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Date: 25th February 2020

Dear Member

SELECT COMMITTEE - AFFORDABLE HOUSING - THURSDAY, 27 FEBRUARY 2020

I am now able to enclose, for consideration at next Thursday, 27 February 2020 meeting of the Select Committee - Affordable Housing, the following report(s) that were unavailable when the agenda was printed.

Please note, this replaces the previous supplementary presentation.

Agenda Item No

4

Dr Stanimira Milcheva (Associate Professor in Real Estate and Infrastructure Finance, University College London) (Pages 1 - 26)

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ben Watts', is written over a faint circular stamp.

Benjamin Watts
General Counsel

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Kent Council Affordable Housing Provision

Dr Stanimira Milcheva

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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

- 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

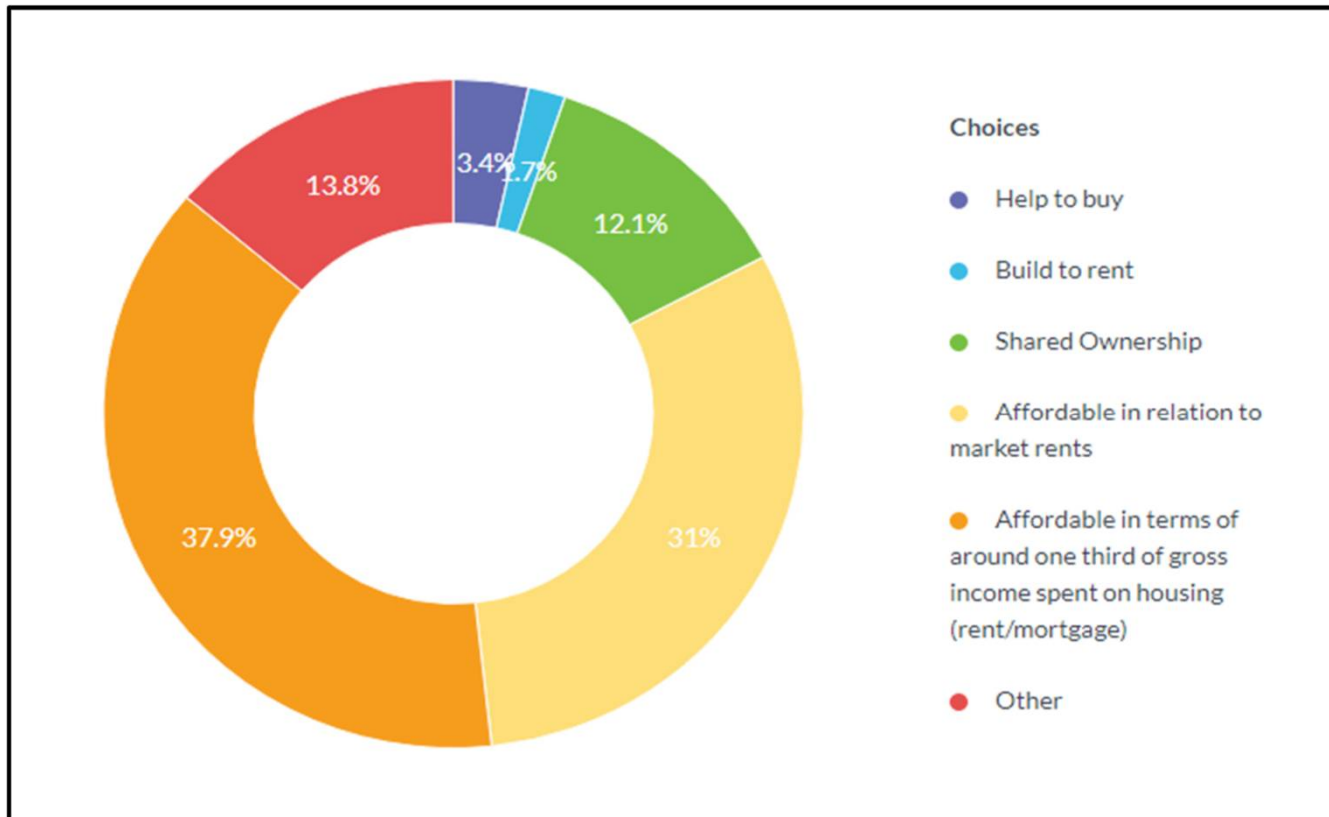
1. Is Housing Affordable in Kent?
2. What can Kent County Council do to alleviate housing unaffordability?

