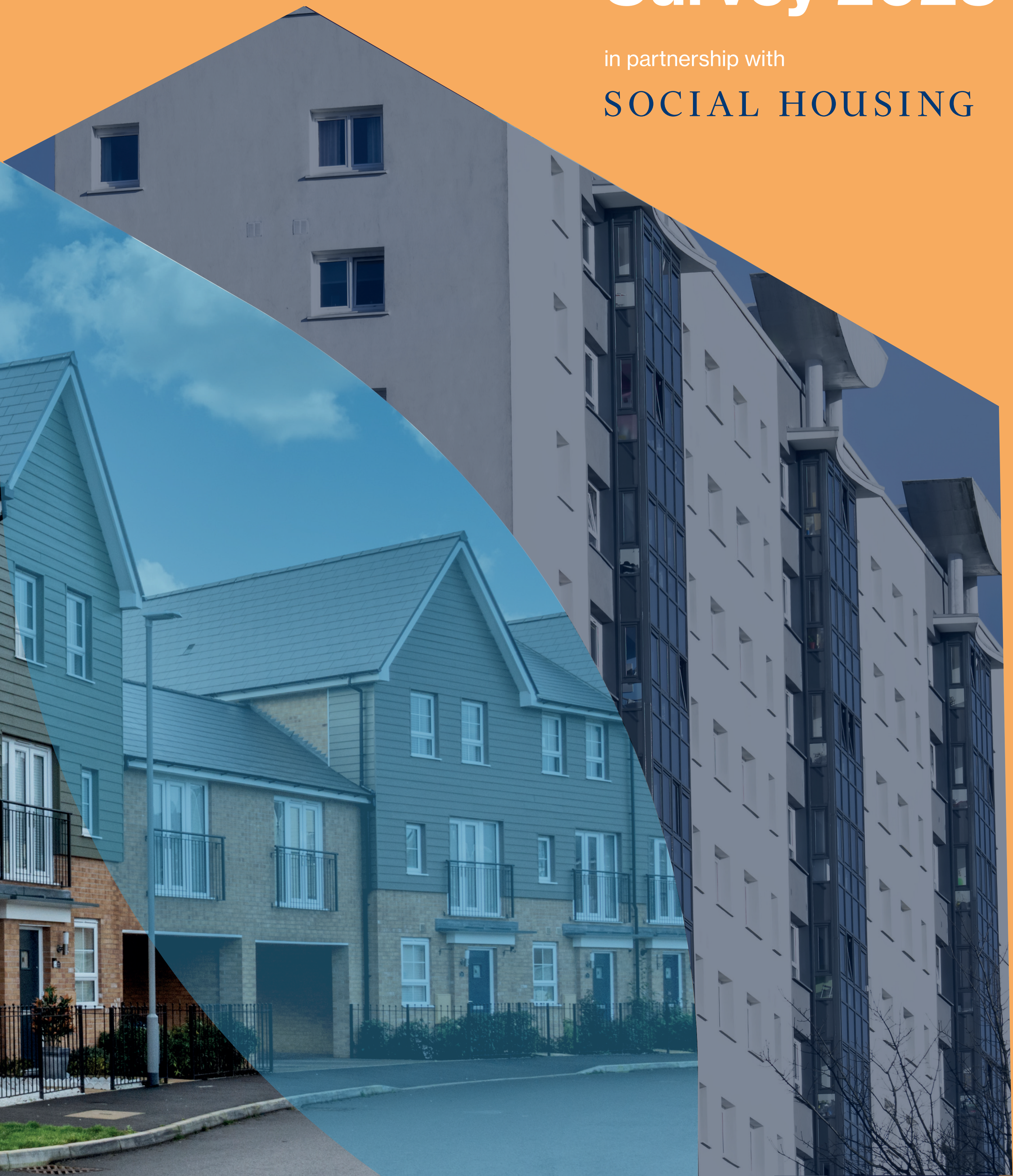
RESAM

Housing Sector Survey 2023

in partnership with

SOCIAL HOUSING



Contents

Executive Summary

The challenges the sector faces have become more pronounced over the past 12 months. The cost and practicality of improving the energy efficiency of the sector's homes remains the greatest of these, however funding constraints mean that more housing associations are needing to delay this spend. Respondents increasingly see funding as the key short term challenge, which is causing delays and cuts in new homes delivery.

Investment in existing homes and customer service remain as providers' highest priorities, with respondents recognising that the quality of the sector's homes drives customer satisfaction, and identifying more effective responsive repairs investment in particular as the most important way to boost this.

Considerably more social housing providers are now anticipating worsening finances over the coming 12 months compared to last year, with funding the key short term challenge. There is a growing interest in working with FPRPs and seeking alternative sources of finance including, for example, stock rationalisation, however the key source of funding for net zero carbon investment is still expected to be government grant funding.

The extent of the investment required across the sector to achieve net zero is not known, but it is certainly many times the £3.8bn currently pledged through the Social Housing Decarbonisation Fund. The health of our nation's finances and our current financial outlook - especially when viewed against what remains a robust and well-funded sector – suggests that the expectation for grant funding driving decarbonisation might be overoptimistic.

The sector's strong underlying financial position – underpinned by many years of careful stewardship of the underlying asset base – provides opportunities in particular to realise balance sheet value and to develop partnerships with new sources of capital. If we are to increase the number and quality of affordable homes while achieving net zero across all affordable homes, it is these which will underpin the sector's continued success.

Priorities and Challenges

Priorities

Investment in existing stock remains the top priority for housing providers by a large margin

48% of providers indicate that investment in existing stock is their top priority, up from last year's figure of 43%. This could reflect the focus there has been on damp and mould over the last six months as well as the continued focus on home decency and energy efficiency.

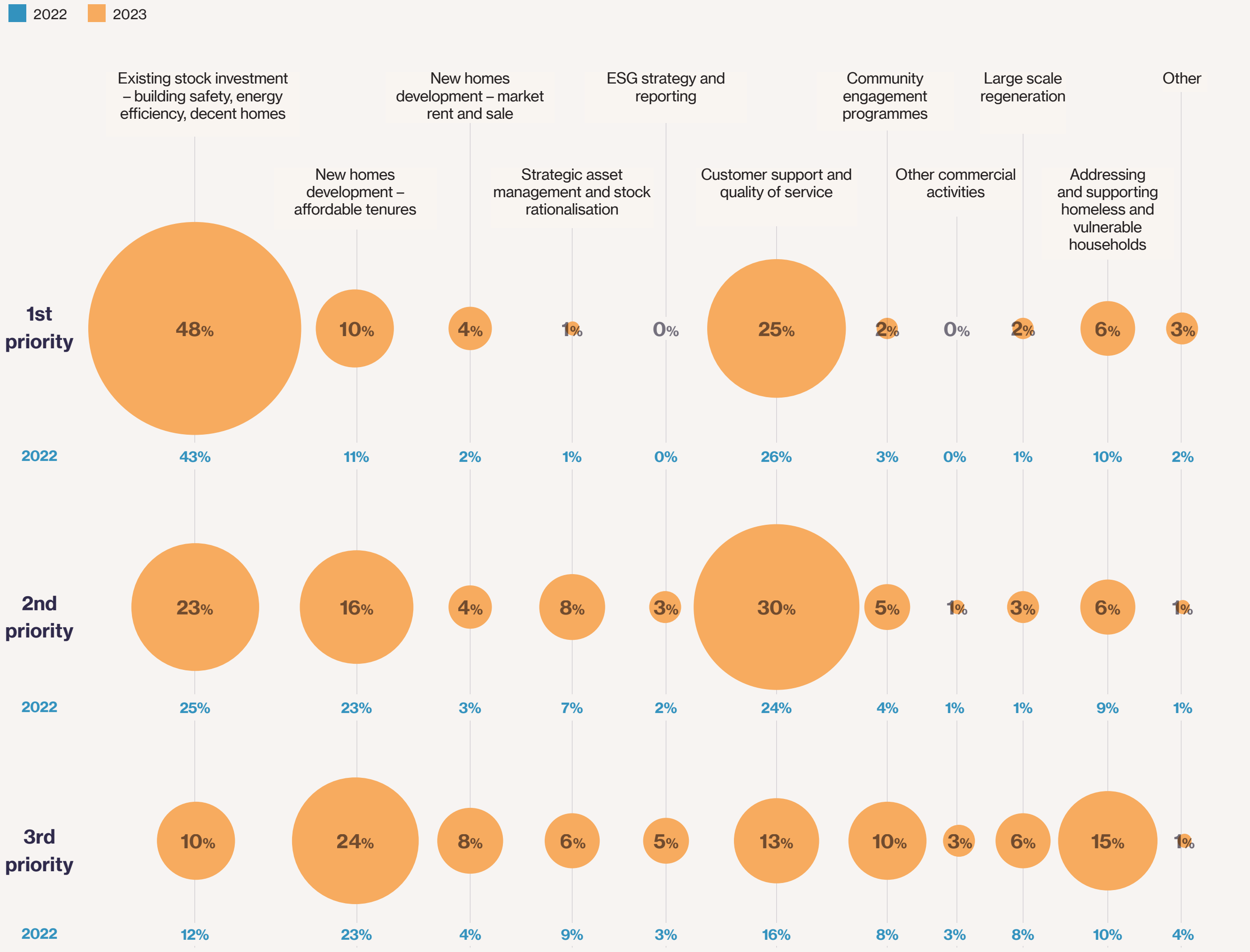
As would be expected, customer support and quality of service remains the second largest priority, enjoying an increase in proportion from last year. This at the expense of new homes development at affordable tenures, which has fallen from 23% last year to 16%.

Interestingly, housing providers who consider their financial outlooks to be the same or worsening over the next 12 months predominantly made investments into existing stock their top priority (61% and 62% of respondents respectively). On the other hand, those with more confidence around their financial outlooks largely made customer service their top priority (40% of respondents in this category). There may be numerous reasons behind this such as providers being comfortable financially having more breathing space to focus on customer satisfaction metrics.

