

UK Residential Property: monetising the home mover

Market update

March 2024



Introduction



Liam Gribben
Director

“
Whilst there was a general slowdown in M&A activity last year, Property Services & Technology was a positive exception experiencing considerable M&A activity and heightened investor interest...

... with the macro picture improving and an ever-increasing number of high-quality businesses looking to transact, we anticipate significant sector M&A activity in 2024 and beyond.”

Residential market summary

Sales

- On average there are c.1.2 million property sales annually in the UK with the total transactions rarely falling below 1 million¹ per year
- Property values tend to exhibit similar stability, growing consistently at c.4-5% p.a. over the last decade¹
- The total value of transactions in 2023 was approximately £288bn¹

Lettings

- The lettings market has grown significantly in recent years due to the increase in Private Rented Sector (“PRS”) households, strong rental price growth, and the increasingly prominent Build-to-Rent (“BTR”) sector
- High demand and limited supply is expected to support the market for many years to come with the UK Private Rental Market forecast to grow at 4-5% p.a. over the next four years²
- Recurring revenue models offer high visibility of earnings which has led to substantial investment in the sector

Connecting home movers

- The key players in the residential property transaction are buyers and sellers, and landlords and tenants
- Connecting the respective parties are agents and an ever-growing suite of technology solutions
- The agent market comprises a number of large consolidators and a highly fragmented tail of smaller, independent businesses

- Over the past decade UK home movers have grown accustomed to finding their property on one of the leading portals, although there is a plethora of technology solutions serving agents and other key players across the property transaction value chain
- From CRM and lead generation to digital onboarding and tenancy management, the market for sector aligned software solutions is vast and growing with artificial intelligence playing an increasing role
- In addition, the home mover market is supported by a number of sub-vertical industries such as conveyancing, financial services and property management which are undergoing their own digital transformation
- The residential property market is large, growing and has been slow to adopt tech solutions, thus providing a perfect environment for innovative companies to succeed

Improving market sentiment

- Whilst 2023 was generally a slow year for M&A, the Property Services & Technology sector was a positive exception
- Notable transactions included CoStar’s acquisition of OnTheMarket, Emeria’s purchase of Chestertons, Reapit’s merger with PayProp, and Perwyn’s investment in iamproperty
- Given the improving market backdrop we expect M&A activity to be strong as we progress through 2024 and beyond. TPGF and Belvoir’s recently announced merger and Rightmove’s acquisition of HomeViews are early supportive data points

UK residential market overview

The UK sales market is typically very stable whilst the lettings market is underpinned by strong demand and supply factors

Low transaction volatility with consistent price growth



Source: HM Land & Registry

- Contrary to popular media coverage, the UK sales market is inherently stable with relatively low year-on-year transaction volatility and steady price growth over the long term
- Despite considerable market headwinds in 2023, total transactions still exceeded 1 million and house prices fell by only -1.8%¹
- Whilst investors often perceive cyclicity, the data points to a more predictable market with consistent underlying growth and proven defensibility
- This translates into relatively predictable income patterns for sales agents and other ancillary service providers serving the property sale transaction

High demand for rental properties coupled with supply shortages



Source: Zoopla Research

- Since 2021 demand for rental properties has exceeded supply pushing up rents significantly – new let rental inflation was 9.7% in 2023³
- Whilst there are signs of rental demand cooling, the market is expected to continue to be supported over the medium term due to powerful demand and supply factors:

Demand

- ✓ Labour market strength
- ✓ High and sustained levels of immigration
- ✓ Higher mortgage rates reducing home buyer affordability
- ✓ Increase in single-person households
- ✓ Increase in home working

Supply

- ✗ Insufficient levels of housebuilding
- ✗ Lack of new investment from private landlords
- ✗ Higher mortgage rates reducing BTL attractiveness
- ✗ Removal of tax incentives on mortgage interest
- ✗ Renters Reform Bill and environmental regulations
- ✗ Existing renters staying put to avoid higher rents on new lets

