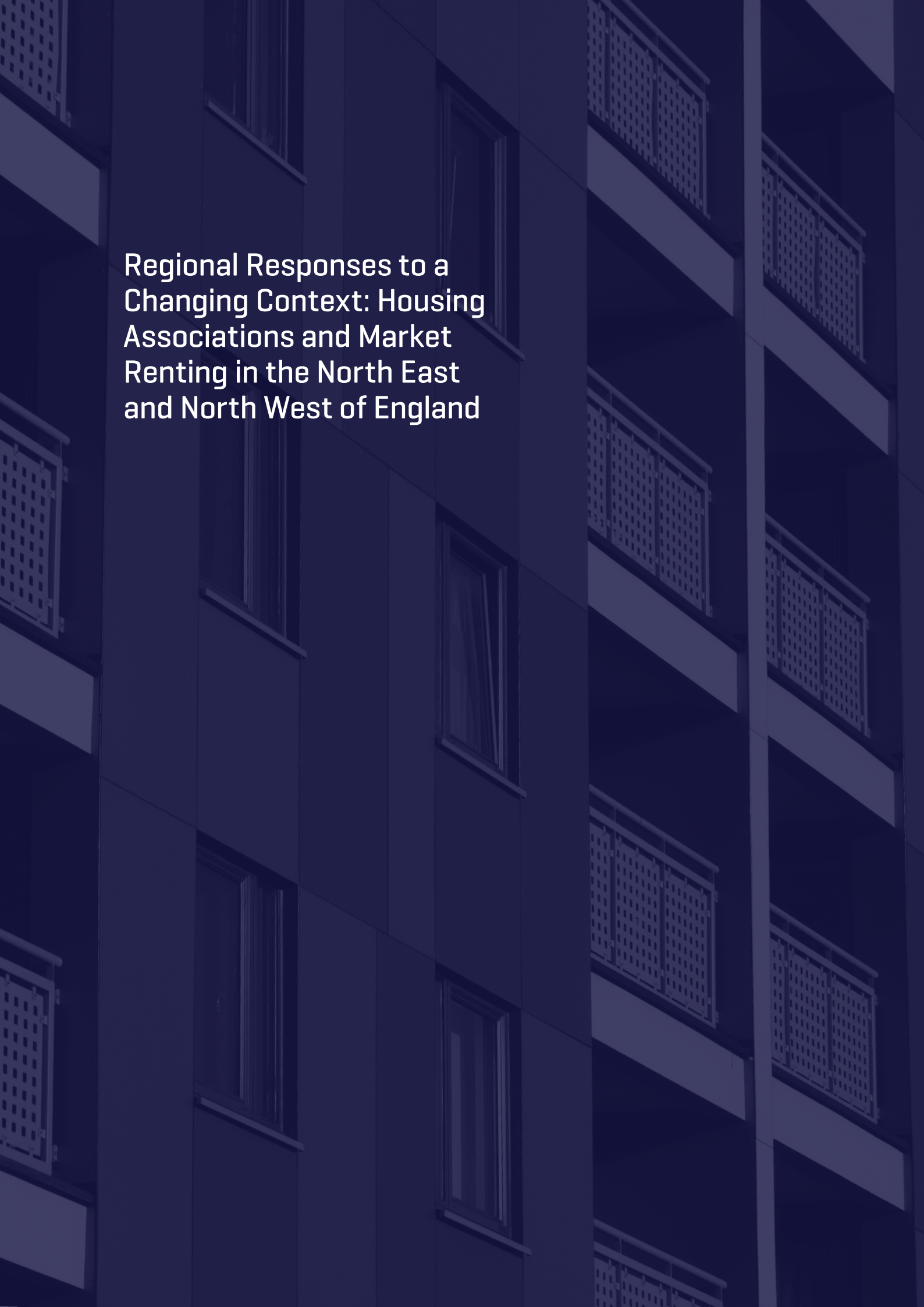




March 2016

Regional Responses to a Changing Context: Housing Associations and Market Renting in the North East and North West of England





Regional Responses to a Changing Context: Housing Associations and Market Renting in the North East and North West of England

Report for Royal Institution of Chartered Surveyors

Report written by:

Julie Clarke

Northumbria University

Paul Grainger

Northumbria University

Cara Hatcher

Northumbria University

Dr. Rachel Kirk

Northumbria University

rachel.kirk@northumbria.ac.uk

Sara Lilley

Northumbria University

RICS Research team

Dr. Clare Eriksson FRICS

Director of Global Research & Policy

ceriksson@rics.org

Amanprit Arnold

Global Research and Policy Manager

aarnold@rics.org

Published by the Royal Institution of Chartered Surveyors (RICS)

RICS, Parliament Square, London SW1P 3AD

www.rics.org

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Study sponsored by :



The RICS Research Trust, a registered charity established by RICS in 1955 to support research and education in the field of surveying.

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Executive Summary



Why this research; why now?

Housing associations are operating within a radically altered and rapidly changing policy context – something which was heightened during the course of this research. This project originated in the convergence of a number of factors shaping an agenda for housing associations to engage with market renting:

- the growth of private renting within a changing housing system,
- Government policy encouraging institutional investment in the private rented sector, and
- the impact of funding and welfare reform on the operating environment of housing associations, including a trend towards commercialisation and diversification.

Within this context, the research aimed to examine the extent and nature of market renting provision amongst housing associations, but also – crucially – to explore the strategic decision making processes shaping such activity. While much of the discussion of market renting amongst housing associations so far has been located in London and the South East, this research was conducted in the North East and North West regions of England.

The research included an online survey of housing associations operating in the North East and North West regions, a Round Table discussion with senior local, regional and national stakeholder representatives and interviews with additional national level stakeholders, and interviews with senior housing professionals from seventeen housing associations operating in the two regions.

The evolving policy context within which the research was conducted added to the dynamic nature of the analyses of organisations' decision making. In an increasingly uncertain environment, the report aims to inform policy makers and practitioners through a deeper understanding of how housing associations are interpreting and interacting with external and internal forces in deciding if, why and how, they engage with market renting provision.

A snapshot of housing associations' market renting provision

- Both in terms of existing market rented provision and future plans, the research identified considerable diversity amongst the housing association respondents. The range of experiences included associations with no existing provision as well as those with small and significant levels. There were varying time frames of involvement – for some it was a temporary involvement reflecting a discrete historical response while for others it was an ongoing and expanding activity; some respondents were considering entering market renting for the first time. It was evident that some associations had a major strategic commitment to market renting while others saw it as peripheral or irrelevant.
- There was also diversity in terms of what was provided, where and for whom. Housing associations' market renting activity was not confined to traditional city centre, young professional markets. While there remained significant activity in these areas, the research suggested evidence of engagement with evolving niche markets in relation to the family market and the 'squeezed middle'. Amongst the respondents there was reference to suburban as well as city centre locations and a significant amount of two and three bedroom properties as well as smaller apartments.

Exploring strategic decision making in practice: opportunities and challenges

- Analyses of respondents' strategic decision making in relation to market renting identified complex and multi-dimensional influences. A range of external and internal push and pull forces were occurring at the same time. Moreover, it was apparent that similar forces could exert both positive and negative pressures, depending on the local context and the nature of the organisation.

The research identified the following key forces:

Does the local housing market support additional market rented activity?

Meeting a gap in the local housing market was identified as a major motivation for some respondents, while for others doubts about the capacity of the local market to sustain additional market rented provision and minimal differentials between market and social rent levels made it an unviable option.

Changing national policy environment

It was clear that current changes to the housing policy environment and questions over its future direction were essential considerations. For some the unpredictable environment increased the perceived risks associated with market rented provision as an option for diversification, while for others the national environment was a driving force, encouraging market rented activity in order to diversify risk and create additional income streams.

Local policy environment

Where strategic partners had a clear commitment to market renting within their housing strategies, this was an encouraging force. For some housing associations the opportunity to diversify tenure, broaden the range of households and strengthen the local economy through market renting was an opportunity to contribute to the sustainable communities agenda in localities.

Organisational culture and values

Internal forces operated in parallel with the external environment in determining if and how housing associations interacted with market renting. Such decisions went to the core of the organisation and its culture and values.

For some housing associations market renting activity was problematic in relation to social purpose and governance issues; interestingly others interpreted such activity as core to their social purpose. There was evidence of a broadening of the interpretation of housing need amongst some respondents, incorporating the addressing of wider affordability issues within local markets alongside the traditional role of rehousing vulnerable people.

Business drivers – risk and return

For some respondents the desire to diversify beyond the existing core and into market renting was related to the desire to minimise risk. There was a strong emphasis on raising income from different sources in order to cross subsidise activities that fulfilled the social mission of the organisation. The potential for achieving mutually reinforcing financial and social motivations was highlighted by a number of respondents, suggesting an increased legitimacy in relation to housing association provision of market rented dwellings. However, amongst other respondents concerns about risks, return, costs and viability acted as deterrents to market renting, reflecting the uncertainties of the market and the policy environment, and preferred alternative options such as developing properties for sale.

Utilising organisational experience

Amongst many of those currently providing, or aspiring to provide market renting, there was a sense that they had an existing set of skills that was capable of being transferred to market renting provision and this encouraged internal decision making. However, there was also caution amongst a number of respondents about the need to deliver a distinct service, recognising the different requirements and expectations in the market rented sector.



Diversity of practice

- While the influencing forces had relevance to all organisations, the interplay between them and the relative emphases and varying interpretations, were reflected in distinct approaches to strategic decision making processes. For example, organisations that could be termed 'enthusiastic early adopters' were particularly driven by mutually reinforcing cultural and business drivers as well as a supportive local context and market; a stronger emphasis on national policy drivers in combination with a business case, but less of a cultural commitment, was evident within a more 'reactive pragmatic' approach.
- The diversity of strategic decision making was reflected in the non-homogenous nature of housing associations' market renting provision in terms of 'the product' and how it was organised and delivered. Whether organisations were involved with city living or family products, Rent to Buy models or traditional private renting, reflected the different interplay between external and internal factors and had implications for branding and management. Some organisations emphasised the importance of a distinct brand and discrete housing management delivery, whereas others referred to the value of the housing association brand and the use of existing management. There were also considerations in terms of ownership and governance about the notion of 'separateness' and implications for the development and nature of subsidiary organisations.

