Making a place for low cost housing

THE HOUSING FORUM
Working with NHBC

A Housing Forum report on funding and delivery for low cost homes in mixed communities beyond 2015

SUPPORTED BY:

Making a place for low cost housing

Working Group Chair, Mike De'Ath, Partner, HTA Design LLP
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The Housing Forum

The Housing Forum is the only cross sector, industry- wide organisation that represents the entire housing supply chain as the voice of the industry.

We have over 100 member organisations, from both public and private sectors, collaborating to inform, network and influence with the shared objective of more homes and better homes for the nation.

The cross sector representation of our membership equips us especially to investigate issues that require collaboration to achieve successful outcomes.

The views in this report are the views of The Housing Forum and have been contributed from Working Group discussions and conference debates.

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Cover image: Sheppard Robson's award-winning Barking Riverside is one of the UK's largest residential regeneration schemes. The design balances the needs of people and the environment to create a sustainable long-term community.

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Foreword

Housing is becoming the most pressing priority for policy makers in London and the South East, possibly surpassing transport in terms of its economic and social consequence as both population and land values rise.

It cannot be a solution to the demand for housing in thriving places like London to move people ever further out in search of cheaper places to live.

The critical issue is how to bring about significant increases in supply without resorting to building extensively in the green belt, or beyond.

I believe that this calls for us to find new ways to deliver homes at scale within our urban centres to cater for all income groups. We have the space; building to the same density as we have in desirable Islington could accommodate 20 million people in London, for instance.

This will require a new era of political determinism and directive policy action, harnessing electoral legitimacy and incumbent powers to overcome barriers. It will also require politics to align with housing providers, new financial models and the market and the support for low cost housing, essential to creating economically successful and enduring places.

I welcome The Housing Forum's report and its contribution to this important debate.

Professor Tony Travers, Director of London School of Economics (LSE), London

Executive summary

This Housing Forum inquiry into the future financing and delivery of low cost housing has, over the past six months, explored the context, current approaches and future models for provision against an increasing concern regarding affordability. This is largely focused on London and the South East where pressure is greatest but will be extended by The Housing Forum in 2014 through its theme "Building Homes for the Future" into a national study of housing markets.

What has become immediately clear is that we are in the midst of the most radical change in the way sub-market homes are provided since the creation of state supplied housing under Clem Atlee 70 years ago. The combination of Welfare Reform and funding principles embodied in the Affordable Housing Programme has created a new dynamic in the relationship between state, provider and occupant, while the impact of the global financial crash has applied a major brake on mortgage availability and prompted prohibitive deposit requirements for new entrants to the market. Moreover, while much attention has been given to the 'squeezed middle', there has been a serious decline in activity to support the needs of those who fall below this target group.

The Working Group believes that mixed income communities are the lifeblood of strong, sustainable communities. Our work has identified that, such are the complexities of the UK housing market, current changes in policy have the potential to effect dramatic impacts on those living in localities with high land and property values. It is for this reason that we are mainly concerned at this stage with London and the South East. Indeed, if the London property phenomenon continues as many predict, we may be witnessing the beginnings of

We are in the midst of the most radical change in the way sub-market homes are provided since the creation of state supplied housing under Clem Atlee 70 years ago

Transformation of the South Acton Estate, West London by HTA Design LLP for London & Quadrant Housing Association

a demographic shift in population based on economic circumstance that reverses the inward migration sparked by land enclosures in the eighteenth century. Such unintended consequences would have a profound impact on business, local economies, those in need of support from the low waged and importantly, those who provide services in locations to which those impacted migrate.

The key parameters for our report are:

» Housing that is affordable to those entering, or already in the housing market but are unable to access current planned or available supply either because of economic circumstance or stage in their lives.

» We define affordable as 30-35% of household income for those at the benefit cap of £26,000 or £32,000 if waged (acknowledging that even this is a high bar, for example a newly qualified teacher earns less that £25,000 before tax in London.) At this level households have residual income to enable participation in the local economy and a level circa £650 per month for rent or mortgage payments.

» We acknowledge the regional variations in housing markets and have largely limited our report at this stage to areas of higher value where the supply of such housing is particularly problematic. Inevitably that has meant a focus on the London area. We have noted recent data which suggests that homes delivered using 80% of market rent, recently reinforced by Mayor Boris Johnson, would require a household income of £100,000 in Westminster, £80,000 in Camden and £40,000 in the most affordable London Borough, Barking and Dagenham.

» We note the dramatic decline of supply of homes at 'social' rent. A report commissioned from Savills by the G15 group of the larger London housing associations forecast that the maximum delivery of affordable homes is likely to fall well short of expectations with completions for homes at social rent falling from 34,190 to 9,577 between 2009/10 and 2012/13, with just 3,102 starts predicted in 2012/13. We believe that if this trend continues it will inevitably create an unsustainable division between those able to access housing which is affordable to their income and those who cannot.

We have explored the current models pursued by providers who see the link with household income as being key to the affordability issue and we have researched and met with organisations and funders crafting new approaches that can deliver these homes in an environment of reducing government capital subsidy. We have discussed the various merits of 10 different approaches in the report. While supporting and indeed celebrating these models, we consider that they will not significantly add to supply and alternative emerging approaches, and are, as yet, unproven in terms of delivery at scale.

Our Working Group strongly reinforced the need for capital subsidy to assist the viability of sub-market homes for sale and rent.

Our conclusions are:

» Current delivery mechanisms will fall short of the delivery of homes required in ALL tenures and, even with subsidy, and delivery of low cost homes will be even harder hit.

» The delivery mechanisms are so fragmented, new, uncoordinated and complex, that it is very unlikely any minor or short term intervention or private sector-led solution can deliver an outcome at scale or in the time required.

» That, despite this inelastic supply-side, there is a phenomenal elasticity in demand. The real problems being created may take generations to manifest themselves.

» That there is the danger that at some stage there will be a reactive Government intervention programme similar to post war housing with the potential of 'the wrong housing in the wrong place', low quality and inappropriate loss of greenbelt.

Our current thoughts are that a rebalancing of strategy is necessary and we have come up with '15 for 15' – policies we see as 'game changers' to bring about a step change in supply.

One of the game changers we are promoting is a National Housing

Investment Bank. The virtue of this would be to create a state backed institution able to raise finance through bonds, ISAs, on-lending or even recycled tax (on capital gains from overseas investors or Stamp Duty Land Tax for example) to invest in products like social housing (at social rent) and shared ownership and also development finance so far eschewed by retail banks.

Moreover we are calling for the 'affordable housing' asset class to be seen as 'infrastructure' and removed from the public sector borrowing requirement (PSBR) thereby increasing investment available from public institutions and local authorities. We are also suggesting that a clearer link of rent to household income and fixed period reviewable tenancies as being appropriate for some products.

We feel that in some areas, a Local Housing Company, which could span several council area boundaries with planning, acquisition and finance raising or investment powers, may be appropriate to ensure delivery of quality places that are aspirational and lasting and transcend short term political cycles and initiatives.

Ultimately, the supply of housing appropriate to the needs and aspirations of all parts of the community requires both public and private investment with a clear and sustained oversight on outcomes that create economically active and sustainable places.

Millennium Village, Greenwich, South London

Current delivery mechanisms will fall short of the delivery of homes required in ALL tenures and, even with subsidy, and delivery of low cost homes will be even harder hit

Introduction and scope of the report

The purpose of this report is to make the case for low cost housing as a necessary and enduring part of a functioning housing system and highlight the range of options being explored to ensure that genuinely low cost homes continue to be part of the development mix.

We feel it is essential to do this now in the wake of radical changes to the funding for the building of social housing for rent including the replacement of the Social Housing Grant with the Affordable Homes Programme (AHP) and the escalating costs in the private sector which are putting market rent and sale beyond the reach of many.

The Affordable Homes Programme was introduced in 2011 for four years and is now being continued for 2015-2018. The central premise of the Affordable Homes Programme has been that rent has to rise to up to 80% of market rent for new tenants.

As benefits are also capped as part of ongoing welfare reform, there is concern that the consequence will be an exodus of low paid people away from urban centres. The number of families housed by London boroughs outside the capital, for instance, more than doubled in the first financial quarter of 2013 according to figures published by Inside Housing[1].

Caps on housing benefit and a shortage of property in the private rented sector have contributed to a 129% rise in the number of households who were placed outside London. Between April and June 2013 there were 259 families housed outside London, compared with 113 in the same period in 2012. Meanwhile, according to the Office for National Statistics, 42% of 106,000 Londoners who moved away in 2012 were aged between 25 and 44, the highest figure since 2007[2].

If this is representative of a longer term trend, we may well be re-setting the economic and social foundation stones of future communities and of towns and cities where rents and sale prices accelerate faster than income or benefit support.

Clayton Court low cost housing scheme in Waltham Forest, North East London for CBHA

Moreover, the supply gap is getting bigger. One startling headline from Inside Housing is that only ONE council house is currently being built for every SEVEN sold off under the Right to Buy initiative[3]. In the private sector, shortage of supply means rent and sale prices show no sign of abating, with London rents predicted to rise by 30% and average house prices to £647,500 by 2020.[4]

A significant group now face exclusion from any new supply. These 'New Nomads' range from benefit dependents to young professionals as well as families seeking to stay in locations near work, schools and kin. A report by Savills[5] estimated that this group could contain as many as 500,000 households a year unable to access available housing supply.

Our argument is that, as well as providing housing for sale at, or near, market rent, a balanced and economically sustainable community, village, town or city needs a greater supply of low cost housing. This is housing that is affordable to those entering, or already in, the housing market, or households

One council house is currently being built for every seven sold off under the right to buy initiative

who are unable to access current planned or available supply either because of their economic situation or stage in their lives.

