Briefing

Resolution Foundation

Meeting the housing needs of low-to-middle earners

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Summary box

Increasingly shut out of home ownership and social housing, low-to-middle earners are becoming more reliant on the private rental sector to provide an affordable, long-term home.

In order to help address this Resolution Foundation is working on a project to develop a model to support institutional investment in family friendly, affordable, build-to-let accommodation with longer term tenure. This briefing sets out:

- the experience of low- to- middle earners in the housing market;
- the main barriers commonly identified to increasing institutional investment;
- the Resolution Foundation's contribution to this area over the next six months.

1. Introduction

In the twentieth century Britain became a society built on home ownership, encouraged by favourable taxation, the right to buy for social housing tenants, continuing house price inflation and the supply of mortgage funds. Home ownership remains the number one aspiration for young people in Britain and is seen to provide a foundation for other life choices such as marriage and starting a family[1]. But for many, home ownership is increasingly out of reach. The average first time buyer without financial assistance is now 37 years old.[2]

Rapidly increasing house prices over the last decade and a half have contributed to this[3]-exacerbated over the last two years by the disappearance from the market place of high loan to value mortgages. While prices have broadly stabilised since the economic downturn, the chronic undersupply of housing means that they are unlikely to fall far enough to fully restore affordability and bring ownership back within reach. Just 147,060 homes were built in 2009/10, well below the previous government's annual target of 240,000.[4]

Low-to-middle earners (LMEs)[5] are at the sharp end of this trend. In 1997, a LME would have had to save 5 percent of their annual income for seven years to obtain a deposit for their first home. Today, the figure is an incredible 45 years.[6] Unlike their peers from more affluent families, fewer LMEs can rely on financial support from family and friends to get a foot on the ladder.[7] At the same time, access to social housing has become tightly restricted and increasingly targeted at those on benefits rather than people in work and on low incomes. Given deep cuts in government financial support for new social housing, announced in the 2010 Comprehensive Spending Review, access is unlikely to open up to LMEs in the foreseeable future.

With access to mortgage credit unlikely to ease for several years[8], historically high house prices and limited access to social housing, many LMEs now face a life time of renting. For the 1.1 million LME households who currently live in the private rental sector (PRS) shortfalls in the sector include high rents, insecurity due to shorter-term contracts, and a limited supply of family style accommodation. Responding to their needs means:

- developing new private rental accommodation to keep pace with demand and tackle rising rents;

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[1] Barratt Homes '*Generational friction builds as young are locked out of home ownership'* Barratt Homes press release, 31 January 2010

[2] CML, 'First-time buyers – are they really getting older?' *CML News and Views*, Issue 15, 4 August 2009

[3] CLG 'House prices from 1930, annual house price inflation' *CLG live table 502*

[4] CLG 'House building: permanent dwellings completed by tenure and country' *CLG live table 209*

[5] LMEs are defined as those members of the working-age population in income deciles 2-5 who receive less than one-fifth of their gross household income from means-tested benefits.

[6] Resolution Foundation '*Squeezed Britain: the 2010 audit of low-to-middle earners' 2010*

[7] Ibid.

[8] CML 'Finding funding: where are we now? *CML News and Views*, Issue 2, 1 February 2011

- building family type accommodation with longer-term tenure to better meet the needs of families for stability (half of UK properties are one or two bed flats);
- attracting institutional investment into the private rental sector (PRS) to be able to build at scale - the reduction in buy-to-let mortgages since the credit crunch means that individual landlords are unlikely to meet the scale of demand that is emerging.

Institutional investment in the residential market is limited in the UK, in contrast to other countries such as the Netherlands and the US. It is an issue that has been re-visited on numerous occasions, with a similar set of barriers raised each time: lower income returns than commercial property, limited scale, reputational risk, a lack of tax incentives and land prices, among others.[9] The Home and Communities Agency's (HCA) Private Rental Sector Initiative launched in 2009 to attract institutions to invest in the residential market failed to deliver the sea change required.