> **"Housing providers who consider their financial outlooks to be the same or worsening... predominantly made investments into existing stock their top priority"**

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

Top 3 priorities, % of total respondents



*Footnote: Categories may not sum to 100% due to rounding anomalies

Priorities and Challenges

Challenges

Decarbonisation remains the sector's main challenge. Funding has become a more significant short-term challenge over the last 12 months, now seen as more pressing than the cost of living crisis

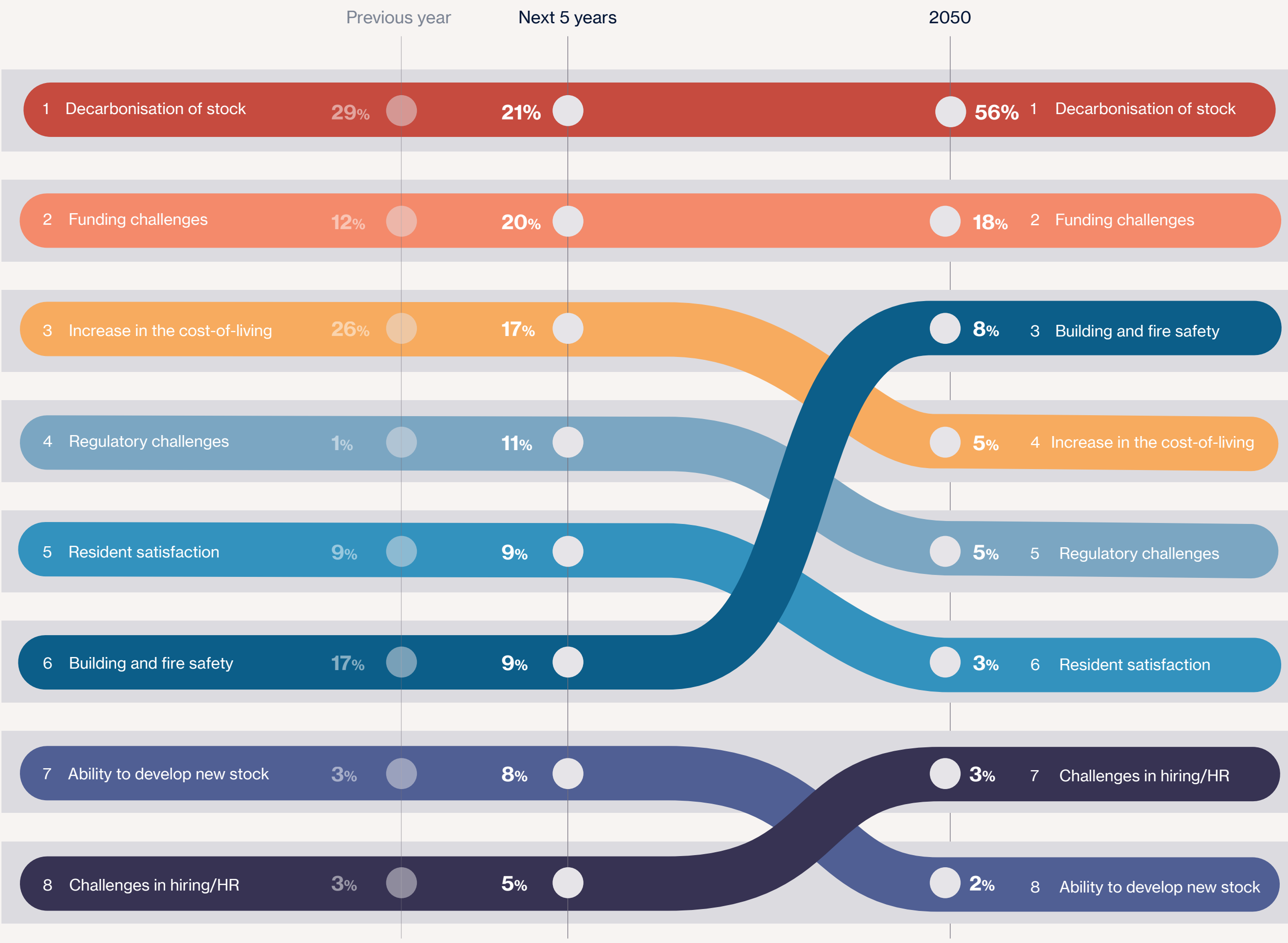
Whilst funding and financial challenges loom large throughout the survey, the decarbonisation of stock is still viewed as the main challenge. The cost of living crisis is still presenting a significant challenge, albeit this has reduced over the last 12 months (from 26% of respondents last year to 17% this year). Funding challenges has taken its place as the second most significant challenge (20% of respondents as first priority).

Interestingly, regulatory challenges has seen an over tenfold increase in respondents seeing it as a short term challenge, jumping from 1% to 11%, perhaps reflecting increased regulations and the particular focus on damp and mould this year.

> "Funding challenges has taken its place (cost of living) as the second most significant challenge"

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

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



Other: 1% (2022 next 5 years) | 1% (next five years | 0% (2050)

Financial Pressure

45% of respondents anticipate worsening finances over the next 12 months, an increase from 34% of respondents in last year's survey

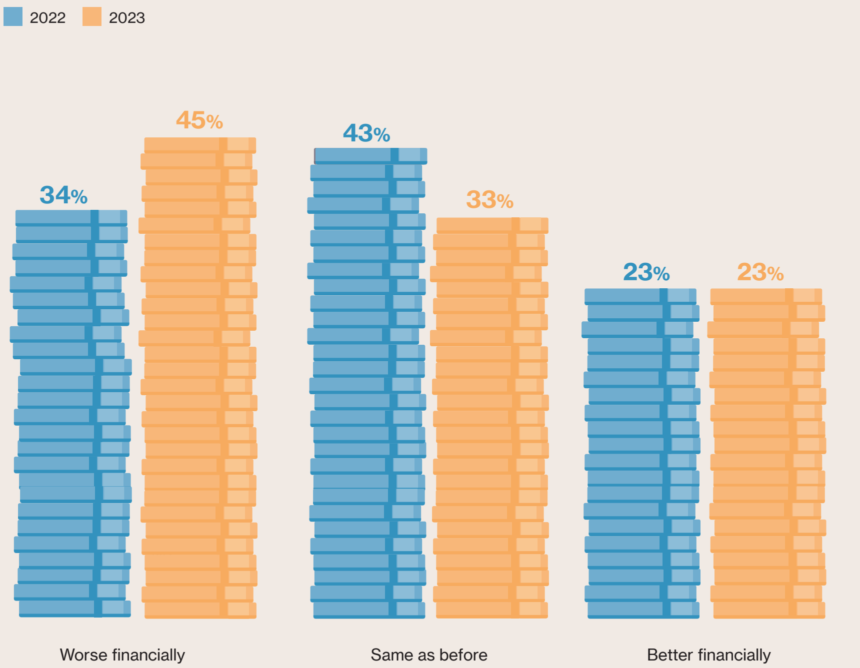
Financial pressure appears to be ramping up for providers. 45% of respondents anticipate worsening finances over the next 12 months. This is an increase from almost a third of respondents in last year's survey. The number of respondents expecting financial performance to remain the same has reduced by 10 percentage points to reflect this. As such, the number of respondents expecting performance to improve remains the same at 23%.

The survey demonstrates that social housing is not exempt from the current high-inflation, high-interest climate, with 69% of respondents reporting the need to cut back on expenditure due to the gap between rent rises and inflation.

69%

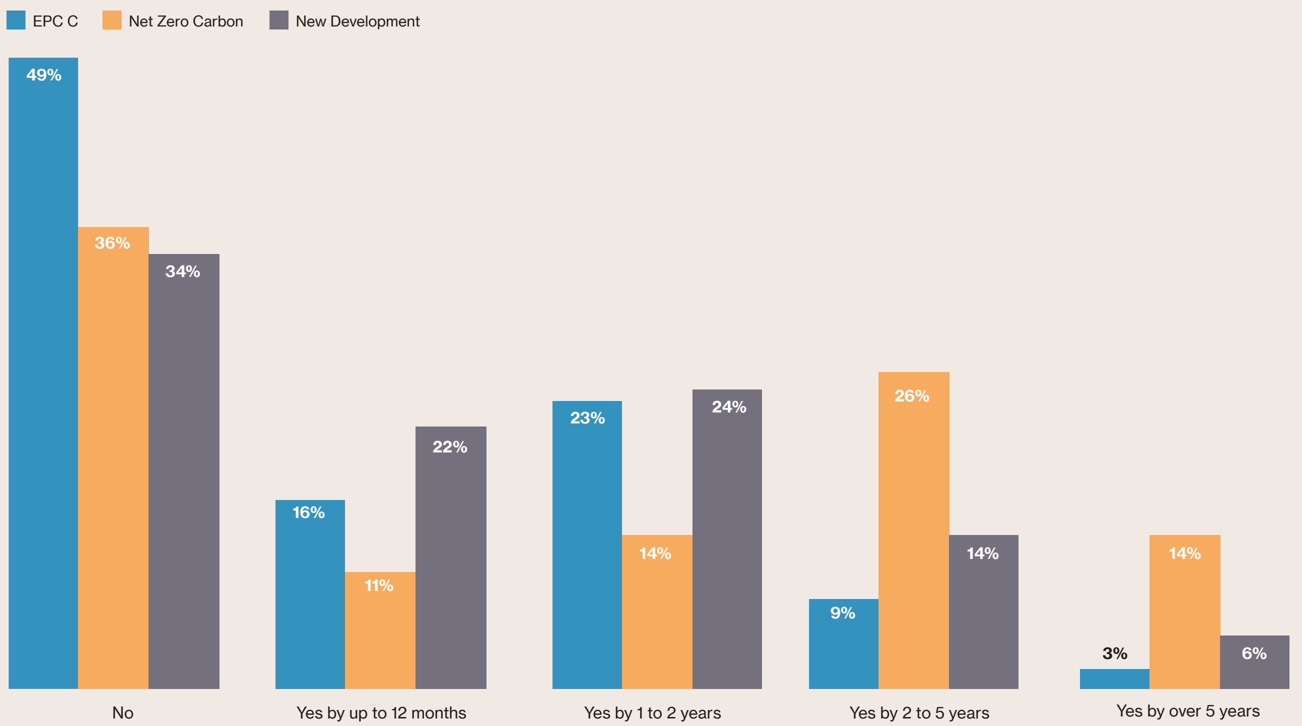
of respondents reported the need to cut back on expenditure due to the gap between rent rises and inflation

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?