1.1m
Forecast housing transactions
2024²

3%
Forecast house price growth
2024²

¹Savills – UK Housing Market Update – January 2024 ([Link](#))

²Knight Frank – UK House Price Forecasts: January 2024 ([Link](#))

³Zoopla UK Rental Market Report – December 2023 ([Link](#))

Key market drivers

Easing macro conditions coupled with increasing professionalisation and innovation should support sector investment over the medium term



Interest rate cuts

- As inflation soared, central banks hiked interest rates which in turn increased the cost of mortgages
- Inflationary pressures have since receded with the Bank of England expected to begin cutting rates which should stimulate property sales
- Investec forecasts UK rates to fall to 4.75% by Q3'24 and 4.00% by Q1'25¹

4.00%

Investec UK interest rate forecast Q1 2025



Lettings market evolution

- The UK lettings market continues to grow with increasing PRS households and strong rental growth
- The market has seen significant regulatory change over the last 10 years for both landlords and agents, supported by a regulatory environment driving consolidation
- The impact of this has been to professionalise the market, making landlords more likely to use property managers and for smaller agents and landlords to exit the market

5%

Zoopla forecast growth in UK rents 2024²



Shift from ownership to usership

- The cost of home ownership has increased with higher interest rates reducing mortgage affordability and record house prices deterring first-time buyers
- Individuals and young families are now becoming more acceptant of longer-term rental living and are actively choosing to continue renting
- This trend towards increased usership has driven significant investment in modern, purpose-built accommodation and the wider BTR sector

62%

of real estate investors expect their portfolio allocation to the Living sector to increase over the next five years³



AI & technology

- The property services sector has traditionally been slow to leverage new technologies
- Whilst UK portals have been widely known for many years, alternative software and data solutions are increasingly competing for agent spend
- Such solutions include CRM, lead generation and manual task automation incorporating AI and machine learning
- Home movers, landlords and tenants now expect a seamless, fully digitalised process covering the entire property services value chain

25%

Agents utilising AI as part of their prospecting strategy are 25% more successful in securing instructions⁴

