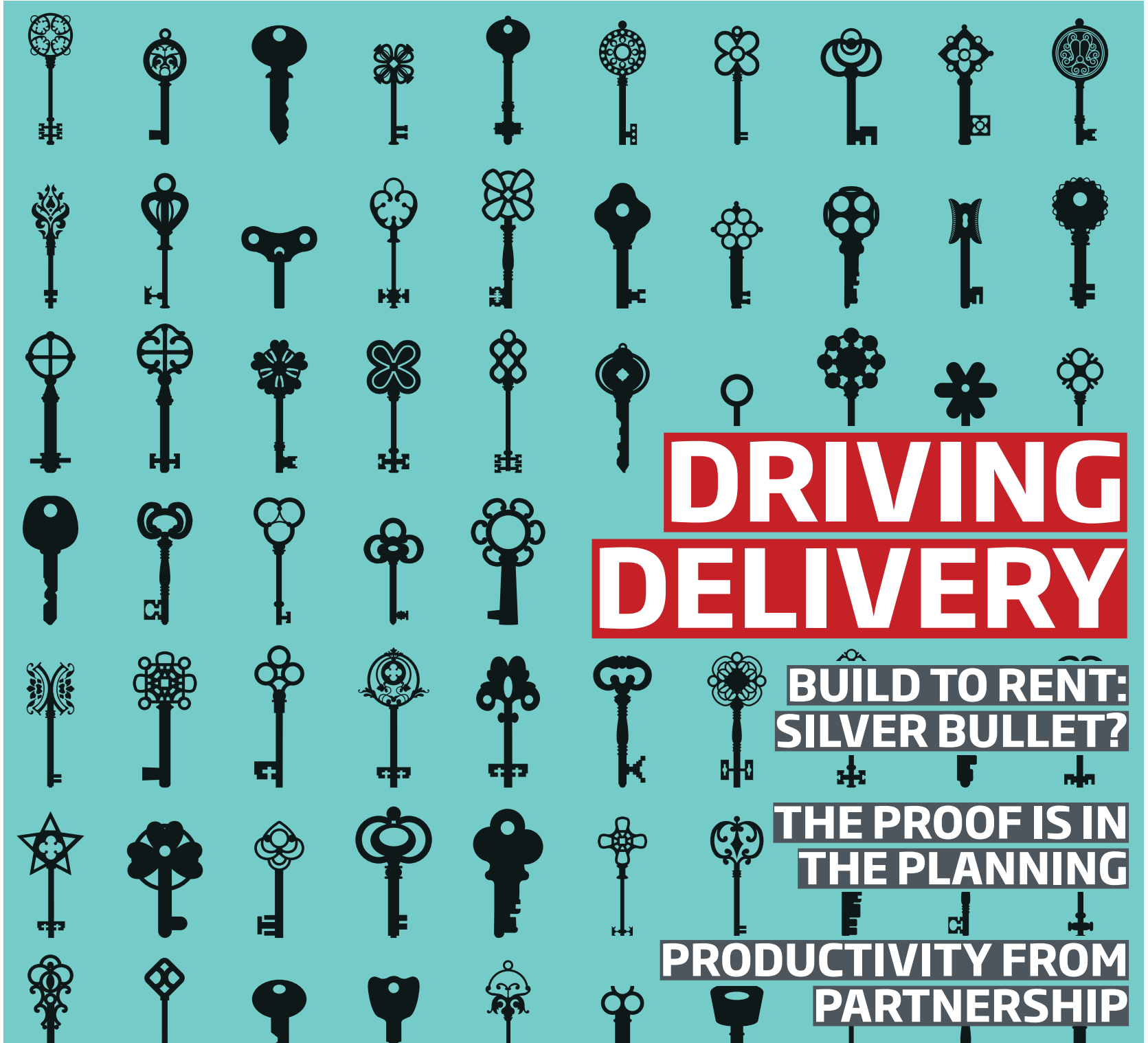


RESI Insights

Cutting-edge analysis of residential trends brought to you exclusively by Grainger



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Introduction



In the first RESI Insights white paper we have sought to harness some of the innovative thinking from RESI 2015 to tackle the biggest unanswered question: how does Britain deliver more homes?

