



University of the
West of England

Bristol Housing Futures

A report for the Bristol Housing Partnership



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Contents

Executive Summary	1
Bristol Housing Partnership members	4
1.0 Introduction	5
2.0 Project Methods	7
3.0 Bristol’s Private Rented Sector	8
4.0 Residential Institutional Investment in Bristol	21
5.0 The Future Strategies of Housing Providers in Bristol	31
6.0 Recommendations to the Bristol Housing Partnership	36
References	43
Appendix 1: Bristol Housing Futures: Desk Based Research	46
Appendix 2: Bristol Housing Futures: Available Maps	47

Executive Summary

The Bristol Housing Partnership is a primarily strategic partnership of Bristol City Council (Landlord Services and Strategic Housing) and other registered housing providers (in this case exclusively housing associations). In 2012, recognising the rapid pace of change in the environment within which housing organisations operate, the Partnership commissioned the University of the West of England to research the current and future residential offer in Bristol. The intention was that this research would assist Partnership members in aligning future private and public spending and identifying investment opportunities to help meet the City's broader economic and spatial planning priorities. Through discussion, the project focus was narrowed to three key areas of research:

1. *challenges and opportunities in the private rented sector,*
2. *the potential of institutional investment for housing delivery, and*
3. *future strategies of housing providers.*

The research was carried out between 2012 and 2014 through a combination of literature and data review, a survey of local housing providers and a number of focus groups. This report details the project outputs, summarises the main findings and makes recommendations.

The private rented sector represents a growing proportion of the housing market nationally and locally and the only housing option for many households priced out of owner occupation but ineligible for affordable housing. As such it is of strategic and operational importance that provision of private rented sector accommodation in Bristol is available in a quantity and of a standard which meets the needs and expectations of (potential) tenants. The sector is currently characterised by small-scale, amateur landlords, many owning only one property and unable to offer any substantial increase in supply. Housing associations, in contrast, are well placed to take on a role in the sector, potentially able to deliver new supply at volume and having significant experience of managing and maintaining properties, albeit in the affordable sector. The pressures to which housing associations are subjected in the new financial reality post-2008 make the sector an attractive proposition offering the potential to generate surpluses which can be reinvested in core affordable housing provision.

The challenge for housing associations, however, may be accessing the investment needed to deliver new supply at volume. In the commercial sector institutions such as pension providers commonly invest in real estate, and although this practice is less common in the residential sector, interest in the model is growing. This research concludes that entering into institutional investment partnerships is a realistic potential element of the future strategies of housing associations in Bristol. The move would align well with a sector-wide shift in focus

from a business model which is primarily about housing the most vulnerable, and providing some community services, towards more complex strategies which include providing housing products and services in new markets which generate higher returns, commonly termed 'commercialisation'. Specific commercially-orientated strategies adopted include evolving and more sophisticated asset management strategies and new approaches to allocations including more stringent pre-tenancy checks. Private sector landlords are similarly reviewing their approach to lettings, with indications that they will become increasingly selective in order to minimise the risk of rent arrears and other problems. A proportion of small-scale private sector landlords in Bristol feel inclined to exit the sector in response to what they perceive as overly-burdensome or unhelpful regulation.

The report concludes with recommendations intended to assist Partnership members to achieve their future strategies successfully whilst continuing to address the housing needs and expectations of Bristol's population. The extent to which these recommendations are adopted is a matter for the Partnership and the individual organisations which constitute it but they are, at the very least, intended to highlight the key issues facing housing providers in Bristol over the next 5 years. These recommendations, set out and explained in detail in Section 7 of the report, are to:

1. Support housing associations to do business in the market rented sector by:

- Exploring the skills required at operational and strategic (e.g. Board) level;
- Working strategically to identify needs and specify target sub-markets;
- Working together to avoid unhelpful competitive bidding;
- Identifying sites which have stalled and offer potential opportunities;
- Taking on a range of roles in the sector;
- Managing the impact on affordable housing supply.

2. Increase and promote opportunities for residential institutional investment in Bristol by:

- Appointing a topic lead within the Partnership;
- Commissioning expert advice in order to fully understand the detail of institutional investment models which are workable in the local context;
- Marketing *residential* Bristol to investors as an attractive proposition;
- Identifying any suitable sites in City Council ownership and making them available on the best possible terms;
- Marketing specific sites or opportunities professionally in order to attract the most beneficial investment;
- Working with the HCA and the Bristol Property Board to identify other suitable publicly-owned sites;

- Exploring opportunities for a Joint Venture Partnership;
- Testing a housing association led build-to-let model;
- Preparing information on operational comparisons;
- Managing the impact on affordable housing supply.

3. Establish a planning culture which promotes and encourages private rented sector development by:

- Developing an enabling culture for market rent development;
- Lowering contributions for affordable housing to enable market rented provision in selected cases where this is deemed appropriate and desirable.

4. Respond to issues of affordability in the private rented sector by:

- Promoting and enabling larger-scale rented developments in areas where rents are high (in order to effect reduction in rents through increased supply);
- Collaborating to limit rents and/or rent increases;
- Maximising the awareness of private sector landlords and their tenants of sources of financial advice and housing-related support;
- Taking on a lettings agent role.

5. Support amateur private sector landlords by:

- Promoting the benefits of regulation for landlords and tenants and improving incentives for, and support to achieve, compliance;
- Extending the existing voluntary accreditation scheme;
- Providing information and/or support to landlords to encourage take-up of tenants in receipt of Local Housing Allowance;
- Communicating openly with amateur landlords about the potential for institutional investment;
- Taking on a lettings agent role.

6. Deliver a joint, cross-sector strategy for allocations and lettings by:

- Agreeing a shared approach to pre-tenancy work;
- Developing a housing path-way protocol.

7. Preserve a role for smaller housing associations by:

- Exploring partnership arrangements with other smaller organisations;
- Working in partnership with larger providers to provide new homes;
- Working in partnership with other providers to enter the market rented sector;
- Seeking niche opportunities where small organisations may be able to excel.

The Bristol Housing Partnership

Members of the partnership are listed below, with those forming the partnership panel highlighted in bold. The partnership is currently chaired by Alistair Allender, Chief Executive of Elim Housing Association.

- 1625 Independent People
- Aashyana Housing Association / Affinity Sutton
- Aster Homes
- **Bristol City Council (Landlord Services and Strategic Housing)**
- **Brunelcare Housing Association**
- Carr-Gomm / Sanctuary Society Limited
- **Curo Group**
- **Elim Housing Association**
- **Guinness Hermitage**
- Home Group
- Jephson Housing Association
- **Knightstone Housing Association**
- **Places for People**
- Self Help Community Housing Association
- **Solon South West Housing Association**
- **Sovereign Housing Group**
- **United Communities Housing Association**

Introduction

1.0 The Bristol Housing Partnership

The Bristol Housing Partnership is a primarily strategic partnership of Bristol City Council (Landlord Services and Strategic Housing) and other registered housing providers (in this case exclusively housing associations). The partnership aims to ensure the effective use of housing of all tenures in the city and to improve housing standards.

1.1 The Bristol Housing Futures Project

The financial crisis of 2008 has significantly affected housing supply and demand. Constrained access to finance has led to reduced levels of new housing supply, including the supply of affordable housing whilst demand for housing across all tenures has increased (Bristol City Council, 2013). In addition, the current government's reform of welfare benefits has the potential to reduce the ability of a section of the population to afford rents (Chevin, 2013). These and other changes in the operating environment mean it is timely to review, analyse and forecast how the Bristol Housing Partnership can contribute to meeting the future housing needs of the local population. This is particularly important in the context of the findings of the Bristol Homes Commission (2014), which advocates a collective approach to addressing the current housing crisis.

The Bristol Housing Futures research project was devised by the Partnership in 2012 with the broad aim of assessing the current and future residential offer in Bristol, aligning future private and public spending and identifying investment opportunities to help meet the City's broader economic and spatial planning priorities. Through discussion, the project focus was narrowed to three key areas of research:

- a) challenges and opportunities in the private rented sector,**
- b) the potential of institutional investment for housing delivery, and**
- c) future strategies of housing providers.**

These themes were chosen on the basis that policy reform and economic changes have created a rapidly changing operating environment to which housing providers

need to adjust. As such it is of interest to housing providers to consider new ways of funding development (e.g. by cross-subsidy through developing new products such as market rented housing, or through institutional investment), new means of meeting housing need (e.g. through provision of market rented housing) and how to adapt to the new operating context (by developing or adapting strategies).

1.2 Terminology

A number of terms are used to describe housing of different sectors in this report. The term *affordable housing* is used to describe housing, including traditional social housing, which is made available to tenants at a below-market rent. The term *private rented housing* is used to describe housing which is owned or managed by a private individual or organisation, usually let at market rents. The term *market rented housing* is used to describe housing which is let at market rents but may be owned or managed by any type of landlord including a private sector landlord or a housing association.

2.0 Project Methods

The Project combined desk-based study with focus-group style workshops, a survey of housing providers working in Bristol and an interview with Manchester City Council.

2.1 Desk-Based Study

Existing literature on housing provision was examined and a series of policy review notes produced for use by the Bristol Housing Partnership as detailed in Appendix 1. Analysis of data from sources including Bristol City Council and the National Census was carried out in order to produce a series of maps which illustrate Bristol's housing market graphically (see Appendix 2).

2.2 The Bristol Housing Futures Survey

An online questionnaire was issued to housing providers operating in Bristol in 2013 and 109 responses were received (74 private landlords, 17 housing associations, 13 private agencies, 3 Bristol City Council, 2 student housing providers). The questionnaire sought information and views about the future objectives of providers, current and future funding arrangements, services and standards.

2.3 Focus Groups

3 focus groups hosting members of the Bristol Housing Partnership panel were held during 2012-2013 in order to facilitate in-depth discussion of the 3 research topics.