Implications for practice

- The range of experiences in this research demonstrate a more complex picture in terms of the relationship between housing associations and market renting than might initially be expected. As regards policy and practice, it is clear that there is no single model or approach; organisations are engaging (or not engaging) in different ways and for different reasons.
- For strategic decision makers in housing associations it is important to understand how, in combination with the fundamental influence of the local market, complex interconnected forces inform decisions and shape outcomes. Associations must address key strategic considerations:
 - What are your key drivers and how do they interact with other influences?
 - Are there clear and explicit objectives about why you are getting involved with market rented provision as an organisation?
 - What does this mean for how you organise and deliver the activity?
- The research reinforces the extent of local diversity within a regional setting and the importance of developing flexible and responsive local policy and practice. Within this context, national, regional and local policy makers need to recognise the diverse nature of housing associations - their varying business models, cultural contexts, and strategic approaches, as well as the different local markets they operate in – and their potential to take on multiple roles across different tenures in different local contexts.



1.0 Introduction



The rationale for this research project emerged out of a number of forces in the housing market and the housing policy context coming together to suggest an agenda for housing association involvement in the private rented sector. The private rented sector has grown significantly in recent years (CLG, 2015) and Government policy has further encouraged its growth, in particular through institutional investment (demonstrated via initiatives such as the Build to Rent programme). In the context of welfare reform, reduced public expenditure, and most recently rent restrictions, housing associations are facing a radically altered operating environment (NHF, 2015a). The subsequent pressures on income streams mean that diversification and commercialisation are central to the strategic debate facing housing associations (NHF, 2015c). At the same time housing associations' expertise as large scale landlords potentially presents new opportunities. Within this context, a number of push and pull factors have moved the involvement of housing associations in market renting activities up the agenda, something that has been recognised nationally (CLG Select Committee, 2013).

1.1 Aims

Within this context the research aims, firstly, to provide a snapshot of the extent and nature of current market rented provision amongst housing associations operating in the North East and North West regions of England and their future plans. Secondly, the research aims to explore the influences that are shaping housing associations' decisions about whether, and how, to engage in market renting activities; what are the motivations for, and barriers

to, commencing or expanding such activities. Through examining the complexities of the strategic decision making processes involved, it is intended to develop our understanding of the (potential) relationship between housing associations and market renting and identify key issues for consideration amongst housing associations.

A previous research study into the nature of housing associations' engagement with market renting (Goodchild and Syms, 2003) was carried out in a very different economic and policy climate. Our research provided the opportunity to explore if, how and why such engagement has evolved in subsequent changing times. Moving into market renting, or not, in many ways epitomises a wider debate about the strategic direction of housing associations. Crucially, this research project had a regional focus; the research aims were addressed in the context of the North East and North West regions of England. Much of the discussion of market renting amongst housing associations so far has been located in the South East or Southern context (see for example, Chevin, 2013). This research set out to explore the issues in a very different set of housing markets in North East and North West England. While the findings of this research are based within particular regional contexts, the diversity of the local housing markets that existed across the regions was considerable. The research incorporated a range of organisational responses to different circumstances giving it a value beyond the specific regions considered. The associations in this research operated across very different housing markets – something that would be apparent in most regional settings.

1.2 Methods

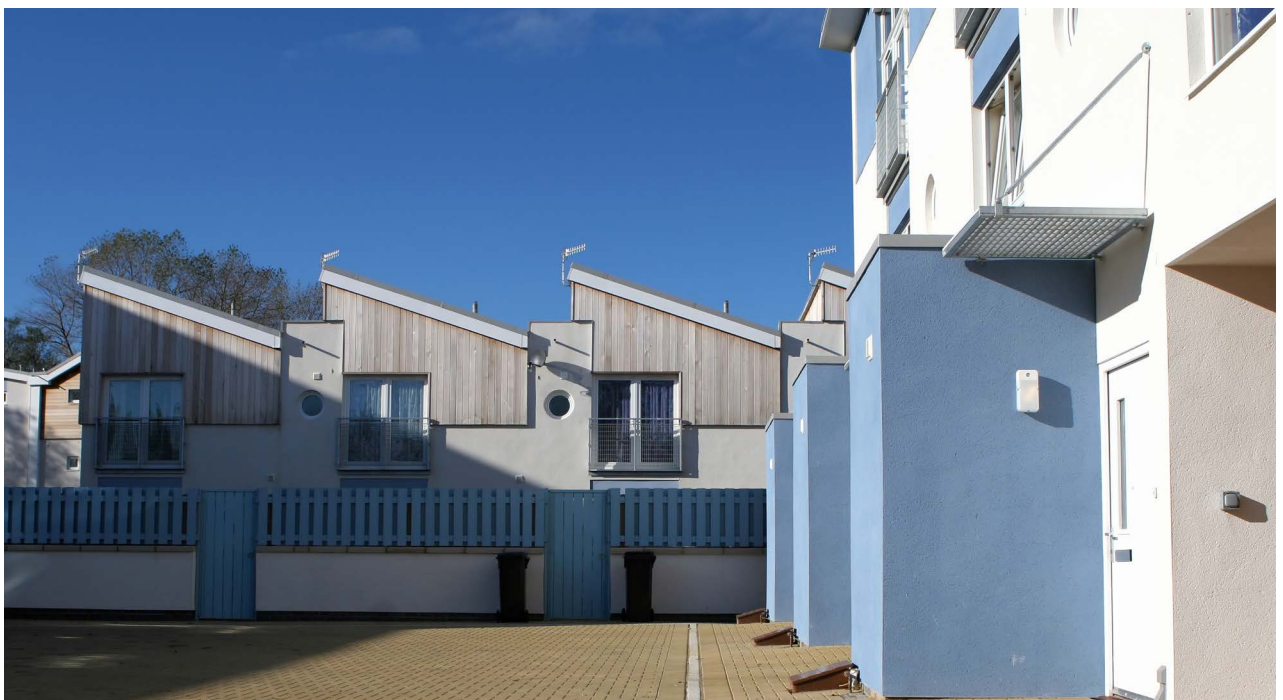
The project utilised a number of different data collection methods

- Online scoping survey of housing associations operating in the North East and North West regions of England
- Round Table discussion with local, regional and national stakeholder representatives
- Semi structured qualitative interviews with senior housing association professionals
- Semi structured qualitative interviews/discussions with key national level stakeholders

Initially, the project involved an online survey, which was distributed to all housing associations that operate in the North East and North West regions of England. For the purpose of the research the regions were defined as follows – the North East region was the geographical area including Northumberland, County Durham, Tyne & Wear, and Teeside (including Redcar & Cleveland), the North West region was defined as the area including Cheshire, Cumbria, Greater Manchester, Lancashire, and Merseyside. Market renting provision was defined as dwellings that are let at full market rents (i.e. 100% as distinct from 80% 'intermediate' rents). The survey included questions addressing the current, planned and future market rent provision, and motivations and barriers to engaging in market rent provision. There were 30 respondents to the survey. In terms of stock size the organisations ranged from the smallest providing 269 social rented dwellings to the largest with 50000; they included organisations operating across regions as well

as solely in the North East or North West. While caution must be applied in drawing conclusions from the survey data due to the relatively small sample size, it provided a useful indication of key themes for exploration and informed subsequent phases of the research.

The implications of the online survey data were discussed at a Round Table event attended by senior level practitioners, national and regional level policy makers and other key stakeholders, and chaired by Lord Best. The issues raised in the online survey and at the Round Table were explored in more depth within qualitative interviews. Twenty semi-structured interviews were conducted, face to face or via telephone, with professionals from 17 different organisations. The organisations included a range of organisation types and sizes operating in different areas with differing levels of market renting activity, including some with no current activity. The interviews were conducted during the autumn of 2015, a time of considerable and ongoing upheaval for housing associations following further radical policy developments in the Government's summer budget. Although challenging methodologically for the research, the data provided insights into how organisations were reacting to the dynamic environment and the subsequent implications for market renting. Given the significance of the changing policy context, further qualitative interviews and discussions were conducted, either face to face or via telephone, with senior representatives from national level stakeholders including the Chartered Institute of Housing, the Homes and Communities Agency, the Housing Quality Network, the National Housing Federation and the Royal Institute of Chartered Surveyors.



2.0 Background: Housing associations and market renting in a time of change

2.1 An evolving market rented sector

The housing system – and the role of the market renting tenure within it – is changing. Nineteen percent of households were renting privately in 2013-14, compared to 11% just ten years earlier in 2003 (English Housing Survey, 2015). Following years of decline there has been a notable growth in the private rented sector (see for example, Pattison, 2013). In England there are now more private rented sector households than social rented sector households (17% across England) (EHS, 2015). Stephens et al (2014) suggest that this shifting balance will become more pronounced in the future; their projections suggest that by 2040, private renting will grow to house one in five people in England with social renting housing one in ten households. In terms of the cost of private renting, they forecast that private rents will increase at a rate that is more than twice the rise in incomes with private rents increasing by 90% between 2008 and 2040 (Stephens et al, 2014).

A regional aspect to the evolving private rented sector has been recognised. Pattinson's (2013) analysis of the 2011 Census illustrates geographical diversity in terms of growth in the private rented sector, even within the regional boundaries of this research; he identifies Manchester, Liverpool and Salford as in the top twenty (outside of London) in terms of lower tier or unitary authorities experiencing the highest growth in the relative size of the private rented sector, while a number of

Cumbrian authorities are identified as being amongst the authorities experiencing the lowest levels of growth in the private rented sector. The relevance of a distinct Northern perspective has recently been highlighted with the establishment of The Commission for Housing in the North. One of the overarching themes of the Commission is 'a private rented sector to support aspiration' with a sub topic including 'Delivering quality, security and flexibility in Northern rental markets' (www.northern-consortium.org.uk, 2015). The CLG Select Committee on the private rented sector 2013/14 acknowledged geographical variations in housing markets and 'the need for a more localist approach to housing policy' (page 8).

Nationally, there has been a government commitment to the private rented sector as part of the solution to the housing crises in recent years (see for example Bate, 2015). Following the Government commissioned Montague Report (2012) which reviewed barriers to institutional investment in private rented stock, the Government introduced a number of initiatives intended to boost supply and attract institutional investment. The Build to Rent Fund was introduced in 2012 and expanded in 2013 offering institutional investors the opportunity to bid for the funding which was intended to act as a trigger for stimulating further development. At the same time a private rented sector housing guarantee was introduced offering a Government backed guarantee on debt raised by providers to invest in new private rented stock. An enabling Private Rented Sector Taskforce was established to 'kick start the new private rented sector in the UK' (HM Government 2013 quoted in Bate, 2015).



