



A review of the UK  
rental market, 2012

Grainger plc is the largest residential property owner and manager traded on the London Stock Exchange. Grainger's business activities in the UK and Germany cover ownership, trading, fund management, property management and development of residential property. Grainger plc is also a leading provider of retirement housing solutions, including home reversion products through its subsidiary brand Bridgewater Equity Release. Grainger plc owns approximately £2.3bn property assets and has over £3.0bn of property assets under management.

**grainger = residential**

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*“We hope that this publication will help drive the debate forward for finding ways to secure a sustainable future for the housing market in the UK.”*



*Andrew Cunningham*  
Chief Executive, Grainger plc

# Introduction

2012 is an important year for Grainger plc. It is also an important year for the market we operate in. We celebrate our centenary at a time when the housing market faces unprecedented change.

Of course the residential market will look different in 100 years' time. However, given the economic forces at work, it is possible the market will appear quite different even in 10 or 20 years.

The market is already adapting to major shifts in behaviour, preferences and lifestyles. British people's attitudes to housing are changing. There is a growing trend of fewer people living under the same roof. Younger generations are beginning to understand that it will be longer before they can afford to purchase a house than it was for their parents' generation. Changes in social housing provision will result in a blurring of lines between it and the private rented sector. Lastly, a growing number of individuals are choosing to rent for longer periods of time, enjoying the flexibility, mobility and independence it provides.

Grainger plc is the UK's largest listed residential landlord but we develop and sell homes too. We want to use our position to help lead the UK housing sector through these changes, to stimulate debate and be actively involved in how consumers will interact with housing providers and how they will occupy their homes. We want to ensure that the market is stable and sustainable for providers of housing as well as home owners and tenants.

In this publication we've asked some of the top experts on the housing market, each with a very distinct perspective, for their views on the future of the sector, and particularly the rental market. My sincere thanks go out to all the contributors.

So, while we celebrate our centenary, which is a significant achievement for any company, it is no less important that we set the right course for the next 100 years. We hope that this publication will help drive the debate forward for finding ways to secure a sustainable future for the housing market in the UK.

# Executive Summary



*Doug Morrison*  
Editor, Grainger plc Rental Review

Doug Morrison's career spans 28 years as a business and property journalist, working on magazines and national newspapers, including *The Sunday Telegraph* and *Scotland on Sunday*, where he was City Editor. He has recently stepped down as Residential Editor at *Property Week* after five years in the role but continues to write about housing for a variety of publications.

**Housing has rarely, if ever, been as high up the political agenda as it is today and for reasons that are bound up in the issue of affordability, or the lack of it.**

If you read the coalition's recently published Housing Strategy it is clear that the plight of would-be first-time buyers is top of this government's to do list for housing supply.

For sure, the government recognises the potential of the private rented sector but its Housing Strategy nonetheless labours the point that home ownership is a UK tradition worth upholding. If only it were that simple.

The articles on the following pages reveal the complexity of it all, the multi-faceted challenges facing politicians and industry practitioners alike – but also the ideas and opportunities out there.

As Hometrack's Richard Donnell suggests, the government's fixation on first-time buyers is all very well and understandable but the squeeze on mortgage finance is unlikely to ease soon. An increasing pressure on the private rented sector is inevitable.

The so-called "Generation Rent" is already making its way on "the stepping stones of tenure", as Grainger's Nick Jopling puts it. Yet there is also a shortage of rental stock, which strengthens the case for an institutionally backed, build-to-let movement alongside more development generally.

In fairness, the government recognises the link between housebuilding and economic recovery. This is in no small measure due to the campaigning work of the British Property Federation and the Home Builders Federation, whose arguments and still very real concerns are spelled out here by Liz Peace and Stewart Baseley.

As they say, there are no silver bullets to the problems of housing supply, which is also the message from Clive Betts MP, who chairs the Communities and Local Government (CLG) Select Committee. His progress report here on the committee's far-reaching inquiry into the Financing of New Housing Supply suggests the government will not be allowed to rest on its laurels when the full findings are published later this year.

One area of inquiry for the committee is the effectiveness of Treasury reforms to Real Estate Investment Trusts (REITs). Will they be enough to foster the UK's first residential REITs? Much will depend on investors' overall appetite for residential investment and, in truth, the jury is still out.

Schroders was an early investor in residential but has turned bearish, not least because of the correlation between returns and flat or falling house prices outside London and the south east. Professor Ball of Reading University expresses similar sentiment in his analysis of the buy-to-let sector. According to Schroders' William Hill and Mark Callender, one policy change that might improve the outlook for investors would be the introduction of a separate planning use class for new-build, market rent residential property.

Yet over the past year there has been no shortage of interest from the City in investing in social housing because of the perceived stability of income from that sector. At the same time, as London & Quadrant's David Montague demonstrates here, housing associations are coming up with some of the more innovative solutions and thinking on investment in the UK.

We can still learn from overseas, too. Archstone's Dana K Hamilton provides an insightful account of the rise of specialist apartment REITs in the US over a relatively short time. Many of the disciplines evident in the enduring success of that sector could equally apply in Britain. Already the idea of professional management as a means of driving performance and enhancing the experience of tenants is starting to take hold.

As Grainger's Anish Thobhani concludes, property management must continue to improve. If nothing else, 2012 is the year when an important shift takes place – for the first time, more people will reside in private rented accommodation than in the social housing sector.

Housing will remain top of the political agenda for good reasons.



*Richard Donnell*  
Research Director, Hometrack

Widely acknowledged as one of the UK's leading housing market analysts, Richard Donnell joined Hometrack in 2005 as Director of Research. His extensive knowledge of the housing sector draws upon 17 years of work within the industry. Before joining Hometrack he headed the residential research department at Savills plc where he built up a significant research-led housing consultancy business.

# Changing trends in housing demand

**The 20th century saw a major shift in UK housing trends as owner-occupation became the dominant tenure of choice, leaving the private rented sector trailing behind. At the start of the 19th century over 90% of households rented privately. Compare this to the mid- 1990s when the private rented sector accounted for just 8% of homes. Today the figure stands at 16%.**

In contrast, owner occupation peaked at 71% in 2003 and has subsequently fallen back to 67%. Yet the aspiration for home ownership still burns strongly. Successive surveys have shown that 80% of households strive to be a home owner within 10 years. However, as affordability and mortgage constraints continue to take hold, so home ownership for many remains little more than a long-held dream. The net effect has been a growing rental market, buoyed by demand. And with little hope of any change in mortgage availability, this is a trend that looks set to continue.

In the medium-term, increased regulation of the banking sector and a lack of wholesale funding will only restrict the volume of mortgage lending that UK banks are able to undertake. In addition, a reliance on retail deposits to fund new mortgages will limit gross lending to levels less than half of that seen at the peak of the market. Conditions will, of course, improve at some point once government, corporate and household balance sheets have adjusted, but the knock-on impact across the housing market is unlikely to be short-lived.

The challenge of accessing mortgage finance is highlighted as a major barrier to first-time buyers, often cited as the life blood of a healthy housing market. But their importance can be overplayed as the long-term demographics point to even greater pressure building at the retirement end of the age spectrum.

Demographic change is set by life expectancy, fertility rates and levels of migration. The latest household projections show that by 2033 England will see an increase of 232,000 households a year with the greatest pressure in the south. By 2033, some 60% of the national annual growth will be in households headed by a person aged over 65. In absolute terms, the over-65s will account for a third of households by 2033, with one-person households making up 41% and three quarters having no dependent children at all.



As the number of households steadily grows, so the shortage of properties needed to house them is brought sharply into focus. Only prior to the 1980s did new housing supply exceed more than 200,000 homes a year. Indeed the supply of housing has proved to be remarkably unresponsive to changes in demand over recent economic cycles.

