

Building New Homes for Rent

Briefing for local authorities

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 summary outlines a new model for delivering build-to-let housing through housing associations and institutional investors, which has the potential to deliver private rental housing at scale and meet local need.
- In assessing housing need in their area, local authorities should consider the key role that the private rented sector plays in housing a wide range of households.
- Local authorities are well-placed to facilitate this new build-to-let model through supporting the development of private rented housing in their area. This summary outlines a range of ways that local authorities can do this.

“An increase in the private rented sector of the scale which this model could provide would make a significant impact on the availability of housing for local people.” (Paul Beardmore, Director of Housing, Manchester City Council)

This summary is based on BSHF’s report, **Building New Homes for Rent**. The report draws on the findings of a recent consultation at St George’s House, Windsor Castle. Experts from a range of backgrounds, including **local authority representatives** came together for a detailed and wide-ranging discussion on the issue of 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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The case for build-to-let

For many years the UK has been building homes at a 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 estimated 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

The local picture is more complex, with some areas even suffering the effects of over-supply. Nonetheless, housing shortages are common in many areas.

Demand for privately rented housing is continuing to increase. 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.

Again, different factors affect communities to differing extents. However, the **demand for private renting is high in a wide range of localities**, from rural areas where many are priced out of homeownership, to cities with young mobile workers, to areas with constrained access to social housing and a need for an affordable private rented option.

Current investment in the private rented sector is concentrated in existing housing stock. Only nine per cent of all private rented dwellings were purchased new, with only four per cent built specifically for the buy-to-let market.³

As **the private rented sector does little to increase housing supply**, there is 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**.

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

A model way forward

The **creation of portfolios of significant numbers of homes** is crucial to the growth of build-to-let. This will require **organisations experienced in developing and managing homes** to take a lead. Some of the large developing **housing associations are well placed to fulfil this role**.

Many of these associations have expanded their housing activity to deliver homes to generate surpluses, including the development of homes for market rent.⁴ They have developed both the **financial resources and the sophisticated commercial understanding** that would equip them 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 portfolios are developed, housing associations could create funds to attract investors. **Housing associations would remain part owners of the portfolio and continue to manage the properties**, but could release most of their capital to build more homes.

Benefits of the model

- Where this is appropriate for communities, local authorities will have the opportunity to **deliver new housing that meets need and demand**.
- Housing associations' experience will enable them to **create high-quality and well-managed homes** for an increasing number of households.
- The model is **compatible with the recommendations of the Montague Review**,⁵ which the government has identified as the "blueprint" for developing investment in the private rented sector.
- **Interests of tenants, housing associations, investors and local authorities are well aligned** in this model. All parties would benefit from high quality homes in stable, desirable communities, with the option for longer tenancies.
- 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 local authorities

Local housing need

Given the growth of the sector, **housing need assessments should consider an area's need and demand for private rented housing**. This will vary significantly between localities depending on housing markets and demographics. Collecting local data on this will **enable authorities to better support their communities**.

Local authorities could also **play an active role in identifying sites that are suitable for build-to-let developments**, using their understanding of the local area and its housing markets to help identify suitable locations.

Locking property into rental

By locking properties into rental, local authorities could **ensure that the homes continue to meet a key housing need**. By designating sites in this way, land values may be reduced, improving the viability of rental developments.⁶

A legal mechanism could be used to ensure that developments delivered for market rent remain in that tenure for an extended period. **Potential mechanisms** to enable local authorities to do this **include Section 106 agreements and planning conditions/obligations**.

Viability assessments

Various appraisal models are available for local authorities and developers to consider the viability of potential developments.⁷ **Local authorities should seek to use toolkits that include an appraisal of market rented homes**, for example, the Homes and Communities Agency Development Appraisal Tool.⁸

A clear understanding of the viability of a site would allow the amount of planning gain that is captured (through Section 106 agreements and the Community Infrastructure Levy) to be at a level that maintains viability. A local authority may, for example, find that its normal affordable housing requirements would prevent a site being delivered, and **would need to make a strategic decision about whether the provision of market rented housing would be beneficial to its area**, and consequently whether it wished to moderate its normal requirements.

⁶ Rented homes are typically valued based on vacant possession because the home could be sold to owner occupiers. This is in contrast to commercial property, which is valued largely on the current and projected rents. Daly, J. (2008) Overcoming Barriers to Institutional Investment in Residential Property, p. 11 [213.86.122.9/mayor/economic_unit/docs/wp_29.pdf](https://www.london.gov.uk/asset-upload/213.86.122.9/mayor/economic_unit/docs/wp_29.pdf)

⁷ Atisreal (2007) Review of the Greater London Authority Development Control Toolkit Model, p. 24, www.london.gov.uk/archive/mayor/planning/aff-housing/docs/atisreal-toolkit-report.pdf

⁸ Homes and Communities Agency (n.d.) Development Appraisal Tool webpage, www.homesandcommunities.co.uk/ourwork/development-appraisal-tool
