

# Kent Council Affordable Housing Provision

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# About me

- My research is on real estate finance and investment including institutional investors in commercial real estate, pricing of commercial real estate and housing, the economics of affordable housing including financing, urban economics and spatial linkages in markets, infrastructure private funds performance, etc.
- Currently working as an Associate Professor at the Bartlett School of Construction and Project Management at UCL
- Previously worked at the University of Reading
- PhD in Economics from University of Regensburg
- BSc and MSc in Economics from the University of Mannheim

# My Latest Relevant Research Projects

- Working with NHF/Shelter/CASE on long-term government grant for housing associations and housing additionality → report to be out by mid-2020
- Preferences of institutional investors in commercial real estate (with Cvijanovic and van de Minne) → SSRN Online Working Paper
- Information Asymmetries, Financial Constraints and Institutional Investment: Evidence from the Real Estate Market (with Cvijanovic and van de Minne) → SSRN Online Working Paper
- Renter Protections, Housing Affordability and Institutional Investment in Multifamily Housing (with McCollum) → SSRN Online Working Paper

# Overview

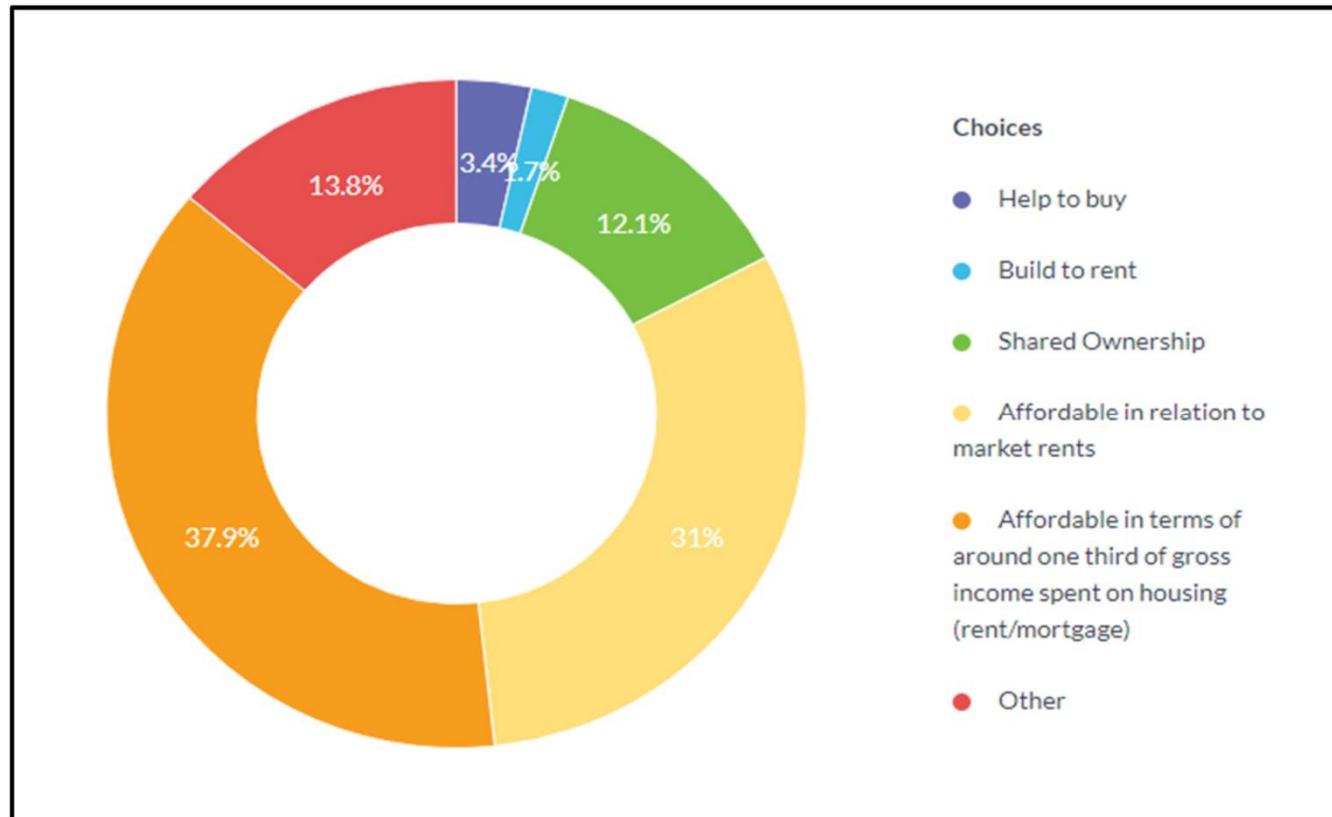
1. Is Housing Affordable in Kent?
2. What tenure to build and the role of institutional investors?
3. What role can local authorities play in affordable housing provision?
4. What can Kent County Council do to alleviate housing unaffordability?

Is Housing Affordable in Kent County?

# Housing Affordability vs '*Affordable Housing*'

- What '*affordable*' is:
  - Varies for different income groups for constant quality and location – what is affordable for some is not affordable for others → homelessness
  - Varies in terms of quality requirements – while low quality housing may be affordable, good quality housing may not be → compromising living conditions
  - Varies by location – while housing may be affordable in some areas it may not be in others → long commutes
- “Affordable” in relation to:
  - Prices or rents
  - Income
  - User cost

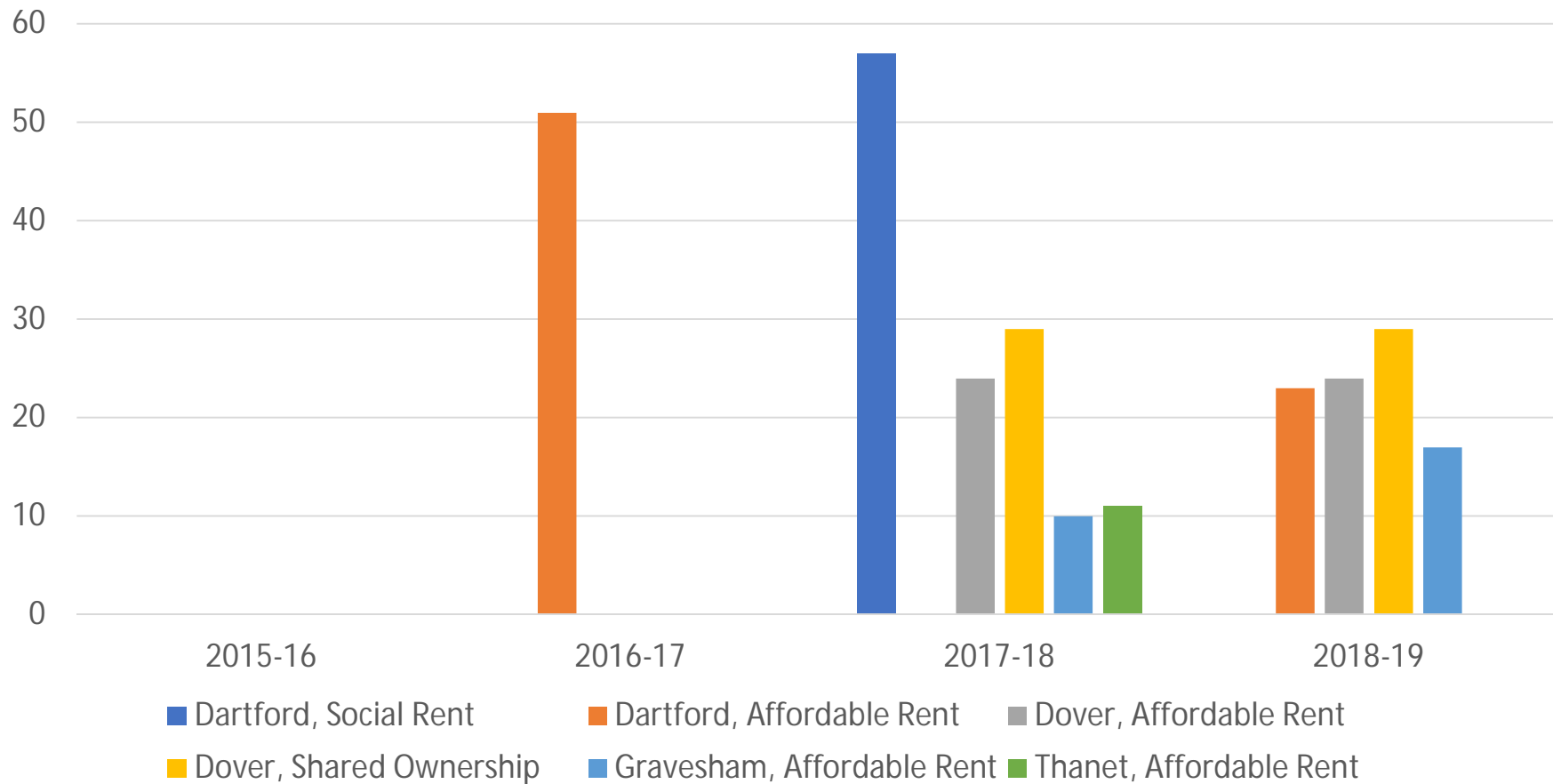
# Expert Survey: *How do you define affordable housing?*



Source: Milcheva and Fitzpatrick, *The Case of Affordable Housing: Private Sector Investment in Social Infrastructure*, forthcoming.