Recognising that we are in the foothills of the 2015 general election, we wish to signpost emerging models and make our own recommendations for 15 game changers for 2015 that we believe could boost supply of low cost housing.

We are, of course, conscious of the major regional differences relating to supply and, for the purposes of this study, our focus is on the provision of low cost housing in higher value areas and predominantly London and the South East and on examples of schemes in Manchester and the North East which bring new approaches to the provision of lower cost housing for sale.

[1]Inside Housing, November 2013
[2]Region and Country Profiles, Key Statistics and Profiles, The Office for National Statistics, October 2013
[3]Inside Housing, December 2013
[4]Home Truths 2013/2014,Oxford Economics for the National Housing Federation, December 2013
[5]Bridging the Gap in Housing, report published by Savills, November 2013.

Housing Forum Report

Part one.

Making the case for low cost housing

IN THIS SECTION WE LOOK AT THE ECONOMIC AND SOCIAL IMPERATIVE FOR INCREASING THE SUPPLY OF LOW COST HOUSING

The big picture:
Why low cost housing benefits everyone

All political parties would seem to agree that increased investment in housing can generate both short term and long term economic benefits. The National Housing Federation (NHF) reported that 'for every £1 spent in housing £2.41 is generated in the wider economy; and every new home creates 2.3 jobs.'

So, investment in housing can deliver extensive economic growth, but investment specifically in low cost housing can ensure the creation of balanced and sustainable communities and demonstrate real economic benefits on a macro and micro level.

For example, the Department for Communities and Local Government (DCLG) reported that studies on homelessness estimate the annual cost to the Government of providing accommodation for the homeless are between £24,000 and £30,000 (gross) per person, or around a £1billion (gross) annually[6]. Utilising low cost quality housing can deliver costs savings when accommodating people who would have otherwise have been in more expensive private rented sector accommodation.

Furthermore, without low cost housing there is a risk that families are pushed into poor quality, private-sector rented properties, which can then have a damaging knock-on effect on their welfare. For instance, research by the London School of Economics (LSE) reported that 'poor housing increases health and education costs; reduces employability and productivity; contributes to family breakdown; and is associated with crime and anti-social behaviour. Homelessness, living in temporary accommodation and, to a lesser extent, overcrowding are the main sources of these social costs[7].'

Low cost housing can also increase mobility by enabling households to access employment opportunities. Research conducted for Shelter by FTI Consulting reported that 12% of the British population overall and 18% of 18-24 year olds considered that housing costs had affected their ability to move for work. This is further reflected in research by the London School of Economics, which found that 'over 70% of London's business community see the lack of affordable housing as one of the most important constraints on the labour market'. The research concluded that supporting low and middle income households to find affordable homes is essential to the competitiveness of the London economy.[8]

Kingsland Wharves, Hackney for London and Quadrant Housing Association designed by JCMT Architects

[6]Evidence Review of the costs of homelessness, Department for Communities and Local Government, August 2012.
[7]The Case for Investing in London's Affordable Housing, Christine ME Whitehead, LSE London, June 2011.
[8]Investment in Housing and its contribution to economic growth, report prepared for Shelter, FTI, October 2011

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There is also substantial evidence that areas with more mixed social composition tend to be more popular, more satisfying to live in and have better services than poorer areas.[9]

What we mean by low cost and affordability

Notions of affordability and low cost are complex and dependent on perspective and context. Also, the language used in the debate regarding social housing has become confused, following the introduction of the Affordable Homes Programme in 2011 to replace Social Housing Grant. To make development stack up and lever in private finance, registered providers (RPs) have been encouraged to charge 80% of market rent, defined as 'affordable rent'. However, there is often a disparity between the use of the term 'affordable' and the ability of a significant number of potential tenants to 'afford' rents consequently set. (Registered providers are providers of social housing, including housing associations, trusts, co-operatives, local authorities and companies.)

It is important to state that The Housing Forum Working Group acknowledges that reform of the provision and funding of social housing was needed. It has been clear for many years that there has been an undersupply of new homes, creating major and complex issues for communities throughout the country. The freedoms for housing associations and local authorities to finance and deliver new homes in the Affordable Homes Programme and Government initiatives to stimulate supply are therefore broadly welcomed.

Our focus is on affordability or low cost to the occupant. In particular, we believe that creating strong, stable and sustainable communities requires a broad spectrum of economic activity, including established, wealthier households, those just joining employment, those seeking work, and those unable to do so.

Our own notion of affordability which for purposes of definition we shall refer to as, 'low cost' for this report, is drawn from a number of sources.

The definition of affordable housing provided by the Government in the National Planning Policy Framework March 2012 is as follows: 'social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not

How the gap between demand and supply for low cost housing is increasing

The statistics tell their own story of the crisis of supply of genuinely affordable housing.

›› Annual housing completions for all tenures in England totalled 107,950 in the 12 months to September 2013, a decrease of 8% compared with the previous 12 months. Although housing starts have seen an increase of 16% compared with the previous year to 117,110, they also remain far below (by 34%) the first quarter 2007 peak.[10]

›› 4,569 affordable homes completed in the six months to September 2013 were for 'affordable rent', an increase of 325% compared to the same period of 2012-13 whilst only 1,144 were for social rent, a decrease of 68% on the same period of 2012-13. This is also reflected in new starts with

met by the market. Eligibility is determined with regard to local incomes and local house prices'. Affordable housing or again to us, low cost housing, should include provisions to remain at an affordable price for future eligible households or there should be provisions for the subsidy to be recycled for alternative affordable housing provision.

Southwark Council states affordable housing is that which 'meets the needs of households whose incomes are not enough to allow them to buy or rent decent and appropriate housing in their borough'.

Further, the Zacchaeus 2000 Trust definition, created by the academic Peter Ambrose states: 'Affordable housing means that once the cost of rent or mortgage (including any maintenance and service charges) and local and national taxes have been met from the income of a household, be it an individual, a family or pensioners, there remains sufficient income to sustain safe and healthy living, to support children's needs at school and to enable provision for the future and participation in the community.'[14]

Interestingly, the definition of affordable housing used in the pre-2011 London Plan suggested that housing is affordable if rents and service charges do not exceed 30% of

homes at 'affordable rent' accounting for 79% of the total, representing an increase of 202%.[11]

Not enough….

›› The change in grant regime has seen a collapse in the provision of homes delivered at social rent, from 34,190 homes in the 2010/11 to just 9,577 in 2012/13 with only 3,102 starts identified for homes in this category.[12]

›› London needs at least 50,000 new homes a year, the equivalent of 18 new Olympic Villages and roughly double the current building rate, to address its growing housing crisis and cope with a population growth of one million by 2021. 31% of the requirement is for affordable homes (including anything not at market price), 27% for market sale, but the biggest requirement at 41% is for homes available to rent.

...And too expensive

›› A survey by Housing Today (August 2013) found that to meet the Government's definition of affordable housing, new tenants need an annual income of nearly £100,000 to live in Westminster or Kensington and Chelsea. Even in London's cheapest borough, Barking and Dagenham, tenants still need to earn almost £40,000 a year – the salary for a newly qualified teacher for outer London is £25,000.

›› Over the last five years to 2012, the cost of private renting has increased by 37% in London and the South East and the affordability gap ratio (multiplier of earnings) for owner occupation has increased to 11:1, according to National Housing Federations Home Truths.[13]

›› A survey by Ancestory.co.uk in February 2013 found that one in 10 parents had grown-up children living with them and that the number of households with three or more generations of the same family had reached levels last seen in Victorian times at 517,000, a rise of 7% since 2008, largely driven by a shortage of affordable housing.

›› Construction consultants EC Harris found more than 4,600 homes were built, approved or planned in 2013 at a value of between £1,250 and £1,650 per square foot - three times higher than the current average price of existing houses in the areas where they are being built. Overall, more than 20,000 prime homes could be delivered in London over the next decade. Darren Johnson, Chair of the Housing Committee of the London Assembly, has said: 'Building 20,000 luxury homes isn't supplying the sort of homes Londoners need, it's a waste of scarce land and is driving up prices elsewhere'.

[9]Mixed Communities: Evidence Review, Communities and Local Government, November 2010.
[10]Permanent Dwellings started and completed, Department for Communities and Local Government, November 2013
[11]Housing Statistics, The Homes and Communities Agency, November 2013
[12]Housing Statistics, The Homes and Communities Agency, November 2013
[13]London Demand – Housing London, Savills, November 2013.
[14]Professor Peter Ambrose, University of Brighton , May 2005

Part one.
Making the case for low cost housing

net household income. While this metric was changed in the latest London Plan, we note that this is a measure that is used globally, with 30% of household income also being the basis for Section 8 housing vouchers in the USA, for example.

In order to establish our own benchmark for the purposes of highlighting the challenge, the Working Group has taken this simple measure to define affordability and low cost housing. With the welfare cap for families at £26,000 currently (which is also comparable to the salary of a newly qualified teacher, before tax, in outer London) that establishes a household budget for rent, mortgage or shared ownership of around £650 per month or £150 per week.

