



In association with  
**SOCIALHOUSING**

Savills Research  
UK Residential  
[savills.com/research](https://www.savills.com/research)

Spotlight | 2018

# The Savills Housing Sector Survey 2018



Housing priorities | Affordability issues | Meeting demand

---

## The Savills Housing Sector Survey 2018

This survey, in association with *Social Housing* magazine, is the result of two surveys and two focus groups.

**The sentiment survey.** This was completed by people working in the housing sector and we received more than 1,700 responses from housing association employees, local authority employees and other stakeholders and suppliers. The purpose was to understand how the sector feels about the scale of the housing crisis, housing priorities, and how well the sector is responding.

**The capacity survey.** This focused on senior directors at housing associations and people in equivalent positions in local authority housing teams. They were asked about their development plans and priorities, financial issues, and the impact of policy changes. Data was collected in March and April 2018. We received around 100 responses, 86 of which were from housing associations (representing more than half the homes in their sector in total).

**Focus groups.** We invited a small group from the capacity survey to two focus groups to discuss both surveys. The group represented a cross-section of the housing association sector and the aim was to expand on any interesting results, share experiences and discuss issues outside the survey questions where relevant.

# Points of view

From mergers and tenure types to land and policy, housing sector personnel reveal the key challenges they face on housing delivery

**66** Housing associations manage millions of homes. Increasingly, they are supporting tenants in areas where local authorities have been forced to cut frontline services. Clearly, the need to deliver more affordable homes is pressing, but should it come at the expense of other priorities?

In our new-for-2018 sentiment survey, those who feel that the main priority for the sector is delivering more homes outnumber, by two to one, those who consider it is managing existing stock.

Our focus groups are more divided on the issue.

Some participants are shocked at this result – particularly post-Grenfell. They note a greater management effort on compliance and health and safety, right up to board level. Indeed, the second year of our capacity survey tells us that fire safety has become an increased priority for 90% of affordable housing providers.

Others feel that it is unsurprising given the Government's delivery-focused policy agenda and an overwhelming sense that demands on the sector are growing – particularly among working households, vulnerable households and the homeless.

We also uncover a strong sense that the sector is struggling to meet this increased need. Only 14% believe the sector is doing enough to solve the housing crisis. Yet, at a personal level, 87% feel there is the appetite to evolve and innovate to do more to address it.

In this report, we look at the pressures on the system and the need for greater flexibility around what is delivered and how it is funded. We then look at the scale of the delivery challenge.

The policy environment has undoubtedly improved over the past 12 months. And our capacity survey shows that development of more affordable homes has become an increased priority for 73% of respondents. But this requires two key components: land and funding, issues that housing associations are urgently addressing.

**99**



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

## Our survey partner

In May 2017, Social Housing and Savills teamed up to produce a report that reflected a sector embracing change, ambition and delivery. The Grenfell Tower tragedy stopped the sector in its tracks and, 12 months on, it feels like a very different world.

The ambition to build more homes and help solve the country's housing crisis remains strong. And, more than ever, we are hearing housing associations speak proudly about their roots – a commitment to tenants, safety and social purpose. But, with political pressure looming, and the sector

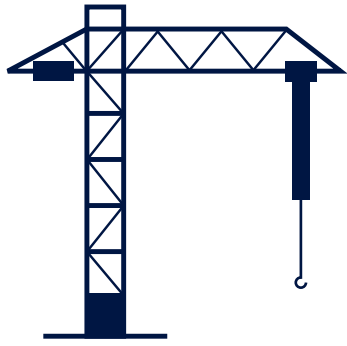
expected to increase its output significantly, the question for housing providers is: how can they do it all? The answer can't only be more money from government – it has to be further upheaval of the housing association sector. The journey is just beginning.



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

**SOCIALHOUSING**





1

Most people in the industry (64%) believe the main priority for the housing sector is to build more homes. By contrast, 36% prioritise managing existing homes. This pattern is consistent across sub-sectors, age and geography.

2

94% of respondents say that the number one housing priority is one of three groups: working households unable to afford the market; the homeless; and vulnerable people. It is also widely agreed that the needs of these groups are not currently being met and are worsening.

3

86% believe the sector is not doing enough to solve the housing crisis. But, of these, 75% say there is appetite in their organisation to evolve and innovate to do more. This falls to 57% across the sector as a whole. This suggests tensions and inefficiencies in the system, hampering the ability to rise to the challenge.

## 7 take-outs

From social rent to mergers and funding, here are the key points from our housing sector survey that will define future development and activity



5

Housing association leaders recognise the challenge of increasing the supply of homes and 73% say it has become more of a priority over the past year. But significant barriers to growth exist. Access to land was a challenge for 85% of organisations while 43% say they need to change financial arrangements to deliver their development aspirations.

4

As a whole, the sector thinks social rent is the right tenure to meet need in most cases, and more organisations are set to deliver it compared with last year. But our focus groups of senior housing association leaders are less concerned with tenure labels and want to focus more on getting people in homes they could afford and that meet their needs.

6

Brexit is only a minor worry for housing association leaders and our focus groups. They expect minimal impact on most aspects of their businesses, apart from construction capacity and costs. Here, it could exacerbate issues relating to the ageing workforce and a general lack of skills.

7

Competition for development land is hotting up as housing associations large and small are increasingly entering the market as an alternative to acquiring stock through section 106. Local authority development companies are also adding to the demand. Mergers and joint ventures can offer a shortcut to accessing land. Only 3% of respondents say they are not considering any kind of partnership.