¹Investec Economics forecasts

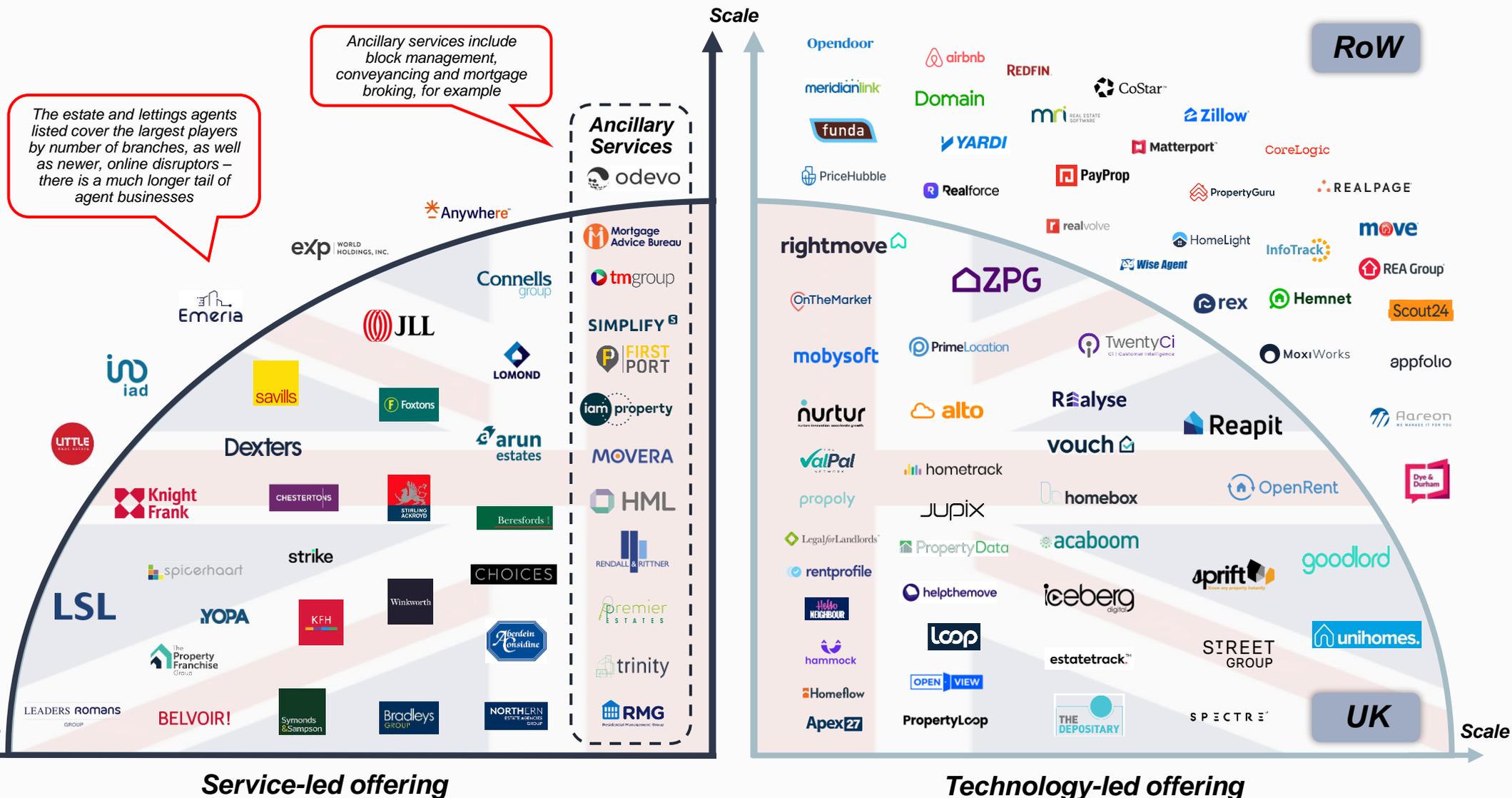
²Zoopla Rental Market Report: December 2023 ([Link](#))

³Living is as safe as houses – Investec Future Living report October 2023 ([Link](#))

⁴Spectre – LinkedIn

Market landscape – key players

Fragmented market with many players connecting home movers through Services & Technology



In Focus: Estate & Lettings Agency market

A highly fragmented market experiencing significant buy and build M&A activity

Key themes



Agent consolidation

- High market fragmentation and increased regulation, e.g. fire safety, has provided an opportunity for consolidation
- Many of the largest players operate aggressive buy and build strategies, with the potential to realise considerable synergies



Lettings focus

- Agents are increasingly shifting their business in favour of lettings and property management due to the quality of revenues – lettings customers typically make monthly rental payments over fixed contract lengths, thus providing a strong, recurring revenue source
- Whilst lettings is an increasing focus for agents, it's important to maintain a strong sales function as sales can be particularly rewarding in buoyant markets whilst also providing the ability to capture landlord property sales



Independent agency

- In recent years, the traditional agency model has been challenged by independent agents operating on a self-employed basis
- New, independent networks have emerged offering agents with specialist local knowledge the ability to operate freely at much lower cost than the traditional model
- Whilst the branch model dominates for now, the rise of hybrid and internet agencies is clear to see and could prove highly disruptive over years to come