Our expectation is that demand for low cost housing will always far outstrip supply. Nationally, there are 1.8 million households registered on social housing waiting lists, and inevitably there will be a tension between a desire to offer long term security with a need to keep a pipeline of homes available for new households. Furthermore, there will be issues of design and construction quality, cost and sustainability of homes and places created which The Housing Forum has investigated in earlier work including 'Housing for the Information Age' (www.housingfortheinformationage.co.uk)

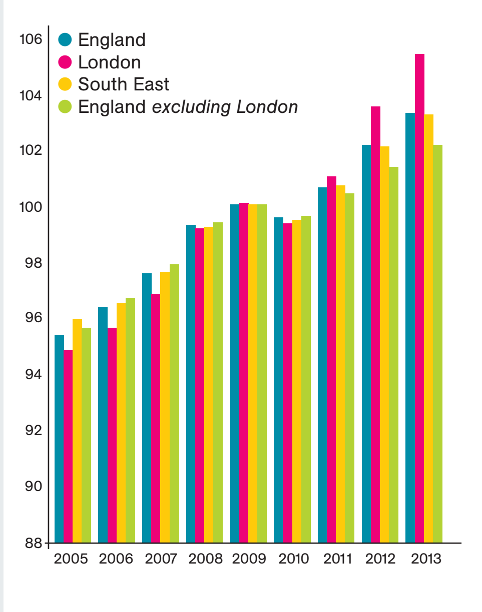
Later in this report, we will explore the delivery potential of current and future models highlighting those which are not only replicable but also offer the prospect of ongoing delivery and are not only the result of 'one off' investment.

How the Affordable Homes Programme could cost more in the long term

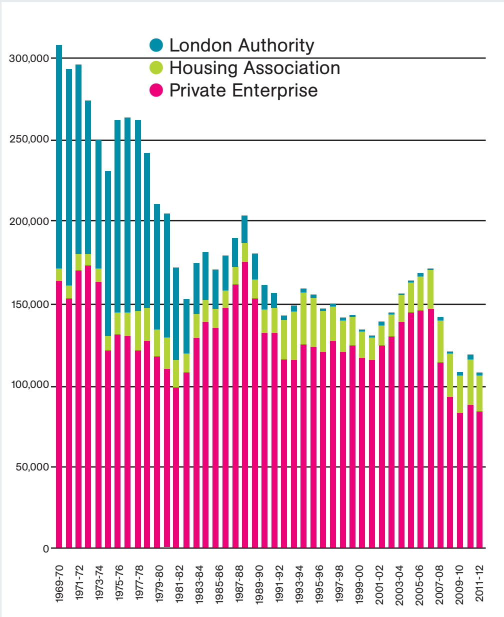
The Affordable Homes Programme changed the balance of capital funding for social housing away from almost wholly central government subsidy by creating greater freedom for registered providers to utilise their own balance sheets. Grant levels reduced from a historical 100% (or more) to 20% or less of scheme costs. The former target rent regime was replaced allowing up to 80% of local market rent to be charged for new housing provided under the Affordable Homes Programme; the intention being to shift the burden of the capital financing of social housing from state subsidy to private funding through debt and equity raised by registered providers.

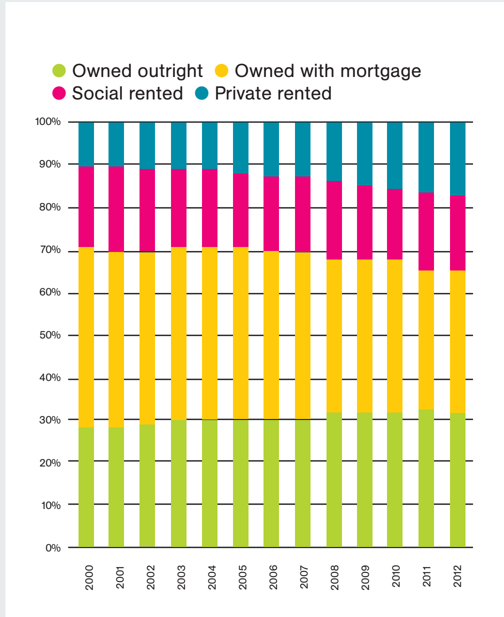
But the shift of subsidy from capital to personal, from state to citizen, has consequences as the housing benefit bill is projected to rise with the strain of increased rents under the Affordable Homes Programme.

Expenditure on housing benefit in cash terms has already increased significantly



Graph 1
Experimental Index of Private Housing Rental Prices
Data from the Office of National Statistics, September 2013, shows London rents are escalating sharply.





Graph 2
Housing Completions by tenure
DCLG figures show completions are at their lowest point for many generations.

Graph 3
Homes by tenure
Building Societies Association breakdown of homes by tenure in England shows the rented sector growing as home ownership becomes out of reach of many.

from £11 billion in 2000/01 (£15 billion in 2010/11 prices) to £21 billion in 2010/11 and increased to £23.4 billion in real terms in 2011/ 12[15]. Yet still, the Chancellor had to announce in July 2012 that the total housing benefit bill will be £500 million higher in 2013/14 than forecast and rising to £1 billion higher in 2017/18. The cumulative total is £3.7 billion more over the next five years.

As pressure for further cuts to Government expenditure arise in the future, a ballooning housing benefit bill will become an obvious target. On January 6 2014, The Chancellor again floated the idea that those under the age of 25 will be taken out of the qualifying group, which adds further emphasis to the issues raised in our report.

Meanwhile, with caps and additional rents, arrears are likely to increase, compounded by the further radical shift of housing benefit being paid direct to tenants. An Ipsos Mori survey of 232 housing associations for the National Housing Federation suggested arrears could rise by 51% to almost £500 million nationally.[16]

Meeting the housing need of a new generation of workers

As well as those in low paid work or the workless or dependant, a further key group for our study is those we see as the future skilled and professional working community that will drive our economy. Increasingly, this demographic is being locked out of all tenures of housing.

House prices have risen to the point that home ownership has become out of reach of many. The average age of a first time buyer has risen nationally from 29 in 2011 to 30 in 2012 while in London 32 is the current age for a first time buyer according to the Halifax[17]. Observers suggest that in reality this is closer to 35 and likely to hit 40 by 2020 based on current trends.

[15]Managing the impact of Housing Benefit reform, National Audit Office, November 2012.
[16]Impact of welfare reform on housing associations – 2012 / Ipsos Mori/ National Housing Federation, h January 2013
[17]Halifax First Time Buyer Review, June 2013.

The same study points out that 9 of the 10 least affordable local authority districts are in London. The least affordable is Camden where the average first time buyer property price of £480,457 is 9.18 times gross average earnings in the area.

But the barrier is not only the repayment of high mortgages; the level of deposit required to access this funding for increasingly costly homes is daunting. Nationally, the average first time buyer deposit in the second quarter of 2013 was £26,859 according to the Halifax.

The Government's Help to Buy initiative has sought to address this by providing an equity loan of 20% based on a 5% deposit. This initiative has been widely welcomed and has seen an increase in activity but, as NHF's December 2013 Home Truths comments, many others are losing out as house prices are so far out of reach that many local people are struggling to raise a deposit for a mortgage. Meanwhile, a number of observers including the Governor of the Bank of England feel that this time-limited subsidy to home ownership could actually increase property prices, creating another inflationary bubble, without adding significantly to supply.

With more debt, reduced benefits and low or moderate wages combined with affordability issues, it is not surprising that so much seems to be riding on new supply from the private rented sector.

The Housing Forum Working Group sees positive benefit in market rent and the potential for creating a quality segment to attract significant institutional investment and deliver large scale development with many thousands of new homes. However, this aspiration remains some way off fulfilment, and it is as yet unclear how it might relate to the provision of social housing or homes at low cost. The rental demand is, therefore, largely taken up by the small investor and unregulated provider and as demand increases so do the rents, particularly in areas traditionally seen as cheaper.

The small private investor accounts for over two million properties nationally and the activity of the private investor directly in the market place has a profound effect on supply and affordability. We can expect a further increase in small investors purchasing stock, often to rent to those on benefits or those unable to get on the housing ladder.

Meanwhile, the cost of renting a home is rising quicker than the rate of inflation, with the average monthly cost up 3.5% in the 12 months to May and the average rent in London up 7.2% since May 2012 to an average of £1,113 a month[18], outstripping the increase in the wider cost of living, which was 2.7% in the year to May 2013.

The award winning Barking Riverside development designed by Sheppard Robson

[18]LSL Property Services' Buy-to-Let Index, June 2013.

Housing Forum Report

Part two.

The challenges of funding and delivery of low cost housing

PLANNING, FUNDING AND AVAILABILITY OF LAND ALL PRESENT SIGNIFICANT BARRIERS TO DELIVERY.

The supply of low cost housing in context

We wish to reiterate that the purpose of this report is not to take a negative approach towards the current Affordable Homes Programme or the support for the private rented sector, or indeed sale housing. All of these segments are of equal importance for a balanced housing market. Our focus is on championing the provision of low cost homes for those unable to access these markets who we believe are key in creating thriving and sustainable communities. This group is not currently being catered for by new provision. We are instead calling for urgent upturn in providing homes for the 'New Nomads' - that group currently excluded from the market.

Against a background of more than two decades of under delivery of housing in the England, with 2010/11 seeing the lowest levels of completions since 1946, at just 107,950, the shift in emphasis to higher cost housing is stark. Even though completions increased in 2012, the change in grant subsidy regime has seen a collapse in provision of homes delivered at social rent and with only 3,102 starts identified for homes in this category the trend is clear to see.[19]

Moreover, there has been a dramatic change in the way affordable homes are delivered. Analysis of data from DCLG indicates that a majority (56%) of affordable / social housing was delivered by housebuilders via section 106 agreements in 2010/11. However, the proportion delivered as section 106 has been decreasing since 2008/09, and 2010/11 was the first time in 9 years that the proportion had fallen below 60% and this trend is increasing.[20]

With section 106 provision providing fewer homes, and with housing associations focused on optimising income and delivering the Affordable Homes Programme, there is a reducing capacity and sector appetite for providing low cost housing. But we will highlight examples of those that are currently bucking this trend later in the report and also explore how more homes might be funded and created.