2.4 Interview

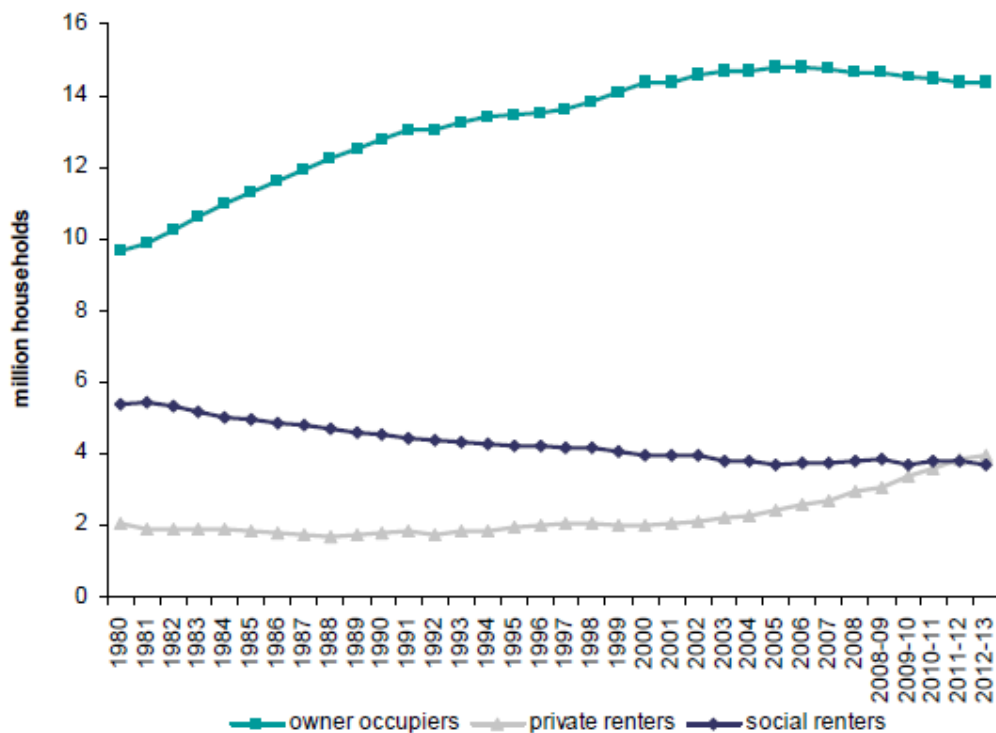
Manchester City Council has established an institutional investment model with the Greater Manchester Pension Fund to successfully deliver affordable and private rented housing. A number of interviews with senior staff from the local authority were undertaken to verify and add to desk-based research findings about institutional investment in housing.

3.0 Bristol's Private Rented Sector

3.1 Context

The private rented sector has recently overtaken the affordable housing sector to become the second largest tenure nationally (see **Figure 1**, below). In Bristol the proportion of the housing stock which is private rented is now 24% (Bristol Homes Commission, 2014), having grown rapidly from 16% in 2001 (Opinion Research Services, 2012); 21% of the stock is affordable rented housing (Bristol Homes Commission, 2014). The proportion of private rented stock in the City exceeds both the regional, West of England average, which stood at 18% of the population in 2011 (Option Research Services, 2012), and the national average, at 18% in 2012-13 (DCLG, 2014).

Figure 1: Trends in Tenure 1980 to 2012-13

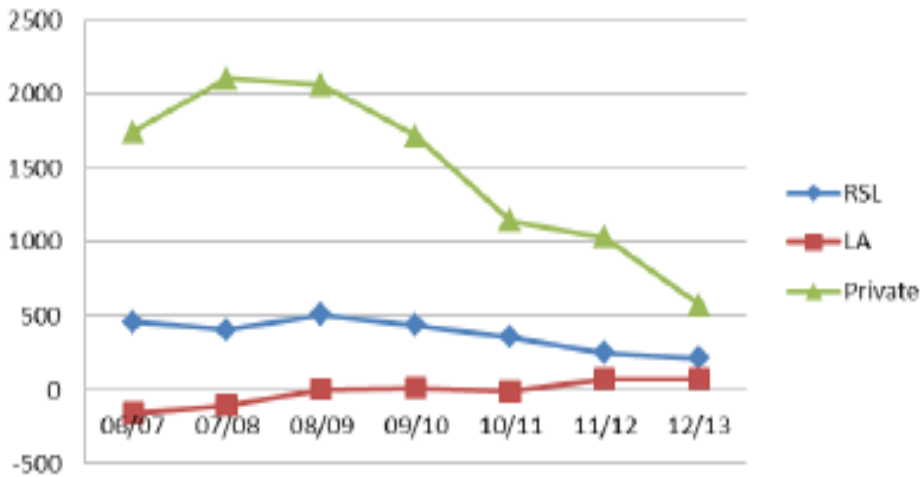


Source: DCLG (2014, p.11).

Growth in the private rented sector does not comprise primarily of new supply. In fact there is an escalating undersupply of housing in many parts of the UK, with Bristol witnessing both a significant decline in the volume of private sector

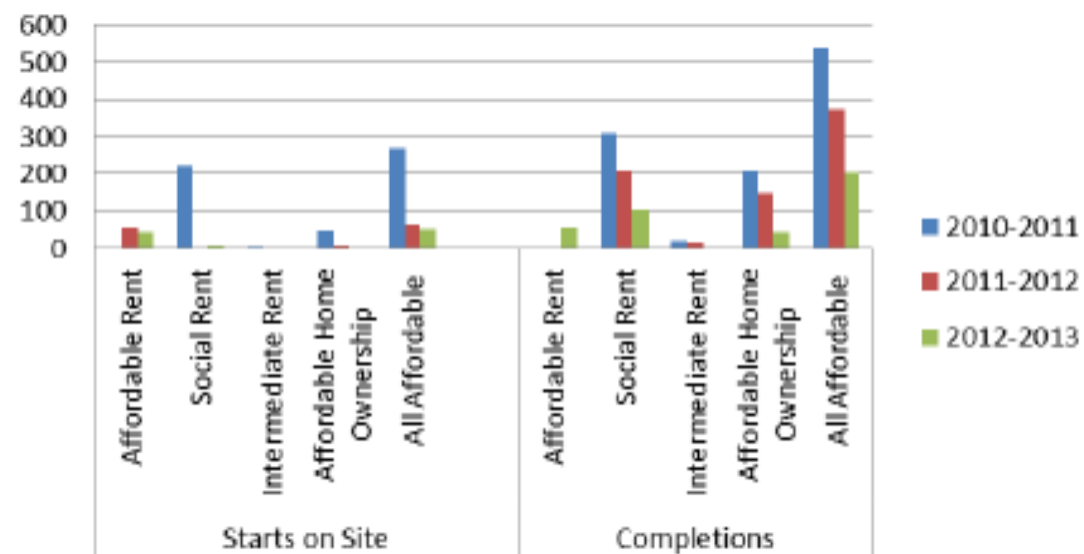
completions (see **Figure 2**) and a sharp reduction in levels of affordable housing supply (see **Figure 3**).

Figure 2: Bristol New Housing Supply 2006-13



Source: Bristol City Council (2013, p.4).

Figure 3: Affordable Starts and Completions 2010-13



Source: HCA (amended) (Excludes HBD/Firstbuy market stimulus programmes not defined as Affordable Housing)

Source: Bristol City Council (2013, p.4).

Indirectly, undersupply may be one driver of the growth of the private rented sector (Bristol Homes Commission, 2014), pushing up house-prices and thereby increasingly limiting access to home-ownership. In 2013, potential home-buyers needed to be earning at least £48,349 a year to be able to afford a mortgage on an

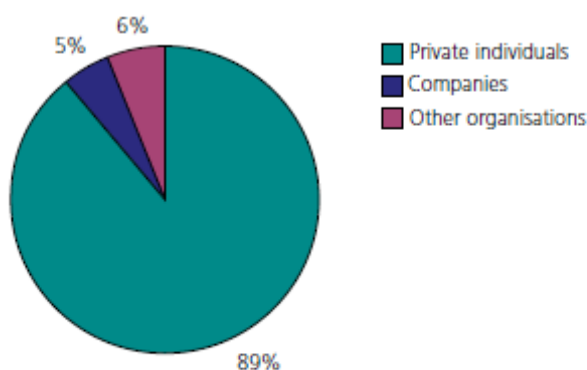
average-priced Bristol home, which cost £211,527, but the average salary for workers in the city stood at £21,216 (National Housing Federation, 2014).

At the same time, with in excess of 14,000 people on Bristol's housing waiting list (National Housing Federation, 2014), many households are unable to access a home in the affordable rented sector. A comparison between regional, West of England stock profiles in 2009 with those in 2011 shows that a 3% gain in the size of the private rented sector relative to the overall housing stock (from 15% to 18%) was matched by a 3% reduction in the size of the affordable housing sector (from 18% to 15%) (Opinion Research Services, 2012).

Bristol's population is expected to rise 8.8% between 2013 and 2021 (National Housing Federation, 2014); it is clear that the private rented sector's role in housing those priced out of owner-occupation and unable to access affordable housing is likely to continue to grow.

3.2 The state of the sector

Figure 4: Private Sector Landlord Types (England)



Source: DCLG Private Landlords Survey 2010
Base: all landlords (1,051 cases), landlord weighted

Source: DCLG (2010, p.10).

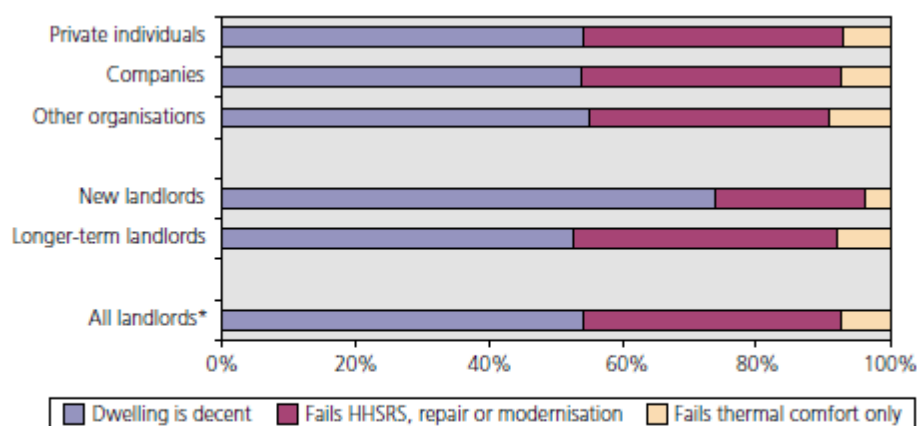
The private rented sector is widely perceived to be predominantly an amateur operation, run on a 'cottage industry' basis (Rugg and Rhodes, 2008). 89% of long term landlords are private individuals (see **Figure 4**), responsible for 71% of all private rented dwellings; 78% of all landlords own 'only... a single dwelling for rent, [with the sum of these] comprising 40% of the total private rented housing stock' (DCLG, 2010, p.9). Montague's review (DCLG, 2012) found that only 1% of private sector landlords own more than 10 properties. Although a predominance of

amateur landlords is not necessarily a barrier to a healthy, thriving and popular private rented sector, as seen in Germany (Kofner, 2014), in the UK it is sometimes associated with concerns about both stock condition and the quality of management (Rugg and Rhodes, 2008), each of which are addressed below.