But the current context in the housing market, with outright sale of new residential properties being less lucrative than in previous years and demand for rental accommodation guaranteeing a steady and reliable income stream, creates fresh incentives for investors. Now is the moment to capitalise on this new context and look for new ways to do business.

To tackle the pressing need for a long-term housing solution for LMEs, the Resolution Foundation will work with institutional investors, developers, construction companies, providers, central and local government to develop a viable model for institutional investment in the UK build to let market to deliver affordable, family-friendly accommodation. As background to this initiative, this scoping document sets out the following:

- the experience of low- to- middle earners in the housing market;
- the main barriers commonly identified to increasing institutional investment;
- the Resolution Foundation's contribution to this area over the next six months.

Low-to-middle earners

Low-to-middle earners are not the most vulnerable in society but a group who find it difficult to make the most of private sector opportunities, while consistently falling on the wrong side of eligibility for state support. Such households are rarely in crisis; they can more accurately be described as being:

- Squeezed because they face limited options: too poor, for example, to easily access home ownership, but not considered a priority for social housing.
- Exposed because they live towards the edge of their means: unable to build up sufficient savings to maintain their lifestyles in the face of a drop in income.
- Overlooked because their needs are not adequately understood: considered to be 'doing fine', despite enjoying a fragile economic independence.

For the purposes of statistical analysis we define the LME group by focusing on those members of the working-age population in income deciles 2-5[10] who receive less than one-fifth of their gross household income from means-tested benefits. We identify two other income groups in relation to LMEs. Those households either in decile one or two with more than one-fifth of their gross income sourced from means-tested benefits are considered *benefit-reliant*. Those households with above median gross income are termed *higher earners*.

[9] Her Majesty's Treasury '*Investment in the UK private rented sector'* 2010
[10] We 'equivalise' household income prior to establishing the decile distribution, in order to account for the different living standards associated with varying household compositions. As such, couples with no children fall into deciles 2-5 if their gross household income (from all sources) is between £12,000 and £30,000 a year, while couples with two children qualify if their income is in the range £17,000-£42,500 and those living alone need an income between £8,000 and £20,000.

2. Low-to-middle earners in the housing market

Access to home ownership

The shape of the housing market has changed dramatically over the course of the last century. As shown in Chart 1, home ownership has shifted from being the minority tenure in the early 1900s to the dominant tenure today accounting for 67 per cent of the housing stock.[11] This is, in part, the result of a government objective to increase ownership supported through favourable taxation, Right to Buy policies, a programme of house-building and the introduction of subsidised low cost home ownership schemes to widen access to people on lower incomes living in the most expensive areas. The number of shared equity and ownership homes increased by 18 per cent during the period from 2003 to 2006, but nevertheless remain relatively small scale making up less than one per cent of total stock.[12]

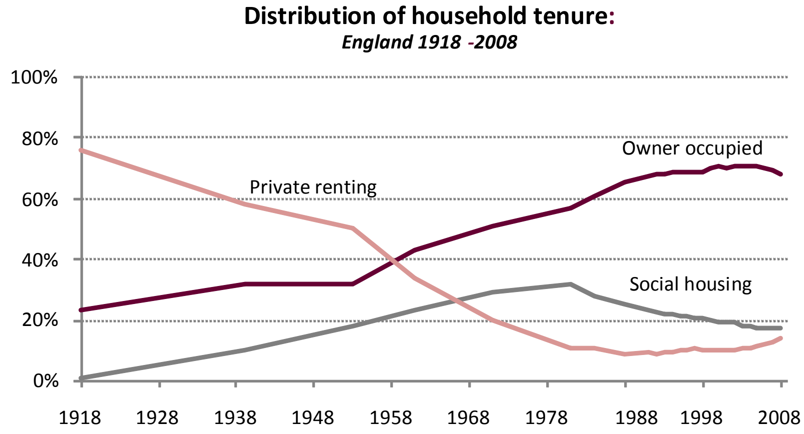

Chart 1: Trends in housing tenure: 1918-2008
Source: CLG, *Survey of English Housing: Preliminary Report 2007-08*, Table 1