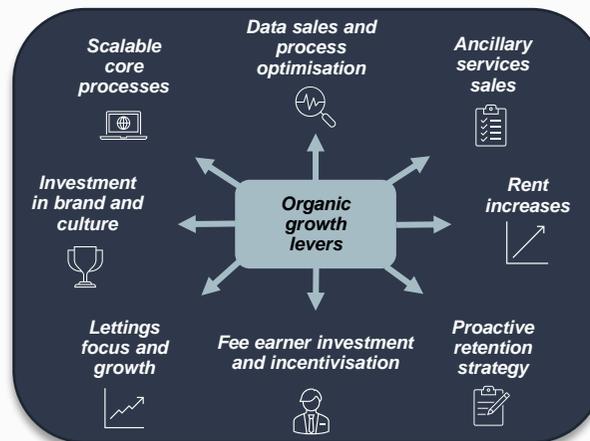


Ancillary services

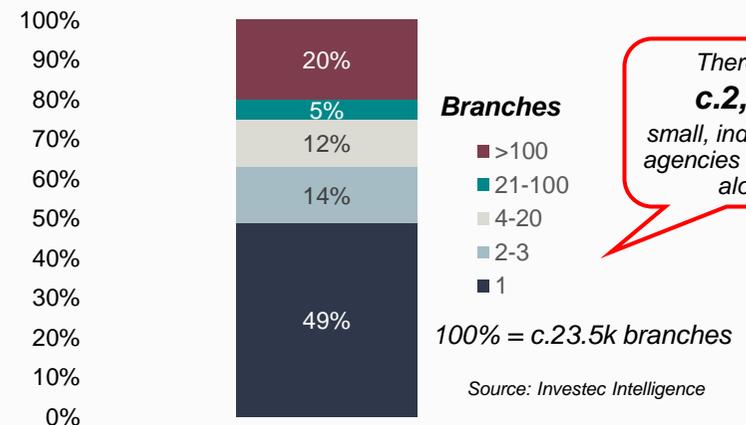
- Agents are increasingly seeking to diversify their sales and lettings businesses and capture greater share of the home mover transaction by offering complementary services such as conveyancing, investment advice, mortgage advice, property management and more
- Services are often provided in partnership with a preferred panel of providers with the agent taking a share of the revenues
- This is driving an increase in M&A activity and strategic partnerships between the leading agency players and ancillary service providers

The organic growth conundrum due to the maturity and stability of the market

- As previously covered, the UK property market is very stable and mature
- Accordingly, organic growth ahead of the underlying market is a differentiating factor. Investment in brand, people, service offering and technology are all strategies employed by the leading market players (see right)
- Leveraging data and optimising processes boosts operational efficiencies, generating new business and improving retention rates across sales, lettings and financial services
- Inorganic growth remains core to players of scale supported by high fragmentation in the market (see far right)



A highly fragmented market ripe for consolidation

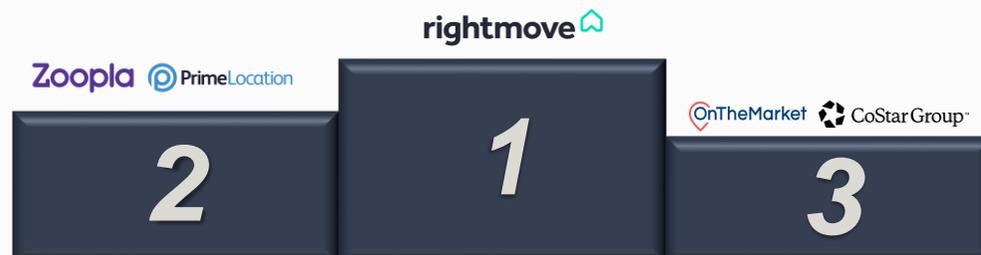
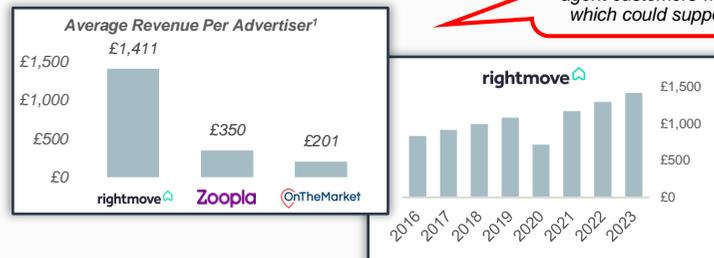