# The nature of need

Increasing demand from those with complex needs is putting pressure on the sector

Our sentiment survey is unequivocal on the three groups the housing sector should be prioritising: vulnerable households, the homeless, and priced-out working households. They are also the

groups in which demand is increasing the most. Some of our focus group note that, by default, housing associations have become significant providers of accommodation for the long-term unemployed, impacting on

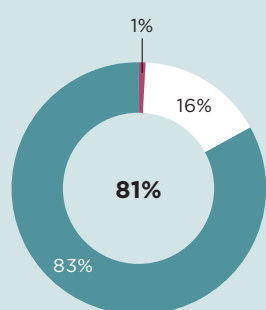
their ability to service the needs of those they were set up to house.

In the focus groups, many also describe the challenge of providing housing for tenants with multiple, complex needs. >

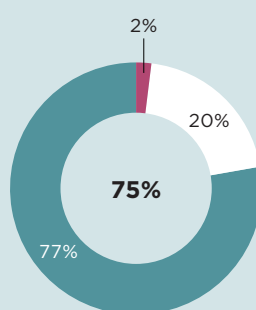
**How are the needs of different groups changing?** Vulnerable households, the homeless and priced-out working households are considered the groups for who demand is increasing the most

■ Increasing ■ Staying about the same ■ Decreasing (proportion of respondents)

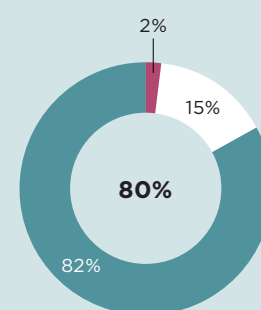
Figure in centre: Net balance of respondents saying needs of group are increasing



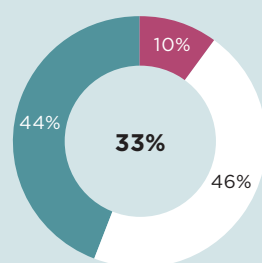
**Vulnerable households**



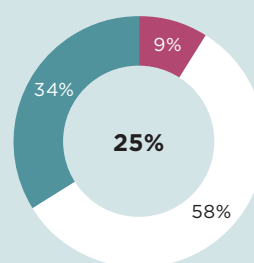
**Homeless**



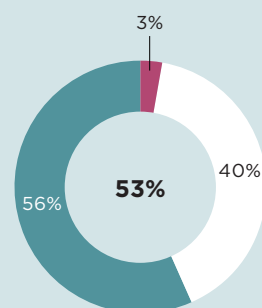
**Working households unable to afford market housing**



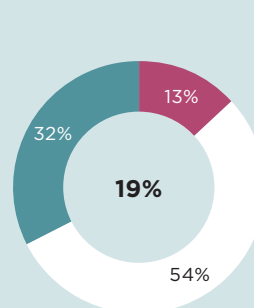
**Aspiring homeowners (currently renting)**



**Private renters who are happy renting, but seek security**



**Temporary hardship**



**Long-term unemployed**

**Source** Sentiment survey (all respondents) **Note** Figures may not sum due to rounding

As a result of cuts to local authority budgets, associations are often acting as an unofficial frontline service provider. They also feel that a political shift in the approach to homelessness, culminating in the recent Homelessness Reduction Act, has brought that particular issue up the agenda.

However, the ability to respond to these changing needs is heavily constrained by policy and funding. A case in point is the proposed (and subsequently cancelled) local housing allowance cap, which made some supported housing schemes unviable

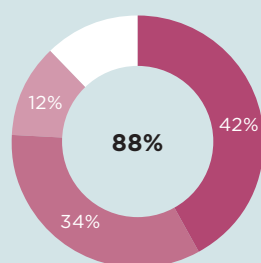
overnight, causing them to stall temporarily. This tension between what is best for their organisation and what is the right thing to do is evident in responses with many expressing the idea that 'if we don't do it, who will?'.

Mental health issues are a concern, but without statutory responsibility (which still lies with local councils) or increased funding, housing associations find it difficult to respond. Many say that larger organisations are rationalising their businesses to focus on what they do well (housing and welfare) leaving care provision to the specialists. ■

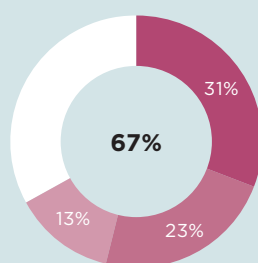
**Who do you think the sector should be trying to house?** The sector is agreed on who social housing is for: vulnerable households, the homeless, working households unable to afford market housing

■ 1st priority ■ 2nd priority ■ 3rd priority (proportion of respondents)

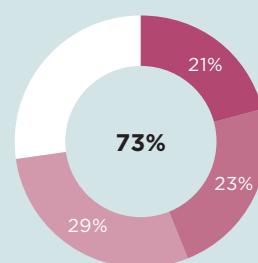
Figure in centre: total respondents putting issue in the top 3



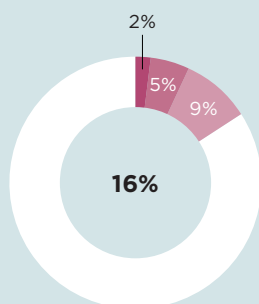
**Vulnerable households**



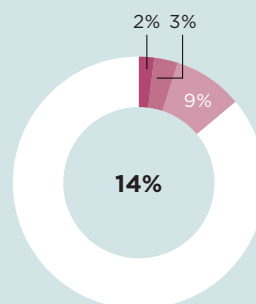
**Homeless**



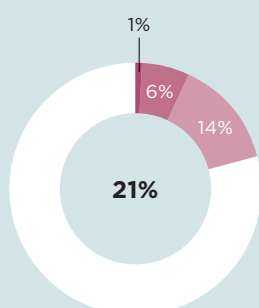
**Working households unable to afford market housing**



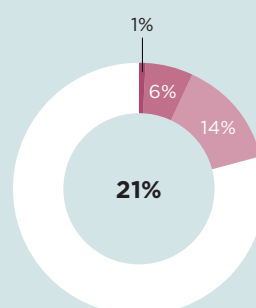
**Aspiring homeowners (currently renting)**



**Private renters who are happy renting, but seek security**



**Temporary hardship**



**Long-term unemployed**

Source Sentiment survey (all respondents)

# The reality of supply

Distinctions between tenure types and the funding that is allocated to them is making it difficult for the sector to provide affordable homes

Social rent is clearly the number one housing type required, according to our sentiment survey respondents.