While it remains the primary tenure, home ownership has been in decline since 2004. A chronic under-supply of homes has contributed to rising house prices, now at six or seven times earnings.[13] This trend in under-supply was exacerbated by the recession with a lack of development finance contributing to just 147,060 homes being completed in 2009-10, down 14 per cent from the previous year[14] and well under the previous government's target. A major reduction in high loan to value mortgages and higher deposit requirements have also pushed home ownership further out of the reach of some groups. Just 2 percent of mortgages for house purchase in Q2 2010 were at over 90 percent loan to value, down from 13 per cent in Q4 2007.[15] Such tight lending requirements led the Council of Mortgage Lenders to estimate that 80 per cent of first time buyers in 2009 were assisted by friends or family.[16]

Reflecting national averages, two thirds of LMEs are currently home-owners (see Table 1). But the aspiration to own is becoming more difficult for younger LMEs to realise. Among those aged 25 to 34 on low-to-middle incomes, 47 percent own their own home compared to 67 percent among higher earning households (Chart 2). Among the 16 to 24 age group, only 16 percent of LMEs own their own home, compared to 44 percent of higher earners in the same age group.

[11] CLG 'Trends in tenure, 1999-2009-10' *English Housing Survey Table 1*
[12] Shelter, '*The forgotten households: is intermediate housing meeting affordable housing needs?'* 2010
[13] CLG 'Ratio of median house price to median earnings by district, from 1997, *CLG Live table 577*
[14] CLG 'House building: permanent dwellings completed by tenure and country' *CLG live table 209*
[15] FSA '*Statistics on mortgage lending'* September 2010
[16] CML, 'First-time buyers – are they really getting older?' *CML News and Views*, Issue 15, 4 August 2009

Table 1: Household housing tenure by income group: *UK 2008-09*

	Benefit-reliant	LMEs	Higher earners	All households
Owners	25%	64%	83%	67%
Owned with mortgage	*12%*	*44%*	*63%*	*48%*
Owned outright	*13%*	*20%*	*20%*	*19%*
Social rented sector tenants	51%	17%	3%	16%
Rented from housing association	*24%*	*9%*	*2%*	*8%*
Rented from council	*27%*	*8%*	*1%*	*8%*
Rented privately	24%	19%	13%	17%
Rented privately - unfurnished	*18%*	*13%*	*9%*	*12%*
Rented privately - furnished	*6%*	*5%*	*4%*	*5%*
All households	100%	100%	100%	100%

Source: RF analysis of DWP, *Family Resources Survey 2008-09*

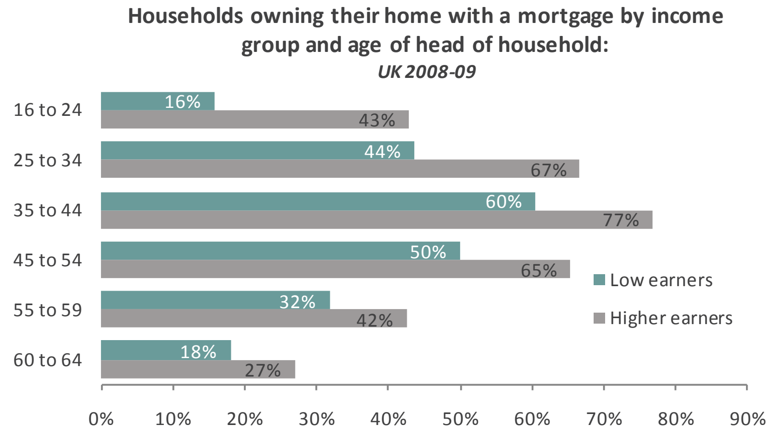

Chart 2: Home ownership with a mortgage by income group and age: UK 2008-09
Source: Analysis of DWP, *Family Resources Survey 2008*

