Public rental homes: fresh perspectives

By Peter Bill & Jackie Sadek

LOCALIS

THE HOUSING & FINANCE INSTITUTE

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About Localis

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We are a leading, independent think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

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Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is positive about promoting economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

- **Decentralising political economy.** Developing and differentiating regional economies and an accompanying devolution of democratic leadership.
- **Empowering local leadership.** Elevating the role and responsibilities of local leaders in shaping and directing their place.
- **Extending local civil capacity.** The mission of the strategic authority as a convener of civil society; from private to charity sector, household to community.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.

What we do

We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas. We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme. We also run a membership network of local authorities and corporate fellows.

THE HOUSING & FINANCE INSTITUTE

About The HFI

Who we are

The Housing & Finance Institute was established in 2015 with the support of UK Government, businesses and councils. Its creation was a recommendation of the Elphicke-House Report 2015. The HFI is a not-for-profit organisation.

What we do

The Housing & Finance Institute acts as an accelerator hub, to increase knowledge and capacity in order to speed up and increase the number of new homes financed, built and managed across all tenures.

How do we work

At the HFI, we do the following:

- share best practice through workshops, networking and our landmark 'Housing Business Ready' programmes, that support capacity building in councils to explore the housing their communities want and need
- publish policy papers
- engage across a range of stakeholders.

We are not politically affiliated with a particular party or business/industry.

The composition of our board of directors and stakeholder groups reflects this balanced and diverse approach.

About the authors

Peter Bill

Peter is a surveyor-turned-journalist who edited Building magazine for six years in the nineties, before editing Estates Gazette for 11 years, until 2009. Peter spend 20 years prior to becoming a journalist working for construction companies, including a decade with housebuilder George Wimpey. Peter wrote the weekly 'On Property' page for the Evening Standard City section for seven years until 2015. He has won multiple awards for his journalism. Peter is the author of *Planet Property*, a guide to the Commercial Real Estate market, published in 2013, which maps the £400 billion sector and charts the 10-year boom and subsequent fall-out of the 2007/10 crash. His latest book is *Broken Homes, Britain's Housing Crisis Faults, Factoids and Fixes*, was published in 2020 and co-written with Jackie Sadek, joint author of this report.

Jackie Sadek

Jackie Sadek has over 30 years' experience in property, specializing in public-private sector partnerships, working with local authorities and investors. From 2014 to 2016 Jackie was full time Specialist Adviser to government on urban regeneration. Jackie was Founder and Chief Operating Officer of UK Regeneration (UKR), which achieved a planning consent for 1,500 homes in a garden settlement in Bedfordshire, in partnership with Homes England. Jackie now runs Urban Strategy, a bespoke urban regeneration consultancy. She was member of Grimsey Review team on the future of the high street and is an honorary Fellow of ACES, the Association of Chief Estates Surveyors. Jackie, who writes regularly for EG, is co-author with Peter Bill of *Broken Homes; Britain's Housing Crisis, Faults Factoids and Fixes.*

