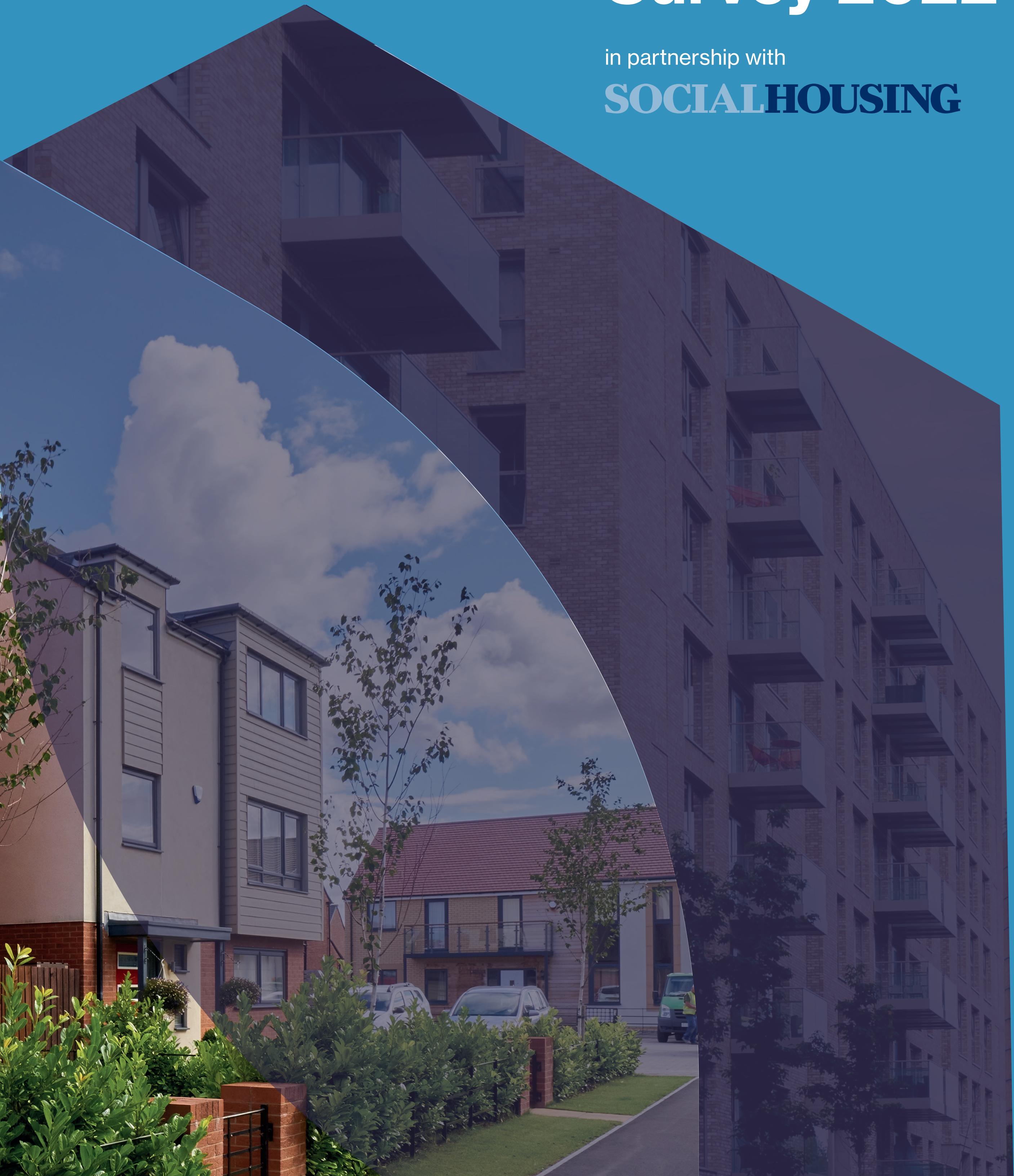
Housing Sector Survey 2022

in partnership with

SOCIAL HOUSING



Contents

Executive Summary

In partnership with Social Housing Magazine, RESAM's inaugural Housing Sector Survey reveals the views of over 300 senior housing professionals on key sector issues

Capturing the opinions of housing associations, local authorities, for-profit providers, and Arms-Length Management Organisations (ALMOs), the survey takes a snapshot of the sector's thinking and approach to the various operational and strategic challenges.

Boards and executive teams are having to set priorities amid challenges for the years ahead including plans to invest in existing stock (page 4) while continuing to develop new homes (page 10) within a changing financial landscape (page 13). The survey reveals competing priorities that vary depending on the size and type of provider and their geographical location.

The survey also touches on current trends and policies such as the perceived impact of Levelling Up on housing delivery (page 15), workplace strategy, and staffing challenges in a post-covid world (page 16-17).

Through the detailed survey findings presented throughout this report, there are several key narratives that emerge:

1

The cost-of-living crisis is a major concern for the social housing sector

26% of respondents stated that the increase in the cost of living was the most significant challenge over the next five years (second only to decarbonisation). In addition to concerns around residents' and staff wellbeing, there are worries it will impact existing and future business cash flows. This brings into question the rent settlement for the coming years and its potential impact on both household budgets and providers' business plans.

2

Housing providers are prioritising existing stock investment with nearly 50% of respondents cutting back on development programmes

The top sector priority over the next 12 months is investment in existing homes, which includes fire safety, decarbonisation, and getting homes to a decent standard, with 43% putting this as their primary concern. The size of the investment required to achieve this means that nearly 50% of providers are scaling back new build programmes.

3

Plans to achieve EPC C by 2030 are well underway, while less defined is the road to net-zero carbon by 2050

Respondents have stated that decarbonisation is the most significant challenge both over the next five years and towards 2050. Planning for EPC C is in full swing (40% of respondents already have a fully budgeted business plan) while 43% have no plan in place for net-zero.

4

Providers are thinking about external private investment although many remain cautious

With increasing financial pressure, providers are increasingly looking outside the sector for capital with attitudes towards private equity more positive (50%) than sceptical or opposed (33%) although many of those with positive attitudes still express caution. While housing providers surveyed were largely opposed to running their own for-profit ventures on principle, a considerable number were open to collaborating with FPRPs if the interaction was more at arm's length.

Sector Priorities and Challenges

Investment in existing homes and providing a quality service to customers are key priorities over the next 12 months

The past year has continued to present a challenging environment for housing providers, with the impact of COVID still being felt across the country, increasing inflation, and an uncertain geopolitical outlook. The sector is also seeing major changes in terms of policy and evolving funding sources that present competing priorities for housing providers in the year ahead.

43% of respondents have confirmed that investment in existing homes is their first priority. Investment in fire safety, decarbonisation and getting homes to a decent standard has, and will continue to be, the focus of investment for many affordable housing providers.

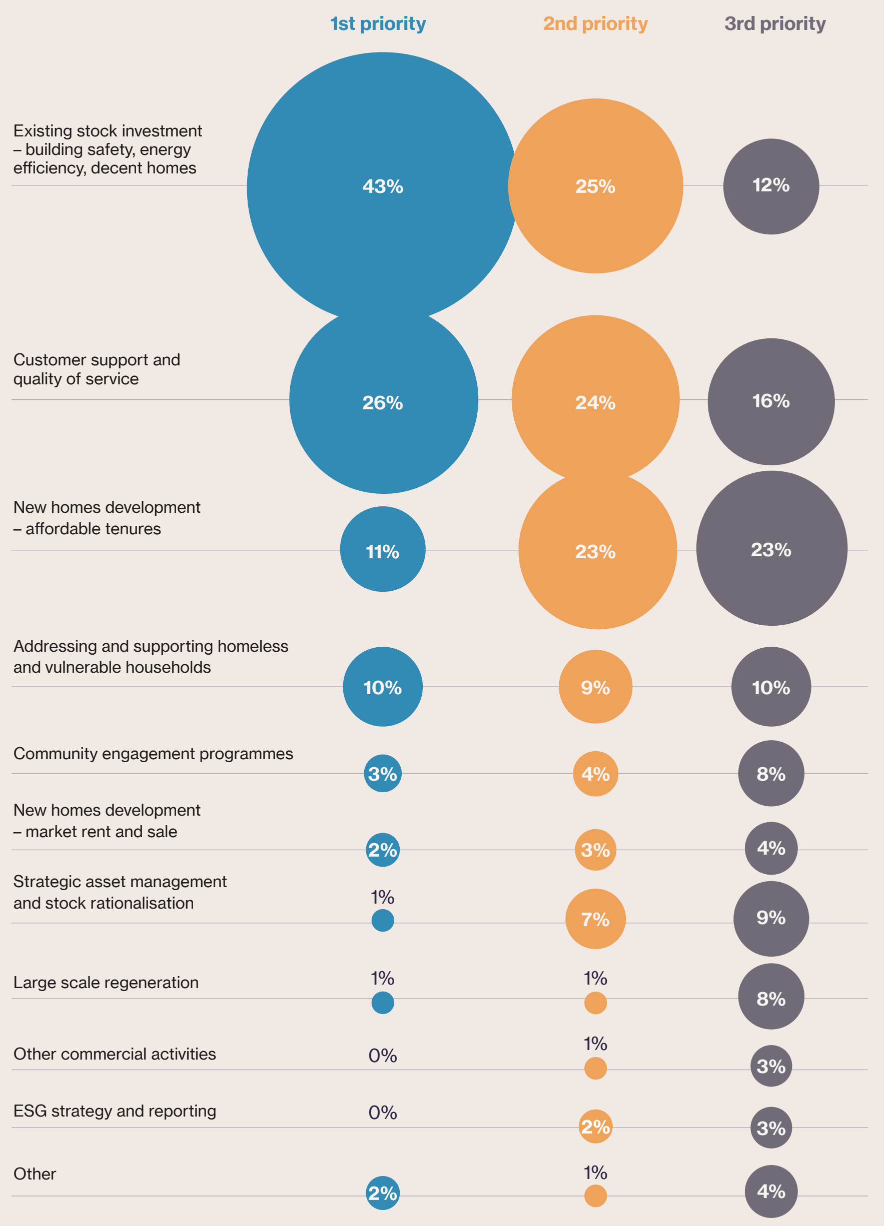
Providing better quality homes to residents is undoubtedly a strong driver behind improving stock condition while the focus on customers is reinforced with respondents placing customer service/ quality of service as the 2nd top priority. With new consumer regulations as set out in the Social Housing White Paper currently being worked into legislation, many housing providers are taking some of the necessary steps to address this.

Development of affordable tenures ranked as the 3rd top priority, although a number of larger providers (those with more than 5,000 homes) identified it as a top priority.

The prioritisation of strategic asset management and stock rationalisation had a clear geographic focus, with a concentration of second and third priority choices clustered in London and the South-East perhaps reflecting the higher values in the region.