Note: Based on a survey of 38 participants of the symposium *The Case of Affordable Housing: Private Sector Investment in Social Infrastructure* in June 2018.

# AH Starts provided by Kent LAs since 2015





# Housing Affordability: Median House Price to Earnings Ratio in 2018

Kensington and Chelsea: 44.5

Westminster: 24.4

Camden 19.4

**Kent County: 15.8**

Cambridge: 12.9

Sevenoaks: 12.8

Canterbury: 10.9

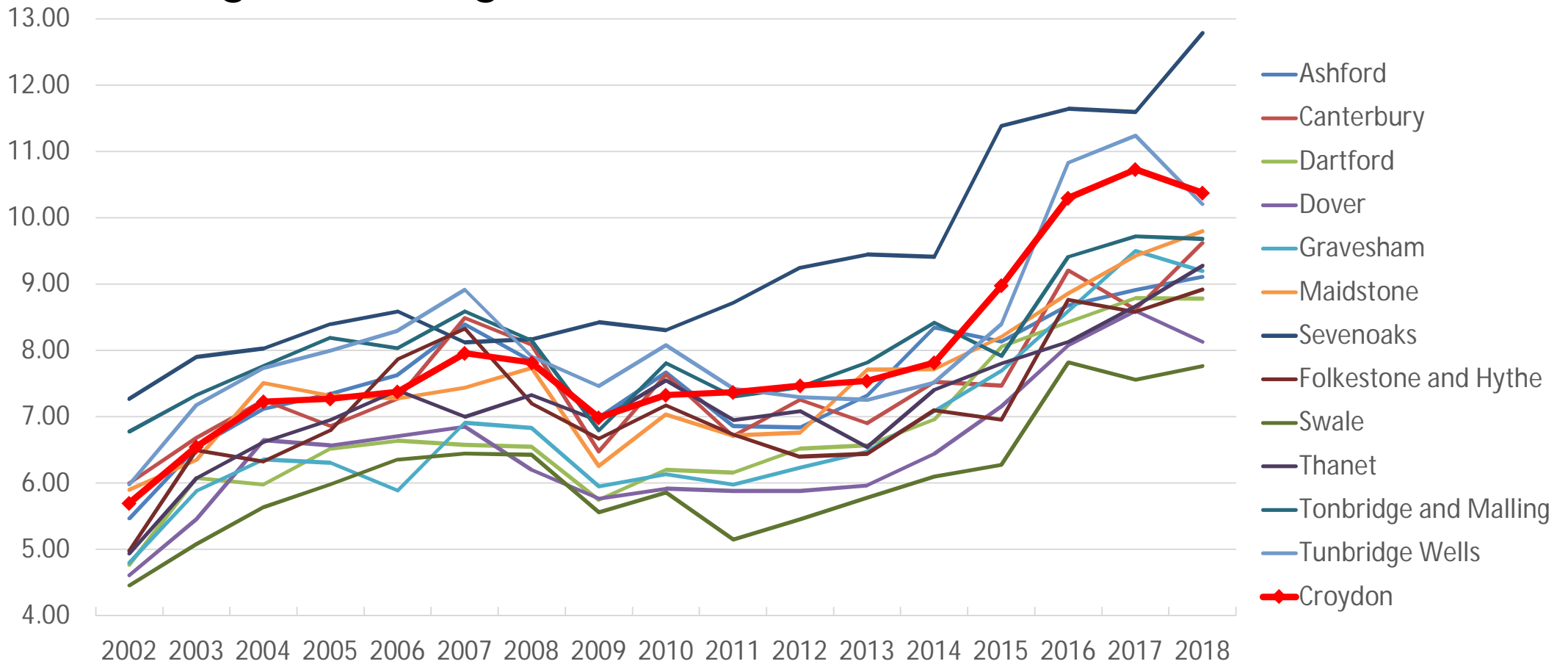
Maidstone: 9.8

Manchester: 5.7

Birmingham: 5.6

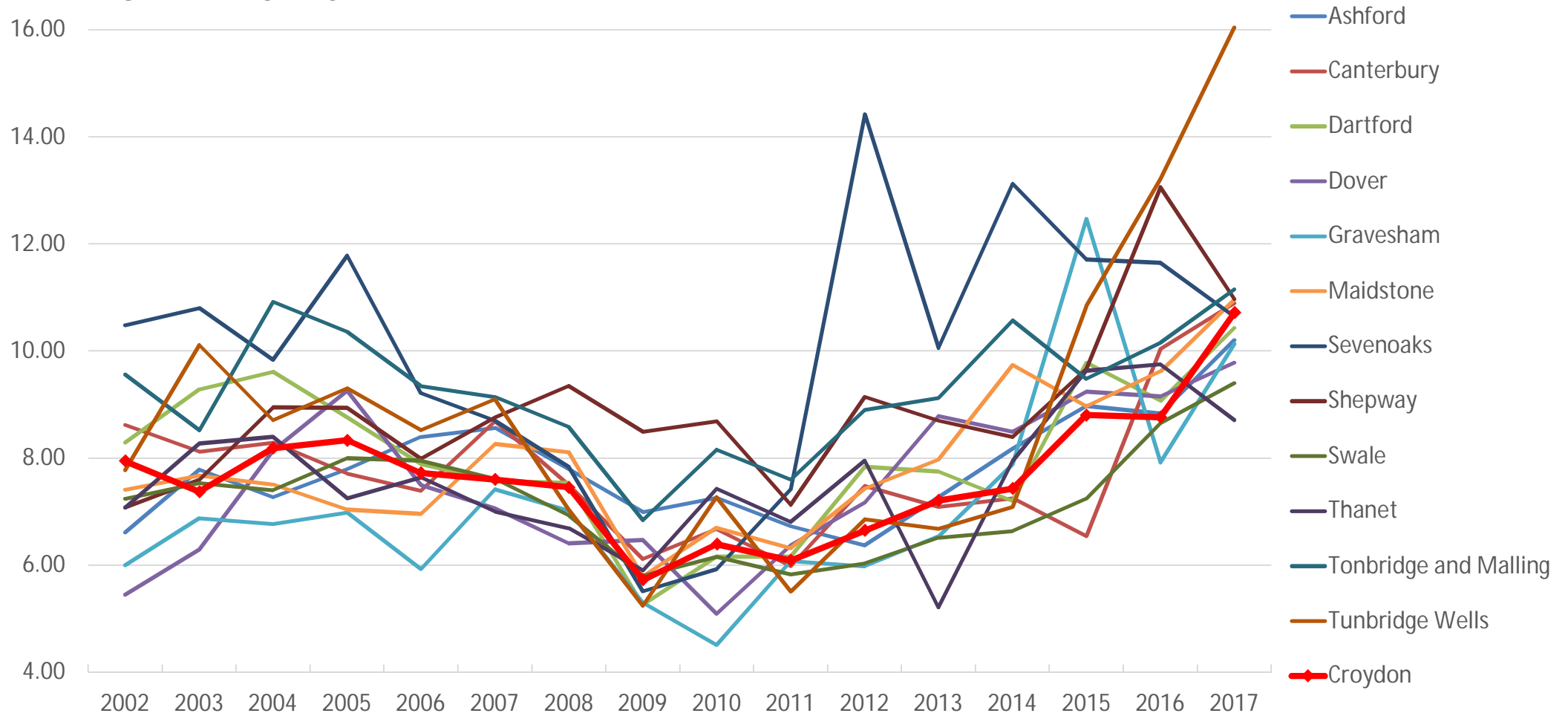
Copeland: 2.5

# Housing Affordability in Kent LAs vs Croydon – Existing Dwellings



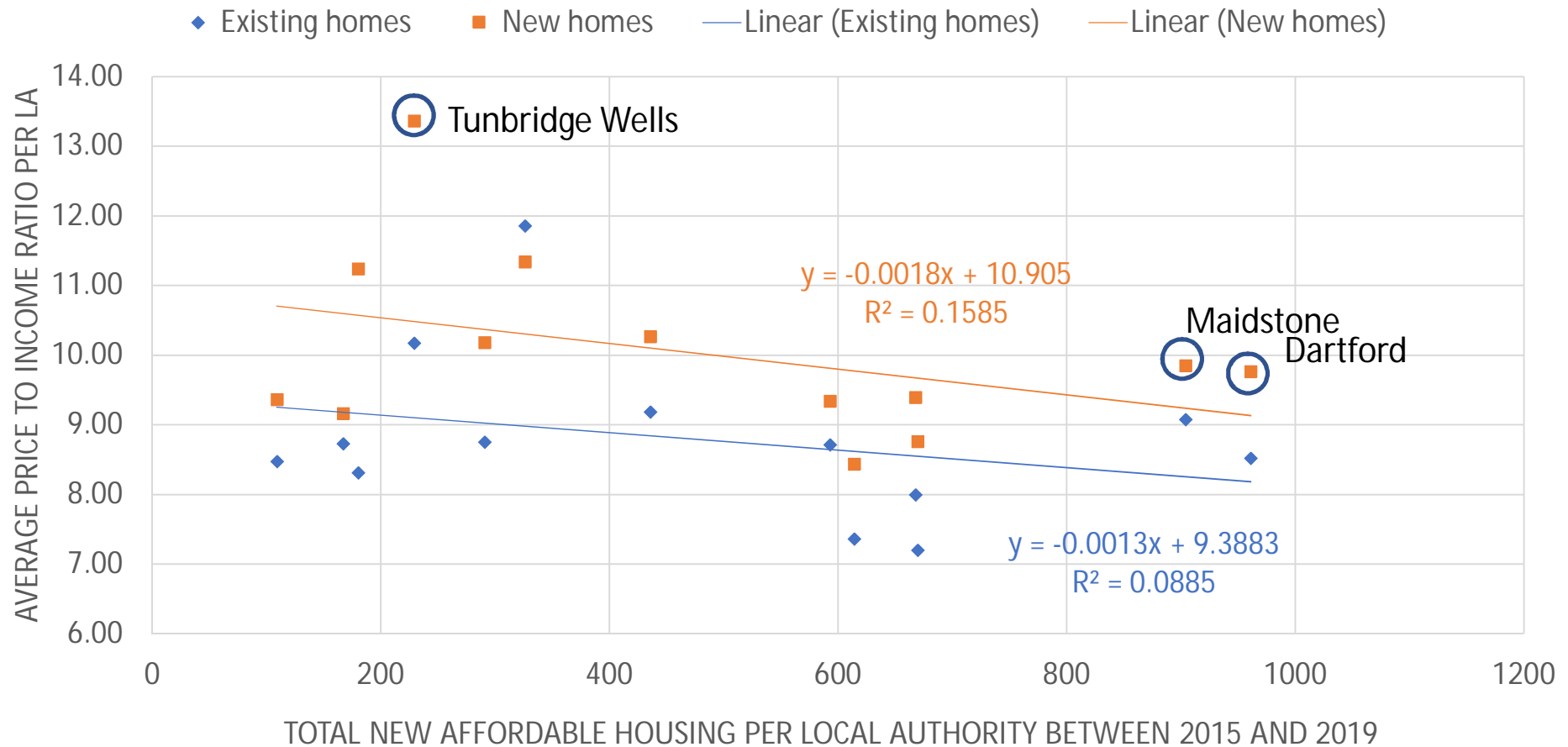
Source: Own calculations using ONS. Ratio of median house price existing dwellings to median gross annual residence-based earnings

# Housing Affordability in Kent LAs vs Croydon – New-Built



Source: Own calculations using ONS. Ratio of median house price for newly built dwellings to median gross annual residence-based earnings