3.2.1 Stock Condition

‘The private rented sector continues to have a higher incidence of dwellings failing to meet the decent homes standard compared with social housing and the owner occupied sector’ (DCLG, 2010, p.20), but this is attributed at least in part to the age of the stock, a high proportion of which is of pre-1919 construction. Only 54% of private rented sector dwellings in England met the Decent Homes Standard in 2010 (**Figure 5**), but whether or not the property is owned by a private individual or an organisation does not appear to be a determining factor (DCLG, 2010). Shelter (2012) believes that lack of competition in areas of high demand may diminish landlords’ motivation to keep properties in good repair.

Figure 5: Decent homes by private sector landlord type, England



Source: DCLG Private Landlords Survey 2010

Base: *dwellings for which age has been provided (826 cases), dwelling weighted

Source: DCLG (2010, p.21).

In comparison to the national picture, 29.9% of private rented stock in Bristol is classified as non-decent housing, whilst the regional, West of England, average is 34.1% (Opinion Research Services, 2012). A correlation is found, as nationally, between the age of the stock and its condition (Opinion Research Services, 2012).

3.2.2 Housing Management

There is some evidence of poor housing management practice in the private rented sector, largely based on data obtained from tenants. Rugg and Rhodes (2008) assert that ‘it is not possible to make any sort of estimate on the incidence of poor [management] practice’ (p.59) but note that ‘three-quarters of private tenants [responding to the Survey of English Housing 2005/6] were either very or fairly satisfied with their landlord’ (Rugg and Rhodes, 2008, p.60). They go on to detail satisfaction against a number of management measures, as shown in **Figure 6** below, revealing that as might be expected repairs are a significant factor where dissatisfaction is specified. In Bristol a survey found that, based on tenants’ responses to a series of questions about housing management practice, between 9 and 18% might be considered to have a ‘problem landlord’ (Opinion Research Services, 2012, p.56). Recent research surveying private rented sector tenants in London, Manchester and Sussex found that every tenant experienced a ‘condition problem’ with their home, whilst ‘the majority of people had to deal with problem landlords’ who refused to respond to repair requests or otherwise provided a poor service (Shelter, 2014, p.6).

Figure 6: Private sector tenants’ views on management provided by their landlord or agent (England, 2005/6).

Management issue	Good (%)	Neither good nor poor (%)	Poor (%)	Total (%)
If easy to contact landlord/agent	89	3	8	100
Speed of response to repair requests	67	10	23	100
Quality of repair work undertaken	72	11	16	100
Respect for privacy in the property	91	3	5	100

Source: Rugg and Rhodes (2008, p.60).

Evidence suggests that small-scale landlordism does not automatically increase the risk of poor management. Rugg and Rhodes (2008) found that ‘tenant satisfaction levels are not necessarily higher among tenants of larger landlords’ (p. xvi) but do also, however, cite evidence that larger landlords are more likely than what they call ‘sideline landlords’ to be aware of relevant regulations. They go on to highlight the potential for higher quality management as a driver for encouraging institutional investment in large-scale private rental developments in the UK.

A recent House of Commons Select Committee report on the private rented sector heard evidence, from a number of organisations, highlighting issues of poor conditions, sharp practice by letting agents, the effects of lack of security on families and the challenges facing local authorities who attempt to use existing legislation to intervene in their local private rented sector (House of Commons Communities and Local Government Select Committee, 2013). The Committee urged government to develop new guidance and information for tenants and to consider legislation to improve conditions in the sector and regulate the activities of letting agents.

3.3 Regulation of the private rented sector

The private rented sector is primarily regulated through legislation that places duties on local authorities to ensure that private rented housing is of adequate standards. Current statutory responsibilities of English local authorities relating to property conditions in the private rented sector derive from the Housing Act 2004, introduced by the previous Labour Government (Ormandy and Davis, 2007). This Act introduced the Housing Health and Safety Rating System (HHSRS), for assessing the fitness of dwellings, alongside a system of licensing of Houses in Multiple Occupation (HMOS), selective LA licensing of the local private rented sector in particular areas under specific conditions and a national deposit protection scheme for private tenants. Whilst local authorities have an improved standard with which to assess the health and safety of private sector tenants, their intervention often relies upon the tenant raising concerns with the local authority. In many instances, however, weak security of tenure and pressure arising from lack of supply at the lower end of the market discourage tenants from making complaints. It has been suggested that this serves to make the local authority the main enforcer of standards : ‘since tenancy agreements continue to afford occupiers little protection for their health and safety, and little security to give confidence to complain, protection of the most vulnerable now relies on the will and efforts of local authority officers’ (Burridge and Ormandy, 2007, p.566).

Local authorities in many cases combine this regulatory role with a pro-active approach to engaging private landlords to offer accommodation to selected tenants in housing need through ‘social lettings agencies’, in which the authority act as a managing agent and may offer grants or loans to help bring properties up to sufficient standards (Stevens, 2012). Some authorities, such as Bristol City Council, also promote improved standards through accreditation and landlord training and forums, sometimes in conjunction with landlord trade bodies such as the National

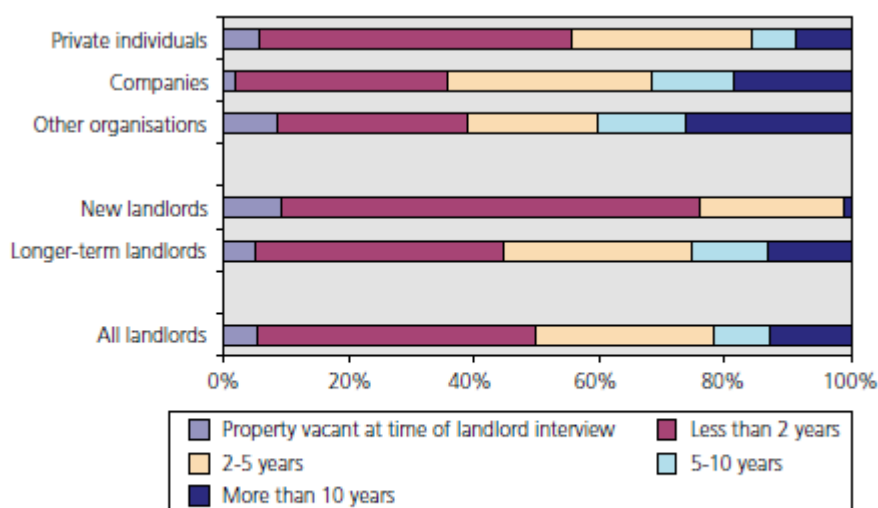
Landlord's Association (NLA). Government has particularly focussed attention on the role of local authorities in relation to what it terms 'rogue landlords' operating extremely sub-standard accommodation and exploiting migrant workers and vulnerable tenants. Guidance encouraging English local authorities to take a more proactive role in dealing with 'rogue' landlords was announced in 2012 and funding for local authority initiatives allocated (DCLG, 2012b).

3.4 Security of tenure

One aspect of management which substantially differentiates private rented from other rented housing supply is the contractual basis of the landlord-tenant relationship. Private sector properties are most commonly rented on assured short-hold tenancies which are usually extremely short in duration, giving tenants little protection against eviction and consequently very limited security. Hull and Cooke point out that

'the de jure minimum when it comes to security of tenure in the private rented sector becomes the de facto maximum: if the law requires landlords to offer at least six months' security followed by two months' notice, as it currently does, then six months' security and two months' notice become the norms' (2012, p.48).

Figure 7: Duration of current private sector tenancy, England.



Source: DCLG Private Landlords Survey 2010
 Base: respondent is landlord or agent (1,109 cases), dwelling weighted

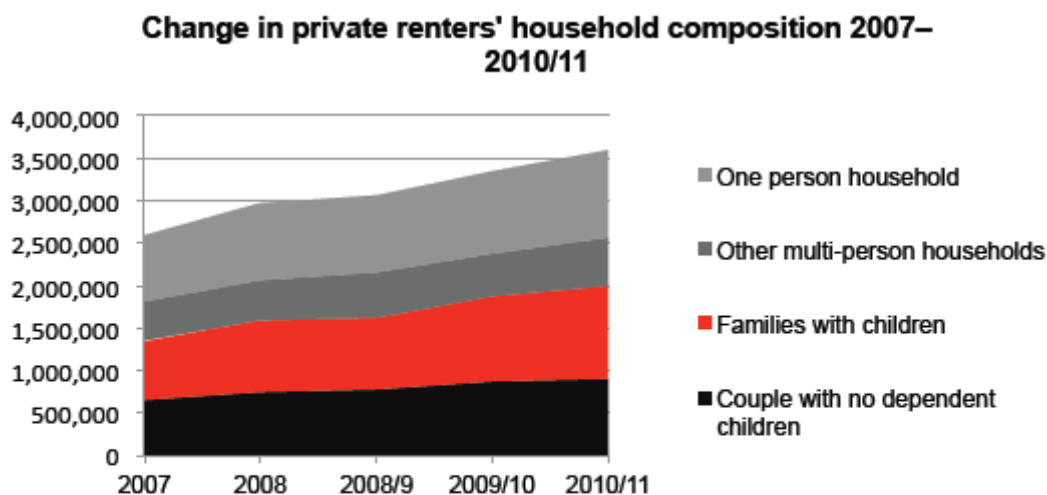
Source: DCLG (2010 p.36).

On this basis Hull and Cooke (2012) recommend that new, ‘family tenancies’ giving five years’ security and five months’ notice be introduced; whilst shorter tenancies may suit sub-markets such as young professionals, who may value mobility, they offer inadequate security for many families. Offering longer tenancies may not, however, appeal to all landlords: it heightens the risk of significant arrears, reduces flexibility and may conflict with the terms of some buy-to-let mortgages.

