



# i4H Housing Crisis Analysis

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# Contents

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- 03 Introduction
- 04 Executive Summary
- 05 Future Development Forecast
- 16 Modern Construction Methods
- 18 Construction Skills Shortage





# Introduction

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Social housing providers are now seen as key partners in solving the housing crisis. Theresa May announced £2bn in new funding in 2018 which was seen as a landmark moment for social housing's positive relationship with the Government. The boost in well needed social housing funding is already materialising, with introducing of strategic partnerships that will deliver 14,280 additional affordable homes by March 2022.

However it has been argued that this funding does not go far enough. The recent cross-party report lead by charity Shelter suggests 3 million new social homes are needed by 2040. The shortage in social housing has meant families have been forced into private renting. The report estimates that 1.3 million are in need due to hazardous housing, homelessness and disabilities. A further 1.2 million and 700,000 people with disabilities are trapped in private renting. With the estimation of 3 million homes by 2040 it would mean 150,000 new social housing units a year starting from 2020.

I4H have forecast what development levels could potentially be for the next 5 years. The report predicts who are likely to develop new units by size, region and organisation type. I4H have also teamed up with industry experts to consider how social housing can be delivered faster as well as improved treasury management.

In conclusion, the report will predict the level of development activity given the scale of the predicted need. The report also helps the sector to consider development construction methods to boost housebuilding such as factory/modular build and the need for a more skilled workforce.



# Executive Summary



The average forecast shortfall of new social homes a year from 2020 to 2025 will be 113,064



Landlords with 6,000 units and over are forecast to complete 83% of total development in 2025



Traditional Housing Associations have been forecast to complete 58% of total development. LSVT's will complete 42% of total development in particular LSVT's 12 years and over.



Landlords who have stock in mixed regions, which are large national providers will complete 23% of total development in 2025.



Landlords need to consider modern methods of construction to increase housing supply. Factory engineered homes have the potential to increase the supply, delivery and quality of social housing. There is also a greater need for a more skilled construction workforce. To increase housing supply, the sector needs to consider increasing investment in construction apprentices and workforce.



# Future Development Forecast – Methodology

Data from housing associations statistical data returns (SDR) from 2011 to 2018 has been used for this analysis. The SDR is a regulatory housing association return that provides detailed stock, rent, lettings and development data. For this analysis, the number of new rental and low cost home ownership units developed have been used to forecast from 2019 to 2025. Different forecasting methods were tested and it was felt that time series forecasting provided the most accurate data, known as polynomial forecasting. Polynomial regression is used extensively in forecasting of financial data or data where the spread of variables is large.

Only housing association (registered social landlords) development has been used for this analysis.

Forecasting is provided for the following types;

- Size
- Region
- Organisation type
- LSVT Age

The data has been segmented into large, medium and small providers. Large providers consist of landlords above 6,000 units, medium providers from 3,000 to 5,999 units and small providers below 3,000 units. These categorisations are based on all landlords from 2011 to 2018 who developed social housing units.



