Public rental homes: fresh perspectives

Ten years ago, 255,000 households were waiting on a council home in London. Today the list of families hoping to be accommodated stands at 301,000.

A queue containing perhaps half a million men women and children. Over a decade, 275,000 new homes have been added to the capital's stock. Yet waiting lines have lengthened, not shortened. A pitiable record, giving the constant political push to supply 'affordable' homes. The fact is very few homes tagged 'affordable' can be afforded by those on waiting lists. Only a minority are leased out at 'social rent' or what Sadiq Khan calls London Affordable Rents. Affordable because they are capped at about half the local open market rent.

Forty years ago, 57,000 out of the 66,000 'affordable' homes built in England were leased at 'social rent' levels. In 20/21 just 8,000 of the 52, 000 affordable homes were in the 'social rent' category - including a creditable 2,100 in London. (See Table 1).

The 'affordable' regime clearly needs rebalancing, if only to make what's build affordable by the poorest quarter of the population. A 'nice idea' notion that will be fought to a standstill by those looking to protect land values. So, what can be practically done to provide more homes for those who can only afford half market rents?

Why not build a new generation of council homes in cooperation with the private sector? A politically neutral plan I put together with regeneration expert Jackie Sadek. Public Rental Homes: Fresh Perspectives was published in late February by housing think tank Localis and the Housing Finance Institute, headed by the late, great, Bob Kerslake. Basic idea: use site-by site appraisals (see tables) to figure out the number of PRH homes that can be subsidised from private sales.

Currently, councils negotiate with developers to determine the percentage of affordable homes a scheme can provide, based on the total private unit sales. 'Affordable' can mean 70 per cent, 80 per cent or 90 per cent of market rents. Subsidised sales are even included in the percentages. Long battles are fought to determine the question: what percentage of 'affordable' can the developer really afford – and does that percentage meet our rules? The PRH model flips the thinking, simply asking 'what percentage of private homes are needed to produce sufficient PRH homes for our need. Done on a site by site basis with no fixed percentages.

Under the PRH model local authorities would be responsible for identifying sites that might meet PRH criteria and initiate discussion with developers. For their part, developers would assume 100 per cent of the risk – but take a 20 per cent margin on both the PRH homes as well as their own private units. Why should the developer get out of bed for the standard 6-7 per cent they are graciously allowed to add to 'affordable' homes in residual land value appraisals. The sale might be guaranteed. But the financial, time and construction cost risks remain.

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Table 1

Social rent homes used to account for 85 per cent of new affordable homes, other variants 15 per cent. A position now reversed. Source: ONS

TENURE	1992-93	1993-94	2019-20	2020-21
SOCIAL RENT	**57,023**	**48,941**	**6,766**	**6,051**
London Affordable Rent			1,797	2,102
Affordable Rent			28,263	23,830
Intermediate Rent			1,748	2,018
Shared Ownership			18,239	16,984
Affordable Home Ownership	8,698	14,795	2,108	1,132
Unknown tenure	0	0	43	28
ALL AFFORDABLE	**65,721**	**63,736**	**58,964**	**52,145**

How PRH might work in London

The Borough identifies possible PRH plots, more likely smaller brownfield sites with little or no residual land value. A 5/10-year strategy to house at least X number of households on the waiting list is drawn up. The size and mix of the PRH homes on the identified sites should reflect the needs of those on the waiting list.

If half the households on the list need at least three bedrooms, then half the PRH homes should contain three bed homes. The percentage of PRH homes on each site should be left up to the council within wide bands, not dictated from above. Site by site deals are struck with the private sector. The council receives the freehold of the PRH units with rented in perpetuity covenants.

The key that unlocks sites for PRH homes is financial viability. If the experts say the numbers will never work, go no further. Find a willing private developer on those that look to be viable. Negotiate a deal that lets them take 100 per cent of the risk in return for that 20 per cent margin. The concept is 'loose fit' – the land for PRH sites could come either from the council, the state, or from a private owner. Land subsidies or grants may form part of the appraisal. The principle remains the same, which is one of mutual reward for council and developer.