While the initiatives have seen varying degrees of success (CLG, 2013; Bate, 2015), the agenda for an evolving private rented sector and the role of institutional investment was clear. Moreover, national debate suggested that there was a role for housing associations within this. Within this context, this research seeks to explore the extent to which housing associations see market renting as an area of activity for them to be involved with, both currently and into the future, in the North East and North West of England. In 2003, Goodchild and Syms suggested that while market renting was a peripheral activity for housing associations there was sufficient success to encourage further growth. Rugg and Rhodes (2008) in their review of the private rented sector recognised the potential offered by housing associations in delivering new private rented development. Since then the expansion of the private rented sector and the changing policy environment facing housing associations has moved the issue further up the agenda. The Montague Report quoted in Chevin (2013: 51) suggested that *“The (larger) associations have the potential to become key players in the development of bespoke private rented schemes”*. The potential for housing associations’ considerable landlord and development experience to place them in a strong position to play a significant role in expanding and improving private rented provision was recognised by the CLG Select Committee Report (2013).

In 2014, Lindley’s small scale survey of members of the Housing Quality Network found only minimal engagement in terms of respondents having their own market rented stock, with slightly higher levels of engagement with private sector leasing and social lettings agencies. CIH (2013) identified potential but also caution in discussing a range of activities (both market rented development and lettings), exploring diverse supporting motivations and acknowledging the complexity and diversity of different housing associations’ circumstances. Bate’s (2015) briefing paper on ‘building the new private rented sector’ incorporates a section on social landlords’ PRS initiatives. Data from Inside Housing (26.6.15) showed that amongst the top 50 housing association developers, only 1.75% of development was for market renting. However, it must be noted that the picture in terms of activity may be more complex, with housing associations operating their market renting activities through subsidiary companies and also being involved in ways other than new development – i.e. redesignation and acquisition. Nationally, it has been suggested that identifying the level of market renting provision amongst social housing providers presents a number of challenges. HCA (2015) statistical returns for private registered social housing providers in England 2014/15 included 50,216 non-social rented properties within their owned stock, compared to 48,359 in 2012. The HCA (2015) emphasise that figures relating to non-social housing activities should be treated with caution; for example the ‘increased use of non-registered entities within group structures being used as the owning body’

and ‘non-social stock not being directly regulated by the HCA’ (p 15), may result in under-reporting due to differing interpretations. While our research sample did not enable a definitive assessment of the overall amount of market rented activity in the North East and North West regions, a range of experiences in practice were identified. The relevance of examining the interplay between market renting and housing associations is evident, something which has been heightened significantly by the shifting policy context facing housing associations.

2.2 Changing times for housing associations

At the same time as this national agenda emerged, housing associations were – and still are - experiencing a period of ongoing change to which diversification is central. The UK social housing sector in the UK has experienced a process of marketization over recent decades as government funding has declined and the reliance on private finance has increased. Since 2010 the extent and nature of welfare and social housing policy reforms, alongside public expenditure constraints, have had potentially dramatic implications for social housing providers. The reduced availability of government funding for housing associations, as well as significant expenditure cuts affecting their public sector partners, has impacted on development activities and wider service delivery. Radical welfare reform such as the introduction of size criteria (the bedroom tax) and Universal Credit have impacted on the income of social housing tenants and increased uncertainty about rental income amongst landlords (see for example, Williams et al, 2013, Power, 2014). The extent of change has led to significant organisational restructuring amongst social housing providers and strategic level debate about the role of social housing into the future. In the face of increased pressure on income streams, the sector is characterised by new challenges and debates about diversification and commercialisation (see for example, NHF 2015c) and the relationship between business and social objectives (eg Campbell and Rafalowicz, 2013; Chevin, 2013, Richardson et al 2014).

‘The sector is debating its purpose and objectives. Many associations are reviewing their strategies and business plans in order to ensure a workable balance between their social and economic aspirations’ (Chevin, 2013: 6)

Clarke et al (2014:1) highlighted how developing housing associations ‘were increasingly focusing on building housing for market sale or rent, either as a commercial activity or to generate cross subsidy for social homes’.

The NHF ‘Ambition to Deliver’ (updated 2015) identifies a vision for housing associations as essential to addressing the housing crisis, recognising both evolving and existing opportunities, and highlighting their potential to fulfil a broader role in the housing system as a whole:

'By 2033, housing associations will be widely recognised as:

- social enterprises: independent private bodies that exist for social good*
- building, maintaining and managing good quality homes across all tenures and for all income groups*
- investing in economically and socially healthy and resilient communities'* (NHF, 2015c: 4)

Exploring housing associations' decisions about market renting could be seen to some extent to epitomise aspects of the strategic level debate facing the movement as a whole. What is the core purpose of housing associations; how is this being (re)interpreted by the organisations themselves; to what extent are housing associations being pushed and/or pulled towards market renting; is there a 'neat fit' between housing associations and market renting?

During the time frame of this study, the policy context facing housing associations evolved significantly. In their Summer Budget 2015, the Government introduced further radical changes to the operating environment of housing associations. Some of the key measures included:

- Reduction of rents in social housing by 1% a year for four years*
- Pay to stay for higher earning tenants in social housing (paying a market rent for affordable housing when earning over a threshold income)*
- Reduced household benefit cap* (NHF, 2015b)

Such developments have significantly added to the pressures on revenue streams, posing major challenges to the business models of housing associations and raising

questions about strategic direction in terms of future business and core purpose. In particular the impact on potential development activity has been highlighted.

'... a cut in rents ... will massively constrain housing association's ability to meet the shared ambition of themselves and government to drive housing growth and new jobs..' (NHF, 2015b: 3).

Professional press coverage (Social Housing 15.7.15) suggested that the rent reduction alone would result in a reduction in rental income of £3.9billion and a reduction in its surpluses, preventing housing associations building 27,000 homes (a figure they suggest could be higher when taking into consideration the 'compounding' factors of 'pay to stay' and further benefit reform). Within the inevitable process of strategic reorientation, the balance and nature of activities is potentially open to reconfiguration. For example, a survey of 135 chief executives of social housing organisations (Inside Housing 16/10/15) found that 31.9% said it was likely they will stop entering new agreements to build sub market rent as a result of the rent cut; 34.9% of respondents were likely to look at building more market rent homes.

Although beyond the scope of this research, it is important to acknowledge the ongoing nature of national policy reform in relation to housing associations. Further dramatic shifts are on the horizon with the Housing and Planning Bill 2015-16 proposing extending the right to buy to housing association tenants. The extent of the externally driven reform agenda was highlighted by Dudman (the Guardian Housing Network 24.9.15): *'... (since May 2015) housing associations have been facing a sustained onslaught from the government'*. Housing associations are facing turbulent times with potentially significant implications for their social as well as non-social rented stock.



3.0 A snapshot of housing associations market renting provision



This first section of the research findings provides a snapshot of the activity taking place amongst the housing association respondents. The overview reflects the range of experiences amongst our sample, incorporating levels of activity (current and future plans) as well as the nature of the market rented stock, its location, and the type of households involved, and consideration of approaches to funding and delivery.

3.1 Extent of activity

There were varying levels of market renting activity amongst the North East and North West participants in this research. Amongst the 30 respondents to the survey, 11 reported current market rented activity in their stock, ranging in size from eight to 300 dwellings. However, it was evident that market renting was not on the agenda for all housing associations, with less than half of the survey respondents currently engaged in such activity. The qualitative phase of the research purposely identified organisations across the two regions, the North East and the North West, that were involved with market renting provisions to differing extents, ranging from those with over 200 properties to those with a small portfolio of market rented stock to those who currently had no such stock.

A key theme identified in the research was the importance of examining the perceived role of market renting within the strategic direction of different housing associations, and in particular how this was evolving within the current policy context. It was evident that some organisations had a major strategic commitment to market renting while others saw it at best as a peripheral activity or irrelevant in some cases. Significantly, several of the housing associations involved in the interviews were either about to, or were preparing to, become involved in market renting. For some this had been a longer term consideration, for others it was accelerated by the most recent policy reform:

‘So we’ve considered private renting previously, but hadn’t progressed it, mainly due to risk to be honest with you, and the fact that our business plan was viable anyway under a social housing model....but since the summer budget, we’re revising our financial plans and our corporate plans as well going forward’ (HA interview respondent, 2015)

Amongst those respondents who were already active, some were not looking to expand while others had growth strategies of varying degrees, with one respondent expressing an aspiration for market renting to account for 50% of their portfolio in the future.

Housing association owned market rented stock was the focus of this research project, but there was some discussion amongst housing association respondents about other types of market renting activity. While only one of the survey respondents managed market rented properties on behalf of another landlord, almost one third of the interview respondents were either currently engaged in such activity or were considering becoming involved. Such respondents acknowledged the potential for a commercial return alongside a reduced risk in terms of investment related to such activity.

Both in terms of existing activity and future plans, this research identified considerable diversity amongst the respondents. There was no clear pattern in how varying levels of engagement related to size of organisation or location – although different housing markets and capacity to fund inevitably meant market renting was more of a viable option for some housing associations rather than others. It became apparent within our research that it is crucial to understand how and why housing associations are making decisions about the extent and nature of their market renting activities; what are the driving forces shaping such decisions?