Housing stock in England has grown by an average of 0.7% a year, which over the last decade equates to 158,000 per annum – well below the growth in new households. In 2011 this figure dropped to 121,000 or 0.5%. The current government is committed to increased housing delivery and has announced a wide range of policy changes aimed at removing the blockages to development. Only the passage of time will tell how successful these measures will prove to be. But until the supply of housing becomes more responsive, then the price of housing, buoyed by lack of supply, is set to remain relatively high - in turn acting as a barrier to entry.

However it is important to look beyond new supply to the actual profile of the existing 22m homes in England and to ask if the current stock of housing is properly aligned to meet the demand pressures of the future.

Three quarters of private housing supply comprises property of three or more bedrooms yet the average household size is set to fall to 2.16 people by 2033. As we look ahead, increased levels of cohabitation and sharing is inevitable - particularly in those markets with the greatest imbalance between supply and demand. The average age of the first-time buyer can only keep on rising, edging inevitably towards the late 30s and early 40s. As a result we are likely to see increased pressure on rental and part-ownership tenures, such as shared equity and shared ownership.

At the opposite end of the spectrum, people are living longer and the challenges of dealing with the housing needs of those in later life will become ever greater. We need to give careful consideration to helping households to trade down to smaller properties, freeing up much needed family homes. The greatest shift in housing demand over the next century is likely to revolve around the needs and demands of an ageing society rather than the plight of first-time buyers.

# Understanding “Generation Rent”

## *Nick Jopling*

Executive Director, Grainger plc

Nick Jopling is Executive Director of Property, Grainger plc, which he joined in September 2010 from CB Richard Ellis where he was Executive Director of Residential. Nick's responsibility covers Grainger's UK Residential portfolio, development and fund management business units. Nick has broad experience in the residential property sector in the UK and abroad, including investment, development and the private rented sector, where his particular interest lies. Nick is also the chairman of the Urban Land Institute's UK Residential Product Council.



**It was inevitable that someone would coin a catchy phrase for the movement of people into rented property but the so-called “Generation Rent” is no mere marketing spin. This is a very real, and growing, section of society.**

We have massive tenant demand from what I call “the inbetweens” – those people who don’t qualify for social housing but cannot afford to buy their first property.

Once “Generation Rent” have left home or university they will try and find a job and wherever they go they’re not going to buy a home, they’re going to rent, and they’ll rent with groups of other people. They may then go on to consider upgrading what they can rent, perhaps with a partner. Finally they might look at what they can afford to buy. These are all very natural (and sensible) stepping stones of tenure that are already evident in the market whether or not you still subscribe to the traditional presumption in favour of home ownership.

One thing is for sure, over the last six years it has become accepted that it is all right to rent, as reinforced last November when Grainger published the results of its Public Attitudes Housing Survey of 2,220 members of the general public.

The survey confirmed that long-term renting has become a common choice for many people amid continuing uncertainty on house prices and mortgage lending. Over half the respondents expected that in 15 years’ time there will be more people in the

UK renting their homes than owning. The survey also suggested that the stigma of renting is dissipating over generations, with 51% of those questioned saying there is too much pressure to buy a house – predictably so, perhaps, given the oft-quoted average age of first-time buyers as 37. Overall, the results reveal a fundamental change in behaviour.

Yet there is almost more concern now about rising rents than house prices, and that’s because of the shortage of rental stock. The government has acknowledged such concern in its recently published Housing Strategy, which among other things is both pro-development and committed to reviewing the private rented sector.

Housing has risen up this government’s agenda and, though early days, the strategy’s focus on development looks smart, if only because the potential benefits extend beyond providing homes into job creation and wider economic growth. If you take the strategy alongside the parallel Treasury reforms to make it easier for residential Real Estate Investment Trusts then it looks very much as if government ministers and officials accept that institutional investors are needed on board to pay for it all.

I believe that institutions would like to invest more in residential, partly because the income would correlate closely with wages, which in turn form a measure of expectation by policy holders of future pensions. Residential has consistently out-performed commercial property and equities, and setting aside the now dated reputational and political obstacles there remain three barriers to entry for institutions.

The first is scale. Typically, institutions want to invest £100m-plus, which depending on location would buy as many as 600 homes. Ready-made portfolios of that size are rare, which is why the idea of build-to-let is taking hold.

Suitability of stock is another barrier. Ideally institutions want housing that is built specifically for rent, managed by a single company that clearly understands the tenant market. It is no surprise that investors have lapped up student accommodation, which has been built and managed to high standards by providers such as Unite. So much so that such accommodation has shifted from the investment periphery to established asset class in little over a decade.

The final barrier is achieving an acceptable net or distributable yield, which given rents for any location are quantifiable is all about the cost of entry for investors. There are two elements here – the cost of construction and the land you build on – which we addressed last year when we launched a build-to-let fund with Bouygues, one of the world's leading construction groups.

Unlike a housebuilder, Bouygues make all of its profit from construction – and it does so extremely efficiently. That's why we partnered with them.



The land issue is as important. Even the previous government promoted the idea of using public land as part of its much vaunted Private Rented Sector Initiative, which sadly ran out of steam during the economic downturn. But if we accept that the private rented sector needs to be scaled up, it is paramount that government – central and local – adds its land to the development mix to help institutional investors achieve the yield they require. The quid pro quo is that the contribution of land fulfils the public sector remit for local housing provision but there is also merit in a council, for instance, securing a deferred equity interest in this sort of arrangement. So far, we have assembled three sites in east London and more are in the pipeline – all of them publicly owned.

As for Grainger's role here, we understand rental stock and how best to design, lease and manage it afterwards to ensure good returns for investors.

And if we achieve all of that on a purpose-built development of, say, 1,000 homes, the investment proposition for an institution is similar to that of a multi-let shopping centre or office scheme. Actually, I would argue that 1,000 tenants in a residential scheme represent a better covenant than one or two corporate tenants in an office block in the current economic climate.

Either way, the private rented sector should be service-driven, as it is with commercial property and indeed as residential accommodation is in the United States. But the most recent English Housing Survey identified 41% of rented stock is below decent homes standard.

There is a huge opportunity now to raise standards. It is also surely possible to have something designed better than a typical developer's scheme that is sold off to individual buy-to-let investors who show little care or consistency to the community of tenants afterwards.

As an industry we have to step up and meet the demands of the tenants who are out there and going into some form of tenure that they should be proud to call home. That must be the future for "Generation Rent".

# “Generation Rent” in reality



## CASE STUDY 1.

### Joan – Mariners’ Cottages, South Shields

As a little girl, Joan used to walk in the park next to the Mariners’ Cottages and always dreamt of living there. Many years later, after a two-year wait once her husband had submitted his Seaman’s Passbook, which was required, her dream finally came true. She’s now been living in the cottages for 15 years.

Joan is a true enthusiast of the area’s history. She recalls the time when local children would get a penny to come and tell the captain his ship was coming in. It is important to her that the historic and social value of the properties are recognised and protected. Keeping the properties in a good state of repair, and investing in them to protect their special character is crucial.

Joan is very proud of living in one of these “little gems”. She appreciates the strong sense of community that Mariners’ Cottages has and can share her enthusiasm for the history of the area with her neighbours. They look after one another and all work together to help keep the area up.

The level of service she receives as a tenant is also very important to Joan, pictured above with Grainger’s property manager Ian Lawson. She enjoys having someone to speak to whenever she has a problem, and recognises that the speed of repairs is an important aspect of renting. Having a landlord that understands the historic importance of the area and is willing and able to get repairs done quickly and to a good standard is a real and tangible benefit to Joan.