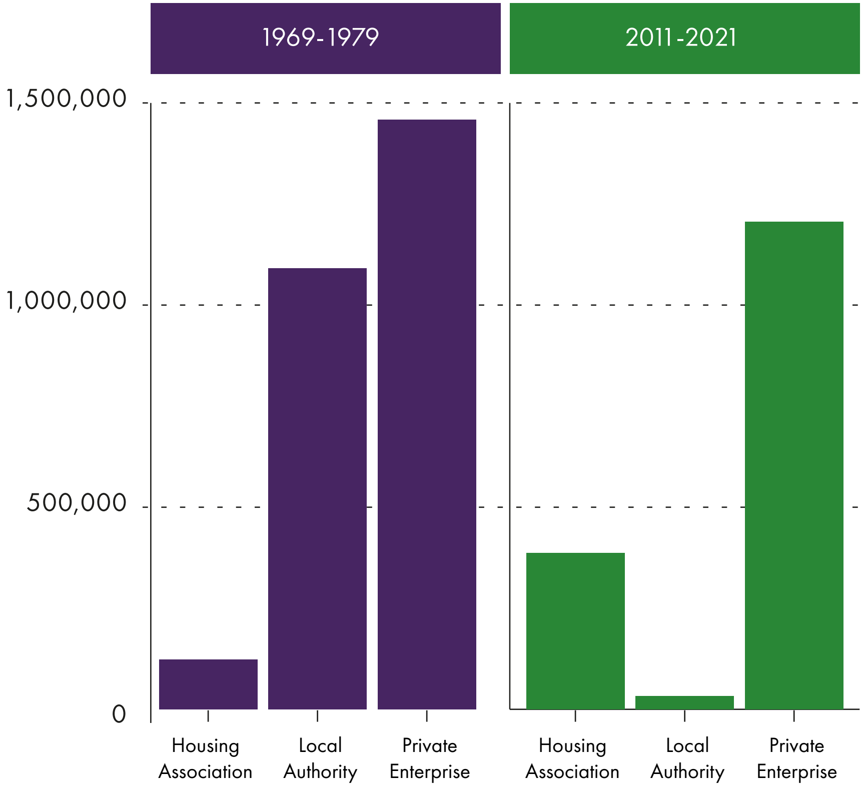
Introduction

Looking back

Just short of 250,000 new council homes were built in 1953. Housing minister Harold MacMillan permitted local authorities to build as many homes as there were applicants on the waiting list. This was achieved by allowing councils to borrow at cheap rates to build homes whose construction costs would be redeemed through rents that those on the waiting lists could afford to pay. The programme was aided by Labour legislation from 1947, which allowed councils to buy land at existing use value.

The last year in which the current target of 300,000 homes was exceeded was in 1969, when 307,000 homes were completed: with the help of 136,000 council houses. Since 1969, the private sector has averaged 134,000 homes per year. The average combined output of local authorities and registered providers was 53,000 homes per annum. In the 12 months to March 2021, 194,000 homes were completed, with the private sector contributing 151,000, registered providers accounting for 39,000 and councils completing just 4,000.

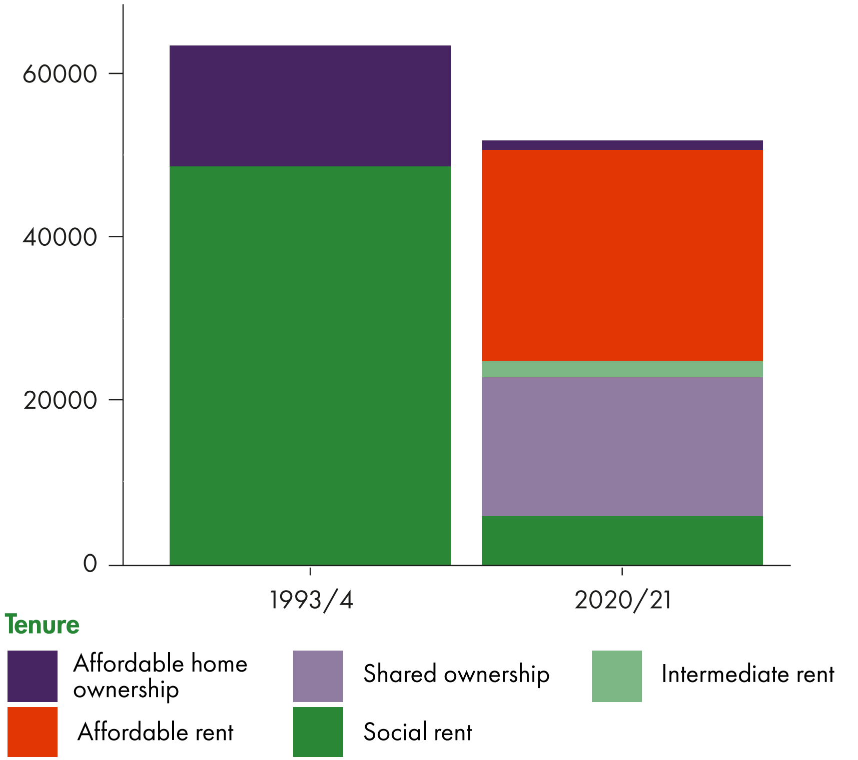
Figure 1. Housebuilding: a tale of two decades
Total homes built by councils, housing associations and the private sector



Looking around

Few of the 'affordable' homes being created today from new build and refurbishment projects can be afforded by those on the 1.2 million-long council waiting lists. Back in the early 1990's, around 50,000 homes a year were started to be let at what is now defined as 'social rent' – about half the local private market rents. Broadly the same number of 'affordable' homes are being built today, but no more than 6,000 are in the lowest 'social rent' category.