The Affordable Homes Programme and the lack of subsidy

The recent moves under the Affordable Homes Programme to remove or decrease direct subsidy and instead allow greater freedoms for housing associations to utilise balance sheets, has radically changed the model of funding affordable housing. The reduced level of capital subsidy makes it necessary to subsidise development by other means to achieve an 80% market rent or lower. Housing associations are consequently drawn into undertaking commercial, profit making, activities or into accessing private finance and capital lending markets.

As an example, one housing association informed us: "In our 2011/15 programme we have average rents at about 63% of market rent, across all homes. The rental income only supports (a loan) to fund of 60% of the total cost of building. Subsidy is provided by grant at 18%, cross subsidy from shared ownership provides about 1%, subsidy from conversions at 16% and internal subsidy provides 6%. Without the internal subsidy (generated from our day to day operations) the schemes would not break even on a 30 year net present value basis.

[19]HM Government, Laying the foundations: a housing strategy for England, 21 November 2011, p6
[20]Additionality of affordable housing, Savills, January 2013

Part two.
The challenges of funding and delivery of low cost housing

The target rent regime (social rents) is typically at 30-40% of market rent in London, so providing housing at these lower truly affordable levels without subsidy is impossible.'

Housing associations and commercial providers surveyed by The Housing Forum give their verdict on how the Affordable Homes Programme is working on page 25.

Our Working Group also reflected on how subsidy was applied and on the shift from capital subsidy to personal subsidy. Overwhelmingly, the view was that capital subsidy was a more efficient and controllable mechanism for supporting sub-market housing. The subsidy provided stays within the sector and can be recycled to fund future housing.

The consequence of the Affordable Homes Programme combined with housing benefit reform is that, in this parliament, 95p in every £1 of government expenditure on housing will go on housing benefit and only 5p on building homes.[21]

The reality, however, is that reversing this will create a major overlap where benefit support is tapered while capital subsidy returns. Against a background of ongoing national debt it is difficult to see how this might be afforded.

Assuming, therefore, that personal subsidies are to remain and that, as recently announced, the Affordable Homes Programme will be the route by which sub-market housing is provided, we must look to other limiting factors which impact the delivery of new homes even in the higher rental band of 60%-80% of market rent.

The average grant under the current Affordable Homes Programme is £19,600 per home, compared with allocations under the last year of the former grant regime of £46,600.[22]

As we have noted previously, direct capital grant has been replaced in part by greater financial capacity for housing associations to borrow against higher rents on newly developed homes, conversions of existing void stock to the new affordable rents and also opportunities to engage in new areas of development which carry some risk to create internal cross subsidy.

There are, however, some major impediments on the ability of housing associations to rise to the challenge of increasing delivery beyond modest overall increases in numbers. These include:

›› **Lending covenants:** long term borrowing arrangements have created lines of finance at historically low rates of interest for many housing associations. However, these are often associated with restrictive covenants on matters such as gearing ratios, subsidiary formation or single source lending. Any breach will potentially create a re-pricing event and trigger higher rates of interest on the loan book. For developing housing associations this can mean significant additional costs, which could impact the viability of the organisation.

›› **Appetite for risk:** the housing association sector has traditionally been risk adverse and the regulator extremely watchful regarding the exposure of loan covenants.

›› **Capacity:** Governance and management will need to evolve to give oversight and control of the delivery of commercial activities that create cross subsidy for affordable housing. Staff recruitment will create a further challenge as will competition for experienced development staff as the private sector rebuilds itself as the housing market recovers.

Meanwhile, many of the issues are the same for local authorities. While they have the freedom to build, many are inhibited in doing so in any large numbers because they have a debt cap set by central government. This limits the new freedoms bestowed on them by the reform of the Housing Revenue Account, which allows them to keep the revenue from council housing rents and manage their own ring-fenced housing budgets. Many councils are also suffering from deep revenue cuts, and are therefore forced to sell assets which may otherwise have been available for development. Moreover, the increase of sales through Right to Buy is also decreasing stock. In the 12 months to April 2013, DCLG figures showed that 5,942 properties in England were sold to tenants, up from 2,638 the year before and the highest figure for 5 years. This followed the Government's decision to increase the discounts available to tenants to a maximum of £75,000.

Planning and land

All builders of housing in either the public or private sector face the two significant hurdles of access to land and navigating the planning process.

»Planning restrictions: The length of time and requirements to obtain planning are not responsive enough to meet the changing needs. A report from the Institute of Economic Affairs concluded that 'planning restrictions have a substantial impact on housing costs.... The Government's National Planning Policy Framework is a cautious attempt to address the anti-development bias in the planning system outside of protected areas. 'The anti-development bias does not stem from procedural details of the planning system but rather from the combination of a restrictive planning system and an over- centralised tax system'.[24]

»Land: The prohibitive cost of land and its availability represents another challenge to housing supply for all developers. Landowners often have an unrealistic idea of the value of land or choose to 'land bank' until it is of greater value. The perceived land value, which is often an upfront cost, can make a scheme unviable. There are also differentials across the country, for example in London, where there is limited land available and high demand for housing pushing up the land value. Policy Exchange reported that "releasing just 2% of our land would allow 8 million family homes".[25]

Overwhelmingly, the view was that capital subsidy was a more efficient and controllable mechanism for supporting sub-market housing

Could reducing construction costs be an answer?

As we look to increase supply with fewer resources, so exploring how to reduce the costs of construction for low cost homes would be an obvious approach to take, particularly when benchmarked against

[21] Benefits to Bricks, proposal IPPR May 2013
[22] "£1.7 billion in AHP allocations but do the statistics tell the whole story?", Rob Cowley, Social Housing, vol 24, no 11, November 12
[23] Homes for London: The Draft London Housing Strategy 2013, Greater London Authority, November 2013
[24] "Abundance of land, shortage of housing," IEA Discussion Paper No.38
[25] Why Aren't We Building Enough Attractive Homes ?" Policy Exchange, September 2012

Part two.
The challenges of funding and delivery of low cost housing

homes provided by housebuilders for sale. For decades there has been an understanding that the Government expects the housing it funds to drive up construction and design standards. We have seen major initiatives in increasing sustainability, accessibility and debates on space standards all pioneered in social housing before becoming embedded in national standards, which can add cost to the delivery of new homes.

Meanwhile, complex procurement and tendering requirements together with risk transfer arrangements all help to create an environment where homes provided by local authorities and housing associations are accepted to be more expensive to deliver than the private housebuilder equivalent. It remains to be seen if a level playing field on standards will be introduced by the Government when it delivers its final verdict in its Housing Standards Review.[26]

There are currently high quality attempts to reduce price by reducing size, compensating for smaller sizes with well thought out design that maximises space and with a covenanted lease that ensures homes remain within a defined income band. At the opposite end of the spectrum of microflat development,

London begins to wake up to the problem

Boris Johnson, the London Mayor, has pledged to fund the building of new homes at lower 'capped' rents in the 2015/18 Affordable Housing Programme as well as hinting at some new measures to free up and encourage delivery. The Housing Forum Working Group welcomes these recent moves which clearly begin to recognise the affordability issue. We believe, however, that the strategy will not deliver the numbers required on its own.

›› The new draft London Housing Strategy, which lays out the capital's three year housing investment programme, said half of the 9,000 homes built for affordable rent each year between 2015 and 2018 would be capped for 'those in the greatest need and those on low income employment'. The remaining half will be "discounted rent" and let for a maximum of 80% of market rent or the local housing allowance. The Mayor has yet to say at what level the capped rents will be set.

›› The strategy lays out plans to build 42,000 homes each year for the next 10 years, a doubling of the 2012 output of 20,300. The homes will be funded by £1 billion of public money which was allocated to London in the summer 2013 spending review. Of the 15,000 affordable homes built in total each year, 40% will be for low-cost home ownership – such as shared ownership and rent to save – and 60% will be at affordable rent (including half for capped rent)[23]. The reality is this target proposes just 12, 600 homes at 'low cost', a third of what many commentators suggest is actually required.

however, are less welcome ‘innovative’ housing solutions of stacked converted shipping containers reported in the Metro[27]. The challenge to the housing sector is to ensure such extreme initiatives are not seen as an appropriate solution.

Gentoo housing in Calshot Road, Sunderland

The Affordable Homes Programme – Registered Providers give their verdict

Concerns current funding round will not deliver

The Housing Forum’s Autumn 2013 Survey of new home providers in the 2011-15 Affordable Housing Programme gives insight into recent experiences of tendering and sets out a cross-sector view of the prospects, costs and organisation of the Affordable Housing Programme beyond 2015. It also flags up a number of concerns with the 2011-2015 round.

The survey draws on the views of a range of sizeable and significant providers of new affordable homes throughout England, managing over 250,000 homes with development programmes of 200-1,000 homes each.

The £4.5 billion Affordable Housing Programme is expected to support the delivery of up to 170,000 new homes by the end of March 2015.

However, our survey revealed that housing associations are finding the deadline hard to meet. This is because during the early years of this programme housing was in a depressed market which meant that many housing developments were stalled or not proceeding. The rush by housing associations and contractors to meet the Homes and Communities Agency deadline is also stoking tender price inflation. The deadline is driving up tender prices, particularly in London and the South East. Prices have risen by 5% outside London and between 10 and 20 % in London. As a result, The Housing Forum has been lobbying for the programme deadline to be extended.

