"At the Heart is Housing – Making Affordable Rent Happen – September 2011"

This short paper focuses on The Housing Forum's 2011 industry assessment of the implications for delivery of new affordable rented homes.

170,000 new homes are proposed in the Government's Affordable Homes Programme 2011-2015 and in the context of rising shortage of homes, the crucial challenge for housing providers and contractors is to make sure these homes are built and potential blockages acknowledged and dealt with. This requires all involved to create the environment for delivery.

The Housing Forum's view is that we have reached a tipping point of change in housing, where new homes are urgently needed and the process of finance, delivery, planning and regulation need both simplification and a longer term planning horizon.

The assembly of funds for the new affordable rent programme relies on the charging of "near market" rents by housing providers and access to loan finance. The implications of this change fundamentally affect the business model of developing housing associations with implications for the wider housing sector.

This paper summarises the key issues we consider could affect full delivery and is drawn from a survey of Housing Forum members on the new framework and from recent meetings of The Housing Forum Working Group, with contributions from developing housing associations and affordable homes contractors.

Funding: Confidence or Risk?

There is an increased cost of borrowing to build despite the lowest interest rates for many years. As a sector, housing associations are in a relatively strong position if banks are prepared to lend. The perception of the financial markets about housing investment is positive. Private finance has supported the sector since the reforms of 1988 without default and with a good track record. The overall financial picture however is now less stable and all housing organisations are potentially more exposed to risk.

Maintaining the confidence of potential lenders is crucial and concerns about the proposed universal credit on housing associations' rental streams will need to be met. Where development finance depends on income from shared ownership and outright sales, mortgage funding to support this must be readily accessible.

New financial models, including a move away from the banking sector into the long-term capital and equity markets, is a prospect, but there is relatively little experience of accessing this market across the housing sector.

New innovative use of funding is critical to the challenge of meeting the affordable housing need in the UK. We are encouraged that funding from institutional investors (e.g. pension funds) is starting to become a clearer prospect. These models may work on a longer time span than current financial models (typically 30-50 years) and need to be explored and encouraged. This will be a significant catalyst to re-shape the housing association sector.

A RADICAL RESHAPING OF HOUSING ASSOCIATIONS?

Housing associations have wider issues beyond their affordable homes building, which concern their long term viability as businesses. The impact of much-reduced grant allocations has been significant in triggering a review of value and priorities within associations. In some cases, housing associations have been preparing to build without grant, predicting this as a possibility, but the impacts of changes now are much more far reaching. This is leading to a review of the wider business beyond the HCA supported development programme. Both board and senior management teams will need to be robust to take their organisations in new directions, manage financial risk, and develop commercially viable solutions while retaining their social values and objectives.

For the near future the debate with government on the shaping and funding of future affordable homes programmes needs to happen now. We welcome the DCLG Select Committee's work in kick-starting the debate.

In the future, value for money will be even more critical, especially for the 'top 50' developer organisations, which will shoulder the major burden of the programme. We see this leading to clearer and more transparent recording of value for money within organisations and to robust options appraisals on future investment choices. Efficiency, and effective and relevant regulation, will become levers for change that need to be coherently woven into the fabric of the new operating environment.

Meeting greater financial obligations requires a balance between commercial outlook and the traditional social business. This forces housing associations to look differently at priorities in the long term and to look again at priorities in day-to-day management.

PLANNING AND LAND POLICY

Delivery can only be achieved with council support and by local councils taking account of affordable homes provision in local planning policy. Transitional arrangements, possibly moving away from s.106 delivery of affordable homes need to be planned now. Equally, we believe the HCA policy to move away from funding sites delivered through s.106 mechanisms should work through a transitional phase rather than a blanket policy application, as this could result in programme delivery risks.

s.106 policies have to catch up with the realities of current house building. Viability has to be an issue in future affordable housing strategies in an era of reduced grant, and it is likely that lower percentage affordable homes outputs will have to be negotiated. Without grant, s.106 levels of housing provision will fall – with economic consequences for house building and growth

The New Homes Bonus, as part of a wider initiative to encourage house building and economic growth, has yet to be demonstrated, but we recognise that there are signs of increased rewards for local authorities this year. We believe that it is more likely to achieve an increase in numbers of homes built when combined with other stimuli, particularly access to public sector land releases.