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



Source: DLUHC

Table 1

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**

Looking forward

A contraction in private supply began in Autumn 2022, with housebuilders unlikely to match the peak completions reached in 2019/20 in the short- to medium-term. Well-rehearsed financial constrains make it hard for registered providers or councils to increase 'social rent' supply. Yet, given the government's 300,000 target and a recognition that local authorities should have a stronger voice, the situation presents an opportunity for bottom-up initiatives, stimulated by local authorities but executed by the private sector.

Localis and the Housing Finance Institute have developed a fresh approach that will allow local authorities to provide homes which match the needs, and are within the means, of those on waiting lists. This approach involves using site-by-site appraisals that flip the present private sector appraisal methodology, which asks "what percentage of affordable homes can we afford to provide?", to instead, "what percentage of private homes must be provided in order to produce the size and type of public rental homes (PRH) those on our waiting lists can afford?".

The concept is 'loose fit' – the land for PRH sites could come either from the council, the state, or from a private owner, and land subsidies or grants may form part of the appraisal. The guiding principle remains the same, which is one of mutual reward for councils and developers. For the developer, a normal level of profit, rather than the smaller margins they are allowed on affordable homes. After all, they take both the construction risk and sales rewards. The council's reward is homes they can rent in perpetuity. The PRH approach is framed to work within the existing planning and finance rules and can be made flexible enough to appeal across the political spectrum and to the private sector.

Chapter 1
Public rental homes: questions and answers

What's the flipping idea?

1. To flip the private developer appraisal model of determining site viability into a Public Rental Homes (PRH) appraisal model. As it currently stands, housebuilders work out how many affordable homes of various grades they must concede to arrive at an acceptable value for the land on which they wish to build private homes. Why shouldn't councils, in cooperation with a developer, work out how many private homes built for sale are needed to viably build homes that can be rented at rates those on the waiting list can afford?

2. To flip 'top-down' targets over and into 'bottom up' plans. The bedrock of any local Public Rental Sector (PRS) strategy is the council waiting list – the size of households on the list and their ability to pay the proposed rent form the foundations. The prime responsibility of the local authority is to identify sites that might meet these criteria and initiate discussion with developers, but there is also the opportunity for developers to approach the council and suggest suitable sites.

Give us an example?

Take a local authority with a 1,000-strong waiting list where 500 households need three bed homes and 500 households can get along with one or two bed flats. The council would construct a five-to-10-year plan to build 100 to 200 homes a year, ensuring that half the units set aside as PRH are 3-bed homes, with the rest of the PRH units being flats. The next step would be to identify plots and find an interested developer. The developer would take all the profit, along with all the risk, providing that they deliver the homes for public rental. This approach could take time, with the need to sell the private home allocations first, but the upside would be no risk for the local authority.

Not that new an idea, is it?

Not really, more a variant of many other ideas. Hundreds of councils are working with the private sector or housing associations to build affordable homes of all types, using all sorts of models to apportion profit and risk. The PRH model is designed simply as an additional option for consideration.

Public Rental Homes, fancy name?

There does seem to be a need to come up with a new term for homes not tarred with the 'council house' or 'social rent' brush. But the burgeoning private market in building homes for rent proudly call themselves the Private Rented Sector (PRS) or Built to Rent (BTR). Why shouldn't councils have a sector to call their own? Better to say to voters "we plan to deliver 100 Public Rental Homes this year", rather than mumble apologetically about 'social housing provision.'

What about mix and size?

This is where the bottom-up element comes in: let the mix be determined by the demand suggested by the mix of homes required on the council waiting list. The mix provided by the current 'affordable' model tends to be shaped by private developers, formed by a joint desire between housebuilders and councils to place unit supply at the forefront of considerations. The size of PRH units should never be below Nationally Described Space Standards – in fact, councils should consider returning to the larger standards set 100 years ago by Sir Tudor Walters, which provided a template for council house designs for 50 years.

How would you set the rent?