…And things look worse beyond 2015

The view from the survey is that the prospect of delivery of the 2015-2018 affordable housing programme is judged by 70% of respondents as “might happen” rather than “likely to happen” and that the planned 165,000 homes will not be solely affordable homes, with section 106 and non-grant units included in the total. This is generally because of capacity concerns, with housing associations particularly facing issues of securing future funding and meeting covenant compliance within existing funding arrangements.

Most housing providers surveyed are looking for a minimum grant rate of £20,000-35,000 per home to participate and £15,000 for shared ownership outside London – as many said they would not participate in a further London shared ownership programme.

[26]Housing Standards Review Consultation, August to October 2013, DCLG.
[27]“Here’s my home – it’s simply a crate: Could thinking inside the box solve housing crisis?” - Metro, 9th October 2013

Housing Forum Report

Part three.

Current and emerging models for the provision of low cost housing

AGAINST A BACKDROP OF SEISMIC CHANGE IN THE FUNDING AND SUPPLY OF LOW COST HOUSING SOME REMARKABLE NEW IDEAS HAVE COME FORWARD TO PROVIDE NEW HOMES

This next part of our report looks at a range of innovative approaches across a range of providers and funders highlighting the broad spectrum of responses to the provision of sub-market rent or low cost home ownership models without the need for grant funding but through internal subsidy or a direct change of policy.

Where possible we have highlighted schemes that could be replicated elsewhere, and what might be required to increase the scale and speed of delivery.

Local authorities

Our first four case studies, from London and other regions, illustrate the extent to which the pendulum has swung back to local authorities regarding the delivery of low cost housing, and a pioneering approach is set out in the examples below:

CASE STUDY 1:
Southwark Council uses its assets to deliver low cost homes

What is this initiative?

Southwark Council has set out ambitious plans for building 11,000 council homes over the next 20-30 years, though in reality this level of construction will replace the stock expected to be lost through Right to Buy and redevelopment during this period. The strategy was announced following the findings from the Independent Housing Commission in September 2012. Setting out a series of options, the Commission said: 'Maintaining the stock at around the current level of 39,000 homes over 30 years would necessitate a substantial and sustained refurbishment and new-build programme. This more ambitious scenario would help ease the borough's housing problems, but it requires the council to undertake a higher level of borrowing against the value of its larger stock to cover the funding gap. It also requires a step change in the quality of strategic and project management'.

The development comprises 11,000 new homes and is funded through a variety of income streams including section 106 planning agreements, procurement through regeneration and partnership initiatives as well as council reserves. The council says rents will be charged at target rent, (social rent), which initially put the council on clash course with the Mayor, who until announcing a new draft Housing Strategy in November 2013 was stipulating all new social housing should be built at 80% of market rent. However, the Mayor's new draft Housing Strategy launched at the end of November plans for around 30% of low cost homes to have capped rents (see box page 24).

What makes it different?

Southwark owns high-value real estate in the north of the borough which is adjacent to the City of London, just across the Thames. This has led to very expensive private development projects. Provision of affordable housing in some of these specific development sites would be difficult and developers could feasibly argue it would be impossible to provide any significant number of affordable homes in their new residential buildings. The council has been able to take advantage of this and take a premium from developers to meet the requisite quota of affordable housing laid out in the council's Core Strategy, acknowledging its own significant land and asset base. This premium is used to fund the council's direct delivery housing programme, which has an aspiration to build approximately 350 new social target-rent council homes every year for 30 years. Some of these new homes will be built in the same postcode as the developments which have financially underwritten them.

Can it be easily replicated?
Southwark Council is one of the largest stock owning authorities. Since the reform of the Housing Revenue Account all local authorities with responsibility for the housing stock can borrow money to build new homes within their borrowing limit. According to a survey of 45 councillors with lead responsibility for housing carried out by the Smith Institute and published in November 2013, 93% said they had plans to build new council homes. New build council housing was the main investment priority (60%) followed by 'decent homes' (18%). But their aspirations to build are relatively modest - most councillors hope to build up to 1,000 homes over the next decade which may not compensate for the loss of their existing homes through Right to Buy.

CASE STUDY 2:
Islington Council's low cost policy and development environment

What is this initiative?
Islington has the same high property values that create the difficulty of providing homes which are affordable to people on low or average wages. The council is committed to building 2,000 new affordable homes by 2015, with more beyond that date, through a threefold approach:

- Islington has embarked on its own council home building programme, which focuses on infill or redevelopment of existing council blocks or estates.
- Islington is using their planning powers to insist that providers operating in the borough, deliver homes at social rent (which averages around 30-35% of market rent) by cross subsidy from sale or utilisation of balance sheet borrowing or allocation from surpluses.
- Islington is offering council land and New Homes Bonus as substitute for 'grant' to a framework of 10 housing associations who will be obliged to build homes for social rent, rather than 'Affordable (80% of market) rent'.

How does it work?
The council's new social rented housing within its own estate is self-funded using Housing Revenue Account (HRA) freedoms to borrow and is cross-subsidised by capital including the sale of some homes for shared ownership and some for outright sale.

The council's planning policy (Core Strategy) sets a target for 50% of all new housing in the borough to be affordable. This includes a 70/30 split between social rents and shared ownership housing. It has brought the council into conflict with the Mayor of London's Plan, though the council's plan received a favourable assessment by the planning inspectorate and is currently leading a group of councils to judicially review the Mayor's policy.

Lyon Street Housing, for the London Borough of Islington, inset, Vaudeville Court, also for Islington

The council's land disposal policy allows the council to sell land at discounted value to housing associations – this can still meet tests of 'best consideration' as providing homes for social rent is a council priority.

What scale is it on?
Islington Council has set an overall target of 2,000 affordable homes to be delivered by 2015. The homes for social rent are let on lifetime tenancies.

Can it be easily replicated?
Yes, but dependent on availability of land and is often limited to infill sites. The council is looking also to optimise assets and is also lobbying for an increase in borrowing caps. Perhaps not surprisingly, the approach has limited the number of housing providers seeking to build new homes in the borough. Islington recognises that to deliver in the future it will need partners who share its policy objectives. Moreover the council feels a regional housing strategy is required for London that recognises its unique affordability issue.

CASE STUDY 3:
Warrington Borough Council uses 'on lending' to fund low cost homes

What is this initiative?
An 'on-lending' facility, a form of finance backed by Warrington Borough Council, which gives housing associations access to funds appropriate to the size and scale of individual housing developments. Local authorities can lend money to housing associations which they have borrowed from the Public Works Loan Board at cheaper rates than housing associations could if they themselves borrowed from banks; and the amounts they lend can be smaller than the capital markets are prepared to extend. Warrington Borough Council started on lending in 2008 after the banking crash when housing associations were having trouble accessing capital markets and now has a post of £250m. The council was concerned that if housing associations were obliged to re-price existing loans, this would lead to a slowdown in the rate of building homes.
Initially the council offered a £10 million loan facility to Warrington Housing Association and then a £10 million loan to Your Housing Group,

followed by loans to various housing trusts, including Golden Gates, for development in the local council area. Within 18 months the scheme had attracted great interest, with numerous housing associations approaching Warrington Borough Council. There has also been interest from organisations outside the area.

How does it work?
On-lending has increased the affordable housing provision in the Warrington area by about 1,300 homes, all at up to 80% of market rent.

The funding has to be priced competitively - in order to not fall foul of State Aid rules - and the approach has to be thoroughly commercial. The distinctive feature is the authority will offer 25-30 year loans where bank loans are restricted to five years. As touched on above, this approach overcomes the disadvantages of the private placement market in bonds – where the money comes with disadvantages, including fees, credit ratings and having to draw down all funds at day one. The risk is covered by Warrington taking a charge on the properties in case of default.

What makes it different?
The principle of on-lending is relatively well established although it tends to be low key and uncoordinated. Warrington is avowedly following an on-lending with purpose agenda. What is also different is that funds raised by Warrington Council can be used for housing support outside the borough. With Chester-based Muir Group, the Council is supporting housebuilding in other areas where Muir Group operates. The council reasons that this supports the wider context of job creation, helps local workers living elsewhere, and affords the opportunity for Warrington firms to bid for work elsewhere.

What scale is it on?
Warrington can give a phased facility – such as £5m in year one, then £5m in year two etc., which fits in with development cycles.

Is it replicable?
Other councils with HRA borrowing headroom could do this but would have to meet strict due diligence tests and this is where Warrington is ahead of the game, having performed much work on the legal and governance side. If borrowing caps were to be lifted, the potential of inter-authority and inter-sector lending could be profound if used to fund low cost housing.

CASE STUDY 4:
Greater Manchester Pension Funds harnessed to boost mixed tenure development on council land

What is the initiative?
A joint partnership between Manchester City Council and the Greater Manchester Pension Fund (GMPF) will invest £24 million to finance the building of lower cost housing for sale and market rent on five sites in the first deal of its kind to bring housing to central Manchester. The pension fund will invest £25 million to cover construction costs, while the council provides building plots on ex-employment land. The GMPF is worth around £11 billion and is the pension scheme for the 10 local authorities in Greater Manchester and associated bodies, such as schools, colleges and charities.

How does it work?
The initiative works on the basis of bringing together two parties- an investor with land (the councils) and an investor with cash (£24 million of the GM pension fund). The Joint Venture (JV)partnership, or Housing Investment Fund, can be formed without procurement issues. The proportion of houses to be sold and the rents for units are set to ensure an overall investment return.

What makes it different?
This innovative and bold initiative is a

breakthrough in unlocking the investment potential of public sector pension funds. It demonstrates co-operative working across several authorities and the benefit of strong political leadership.