What are the key priorities for your organisation over the next 12 months?

Top 3 priorities, % of total respondents



Percentages may not total 100 due to rounding

43%

of providers said existing stock investment is their top priority

Cost-of-living crisis poses immediate threat, while efforts to decarbonise the housing stock seen as most significant short and long-term challenge

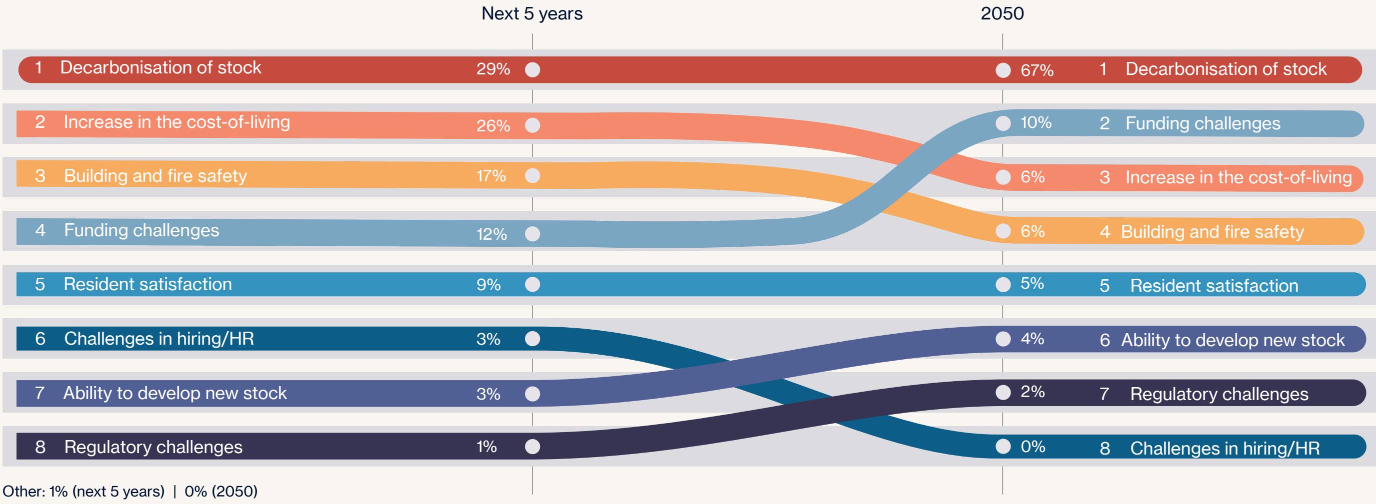
There is a wide range of pressing challenges impacting the day-to-day running of organisations in addition to more strategic or regulatory issues.

Respondents cite the decarbonisation of stock as the most significant challenge both in the short and long term (see graphic on page 5). The scale of improving the energy efficiency of an ageing property portfolio of social housing in line with government targets is a long-term challenge.

Regionally, challenges differ, with London placing building and fire safety as the number one challenge over the next five years, which is not surprising given the capital has a number of high-rise blocks.

What do you consider the most significant challenges for your organisation?

Number 1 challenge (of top 3), % of total respondents



Other: 1% (next 5 years) | 0% (2050)

The cost-of-living crisis – a major challenge to the sector

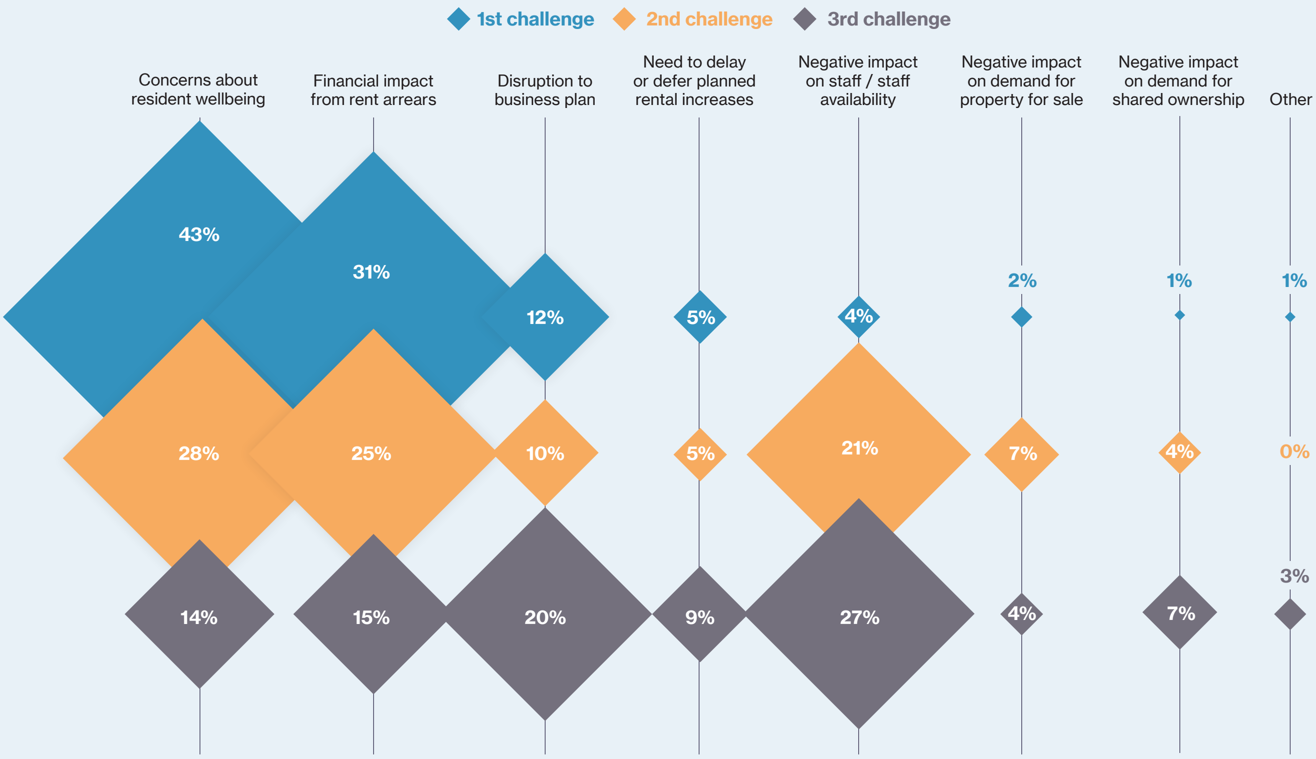
Inflation continues to climb in the UK, with the Consumer Prices Index hitting 9% in the 12 months to April 2022, passing the peaks of the early 1990s. Many of the country's poorest households are being hit the hardest.

With this year's rent settlement increasing rents, the rise in national insurance, and the surging fuel costs, the crisis is really starting to have an impact.

26% of respondents stated that the increase in the cost of living is their most significant challenge over the next five years. Customers are at the forefront of provider's minds when thinking about the impact, while increasing rent arrears, rental increase deferrals or delays all impact business cashflows. Another business and strategic concern highlighted by respondents is the negative impact on staff, including availability and wellbeing.

What are the biggest challenges the cost-of-living crisis poses to your organisation?

Top 3 challenges, % of total respondents



Decarbonisation

Plans to achieve EPC C by 2030 well underway while the road to net-zero carbon by 2050 is less defined

The road to net-zero is paved with uncertainty. Questions such as what constitutes as net-zero, whether to prioritise upgrading existing stock or focus on energy efficient delivery, and how will the sector pay for this are all challenges organisations are grappling with.

40% of respondents already have fully budgeted the cost of getting their homes to EPC C in their business plan with a further 40% having a plan that is either partially or yet to be budgeted. In contrast, only 11% of respondents have fully budgeted plans for net-zero. Larger organisations appear to be further advanced in their net-zero planning, making up a majority of the respondents who have plans in place, either wholly or partially.

36% of respondents anticipate that net-zero upgrades will cost between £10k-£20k per unit with a further 25% thinking it will lie between £20k-£30k. When considering what this cost is as a percentage of each unit's value, nearly a third of respondents have indicated that this figure exceeds 25% of their average unit value, showing the challenging economic reality of the net-zero journey.

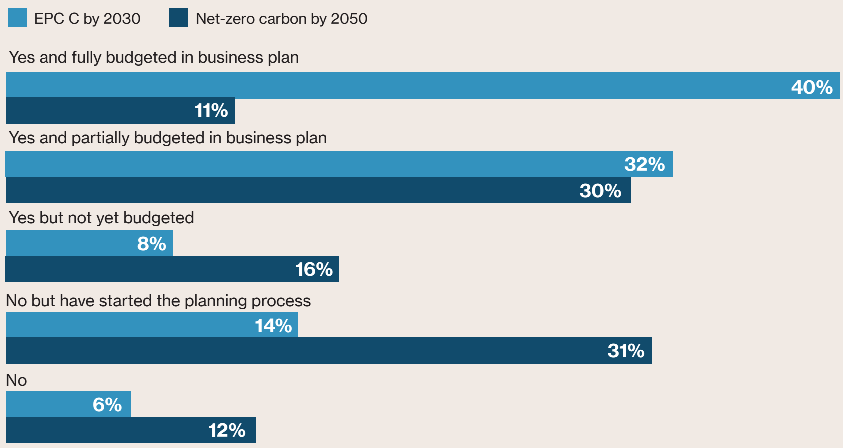
Over 50% of respondents placed financial capacity to reach carbon net-zero standards as the biggest constraint.

There is no sector-wide definition of what 'net zero' means for social housing – and this is recognised by 36% of respondents who feel that this is the biggest constraint to reaching net-zero carbon standards.

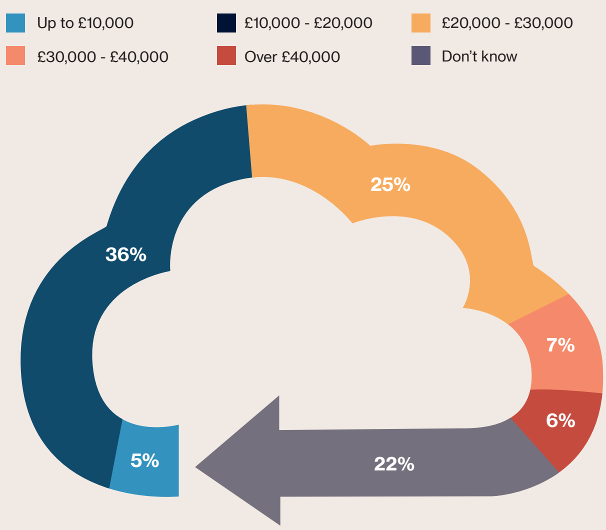
> **"40% of respondents already have fully budgeted the cost of getting their homes to EPC C in their business plan"**

Have you put together a plan to ensure all your homes are EPC C by 2030 and net-zero carbon by 2050?

