

# Housing – who pays?

British Property Federation  
Annual Residential Conference

27 January 2009



BRITISH PROPERTY  
FEDERATION

**Local hero: making the most out of the private rented sector in your area**

**Alan Elbrough and  
Jim McLaughlin  
Settled Housing Solutions**





Settled  
Housing  
Solutions

# Making the Most of the Private Rental Sector in Your Area

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Jim McLaughlin





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Solutions

## Who are Settled Housing Solutions?

- Background
- Facilitators
- Latest Projects





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Solutions

## How the PRS Has Helped Local Authorities

- Temporary Accommodation
- Private Sector Leasing (PSL)
- New Housing Developments
- Homelessness Prevention
- Sustainable Communities Strategy
- Choice Based Lettings





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## Perceptions – PRS View of Local Authorities

- Poor Communication
- Inconsistent Standards
- Constant Restructures
- Tenant Focused Support
- Uninformed





## Perceptions – Local Authorities of the PRS

- Poor Management Standards
- Bottom Line Agenda
- Short Term Tenancies
- Inflating Market
- Unfair Advantage





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## Impact of Credit Crunch

- Buy to Let Repossessions
- Increased Demand for Housing Services
- Scaling Back of New Developments
- Increased Competition





# The Solution!!!





## A New Approach

- Changing the Culture
- Developing Partnerships
- Access to Services
- Effective Management
- Enabling





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## An A.S.T. Framework

- Unified A.S.T. Policies & Procedures
- A Comprehensive Tenancy Sustainment Plan
- Improved Advice and Support
- Ongoing Performance Management
- Indemnity Against Rent Arrears





## So...Who Pays?

- The Landlord
- The Local Authority
- The Consumer/End User
  
- All Sharing the Risk





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## The Future.....

- Improved Communication & Cooperation
- PRS Becomes a Real Tenure of Choice
- Increased Institutional Investment
- Sustainable Communities





# Settled Housing Solutions

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# State of the nation: how are landlords coping with the crunch?

Mark Long  
BDRC Group



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# State of the Nation

## How are landlords coping with the crunch?



BPF Residential Conference 2009

Mark Long : Business Propositions Director



# Agenda

- Market composition
- Attitudes & Behaviour
- The Landlord's Balance Sheet
- Market Opportunities
- In Summary

# The Landlord's Panel from BDRC

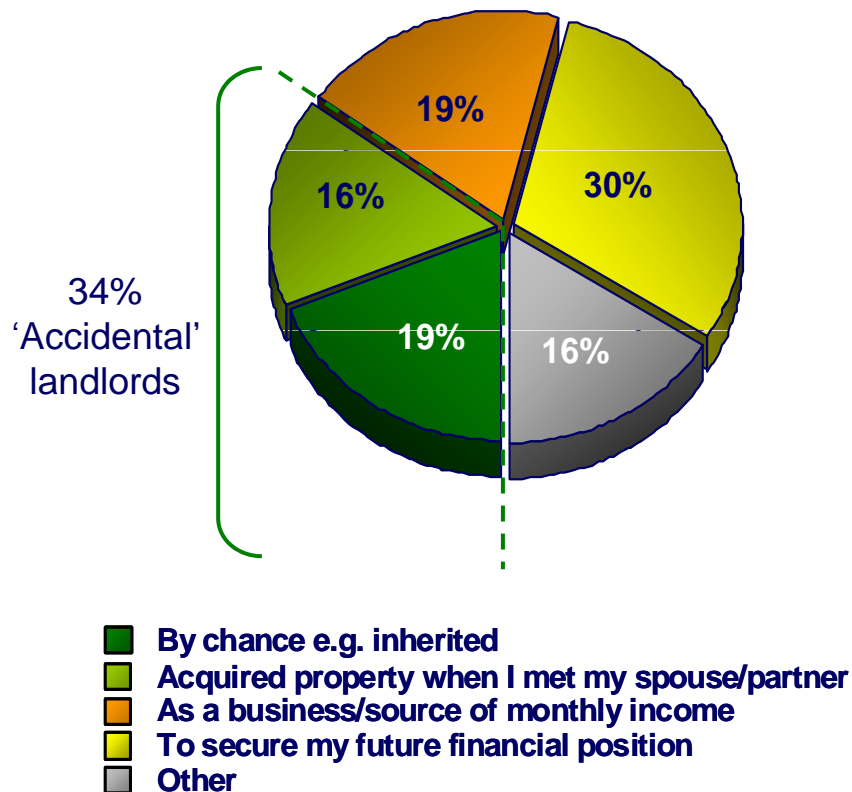
- BDRC – UK's largest independent research consultancy group
- Mortgage market expertise via syndicated and bespoke projects
- Landlords Panel – proprietary, syndicated research tool from BDRC
- Launched in Q4 2006
- Quarterly, quantitative study [500 interviews per wave]
- Coverage : PRS + BTL
- Sample recruited from an online consumer panel, aligned to ARLA portfolio data
- < 10% are repeat visitors, ALL are engaged in the subject matter
- Core 'tracking' questions + flexible hot topic content [c.25 mins duration]

# Market Composition

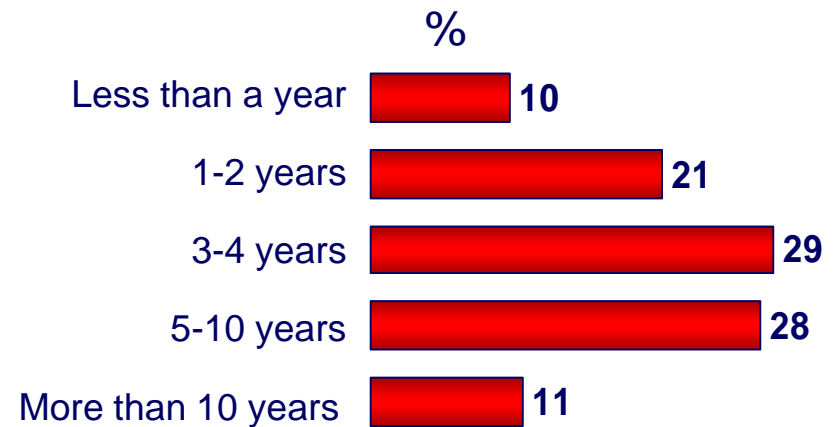
# The Pathway to Landlordship

Financial security remains the key driver for landlords' involvement in letting. Over a third fall into property letting 'by chance'. On average, landlords have been letting property for 5 years.

Reason for involvement in letting



Length of time letting property

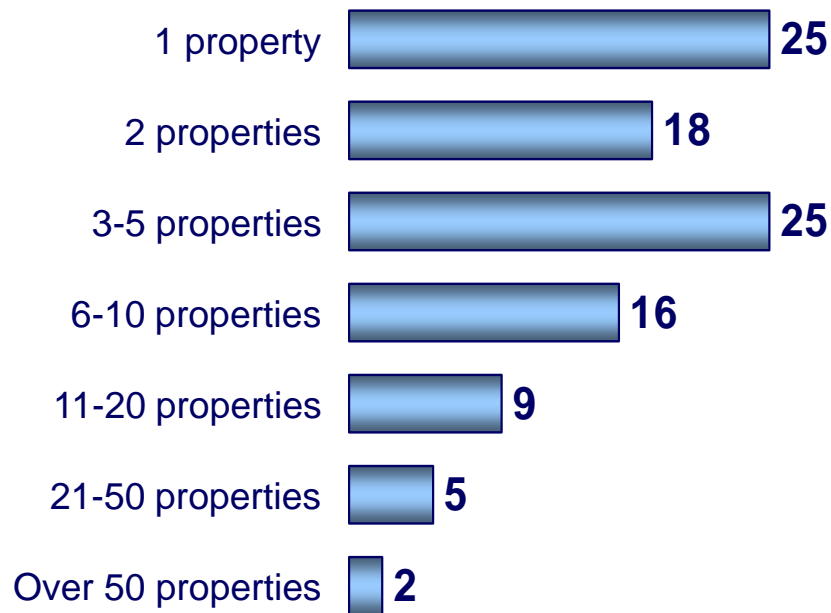


Average = 5 years

# What discriminates amongst landlords?

Nothing (in this survey) discriminates more effectively than portfolio size...

Number of rental properties held (%)\*



**'Portfolio landlords'...**

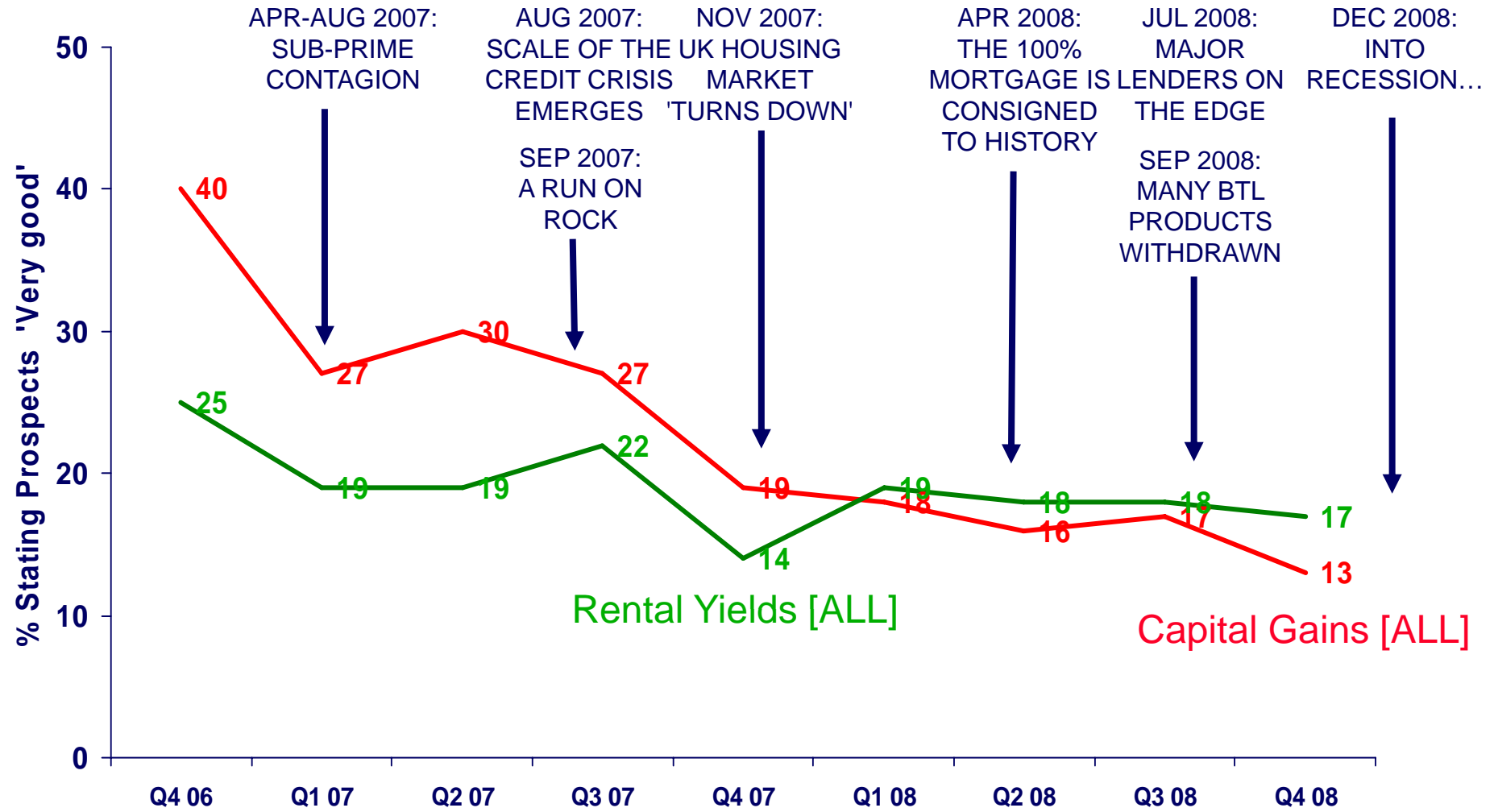
- Indicative 'tipping point' = 20+ properties
- More active
- More optimistic
- More resilient
- More focussed on letting
- More engaged with advisers and agents
- More profitable!