Have the financial challenges of the last 12 months delayed the timing of the following investment programmes?

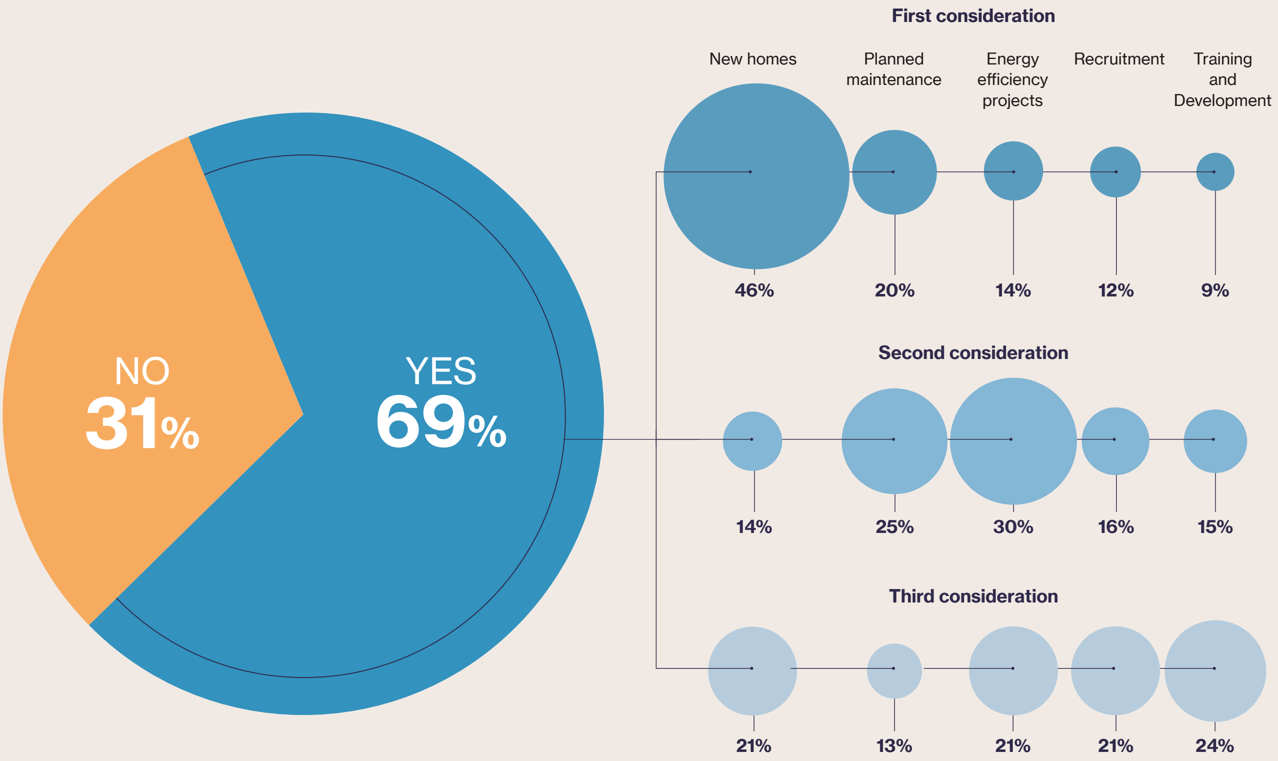
% of total respondents



Has your organisation had to cut back on any of the following as a result of the gap between rent increases and cost inflation?

Yes vs No

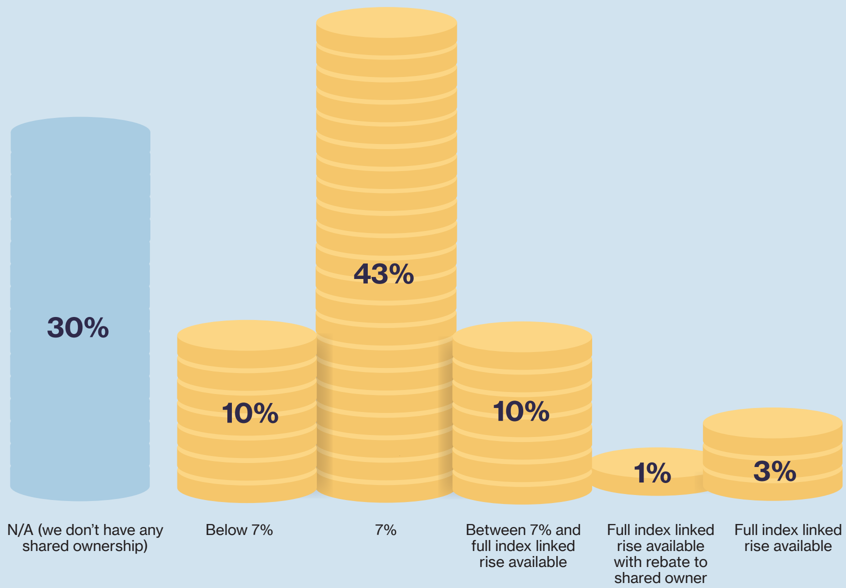
Top 3 cutbacks, % of total respondents



Shared ownership

Shared ownership stock has been a traditionally high margin asset for housing providers. However, a significant number of housing providers are shaking hands on a voluntary 7% rental cap for their shared ownership portfolio, with 62% of respondents (43% when including those who don't have shared ownership) answering that their organisation will be setting rents at this level. This is interesting when viewed in context of the financial strain and especially when recognising this finding is independent of financial outlook.

What level of increase will you apply to your shared ownership rents for 2023/2024



Plans for Decarbonisation

The anticipated costs of decarbonisation are rising with those anticipating spend of more than £30,000 per unit increasing from 13% to 19%

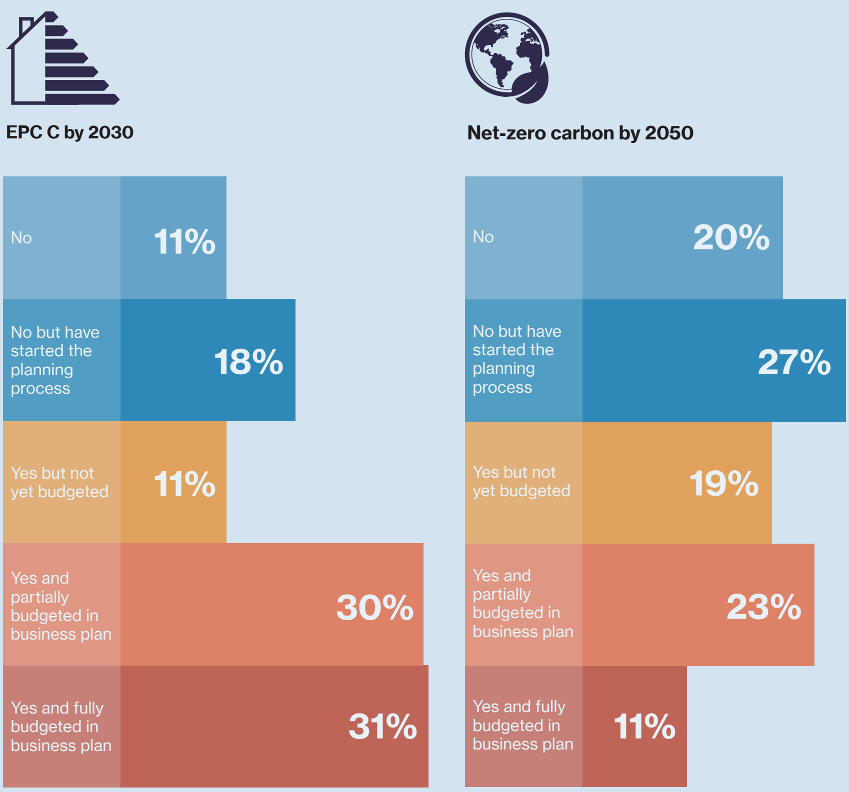
Decarbonisation has still presented itself as the most pressing issue both short and long term, as highlighted on page 4 in this report.

Despite this, whilst 72% of housing providers have planned for their homes to meet EPC C standards just 52% have started planning for net zero. Whilst it has now been four years since the UK committed to a legally binding target of net zero emissions by 2050, 23% of respondents have only partially budgeted for net zero and 19% have not budgeted at all.

Most respondents (23%) now indicate that the costs of upgrades to reach net zero are within the £20,000 to £30,000 range, contrasting with last year's survey which found that 36% of respondents expected the cost to be in the £10,000 to £20,000 range. The proportion of respondents reporting higher cost figures have also increased, with 10% of respondents indicating costs at the £30,000 to £40,000 mark, and 9% at the £40,000+ mark. This general trend upward in costs could be indicative of inflation pushing retrofitting expenses upwards. Moreover, there is a larger number of respondents in the 'Don't Know' category, which may similarly represent the fact that inflation has cast uncertainty over costs. This can be particularly problematic as the majority of respondents have either no strategy (31%) or will wait and see for technological solutions or innovations (32%) for units not economically viable to upgrade and reach net zero targets.