LMEs have been hit hard by the constraints in the mortgage market: people earning between £10-19,999 experienced an 83 per cent reduction in mortgage approvals over Q2 2006-Q2 2009.[17] The absence of high loan-to-value mortgages has contributed to this. Prior to the crunch (in 2007-08), 30 percent of LMEs were reliant on 100 per cent mortgages to purchase a home compared to 18 per cent of their higher earning counterparts.[18]

Low Cost Home Ownership Schemes, including shared equity and shared ownership, are unlikely to be able to plug growing demand among this group. They account for just 1 percent of current housing stock and cuts in the subsidy available from government for such schemes will constrain growth.[19] Furthermore they have largely favoured those with above median incomes rather than low-to-middle earners since they are open to households with incomes up to as much as £60,000. And the predominance of one and two bedroom flats means that they have been less appealing to families.

With limited access to credit in the current mortgage market and limited financial support from family and friends, an LME first-time buyer on a low to middle income would now need to save 5 per cent of their net household income for 45 years to obtain a deposit for the average first-time buyer home (Chart 3).[20]

[17] Ibid.
[18] Resolution Foundation, *'Squeezed Britain: the 2010 audit of low-to-middle earners'* 2010
[19] Shelter, *The forgotten households: is intermediate housing meeting affordable housing needs?* July 2010, p7
[20] LME incomes projected on the basis of average growth over previous five years.

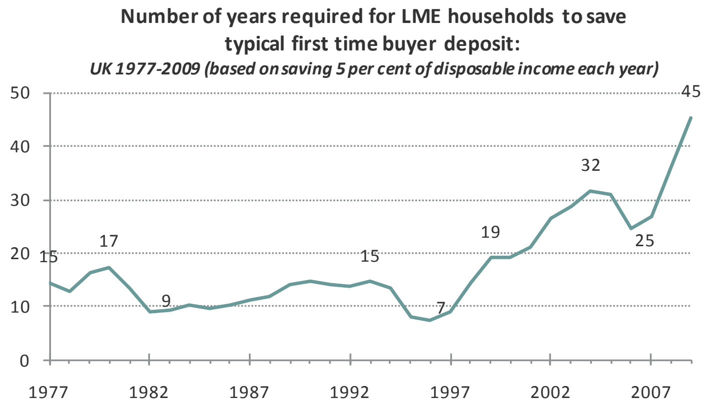

Chart 3: Number of years required for LME households to save for first time buyer deposit: UK 1977-2009

Note: Years are calculated by dividing the average FTB advance in each given year by 5 per cent of average LME household disposable income in the same period.

Sources: CLG, *Live Table 515*; RF analysis of ONS, *The effects of taxes and benefits on household income, 2008/09*

Social housing

Social housing grew rapidly during the post war period reaching 31 per cent of the English stock in 1979. It has since fallen to just 17 per cent.[21] While post-War provision was aimed at households on a range of incomes, rising demand (there are currently 1.75 million households on the waiting list[22]) and reduced supply have meant that since the 1980s provision has become more narrowly targeted on those in greatest need. Tenants are much more likely to have very low incomes and not to be in employment compared to people in other tenures, with seventy per cent having incomes within the poorest two-fifths of the income distribution.[23]

A focus on those in greatest need has meant that low-to-middle earners find it increasingly difficult to access social housing, even if they are priced out of home ownership. While 17 per cent of low-to-middle earners live in the sector, this is in comparison to 51 per cent of people who are benefit-dependent.[24] Low-to-middle earners who do access social housing are more likely to be those in greater need i.e. families. A massive expansion of social housing is not likely in the foreseeable future given major cuts to government grants for new social housing announced in the 2010 Comprehensive Spending Review. This, together with the increasing barriers to home ownership, has left many younger LMEs with little option but to rent in the private rented sector (Chart 4).

