market	✗	✓	✗
Social Housing	Flat	Leased	Inflation	✓	✗	✓
Affordable (DMR)	Flat	DMR	Open-market	✗	✗	✗
PBSA	Flat	Leased	Open-market	✗	✓	✗
Later Living (Rental)	Flat	Leased	Open-market	✗	✓	✓
PRS	Flat	Leased	Open-market	✗	✗	✗

Source: Research Team calculations
Note: DMR is Discounted Market Rent

Detailed assumptions regarding rents, costs, renter retention and rental growth are provided in Appendix B.

Broadly, more operational Living formats are characterised by higher operating costs and greater turnover of renters. Regulated sectors typically exhibit longer occupation periods and inflation-linked rent review mechanisms, while open-market sectors exhibit greater sensitivity to renter affordability.

Adjusting the target return

Baseline target returns are calibrated using the stylised operating structures and stress testing described in Appendix B. Additional premia for liquidity and transparency are then applied, informed by survey evidence on relative differences across Living segments.

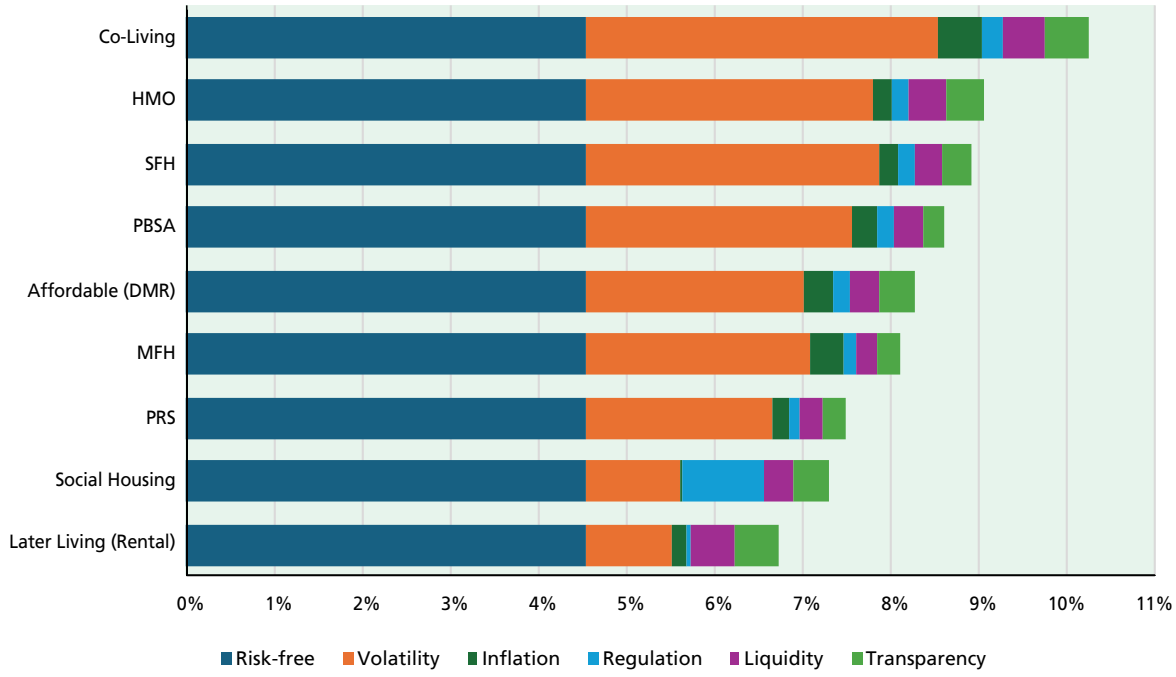
6. MODELLING FRAMEWORK AND FINDINGS

Table 11: Living subsectors target returns

Living subsector	Risk premiums (%)						Target return
		Inflation	Regulation	Liquidity	Transparency	Total	
Later Living (Rental)	0.97	0.18	0.05	0.50	0.50	**2.20**	6.67
Social Housing	1.06	0.04	0.92	0.34	0.41	**2.72**	7.24
PRS	2.12	0.19	0.13	0.25	0.25	**2.94**	7.41
MFH	2.55	0.38	0.14	0.25	0.25	**3.57**	8.04
Affordable (DMR)	2.47	0.33	0.19	0.34	0.41	**3.74**	8.21
PBSA	3.03	0.27	0.20	0.33	0.25	**4.07**	8.54
SFH	3.34	0.21	0.19	0.30	0.33	**4.37**	8.84
HMO	3.26	0.21	0.20	0.43	0.42	**4.52**	8.99
Co-Living	3.99	0.51	0.23	0.48	0.50	**5.72**	10.19

Source: Research Team calculations
Note: Risk-free rate = 4.5%

Figure 9: Decomposition of calibrated target returns by Living subsector



Source: Research Team calculations

The target returns presented here are intended to illustrate how differences in operating structure, regulation and cash flow uncertainty may justify differences in required returns across Living subsectors, rather than to estimate empirically observed market pricing.

While the framework references a risk-free rate as an anchor for required returns, in practice investors may place greater weight on expectations regarding long-term financing conditions and required returns over the anticipated holding period. Observed pricing may therefore not move one-for-one with short-term changes in government bond yields.

6. MODELLING FRAMEWORK AND FINDINGS

More broadly, market pricing may or may not fully reflect underlying differences in cash flow risk. The framework should therefore be interpreted as a structured benchmark for considering how differences in operating intensity, regulation, cost recoverability, rental growth potential and income uncertainty might justify differences in required returns, rather than as a prediction of market pricing.

Table 12: Illustrative pricing implications of calibrated target returns

Living subsector	Present value per house/flat	Floorspace efficiency	Present value PSF	Gross yield	NOI yield
SFH	£445,139	100%	£356	8.4%	6.7%
MFH	£259,295	80%	£319	9.3%	6.8%
Co-Living	£127,628	55%	£281	14.1%	8.1%
HMO	£652,704	100%	£522	6.9%	5.1%
Social Housing	£123,302	90%	£171	6.3%	5.2%
Affordable (DMR)	£145,727	85%	£165	8.6%	6.8%
PBSA	£99,275	70%	£347	9.7%	7.6%
Later Living (Rental)	£239,536	80%	£319	7.5%	6.7%
PRS	£248,504	85%	£282	7.2%	6.2%

Source: Research Team calculations

The framework does not explicitly incorporate a separate premium for operator or platform risk. The analysis is intended to represent broad subsector characteristics under stabilised operating assumptions, rather than differences in execution capability between operators. In practice, realised performance may vary materially according to leasing performance, renter retention, cost control and operational execution. Strong operators may therefore achieve materially different outcomes within the same broad Living format.

Potential application in investment decision-making

One potential application of the framework is as a structured benchmark for comparing calibrated target returns with observed market pricing. Where implied market pricing appears materially more or less demanding than the target return suggested by the underlying operating structure and cash flow characteristics, investors may conclude that some Living formats appear relatively over- or under-priced given their underlying cash flow risk. The framework is not intended to determine a single 'correct' price, but rather to support more transparent underwriting by making assumptions regarding growth, operating risk, regulation and cash flow uncertainty more explicit.

Interpretation

The results suggest that Living should not be treated as a homogeneous allocation. Differences in operating structure, rent-setting mechanism, cost level, regulation and liquidity may justify material differences in target return, even between subsectors that appear superficially similar.

