

At the Heart is Housing

Taking the Pulse

This report examines the current housing market, particularly the direction that new home building for lower income households is likely to take. The report opens with views on the financial position and affordability in housing and moves on to consider delivery.

Responding to the emerging picture requires resilience and an agile approach. This is examined from the perspective of housing associations - as the main providers of new affordable homes, from developers and contractors as the builders of homes and major employers in the construction industry and signals a call for a new generation in housing management as the nature and customers of the rented sector are likely to expand.



Plus Dane - Heath View

Major factors include:

Future availability of grant may be linked to asset disposal and agreed organisational efficiencies and new rent policies to be set out in the Affordable Homes Programme. S106 sites may be unlikely to receive grant in the future.

A reduced appetite for lending to housing associations; more expensive and shorter term private finance facilities, limiting sales, cross-subsidy and section 106 affordable housing provision. Alternatives, including industry-led bond schemes and new models for facilitating development are likely to come forward.

The need to retain skills across the sector and put them to good use over next the 2-3 years and keep up momentum in

house building and regeneration to meet huge demand. In encouraging a broader perspective, the long term impact of student grant repayments will be a key economic driver in the future, and delay entry to home ownership. Conversely, this so called 'inbetweeners group' offers a future rental market opportunity.

In November 2010 the Government announced plans to radically reform social housing, including the introduction of a new type of tenancy. Homes for affordable rent will be issued on fixed term tenancies, at rents between existing social rent levels and 80% of market rent. It is expected that housing associations will convert some of their existing stock into the new affordable rent product and invest the uplift in revenue in the provision

of new affordable housing as grant is significantly reduced. A new framework for the Affordable Homes Programme has been launched with £4.5bn over the next 4 years to deliver 150,000 new homes, part funded by a new affordable rent system of up to 80% market rent.

The extent to which this new model will create potential to provide for affordable homes is significantly different in parts of the country and is likely to work better in London and the South East, compared to the Midlands and North.

The Government is committed to increasing housing supply and believes that a locally driven approach will be more successful than imposing top down targets through mechanisms such as the Regional Spatial Strategy. It is bringing forward a number of incentives including the New Homes Bonus, the Community Infrastructure Levy and Tax Increment Financing to encourage local councils and local communities to support sustainable development in their neighbourhood. The Government believes that these incentives, alongside



bpha - Mawsley Village, Northants

changes to the planning system to allow communities to shape their neighbourhoods through Neighbourhood Plans and Community Right to Build, will stop the planning process being so confrontational. "Do It Yourself Planning and Delivery in a Localist World" – our first report covers this area.

Most developing housing associations are re-examining business plans and assumptions in order to predict the likely balance in terms of cost, houses produced and future risk. This is by no means a uniform process as it clearly depends on a range of individual starting points, making predictions of actual homes to be delivered uncertain.

The Issues

Finance

Larger housing associations have access to the bond markets for fixed rate long term finance, whilst smaller housing associations can access funds through conduits such as The Housing Finance Corporation. Banks are more reluctant to lend than in the past partly due to the large loss making legacy loans which they seek to re-finance but also new regulatory and liquidity rules which make it more difficult for them to commit to the longer term. That said, finance can be obtained, although housing associations may need to accept shorter terms of say 5-10 years and face, as in the commercial market, a re-finance risk.

Funds raised from affordable rent could unlock extra money for development, but it very much depends on local conditions.

Banks are less interested in the sector than they were, and demanding higher returns on their investment and are not flexible. This is difficult for small housing associations; however, some larger associations have extended bonds on lower interest rates e.g. a 10 year floating pot that is then re-priced.

Index linked returns can make social rent attractive for investment.

There is low mortgage availability and higher interest for those mortgages that are being approved.

Moving to a revenue based model (affordable rent) can significantly affect the financial gearing of housing associations, which will present risk and regulatory issues.

Affordability

In the process of delivering more housing, there is an enduring tension between subsidising new buildings; subsidising households/households paying more for their housing; and the standard of new housing. These three factors pull against each other and at the centre of the tension is the question of the 'affordability' of housing for households.