# Future Development Forecast – Total Development

## Development Trend

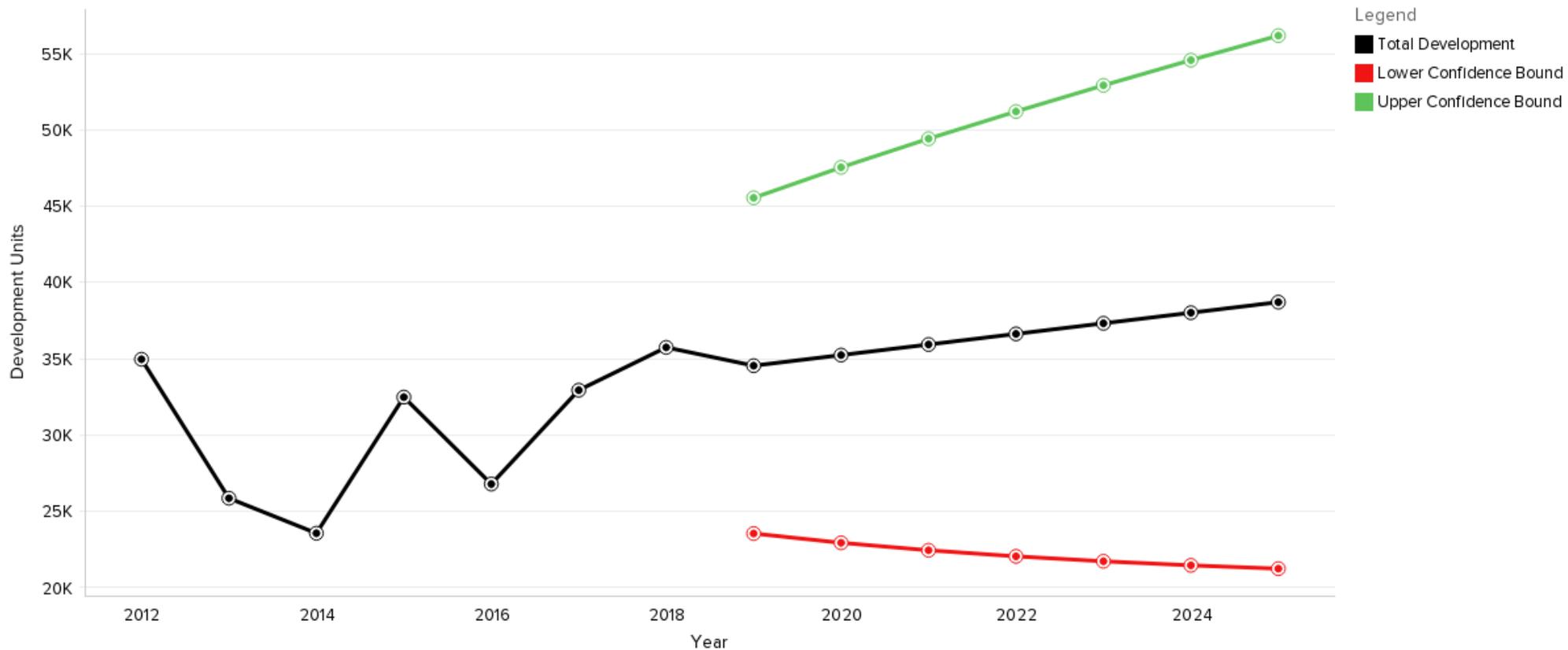
The table shows the number of forecast units developed will increase by 8% from 2018 to 2025. It is predicted that 2019 will see a small reduction in total social housing development. The forecasting factors in socio economic factors and the main reason for the potential reduction is due to Brexit. Uncertainty with regards the type of Brexit deal has already seen a reduction in house prices and boards could potentially halt development activity due to the increased risk. The rent reduction policy introduced by George Osbourne saw a reduction in development activity in 2016, with the sector delivering increased new units in 2017 and 2018. The increase can be explained by housing associations use of private and equity markets and increased mergers. The new increased funding to be introduced in 2022 will see a potential further increase as to what has been forecasted from 2023 to 2025. However, the level of development activity still falls significantly short of the recent cross-party recommendation of 150,000 new social housing homes. This would mean a more concerted effort from the sector to develop more units than ever build before. The next pages breaks down the forecast in more detail.

Year	Total Development	Data Source
2012	34,927	Data Statistical Return
2013	25,821	Data Statistical Return
2014	23,527	Data Statistical Return
2015	32,446	Data Statistical Return
2016	26,751	Data Statistical Return
2017	32,902	Data Statistical Return
2018	35,706	Data Statistical Return
<b>2019</b>	<b>34,507</b>	<b>Forecast</b>
<b>2020</b>	<b>35,201</b>	<b>Forecast</b>
<b>2021</b>	<b>35,895</b>	<b>Forecast</b>
<b>2022</b>	<b>36,589</b>	<b>Forecast</b>
<b>2023</b>	<b>37,283</b>	<b>Forecast</b>
<b>2024</b>	<b>37,977</b>	<b>Forecast</b>
<b>2025</b>	<b>38,670</b>	<b>Forecast</b>