# Relationship between Affordability and New AH Supply in Kent LAs



What tenure to build

&

the role of institutional investors?

# The Dual Nature of Housing

Housing is both: an investment asset and a consumption good.

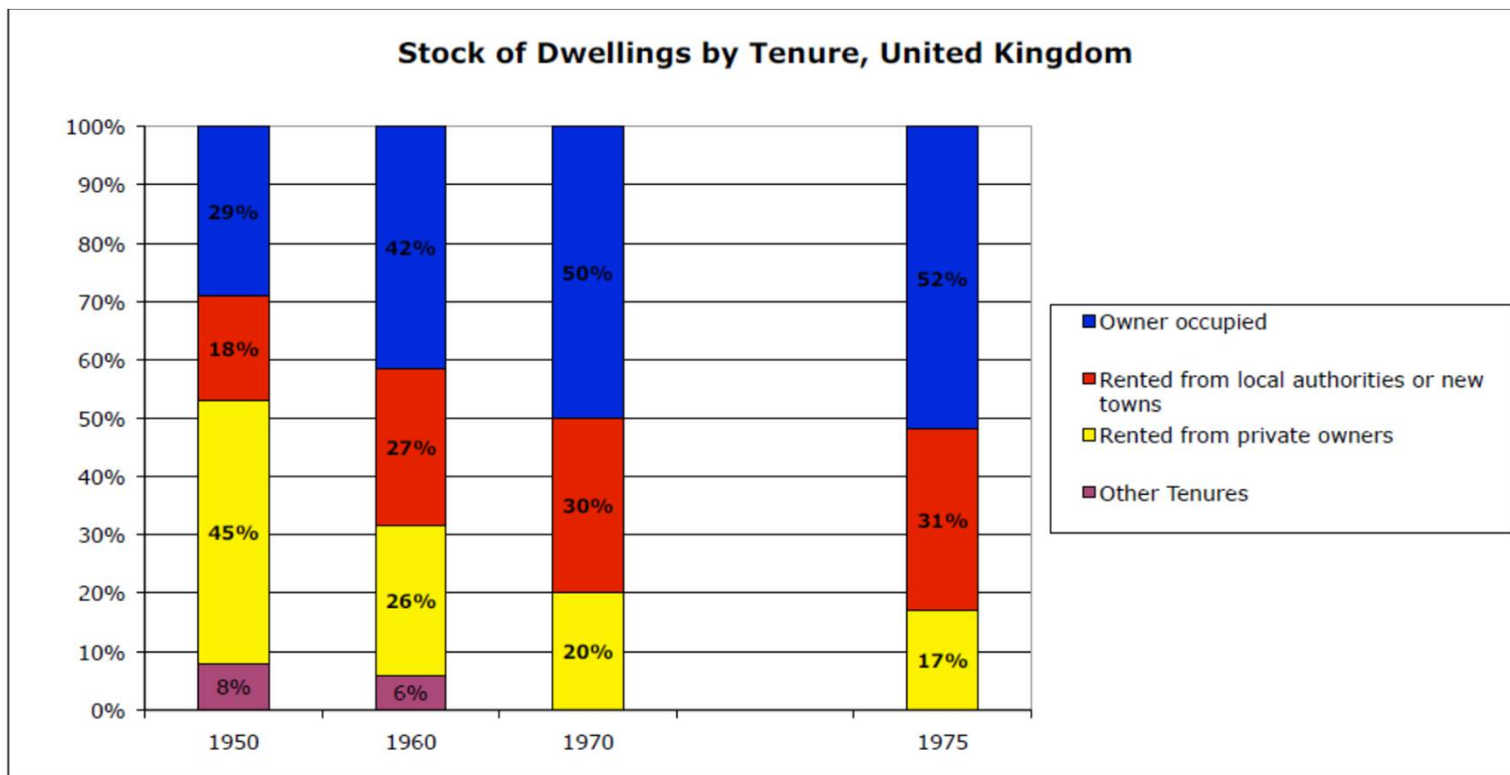
*There should be a clearer separation of housing as a consumption good from housing as a financial asset as both functions are hard to combine.*

*→ “investors” and “consumers” separated from each other*

# Long Term Trends following the Dual Nature of Housing

- Housing as a consumption good will be enabled through focussing on developing housing as a 'service' for consumers
  - Move towards a predominant tenure of renter
  - Ownership through new form of housing co-ops
- The role of housing as an investment will become clearer
  - Large institutional investors building and owning large stocks of housing
- What may change
  - Landlord-tenant laws
  - More housing services
  - Smaller housing

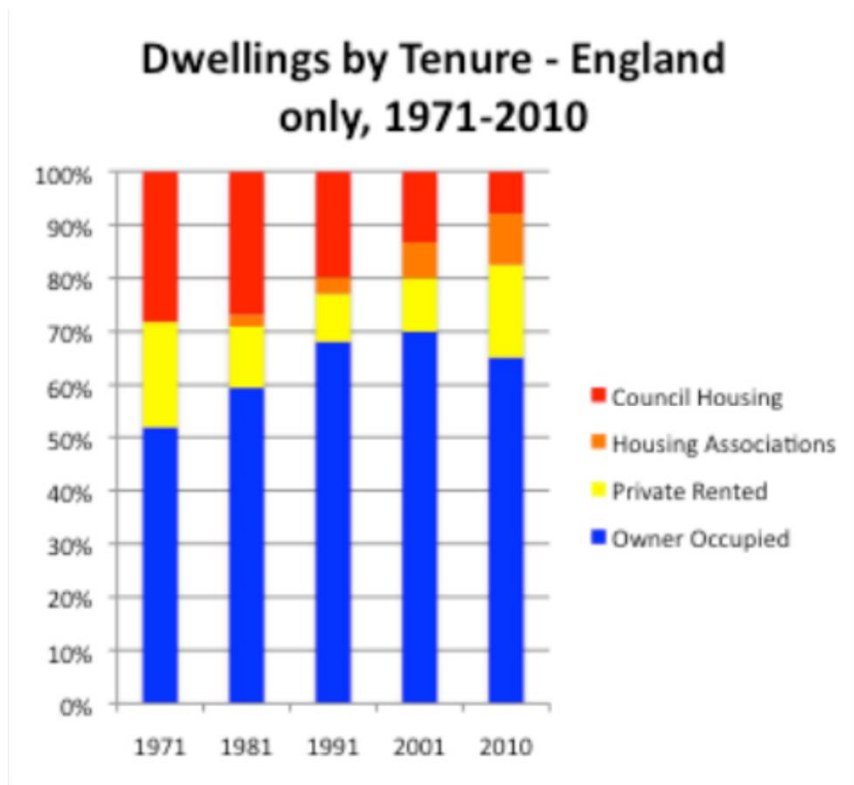
# The predominant tenure used to be Tenant