Easy enough: to the level of what is now described as 'social rent'. To private developers that tends to mean 50 percent of the local market rent, but the government has a whole set of rules and a grid of numbers to determine rents of public housing on a council-by-council basis. These Local Housing Allowances or local council rents can be used as benchmarks for PRH rents – bearing in mind that 25 percent of the population cannot afford to rent above these levels.

PRH and private – what percentage of each?

If the scheme stands up without government loans or grants, let the council in tandem with the chosen developer choose the tenure mix, with no need for Whitehall interference. If public loans or grants are needed to make the project viable, the government would get a say on the minimum percentage of public rental homes, as well as the tenure mix, through Homes England.

But councils want different things depending on their political control

The approach is deliberately 'loose-fit' and politically neutral, designed to survive changes in government. The only prerequisite for the model to work is that the homes sold privately allow the development to reach the viability threshold for the PRH. This rule is the same for a Labour council looking to develop a 70 percent PRH site as for a Conservative council looking to provide 30 percent PRH, the numbers simply have to add up. If a private housebuilder, or the private rented sector, wants to weigh in and start building PRH units, this would also work within the model.

Viability – that's the stumbling block, isn't it?

Admitted. Flipping the viability model from, let's say 60/40 private/ 'affordable' to 40/60 PRH/private will either reduce the residual land value significantly, either to zero, or, in many cases to below zero. What make a scheme 'viable' is the residual land value works out at zero or positive in the appraisal. If the land value is still negative, then somebody needs to come up with the cash to make the scheme viable.

OK – who comes up with the money?

Well, it doesn't always have to be about the money. The price of the land is a bargaining chip, at least when owned either by the council, or anther organ of the state. The rules are complex, but flexible. 'Social Value' discounts can be argued, as can 'free transfer' in compelling cases. As long as any private partner does not unduly benefit from the rules being bent in favour of the council, it can work.

Still not enough money in the purse?

In a situation where the finances are in place and permission has been obtained but money is still needed to ensure the scheme is profitable – in discounted cash flow terms to the council and in rate of return terms to the developer – the gap would be filled in the same manner as for private-led sites in the current system: by the taxpayer, via Homes England. Homes England has both the money and expertise to provide aid in cash and kind on these sites.

Who builds the estate?

The builder could be a big housing association or, more likely, a private developer. Some big metropolitan authorities have the expertise to take on the risk, but only some, and the collapse of Croydon's Brick-by Brick experiment still haunts the sector. The job of the council is to provide homes, not play at developers. Forget the profit, remember the homes. Let those who know how to build do the building. Let the builder take 100 percent of the development risk and reward in return for 100 percent of the profits. This would include a 20 percent profit on affordable units, rather than the sub-10 percent they are granted in Section 106 agreements.

What if PRH tenants become better-off?

A 'Pay to Stay' proposal was dropped in 2016 after extensive consultation. The plan was to charge full market rents to tenants with a family income of more than £40,000 in London and £30,000 outside the Capital. Therefore, the answer to this question is not easy. Yet if PRH is to flourish, 'pay to stay' must be looked at again. At minimum, tenancy agreements will need to include periodic income review clauses.

What about questions of social mix?

It is crucial to face, rather than avoid, the question of mixing private buyers and PRH tenants on one development at the very outset. This does not mean the social issues, tricky as they may be, but the financial – what impact will PRH units on a site have on private home values? It would be naïve to act as if values would not be affected. Awkward questions on where the PRH-model homes sit in relation to the private homes must be faced long before architects are appointed.

Could councils adapt the PRH-first approach for use in estates regeneration?

No reason why not. But replacing the higher tiers of 'affordability' above social rent would adversely impact the viability of the scheme.

Could private developers take the initiative and say, 'we'd be happy to include a percentage of PRH into our scheme, rather than bargain over other tenures?

Again, no reason why not. There may be circumstances when a private developer would find it in their interest to suggest a PRH-only contribution.

Who owns and manages the PRH after completion?

How the stock is 'onboarded' and managed by the council is something that each authority should decide for itself. But the principle is that the PRH stock comes freehold and covenanted to be rented in perpetuity.