% of total respondents

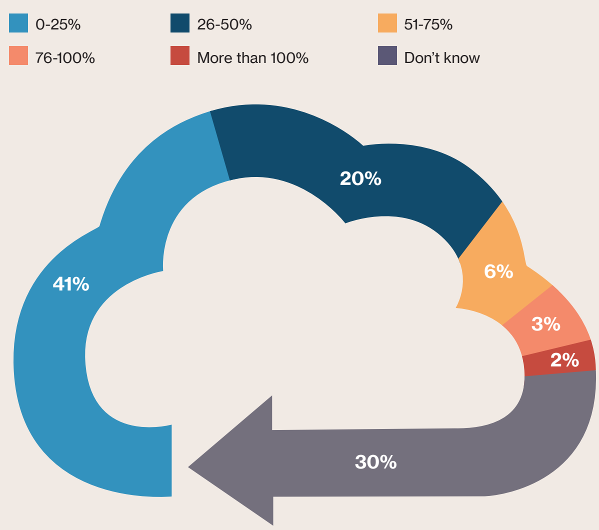


On average, how much do you think upgrades to reach net-zero carbon standards will cost per unit for your organisation? % of total respondents



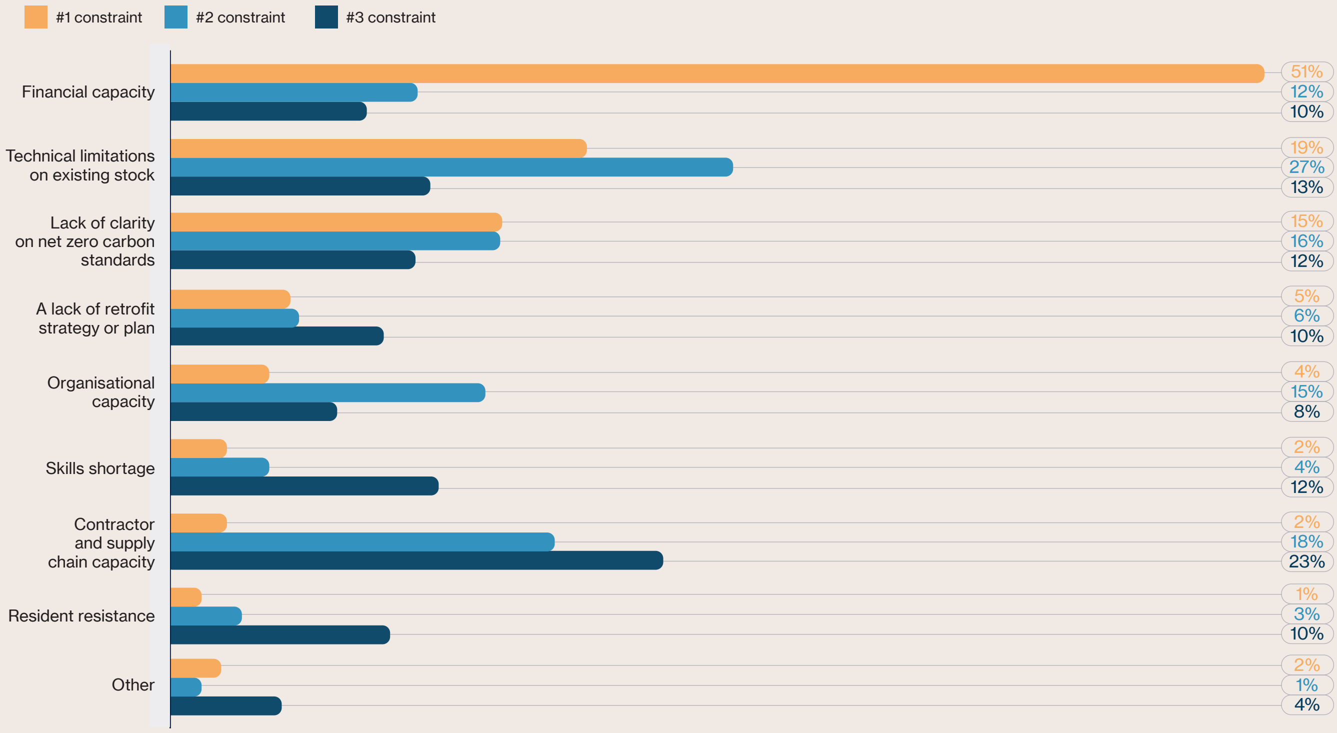
What is this cost as a percentage of the average value of a unit at your organisation?

% of total respondents



What are your organisation's biggest constraints on reaching net-zero carbon standards?

Top 3 constraints, % of total respondents



Decarbonisation – How are we splitting the bill?

66% of respondents see grants as the most important source of funding to get to net-zero carbon

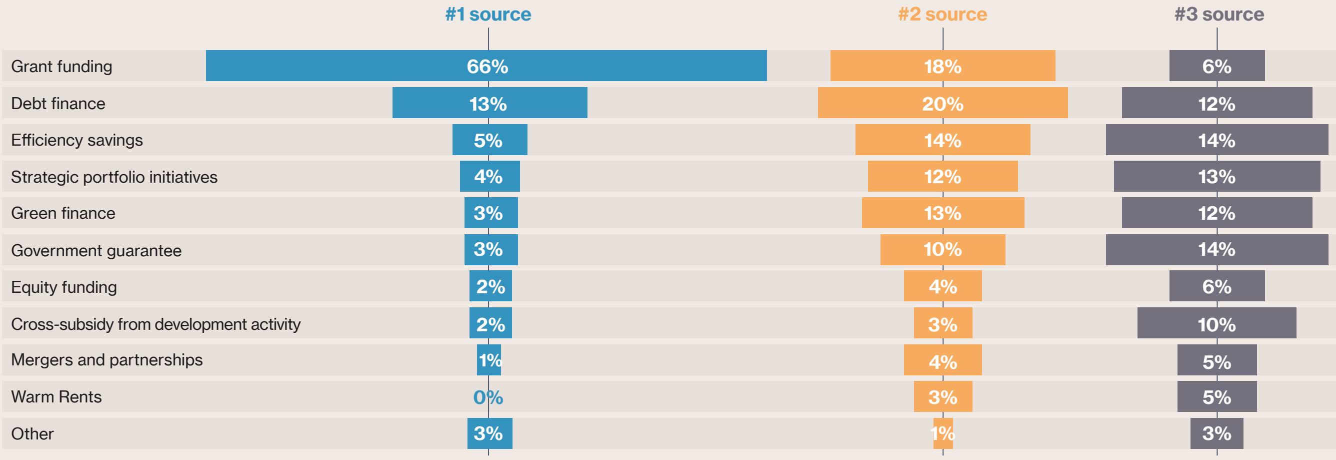
The Government has pledged a £3.8bn Social Housing Decarbonisation Fund over the next 10 years to improve the energy performance of social rented homes. However, with estimates on the sector cost of net-zero exceeding this number by many multiples, it is clear that more is needed to ensure this target is met.

Across the board, a majority of respondents (66%) see grant funding as the most important source of funding to achieve net-zero targets, followed by debt finance at 13% and efficiency savings at 5%. Strategic portfolio initiatives were also reported as a strong secondary or tertiary source of funds for a number of providers.

> **"Strategic portfolio initiatives were also reported as a strong secondary or tertiary source of funds for a number of providers"**

What do you see as the most important sources of funding to upgrade stock to comply with net-zero carbon standards?

Top 3 sources, % of total respondents



Decarbonisation – dealing with the most challenging stock

Majority of providers believe that a proportion of their stock is uneconomical to upgrade with many taking a "wait and see" approach

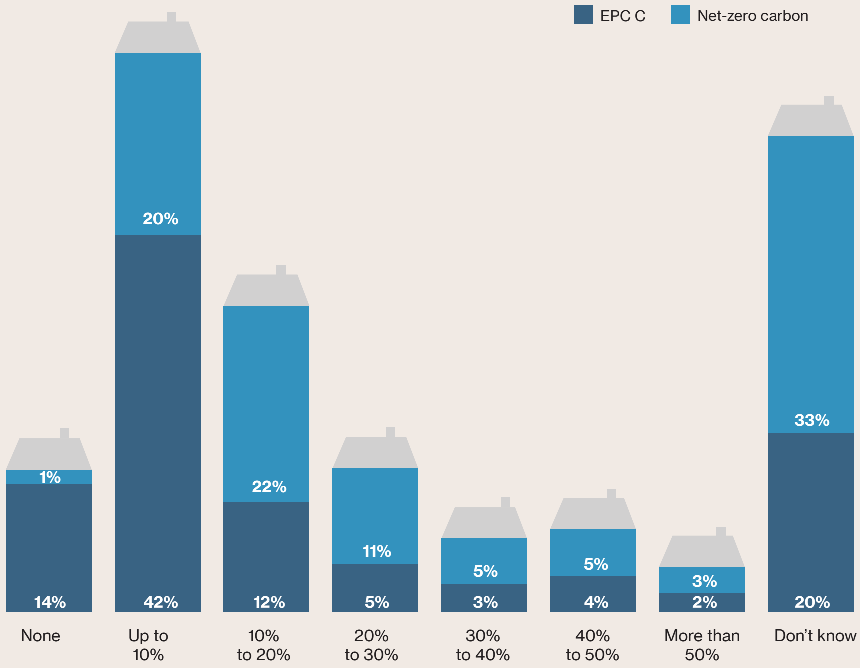
Deciding how to best handle less environmentally efficient stock is a task many organisations are facing as they tackle energy performance. The possibilities of new technological advancements could make retrofitting more cost-effective, therefore making some of the trickier stock economical to upgrade. However for the time being, the social dilemma of balancing the benefits and drawbacks of disposing of stock and carbon offsetting are all challenges facing providers.

42% of respondents claim up to 10% of their housing stock is anticipated to be uneconomical to upgrade to EPC C. A further 22% of respondents indicated that 10%-20% of housing stock is uneconomical to reach net-zero. A third of respondents indicated that they don't know what proportion of units would be uneconomical to upgrade to net-zero, corresponding roughly to the number of providers without an established plan.

In terms of strategies for uneconomical stock, most providers are taking a 'wait and see' approach (41%). 23% of respondents do not yet have a strategy on what to do with their homes that are not economically viable while 19% of respondents are willing to dispose of properties.

What proportion of your homes do you think will not be economically viable to upgrade to EPC C and to net-zero carbon?