What scale is it on?
There are five sites in the portfolio, each with a capacity for a minimum of 250 units though initially the Joint Venture will build 240 homes with its £24 million investment. The site package includes three 'valuable' sites included on the basis that they will achieve higher rents than on the other two sites at Gorton where lower rents and values are expected.

Can it be replicated?
This scheme can be expanded outside central Manchester and in relation to other Greater Manchester districts, it would be possible to add more land, or more likely, to set up another Joint Venture using all the same methodology to accommodate land from other councils. Whether the initiative would be readily replicated outside the Greater Manchester area has yet to be tested and research carried out by the Smith Institute[28] showed up concerns and the innate conservatism of local authority pension funds. Conflict of interest was a concern as were issues about the risks of investing locally. Other local authorities with smaller pension pots may find such a deal too risky without the exploration of pooling through an aggregator such as a National Housing Investment bank.

Housing associations

Housing associations remain key to the delivery of low cost housing. However, as we have seen, their operating environment has changed radically. The following examples demonstrate the range of how the models to deliver low cost housing and 'social outcomes' are changing in response.

CASE STUDY 5:
London and Quadrant (L&Q) increases low cost housing supply through surpluses and commercial strength

What is the initiative?
London and Quadrant (L&Q) is the largest housing association operating in the London and the South East, with 70,000 homes. It has been at the forefront of campaigning for greater freedoms to enable commercial activities to generate cross subsidy for affordable housing. In 2012/13 L&Q delivered 944 submarket rental properties, 455 sale properties (233 outright sale and 222 shared ownership) and 10 market rent properties

Like many of the G15 housing associations (the 15 largest associations operating in London), L&Q seeks to provide homes in London and the South-East at 35% of household income (65% market rent) to support those on low wage, and it moderates rent levels according to analysis of its own local residents. These homes are increasingly delivered using significant internal subsidy from a housing sale programme which is larger than many housebuilders in the region and utilises the balance sheet of the business.

What makes it different?
L&Q's development approach is unashamedly commercial and sees itself as a landlord first and foremost, ploughing surpluses back into building more homes rather than providing some of the social support service that is the hallmark of many housing associations. This has been achieved through an effective internal

[28]Local authority pension funds: investing for growth, published by the Smith Institute, September 2012.

cross-subsidy from the market sale of homes as well as a focus on driving efficiency.

What scale is it on?
L&Q has structured its response to the changes in the availability of grant to ramp up its commercial activities and intends to move to a position where it is able to develop new sub-market homes without reliance on external Government subsidy. Diversification into market rent and sale activities utilising balance sheet strength to access capital lending markets has led to a planned 12,000 home pipeline of which approximately half is sub-market (affordable) and half market.

Can it be replicated?
The ingredients of scale of asset base, strength of balance sheet and skill in commercial development are key in underpinning L&Q's position. However, these remarkable statistics are not representative of the sector as a whole, and while a handful of larger organisations will echo the L&Q model we understand that the majority of associations operating in London will not have the balance sheet strength to do so at scale.

CASE STUDY 6:
Family Mosaic takes a holistic approach to low cost housing and jobs

What is this initiative?
Family Mosaic is taking a different path to the provision of low cost housing to most other housing associations in London. It has 24,000 homes across London and the South East. The fundamental driver has been to continue to provide new homes at 'social rent' rather than higher levels related to 80% market rent as required by the Affordable Housing Programme. The group is trying a more holistic approach which involves pursuing a strategy of getting more people back into work, in tandem with keeping housing at target rents, so that it's worth their while to take a low paid job. Family Mosaic launched a manifesto[29] for change through housing which set out their approach in these terms:

'We have been a landlord based organisation that carried out as much development as we could. That approach won't work anymore: it won't solve the housing bottleneck. It won't help all those who need our care and support. And it won't work for the next generation.

We have also had to consider the economic environment within which we work and our customers live. Benefits are being cut. The cost of living is rising. The best way we can support our customers is by helping them into work, so they can become more independent.'

How does it work?
When Family Mosaic launched a new strategy in 2012, it set a target of getting 1,000 residents back into work in five years. In 18 months the housing association has already managed 500. Family Mosaic's strategy has involved heavily subsidising its 1400-unit Affordable Housing Programme on the profits of developing homes for sale, coupled with investing heavily in training

programmes to help residents get on the employment ladder. New tenants get tenancies that are reviewed after five years. The tenancy is renewed at low rent if, for example, the tenant is in low paid work or still out of work. The tenancy may not be renewed if, for example, there has been a breach of tenancy or failure to take reasonable steps to obtain work or training.

Family Mosaic also aims to help 500 existing tenants buy a new home and then reinvest the capital receipts in building more. Family Mosaic says research has identified that a quarter of existing tenants have the financial potential to convert into shared ownership, which is actively encouraged through a standard five year lease.

The first stage is revenue based: an existing Family Mosaic tenant purchases a 50% share in their existing home on a 25 year mortgage and with the benefit of Social Home Buy discount of up to £16,000, and then enjoys a rent free period for the following five years. The 50% capital share arising from purchase is used by Family Mosaic to buy new property or support the new build programme. This is, effectively, now a funding stream.

What makes it different?
Family Mosaic says that ultimately, subsidising rents in this way reduces the volume of new homes it can afford to build, though by getting more people into work and hopefully in a position to take up shared ownership, it may be able to help more people in the longer term.

It is lobbying hard to get more Government investment brought back into housing by taking cash from other departments like health. The argument is that better housing would save the NHS money and it can also help education and reduce crime too.
Says Chief Executive Brendan Sarsfield: 'Family Mosaic is lobbying hard for housing to get small fraction of that it would bolster much needed housing provision. We believe stronger relationships between health and housing could lead to much greater financial savings. But as a sector we need to make a much stronger case for it than we seem to be managing at the moment.'

Public private investor driven partnerships

As grant recedes, the need for more partnerships between public and private sectors is clear. Organisations with public land and assets are working with those with private sector development and construction skills and are increasingly joined by investment organisations seeking returns from housing.

CASE STUDY 7:
Kent/ Kier public sector housing initiative with investor backing

What is this initiative?
Contractor Kier has come up with a novel way of funding the construction of new homes with council and social landlord partners without the need for grant. Its scheme in Kent comprises a range of housing for sale, market rent and some affordable rent with the ability to reassign rental income to cross subsidise.

How does it work?
The model requires a council to provide the land, usually for a minimum of 100-200 homes on a single site, with or without planning consent; it needs a contractor, in this case Kier, to fund construction of the homes; and it needs an institutional investor which pays for the contract when the homes are complete. The investor then leases the homes back to the council or registered complete. The investor then leases the homes back to the council or landlord which then agrees to pay the rent for all tenancies index linked to CPI or RPI for the full base of the lease. This would be for a period of 25-50 years.

At the end of the lease period the council/ RP retains ownership of the land and also the homes for a peppercorn amount. Properties may be removed from the model during the term of the lease (right to buy, or outright

[29] "Health, Wealth and Wellbeing", a manifesto for change through housing, Family Mosaic, 2012.

sale) provided they are replaced like for like with a similar property at the equivalent rent.

What scale is it on?
Kier signed its first deal with Kent County Council in February 2013. The Council transferred three sites to Kier to build 172 homes. The investor and housing association have been brought on board by Kier as part of a separate deal to contribute to the finance and management of the properties. Around 50 of the homes will be sold on the open market, with the rest intended for affordable, intermediate, ownership or market rent, providing a steady income stream for the future. Kier will pass some of this on to the council under the terms of its lease, while the investor will make a steady return, typically over a period of 40 years.

Work is expected to start on the three sites in June 2014.

Is it replicable?
This model opens up the chance to develop affordable, intermediate or market rented housing without necessarily using any public sector funding and has the flexibility to deliver housing across different tenures to take into account local need. Homes can also be delivered immediately rather than over a period of years as buyers and mortgage finance are lined up. However, for homes to be delivered at social rent, the delivery model would require more of them to be sold outright or set at market rent rather than for affordable rent. It is a choice and balance that the local authority needs to make.

New models to enable low cost home ownership

The Housing Forum Working Group is particularly interested in models that enable a pathway to home ownership in these times where deposits are high.

CASE STUDY 8:
Gentoo Genie provides a ladder to low cost home ownership

What is the initiative?
Gentoo Genie is a home purchase plan launched in October 2011 by North East based housing association Gentoo. It is targeted at low to middle income would-be homeowners in the North East of England who do not have a deposit to get onto the housing ladder. It is a new route for consumers to access home ownership without the need for a mortgage or deposit. In the North East, 43% of Gentoo customers are under 30 and 52% have an annual income below £40,000.

How does it work?
Gentoo Genie is a Financial Conduct Authority (FCA) approved ‘Home Purchase Plan’: a financial product funded solely via investment from the Gentoo Group, with no subsidy. Genie buys the property and enters into a lease with the customer for a defined period (usually 30 years) with a long-term payment plan to acquire an increasing share in their home over time. No deposit is required with residents acquiring an increasing share of equity. A single monthly payment is made to Genie (this consists of part rent and part towards purchase). At the end of the term, when all payments have been made, legal ownership of the property is transferred to the consumer.

The monthly payment will increase at 3% per annum, which ensures that the targeted return is achieved and is affordable. Consumers have all the rights and responsibilities of a home owner. Homes can be built by Gentoo or acquired from housebuilders. Gentoo, which initially invested £7m and has now committed £20 million, is receiving a 7% ungeared return.

What makes it different?
Gentoo has established the credibility of a rent-to-purchase model with both the financial authorities and customers. As a deposit-free pathway to home ownership, the Government recently announced its own interest in a similar rent to buy approach.