Chapter 2
Financing PRH

One of the key recommendations in the seminal report produced by Lord Best in 2020 was that "rather than seek the maximum land price, public land could be discounted for developments that provide higher levels of social and affordable housing". Best suggested as little as six percent of homes built on public land were for social rent. In other words, to increase the quantum of social rented homes, a discount on the land price is necessary.

The present rules do offer flexibility. The ground rules in Section 120 of the 1985 Local Government Act state that councils cannot dispose of land "for a consideration less than the best that can be reasonably obtained". Court interpretations have repeatedly held that this 'consideration', from the 1985 act is financial. Subsequent legislation has broadened the scope, however, by giving local authorities the powers to promote wellbeing (Local Government Act 2000) and the powers of general competence (Localism Act 2011). This means that interpretations of 'best consideration' can be widened to include other policy objectives, including the social and economic benefits that come with affordable, community-led housing.

Interviewed for this paper, Richard Lloyd-Bithell, senior consultant for the Chartered Institute of Public Finance and Accountancy (CIPFA), said a discount on the land value for the provision of social housing is negotiable, perhaps between 10 percent and 30 percent of the land value underneath each social unit. Providing 'best value' rules are applied, land can be transferred between one state entity and another even at nil value, if a 'social welfare' assessment deems that the good of the community balances out the loss land value to the council asset book. However, Lloyd-Bithell stressed that "caution needs exercising in case a private partner received benefit from such a discount".

In a further research interview, Steve Partridge, Head of Housing Finance at Savills, said PRH could be financed through the Housing Revenue Account - providing the rules governing HRA finance are followed:

> *"Councils can also use their own land or buy open market land. In dealings with the private sector they must then establish the 'certified market value' using a development appraisal that includes 20 percent profit for the private homes, 10 percent on shared ownership units and six percent for the affordable units."*

Partridge suggested that smaller councils without the expertise to negotiate land purchases and the building of PRH units should combine with nearby councils.

Chapter 3
Private sector lessons for public finance homes

The dynamics of the current private rented sector (PRS) model are worth examining, if only to help appreciate what forces will be applied to any PRH-first model. Private developers take 100 percent of the risk, not just construction, but also financing. Risks that stretch over time, a decade perhaps on larger sites. The risks are greatest in the time between securing the land and securing planning permission. Housebuilders tend to hedge this land risk by paying a deposit and only after permission is secured paying the 'post-planning' residual value.

The pace at which PRS homes are delivered will be dictated by the pace of private sales. These are controlled by the number of sales per outlet per week, or the SPOW rate. If sales rise, prices are notched up to slow down the SPOW. If the market slows, prices are kept static and discounts are offered, such as 'finishing touches' vouchers to buy furniture or upgrade the kitchen, or even the more naked 'deposit contribution'. All of this is done to maintain the budgeted SPOW. To capture increased prices in a rising market the number of homes released for sale are kept limited. If the market is falling, the batches for sale may rise.

Philip Barnes, Barratt director responsible for land purchase, explained the central role sales rates play in *Broken Homes:*

> *"A site sale rate is determined when we bid for a site, part of the initial budget, when build cost and revenue assumptions are made. After purchase, the aim is to achieve the budget build costs and sales rates, with the resources available. Strength of demand, the build team and supply chain capacity, weather, and levels of competition can all affect the sales rate."*

In other words, the SPOW rate determines everything. For the PRH model to be of interest to developers, this must include the pace at which the PRH-model housing is delivered as well.

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

The traditional residual land value appraisal is the financial foundation underpinning any development. Private developers compete for land using the residual land value as a basis for the bid. Housebuilders determine the likely Gross Development Value (GDV) and the profit they require, before deducting planning, building and finance costs. The residual land value widens and narrows as assumptions change – the figure is driven up by more optimistic estimates of income and driven down by more pessimistic estimates of costs. The built-in profit is tied to income, which is driven up through higher density. Smaller homes drive down costs.

The PRH model in table 3 splits the site into 50 percent private 50 percent Public Rental Homes. The residual land value remains the main moving part, driven up by more optimistic estimates of income and driven down by more pessimistic estimates of costs. The income of the PRH units is entered at cost to the council. Only the estimate of income from private sales moves the residual value. The built-in profit for the private sales stays at 20 percent to reflect time and risk and, importantly, 20 percent on the PRH-model homes.