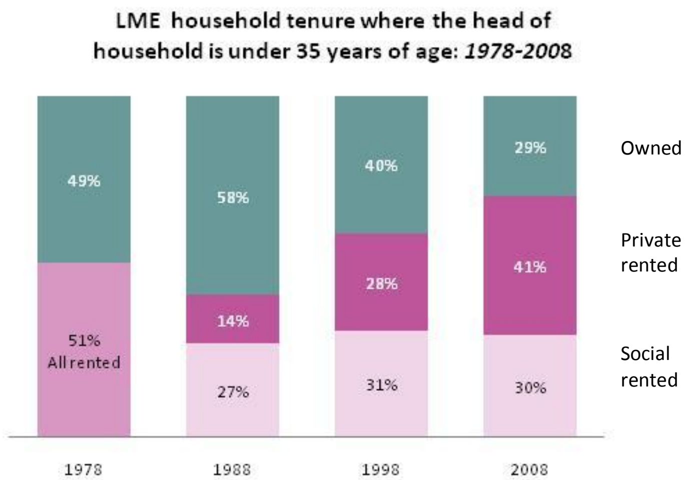

Chart 4: LME household tenure where the head of household is under 35 years of age

Sources: Analysis of DWP, *Family Resources Survey and Family Expenditure Survey*

[21] CLG 'Trends in tenure, 1999-2009-10' *English Housing Survey Table 1*
[22] CLG 'Rents, lettings and tenancies' *CLG live table 600*
[23] Hills, J '*End and means: the future roles of social housing in England*' 2007
[24] Resolution Foundation '*Squeezed Britain: the 2010 audit of low-to-middle earners' 2010*

The private rental sector (PRS)

Following a period of rapid decline, during which the private rental sector fell from 75 percent of the housing stock in 1918 to just nine per cent in 1991, the sector has seen a revival increasing from 2.1 million households in 2001 to 3.4 million today, or 16 per cent of housing stock.[25] This growth is in part a result of new supply, with PRS accounting for one fifth of new build in 2007/8.[26] But it also represents the absorption of properties that were previously owner-occupied.

A major contributor to growth in the private rental sector was the 1988 Housing Act which brought with it a de-regulation of the market through an end to rent controls and the introduction of the assured shorthold tenancy, making it easier for landlords to reclaim their properties at the end of a tenancy. The introduction of buy to let mortgages in the mid-1990s also encouraged more entrants into the market to help meet rising demand for PRS accommodation arising from later marriage formation and student debt.[27] The recession brought with it further demand from a wider group of people who were shut out of home ownership due to credit constraint, and from struggling home owners returning to the PRS following repossession. Paragon's PRS Mortgage Trends Survey found that, in Q3 2010, 36 per cent of private landlords reported rising tenant demand, up from 29 per cent in Q2.[28]

Caught between home ownership and social housing, 1.1 million LMEs are reliant on the private rental sector for accommodation. They include a mix of household compositions: one third live with children, a quarter alone and around one in ten with sharers.[29] While it provides a temporary bolt-hole for some, with roughly two thirds living in the same property for under two years, roughly one fifth are using it as a longer term housing option and have lived at the same address for more than 5 years (Table 2). Many of those who do move address are also likely to move into other PRS accommodation: a DWP survey of over 1000 low income working households living in the PRS found that 58% expected their next move to be within the tenure.[30]

Table 2: Length of household residence at current private rented property by income group: *England 2007-08*

	Benefit-dependent	LMEs	Higher earners	All households
Less than 2 years	54%	59%	68%	63%
2 to less than 5	26%	19%	20%	21%
5 to less than 10	14%	12%	7%	9%
10+	6%	10%	5%	7%
Total	100%	100%	100%	100%

Source: Analysis of CLG, *Survey of English Housing 2007-08*

People's satisfaction with the sector varies according to their household composition and circumstances, and reasons for being in rental accommodation. The sector serves some LMEs well, particularly those who are using it as a short-term option. They value its flexibility and the safety net of not being responsible for repairs. Others face affordability challenges. Rents rose by 37 per cent in real terms between 1995-96 and 2007-08, compared with increases of 18 per cent in registered social landlord rents and 9 per cent in local authority rents over the same period.[31] Without an increase in supply rents will continue to rise. The