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

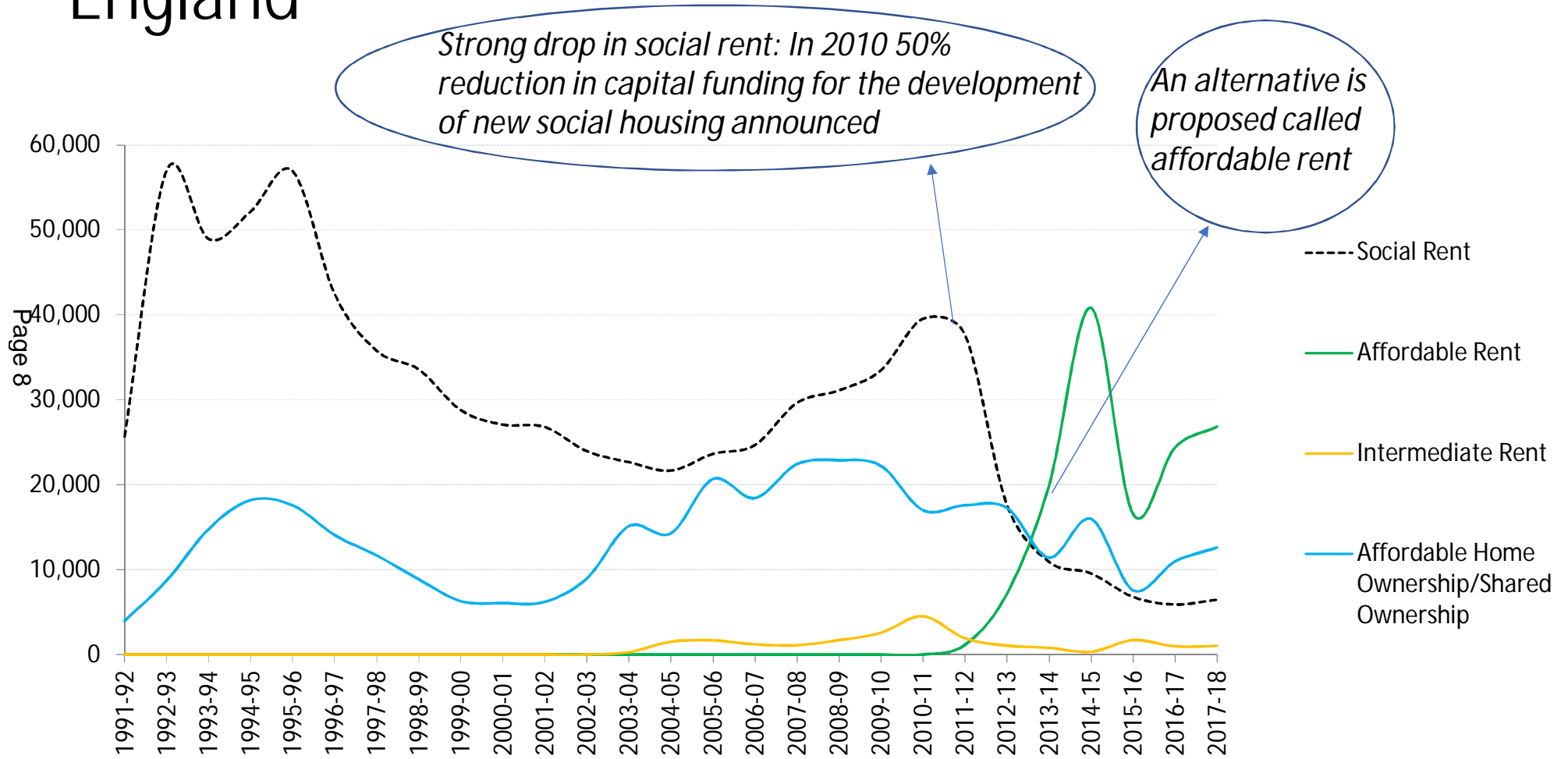
Expert Survey: *How do you define affordable housing?*



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

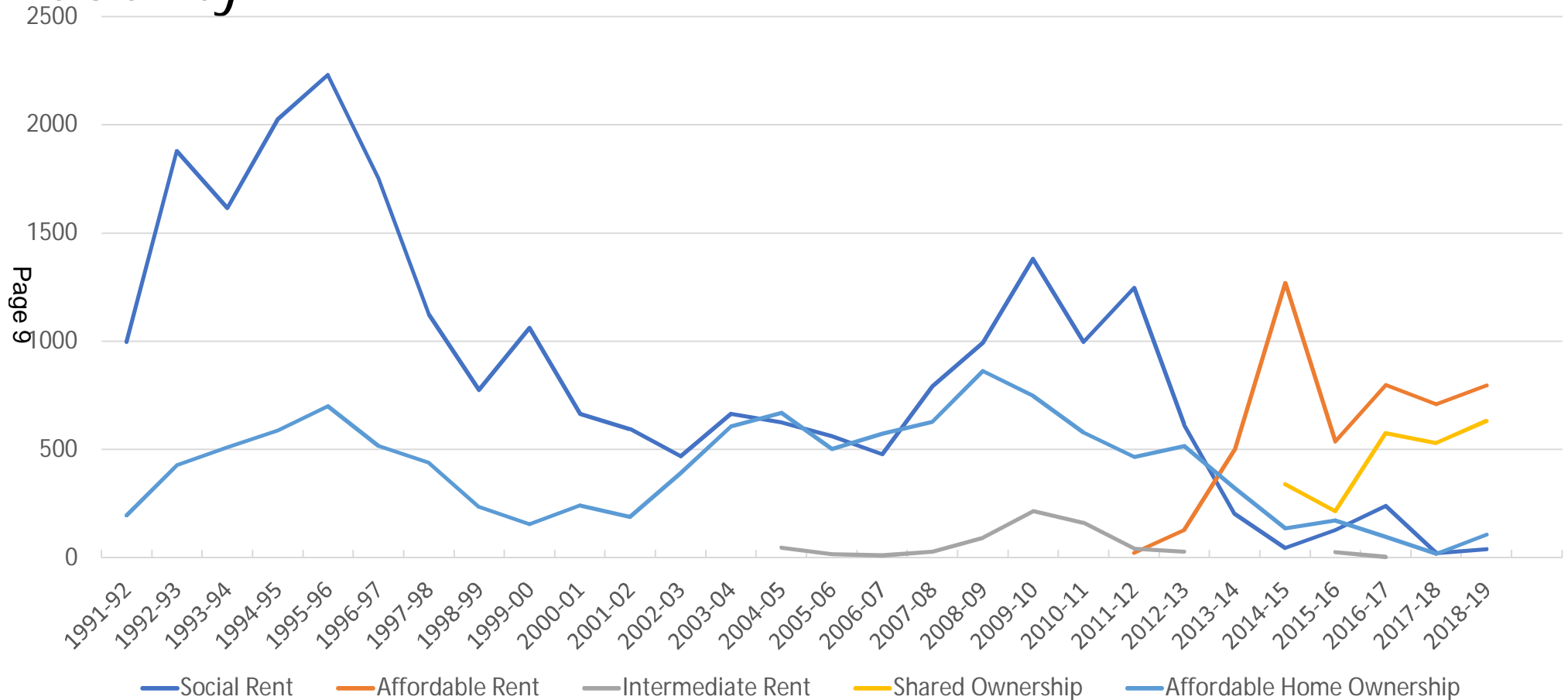
Note: Based on a survey of 38 participants of the symposium *The Case of Affordable Housing: Private Sector Investment in Social Infrastructure* in June 2018.