# Future Development Forecast – Total Development

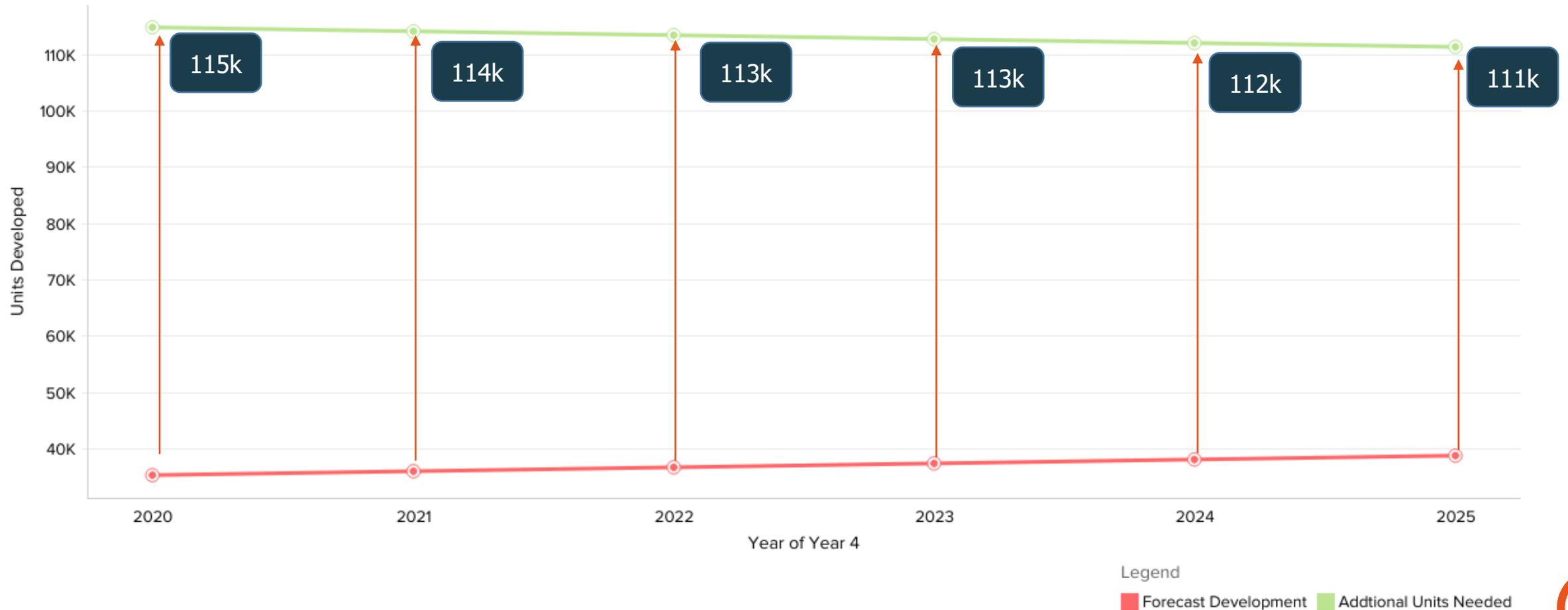
The forecasting is showing a steady increase in new units from 2020 to 2025. A lower and upper confidence bound as been provided, which is an estimation of the potential lowest and highest development level based on the data. If the sector manages to hit the upper bound level it will see total new development at the 55,000 mark in 2025. Alternatively if there is a market downturn or financial crash the lower limit could be as low as 20,000 in 2025. The question still however remains if the sector manage to hit the 55,000 mark or above this would still fall very short of the estimated 150,000 a year.