\*Source : ARLA August/September 2008 Survey Base: All (453),

# Attitudes & Behaviour

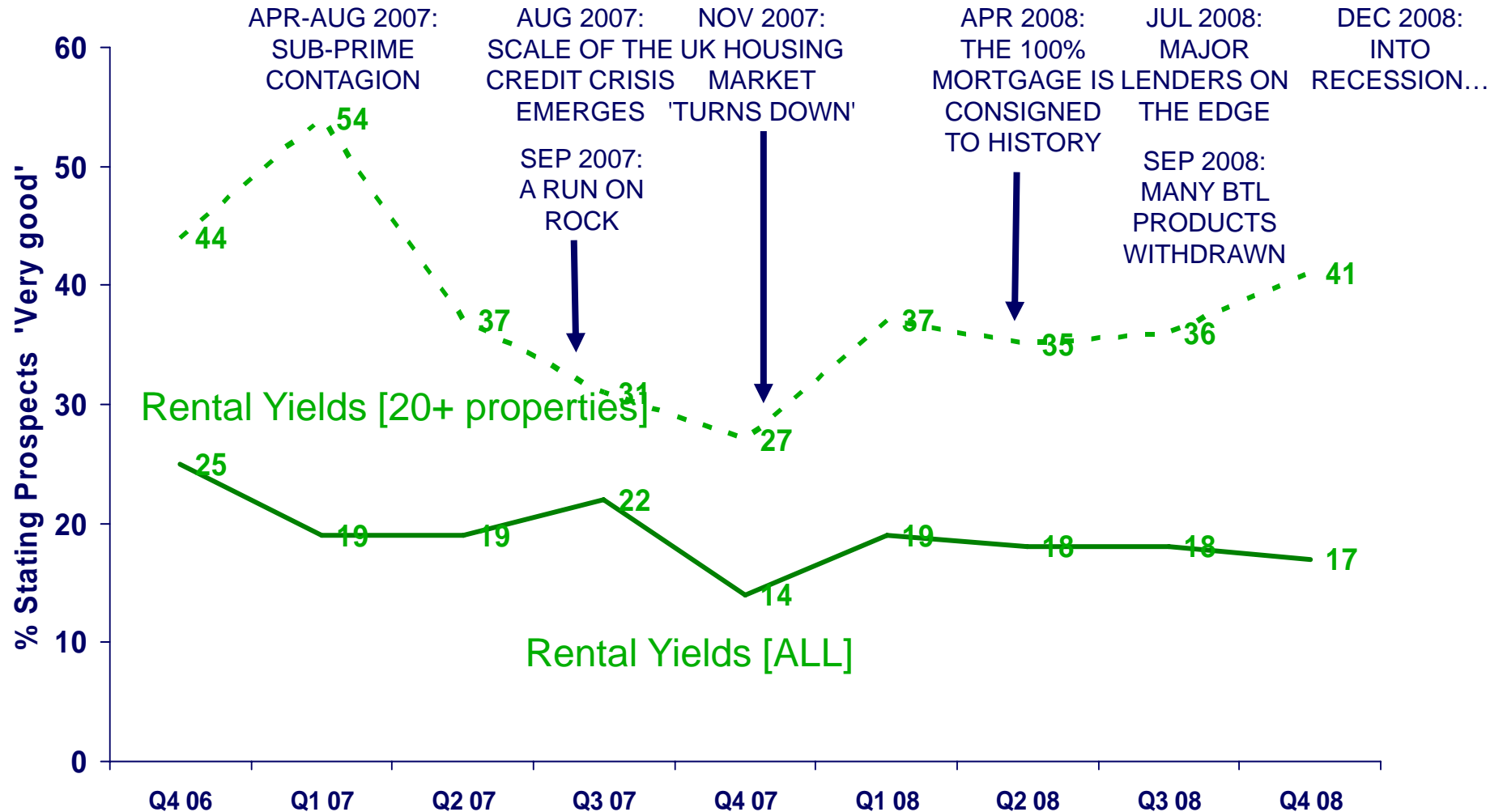
# Key attitudinal indicators

Stated prospects for capital gain and rental yield reflect the unfolding crunch



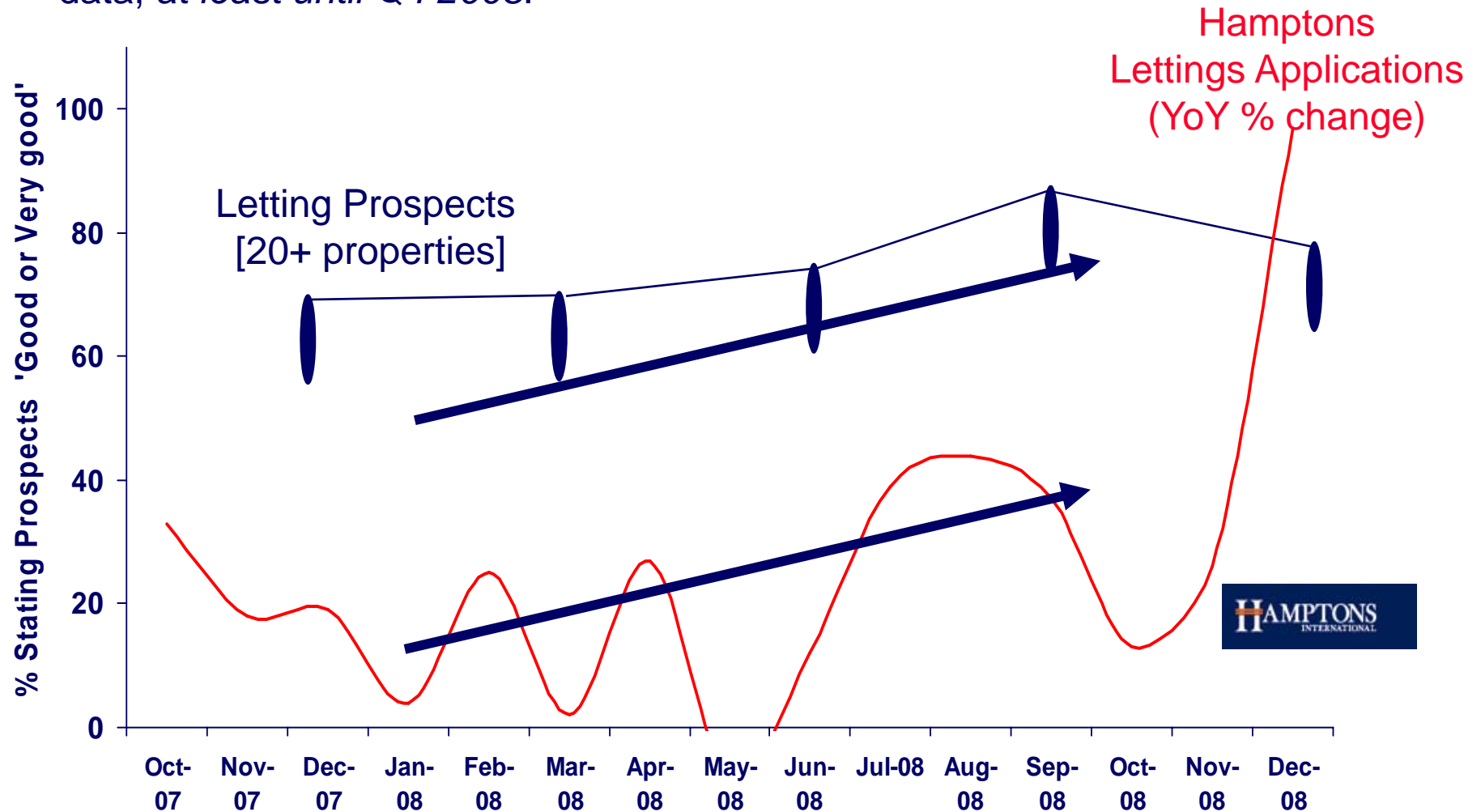
# Key attitudinal indicators [Portfolio Landlords vs All]

As can be seen, the story is NOT the same for all landlords...



# Portfolio landlords tuned into market activity

The outlook of professional landlords has tended to correlate with industry data, *at least until Q4 2008*.



# Net market growth is shrinking...

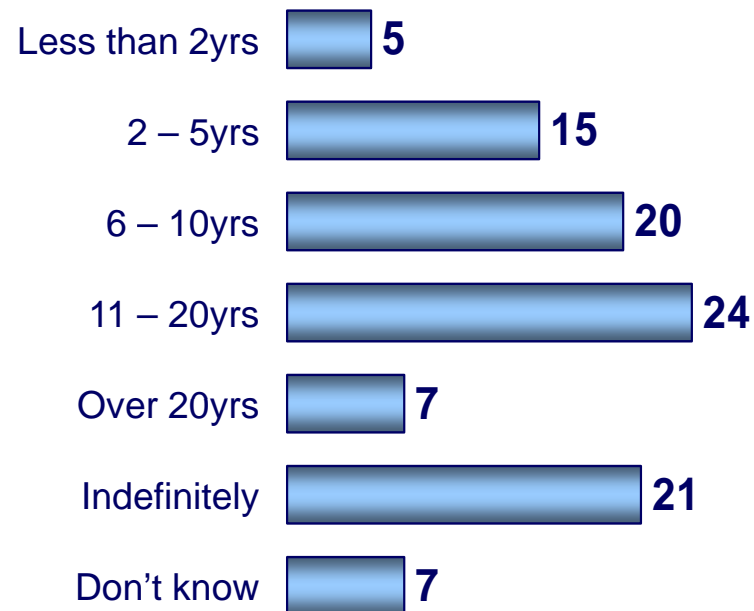
The PRS is still set for growth, but on a significantly reduced basis.  
Portfolio landlords will be key drivers



# But...landlords remain committed to the market...

In spite of these tough(er) economic times, the vast majority of landlords are still 'in it for the long term'

## Projected tenure as landlord (%)



Average – 17 years

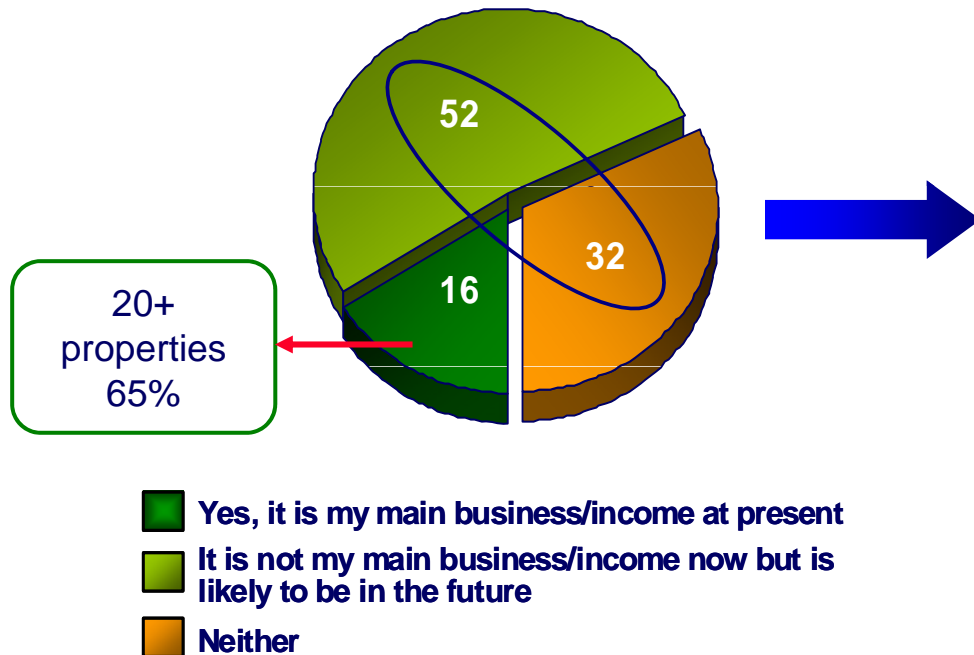
## PRS seems well set for the longer term...