[25] CLG '*English Housing Survey 2009-10*'
[26] Barker, K 'Review of Land Use Planning' 2004
[27] HM Treasury '*Investment in the UK private rented sector*' 2010
[28] Paragon 'No slowdown in tenant demand' Paragon Group press release 19 October 2010
[29] Resolution Foundation, '*Squeezed Britain: the 2010 audit of low-to-middle earners*' 2010
[30] DWP 'Low income households in the private rented sector' 2010
[31] Analysis of CLG data in 'Squeezed Britain'

Building and Social Housing Foundation has predicted that the private rental market will increase to 20 per cent of overall housing stock by the next decade. [32]

Families relying on the PRS to provide a long-term home are most likely to express difficulties. Qualitative research with LMEs conducted by the Resolution Foundation in 2010 found that insecurity stemming from short tenancies prevents families from planning for the future and results in anxiety about having to uproot their children at short notice[33].

> *We would have to move the kids from school; I dread to think about it. I don't think we would be able to find somewhere. I mean we have got a dog and the kids love the dog. I don't think we could find somewhere that would accept pets, we'd be in real trouble (David, 40)*
>
> *I know it could happen but I push it to the back of my mind because I have enough on my plate to worry about. It's a six-month tenancy agreement, so I forget about it for six-months. I would prefer a longer contract because then I wouldn't have to pay admin fees every time it comes up for renewal – they use it to get money out of me*. (Rita, 40)

The lack of family accommodation in the sector adds to this insecurity and can mean that, with limited options, LMEs pay more to live close to work, schools and other amenities.

> *"The renting here is a bit more expensive than where I was, but I'd rather pay that little bit extra for the kids to be safer and there's a nice park around the corner. It does mean I drive 12 miles a day for school, but it's worth it. A lot of people say I'm mad, but I didn't want to move their school and for them to have that upheaval. "* (Katie, 32)

Poor conditions can also be an issue particularly where there is poor management or rogue landlords, and has contributed to the sector developing a bad reputation. The nature of the stock has contributed to this with 40 per cent of PRS accommodation being built prior to 1919 – a higher proportion than any of the other tenures. [34]

3. Institutional investment in the private rental sector

Lack of access to the owner occupied and social housing sectors creates a pressing need to increase supply in the private rental sector to meet demand for housing at a price that is affordable for low-to-middle earners. Building more accommodation, rather than focussing on converting owner-occupier stock into PRS accommodation, will address the overall under-supply of housing and also tackle rising rents. Taking on board LMEs' experiences of the private rental sector, meeting their needs will mean looking for ways to increase the supply of affordable, new build family friendly accommodation with long term tenure, alongside one and two bedroom flats.

Achieving this at scale requires institutions to invest in the residential market - while there are signs of recovery in the buy-to-let mortgage market, a reduction in mortgage lending overall, and the scale of supply that is required, mean that individual investors are unlikely to be able to meet the level of need that is emerging.[35] Securing this is a challenge that the property industry has been trying to crack for many years. While there was success with Business Expansion Schemes in the 1980s, this was dependent on considerable tax incentives that are unlikely to be available in the current climate. Recent reviews of institutional investment in private rental property have identified a range of barriers that are outlined below.

[32] Pattison, B; Diacon, D and Vine, J (2010) '*Tenure trends in the UK housing system: will the private rented sector continue to grow?*', Building and Social Housing Foundation
[33] Qualitative research was undertaken with 40 LME families over the course of the summer of 2010 to understand their needs and experiences of private renting
[34] Rugg, J and Rhodes, D '*The Private Rented Sector: its contributions and potential*' 2008
[35] Property alliance response to '*Investment in the UK private rented sector consultation responses L-Z*' 2010

Land

The cost of land is the biggest determinant of the viability of any residential development, accounting for around a third of the total cost. It is a particular barrier to the development of private rental accommodation because it takes longer for the income returns to be realised, in comparison to development for sale into the owner-occupier market.