Local councils will be required to have a Strategic Policy on Tenancies which could provide an Affordability Policy for a local area. The strategy is required by 2012 but bids for grants have to be in by the end of April 2011.

At the Heart is Housing

New Supply - The Provider's Perspective

The context of wider public funding cuts means that there will be other competing calls on housing association budgets e.g. Supporting People funding and crime prevention measures. Finding neighbourhood solutions to these challenges will be crucial for housing associations and the neighbourhoods they serve.

A more flexible approach to development in lower value areas is needed. This may be on the basis of higher grant levels, or flexibility around geographies, or other measures.

The decision on whether to develop, and if so, what proportion of budgets will be allocated to development versus other competing demands will be taken by housing association boards. There is a need to ensure they are well informed and equipped to assess the opportunity and risk. Protecting the value of assets in management (existing stock) is also a key factor in a re-financing strategy.

There is a need for local councils' senior officers and particularly politicians to understand the new 'affordable rent' development model, and its implications for their area.

The Government is committed to publishing a Local Standards Framework by April 2012. It hopes to help councils and the housebuilding industry working together to develop a simple and costed menu of standards that local councils can choose to apply that will not place unrealistic burdens on developers. A working group has been set up which includes representation from The

Housing Forum to consider how to take this issue forward and how to address issues such as ownership of standards, enforcement and viability.

The Housing Forum welcomes the proposal to simplify existing standards and regulation and calls on both central and local Government to ensure that the framework is sufficiently robust to prevent additional layers of regulations being applied at a local level through planning documents or planning conditions. The Housing Forum also welcomes the proposal to ensure that standards are consistent across private and publicly owned land.

New Supply - The Developer's Perspective

The role of the HCA as enabler is crucial when working with councils that do not have in-house skills.

Many councils have underutilised land holdings and there are opportunities here for low cost home ownership/ shared ownership development which may not rely on grant. Several organisations are developing sub-market models with equity retained by the land holder which can be viewed as a (longer term) increasing asset and a way of meeting local needs.



British Precast (Courtesy of Interpave Permeable Paving)

There is a need to renegotiate planning on many sites now as the housing mix is not viable at the moment. Much greater flexibility is needed to make new schemes viable.

In joint ventures, the risk profile increases - this relates to the capacity of the developer, and the skills and levels of sharing risk and investment. In shared ownership models, land can be contributed as equity. Conversely housing associations looking to develop private sale and market rent products, to underpin their affordable housing programmes will harness the experience of developers to form a mutually beneficial partnership.

New forms of partnering need to be agile enough to deliver and take account of the following to assist in delivering real value to the process:



Catalyst Housing Group - Oaklands Court Roof Garden, Hammersmith

🏠 OJEU Compliant² - there needs to be more work done to streamline this process to make it fit construction, make it efficient and reduce waste.

🏠 Tenants want to be “heard and influence” and to see the delivery of homes that are of high quality, defect free, easy to use, functional and flexible through their occupation life time with an “after sales” service that exceeds their expectations and a place that “feels like home.”

Housing associations will want to ensure on time, on budget, high quality, schemes that deliver the best sustainable solutions budgets can afford - easily maintainable with minimal impact on life cycle cost and ultimately resident / tenant satisfaction.

Continuous improvement and the delivery of lean processes coupled with a smooth journey from inception to completion due to excellent team working and supply engagement are also key factors.

From a community perspective residents will want to see the “upgrade” of facilities which in turn will have a positive impact on the their local environment, improving the quality of life. They will want to be involved in ensuring that

projects not only attract new people but ensure that existing communities are preserved and are socially and economically sustainable. This in turn will create opportunities for jobs, assist local businesses and SMEs and therefore develop the impetus to invest and deliver long term positive social and economic benefits.

Gaining perceived value for money through the supply chain has been a focus of a number of frameworks and partnering arrangements over recent years, with varying degrees of success. One good example to achieving a number of the targets highlighted in the above is the National Change Agency (NCA) Programme which during its delivery has seen substantial efficiency savings and substantial community benefits.

² New Procurements Policy Action Note - PAS 91:2010 Construction Related Procurement - Pre Qualification Questionnaires.



*Hill Partnerships -
Claredale Street, Bethnal Green*