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Spotlight

The Savills Housing Sector Survey 2017

Change is in the air

“The best laid plans go to waste. When we set out to survey housing associations, it was with a view to monitoring the evolution of the sector as the policies espoused in the Housing White Paper bedded in during the run-up to a general election in 2020.

Just as the respondents to our survey tipped over the magic 100 mark, a snap general election was called, prompting another bout of political uncertainty. More pertinently, the housing minister behind the drive to broaden housing policy lost his seat.

These events raise the question of whether we will see the political momentum on housing maintained. However, the experience of the past year or two should leave us in no doubt that housing has moved up the political agenda. All parties appear to acknowledge that, to a greater or lesser degree, there is a housing crisis. More than that, there appears to be widespread acceptance that the housing sector has a key role to play in addressing it.

Despite being buoyed by Help to Buy, private housebuilders have a finite capacity to deliver more homes. The Housing White Paper acknowledges the need for new supply to come from a much wider range of sources and to be delivered across a wider range of tenures.

The manifestos of both main political parties contained commitments to deliver more sub-market housing, albeit in different guises. Of course, there are challenges, not least around funding and finance in a world with restricted grant. But, assuming the new housing minister is given sufficient power, our inaugural Housing Sector Survey comes at a pivotal moment for the sector. It also means we have good reason to be grateful to the 104 chief executives and senior board members of housing associations who answered some of the big questions of the day.

Our report portrays a sector undergoing significant change, but one that has plenty of ambition

Their responses form the backbone of this report, which portrays a sector undergoing significant change, but one with plenty of ambition.

For those of you who want a snapshot of our conclusions, turn to page 14. For those who like to explore the finer detail, the following pages will make for thought-provoking reading.”

Lucian Cook Head of UK Residential Research
020 7016 3837 lcook@savills.com

A total of 104 chief executives and senior board members of housing associations took part in the Savills Housing Sector Survey 2017. This is what they told us:

83% plan to deliver more housing for affordable rent in the next five years

43% say they need to change their financial structure in order to facilitate development

72% say that accessing development land is a major factor preventing the delivery of more homes

58% mention they are considering a merger in the next five years

88% say that providing certainty on rents post-2020 would be the most effective policy measure to support delivery

The Savills Housing Sector Survey Our survey, carried out in association with *Social Housing* magazine, was sent to senior executives at a cross-section of housing associations. A huge thank you to the 104 who responded, whose organisations covered almost half the sector’s housing stock, including:

- Regional associations from across the country
- Three national associations, each with 40,000-plus homes
- Leading specialist housing providers
- 20 organisations with fewer than 5,000 homes each

Fresh foundations

Every year, more than 70,000 new households are excluded from the housing market. Only increased delivery across a range of tenures can meet need and improve affordability

The Housing White Paper of February 2017 marked a sea change in housing policy, conceding that private housebuilding for sale would not deliver enough homes to meet need and improve affordability. A series of measures was proposed to diversify the housebuilding industry, such as encouraging housing associations to do more, and even urging local authorities to revisit their role as major developers.

Doing more with less

Affordable housing delivery has averaged more than 45,000 homes per year for more than two decades. Housing associations deliver a lot of these homes, but are well placed for an even bigger role. Restrictions on grant are a challenge, but associations have maintained delivery levels through the reduced funding period, switching from social rent to supply mostly affordable rent. Now, there will be most support for shared ownership, so we expect associations to respond to this.

Affordable delivery and grant peaked around the global financial crisis in 2008-09, supporting the wider housebuilding industry. Continuing to deliver affordable homes with less grant funding requires cross-subsidy from profit-making developments.

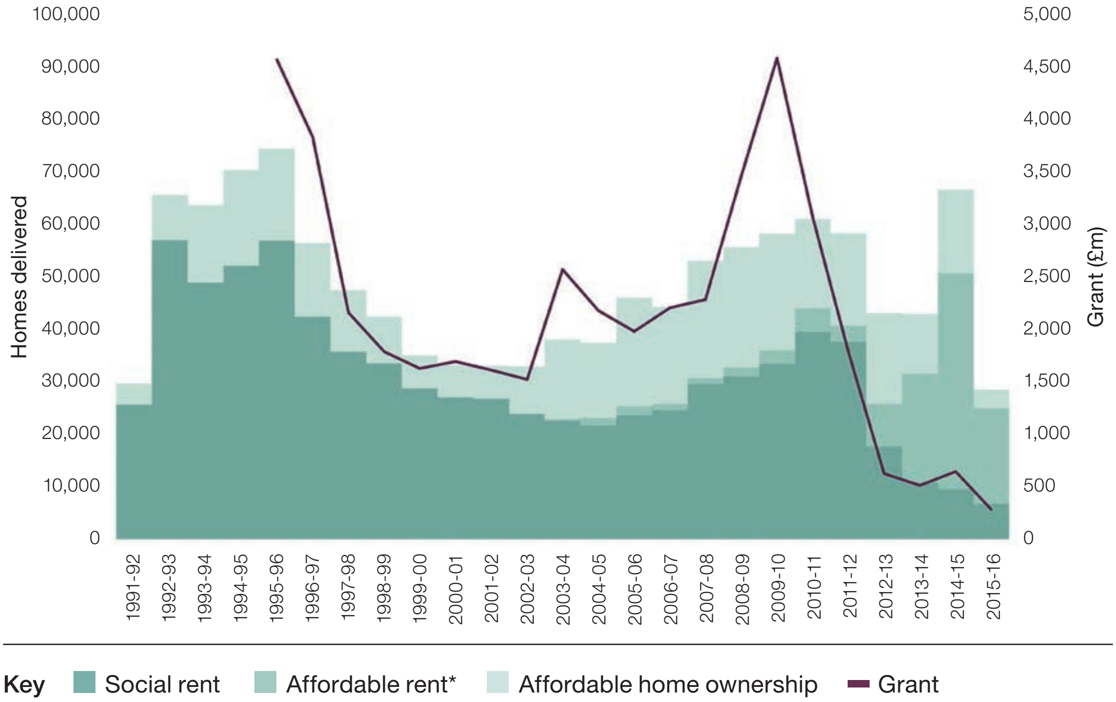
National policy, local issues

The role of the sector is dependent on local housing market conditions. Households excluded from the market are different across the country. In parts of London, households with an income of £30,000 might struggle to access the private rental market. The same household in Sunderland may be able to buy a family home.