Affordable Housing Completions by Tenure in England



Source: MHCLG (2018)

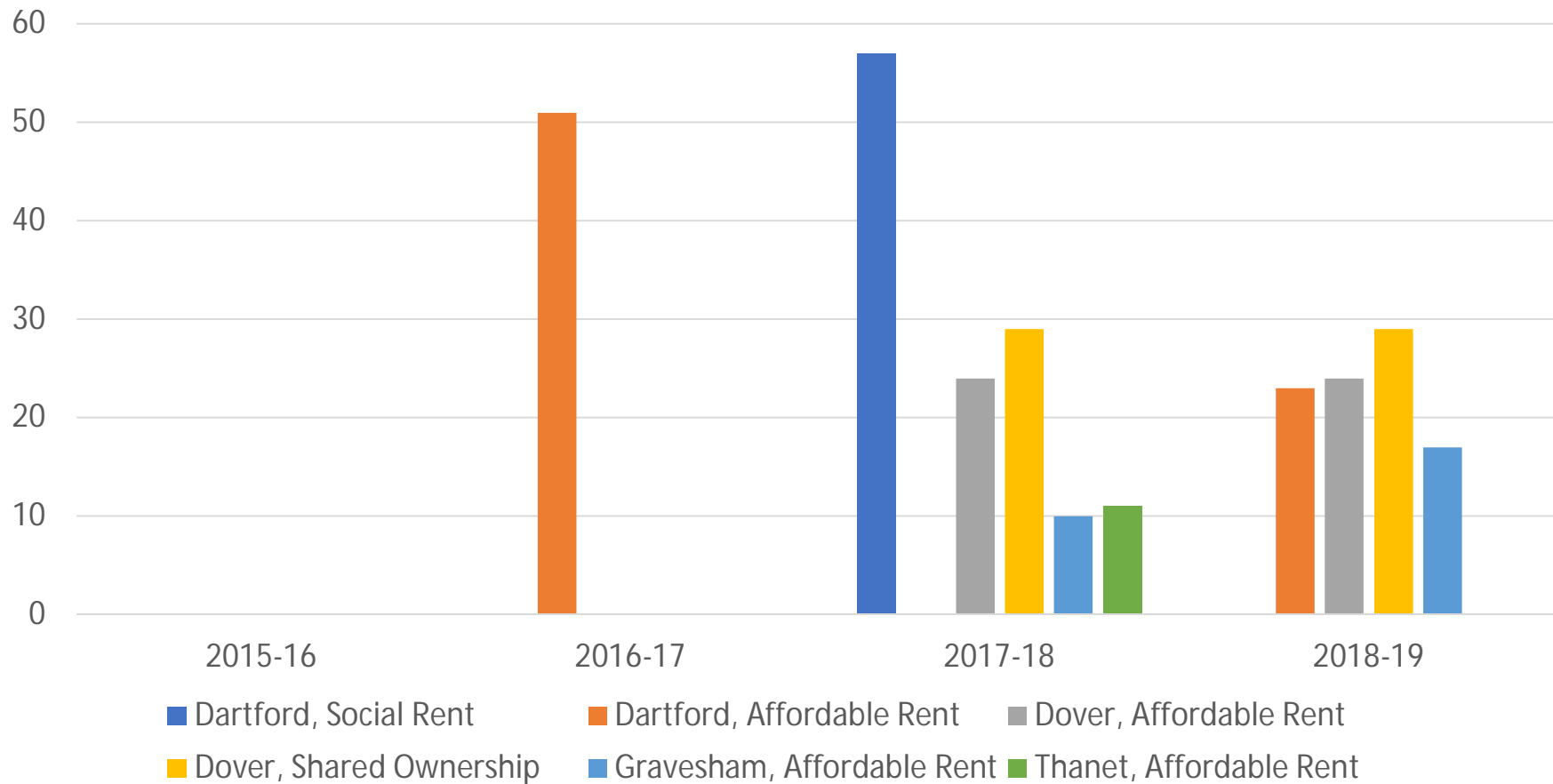
Affordable Housing Completions by Tenure in Kent County