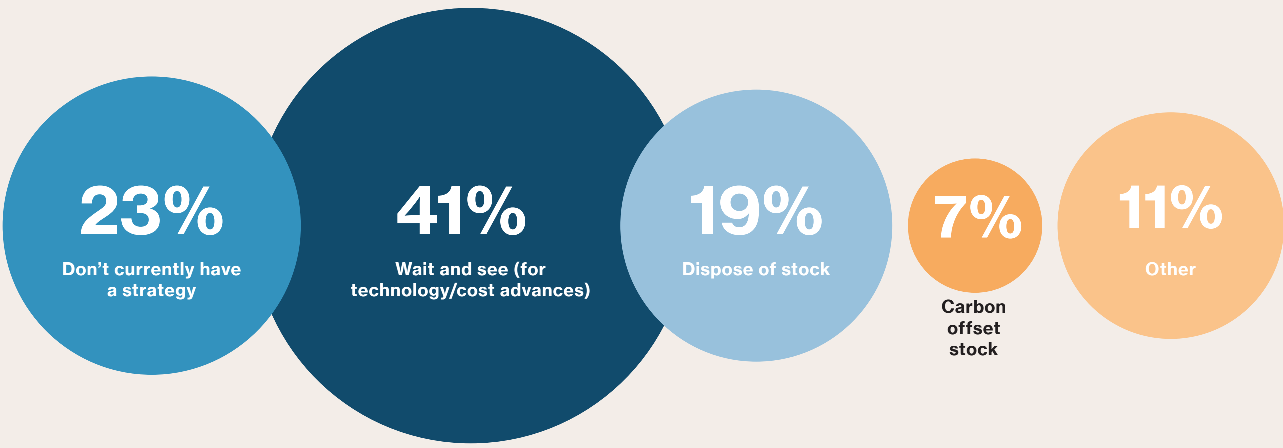
% of total respondents



> "42% of respondents claim up to 10% of their housing stock is anticipated to be uneconomical to upgrade to EPC C"

What is your strategy for the proportion of homes that aren't economically viable to upgrade in order to comply with net zero carbon standards?

% of total respondents

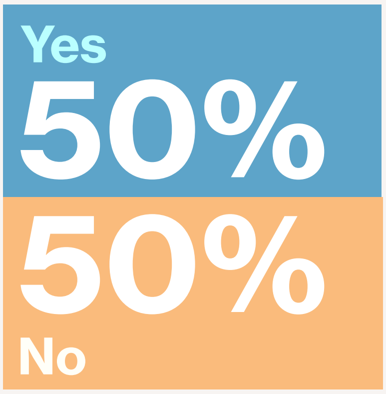


Stock Rationalisation and Disposals

58% of respondents are selling properties on an 'ad-hoc' basis, with a combined 38% proactively engaging in disposal strategies that provide better value retention

In terms of stock rationalisation, does your organisation have a void disposals programme in place?

% of total respondents



Portfolio challenges including decarbonisation and new homes have made many housing providers think carefully around using strategic approaches such as stock rationalisation and disposals.

Those providers forecasting worsening financial situations over the next year were more likely to be carrying out stock rationalisation including disposals than those predicting a better 12 months financially (39% vs 24%).

Disposals of homes on an ad-hoc basis was the most common method of stock rationalisation, being carried out by 58% of respondents. This drops to approximately 32% for those disposing of non-core properties, 20% doing comprehensive void strategies, and 18% for a value capture programme.

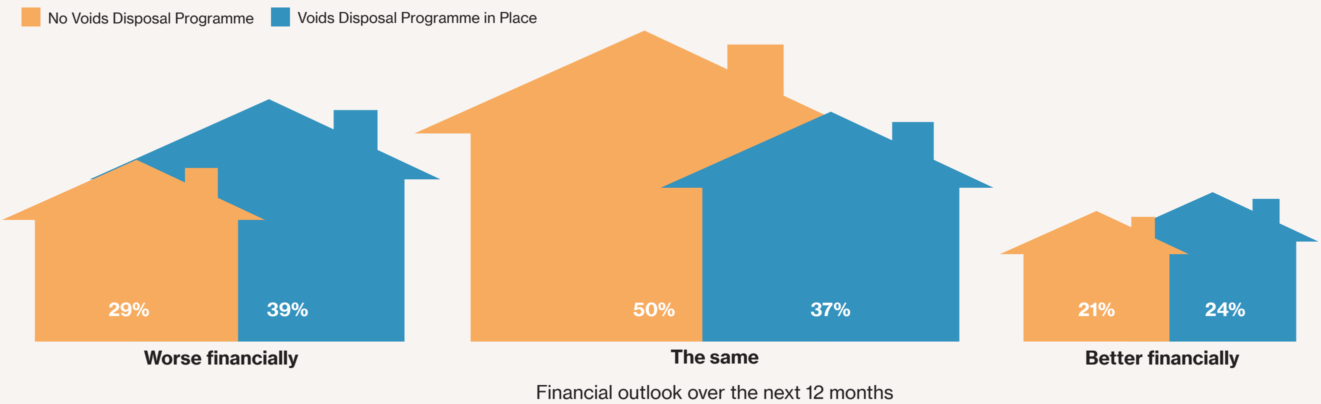
Doing works prior to disposing was the least favoured stock rationalisation option amongst housing providers, with 64% not currently considering it.

Of those not doing stock rationalisation, most were not expecting their financial position to change over the next year (50%), whereas from those who were, most were anticipating their financial situation to worsen, although this was closely followed by those expecting no change (39% vs 37% respectively).

Over half of respondents have already or are considering disposing of 'non-core' property, reflecting the need to prioritise on each provider's core mission.

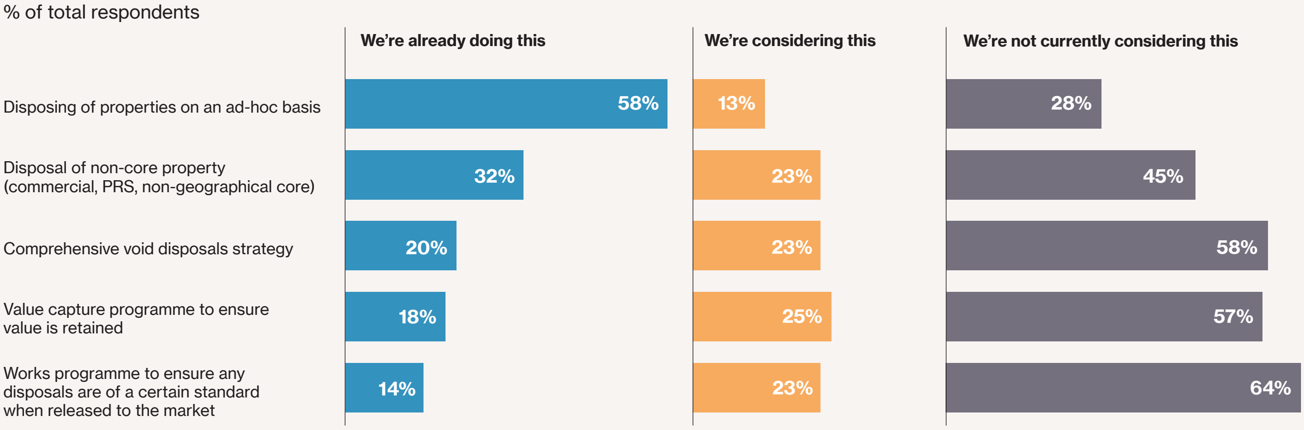
In terms of stock rationalisation, does your organisation have a void disposals programme in place?

% of total respondents vs financial outlook over the next 12 months



In terms of disposals, is your organisation carrying out any of the following?

% of total respondents

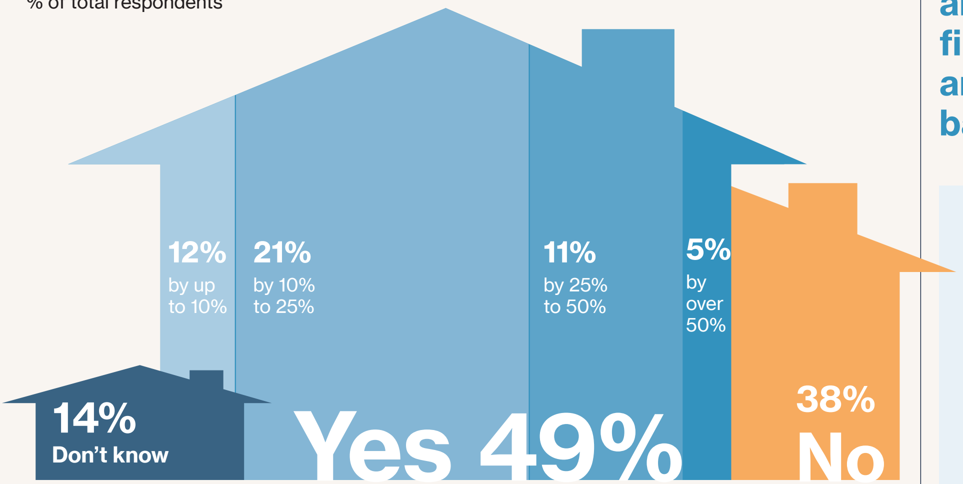


Development

Investment in existing stock expected to impact new homes development for just under half of respondents

Is the cost of building and fire safety/retrofit of existing stock likely to scale back your organisation's development programme over the next five years?

% of total respondents



Research by Heriot-Watt University commissioned by NHF and Crisis identified a need for 145,000 affordable homes per year up to 2031[1]. The survey reveals that the need to increase investment into existing homes is notably impacting development programmes and will add pressure on achieving these targets.

Overall, 49% of respondents anticipate the costs of fire safety improvements and retrofitting will scale back development, with 5% confirming more than a 50% reduction of their development programme. The remainder either did not think it would impact their development goals (38%) or did not know (14%).

Development joint ventures stand out as an avenue gaining increased interest to deliver more housing as cited by 44% of respondents. Land package deals and sites purchased with planning permission to be developed are also increased areas of interest. There are declining intentions to convert private new homes with grant to affordable (30%), sites purchased without planning permission (29%) and section 106 (27%).

> **49% of respondents anticipate the costs of fire safety improvements and retrofitting will scale back development**

In terms of housing delivery, over next five years, how are intentions to develop or acquire in the following categories likely to change?

% of total respondents

	Increased interest	Stay the same	Decreased interest
Development joint ventures	44%	43%	13%
Land and build package deals	36%	54%	10%
Sites purchased with planning permission*	33%	50%	17%
Partnerships with For Profit RPs or new entrants	23%	52%	25%
Sites purchased without planning permission*	22%	49%	29%
Section 106	16%	56%	27%
Private new homes converted with grant to affordable	12%	58%	30%

*to be developed by your organisation

Energy efficiency vs new homes – a lack of strategic clarity?

The challenge the sector is facing is that by directing investment into existing homes, it is impacting the potential supply of new affordable homes.

