

UK Residential - June 2019



REPORT

Savills Research

The Savills Housing Sector Survey 2019



In association with
SOCIALHOUSING



A renewed sense of purpose

There is more expectation on the social housing sector than at any time in recent memory.

First, pressure on new housing delivery continues in the face of a slowing housing market and the uncertainty of Brexit. Along with this, and in the long shadow of the Grenfell tragedy, the Social Housing Green Paper, the Hackitt Review and the likely review of the Decent Homes Standard have led to a sustained focus on compliance of existing stock.

But, the results from our 2019 survey reveal that there are also exciting new opportunities in the sector.

Perhaps the most notable is the potential increase in delivery from local authorities following the lifting of the HRA debt cap. Encouragingly, 70% of local authorities who responded to our capacity survey are planning to increase their delivery of affordable homes – 25% expect a big increase.

The rise of For Profit Registered Providers has also attracted much attention, both as an opportunity and possible threat. Sage has started to build real scale, and L&G has entered the sector with big ambition. Our report shows that 72% of respondents believe FPRPs have a role to play in solving the housing crisis providing they remain focused on tenant welfare.

Modern methods of construction also represent a big opportunity. They are attracting significant investment and the sector will see an increase in use over the next five years.

Against these exciting new opportunities, many of the old challenges remain.

As the sector increasingly looks to move from Section 106 to land-led development, availability

of land remains the biggest single factor impeding increased housing delivery. Skills and organisational capacity (exacerbated by Brexit), remain a challenge, mostly so for local authorities.

Unsurprisingly, lack of grant funding still inhibits development. In the face of a more challenging environment for the cross-subsidy model, there is a clear role for government here.

Partnerships have been active in the sector and the clear message from the survey is that this trend will continue. Whether these are within the sector, with government bodies or with private partners, well-delivered partnerships spread risk, unlock opportunity and accelerate delivery.

Encouragingly, the strongest message from the research is the renewed sense of social purpose. This comes through emphatically in our survey and focus groups. With such a shared drive toward common goals, we are optimistic the sector will continue to innovate and adapt to fulfil its critical role in housebuilding and society.



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THE SAVILLS HOUSING SECTOR SURVEY 2019

This survey, in association with *Social Housing* magazine, is the result of two surveys and two focus groups.

The sentiment survey

This was completed by senior professionals working in the housing sector and we received more than 500 responses. The purpose was to

understand how the sector feels about the scale of the housing crisis, housing priorities, and how well the sector is responding.

The capacity survey

This focused on senior director-level employees at housing associations and people in equivalent positions in local authority housing teams. For the first time, the capacity survey had questions focused on local authorities and housing associations. Respondents were asked

about their development plans and priorities, financial capacity and issues, and the impact of policy changes. Data was collected in March and April 2019. We received just over 130 housing association responses (representing more than half the total homes in the sector) and 120 local authority responses.

Focus groups

We invited a small group from the capacity survey to two focus groups to

discuss both surveys. The group represented a cross-section of the sector and the aim was to expand on any interesting results, share experiences and discuss issues outside the survey questions where relevant. The participants are not identified due to the confidential and sensitive nature of some of the topics.

7 key findings

New providers, partnerships and priorities. Here are the defining points that will shape the future of the social housing sector



1. For the social good

There is a renewed focus on social purpose within the sector, with 84% saying that delivering social rented homes should be the sector's top priority – up from 65% last year.



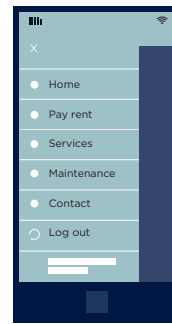
2. Land in demand

78% of housing association respondents say availability of land is a standout factor preventing the sector building more homes. That said, it's a slight improvement on 84% in 2018. There is a clear, sustained appetite to be more active in strategic land markets, with 46% of respondents planning to acquire strategic land in the next five years.



3. For Profit Registered Providers

Can For Profit Registered Providers (FPRPs) help solve the housing crisis? Some 72% of respondents believe they can. However, 65% say FPRPs are less concerned with tenant welfare than traditional RPs. The message from the focus groups is that FPRPs can have benefits as potential innovators and disruptors.



4. Tenant engagement

Issues surrounding tenant voice have climbed up the agenda. This year, 59% say tenant services have become an increased priority, compared with 34% in 2018.



5. Higher standards

Improving standards for existing residents has a greater emphasis – 78% point to increased investment in health and safety over the past two years. This has not impacted development capacity as things stand according to the focus groups.

6. Local authority capacity

With the lifting of the HRA debt cap, local authorities are expected to add significantly to new affordable housing delivery. Some 70% of local authorities that responded plan to increase their delivery of affordable homes, while 25% expect a big increase.



7. Partnerships and collaboration

Partnerships will continue to play an important role in accelerating delivery and spreading risk. However, good governance and a focus on long-term relationships are vital. The partnerships being most actively undertaken, planned or considered by housing associations and local authorities, remain within the sector.



Brexit has had the biggest impact on construction industry capacity and operating costs, affecting the sector's development activities

Drivers of change

Which issues are rising up the housing priority list?

Words Josh Rose-Nokes

1. Brexit

With the uncertainty of Brexit continuing to loom over the housing market, respondents view Brexit in a more negative light than they did in 2018.

Brexit has had the biggest negative impact on construction industry capacity and operating costs, affecting the sector's development activities. It has also driven up operating costs in the sector, affecting materials and labour prices. Our focus groups feel that Brexit is exacerbating existing problems, such as retaining and recruiting staff.