- Average tenure stable at c.17 years
- Those that are currently selling plan a quicker exit – 8 years
- Those that are currently buying – 15 years
- SARB specialists – 12 years

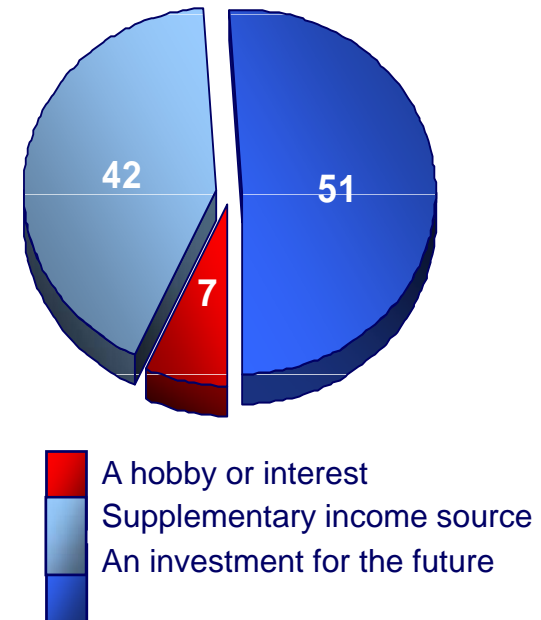
# ...and for many, their financial future depends on it

If not already a main source of income, it is set to become so for the majority

Letting as main income (%)



If letting is not a main business how is it viewed... (%)

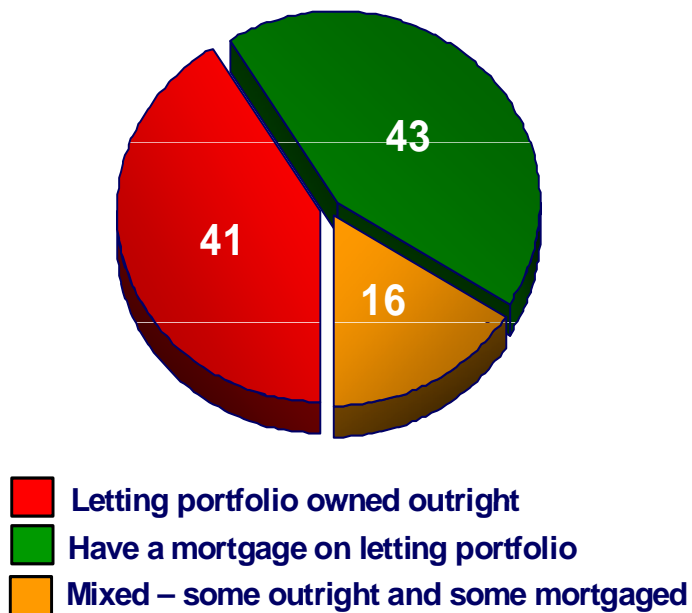


# The Landlord's Balance Sheet

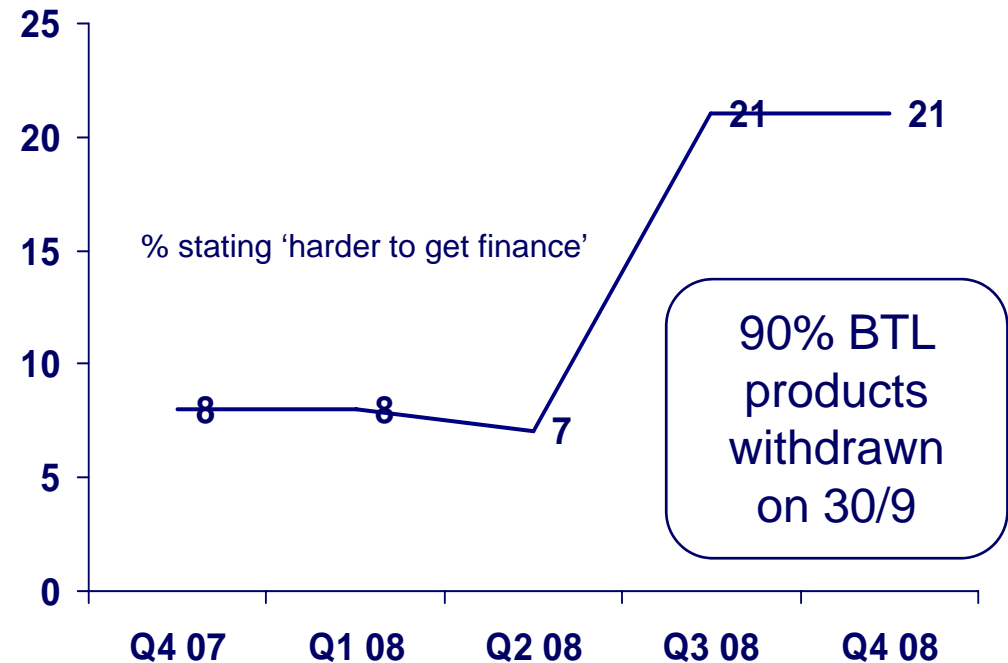
# For those that need it, mortgage finance is drying up

BTL is a sub-set of the PRS. 4 in 10 landlords carry no borrowing against their portfolio, but...

Financing of letting portfolio (%)

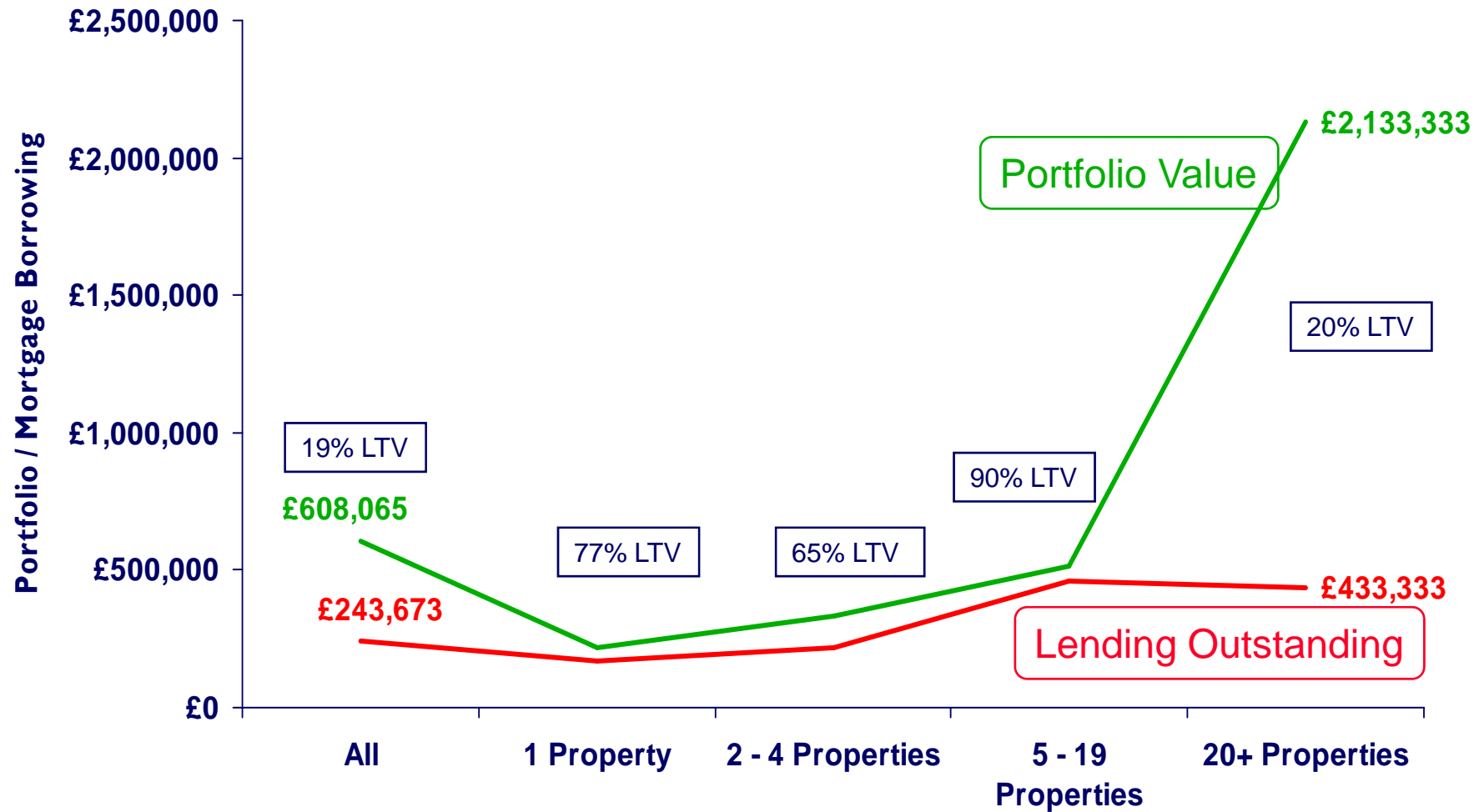


Ease of getting mortgage finance in last 3 months (%)



# Some key financials [Q4 2008]

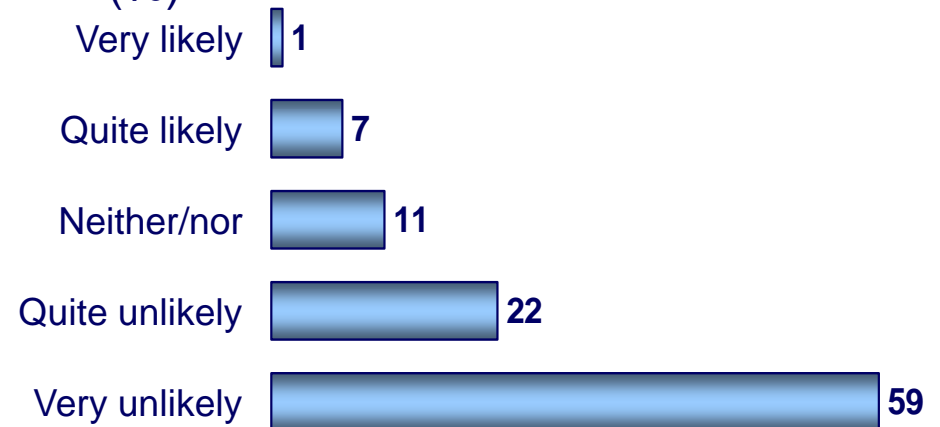
Higher gearing in smaller portfolios but.....