This white paper pulls together contributions from many of the housing industry's leading figures. It is intended to bring the discussions from the RESI Conference to the desks of all the readers of Property Week.

Clear themes emerge through this report, demonstrating a consensus for where some of these solutions may lie.

Several of the contributors highlight that the planning system must enable more suitable development to take place, and this can only be achieved by ensuring that local planning departments have the resources required to do so. Without the sufficient resource and staff, local planning departments will not be able to assess and process the number of planning applications we, as a country, are required to submit if we are to get close to meeting housing need.

Collaboration, cohesion and cooperation are another theme that emerges throughout this report. These words are used numerous times throughout each chapter - always in reference to the relationship between local councils and the private sector. There is a need for local councils and other public sector organisations to work alongside the private sector to help unlock housing supply.

Lastly, however, the idea which surfaces within these pages and is in my view the most important

and excites me the most, is of the need for a planning system that truly caters for Build to Rent. Local plans, viability assessments, planning obligations, housing need assessments etc have previously never really considered how to factor in Build to Rent. This must change.

Build to Rent could significantly bolster housing delivery numbers. It could also significantly improve the quality and standards of private renting through design, management and customer service. One way to ensure Build to Rent will achieve its potential and benefit the housing market to the greatest extent is to utilize the concept of the rental covenant. The planning system should formally recognize the use of it, and local authorities should be actively encouraged to employ rental covenants where suitable and appropriate to bring forward more homes.

Whether it be supporting local planning departments, public and private sector partnerships or a planning system that supports the delivery of all types of housing tenures, solutions must be found and we hope some of them may be found in the pages of this report.

We're delighted to have been part of RESI for the last nine years and to have been involved with this white paper. Huge thanks must go to the contributors who have given their time and we look forward to continuing the work with colleagues across the sector and across government to deliver the homes Britain needs.

Nick Jopling Executive director, property, Grainger



We need to make significant progress on purpose-built Built to Rent
Robert Evans,
Argent



More housing of all types must be the government's overruling priority
Lord Kerslake, former
HCA chief



UK institutions, including L&G, are under-invested in residential
Bill Hughes,
L&G



Developers should commit to training skilled construction professionals
Steve Sanham,
HUB

Fix housing by looking to best practice

While the newspapers overflow with stories about 'Britain's housing crisis', Argent's Robert Evans says politicians lack appetite to tackle the problem and public and private sectors must work more collaboratively



PHILIP DURRANT

From your experience of managing large regeneration projects, what key things could we do to better address housing delivery?

We could do better by achieving greater alignment and more collaborative working between the private and public sectors. We need to understand and address the serious funding and delivery challenges facing city and local authorities and be innovative in framing joint ventures and effective partnerships, for example to make the best use of their land.

We need a model for municipal partnerships that delivers on the bricks and mortar, yes, but also aligns interests and expertise in employment programmes and training, school and health provision, the public realm and much more.

We need to make significant progress on purpose-built Built to Rent and adopt more radical policies to support it as an asset class and sector.

We also, I believe, need to make better use of the registered provider sector. That sector can draw on significant assets, skills, borrowing capacity and design/delivery expertise. Registered providers are regulated, display the ability to invest for the long-term and have charitable purposes that attract public trust and goodwill. So we have to find a way of enabling house associations to deliver more homes. That might mean offering them a longer term funding settlement and clarifying what is expected of them. It might also mean local authorities and companies like Argent should work more closely with them.

At present, the sector gets mixed messages from the government and regulators. Registered providers have been expected to manage assets

carefully, be prudent and collect green traffic lights. On the other hand, there is a national priority to build more homes.