Source: Social Trends N. 6. from Carter Report

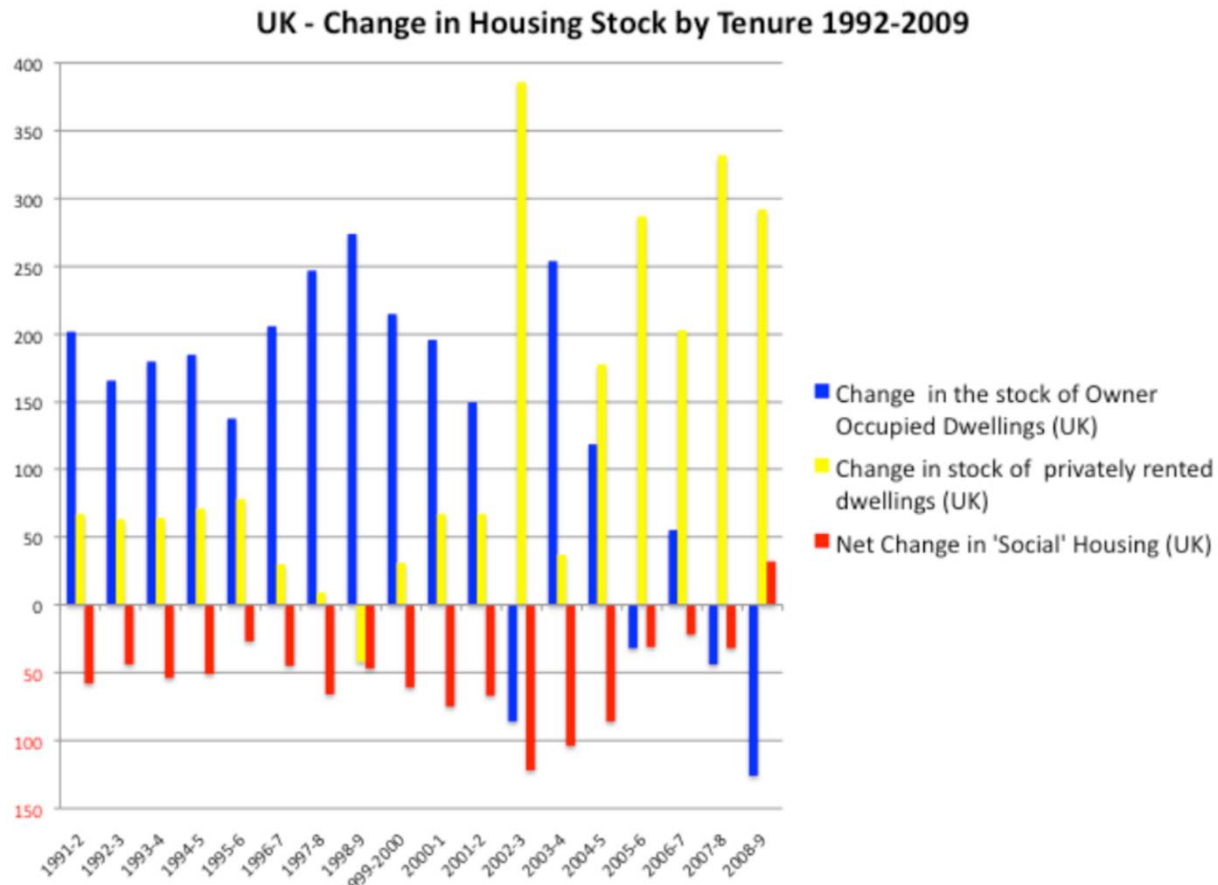


# The strong rise in Owner Occupation



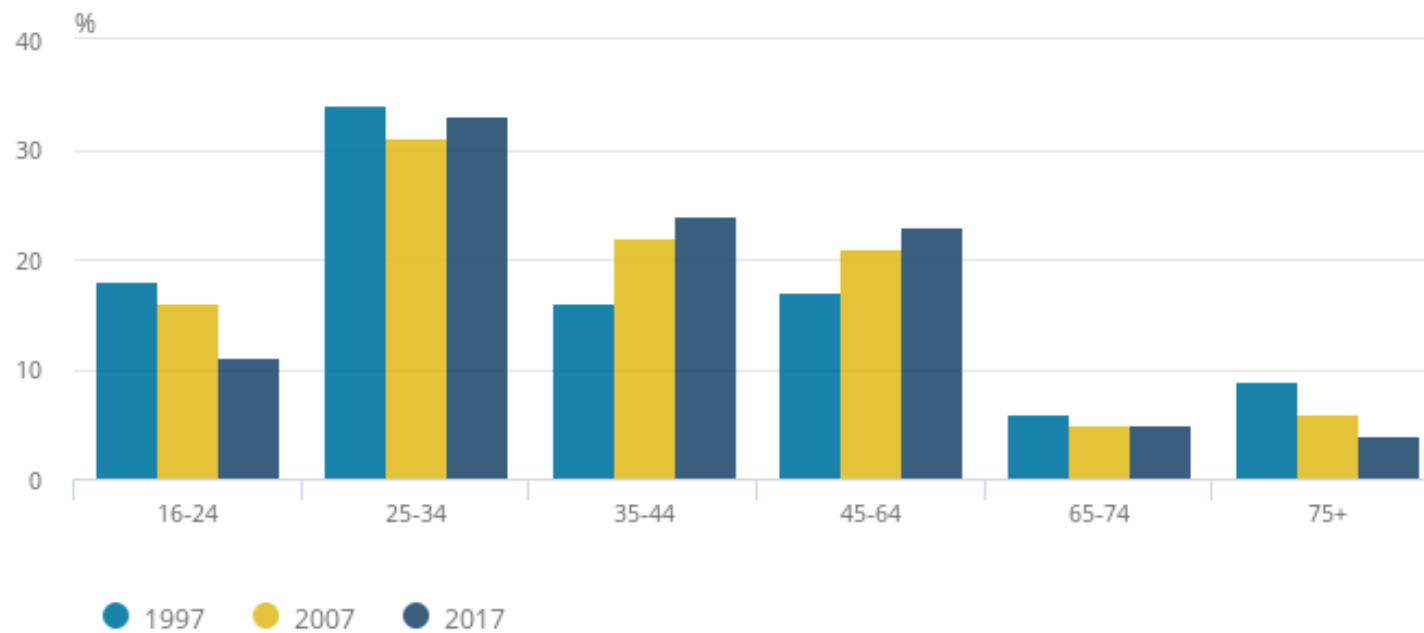
Source: Social Trends N. 6. from Carter Report

# Rebirth of the Private Landlord



Source: Social Trends N. 6. from Carter Report

Figure 3: Age of household reference person in private rented sector, FYE 1997, FYE 2007 and FYE 2017, England



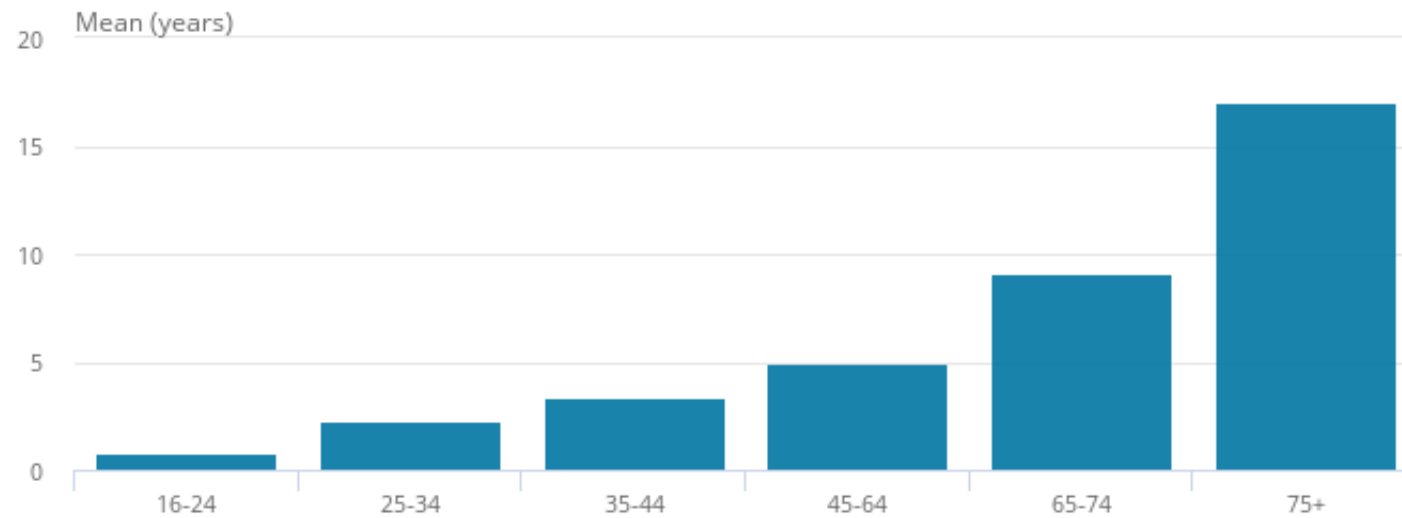
Source: English Housing Survey, Ministry of Housing Communities, and Local Government

# Type of rental properties in England

- Terraced houses: 36%
- Apartments: 37%
- Semi-detached: 16%
- Detached: 6%
- Bungalow: 4%
- 73% of those buildings have an energy efficiency of D or lower
- Only 25% of the buildings are built after 1980.