Different challenges require different responses and tenure mixes. But, across the board, delivering more homes affordable to those on the lowest incomes requires cross-subsidy from other profit-making ventures. That necessitates better understanding of what makes the wider housing and development market tick.

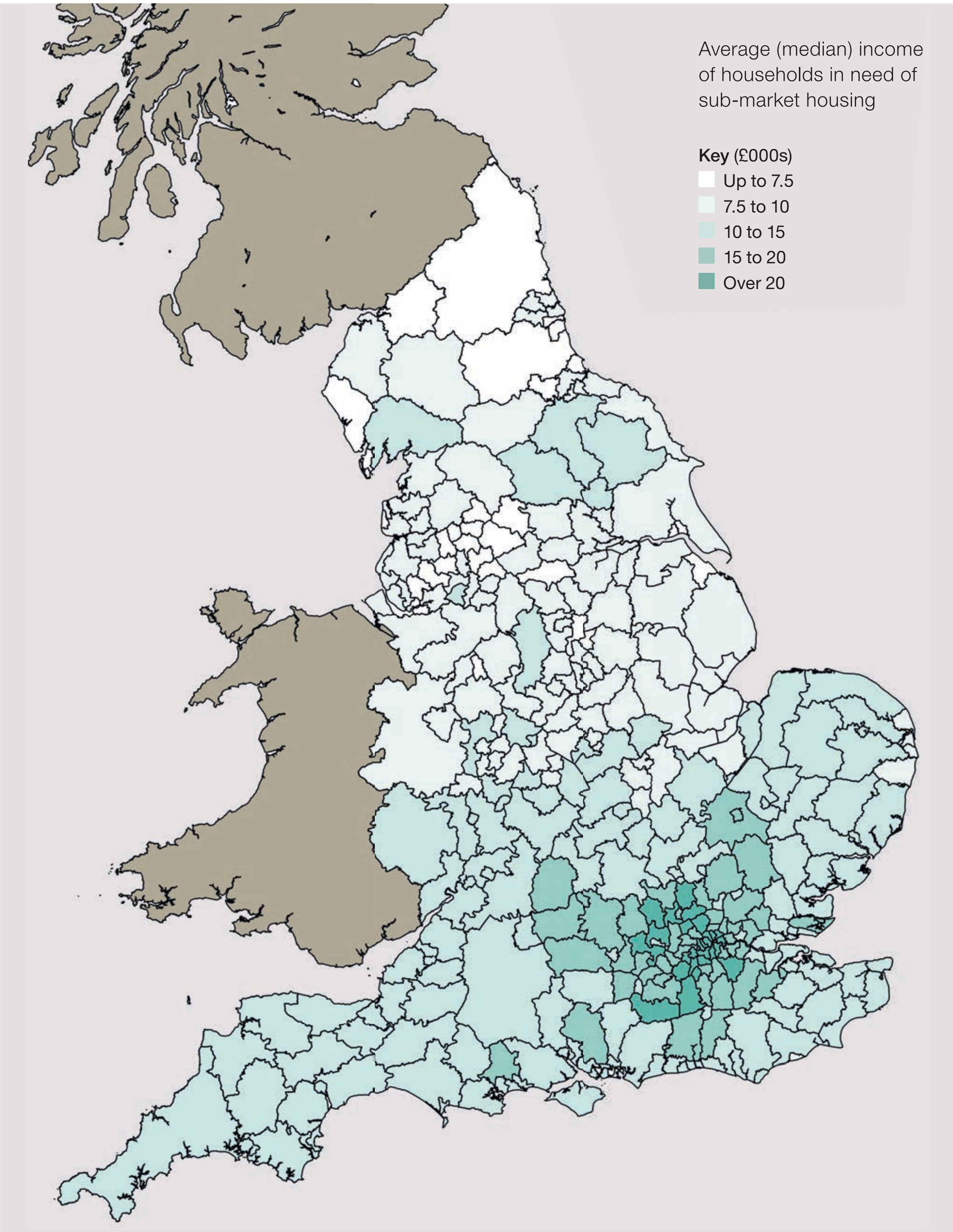
Fundamentally, it means change. Change in what is delivered (page 6). Change in how the sector finances its expansion (page 9). And change in how it goes about securing land for development (page 10).

Tenure shift The reduction in grant has had a large impact on the tenure of affordable homes being delivered, with affordable rent displacing much of what was social rent



Source Savills Research using DCLG and HCA data **Note** *Affordable rent includes other discounted rental tenures

Local issues Excluded households vary across the country and require different responses and tenure mixes. The map shows the average income of households unable to access market housing



Source The Future of Sub-Market Housing, Savills Research, autumn 2015

Meeting future needs

Strong social roots ensure that housing vulnerable households remains a priority for housing associations. But developing housing in the open market has an increasing part to play in financially supporting the sector's core purpose

Despite the variety of developments that are coming into the sector, the perception of housing associations' core purpose remains in its social roots.

The priority for most respondents is to offer housing to vulnerable households and working families unable to access the private market. Few see the priority as accommodating those able to access market housing, whether for rent or purchase (see charts opposite).

But in a world with restricted grant, developing housing in the open market has an increasing part to play in generating the capital receipts and cash flow surpluses to financially support the sector's core purpose.

What's in the pipeline?