# Future Development Forecast – Total Development

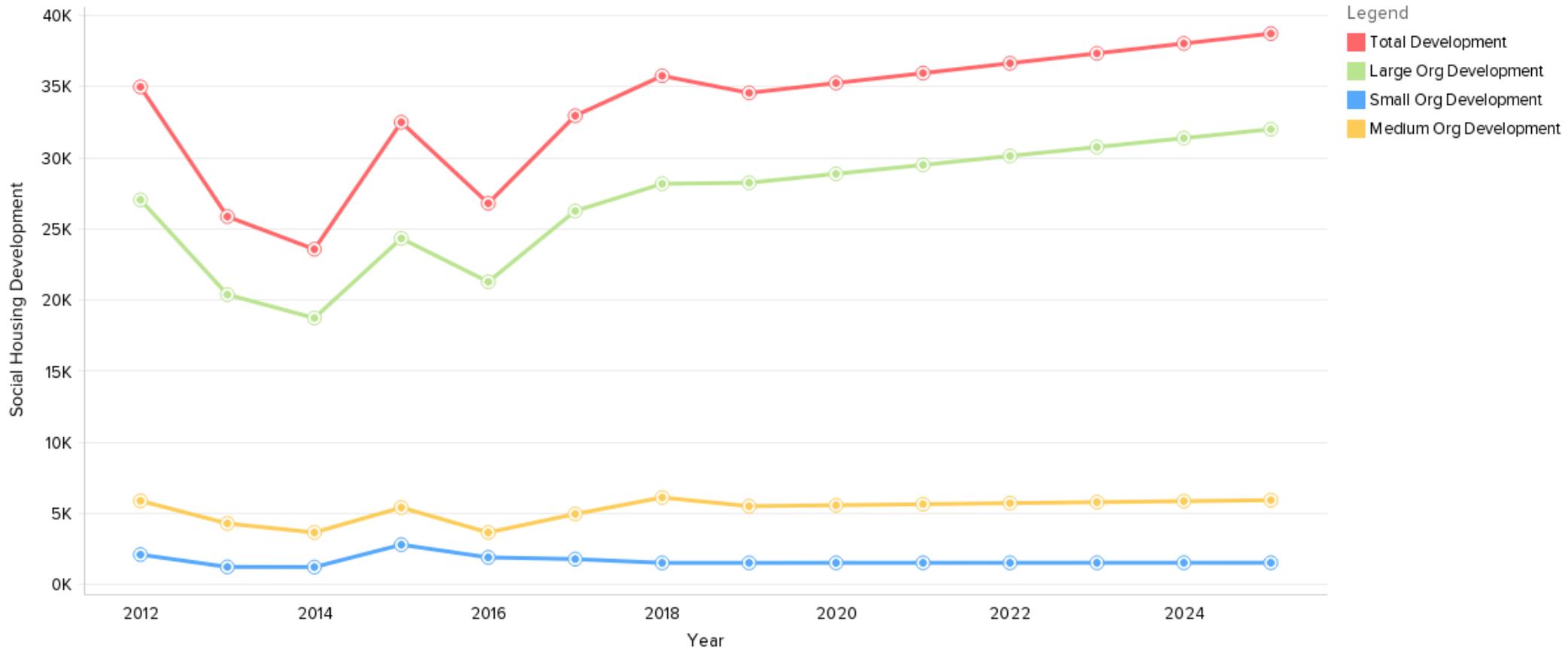
The chart below shows the shortfall of units based on the cross-party recommendation of 150,000 units per annum. The average shortfall from 2020 to 2025 will be 113,064. This is a significant shortfall and would mean that private renting remains the main option for many people. This would increase those trapped in private renting and those in most need.





# Future Development Forecast – Development By Size

The chart below is showing an obvious disparity between the large providers who are estimated to provide 83% of total development by 2025. There are two key questions from the forecast, firstly can large providers deliver more development than at current and future levels? Secondly can medium and small providers deliver significantly more new units? These questions will be explored further in construction methods and treasury management sections.