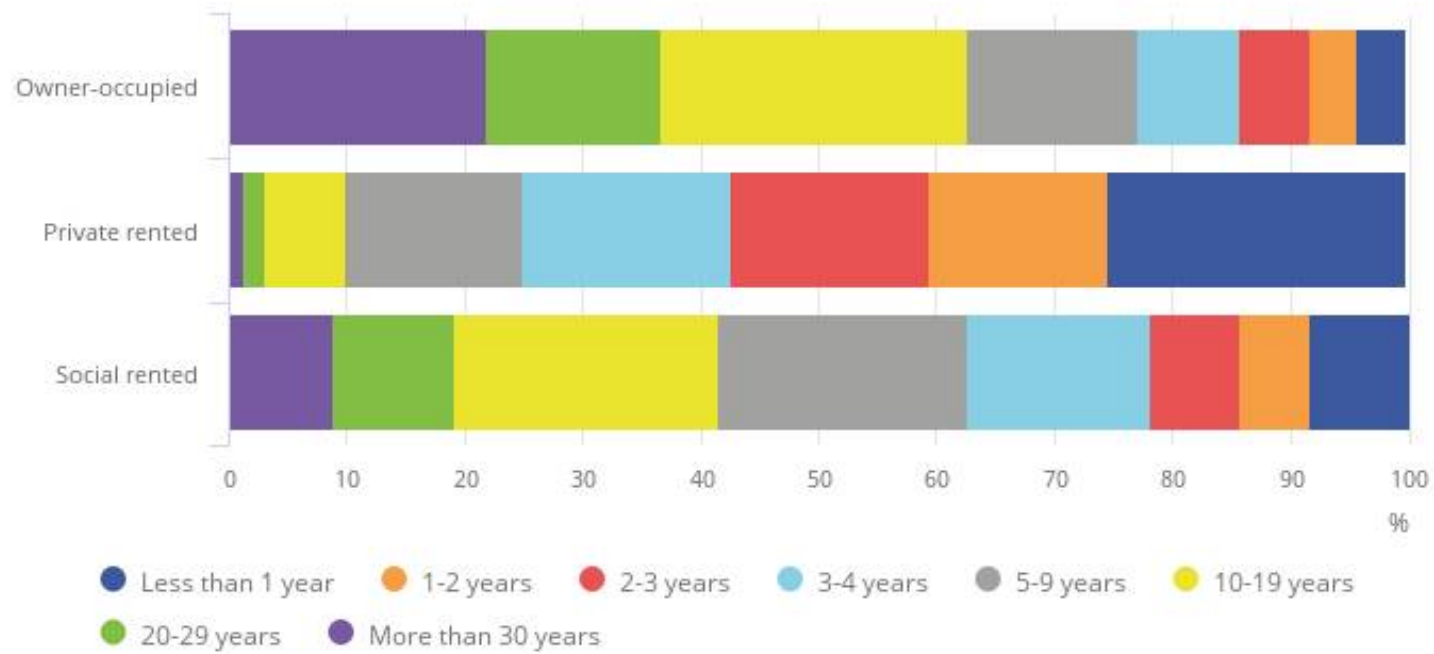
*Source: English Housing Survey financial year ending 2017, Ministry of Housing, Communities and Local Government.*

Figure 29: Length of residence in current home by age in private rented sector, FYE 2017, England



Source: English Housing Survey, Ministry of Housing, Communities, and Local Government

Figure 28: Length of residence (years) of household reference person by tenure, FYE 2017, England



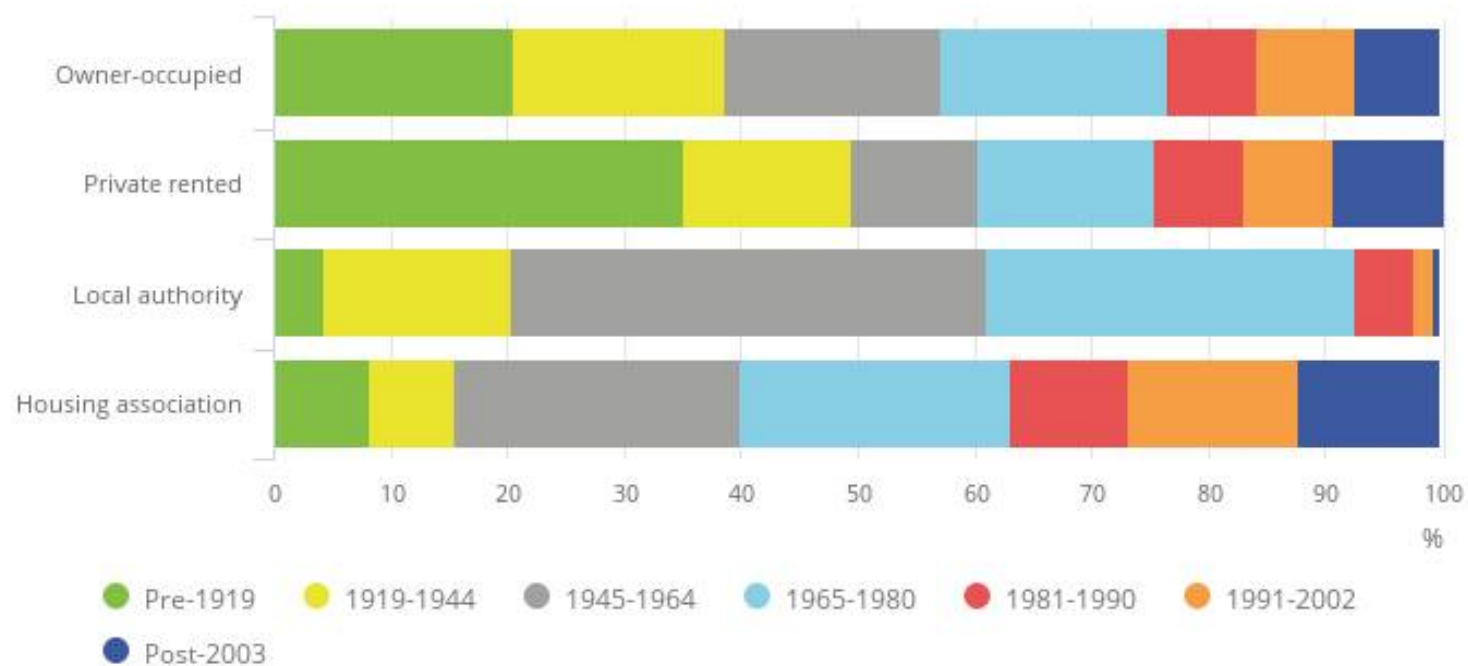
Source: English Housing Survey, Ministry of Housing, Communities, and Local Government

Figure 13: Mortgage or rent as a ratio of household income (including and excluding housing benefit), by tenure, FYE 2017, England



Source: English Housing Survey, Ministry of Housing, Communities, and Local Government

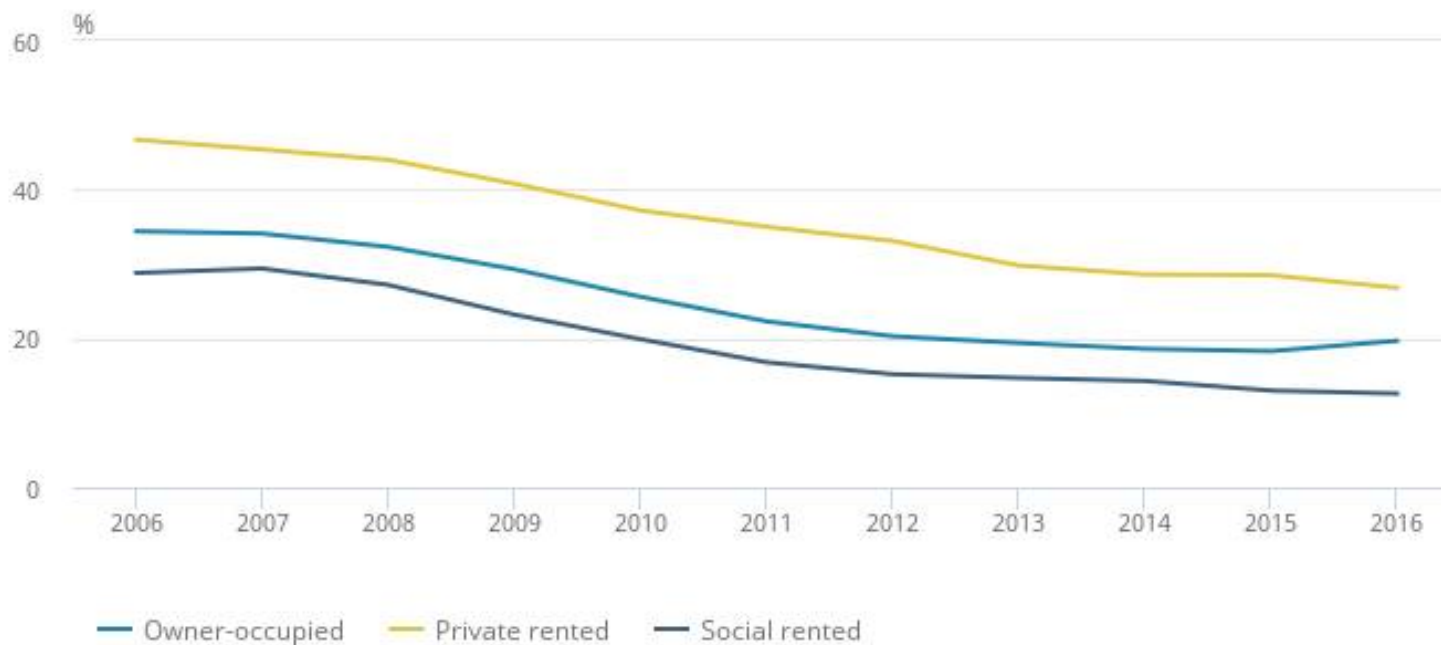
Figure 38: Age of dwelling by tenure, financial year ending 2017, England