So we need to allow housing associations to make better use of their assets? Yes. The public purse has helped to pay for those assets so it is right to think about how we can make best use of them. For example, the government-backed Affordable Housing Finance vehicle has recently raised £208m on behalf of six housing associations, at a record low yield. At the same time, however, the surprise budget cut to social housing rents has reduced the underlying value of those assets. Housing association rents will fall by £2.5bn per annum, according to the Institute for Fiscal Studies. Councils similarly are set to lose up to £1bn per annum.

Ultimately, housing delivery is about political will. Housing may be higher on the political and news agenda, not least in London and within the mayoral campaign, but is it a high enough priority, in reality? Politicians are tuned in to all different types of voters, many of whom are sitting on assets they want to continue rising in value. So radical changes to housing delivery will be politically complicated. It may mean, for example, rethinking bits of the green belt, increasing public sector funding and getting local authorities building again, alongside developers and

social landlords. It's difficult to see how the proposed changes to Right to Buy will help housing delivery.

Would it be better for the government to take these decisions now then, before it goes into election mode and has to consider the popularity of such policies? I'm not a politician, as you can probably tell! However, it seems logical that that it would be a good time to pursue difficult policies early on in the parliament because it gets harder later on.

Do we need a rethink about where housing is placed within our political structures? We need to have a long look at where housing sits, not just in terms of government departments but also how we create a sense of national purpose around building more homes. Thereafter, city regions may offer one of the best ways of tackling delivery on a more-than-local basis. Again, is there the political will and consensus to make long-term funding settlements? Politicians say you can't bind the hand of future parliaments, but the truth is that government does so frequently on topics as diverse as hospital funding, defence and nuclear power.

Perhaps the government should be looking more into municipal bonds then? Possibly. Certainly they could provide a way of allowing efficient investment at a more aggregate scale so capital is not taking as much of a location risk.

How can you decant some of King's Cross' many successful traits and apply them to areas further outside the centre of London with less obvious connectivity and appeal

- whether it's Middlesborough, Leicester or Tottenham? There are things that we would like to think are transferable. Long-term thinking, understanding of place, the importance of the public realm, planning skills, mixed use, mixed tenure and stewardship. This is key to how you phase a place: making it attractive in phase one to buy or rent a home and put down roots but also opening up options for phases two, three, four and five.

Success is also about partnership and being a good partner. Working with local authorities and others, building long-term relationships and trust and aligning interests. ■

Robert Evans is a partner at Argent

We need to look at how we create a sense of national purpose around building more homes
Robert Evans

Transparency is key to successful Build to Rent

Britain's housing market is on the cusp of a rental revolution, but as a sector we need to make the benefits clearer.

Recognising the gap in the market for well-serviced, professionally managed rented housing, billions of pounds of investment is flowing in – largely from institutional investors.

No longer will renting have to be a choice between ageing buy-to-let properties owned by distant landlords. Instead people will be able to choose between homes with a range of on-site amenities and shared spaces; helping create a sense of genuine community many tenants currently lack.

New entrants are drawing inspiration from the US multi-family sector. While not all the lessons are transferable – for example land availability and affordable housing requirements differ greatly – there is still a great deal that can be learned.

The most critical element in my view is service. The maturity of North America's multi-family market means everyone is now involved in an 'amenity arms race' – differentiating your brand through the level of service offered. As with the rise of budget airlines, challenger banks or any



Michela Hancock
Director - private rented sector, Grainger

number of digital apps, choice can really benefit the consumer. Just as in the digital world, great design lies at the heart of good service in housing. During my time at Bozzuto, a US multi-family brand, we would focus on what we termed the 'walk of the customer'. We would ask how they enter the site, where they drive or walk in from and how they know where the front door is. It may sound overly simplistic, but you usually find many issues you would not have considered.