# Future Development Forecast – Development By Size

## Treasury Management

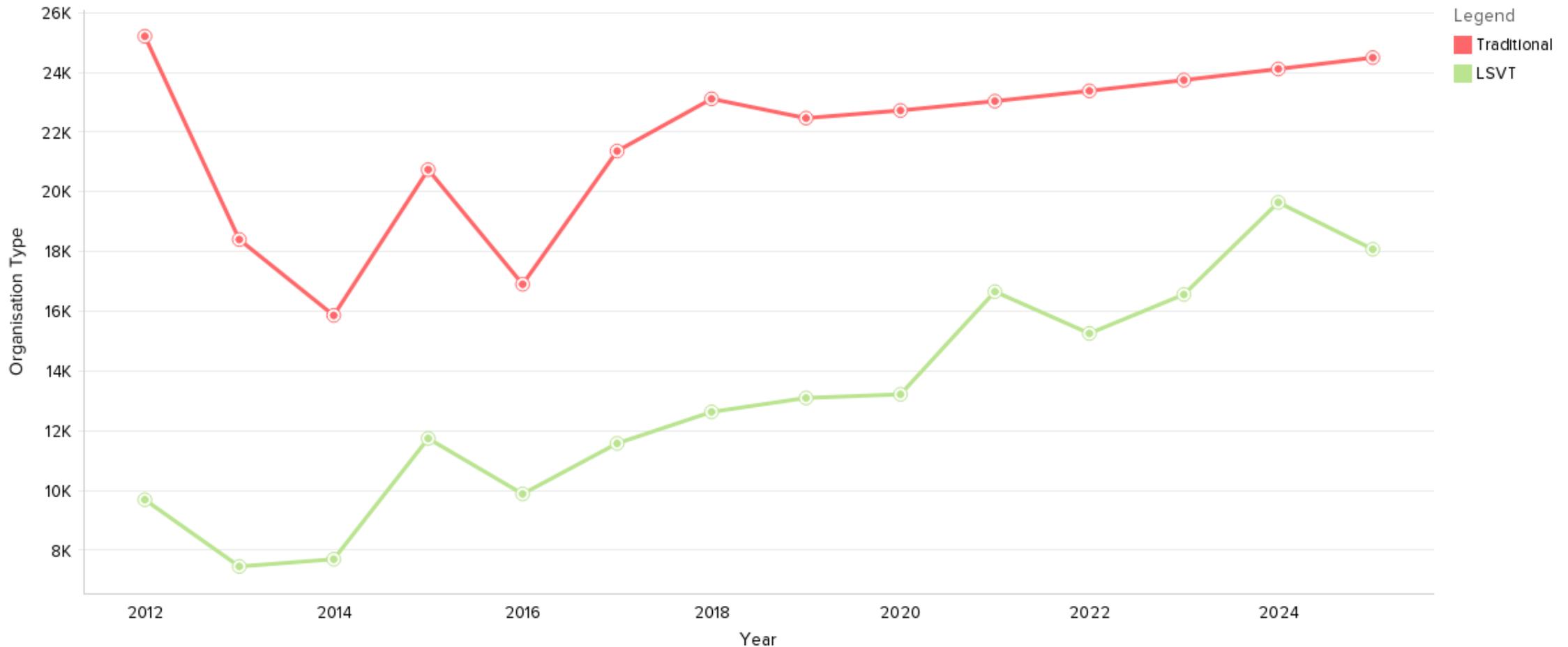
The data is clearly showing large providers will do a majority of the development 79% by 2025. Historically they have done on average 80% of total social housing development. Balwant Basran who is a specialist treasury and financial management expert, with fifteen years' experience of managing and integrating multi-national finance teams in social housing makes the following observations.

- Although for some associations raising funds through traditional bank debt or bonds will remain the most appropriate option, a number of factors are now paving the way for welcoming more equity funding into the sector at a time when institutional investors are showing a keen appetite for social housing assets.
- For the small and medium sized associations to make their mark they must now consider the innovative funding options which are available. Housing association's must consider joint ventures with both housebuilders and other associations. To reduce the reliance on debt, equity investors should be considered as they can bring both investment and commercial expertise to the table, offering a more strategic perspective to complement the ambitions of the associations seeking to broaden their development options.
- For equity investors, registered providers (RPs) are also an attractive proposition. They offer a steady income stream and yield underpinned by government regulation.