Source: MCHLG, 2019

AH Starts provided by Kent LAs since 2015

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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

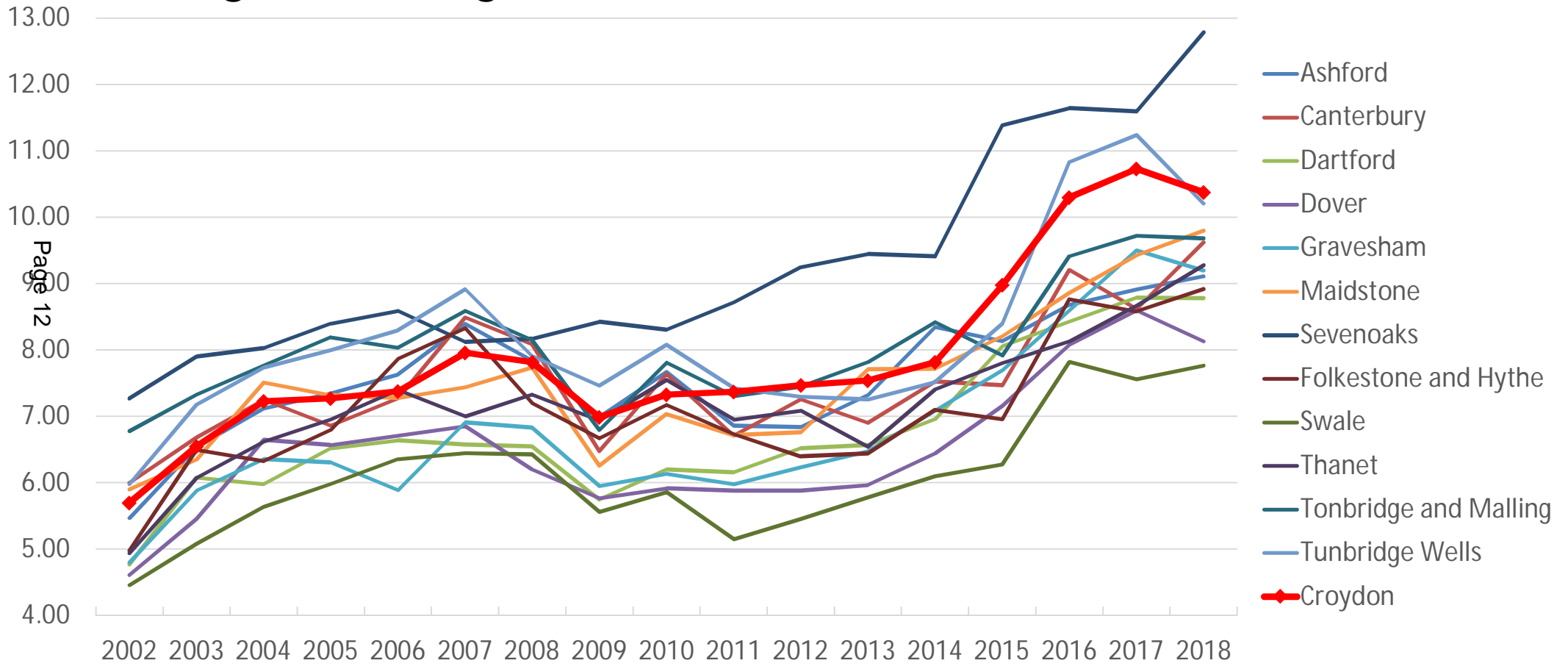
Maidstone: 9.8

Manchester: 5.7

Birmingham: 5.6