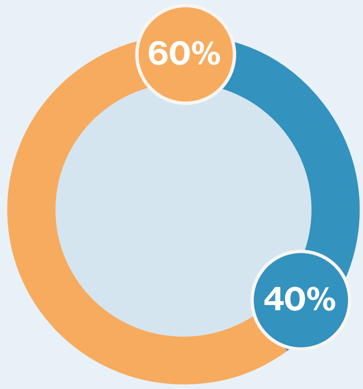
When asked directly about the trade off as we look to 2050, a majority, nearly 60% of respondents, prioritised more homes at lower energy efficiency. While this question is forcing a false dichotomy it is revealing that 40% would choose the higher level of energy efficiency over providing many more homes at EPC C.

By 2050, ignoring current government targets, if your organisation can only have one of the following, which would it choose?

% of total respondents

Same amount of housing stock as today but all net-zero

50% more homes than today but all EPC C



[1] Bramley, G 2019, Housing supply requirements across Great Britain for low-income households and homeless people: Research for Crisis and the National Housing Federation; Main Technical Report. Heriot-Watt University, Edinburgh. https://doi.org/10.17861/bramley.2019.04

Around half of housing providers are using Modern Methods of Construction although cost and supply chain risks are proving to be obstacles

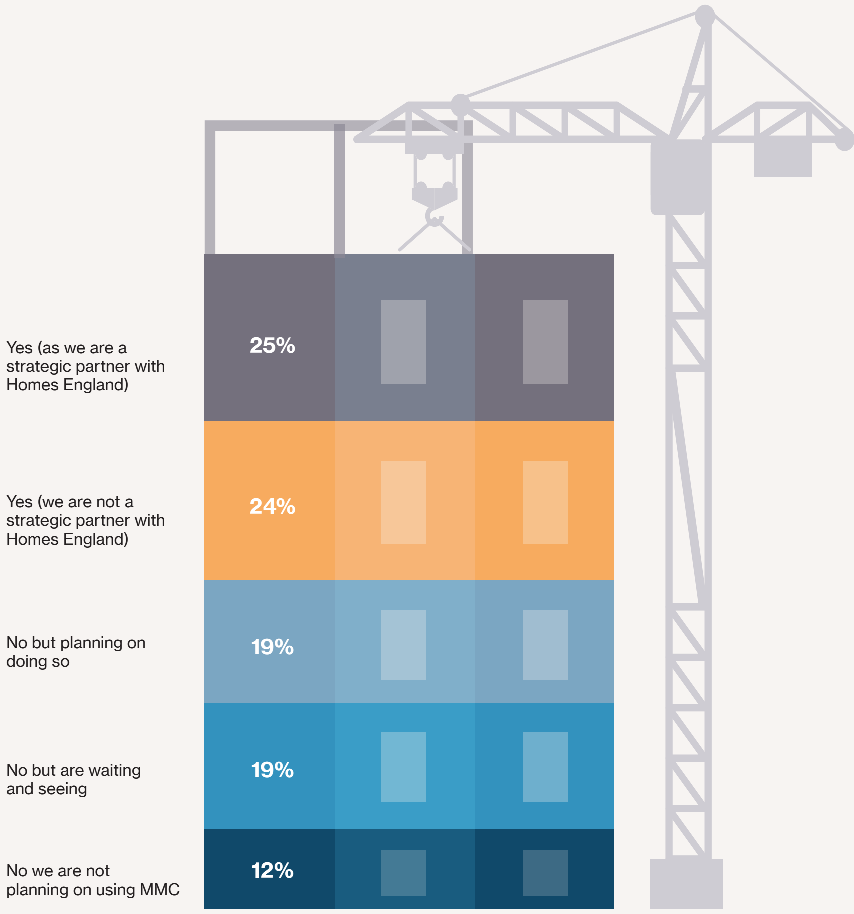
MMC is being used by nearly half of respondent organisations, although given its relative infancy, costs are still high and supply chains are limited. Overall, 68% of those who responded either have already started or are planning to use MMC with 19% looking to wait and see how this new sector grows and 12% having no plans to use MMC at all. This may change if cited constraints such as cost, contractor and supply chain risk, and financing against MMC built properties are mitigated accordingly.

Cost and contractor and supply chain risk were highlighted as the biggest barriers to adoption of MMC, and challenges around financing/charging against the property were raised by 18% of respondents.

> **"Overall, 68% of those who responded either have already started or are planning to use MMC"**

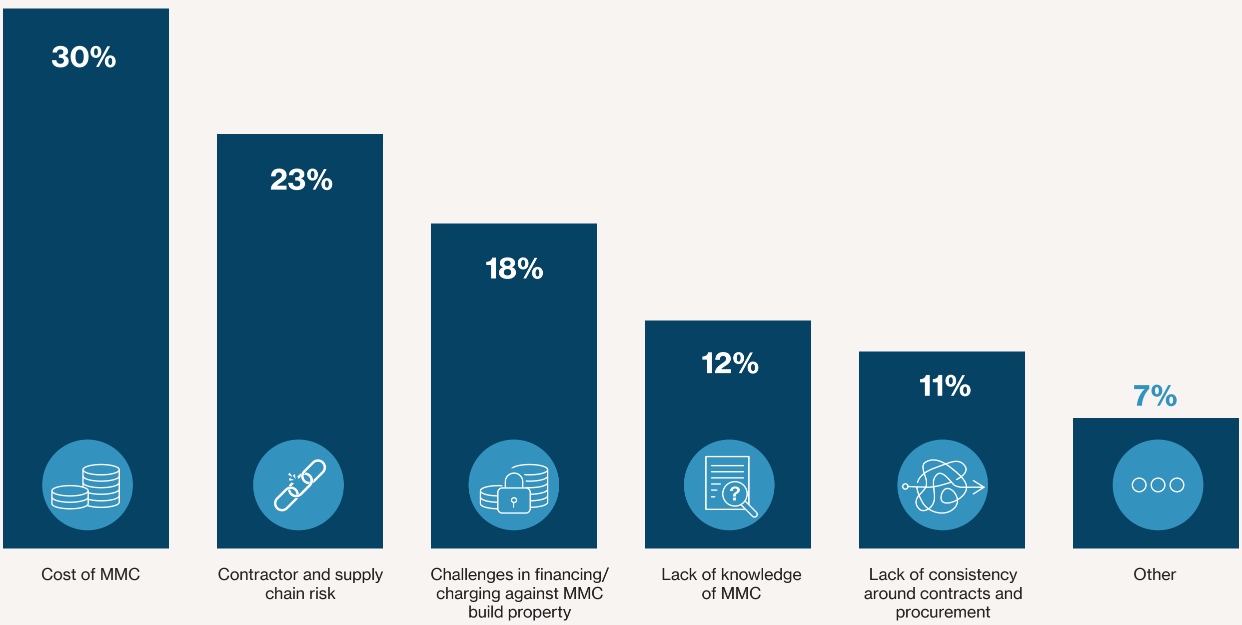
Is your organisation using modern methods of construction (MMC) in its current development programme?

% of total respondents



In terms of MMC construction, what are or could be your biggest challenge/concern?

% of total respondents



Finance

Over a third of respondents expect a weakening financial position over the next year with medium-sized providers far more likely to report their positions deteriorating

While most do not anticipate their financial position changing, more expect a deterioration than an improvement over the next year (34% vs 23%).

Breaking this down by size (as defined by properties under management) reveals a broad pattern where medium-sized providers (between 1,001 and 10,000 homes) were far more likely to report that their financial positions will deteriorate over the next 12 months.

In terms of generating cashflow, refinancing was the most widely practiced means of doing so, with over a third of providers looking to carry this out. This is followed by stock rationalisation (27%), then private investment to fund new housing (16%).

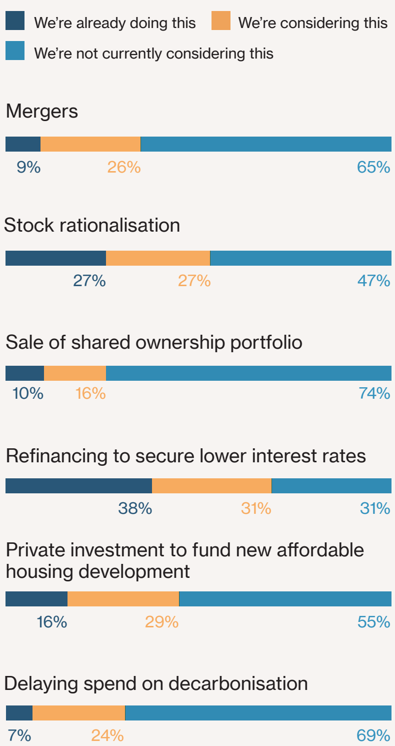
While representing the smallest portion of strategies, 7% of housing providers are delaying spend on decarbonisation to keep cash free.

While the majority (74%) of respondents are not looking to dispose of their shared ownership portfolios, 10% are already doing this with a further 16% actively considering.

Among the 'Other' responses, one respondent indicated that efficiency savings was a primary approach through which they could unlock cashflow, and another suggested refining internal operations.

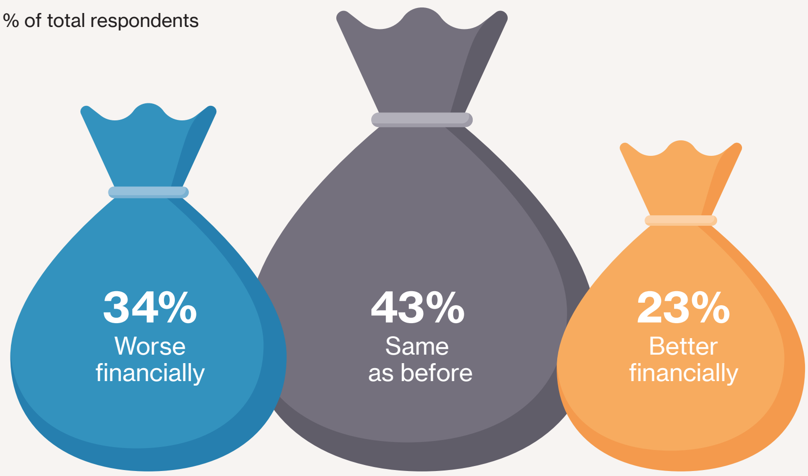
Is your organisation looking to unlock cashflow capacity through any of these means?

% of total respondents



Compared to the last 12 months, do you expect your organisation to be performing better financially, about the same or worse over the next 12 months?