# Mortgage repayment difficulties

- CML data suggests BTL arrears are rising:
  - Over-supply in some areas
  - Reduced rental income
  - Fraud
  - Reduced product supply
- 900 BTL mortgages taken in during Q3 2008
- 1.58% in arrears (Q3 '08)
- BDRC's research (Dec '08) suggests:
  - 4% missed a mortgage repayment in L12 months
  - 7% have been involved in some form of repossession activity from a lender
  - 2% fear proceedings may be about to commence

Likelihood of missing mortgage repayments in the next 3 months (%)

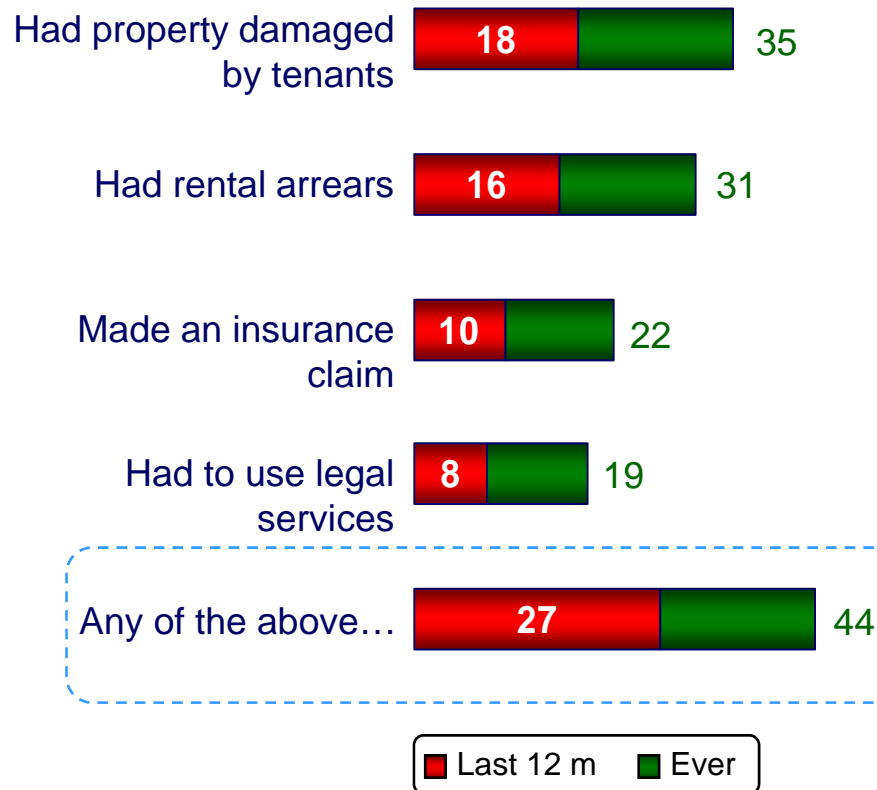


- Looking forward it's a mixed picture
- The 'at risk' segment...
  - 2-4 properties
  - Overseas property
  - Currently buying / selling property

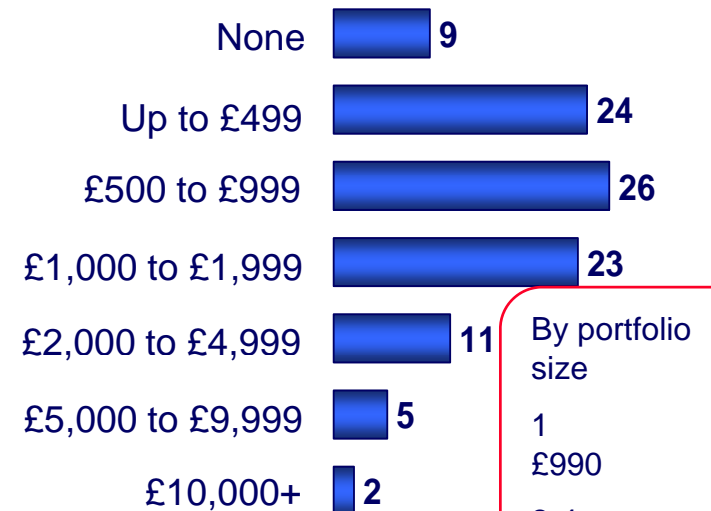
# Common tenancy problems come with a price tag...

Though 1 in 10 claim not to have spent anything on upkeep in the last 12 months, on average landlords are paying out c.£2,500

Common problems experienced (%)



Cost of repairs and maintenance (%)



Average: £2,436

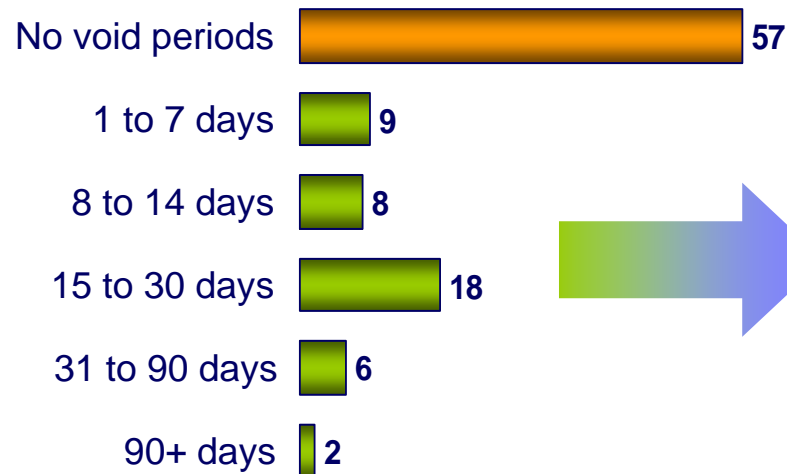
By portfolio size

- 1 £990
- 2-4 £1,744
- 5-19 £3,768
- 20+ £8,518

# Voids periods are stable at c.2 weeks per year

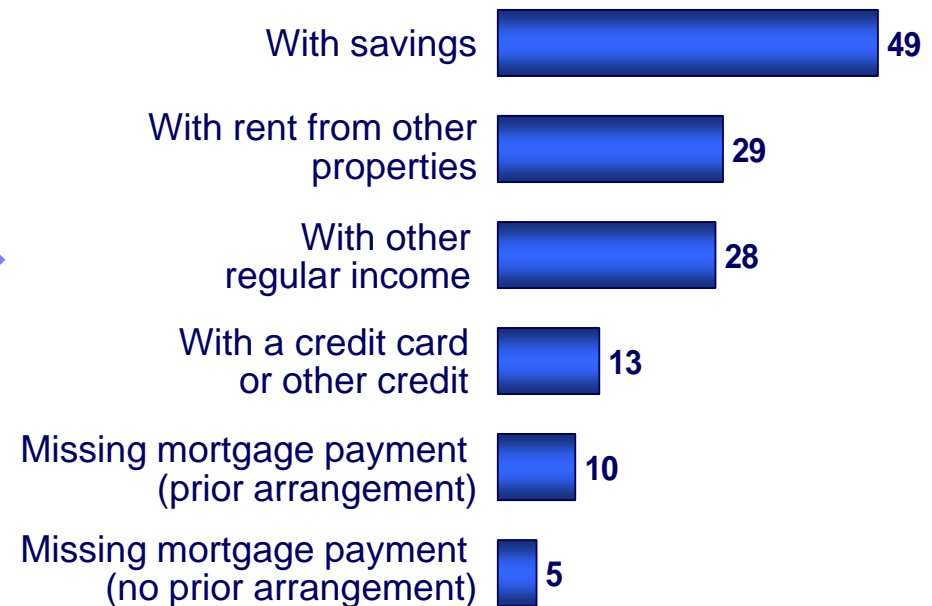
4 in 10 are affected by void periods, typically 15 days in duration in an average property, usually covered by savings or income

Length of void period experienced (%)



Average void period 15 days

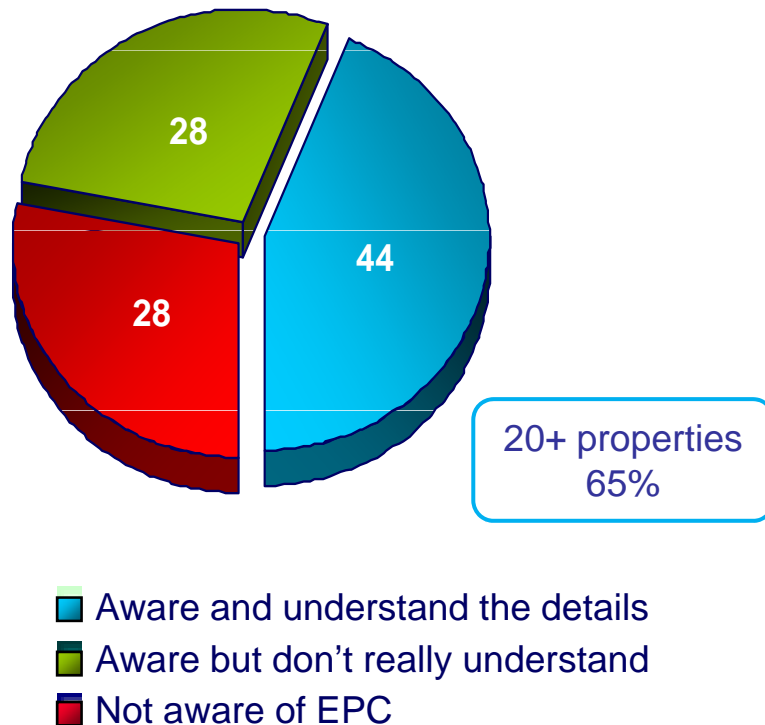
How voids are covered (%)



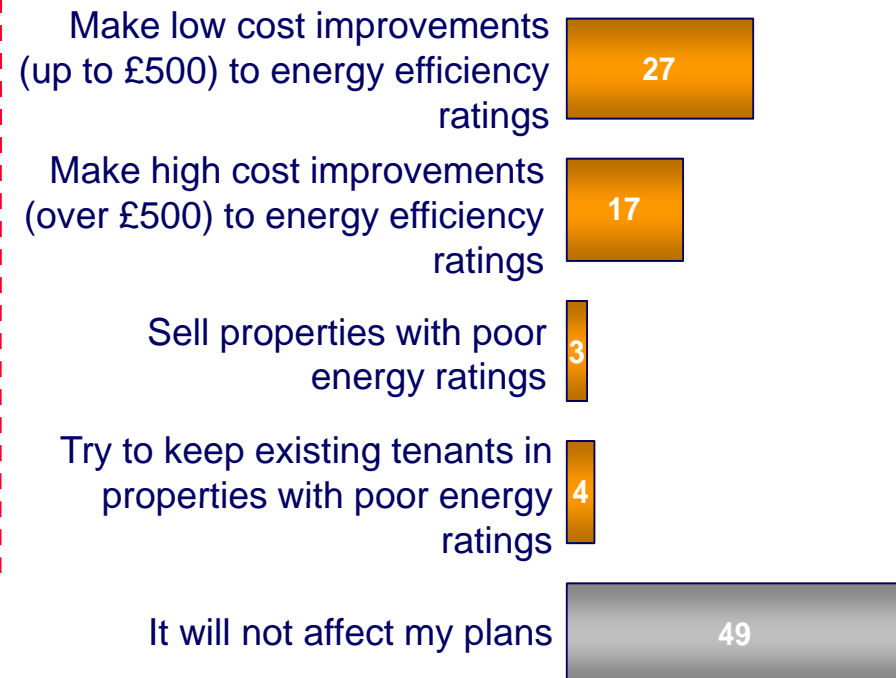
# But latest regulation will build in cost for some

Energy Performance certification is not fully understood, and 86% landlords agree that it will be a *'costly administrative burden'*

EPC awareness (%)



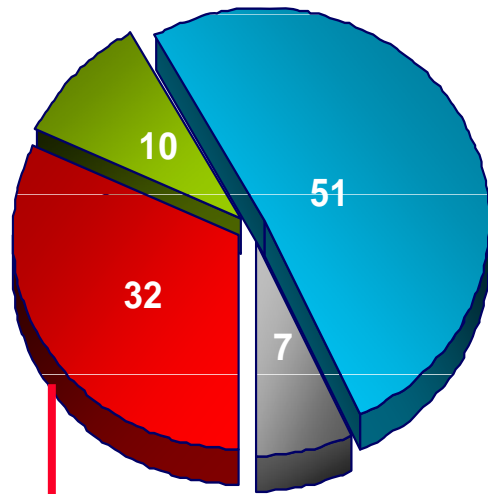
Plans in response to EPCs (%)  
(in next 3 months)