Despite the lack of security, data shows that in fact many tenants already stay in the sector for relatively long periods, as shown in **Figure 7**. Rugg and Rhodes (2008) present data suggesting that this is particularly likely for those in the lowest-quartile income bracket. Long term tenants remain, however, in the minority, and campaigners argue that the short term nature of tenancies in the sector creates a strong disincentive for tenants to report poor conditions or management to the local authority or to complain to their landlord for fear of retaliatory eviction (The Tenants’ Voice, 2013).

3.5 Private Rented Sector Tenants

Figure 8: Household composition of renters in England



Source: Department for Communities and Local Government (DCLG), *English Housing Survey 2010–11, 2009–10, 2008–9*.

Source: Shelter (2012, p.13).

The sector accommodates a diverse population which Rugg and Rhodes (2008) have classified into a number of niche- or sub-markets, each requiring specific

types of property and management practices to suit both their needs and their expectations. Examples of these sub-markets are young professionals, students, people claiming housing benefit, and people on high incomes able to pay high rents (Rugg and Rhodes, 2008; Alakeson, 2011; Walker and Niner, 2010). Nationally, homes in the private rented sector are 'most likely to be let to young couples (37%), families with children (35%) and young singles (32%)', whilst 24% of tenants are white collar (or professional) and 21% are blue collar (or manual) workers (DCLG, 2010, p.37). Figure 8 shows how the profile of tenants has changed over recent years, with the evidence 'suggesting that more and more people at 'settled' stages in their life are renting' (Shelter, 2012, p.13). In this context it is important to note that 'growth in Bristol is particularly noticeable in the primary school age population, and overall Bristol has a young population' (Bristol Homes Commission, 2014, p.11).

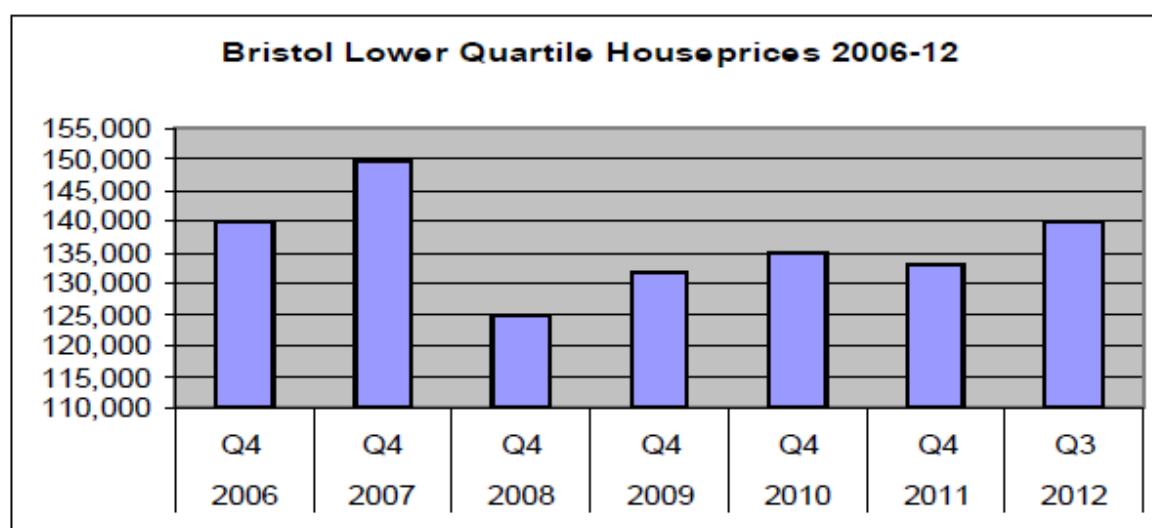
In 2012/13 25% of households privately renting in England received benefits to assist with rent payment (DCLG, 2014); in contrast 35% of private rented sector households in the West of England are in receipt of Housing Benefit (Opinion Research Services, 2012).

3.6 Affordability

Unsurprisingly, rent levels, stability and increases are primary concerns of private rented sector tenants (Shelter, 2012). Private sector rents in Bristol rose in 2012/13 by only 0.6% and 1.2% for 1 and 2 bed properties respectively, but by 4.1% for 3 bed and 13.6% for 4 bed properties (Bristol City Council, 2013), the latter increases well in excess of the inflationary measures built into the Local Housing Allowance.

Increases are likely to have been driven by continued house price rises in Bristol (see **Figure 9** below) which impact on rents both because of the relationship between mortgage service costs and rents, which is particularly acute for buy-to-let landlords (Diacon et al, 2012), and because escalating house prices limit the affordability of owner-occupation and so drive up demand for private rented property. Shelter (2012) have also found that pressure (or 'encouragement') from agents, who benefit in fees, is behind a significant proportion of rent increases in the sector.

Figure 9: House prices in Bristol



Source CLG

Source: *Bristol City Council (2013, p.6)*.

3.7 Housing Associations and the Private Rented Sector

Contemporary changes such as welfare reform and changes to the capital grant regime have increased pressure on housing associations nationally to adopt diversification strategies which include providing homes in the private (or market) rented sector (Chevin, 2013). Generally, it can be argued that housing associations are well placed to enter the market rented sector, having well capitalised balance sheets against which they can borrow to raise funds to either build or buy housing to effect market entry (Alakeson, 2012). They are organisations with established expertise in managing rented housing and offer the potential to address, as providers of market rented accommodation, many of the weaknesses identified in the sector: poor housing management and maintenance, insecurity of tenure and instability of rent levels.

Some housing associations have already entered the sector: for example, Sovereign currently manage approximately 300 market rented homes, and have further growth aspirations in this area (Focus Group, February 2013). Others are considering opportunities in the sector (Survey, 2013; Focus Group, December 2013). There is some consensus in the sector in Bristol that there are significant differences between managing and maintaining affordable and market rented properties, with a potential knowledge and skills gap which needs to be addressed

(Focus Group February, 2013; Diacon et al, 2012). It is important to consider, also, that the costs of management may be higher than housing associations are used to because higher levels of turnover than are usual in the social sector lead to a need for more intensive management of property (e.g. marketing, safety checks, letting) and associated expense. In order to deliver this unfamiliar model of housing management some organisations (for example, Sovereign) are choosing to outsource management of their market rented sector accommodation (Focus Group, February 2013). In some cases marketing, which requires a more commercial approach than that appropriate for affordable housing, is also outsourced.

Another significant barrier to market entry identified by the Bristol Housing Partnership (Focus Group, February 2013) is access to appropriate, available and financially viable sites. The scale of development (balancing economies of scale against risk) is also perceived to be an important issue, as is the planning process, which presents a number of barriers to large-scale development of market rented schemes. There is a clear appetite within the sector, however, for overcoming these barriers and delivering a market rented sector offer, explored below.

3.7.1 A better offer?

Whilst market rent opportunities offer housing associations the opportunity for increased income and potential to cross-subsidise other, less profitable, aspects of their businesses, housing associations offer the market rented sector the benefits associated with long-term, experienced, regulated and socially-responsible landlords. As such housing associations can potentially offer greater security of tenure, higher physical property standards, better management services and greater rent level stability than are habitual in the private rented sector.

Offering longer tenancies is of particular potential value to certain private sector markets such as families with children of school age (Shelter, 2005). With careful pre-tenancy work, cautious selection of tenants and a carefully structured, longer-term tenancy agreement which allows both tenant and landlord exit without penalty there is an opportunity for this type of tenancy agreement to improve returns for landlords (Jones Lang LaSalle, 2012). There are however limitations for landlords who offer longer tenancies: in particular, both an increased risk of substantial rent arrears accruing and significantly diminished flexibility (restricting sale or conversion

of the property). As such, housing providers in Bristol believe that leases or tenancies of five years are the ideal compromise between the needs of tenants and those of landlords (Focus Group, February 2013).

As experienced property managers, housing associations are also in a position to draw on existing expertise and resources in order to provide homes which meet the decent homes standards (Diacon et al, 2012) as well as to deliver exemplary housing management services. Accustomed to providing high quality management and maintenance services, housing associations will be able to achieve economies of scale by streamlining contracts and will in some instances be able to deliver services using existing resources, responding sensitively to the needs and expectations of tenants. They may also be able to accommodate tenants' wish for greater stability of rents depending on the level of certainty they are willing to offer over longer-term tenancies.

Many of these possibilities assume that housing associations will own, as well as manage, market rented properties, but in fact opportunities to work in the market rented sector are diverse and there are a range of roles which housing associations may wish to adopt which will diversify to varying degrees from traditional core business (Squires and Victory, 2014). In particular, associations may be interested in managing properties owned by others, or in undertaking an agency role by, for example, dealing in ethical lettings (Focus Group, February 2013); these roles may particularly interest smaller associations with limited access to new capital. Some associations may wish to buy properties 'off the shelf' (e.g. sourced from stalled development sites) which they can offer at market rents, to manage properties on behalf of an owner (e.g. through an institutional investment arrangement) or to develop specialised products (e.g. holiday lets). More innovative possibilities are also being explored by some larger housing associations: for example, Circle Group have developed an investment portfolio of private sector stock in Germany (which trades as Libericus).

3.8 Summary

As pressures on the affordable sector continue to constrain supply and house prices continue to rise there is no indication that the increase in demand for homes in the private rented sector will slow in the near future. Analyses of the sector have identified a number of weaknesses which will become increasingly significant as the

sector grows: these include poor management, insecurity of tenure, low physical standards and affordability issues. A partial solution to these issues must be to improve support to private sector landlords, recognising the valuable contribution that these landlords make, providing incentives for improvement in stock condition and management standards and changing negative perceptions of City Council involvement in the sector. Further prospect for change is offered by housing associations, which as large-scale, experienced landlords are seeking to expand into the sector in order to help address challenges to their funding posed by changes including welfare reform and reductions in and restrictions to capital grants.

Bristol's buoyant rental market means that there is potentially an excellent local opportunity for housing associations to generate capital in the market. However this is largely a new market for housing associations, albeit one closely related to their core business, and care will need to be taken to minimise risk exposure. The presence of the structural weaknesses in the market identified above, together with distinct sub-markets, present specific challenges and opportunities for housing associations which should be carefully understood by market entrants. There are also challenges presented in terms of how supply will be generated. One option here is the institutional investment model, which is addressed in the next chapter of this report.