> **"Whilst 72% of housing providers have planned for their homes to meet EPC C standards just 52% have started planning for net zero"**

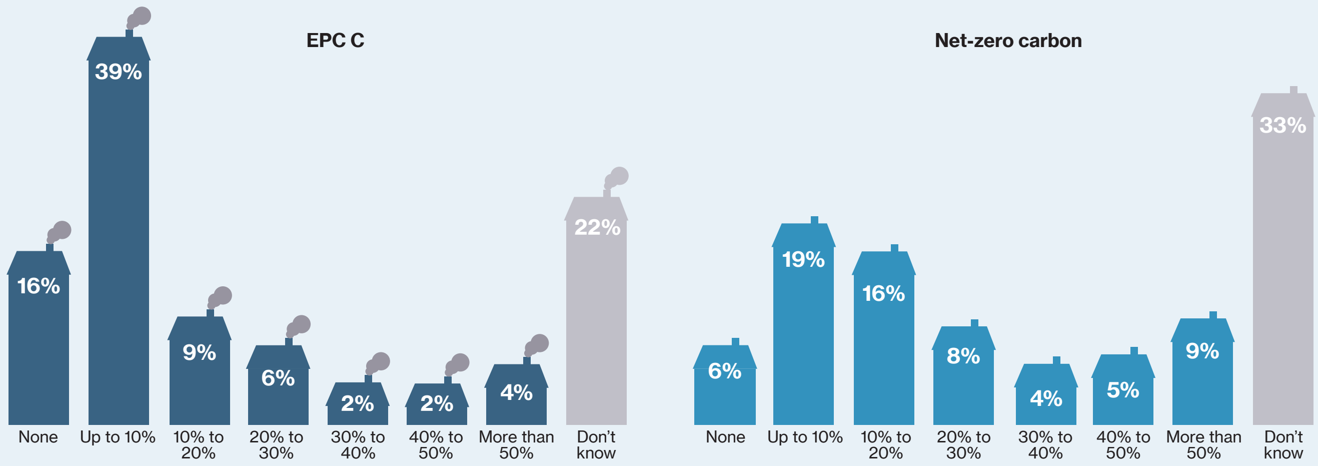
Have you put together a plan to ensure all your homes are EPC C by 2030 and net-zero by 2050?



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

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



When reflecting on constraints for reaching net zero, financial capacity remained by far the most pressing challenge for organisations, as indicated by 58% of respondents. This was followed by technical limitations on existing stock and organisational capacity as the second biggest constraint, both registering 20% of respondents. Finally, contractor and supply chain issues emerged as the third most pressing constraint (23% of respondents). Financial capacity took the lion's share of responses as the main challenge, meaning that more organisations are having to delay spend on zero carbon targets than last year to free up cash, up by 4% points to 11% of all respondents. It is worth observing that when ranking second most significant constraints, responses were evenly spread across issues. This suggests that beyond finance, the challenges to reaching net zero are multi-faceted.

As expected, EPC C plans have been affected as 51% of respondents have claimed that the financial challenges of the last 12 months have impeded on their organisation's EPC C goals. However, over the longer term, net zero carbon investment programmes are facing the largest delays, with 40% claiming that hitting net zero targets will be delayed by at least two years.

> **"More organisations are having to delay spend on zero carbon targets than last year, up by 4% points to 11% of all respondents"**

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

*For the weighted averages, the median figure of each band was used, with over £40,000 being represented by £45,000

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

Top 3 constraints, % of total respondents

	#1 constraint	#2 constraint	#3 constraint
Financial capacity	58%	12%	9%
Technical limitations on existing stock	11%	20%	15%
Lack of clarity on net zero carbon standards	9%	14%	13%
A lack of retrofit strategy or plan	4%	4%	6%
Organisational capacity	5%	20%	10%
Skills shortage	3%	11%	18%
Contractor and supply chain capacity	5%	14%	23%
Resident resistance	2%	6%	5%
Other	4%	0%	2%

New Homes

New homes delivery is experiencing more delays than net zero due to financial strain

The need for new homes remains paramount, with providers largely expressing a preference for building new homes over achieving net zero should they be forced to pick between one or the other. This is illustrated by the fact that 65% of responding providers would rather build 50% more new homes but at EPC C across all stock, over not building more but having all existing stock at net zero.

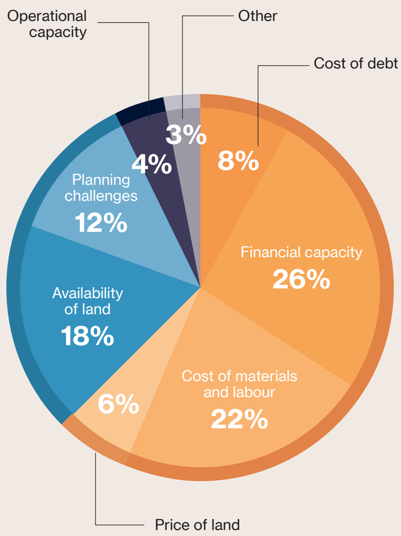
However, 65% of respondents are delaying new homes delivery in the coming years, with far fewer delaying expenditure associated with achieving EPC C or net zero.

The issue of financial capacity is reiterated as 26% of respondents cited it as the biggest challenge for building homes. This can be combined with other cost related factors such as cost of materials (22%), the cost of debt (8%) and the price of land (6%), to demonstrate that 62% of respondents' answers are financially oriented.

When asked about methods of delivery/acquisition over the next five years, 23% of providers anticipated increasing interest in development joint ventures. When breaking down by respondent size, it is revealed that larger housing providers (1,000 or more units) had predominantly growing interest in development joint ventures, whereas smaller providers actually expected decreasing interest. Smaller housing providers also gravitated more towards section 106 applications and converting private new homes with a grant to affordable, in contrast to larger providers.

Interestingly, the housing delivery method which will have the most decreased interest was pursuing sites purchased without planning permission. Around 26% of respondents voted this as the category with likely decreased interest over the next 5 years – almost 11 percentage points higher than any other category. As challenges mount, it is unlikely that providers wish to bear the risks with planning permission and other building challenges.

What do you believe is the biggest barrier to delivering more homes over the short to medium term?



65% of providers

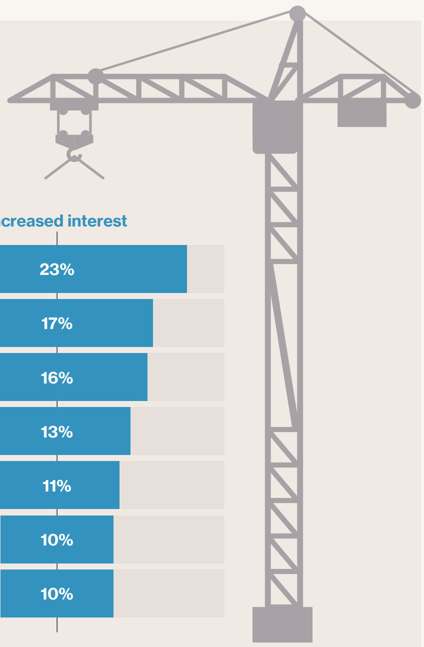
would rather build 50% more new homes at EPC C rather than have no more new homes but all existing stock are net zero

> “Financial capacity is reiterated as 26% of respondents cited it as the biggest challenge for building homes”

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

	Decreased interest	Stay the same	Increased interest
Development joint ventures	8%	13%	23%
Sites purchased with planning permission*	13%	14%	17%
Land and build package deals	9%	15%	16%
Partnerships with For Profit RPs or new entrants	15%	14%	13%
Private new homes converted with grant to affordable	5%	15%	11%
Sites purchased without planning permission*	26%	12%	10%
Section 106	14%	16%	10%

*to be developed by your organisation



Sector Reputation

Housing providers see more effective responsive repairs and investment into existing stock as the best way to boost their sector's reputation

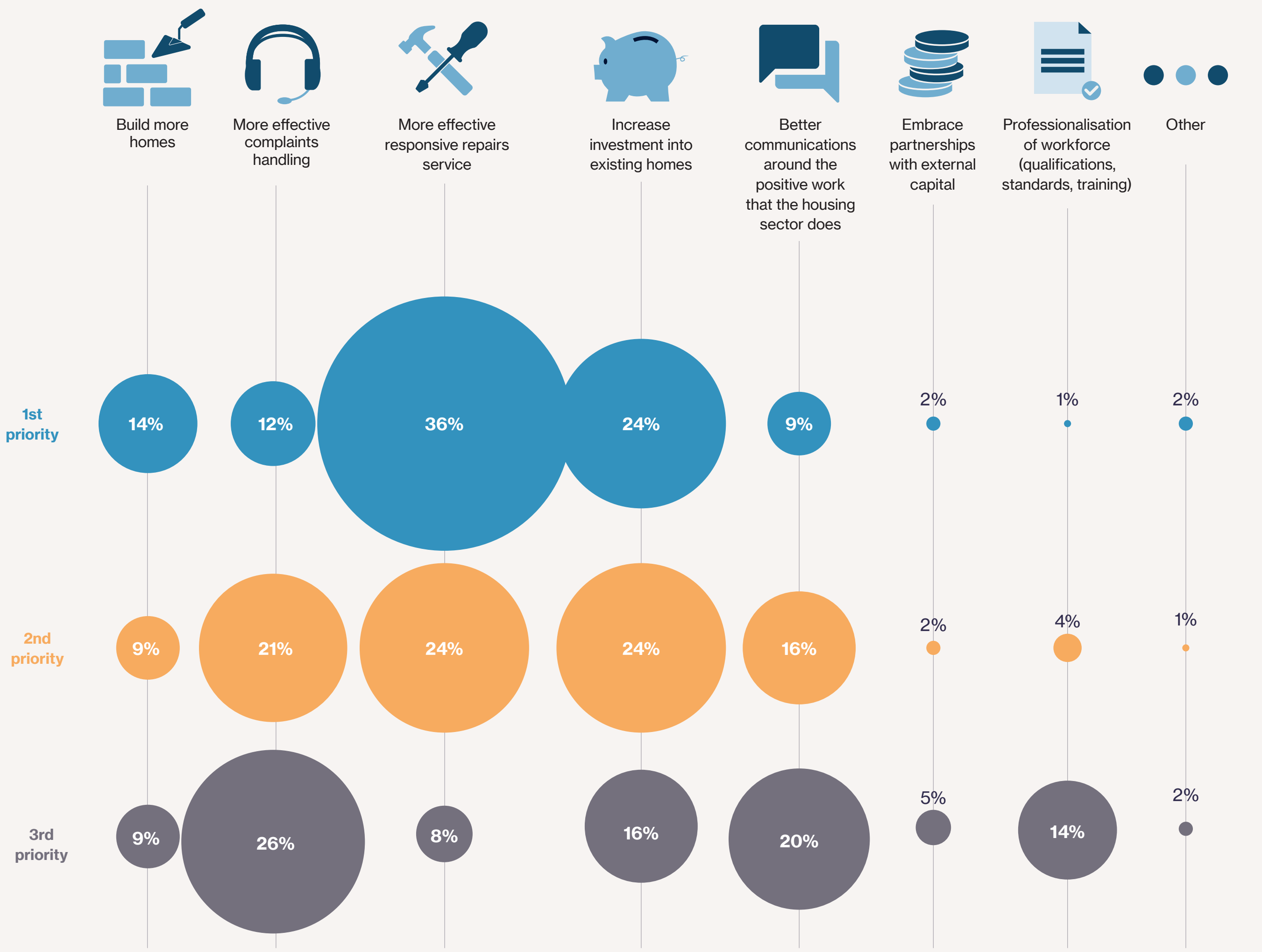
Respondents this year were asked what the sector could do to improve its reputation. The majority of respondents ranked a more effective responsive repairs service as the number one way for the sector's reputation to improve, followed by investment in existing stock. Interestingly, the majority of Local Authorities (25%) indicated that simply building more homes is the best way to improve the sector's reputation, a slight different direction from other types of providers.