The government has loosened its position on the proportion of the £7 billion-plus pot of funding that will be allocated to shared ownership, yet it continues to be encouraged at unprecedented scale. So, it is driving the development programmes of many of our survey's respondents.

As the political focus shifts to a wider range of tenures, there is more support for affordable rent and the build-to-rent sector. Attracted by its ability to generate ongoing profits that can cross-subsidise their core charitable objectives, 37% of respondents say their association plans to deliver market rent in the next five years. Importantly, the sector has vast experience developing and managing stock for rent. Given the strong growth of demand in the private rented sector, this presents a major opportunity.

An even greater proportion, some two-thirds of respondents, plan to develop stock to sell on the open market in the next five years, with sales receipts providing much-needed capital for expansion. This reflects that, as a rule of thumb, four or five market sale homes are required to fund one new social rented unit.

Respondents are happy they have the ability to deliver their current programmes: less than 10% mentioned skills as a barrier. The problem comes if and when there is a housing market downturn.

Relatively few respondents see the prospect of a downturn as either an existing constraint on this kind of delivery or as a future risk to expansion.

That risk is amplified where land is acquired after planning consent is achieved, at its full development value. That requires a change in the way land is secured for development, one which enables more control over delivery and opens up the possibility of flexing tenure to suit market conditions. >

Future funding As the political focus shifts to a wider range of tenures, housing association development programmes are responding

£7bn of subsidy over the next five years for shared ownership and affordable rent

85%
of housing associations plan to deliver shared ownership homes in the next five years

83%
will deliver affordable rent

66%
plan to deliver market sale

37%
plan to deliver market rent

60% Despite restricted grant, more than 60% will continue to deliver social rent homes, presumably via cross-subsidy

24%
Only 24% see a market downturn as a delivery constraint

30%
see a market downturn as a risk to expansion

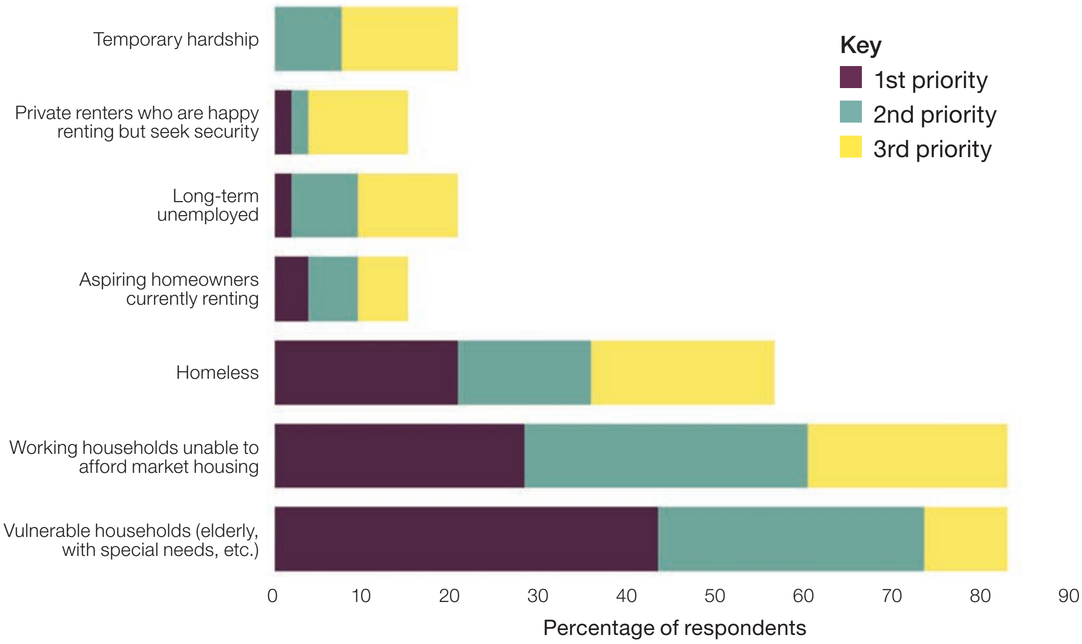
Source Savills Housing Sector Survey 2017

43% of respondents feel that their number one housing priority is vulnerable households

83% say that working households excluded from the market are a top-three priority

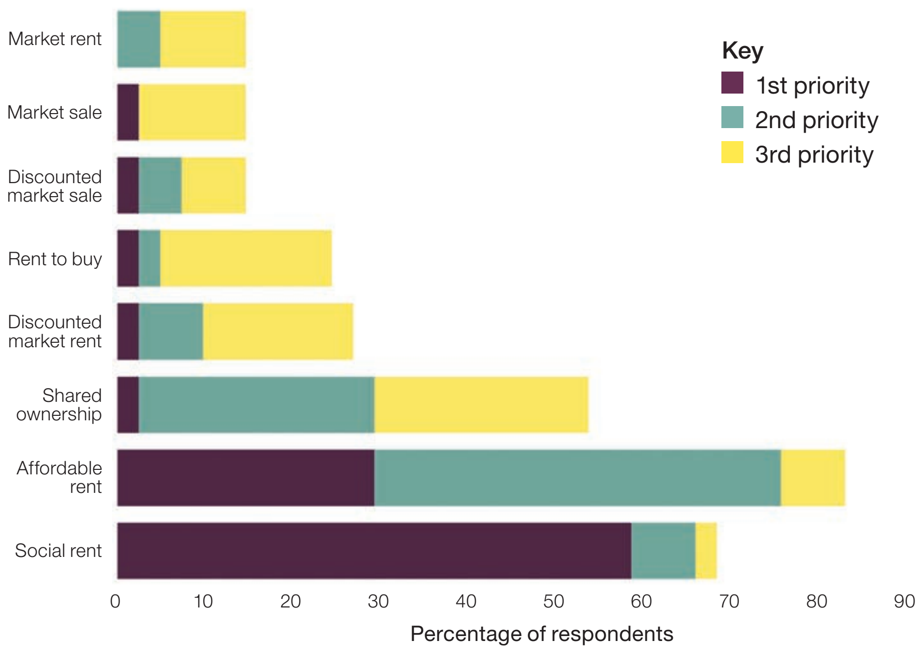
Only **15%** say that offering housing to aspiring homeowners is a top-three issue