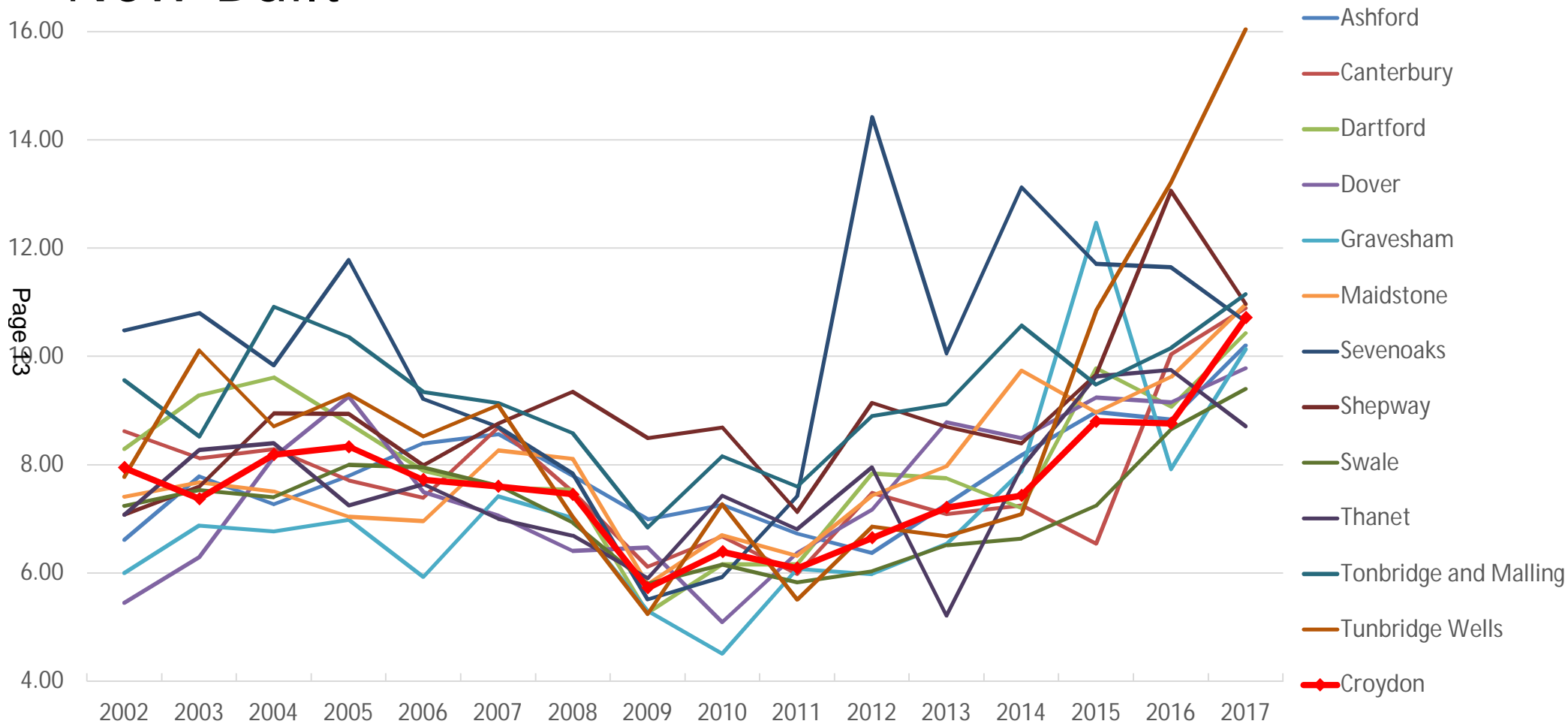
Copeland: 2.5

Housing Affordability in Kent LAs vs Croydon – Existing Dwellings



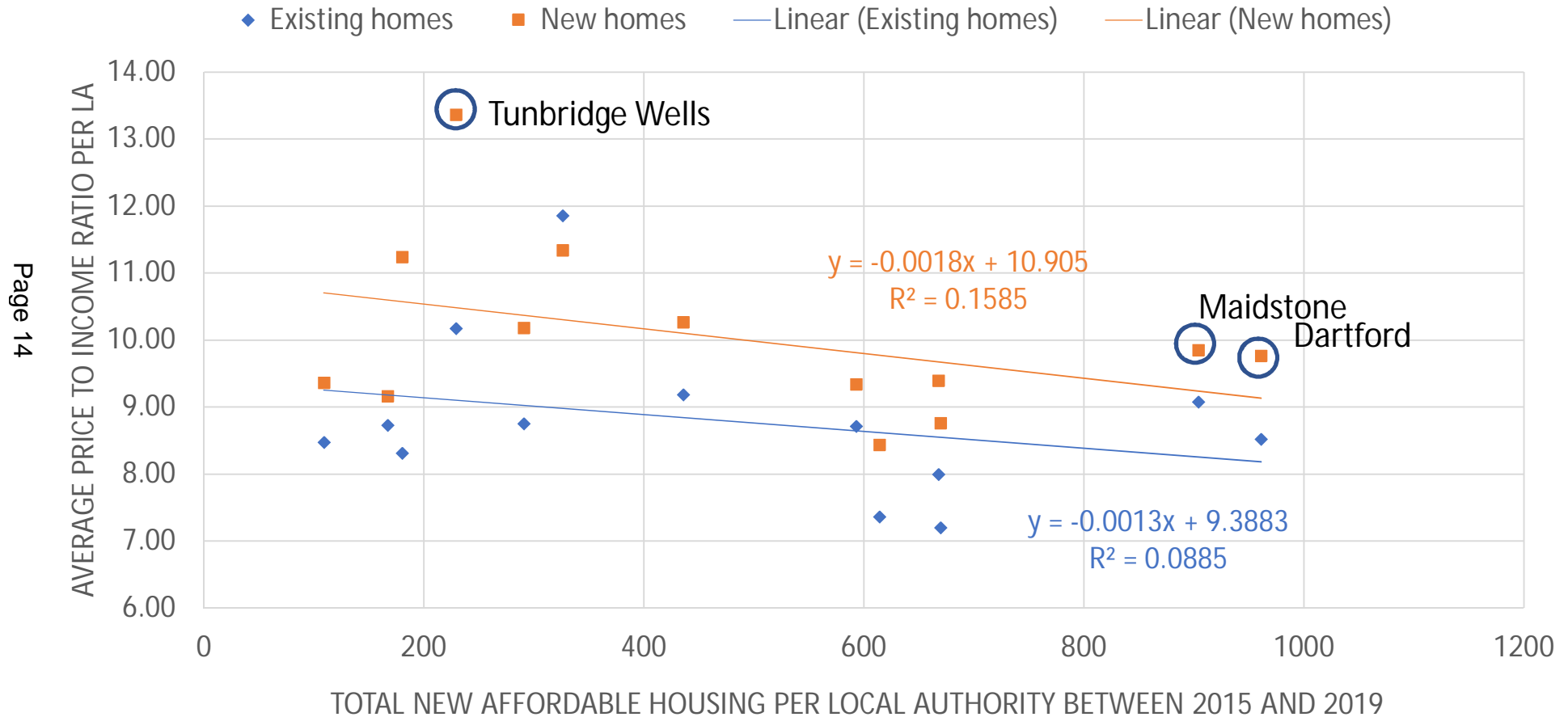
Source: Own calculations using ONS. Ratio of median house price existing dwellings to median gross annual residence-based earnings