Following this, the next most pressing issue was voted as more effective complaints handling – maintaining the overarching theme of providing economic value whilst ensuring that customer satisfaction is at the forefront of services provided in the affordable housing space. The sector is currently transforming the way it records and reports on resident satisfaction and the quality of its homes and services. This is on account of Tenant Satisfaction Measures Standard regulations put in place mandating the collection and annual reporting of tenant satisfaction measures as of April 2023.

> "The majority of respondents ranked a more effective responsive repairs service as the number one way for the sectors reputation to improve, followed by investment in existing stock."

What do you think housing providers need to do to improve the sectors' reputation? (choose three in order of priority, 1 = most important)

Top 3 categories, % of total respondents



Funding Challenges

Respondents are considering private equity, refinancing and partnerships with FPRPs to secure additional capital, all of which appear to be increasingly important in meeting the funding challenges they face

26% of respondents are pursuing refinancing or undertaking more borrowing to unlock cash, making it the most selected option for raising capital, although this is a fall from 38% last year. A further 43% of respondents noted that they are considering (not pursuing) refinancing or borrowing more, a 12 percentage point increase on last year. Behind this, stock rationalisation was the second most pursued method of securing finance with 20% of housing organisations currently engaging in it. The increasing number of downgrades on financial viability issued by the regulator suggests stock rationalisation should be of greater interest, as the downgrades often revolve around the capacity of providers to service debt. With shrinking operating margins and interest cover being 87% for the year to March 2023, the lowest figure ever reported by the Regulator of Social Housing[1], providers have more reasons to prioritise the capital within existing stock over seeking further debt.

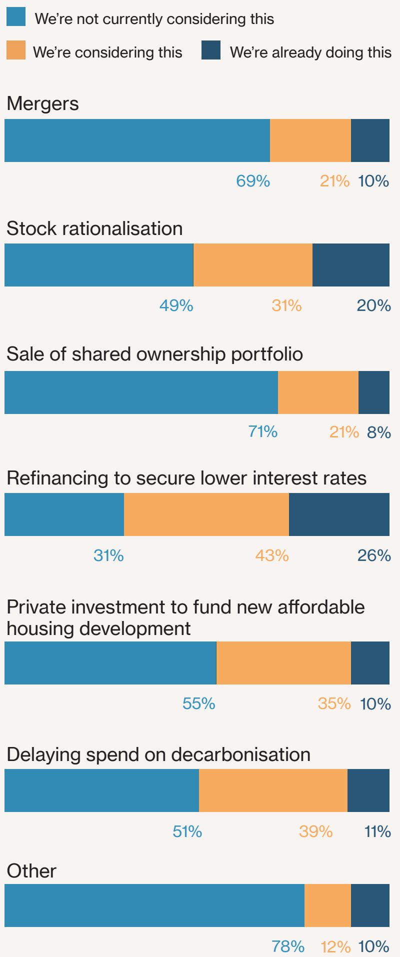
We still see that housing providers are largely open to private equity entering the sector with 52% of overall answers being positive (absolutely good or good but needs monitoring) and 28% negative (sceptical or opposed); this has shifted slightly from 50% positive and 33% negative in last year's survey.

43%

of respondents noted that their organisations are considering refinancing, a 13 percentage point increase on last year.

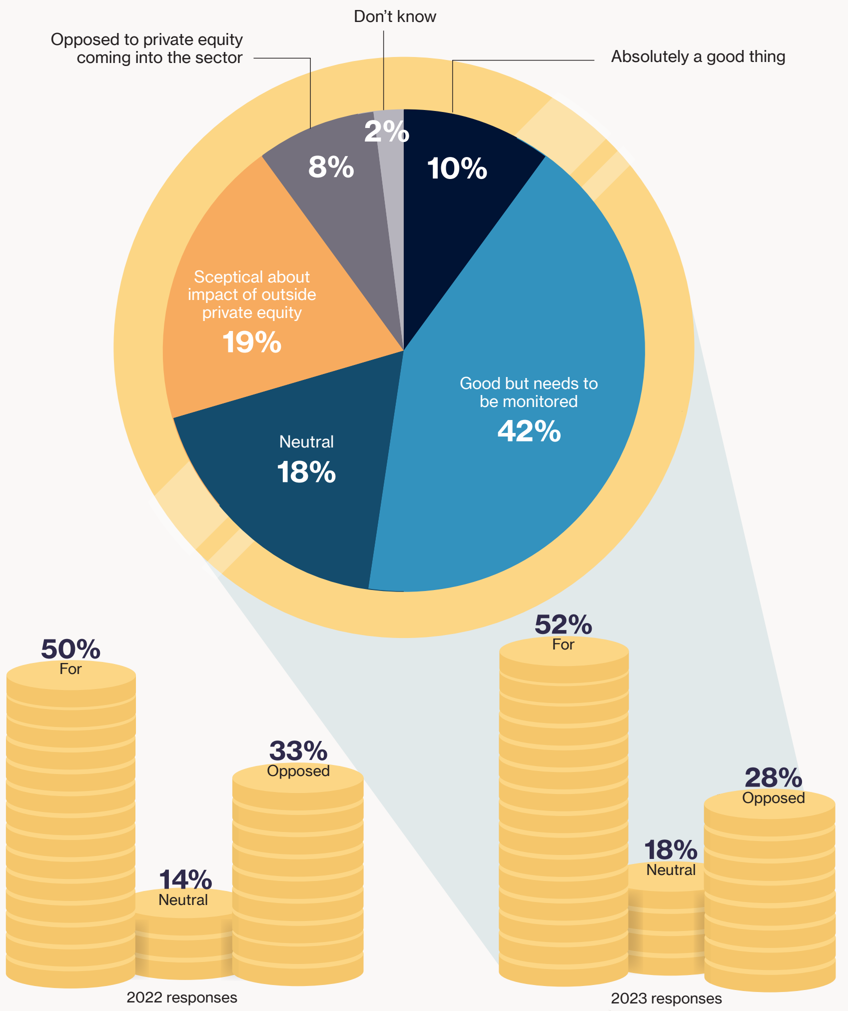
Is your organisation looking to unlock cashflow capacity through any of these means?

% of total respondents



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

% of total respondents



[1] Social Housing (2023) Interest cover set to fall further next year after lowest on record. Available at: https://www.socialhousing.co.uk/news/interest-cover-set-to-fall-further-next-year-after-lowest-on-record-81749. (Accessed: 09 June 2023).

> **The health of our nation's finances and our current financial outlook... suggests that relying primarily on grant funding is potentially overoptimistic**

The most important source of capital to support net zero investment is seen by 67% of respondents as additional grant funding. The extent of the investment required across the sector to achieve net zero is not known, but it is certainly many times the £3.8bn currently pledged through the Social Housing Decarbonisation Fund. The health of our nation's finances and our current financial outlook - especially when viewed against what remains a robust and well-funded sector – suggests that relying primarily on grant funding is potentially overoptimistic.