4.0 Institutional Investment

4.1 Context

Institutional investment refers to a business model whereby large organisations, most commonly banks, pensions and insurance companies, invest capital in property with a view to benefitting from the resulting returns. Whilst institutional investment in commercial UK property is relatively common, 'just 1 per cent of the UK's private rented housing stock is currently owned by institutions, compared with 13 per cent in the US, 17 per cent in Germany, 23 per cent in Switzerland and 37 per cent in the Netherlands' (Johnson, 2014). Institutional investment in affordable housing in the UK is essentially non-existent.

But 'over the past 20 years, UK residential property has outperformed commercial property and other mainstream asset classes on the basis of total returns' and offers a number of attractive features (Savills, 2012: 6). The latter include being an 'under-supplied market with strong growth prospects' and having 'high rates of occupancy' and 'low rates of depreciation' (Savills, 2012, p.7). In addition, the way in which residential rents in the private sector tend to change in line with earnings make private sector residential property an ideal investment for pension funds (DCLG, 2012). Despite these features, the fact that the sector traditionally offers lower all-risk yields than the commercial sector has deterred investors. Other barriers to institutional investment in residential property include lack of suitable development or purchase opportunities, novelty, and barriers arising from the planning system.

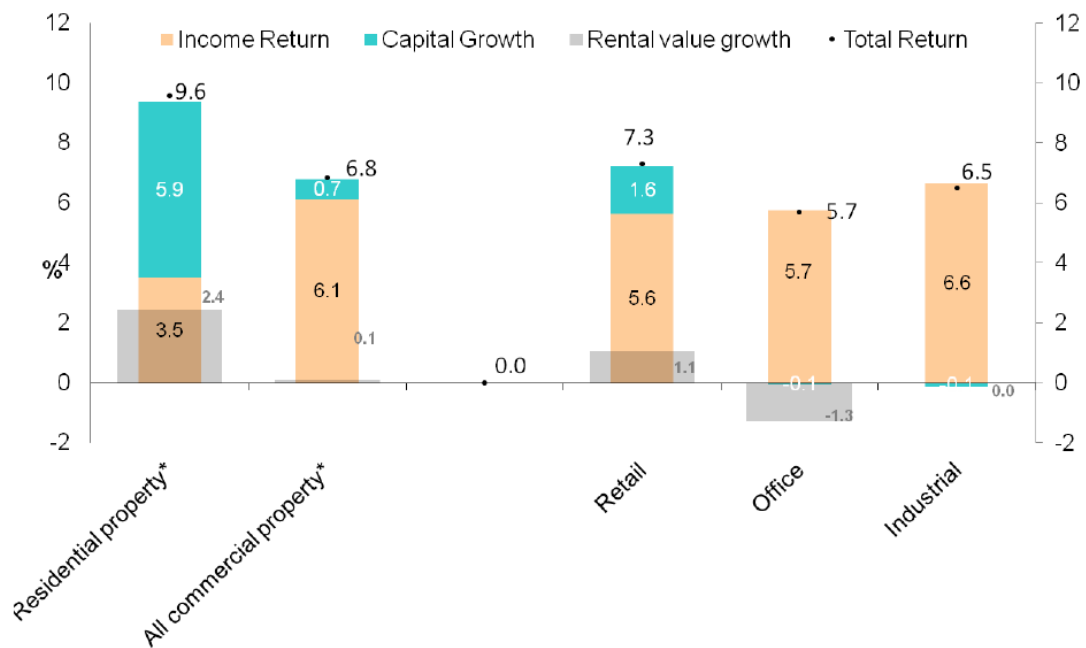
In a recent survey, 68% of institutional investors stated that they 'are expecting to or will increase their exposure to the [residential] sector over the next 12 to 36 months' (IPF, 2013, p.11). Whilst the potential for institutional investment is currently primarily located in London and the South East (BLP, undated), Bristol may have the opportunity to benefit in future if the City can attract investors by offering the right sort of opportunity. Bristol's comparative wealth and high rental values, with private sector rents having risen rapidly in recent years (Savills, 2012), are likely to be attractive to investors although this potential must be balanced against high local property values which, whilst they may offer attractive capital growth, may reduce yields (DCLG, 2012). Given their position as the largest, most experienced residential landlords in the UK, housing associations are particularly well placed to

be a repository of institutional investment in residential property, and offer the assurance of operating within a well-regulated sector (BLP, undated). Furthermore, whilst the primary opportunities will be for institutional investment in market rented housing, some investors (in particular pension fund providers, who are willing to sustain a lower yield) may also be willing to invest in affordable housing (JLL, 2014). Taking all these factors into account institutional investment seems a realistic avenue for the Bristol Housing Partnership to investigate with a view to embracing future opportunities. The barriers identified above must, however, be addressed in a local context in order for successful institutional investment to be enabled, and each of these is explored briefly below.

5.1 Yields

Recent growth in residential institutional investment reflects the fact that *total* returns for the sector have outperformed those for the commercial sector by over 30% over the 10 years to 2012 (Ball, undated; Savills, 2012).

Figure 10: Breakdown of Returns on Property Investment



DCLG 2012: 12.

The fact that returns are largely capital returns, however, with lower yields than the commercial sector (see **Figure 10**), has traditionally deterred investors from the residential sector. Hamptons (2012) explain that 'while target gross yields for commercial property in the current market might be between 5.5 and 6%, residential

property is generally assumed to be below 5%' (p.4)¹. The lower yields in the sector are attributed to the dispersed nature of the existing stock, resulting in high(er) management and maintenance costs, and the relatively high concentration and turnover of tenants; a longer-term, more efficient model is increasingly recognized as providing potential for effective investment (BLP, undated). As noted in Section 4 of this report, housing associations offer significant potential to deliver this type of model, thus seeming well suited to pairing with institutional investors.

5.2 Opportunities and Delivery

A significant barrier to institutional investment in residential property in the UK is the lack of opportunity to build, or buy, large-scale developments for private rental (Crook and Kemp, 2011; DCLG, 2012; Hamptons, 2012). Such opportunities are essential in order to achieve attractive economies of scale in transaction, management and maintenance costs, thereby facilitating a higher level of return (Diacon et al, 2012). It is important to note that from the point of view of risk, however, smaller developments may be preferable, with one housing association stating that 30 units is an optimum number for developments for private rental (Focus Group, February 2013). The price of land for housing development, which is dictated by values in the owner-occupied market (DCLG, 2012), makes development for private rental less financially viable and attractive. In addition, many investors are unwilling to absorb the risks attendant to the development phase, preferring to 'buy rental units at scale once they have been built and let and are generating an income stream' (Alakeson, 2012, p.3).

5.3 Novelty

Institutional investment is a relatively new phenomenon within the UK housing market, which means that investors and developers lack experience of working in this way and may be reluctant to embrace the perceived risks of market entry (DCLG, 2012). One of these risks is the level and (un)predictability of management costs. Commercial property, an established, successful asset class, has a completely different tenancy structure where, for a long term contract, the tenant is usually responsible for repairs management and maintenance including voids and arrears (Ball, undated). In the residential sector, by comparison, tenancies are

¹ For those wishing to understand how gross yields in the residential sector translate into internal rates of return, Savills (2012) have produced a useful briefing note.

often of short duration and the costs of management and arrears will be between a quarter and third of gross rents (Crook and Kemp, 2011). This threatens to result in lower yields as well as creating an unacceptable level of unpredictable financial risk. Investors may respond by 'seek[ing] a premium to compensate for the apparent novelty of the sector and the lack of operational comparisons, which puts further pressure on yields' (DCLG, 2012, p.14).

Housing associations may also resist the institutional investment model due to its novelty: both because the model is to a large extent unproven in the UK and because their own experience in the private rented sector (likely to be the only tenure to generate sufficient rental income to attract investors) is limited (Interview 2013, Focus Group, February 2013). Having said this, many housing associations are experienced property managers with large stock holdings and are likely to understand the complexities of managing the types of scheme that institutions may invest in (Diacon et al, 2012). It is likely that institutional investors will prefer to work with those associations which have large stock holdings, a diverse tenure profile and experience of managing large-scale developments.

5.4 The Planning System

Existing planning policy presents challenges to development for market rent and was cited in a survey of investors as one of four key areas for reform if the sector is to be made more attractive to investors (IPF, 2013). Principal among the challenges presented is the 'assumption... built in to calculations of the value of land, including when assessing planning gain for the purposes of determining section 106 and Community Infrastructure Levy agreements', that any housing not intended as 'affordable' will be sold for owner-occupation (DCLG, 2012, p.15). The attendant risk is that sites are unviable unless developed principally for owner occupation. As such the Montague Review (DCLG, 2012) recommends that local authorities apply as much flexibility as possible in order to enable development for market rent.

In Bristol, housing providers believe that if City Council owned land is brought forward for development, with sustained Council involvement, greater certainty and control could be exercised over the level of planning contributions sought (Focus Group, December 2013). For institutional investment to be successful, a change in attitude to the way that public land is made available may be needed. In addition, development on all potential sites (including the substantial proportion in the hands

of volume house-builders) may need to be enabled by lowering the affordable housing (and other) contributions requested for the types of development that are attractive to institutional investors (IPF, 2013; Savills, 2012). This is a complex issue for the Bristol Housing Partnership to grapple with, as contributions have traditionally been pivotal in enabling the delivery of affordable housing, but have diminished as supply has stalled amid economic uncertainty. In addition, there may be a desire on the part of the Council to ensure that surpluses generated where market rented sector development is enabled by reduced contributions are as far as possible re-invested within the City.

5.5 Over-coming barriers to residential institutional investment in Bristol

The Bristol Housing Partnership offers the potential to address these barriers to institutional investment in four ways: by making public-sector land available for development, by bringing forward (housing-association led) build-to-let developments, by prioritising private rented supply strategically and through the planning process, and by testing a bespoke Joint Venture Partnership model. Each of these possibilities is addressed below.

5.5.1 Public-Sector Owned Land

Bristol City Council has a sufficiently large portfolio of development sites to attract the type of returns that institutional investors desire (Focus Group, February 2013), either through development of a single, large site or taking a portfolio approach to development (Alakeson, 2012; Interview 2013). A potential problem is, however, that the location of many of the Council-owned sites on the periphery of city may reduce their attractiveness to investors. One potential solution to this problem is offered by the Bristol Homes Commission (2014) which recommends that the Council review *all* sites in ownership, rather than just those immediately available for development, taking a proactive approach to 'looking for opportunities to create additional housing land and site assembly options' (p.16). This might, for example, result in the release of land through re-location of existing services. Careful evaluation of sites identified and, if this was positive, sophisticated marketing to investors, would be essential.