Furthermore, our capacity survey shows that the proportion of organisations planning to deliver that tenure has increased compared with last year. Providers have been quick to recognise the government's more positive rhetoric towards social housing.

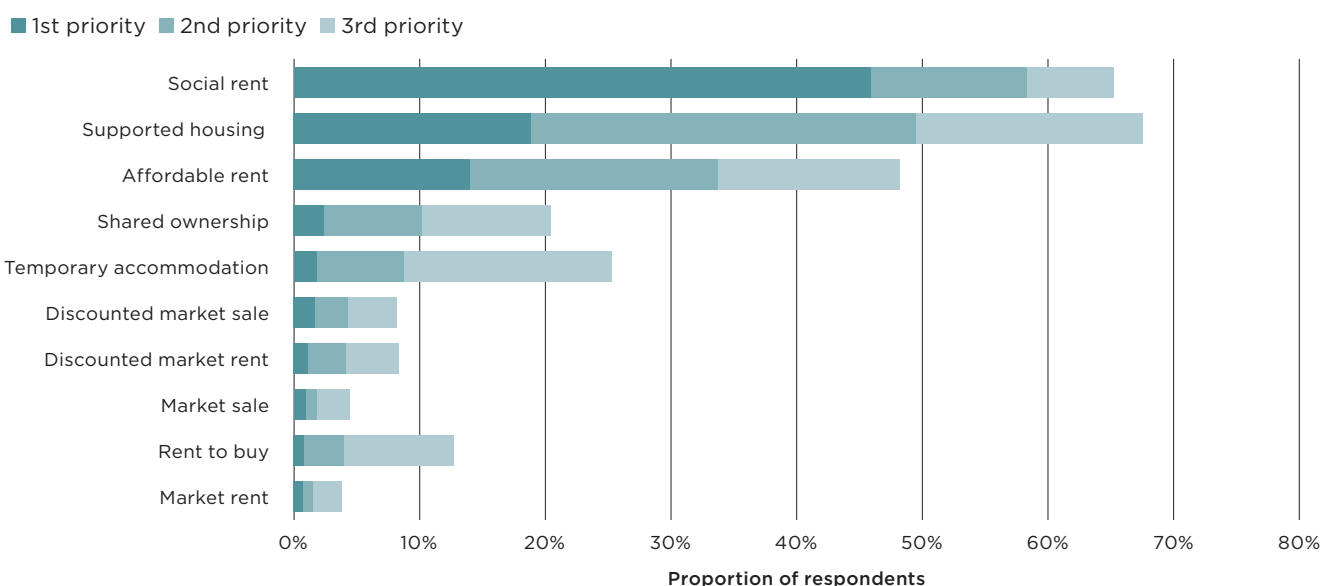
Ultimately, development activity responds to funding programmes. The extent to which good intention will translate into action will be limited by both the £2 billion in additional funding promised for social rented homes and the terms on which it will be available.

So, the expectation is that affordable rent and shared ownership will continue to be delivered in greater numbers given the £7 billion of funding being targeted at them.

Our focus groups feel that, increasingly, the distinctions between tenure types and funding allocated to them makes it difficult to meet the sector's ambitions: to provide affordable homes for those most in need.

There was a feeling that too many tenures and labels are unhelpful and fail to acknowledge regional and local differences in the market dynamics, or the changing circumstances of the occupier.

**Which housing types should be delivered to meet housing needs?** Survey respondents are clear that social rent is the number one housing type required



Source Sentiment survey (all respondents)

**Which tenures are you going to deliver in the next five years?** Organisations have responded to the government's more positive rhetoric in favour of social rent



Source Capacity survey (housing association respondents only) Note Samples do not overlap 100% between years

---

# The 100,000 home challenge

The policy environment for delivering affordable new homes is improving, but access to land remains a big barrier

Housing associations will be under pressure to increase housebuilding of all tenures, and help close the gap between current supply of 220,000 and the Government's target of 300,000 new homes per year. Our capacity survey and focus group respondents say that the policy environment is now much less of a constraint, but there is a long way to go and other barriers remain.

## **New avenues for delivery**

Even with the benefit of Help to Buy, private sector housebuilding appears to be starting to plateau. It will be difficult to increase the supply of traditional 'for sale' new homes in the low transaction, low house price growth environment that we forecast to continue over the next few years.

There is growing political acceptance that housebuilding must move beyond existing routes to maximise potential absorption – that means more small and medium developers, more affordable homes and more diverse products, including build to rent and specialist housing for older people.

In our 2017 report, *Investing to Solve the Housing Crisis*, we estimated that there is a need to create 100,000 new sub-market homes a year. In Labour's Housing Green Paper, they have pledged to deliver 1 million genuinely affordable homes over 10 years. They have also suggested that they will champion housing associations as major providers of these homes. The National

Housing Federation takes it further with their suggestion that we should be building 145,000 new affordable homes.

In 2016/17 just 27,000 sub-market rental homes were created. Of those, local authorities delivered precious few, with all but 3,000 being delivered by housing associations.

## **Foundations laid**

With their own affordable housing Green Paper on the way, the Government has put in a number of building blocks for supporting increased delivery since our last survey.

Last year, our capacity survey clearly showed that uncertainty over future rents was the biggest barrier to housing associations meeting their development aspirations. That particular issue was addressed in October last year when the Government announced that rent increases would be capped to the consumer price index plus 1% in the five years from 2020.