Figure 1

Source of current stock of market rented dwellings

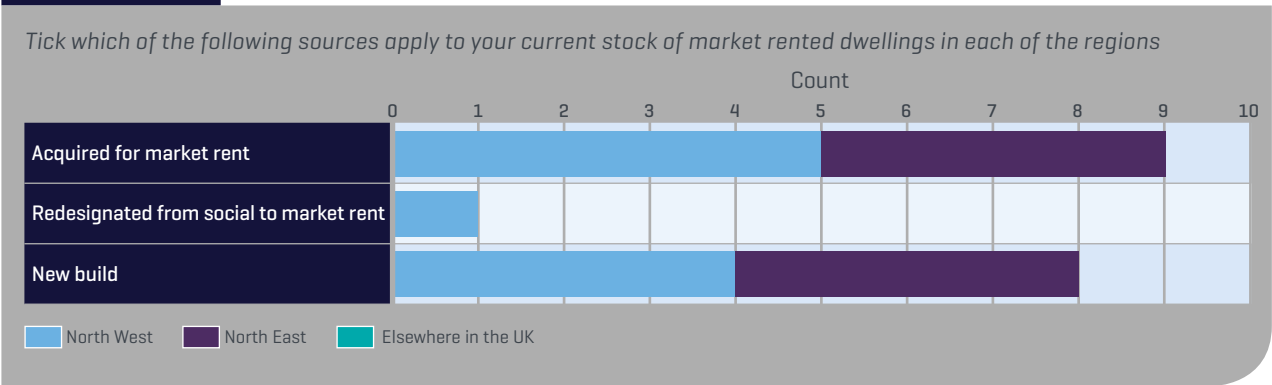
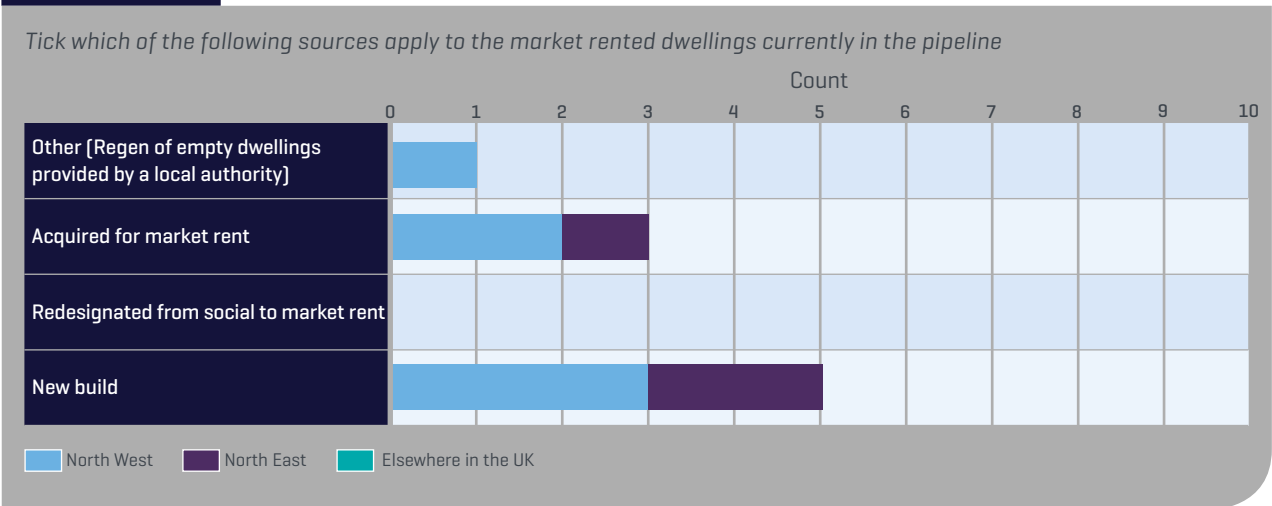


Figure 2

Sources of pipeline market rented dwellings



3.2 What, where and who for?

Amongst the respondents to the online survey, most of the dwellings currently being provided for market rent were either purpose built or acquired by associations. Only one of the respondents reported current market rent activity of dwellings redesignated from social to market rent (Fig. 1).

Of those market rented dwellings in the pipeline with committed resources, there was an emphasis on new build, with some acquisitions planned, and one example of an association planning to regenerate empty dwellings provided by a local authority. None of the reported pipeline activity involved redesignation of existing social rented dwellings (Fig. 2).

The emphasis on new build and some acquisition continues into future aspirations with as yet uncommitted resources (Fig. 3). Some respondents also suggested that there may be potential for redesignation of social dwellings. The Round Table discussion noted examples of redesignation of stock, for example as a mechanism to deal with void issues, however this was not something discussed by the interview respondents.

Amongst the online survey respondents' current market rented stock there was a range of property sizes with a dominance of two bed dwellings as the favoured dwelling type (Fig. 4). Pipeline plans and expressed future aspirations showed a desire to provide dwellings of all types but with an emphasis on family size housing (two and three bed).

However, such an emphasis was not apparent amongst the interview respondents – there was significant reference to apartments in terms of current activity and future aspirations, as well as reference to the family homes that the survey highlighted.

In relation to the location of market rented stock, the self defining nature of this question and the relatively low response rate to the online survey means that the data has to be tested and analysed with caution, but there was evidence of a variety of geographical locations for market rented stock amongst the respondents. While city centres were a focus for provision, the most significant current and

planned provision was in suburban areas amongst survey respondents. However, while a variety of locations were acknowledged amongst the interview respondents, there was more of an emphasis on city centre or city centre fringe activity (with proximity of transport a key factor).

Rugg and Rhodes (2008) identify the private rented sector as a series of niche markets. In terms of housing associations market rented provision, Goodchild and Syms (2003) discuss the “core client groups” as single people and childless couples, with professional / key worker occupations and middle range incomes. The CLG (2013) discussion of housing association provision makes

Figure 3 Potential sources of future market rented dwellings

Are you considering providing market rented housing (or more market rented housing) in the following manner in the future?

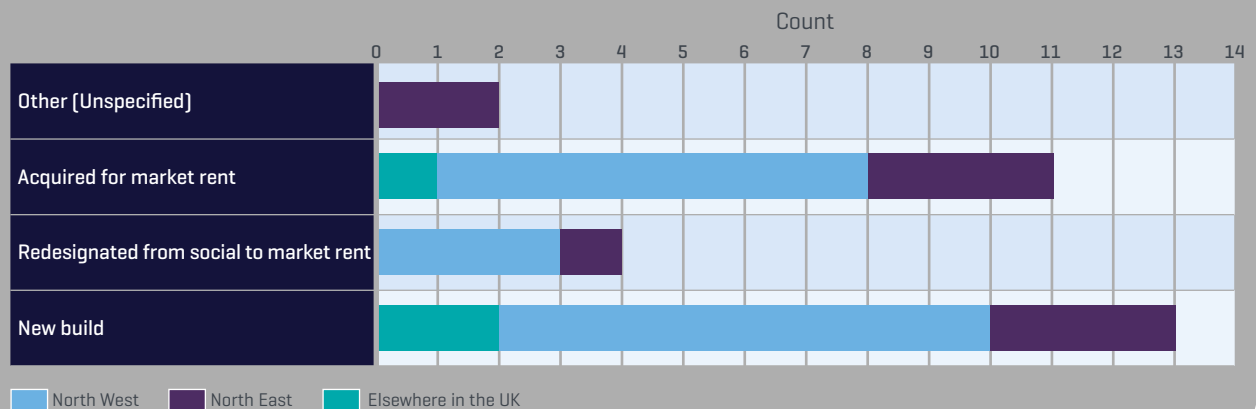


Figure 4 Size of current market rented stock

Are you considering providing market rented housing (or more market rented housing) in the following manner in the future?

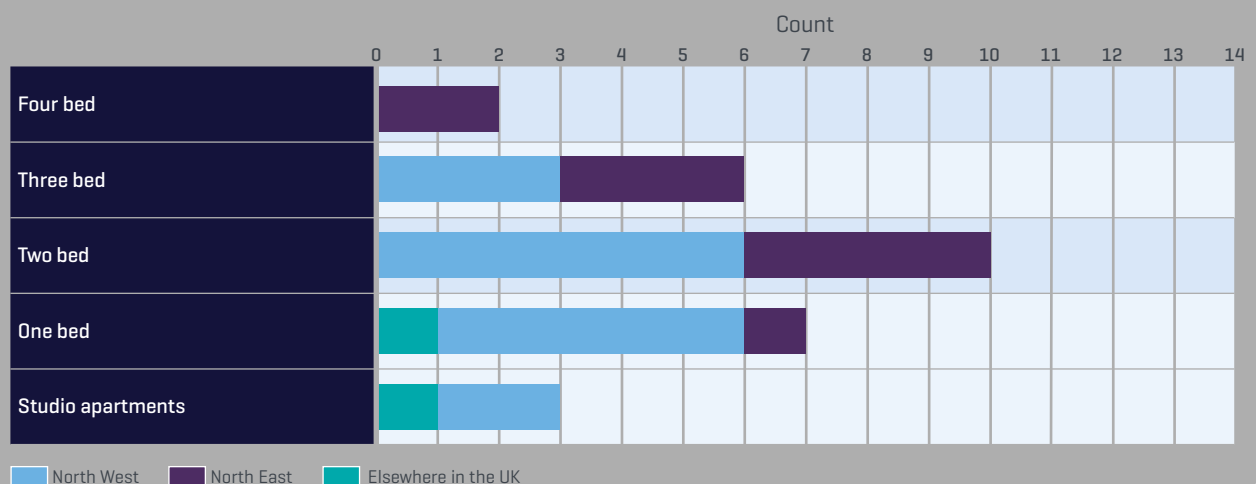
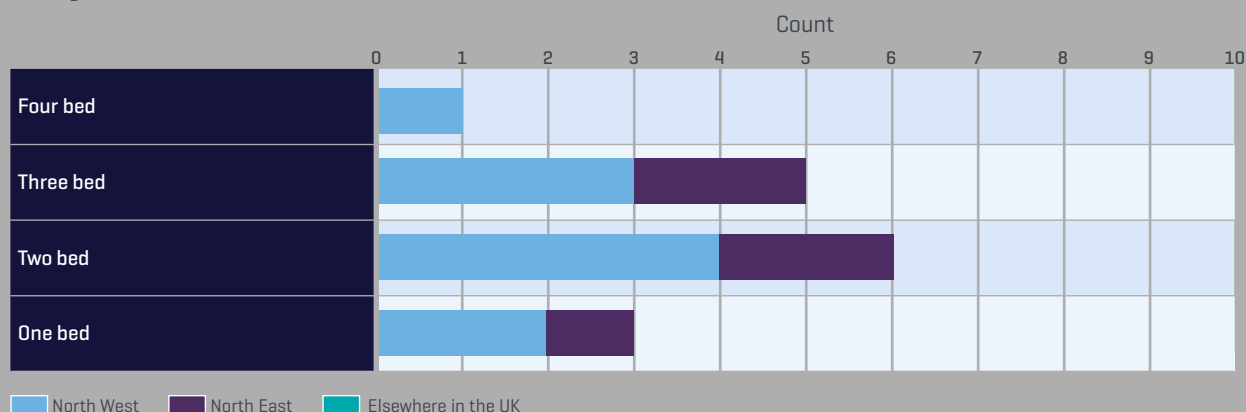
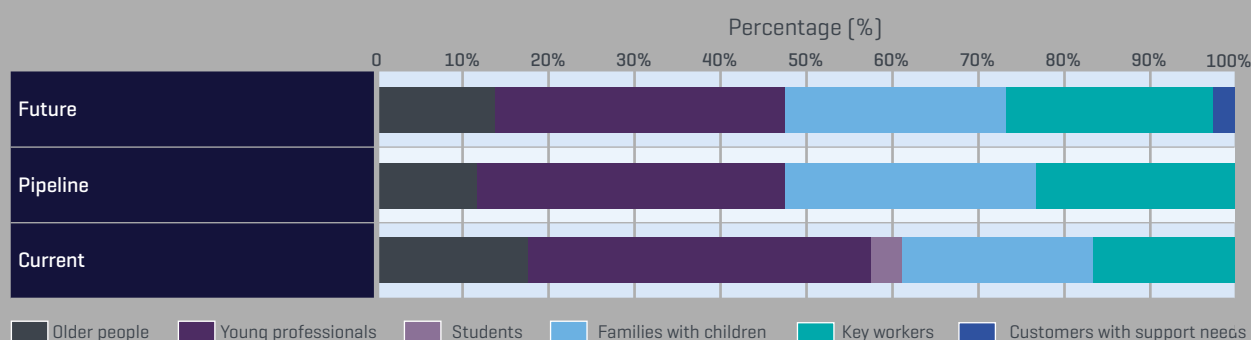