Grainger is taking the same approach, delivering everything from the customer's point of view because if they are happy they have no reason to move out, saving us on costly voids.

Grainger is well positioned to move into Build to Rent following more than a century of experience as a residential landlord and property manager. These transferable skills give us a head start on firms starting



from a clean slate. It is this experience that led Grainger to integrate its various functions to ensure that the property and asset management team is working alongside the development team when designing our Build to Rent homes.

This collaborative approach is needed for Build to Rent in the UK. In the US there is more of an open-book approach, with lots of market information not available in the UK. To some degree this comes with market growth, but if we want to achieve that we need to be transparent.

The sector also needs to cooperate with local government if it is to succeed. The US multi-family sector took decades to reach maturity, but one of its first actions was to educate the local authorities. In turn they started creating incentives for developers, such as housing zones and tax breaks to build in contaminated or brownfield land,

which is what you're starting to see in the UK at a national level, but not as much at a local one.

Clearly, the federal structure of the US sets it apart from the UK, but nevertheless working effectively in partnership will be key to delivering homes at scale and ensuring Build to Rent can truly forge communities across the UK.

Developers also need to show the benefits for councils of doing Build to Rent. Partnerships, such as ours with the Royal Borough of Kensington and Chelsea, in which they keep the land and we develop and manage the rental buildings, can provide a steady long-term income stream in a time of straitened budgets.

Build to Rent can revolutionise housing in the UK. But this will only happen if there is a genuine understanding of what it can bring. And for that to happen, the industry needs to act together. ■

There are not enough skilled people in the capital to build high-density homes

Planning reforms announced in the summer budget were a firm signal that ministers want to encourage, rather than stifle, development. The success of these measures has yet to be seen, but the next biggest obstacle housebuilders face is construction costs.

Having scraped along on tiny margins through the downturn, contractors are now seeing renewed pressure on resources, materials and equipment, leading to huge increases in construction costs.

The pressure on materials and equipment is extreme, with brick prices rising by 9% in the first six months of this year, and cranes being imported from all over the world to keep up with demand.

There seems to be little that a developer can do to



Steve Sanham
Development director, HUB Residential

try and influence those factors, but where we can and should commit ourselves is to the training up of skilled construction professionals. Not only does this support the industry, but also makes our efforts in the regeneration of the areas we work in more meaningful and worthwhile.

The government does support apprenticeships and

there are many laudable initiatives established to funnel funding through into results-based programmes. But it is far from clear as to how

successful many of these are – in some cases if someone turns up for a couple of weeks work they might be considered to have taken part in an apprenticeship course and/or be a local employee, so a tick goes in a box and that's that.

Another problem is the majority of the funding available for apprenticeships is also funnelled into 16- to 19-year-olds – a politically popular age group to assist, but not an age group particularly welcome on a building site. As a result, unskilled adults in their 20s find it challenging to access funding for their courses, and contractors find it difficult to get the necessary support to employ them. Yet it is this age group who are being left behind by society, and who would benefit the most from upskilling.

If we are to deliver homes in the numbers we need, at the rate that we need them, then we need to address the delivery side of the equation, and that means taking an interest in the people who build the homes for us. ■

All angles considered to boost supply

If there has been a positive outcome of the credit crunch it is a change in our attitude to housing. There is now a genuine realisation of the issues facing young people trying to get onto the housing ladder and a much greater focus on increasing housing supply.

There are clear challenges to delivering the housing we need in a more regulated mortgage market – especially given the strong historic relationship between transaction levels and levels of housebuilding.

Various incarnations of Help to Buy have sought to counter the deposit affordability issue faced by those seeking to get on or trade up the housing ladder. These measures have drawn criticism from those espousing the risks of stoking demand without a supply-side response.

So against the localism rhetoric, it has been interesting to see central government seek to intervene where local plans are not in place by 2017 and open up the planning system where local authorities do not have a



Lucian Cook

Director of residential research, Savills

five-year land supply.