More operational Living formats, including Co-Living and PBSA, exhibit higher target returns, reflecting greater cost levels and inflation sensitivity.

6. MODELLING FRAMEWORK AND FINDINGS

The modelling also highlights that lower-rent regulated Living formats do not necessarily imply lower risk. While Social and Affordable Housing benefit from more stable rent-setting mechanisms, lower rental income relative to operating and recurring capital costs can increase the sensitivity of NOI to inflation and operating assumptions. Lower rents may therefore be associated with thinner operating margins and, in some cases, higher target returns than might be expected from rent stability alone.

The findings reinforce one of the central conclusions of this report: Living subsectors differ materially in how income is generated, constrained and converted into NOI, and these differences may justify meaningful variation in target returns, yields and pricing.

Key insight

Higher rents in Living do not necessarily imply lower yields. As operating costs rise, higher gross rents may be required both to support NOI and compensate for greater exposure to irrecoverable costs, inflation and regulation. More operational Living formats may therefore justify both higher rents and higher yields than less operational models.

This differs from many commercial sectors, where higher rents are more commonly associated with stronger covenants, longer income duration and lower vacancy risk, factors that typically support lower yields.

This also has important implications for development viability. Exit values depend not only on stabilised income, but also on the perceived risk of that income.

7. PORTFOLIO CONSTRUCTION IMPLICATIONS

Diversification within Living is driven less by broad subsector labels and more by differences in underlying economic exposure, scheme diversification and operational capability. Correlations between subsectors are relatively high with the strongest diversification benefits arising between genuinely different economic models.

7.1 A framework for portfolio construction

The calibrated target returns and volatility estimates provide a transparent long-term framework for considering relative risk and return across Living formats. Because many Living sectors remain relatively immature and historical performance evidence may reflect lease-up, repricing and changing operating models, historical correlations alone may provide an incomplete guide to diversification.

The framework therefore provides a more forward-looking basis for portfolio construction by considering how differences in rent-setting mechanism, operating cost level, inflation exposure and regulation may influence cash flow risk through time. Indicative target returns and volatility estimates may in turn provide long-term assumptions for relative return expectations and risk across Living formats.

7.2 Correlations within Living are likely to remain relatively high

Diversification within Living arises not simply from exposure to different subsector labels, but from differences in the underlying drivers of performance. Most Living formats remain exposed to common macroeconomic forces through household income, affordability and housing supply conditions. As a result, correlations between Living subsectors are generally high, averaging around 70% across international markets.

Table 13: Living subsector correlation matrix, international markets

	Average correlation across international* markets			
	Student Housing	**Multifamily Housing**	**Single Family Housing**	**Senior Housing**
Student Housing	1.00			
Multifamily	0.70	1.00		
Single Family	0.71	0.84	1.00	
Senior Housing	0.64	0.58	0.68	1.00

Source: MSCI, maximum history 2001-2024. * Including Canada, Denmark, France, Germany, Italy, Japan, Netherlands, South Africa, Sweden, Switzerland, UK, USA.

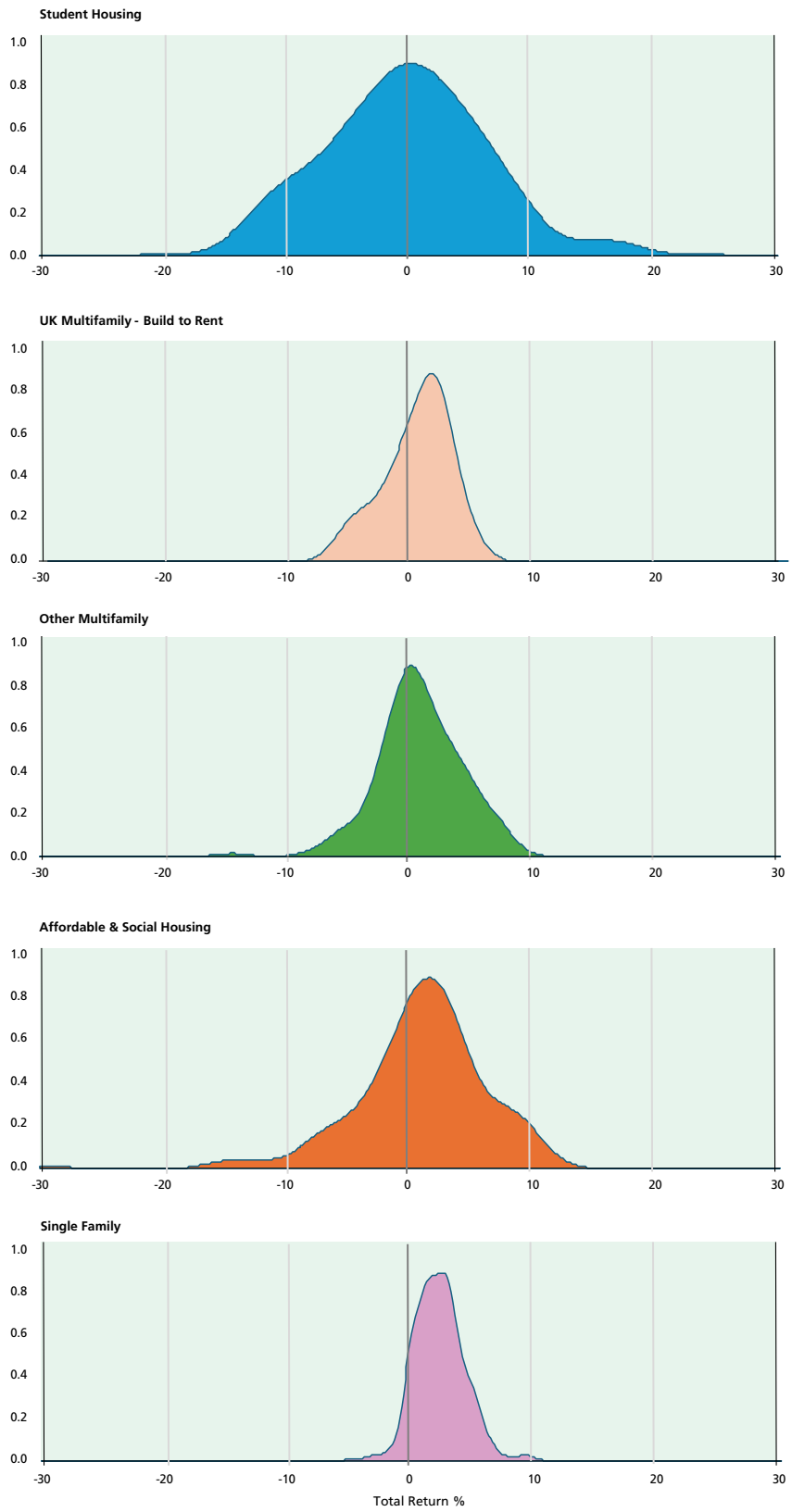
The distribution of returns highlights the substantial variation in performance within individual Living subsectors, while the correlation matrix indicates that returns across Living formats remain relatively highly correlated. Together, these findings suggest that diversification benefits from allocating across Living subsectors may be more limited than commonly assumed. Scheme diversification and operational capability may therefore have a greater influence on portfolio risk and return than allocation across highly correlated Living formats.

7.3 Scheme diversification may matter more than subsector diversification

The distribution of returns in Figure 10 highlights the substantial variation in performance within individual Living subsectors. While average returns are broadly similar across Living formats, realised outcomes vary considerably between schemes, reflecting differences in local market conditions, renter retention and operational execution.