In 2017, our survey was conducted shortly after the Government had issued its Housing White Paper, which heralded a broader approach to housing delivery across a wider range of tenures. The Government followed this up with the consultation paper *Planning for the Right Homes in the Right Places*. This sets out proposals to require local planning authorities to objectively assess housing

---

**In 2016/17 just 27,000 sub-market rental homes were created – all but 3,000 by housing associations**

---

need with regard to affordability in their locality and to take into account the needs of specific groups of occupiers.

Furthermore, at the beginning of this year, the Government set out the terms of reference for a review by Oliver Letwin to look into build-out rates on consented sites. The review has looked at how absorption rates can be increased on large sites by creating homes across a wider range of tenures.

## **Remaining constraints**

Constraints remain in the short-term, two of which stand out. The first is the availability of grant, which the respondents don't have control over.

The second constraint is lack of access to land, which has meant an increasing emphasis on securing strategic land.

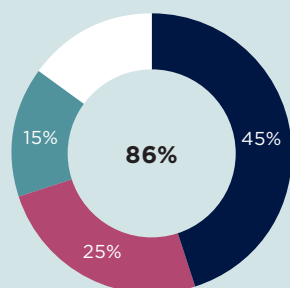
The lack of land has been an important catalyst for merger and partnership activity in the sector, which we explore in more detail on pages 12 to 14.



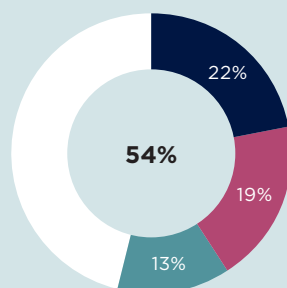
**What are the biggest factors preventing your organisation from building more homes?** Increased delivery is essential for the UK housing market – however, there are significant barriers to overcome

■ Number 1 barrier ■ Number 2 barrier ■ Number 3 barrier (*proportion of respondents*)

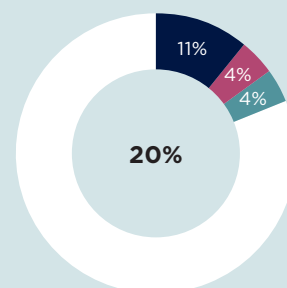
Figure in centre: total respondents putting issue in the top 3



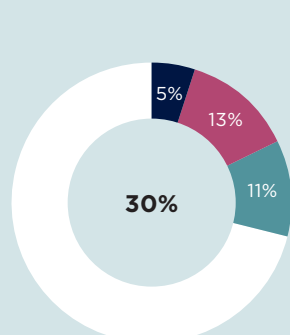
**Availability of land**



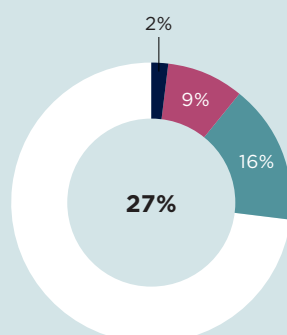
**Lack of subsidy or grant**



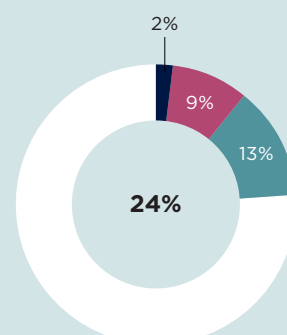
**Access to finance**



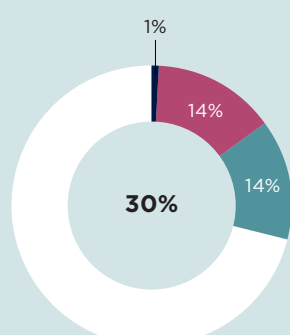
**Organisational capacity and skills**



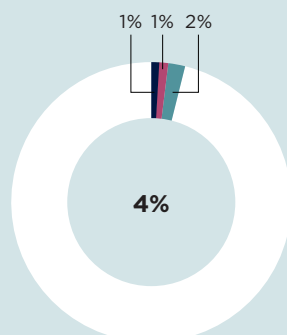
**Risk of housing market downturn**



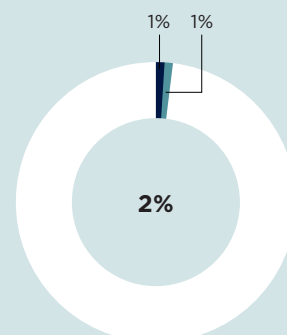
**Government policy**



**Construction industry capacity**



**Brexit**



**Latent liabilities (expected future obligations or costs)**

# Rents and income: the missing link

Time for a closer association between rents and affordability

Affordable rents, which constitute the bulk of new supply, are set in relation to the market. But, in many areas, rents are growing faster than both incomes and housing benefit allowances.

Indeed, our focus groups felt that the housing crisis is closely linked to a wage crisis. That can mean new homes are unaffordable to the types of vulnerable or low income households most in need.

## North-South divide

This is generally less of an issue for northern landlords, where a single block of properties could comprise social, affordable and market rental tenancies all at similar levels.

Elsewhere, differentials in rents within the sector can result in a range of distortions and inefficiencies in matching demand and supply.

One focus group participant explained that their organisation is looking to limit delivery of larger, family-sized homes at affordable rent despite local need, as few households could afford them.

In London, a landlord might be charging a low social rent to a long-time (secure) tenant now on a good income, while their less well-off neighbour is charged an affordable rent that is significantly higher.

## Changing approach

In some circumstances this is already changing the approach taken by providers. For example, Peabody announced it will stop charging affordable rents, focusing more on delivering social rented homes and treating existing tenants of similar properties more fairly. For now, that is the exception rather than the norm.

Efforts to remove these inefficiencies have had mixed success. The Pay to Stay policy proposed in 2015 (essentially means-testing ongoing sub-market rents) was dropped after many in the sector criticised it as unworkable.