Making institutional investment financially viable depends on Local Authorities and other landowners taking an innovative approach to the release of land for build to let development, for example selling it at a discount; deferring payment on it; or investing the land as an equity stake in the development. Local Authorities have been reluctant to do this, preferring to hold onto land until it realises its full value. The HCA has sought to encourage the release of public land on a deferred payment basis through its Public Land initiative[36]. Birmingham City Council is currently pursuing a similar approach to support development of 1500 homes for rent with the property development, Willmott Dixon.

Willmott Dixon is developing a joint venture with Birmingham Council, West Mercia Housing Association, an unnamed funder and Savills to build 1,500 homes for rent. Under the plan the council and developers aim to put enough land into a joint venture company to develop 750 homes over the next five years. The other parties will then build, manage and market the homes. All parties will share the profits dependent upon the amount invested in the vehicle. The Council is in discussion with other councils in the region to bring forward other sites for a total of 1,500 homes.

Planning

Securing planning permission for development is an uncertain and costly process which takes, on average, two years. This reflects the fact that development is often viewed as politically unpopular and Local Authorities do not have a strong incentive to encourage development. The Government is seeking to reverse this through the introduction of the New Homes Bonus that will see councils rewarded for new development.[37] The first bonus payments will be made from April 2011 but it remains to be seen whether this will create an adequate incentive for development where it is most needed.

Section 106 agreements can act as a particular barrier to the development of private rental accommodation. Under Section 106 agreements, Local Authorities have traditionally required the development of a number of social housing units or other community facilities, such as parks, as part of granting planning permission for market rate development. The amount of social housing required affects the financial viability of the development because the investor has to cover construction costs of additional units, which are then sold at a discount to a Registered Social Landlord (RSL). One possible way to use Section 106 requirements to better support the development of private rental accommodation would be for Local Authorities to recognise rental properties at less than market rent as satisfying Section 106 requirement, as Birmingham City Council has done.

Birmingham City Council and local private sector property developer, Evenbrook, have reached an innovative agreement that will deliver more private rental accommodation and satisfy the Council's affordability requirements. Announced in 2010, Evenbrook will develop and retain ownership of 155 flats in Handsworth Wood, Birmingham. These flats will be rented privately, with 26 percent being rented at 80 percent of market value for 21 years, thereby satisfying the requirements for affordable housing under Section 106 land use planning rules. After 21 years, the properties can revert to market rents or be sold. This development will be the first time that affordable housing has been delivered solely through the private rental sector. This is contrast to traditional S106 requirements which require that a proportion of the stock is held as affordable housing in perpetuity.

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[36] For more information see *http://www.homesandcommunities.co.uk/public-land-initiative*

[37] See Localism Bill *http://www.communities.gov.uk/localgovernment/decentralisation/localismbill/*

Yield
There has been a long standing assumption that the yields from build to let development are too low to attract institutional investment. Net income returns (which are more certain than total returns because they do not include capital gains) in the residential market have consistently been between 3.3 percent and 3.6 percent, lower than commercial development.[38] However, by adopting more innovative approaches to the release of land and reducing build costs through the use of contractors rather than developers, it is possible to get yields closer to 5 percent.

The rental market can provide investors with long term, low risk returns. In addition, returns from buy to sell developments are currently less attractive and more risky. Investors willing to take a longer term approach would benefit from a steady rental yield, plus the capital gain after a ten to fifteen year period once the development was available for sale. Internal rate of return for rental accommodation (total return) is higher overall than other asset classes.

Tax issues
A range of tax issues mean that institutions looking to invest in the residential market find themselves at a disadvantage compared to individual investors or investment in commercial property. These include:

- Irrecoverable VAT on repairs, maintenance and management costs. These operational costs account for as much as a third of the gross yield from rental income.[39] The VAT incurred on these costs is not recoverable. In commercial property, tenants are responsible for these costs and individual landlords tend to absorb them by carrying out repairs themselves.