This has started to pay dividends, with planning consents increasing substantially as the market has improved. But it will be a while

until this translates into starts and completions, given shortages of labour and materials and a reliance on a relatively small number of large housebuilders.

Initiatives such as Help to Buy and the Starter Homes scheme, in part at least, reflect a political fixation with home ownership, which has led to a strong emphasis on building homes for sale. While these schemes clearly have an important part to play, there is a danger that housebuilders become overly reliant on such schemes and we lose sight of the need to build the right types of property in the right locations

across a range of tenures to meet the diverse needs of society.

Whatever the desire to give as many people the opportunity to own their home, we need to build for rent as well, given the underlying shift away from mortgaged owner-occupation. In reality government policy, such as restricting the tax relief available to buy to let investors on mortgage interest, can only go so far in tempering this underlying trend. So the case for institutional investment in the private rented sector grows. More than ever it needs a stimulus to get it moving.

At the other end of the spectrum we have a growing elderly population sitting on a significant pool of equity in housing, which they often under-occupy and which is regularly ill-suited to their future needs. Much

greater emphasis is needed to deliver more housing that encourages them to downsize, especially given the proposed changes to inheritance tax.

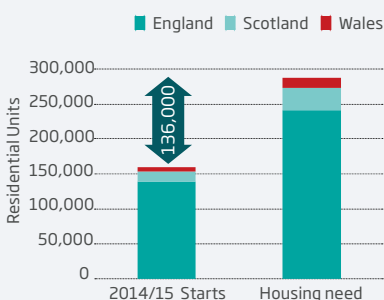
In both cases planning has a critical role to play in recognising and accommodating these needs at scale.

At the heart of this is a need to understand the nature of demand for housing, which goes beyond a simple one-dimensional numbers game.

The industry, with help from government, then needs to develop the models that establish how a wider range of housing can be delivered in a financially viable manner. The use and co-ordinated release of surplus public land is important in assisting in this process. By providing a lead on land assembly, funding of infrastructure and new models of delivery it could contribute more than just the homes that it accommodates. ■

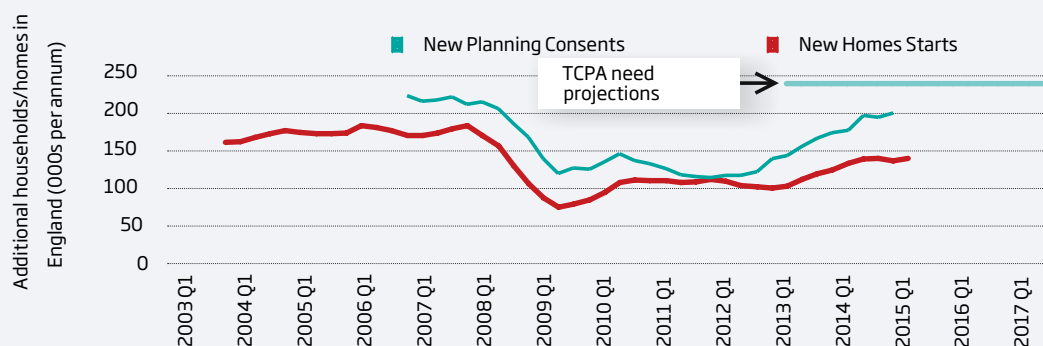
Help to Buy and Starter Homes hint at a deeper problem: our fixation on home ownership
Lucian Cook

Annual housing shortfall across Great Britain



Source: DCLG, TCPA, CCHPR, Scottish Government, Welsh Assembly

The gap between new homes starts, planning consents and housing need



Source: HBF, DCLG, TCPA

% of builders considering factor a major constraint



63%
Planning delays



49%
Labour availability



39%
Labour costs



30%
Materials availability



28%
Materials costs



54% of private starts are delivered by the 11 largest builders



An average of 32% of sales are supported by Help to Buy among the major housebuilders