While our focus groups agree this policy was flawed for a variety of reasons, they feel the general concept of more closely linking rents to actual incomes was laudable.

## Lessons learned

Initiatives such as the London Living Rent and Dolphin Living's Personalised Rent are aiming to restore the link between housing costs and income. The former sets two-bed rents at 33% of local median household incomes, but is explicitly aimed at 'middle-income Londoners' and has an upper income threshold of £60,000; in practice, rents are around 65% of market levels.

## Peabody announced it will stop charging affordable rents, focusing more on social rented homes

Our focus groups are broadly in favour of the principle but have concerns with the implementation, noting that it was difficult to deliver viability in higher-value areas of the capital without higher levels of grant aid.

Personalised Rent is much closer to Pay to Stay, setting a minimum rent based on property type and then charging a variable, additional element based on tenant income and household type. Although a fairer way of setting rents, there are clearly administrative and viability challenges to delivering large volumes of such a product.

## Flexibility needed

Despite these issues, our focus groups are clear on the need for much greater flexibility and a grant aid system which supports that. In the meantime, the need to build market housing (to help cross-subsidise other development aspirations) remains. It is an important source of capital receipts. By contrast, the market build to rent sector is increasingly seen as the domain of the private sector or large housing associations with access to private capital.

# Brexit fears building

Britain's withdrawal from the European Union won't materially affect demand for affordable housing. But 94% of respondents believe it will reduce capacity in the construction industry

While the uncertainty of Brexit hangs over the UK housing market, our capacity survey shows that it barely registers as a barrier to building more affordable homes; only 4% of organisations put it in their top three.

On the demand side, most capacity survey respondents feel that affordable housing need will remain largely unchanged, and the focus groups agree.

Some acknowledge that many of their shared-ownership buyers are Eastern European. While some of these sales fell through in the immediate wake of the Brexit vote, most returned to complete their purchase once the dust had settled.

By contrast, our survey respondents recognise that the impact on construction capacity will be overwhelmingly negative. This is in line with the wider construction industry's views. The HBF Workforce Census 2017 recorded that 18% of the home building workforce is from EU countries. For London sites, the figure is 50%.

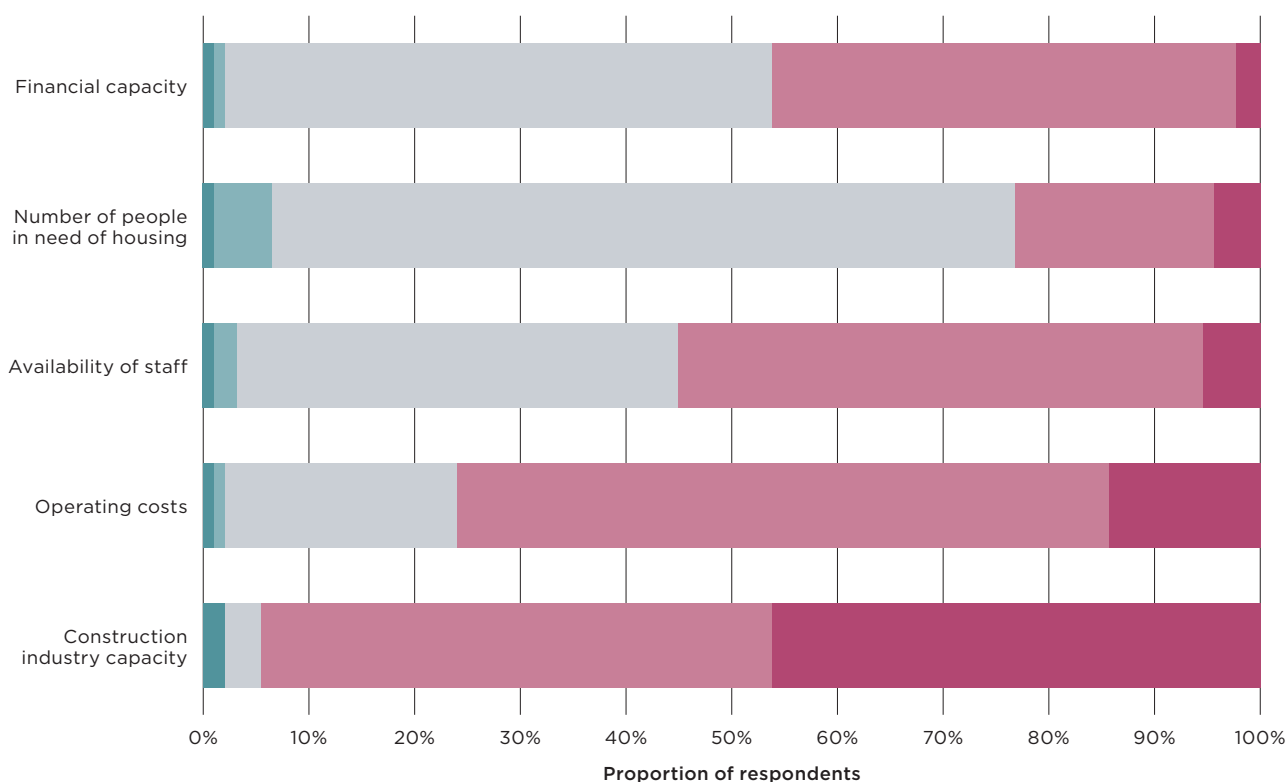
Our focus groups report that the cost of construction materials has already been impacted and some local contractors are very stretched. Brexit is unlikely to help matters. The ageing construction workforce and a general lack of skills are more fundamental problems.

Modern methods of construction are often cited as a potential solution to capacity issues, with Swan and Accord at the forefront in already having their own facilities.

