RESIDENTIAL

AFFORDABLE HOUSING: READY FOR BUSINESS?

UK Research, June 2015

The Affordable Housing sector is undergoing one of the most profound periods of change in its history, catalysed by the economic downturn and exacerbated by the ongoing squeeze on public finances.

For Registered Providers, this change is already well-understood. But those outside the sector are often surprised to learn just how different the provision of affordable housing has become over the past five years, post Comprehensive Spending Review (CSR).

JLL conducted an exclusive survey of RPs to understand the range of activities now undertaken and the extent to which market-facing provision cross-subsidises core activity. The survey includes nearly 70 respondents from RPs, representing around 910,000 homes. The average RP had 14,200 properties.

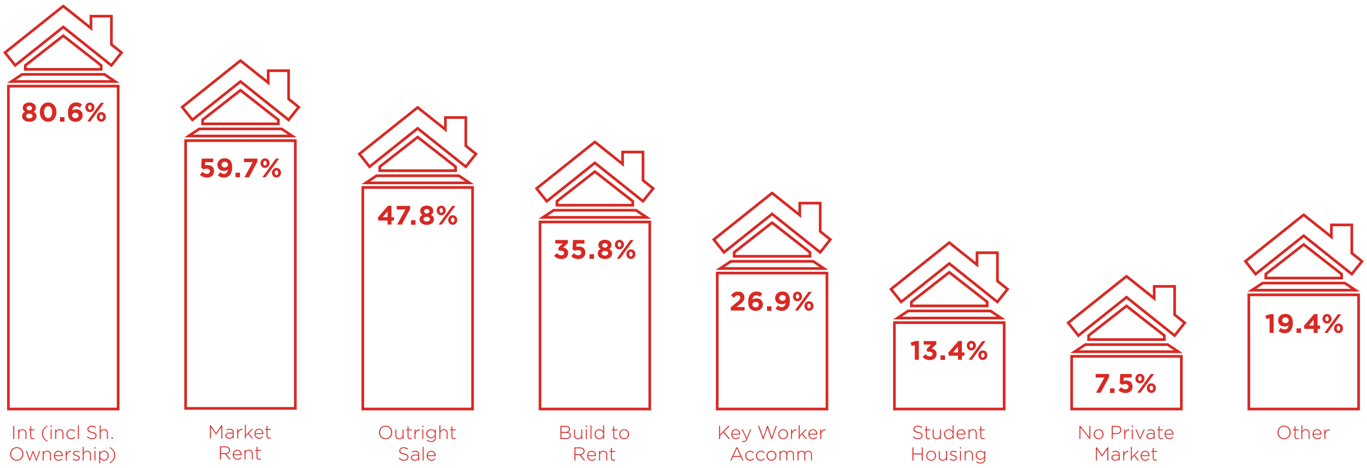
Survey Results

It is clear that the majority of RPs are already very active in some form of market-facing housing provision. Many programmes, such as shared ownership and key worker housing, pre-date the CSR. However, with 80% of respondents participating in some form of intermediate housing and 60% specifically retaining market rented units, it is clear that market-facing activity is well-entrenched as part of normal business activities for most RPs. Impressively, more than a third are now pursuing a Build to Rent programme, all of which will have started within the past five years.

The rationale that underpins this activity is based on three broad drivers. Most important is the need or desire to generate revenue that can be channelled back into affordable housing programmes, followed closely by a recognition that 'meeting need' can include private rented sector and open market units. Combined, these three motivators represent the main drivers for over 90% of respondents.

Ambitions in delivery of market-facing housing appear to be well-balanced, with core business plans primarily still focussed on affordable housing delivery. 75% of respondents have affordable housing programmes of up to 500 units per annum; but with 91% expecting to deliver fewer than 250 private market units each year. This shift towards an increased proportion of private delivery is in line with the response post-CSR, with 56% of respondents having only been looking to deliver private housing for less than two years.

DIVERSIFIED OR NON-CORE ACTIVITIES

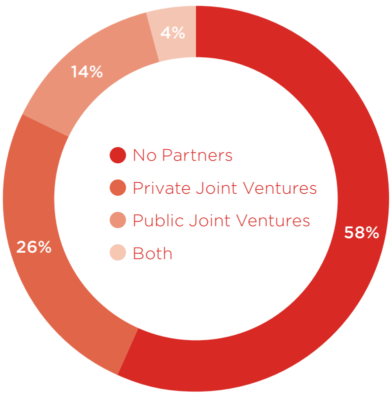


All of this points to a sector that has recognised the new realities of Government's model for funding affordable housing and has made big strides to evolve accordingly. But, with a few exceptions amongst the larger RPs, the current level of activity in many cases is modest, and does not suggest that organisations are doing as much to deliver new homes across all tenures as their asset bases and financial capacity might suggest.

Moreover, despite these growing ambitions to deliver market-facing housing and the overwhelming recognition that the resulting profit is to be channelled back towards affordable housing development programmes, fully one-quarter of respondents do not expect to be delivering private housing within five years and barely half expect to continue beyond 10 years. This may suggest a presumption that cross-subsidy is a stop-gap during the Government's 'austerity years' or simply that it is difficult to forecasts the importance of market-facing activity at this nascent stage. It may also imply that RPs will continue to rely heavily on other forms of financing such as debt, bonds and sale & leasebacks for the majority of funding requirements.

Risks and challenges

ARE YOU PURSUING A SHARED-RISK STRATEGY?



The sector is also cognisant of a range of risks arising from new market-facing activity, alongside a set of obstacles that are influencing how ambitious it can be. Immediate pressures such as the exposure to market cycles and debt weigh more heavily than distal pressures such as sector downgrades, loss of traditional ethos and reputational risk. This is interesting to note, as some of the pressures seen as longer-term could, in truth, turn out to be more profound and immediate challenges for the sector if not managed carefully. For example, extremely advantageous debt pricing would be placed under threat if a perception of higher risk crept into capital markets.

The new HCA requirement for asset and liability registers has a pivotal role to play within this complex picture. On the one hand, they are a sensible part of good, basic management and governance which all RPs should embrace. And, on the other hand, if compiled and maintained properly, with sufficient capability, the registers are an opportunity not only to manage risk, but also to identify opportunities to do more with existing assets.

RISKS SEEN IN MARKET-FACING ACTIVITIES UNDERTAKEN BY REGISTERED PROVIDERS

28.8%	Exposure to Market Cycle
22.5%	Exposure to Debt
16.2%	Financial Losses
11.7%	Loss of Traditional Ethos
9.0%	Management Distraction
6.3%	Regulatory Downgrade
5.4%	Reputational Risk

Perhaps of some concern is the sector's approach to mitigating these threats so far, with fewer than half (only 42%) pursuing shared risk-strategies with either the public or private sector. Similarly, only 48% have created a ring-fenced subsidiary for private market activities; and 49% have a separate governance structure set up. It would appear that more attention is required in this area to address fully the risks that this area of activity can generate.

OBSTACLES TO PURSUING A MARKET HOUSING DELIVERY PROGRAMME

Debt	**38.1%**
Regulation	**32.1%**
Management Capacity	**19.0%**
Governance Capacity	**10.7%**

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