## CASE STUDY 2.

### John and Tamara – Springfield House, East London

Married couple John and Tamara and their two young children live in a Grainger-managed apartment block called Springfield House in Dalston, East London.

Web developer John, 31, and web designer Tamara, 37, moved into a studio flat in the building in 2004, paying £150 a week in rent. At the time, home ownership was out of the question.

“We didn’t have a deposit and I was still a student,” says John, “so we wouldn’t have been able to get a mortgage at that stage. And then prices started escalating. When we moved in we were able to get a very favourable rent and that was another reason for staying so long.”

Before Springfield House, their experience of the private rented sector was dispiriting. “We were in two different properties before this,” recalls John, “and we weren’t very happy with the landlord – someone who just managed a couple of properties and they were slow to repair things. The state of the accommodation wasn’t very good.”

By contrast, John describes the management of Springfield House as “very efficient”, adding: “We’ve just been happy with Grainger. They fix things the next day or on the same day we report an issue.”

Apartment sizes in this converted furniture warehouse are also generous by residential standards. Last year the family upgraded to a one-bedroom apartment at £1,400 a month in rent although as John says, it is equivalent in size to most three-bedroom flats in the area.

And the area counts for a lot. “It’s a fantastic location”, says John, which is one reason why owning a home in Dalston is the ultimate goal. The couple have saved £20,000, which they hope will be enough to secure a shared-ownership property on a new-build scheme close to Springfield House. “It has just taken us a long time to build up a deposit,” adds John.

*Clive Betts MP*  
Chair of Communities and  
Local Government Select Committee



Clive Betts MP has chaired the Communities and Local Government Select Committee since 2010. After graduating from Cambridge, he worked as an economist in London and South Yorkshire. Elected to Sheffield City Council in 1976, Clive became chair of its Housing Committee, where he drove major changes in housing and initiated a variety of partnerships with developers and housing associations. He was also chair of the Association of Metropolitan Authorities' Housing Committee. Clive was Leader of Sheffield CC from 1987-1992, when he was elected MP for Sheffield Attercliffe. He was a Labour government whip from 1997-2001.

# Funding the new homes we need

**On 21 November last year, the government published its Housing Strategy for England. Entitled *Laying the foundations*, the strategy set out a series of measures aimed at tackling the country's housing crisis. Headline announcements included the introduction of a new mortgage indemnity scheme, the establishment of a £400m "Get Britain Building Fund" to provide finance for development, and the revival of the right-to-buy policy with increases in the levels of discount.**

The strategy was timely as on the day of publication the Communities and Local Government (CLG) Select Committee, which I chair, began taking oral evidence for its inquiry into the Financing of New Housing Supply. This inquiry is considering the steps that the government could and should take to ensure resources are available to meet the country's housing needs.

There can be no denying that, as a country, we need to build more houses. The formation of households continues to rise and shows no signs of abating. It has been suggested that around 240,000 new homes are required each year to keep pace with demand. The economic and financial climate makes the immediate challenge all the more

vital. The availability of mortgage finance has declined dramatically, with particular impacts for first-time buyers; issues in the social housing sector have been brought into focus by reductions in grant to housing associations and local authorities; as a result, pressure on the private rented sector has increased dramatically.

The scope of the committee's inquiry is broad. It is looking at house building across the board: for owner occupation, the private rented sector, and social and affordable housing. The committee has received more than 50 written submissions, and is holding oral evidence sessions to explore the issues in more depth with key players including academics, think tanks, local government,

housing associations, developers, private investors and the government. Late last year, the committee visited the West Midlands to see approaches to house building in Birmingham and Dudley. We have since visited the Netherlands to see the approach the Dutch are taking to tackle housing supply, and to identify lessons that can be usefully applied in the UK.

The inquiry is ongoing, but a number of issues have emerged from the evidence received so far.

Looking at the private rented sector, concerns have been raised about the sustainability of the “buy-to-let” model, given apparently low levels of return and declines in capital appreciation. We are looking at the support that can be given to enable private landlords to grow. Meanwhile, we have heard that large-scale financial institutions and pension funds are actively considering investment in the sector. The committee will be considering what the barriers are to attracting such investors, and how they can be overcome.

Real Estate Investment Trusts (REITs) have been effective for commercial property, but have not taken off in the residential sector. The Treasury has made some proposals that may help to support residential REITs and we are taking evidence about their likely effectiveness.

Some have argued that public bodies have to do more to release public land for residential development, either on a “build now, pay later” basis or through models such as asset-backed vehicles. The committee is exploring the contribution land can make and the steps that can be taken to support disposal.

Looking at social housing, there is some support for reform of the Housing Revenue Account and the move to self-financing. We are considering how to maximise the opportunities presented by this reform, and are also looking at concerns raised about the cap on local authority borrowing for housing.

Mixed views have been expressed about the government’s “affordable rent” scheme. There are particular concerns about the sustainability of the scheme beyond 2015, and its potential to increase the housing benefit bill.

We have received a range of suggestions about the future financing of housing associations. These include the possibility of converting grant into equity, the potential for housing associations to expand into market renting, and the extent to which they can raise funds from the bond market.

We are also considering the potential of other models, such as community land trusts and housing co-operatives, and whether arms length management organisations (ALMOs) might move to a joint community-council ownership.



The uniting factor in all submissions is a recognition that we need to build more homes and that policies over many decades have failed to achieve required numbers. We have heard about particular schemes and innovative approaches to house building, and have seen for ourselves new homes being built.

There is unlikely to be one silver bullet to meet our housing needs, but we have heard about a number of steps that could be taken to increase supply. I hope that through the committee’s report, which will be published later this year, we can contribute to the debate and put forward some practical recommendations for addressing England’s housing crisis.



*Liz Peace*  
Chief Executive,  
British Property Federation

Liz Peace is the Chief Executive of the British Property Federation (BPF), which acts as the advocate to government for the commercial property industry. She was previously a civil servant in the Ministry of Defence and so has first-hand knowledge of how best to engage with government. She has played a leading role in the BPF's campaign for greater institutional investment in the private rented sector as a way of contributing to the UK's chronic housing shortage.

# Fighting for quality, sustainability and profits

**I don't think anyone would deny that we have a housing crisis – both in terms of affordability and availability. And given the scale of that crisis, it almost goes without saying that we should be grasping at any and every opportunity to try and deal with it.**

The problem is that after umpteen reports by a string of eminent people we seem to be no nearer to increasing the supply of affordable (in the broadest sense of the word) homes for ordinary citizens. The government's long-awaited Housing Strategy (Laying the Foundations: A Housing Strategy for England published in November 2011) was, therefore, seen as something of a watershed. Would we, after all this time, be presented with some silver bullets that would magically cut through the problems of this troubled and imperfect market?

Not surprisingly, the answer to this question is ambivalent. I shall leave others to comment on the proposals that were specifically directed at improving mortgage lending to first-time buyers and easing the plight of the traditional housebuilders. But there were a number of specific proposals of relevance to the commercial property industry, which is actually a serious player in housing provision, either through mixed-use developments or through the provision and management of large-scale private rented accommodation.

First and most significant was the announcement of a review of the drivers for, and barriers to, investment in private homes to rent, to be completed by summer 2012. Now this isn't the first such review of private renting but the fact that it is focused on investment suggests that the government is taking seriously the potential for large institutions to put some of their funds into the rented sector. This is a view re-enforced by the Treasury's continuing interest in residential Real Estate Investment Trusts (REITs), the prospects for which have arguably improved following the publication in December 2011 of changes to the REIT regime to be incorporated in the 2012 Finance Bill. There is still, however, a key outstanding issue over the ability of residential REITs to be able to trade a percentage of their property to achieve the required level of returns.