PropertyWeek.com

Source: HBF Survey Q1 2015



Abbeville Apartments in Barking, London, has a communal residents' garden and free wifi



Grainger purchased this regulated tenancy portfolio in sought-after Chelsea in 2014



The Moor Pool Garden Suburb in Harborne, Birmingham, is designated a Conservation Area



The Young Street redevelopment in Chelsea will transform a multi-storey car park into 53 homes



Party in the Park community event on the Walworth Estate, sponsored by Grainger



Grainger's Wellesley development on the former Aldershot Garrison



Grainger's Berewood scheme in Waterlooville, Hampshire, will see 2,550 new homes and two new schools built over 15 years

Progressive thinking from institutions

Bill Hughes has been increasingly vocal on the need for greater institutional investment into housing. He believes there is huge scope for a more progressive approach to planning, construction and investment.

What are some of the low-hanging fruit we can pluck to drive supply over the short-term?

The crucial thing is getting the planning system to deliver more permissions. I believe planning departments should have a centrally mandated obligation to deliver a certain number of housing permissions. It was one of the recommendations of Lyons Review that I was involved with. Part of the problem comes down to resources, but some clear guidance from the government may help.

But of course this will only achieve so much...

Yes, and so the other thing that really needs consideration is the overall capacity within the house building sector. On reflection, investors like L&G need to prioritise investing in non-cyclical, income-producing property: Build to Rent, student accommodation, retirement living and social housing.

So institutions should pick up the shortfall in housing supply which has largely existed since state-funded development ceased?

Correct. We need to be more progressive in our attitudes towards investment and also in our approach to construction, particularly given current issues around costs and human resources.

In what way do you mean? Housebuilders are tied to materials and labour costs within traditional methods of construction. This needs reviewing. A very appealing and relatively unfulfilled area of opportunity exists around offsite construction. So the factory production of a-cyclical residential is a massive opportunity for the UK. It could help increase output and cost-efficiency and drive an enhanced offsite construction sector for the country. It is not the same as finding more bricklayers and it is not the same as finding more electricians on-site - it's a different mode of operation.

What role do you see Build to Rent playing in upping delivery quickly, which is a critical political concern? Rental property in urban areas currently represent about 20% of stock, but it should really represent about 30% to 40%. On larger developments, the rate of progress can be accelerated, as statistics suggest you can rent properties six to eight times faster than you can sell them. This generates an income stream for the investor and a thriving pre-existing community for new tenants.

And where do you see things sitting in 10 years' time? I think within 10 years we'll have a



sector that will become established into a much bigger part of the investment universe: expertise, professionalism, benchmarking and an increasing level of transactions will make a significant material contribution to resolve the housing supply crisis.

How much appetite does L&G have for residential investment?

We think the whole of the UK's institutional world, including L&G, is massively under-invested in residential. So we are looking at all opportunities very positively. I don't think we're anywhere near fully allocated. I'm responsible for, in aggregate, just under £20bn of investment and we currently have less than £3bn in housing. I believe there is potential to double that without any concern about total allocation.

Few companies boast the scope and brand awareness of L&G across business and consumer audiences. As society ages and investment and technology evolve, should there be a responsibility for greater cohesion

between private capital, the creation of physical buildings and investment in solving social issues such as health and education?

I think this is a very important point and L&G, given its wider canvas, is in a very strong position to collect those ideas together. I agree we have an ageing population and an under-funded healthcare system, so you need private capital, technology and bricks and mortar to come together and provide the solutions.

Our national budget deficit means the government has to involve private capital in providing solutions. L&G is a long-term aggregation of capital on behalf of the people. The individuals in the ageing population you refer to are those same people who hold pensions and savings with us, for us to reinvest in 21st century society. There are huge challenges ahead but with them many opportunities. ■

Bill Hughes is recent past president of the British Property Federation and head of real assets at Legal & General Investment

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The UK's institutional world, including L&G, is under-invested in residential
Bill Hughes

Strengthen planning



Lord Kerslake

Former HCA chief executive & permanent secretary to the DCLG

We need more housing of all types including for sale, for market rent and affordable.