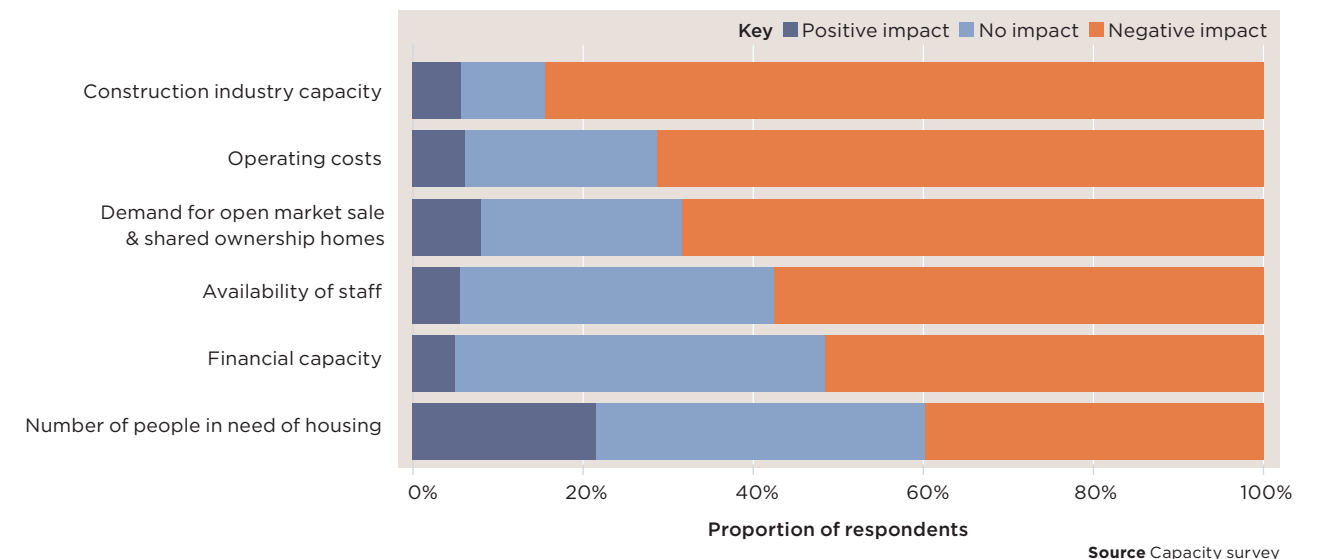
The sector is more exposed than ever to housing market fluctuations, and Brexit-related sentiment is having a negative impact on the housing market (see our 2019 Spotlight: *Mitigating Market Risk*). The proportion of respondents who are concerned that a Brexit-related market downturn would affect their development

activities is now 33%. That is up from 27% in last year's survey.

However, respondents agree that the capital markets seem largely unaffected, with cheap debt readily available despite the shadow of Brexit. They identify bigger challenges to funding, which, in the case of housing associations, are gearing and cash-flow capacity. Local authorities cite financial capacity as their top funding barrier, an unexpected response, perhaps, given the abolition of the debt cap.>

“Respondents agree that the capital markets seem largely unaffected, with cheap debt readily available despite the shadow of Brexit”

Political influence To what extent do you think Brexit will impact on the following aspects of your organisation's activities?





63%
Of the 90,000 homeless households in the UK, 63% are in London

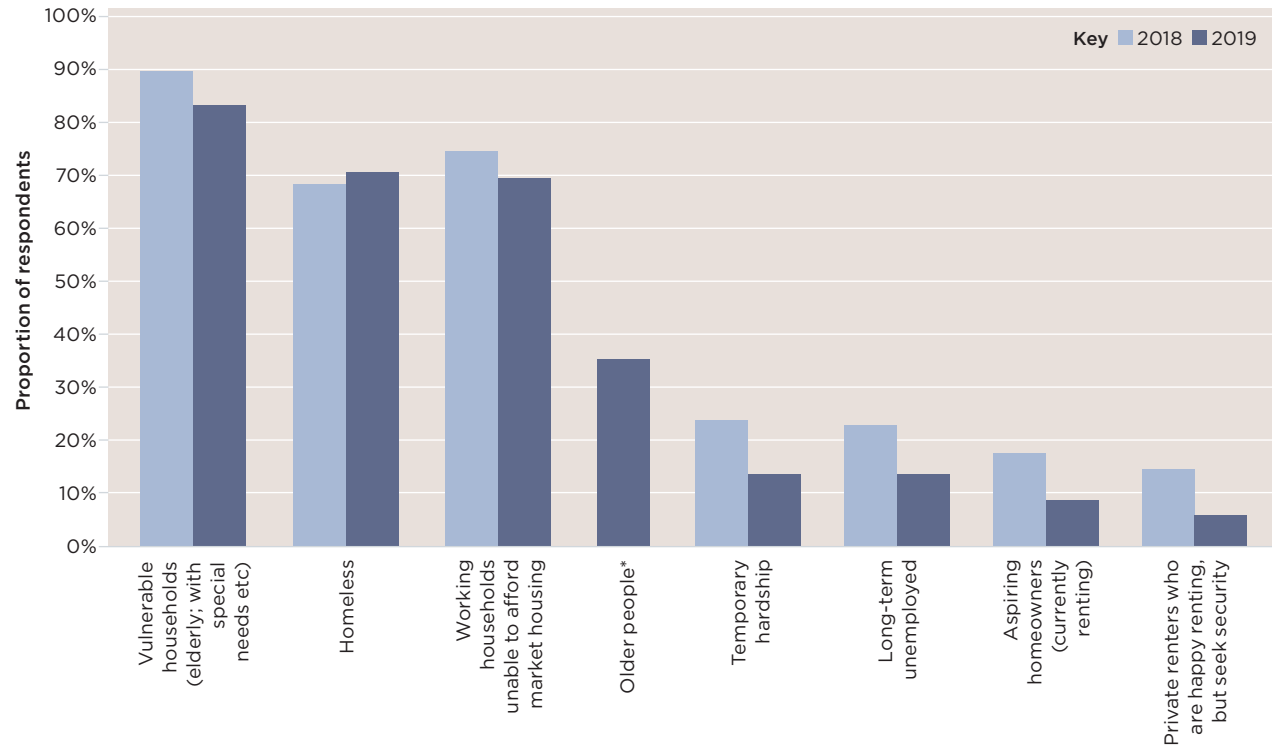
2. Homelessness

Homelessness is one of the most visible symptoms of the housing crisis. It has risen quickly up the domestic political agenda and become an increased priority for respondents since last year's survey. The proportion of respondents who place housing homeless households as their top priority has increased from 31% to 39%. According to MHCLG, there are more than 90,000 homeless households living in temporary accommodation, 63% of