What scale is it on?
There are now 69 homes bought this way in the North East since the launch in 2011. Gentoo is in discussion with the Greater London Authority over the initiative becoming an affordable housing option. If Genie is established at scale, then institutional costs will fall, which will make the product cheaper, thus requiring lower discounts. Interestingly the product is not yet seen as in the 'affordable' use class but could be attractive to investors if it attracted a Government guarantee. Returns for the investor are likely to be more stable than traditional market rented portfolios as the return is not primarily structured around growth in property values.

Is it replicable?
There is no doubt an attraction to the Gentoo Genie model and it will be interesting to see how it progresses in higher value areas in partnership with other organisations.

Community Interest Companies

We were very interested to explore emerging models which are location and community specific and aimed at harnessing investor finance while creating low cost housing in mixed communities.

CASE STUDY 9:
Catalyst for Homes provides ringfenced investment and returns

What is this initiative?
Catalyst for Homes (C4H) is a Community Interest Company (CIC) that builds and finances large mixed use and mixed tenure communities solely for a property trust. By recycling its profit with the property trust, the model is able to replace reducing Government grant with its own internal subsidy to provide low cost housing at target rent (social rent). C4H provides pension fund investors with a commercial yielding, scalable, low risk but long term investment into housing.

How does it work?
The C4H solution is designed to attract pension fund investment for house building, by addressing the main issues that have made pension fund investment into this sector unattractive. The solution mitigates market volatility, improves scalability and raises each community's social well being, via a trust fund delivering commercial yields of 8- % gross and 6-7% as net distributions.

C4H act as a catalyst for social investment into each new community.
This is a means of generating private sector investment and the capital contribution for social housing, a substantial part of which had been previously been provided by Government subsidy.

The property trust receives three incomes – a bond equivalent loan income from registered providers, long term private sales and rental incomes from the private home element and C4H's recycled developer profit from the trust funds' own newly built private home purchases. The blending of incomes uniquely produces substantially underwritten returns for the investor. As each site is completed, the housing association takes control of the social homes financed via its bond equivalent loan, while the property trust purchases the private homes at cost, which are sold and rented over the long term.

What makes it different?

›› It turns the developer into a CIC which is prepared for a long term commitment to the communities it creates for investors and in addition is prepared to recycle its profits over the same period. This aligns long term interests and creates a social commitment normally carried by housing associations and local authorities alone.

›› The CIC solution leverages housing association bond equivalents and development profits into what are currently unviable London schemes with sites across the country, providing a viable risk profile to attract investors (see example below).

›› The pre-sale of private homes to the trust fund allows building to continue regardless of poor market conditions, which have affected other forms of development / financing solutions.

›› A combination of the bond equivalent loan for about 50% of the total delivery debt for a particular site, the consortium's delivery agreement tying the parties together and the trust's own pre-purchase of all built but unsold private homes, provides surety to construction debt banks.

›› By re-investing the retained surplus (otherwise, the developer's profit), it is possible to support apprenticeships, jobs, rent to home purchase etc, for key workers and local economic growth.

What scale is it on?

In the coming two years C4H expects to have over 7,000 homes under construction. Areas include London (Southwark, Tower Hamlets, Hackney, and Lambeth), Bristol and Edinburgh. C4H is interested in consented communities with 200+ homes, where there is the opportunity to build a mixture of 50% social and 50% private homes with supporting commercial uses.

Is it replicable?

Local authority pension schemes and local authority regeneration departments to date are showing the largest interest in the C4H solution. They like the low risk investment profile and long term social investment back into each new community, which offers an improved well being rating for the new community over and above the normal section 106 and community investment levy requirements. The long term social investment reduces the risk of additional future support being required for any new community not identified during the planning process and perhaps only surfacing due to unforeseen Government policies.

From a housing perspective, long term community success, social housing at target rents, market free delivery and a developer long term commitment are the main targets of this initiative (though it does provide market rent and assisted routes to traditional home ownership too). CIC clearly could be a major part in the delivery of mixed communities.

Institutional investor finance

Many of the emerging models talk of investor and pension fund finance as being at the core of unlocking supply of low cost homes. The attractions of a proven history of steady revenue has meant low cost housing has, once again, become of interest to pension funds.

CASE STUDY 10:
Legal & General invests in low cost homes

What is this initiative?
With grant cuts and bank lending tighter, there has been much talk in the housing world of the need for pension funds to provide finance into the sector, the rationale being that their investment profile matches the safe long term returns social housing providers can bring. Legal & General is a leading investor with a series of deals signed and more in the pipeline, which can deliver self-financing, low cost housing.

How does it work?
In its capacity as a property investor, L&G can fund the construction of the schemes, subject to a 25-50 year lease with a Council or housing association, which guarantees a net rental income to match L&G's pension liabilities. L&G does not specify the level of rent per se, as this is determined by the financial viability of the scheme. Instead, L&G works with the housing association or Council to ensure that the rents from tenants generated by the scheme cover both the management and maintenance costs of the operator, and an additional surplus over and above the rent to L&G. At the end of the lease term, the ownership of the properties can revert to the Council or housing association for £1.

What makes it different?
Each deal is bespoke and structured around the operator and the site, potentially running a full mix of tenures. L&G's cost of capital is likely to be cheaper than the capital markets because the investment return is structured over a longer period within which to run down the cost of the initial investment.

Can it be scaled up?
L&G has indicated that a fund of in excess of £1 billion is available.

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Part four.

Policy game changers ‘15 for 2015’

IF WE WANT TO INCREASE THE SUPPLY OF LOW COST HOMES WE NEED TO UNLOCK A FEW OF THE SHACKLES.

We have seen from the previous section current and emerging models demonstrating how councils and housing associations are achieving a range of low cost housing through internal capital subsidy or direct policy change. There are examples of land-led development backed by funders without grant and companies that recycle profits into trusts that build low cost housing at target rent. The reality, however, is that many of these models are embryonic, or reflect a unique organisational objective and financial strength or are unproven in terms of volume of delivery of additional new homes.

The Housing Forum Working Group is putting forward policies to empower local authorities and housing associations, to raise, distribute and deploy capital funds for housing, to stimulate more homes through tax incentives and to improve planning, land and products. We are referring to these suggestions as 'game changers'. Some of these ideas have a wider relevance than just to the provision of low cost homes as we have defined it, but if taken up could help balance housing supply. For that future provision to be accessible and truly affordable in mixed income communities, it requires central and local Government policy and planning to act in concert with innovative approaches to create capital subsidy.

Empowering providers

GAME CHANGER 1:
Lifting the borrowing cap from local authorities

The long-awaited self-financing reform of the HRA in April 2012 year allowed councils to manage the finance of their own housing stock. Under the reforms, councils in England shared out £29 billion of debt in return for retaining their rental income. This also meant taking on a cap on the amount they could borrow. Many commentators have called for this cap to be lifted to allow councils to borrow more for the public sector borrowing requirement (PSBR) which they can use to build new homes themselves or provide on-lending to housing associations – as explained(on page 6). The Chancellor George Osborne responded in the Autumn Statement 2013 with a partial lifting of the caps nationally by £300m to deliver potentially 10,000 homes.

We welcome this small step from Treasury. However, there is more potential that can be delivered by further relief, accepting that a business case basis and implied prudence is pre-requisite.[30]

'London's council housing asset stock could double its current borrowing headroom capacity overnight (to £2.8bn) assuming only a continued income stream at social rent levels, were the borrowing caps lifted. On this basis up to 10,000 new council homes could be built in London for let at social rents, according to Nigel Minto of London Councils.

[30]The London Assembly Report, Right to build - What's stopping councils from building more housing? October 2013

Part four.
Policy game changers '15 for 2015'

GAME CHANGER 2:
Empowering local authorities as long term patient investors

Many times complex planning gain negotiations or market changes stall or delay housing delivery and mean low cost homes are negotiated out of developments. The Government could amend planning powers to allow local authorities to take an equity stake in a private development as a condition of planning consent. This would be a constructive alternative to both the current system of planning obligations through section 106 agreements and the Community Infrastructure Levy (CIL), reforming both regimes. This would ensure that a development is not delayed by debate over initial obligations. It will protect the public sector interest in terms of benefiting from any long- term value appreciation, while increasing outcomes regarding social housing provision.

GAME CHANGER 3:
Giving greater freedom to housing associations to set rents

Developing housing associations are key to boosting the delivery of low cost housing. Giving these housing associations the freedom to set rents will help them to operate as independent businesses with social objectives, increasing their ability to invest in existing stock as well as new homes to increase the supply of low cost housing.

Housing associations have demonstrated their commitment to enabling tenants to maintain their tenancy and provide low cost housing, even under the auspices of the AHP. Uptake of the opportunity to increase rents to 80% of market value was low with family housing units and for London and South East housing associations.

Housing associations are, at their core, social businesses investing in the community and supporting tenants. They have the local knowledge and experience to identify areas where rents could be increased, as well as those areas where this is not viable. This is preferable to a blanket approach from Government. In addition, housing associations could set rents in a way that ensures they remain affordable in the true sense of the word, for example, linking to household income.

GAME CHANGER 4:
Setting up Development Corporations

While recognising the importance of both local authorities and housing associations, there is a limitation to the speed and scale that can be delivered within the confines of their operations, both geographically and operationally.

The lessons learned from the London Dockland Development Corporation (LDDC) are also relevant. Created by statute and imposed on a wide area spanning several local authorities, the LDDC had planning, grant giving and, importantly, Compulsory Purchase Order (CPO) powers. While hugely controversial in its early years, and seen as undemocratic for excluding local people and Local Authorities, there is no doubt it delivered much over its 17 year life. As an agency empowered to deliver and override local obstacles, and despite a fragile economy emerging from recession, the LDDC's £1.8 billion of public funds attracted £7.7 billion of private investment delivering 24,000 homes and 85,000 jobs.