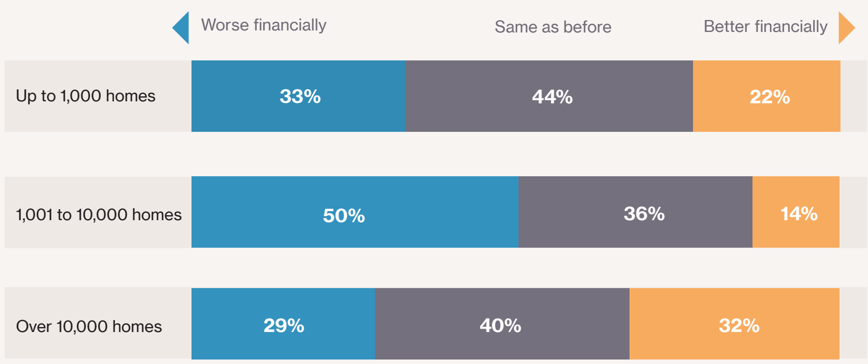
% of total respondents



> **Medium-sized providers (between 1,001 to 10,000 properties) were far more likely to report that their financial positions will deteriorate over the next 12 months**

Compared to the last 12 months, do you expect your organisation to be performing better financially, about the same or worse over the next 12 months?

% of respondents vs size of organisation



External Sources of Capital

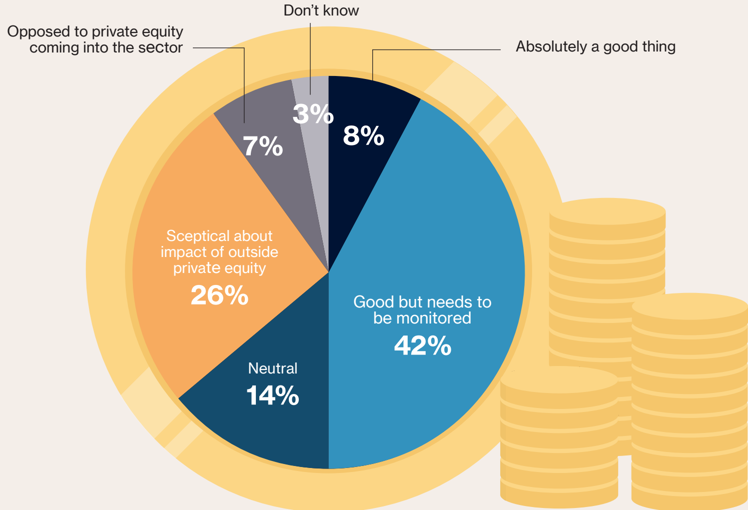
Attitudes towards for-profit activity continue to evolve, with views towards private equity more positive (50%) than sceptical or opposed (33%)

With more external capital being deployed in the sector, engagement with and attitudes towards external sources of capital vary quite significantly. Attitudes towards private equity are more positive (50%) than sceptical or opposed (33%), with a large portion of those positive attitudes coming with the caveat that it needs to be monitored. This positivity can be seen in the attitude towards for-profit registered providers (FPRPs), whereby 57% of respondents are open to some form of involvement with them, although this also comes with some caution.

A noticeable trend emerges where smaller organisations are relatively more opposed to private equity than larger housing providers. Below 1,000 units, there are no providers unequivocally supporting private equity, and above 25,000 units there are no providers unequivocally opposed to it.

What are your thoughts about increasing amounts of private equity coming into the sector?

% of total respondents

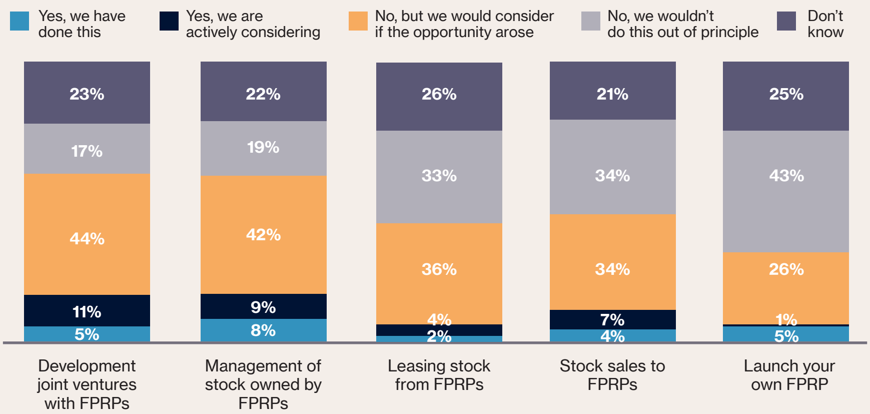


What are your thoughts about increasing amounts of private equity coming into the sector?

% of total respondents vs size of provider

Are you considering the below arrangements with for-profit RPs (FPRPs)?

% of total respondents



> "A large portion of those positive attitudes come with the caveat that private equity needs to be monitored"

Of all questions in the survey, the question on attitudes towards private equity elicited the least responses in the 'I don't know' category, indicating quite firm opinions on the subject.

In terms of for-profit providers, while housing providers surveyed were largely opposed to running their own for-profit ventures on principle, a considerable number were open to collaborating if the interaction was more at arm's length (e.g. sales of homes to FPRP, leasing homes from FPRPs).

43%

Wouldn't launch their own FPRP out of principle

Data

With data quality a concern in the sector, respondents have expressed positive levels of confidence in real estate asset level data, while the area flagged for most concern is the data thread through the lifecycle of the asset

48%

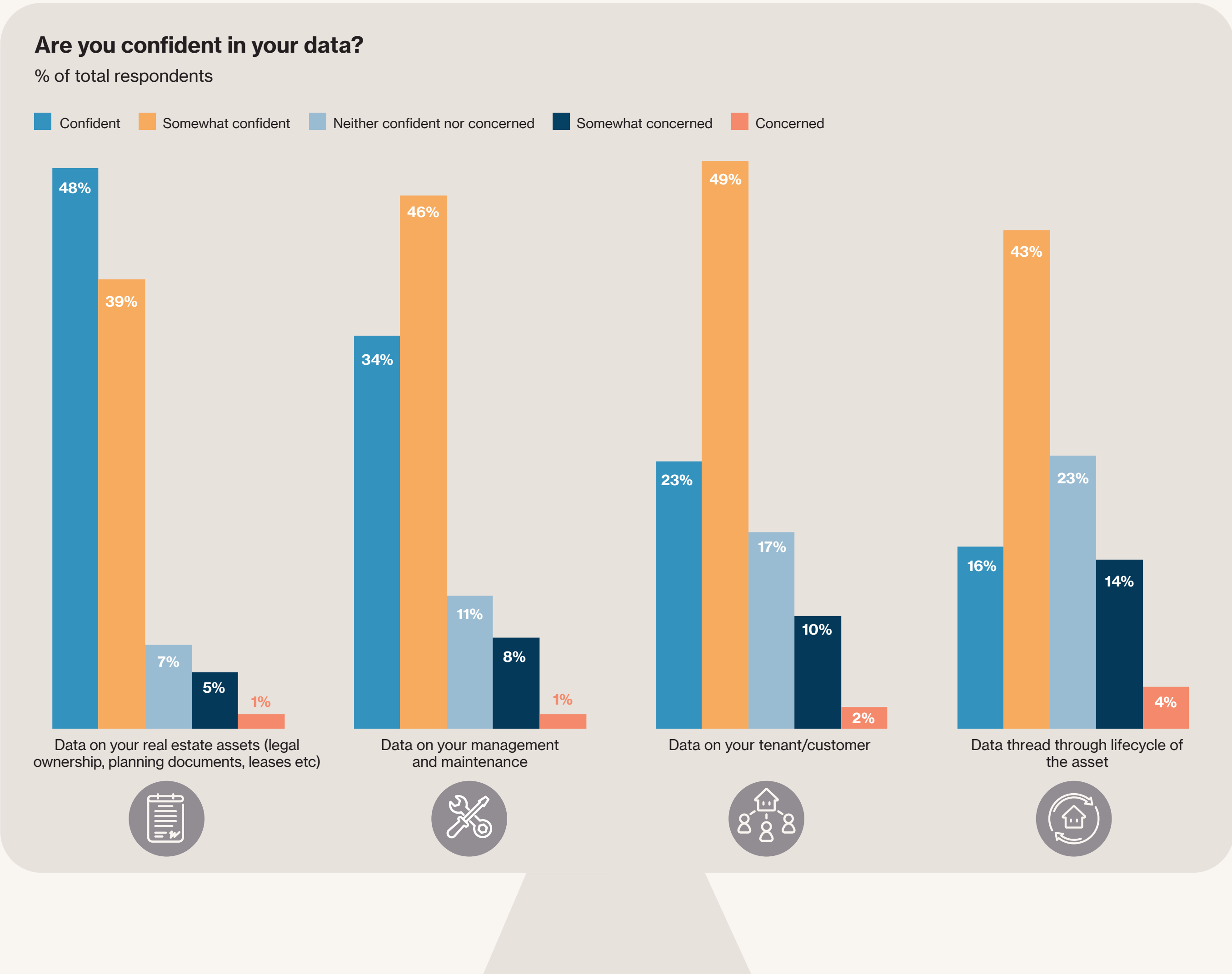
are totally confident in their real estate asset data

The Regulator of Social Housing has recently placed an extra emphasis on data quality. With many providers managing complex portfolios across numerous internal systems, data consistency and quality has been a challenge for the optimisation of operations and strategy.

The survey revealed that real estate asset data is where providers expressed the most assurance, with 48% being totally confident. However, the area flagged for most concern was the data thread that follows the lifecycle of each real estate asset, with 18% of respondents expressing some concern over their data in this respect.

Respondents are less assured over their data on management/ maintenance, with those confident dropping to 34%, and data on tenant/ customer falling further to just 23%, demonstrating that there is more to do.

> **"The area flagged for most concern was the overview data threading together the lifecycle of the asset"**



Levelling Up

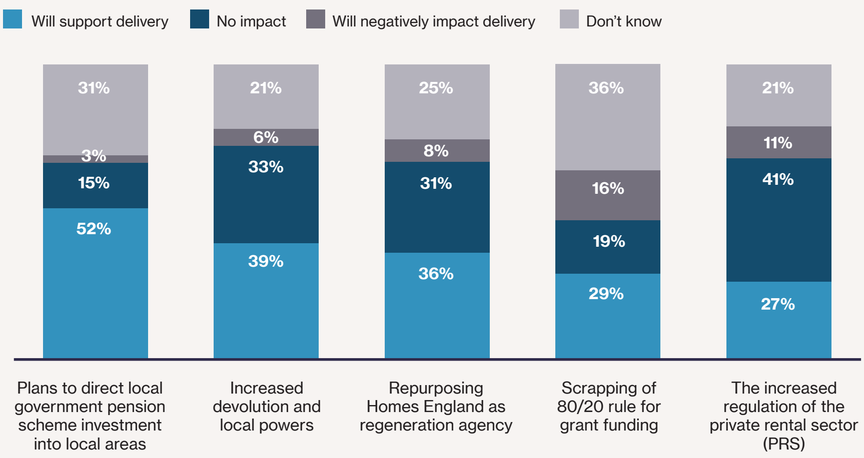
Views divided on Levelling Up measures with some believing they could support housing delivery while many unsure or sceptical

The challenge of providing opportunity and prosperity to all regions across the UK has led to the government releasing the Levelling Up White Paper in early 2022. Following on from the White Paper, the Queen's speech highlighted areas in which many of the proposals will be passed into law under the current parliament.