# Future Development Forecast – Organisation Type

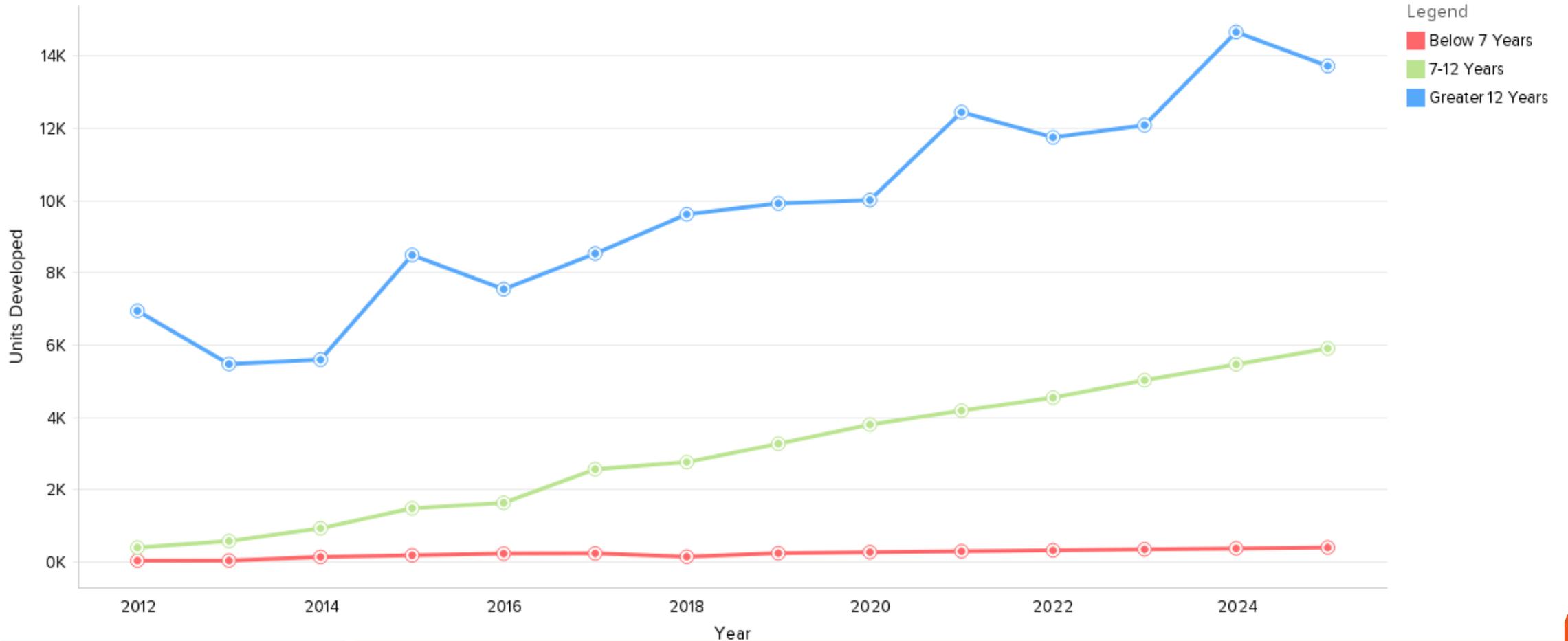
As expected Traditional housing associations have historically and forecast to complete more new units a year. This is due to LSVT's being subject to completing its promises and investing in current stock to improve the asset base.





# Future Development Forecast – LSVT Age

Further analysis shows that LSVT's greater than 12 years are significantly developing more than LSVT's below 7 years. This is to be expected due to investment in stock. LSVT's assets have historically been subject to lower valuations which has had an impact on financing. Changes in valuations legislation will be amended and the challenge will be can LSVT's raise greater finance and develop more units?