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

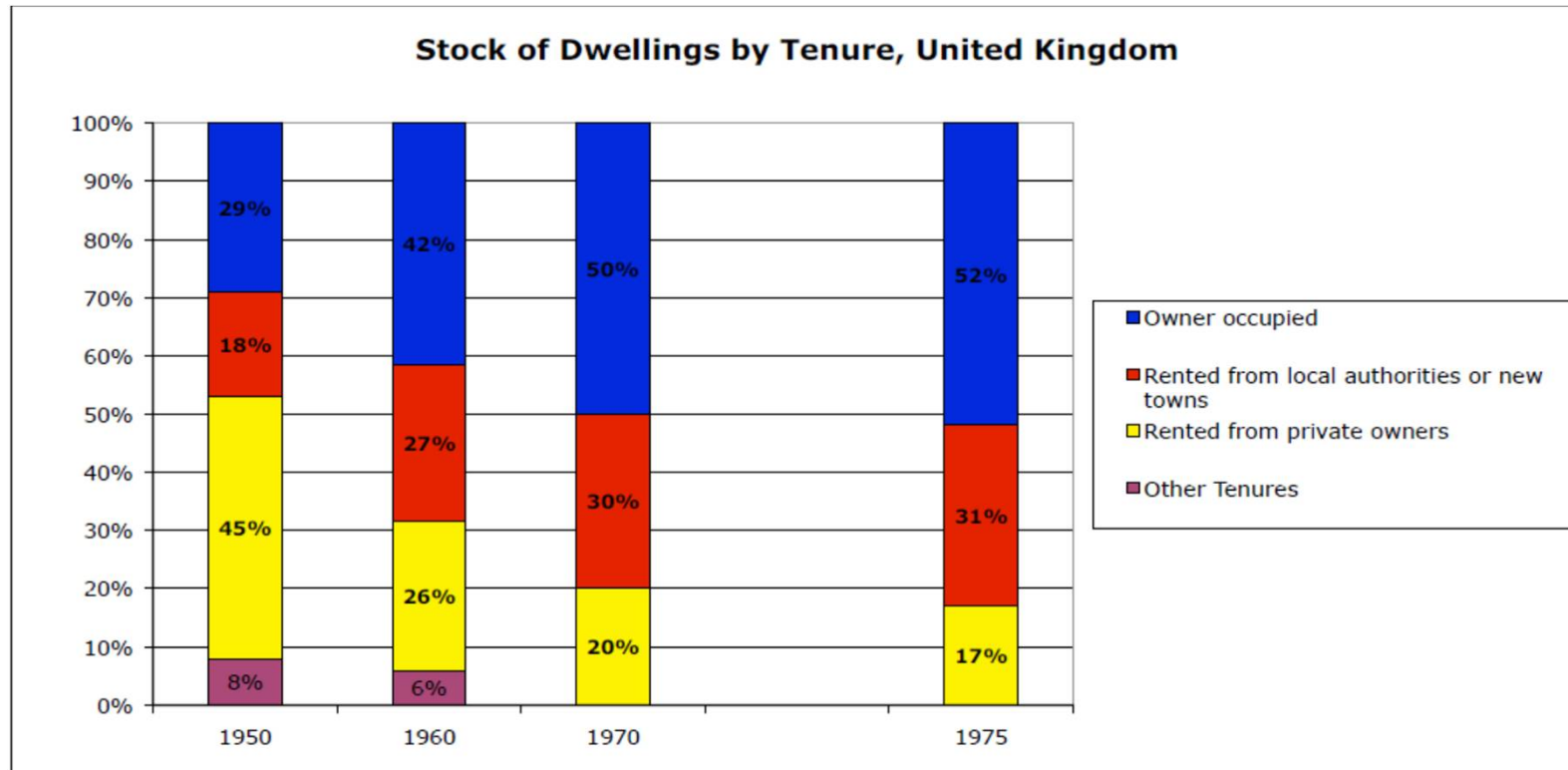
Relationship between Affordability and New AH Supply in Kent LAs



What can Kent County Council do to alleviate housing unaffordability?