# Rental increases less likely and will be reduced

Pressure is being exerted on rental income, with any proposed increases reduced year on year (5.7% - 4.6%)

Rental change in last 12 months (%)

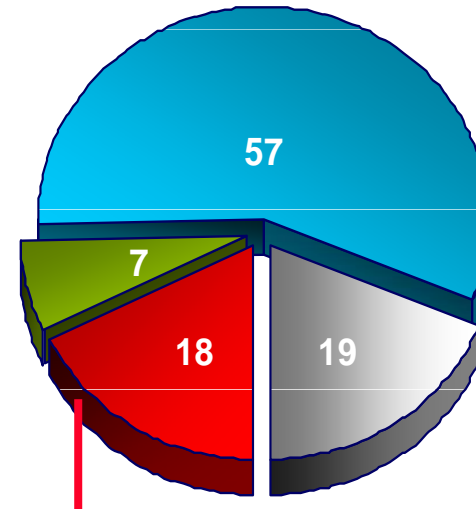


Average increase: 5.4%

Q3 08 average = 6%

- Increased
- Decreased
- No change
- Don't know

Rental change in next 3 months (%)



Average increase: 4.6%

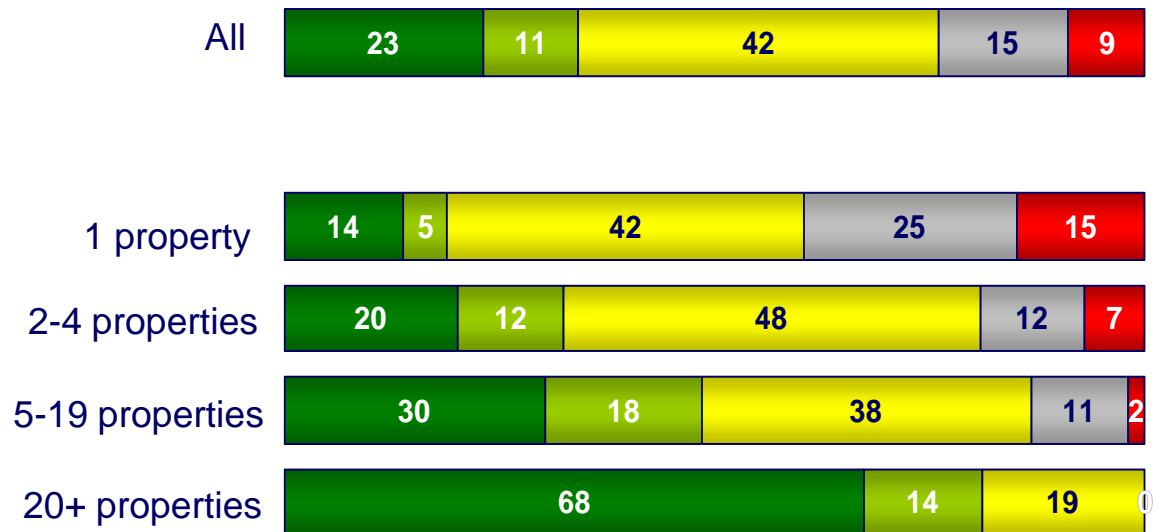
Q3 08 average = 5.7%

- Increase
- Decrease
- No change
- Don't know

# Profitability is under pressure and is polarised

This analysis shows that 1 in 4 landlords are carrying some degree of financial exposure, rising to 40% of 'amateurs'. Overall, the BDRC profitability index was down sharply in Q4 2008

Profitability (%)



- I make a profit – enough to save some
- I make a profit – enough to live on
- I make a profit – enough to supplement my income
- I break even
- I make a small / large loss

NET PROFITABILITY  
(Make profit – Make loss)

Net Profitability:  
Q4 08 +52

Q3 08 +68

Q2 08 +61

Q1 08 +61

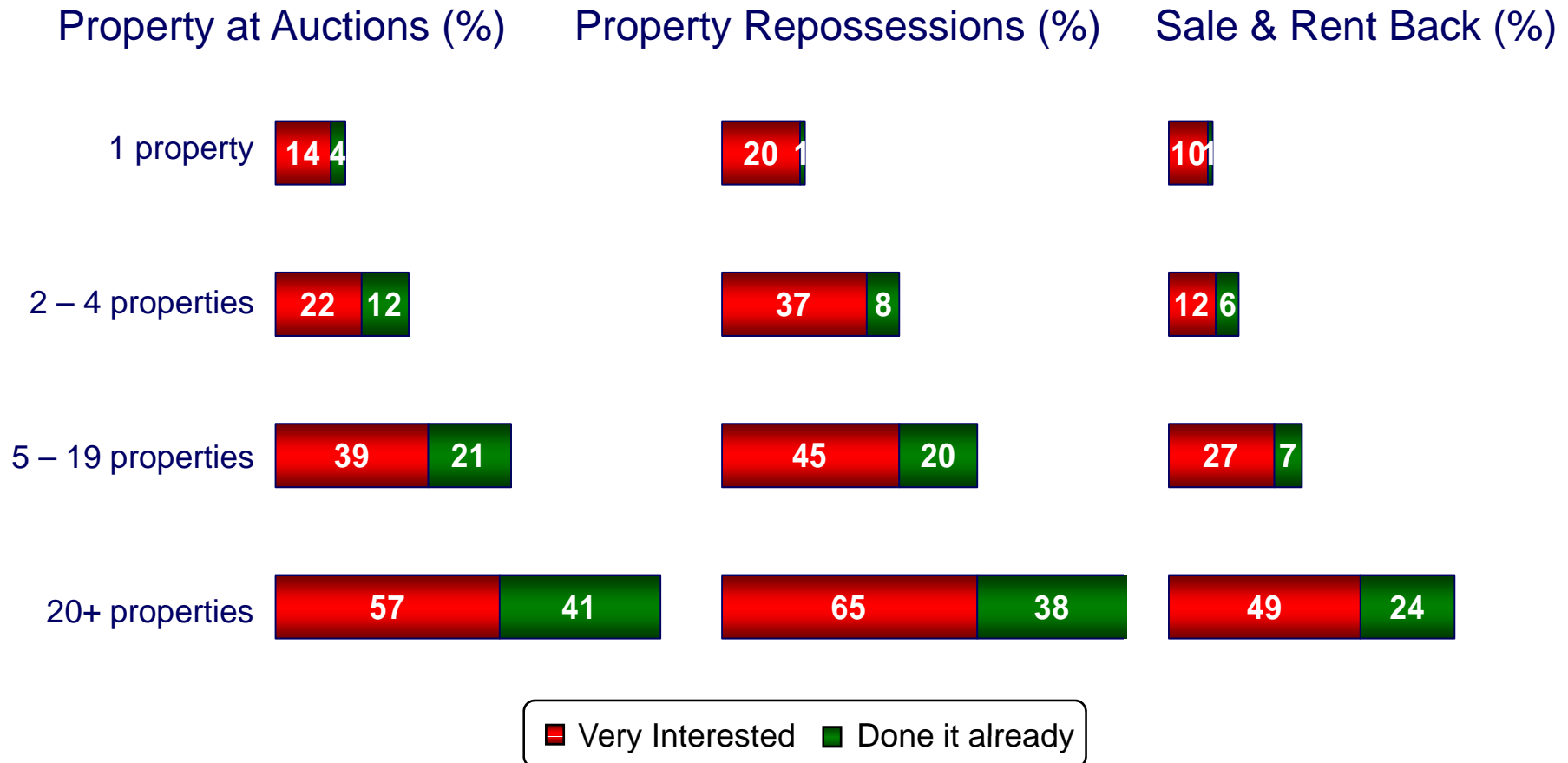
Q4 07 +64

Q3 07 +70

# Market Opportunities

# Landlords increasingly looking at all opportunities to expand

Significant numbers have acquired auctioned and repossessed property.  
SARBs gaining a foothold, typically a landlord will hold 5 in the portfolio



# In Summary

# In summary

## Positives:

- ✓ Landlords remain committed to the market long term
- ✓ Not suffering any growth in voids

## Mixed:

- Still likely to see net growth in portfolios but at a lesser rate than in the past

## Negatives:

- ✗ Falling prospects of capital gain (obvious)
- ✗ Slow erosion of optimism about yields, although not for professional landlords
- ✗ While many do not need mortgage finance, big step up from Q3 08 in those who do reporting difficulties in accessing finance
- ✗ Some landlords fearing repo activity. Very small % but clear prospect of acceleration over current actual repo rates (lines up with CML predictions)
- ✗ Expenses increasing, because of more regulation
- ✗ Most can't or won't put up rents
- ✗ Therefore falling profitability

*“Although there are current difficulties in the lettings market, as with the whole of the housing sector, there are investment opportunities for future letting. This depends on carefully research, a fair approach to potential tenants and goodwill from government.”*

# For Further Information...

- Please contact me if you have any questions or comments regarding the contents of this paper...



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# Housing – who pays?

**Introductions:**

**Adam Cleal, Managing Partner,  
Real Estate, Allen and Overy LLP**

**Trevor Moross, Conference Chair**



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# Loaned money, borrowed time: how to restore lenders' confidence in the affordable housing sector?

**Peter Marsh**  
**Chief Executive**  
**Tenant Services Authority**



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**British Property  
Federation**

**Residential  
Investment  
Forum**

**Peter Marsh  
Chief Executive**

**27 January 2009**



**TENANT  
SERVICES  
AUTHORITY**

## New Regulatory Framework

- Royal Assent: July 2008
- TSA 'Go Live': December 2008
- Consultation on Standards during 2009. Turning on the 2008 powers following the consultation period
- Expansion of Remit to Local Authority Stock scheduled for April 2010

**TSA**

**TENANT**  
SERVICES  
AUTHORITY

## Our purpose

We are here to raise the standard of services for tenants:

to **champion** the needs and aspirations of tenants, both those within and those as yet unable to access affordable housing