Another means of delivery is release of other publicly-owned land, through the HCA or working with the Bristol Property Board, which aims to

streamline the use of public sector land in the City. The City Council may be able to work with these agencies to facilitate land release, or indeed to engineer a portfolio of land owned by a variety of public agencies including the Council (Bristol Homes Commission, 2014). There is a risk that the requirement to 'obtain best consideration' for land may sometimes be prohibitive (DCLG, 2012). On the other side of the coin, however, the Bristol Homes Commission (2014) suggests a model whereby the value of support from Bristol City Council and/or the Bristol Property Board in bringing forward sites for development is recognised by contributions in the form of affordable or market rented housing. The Commission also suggest that an 'invest to divest' (or Revolving Investment) fund is used by the City Council to de-risk less attractive sites (e.g. those in 'secondary locations'), thus unlocking 'stranded assets' (Bristol Homes Commission, 2014, p.19).

It is important to note, of course, that using sites to develop private rented provision in this way may impact negatively on the delivery of new affordable housing. The position is well summarised by the Bristol Homes Commission (2014), which states that 'Bristol needs more homes of all tenure types..., but insisting on producing more affordable homes may result in Bristol producing fewer total homes including homes of other tenures' (p.28). This trade-off will need to be carefully considered to ensure that the balance of housing supply achieved across the City reflects the profile of the population's housing need.

5.3.2 Adequately prioritising private rented supply

Savills (2012) assert that successful institutional investment in housing stock will require not only willingness and commitment from housebuilders (who hold many of the potential sites) but 'also an agreement from local authorities that the delivery of private rented stock will specifically meet local needs' (p.9) – i.e. a recognition that market rented accommodation has a role to play in meeting local housing need. Correspondingly, assurances that delivery of this type of housing stock will be supported strategically and through the planning process will be essential in order to secure institutional investment.

The Bristol Homes Commission (2014) recommends ‘that the Council and the... [HCA] develop a strategy to encourage and support innovation in developing sustainable, scalable and repeatable alternative models of new homes supply in Bristol that includes Custom Build, Institutional Market Rent, Self Build and Modular Housing’ (p.26). Doing so will require Bristol City Council’s housing and planning departments to work together to identify the need for private rented sector accommodation; the forthcoming West of England Strategic Housing Market Assessment should assist with this. It will be critical to balance this need with the need for affordable rented housing in seeking contributions as part of the planning process (as above). Ultimately, making the local planning system as ‘proactive, flexible and can-do’ as possible (Bristol Homes Commission, 2014, p.30) will maximise possibilities for institutional investment.

Working pro-actively to support delivery of market rented accommodation and to facilitate build-to-let and other models of institutional investment may enable stalled sites originally intended primarily for owner-occupation to move forward (Savills, 2012; Bristol Homes Commission, 2014).

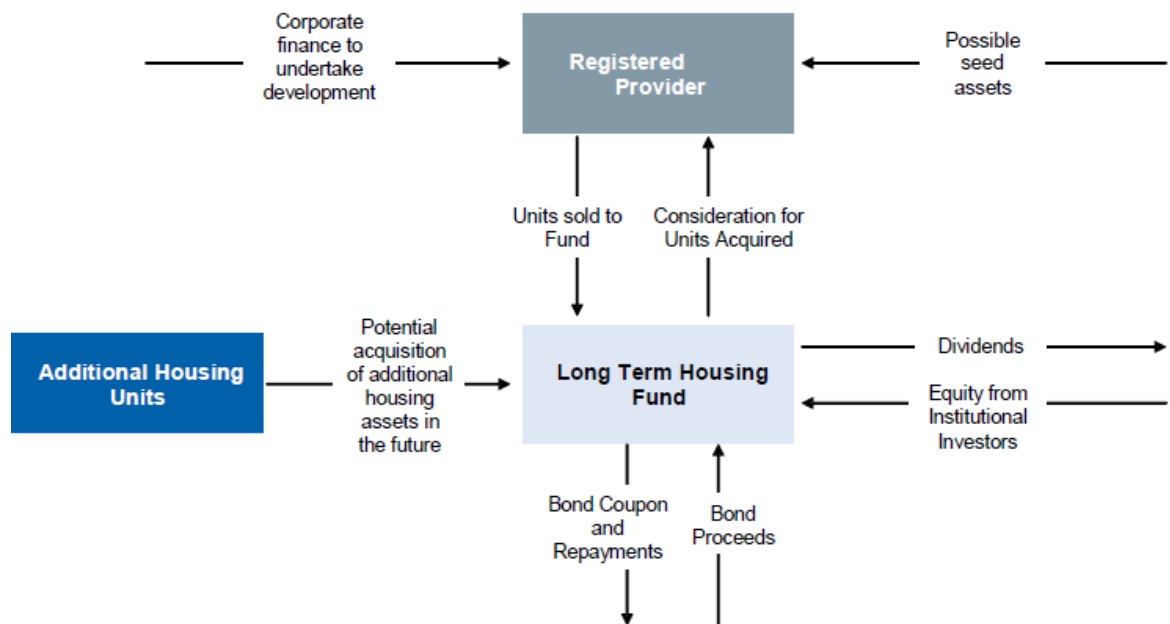
5.3.3 Housing Associations and Built-to-Let

Build-to-let models offer the potential to overcome issues of lack of investment-ready supply and allow investors to minimise their share in development risk and cost. Following publication of the Montague Report (DCLG 2012) the Homes and Communities Agency launched a ‘Built-to-Rent’ fund in order to facilitate new private rented housing supply by means of a recoverable Government investment. To date there have been two bidding rounds; it is unclear whether further opportunities will be offered.

Accessing either state funding of this sort, or finance from other sources (such as private lending), housing associations in Bristol may be able to deliver a successful build-to-let model which could facilitate institutional investment. Finance secured would be used to develop units then recouped by selling the units on to institutional investors (Alakeson, 2012) – whilst potentially retaining a role in managing those units through a long-term contractual arrangement. A possible model is shown in **Figure 11** and

could be delivered either by a single large housing association with the potential to facilitate large-scale development, or by a partnership of providers contributing dispersed sites which in total offer the economies of scale desired by investors (Alakeson, 2012). In order to support this model housing associations may need to be prepared to work collaboratively in order to avoid boosting land values through competitive bidding (Focus Group, December 2013).

Figure 11: Possible Build-To-Let model for housing associations.



Source: Alakeson (2012, p.4).

5.3.4 Joint Venture Partnerships

In Manchester, a desire to make public land available for market-orientated development *and* to manage contributions to affordable housing (and potentially other matters of social benefit) in such a way that they do not deter investment resulted in the establishment of a Joint Venture Partnership. Joint Venture Partnerships are defined as virtual organisations which can be defined as ‘a co-operation between several independent partners... who share the resources, skills and knowledge’ necessary to deliver certain objectives (Trafford and Proctor, 2006). In the institutional investment context a partnership between local authority (as land owner/developer), housing association (as manager, possibly developer)

and institutional investor (as funder, possibly controlling development) may be able to purchase large-scale development sites and deliver a scheme which has been significantly de-risked by the involvement of key stakeholders from an early stage (Alakeson, 2012; Interview, 2013). The model allows the local authority to retain an element of control, sharing development risk and maximising the opportunity for affordable housing whilst streamlining the planning process and negotiation over contributions (Interview, 2013). The model also addresses investor concerns about securing high-quality, cost-efficient management and maintenance through the involvement of a housing association (Crook and Kemp, 2011; Diacon et al, 2012). On the other side of the coin, however, investors may be deterred by the shared development risk; Manchester City Council acknowledge that their position, where the local authority pension fund is the investor and has been prepared to share in the development risk to the extent of contributing full development costs, is unusual (Interview, 2013).

In Bristol, housing providers consider that joint venture partnerships are an opportunity for housing associations and Bristol City Council to help deliver schemes that have significant levels of institutional investment (Focus Group, February 2013). Such partnerships are complex and would require strong organisation and leadership to mitigate inexperience, necessitating careful selection of stakeholders. In addition, careful work would be needed to overcome barriers such as investor aversion to sharing development risks and costs: this may be about finding the right investor, or about presenting the right opportunity for investing. Testing this sort of initiative on a smaller scale initially (albeit delivering sufficient volume to attract investment) would allow valuable lessons to be learnt and potentially a workable, replicable model established.

5.4 Summary

Institutional investment offers an opportunity to facilitate the delivery of a substantial volume of new housing supply, primarily market rented accommodation. Although this type of investment is currently predominantly focussed in London, Bristol presents an attractive proposition to investors provided that a number of structural barriers can be overcome and opportunities effectively marketed. These barriers include a perception of low yields in the sector, lack of appropriate or attractive

opportunities, novelty, and planning processes which make investment unattractive. Working together in partnership, either informally or through vehicles such as Joint Venture Partnerships, Bristol City Council and housing associations have the opportunity to address these barriers. Public land may be able to be brought forward for development on attractive terms, and the planning system flexed to recognise the benefits of, and accommodate, the development of new market rented supply. Housing associations can contribute experience and expertise which promises to address concerns about low yields by offering economies of scale and efficiencies as well as the long-term model desired by investors. They may also be able to implement build-to-let models of development which can offer investors ‘off-the-shelf’ rental units. These will incur development risk for housing associations but offer the possibility to release some capital value back into the sector at an early stage as well as offering long-term revenue in the form of management agreements.

It is important to recognise that, whilst this report is focused on institutional market rented, other innovative models also offer the potential to deliver new housing supply – possibly on the same sites as part of mixed-tenure development. The Partnership may wish to explore these other models, which include Custom Build and Community-Led Housing, in line with the recommendations of the Bristol Homes Commission (2014).

