



CEO Forum A Question of Balance

Hosted by NHBC 11 July 2018

Key issues: diversity in housing supply, sales absorption rates, London and South East sales transactions, sales performance in regional centres, housing association development capacity and use of balance sheet strength, service charge affordability, investment in rental products.

A Question of Balance

The government remains committed to housing supply and its aim to build 300,000 homes per year by the mid-2020s. It still aims to encourage diversity of supply, for example funding to encourage build to rent. This is in the context of over one million people on waiting lists and increased homelessness.

Oliver Letwin in his draft report has concluded that while the big housebuilders are not land banking per se, they will only build out at the rate that allows them to sell at the price of second hand property in an area. This absorption rate model means that without other tenures, government will not achieve the targets set.

The Social Housing Green Paper which is likely to have some implications for the sector is anticipated.

For housing associations, the Future Shape of the Sector Commission is putting forward the argument that housing associations should both seize the opportunity of a new consensus to build more social rent homes whilst still continuing to build homes for sale and rent, operating across the whole housing market.

Richard Donnell covered trends in tenures and the market in general. NHBC's figures shows starts are down 6.4% for the affordable sector and 4.6% for the private sector in the 12 months to April 2018.

We have reached a point in the housing cycle for London and South East where house price growth has stretched affordability to a point where prices are affected. Transactions are down 20% on 2014. In London and South East we are on a "journey of price discovery".

Mortgage regulation and lender caution also has an impact. Despite monthly mortgage costs being affordable, buyers first need large deposits and subsequently lenders will stress test affordability adding 3% to current low rates. So this caution from lenders combined with affordability is having an impact on first-time buyers' ability to afford.

However the regional centres such as Manchester, Birmingham and Bristol still have 20% potential price growth. Housebuilders are moving out of London and focusing on those areas, tending to build three and four bed homes on greenfield sites on the edge of town. There appears to be no shortage of land. 'Help to Buy' in particular in these markets encourages three bed homes at current price point. Until there is some change in Help to Buy or affordabilities, this will continue to be the case. Potentially housebuilders would trade down to build two bedroom houses to meet an affordability gap to find the price point in the market but currently that is not necessary.

What is noticeable and driving mixed tenure is a shift back to rent for investors and developers. So for investors there is an opportunity to make long-term returns. For the developers an opportunity to cash flow projects. There is still a query over whether the intermediate rented tenures can actually deliver the yields suggested.

Comments

It was noted that individual housebuilders were prepared to take lower margins on schemes where they could sell the build to rent and affordable rent and that they were basing decisions on risk blended margins rather than standard 20 to 25% operating margin. This approach helps manage cash as money comes into business earlier and enables quicker delivery. From housing associations there was a call for greater flexibility at section 106 stage to enable them to manage the cycle. Attention was particularly drawn to the resilience of the shared ownership product given its ability to defer surplus on private sale.

Austen Reid gave the perspective of a housing association. Housing associations deliver social purpose in two ways:

- Through existing housing assets and related community investment/ employment and training activities for residents and by
- Building new homes.

The conclusion of the Turnbull Report 'Future Shape of the Sector' is that development activity is core to social purpose. Commercial activities including private sale support the delivery of social purpose activity.

The merger of two already large housing associations to create the largest housing association in the country has created a balance sheet that allows more development than previously delivered by the two organisations separately. Significant savings are generated through the merger which can be invested in development at scale.

Development capacity is generated through:

- Sale of empty housing assets that no longer meet the investment criteria
- Sale of tenanted housing stock to other RPs where it no longer aligns to strategy
- Outright and shared ownership sales
- Efficient management of the landlord business.

This in turn is supported by the ability to raise low cost debt finance principally via the bond markets.

The objective for the operational service is to optimise the yield on rents while delivering excellent levels of customer satisfaction and compliance.

The Clarion business plan supports a development programme of 5,000 homes a year. This will be made up of 65% affordable homes, 20% PRS and 15% private sale. The level of affordable housing will depend on the amount of subsidy available via the grant programmes.

Clarion is moving from section 106 to land led delivery including large scale JVs (e.g. Ebbsfleet with Countryside). This requires a new skill set including on boarding commercial, technical and land specialists.

The sector is challenged to deliver 80,000 to 100,000 homes p.a. and Clarion is executing its plans to increase its programme to a much higher level than pre-merger utilising its balance sheet strength to significantly increase housing supply.

Comments

There was a debate about how to develop more for social rent. Since 2015 Affordable Rent has been the only option for a subsidised rental tenure. GLA has led the way and local authorities are also looking to build more social rent. However there has to be subsidy for this to work. It is a truism that more homes can be delivered with cross-subsidy or grant for affordable rent than for social rent. Subsidy could be in the form of land or grant.

Will Rutter emphasised the need to understand service costs. Affordable Rent (though understood not to include London Living Rent) is inclusive of service charge, so the level of charge will impact on the feasibility of the scheme. It is important to get estimates right, particularly on S106 schemes.

A requirement to reduce service costs through design and specification needs to be built in at the brief stage with thought given to who will pay for what and how 100% of service costs will be recovered. Without taking these steps, there is a risk that schemes will fall into disrepair.

There is a challenge around service charge affordability. So when amenities in blocks include high service cost elements such as gyms, atria, landscaped gardens, methods need to be sought to avoid high costs for housing association social tenants or shared owners, but also to give a route for shared owners should they wish to buy into higher cost services, possibly post staircasing.

Hosts

- Andy von Bradsky, Chairman, The Housing Forum
- Michael Cleaver, Director, The Housing Forum

Guests attending:

- Tim Attwood, Director, Conisbee
- Tony Battle, Joint Managing Director, Kind and Company
- Andrew Beharrell, Senior Partner, Pollard Thomas Edwards

- Guy Burnett, Development Director, Thames Valley HA
- Richard Donnell, Research and Insight Director, Hometrack
- Richard Jones, Partner, Head of Residential & Regeneration, Arcadis
- Brendan Kilpatrick, Senior Partner, PRP
- Simon Leadbeater, Residential Managing Director, Willmott Dixon
- Neil McCabe, Joint Managing Director, Hunters
- John Murray, Senior Partner, Airey Miller
- Steve Nunn, Executive Director, Development & New Business, Moat
- Jane Owen, Senior Strategy and Policy Officer, Ministry of Housing, Communities and Local Government
- Austen Reid, Group Director of Development, Clarion Housing Group
- Michael Richter, Director, Formation Architects
- Will Rutter, Partner, Winckwood Sherwood
- Andy Tookey, Managing Partner, Baily Garner
- Alan Wright, Partner - Architecture, bptw

The Housing Forum is grateful to NHBC for hosting this CEO Forum