

Building New Homes for Rent

Briefing for central government

Key points

- In the current climate of chronic housing undersupply and high demand for private rented housing, there is a need for a new method of delivering rented homes in a way that boosts supply.
- This briefing outlines a new approach to build-to-let that brings together housing associations and investors to deliver much-needed housing.
- Housing associations are ideally placed to deliver portfolios of market rental property given their balance sheet strength and expertise in both the development and management of residential property.
- The development of portfolios of property by housing associations will provide an attractive opportunity for investors and overcome many of the current challenges that the sector faces.

This summary is based on BSHF's report, **Building New Homes for Rent**. The report draws on findings of a recent consultation at St George's House, Windsor Castle. Experts from a range of backgrounds, including **government officials** came together for a detailed and wide-ranging discussion on the issue of delivering new homes for rent.

The full report can be downloaded free of charge from www.bshf.org/published-information. For more information on the contents of this briefing, please contact Jim Vine using the contact details below.

Published, November 2012, by the Building and Social Housing Foundation
Memorial Square, Coalville, Leicestershire, LE67 3TU

T: 01530 510444 | E: bshf@bshf.org | W: www.bshf.org | Charity number: 270987

The case for build-to-let

For many years the UK has built homes at a slower rate than the number of households has increased, a trend that has been exacerbated by the recession.

- The number of UK households is projected to grow by 272,000 on average each year until 2033.¹
- The number of new dwellings completed in the UK each year has fallen from 219,070 in 2006-07 to 140,790 in 2010-11.²

Demand for privately rented accommodation is continuing to increase. This is due to a range of factors, which include the mortgage constraints that limit access to owner occupation, and the attractiveness of private renting as a flexible tenure for some household types.

Investment in the private rented sector is currently concentrated in existing housing stock. Only nine per cent of all private rented dwellings have been sourced from new build stock, with only four per cent built specifically for the buy-to-let market.³

Consequently, **although the existing private rented sector provides a source of accommodation for rent, it does little to increase housing supply.** There is therefore substantial interest in approaches that would deliver new build homes for private rent. **Institutional investment in private rented property is key to the development of the build-to-let approach.**

A model way forward

For the potential of build-to-let to be realised, **the sector needs trail-blazing developments of investment-ready portfolios that meet the requirements of investors** and can effectively demonstrate the value of investment in residential property.

¹ This figure has been arrived at by aggregating data from the constituent nations of the UK:

England: www.communities.gov.uk/documents/statistics/pdf/1780763.pdf

Wales: wales.gov.uk/docs/statistics/2010/100929hseholdproj2008en.pdf

Scotland: www.gro-scotland.gov.uk/files2/stats/household-projections/2008-projections/household-projections-2008-based.pdf

Northern Ireland: www.nisra.gov.uk/archive/demography/population/household/NI08_House_Projs.pdf

² Department for Communities and Local Government (2012) House Building Table 2e: Starts and completions, UK, www.communities.gov.uk/documents/statistics/xls/2145681.xls

³ Department for Communities and Local Government (2010) Private Landlords Survey 2010, www.communities.gov.uk/publications/corporate/statistics/privatelandlordssurvey2010

Given the risks faced by investors, there is a need for organisations experienced in residential property development and management to lead this trail-blazing. Some large developing **housing associations are ideally placed to fulfil this role.**

Many of these associations have expanded their housing activity into the delivery of homes to generate surpluses, including homes for market rent.⁴ Through this they have developed **sophisticated appreciation of commercial considerations, and possess well-capitalised balance sheets** against which they can borrow to build portfolios of significant scale.

As established providers of homes for rent, housing associations would also be able to **ensure tenants are decently housed with a high quality landlord service.**

Once a portfolio is developed, the housing association could then create a fund to attract investors. The **housing association would remain a part owner of the portfolio and would continue to manage the properties**, but would be able to release most of its capital.

It is important to emphasise that **the model does not seek to replace affordable and social housing provision.** The approach would offer a net additional contribution to supply, rather than shifting provision from social to private renting.

Benefits of the model

- The model has the potential to create the conditions necessary for the build-to-let sector to grow in the UK, **providing much-needed private rented accommodation to meet growing demand.**
- **The model is compatible with the recommendations of the Montague Review,**⁵ which the government has identified as the “blueprint” for developing institutional investment in the private rented sector.
- **The interests of tenants, housing associations, investors and government are well aligned** in the model. All parties would benefit from high quality homes, in stable, desirable communities.
- If the model achieves sufficient scale it could **contribute to a situation where renting is viewed as a positive long-term choice**, providing security for households and **contributing to the stability of local communities.**

⁴ Hollander, G. (2011) Housing Association Enters Market Rent Sector, Inside Housing, Monday 5 December, www.insidehousing.co.uk/6519435.article

Bury, R. (2012) Association Buys up 150 Flats for Private Rent, Inside Housing, Friday 6 January, www.insidehousing.co.uk/6519849.article

⁵ Montague, A. (2012) Review of the Barriers to Institutional Investment in Private Rented Homes, Department for Communities and Local Government: www.communities.gov.uk/documents/housing/pdf/2204242.pdf

The role of policymakers

The recognition of the need to build more homes is an issue that enjoys cross-party support. Equally, attempts to encourage institutional investment in the private rented sector have been made by both the current and previous governments.

This model offers an approach that will assist policymakers in realising this ambition. Although the model is to be delivered by investors and housing associations, **government has the potential to assist the model's successful delivery.**

It is important to note that **the model makes no claims on the public purse.** In fact **interventions through subsidy would be detrimental** for the model, as the yields achieved would be artificially inflated and dependent on continued government support, making the model unattractive to investors. Equally, government subsidy is unnecessary as the model would be sufficiently robust to stand on its own merits.

The role of government is best focused on the facilitation of certain aspects of the model. A range of possibilities exist for government in terms of this support:

- **Making government land available without providing subsidy**, for example by taking an equity stake in the completed development or the use of Build Now Pay Later;
- Ensuring that any **tools produced to facilitate viability assessments** are able to correctly **consider private rental homes as distinct from homes for market sale**;
- Supporting mechanisms that **would allow local authorities to lock homes into renting** when granting planning permission;
- **Tax levelling**: the current tax structure of housing constitutes a “continuing significant fiscal bias in favour of home-ownership relative to renting”.⁶ Changes to the relative taxation treatment of the sectors, to reduce this disparity, would support the development of build-to-let.
- **Provide support for the creation of a liaison function**, a trusted third-party to broker relationships and agreements between parties to assist the smooth delivery of new homes for rent.

Whilst these features are not strictly necessary for the model's development, they would be likely to make significant contributions towards its success.

⁶ Wilcox, S. (2009) UK Housing Review 2008/2009, p. 71, www.york.ac.uk/res/ukhr/ukhr0809/commentaries-pdf/UKHR%200809%20Commentary%206.pdf