7. PORTFOLIO CONSTRUCTION IMPLICATIONS

Figure 10: Distribution of total returns by UK Living subsector



Source: MSCI UK Quarterly Property Index

7. PORTFOLIO CONSTRUCTION IMPLICATIONS

The analysis therefore suggests that diversification within Living may depend more heavily on the number and spread of Living schemes than on broad subsector breadth. At the individual scheme level, returns remain influenced by local market conditions, renter retention and operational execution. Increasing exposure through larger Living schemes may therefore not materially reduce risk where income remains dependent on a single scheme, operator and local market. Diversification is more likely to arise through the number and spread of Living schemes than through scheme size alone.

7.4 Alpha and operator capability may matter as much as diversification

Living combines exposure to real estate with an operating business. Returns therefore depend materially on operational execution.

Differences in realised performance within the same broad Living format may be comparable to, or greater than, differences observed between subsectors. Platform capability, operating efficiency and scale may therefore become important determinants of realised performance and sources of alpha. Larger operating platforms may also benefit from procurement efficiencies, stronger leasing capability and more resilient cost management.

For many investors, scaling within an effective operating platform may improve risk-adjusted returns more than diversification across fragmented operators or superficially different but highly correlated Living formats. Portfolio construction in Living is therefore as much an operating platform decision, not simply an asset allocation decision.

7.5 Implementation constraints may limit practical diversification

While the analysis identifies theoretical diversification benefits across Living formats, implementation may be constrained by current market structure. Many UK Living sectors remain relatively immature, characterised by a limited number of scalable operators, geographic concentration and similar development, leasing and operating models. Nominal diversification across subsectors may therefore overstate true diversification where exposures remain dependent on common local markets, platforms or operating structures.

For smaller investors in particular, allocations may be insufficient to achieve the scale required to diversify operational risk or support dedicated platform capability. In practice, Living may therefore be better suited to larger or pooled sources of capital capable of achieving sufficient scale and operational diversification.

8. WHAT HAPPENS NEXT?

Greater transparency and standardisation are required if Living is to mature into a scalable institutional asset class.

8.1 Better operational transparency is required

The Living sector currently lacks the transparency and consistency of operational data required to support robust valuation, underwriting and portfolio construction at scale.

Interviewees consistently acknowledged that recent market conditions have been unusually challenging across much of the Living sector. High inflation, rising interest rates and low entry yields have placed pressure on performance at a time when many operating platforms and institutional models remain relatively immature. This reinforces the importance of developing stronger operational evidence to distinguish temporary cyclical effects from longer-run structural performance.

8.2 Performance measurement frameworks must evolve

Traditional real estate performance metrics alone are insufficient to capture the drivers of risk and return in operational Living schemes.

For many Living formats, returns depend not simply on rent collection and capital values, but on how efficiently rental income converts into NOI after operating, turnover and recurring capital costs. Greater transparency on cost structures is therefore required to understand how income growth translates into achieved returns.

Performance measurement frameworks should therefore expand to include more operational indicators, including:

- occupancy duration
- renter turnover and reletting periods
- operating cost PSM
- capital expenditure PSM
- cost recoverability
- operating efficiency

Consistent reporting of these measures would improve comparability across operators and support more informed portfolio construction by improving understanding of the drivers of risk and return across Living formats.

8.3 Common classifications and market data are needed

More robust and comparable market data will be essential if Living is to mature into a scalable institutional asset class.

The establishment of common classifications and a comprehensive register of Living schemes across subsectors would improve evidence on rents, occupancy, transactions, supply, operating performance and returns. This would also reduce ambiguity around subsector definitions, particularly where operational models overlap.

Improved benchmarking would support stronger underwriting, valuation and strategic asset allocation, while enabling more informed engagement between investors, operators and policymakers.

8. WHAT HAPPENS NEXT?

8.4 Stable regulatory frameworks and investment

The framework also highlights the value of predictable income growth mechanisms. CPI-linked rent reviews may limit upside during periods of strong rental growth but can also reduce uncertainty regarding future income and support more stable cash flows. In the framework, this lower cash flow volatility is associated with lower target returns and higher values, all else being equal.

This raises a broader question for policymakers and investors. If regulatory uncertainty increases risk, could more stable and predictable frameworks support investment? Greater certainty around permitted rent uplifts may improve confidence in long-term cash flows and reduce the risk premium required by investors.

Final observation

The Living sector has developed rapidly in response to structural housing demand, but its institutional infrastructure has not yet matured at the same pace.

Until transparency, reporting standards and market evidence improve, underwriting will continue to depend heavily on judgement, manager selection and proprietary assumptions rather than systematic evidence. Greater transparency is therefore not simply desirable, but necessary if Living is to mature into a scalable and efficiently priced institutional asset class.

9. ACKNOWLEDGEMENTS

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GLOSSARY

Affordable housing: Regulated residential housing where rents are typically set below Market Rent and adjusted according to policy-linked formulas rather than market resets.

Break probability: Estimated probability that an occupier vacates a unit over a given period.

Capital expenditure (capex): Expenditure required to maintain, refurbish or improve a property in order to preserve functionality, competitiveness or regulatory compliance.

Co-Living: Institutionally operated, high-density rental accommodation combining private units with shared amenities, where income is derived from short-term, service-inclusive agreements.

Correlation: The extent to which two variables move together over time. Values closer to 1 indicate stronger co-movement in the same direction.

Depreciation: The tendency for existing assets to underperform wider market rental growth over time due to ageing, obsolescence or changing occupier preferences.

Houses of Multiple Occupation (HMOs): Residential properties let by room to multiple tenants, generating income from aggregated short-term licences or tenancies.

Internal rate of return (IRR): The discount rate that sets the Present Value of all projected cash flows to zero.

Later (or senior) Living: Age-restricted residential accommodation combining housing with varying levels of service provision, where income is derived from a mix of rent, service charges and, in some models, deferred or event-based fees.

Letting period / reletting period: The period required to secure a new occupier following vacancy.

Liquidity: The ease and speed with which an asset can be bought or sold without materially affecting price.

Market rent: The estimated amount for which a property should be let on the valuation date between a willing lessor and willing lessee on appropriate lease terms.

Monte Carlo: A modelling technique that estimates a range of possible outcomes by repeatedly recalculating cash flows using randomly varied assumptions, such as rental growth, inflation, occupancy or renter retention.

Net operating income (NOI): Income remaining after irrecoverable operating costs but before financing costs, taxation and capital expenditure.

Multifamily Housing (MFH): Purpose-built, institutionally managed residential blocks where income is derived from individual unit leases at Market Rent.

Occupancy: The proportion of available units occupied over a given period.

Operating costs: Irrecoverable costs incurred in operating and managing an asset, including leasing, management, maintenance and resident-related services where not recovered from occupiers.

Present value (PV): The current value of future cash flows discounted at a specified rate.

GLOSSARY

Purpose-Built Student Accommodation (PBSA): Residential accommodation let on short, fixed-term contracts aligned to the academic year, with income reset annually to Market Rent.

Regulated housing: Residential sectors where rental growth or operating conditions are materially influenced by policy-linked frameworks rather than open-market rent reviews.

Rental value growth: The change in rental values over time.

Risk premium: The additional return above a risk-free rate required by investors to compensate for uncertainty and risk.

