

Building New Homes for Rent

Briefing for housing associations

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 build-to-let approach has the potential to draw in substantial institutional investment into residential property.
- Housing associations have a key role to play given their extensive experience in developing rental homes and providing high quality management for tenants.
- This summary outlines a new approach to build-to-let that will benefit housing associations and local communities, while simultaneously providing an attractive opportunity for investors.

“What is different about this proposal is the potential impact that the scale of development could have if it was taken forward by several housing associations.” (David Montague, Group Chief Executive, L&Q)

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 housing associations, came together for a detailed and wide-ranging discussion on the delivery of 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 summary, please contact Jim Vine using the contact details below.

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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 far slower rate than the number of households has been increasing, a trend that has been exacerbated by the recession.

- The number of UK households is projected to grow by 272,000 per 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 private rented housing is continuing to increase, with sustained growth in the size of the sector for nearly 25 years. This is due to a range of factors, including mortgage constraints on access to owner occupation and the attractiveness of private renting as a flexible tenure.

A range of supply-side factors has increased the amount of rental property available, including rising house prices (making property an attractive investment) and the availability of buy-to-let finance.

Investment in the private rented sector is concentrated in existing stock.

Only nine per cent of private rented dwellings have been sourced from new build stock, with only four per cent built specifically for the rental market.³

Consequently, **the private rented sector does little to increase housing supply**. There is therefore substantial interest in approaches that would deliver new homes for private rent. **Institutional investment in residential property is considered key** to the development of this build-to-let approach.

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

The role of housing associations

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 verify the value of investment in residential property.

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

- **Delivery of homes to generate surpluses**, including homes for market rent;⁴
- **Appreciation of risk, finance and other commercial considerations**;
- **Strong balance sheets** that would enable the acquisition of capital funding to build portfolios of significant scale;
- **Ability to** provide investors with peace-of-mind property management, and **ensure tenants receive a high quality landlord service**.

Once a portfolio is developed, the housing association would then have **a range of options with regard to refinancing**. A likely approach would be for the housing association to create a fund, transfer a portfolio of completed and occupied rental homes into it, and seek investment. The **housing association would remain a part owner of the portfolio and continue to manage the properties, but be able to release most of its capital** (which could be recycled to deliver more housing).

Benefits for housing associations

As well as making a significant contribution to housing supply – and therefore helping to address problems such as poor affordability – involvement in build-to-let offers a number of potential benefits to housing associations.

The business case

- Investment in market housing could generate surpluses that housing associations can use to supply their core social housing business.

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

- Private investment and the creation of balanced portfolios are important in light of reduced government subsidy for housing associations.⁵
- Managing the built-to-let properties will enable providers to expand management operations and achieve greater economies of scale.

Contribution to housing associations' social purpose

- Involvement in market rental creates the opportunity to positively influence the private rented sector by offering exemplars of high quality management.
- In major developments, housing associations will be able to develop build-to-let properties alongside social housing, helping to achieve mixed communities, reducing the stigma associated with low-income areas.
- Many housing associations seek to support the wider well-being of their communities. Construction can contribute significantly to local economic growth, with 1.5 jobs created for every home built.⁶

The case for investment in residential property

Although currently under-exploited in the UK, residential property is a potentially attractive asset class for investors. There are a range of features of residential property that make this the case:

- Rents from residential lettings tend to rise in line with wage inflation and hence will often match institutions' long-term liabilities;⁷
- Returns tend to move in different cycles from returns on other types of asset, helping to provide a steady income stream for investors;
- Residential property is relatively stable when compared with other asset classes and therefore presents a less risky option for investors;⁸
- Residential property investment has historically outperformed commercial property when total returns are considered.⁹

⁵ Chartered Institute of Housing (2012) Private Investors Key to Future Housing Finance, www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Private_investors_key_to_future_housing_finance

⁶ Ball, M. (2005) Labour Needs of Extra Housing Output: Can the housebuilding industry cope? www.hbf.co.uk/fileadmin/documents/barker/CITB_REPORT.pdf

⁷ Wilcox, S. (2008) UK Housing Review 2008/2009, Figure 1.2.4 (Coventry: CIH/BSA).

⁸ Weedon, M. (2012) IPD UK Residential Index Launch (presentation given 29 February 2012)

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