Plans to direct local government pension scheme investment into local areas was most cited as supporting delivery within the area where the respondent operated (52%). Devolution and the repurposing of Homes England were also seen as supporting delivery although a much higher proportion also saw these as having no impact.

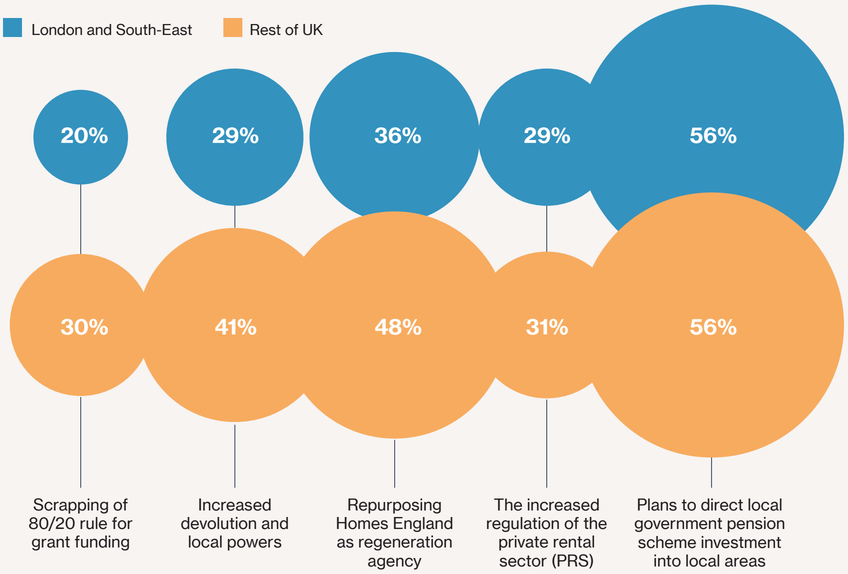
When looking at the key policy takeaways from the Levelling Up White Paper, what impact do you think the following will have on the delivery and availability of affordable homes in the areas in which you operate?

% of total respondents



When looking at the key policy takeaways from the Levelling Up White Paper, what impact do you think the following will have on the delivery and availability of affordable homes in the areas in which you operate?

Will support delivery, % of total respondents vs geography



When these responses were broken down by region, London and the South-East were less positive about a number of the measures. In terms of the scrapping of the 80/20 rule for grant funding, 20% of respondents in London and the South-East have said this would negatively impact delivery compared to 7% for the rest of the UK.

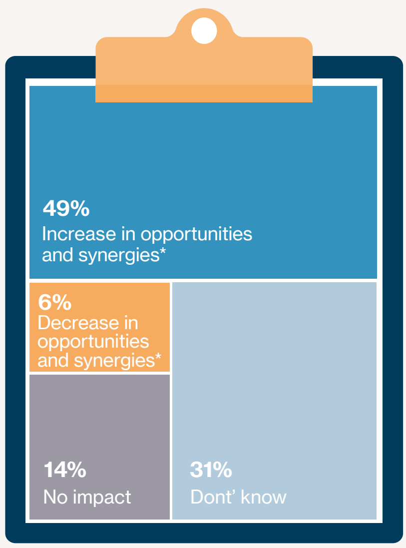
Overall, there was almost a third of respondents who were unsure about the actual impact of these measures on housing delivery.

Increased regulation of the private rented sector anticipated to bring more synergies with the social housing sector

The Levelling Up White Paper also sets out the increasing regulation that will be applied to the Private Rented Sector (PRS) including applying the Decent Homes Standard, abolishing Section 21 'no fault' evictions and starting consultation on a landlords register. Respondents cited this increasing regulation as providing more synergies between the private rented and social housing sectors.

What impact do you think increased regulation of the private rented sector could have on the social housing sector?

% of total respondents



*between social housing providers and PRS

Workplace Strategy

Respondents moving towards hybrid working for their post-pandemic workplace strategies

The pandemic has caused housing providers and employees to reconsider work-life balance, what is needed to work productively, and how to maintain organisational culture. Looking ahead respondents in the housing sector have made it clear that hybrid working will be the most popular approach taken by organisations.

Most organisations are offering hybrid options with respondents leaning more towards an equal mix between office and remote-based work (42%) and mostly remote with 3+ days a week at home (39%), irrespective of organisation size. 9% of respondents were moving towards the office for 3+ days while only 5% see a post-pandemic workplace as being full time in the office.

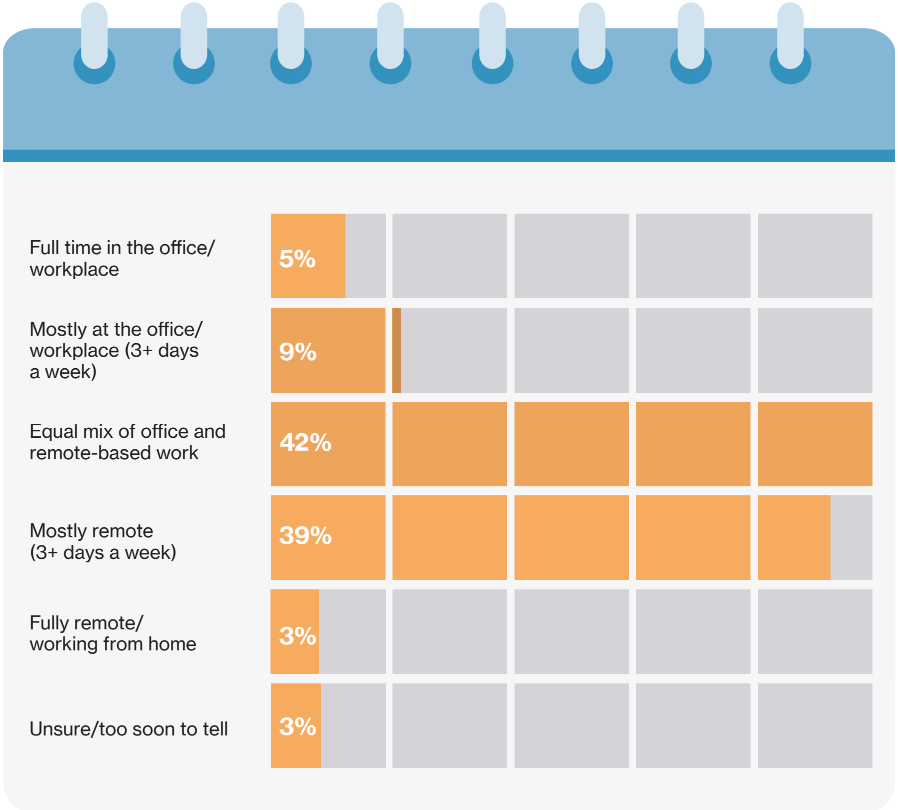
In terms of considerations influencing workplace strategy, organisational culture is at the forefront as a first priority (33%), followed by employee wellbeing at 27% and productivity levels at 20%.

39%

of organisations are leaning more towards being mostly remote with 3+ days a week at home

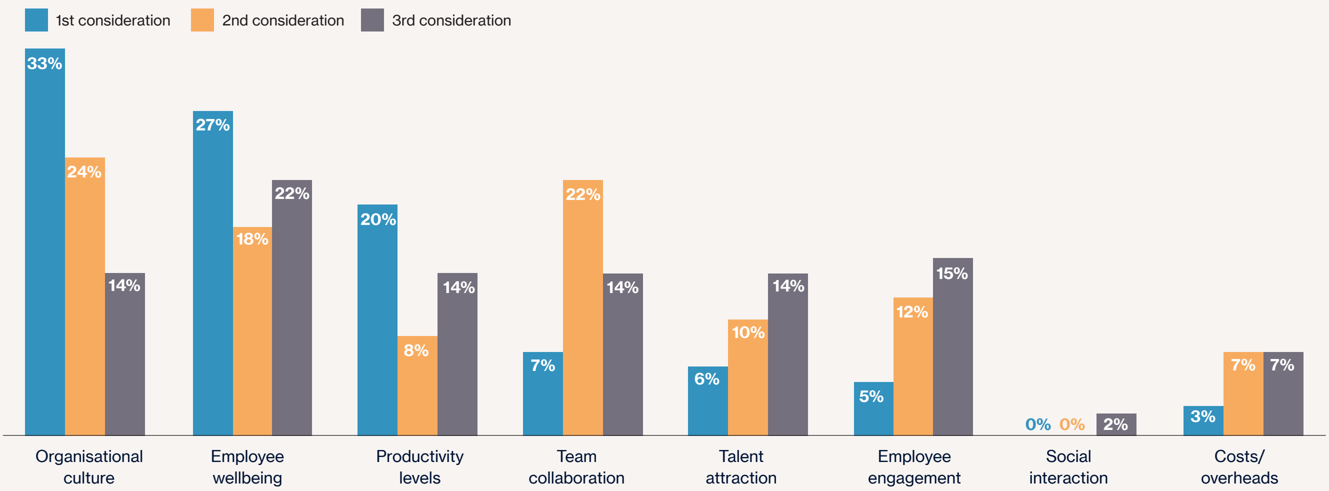
Looking ahead, in a post-pandemic stabilised workplace, what best describes the workplace policy that you are adopting/will adopt for non-frontline staff/for most teams?

% of total respondents



What are the most important considerations when considering what workplace policy to adopt?