The Public Rental Homes (PRH) concept is just a fresh way of looking at existing challenges. Plenty of JV's exist between councils and developers across the UK, and in London between major developers and TfL for example, as Professor Janice Morphet shows in her annual survey of local athorities *(see overleaf)*. The PRH model simply conceptualises a way to add to, rather than supplant existing arrangements. Done without the requirement for legislation or changes to the planning system.

Done without the need for grinding political battles. Done to appeal to both main parties. Done in partnership with the local authority acting as a prime promoter, perhaps supplier of land and giver of permissions. Done to match the needs of local families waiting for homes.

The traditional model…

The residual land value is the 'bottom line' produced by appraisal studies, used to both value land and to indicate a competitive price to those competing for a site.

Opening the doors to allow 'affordable' homes at costlier rents has tended to increase GDV and thus the residual land value. Economic forces tend pull the GDV up and away from providing too many homes at social rents. Political forces tend to push for higher numbers of smaller units rather than what those on waiting lists need. The result in London: High rise flats.

The PRH model…

Done by flipping the viability model, working out how many PRH can be built from the set number of homes allowed on the site. Done on a site by site basis. Based on the needs and pockets of those on the waiting list. The principle being this: If the viability study shows a positive land value agreed by all, then fine.

If negotiations on the number of PRH units drives the land value into the red, then that red figure forms the basis for negotiations on land input figures, government loans, or grants.

Table 2: Residual Land Value appraisal – private model

	AVERAGE	UNITS	TOTAL – £ MILLIONS	
INCOME				
Private	£300,000	80	24	
PRS and retirement	£200,000	25	5	
Affordable	£150,000	45	6.7	
Anticipated price rises, if included			3.3	
Gross development value				39
Residual land value				6.8
EXPENDITURE				
Section 106	£2,000	150	0.4	
Construction	£150,000	150	22.5	
Professional fees	£2,000	150	0.3	
Marketing	£5,000	80	0.4	
Sales	£3,000	80	0.2	
Finance costs	£20,000	150	3.0	26.8
BUILT-IN PROFIT				
80 private units	£50,000	80	4.0	
Rental and retirement	£40,000	25	1.0	
Affordable units	£8,000	45	0.4	
				5.4
Build cost + profit + residual land value = GDV				39

Table 3: Residual Land Value appraisal – PRH model

	AVERAGE	UNITS	TOTAL – £ MILLIONS	
INCOME				
Private - today's prices	£300,000	75	22.5	
PRH - at cost	£150,000	75	11.25	
Anticipated private sales increases - if included			1.25	
Gross development value				35
Residual land value				1.5
EXPENDITURE				
Section 106	£2,000	150	0.4	
Construction	£150,000	150	22.5	
Professional fees	£2,000	150	0.3	
Marketing	£5,000	75	0.4	
Sales	£3,000	75	0.2	
Finance costs	£20,000	150	3.0	26.8
BUILT-IN PROFIT (FOR BUILDER)				
75 private units (20%)	£60,000	75	4.5	
75 public rented (20%)	£30,000	75	2.2	
				6.7
Build cost + profit + residual land value = GDV				32.2

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Figure 1. Housebuilding: a tale of two decades
Total homes built by councils, housing associations and the private sector