One focus group attendee explained that their organisation is seeking to work in partnership with three or four neighbours to set up a local offsite manufacturing facility and secure their future development capacity. However, this is too big a commitment for most small- or medium-sized providers alone. This is yet another example of how the housing sector is having to respond to a changing political and economic environment.

**To what extent do you think Brexit will impact on the following issues?** Although the impact on affordable housing need is low, the impact of Brexit on construction is overwhelmingly negative

■ Big positive impact ■ Slight positive impact ■ No impact ■ Slight negative impact ■ Big negative impact



Source Capacity survey

# Meeting development aspirations

Land, mergers and partnerships, and funding are three key factors influencing delivery. So, how prepared is the sector?

## 1. Land

Lack of land is an increasing limitation for housing associations with ambitious development aspirations. In last year's survey, respondents said it was as important as government policy in influencing the number of homes they could build. This year, it is the standout factor, followed by a lack of subsidy from central government.

As in last year's survey, 35% of associations say they have some strategic land already, and a similar proportion are looking to acquire some. However, they are pursuing these opportunities more urgently. Of those currently without any strategic land, 26% say they are looking to acquire some in the next year, compared with 13% in 2017.

### Unhealthy competition?

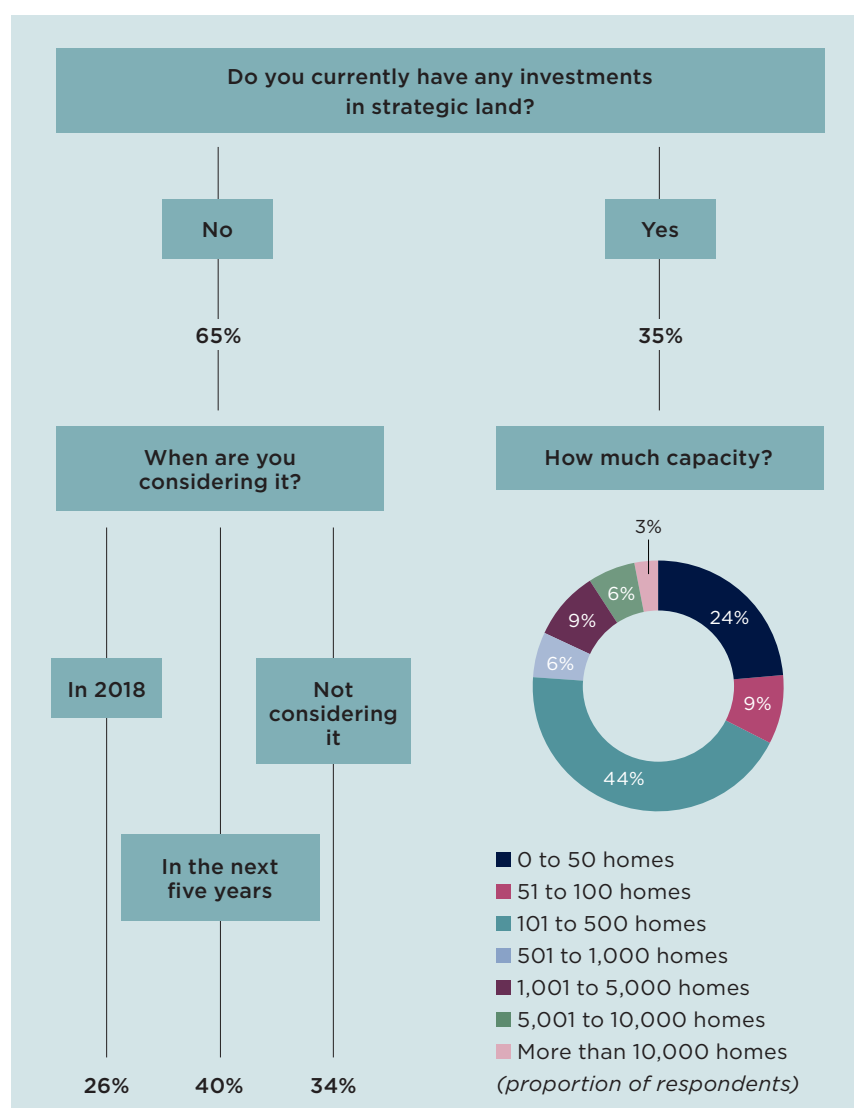
Our focus group respondents say that most competition is from other associations chasing opportunities of a similar size and location. This is pushing up land values.

Competition was evident around schemes of 100 to 200 units – considered the sweet spot in terms of physical deliverability.

It is felt that breaking up larger sites to meet this need would increase output. Although this requires some upfront funding of infrastructure from government, it is considered to be a more efficient means of increasing levels of affordable housing than, say, via s106 planning obligations.

Our focus groups agree that buying s106 stock is increasingly competitive. We heard that some associations are appraising schemes based on a 40 to 60 year basis to justify paying a premium compared with those using more conservative assumptions. One association says it had lost 60 consecutive s106 bids for affordable rented homes, meaning an increased focus on delivering homes themselves and taking a greater part in the planning process.

**Strategic land** Of the associations without any strategic land, 26% are looking to acquire some in 2018, compared with 13% in 2017



Source Capacity survey

## 2. Mergers and partnerships

In recent years, there has been a flurry of major merger activity (see timeline below), with increasing development capacity usually cited as the main reason for the union. But other kinds of partnership are also taking place as housing associations look to secure additional access to land or development expertise.

In the North West, Trafford Housing Trust has a £160 million joint venture with L&Q and a joint venture of £100 million with Galliford Try. Barratt has joint ventures in London with L&Q, Metropolitan and Hyde. Hyde has a £120 million joint venture with Brighton & Hove City Council.