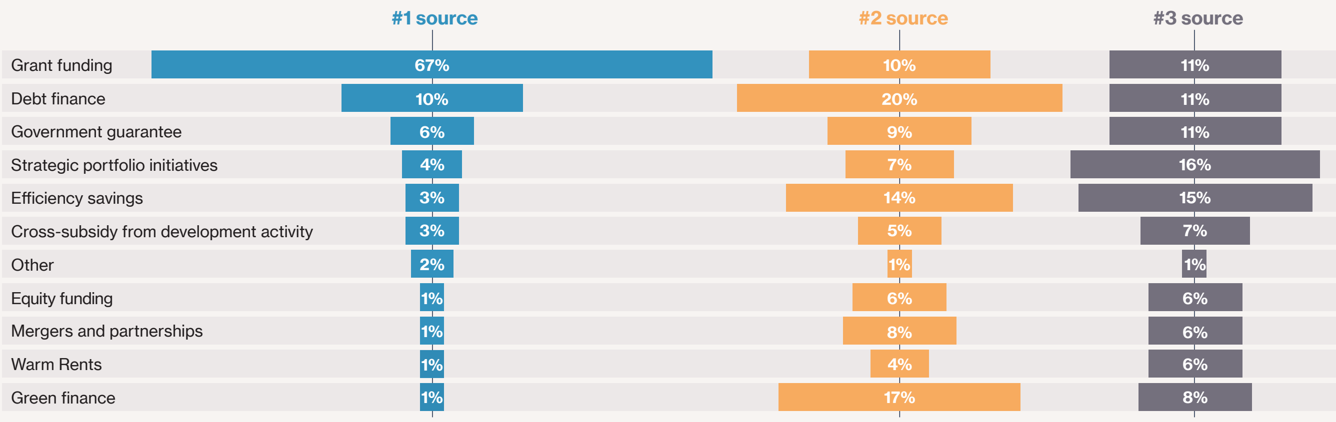
There is a growing appetite for engagement and partnership with FPRPs, with a third of respondents being open to engaging directly if suitable opportunities arise. FPRPs now own more than 28,150 homes – 0.7% of total affordable stock - with this number expected to increase to 141,000 by 2027[2]. If this bears out then FPRP delivery would account for c.40% of all new affordable homes built, unless true additionality is achieved. Over time this will have implications for the asset quality of the homes owned by traditional providers, and attention must therefore be given to utilise this new source of capital to best increase the number of quality affordable homes in our stewardship.

67%

respondents noted saw grant funding as the most important source of capital

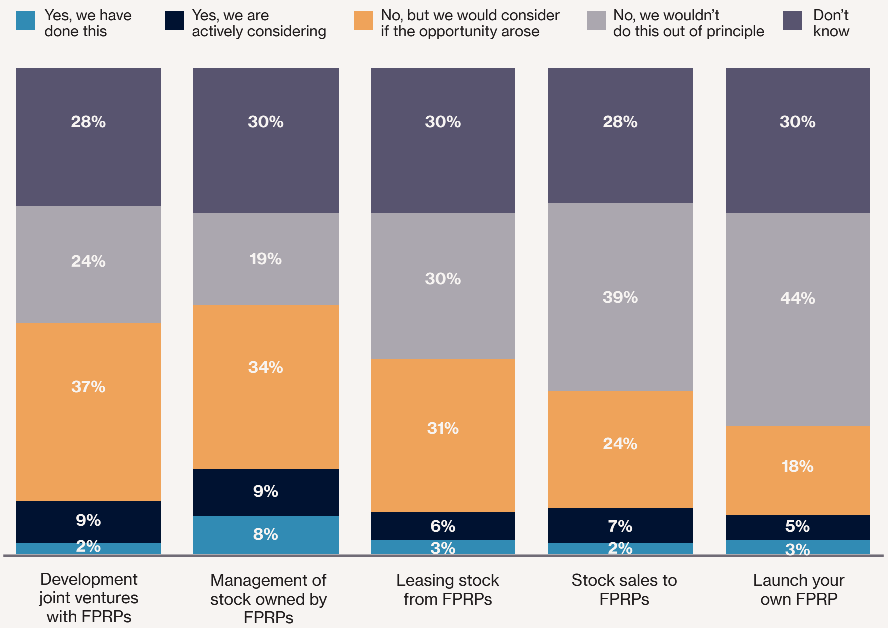
What do you see as the most important sources of funding to upgrade stock to comply with net-zero carbon standards?

Top 3 sources, % of total respondents



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

% of total respondents



> **There is a growing appetite for engagement and partnership with FPRPs, with a third of respondents being open to engaging directly if suitable opportunities arise**

[2] Housing Today (2023) Number of homes owned by for-profit providers up 35%, Housing Today. Available at: https://www.housingtoday.co.uk/news/number-of-homes-owned-by-for-profit-providers-up-35/5123000.article (Accessed: 09 June 2023).

Data

The majority of respondents see their data strategy as being simply sufficient for regulatory compliance, with the biggest obstacle highlighted being a lack of holistic technological solutions

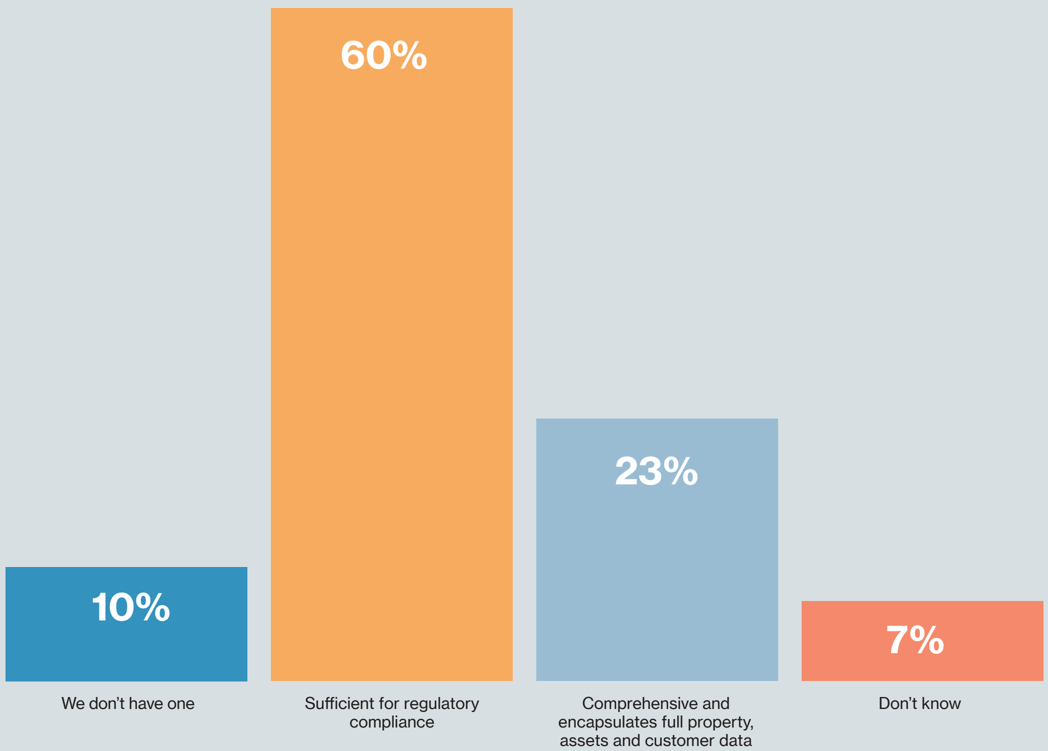
Data collection and storage are important drivers that the industry relies on to forecast its housing stock against key metrics and make it compliant with regulatory standards. However, amongst providers of social housing, there is no benchmark approach in terms of data collection and storage. Despite this, 60% report to having a data strategy that is sufficient for regulatory compliance, and 23% report to having a comprehensive data strategy which encapsulates full property, assets, and customer data - meaning at least three-quarters of providers consider themselves to be below the standard needed to evaluate its housing stock fully and effectively. Moreover, 10% of respondents have noted that they do not have a data strategy.

Of the respondents who indicate that their data strategy is sufficient for regulatory compliance, 35% believe the biggest challenge in shaping such data is based on skillsets of employees. A further 32% have said that a lack of holistic technological solutions is the biggest challenge in shaping a data strategy going forward. It is worth noting that no provider thought that a data strategy was not an immediate priority, suggesting that the importance of data is recognised. With governance rating downgrades being issued by the Regulator of Social Housing on account of insufficient data, and the aforementioned requirement of collecting and reporting tenant satisfaction data, this should be no surprise. However, the number of providers with an insufficient data strategy suggests that solutions should be more actively sought.

> **“Data collection and storage are important drivers that the industry relies on to forecast its housing stock against key metrics and make it compliant with regulatory standards”**

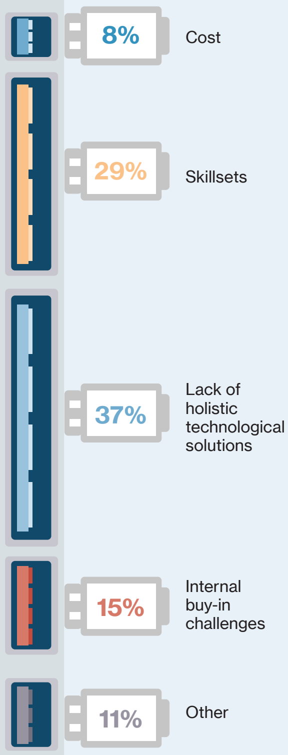
How would you describe your data strategy?

% of total respondents



Footnote: Percentages may not total 100 due to rounding

What has been your biggest challenge in shaping a data strategy?