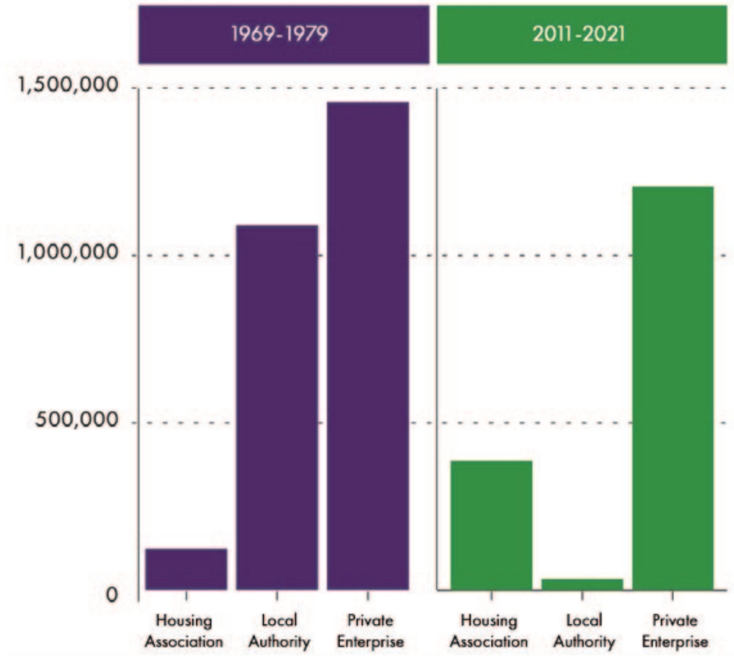
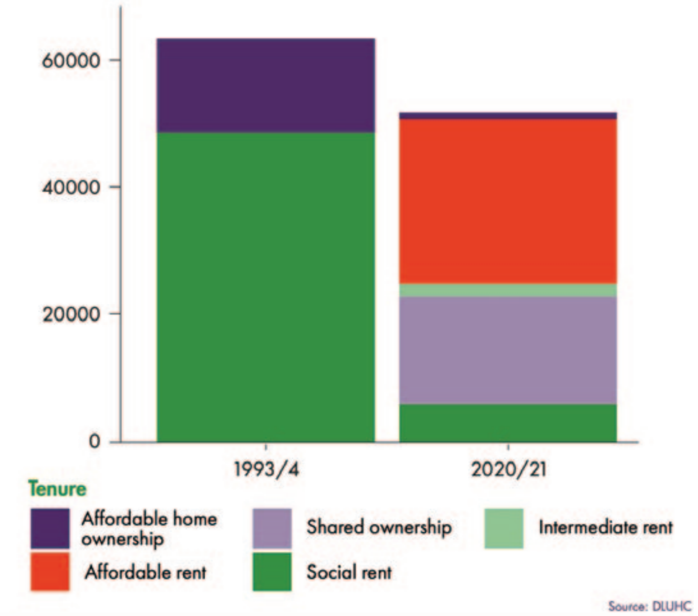


Figure 2. Additional affordable homes by tenure
1993/4 and 2020/21



Public Rental Homes: New Perspectives can be found here: https://localis.org.uk/wp-content/uploads/2023/02/052_PRH_PRF5-1.pdf

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Morphet findings

94 of the 171 responding local authorities (55 percent) say they have one or more housing companies engaged in the provision of housing, a notable increase from the 42 percent in 2018. Joint ventures with developers accounted for 72 percent of the activity.

There is evidence that councils are more systematically reviewing their own land holdings and using them as a means of providing more homes.

Many now regard housing delivery as part of placemaking, with happiness, health and wellbeing as primary objectives. There is a growing sense of momentum.

There were over 50 applications for organisations to become 'for profit' housing associations and that this is likely to be a major growth area in the future.

Morphet recommendations

There should be reversal of the CPO provisions in the 1961 Land Compensation Act to acquire land at existing use value. The top barrier preventing local authorities delivering more housing were reported as a lack of land.

Local authorities outside London need longer financial planning horizons, such as the five-year view taken by boroughs in the capital which is producing more homes provided in an equivalent system through Homes England.

There should be a recognition that the IFRS needs to be applied so that local authorities can leverage more funding for home building with social rents as in other OECD countries.

Local authorities should be allowed to pay down historic housing debt if they use the equivalent debt headroom to invest in new housing.