Secondly, the strategy highlighted the need to find ways of unlocking stalled development sites by getting local authorities to review what have become over-burdensome section 106 agreements and to take a flexible approach to planning obligations generally. This is a welcome initiative for the industry since there is no doubt that over-optimistic expectations regarding developer contributions often push schemes of all sorts – both pure housing and mixed use – into non-viability. But it does now need to translate into action on the ground by local authorities, which are equally strapped for cash and consequently reluctant to give up alternative funding streams for infrastructure and other local improvements. And the burden of section 106 agreements also needs to be considered alongside the new Community Infrastructure Levy, where the scale of some of the initial charging schedules has set alarm bells ringing. After all, at the end of the day, if the financial fundamentals of a scheme do not stack up, a developer will simply not proceed – and we will not get any new housing supply.



Thirdly, the strategy looked yet again at the way in which public sector land can be used to facilitate an increase in housing supply. The auctioning of public sector land under the land auctions model was suggested as one route. And the Homes and Community Agency seems to be going to have its powers to lean on government departments enhanced, though this will not affect local authority land where the bulk of surplus assets sit. The strategy also re-iterated the idea of putting public sector land into joint ventures at no initial cost but with the expectation of a later return. This strikes me as one of the best ways of leveraging a return off public sector assets but it is not happening often enough. Perhaps the Housing Strategy will give the concept the fillip it needs. But if all this fails, there is the secret weapon of a review to be led by the indomitable Berkeley Group chairman Tony Pidgley into the whole process governing the release of public sector land. Civil servants should perhaps start trembling now.

Fourthly and finally, the Housing Strategy reiterated the importance to increased housing supply of speeding up the planning system. I have already argued in other places that the publication of the coalition's National Planning Policy Framework (NPPF) represents the best opportunity that we are likely to have in a decade to improve the way in which we provide for housing and employment growth. It would be a huge pity if the government were to back track on the key proposals for embedding within a streamlined and more efficient system a presumption in favour of sustainable development. That doesn't mean allowing developers to build anything anywhere; rather it provides for quality development in accordance with a locally decided plan that itself meets all the sustainability requirements of the NPPF. And it means that individual proposals that fit in with the locally agreed plan should be passed quickly – with all the consequent time and financial savings that that entails.

So, in conclusion: no silver bullets. But the government has given some existing initiatives new teeth and has again recognised the contribution to housing supply that could come from an expanded, professional private rented sector. My principal interest lies in making sure that the commercial property industry is recognised as a key player in housing delivery, not just through the private rented sector but through mixed-use development generally. And to that end, we will continue to fight for the policies that allow us to promote quality, affordability and, of course, sustainability – and in a way that also brings profitability!

# The impact of buy-to-let on the private rented sector



*Professor Michael Ball*  
Reading University

Michael Ball is Professor of Urban and Property Economics at Henley Business School, University of Reading. He researches and writes widely on real estate markets; chairs the housing economics group of the European Network for Housing Research; led the expert advisory panel on housing markets and planning for Communities and Local Government from 2007-2010; and authors the annual European Housing Review for the Royal Institution of Chartered Surveyors.

**Investment interest in the private rented sector took off after rent deregulation in the late 1980s. By the late 1990s, landlord access to mortgage finance was greatly improved by the introduction of the “buy-to-let” mortgage. The name of the new product has probably had an even greater impact than the mortgage innovation itself. Soon, buy-to-let became the most widely used phrase describing individuals who invested in the private rented sector. Over the next decade, literally tens of thousands of new investors bought dwellings to let. Many used buy-to-let loans and transformed the country’s housing landscape. Renting became mainstream for people, both as tenants and investors, but the sector is still adjusting to the post-financial crisis era.**

## Why did it grow?

Almost 90% of English landlords are private individuals. The economics of the business work well for small investors worldwide, fuelled by beliefs in a relatively safe asset with tangible qualities. Rental income is steady with potential for capital appreciation.

Small landlords can flexibly invest their own time with low overheads; respond to market signals; and spread risks over local markets. Larger enterprises have higher costs and need larger, concentrated, standardised holdings. The difference is most clearly seen in student housing but also exists elsewhere

## A British twist

A growing population and rising living standards drove up housing demand. But supply is tight due to planning constraints. The imbalance has benefited investors long-term by lowering vacancy risk and raising capital gains.

When supply is constrained, climbing the house purchase ladder is more difficult. Many cannot afford down payments and, hence, are more likely to rent. In contrast, small investors have relatively more wealth and fewer credit constraints.

## Housing market cycles

Housing market cycles last for some time, in both the “up” and the “down” directions. Switches from one to the other state are hard to predict but investor dynamics are strongly influenced by them.

The long upswing lasting from the mid-1990s to 2007 encouraged many small investors into buy-to-let. They dived in expecting continued rising prices, leading to a boom peaking in 2007.

Unsurprisingly, this huge surge in supply kept increases in rents at modest levels. So, rents relative to house prices were pushed well below their equilibrium values during those boom years.

## The current downturn

Since the 2007/8 the housing market pendulum has swung. Both real prices and rents have fallen, with prices declining faster than rents. This has helped to improve yields but not enough to make residential investment attractive as a rental income rather than a capital gain investment strategy.

A weak economy continues to press down on rent growth. Outside London rents have failed to keep pace with inflation since 2007. London has been stronger but by how much is unclear, with one index reporting modest real increases in 2011 but another suggests high ones. It is hard to reconcile the two but even London is not immune from economic headwinds and is unlikely to sustain persistent large rent rises.

Private renting in England grew by nearly half a million in the three years to 2010. It is relatively easy to see where the extra demand is coming from. Tighter lending constraints have excluded many households from buying. Falling capital values further depress purchase. Yet why did the number of small landlords grow so much? After all, investors face the house price environment with poor returns and, worse still, fears of substantial losses. The most likely explanation is that there has been a sharp rise in "reluctant" landlords amongst previous owner occupiers and, also, lower churn with some existing landlords waiting to sell but still renting until the housing market improves.



## Prospects

The down swing is making buy-to-let investment look unattractive. Present rent levels do not cover landlords' costs and, simultaneously, enable them to earn a risk-weighted return competitive to those available in other investment options, even at a time of generally poor returns. Moreover, capital gains are currently absent, as real house prices are falling.

Over the next few years, poor economic growth, rising unemployment and pressures on earnings will dampen prospects for substantial real increases in rents, outside of a few hotspots. Until earnings start to rise again in a revived economy, rental growth is likely to be subdued. House prices are soft but would have to fall significantly, while rents stayed steady, to raise rental yields to attractive levels for investors. Simultaneous falls in prices and rents alone do not improve yields.

Small landlords' costs and taxes have been rising. As a result, required yields are higher than they used to be. Before 2007, capital gains provided adequate compensation for poor rental yields. They no longer do. The prospect for another housing price surge is remote over a long time frame. So, generally the old "invest for the capital gain" ways of buy-to-let investment are no longer viable. Hot spots may remain but finding them is risky.

Over the next few years, the prospect is for a greater decline in supply than demand. First-time buyers will emigrate from renting to owning as the housing market recovers, lowering the recent surge in tenant demand. But, simultaneously, many individual landlords will quit, especially the reluctant ones, or fail to expand their portfolios; while fewer will aspire to being landlords. The adjustments will continue until rental yields rise sufficiently high to stabilise investment.