Who should the sector be trying to house? For most respondents, it is most important to offer housing to vulnerable households and working people unable to access the private market



Source Savills Housing Sector Survey 2017

Which housing products should providers deliver to meet current and evolving needs? Sub-market rental tenures remain the top priority



Source Savills Housing Sector Survey 2017

90% of respondents feel that the number one priority is providing discounted rental tenures

54% mention shared ownership in their top three – only 2% say delivering it is the most important

15% mention market sale in their top three, but only 2% say delivering it is the top priority

Plans for extra care

Vulnerable households emerged as a key priority for the sector according to our respondents. They are planning accordingly: more than half will deliver some form of specialist housing during the next five years. This was split almost equally between supported and extra-care units, but the majority of programmes were relatively small compared to other housing types.

In addition to the general challenges in developing affordable housing, building and managing these homes can present other obstacles. Many respondents mentioned the looming Local Housing Allowance (LHA) cap and uncertain rent policy as major issues for their future plans in this space. We spoke to one of our respondents, Bruce Moore, chief executive of Housing & Care 21, for his view on the subject (below).

Downsizer demographic

Our current report also makes for interesting reading alongside our recent *Spotlight: Housing for Older People* which looked at the existing supply of this housing and the potential scale and nature of the opportunity. It concluded that there is a growing gap of 300,000 potential downsizer households in the mid-market between social rented and market homes, and that much of the existing stock is tired and failing to attract the next generation of retirees. ■

Q&A: Bruce Moore

Bruce Moore is chief executive of Housing & Care 21, a national provider of retirement housing and care services, with 19,000 retirement and extra-care homes.

What is different about building and managing extra-care housing?

In one way it's very different – it's offering an alternative to residential care so it's closer to the care space than just pure housing. Ensuring the care needs of residents are met, and responding to changing needs, requires active management and there are many services to co-ordinate.

In terms of development, though, there are some similarities, like worrying about build costs and viability.

Will the LHA cap on social rents impact your business plan?

Across our 5,500 extra-care properties, about £14 million in rent and service charge would be caught by the cap and require top-ups. We expect this would be covered by local authorities, as they have a duty towards the residents. But in the event it isn't, we believe there would be sufficient flex in the business plan to move towards a self-pay model over time.

In terms of development, we are not running scared of the cap, providing extra care is our core business and we are going to continue doing it.

Is anything holding back your development programme?

No. We looked at merger, but realised we can do more with our own resources and already have the capacity to do more within the organisation.

On the finance side, we have the headroom on gearing, so this year we are preparing to issue a £150 million-plus bond to raise funds. Finding good, viable sites (across the whole country, as we are a national developer) is a challenge, but we work closely with local authorities to match new supply to local needs, including those identified through s106.

What about market risk?

Market conditions have some impact, as a typical scheme for us is split 30/40/30 between affordable rent, shared ownership and market sale. But sales are often in response to a health event, so are much less discretionary than a standard new build. Selling an existing property is sometimes a barrier, but we can offer tenancies pending sale to mitigate this.

1.4 million specialist homes are needed nationally for older people

40% can access homes on the open market. 35% are housed by social landlords

300,000 households are stuck in the middle between social rented and market homes

Expanding horizons

To deliver their development aspirations, housing associations face challenges over finances and land. We chart some of the financial obstacles, and highlight what can be learned from the private sector when it comes to buying land

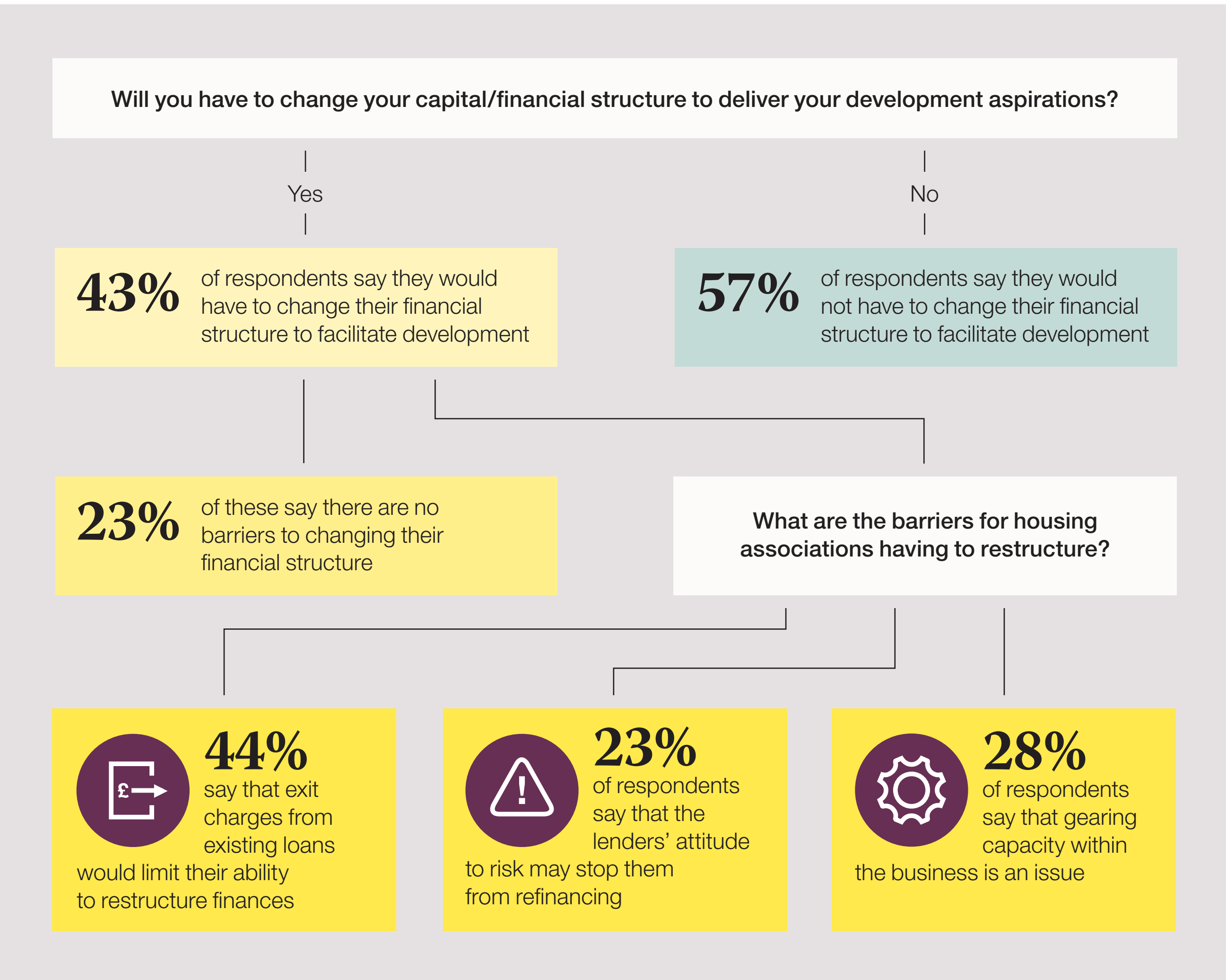
Ambitious housing associations may have to change their financial structure to deliver their development aspirations. Some 43% of respondents said that changes would have to be made. One-fifth viewed this as a straightforward process, but, for many, there are obstacles.