Shared Ownership: An affordable home ownership scheme offered by housing associations, local councils and other organisations, in which the occupier purchases a share between 10-75% of the home's full market value and pays a rent to the landlord for the share they own. The occupier also usually pays a monthly ground rent and service charge.

Single Family Housing (SFH): Typically a suburban version of MFH, generally taking the form of traditional low-density family houses and offering some of the same benefits such as access to local amenities and communal space, and high-quality management and specification.

Social Housing: Regulated residential housing where rents are typically set below Market Rent and adjusted according to policy-linked formulas rather than market resets.

Target return: The required return used by investors to evaluate, price or underwrite an investment.

Transparency: The availability, consistency and reliability of market evidence relating to pricing, rents, costs and performance.

Volatility: The degree of variation in returns over time, typically measured using standard deviation.

APPENDIX A

Table A1 Listed company / unlisted fund cost ratios

Listed - EPRA Cost Ratio excluding vacancy costs

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Gecina portfolio	Mixed Trad. Housing	France		20%	20%	18%	19%	17%	18%	18%			
Gecina portfolio	Student Accommodation	France				22%	27%	29%	26%	25%			
Vonovia	Mixed Trad. Housing	Germany/Sweden/Austria		22%	21%	24%	25%	26%	25%	25%	25%	27%	30%
Aroundtown	Mixed Trad. Housing	Germany/Netherlands/UK		20%	21%	21%	20%	18%	20%	21%	21%	18%	17%
Resi Secure Income REIT	Mixed Trad. Housing	UK		33%	36%	34%	30%	33%	32%				
Empiric	Student Accommodation	UK		48%	48%	47%	46%	54%	46%	52%	69%	70%	
PRS	Single Family	UK		33%	34%	36%	36%	46%	68%				
Soho	Social Housing	UK		30%	21%	21%	21%	23%	28%	39%			
Grainger	Mixed Trad. Housing	UK	36%	35%	33%	33%	29%	28%	29%	26%	35%		
Unite	Student Accommodation	UK		35%	35%	32%	37%	36%	31%	32%	33%	35%	38%
LEG	Multifamily/affordable	Germany		28%	27%	23%	23%	23%	25%	25%	25%	29%	31%

APPENDIX A

Table A1 Listed company / unlisted fund cost ratios (continued)

Listed - EPRA Cost Ratio comparison equivalent - Inverted NOI Margin

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
InterRent	Multifamily	Canada	36%	35%	36%	38%	39%	39%	36%	38%	42%	44%	44%
Boardwalk	Multifamily	Canada	35%	37%	39%	42%	42%	42%	44%	48%	50%	43%	39%
Canadian Apart. Property	Mixed Trad. Housing	Canada	37%	35%	37%	37%	36%	37%	38%	38%	41%	41%	41%
Essex Property Trust	Multifamily	USA		34%	32%	32%	34%	33%	30%	31%	30%	30%	33%
Equity Residential	Multifamily	USA		32%	32%	32%	34%	32%	30%	30%	29%	29%	29%
AvalonBay	Multifamily	USA		34%	36%	24%	23%	33%	37%	30%	32%	23%	34%
Ventas portfolio	Senior Housing	USA		73%	75%	73%	77%	77%	70%	63%			
Ventas portfolio	Senior Housing Triple net	USA		3%	2%	2%	2%	3%	3%				
Welltower	Senior Housing	USA	70%	74%	74%	48%	48%	46%	42%	42%	41%	41%	
Heimstaden	Mixed Trad. Housing	Pan-Europe		30%	33%	36%	37%	39%	42%	43%	49%	51%	46%

Unlisted - EPRA Cost Ratio comparison equivalent - Derived

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Bouwinvest Dutch Resi Fund	Mixed Trad. Housing	Netherlands		29%	29%	29%	26%	26%	27%	26%	29%	27%	25%
ASR Dutch Core Resi Fund	Affordable Housing	Netherlands		28%	25%	25%	25%	23%	22%	23%	23%	25%	30%
Achmea Dutch Resi Fund	Mixed Trad. Housing	Netherlands		22%	21%	24%	26%	27%	25%				

Source: Various company reports

Note: EPRA Cost Ratio (excluding direct vacancy costs): deducts all vacancy costs related to standing assets, or to investment properties undergoing development/refurbishment, where these have been included in expense lines. Costs that can be excluded are property expenses directly related to the vacant property, including rates/property taxes, service charges, the relevant units' contributions to the tenant association's share of marketing costs, insurance premiums, CRC/carbon tax and other costs directly billed to the unit, such as individually metered energy bills.

APPENDIX A

Table A2 Listed company / unlisted fund nominal rental growth

Listed - EPRA like-for-like nominal rental value growth

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Gecina portfolio	Mixed Trad. Housing	France		4.70%	5.20%	2.00%	1.40%	0.90%	2.30%	2.00%	0.60%		
Gecina portfolio	Student Accommodation	France				14.20%	-1.20%	-1.10%	2.20%	2.90%	2.60%		
Aroundtown	Mixed Trad. Housing	Germany/ Netherlands/UK		3.80%	3.30%	2.90%	2.80%	1.90%	3.60%	3.10%	2.30%	2.00%	
Empiric	Student Accommodation	UK		7.00%	10.50%	5.20%	2.60%	1.30%	3.10%	3.00%	2.00%	2.00%	
Soho	Social Housing	UK		4.20%	6.00%	6.70%	1.00%	1.10%	1.40%	2.50%			

Listed - LFL nominal rental growth - Portfolio same-store

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
InterRent	Multifamily	Canada	2.20%	5.00%	7.50%	6.00%	4.40%	5.30%	6.80%	8.00%	4.90%	4.10%	4.00%
Boardwalk	Multifamily	Canada	5.80%	9.20%	8.80%	4.30%	1.10%	2.30%	4.10%	3.90%	-5.30%	-6.30%	1.80%
Canadian Apart. Property	Mixed Trad. Housing	Canada	3.80%	6.00%	6.20%	4.30%	1.90%	3.10%	4.10%	4.90%	3.80%	3.30%	
Essex Property Trust	Multifamily	USA		3.30%	4.40%	10.30%	-1.20%	-3.90%	3.40%	2.40%	3.70%	6.70%	8.00%
Equity Residential	Multifamily	USA		3.00%	5.60%	10.60%	-3.40%	-4.00%	3.20%	2.30%	2.20%	3.70%	-18.20%
AvalonBay	Multifamily	USA		3.50%	6.60%	10.80%	-3.60%	-2.40%	3.00%	2.50%	2.40%	4.40%	5.30%
Ventas portfolio	Senior Housing	USA		8.20%	7.80%	9.40%	-5.50%	-8.70%	0.00%	0.90%			
Ventas portfolio	Senior Housing Triple net	USA		1.20%	3.50%	2.00%	6.90%	-10.20%	8.80%				
Welltower	Senior Housing	USA	10.20%	9.30%	10.10%	10.80%	2.50%	-12.30%	3.40%	3.30%	2.20%	5.00%	
Heimstaden	Mixed Trad. Housing	Pan-Europe		5.60%	5.10%	5.40%	2.50%	3.60%					
Covivio	Mixed Trad. Housing	France/Germany		1.80%	3.90%	3.10%	4.50%	2.30%	4.30%	4.40%	4.20%	3.60%	
LEG	Multifamily/affordable	Germany		3.40%	4.00%	3.10%	3.20%	2.30%	3.60%	3.00%	3.30%	2.50%	2.70%