Tenants face higher mark-ups in rents over house prices than they have been used to. The rent-cost equation is poor across the whole spectrum of investors. The government is focused on large investors but should not ignore the main providers of rented housing when trying to improve the economics of housing investment. As I have explained elsewhere, revisions to chaotic small landlord taxation would help.\*

\*Michael Ball/Residential Landlords Association, *Investing in private renting. Landlord returns, taxation and the future of the private rented sector.* (November 2011)



## *Stewart Baseley*

Executive Chairman, Home Builders Federation

Former housebuilder Stewart Baseley has been on the board of the Home Builders Federation (HBF) since 2002 and has served as Executive Chairman since 2005. He has positioned HBF as a highly respected and influential body, helping secure a range of government stimulus measures for the industry, including HomeBuy Direct, Kickstart, FirstBuy and the proposed new-build mortgage indemnity scheme.

# The economic case for house building

**Recent years have seen the number of homes being built fall dramatically and we are now delivering fewer than at any point since the 1920s. Just over 100,000 homes are being completed annually, less than half what is required.**

The social and economic impacts are stark. Over five million people are on local authority housing waiting lists; first-time buyers are unable to buy; and an industry that has traditionally been one of the country's biggest employers has shed hundreds of thousands of jobs.

The reasons for the drop are numerous and complex.

In the short term, a lack of mortgage supply has prevented people from buying, and thus builders from building. First-time buyers in particular cannot afford the 20% deposits that are currently required.

The longer term issue is the planning system. For two decades it has not produced enough viable developable land in places where people want to live to match demand.

Our own quarterly Housing Pipeline reports show how the number of permissions being granted by local authorities has fallen to such an extent that they are now at around half the required level. These are homes that will typically be built over the next few years, suggesting that without intervention output will remain low.

Other constraints include what we call "the

burden of regulation", the plethora of costs levied by central and local government on house building sites that make many not economically viable.

In fairness, the government has recognised these issues.

It certainly appreciates the social implications of a continued under-supply of homes and that it must find a way of ensuring we provide enough decent homes for our growing population and future generations.

When prioritising policies, it must also factor in the ongoing gloomy economic outlook.

Unemployment is at a 20-year high, with more than 2.6 million people out of work. Ominously for government over a million of these are young people aged between 16 and 24, the highest number since records began. A generation already saddled with little chance of buying a home is finding its work prospects limited as the crisis in the Eurozone continues to shackle the UK's prospects of recovery.

The Bank of England has slashed its growth forecast to no more than 1% for 2012, whilst warning of the dramatically increased threat of a double dip recession.

We have been working hard to ensure government appreciates the part increasing house building can play in addressing this and driving economic recovery.

The Home Builders Federation (HBF) conservatively estimates that home building directly generates 1.5 jobs per dwelling and probably two to three times that in the supply-chain and ancillary industries. So if government policies can help increase supply it could create hundreds of thousands of jobs, boosting local economies across the country.

The realisation of this is perhaps behind some of the positive announcements we have seen in recent months.

The Mortgage Indemnity Guarantee scheme, announced as part of the Housing Strategy last November, could be hugely beneficial. A deposit requirement of over £30,000 for the average first-time buyer home has left many people unable to purchase, builders unable to build and a stagnant housing market. HBF initiated discussions with the leading mortgage lenders last spring and we are delighted that the government, clearly recognising the potential benefits, supported us.

Removing the largest current constraint on the market will allow builders to start sites with more confidence, generating the economic activity so desperately needed.

Other announcements in the Housing Strategy were also welcome. We saw a £400m allocation for a "Get Britain Building" scheme aimed at getting stalled sites started. Again, this was something we had pushed for following the end of the previous government's Kickstart scheme. It will provide the valuable up-front finance required to get sites going. It is a sensible way of generating activity, and as most will be in the form of loans or an equity stake, government will get a return.

Announcements made in the Housing Strategy, along with previous ones on the New Homes Bonus, release of public land on a build now, pay later basis, and the overall commitment to reduce the burden of regulation, should cumulatively add up to an increase in output.

However, any significant increase will also be reliant on the planning system.

The debate over the draft National Planning Policy Framework (NPPF), which will form the nuts and bolts of the new localism-based planning system, dominated the political and media agenda for much of last summer and the autumn.

The draft wasn't perfect, but it was a good starting point. It balanced the social, environmental and economic impacts of development on a community. It transfers the decision-making away from central government, as was the case under the abolished Regional Strategy approach, and places the responsibility for proper planning with local authorities, where it should belong.



Unfortunately the consultation was seen as an opportunity by many in the anti-development lobby to try and influence planning policy so that even less gets built.

The scaremongering through the media made sensible debate almost impossible. Indeed if you didn't know better you could be forgiven for believing that the NPPF would allow a Los Angeles-like urban sprawl to spread quickly across most of England, burying every blade of grass under brick and concrete. Utter nonsense of course but it made for sensational headlines.

As the dust settles on the consultation and the government ponders the 14,000 or so responses, it is imperative that it is serious about providing the homes our population needs it stands firm. If it does not, then all the positive announcements I described earlier will not lead to the housing revival and economic prosperity it seeks.

I am sure government understands this. Over the next year or so we will see whether its policies have delivered a framework within which the house building industry can grow and thus provide much needed homes and jobs.

We must all hope we can.

# The UK's sclerotic housing market



*William Hill*  
Head of Property, Schroders

William Hill is Head of Property at Schroders, where he has responsibility for just under £10bn of property assets throughout the UK and Europe. With Grainger, he set up one of the first UK institutional residential funds in 2000.



*Mark Callender*  
Head of Property Research,  
Schroders

Mark Callender is Head of Property Research at Schroders and is responsible for setting the "top-down" market strategy for several of its property funds.

**Traditionally, Schroders has been a strong believer in UK market rent residential. We jointly managed the Schroders Residential Property Unit Trust with Grainger plc from 2000-2009 and the fund comfortably out-performed the commercial market over its life with ungeared total returns of 10% per year compared with total returns on the Investment Property Databank (IPD) annual index of 6% per year.**

The key difference between residential and commercial property has been stricter planning controls. Since 1990 the total amount of office space in the UK has risen by a third and the combined space in shopping centres and retail warehouses has doubled. By comparison the total number of homes has only risen by 15%, according to the Department for Communities and Local Government. In addition, whereas the demand for residential space has benefited from the long-term rise in living standards, which has translated into a decline in the average number of people per household, changes in technology (such as online retailing) and in working practices (such as hot-desking) have tended, if anything, to cut the demand for commercial space.

However, despite these very attractive demand and supply fundamentals, Schroders is currently reluctant to invest in market rent residential property. The main reason for our negative stance is that the investment returns on market rent residential property largely depend upon house price growth and we expect house prices to fall, or at best stagnate over the next few years. This bearish view reflects the damaging impact of the credit crunch on the supply of mortgage finance. Prior to the credit crunch, first-time buyers typically only had to put down a 5-10% deposit and on average 125,000 first-time buyers entered the market every year between 1998 and 2007, according to the English Housing Survey. That was well above the 80,000 threshold that is usually considered by estate agents as necessary to ensure a healthy level of turnover in the owner-occupied market.



By contrast, since the credit crunch began banks have rationed mortgage debt not by putting up interest rates, but by doubling the size of the required deposit to around 20%. As a result, a lot of first-time buyers, particularly those who can't borrow from their parents, have been shut out of the market and the annual number of first-time buyers fell to just 40,000 per year in 2009-2010. Furthermore, the credit crunch hasn't only snookered first-time buyers. It is also impeding many second and third-time buyers who find that they cannot get the 85% or 90% mortgage they require to bridge the gap between their current home and the house they would like to trade up to. This in turn has given rise to the bizarre "rent to let" phenomenon, whereby second, or third-time buyers have decided to let their existing property, rather than sell it and have simultaneously started to rent a new home.