Chapter 4
Public Rental Housing: ACES recommendations

There is a cohort of (mainly, although not exclusively) RICS-accredited surveyors, professionally trained in property skills, serving as senior local government officers responsible for managing council assets. They have a membership body known as ACES - the Association of Chief Estates Surveyors in the public sector. The following proposals have been developed in consultation with the ACES leadership team.

The central suggestion is that local authorities should acquire (or utilise existing) land that is suitable for housing, within the provision of their Local Plan, seek planning consent for housing on this land and then commission the delivery of new homes. Local authorities have a wide range of powers in this regard, notably planning and Compulsory Purchase Order powers, and the ability to borrow money at preferential rates through the Public Sector Works Loan mechanisms.

Many local authorities benefit from a wide range of property assets. Moreover, councils enjoy valuable convening powers: the ability to establish creative partnerships to meet social policy objectives. Overarching this is the "General Power of Competence" outlined in the 2011 Planning and Localism Bill, which empowers Councils to undertake activity for the benefit of their locality, provided that activity is legal and demonstrably in the public interest.

The PRH approach would work well for those authorities who are struggling to meet their five-year housing supply land target via the conventional routes and who are willing to work creatively with the private sector. It is estimated by Knight Frank that the public sector property estate is worth some £450 billion. Of this, a minute fraction would be appropriate to be put forward for housing development. Nevertheless, a good start point for any PRH approach would be to build homes on publicly owned land – although this will of course not be enough. We do not propose that PRH should be restricted only to publicly owned land. For those local authorities who signal their willingness to be PRH compliant, we would suggest several other routes for land supply:

- Land owned by other parts of the public estate in a local authority area that would be suitable for PRH.
- Land owned by third parties in the local authority area, who are willing to put their land up for housing: categorised as 'land partners'.
- Opportunist purchases: suitable land currently owned by private owners, which may come onto the market and could be purchased for PRH purposes.

4.1 ACES recommendations

The following recommendations were developed with ACES, aimed at both local and central government. Ultimately, PRH activity must be driven by local government in a localist context.

Local government recommendations

- Councils should set minimum levels for PRH units.
- Right to Buy rules should be altered to allow receipts to be used for PRH units.
- PRH rents should be set over ten years to create stable private investment platforms.
- For PRH units, councils should make mandatory current advisory space standards.

Central government recommendations

- English local authorities should be mandated to have a Five-Year Programme of house building, in line with what is extant in Wales and Scotland.
- Councils should be encouraged to build Public Rental Homes, as a matter of policy.
- Councils should be incentivised by a new iteration of the New Homes Bonus for each PRH home delivered.
- A Client Relationship Manager from Homes England should be appointed to assist councils making sure the right connections are established.
- Government should establish a central PRH Support Team, sitting between

DLUHC and Homes England, but with reach across Whitehall, to support councils in acquiring land and delivering PRH schemes. This team would be available to advise and support officers on the ground, but only if requested to do so by local authorities.

4.2 Training

We have been careful to suggest only those measures deployable using existing powers and resources. Much of the proposals here will need local officers to be empowered and given the confidence to utilize their powers, with the support of the elected Members. It is therefore proposed to establish national PRH Training Courses, to be funded by central government and run by a partnership of the LGA, ACES, the RICS and the RTPI and to be devised both for officers - planning, estates management and regeneration officers - (a technical course) and for councillors (concentrating more on place making and vision).

Such courses would need funding by central government, but they are relatively inexpensive to run and effective in building capacity and confidence. They are a justifiable measure at a time when economic recovery and growth need to be supported by effective decision making and practice at the local level. The technical course would carry CPD accreditation for officers. The PRH training courses would include modules in the following:

- Advice on land acquisition
- Support on unlocking Government land, where necessary
- Strategic Planning Advice
- Support for establishing Design Codes
- Development Management advice
- Presentation of relevant case studies
- Surgery services for local authorities to seek specific technical advice

Chapter 5
Public sector homes: capacity reporting

5.1 2014 Elphicke-House report

A government sponsored study into the capacity of local authorities to supply housing was carried out in 2014 by housing finance expert (and now MP) Nathalie Elphicke with Councillor Keith House. The remit was to think how local authorities could increase housing activity in their area, across all tenures and to meet the needs of their communities. The review heard from more than 400 participants across England, one of the largest engagement exercises for a government housing review for many years. The findings included the conclusion that housing approaches should more closely reflect the wants and needs of the local population.