APPENDIX A

Table A2 Listed company / unlisted fund nominal rental growth (continued)

Vonovia	Mixed Trad. Housing	Germany/Sweden/ Austria		4.10%	3.80%	3.30%	3.80%	3.10%	3.90%	4.40%	4.20%	3.30%	
Resi Secure Income REIT	Senior Living	UK		4.80%	6.00%	4.60%	1.50%						
Resi Secure Income REIT	Shared Ownership	UK		8.80%	6.80%	5.40%	2.20%						
Resi Secure Income REIT	Mixed Living	UK		5.80%	6.10%	4.50%	1.50%	1.90%	2.10%				-
PRS	Single Family	UK		9.00%	12.00%	7.00%	5.10%	2.50%	0.60%				
Grainger	Mixed Trad. Housing	UK		6.30%	8.00%	4.80%	0.30%	2.50%	3.40%	3.00%	3.30%	3.60%	3.40%
Unite	Student Accommodation	UK		8.20%	7.40%	3.50%	2.30%	-0.60%	3.20%	3.40%	3.80%	3.80%	3.80%
Unlisted - LFL nominal rental growth													
Company/fund/portfolio	**Subsector**	**Primary Regions**	**2025**	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Bouwinvest Dutch Resi Fund	Mixed Trad. Housing	Netherlands		4.70%	4.70%	4.20%	2.20%	2.60%	3.50%	3.10%	3.00%	3.20%	
ASR Dutch Core Resi Fund	Affordable Housing	Netherlands		4.70%	4.70%	4.30%	2.50%	2.80%	4.00%	1.70%	0.60%	0.70%	0.90%
Achmea Dutch Resi Fund	Mixed Trad. Housing	Netherlands			4.00%	12.50%	2.80%	2.30%	2.40%				

Source: Various company reports

APPENDIX A

Table A3 Listed company / unlisted fund real rental growth

Listed - EPRA like-for-like real rental value growth

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Gecina portfolio	Mixed Trad. Housing	France		2.20%	-0.20%	-5.90%	-1.20%	0.60%	1.10%	0.20%	-0.90%		
Gecina portfolio	Student Accommodation	France				5.40%	-3.70%	-1.40%	1.00%	1.10%	1.10%		
Aroundtown	Mixed Trad. Housing	Germany/ Netherlands/UK		1.40%	-2.00%	-5.10%	0.20%	1.60%	2.40%	1.30%	0.80%	1.80%	
Empiric	Student Accommodation	UK		3.60%	3.50%	-2.50%	0.10%	0.30%	1.40%	0.70%	-0.60%	1.00%	
Soho	Social Housing	UK		0.80%	-0.80%	-1.10%	-1.50%	0.10%	-0.30%	0.20%			

Listed - LFL nominal rental growth - Portfolio same-store

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
InterRent	Multifamily	Canada	1.00%	2.60%	3.50%	-0.70%	1.00%	4.50%	4.80%	5.60%	3.20%	2.60%	2.80%
Boardwalk	Multifamily	Canada	4.60%	6.70%	4.70%	-2.30%	-2.20%	1.60%	2.10%	1.60%	-6.80%	-7.60%	0.70%
Canadian Apart. Property	Mixed Trad. Housing	Canada	2.60%	3.50%	2.20%	-2.30%	-1.50%	2.40%	2.10%	2.60%	2.20%	1.80%	
Essex Property Trust	Multifamily	USA		0.30%	0.30%	2.10%	-5.60%	-5.10%	1.60%	0.00%	1.50%	5.40%	7.90%
Equity Residential	Multifamily	USA		0.00%	1.40%	2.40%	-7.70%	-5.10%	1.40%	-0.20%	0.10%	2.40%	-18.30%
AvalonBay	Multifamily	USA		0.50%	2.40%	2.60%	-7.90%	-3.60%	1.20%	0.10%	0.30%	3.10%	5.20%
Ventas portfolio	Senior Housing	USA		5.10%	3.50%	1.30%	-9.70%	-9.80%	-1.70%	-1.50%			
Ventas portfolio	Senior Housing Triple net	USA		-1.70%	-0.60%	-5.50%	2.10%	-11.30%	6.90%				
Welltower	Senior Housing	USA	8.60%	6.20%	5.70%	2.60%	-2.10%	-13.40%	1.50%	0.90%	0.10%	3.70%	
Heimstaden	Mixed Trad. Housing	Pan-Europe		3.10%	-0.30%	-2.80%	-0.10%	3.30%					
Covivio	Mixed Trad. Housing	France/Germany		-0.60%	-1.40%	-4.90%	1.90%	2.00%	3.10%	2.60%	2.70%	3.40%	
LEG	Multifamily/affordable	Germany		1.00%	-1.30%	-4.90%	0.60%	2.00%	2.40%	1.20%	1.80%	2.30%	2.50%

APPENDIX A

Table A3 Listed company / unlisted fund real rental growth (continued)

Vonovia	Mixed Trad. Housing	Germany/Sweden/ Austria		1.70%	-1.50%	-4.70%	1.20%	2.80%	2.70%	2.60%	2.70%	3.10%	
Resi Secure Income REIT	Senior Living	UK		1.50%	-0.70%	-3.10%	-1.00%						
Resi Secure Income REIT	Shared Ownership	UK		5.30%	0.00%	-2.30%	-0.30%						
Resi Secure Income REIT	Mixed Living	UK		2.40%	-0.70%	-3.20%	-1.00%	0.90%	0.40%				
PRS	Single Family	UK		5.50%	4.90%	-0.80%	2.50%	1.50%	-1.10%				
Grainger	Mixed Trad. Housing	UK	1.70%	2.90%	1.10%	-2.90%	-2.10%	1.50%	1.70%	0.70%	0.70%	2.60%	3.00%
Unite	Student Accommodation	UK		4.70%	0.60%	-4.10%	-0.20%	-1.60%	1.50%	1.10%	1.20%	2.80%	3.40%
Unlisted - LFL nominal rental growth													
Company/fund/portfolio	**Subsector**	**Primary Regions**	**2025**	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Bouwinvest Dutch Resi Fund	Mixed Trad. Housing	Netherlands		2.20%	-0.70%	-3.90%	-0.40%	2.30%	2.30%	1.30%	1.50%	3.00%	
ASR Dutch Core Resi Fund	Affordable Housing	Netherlands		2.20%	-0.70%	-3.80%	-0.10%	2.50%	2.80%	-0.10%	-0.90%	0.50%	0.70%
Achmea Dutch Resi Fund	Mixed Trad. Housing	Netherlands			-1.30%	3.80%	0.20%	2.00%	1.20%				

Source: Various company reports, national inflation rate indices

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Table A4 Listed company / unlisted fund vacancy rates