Source: English Housing Survey, Ministry of Housing, Communities, and Local Government

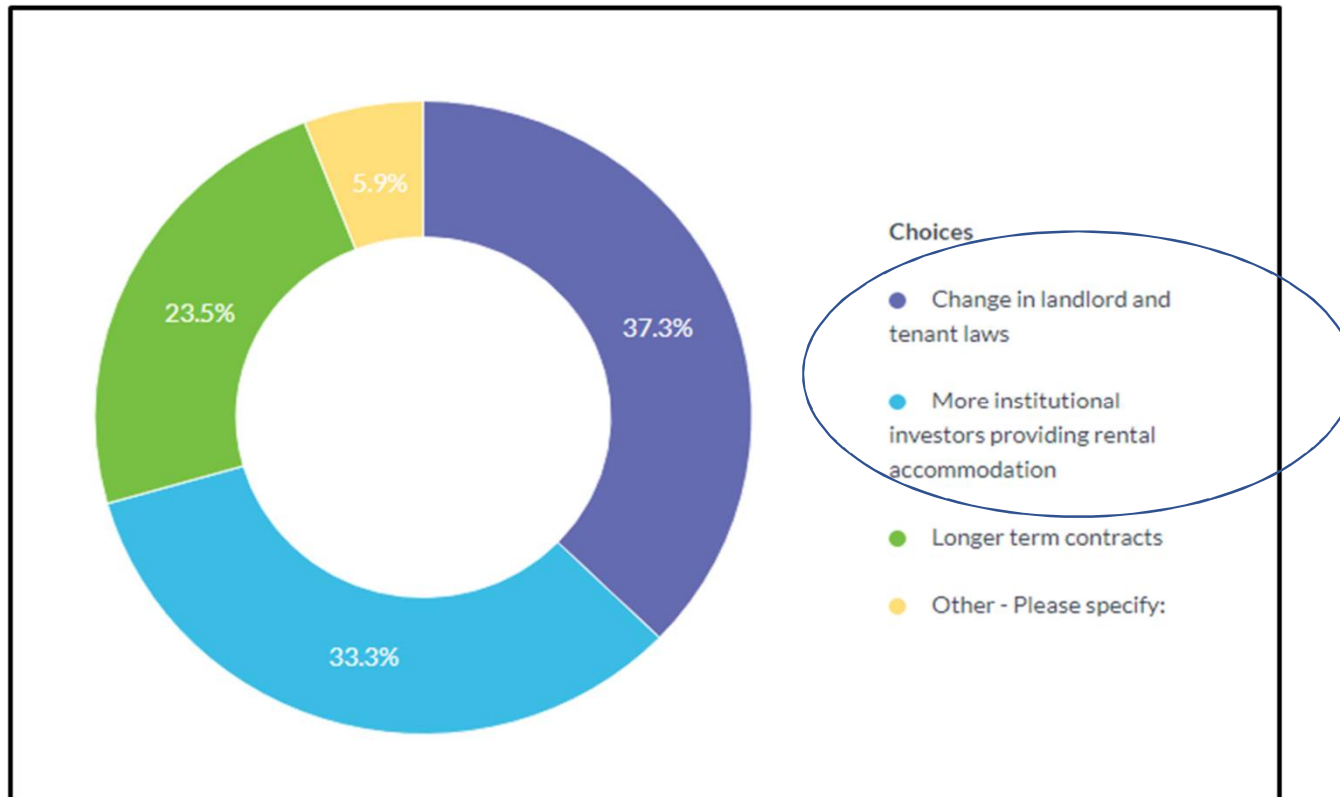


Figure 40: Non-decent homes, by tenure, 2006 to financial year ending 2017, England



Source: English Housing Survey, Ministry of Housing, Communities, and Local Government

# Expert Survey: “Which option would be the most effective to provide tenants with more security?”

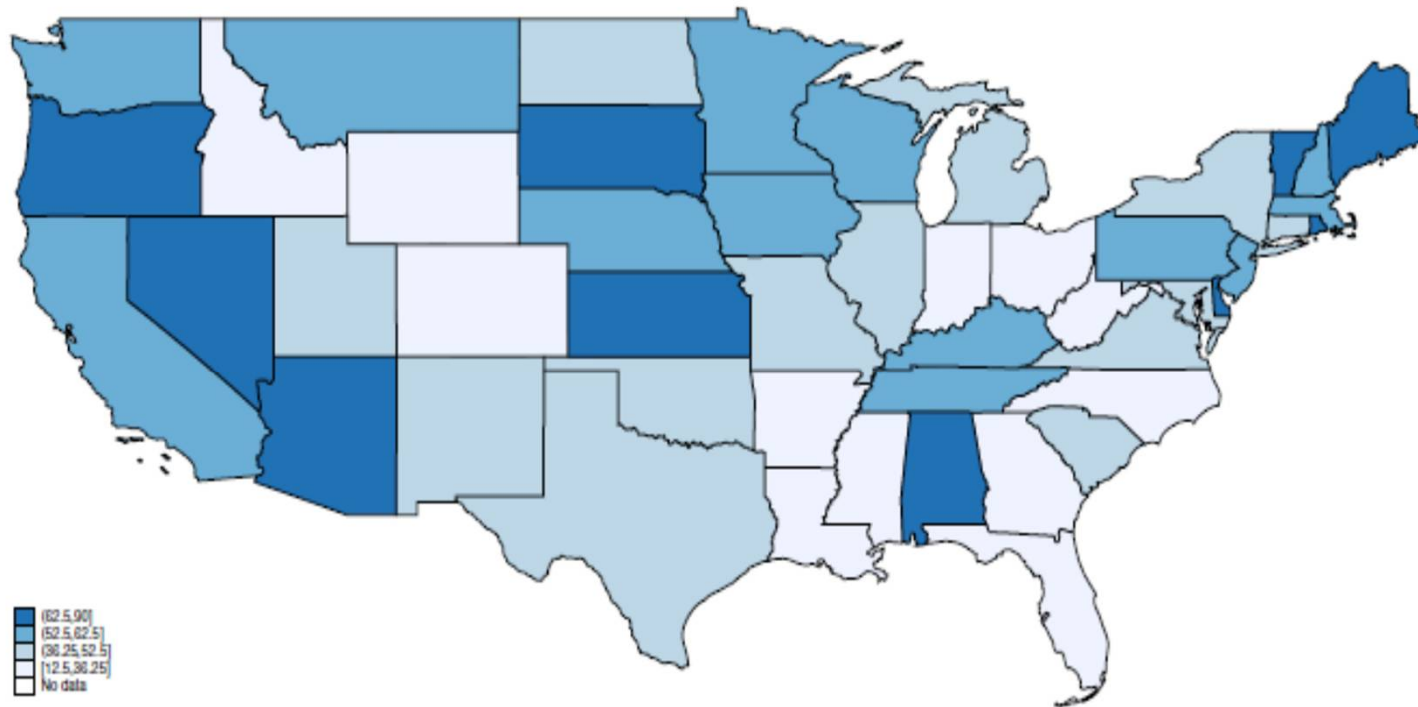


Source: Milcheva and Fitzpatrick, *The Case of Affordable Housing: Private Sector Investment in Social Infrastructure*, forthcoming.  
Note: Based on a survey of 38 participants of the symposium *The Case of Affordable Housing: Private Sector Investment in Social Infrastructure* in June 2018.

# Institutional Investment in Multifamily Housing & Renter Protection Laws

- [McCollum and Milcheva \(2020\)](#) in *Renter Protections, Housing Affordability and Institutional Investment in Multifamily Housing* investigate the relationship between institutional investment in multifamily housing (or the private rented sector as is known in the UK) and renter protection laws.
- Inability to collect large security deposits from tenants, longer waiting periods before they may evict tenants for non-payment, or be subject to the right of tenants to legally withhold rent if certain repairs are not completed.
- In the areas where there is a strong commitment to build more affordable housing by both, the government and the private sector, initial cap rates are higher for properties located in states with high renter protection.
- Policies that aim to protect tenants coupled with regional policies to increase housing supply may have a positive effect on both, institutional landlords and tenants.

# Renter Protection Scores across US States



Source: McCollum and Milcheva (2019), Renter Protection and Institutional Investment in Multifamily Rental Housing, SSRN.  
Note: Darker areas indicate higher renter protection.

# Top 10 largest owners of real estate in the US in 2018

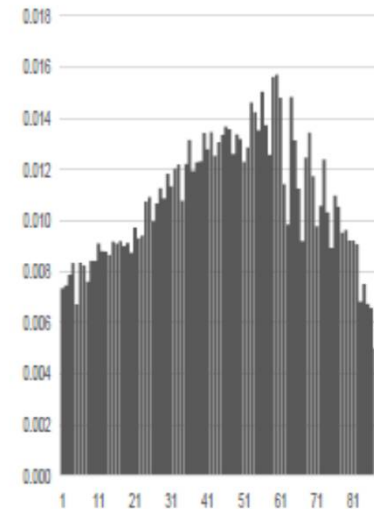
Company	Portfolio size	Type of investor
Blackstone	\$ 81,401,517,183	Equity Fund
Brookfield AM	\$ 79,811,188,929	Equity Fund
Simon Property Group	\$ 42,507,957,360	REIT
TIAA	\$ 32,794,867,587	Pension Fund
JP Morgan	\$ 32,740,438,261	Investment Manager
Vornado	\$ 31,789,241,472	REIT
Irvine Co	\$ 26,143,141,046	Developer/Owner/Operator
PGIM Real Estate	\$ 25,295,347,514	Insurance
Starwood Capital	\$ 23,926,530,059	Equity Fund
SL Green	\$ 23,312,834,837	REIT

Source: Cvijanovic, Milcheva and van de Minne, 2019, *Preferences of Institutional Investors in Commercial Real Estate*, SSRN Working Paper.