- Stamp Duty Land Tax (SDLT) on bulk purchases of residential property. Large investors pay 4 per cent stamp duty for a pool of residential assets compared to 1 per cent for single assets under £250,000. The industry has called for this anomaly to be eliminated by charging SDLT at the marginal rate applicable to each dwelling, based on a just and reasonable apportionment of the aggregate price. For a PRS portfolio with an average per unit value in the range £150,000 to £200,000, the measure would allow acquisition on a large scale at a marginal rate of 1 percent rather than 4 percent.[40]

Portfolio size and transaction cost
Institutional investors want to make sizeable investments. The average lot size of property acquisitions by institutions is over £10 million,[41] with the largest institutions seeking to make investments of £200 million. The limited scale and fragmented nature of existing rental markets prevent investment at scale and increases management costs. New build to let developments would allow for economies of scale in management and, pooling development opportunities across an area, can allow institutions to make large investments.

Reputational risk
Stereotypes about poor landlord management have created some reluctance to invest in the private rental sector because of perceived reputational risks. Institutions can distance themselves from the day to day management of any development through the use of Registered Social Landlords (RSLs) who have significant expertise as efficient property management.

The use of investment vehicles such as bonds can also allow institutions to invest indirectly in PRS development. Bonds have been used extensively by Housing Associations to raise capital for the development of affordable housing. While highly successful in the commercial market, Real Estate Investment Trusts (REITs) have not worked well as investment vehicles in the residential sector. The rules

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[38] HM Treasury '*Investment in the UK private rented sector*' 2010
[39] Property alliance response to '*Investment in the UK private rented sector consultation responses L-Z*' 2010
[40] Ibid.
[41] HM Treasury '*Investment in the UK private rented sector*' 2010

of REITs are currently incompatible with the highly capital driven nature of residential investment. For example, residential investment requires that the units are traded to enable capital gains to be realised. REIT rules would prohibit this in some cases because they require that 75 percent of the returns are derived from property rental.[42] The Government are currently looking into making changes to REITs to see if they can work more effectively in the residential market.

4. Resolution Foundation project on investment in build-to-let

Institutional investment in the UK residential market is limited, in contrast to other countries such as the Netherlands and Switzerland (Chart 5). The barriers to investment are well known and discussed above. Government efforts to stimulate institutional investment in the private rental sector, in the form of the Homes and Communities Agency's Private Rental Sector Initiative, have failed to deliver a sea change.

Chart 5: European property holdings by institutions
Source: Savills IPD from Long, 2008

However, in the last two years, the context for institutional investment in the private rental sector has changed. Outright sale of new residential properties is less lucrative than in previous years and sustained demand for rental accommodation guarantees a steady and reliable income stream. Innovative approaches to addressing the barriers to institutional investment identified in the past are also emerging. There is an opportunity to capitalise on this changed context and look for new ways to meet the pressing need for a long term housing solution for low-to-middle earners.

Recognising this opportunity, the Resolution Foundation has launched a project to support the development of a viable model for institutional investment in the UK build to let market, including the provision of affordable, family accommodation with long tenures. This work builds on a roundtable convened by the Resolution Foundation in December 2010 to discuss the possibility of large scale institutional investment to grow the stock of private rental accommodation suitable for families. The meeting brought together institutional investors, private sector developers and landlords, housing associations, charities and government representatives to discuss the issues and identify the scope of a programme of work.

Building on this meeting, the Resolution Foundation will continue to work with these organisations to address the following questions:

- What public land is available for the development of private rental housing in areas close to employment, amenities schools and other public services?

[42] Ibid.

- Under what terms would Local Authorities or other public bodies be prepared to release land for development? How could private sector development of rental accommodation at less than market rent be more widely recognised as contributing to affordable housing?

- Is it possible to develop a financing model that would provide an adequate rate of return for institutional investment in private rental accommodation? What scale of development would be required? What rate of return would be acceptable and over what time horizon?

- What are the implications of the Localism Bill for large scale investment in the private rental sector? What actions would be required by central government in relation to the planning or tax systems to support investment?

The Resolution Foundation will publish findings from this work later in 2011.

The Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low-to-modest incomes – who we refer to as low-to-middle earners (LMEs) – by delivering change in areas where they are currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing LMEs;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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