Figure 5 Pipeline dwellings sizes

Tick which of the following sizes of dwellings apply to your market rented dwellings currently in the pipeline in each of the regions

**Figure 6** Household types

illustrative reference to the student market. This research suggests that housing association provision is engaging with evolving niche markets as well as existing ones. Whilst acknowledging the diverse range of provision, two key 'products' did seem to emerge: 'city centre living products' and 'family products'.

In terms of the online survey of both current activity and plans in the pipeline, there was evidence of the significance of families with children and key workers in relation to the housing associations' market renting activity. A preconception may have been that properties were for the traditional young professional market but our interview and survey respondents suggested that it is a diverse market (see Fig.6). There was only minimal reference to the student market across the different respondents in this research; one respondent referring to the discrete markets of mature or overseas students and another suggesting it was better 'leaving it to the specialist providers'. Market renting provision for older

people was identified by some respondents in the survey, and Round Table participants discussed the potential for growth of this area in the future. One organisation identified recently developed bungalow provision aimed at this market and another one of the interviewees (operating in an area outside of the perceived advantages of a city centre location) suggested that market renting for older people was a niche market that they could explore.

In the qualitative interviews there was an awareness of responding to the growing demand amongst traditional young professional markets, but there was also an emphasis for some on a relatively new or evolving niche market. Reflecting the changing housing system, the needs of the 'squeezed middle' facing affordability difficulties in local housing markets, and providing a 'route to ownership on the family market', added considerably to housing associations' rationale for involvement in market renting provision.

3.3 How? Funding and organisation

A shift in funding sources over time was evident amongst the survey respondents, reflecting a wider context of change in terms of housing associations' finances. While self funded reserves and secured credit were the most significant for existing as well as planned activities, there were indications that other sources of funding had declined, whilst others were likely to grow in significance. Perhaps inevitably by its very nature, legacy funding such as Single Regeneration Budget funding was evident in relation to the respondents' existing market rented stock but was less relevant to planned activities or future aspirations. Although based on small numbers there was an increase in the use of Build to Rent funding. In relation to pipeline plans (resources committed) bonds emerged as a source of funding, and grew in significance in terms of future aspirations. Real Estate Investment Trusts (REITs) and pension funds (perhaps in contrast to housing press coverage) were not evident as a source of current or planned activity amongst the respondents here, however a number of respondents identified pension funds (and less so REITs) as potential sources of funding for future aspirations in market renting activity (Fig. 7).

Discussion at the Round Table highlighted the potential advantages of self-funded reserves and secured credit compared to alternative sources. The bureaucracy associated with some alternative mechanisms was seen as off-putting; REITs for example *'fall into the too difficult box'* (Round Table participant). Take up of policies such as Build to Rent has been minimal amongst housing associations and this was reflected amongst the organisations who were involved in this research. Qualitative feedback suggested that the additional bureaucratic and time frame requirements could outweigh any potential advantage of the slightly lower interest rates i.e. *'it's easier to do it yourself.'* In addition, one respondent highlighted the scale of activity that was required to engage with these mechanisms as a barrier for most housing associations:

'We were disappointed around the expectations about the size of the portfolio they expected. We hoped it would be a bit more open to all comers really'
(HA interview respondent, 2015)

Asked about potential Government support for increasing housing association activity in relation to market renting, there was a sense from some respondents that such activity had to be taken on as a wholly market model, for example, *'it's about competing with the rest of the market on a level playing field'*, and *'....we need to be able to stand on our own two feet'*. (HA interview respondent, 2015).

Figure 7

Funding vehicles for current, pipeline and future aspirational provision; online survey respondents 2015

Funding sources used, committed or being considered			
	Current provision	Pipeline provision	Future aspiration
Self funded from reserves	6	5	4
Secured loan	3	3	6
Bonds	0	2	5
Pension funds	0	0	4
Real Estate Investment Trusts	0	0	1
'Build to Rent' funds	1	2	1
Other public funding (e.g. SRB, City Grant, Pathfinder funding, LOTS etc.)	2	1	0
Other (please specify)	1	0	0
Not sure/not yet decided			3

Note: Other current: bank funding for a sale scheme changed to a rental scheme when the market changed

However a number of interview respondents mentioned alternative or innovative models for potential expansion into the future, including for example negotiating with private developers to provide market rent units in lieu of a receipt for land that the housing association was looking to sell, as well as opportunities through the use of bonds and pension funds. A number of respondents mentioned the potential of managing market rented properties for institutional investors, on behalf of pension funds for example. This was seen as less risky – not requiring investment from the housing association – something perhaps heightened by the most recent changes to their operating environment.

The agenda for diversifying activities amongst housing associations raises complex questions in relation to organisational structure. The charitable status of housing associations means that they are limited in terms of the level of commercial activity that they can engage in as governing bodies. It was clear from the qualitative interviews that respondents were operating in a range of different organisational structures. Of the survey respondents who answered the question, 14 were from organisations that were registered with the HCA as group structures and 13 were not. Of the associations with group structures, eight were currently involved in market renting activity and six were not. Only three of those associations not registered as groups were currently providing market rented homes. Those with group structures tended to have larger portfolios of market rented stock.

Group structures may reflect a range of motivations, for example where existing organisations have merged or where subsidiaries have been established to undertake commercial activities. Not only was there diversity in terms of the structures that they operated within but also in terms of the stage of restructuring that the organisation was at. Some respondents had just experienced mergers while others were longstanding members of group structures; others were considering setting up subsidiaries in the future while some respondents operated in group structures with a range of existing commercial subsidiaries; there was a recognition that *‘different organisations will do it in different ways’* (HA interview respondent, 2015).

Some interview respondents who had minimal levels of activity or who were exploring the very initial stages of engagement with market renting were operating within their existing structure. For others – especially those with higher levels of activity there was a clear commitment to operating their market renting provision within a subsidiary as a distinct and separate entity. Amongst those who were planning to increase their market rented provision in the future, there was a preparedness to establish a subsidiary through which to operate.

Across the different data gathering methods, it was evident that there were differing attitudes to ‘ownership’ and ‘separateness’ within organisations particularly where the market rented activities were delivered via a subsidiary organisation – not necessarily in relation to governance issues but rather in terms of developing a discrete brand.

While some respondents were using existing management services in order to generate efficiencies or to utilise expertise; others had already moved away, or were planning to move away, from using existing housing management teams – which for some was seen as problematic:

‘I am quite convinced that our standard housing management practices just don’t meet the requirements of ... (the different customers)’
(HA interview respondent, 2015).

Some organisations were committed to establishing distinctive and separate management teams with a different culture, responsive to the differing demands of the market rented market in order to compete with the different service delivery models of the private sector. Such evidence reinforced the Round Table discussion which, rather than assuming a straightforward transferability of management practices from the social to the market rented sector, acknowledged the differences in terms of the varying circumstances and expectations of market rented tenants.

A wide range of experiences were evident even amongst the relatively small sample of housing associations in this research, reflecting the diversity of circumstances and the existence of varying interpretations of what such activities might entail, as well as differing approaches to the role of such activities in relation to the organisation as a whole. For example, for some respondents market renting involved a rent to buy approach, facilitating tenants to buy their property in the longer run. For others their market rented stock was never intentional but was a holding mechanism for property that they had not been able to sell. There were variations in terms of the temporary or permanent nature of the market renting activity and also in terms of whether it had a major or peripheral role within the organisation. As regards future aspirations, some respondents discussed flexible models facilitating the movement of property between tenures, or the movement of property into private ownership which would subsequently be managed by a housing association.

4.0 Illustrative practice



The following examples are illustrative of the variety of approaches that housing associations were undertaking:

- Derwentside Homes** were set up in 2006, to take control of the local authority housing stock of 6,800 homes across North Durham. In 2010 Derwentside Homes established a subsidiary Prince Bishops Homes, investing £18m from surpluses, into a sustainable private rented sector model, which aimed to take advantage of the UK housing market crash and the subsequent problems faced by developers. Prince Bishops Homes offers market rent properties, on a rent-now-buy-later model. Initially new build properties were bought by Prince Bishop Homes from housebuilders, with the initial investment loan from Derwentside Homes. All of the profits generated from this are reinvested back into the social housing arm, Derwentside Homes. The aim is to let the properties to local families and/or households with a limited income (for example, the average household income of tenants being £25,000). Tenants have an option to rent the property and then buy the property with a discount, after a four year period. Currently, Prince Bishops Homes has over 300 homes with planned investment over the next eighteen months of £60m to develop a further 600 new homes.
- Great Places** have been operating for over 40 years, with over 18,000 homes across the North West and Yorkshire. A subsidiary of Great Places, called Cube, was set up in 2010, specifically to manage market rented properties. Plumlife is the residential sales and lettings arm, which also manages market rent properties. Cube have designated and let 100 market rent properties and currently manage Tribe Apartments – a development of 192 market rent, one and two bed apartments, in three former council tower blocks (thirteen storey), located on the East side of Manchester City Centre (10 minutes walking distance of the city centre). The apartment blocks were previously empty until 2015, until a £16.8m redevelopment scheme was part funded through the Build to Rent Fund and an institutional investor. The Plumlife's team is available 24/7, with a dedicated building manager, to deal with any onsite issues. There was a high demand for the apartments, and on release, all were let quickly.