# Probability of this Apartment Property being sold to different investor by size



- 15050 N 59th Ave., Phoenix
- Apartment
- year sold; 2006
- size; 137,725 square feet
- Q score; 1.44
- NOI; \$1.6M
- age; 21 years
- distance to CBD; 22km
- $ISQ_{\text{buyer}} = 47$



Source: Cvijanovic, Milcheva and van de Minne, 2019, *Preferences of Institutional Investors in Commercial Real Estate*, SSRN Working Paper.

# Real Estate Market Segmentation

- In our papers "*Preferences of Institutional Investors in Commercial Real Estate*" and "*Information Asymmetries, Financial Constraints and Institutional Investment: Evidence from the Real Estate Market*" we find:
  - Strong real estate market segmentation by investor size: large (small) seller sells to a large (small) buyer
  - Large investors like different properties from small investors: larger, newer, with high NOI, etc.
  - All else equal, largest buyers pay a premium for the same property as compared to the smallest buyers.
  - More informed buyers tend to buy at a discount and hold for longer, all else equal.

→ *Therefore it is important for Kent Council to take a more active approach in engaging with key real estate institutional investors and registered providers in order to deliver housing at scale*

What role can local authorities play?



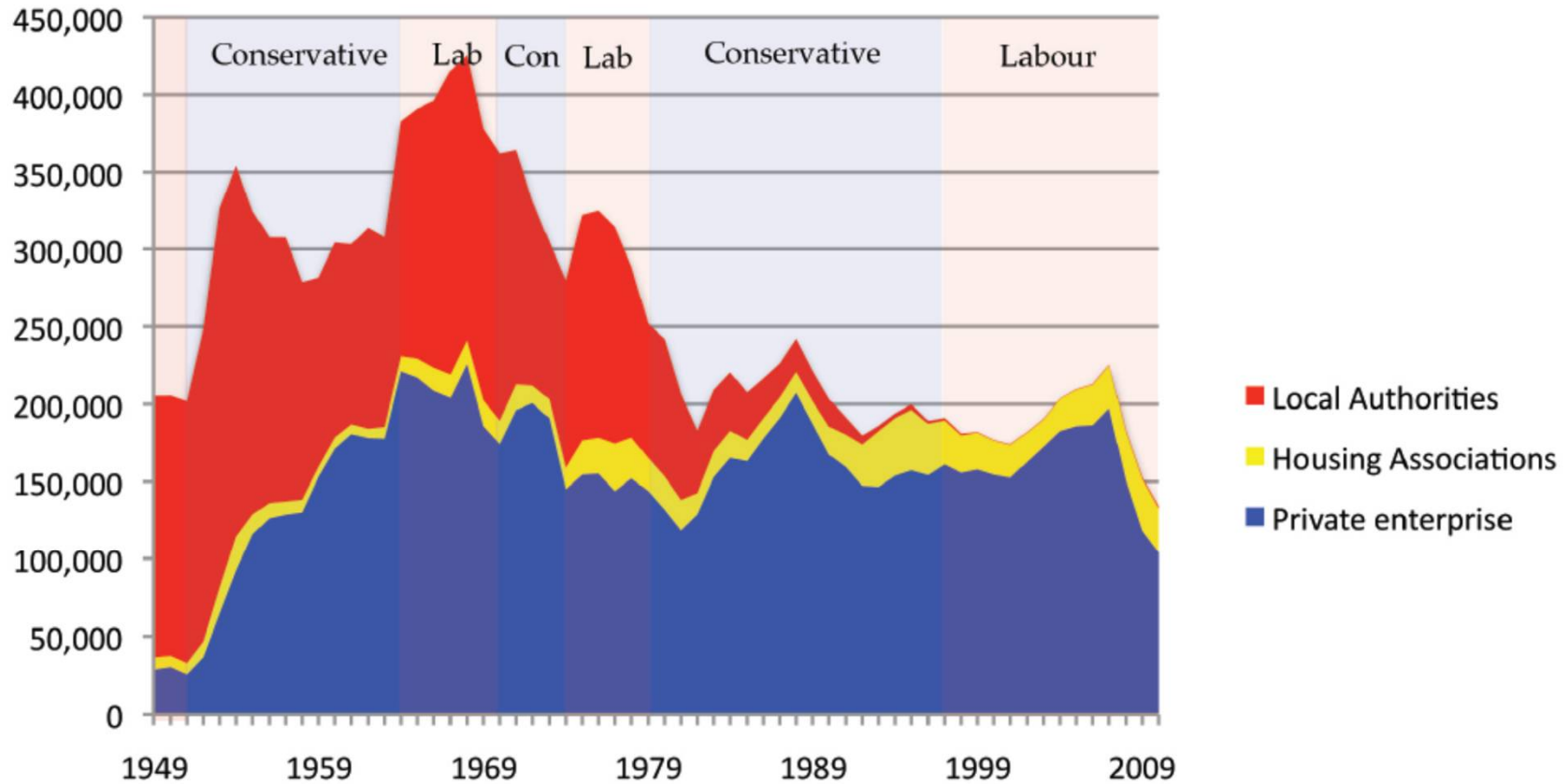
# Econ 101: Demand factors for housing

- Demographic shifts
  - Population growth
  - Migration
  - Aging
  - Smaller households
- Technological innovation
  - Internet → online shopping, access to information
- Labour markets
  - Irregular income in a sharing economy
  - flexible working hours and working space
- Capital markets
  - Innovative financing products
  - Access to finance via shadow banking
  - Loose mortgage market

# Econ 101: Supply factors for housing

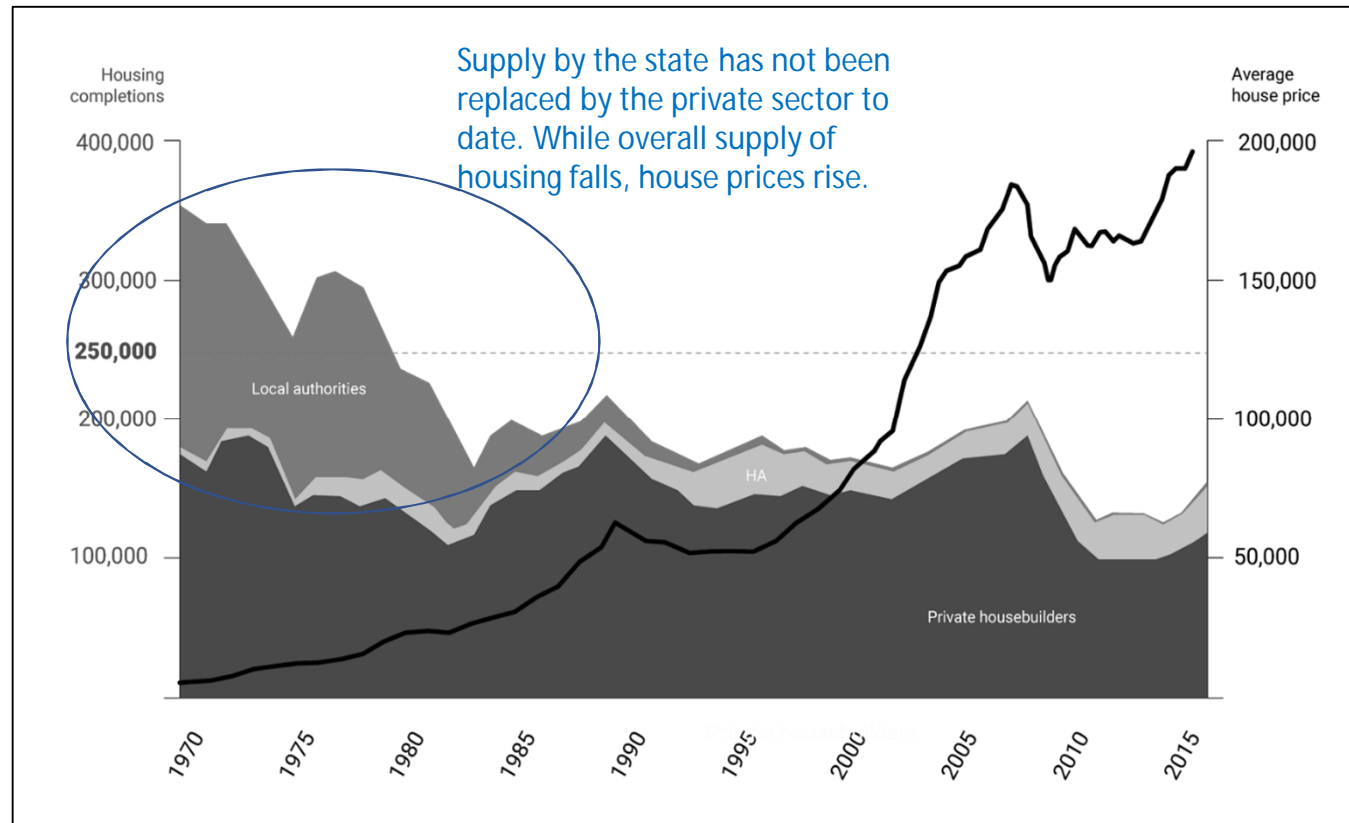
- The role of the state
  - Planning constraints
  - Land availability
  - (Land) taxation
  - Housing taxation
  - Subsidies
- Technological innovation in construction
  - New materials
  - New methods of construction
- Labour markets
  - Access to skilled and unskilled labour in the construction industry
- Capital markets
  - New institutional players
  - Cross-border institutional flows