which are in London. A study by Crisis reports that more than 30% of statutory homelessness acceptances come from the private rented sector. That makes housing the homeless a complex policy issue, spanning both the social and private rented tenures, and welfare policy more generally. The response is typically shaped by both the political imperative and the legal responsibility, with both housing associations and local authorities invested in finding solutions.

The private sector is also part of the solution. It provides leased temporary and settled accommodation, and short-term crisis relief housing to help local authorities fulfil their legal responsibility. Almost half of respondents (47%) are building short-term crisis relief housing, for example. Our focus groups noted that longer-term accommodation alone is rarely enough for those who have been homeless for some time. Additional services are needed to avoid people living as if they were still homeless.

Who do you think the sector should be trying to house? Three groups stand out as clear priorities, but only homelessness has increased from 2018



Note *Not surveyed 2018 Source Sentiment survey

3. Older persons' housing

Our survey shows that of all the forms of specialist housing provision, the sector has the greatest appetite to deliver retirement housing in volume. Some 77% of respondents expect to build homes targeted at the older persons' segment. Retirement housing is an increasingly important tenure. International benchmarks suggest we should be providing specialist housing for around 15% (1.2 million) of households aged 65 or over. However,

only 726,000 such homes are available (see our 2018 Spotlight: *Retirement Living*). There needs to be more focus on specialist delivery and recognition of the wider benefits it can bring to an organisation. For example, a specialist housing offer from providers can encourage existing tenants to 'rightsize'. This helps with turnover of stock and takes pressure off tenant services. A concern raised by our focus groups is that much of the existing older persons' housing stock is not fit for purpose –

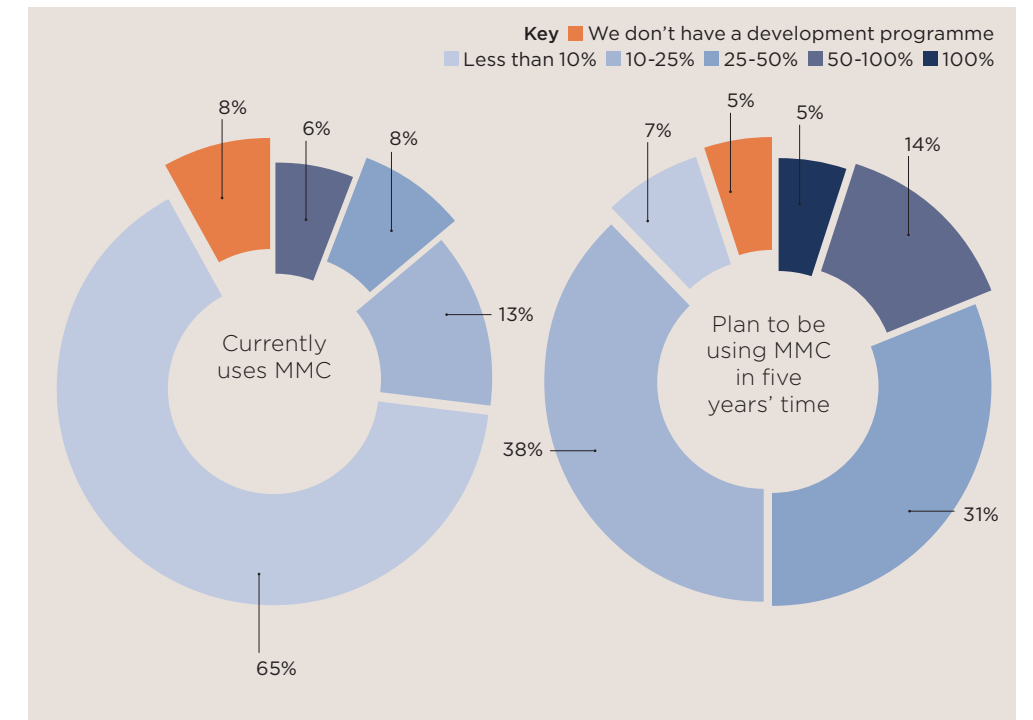
particularly that which was built in the 1960s and 1970s. Of the 730,000 retirement housing units across the UK, 52% were built or last renovated more than 30 years ago (Elderly Accommodation Counsel, 2019). High rates of obsolescence and an ageing population appear to be behind the drive to deliver new purpose-built retirement stock. With a desire to break a cycle of build-use-dispose-rebuild, this requires developing stock with enough flexibility to meet evolving care requirements.

Funding for social care provision is limited, so delivering extra-care housing is highlighted as a particular challenge, especially when it is competing for funds within organisations. But there are successful examples which are likely to act as models for future delivery within this tenure.



“Across all the forms of specialist housing provision, 77% of respondents expect to build homes targeted at the older persons' segment”

New construction Proportion of development programme delivered by MMC



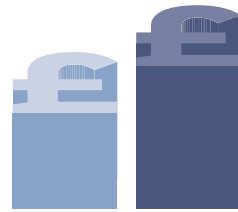
Source Capacity survey

4. Modern methods of construction

Our capacity survey indicates that the sector is moving towards more modern methods of construction (MMC). Some 69% of respondents aim to use these methods to deliver between 10% and 50% of their development programme in the next five years. This is a big shift from current utilisation. The 5% of respondents who plan to deliver 100% of new homes through using MMC tend to be smaller with smaller development targets. MMC directly addresses some of the challenges faced by the sector in terms of shortage of materials, skills and construction capacity. Our focus groups suggest that offsite manufacturing is well suited to the sector as it can speed up delivery and increase the quality of new homes delivered. Faster delivery means rental income is received more quickly and grant can be

drawn down earlier, reducing interest payments on capital to fund developments. Some housing associations have their own facilities and are at the forefront of utilising MMC. Swan Housing, for example, opened its own vertically integrated modular factory in October 2017 and plans to build 600 homes a year.