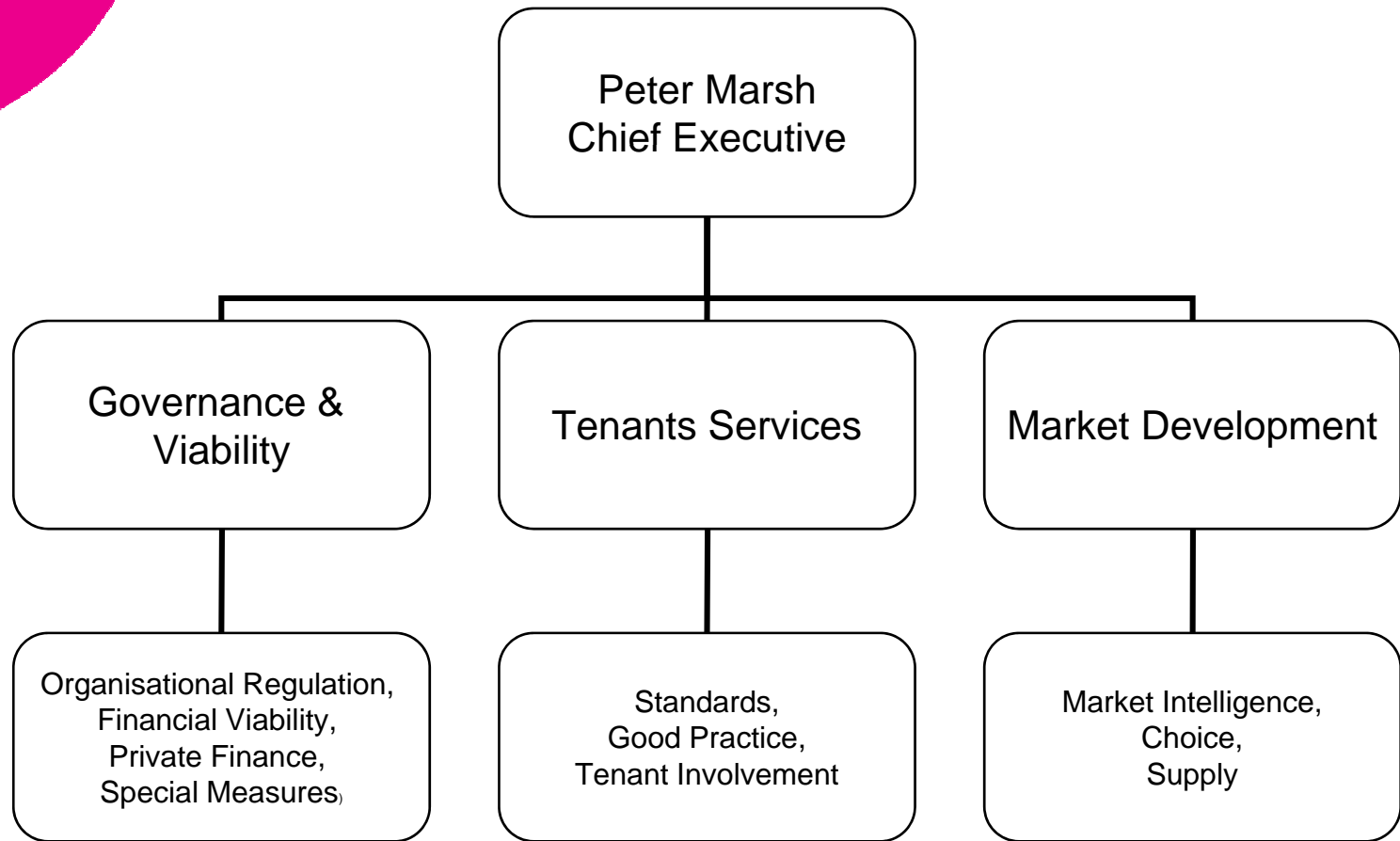
to **challenge** providers of affordable housing services to meet or exceed the highest standards of organisational effectiveness and service delivery

to shape the affordable housing landscape by introducing **choice** for tenants and providers

TSA

TENANT  
SERVICES  
AUTHORITY

# TSA Corporate Structure



**TENANT**  
**SERVICES**  
**AUTHORITY**

## How is the sector coping with the credit crunch?

### **The sector has suffered in four main ways:**

- Falling receipts from shared ownership sales – reducing the cross subsidy to fund social rent
- New debt has become scarcer and more expensive
- Certain associations have had to provide cash and security to meet margin calls on swaps
- S106 sites have dried up

### **However RSLs have managed to avoid the business failures seen in other parts of the economy:**

- Underlying capacity is strong
- Many shared ownership properties are currently being rented, with the support of the HCA
- 93% of the debt needed in the next 12 months is already in place
- Many swaps have been collapsed back into loan agreements



## How will associations cope with 2009?

- The core business of associations remains strong, demand for affordable rented properties is rising
- The downturn offers the opportunity to focus on what they do best and to deliver better value for their tenants
- Most organisations have reduced their shared ownership exposure, helping to insulate them from the housing market
- The better organisations will be positioning themselves to take advantage of the opportunities when the economy improves



## What do associations offer in 2009?

- A strong and secure rental stream, partly underwritten by Housing Benefit
- Access to a counter-cyclical market segment
- An asset base that has relatively low levels of gearing
- Balance sheet asset values significantly below full open market value
- A business model that has coped with the worst downturn since the war
- A renewed focus on the core business and the needs of their clients
- Demand that outstrips supply by over 50%



## Data Collection & Regulatory Output

- **Data Collection**

- Financial returns
- Self Assessment Compliance Statement
- Management Information – frequency determined by the presenting issue and assessment of risk
- Quarterly Surveys

- **Regulatory Output**

- Annual Viability Review
- Regulatory Judgement



# TSA Powers

Direction to the HCA

**Investigation**

Enforcement

Penalty

Compensation

Appointment of Manager

**Appointment of Board Member(s)**

Management tender (by provider)

Management transfer (by TSA)

**Moratorium powers**

**TSA**

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# Reality check: what is the outlook for the housing, debt and equity markets in 2009?

**Fionnuala Earley**  
Nationwide Building Society

**Richard Donnell**  
Hometrack

**Peter Stimson**  
Checkmate Mortgages

**Alastair Stewart**  
Dresdner Kleinwort



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# Outlook for the Housing Market

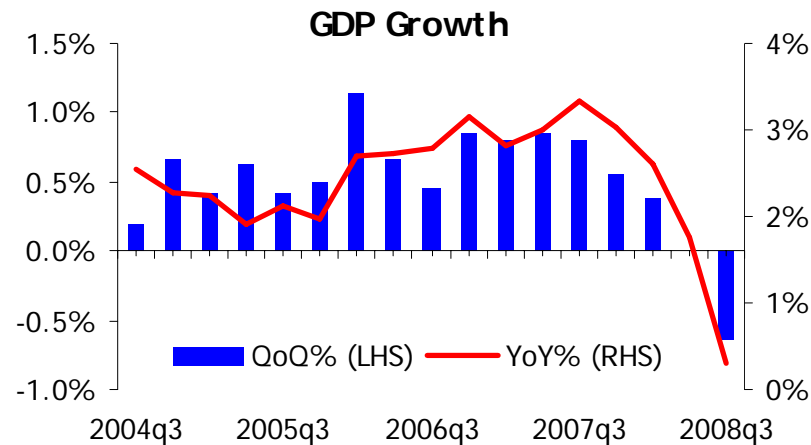
A bumpy ride ahead

Fionnuala Earley  
Chief Economist  
Nationwide Building Society

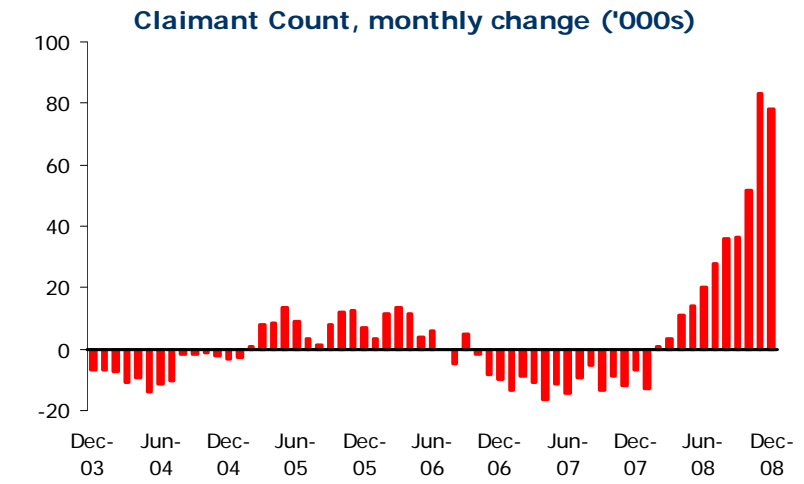
## Outline

- Economic background
- Collapsing housing market
- How much is funding to blame
- Risk
- Who can't borrow?
- Deflation.....

# Economic conditions worsening rapidly



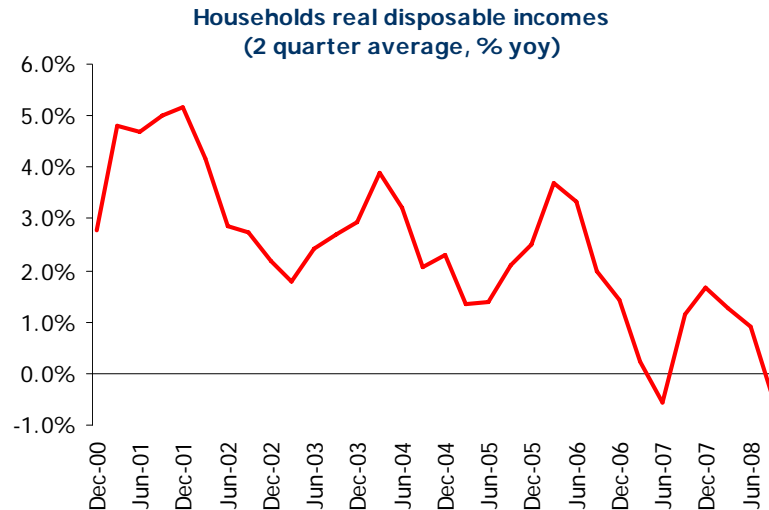
Source: ONS



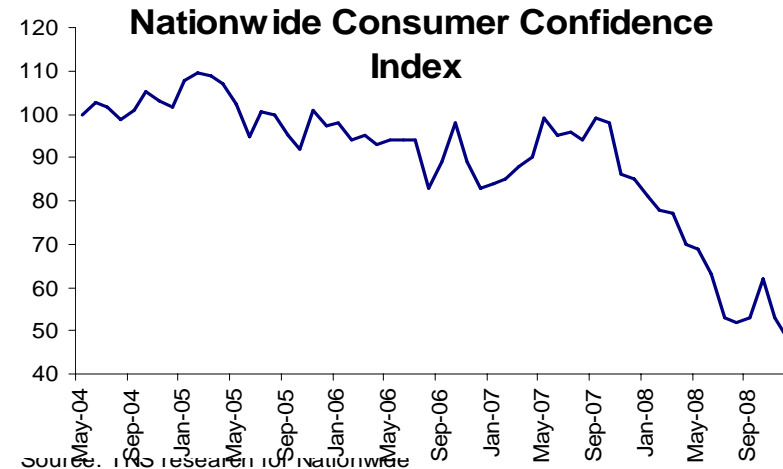
Source: ONS

- Economy in recession
- Unemployment increasing quickly while vacancies fall sharply
- Confidence in future job availability waning
- Closer to 1980's rather than 1990s downturn

# Household incomes still under pressure

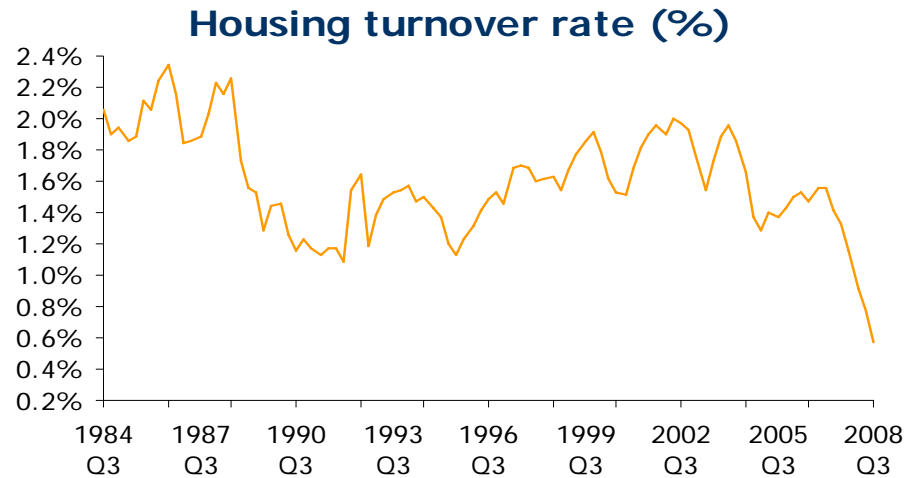


Source: ONS



- Real disposable income still under pressure in spite of falling inflation
- Weaker consumer confidence will rein in borrowing and spending