5.0 Exploring strategic decision making in practice

This second section of the findings will examine the influences that have shaped the range of housing associations' responses in our research; the aim is to understand why organisations have decided to engage with market renting in the ways that they have, or why they have not engaged at all. The initial overview of the key motivations and barriers as perceived by respondents to the survey provides a static analysis of responses. It became clear from the qualitative data that the influencing forces were interacting and overlapping in a dynamic way. It was evident that the varying interplay between these influences had implications for not only the level of activity but also the type of market rented provision offered by different associations.

5.1 Key motivations and barriers

When surveyed respondents were asked to consider what motivated them to be involved in market renting, the suggested list of motivations reflected those used in previous research (Goodchild and Syms, 2003) and additional contemporary issues. Respondents were asked to choose all/any that applied to motivating their organisation's involvement in market renting. As can be seen from Fig. 8 and Fig. 9, the most often cited motivations included generating a cross-subsidy and meeting a gap in the local housing market, spreading risk, HCA funding reductions and diversification. Relatively few respondents identified Government policy as a motivation, with none identifying it as one of their top three motivations, although cross subsidy, and risk diversification could be seen as a response to a changing policy and economic environment. The responses echo the findings of Goodchild and Syms (2003).

As can be seen from Fig. 10 and Fig. 11, differentials between market and social rent levels and wider doubts about the viability of local markets were the dominant barriers amongst the online survey respondents.

As well as organisations for whom the local market presented opportunities, there was evidence that for other organisations this was a risk. Organisations were not getting involved or not increasing involvement, due to doubts about the capacity of the local market to sustain such development and the subsequent financial implications for the landlord organisation.

Practical barriers such as land availability and financial resources were evident too. Also a number of respondents noted concerns about the transferability of existing operational skills (Fig. 10). This raises interesting questions to be explored further about the potential 'neatness of fit' of housing associations as market renting landlords.

As well as recognising those barriers perceived as most significant, it is interesting to note the barriers that were not deemed as particularly significant amongst the survey respondents. In contrast to Goodchild and Syms report (2003), attitudes of the regulatory body were not identified as a major concern amongst many of the survey respondents in this research. Internal resistance relating to the fear of moving away from their core values did not appear high up in organisations' top three barriers to involvement.

The survey results provided an overview of the different motivations and barriers that were shaping the approach to involvement in market renting amongst the respondents to the survey. However the relationship between action and inaction was not simply one of responding to an individual motivator or barrier. There was a complexity to the decision making process that required a more detailed examination through the qualitative interviews.

Figure 8

Motivations

Motivations		
1	Meeting a gap in the local housing market	11
2	Generating cross subsidy for other social housing activity	13
3	Contributing to local area regeneration	7
4	Diversifying away from social housing activity	8
5	Responding to local authority housing strategy priorities	5
6	Reducing the stigma associated with being a tenant of social housing	2
7	Reductions to HCA funding	8
8	Spreading Risk	9
9	National Government Policy	2
10	Other [please state]*	2

*Other: Managing some estates in a more cohesive way
Medium term solution to hold some apartments until the market returns and capital values increase

Figure 9

Occurrence of top three motivations chosen by respondents

First	Second	Third
Generating cross-subsidy for other social housing activity	Generating cross-subsidy for other social housing activity	Generating cross-subsidy for other social housing activity
		Reductions to HCA funding
Reductions to HCA funding	Reductions to HCA funding	Meeting a gap in the local housing market
	Meeting a gap in the local housing market	Diversifying away from social housing activity
		Contributing to local area regeneration
Meeting a gap in the local housing market		Spreading risk
Diversifying away from social housing activity	Diversifying away from social housing activity	Responding to local authority housing strategy priorities
Contributing to local area regeneration	Responding to local authority housing strategy priorities	

Figure 10**Barriers**

Motivations		
1	Financial resource availability	8
2	Land availability	9
3	Doubts about the viability of local markets	10
4	Concern over transferability of existing operational skills	7
5	LA planning approaches/decisions	3
6	Internal resistance due to movement away from core values	4
7	Internal resistance due to concern about financial risk	5
8	Attitude of regulatory body	2
9	Differential between market rent and social or intermediate rent too small to make viable	10
10	Other (please state)*	4

*Other: financial capacity; subsidiary of organisation
 Institutional investment has historically been difficult to attract due to the volatile nature of residential rental
 Not yet fully explored all of the risk. Gut reaction is this may take us away from our core values. This said, Board have not discussed it.
 In process of developing our strategic approach to growth

Figure 11**Occurrence of top three barriers chosen by respondents**

First	Second	Third
Differential between market rent and social rent too small to make viable	Differential between market rent and social rent too small	Differential between market rent and social rent too small
Doubts about the viability of local markets	Doubts about the viability of local markets	Doubts about the viability of local markets
Financial resource availability	Financial resource availability	Financial resource availability
Land availability	Land availability	Land availability
LA planning approaches/decisions	Internal resistance due to concern about financial risk	Internal resistance due to concern about financial risk
Internal resistance due to concern about financial risk	Attitude of regulatory body	Attitude of regulatory body
	Internal resistance due to move away from core values	

5.2 Opportunities and challenges: Analysing the driving forces

Analyses of respondents' strategic decision making in relation to market renting identified complex and multi-dimensional influences. A range of external and internal push and pull forces were occurring at the same time. Moreover, it was apparent that similar forces could exert both positive and negative forces, depending on the local context and the nature of the organisation.

The local housing market was central in determining whether an opportunity for market rented activity existed or not. The nature and extent of any opportunity was clearly shaped by the operational area of the organisation. Most housing associations do not operate in a single housing market; small scale local variations, changing geographical coverage due to organisational change such as mergers, or the breadth of housing markets that were encompassed by some of the larger regional (or national)

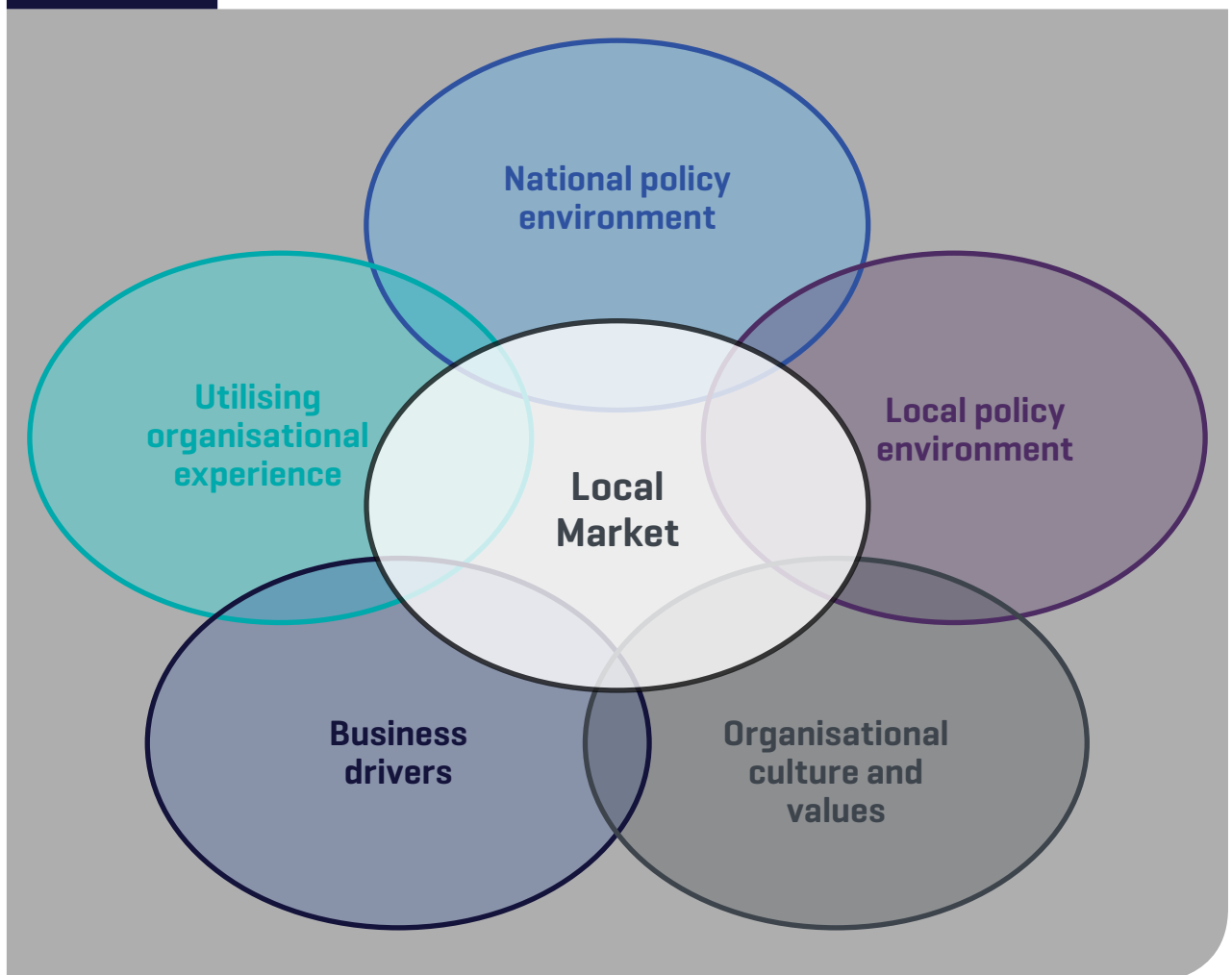
associations meant that organisations were engaged with different types of housing markets, presenting different opportunities and challenges.

Although the local housing market – and whether it would support additional market rented activity or not – was pivotal to the decision making, it was clear that housing associations were interacting with particular local markets in particular ways. The research identified five key forces which influenced housing associations' decision making in relation to market rented provision - the external drivers of the national policy environment and the local policy environment, and the internal influences of organisational culture and values, business drivers, and existing organisational experience (Fig. 12).

While it is necessary to understand the differing influencing forces and how they can impact on organisational strategic decision making, it is important to recognise the interconnections between them and how these interact in different ways in different settings.