In Focus: UK portals

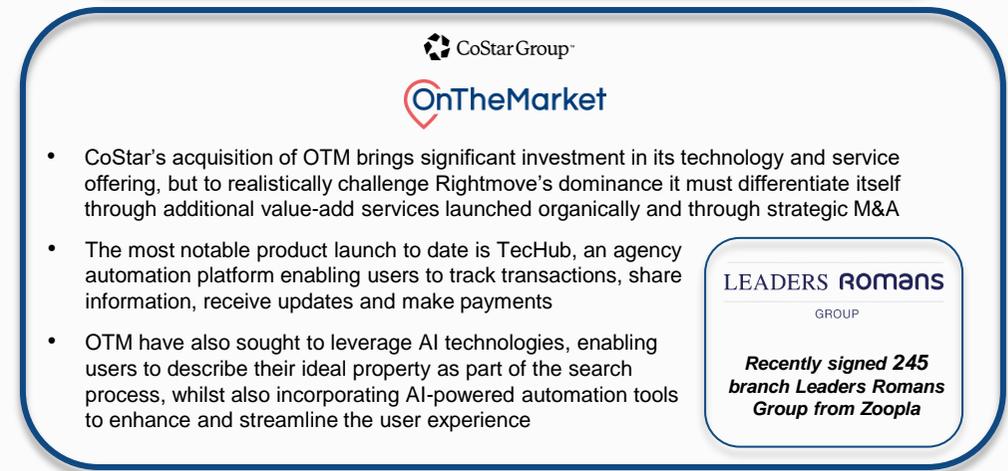
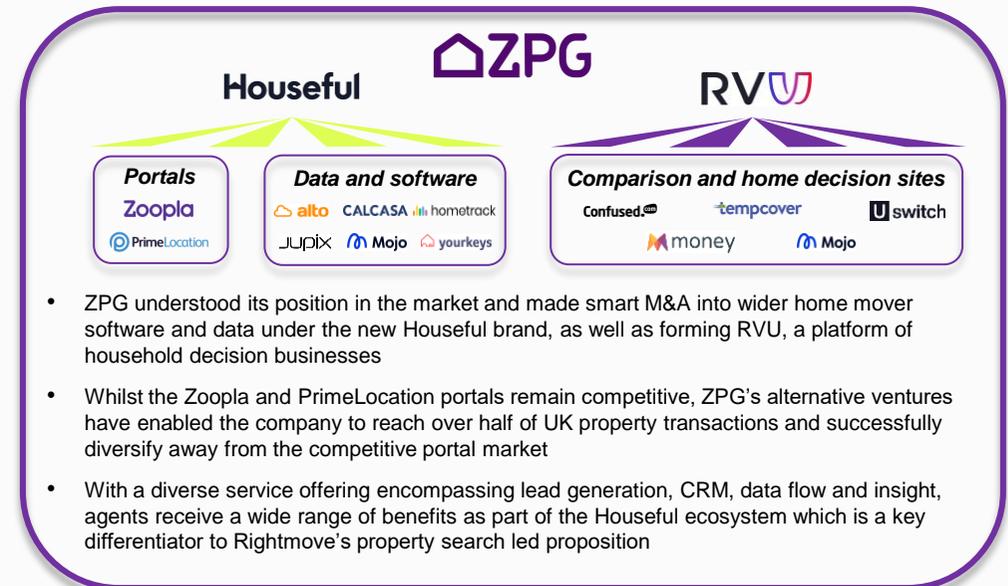
A market dominated by a household name may now be primed for disruption

Competitive landscape evolution

- For the past decade the property search market has been dominated by Rightmove and to a lesser extent by Zoopla, with OnTheMarket on the periphery
- Rightmove's unique position has enabled it to consecutively raise its prices, driving significant Average Revenue Per Advertiser ("ARPA") growth
- In order to remain competitive, ZPG has pivoted towards wider home mover data and software services, e.g. CRM and data services, as well as acquiring a suite of household decision sites under the RVU brands, e.g. Confused.com and Money.co.uk
- CoStar has taken the opportunity to challenge Rightmove's dominance through its acquisition of OnTheMarket and subsequent investment in product improvement and marketing strategy. Deemed "The Agents' Portal", OnTheMarket has vowed to continue developing its platform, delivering value for money at a fair and sustainable price point
- With significant competitive disruption we expect M&A to play an increasingly prominent role as the leading players look to differentiate their offering in the competition for agent spend