The most common barrier cited by respondents was exit charges from existing financial arrangements rather than their inherent financial capacity. This is consistent with the findings from our *Spotlight: Housing Association Financial Capacity*, which found that many housing associations had spare cash flow and gearing capacity. Although these were mentioned, they were less significant barriers than exit charges.

Learning about land

Land was cited as the number one barrier to expanding development programmes by more than one-third of >

Show me the money Although many housing associations have a financial structure that is set up for future developments, some face obstacles, the most common being exit charges from existing loans



Source Savills Housing Sector Survey 2017

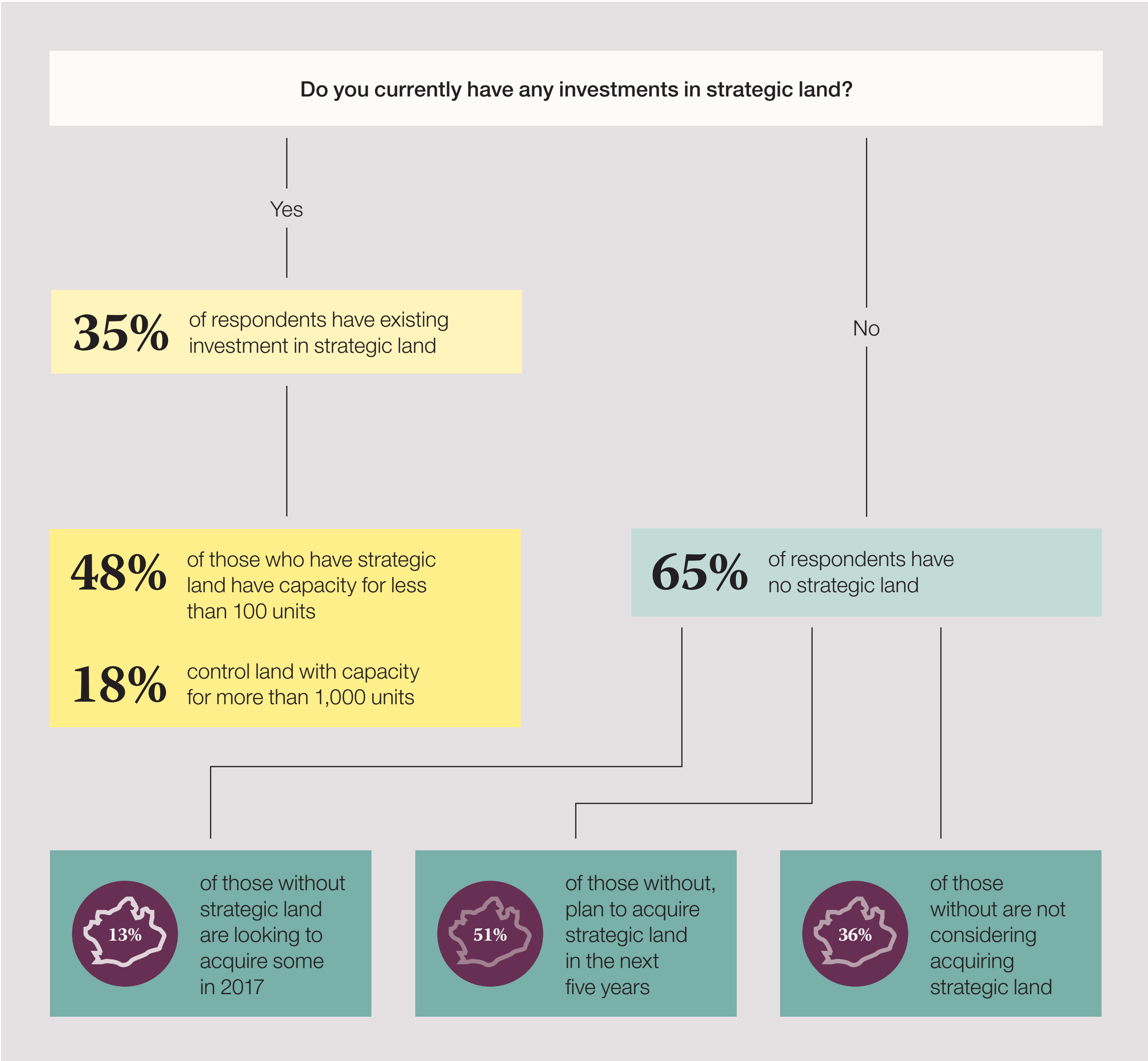
survey respondents. So, what can the housing sector learn from private-sector housebuilders on this topic?