Land remains the critical balancing factor in cost and viability. HCA land assets have been increased by the transfer of RDA assets and these create a potential opportunity to access land at deferred of nil cost to support the affordable programme.

A coherent approach to the use of public sector land needs to be addressed – this could help to re-energise a successful rented market.

WORKING WITH YOUR LOCAL COUNCIL

Increasingly, the London market and the rest of the country are seen as likely to have separate issues and outcomes due to different market conditions and local political frameworks. In London particularly, home ownership levels are predicted to fall and the private rented sector predicted to expand.

Councils' co-operation towards the rent changes under the affordable rent programme (80% market rent) may present some difficulties. As delivery depends on achieving rental income, a quick turn-around in council nominations for vacant tenancies needs a prompt 'cascade' of lettings. Bureaucracy at the point of application for re-housing can lead to delays that have a commercial impact on the business plan and work against customer choice.

The opportunity for affordable rent to provide real flexibility in who is housed can be protected by sensible and balanced local lettings policies. Balanced communities, helping economic growth, and affordable renting for the lower waged are all groups in need of housing that could be helped in this programme, with flexibility in lettings arrangements. Flexibility should apply to schemes both within the affordable rent programme and those negotiated separately. This is given greater emphasis by the conclusions of the Oxford Economic report for the National Housing Federation (home ownership will slump to 63.8% over the next decade.)

OUR HOUSING ECONOMY

Home building benefits the whole economy. Not only does house building create job opportunities locally, it is also a massive stimulus in the supply chain, in materials and white goods. 92p of every £1 spent in construction stays in the UK and the same £1 invested in construction generates £2.84 in economic activity (Source: Construction in the Economy October 2010, UK Construction Group).

The housing construction sector can be a substantial source of opportunity for apprenticeships and skills training. This stimulus is likely to have direct local benefit on income levels and on local suppliers and small businesses.

The next steps for The Housing Forum will be to:

- Press for a coherent approach to housing the nation, aligning financial, land and regulatory issues to achieve and go beyond 170,000 homes.
- Continue to review whether the new programme is working as expected and consider the organisational impacts of it across the whole housing industry.
- Follow the delivery of new developments, assessing if the numbers anticipated will be delivered and what impact this will have on the overall demand for all affordable housing options.
- Whilst we understand the Government's priority to tackle the Country's structural deficit we believe a properly focussed investment allied to greater freedoms and flexibilities could help to generate a real stimulus for the UK economy.

This latest report has been written in September 2011 by a Housing Forum cross-industry working group, chaired by Housing Forum board member John Cross, Chief Executive, bpha, and with the knowledge of the overall scope of the programme for affordable housing.

It follows "At the Heart is Housing" April 2011. The Housing Forum is grateful for the contributions provided by the following working group members:

John Cross	Chief Executive	bpha
	Chair of Working Group	
Simon Bale	Regional Development Manager	Places for People
Mehban Chowdery	Regional Director	NHBC
Carole Clark	Strategic Research Manager	Bromford Group
William Cornall	Group Director of Development & Assets	LHA-ASRA Group
Claire Griffiths	Managing Director - Regeneration and Commercial Development	Plus Dane Group
Marcus Lewis	Associate Partner	Baily Garner LLP
Geeta Nanda	Chief Executive	Thames Valley Housing Association
Paul O'Driscoll	Business Development Director	Wates Living Space
Stephen Teagle	Managing Director - Affordable Housing and Regeneration	Galliford Try
Lucy Thornycroft	Investment Leader	National Housing Federation

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