### Preferred partners

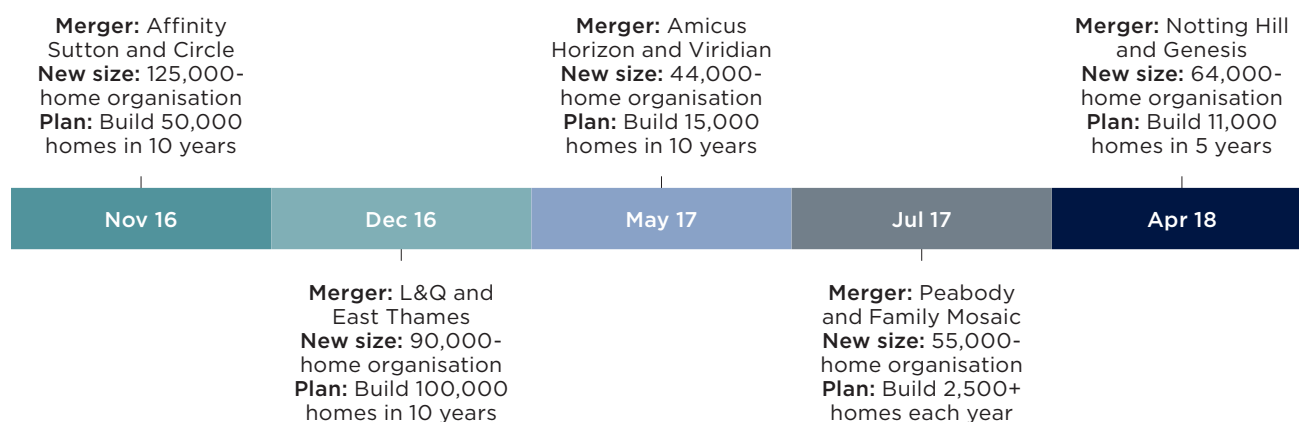
Our capacity survey backs up these trends. Partnerships with private developers, local authorities, and other associations are each being considered by at least 60% of housing associations in the next year. That rises to around 80% in the next five years. Full mergers are set to be slightly less popular, at 40% and 60% respectively.

Even less popular are partnerships with institutional investors, who tend to want a secure long-term income return for a relatively hands-off investment. Housing associations (and local authorities) also value these secure income streams. Consequently,

there is less obvious synergy. But this characterisation may be too simple. Some institutions are more directly involved in housebuilding – for example Legal and General owns a portfolio of strategic land plus a modular housing facility near Leeds.

For some in the focus groups, one of the key motivations for ensuring robust financial health is to avoid a regulatory downgrade. Gaining a balance between maximising development potential and not spooking the regulator is a difficult challenge. Some see partnerships and joint ventures as a way to ensure the future of their organisation and avoid unwanted mergers. >

### Timeline of recent major merger activity

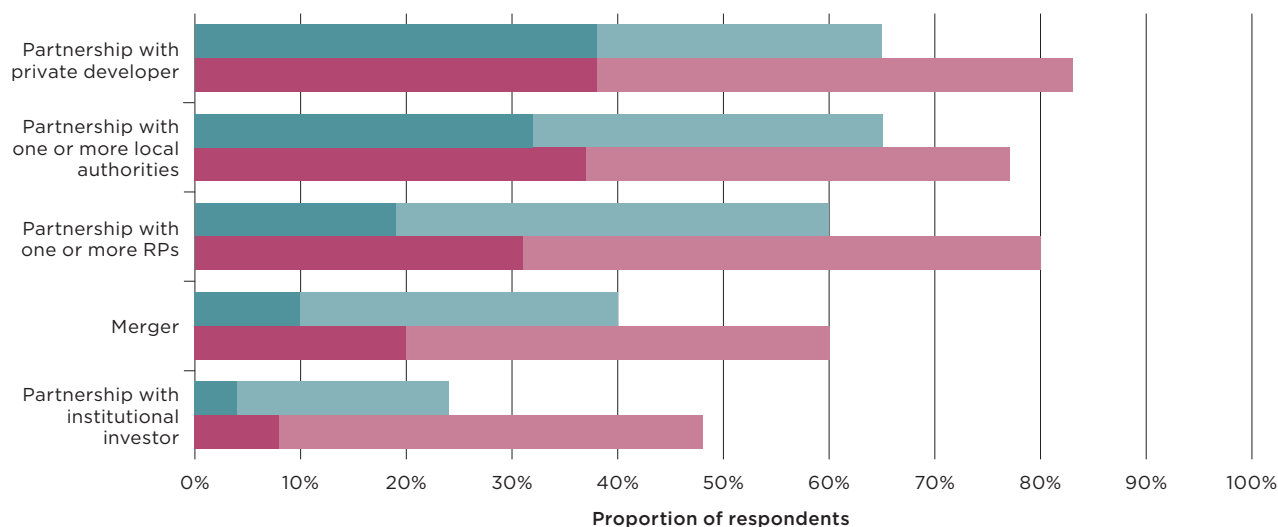


Source Savills Research

**How seriously are you considering these partnership options?** There is an increased appetite for collaborations, with only 3% of organisations not considering any kind of partnership

In the next year ■ Very ■ Somewhat

In the next five years ■ Very ■ Somewhat



Source Capacity survey



### 3. Funding and finance

A slight majority (57%) of associations already have their financial structure ready to deliver their development programmes. This finding mirrors last year, so while the survey sample is not the same, this suggests restructuring may be a slow or difficult process. Of those who do need to change, there are multiple barriers, with no single one of them standing out as more common. Among the smaller number of local authority respondents, there was similarly no consensus on a particular barrier. HRA debt caps, general financial capacity and member appetite were all mentioned as main barriers to change.