They may operate under a different business model, but as building homes for market sale becomes more prevalent for housing associations, buying the right land at the right price becomes increasingly important.

Private developers focus on gaining access to land without tying up capital. In the past, they favoured option agreements, but now seem to prefer hybrid or promotion agreements. Either way, the key is to secure a good pipeline of deliverable sites. Developments are typically funded by cash, corporate-level financing or project-specific borrowing, with an aim of recycling cash once the sales start. Return on capital employed and margin are key measures of performance.

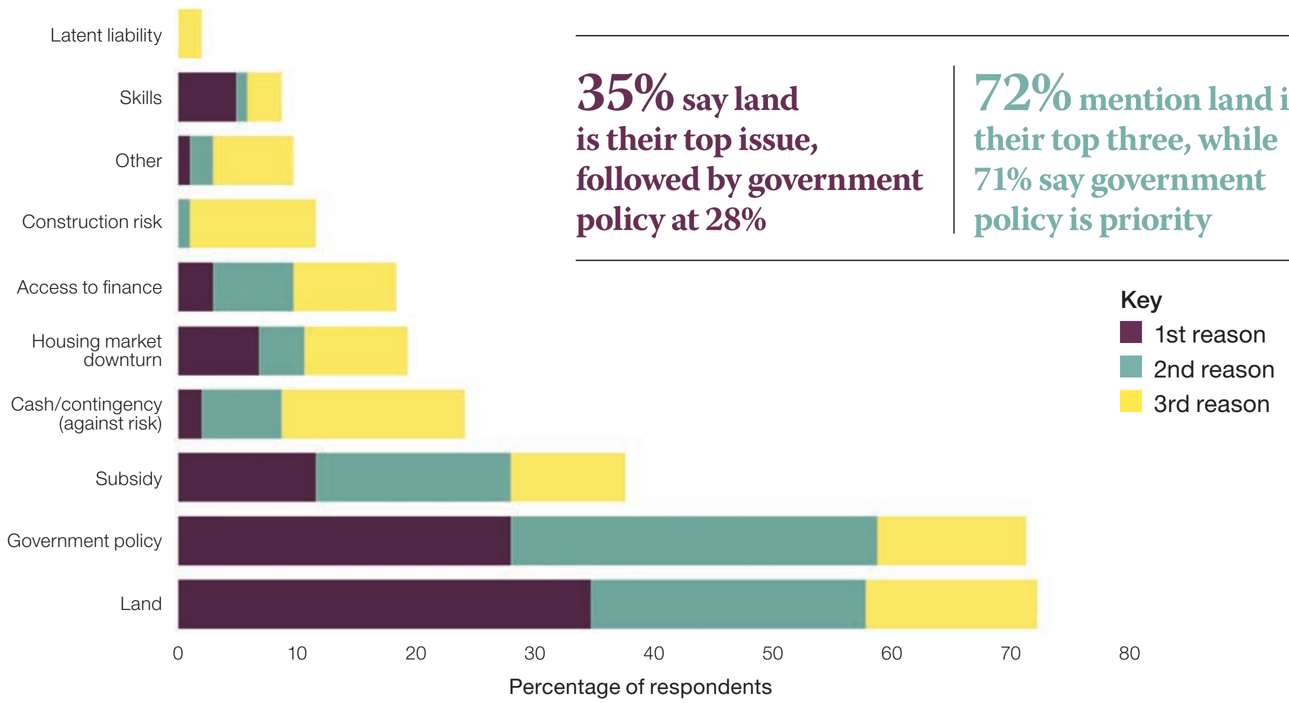
This is a big shift for a housing association with a record of longer-term investments and asset management. Of course, it will be important to match funding structure to project structure and appraise risks correctly. But there's no reason why land-led market sale developments shouldn't be embraced, with strategic land playing a more significant role. Failure to do so will limit the ability of the sector to grow and respond to changing demands. ■

Investment in strategic land With strategic land playing a significant role in future developments, more housing associations will need to increase their investment in land to meet changing demands



Source Savills Housing Sector Survey 2017

What are the biggest factors preventing your organisation from building more homes?
Although land is viewed as the biggest barrier, government policy is a close second



35% say land is their top issue, followed by government policy at 28%

72% mention land in their top three, while 71% say government policy is priority

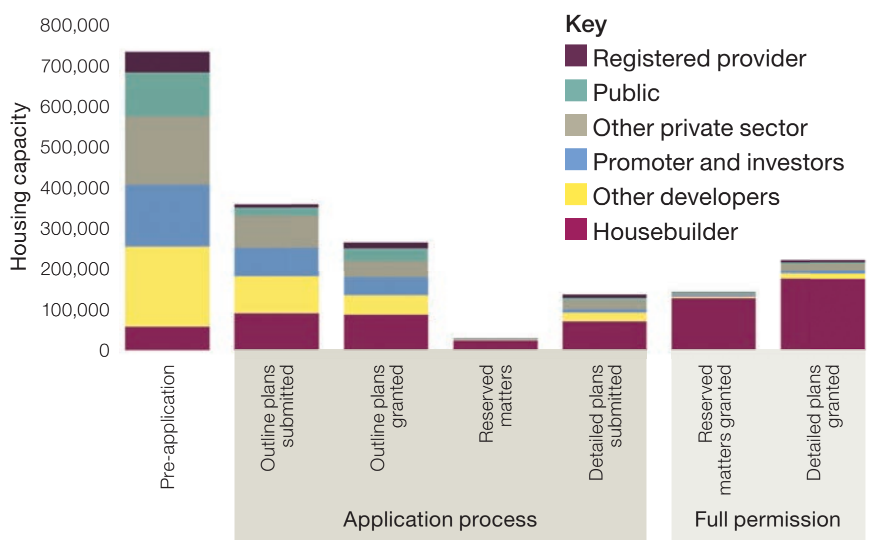
Source Savills Housing Sector Survey 2017

Who controls the land?

