“Funding for Housing”

The Housing Forum CEO Lunch Forum chaired by Deputy Chair of The Housing Forum Board, Stephen Teagle, Galliford Try with guest speaker ***Shamez Alibhai, Partner, Social Property, Cheyne Capital. Contributions from Geeta Nanda, Thames Valley Housing, Chris Tinker, Crest Nicholson and Philip Pamment, PRP Project Services and chair of The Housing Forum Working Group "Building homes for the future"***. Hosted by NHBC 24th September 2014

   

The Housing Forum runs a monthly CEO Forum to support our permanent campaign for more homes and better homes through 3 work streams: ***Building homes for the future***, ***Investing in our housing assets*** **and** ***Smarter Supply: Smarter Resources (the supply chain*****).** We build leadership and influence within the housing sector and the cross sector representation of our membership equips us to investigate issues that require collaboration and expertise for successful outcomes.

TOPIC: Funding for Housing

Covering the current climate for investment in housing including:

- **How private capital investment solutions can be encouraged through further Government investment; matching funding from Government with private sector investment**
- **How models can be developed, funded and structured**

Our central conclusion is that the absence of strategy for housing growth is causing a severe imbalance in housing supply and in contrast with other leading European countries; we do not produce enough homes for our households. Initiatives like Garden Cities are unlikely to meet the challenge without a strategic plan for delivery and although Help to Buy has supported the housing market in difficult times, it has not increased the overall number of homes built. Home building at significant scale is needed with an expectation that local councils encourage home building. The dependence on 20 or so large housebuilders to deliver the majority of new homes, results in the underpinning of a business model which has a structural imbalance, leading to issues of shortage across the supply chain.

Smaller developers could be encouraged into the sector making dividends tax-deductible and moving away from the over-reliance on debt funding. The sector is keen to take on alternative funding approaches which deliver social and intermediate housing. Making dividends from house building tax deductible should be explored to stimulate the market. The commissioning of housing should become more economical through requirements for standard design types and long term planning to improve prospects for offsite construction.

Funding for building in the housing association sector is drawn from a range of sources and ***Geeta Nanda*** described the solutions that could be accessed. In London boroughs, demand is likely to have to be met by densification of town centres, using the opportunity of enterprise zones and bringing forward about 5,000 purpose built private rented homes a year.

Housing associations work with increasing complexity - and their dilemma is how to protect lower rents whilst supplementing low grant levels. The rent conversion model requires higher rents to cross subsidise new house building but typically about 60-70% of tenants (many working) receive housing benefits

Funding is increasingly sourced through a range of methods including joint ventures with contracting firms which both bring in sales receipts and operate as a partnership to share risk on challenging sites. Partnerships with investors can bring in a different range of funding e.g. providing management fees as a commercial return for private rented sector homes. Recycled grant from the sale of shared ownership is an ongoing source of capital allowing re-investment in more shared ownership homes. Discounted market rent is a welcome prospect, offering housing for a range of working people

We are producing as a country only half of the home needed and there has been undersupply for decades. ***Chris Tinker*** set out the factors which are limiting building firms coming into the housing market. If a new firm were to set out a business plan involving sites across a number of locations, the cost of entry would be too high and the factors preventing this are not well understood. Meeting the requirements of the planning process in terms of impact assessments and other compliance involves staff resources which cost millions of pounds annually. Over the mid-term, a business would look for a depth of a 6-10 year land supply to get volume at scale, requiring an outlay of approximately £100m., which is impossible to establish unless the risk can be covered by another company already in existence. The market in most areas outside London and the South East operate with about 40% of sales through Help to Buy and this support is essential in the current market. Although planning consents are returning to higher levels, the complexity and expense of planning negotiations are leading to a concentration of a smaller number of larger sites being developed out.

Looking to the future, the housing industry will have to deal with a skills and capacity deficit which is a consequence of the recession and under investment in management and skills development. This is one factor influencing housing supply and suggests that traditional housing will not be available in the quantities needed.

Shamez Alibhai set out the basis of Cheyne Capital's Social Property Impact Fund: a model of property investment with social objectives which seeks a moderate return. In essence, this is a process of using private capital to resolve social issues. The fund can support home building for social housing, health and extra care needs. As the level of HCA grant has declined, an opportunity has opened up for the private sector to be involved as operating companies and property companies. This has particular application for working with local authorities as there are flexible options for sale and lease back, purchase and lease back, new build and development and rents can be linked to CPI. The transactions are off -balance sheet allowing housing organisations to release recycled grant. Early schemes with local authorities and PRP include turnkey solutions with direct commissioning which are building 1 and 2 bed homes at below LHA levels on a 20 year lease with an option to renew for a further 20 years. Purchase of existing stock for housing homeless families is another offer which is simple and quick. Success requires the strong alignment of the commercial interests of all parties

The Housing Forum's Working Group "Building Homes for the future" is charged with investigating and recommending means of expanding supply. ***The Working Group Chair, Philip Pamment, PRP*** highlighted the immense challenge of building homes at an unprecedented scale. The viability of development schemes is the greatest single issue, and getting schemes to a workable and deliverable stage is far harder than securing funding. The Housing Forum will be setting out its call for action in its 2015 Manifesto.

The Housing Forum is grateful to NHBC for hosting the CEO Forum.

ATTENDEES:

- Shamez Alibhai, Partner, Social Property, Cheyne Capital
- Alex Betts, Managing Director-Private Equity, Climate Change Capital
- Trevor Burns, Group Director of Development, East Thames Group
- Graham Colls, Chief Executive, Magna Housing
- Matt Cooney, Chief Executive, asra Housing Group
- Richard Fagg, Director, Bouygues Development
- Bob Heapy, Group Chief Executive, Town & Country
- Mike Hinch, Chief Executive, Newlon
- Jon Milburn, Development Director, Guinness South
- Geeta Nanda, Chief Executive, Thames Valley Housing
- Andrew Osborne, Chairman, Osborne
- Philip Pamment, Director, Project Services, PRP
- Joe Parody, Partner, calfordseaden
- Chris Tinker, Board Director & Regeneration Chairman, Crest Nicholson
- Andy von Bradsky, Chairman, PRP
- Mehban Chowdery, Regional Director - London, NHBC (Co-Host)
- Shelagh Grant, Chief Executive, The Housing Forum (Co-Host)
- Stephen Teagle, Managing Director Affordable Housing & Regeneration Division, Galliford Try and Deputy Chair, The Housing Forum (Co-Host)