Listed - EPRA vacancy rate

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Gecina portfolio	Mixed Trad. Housing	France		6.50%	3.80%	4.30%	4.50%	4.40%	3.60%	2.40%	3.10%	3.40%	
Gecina portfolio	Student Accommodation	France		4.90%	4.10%	5.40%	7.30%	12.20%	5.90%	18.50%	9.70%	10.90%	
Vonovia	Mixed Trad. Housing	Germany/Sweden/ Austria		2.30%	2.60%	2.40%	2.30%	2.70%	2.90%	3.30%	2.80%	3.00%	2.50%
Aroundtown	Mixed Trad. Housing	Germany/ Netherlands/UK		1.90%	1.90%	2.00%	2.00%	2.30%	2.40%	2.30%	2.30%	2.20%	2.50%
Resi Secure Income REIT	Mixed Trad. Housing	UK		3.80%	3.80%	4.20%	5.10%	6.20%	6.70%	7.10%	7.00%	7.90%	12.50%
Soho	Social Housing	UK		2.60%	3.50%	5.00%	6.00%	13.00%					
Grainger	Mixed Trad. Housing	UK		0.30%	0.30%	0.00%	0.30%	0.30%	0.00%	0.00%	0.00%		
Unite	Student Accommodation	UK	1.90%	2.70%	1.60%	2.10%	5.30%	4.00%	2.60%	3.40%	3.40%	2.10%	2.50%

Listed - EPRA vacancy rate equivalent - inverted financial occupancy rate

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
InterRent	Multifamily	Canada	3.10%	3.00%	3.00%	3.20%	4.40%	8.70%	4.40%	3.40%	2.10%	5.20%	5.40%
Boardwalk	Multifamily	Canada	2.40%	2.00%	1.10%	2.00%	4.20%	4.30%	3.80%	4.20%	5.60%	5.80%	2.70%
Canadian Apart. Property	Mixed Trad. Housing	Canada	2.90%	2.80%	1.80%	1.70%	1.90%	2.50%	1.80%	1.10%	1.30%	1.40%	2.50%
Essex Property Trust	Multifamily	USA		4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.00%	4.00%	4.00%	5.00%
Equity Residential	Multifamily	USA		3.80%	4.10%	3.60%	3.90%	4.90%	3.60%	3.80%	4.00%	4.00%	3.90%
AvalonBay	Multifamily	USA		4.20%	4.10%	3.90%	4.00%	5.40%	4.10%	3.90%	4.50%	4.50%	4.40%
Ventas portfolio	Senior Housing	USA		15.50%	16.70%	15.90%	18.40%	20.40%	13.50%	12.20%			
Ventas portfolio	Senior Housing Triple net	USA		24.20%	25.30%	25.90%	28.10%	20.60%	17.00%	17.50%			
Welltower	Senior Housing	USA	11.10%	14.10%	18.30%	20.30%	26.10%	20.70%	12.40%	11.70%	10.60%	9.40%	

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Table A4 Listed company / unlisted fund vacancy rates (continued)

Heimstaden	Mixed Trad. Housing	Pan-Europe		1.50%	1.80%	1.60%	2.10%	2.50%	2.40%	2.60%	1.20%	0.30%	0.30%
Covivio	Mixed Trad. Housing	France/Germany		0.80%	0.90%	0.80%	0.90%	1.30%	1.40%	1.30%	1.60%	1.80%	2.00%
Resi Secure Income REIT	Senior Living	UK		3.00%	4.00%	6.00%	6.00%						
Resi Secure Income REIT	Shared Ownership	UK		0.00%	0.00%	0.00%	0.00%						
Empiric	Student Accommodation	UK		3.00%	1.00%	1.00%	16.00%	35.00%	6.10%	6.70%			
Unlisted - EPRA vacancy rate equivalent - inverted financial occupancy rate costs													
Company/fund/portfolio	**Subsector**	**Primary Regions**	**2025**	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Bouwinvest Dutch Resi Fund	Mixed Trad. Housing	Netherlands		0.90%	1.20%	1.60%	2.20%	1.60%	2.10%	2.50%	2.20%	2.30%	2.40%
ASR Dutch Core Resi Fund	Affordable Housing	Netherlands		1.70%	1.50%	1.30%	1.70%	1.30%	1.40%	1.50%	1.90%	2.20%	2.30%
Achmea Dutch Resi Fund	Mixed Trad. Housing	Netherlands			1.70%	1.40%	2.90%	8.60%	1.90%				

Source: Various company reports

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Table A5 Listed company / unlisted fund capital expenditure rates

Capital expenditure as % of start period value

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
InterRent	Multifamily	Canada	1.80%	1.50%	1.80%	3.00%	2.90%	2.00%	3.90%	4.10%	3.90%	6.20%	6.30%
Boardwalk	Multifamily	Canada	1.70%	1.70%	1.80%	2.00%	2.10%	1.80%	2.00%	2.20%	3.60%	1.80%	1.50%
Canadian Apart. Property	Mixed Trad. Housing	Canada	1.50%	1.40%	1.60%	1.80%	2.00%	1.80%	2.10%	2.20%	2.00%	2.80%	2.80%
Heimstaden	Mixed Trad. Housing	Pan-Europe		1.50%	2.50%	2.90%	1.80%	1.90%	2.60%	3.60%			
Covivio	Mixed Trad. Housing	France/Germany			1.40%	1.30%	1.30%	1.60%	1.40%		1.70%	1.60%	
LEG	Multifamily/affordable	Germany		1.20%	1.10%	1.70%	2.10%	2.30%	1.90%	1.90%	1.50%	1.20%	1.00%
Vonovia	Mixed Trad. Housing	Germany/Sweden/ Austria		1.00%	1.00%	1.40%	1.70%	2.00%	2.20%	2.30%	2.30%	2.00%	1.80%
Empiric	Student Accommodation	UK		2.80%	2.90%	2.80%	0.80%						
Soho	Social Housing	UK		0.40%	0.00%								
Grainger	Mixed Trad. Housing	UK	0.90%	0.90%	1.20%	0.80%	1.20%	0.60%	0.60%	0.40%	0.90%		
Unite	Student Accommodation	UK		2.20%	1.60%	1.80%	1.10%	0.40%	0.80%	1.30%	0.70%	0.60%	0.00%

Source: Various company reports

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Table A6 Listed company / unlisted fund average annual costs per sq ft in UK Sterling (rate fixed at mid-2015)

Capital expenditure as % of start period value

Company/fund/portfolio	Subsector	Primary Regions	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Boardwalk	Multifamily	Canada	£3.75	£3.78	£3.67	£3.61	£3.49	£3.50	£3.53	£3.66	£3.69	£3.27	£3.28
Canadian Apart. Property	Mixed Trad. Housing	Canada	£4.67	£4.49	£4.06	£3.86	£3.65	£3.59					
ASR Dutch Core Resi Fund	Affordable Housing	Netherlands		£2.62	£2.22	£2.07	£2.06	£1.86					
Heimstaden	Mixed Trad. Housing	Pan-Europe		£2.96	£3.02	£2.91	£2.04	£2.85	£3.52	£4.01	£3.04	£2.25	£2.81
Gecina	Mixed Trad. Housing	France		£3.23	£2.95	£2.77	£2.94	£2.71	£2.81	£2.56			
Gecina	Student Accommodation	France				£4.14	£4.31	£4.85	£4.71	£3.25			
Covivio	Mixed Trad. Housing	France/Germany		£0.60	£0.58	£0.45	£0.56	£0.54	£0.61				
LEG	Multifamily/affordable	Germany		£1.61	£1.50	£1.23	£1.19	£1.17	£1.22	£1.21	£1.18	£1.25	£1.32
Vonovia	Mixed Trad. Housing	Euro - /Sweden/Austria		£1.47	£1.37	£1.48	£1.52	£1.52	£1.41	£1.33	£1.30	£1.35	£1.45
Aroundtown	Mixed Trad. Housing	Germany/Netherlands/UK		£1.55	£1.54	£1.48	£1.37	£1.18	£1.22	£1.14	£1.09	£0.96	

Source: Various company reports, Bank of England mid-year currency exchange rates

APPENDIX B

This appendix summarises the modelling assumptions, stylised operating structures and intermediate outputs underpinning the Living sector framework presented in Chapter 6. It is designed to support transparency and reproducibility in the estimation of indicative target returns by making the underlying assumptions, calibration and calculations explicit across representative Living formats, rather than prescribing a single set of inputs or investment assumptions.