# Future Development Forecast – Organisation Type



## Treasury Management

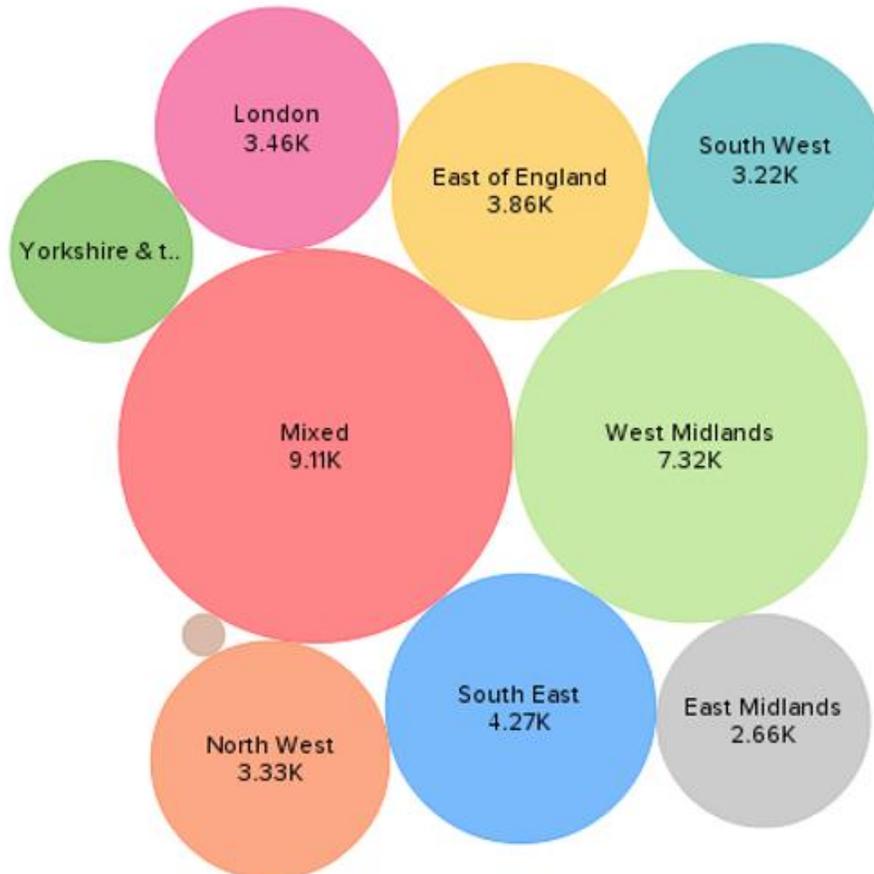
As the data shows Traditional Housing Associations have historically completed more development. This will be the case for future forecast to 2025. LSVT's have been restricted in the past due to valuation of properties. EUV-SH delivers much lower values than MV-T, thus limiting the level of security they can offer when raising private funds. While most housing association homes are valued on an MV-T (market value subject to tenancies) basis – which is more closely aligned to general house prices – the main methodology for valuing ex-transfer properties remains EUV-SH (existing use value – social housing). Now the restrictions have been lifted, LSVT stock in some areas will have a strong case for being valued on a MV-T basis. Organisations will need to fine-tune the calculations on the difference where changing the valuation basis of its stock from the EUV-SH to MV-T will make. However, as a word of caution freeing up borrowing capacity is important, but servicing debt is even more so.



# Future Development Forecast – Regional Analysis

This data provides forecast number of units developed based on location of the provider. A provider that has stock above 50% has been included in the relevant region. This is therefore not an indication of where stock will be developed in the future but a breakdown of where high developing landlords are based to year 2025.

- Region
- Mixed
  - West Midlands
  - South East
  - East of England
  - London
  - North West
  - South West
  - East Midlands
  - Yorkshire & the Humber
  - North East



Region	Development 2025	% Units
Mixed	9112	23.20%
West Midlands	7317	18.63%
South East	4274	10.88%
East of England	3860	9.83%
London	3462	8.81%
North West	3333	8.49%
South West	3221	8.20%
East Midlands	2659	6.77%
Yorkshire & the Humber	1937	4.93%
North East	103	0.26%



# Future Development Forecast – Regional Analysis (Cont.)

The previous charts show that landlords that have stock in mixed regions will have the highest level of development. 23% of total development will be done by landlords operating in mixed areas. These landlords are large national providers with an average of 31,000 social housing units. With a greater asset base and the ability to raise finance at a lower rate, it could be argued that having more large national providers could potentially increase new development activity. This does however present other problems such as management of stock and greater resources needed.