Cost of Living

The impact of the cost of living crisis on resident wellbeing remains the primary focus

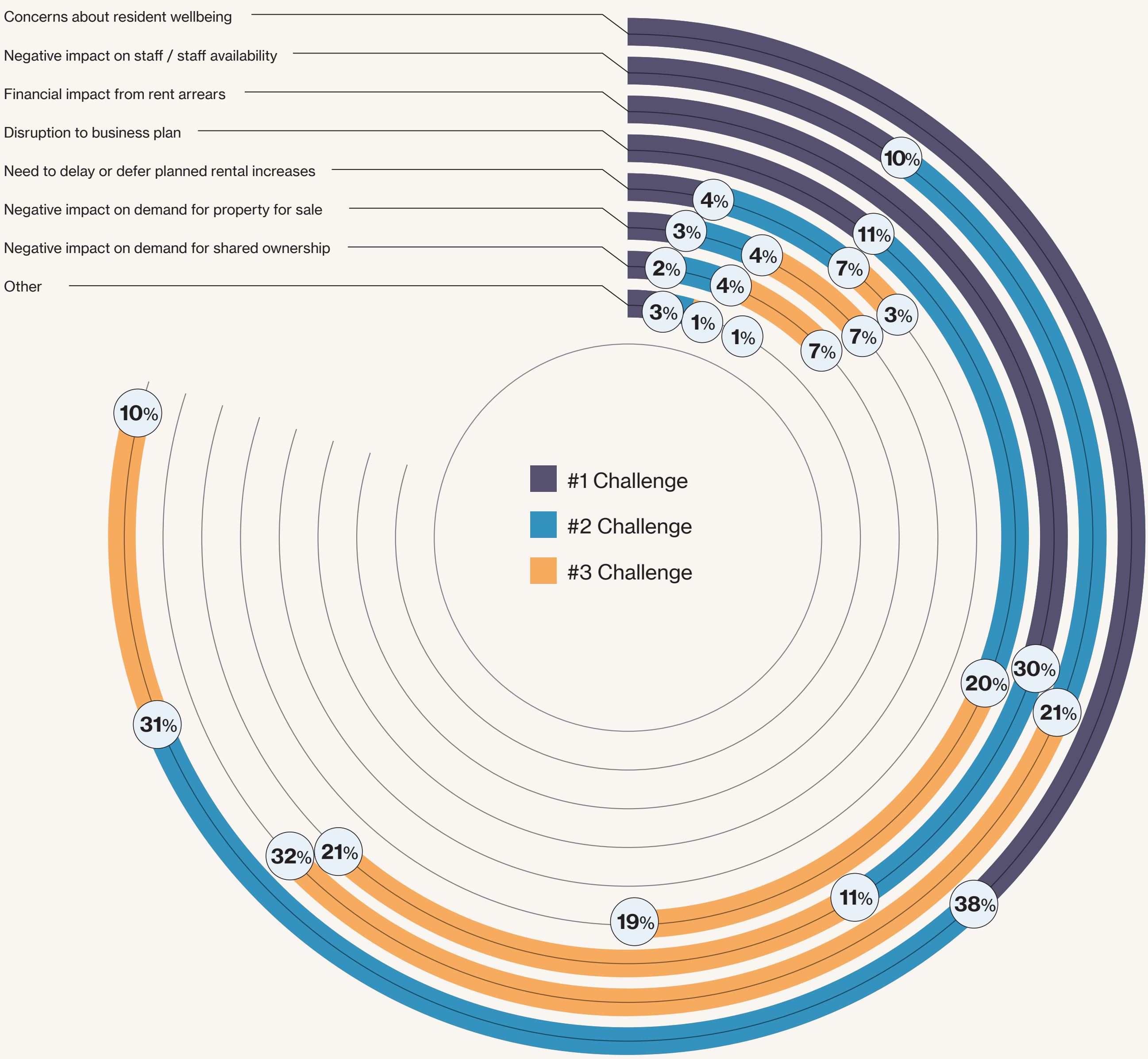
38% of respondents said that concerns about resident wellbeing was the biggest challenge posed by the cost of living crisis, followed by 30% who consider the financial impact from rent arrears as the biggest issue.

Resident wellbeing is acknowledged as at least one of the to two most pressing issues facing the social housing market, indicating housing providers care more about their tenants' wellbeing as opposed to their own financial health. Concerns around the negative impact on staff and their availability have increased over the last twelve months, with this considered to be the second biggest challenge amongst 21% of respondents. This suggests that housing providers continue to prioritise the challenges caused to customers and employees over the financial impact on their business.

> **"Housing providers continue to prioritise the challenges caused to customers and employees over the financial impact on their businesses."**

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

Top 3 challenges, % of total respondents



Operations

Workplace

Respondents are now largely transitioning back into the office, with the number of respondents implementing an equal mix of office and remote work increasing to 63% from 42% last year

63% of respondents have indicated that an equal mix of office and remote based work best describes their workplace policy. This is a significant increase from 42% last year. Mostly remote working (4+ days a week), on the other hand, fell from 39% to 17%. This indicates a mindset shift now that the Coronavirus has largely been mitigated and workplaces are shifting closer to practices before the pandemic.

Interestingly, 12% of respondents answered the 'mostly at the office' category, which is a similar proportion to those saying that they will be working mostly remote.

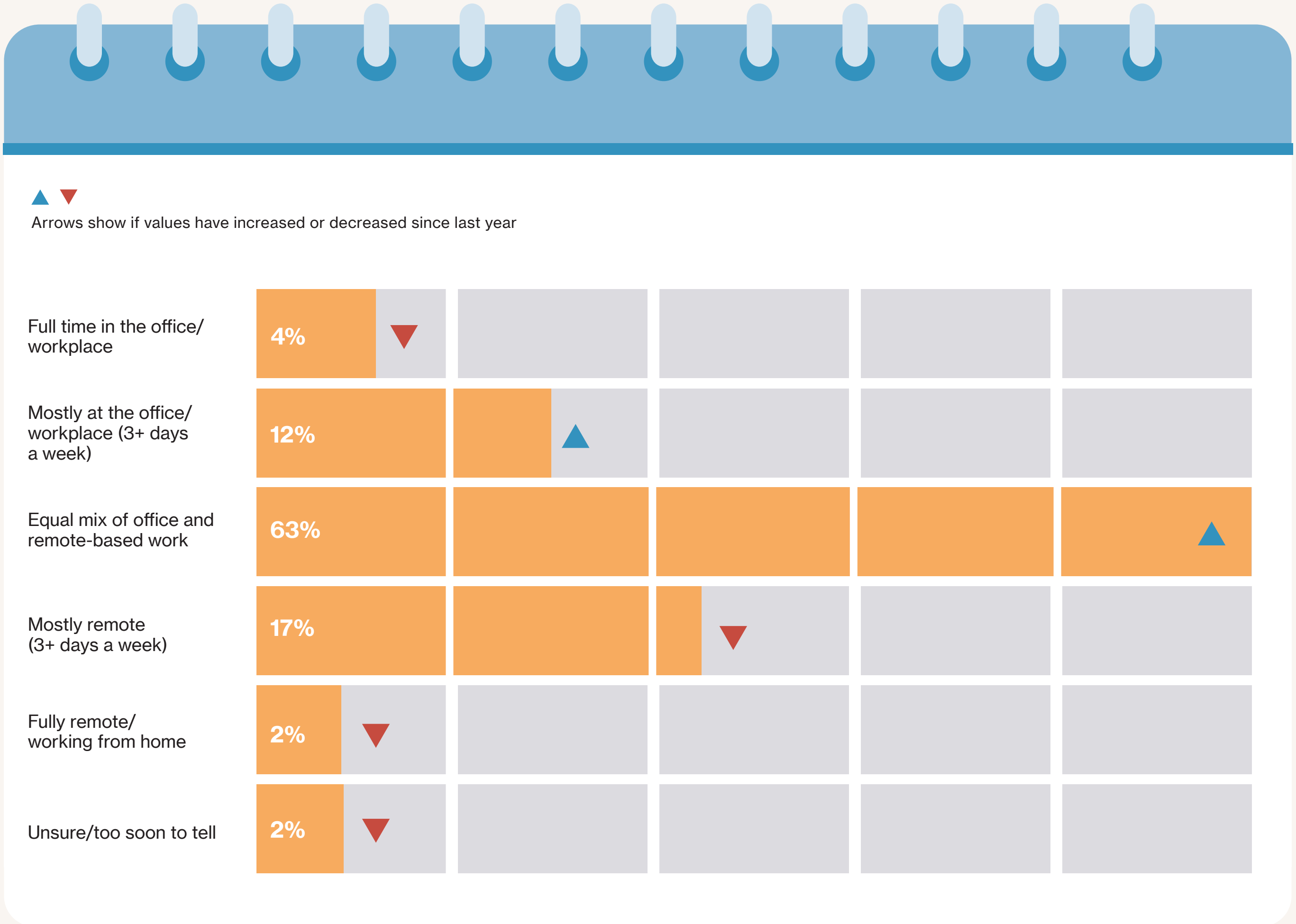
It is worthwhile noting that this mix of preferences was independent of geography, and therefore these trends can be generalised to the entirety of the UK, as opposed to being driven by London based providers.

63%

of respondents have indicated that an equal mix of office and remote based work best describes their workplace policy