Narrowing the gap

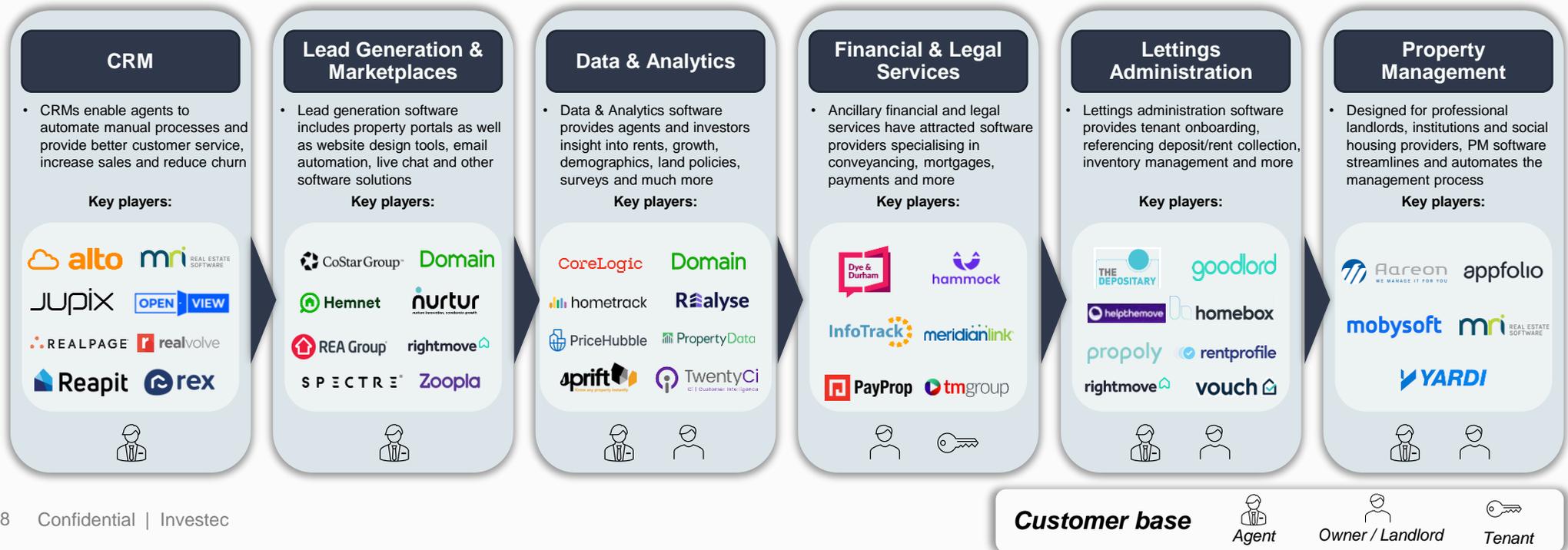


In Focus: Property software & technology

A more nascent sub-sector comprising a diverse array of fast growing, innovative, technology-led solutions