## Housing market activity has collapsed...

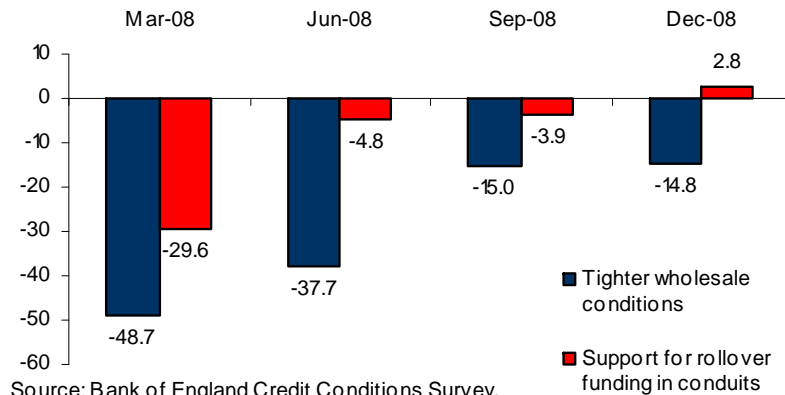


Source: CML, DCLG

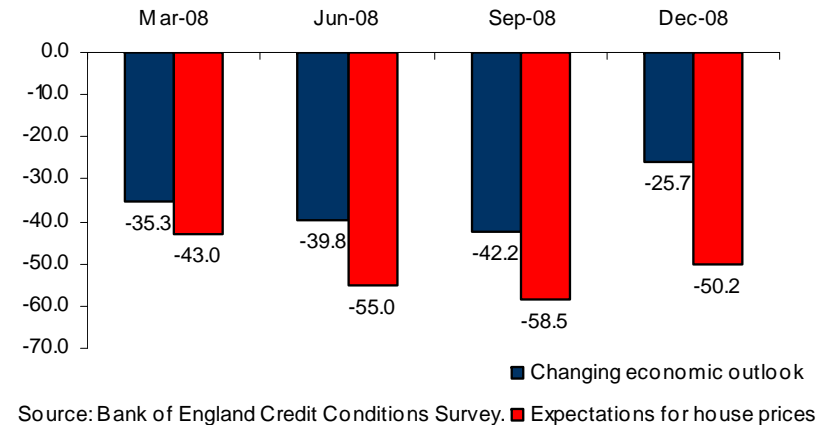
- Housing turnover at lowest levels on record, due to:
  - Severe rationing of credit
  - Unprecedented pressure on affordability
  - Evaporation of buyer confidence

# Availability of credit - is this the whole story?

How wholesale conditions affected the availability of household secured credit over previous 3 months (net balance %)

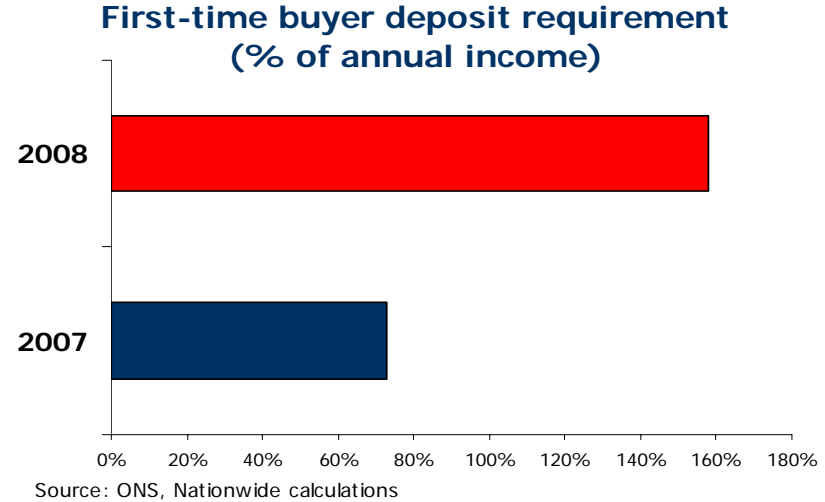
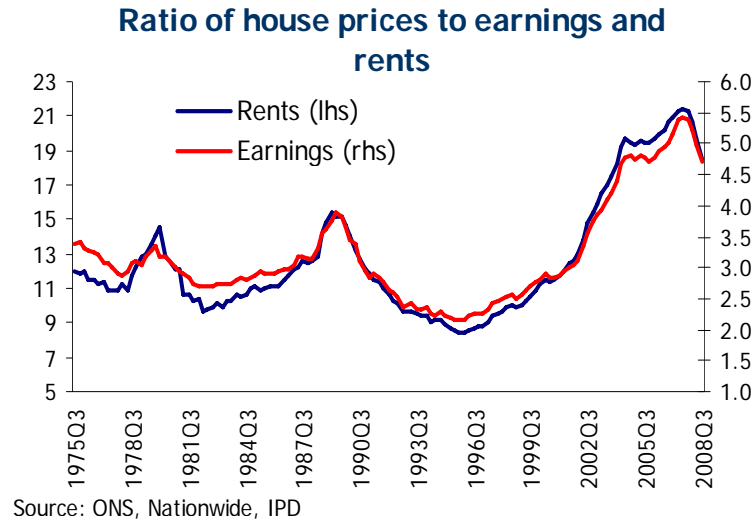


How economic and housing market conditions affected the availability of household secured credit over previous 3 months (net balance %)



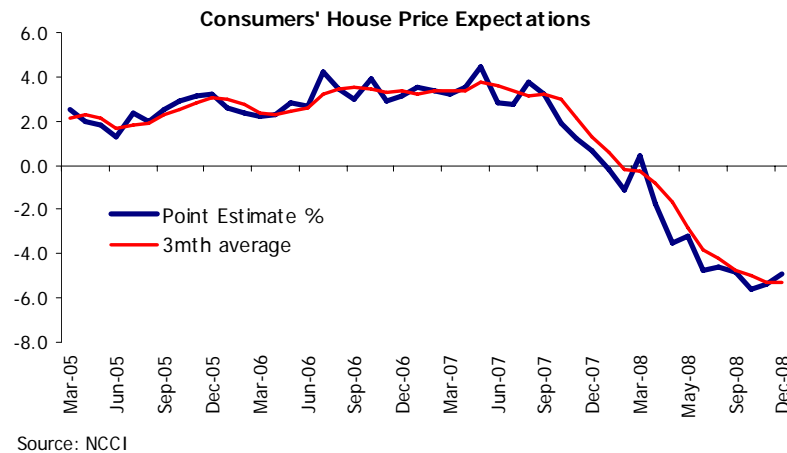
- Financial turmoil has been significant factor
- But economic and housing market conditions have become increasingly important
- Indicates risk has become overriding issue

# Affordability still very stretched

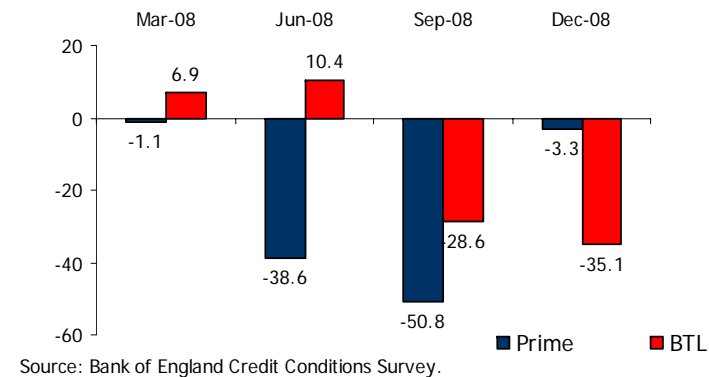


- Despite 16% house price fall, affordability remains stretched
- House prices remain out of line with earnings and rents
- Most affordable rates now restricted to 75% LTV
- Deposit requirement for typical FTB has doubled

# Borrower demand

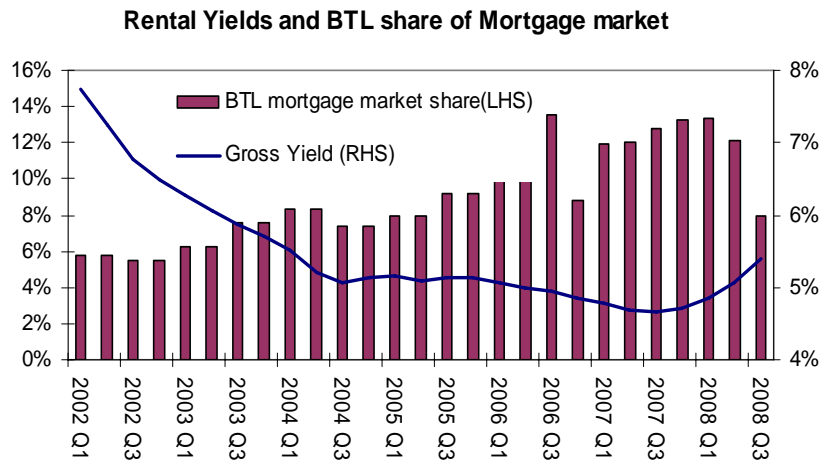


**How has demand for secured lending for house purchase from households changed over last 3 months (net balance %)**



- Demand has been curtailed by credit conditions but also weaker economic and housing market conditions
- House price expectations have fallen rapidly
- Labour market weakness is leading to postponement of new borrowing

# Buy-to-Let market offers little support



Source: CML and IPD

2007 Largest BTL providers, by gross advance	% BTL stock 2008H1	Taking new customers in 2008?
Birmingham Midshires & TMB	24%	Operating
Mortgage Express / B&B	18%	Not operating/Nationalised
Mortgage Works / UCB	11%	Operating
Paragon Group	7%	Not operating
Bristol & West Group	Estimated 7%	Not operating
Cheltenham & Gloucester	7%	Operating
Capital Home Loans	Estimated 6%	Not operating
Northern Rock	4%	Nationalised
Barclays- Woolwich	4%	Operating
Total	Estimate of 88%	

Source: CML

- 30% fall in BTL lending in 2008 and expected to continue to fall due to supply, risk and demand
- Collapse of several BTL lenders
- Higher perceived risks as BTL defaults pick up beyond prime levels
- Borrower demand will be muted by evidence of falling yields in 2008

## Lending by sector

### Contraction in lending by sector 2007/2008

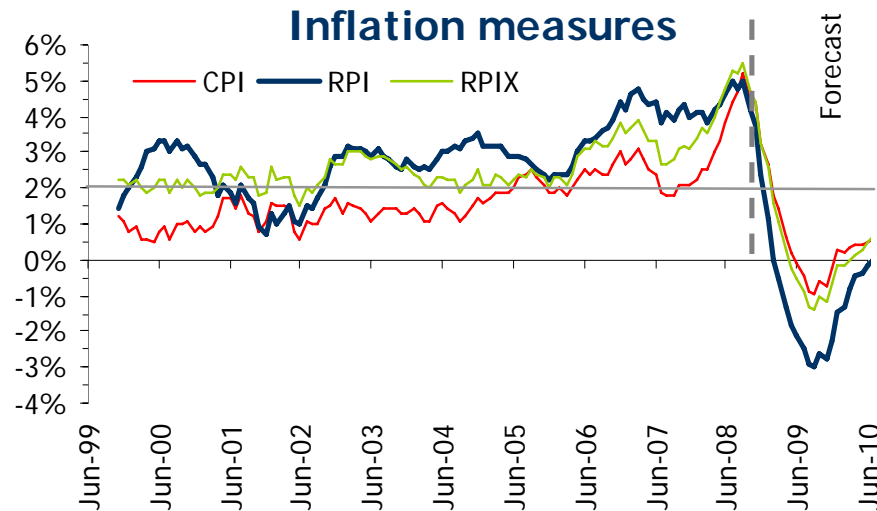
	£ bn	%
Prime	-8	-6%
Prime, High LTI LTV	-41	-50%
BTL	-10	-30%
Non Prime	-23	-68%
Other	2	7%
Total	-80	-26%
Identified higher risk (ex other)	-74	-50%