Admittedly, one side-effect of the mortgage shortage has been an increase in market rents, as frustrated first-time buyers have been forced to rent. The English Housing Survey suggests that the annual inflow of new households into the private rented sector has increased by around 15% since the start of the credit crisis and IPD reported a 7% rise in market residential rents in 2010. However, it is important to understand that this upturn in rents is unlikely to have a big impact on investment returns, given that the prices of rented units are ultimately determined by their vacant possession value in the owner-occupied market. Moreover, the relatively low level of net yields in the private rented sector, at 3% as against an average of 6% in the commercial sector, according to IPD, means it is difficult to build a case for investing in market rent residential property in the absence of house price growth.

In theory, one factor that could change our current view is if the government were to introduce a separate planning use class for new-build, market rent residential property. In time that would open up an alternative exit route to selling vacant units to owner-occupiers and would encourage institutions and property companies to trade residential units among themselves. As a result, the link with owner-occupied house prices would weaken and the performance of market rent residential would then be similar to that of commercial property, where prices are fixed by reference to the rent and by reference to the yields on other asset classes.

# Housing associations past, present and future



*David Montague*  
Chief Executive,  
London & Quadrant

David Montague has been Group Chief Executive of London & Quadrant (L&Q) since February 2008. He has been at L&Q since 1989 in a variety of roles, including Group Finance Director. His recent contribution to the affordable housing debate includes L&Q's "Hard Times" series of reports with PricewaterhouseCoopers, membership of the Homes and Communities Agency's Housing Finance Group and membership of the Mayor of London's Housing Investment Taskforce. L&Q is one of the UK's leading housing associations with 67,000 homes across London and the south east. Its mission is to create places where people want to live. L&Q is a Sunday Times Top 100 employer.

**With an 80% cut in government grant the last Comprehensive Spending Review felt like the funeral of social housing. But the truth is that our problems started four years earlier with the collapse of the American banking system. We have had four years to prepare for this moment. So what have we done?**

The answer is to be found in the consolidated accounts of the housing association sector, prepared on an annual basis by our regulator. Turnover has increased, costs are down, margins are up, net profits have doubled and customer satisfaction has improved. Efficiency is no longer something we talk about just to satisfy the regulator. Now, thanks to the recession, it's a matter of survival and future prosperity.

We are in good shape, and prepared for the present, but the present comes with its own risks: localism – squaring a presumption in favour of sustainable development with the rise of the NIMBY; austerity – relying less on the resources of others and more on our own bottom line; the new "affordable rent" model – gearing up to maintain production and increasing rents to pay for it; and European meltdown – are we prepared if the credit taps are turned off and the bottom falls out of the housing market?

If these risks are covered; if we know where our tipping point is and we are confident that we can survive the disaster scenario; then maybe this is a time of opportunity for housing associations. Global investors see us as a safe haven – an "investment grade" sector in a "triple A" nation. Now is a good time to borrow, but is it a good time to build?

We are seeing irreversible change in the housing market. In the case of affordable housing, the new, flexible, "near market rent" model will lead to greater diversity, greater competition and greater choice. But with much less government grant, there will be much less of it.

In the case of housing for sale, will people earn enough, save enough, and be able to borrow enough to buy? And if they do, will they have the confidence?

Whether we like it or not; whether we planned it or not; all roads lead in one direction – the inexorable rise of private renting, and with it, the emergence of a new rented housing market, with private renting sitting alongside and perhaps converging with a new affordable rented market.

Perhaps this is the moment in housing history when we should re-examine what affordability means. There was once a consensus that UK affordable rents should be no more than one third of net income. Returning to this consensus would create additional investment capacity of £20bn for housing associations. And extending it across all social housing, including local authority housing, would double capacity to £40bn.

Perhaps the sector should look more carefully at the underlying value of its asset base. If, like London & Quadrant (L&Q), 80% of the sector's property maintenance costs are committed to just 20% of our social housing stock, it might make more sense to sell 20% of our stock and reinvest the proceeds.

Perhaps the glory days of large-scale public investment in social housing are over, at least for now. And perhaps the home ownership dream will remain a dream for many, and for some it will become a nightmare.

If we accept all of these things, what does it mean for future generations who need a home? "Where Next?", L&Q and PricewaterhouseCoopers' September 2011 report, has some of the answers.

In "Where Next?" we describe a dual housing crisis in which the poor and vulnerable are competing with the young professional in the private rented sector. A sector which on average now costs 17% more than the cost of outright ownership; in which some 40% of homes fail basic health and safety standards; and which offers just six months security. If this is to become tomorrow's UK housing offer, it isn't good enough.

We propose a new form of rented housing, available to everyone, offering quality, security, affordability and a pathway to ownership for those who want it. There would be large-scale institutional investment secured with the help of public land, government guarantees and tax incentives. And government would demand greater security and minimum quality standards in return.



Opponents will predict the death of the buy-to-let investor, but this deal should be about choice, not compulsion. There will always be a market for short term lettings, basic standards and rents that reflect those standards, but it won't suit the growing number of people who want to put down roots.

There is a role for the institutional investor in the development of this new tenure; a role for the developer, the housebuilder, the private landlord and the local authority. But is there a role for housing associations?

As a sector we are creative, resilient and possess some unique advantages in a challenging climate. Investors like us, we share a social mission with our local and central government partners, every penny of our annual surplus is invested in that mission, and we are in it for the long haul.

Housing associations were born out of crisis, and should now assume a leadership role to tackle the biggest housing crisis we have seen for a generation. It will take a bit of Dunkirk spirit - 1,500 housing associations, 1,500 boats. But that's our job; the reason we were created. And I can't think of a better job, or a better time to be in housing.

## *Dana K Hamilton*

President, European Operations, Archstone



Dana K Hamilton has overall responsibility for Archstone's European investment and operating activities. Prior to moving to Europe in 2005 to lead Archstone's expansion into Germany, she was Executive Vice President of National Operations for Archstone in the US. With Archstone since 1994, she has held a variety of senior positions in the areas of business development, marketing and communications and national operations. Ms Hamilton is a member of INREV (the European Association for Investors in Non-listed Real Estate Vehicles), the Urban Land Institute and the Real Estate Policy Advisory Board at the University of California at Berkeley.

# Creating a virtuous cycle for US investment

**In 1983, apartments represented less than 3% of institutionally owned, private real estate in the United States. Twenty-five years later, that number was nearly 25%, making apartments the second-highest concentration of institutional investors' real estate holdings, second only to office assets. A similar transformation can be seen in the US Real Estate Investment Trust (REIT) market where not only did the overall market grow substantially, but apartments as a share of the whole increased considerably.**

During the last 20 years, the US apartment sector established itself as having the best track record for risk-adjusted returns of all US real estate asset classes. Professionally managed US apartment properties have demonstrated liquidity, resilience – especially in times of recession – and diversification characteristics that differentiate apartments from other forms of commercial real estate.

Apartments are different from other forms of commercial real estate – and that makes them less easy to understand. In addition, unlike office, industrial or even retail, apartments differ by country. Perhaps this is why despite considerable progress with US institutional investors, foreign institutional investment into US apartments continues to lag investment into other real estate sectors.

Importantly, professionalism in the apartment industry seems to have lagged other real estate sectors. If institutional investment into apartments can be seen as a proxy for industry professionalism, then perhaps the US provides some valuable lessons for those countries, such as the UK, that are struggling to increase institutional investment into the apartment industry.

The greatest changes that lead to increased institutional investment into US apartments were not changes in the assets themselves, nor the establishment of REIT legislation (which happened much earlier). Rather, it was the transformation of apartment companies from simply being collections of assets to the establishment of professional, fully integrated operating companies that combined strong balance sheets, management teams, and operating and investment strategies.