Figure 12

The driving forces that shape the extent and nature of involvement in market renting



5.2.1 Changing national policy environment

The changing national housing policy environment was placing significant challenges in the path of organisations' strategic decision making. The housing association sector has faced significant change in the past in the form of increasing marketization through reducing grants and an increasing reliance of private finance; challenges to income streams as the result of welfare and social policy reforms; and supply and demand issues that question the role and function of the sector moving forward.

Housing association respondents were very clear that the current changes to the contemporary housing policy environment and questions over its future direction were essential considerations in determining their approach to market renting.

Some respondents expressed concerns that this contemporary policy agenda and the associated uncertainty moving forward was making them reluctant to engage with market renting. Concerns were expressed about the changing emphasis in government policy to home ownership and affordable starter homes would drive them towards outright sale and that would undermine the potential for investment in market renting.

'So it's a constantly changing picture. You just have to continue to relate all these various strands that are buffering you' (HA interview respondent, 2015)

There were also concerns as to whether the increase in the private rented sector was evidence of a fundamental long term shift or a short term trend, in response to the

economic downturn that would ultimately correct itself. Given the rapidly changing policy environment following the 2015 general election, organisations were questioning their ability to predict with some degree of accuracy the future direction of housing policy for the duration of the remaining parliament and indeed beyond. How organisations viewed this would ultimately impact on their decision making: to invest in market renting or not, and, if investing, was this for the short, medium or long term?

For some this external environmental driver at the national level was stopping them from moving into market renting or, if they were considering entering the market, it was with a great deal of caution. For others interviewed the external policy environment was driving their decision making in the opposite direction. This had resulted in some organisations taking the decision to de-risk their current property portfolio and move into other tenures, one of which was market renting. For some the recent focus of government on the private rented sector, the Build to Rent being an example of this, had encouraged associations to become involved in market renting. For others the lack of certainty around the form, funding and rental streams associated with existing and new social housing had resulted in some organisations looking to diversify to achieve alternative, secure income streams.

Organisations saw the national policy agenda as a key external factor but it was one of a range of influences on their strategic decision making with regard to market renting. It was not a factor that should be considered in isolation.



5.2.2 Local policy environment

The influence of local strategic partners was seen by some respondents as essential to their involvement in market renting. Where the key strategic partner, usually the local authority, had a clear vision for the area this had impacted positively on the involvement in market renting of those who could be termed early adopters. These organisations were themselves keen to be seen as a major partner. There was a desire not only to have a 'seat at the table' but to be involved in delivering. Alongside this was the desire by some participants to influence the strategies of key partners to reflect their own strategic aspirations. This was seen as further facilitating the attainment of other strategic business objectives such as growth and diversification.

'the city council over a number of years have taken the view that they want the city to develop. As a major partner of the council and as an organisation that wants to grow, we want to actually reflect those aspirations in how we want to grow' (HA interview respondent, 2015)

This partnership also went to the heart of those organisations' core social purpose to contribute to the shaping of places in order to contribute to the growth of the locality. The provision of market rented accommodation through the diversification of tenure, the broadening of the range of households and the resulting strengthening of the local economy and businesses was seen as contributing to the sustainable communities agenda. Where participants were motivated by this the ultimate objective was to change the nature of the areas in which they operate. This was particularly common amongst those operating in parts of the North West.

'That's all about how they want to propel the economy along ... if we look at where our 12,500 properties are, they are in areas where there is a need for transition ... we want to actually change the nature of those areas, those neighbourhoods, to bring in greater economic activity and opportunity' (HA interview respondent, 2015)

In terms of why participants thought key strategic partners were themselves motivated to have them at the table a number of positive drivers were identified: a successful history of partnership working; a recognised and trusted brand; a commitment to the local area; and an ability to draw on assets.

'As local authorities shrink they need organisations that are politically, financially and operationally astute to take some of that weight. I think it demonstrates our flexibility and agility' (HA interview respondent, 2015)

For some organisations, where strategic partners had a strong vision, this was not itself a driver as they felt they were on the periphery of the partnership and as such were not perceived as key players. There was also uncertainty amongst some respondents about whether all external partners fully understood the (potential) role and purpose of housing associations in relation to market renting.

When considering the relative importance of the different influencing external factors and the subsequent decision making of organisations regarding involvement, or not, in market renting, it is important to acknowledge the parallel importance of internal forces. Organisational culture and values, attitudes to risk and return and perceptions as to how their organisational experience could support market renting helped shape responses to the national and local external environment.

5.2.3 Organisational culture and values

It was evident that consideration of whether to get involved in market renting, or not, went to the core of the organisation and its culture and values. There was recognition amongst respondents that high levels of board support was needed and that where this did not exist the organisation was highly unlikely to enter into market renting. Where support was non-existent or very low there was a strong perception from the interviews that market renting conflicted with the organisation's social purpose. Concerns were expressed by some respondents that any significant market rented provision activity would take valuable resources away from what the organisation saw as its core social purpose. Others suggested that entry into the market rented sector might not be perceived positively by key external stakeholders and that opportunities fundamental to their core values might be missed.

The 'legitimacy' of a market renting role for housing associations as social enterprise organisations (Goodchild and Syms, 2003) was only questioned by a minority of the housing association respondents in this research – however for that minority, the cultural barriers to entering market rented provision were significant: *'it depends on your heart ... (it) changes the soul of the organisation'* (HA interview respondent, 2015). There was some evidence, amongst a small number of the respondents in this research, of internal unease about potential conflicts between market renting and the organisation's core business. The issue about the legitimacy of housing associations entering into market renting when they were the recipients of, albeit limited, public subsidy, was raised by some stakeholder interviewees.

Some respondents did express concerns about the governance of any market renting activity and how this could potentially add unnecessary layers of complexity to how the organisation operated; if not done correctly there were fears it could breach an organisation's charitable status, and potentially raise issues with the regulator if separateness between the social and commercial arms of the organisations is not clear.

In operational terms there were strong views about the difficulty of getting the culture right and that market renting was seen by the organisation as requiring a different mind-set in order for it to work. The perception for some was that this cultural difference between the social and market activities of the organisation would be more difficult to achieve where it was seen as being counter to the core social value.



‘we know we are good at what we do so why go into the unknown’ (HA interview respondent, 2015)

However, for others the culture and values of the organisation were strong drivers to becoming active in market renting. Involvement in market renting was seen as core to their social purpose and was strongly supported by their board.

There was for some a redefining of their understanding of housing need beyond that of rehousing vulnerable people, reinforcing the findings of Clarke (2014). These organisations saw themselves as being responsible for meeting a much broader range of housing need than previously, including aspirational needs. For some organisations this resulted in the identification of a new group, the ‘middle market’, who were in need of support from housing associations. While not vulnerable they had an expressed need that for reasons outside of their control they could not meet. Respondents identified lack of access to other tenures due to cost, availability and access as being key drivers in identifying this new client group.

‘being able to respond to a range of aspirations and housing demand ... that’s what our business is about ... meet(ing) aspirational needs’ (HA interview respondent, 2015)

This reinterpretation beyond traditional social housing need meant that for some organisations it achieved a ‘workable balance between their social and commercial aspirations’ (Chevin, 2013), providing an increased ‘legitimacy’ in relation to housing associations providing market renting within a changing housing system.

As well as meeting individual household needs, for some organisations it was about addressing the complex issues some local housing markets were experiencing; it was in keeping with their underpinning social values or it reflected their desire to be involved with key strategic partners such as the local authority. There was an acknowledgement amongst most participants that there were some areas where the social/affordable rent model was not viable while at the same time there were local affordability issues; for other areas the development of more social/affordable rented housing was not desirable due to an oversupply. However a desire to contribute to the economic and social well-being of dysfunctional local areas meant that for some the decision was to do so through the vehicle of a different product. At the moment that was market rented accommodation, but there was a recognition that as the Government moved its housing policy agenda forward that this would increasingly mean home ownership.

‘So if we want to work and manage and contribute in those areas then we have to do so with a different product and the focus at the minute is market rented but more and more it will also be about forms of ownership’ (HA interview respondent, 2015)

The culture and values of organisations interviewed were seen as fundamental to attitude towards market renting in relation to their core values. However the culture of the organisation also shaped attitudes towards other key factors such as risk and return and commercialism.

5.2.4 Business drivers – risk and return

The external operating environment of housing associations had seen many of the participants take steps to de-risk their property portfolios in order to spread what was being seen as a considerable financial risk. These financial risks focussed on concerns about revenue reductions (reflecting welfare reform, the rent reduction, and the extended Right to Buy) and risks associated, given the degree of uncertainty moving forward, with the model in place for funding affordable rented accommodation.

‘we can fund more homes than we can through the affordable homes programme.... we obviously want to grow our stock, and I think the board’s view is the less risky way of growing the stock is through the market rent’ (HA interview respondent, 2015)

Moving towards the funding of new property products, outside of the HCA, was seen as offering organisations greater flexibility in the future to realise this investment.

‘because it also facilitates the option that at some point, if we had a portfolio of a thousand units worth a hundred million, if in two years’ time the company wants to go in a different direction, we can just bundle the units up and put them onto the market’ (HA interview respondent, 2015)

Developing and managing market rented accommodation was seen as being less risky in terms of threats to revenue streams and potential bad debt. This diversification of the property portfolio was seen as generating new, potentially more reliable, income streams. The desire to minimise risk was related to a desire to diversify beyond the existing core. This diversification by product, property type, client group and geography was something some organisations believed could be facilitated by a move into market renting. There was also an acknowledgement that diversification was a positive move for the organisation given the financial pressures they were under at the moment and the notion that this financial pressure was not only going to continue but that it was much more difficult to predict the forms it would take.

Amongst a number of respondents in the research there was a strong emphasis on raising income from different sources to enable the cross subsidy of other activities of the organisation. This was not a profit making exercise but a strategic decision about how best to continue meeting the social mission of the organisation.

‘I think for us it would always come down to quite a hard headed decision about does it directly meet our social mission ...does it strongly cross-subsidise the achievement of our social mission’ (HA interview respondent, 2015)

It was also apparent that for some there was no particular attachment to market renting as a strand of organisational activity. It was there to enable the meeting of the core activities, as defined by the organisations themselves, and as such could be easily stopped if it did not provide the needed element of cross subsidy.