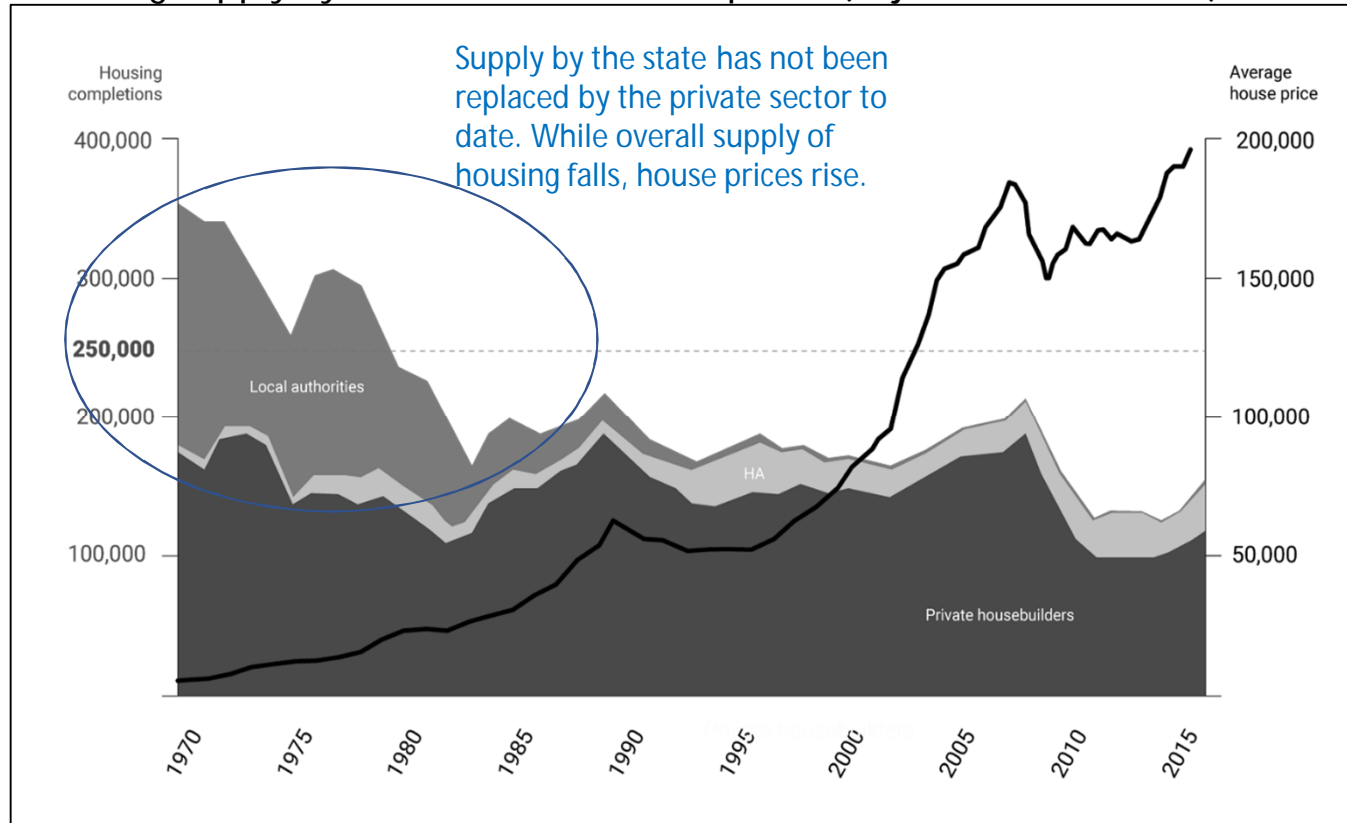
Local authorities used to be important landlords

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Local authorities used to be main driver behind housing supply

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



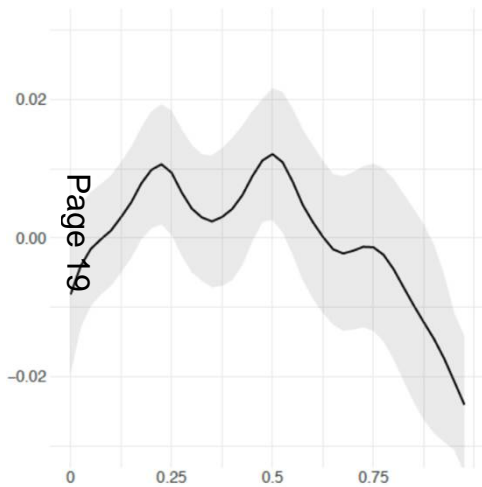
From a peak of 350k homes per year in 1970, recently only slightly more than 100k new housing units are completed.

Who are the largest owners of real estate in the US in 2018?

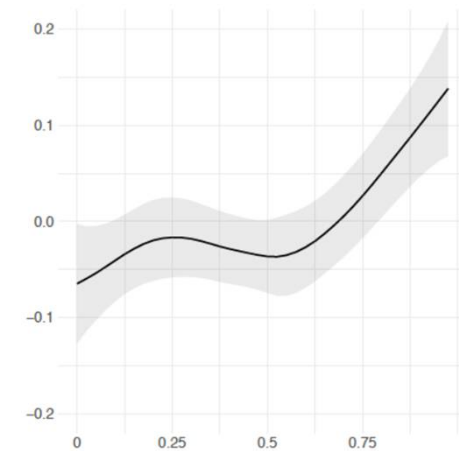
Company	Portfolio size	Type of investor
Blackstone	\$ 81,401,517,183	Equity Fund
Brookfield AM	\$ 79,811,188,929	Equity Fund
Simon Property Group	\$ 42,507,957,360	REIT
TIAA	\$ 32,794,867,587	Pension Fund
JP Morgan	\$ 32,740,438,261	Investment Manager
Vornado	\$ 31,789,241,472	REIT
Irvine Co	\$ 26,143,141,046	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.

(b) Buyers' PriorExposure on prices.



(d) Buyers' PriorExposure on holding period.