Housing associations control land with capacity for around 90,000 homes in the development pipeline (according to the Savills Development Database). Of these, almost 50,000 plots are at the pre-application stage, with a large proportion of this made up of land in the Gallagher portfolio purchased by L&Q in 2017.

We've noted increasing activity by housing associations in the land market, but they remain a minor player in the early stages of land promotion.

Growth market There is increasing activity by housing associations in the land market, but fewer are involved in land promotion



Source Savills Research, Glenigan **Note** The Savills Development Database tracks housing land from pre-application through to the delivery of new homes, with more than 13,000 sites currently recorded. (Pre-application figures not comprehensive.)

Unlocking future delivery

It's not necessarily *more* money that's needed to boost housing associations' share of delivery, it's *what* money that's important

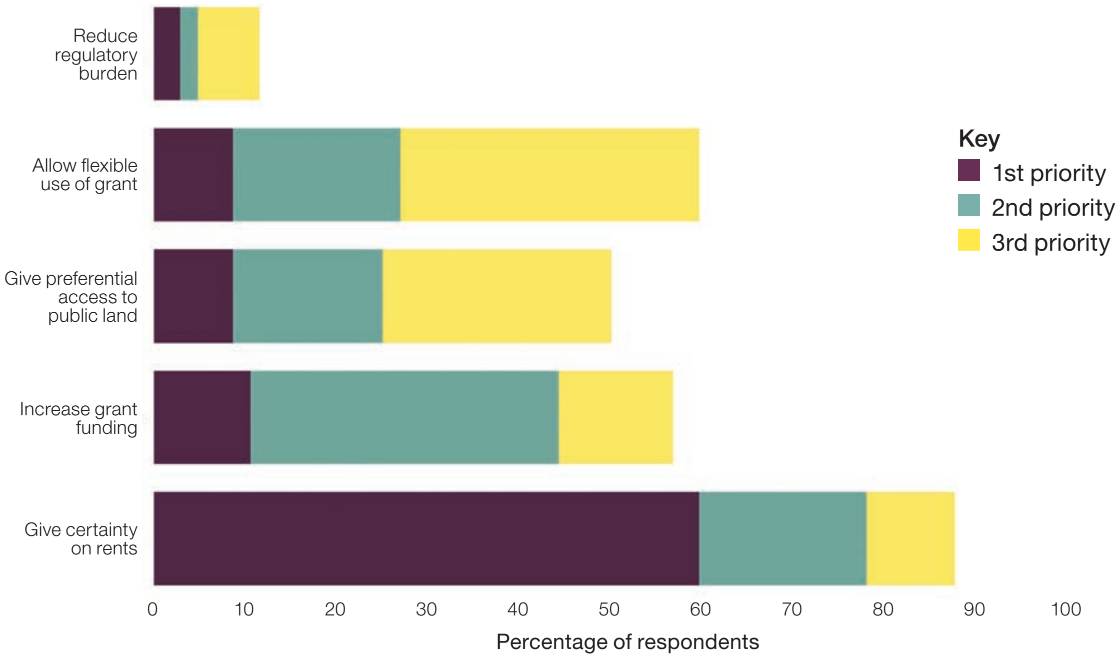
Government policy expects huge contributions from housing associations in terms of delivery, but has yet to provide the certainty needed to make this happen. The rent settlement was the key concern of our respondents. The surety of the rent roll beyond 2020 is a major factor in business plans and development capacity. Without it, long-term strategies will be held in suspense (see our report *Is rent freedom a silver bullet?*).

Housing associations also see a role for government in addressing the issue of land. Preferential access to public land was mentioned by many respondents as a means of unlocking delivery. To aid this, partnerships with developers or local authorities are being planned or considered by most respondents. The appetite for partnering with institutional investors was lower. This is likely to be because low-cost, long-term finance for the sector is relatively widely available. It also reflects the relative lack of interest in the sector in delivering market rented housing, where sale to an institution could unlock capital for reinvestment in future development.

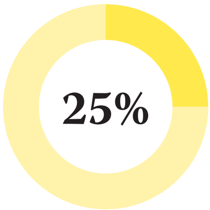
There is as much expectation of rationalisation in the sector through mergers, which would give the critical mass needed for a more ambitious programme of housing delivery in the sector. But, as we touched on earlier, meeting that ambition will often require changes in financial structure and funding.

What can government do to help housing association delivery?