In the early to mid-1990s, Archstone – and a number of its peers – grew considerably due to a combination of factors. The first was the significant availability of attractively priced apartment properties due to the US Savings and Loan crisis and subsequent establishment of the Resolution Trust Corporation. Second was the increasing availability of institutional equity. Finally, it was at this time that listed property companies were able to obtain corporate grade ratings, enabling them to access debt from the public markets that was not secured by individual properties. Each of these factors supported the others, and when combined with meaningful asset performance and transparency, began to create a “virtuous cycle” for apartment companies.



Not only were the early to mid-1990s an opportunist time to accumulate apartment assets, they were a great time for growing real estate enterprises to attract real estate talent. Many of Archstone's executive management members joined the company at this time. We believe their long-standing tenure with the organisation is a source of competitive advantage. It was also then that the company internalised key functions, such as property management. Economies of scale in apartments have much less to do with the reduction of expenses than they have to do with the ability to attract, grow and retain the talent necessary to build outstanding operating companies.

In 1995, Scot Sellers, Archstone's chief executive officer, began the process of transforming the company's asset profile. The company began to sell assets in secondary markets and reinvest the proceeds into its primary target markets. Within its target markets, the company sold assets in secondary locations to reinvest the proceeds into prime locations. The goal was simple, with each transaction, the company wanted to improve the quality of its portfolio. The collective effect of these moves (some of which were dilutive individually) was to create a portfolio of assets with superior long-term cash-flow growth and value appreciation characteristics.

The company also made bold steps in terms of differentiating its performance through operations. In 1997, the company launched the Archstone brand – the first national brand in the US apartment industry. Today it seems obvious to establish a branded relationship between an apartment company and its customers. Fifteen years ago, it was radical, and everyone was sceptical. Though Archstone's repositioning activities were creating some consistency in its product, as did its new development activities, the physical product at the time was neither consistent nor unique. The result was that Archstone branded its service offering, initially with a collection of service promises, backed by unconditional guarantees. This service offering was developed with the benefit of extensive customer research. Importantly, its implementation was supported with ongoing training and operating systems developed specifically to support the brand's success.

Sophisticated revenue management is another example of a clear "game changer" in the US apartment industry. The idea behind revenue management is that the market at a given point in time should determine the price the consumer pays. To utilise technology and data to forecast supply and demand systematically for a particular apartment unit – and then price that unit accordingly – stood in stark contrast to traditional apartment pricing methods. Archstone promoted this approach in the apartment industry, and others began to follow. More than just enhancing revenues, revenue management also gave professional apartment companies a tool to incorporate corporate strategy into pricing decisions and to make the entire pricing process more consistent. It is difficult to imagine that the internet would play as important a role in the marketing of US apartment units as it does today, without the foundation created by sophisticated revenue management.

There are few big levers in apartment performance. Rather there are many aspects of the business you need to get right – and many more that you must not get wrong. When we enter new markets, as we did with New York in 2004 or Germany in 2005, we do so with a great deal of caution and respect for the consumer. Without exception, we enter new markets with acquisitions and not with development, to give ourselves the time to understand the consumer and the market more thoroughly. There simply is no substitute for having your own local knowledge.

With changes in consumer technology and the ubiquity of the internet, the level of transparency in the apartment industry increases – this includes transparency to consumers, competitors and investors alike – and it only serves to further the importance of operations. Since 2001, Archstone has consistently outperformed with net operating income growth 17% ahead of its US apartment REIT peers. Operations matter. Performance attracts capital.





*Anish Thobhani*  
Deputy Managing Director,  
Property Services, Grainger plc

Anish Thobhani joined Grainger plc in 2003 following the acquisition of BPT plc. His main responsibility is the delivery of nationwide property management services to all Grainger and external fund clients. With over 20 years of residential investment and property management experience from both an agency and client side perspective, Anish offers extensive and innovative insight into delivering a customer-service approach and professional property management on multi-tenure portfolios.

# Managing expectations and adding value

**Professional Property management holds the key to the future of the residential investment sector in the UK. It is crucial for improving returns to investors but also fundamental for raising the reputation of the sector.**

As renting has become far more prominent in the housing market so investors have come to accept residential as an institutional-grade asset class. Thus, accredited professional property management, delivered by qualified and trained teams, is critical to the success of this investment class.

In this changing market, professional property management is the key in balancing the quite different requirements of both the investor landlords – the “clients” – and their tenants – the “customers”. Both clients and customers already demand an improved customer service from their property managers. Meeting and managing these expectations, whilst driving the

performance from the asset, is a skill that for too long has been undervalued. Dealing with constant and real-time communication is now an accepted part of the role, which can only be maintained by embracing all new technologies as part of the service delivery.

Increasingly it will be acknowledged that professional property management is the vital link between contented customers and performance-driven investor landlords. A satisfied customer, living in a “well managed” property, is more likely to maintain it better and remain longer. A satisfied client receiving an acceptable gross to net yield will remain in the market longer and perhaps invest more in the sector.

*“Professional property management is the key in balancing the quite different requirements of both investor landlords and their tenants.”*

The added value of professional property management lies in understanding the impact of expenditure on rental income and capital value, whilst recognising that the asset is someone’s home. Analysing costs and revenue will become a greater part of the property manager’s role. Along with the increase in compliance obligations, trained and qualified property managers will be vital in maintaining the standards required by the sector.

No longer will property management sit apart from the other property disciplines. Instead, it will become an ever-more important part of the fund management proposition. Property management will become almost inseparable from asset management, where every action taken is with the purpose of driving performance from the asset.

All of which means that property management will have to shift gears from being seen as a primarily reactionary function – handling problems as they arise – to one that can pre-empt problems and situations and handle them before they become anything more.

The residential sector will rely ever more heavily on property management over the coming years. Property managers must continue to find new, improved ways of delivering value to investors while meeting customer expectations.



The Grainger plc Public Attitudes Survey was conducted by Brunswick Research between 7th and 9th October 2011. It examined respondents' views on the state of the housing market, their attitudes to renting and ways in which renting could be improved.

The survey of a representative sample of 2,200 members of the general public was conducted online, with respondents recruited from a market research panel.

# Grainger plc's Public Attitudes Housing Survey

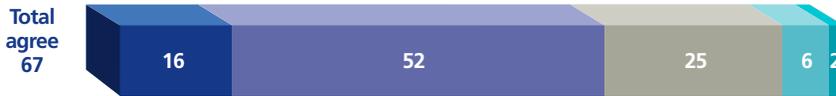
**67% of the 2,220 respondents believe that times are changing, with long term renting becoming a common choice for many people in the UK, marking a fundamental change in lifestyles and expectations.**

**54% of people questioned expect that in 15 years' time there will be more people in the UK renting their homes than owning.**

**51% of those questioned believe there is too much pressure to buy a house and people should be careful not to rush into buying a home too quickly. Renting is perceived by 40% of individuals to be an important first step on the housing ladder.**

## Perceived significant shift in behaviour

*"Times have changed – long term renting is becoming an increasingly common choice for many people in Britain, just like it is in other European countries"*



*"In 15 years' time, there will be more people in the UK renting their homes than there will be homeowners"*



Increase in the number of renters is considered part of a long term trend, and signifies a fundamental change in the British housing market.

- Strongly agree
- Tend to agree
- Neither agree nor disagree; or don't know
- Tend to disagree
- Strongly disagree

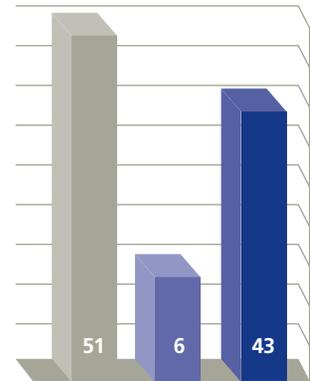
Q. To what extent do you agree with these statements? Base: All respondents, 2220

## Signs that deep-seated attitudes to renting and owning are also beginning to change

*Half the population believe that there is too much pressure on people to buy a home*

The majority (56%) of those aged 35-54 feel that there is too much pressure on people to buy a house.

