Report on interviews with Housing Associations active in London for the Highbury Group
March 2009

Introduction
Interviews were carried out with seven Housing Associations in London in order to inform discussion at the Highbury Group. Associations varied in size, four being large, managing in excess of 25,000 units, two were medium size managing around 18,000 units and the third was small, but led a development consortium of smaller associations.

The interviews were largely carried out by phone. As interviews proceeded it became apparent that there were many common issues and approaches, so that inevitably the later interviews were carried out with less depth and interrogation as most of the issues had been identified earlier.

All the associations were adamant that they would meet the current years programme. While there was no evidence to question this, it should be borne in mind that it would be highly unlikely for them to admit otherwise as that might jeopardise their grant. There is normally intense competition between associations and it is therefore to be expected that they would be guarded in their responses. However it is to their credit that were as open as they were, and it appears that there has been very open discussion at the G15 Development meetings where there has been a sharing of problems ad coordination of action.

The interviews gave a snap shot of what is happening in a very dynamic market. All but one of the associations had submitted proposals to the HCA and were awaiting a response. Their programmes were dependant on flexibility from the HCA on changing tenures, quantum of grant and the grant per unit. So the size and scope of the whole programme will remain uncertain until the HCA has decided where, and in what form, it will direct investment. The data quoted in this report should be treated with caution. The figures were provided, often without reference to schedules and are intended to give an indication of scale, rather than detailed figures. All the interviews were written up and presented back to the interviewees and while have some corrected the record others have not replied.

Summary of Issues

Flexibility. There was a consensus on the need to be flexible if output was to be maintained and it appeared that this was a view shared by the HCA and most local authorities

Programme output. Some associations said that they would produce fewer units than they had planned for this year, although they would achieve the number in their agreement with the Housing Corporation. Some also indicated they would be scaling back their programmes for future years. Additional grant could assist in maintaining programmes. There also seemed to be opportunities to bring forward additional sites and start work within about six months to a year if additional grant was made available.

Tenure change. There has been a move to change shared ownership units to intermediate rent. This generally requires an increase in grant and a figure of about £10,000 per unit has been quoted. Along with this change has been a commitment to eventually sell these units, probably under an equity share or shared ownership framework. Often this requires agreement of both the HCA and the local Planning Authority. No one indicated that they had met barriers to achieving this, although in some cases associations were awaiting confirmation of the availability of the increased grant this would require. Some associations were worried about the size of the market for intermediate rent.

Attitude to mixed tenure. All associations require a mix of tenures above a given size threshold. This varied from between 30 units to 50 units, and in some cases the associations said that the maximum number would be based on the specifics of the scheme. Intermediate rent was regarded a different tenure from affordable rent. Some mentioned that it was not the tenure in itself that was important, but rather that they attracted residents who were better off and had higher disposable incomes. Potentially this mix could be achieved by local authorities altering their allocation policies.

Shared Ownership. All respondents regarded Shared Ownership as offering value for money. Generally there was still a large amount of interest, but take up was low because of the requirements of lenders. A ratio of 12:1 between visits and exchange was quoted by one association. This was beginning to be known and might be affecting the number of people visiting sites. Many lenders regarded the sector as sub prime, even though they had security over the whole property while only lending on a part. There seemed to be little understanding of the sector by retail staff (as opposed to those staff who were negotiating development loans to associations). They were using very low valuations, often based on the prices received at auction or in fire sales, and below the asking prices of the associations, which were in their view at market level. They also required significant deposits, between 10% and 20%. There was a feeling that the attitude and requirements of the lenders were limiting sales.

Equity Share. Some respondents quoted competition for SO from developer equity share schemes. Lenders seemed to understand this market better and appeared to be less cagey about lending. At a meeting of the G15 the HCA had discussed shared equity with associations (rather than with individual purchasers) and seemed sympathetic to the approach but did not have any detailed procedures or a framework in place.

Estate regeneration schemes. It was a surprise that there were so few large estate regeneration schemes arising out of stock transfers. Where works were underway all the respondents felt that they would be able to complete them, although this may require a change in some of the tenures. All felt that there were uncertainties about future phases which would have to be dealt with over time. The availability of gap funding was seen as being vital. Some of the large schemes still at the planning stage had enormous hurdles to overcome, but many of them had been there anyway, before the credit crunch.

Attitudes at the HCA. None of the respondents criticised the HCA on any significant issue. Generally the HCA appears to have been pragmatic and flexible. More than one respondent reported that while there was flexibility and a commitment to innovation at senior levels, scheme work staff were still holding up schemes because they did not appear to have knowledge of, or guidance on the new commitment to flexibility on grant rates and tenures.

Size of development pipelines. The annual programmes of the associations varied from around 400 to nearly 2,000 units a year. There was a surprising difference in the sizes of the pipelines and this did not always correlate with their size. The largest had a pipe line of over 9,500 units, although they could not all go ahead without considerable further work. Associations of nearly the same size might have a pipe line of just over 1,000 units. The smallest of the associations had a pipeline of 400 units followed by others of 800 to 1,500 units.

Grant levels. Some respondents reported that with the drop in land prices and construction costs it was now just possible to build family houses in some areas using existing grant rates. Associations in higher cost areas would need an increase. However in general, the feeling came over that the HCA is not quibbling about grant rates in order to get the programme moving and none of the respondents mention grant rates as a major barrier to the programme.

Land acquisition. While a drop in land values was reported, it appears that it is still difficult to find good sites in London. Associations were being cautious, but said that if an opportunity that met there development criteria and aspiration arose, they would respond positively. Caution was the watch word, particularly in relation to overall development outcomes that could affect bank covenants.

Borrowings. A number of associations mentioned the need to increase borrowings and the high price lenders are now asking. They also often seek to re-price existing loans which could have a significant impact on business plans of the association as a whole

Banking covenants or Impairment. All the associations were concerned to ensure that they were not forced into a position that affected their banking covenants. None of them indicated that this was of immediate concern, but it is unlikely they would have admitted a problem if there was one. Suffice to say that it may be a limiting factor to development at some stage, which it was not possible to identify through this survey.

Recommendations for Action

A number of actions arise out of our limited survey. No doubt there are others which we have missed and which would apply beyond the limits of London.

Availability of mortgages. There is a market for shared ownership which is limited by the attitude and number of lenders. It appears that there are not many lenders in the market for shared ownership. The few who are active do not seem to fully understand the sector and may have over estimated the risk. They do not seem to take account of the increased comfort they have from taking a charge on the whole property while only lending on a share of it. They are also assuming very low values and asking for high deposits. The problem could be addressed by the National Housing Federation with the HCA entering into discussions with lenders, seeking to reduce the hurdles they set up, and increasing the number in the market. Council mortgages would also assist.

Loans to Associations. New development loans to associations are very expensive despite the low bank rate. Lenders are taking whatever opportunity they can find to raise rates on existing borrowings. This is a problem that runs across all sectors of the economy and is something that government should be or is addressing at a very high level.

Availability of Grant. The HCA is awarding grant at a sufficient a level to get the housing programme moving. It may be a while until it is evident how much will be available for future years because expenditure has been brought forward. It is important that there is a rational allocation of the remaining grant in the following years that reflects need and the probability of early output from projects.

Estate Regeneration. Although there were few in our sample, they were generally large and in areas of great need. The need for gap funding had not been fully acknowledged and addressed before the credit crunch and this must be dealt with soon as part as an overall review of priorities.

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