Those housing associations not in a position to invest in their own manufacturing facilities will have to adapt their procurement routes to deliver MMC. Local authorities are also pushing ahead. There is a pan-London group of councils that is working to supply 200 modular temporary accommodation homes by 2021.



As larger providers move into local markets, there is a greater risk of housing associations outbidding each other and artificially inflating land values

The plots thicken

Housing associations are becoming more active in the land market. Trouble is, they're not the only ones

Words Lydia McLaren

Availability of land continues to be a challenge. It's the standout factor, with 78% of housing association (HA) respondents citing it as the main constraint on development. And, as the range of players in the land market diversifies, housing associations face more competition, which pushes up land values.

Housing associations are increasingly happy to take on land-led development as it gives them ownership over the development process, and allows them to retain control over what is built and how it is built.

The competition for Section 106 and some high-profile issues with the quality of stock coming through, have also encouraged some providers to change their focus towards land-led provision. With 33% of housing association respondents using Section 106 homes for 26%-50% of their development programme, we expect to see this decline as providers pursue land-led opportunities, dependent on grant availability.

We have seen greater activity from housing associations in the land market over the past year. The majority of this is for small sites between 50 and 100 units, with bidding activity rising by 150% in the past two years, as reported by Savills land agents.

Some 39% of associations already have strategic land and 64% are seeking to acquire some within the next five years, a slight increase on last year. This marks the continued ambition to move towards a strategic approach to land.

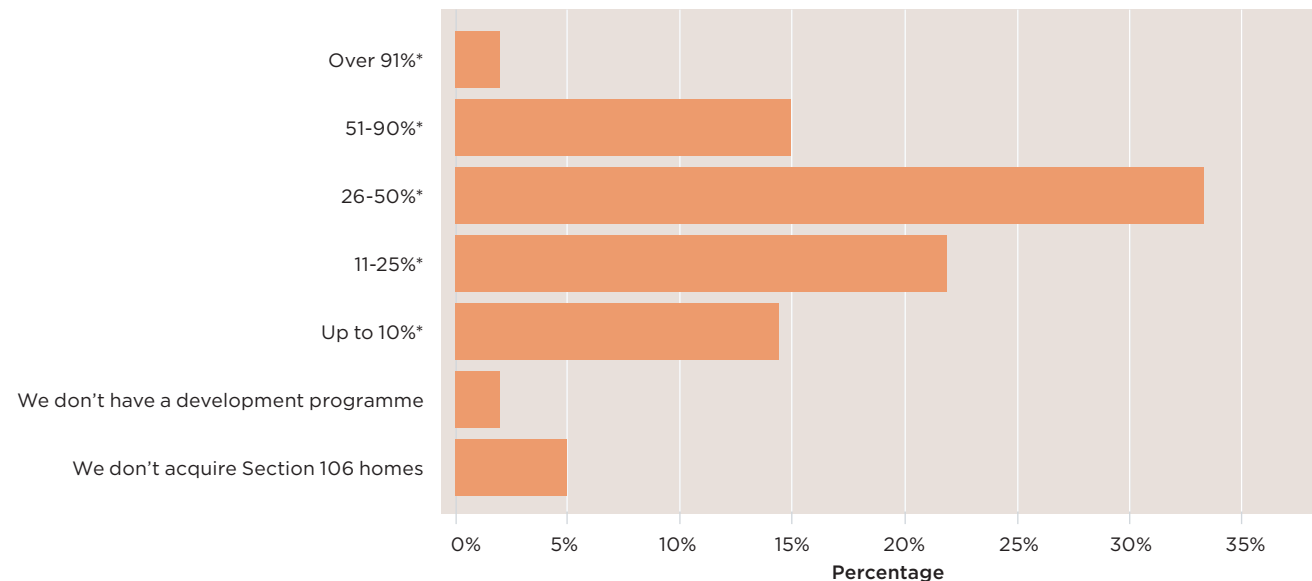
Last year, we discussed the risk of competition for Section 106 stock within the sector. This year, there is the same risk of competition, but it is now moving to the land market. The increase in smaller sites sold to housing associations of between 50 and 100 units highlights the sweet spot of demand.

Survey respondents suggest that as larger providers move into local regional markets, there is a greater risk of housing associations outbidding each other and artificially inflating land values.

Access to land is becoming more fundamental to the sector, with both housing associations and local authorities actively pursuing it. Faced with a shortage of land supply, partnerships and an enabling policy focus – such as the recommendations in the Letwin Review – are needed to help improve access to land opportunities.