This must be the government's overruling priority.

If the UK is serious about boosting housebuilding it needs to place as much importance on housing as on other infrastructure. We need to prioritise and plan for it as we do hospitals and railways. To

create the increased delivery we need, expanding nationally significant infrastructure project status to include major housing schemes really is key – especially in areas of high demand.

Government driving through new developments won't be enough, however. Councils need to take an active and leading role in increasing supply. This means planning departments need to be adequately resourced. Common complaints focus on the speed of decision-making and the churn of planning officers. Both could be tackled if planning departments were properly financed and this could be recouped by a fall in costly appeals.

One way around this could be higher planning fees, which I'm sure developers would accept in return for stronger planning performance. Another would be to give councils more control over their finances. But to ensure fiscal devolution has the desired effect, it could be tied to housing delivery. In short: more powers for more houses.

Councils also need to be creative and collaborate – especially at a regional level. Our two-tier planning system works well on a local and national level, but fails in between. Pooling resources and combining planning teams would deliver consistent decisions across an economic area and reduce costs.

Cooperating with the private sector is crucial as well. This might mean some flexibility over section 106 agreements to support Build to Rent, or more formal partnerships to utilise public land for long-term income-generation. The private sector could be doing more, using its own resources and creativity to create a greater social impact.

The government needs to underscore these opportunities with realistic commitments, particularly on transport funding. Breaking down cross-departmental silos to unify our approach across education and health as well will be vital. ■

Let us build on progress already made

Housing proved to be a major issue in this year's general election in a way we haven't seen for decades. A cross-party consensus has emerged recognising that we need to be building some 200,000 to 250,000 homes every year.

However, there is far less agreement between the main parties as to how to get there. All too often, the debate is characterised as a binary choice between first-time buyers or social tenants.

The truth is we need more homes, of all types and tenures: owner-occupied, socially rented and privately rented.

But the private rented sector (PRS) in particular is in desperate need of new stock. The PRS has grown substantially over the last decade, and most independent experts forecast it will continue to grow – to more than five and half million households in the next five years.

To cater for this demand we need to encourage long-term institutional investment. The US, Germany and Scandinavia (pictured) have all established institutionally backed rental markets, so there's no reason why we can't here.

Key to unlocking this investment is extending the Build to Rent fund. It is working well, but it needs to be accelerated and expanded if it is to have meaningful impact.

A lot of Build to Rent development could take place on public



land, which would offer the public sector a long-term, steady income stream as well as helping to tackle our housing shortage.

We've already made good progress in opening up public land, but the effort needs to be wider in scope – not just limited to a few Whitehall departments – and the process sped up and made less bureaucratic.

But most crucial to delivering new homes, of all tenures, will be improving the capacity of planning departments. This isn't simply about increasing funding; it's about making sure planners

have the right training and skills, and that planning is seen as an attractive career path. We need quality and expertise in both the public and private sectors.

This is even more pressing as local development plans start to come into force. There has been some unease

over their introduction, with some fearing they will end up like the now-scraped Regional Spatial Strategies. But rather than being a top-down imposition, local plans are genuinely accountable and democratic, and will be vital in ensuring new housing stock is delivered across the country – not just in London and the South East.

It has been suggested that the government returns to being directly involved in housebuilding, as was the case in the mid-20th century. But before that can be seriously considered, we need to see housebuilders taking full advantage of the guarantees currently on offer. Many have yet to be taken up, and will be critical to unlocking long-term investment for private-rented and affordable housing.

Clearly more still needs to be done in upping housing delivery. But there has been progress, and the government will continue to work with the industry to ensure Britain gets the homes it needs. ■



Mark Prisk

MP and former minister for housing and local government

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