**Public-private potential**

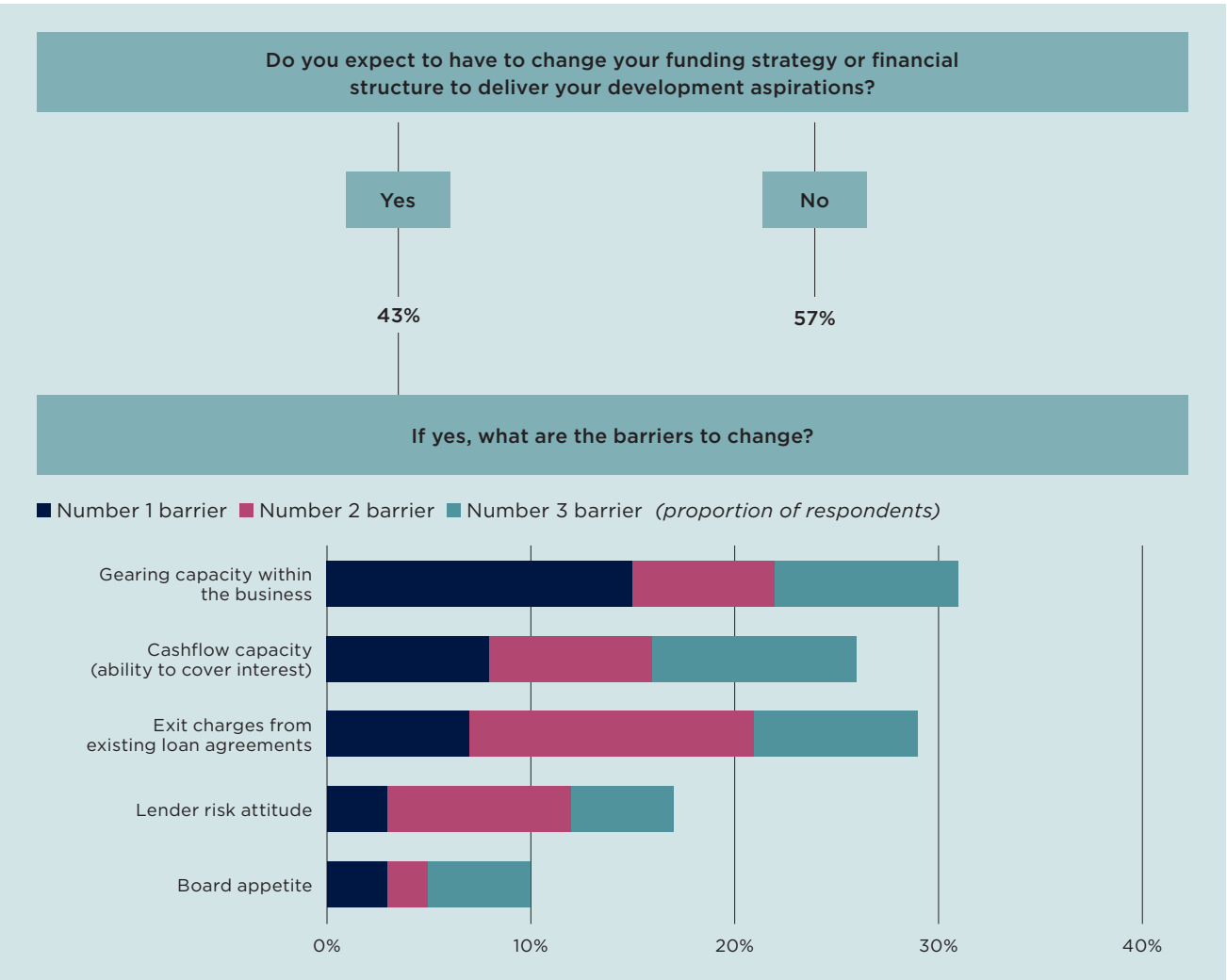
Local authorities are often major landowners, but, in many cases, have scaled down

their in-house development capabilities following stock transfer or more general loss of expertise.

A new breed of local housing companies – defined as independent arms-length commercial organisations wholly or partly owned by councils – have been springing up instead. A report by the Smith Institute identified 150 local housing companies, most with relatively low current output of around 50 homes per year.

It estimates the total capacity of this sector at 10,000 to 15,000 homes by 2022, of which 30% to 40% would be affordable, so a small fraction of the 100,000 needed. Whether local housing companies are seen as potential partners or extra competition for housing associations remains to be seen. ■

**Secure funding** Most associations already have their financial structure ready to deliver their programmes



**Source** Capacity survey (housing association respondents only)

---

## Get in touch

### Savills Research

**Lucian Cook**

020 7016 3837

[lcook@savills.com](mailto:lcook@savills.com)

**Chris Buckle**

020 7016 3881

[cbuckle@savills.com](mailto:cbuckle@savills.com)

**Nick Gregori**

020 7409 5909

[ngregori@savills.com](mailto:ngregori@savills.com)

---

### Savills Housing

**Robert Grundy**

020 7409 5995

[rgrundy@savills.com](mailto:rgrundy@savills.com)

**Helen Collins**

020 7409 8154

[hcollins@savills.com](mailto:hcollins@savills.com)

**Terry Frain**

020 7299 3070

[tfrain@savills.com](mailto:tfrain@savills.com)

**Joseph Larke**

020 7409 9983

[jlarke@savills.com](mailto:jlarke@savills.com)

**Robert Pert**

020 3107 5498

[rpert@savills.com](mailto:rpert@savills.com)

---

### Survey Partner

**Luke Cross**

020 7772 8468

[www.socialhousing.co.uk](http://www.socialhousing.co.uk)

---

Savills plc: Savills is a leading global real estate service provider listed on the London Stock Exchange. The company was established in 1855 and has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has more than 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. The information contained in this publication is correct at time of going to press. All rights reserved. No material may be used in whole or in part without the permission of Savills. The views expressed in this publication are not necessarily those of Savills or the publishers. While every care is taken in compiling content, Savills does not assume responsibility for effects arising from this publication.

---