6 The Future Strategies of Housing Providers in Bristol

6.1 Context

This third research theme was selected by the Bristol Housing Partnership in recognition of the rapid pace of recent change in the operating context for housing providers in England. In order to understand the impact of this change, and the responses housing providers are making to it in Bristol, the Bristol Housing Futures Survey was created and followed up with a focus group at which the results were discussed (Focus Group, December 2013). The change referred to includes the advent of a prolonged period of financial austerity in the aftermath of a global financial crisis and, more specifically, welfare reform, the introduction of affordable rents, changes to the capital grant regime and the availability of private finance, and regulatory reform (CASE, 2012; Chevin, 2013; Jones Lang Lasalle, 2012). The Localism Act 2011 is significant, introducing changes to social sector tenancies, waiting lists and responses to homelessness, and HRA reform (Chevin, 2013). Housing providers in Bristol – affordable and private sector – also identified increasing competition between providers as a growing issue (Survey, 2013). Lastly, as we have observed above, change to the balance of tenure is happening at pace, with rapid growth in the proportion of the population housed in the private rented sector particularly striking.

6.2 The Affordable Housing Sector

6.2.1 Housing Associations: strategies for growth

Survey data supplemented by a focus group (Focus Group, December 2013) revealed diverse aspirations on the part of housing associations. Growth continues to be a core priority, ranked highest by survey respondents amongst future objectives, with expansion into new markets, or to provide new services, also a high priority, followed by consolidation of existing business and providing a heightened level of service (Survey, 2013). With diminished capital subsidy and threatened rental income, affordable housing providers are keen to provide new products and services with the potential to generate capital (Survey, 2013; Focus Group, December 2013). Reliance on government funding streams remains high, at least in prospect, with housing associations also citing more effective asset management as a priority means of funding growth. Examples cited through the survey (2013) and

focus groups (2012, 2013) include selling stock in high value cities like Bristol and changing the use of specific properties from social rent to affordable or market rent (within the restrictions of the regulatory and funding regime), thus creating assets which generate larger rental incomes (Focus Group, December 2013).

In terms of entering new markets the largest providers (such as Places For People and Sovereign) have already successfully made the transition to traditionally private sector activities such as providing homes in the market rented sector, whilst others are also interested in opportunities in this sector (Focus Group, February 2013). Many of the organisations involved in the Bristol Housing Partnership are, however, smaller organisations with fewer resources and limited experience beyond the traditional core business of providing and/or managing affordable housing and community investment activities. These differences highlight the diverse nature of the strategies which it will be appropriate for housing associations to adopt in the face of change. Furthermore:

For some, the growing emphasis on the commercial aspect of the business is moving the sector away from its social roots. For others, however, it is liberating, allowing greater autonomy and more opportunity to cross-subsidise social housing. Where there is consensus... is that the new opportunities available bring with them greater risks, demanding different skills and more effective boards' (Chevin, 2013, p.28).

Housing associations will therefore need to prioritise these issues at a strategic and operational level as they engage with new opportunities.

6.2.2 The changing profile of tenants

In the context of welfare reform and in order to sustain viable business plans, some affordable housing providers are under-taking more pre-tenancy work in order to identify applicants who will be unable to afford or manage payment of social or affordable rents (Focus Group, December 2013). On the one hand, this can be seen as responsible practice, avoiding the prospect of tenants accruing debt; on the other hand, it raises the question of where applicants refused by housing associations will find a home. The City Council fears that local authority housing will increasingly become the last resort for people refused by other sectors, leading to the increased management problems associated with a concentration of vulnerable

tenants (Focus Group, December 2013). There is also a risk, of course, that many of the most vulnerable will end up in the private rented sector, in the poorest accommodation. One housing provider suggests that a sensible way forward may be a Bristol Housing Partnership-wide, common pre-tenancy check system (Focus Group, December 2013), but broader strategies encompassing the landlords who are least likely to engage with the Partnership may be necessary to ensure that the needs of the most vulnerable are met. These might include accreditation or licencing schemes targeting particular sectors of the private rented market.

There are also mixed views about the prospect of housing associations entering the market rented sector: some believe that the inevitable selectivity which this will require in lettings in order to minimise the risk of rent arrears and failed tenancies will cause a conflict with the traditional values of associations, whilst others see this as an opportunity for housing associations to improve practice within the sector (Focus Group, December 2013).

Ultimately, a number of housing associations believe that a more balanced profile of needs within the affordable sector will make the sector more sustainable, and that tools such as pre-tenancy checks, two way contracts and flexible (rather than life-time) tenancies may be necessary in order to manage a situation where demand is considerably in excess of supply (Focus Group, December 2013). Housing providers are also keen to understand their existing tenants better, thus being able to 'tailor services to customers in a more commercial way' (Housing Association representative, Focus Group, December 2013). In part this may be about recognising the different needs of specific groups of tenants: for example, young people, who may be restricted by the welfare benefit regime to shared housing, a model not widely provided by housing associations at present (Focus Group, December 2013).

6.2.3 Smaller Housing Associations

Smaller housing associations are particularly vulnerable to pressure from both funding cuts and welfare reform and have limited stand-alone access to new private finance (Survey, 2013; Helen Cope Consulting, 2012). At the same time, however, they offer particular strengths within the sector, notably in 'housing management, local knowledge, knowledge of customers' needs and ability to meet them' (Helen Cope Consulting, 2012). Mergers between some small associations have already

occurred in Bristol in order to facilitate access to the bond market and other sources of finance but there is an appetite among Bristol Housing Partnership members to preserve the independence of smaller organisations as far as possible and, therefore, to find ways to pool resources and access new sources of finance without formal merger arrangements (Focus Group, December 2013). Possibilities discussed by the partnership include local authority lending, collaboration with larger providers in order to access development finance and partnership working in order to avoid excessive competitive bidding driving up the value of s.106 sites; some smaller providers feel that their future may lie in pursuing niche opportunities, such as management-only arrangements, which avoid the need for capital funding (Focus Group, December 2013). It should be noted that some caution is necessary in pursuing such arrangements, which may incur substantial risks if they entail underwriting specified levels of income to property owners.

6.3 The Private Rented Sector

Private sector landlords in Bristol (the majority amateur with a single-property portfolio) stress the impact of financial and economic factors on their business together with legislative changes – especially those relating to leases and to sustainability (Survey, 2013). The most significant change experienced in the sector over the last 5 years is an increase in demand, and there is some indication that the type of demand is changing with, for example, one larger-scale private landlord (20 homes) stating that whilst shared housing was previously stigmatised it is now popular with young professionals provided it is of a high standard (Survey, 2013). There is some appetite for expansion within the sector locally but essentially none (<5%) for providing new services (Survey, 2013). One provider included the investment of pension providers in private rented sector accommodation among issues facing the sector, suggesting that there is some awareness within the amateur sector of the possibility of institutional investment and some concern about what it might mean for smaller landlords (Survey, 2013). Another prominent concern expressed related to regulation and bureaucracy, with a number of providers expressing dissatisfaction at the level of compliance required (Survey, 2013).

In terms of strategies to respond to what they perceive to be the main operational challenges, private sector landlords refer most commonly to exiting the sector and to refusing tenants in receipt of Local Housing Allowance. Other strategies cited

include increasing rents, shifting towards the young professional market and away from the family market, and increased pre-tenancy checks (Survey, 2013).

6.4 The Future Strategies of Housing Providers: Summary

The future strategies of housing providers in the affordable and private rented sector are changing in ways which reflect the challenges of operating in a constrained financial environment. There is some evidence both that demand from potential tenants is changing (especially in the private sector) and that landlords in both the affordable and the private sectors are becoming more selective in allocating and letting properties. For affordable housing providers, the focus is changing from a business model which is primarily about housing the most vulnerable and providing some community services towards more complex strategies which include providing housing products and services in new markets which generate higher returns, commonly termed 'commercialisation'. It is possible that in Bristol, which has high property and rental values, these products and services may be easier to deliver than traditional affordable housing products. But as landlords in all sectors react to the challenging financial context by becoming increasingly financially aware there is a risk that the most vulnerable in society, those most likely to be unable to afford or manage rent payments, may be left homeless. These households might ultimately be concentrated within Bristol City Council's housing stock, creating strategic and operational problems for the local authority, or in the cheapest, worst parts of the private rented sector.

Whilst larger housing associations operating in Bristol have already taken the opportunity in many cases to expand into new areas of operations, smaller organisations face particular challenges in doing so which the Partnership may wish to address in order to support diversity within the sector. In the private sector a number of small landlords are feeling pressure to exit the sector due to a range of factors which include financial and regulatory pressures.

7 **Recommendations to the Bristol Housing Partnership**

The recommendations below suggest ways in which the Bristol Housing Partnership can support a strong and thriving private (or 'market') rented sector which meets housing need, can enable institutional investment in residential accommodation in the City and can work together to adapt to a rapidly changing operating context.

7.1 **Support housing associations to do business in the market rented sector.**

This report details a number of reasons why it is timely for housing associations to enter the growing market rented sector. The opportunity for housing associations to generate income to boost their available capital is attractive, whilst policy-makers are offered an opportunity for standards of management, maintenance and customer service to be improved in the sector.

Whilst the decision about whether to enter the market rented sector, and in what capacity, will need to be taken at organisational level, there are a number of areas in which the Partnership may wish to act. Housing associations are, of course, essentially in competition with each other, so the appetite of the Partnership members for working collaboratively in each of these areas will need to be determined. Actions could include:

- **Exploring the skills required at operational and strategic (e.g. Board) level to operate within the market rented sector** and working together to identify good practice and possibilities for sharing training (and even, for smaller organisations, shared staff);
- **Working strategically to identify needs and specify target sub-markets** for private rented housing. It will be important to identify the range of types of accommodation needed to meet demand. The West of England Strategic Housing Market Assessment may be a useful tool in this regard;
- **Working together to avoid unhelpful competitive bidding** against each other (e.g. for s.106 sites), which risks elevating land values and making developments financially unviable;
- **Identifying sites which have stalled** and which may be suitable for 'rescue' either by a single housing association building for private rent or by an institutional investment partnership;
- **Taking on a range of roles in the market rented sector** including developing, managing and letting roles, subject to careful analysis of opportunities;

- **Managing the impact on affordable housing supply** of this new and growing area of housing association activity.

7.2 Increase and promote opportunities for residential institutional investment in Bristol in order to deliver new supply in the market (and potentially the affordable) rented sector(s).