🔗 Land-led development gives HAs ownership over the process, and allows them to retain control 🔗

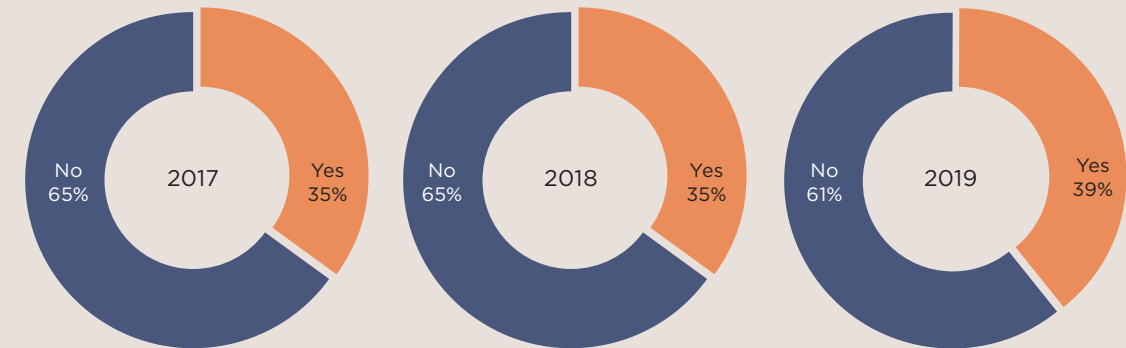
Section 106 homes Proportion of housing association respondents who use Section 106 homes in their development programme



Note *Proportion of development that is S106 Source Capacity survey

Three-year review The proportion of HAs that hold strategic land has been consistent, but the volume they hold has increased

Do you currently have investments in strategic land?



If yes, how much?



Source Capacity survey

ESTATE REGENERATION

Driven by social purpose, estate regeneration offers the scope to redevelop estates and improve housing conditions, creating new sustainable communities. This can be achieved by replacing existing poor-quality stock and tackling the stigma of social housing.

From our survey, 91% of respondents believe that

estate regeneration has a role to play in solving the housing crisis. They feel that development potential in existing land and vacant sites can be unlocked through regeneration and that there is opportunity to increase density in some sites. But the message was clear: post-Grenfell, the housing crisis is considered much more multi-faceted than building more homes.

Despite estate regeneration being a core pillar of the sector, our focus group recognises the vast complexities and challenges involved. Regeneration is a long-term process that serves as a drain on finances and resources. Balancing viability with delivering the right outcome for residents is key.

Our focus group believes that the sector requires

a pot of money for estate regeneration and a separate funding source for delivering new homes. They also note a planning and housing policy gap around estate regeneration that inhibits activity. The debt cap removal could boost local authority estate regeneration as it provides some much-needed funding firepower, but public policy must provide more backing for the process.

“More than 70% of local authorities indicate they plan to increase their delivery of homes for social rent, affordable rent and shared ownership”

Finding their place

Local authorities can now make a meaningful contribution to affordable housing. We look at their ambitions, plus the growing influence of For Profit Registered Providers

Words Lucian Cook

Local authorities: sleeping giants ready to re-engage?

Not-for-profit housing associations have been the engine room for new affordable housing delivery since the decline of local authority housebuilding. However, with the abolition of the Housing Revenue Account (HRA) borrowing cap, local authorities potentially have the financial firepower to re-engage in housebuilding.

More than 70% of the local authorities who responded to our survey indicate they plan to increase their delivery of homes for social rent, affordable rent and shared ownership. More than 25% envisage a big increase.

This reflects the ambitious development programmes announced by many local authorities. For example, Southwark aims to deliver 11,000 new council homes by 2043, while Ealing has adopted London’s largest council housebuilding programme, targeting 1,138 genuinely affordable homes by March 2022.

The obstacles

Local authorities will need to adapt to achieve their delivery ambitions and contribute significantly to housing delivery.

Political pressures and cycles are cited as constraining factors by our focus groups. While local authorities often want to build new homes regardless of political allegiance, decisions can often be based on short-term political interests, which may not marry well with longer-term development programmes.

Despite the lifting of the HRA borrowing cap, 61% of local authority respondents cite financial capacity as the main funding barrier. It may be that authorities are responding to the general austerity affecting their budgets. It may be that many have still to work through the full implications of the new flexibilities.

It is also important to remember that 48% of local authorities do not have a housing revenue account. Many need to develop a significant revenue stream and explore alternative models of specialist housing development companies. The lifting of the HRA borrowing cap has undoubtedly opened up opportunity, time will tell if they can capture it.

The most significant perceived constraint on local authority development is a lack of land, which is surprising given the extent of their property holdings.

That suggests many of the most obvious development opportunities have been sold off and a more proactive approach is needed to identify future potential development sites.

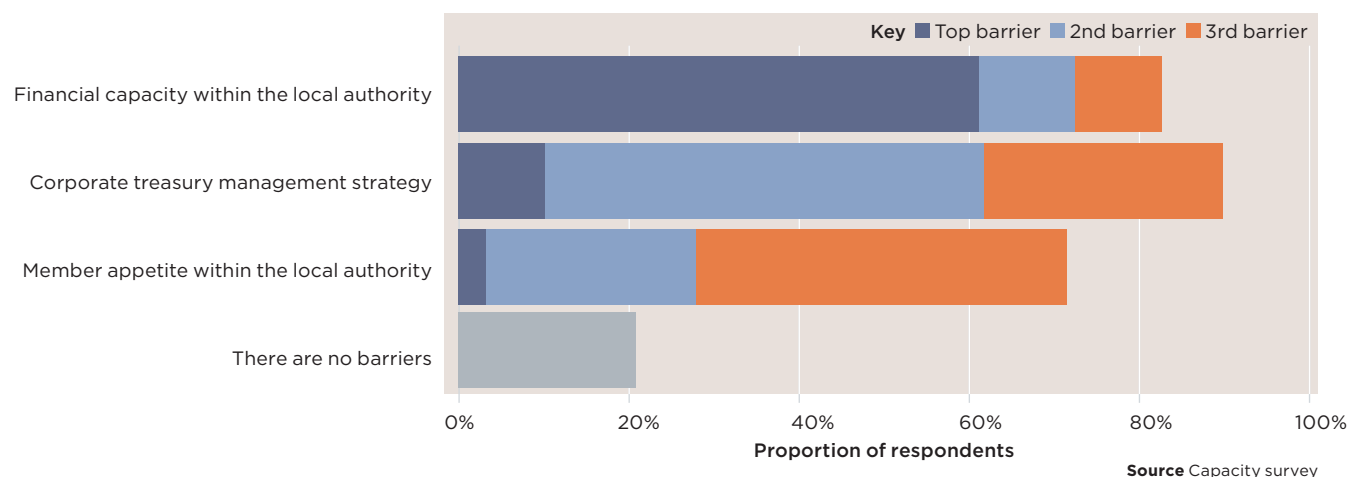
Other obstacles are similar to those experienced by housing associations. But where they differ most is the extent to which their organisational capacity is considered a limiting factor. While 22% of housing association respondents believe that this acts as a major constraint on their ability to build more homes, the figure rises to 45% of local authorities.