Property technology universe



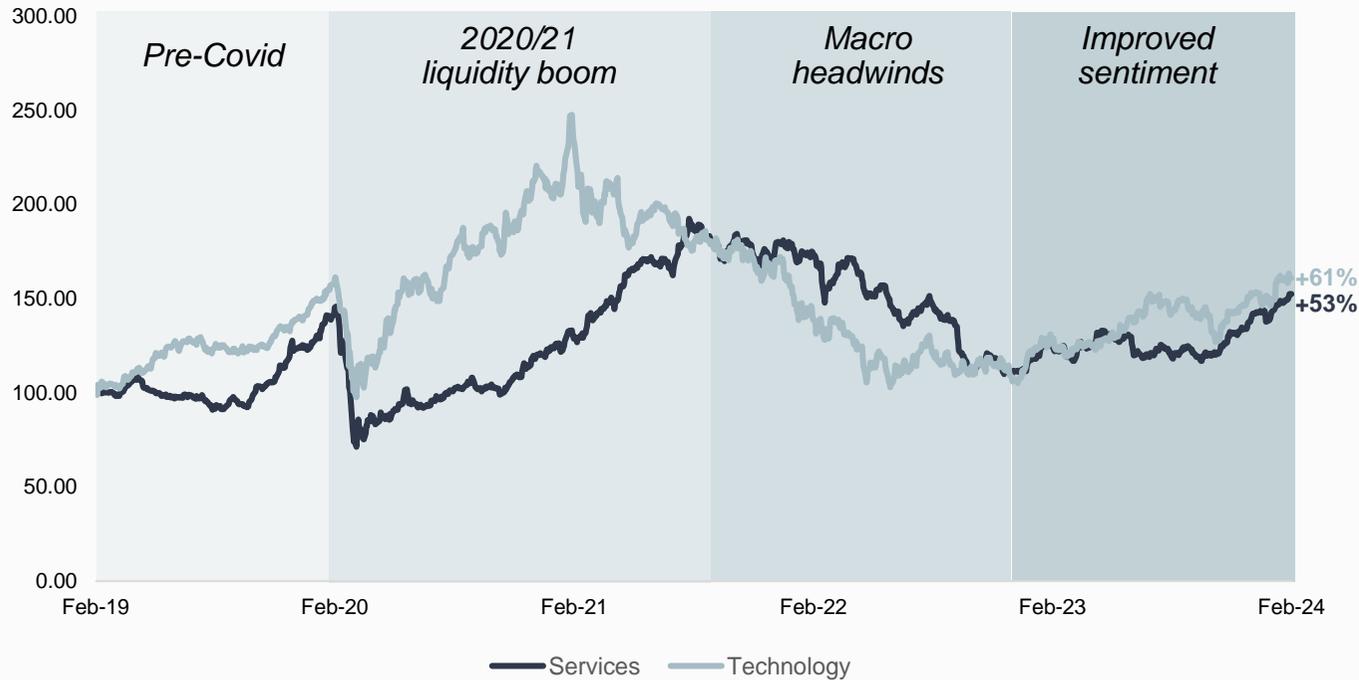
Valuation insights



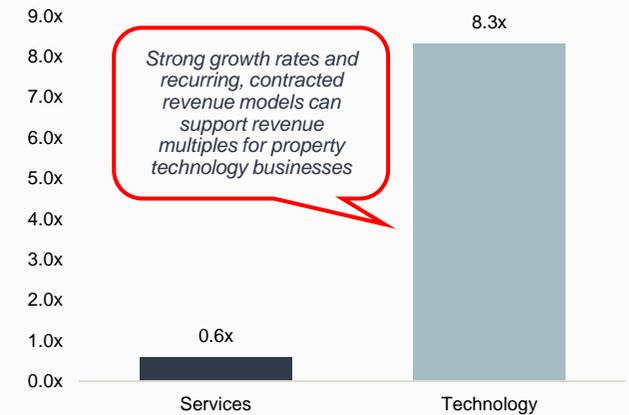
Listed company snapshot

Following a period of volatility for listed equities, market sentiment is improving