This report concludes that Bristol may present attractive opportunities for institutional investment in residential accommodation but that the Partnership will need to address a number of barriers in order to facilitate this. Actions recommended include:

- **Appointing a topic lead within the Partnership** with responsibility for keeping the Partnership fully up-to-date with changing practice, guidance and initiatives relating to institutional investment (including outcomes of the Private Rented Sector Taskforce), monitoring the market for institutional investment and disseminating successful examples as they emerge. Timing will be key to achieve successful investment: investors may seek lower returns once the novelty factor is overcome, but the local market may quickly reach saturation;
- **Commissioning expert advice in order to fully understand the detail of institutional investment models which are workable in the local context**, including identification of potential investors;
- **Marketing *residential* Bristol to investors as an attractive proposition** – including making the case about the local market, potential capital returns *and* yields and opportunities to partner with experienced housing association providers. It will be important to stress the willingness of housing associations to offer long(er)-term tenancies and to deliver large sites which can offer significant economies of scale, thus enabling higher yields;
- **Identifying any suitable sites in City Council ownership and making them available on the best possible terms**, acting on the recommendations of the Bristol Homes Commission. A portfolio approach may be essential if suitable single sites are not available;
- **Marketing specific sites or opportunities professionally in order to attract the most beneficial investment**. Employing an agent or consultant may be appropriate;
- **Working with the HCA and the Bristol Property Board to identify other suitable publicly-owned sites**;

- **Exploring opportunities for a Joint Venture Partnership** or other vehicles which will spread development risk and therefore increase appeal for investors. A small-scale collaborative pilot with disseminated learning would potentially allow a Bristol-specific, replicable model to be worked up for use by Partnership members;
- **Testing, and sharing good practice from, a housing association led build-to-let model** whereby housing associations secure finance to develop before selling units on to an investor (potentially retaining a management role). A projected gross yield in excess of 5% is likely to be required to attract investors. Local recipients of HCA Built-to-Rent funds may also be willing to share learning from the experience;
- **Preparing information on operational comparisons**, as well as accurate estimates of management and maintenance costs, to reassure investors and address novelty concerns;
- **Managing the impact on affordable housing supply** of supporting delivery of growing numbers of market rented homes. In particular the City Council may wish to discuss with the partnership how to manage the risk that surpluses accruing from sites where contributions have been lowered in order to facilitate development are spent outside the City.

7.3 **Establish a planning culture which promotes and encourages private rented sector development.**

Having responsibility for local planning processes and decisions, Bristol City Council has the ability to address some of the barriers to the development of new private rented sector accommodation, including development through institutional investment, presented by the planning system. This aligns explicitly with the Montague Review (DCLG 2012) and can be achieved by:

- **Developing an enabling culture in response to opportunities for market rent development.** This will entail developing expertise through mapping need for private rented sector accommodation, understanding the role and importance of the sector and employing maximum permitted flexibility in the planning process to enable development;
- **Lowering contributions for affordable housing** and/or other requirements on specific sites in order to enable viable development of market rented schemes. Although contentious, this approach offers a potentially powerful facilitation tool

in specific instances – for example, where research indicates substantial unmet need. The complexities of this will require careful negotiation.

7.4 Respond to issues of affordability in the private rented sector.

Whilst it is desirable to increase stability in the cost of private renting in Bristol, and to address high rents in the sector, to do so is extremely challenging, as demonstrated by the complex history of private sector rent control in England. Significant factors largely outside local control, such as house prices, exert a heavy upwards pressure on rent levels which it is difficult to influence locally. There are however a number of measures which could be taken to respond to issues of affordability in the sector:

- **Promoting and enabling larger-scale rented developments in areas where rents are high** may, through an increase of supply, decrease demand and therefore upward pressures on rents. This relies on the premise that increased supply will result in decreased price and is of course highly speculative. It may also be impractical, given that development will tend to be led by site availability. Nevertheless, if institutional investment and other large-scale development of private rented sector accommodation can be facilitated in the city it should be possible to observe a positive effect on affordability;
- **Collaborating to limit rents or rent increases:** housing associations working in the market rented sector may be willing to work in partnership, perhaps with the City Council, to reach agreement about maximum rents and/or rent increases. This could apply either in certain locations (for example in areas where rents are relatively unaffordable) or City-wide. Whether this is realistic and/or achievable will depend on a range of factors, not least the conditions of development and those imposed by lenders or investors, as well as the pressure to deliver surpluses for housing associations.
- **Maximising the awareness of private sector landlords and their tenants of sources of financial advice and housing-related support**, thus potentially reducing rent arrears and eviction.
- **Taking on a lettings agent role.** Pressure from agents has been shown to be a factor in market rent increases. By taking on an ethical lettings agent role and charging reasonable fees, housing associations can help to reduce this pressure. Partnership with existing agencies outside the housing association

sector, such as Home Turf Lettings (<http://www.hometurflettings.co.uk/about-us/>) may also offer potential.

7.5 Support amateur private sector landlords

The private rented sector nationally and locally is dominated by small-scale, amateur landlords and this has benefits as well as disadvantages. Many small-scale landlords feel that current regulation hinders rather than helps them; some are considering exit from the sector in response to this and other challenges. The Partnership may wish to work with the sector in order to avoid losing good landlords and to help promote high standards and co-operation in the sector. Although the City Council is already active in this area, actions might include:

- **Promoting the benefits of regulation for landlords and tenants and improving incentives for, and support to achieve, compliance;**
- **Extending the existing voluntary accreditation scheme**, focussing on boosting accreditation levels for target sectors of the market and/or increasing the use of incentives to improve standards of both physical fabric and management services. Work with the Universities to better regulate and support amateur landlords who offer accommodation to students should continue and where possible be strengthened;
- **Providing information and/or support to landlords to encourage take-up of tenants in receipt of Local Housing Allowance.** The maps produced by the project could be used to target this information and support at particular areas;
- **Communicating openly with amateur landlords about the potential for institutional investment** in the City, allaying concerns about what this might mean in terms of competition;
- **Taking on a lettings agency role.** By taking on only landlords who meet specified standards for both dwelling and management practice, a social lettings agency led by the City Council could act as an additional, alternative form of accreditation for a section of the market *and* prioritise meeting the housing needs of the most vulnerable. Alternatively a housing association-led lettings agents may, perhaps, be viewed more favourably by landlords as being one-step removed from the perceived bureaucracy of local government.

7.6 Deliver a joint, cross-sector strategy for allocations and lettings

In order to address concerns about providers in all sectors becoming increasingly selective in who they will let property to there is potential to develop a partnership approach which jointly manages the risks associated with letting to vulnerable tenants. This might include:

- **Agreeing a shared approach to pre-tenancy work** which ensures consistency and promotes transparency. The extent to which this could be common to affordable and private rented sectors would need to be determined. The approach might extend to providing training for private sector providers in order to disseminate good practice;
- **Developing a housing path-way protocol** which sets out possible routes through the housing system and clarifies options for housing and support, including options for the most vulnerable and high risk tenants.

7.7 Preserve a role for smaller housing associations

This report has highlighted a number of challenges for smaller housing associations as well as the benefits which these organisations offer. In order to preserve diversity within the sector the Partnership may wish to support smaller associations as they seek to overcome these challenges by:

- **Exploring partnership arrangements with other smaller organisations** in order to enable access to funding through opportunities such as the bond market and increase organisations' borrowing capacity whilst also spreading risk;
- **Working in partnership with larger providers to provide new homes**, for example through procurement clubs or development consortia. Although housing organisations are now used to working in this way to access Homes and Communities Agency funding, the use of these sorts of partnerships in order to access other sources of funding is less tested and will require careful research in order to enact successfully;
- **Working in partnership with other providers to enter the market rented sector** where appropriate, collaborating in order to achieve both the scale of delivery and economies of scale necessary to make such ventures profitable;

- **Seeking niche opportunities where small organisations may be able to excel** – for example, through management-only agreements in the market rented sector, thus avoiding development-related risks.

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Appendix 1: Bristol Housing Futures Research Documents

Research Paper	Title	Explanation
Literature Reviews	Delivering Homes for Private Rent and the Potential New Roles for Registered Housing Providers.	A document examining institutional investment, the private rented sector and potential new roles for Affordable Housing Providers within these areas
Policy Update Notes	The Build to Rent Fund Note	Key information on the build to rent fund
	Energy Companies Obligation Note	Key information on the energy companies obligation note
	The Government's £10 Billion Housing Guarantee Scheme Note	Key information on the Governments £10 billion housing guarantee scheme
Other Research Documents	Information on 'Stalled' Residential Development Sites in Central Bristol	Information on the 38 Key 'Stalled' Residential Development Sites in the Core of Bristol
	Evidence of Viability Assessments	An examination of five case studies of stalled development viability assessments to ascertain reasons for stalled development
	Registered Housing Providers Operating in Bristol and the West of England: Current and Future Roles	An examination of a selection of RP's in the BHP in terms of their current roles and future strategies and capital sources

Appendix 2: Bristol Housing Futures Maps

Map	Explanation
Location of Registered Provider's Housing Stock by number of Dwellings per Postcode	By showing the location of the entirety Bristol's registered housing providers stock, we were able to identify the areas of city which were characterised by this types of housing and areas where there was an opportunity for registered housing providers to move into.
Location of Bristol's Private Rented Property and Affordability by number and Average Lower Quartile Income* per Postcode	This map identifies the areas in which Bristol's private rented housing stock is located by postcode. It also shows, using CACI lower quartile income data, affordability in Bristol in terms of percentage of income spent on rent. (N.B. due to the CACI sources used this map may not be wholly accurate)
Bristol Social Housing Count by Number of Dwellings Per Postcode	This map shows the number of affordable houses per postcode in Bristol and gives an accurate indication of stock density and stock location.
Bristol: Indicative Sites for development by Location and Use.	This map shows the key sites that the City Council have identified as suitable to develop in the foreseeable future by location and use.
Bristol Indicative Sites by Potential Unit Capacity	This map focuses on the sites that the City Council have identified as suitable for housing and shows identified potential capacity.
Percentage of Bristol City Council Landlord Services Dwellings Per ward	This map identifies the percentage of dwellings owned by Bristol City Council's Landlord services per ward.
Percentage of Registered Provider Owned Dwellings Per Ward	This map identifies the percentage of dwellings owned by housing associations per ward.
Percentage of Owner Occupied Dwellings Per Ward	This map identifies the percentage of dwellings privately owned per ward.
Percentage of Private Rented Housing Per Ward	This map identifies the percentage of dwellings privately rented per ward.