Our focus groups feel that many (though not all) local authorities have lost the expertise and experience needed to engage in significant housing delivery. Concerns are expressed over their ability to recruit skilled technical development staff within existing pay frameworks.

Consequently, partnerships across local authorities, with registered providers and the private sector, are either ongoing, planned or being considered over the next five years by the majority of respondents.

Local authorities

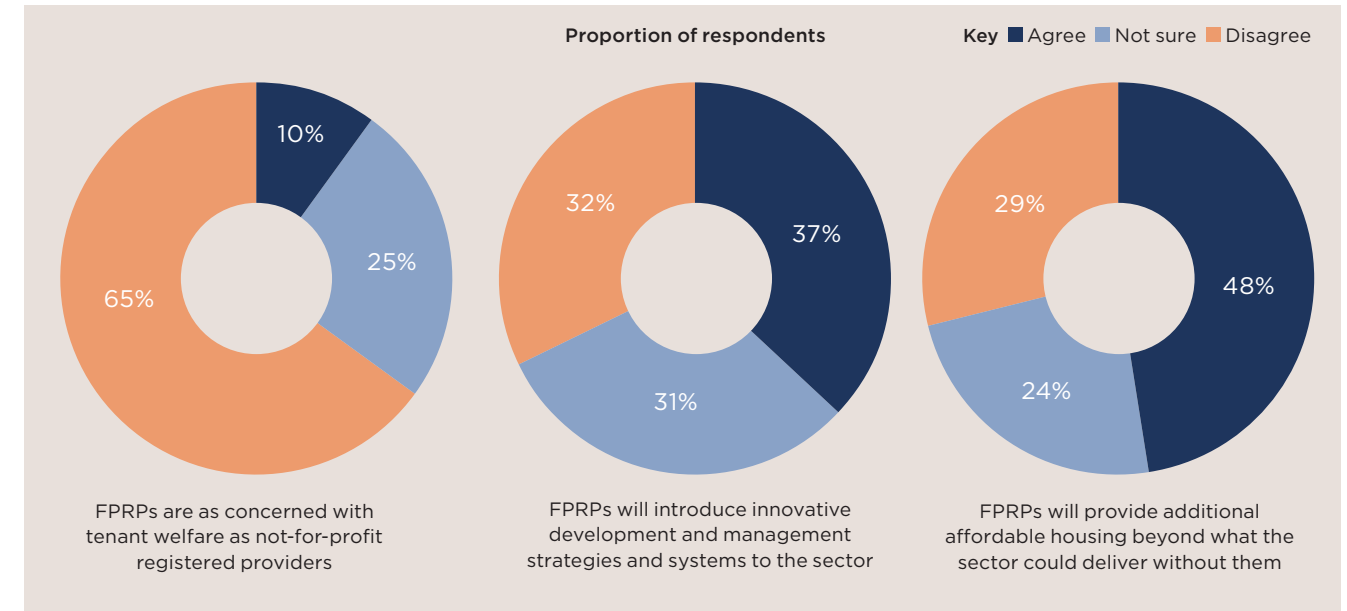
What are the top three funding barriers?



72% The percentage of respondents who believe FPRPs have a role to play in the housing crisis

For Profit Registered Providers

To what extent do you agree with the following statements?



For Profit Registered Providers (FPRPs): disrupting the future direction of the sector?

The amount of stock held by FPRPs has increased by 149% in the past year (albeit from a low base of 873 units). This is leading to concerns that they are diverting funding from traditional housing associations and affecting pricing in the Section 106 market. Press coverage has served to exacerbate this public perception that FPRPs are changing the direction of the sector.

Despite this, 72% of respondents believe that FPRPs have a role to play in solving the housing crisis. Arguably, FPRPs have challenged and refocused the sector, with respondents describing them as ‘alternatives with a different agenda.’

Our focus groups are divided on the role of FPRPs, but note a tendency within the sector to view new players with scepticism. The results suggest much of this focuses on the perceived tension between delivering housing as a social good and returns to investors. This is perhaps best demonstrated by the fact that 65% of respondents to our sentiment survey feel that FPRPs are less concerned with tenant welfare than traditional providers.

Though FPRPs are subject to the same regulatory standards as other registered providers, our focus groups also highlight the need for them to demonstrate ongoing good governance and a social conscience that overrides a desire to maximise profit.

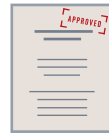
Where FPRPs score well is in their ability to introduce innovative development and their potential to deliver additional affordable housing by using institutional funding to boost overall capacity.

So, what is the role of FPRPs? The biggest percentage increase in affordable housing delivery by FPRPs between 2017 and 2018 is in the provision of low-cost home ownership. Here, output rose 23% last year. It is a sector of the market that appears to be well-suited to the FPRPs. It is also one which will assume heightened importance when Help to Buy ends in 2023 (See our 2019 Spotlight: *Shared Ownership*).

FPRPs that deliver housing at different price points and across different tenures and through different mechanisms can be supportive of traditional housing associations and local authorities. An example of this is traditional housing associations moving towards more land-led development, giving FPRPs a clear role to play in delivering Section 106 homes.

The opportunity is to find more areas where FPRPs can provide additional delivery, because, as one of our focus group notes, “there is enough of a housing crisis to go around”.