B1: Volatility calibration and target returns

The first stage estimates five-year return volatility for stylised operating structures differentiated by operating cost level and rent review mechanism. Rental growth is assumed to average 3% per annum with 3% volatility, occupancy is modelled using rolling tenancies and operating costs rise with inflation. The baseline assumes steady inflation of 3% per annum, intended to represent a long-run nominal environment rather than the Bank of England inflation target.

Table B1: Simulation results, steady inflation scenario

	Open-market rent reviews				CPI Indexed rent reviews (regulated)				Combined
Op. costs, % Market rent	**0%**	**20%**	**40%**	**60%**	**0%**	**20%**	**40%**	**60%**	
5-year returns	8.07%	8.09%	8.12%	8.20%	8.07%	8.09%	8.12%	8.20%	8.10%
Return volatility	1.39%	1.42%	1.51%	1.69%	1.26%	1.28%	1.31%	1.39%	1.37%
Average cost ratio	0.00%	21.60%	43.10%	64.80%	0.00%	21.60%	43.20%	64.80%	31.00%
Average vacancy rate	4.80%	4.80%	4.70%	4.90%	4.70%	4.80%	4.80%	4.70%	4.80%

Source: Research Team calculations

Note: Returns are marginally above the 8% Target Return because the rental growth sample produces average growth slightly above the assumed 3% trend. Cost ratios naturally rise above the stated assumptions, reflecting monthly cost inflation versus annual rent reviews.

The results suggest that return volatility increases as operating costs rise, particularly under open-market rent reviews.

B1.1 Target Return calibration

Target returns are calibrated by scaling a base risk premium according to relative volatility across operating structures. For illustrative purposes, the analysis assumes a long-term gilt yield of 4.47%, a base target return of 8.0% and a corresponding base risk premium of 3.53%.

Table B2: Target return premiums

	Open-market rent reviews				Indexed rent reviews				Combined
Op. costs, % Market Rent	**0%**	**20%**	**40%**	**60%**	**0%**	**20%**	**40%**	**60%**	
Volatility	1.39%	1.42%	1.51%	1.69%	1.26%	1.28%	1.31%	1.39%	1.37%
Risk Premia	3.56%	3.66%	3.88%	4.34%	3.23%	3.28%	3.36%	3.56%	3.53%
Target return	8.03%	8.12%	8.35%	8.80%	7.70%	7.75%	7.82%	8.03%	8.00%

Source: Research Team calculations

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B2: Inflation and regulatory stress testing

The second stage tests performance under adverse inflation and regulatory scenarios. The objective is to examine how different operating structures may exhibit differing downside sensitivity and therefore justify additional risk premia.

Unless otherwise stated, 25% of estimated downside risk is translated into an additional Target Return premium. Users may adjust this assumption according to their own risk preferences.

B2.1 High and low inflation scenarios

The inflation scenarios test how simulation returns vary under lower and higher inflation environments. Rental growth continues to vary around its long-term trend, while operating costs increase in line with inflation.

Table B3: Simulated returns, high and low inflation scenarios

	Open-market rent reviews				Indexed rent reviews				Combined
Op. costs, % Market rent	**0%**	**20%**	**40%**	**60%**	**0%**	**20%**	**40%**	**60%**	
0% inflation for five years	8.10%	8.90%	10.30%	13.20%	7.80%	8.50%	9.80%	12.50%	9.30%
Steady inflation (3%)	8.10%	8.10%	8.10%	8.20%	8.10%	8.10%	8.10%	8.20%	8.10%
6% inflation for five years	8.10%	7.20%	5.50%	1.50%	8.40%	7.60%	6.10%	2.50%	6.70%

Source: Research Team calculations

Table B4: Inflation risk premium adjustment

	Open-market rent reviews				Indexed rent reviews				Combined
Op. costs, % Market rent	**0%**	**20%**	**40%**	**60%**	**0%**	**20%**	**40%**	**60%**	
Downside risk	0.00%	0.92%	2.62%	6.75%	0.31%	0.51%	2.03%	5.73%	1.38%
Required premium	0.00%	0.23%	0.66%	1.69%	0.08%	0.13%	0.51%	1.43%	0.35%

Source: Research Team calculations

B2.2 Regulatory risk

Regulatory risk is illustrated through three stylised scenarios: constraints on indexed rent reviews, constraints on open-market rent reviews and additional capital expenditure requirements.

B2.2.1 Indexed rent reviews

For indexed rent reviews, regulatory risk is modelled by comparing rent review settlements of CPI –1% and CPI +1% over a 10-year period, after which reviews revert to CPI.

Table B5: Regulatory risk premium, CPI -1% rent settlement

	Indexed rent reviews			
Op. costs, % Market rent	**0%**	**20%**	**40%**	**60%**
Impact on IRR	0.39%	0.47%	0.66%	1.05%
Required premium	0.10%	0.12%	0.16%	0.26%

Source: Research Team calculations

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B2.2.2 Open-market rent reviews

For open-market rent reviews, regulatory risk is modelled by limiting rental growth during periods of strong market performance, reflecting potential constraints on rental uplifts.

The scenario reduces expected returns by around 0.3% pa across the stylised operating structures.

Table B6: Simulated returns, growth capped

	Indexed rent reviews			
Op. costs, % Market rent	**0%**	**20%**	**40%**	**60%**
Impact on IRR	-0.31%	-0.32%	-0.34%	-0.37%
Required premium	0.08%	0.08%	0.09%	0.09%

Source: Research Team calculations

B2.2.3 Additional costs

Regulation may also increase costs. To illustrate this risk, the framework models a one-off £75 PSF capital cost and compares the impact on returns.

Table B7: Regulatory costs risk premium adjustment

	Open-market rent reviews				Indexed rent reviews				Combined
Op. costs, % Market rent	**0%**	**20%**	**40%**	**60%**	**0%**	**20%**	**40%**	**60%**	
Impact on IRR	-0.44%	-0.47%	-0.50%	-0.58%	-0.45%	-0.47%	-0.50%	-0.58%	-0.63%
Required premium	0.11%	0.12%	0.13%	0.14%	0.11%	0.12%	0.13%	0.15%	0.16%

Source: Research Team calculations

B2.3 Revised target returns

The inflation and regulatory adjustments are added to the calibrated target returns to produce revised Target Returns for each stylised operating structure. These target returns reflect compensation for:

- baseline cash flow volatility
- inflation risk
- regulatory intervention risk

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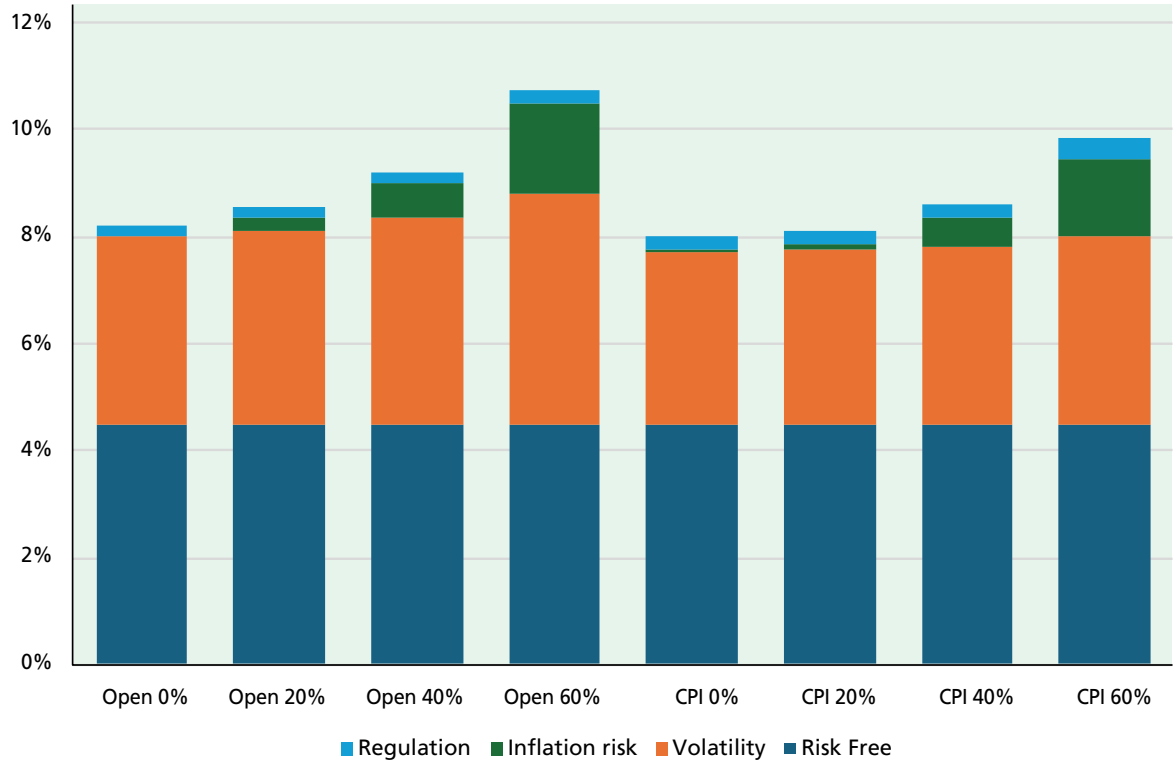
Figure B1: Target return breakdown by operating cost and rent review structure



Source: Research Team calculations

B3: Living subsector modelling assumptions

The stylised framework is applied to representative Living subsectors using assumptions regarding rental levels, operating costs, renter retention and rental growth informed by market evidence, public disclosures and survey responses. These assumptions are intended to represent broad subsector characteristics rather than individual schemes. Table B8 summarises assumptions regarding home size, rental levels and operating structure.

Table B8: Rental and operating assumptions

Living subsector	Format	Home size (SF)	Bills included	Service charge	Rent	Rent (PSF pa)
SFH	House	1,250		No	£3,125	£30.00
MFH	2-bed Flat	650		No	£2,000	£36.92
Co-Living	1-bed Flat	250	£300	No	£1,500	£72.00
HMO	House	1,250	£375	No	£3,750	£36.00
Social Housing	2-bed Flat	650		Yes	£650	£12.00
Affordable (DMR)	2-bed Flat	750		No	£1,050	£16.80
PBSA	1-bed Flat	200	£123	No	£615	£36.92
Later Living (Rental)	2-bed Flat	600		Yes	£1,500	£30.00
PRS	2-bed Flat	750		No	£1,500	£24.00

Source: Research Team calculations

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Recurring operating, turnover and capital cost assumptions are expressed on a per square foot basis in Table B9. Capital costs represent recurring refurbishment and replacement expenditure required to maintain competitiveness and operational functionality over time.

Table B9: Cost assumptions, per square foot

Living subsector	Operating costs	Turnover costs (per letting)	Capital costs
SFH	£6.00	£3.00	£2.39
MFH	£9.49	£2.77	£4.99
Co-Living	£29.28	£3.60	£4.99
HMO	£10.92	£3.60	£1.20
Social Housing	£5.42	£1.20	£1.66
Affordable (DMR)	£5.20	£1.68	£2.49
PBSA	£14.40	£1.85	£4.99
Later Living	£2.85	£1.50	£3.72
PRS	£3.60	£2.40	£2.49

Source: Research Team calculations

Renter retention rates are derived from assumed average occupation periods and represent the annual probability of renewal under different occupier market conditions.

Together, renter retention and reletting assumptions determine vacancy outcomes under different occupier market conditions, allowing vacancy to vary dynamically within the model rather than being imposed directly.

Table B10: Occupation, retention and reletting assumptions

Living subsector	Average length of occupation	Renter retention (%)			Letting Period (months)		
		Occupier market conditions:			Occupier market conditions:		
		Strong	Average	Weak	Strong	Average	Weak
SFH	24 months	100	46	42	n/a	1	2
MFH	21 months	100	38	33	n/a	1	2
Co-Living	18 months	100	28	22	n/a	1	2
HMO	18 months	100	28	22	n/a	1	2
Social Housing	120 months	100	89	88	n/a	1	2
Affordable (DMR)	60 months	100	78	77	n/a	1	2
PBSA	12 months	0	0	0	1	1	1
Later Living	120 months	100	89	88	n/a	1	2
PRS	24 months	100	46	42	n/a	1	2

Source: Research Team calculations

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Rental growth assumptions are broadly consistent across subsectors, reflecting the view that long-run growth remains constrained by affordability, household incomes and inflation. Volatility assumptions vary modestly to reflect differences in observed rental variability and market stability.

Table B11: Rental growth assumptions

	SFH	MFH	Co-Living	HMO	Social	Affordable (DMR)	PBSA	Later Living	PRS
Growth	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Volatility	4.1%	3.2%	6.4%	5.1%	1.6%	3.0%	4.0%	1.3%	3.0%

Source: Research Team calculations

B4: Key modelling outputs

Table B12: Model output, 5-year average, % of gross income

Living subsector	Vacancy rate	Recurring costs	Reletting costs	Total revenue costs	Capital costs	Total costs
SFH	4.50%	20.60%	4.20%	25.70%	8.60%	34.20%
MFH	5.30%	26.60%	3.60%	31.50%	14.70%	46.10%
Co-Living	6.00%	42.00%	2.70%	47.20%	7.60%	54.70%
HMO	6.10%	31.40%	5.50%	38.80%	3.70%	42.40%
Social Housing	0.90%	46.60%	0.80%	47.80%	14.40%	62.10%
Affordable (DMR)	1.70%	31.70%	1.50%	33.80%	15.50%	49.20%
PBSA	8.50%	40.00%	5.10%	48.40%	15.00%	63.30%
Later Living	1.00%	9.80%	0.40%	10.30%	12.90%	23.10%
PRS	4.70%	15.50%	4.00%	20.20%	11.20%	31.40%

Source: Research Team calculations

The detailed outputs provide transparency regarding the assumptions underpinning subsector calibration.

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RESEARCH

Investment Property Forum
R+ Building, 2 Blagrove Street,
Reading, Berkshire
RG1 1AZ

Email: ipfoffice@ipf.org.uk
Web: www.ipf.org.uk