% of total respondents



Recruitment

Most organisations focusing their recruiting efforts on maintenance and repairs to support investment in existing homes

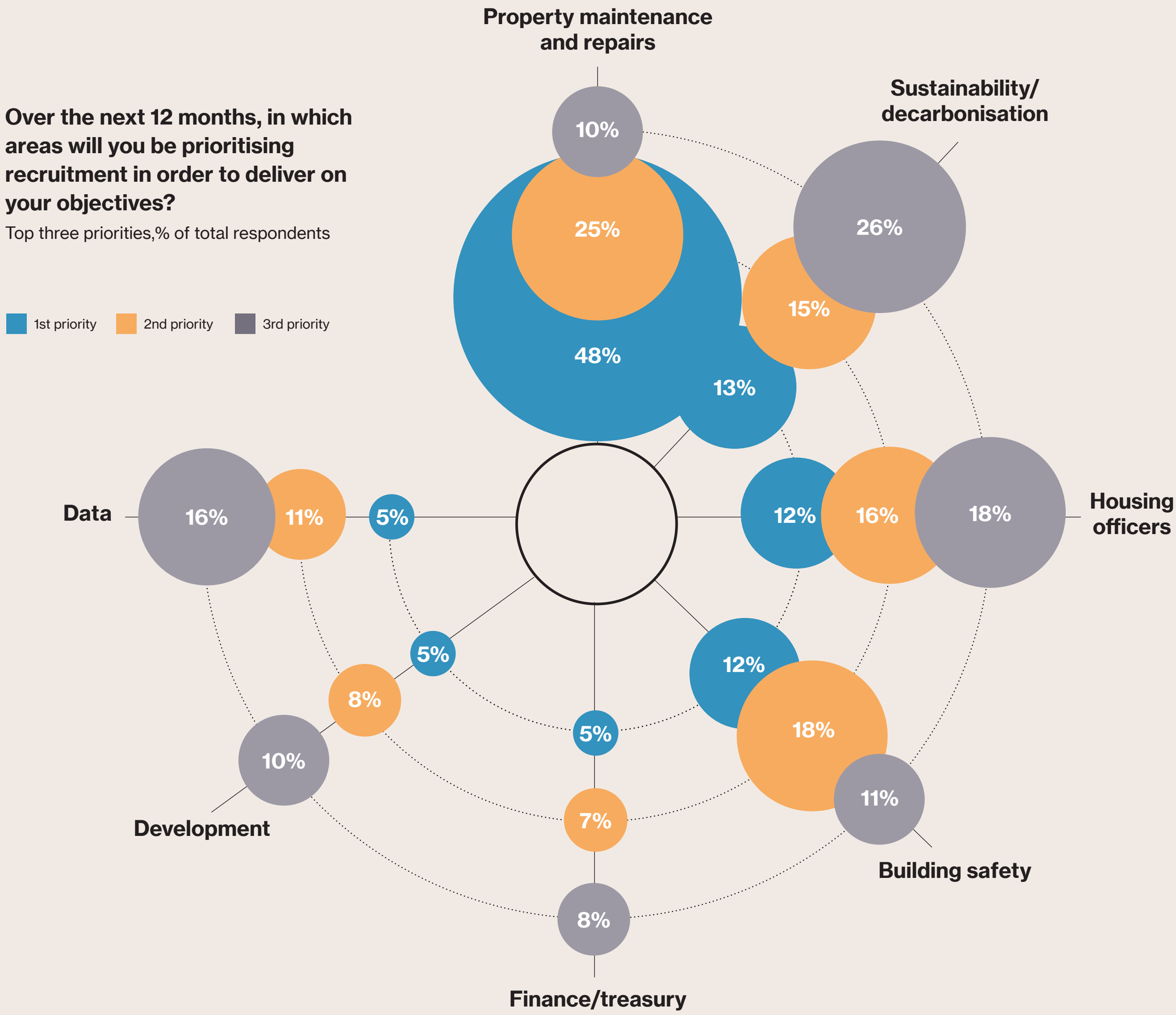
The last few years has seen a challenging labour market, with the disruption of the Covid-19 crisis and a general skills shortage providing a demanding backdrop for housing providers. A competitive market for talent and increasing inflationary pressures are likely to ensure that recruitment is high on the corporate priority list over the coming year.

Most organisations are prioritising recruitment in property maintenance and repairs, with 48% stating that the area will be the number one priority over the next 12 months. Sustainability was next with 13% respondents, followed by housing officers and building safety, both at 12%. There is a strong trend towards ensuring that resources in departments linked with decarbonisation and building safety are sufficiently resourced to meet the increasing focus on existing stock investment going forward.

> **"There is a strong trend towards ensuring that resources in departments linked with decarbonisation and building safety are sufficient"**

Over the next 12 months, in which areas will you be prioritising recruitment in order to deliver on your objectives?

Top three priorities,% of total respondents



Methodology

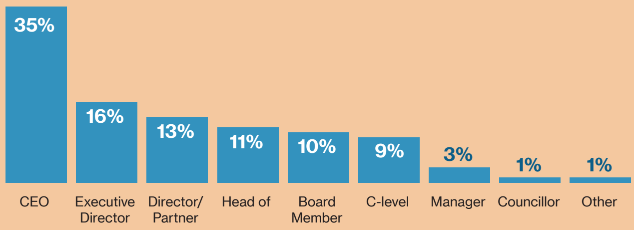
The survey was circulated via email and online to senior professionals across all housing providers in the UK. The survey was open between 7th March and 29th April 2022, receiving over 300 individual responses.

The vast majority of respondents are Not-for-Profit providers, with a handful of respondents representing for-profit providers, local authorities, charities, and ALMOs (arm's length management organisations).

Respondents operate across all regions of the UK. 49 respondents operate across multiple regions. More respondents came from the South of England, totalling 44% of respondents, with the North of England 25%, Midlands 24%, 3% for Scotland, Wales 3%, and Northern Ireland 1%.

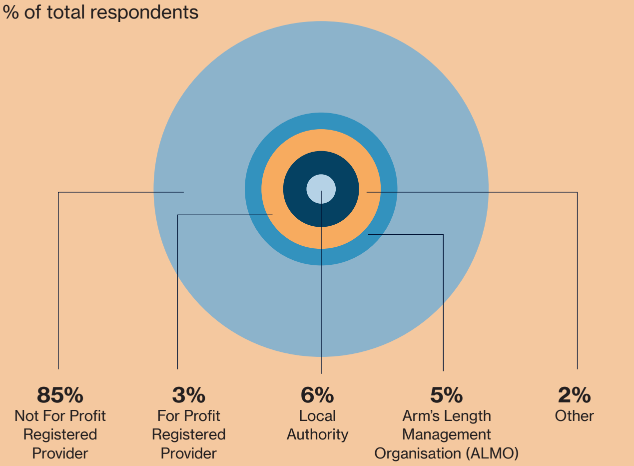
Job function/seniority of respondent

% of total respondents



What best describes your organisation?

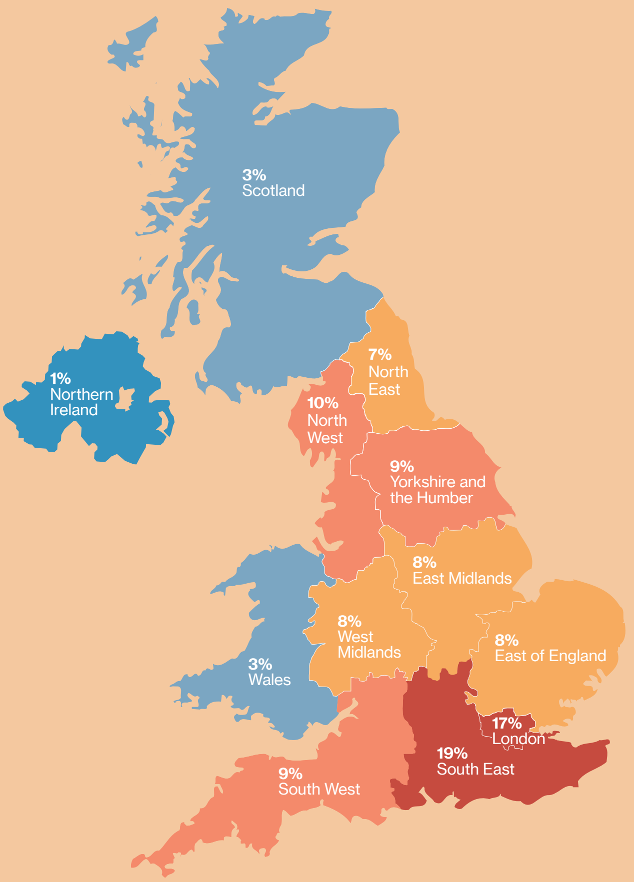
% of total respondents



Providers that owned / manage under 1,000 homes form 18% of respondents.8% respondents had over 50,000 homes, with the remainder being mid-sized providers.

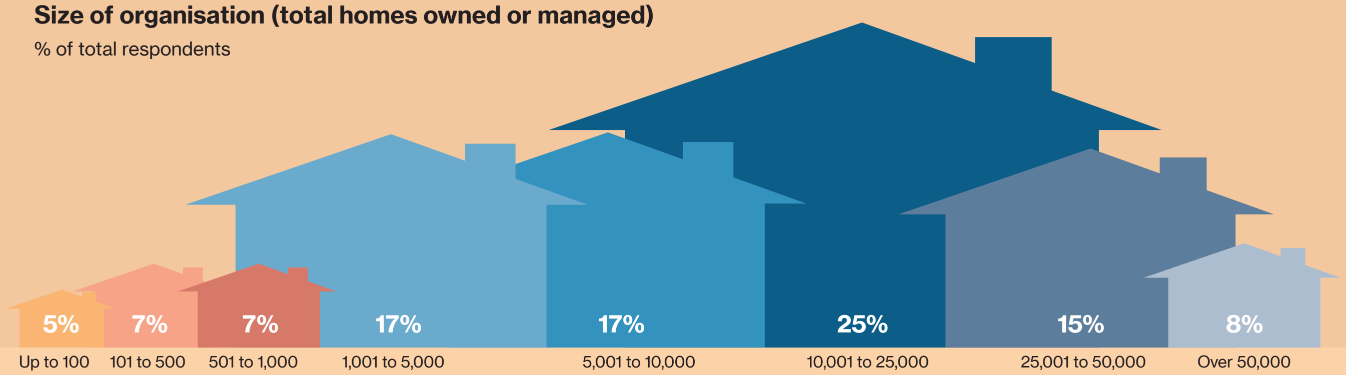
Geographical coverage of your organisation

% of total respondents



Size of organisation (total homes owned or managed)

% of total respondents



Percentages may not total 100 due to rounding

About RESAM

RESAM is the trusted advisor to affordable housing providers, offering strategic portfolio solutions that address net-zero obligations and tackle funding challenges.

Our services are designed specifically to help affordable housing providers deliver a better homes portfolio. We deliver innovative **Strategic Asset Management**, built on robust **Governance and Data**, and provide **Treasury and Corporate Finance** solutions.

Strategic Asset Management

Working collaboratively, we design and deliver tailored, innovative strategies based on accurate and relevant portfolio data. We help housing providers optimise their portfolios, meet strategic objectives and address priorities such as additionality, decarbonisation and decent homes standards.

Governance & Data

Robust data, processes and procedures are critical to all strategies. Using our expertise and data insight tools, we deliver solid foundations to provide full visibility of portfolios, which provide assurance from board to front line. This demonstrates regulatory compliance and enables confident decision making now and in the future.

Treasury & Corporate Finance

Our real estate led approach to future borrowing allows housing providers to secure debt efficiently and effectively to deliver more homes. We also advise on developing effective partnerships and structured transactions to develop homes over and above existing pipelines.

Resam Consulting Ltd is a limited company registered in England with registered number 12517896. Our registered office is 4th Floor, Alpha House, 24A Lime Street, London, EC3M 7HS.

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