Development in the other regions is likely to be done in the region of operation apart from mixed stock landlords. The West Midlands in particular stands out as having a higher number of forecast units developed to the year 2025. South East also represents a high number of forecast units, with the East of England, South West and London having similar levels of activity. Yorkshire and Humberside and North East in particular will could potentially have the lowest level of predicted development activity.

Having access to land could present the biggest barrier to increasing social housing development. The sector should consider lobbying the government to release public assets to housing associations for development. As well as this housing associations need to become the lead developer rather than rely on section 106 agreements.



# Modern Construction Methods

This section explores the possibility of boosting housebuilding through more modern forms of construction. Modular and offsite construction are relatively new methods and principles to the UK and the social housing sector. Off-site construction is referred to as volumetric engineered off-site housing. Off-site construction is essentially where the superstructure of the house is constructed in sections in a factory, mainly from timber and SIPS panels, and transported to site for erection. The house is then completed in the traditional way using carpenters, plumber, bricklayers, plasterers, tilers, decorators etc. but is obviously quicker because of the speed of the completion of the superstructure. This approach requires the same skilled trade staff as traditionally built housing and guarantees better quality and energy performance.

Keith Simpson an expert in social housing construction with explores the benefits of Off-site construction and how this can improve the volume and quality of social housing. Keith has 50 years experience of maintenance and construction in the social housing sector. Keith is the founder of the National Housing Academy and championing raising standards and competency of repairs and construction services.

## **Advantages of Off-Site Production;**

- Completing 95% of the house in engineering factory conditions, ensures that every house conforms exactly to the design requirements ensuring the quality is standardised unlike the current poor quality of traditional housing. Due to the reticence to embrace volumetric/modular housing, the current prices are comparable with traditional construction but without the advantages of volume procurement. Savings of 10-20% could be achieved with the creation of a new supply chain. The requirement for much simpler foundations increases the speed of completion and reduces the materials being moved around and shifted from site.



# Modern Construction Methods (cont.)

- Productivity is obviously greater in a factory environment unaffected by the weather and embracing modern engineering methodology. With the advent of greater production enabling the investment, robotics will inevitably further drive down the cost and improve quality.
- Engineering factories are infinitely safer than construction sites and with the house simply being delivered to site and connected to the services, minimal time is spent on site.
- The national house builders will not and cannot build any more than they are currently building. With an ageing workforce, the lack of young people attracted to construction, the lack of good FE provision to train apprentices and the exodus of Eastern European trades staff, the house builders will be fortunate to build the current numbers over the next ten years. Volumetrically engineered housing will enable the creation of a new semi- skilled workforce to produce the houses required at an affordable cost in factories located near the places of demand to reduce the carbon footprint. The scale of the challenge should not be underestimated!! Each 30000 sq ft factory will produce approximately 500 houses/year and with a requirement for an increase of 150,000 homes/year, it will require 200 new factories and a new workforce of 20,000 to meet this demand.



# Construction Skills Shortage

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The social housing sector should consider the skills shortage as a wider issue to increasing development activity. Keith has outlined the following implications.

- National large housebuilders rely on a subcontractor model. As a result 20 out of top 32 housebuilders in the England do not train apprentices.
- Standards of current Further Education construction courses are low and not delivering a skilled workforce.
- The apprentice schemes have not produced a skilled workforce and employers have become disillusioned with apprentices. The Apprentice Levy introduced in 2017 had helped to address the issue, however take up for this scheme has been low.
- Current UK construction is very inefficient with the division of labour and materials. As an example the typical split to build a house in Germany tends to be 75% material and 25% labour. In England the split tend to be 40% material and 60% labour.

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