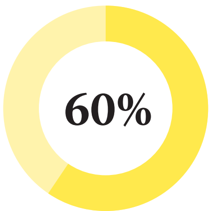
Rent certainty is clearly the number one priority for our survey respondents



Source Savills Housing Sector Survey 2017



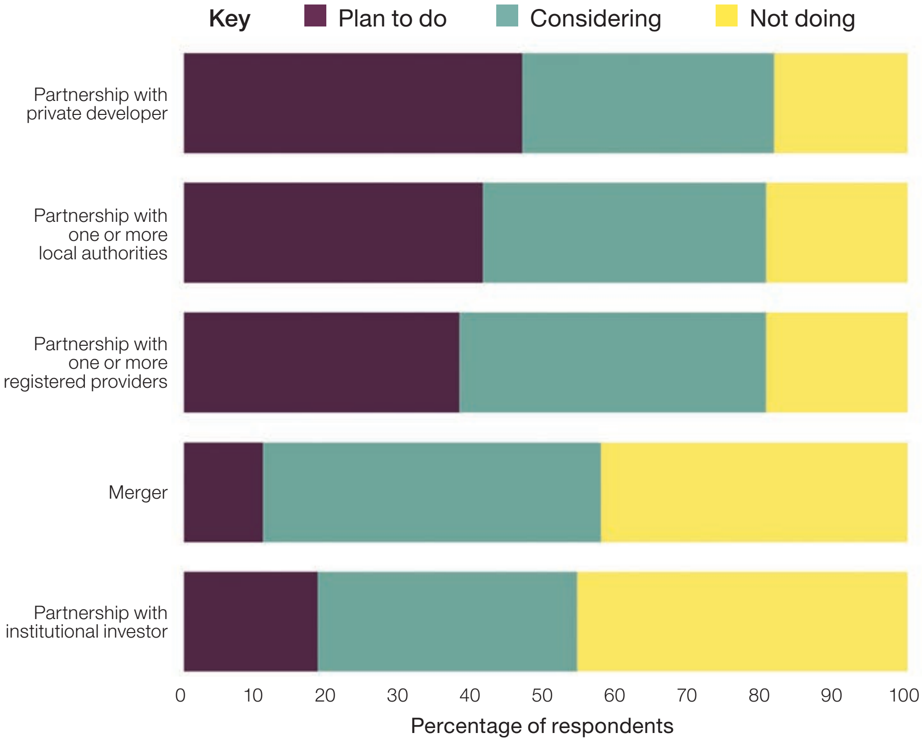
Considering or planning to merge in the next year



Rising to 60% in the next five years

In the next five years, are you planning/considering the following?

Partnerships with developers or local authorities are high on the agenda



Source Savills Housing Sector Survey 2017

Q&A: Mark Henderson

Mark Henderson is the CEO of Home Group, a 55,000-home social landlord founded and based in the North East but now with properties in more than 220 local authorities across the country.

What are the advantages of working in a partnership with a local authority/developer?
In general, it's a good thing, giving us the ability to share risks and pool resources and skills. Using the particular example of Gateshead BIG (a 2,400-home, 15-year, 19-site joint venture with private developer Galliford Try and Gateshead Council), each party brings something unique to the partnership.

We design the homes and are the guaranteed purchaser of them, Galliford Try contributes funding and actually builds the homes, and Gateshead is the land owner and the local planning authority.

Are there challenges in aligning objectives?
There's always tension in a partnership but I think of it as healthy tension. Councils want partners to invest in areas to provide new homes with quality design and a long-term commitment to improving the public realm, and that's what we want, so we welcome the pressure to deliver.

When working with a partner, you have to put your ego to one side and recognise what each other is good at. Local authorities really know their patch, so we are happy to have their input on what an area needs.

Has the partnership helped deliver more homes than would have been possible without it?
Absolutely, as the longer-term approach allows us to create new markets. In Saltwell, a deprived area of Gateshead dominated by low quality buy-to-let homes, we've created a for sale market that has performed very well.

Also, the increased certainty of a long-term partnership means you can invest more up front in things like apprenticeships, skills and new building techniques, supporting faster delivery of the homes.

10 take-outs

This year's Savills Housing Sector Survey presents a detailed overview of the issues and actions required. Here are our 10 key points that define how future delivery can be improved

1

Housing associations have a significant role to play in meeting the demand of the 70,000 households that are excluded from market housing each year.

2

The reduction in grant necessitates changes in what is delivered, how it is delivered, how the sector finances its expansion and how it goes about securing development opportunities.

3

Providing certainty on income from social rents in the period after 2020 would significantly help the sector formulate strategies to meet this challenge. Two-thirds of respondents say that this is the key way the government could help in this process.

4

The sector sees its core purpose as housing vulnerable households and working families unable to access market housing. However, developing market housing will be a key way of cross-subsidising these activities, irrespective of the £7 billion of grant available for shared ownership and affordable housing delivery in the next five years.

5

While more than 80% of housing associations are looking to deliver more shared ownership and affordable rent housing, 66% also plan to deliver housing for sale on the open market. 37% are looking to deliver market rent.

6

To do this effectively, the sector needs to understand and mitigate against market risk. Only 24% of respondents see a market downturn as a risk to expansion. There are lessons to be learned from the private sector in terms of funding and use of strategic land.

7

Currently, only 35% of the survey respondents have existing investment in strategic land and around half of those only have capacity for less than 100 units.

8

We expect to see more partnerships being entered into by housing associations, not just with local authorities and other registered providers, but also private developers and, to a lesser degree, private investors.

9

This growth in partnerships is likely to go hand-in-hand with more mergers in the sector. 60% of respondents are considering or planning a merger over the next five years.

10

Even then a more ambitious programme of housing delivery will require changes in financial structure and funding, recognised by 43% of respondents.

Get in touch

Research

Lucian Cook
020 7016 3837
lcook@savills.com

Chris Buckle
020 7016 3881
cbuckle@savills.com

Nick Gregori
020 7409 5907
ngregori@savills.com

Holly Titford
020 7229 3077
holly.titford@savills.com

Jacqui Daly
020 7016 3779
jdaly@savills.com

Housing

Robert Grundy
Head of Housing
020 7409 5995
rgrundy@savills.com

Helen Collins
Housing Consultancy
020 7409 8154
hcollins@savills.com

Terry Frain
Savills Financial Consultants
020 7299 3070
tfrain@savills.com

David Eastgate
Housing Consultancy
020 7299 3020
deastgate@savills.com

Robert Pert
Development
020 3107 5498
rpert@savills.com

Survey partner

Luke Cross
Editor, Social Housing
020 7772 8468
www.socialhousing.co.uk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