Source: Cvijanovic, Milcheva and van de Minne, 2019, *Information Asymmetries, Financial Constraints and Institutional Investment: Evidence from the Real Estate Market*, SSRN Working Paper.

We find that institutional investors can “learn” about a market the more they invest in it. Then they would pay less and hold the property for longer.

→ *Work with informed investors*

We find that

- 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.

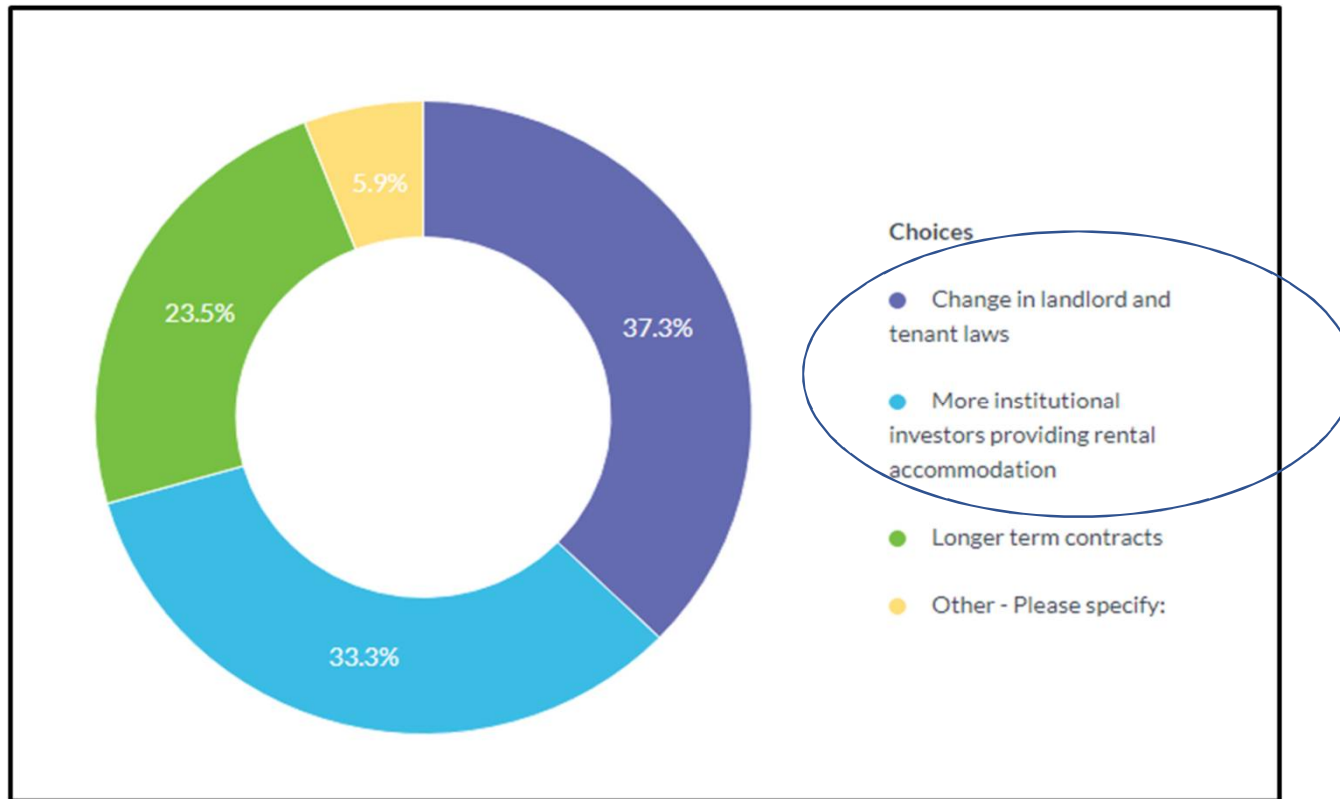
→ *Therefore it is important for Kent Council to take a more active approach in engaging with key real estate institutional investors and registered providers in order to deliver housing at scale*

Cite as: Cvijanovic, Milcheva and van de Minne, 2020, *Preferences of Institutional Investors in Commercial Real Estate* and *Information Asymmetries, Financial Constraints*, SSRN Working Paper.

We find that building AF is a win-win for landlords and tenants

- [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.
- 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 be a win-win for both, institutional landlords and tenants.*

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.

What can Kent County Council do to alleviate housing unaffordability?

- LAs have good 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.
- Release land for affordable housing.
- 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.
- Securing financing new development by taking a more active approach in engaging with key real estate institutional investors and registered providers in order to deliver housing at scale.

How can Kent Council finance AH developments and achieve scale?

1. Use the PWLB and/or institutional investors such as pension funds or insurance companies who provide cheap and long-term borrowing in the form of loans.
 - Kent County Council can use covenants and its balance sheet strength to borrow from the capital markets (i.e. Aviva, L&G, etc.)
 - Interest rates at the moment (Jan 2020) low – so a good time to borrow cheaply
 - See examples of Croydon, Stoke, Birmingham, Brighton council-run housing companies
2. Another way to finance is through joint ventures (JVs) with registered providers (see example of Brighton with Hyde)
3. Can use the KCC pension fund to invest in affordable housing *indirectly* by investing in a private RP which mandate is to invest in AH. Take care of regional diversification and financial expertise if no inhouse resources.

Thank you!

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