The recommendations suggested to Government:

- Publicise the freedom available to all councils to build outside the HRA, and opportunities to dispose of non- strategic sites both inside and outside the HRA.
- Raise the guideline threshold for the number of 'council' units that can be built outside the HRA for all councils from 50 to 200 units.
- Consider ways to simplify the process for obtaining the directions and general consents needed from the Secretary of State where a local housing authority proposes to build units outside the HRA.
- Establish, with support from the Local Government Association, an independent Housing & Finance Institute to support a better understanding and assessing of options and increased housing delivery over the long term

The government accepted the core recommendations, including the establishment of the Housing & Finance Institute.

5.2 2021 Morphet report

There are already a number of local authority initiatives underway, identified, by Professor Janice Morphet and Dr Ben Clifford at the Bartlett School of Planning at UCL in their definitive "Third Research Report on Local Authority Direct Provision" published in September 2021.

This 2021 survey received direct responses from 282 individuals working in 194 different local authorities across England. A desk survey of all 343 local authorities was conducted. A dozen roundtables with local authority officers were held. Over half the 194 councils directly contacted said they were not building social rent homes.

> *"Our research in 2017, 2019 and now 2021 shows that councils are increasingly prioritising the delivery of housing – particularly affordable provision – to meet local housing needs and shortfalls in other means of delivery."*
>
> Professor Morphet

Some key findings from the review include:

- 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 raises.
- 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.

2021
MORPHET REPORT

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Morphet findings

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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.

Conclusion

The number of new homes built to suit the needs and the pockets of the 1.2 million households on council waiting lists has withered to 6,000 a year today, from close to 60,000 thirty years ago. There are 6.2 million households in the lowest household income quintile who cannot afford to pay above what is defined as 'social rent' - circa 50 percent of the free market rent in the locality.

The overall number of homes defined today as 'affordable' is also down on the 1993/4 figure, but only by 12,000 to 52,000. Homes in broader, costlier rent categories have replaced 'social rent' homes as the mainstream 'affordability' solution. The need for more social rent homes is demonstrable. But supply solutions must do more than recategorise. Additionality must come from fresh ideas grounded in financial viability.

The site-by-site value of housing land is calculated by estimating the total sales income, the Gross Development Value. A profit of 20 percent from private sales and six to seven percent to housing associations or councils is subtracted from the GDV. Construction costs, Section 106 payments, Community Infrastructure Levy and finance costs are also subtracted. The number left is the residual land value, either as positive, or a negative.

This 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 tends to increase the GDV and thus the residual land value. Economic forces tend pull the GDV up and away from providing too many homes at 'social rents.' Even then, building many which are too small for families.

Public Rental Homes

The Public Rental Homes (PRH) concept is more a new way of thinking about old challenges, rather than a new construct. Conceptualising fresh ways to add to, rather than supplant, the existing affordable homes programme, without the requirement for legislation or changes to the planning system. Constructing ways of boosting 'social rent' home numbers viably, without grinding into political or planning battles

Done in a way that will appeal to both main parties. Done to match the needs of local families waiting for homes. Not done in response to theoretical targets. Built by the private sector who take 20% profit on both the private and PRH-model homes in return for taking 100% of the development risk. Done in partnership with the council acting as a prime promoter, perhaps supplier of land, giver of permissions and recipient of freehold homes.

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. 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.

The Association of Chief Estates Surveyors has been consulted on the PRH plans. ACES' central suggestion is that local authorities should acquire (or utilise existing) land, seek consent, then commission the delivery of new homes. The PRH approach would work well for those authorities who are struggling to meet their five-year housing supply target via the conventional routes and who are willing to work creatively with the private sector.

Extracts from the 2021 Morphet report on local authority housing activity make it plain 'councils are increasingly prioritising the delivery of housing.' A survey of all 343 local authorities found 94 are actively engaged. The main finding of the 2014 Government sponsored report authored by Nathalie Elphicke and Councillor Keith House was 'housing approaches should more closely reflect the wants and needs of the local population.'

That time has surely come again.

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