“The biggest increase in affordable housing delivery by For Profit Registered Providers is in low-cost home ownership”



Over the past 12 months, Homes England has agreed strategic partnerships with 23 housing associations

Competition or collaboration?

As challenges in the sector evolve, local authorities and housing associations are increasingly looking at partnerships as a way to share resources, capacity and skills

Words Josh Rose-Nokes

A commitment to provide homes for those who need them in volatile political, economic and social times is a clear message from the survey and focus groups. However, alongside a common purpose, there are, inevitably, common challenges. Meeting those challenges requires a much greater need for partnerships; for which there appears to be a strong appetite.

The drivers

As we explain earlier in this report, housing associations are increasingly looking to move away from Section 106-led delivery. To do so, they need to secure land supply at viable prices. Competition for land will intensify, particularly as the lifting of the HRA borrowing cap gives local authorities scope to become more active in land markets.

Land-led development also requires skill sets which are not widespread in the sector. Organisations compete for the same workforce and expertise. This has been an issue for housing associations for some time; local authorities will add to this pressure.

The availability of grant has improved, but remains low in a historical context and associations are faced with the challenge that a slowing housing market presents to cross-subsidised affordable delivery.

So, problems come, in part, from within the sector. Encouragingly, the survey responses and focus groups suggest that solutions do, too.

The opportunity

We asked respondents about their likelihood to engage in partnerships during the next year and in the following

five years. For both housing associations and local authorities, partnerships with each other are being actively considered.

This was also a standout theme in the focus groups, with attendees describing an appetite for partnerships. The potential for local authorities and housing associations to work more closely, not only with each other but also with their peers at a local or sub-regional level, comes through strongly.

So, what are the benefits of a partnership? For local authorities, it lies in providing access to resources, capacity and skills, and opening up shorter-term development opportunities at scale.

For housing associations, partnerships enable the delivery of opportunities at scale while avoiding unnecessary competition. This can include influencing local or sub-regional planning policy and infrastructure investment, and engaging effectively with local authorities and local government.

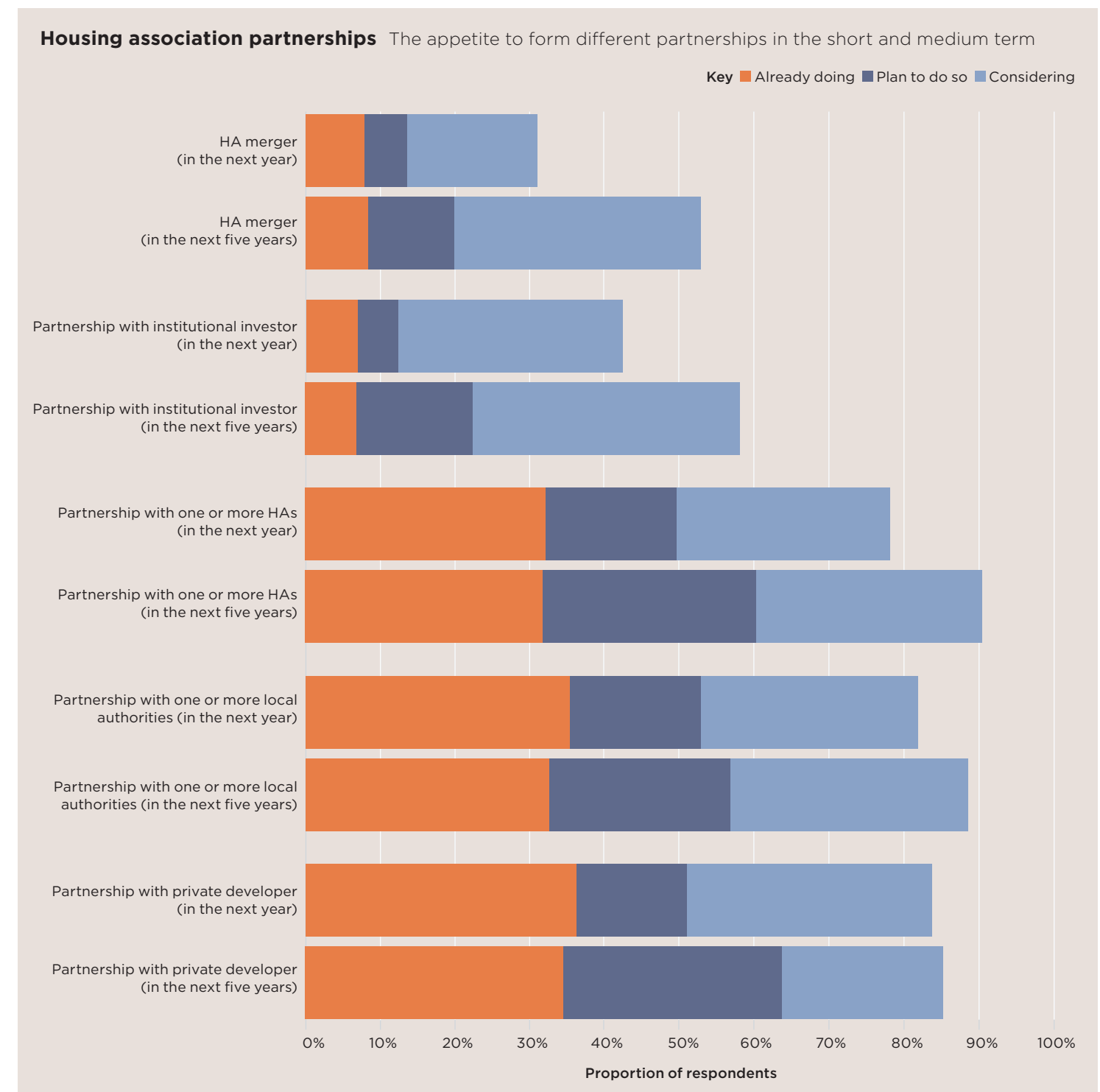
The role of the private sector

Partnerships are already widespread within the sector and our analysis suggests that about £1 billion was invested in joint ventures last year. This is likely an understatement, as accounting covers up off balance sheet activity to a degree.