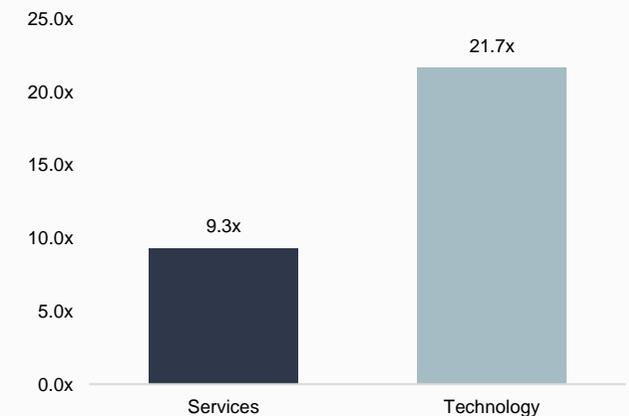
Share Price Performance - Average



Enterprise Value / 2024E Revenue



Enterprise Value / 2024E EBITDA



Service-led offerings



Technology-led offerings



M&A activity

Property Services & Technology is a well invested and active market segment

Services

Date	Buyer	Target	EV	EV / EBITDA
Jan-24	BELVOIR!		£214.4m*	9.5x
Oct-23	Emeria	CHESTERTONS	£100.0m	8.3x
Oct-23	PER WYN	iam property	Proprietary	Proprietary
Mar-22	Emeria	FIRST PORT	£245.6m	12.0x
Jan-22	Distinction Property	LEADERS romans	U/D	U/D
Jul-21	One & Bunnin	tmgroup	£91.5m	12.7x
Jan-21	The Property Franchise Group	HUNTERS	£25.7m	7.3x
Nov-20	inflexion	conveyancing alliance	£27.3m	10.9x
Sep-19	EQUISTONE	FIRST PORT	U/D	U/D
Sep-16	Partners Group	FONCIA	£1,550.0m	15.9x
Jul-16	LEADERS	romans	Proprietary	Proprietary

Technology

Date	Buyer	Target	EV	EV / Revenue
Feb-24	rightmove	homeviews	£8.0m	U/D
Dec-23	Reapit	PayProp	U/D	U/D
Dec-23	CoStar	OnTheMarket	£82.7m	2.4x
Nov-23	Zillow	fub	£411.9m	U/D
Mar-23	Reapit	inspectrealstate	Proprietary	Proprietary
Dec-22	AKKR	PayProp	Proprietary	Proprietary
Apr-22	Domain	REALBASE	£131.4m	11.6x
Mar-22	nurtur	BRIEF YOUR MARKET	Proprietary	Proprietary
Oct-20	Advent International	Rareon	£867.4m	4.1x
Jul-19	rightmove	VAN MILDERT	£16.0m	4.0x
May-18	SILVERLAKE	ZOOPLA	£2,541.0m	10.4x

Business characteristics

- Low but steady growth
- Mature earnings margins
- Strong cash generation

Value drivers

Average revenue per agent / branch

EBITDA margin

Lettings / Sales ratio

Scale

Brand recognition

Technology infrastructure

Business characteristics

- Strong revenue growth
- Immature earnings margins
- Significant development costs

Value drivers

Average revenue per customer

Transactional vs. contracted revenue

EBITDA margin

Scale

Churn

Customer concentration

Strong sector experience with leading credentials

  <p>PERWYN</p> <p>Acquired</p>  <p>2023</p>	   <p>InspectRealEstate</p> <p>Sale to</p>   <p>2023</p>	  <p>PayProp</p> <p>Sale to</p>  <p>2022</p>	  <p>BRIEF YOUR MARKET.COM</p> <p>Sale to</p>  <p>2022</p>	  <p>REALBASE</p> <p>Sale to</p>  <p>2022</p>	  <p>Zig</p> <p>Sale to</p>  <p>2021</p>
  <p>ids</p> <p>Sale to</p>  <p>2021</p>	  <p>vouch</p> <p>Sale to</p>  <p>2020</p>	  <p>FIRST PORT</p> <p>Sale to</p>  <p>2019</p>	  <p>FONCIA</p> <p>Acquired</p>  <p>2019</p>	  <p>LEADERS ROMANS GROUP</p> <p>Merger of Leaders and Romans</p> <p>2016</p>	  <p>romans</p> <p>Sale to</p>  <p>2013</p>



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