## Permanent Dwellings Completed, by Tenure, 1949-2010



Source: <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/housebuilding/livatables/>

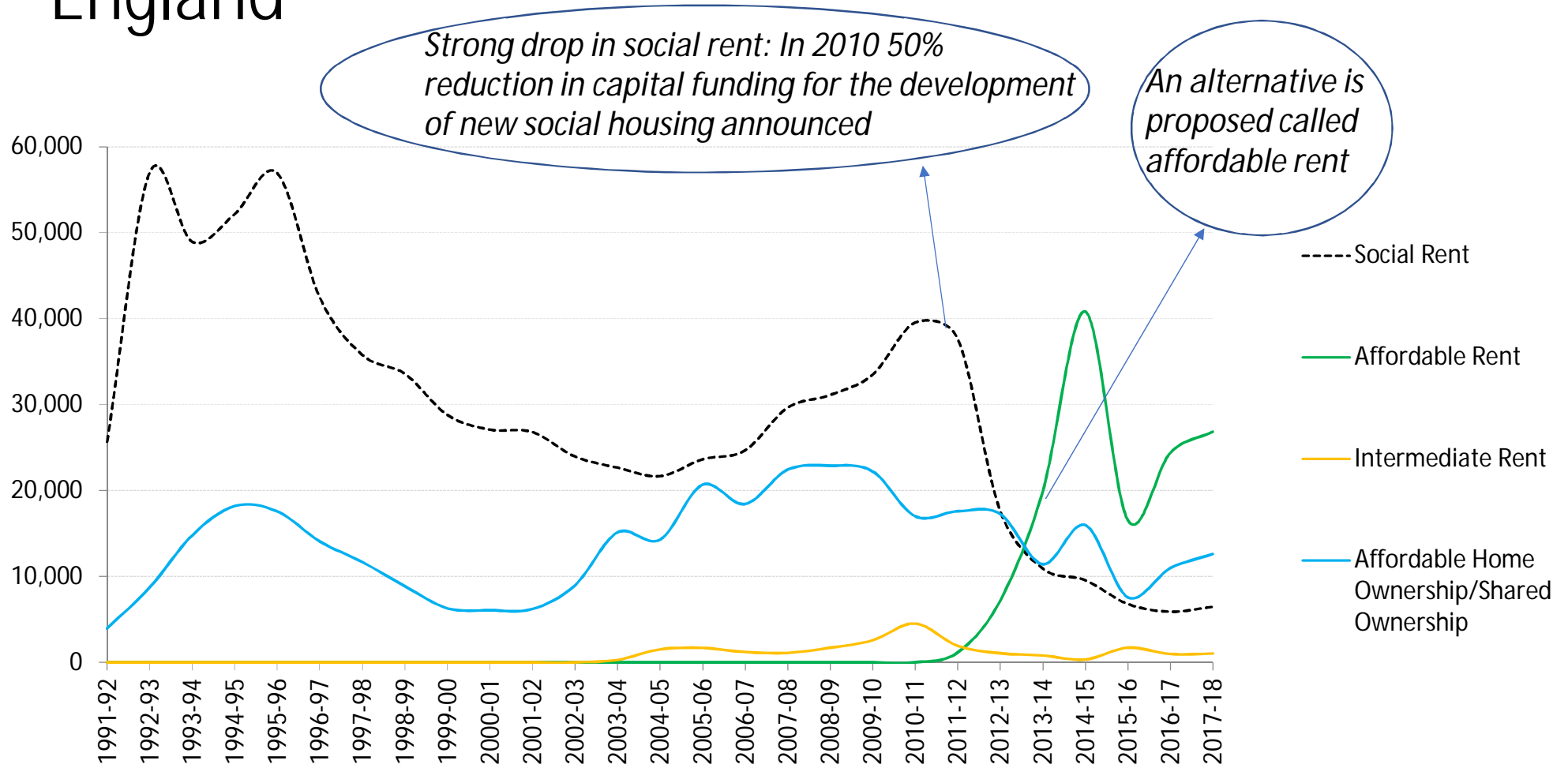
# Housing supply by sector and real house prices (adjusted for inflation) 1945-2015



From a peak of 350k homes per year in 1970, recently only slightly more than 100k new housing units are completed.

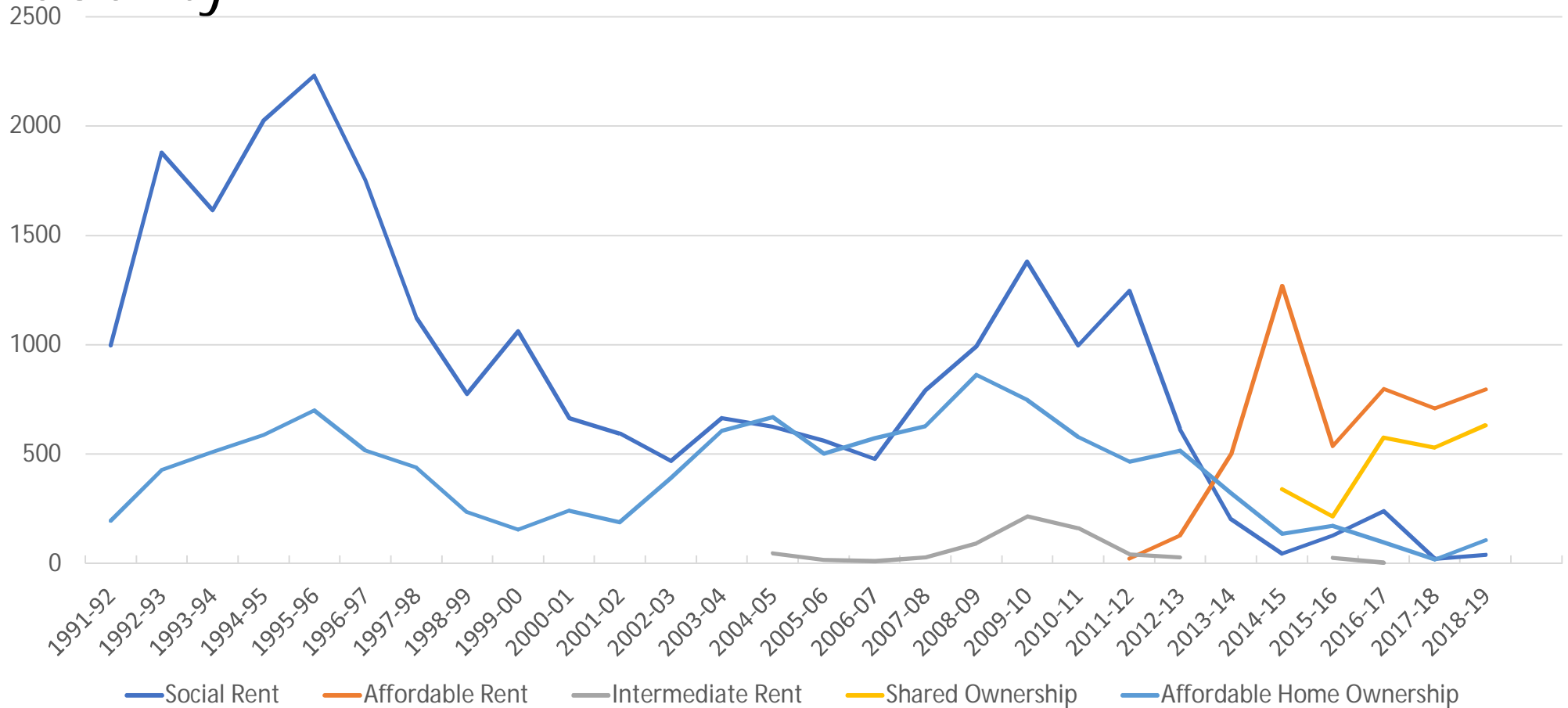
Source: DCLG data quoted by Parvin and Reeve (2016)

# Affordable Housing Completions by Tenure for England



Source: MHCLG (2018)

# Affordable Housing Completions by Tenure in Kent County



Source: MCHLG, 2019

# What can Kent County Council do to alleviate housing unaffordability?

- LAs have best local expertise which would allow them to build where it is most needed – unaffordability varies largely even in small areas – so analyse at a very granular level where the need is.
- Relax supply constraints – i.e. planning permissions – in areas with low elasticity of house prices
  - Increase density of affordable housing
  - Focus on the tenures that would alleviate unaffordability in the long run: rental accommodation.
- Release greenfield and brownfield land for affordable housing.
- Take a more active approach in engaging with key real estate institutional investors and registered providers in order to deliver housing at scale.