As we continue to struggle to corral a complex and poorly functioning housing market to deliver new homes, it could be that a major interventionist approach will ultimately be the only way of bringing the key components of land, finance, planning and purpose together, not for new towns, but for new places within our towns and suburbs.

Funding and finance

GAME CHANGER 5:
Setting up a National Housing Investment Bank

Every other country in the G8 has a state-backed investment institution to tackle the need for strategic and regional growth and ensure that their businesses can access the finance they need. This could be based on the German Sparkasse model and would be structured through a network of regional banks. This could to deliver more lending to small businesses and to promote dedicated regional investment in housing under a national framework.

The bank would raise finance through bonds, ISAs, the co-ordination of lending or even Right to Buy receipts, recycled tax (on capital gains from overseas investors, for example) to invest in low cost housing products for rent, sale and shared ownership, thus providing development finance so far avoided by retail banks.

GAME CHANGER 6:
Removing public investment in low cost housing from the PSBR

We are calling for the affordable housing asset class to be seen as 'infrastructure' and removed from the Public Sector Borrowing Requirement, thereby increasing investment available from public institutions and local authorities.

GAME CHANGER 7:
Tapping into sector strength through on-lending

Matching the ability to fund with the ability to build is fast becoming an area of interest as we move to an era of housing associations and local authorities with strong balance sheets and assets but unable to develop, and other developer associations and authorities unable to gain funding. A recent report highlighted the combined surpluses for the Housing Association sector for 2012/13 as £2 billion[31]. We now have an on-lending example at Warrington. While this has to date been approached on a 'deal by deal' basis, a role could be taken either by the HCA or the proposed National Housing Investment Bank to co-ordinate funds and direct them towards the provision of low cost housing.

GAME CHANGER 8:
Social Housing Government Guarantees

In the March 2013 budget, the Government proposed a 20% stake in sale housing, creating a revolving fund with a time limit. The Housing Forum Working Group suggests that a 'Help to Invest' guarantee programme for low cost housing, similar to the Help to Buy scheme, would bring a boost to provision. The same principle could also be used to tackle the extremes of inner city housing poverty through a remodelled stock transfer programme - with funding for a 30-40 year period. This could extend to the remodelling of the existing stock and the re-planning and of homes to offer a new product to downsizers, freeing up family homes elsewhere.

[31]Social Housing Magazine, 6 December 2013.

GAME CHANGER 9:
The return of capital subsidy?

Capital, rather than personal subsidies are seen as most efficient in driving delivery of new low cost homes. In past times where careful budget management is key, Governments have used targeted 'Challenge Fund' approaches to focussing capital subsidy on regeneration areas predicated on a defined and time related outcome. While reversing current policy in the short term would be ambitious, a similar strategy offering a more nuanced approach to capital subsidy than the current 'one size fits all', could encourage inclusion of more low cost homes related to household income in urban and suburban developments.

Tax measures

GAME CHANGER 10:
Stamp duty and capital gains ring-fencing tax receipts

A recent report by the London Finance Commission, established by Mayor Boris Johnson in May 2012 to look at improving London's tax and spending policies, recommended greater financial freedoms for the capital. The proposals include devolving all property tax revenue streams including council tax, stamp duty land tax and business rates to London. Just 7% of tax paid by Londoners is redistributed to the Mayor and London with the majority coming from central block grant, compared with 31% in New York from central grant, 25% in Berlin and 17% in Paris.

Recent announcements to levy capital gains taxation on profits relating to developments of absentee overseas investors come with a rather more complex narrative. We need overseas investment but also the availability of housing to meet demand.

On balance, The Housing Forum Working Group supports calls for London to retain a greater share of taxes, on the basis that such money derived from high property prices is ring fenced and used for low cost housing.

GAME CHANGER 11:
Tax breaks for companies to provide workforce housing

Tax breaks could allow companies to provide low cost rented homes for employees and also for others in urban areas. This could work through a tax deduction for the initial investment, an exemption for the capital gain if recycled to build or provide further homes. This return to housing related to employment echoes the by-gone benevolence of Cadburys, Rowntree and others.

GAME CHANGER 12:
Tax incentives to bring forward land

More land in private ownership could be bought into use for housing. Different models for land taxes exist in Australia and the USA, and elsewhere in the developing world.

Planning

GAME CHANGER 13:
Broadening the definition and Introducing a new planning class

The Working Group supports the RICS Housing Commission's recommendation for 'the introduction of a new 'affordable rented planning class' for land. This new planning class would require housing built on fringe sites, often on the edge of urban or rural settlements (fringe locations), to be let at 80% of market rent for at least 15 years following completion, after which it could be sold in the owner-occupied market or let at higher rent levels.'[32] We would propose a link with household income to ensure homes in this classification remain available to a target community. We would support the exploration of the ability to transfer this allocation between properties within a portfolio to reflect the changing needs of communities, akin to property tenures management under the US Hope 6 programme.

Land Supply

GAME CHANGER 14:
Release of more land for housing

Land supply for housing must be tackled and together with infrastructure investment, planned on a 10-20 year basis and removed from the short-term political cycle.

If more land were made available, competition for land would be less intense and prices would come down. We would advocate that the principle should be that public land is retained as the equity stake in development, retaining the right to influence the amount of low cost homes developed and ensure the public purse benefits from both ground rents and future capital asset appreciation. The public sector represents the largest land bank, including small parcels of land which can accommodate up to 100 homes and could be developed at a faster rate than large, complex schemes.

Additionally, we consider that a review of underused office and retail supply should go hand in hand with reviews of housing land that can be bought forward. A report by the Distressed Town Centre Property Taskforce in November 2013 made such a case in a call for a radical look at failing town centres in the UK.[33]

Product delivery

GAME CHANGER 15:
Offsite manufacturing

As we begin to improve the environment that enables the increase in supply of new homes, the critical issue of industry capacity to deliver volume comes into play. In 2013, and even with modest increases in housing starts from a low base, inflation has returned as materials and labour fall short of demand. Historically, the private sector has found that the cyclical nature of the housing market works against the long term set up costs and consistency of order book requirements that make volumetric, panel and system build efficient and profitable. Meanwhile, the poor reputation of some post-war housing casts a long shadow over the prefabrication of housing. However, the re-emergence of interest over the last 20 years and recent investor backing of some pre-fabricated products has seen an increase in its use in the hotel and student accommodation sector.

There is now a range of offsite manufacturers once again engaged in early projects to demonstrate the speed of construction, quality of product and volume potential of factory-built housing. We believe a new focus on the benefits of offsite manufacture should be encouraged by Government, either through promotion of its use relating to public land disposal, planning or via tax incentives. Now is the time to establish a pathway to the delivery of high quality in a planned manner rather than fall back on offsite manufacture as a reaction to a more pressing need to deliver in the future.

[32]More Good Homes and a Better United Kingdom - RICS Housing Commission Recommendations- June 2013
[33]"Beyond Retail: Redefining the shape and purpose of town centres"- Distressed Town Centre Property Taskforce- November 2013

Housing Forum Report

Part five.

Concluding remarks

IF WE WANT TO INCREASE THE SUPPLY OF LOW COST HOMES WE NEED TO UNLOCK A FEW OF THE SHACKLES.

The paradigm shift in the way sub-market housing is funded and subsidised cannot disguise a profound sense that, despite expected improvements in the delivery of housing overall, the number of homes created generally across the UK by current providers will fall far short of demand. Within this projection, what is also clear is that the proportion of homes which are affordable within The Housing Forum definition will reduce substantially without new models that deliver at scale. The prognosis is not good for those of low wage or workless in high value areas and the resultant logical impacts on our cities of migration or increasing densities in existing low value areas.

While logical conclusions are reasonably straightforward to extrapolate, timescales and other impacts are not.

Although the UK housing supply side market is often called inelastic by economists, the demand side has proven remarkably elastic in the face of rising costs. The current responses to shortages seen in three generation households, HMOs, absorption by unregulated private sector landlords and even finding ways of affording higher rents and mortgages are all recognisable strategies currently being deployed. However, one can already detect the stress lines, even in these early days. Increasing arrears, and increasing pressure on local authority support services in lower value housing areas are all measurable components making headlines. What is less easy to measure are the longer term impacts on community cohesion and business growth; and indeed the invoking of the spectre of civil unrest which manifests itself every three decades or so. It is often the threat of, or actual occurrence of, such unwelcome action that has heralded increased activity from the Government or civic leaders of the day. From Victorian philanthropy to 'Homes for Heroes', from the Welfare State and mass public housing to Estate Action, all have their roots in a reaction to demographic and social pressure.

Sustainable communities are not static and for them to thrive there needs to be an appropriate provision of housing to meet the needs of all the ingredients for individuals, sharers, couples and families to grow, contribute and be supported in the economic and social cycle that is the foundations of all great cities, towns, villages and places.

Ultimately there is a question about who, other than the Government, central or local, can resolve the barriers to increasing supply generally and sub level affordable housing specifically, for the state is the ultimate long term investor in the future of our towns and cities.

What we must guard against is a future reaction to 'snapping elastic' that results in an 'any housing, anywhere' approach; or target-based delivery that has previously resulted in poor quality remote communities of mono tenure, now largely discredited or redeveloped barely 30 years after construction.

We hope that the issues and opportunities outlined by this report accelerate the debate regarding the planned delivery of well designed, well located housing that is truly affordable and well managed as part of mixed tenure places where people choose to live and at a scale and pace not seen for decades.

Part five.
Concluding remarks

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