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



Operations

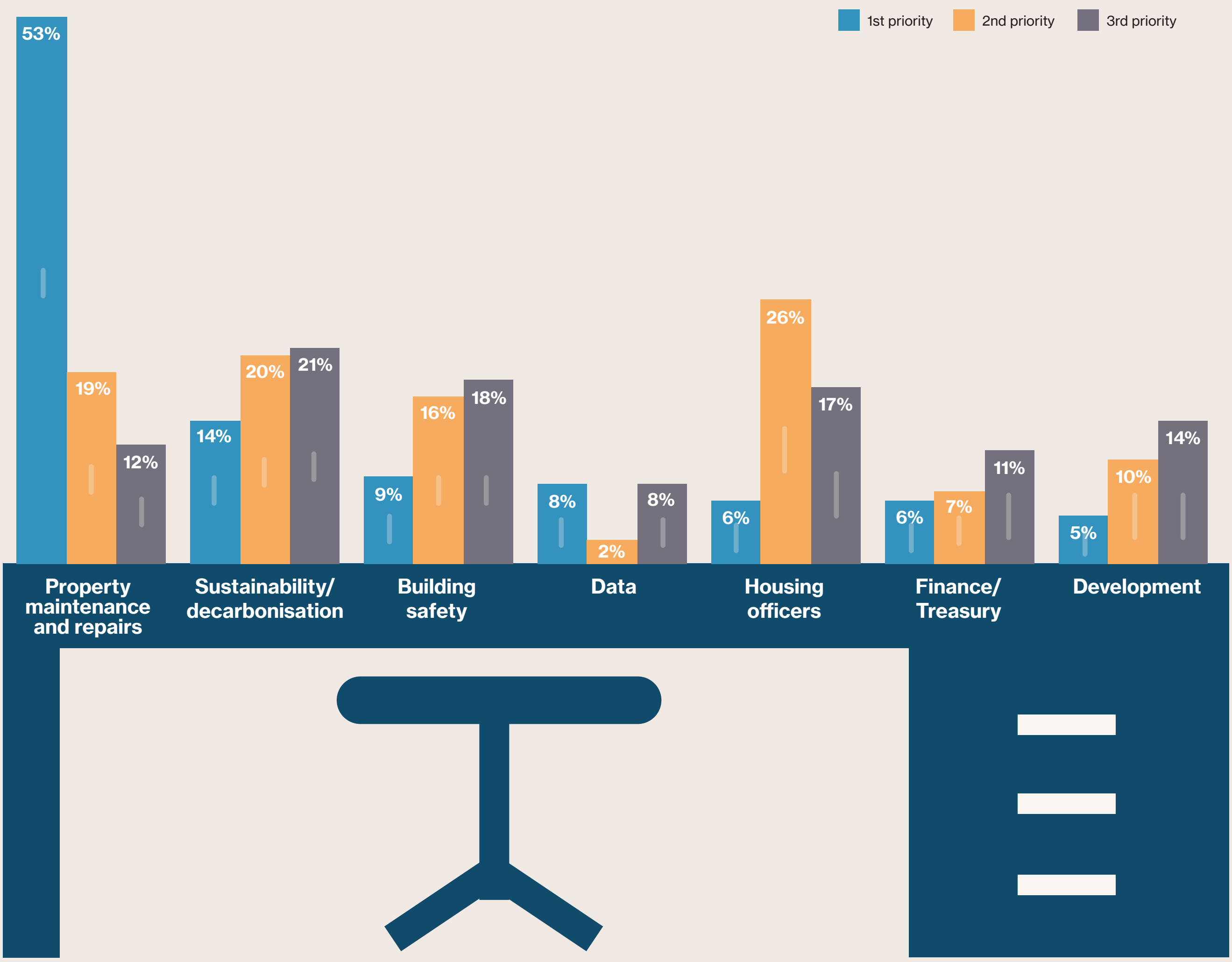
Recruitment

As before, organisations have highlighted maintenance and repairs as the recruitment priority

Property maintenance and repairs operatives are still the priority for respondents' recruitment over the next 12 months, as the category had the most respondents indicating it as the first priority (53%). Housing officers were the greatest second priority (26% of respondents), then sustainability/ decarbonisation the highest third priority. Sustainability and decarbonisation recruiting is a consistent contender for top spot, being the second highest category by respondents for both first and second priority. As before, housing providers are focused on staffing decarbonisation and building safety departments given how these spheres are a big focus.

Finance and treasury recruits had broadly amongst the lowest number of respondents seeing them as a priority at any level, which is interesting given how obstructive finance has been to providers' objectives throughout this report.

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 and Respondents

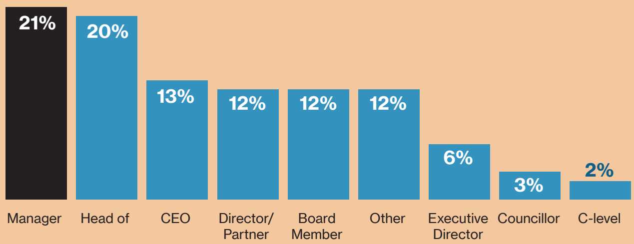
Senior professionals were invited to complete the survey online and via email between 16/03/2023 and 21/04/2023, drawing in 384 respondents initially before being pared down to 302 answering the core questions

The majority of respondents are Not-for-Profit providers at 58%, with local authorities constituting the next largest majority at 18% of respondents. 'Other' types of respondents were largely charities, although also consisted of tenant organisations and mixed providers (such as a joint between local authority and NFPRP).

The survey this year drew a more representative mix of regions throughout the UK, with most regions comprising at least 5% to 15% of respondents save for countries other than England.

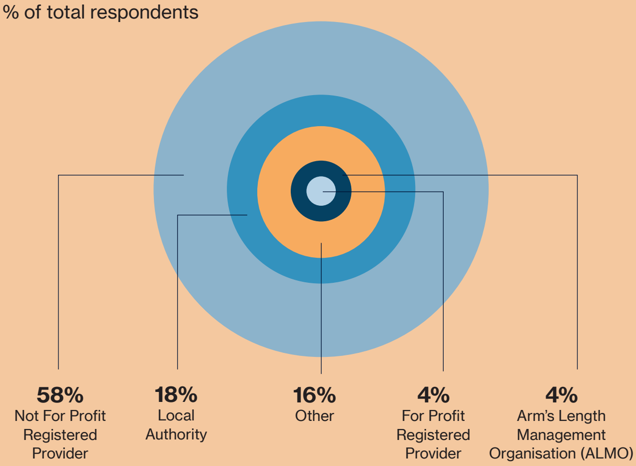
Job function/seniority of respondent*

% of total respondents



What best describes your organisation?*

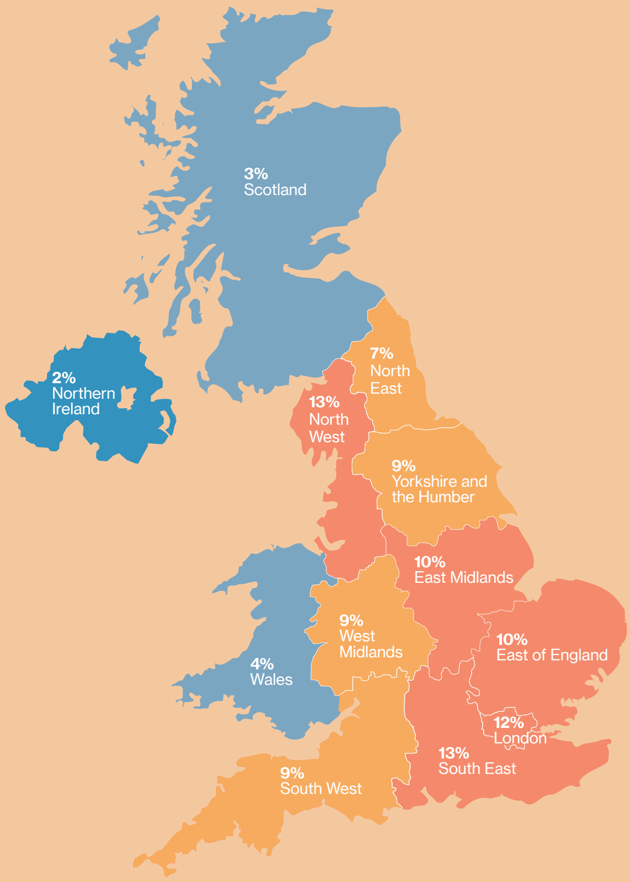
% of total respondents



Size of organisation, as gauged by total homes owned or managed, similarly drew in a proportional mix, with the smallest category (501 to 1000 homes) out of 8 comprising a healthy 8% of respondents. This signals that each size group received sufficient representation.

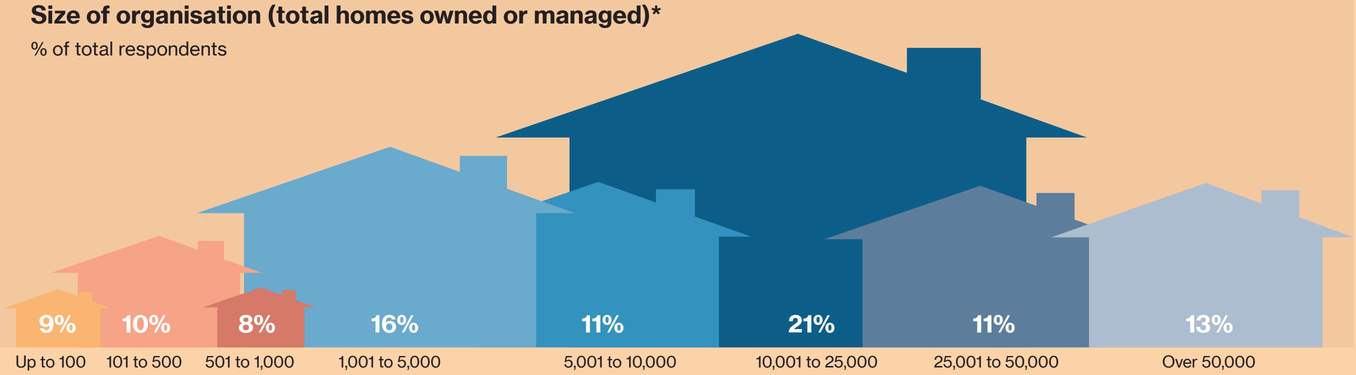
Geographical coverage of your organisation*

% of total respondents



Size of organisation (total homes owned or managed)*

% of total respondents



Percentages may not total 100 due to rounding

* Numbers are based on those who answered question 5.

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 **Capital solutions.**

Strategic Asset Management

Working collaboratively, we will design and deliver tailored, innovative strategies based on accurate and relevant portfolio data. We will help you optimise your portfolio, meet your strategic objectives and address priorities such as energy efficiency and decent homes standards.

Governance & Data

Robust data, processes and procedures are critical to all strategies. Using our expertise and data insight tools, we will deliver a solid foundation to give you visibility of your portfolio, which will provide assurance from board to front line. This will demonstrate regulatory compliance and enable confident decision making now and in the future.

Capital Solutions

Our real estate led approach to funding solutions will allow you to unlock the alternative sources of capital needed to meet current and future operating needs. We advise on developing effective partnerships and structured transactions to develop homes over and above existing pipelines, while enabling continued stock investment.

Resam Consulting Ltd is a limited company registered in England with registered number 12517896. Our registered office is 3rd Floor, 29-30 Cornhill, London, EC3V 3ND.

RESAM

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