Source: BoE, CML

Notes: 1. analysis over 10 month period 2. High LTV > 90%, high LTI > 3.5

- Creditworthy borrowers still borrowing at 2007 levels

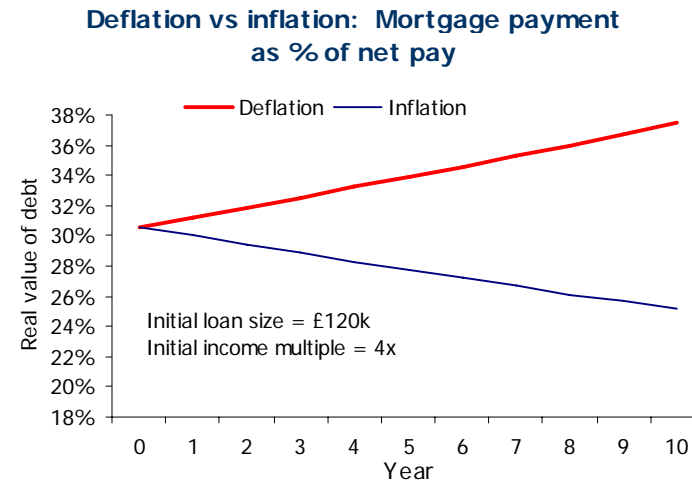
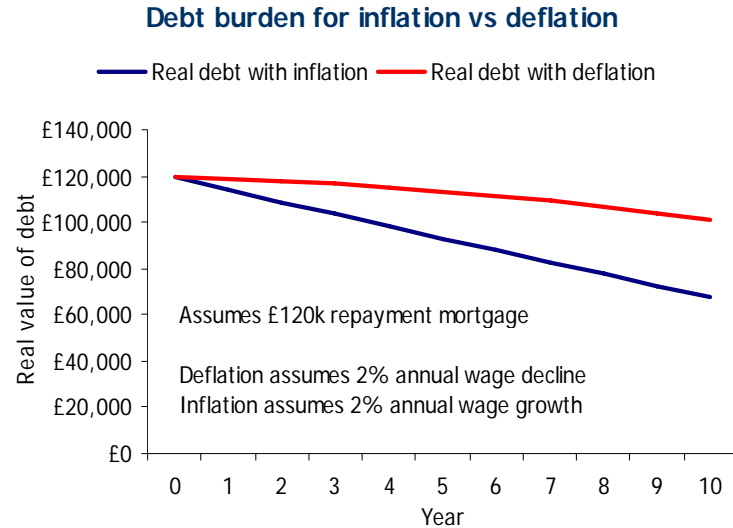
# Inflation and interest rates



Source: ONS and Nationwide

- Inflation falling rapidly and expected to turn negative
- Desire to avoid protracted deflation will lead to further rate cuts
- Strong possibility of 'printing money' to avoid deflation

# Deflation awful



- Prolonged deflation is one of the most adverse economic scenarios imaginable - Japan's lost decade
- Falling prices - delayed spending - unemployment - falling asset prices - falling wages - rising real value (and burden) of debt - falling prices - delayed spending - unemployment - falling wages etc etc

## How to avoid deflation

- Reduce interest rates
- Build confidence in the banks - objective of recent bailouts
- Confidence in banking sector should promote lending to businesses and consumers to help them to invest/spend
- Low interest rates should promote demand too
- Latest Government moves have all been about trying to inject confidence into the banking sector to oil the wheels
- If this doesn't work will increase the amount of money in the economy - printing money and distributing it via banks - but this risks the return of inflation

## Conclusions

- Economic conditions are not rosy
- Economy in recession likely to be similar to 1980s
- Contraction of housing market partly due to financial turmoil...
- ...but increasing risk is the overriding factor
- Creditworthy borrowers still borrowing at 2007 levels
- Avoiding prolonged deflation is key for future
- Confidence is essential
- Actions by authorities will help to encourage confidence - but they have to be credible
- Still lots of uncertainties

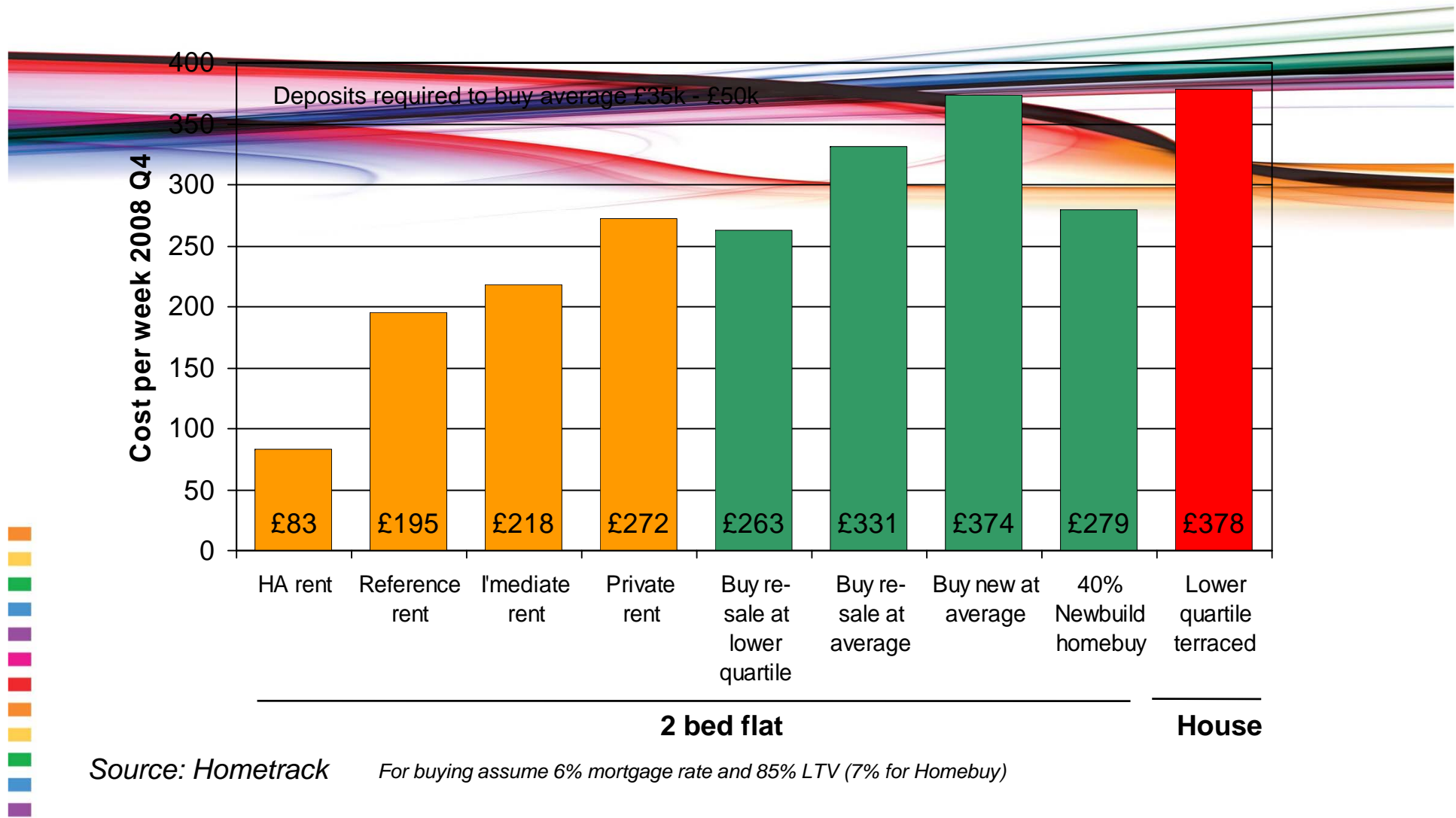


# Renting versus buying Market segmentation

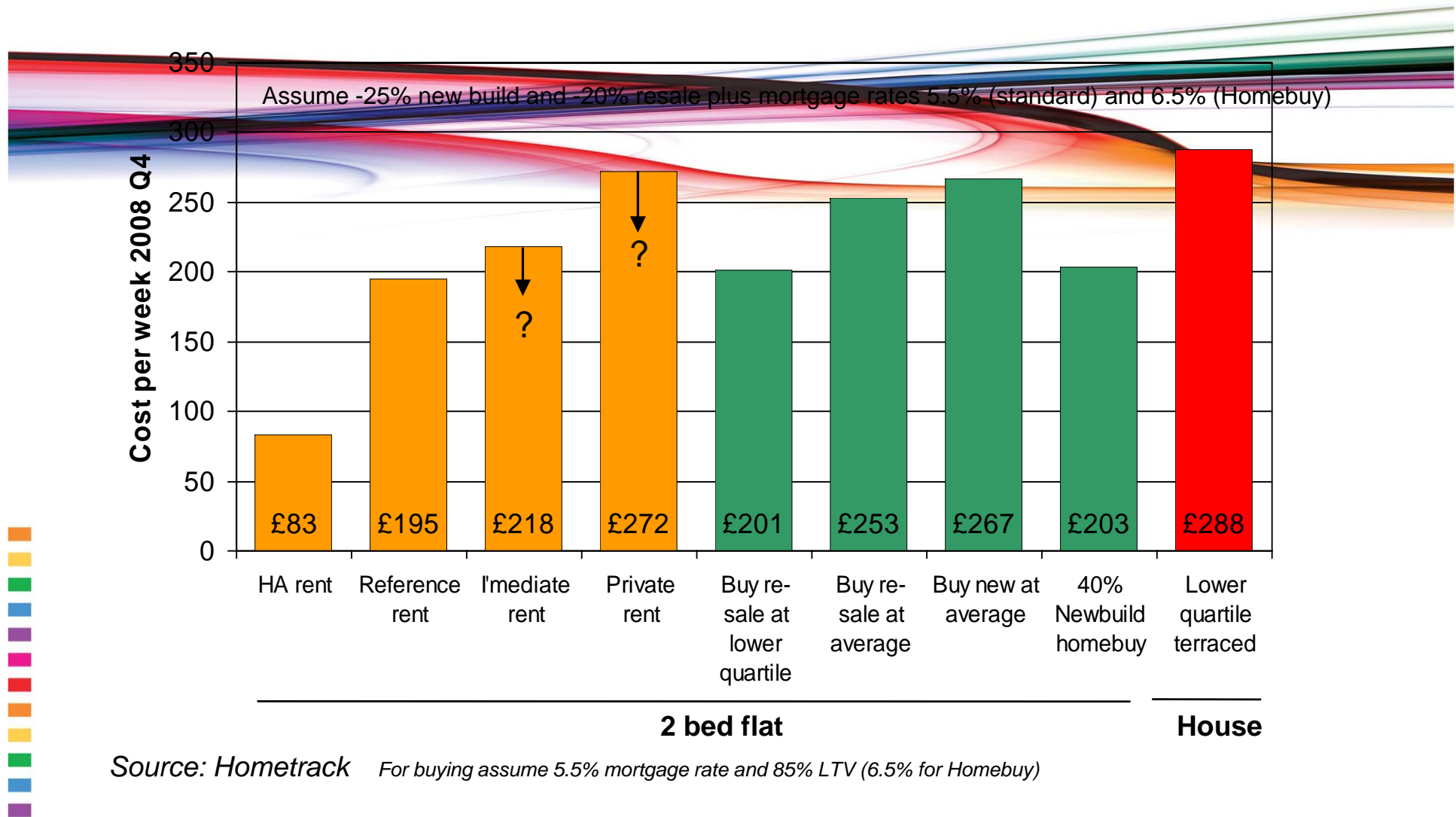
## **BPF Residential Conference**

Richard Donnell, Director of Research, 27 January 2009

# Cross tenure affordability – London



# ... roll forward to late 2009



# ... must consider rental segments