- There is too much pressure put on people to buy a house - people should be careful not to rush into buying a home too quickly
- Don't know/can't answer
- People should try to get on the housing ladder as quickly as possible - owning a home is something everyone should aspire to



Q. Which of these statements comes closest to your view? Base: All respondents, 2220

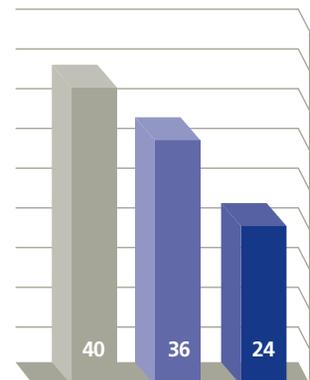
## Renting is widely seen as a rung on the property ladder

*Young people in particular now consider renting as a step towards home ownership. For many, it is seen as the only way they can move out from their parents' homes*

"Moving into a rented home is an important first step on the housing ladder"

Half (48%) of 18-34 year olds see renting as an important first step

- Agree
- Neither agree nor disagree; or Don't know
- Disagree



Q. To what extent do you agree with these statements? Base: All respondents, 2220

## Aspirations do not match the reality

Owning a home is overwhelmingly considered to be something to aspire to, but only a third believe opportunities for first time buyers are set to improve in the near future.

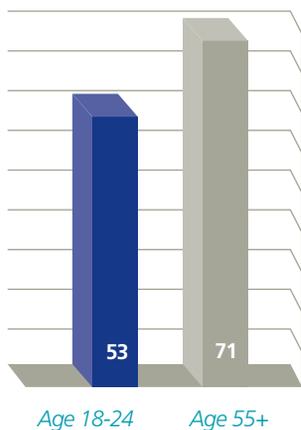


Q. To what extent do you agree with these statements? Base: All respondents, 2220.

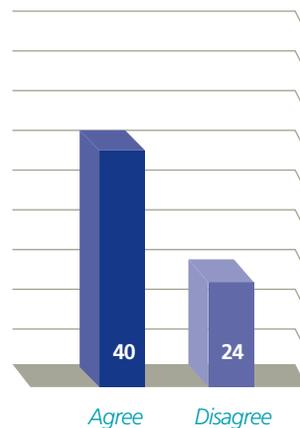
## These issues divide the generations

Older people are significantly more likely than younger to say renting is just as important today as it was quarter of a century ago; many younger people blame older generations for the number of struggling first-time buyers.

*"Owning your own home is just as important today as it was 25 years ago"*  
(All those who agree)



*"Young people struggling to get onto the property ladder are right to blame older generations for pushing up house prices and failing to build enough new homes"*



Q. To what extent do you agree with these statements?" Base: 18-24, 152; 55+, 854; 18-24, 152

# Changing times for UK housing

**The number of households in England is projected to grow to 27.8m in 2031, an increase of 6.3m (29%) over the 2006 estimate, or 252,000 households per year.**

Source: *Communities and Local Government (2009)*

Just 12% are in favour of larger housing developments – more than 500 homes – in their local area if it meant more affordable housing to buy or rent in the future. Nearly two thirds (65%) are opposed to this size of development.

Source: *Ipsos MORI poll, 2010*

**65% of the UK are in favour of housing developments of up to 25 homes in their local area if it meant more affordable housing to buy or rent in the future. Fewer than one in 10 (9%) are opposed.**

Source: *Ipsos MORI poll, 2010*

“There are hundreds of thousands of people in rented accommodation, or living with parents, who yearn to be first-time buyers. It is now true that the average age of first time buyer – with no support from their family – is 37. Now that 37 year old is not asking for a hand-out they just want a chance. We need to give them that opportunity.”

Source: *Grant Shapps, Minister for Housing and Local Government, in a speech to the RICS, June 2010*

**At least 866,000 low-income households are unable to afford even the cheapest government-backed housing schemes. At the same time, they do not claim housing benefit and cannot access social housing, so they aren't receiving any state support for their housing needs.**

Source: *Shelter, July 2010*

In 2009–10 an estimated 21.6m households in England were living in private accommodation, that is, excluding those living in institutional accommodation such as nursing homes or halls of residence.

Source: *English Housing Survey (2011)*

**There has been a decrease in the number of owner occupied households from a peak of 14.8m in 2005 and 2006 to 14.5m in 2009–10. In contrast the number of households renting privately has risen from 2.4 million to 3.4m since 2005.**

Source: *English Housing Survey (2011)*

Approvals for just 32,900 homes across England were granted in the third quarter of 2011, a 10% decrease on the same period in 2010. This number is half the 60,000 permissions required to build the homes needed to meet demand – and half the permissions granted each quarter in 2006 and 2007.

Source: *Home Builders Federation's Housing Pipeline report, December 2011*

**Social renters paid on average £75 per week rent in 2009–10 and private renters paid £153 per week. Around 62% of social renters received Housing Benefit compared with 24% of private renters.**

Source: *English Housing Survey (2011)*

Around 1.8m dwellings had damp problems in 2009. Privately rented dwellings were more likely to experience damp problems than dwellings in other tenures – 15% compared with 8% in the owner-occupied sector and 10% in social housing.

Source: *English Housing Survey (2011)*

*89% of 18-34 year olds who don't already own a property want to own their own home. But 73% of people also believe it is more difficult to buy a home now than 20 years ago.*

Source: *YouGov survey for property portal [www.new-homes.co.uk](http://www.new-homes.co.uk), September 2011*

**“Housing is inextricably linked to the wider health of the economy, the financial markets and consumer confidence. The current challenging economic and financial circumstances make action on housing even more important – both to tackle immediate pressures now and to lay the foundations for stronger growth and stability in the future.”**

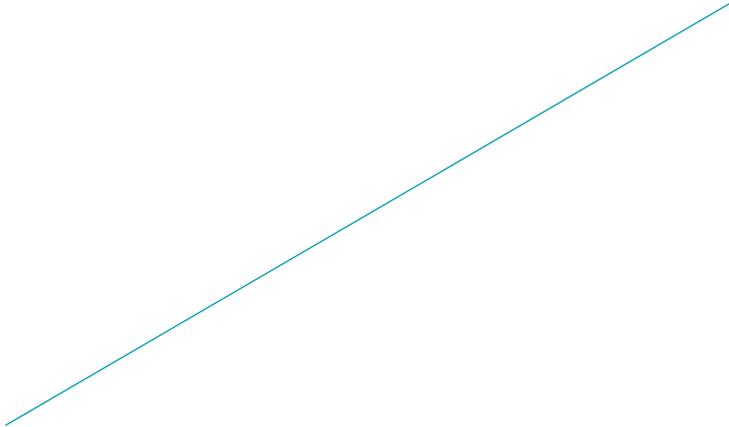
Source: *Laying the Foundations: A Housing Strategy for England, Communities and Local Government, November 2011*

“Getting house building moving again is crucial for economic growth – housing has a direct impact on economic output, averaging 3% of GDP in the last decade. For every new home built, up to two new jobs are created for a year. Without building new homes our economic recovery will take longer than it needs to.”

Source: *Laying the Foundations: A Housing Strategy for England, Communities and Local Government, November 2011*

**Nearly one third of working-age social housing tenants on Housing Benefit are living in accommodation too big for their needs, with 5 million people in England on the waiting list and a quarter-of-a-million households living in overcrowded social housing.**

Source: *Department for Work and Pensions, December 2011*



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