Partnerships with the private sector have already had an important role and the survey and focus groups suggest they will continue to do so. When they work well, they spread risk and accelerate delivery. In the focus groups, the importance of long-term partnerships, focusing on repeat business, >

HOUSING ASSOCIATIONS

Partnerships with either other housing associations, local authorities or private developers are being undertaken, planned or considered in the next year by at least 70% of housing associations. Over the next five years this rises to at least 80%. Full mergers are less popular, but those considering rises significantly between the one and five-year time frames.



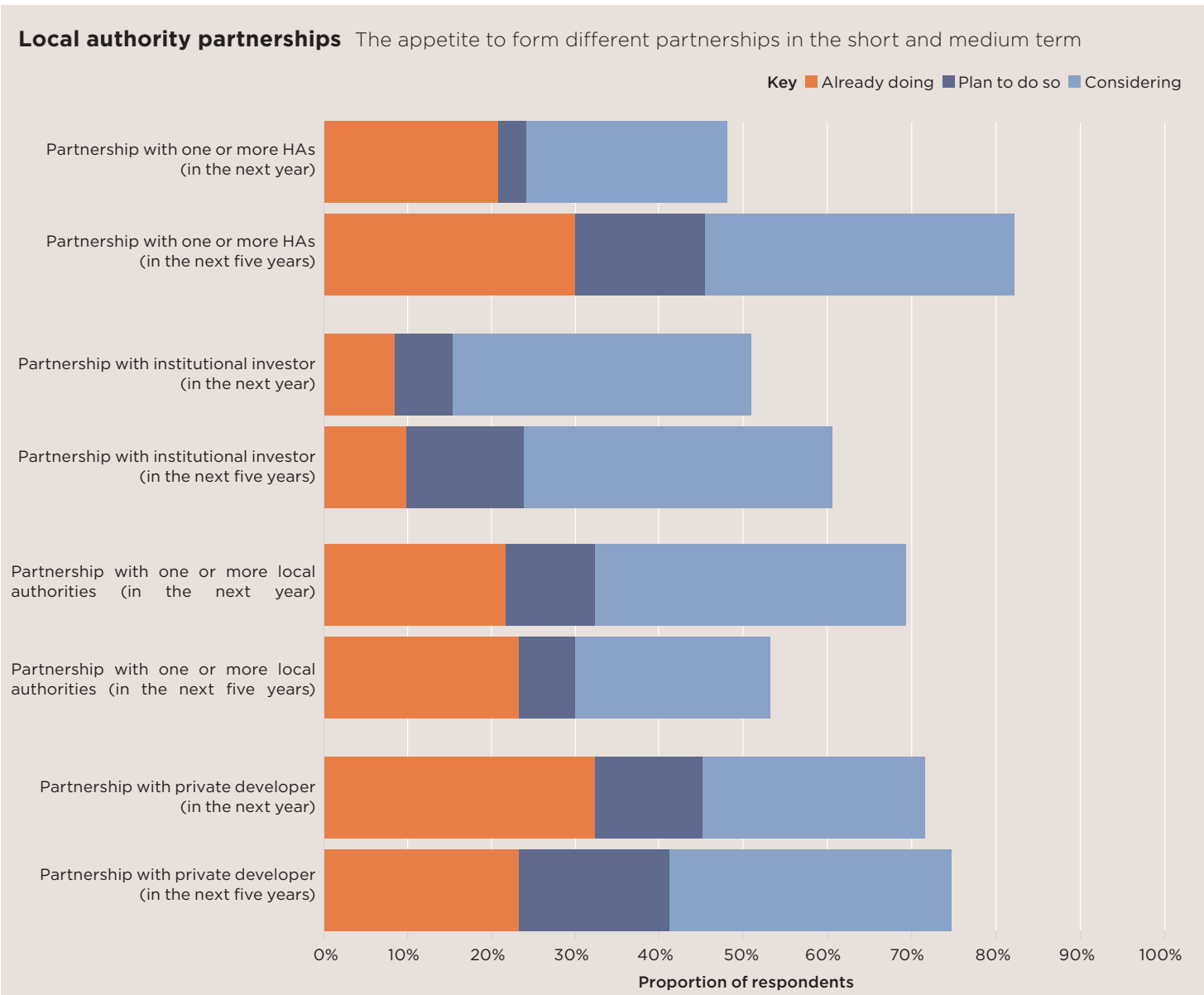
Source Capacity survey

Partnerships

👉 Strategic partners have secured around £1.7 billion grant funding to deliver some 40,000 additional affordable homes 🐣

LOCAL AUTHORITIES

In the short term, for local authorities there is most appetite for partnerships with other local authorities (almost 70%) and private developers (over 70%). In the longer term, appetite for partnerships with housing associations dramatically increases by more than 30% and appetite for partnerships with other local authorities falls by almost 20%.



Source Capacity survey

a strategic approach and equal sharing of risk and reward, is a strong message.

The role of government

Beyond this, the government recognises the need to respond to the sector's request for a more flexible grant system. Homes England has been active in forming partnerships.

Over the past 12 months, strategic partnerships have been agreed with 23 housing associations. Collectively, the strategic partners have secured around £1.7 billion grant funding to deliver some 40,000 additional affordable homes beyond pre-existing delivery plans. This responds to a long-term ask of housing associations

for a more flexible grant system. The key features of strategic partnership funding are: certainty; flexibility; and the ability to draw down grant against eligible cash spend.

The message is clear. Partnerships are, and will continue to be, hugely important in the sector and can open up opportunities, accelerate delivery and reduce risk.



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