‘So we need to make sure that it does make money, that’s fundamental. If it can’t make money, we’ll shut down tomorrow because there is no point in doing it unless it’s going to advance our social purpose by subsidy and gift aid’ (HA interview respondent, 2015)

Amongst other respondents, concerns about risk, return, costs and viability acted as deterrents to involvement in market renting. Acquisition and the building of new schemes were seen as too expensive to make a move into market renting viable. As the local market heated up competition between organisations for the purchase of off the shelf purpose built market rented schemes was seen as making these too costly to justify investment. For new build, competition for land, labour and materials was seen as pushing up the cost of investment in market renting where returns were unsure. As the housing market heats up there were fears that costs might rise at the same time returns diminish.

‘Without huge amounts of investment, doing a new build for market rent is going to be really, really expensive and it would be interesting to see what the government bring forward in terms of subsidy’ (HA interview respondent, 2015)

Concerns were expressed about tying up capital for long periods of time and that where returns were uncertain it was better to build and sell outright. There was concern that while accurate scheme appraisals could address issues regarding investment and return there was a sense, for some, that this previously uncharted territory brought with it a sense of the unknown and that this was reflected in uncertainty about the accuracy of viability modelling for market rented developments.

‘the biggest challenge is going to be the viability side of it, because as I say, the margins are really tight. So where we would ordinarily look at a scheme and say “well, the rent’s not far away from the market rent but we’ll get some grant that might help us deliver it” that isn’t there which increases the pressure on the organisation’s finance and the amount and level of investment versus the return on that investment’ (HA interview respondent, 2015)

For smaller organisations, those considering small scale entry into market renting or where market rents were at a similar level to affordable rents, the costs of setting up a separate governance structure/non charitable arm were seen as outweighing any potential returns.

5.2.5 Utilising organisational experience

The potentially 'neat fit' of housing associations using existing expertise to provide market rented provision – something that was evident within the national policy agenda – was acknowledged by a number of respondents as a motivating force in considering this option. Amongst many of those who were considering market renting there was a sense that they had a set of skills that was capable of being transferred to the development and management of market rented housing. This encouraged their internal decision making. There was more of a mixed picture in terms of those organisations who were already providing market rented housing – whereas some saw existing experience as an encouraging factor (particularly at the outset), others were more cautious reflecting an emphasis on the differences between market and social rented provision especially in relation to management. The extent of distinctiveness of market rented activity was perceived differently by different organisations; some respondents seeing it as a specialism that was beyond the realms of their experiences while others saw it as a natural add-on to their activity. Depending on the interplay of other driving forces, the issue of utilising organisational experience could be a supporting or constraining influence.

Given the drive to become more commercial amongst the sector it was unsurprising that a movement into the development, management and maintenance of market rented accommodation was a possible mechanism to achieve this. Having part of the business doing something different was seen as healthy and behaving more commercially in one aspect of the business was seen as bringing benefits to the main business.

There were however risks associated with assuming that operational skills within the organisation were easily transferable to the management and maintenance of market rented properties. There were concerns about not having the right skills set in house to carry out effective financial appraisals over the life cycle of the scheme, apportion costs appropriately and deliver operational services. Issues were also raised about having different standards of service delivered by the same people to different client groups with different requirements and expectations. If this was to go wrong there were concerns that there could be detrimental damage to organisations' reputations. There was a worry for some that social housing practices might influence the delivery of services to market rented clients in a negative manner. This risk could be mitigated by bringing in expertise but this was seen as adding to the cost with implications for viability.

'as long as they don't contaminate each other. I think that's one of the concerns for me is that if you don't have it set up separately, then you risk contaminating your market stuff with your social stuff, and I don't think that's a good idea' (HA interview respondent 2015)

While there was an acknowledgement of the need to learn from those who managed market rented accommodation, there was a strong sense that housing associations involvement with the private rented sector would bring mutual benefits:

'I think there is an opportunity to make the sector (the PRS) a lot more professional' (HA interview respondent, 2015)

'We think we can offer a high quality and ethical management service. So it brings a bit of quality, hopefully, to a market place that is driven by poor quality' (HA interview respondent, 2015)

5.3 Contrasting approaches to decision making

While the influencing forces had relevance to all organisations, the interplay between them and the relative emphases and varying interpretations, were reflected in distinct approaches to strategic decision making processes. The rapidly and dramatically shifting external environment had seen many organisations questioning what their core purpose was and in which direction the organisation should go strategically. For others their current strategy, with regard to market renting, was a continuation from earlier strategic decisions. An important aspect of the research was to understand the contrasting approaches of organisations to strategic decision making in relation to market renting amongst the housing associations interviewed.

There were early adopters where strong drivers to be involved in market renting had been in play for a number of years. Internal and external forces had resulted in a proactive move into market renting over a period of time. This enthusiastic commitment to market renting was seen as a long term and clearly defined aspect of their corporate strategy. For these organisations strong pull factors had been exerting influence over their decision making.

Where both pull and push factors were exerting influence, organisations could be identified as either, late adopters or reactive pragmatist, depending upon the timing and degree of force exerted by the different factors. For these organisations the need to make key strategic decisions about involvement in market renting had only recently come into sharp relief. Where the subject of entering into market renting may have been on the agenda for some time it was only in the recent past, as the nature and extent of external pressures became much clearer, that they had entered into market renting usually on a small scale with a degree of uncertainty about long term organisational commitment. Drivers were seen as reductions in grant funding in both 2011 and 2015 which had challenged organisations to review their development activity and for some entering into market renting was the outcome of this review. Income stream uncertainty following on from welfare benefit reform had also encouraged organisations to consider how they might diversify their income stream and the perceived security of market rent income.

Later drivers, particularly the announcements in the budget and Housing and Planning Bill, had resulted in organisations who were seen as deliberators – those who had been considering entering into market renting but had made no firm strategic decision. However the changing policy agenda had seen them move market renting up their agenda for discussion and decision.

For others who could be classified as reluctant pragmatists, the business driver was a temporary response to a set of circumstances following the economic downturn of 2007. For these organisations market renting was a temporary response – what had originally been built for sale had to be rented until the market corrected itself and properties could be sold.

The range of approaches to decision making, as evidenced in our sample, are far from simple. Different external and internal contexts have shaped the different organisational responses. Although housing associations are operating in the same national context, there are nuances depending not only on location but also the nature of the organisation and its values and strategic objectives. The relative prominence of the different forces and the distinctive ways they interact to inform organisational decision making have resulted in varying approaches. For example, some 'enthusiastic early adopters' were particularly driven by mutually reinforcing cultural and business drivers as well as a supportive local context and market; a stronger emphasis on national policy drivers in combination with a business case, but less of a cultural commitment, was evident within a more 'reactive pragmatic' approach.

5.4 Diversity of practice

The diversity of strategic decision making was reflected in the non-homogenous nature of housing associations' market renting provision in terms of 'the product' and how it was organised and delivered. The detailed nature of organisations interaction with local housing markets shaped what was built, where and for whom. The range of experiences demonstrated in the research challenged the perception that market renting was only viable in the centre of major urban areas and that it consisted of apartment blocks marketed at young professional sharers or couples. While there was undoubtedly a place for this within associations' market rented activity, it formed only one dimension. For some organisations, operating outside of urban centres but active in suburban or peripheral areas, this was not an option. Consequently other market niches were investigated. Of increasing importance were the local areas around the urban core that were within commuting distance and adjacent to transport infrastructure.

Inevitably, the client group reflected the nature of the market. There were housing associations with large scale city centre new build apartment blocks aimed at traditional market renting groups such as young professionals.

The research also demonstrated an increased emphasis on building two to three bedroom family houses in an estate format. This reflected the wider trend of an increase of families with dependent children living in the private rented sector within a changing housing system (CLG, 2016). Given the impetus for diversification and reliability of income stream, a fundamental requirement for all in terms of who the product was aimed at was the ability to pay rent.



However, within this context the market rented provision offered by housing associations incorporated different models – for some it was a commitment to the long term provision of market rented stock whereas for others it was a shorter term approach with initial market renting leading to outright sale on the open market or sale to the existing tenant within a rent to buy model.

The variety of ‘products’ reflected the different contexts and motivations influencing housing associations decision making, and had implications for organisation and delivery: ‘different organisations will do it in different ways’ (HA interview respondent, 2015). The research demonstrated contrasting approaches to branding their market renting product amongst the housing associations in the sample. For some organisations separateness was vital in terms of how the product might be perceived by potential tenants. Where there was a need to put distance between the social and market rented elements of an organisations’ business getting the correct branding was seen as crucial.

‘I think as a conscious decision we decided to set up (specialist subsidiary) ... because it needs to be a brand, it needs to be completely disassociated with the housing association ... needed to be something that looked very different, had a different purpose’ (HA interview respondent, 2015)

This was seen as essential for a number of reasons: ensuring the different offer in terms of quality, management and service standards was met; and making sure there is no confusion with their social market renting activity when marketing properties to tenants.

‘I think a lot of customers associate us with being a social landlord. Some still refer to us as the council. I’ve had tenants still think they are council tenants even though they transferred some twelve years ago to be with us. And I know people who live only a mile away from here who would rather live in a market rented property than one of ours. And if we did private rented, they would still class it as social housing’ (HA interview respondent, 2015)

On the other hand, some housing associations believed they were best served by not branding separately and that their existing reputation had a value. Some stakeholders referred to a potential ‘perceived higher trust’ associated with housing associations. Such differing perspectives across our research participants could reflect the potential sub-markets they are engaging with, for example the more traditional family market who value longevity and security or the younger professional who wants flexibility and convenience in a city centre location, and also who they are competing with.

Contrasting approaches to the issue of separateness were also evident in relation to the management of market rented provision; it was not just about the brand but also a qualitative difference in service delivery and meeting residents’ expectations. Goodchild and Syms (2003) emphasised the different demands of market rather than social rented tenants. A variety of practice was apparent amongst the qualitative interview respondents in terms of managing existing market rented properties, highlighting the distinction between those who saw it as essential to adopt a distinctive operational model and those who saw it as an extension of their current service:

‘It’s really not much of a step from what we’ve been doing There are some fundamental differences there, but actually in terms of the vast bulk of the work, the management, the maintenance, ... the communication with tenants ... that’s more or less the same ...’ (HA interview respondent, 2015)

Some respondents were conscious of increasing costs if services were delivered separately and so chose to have one team deliver services to social and market renting tenants. However, one interviewee referred to conversations with other housing associations where:

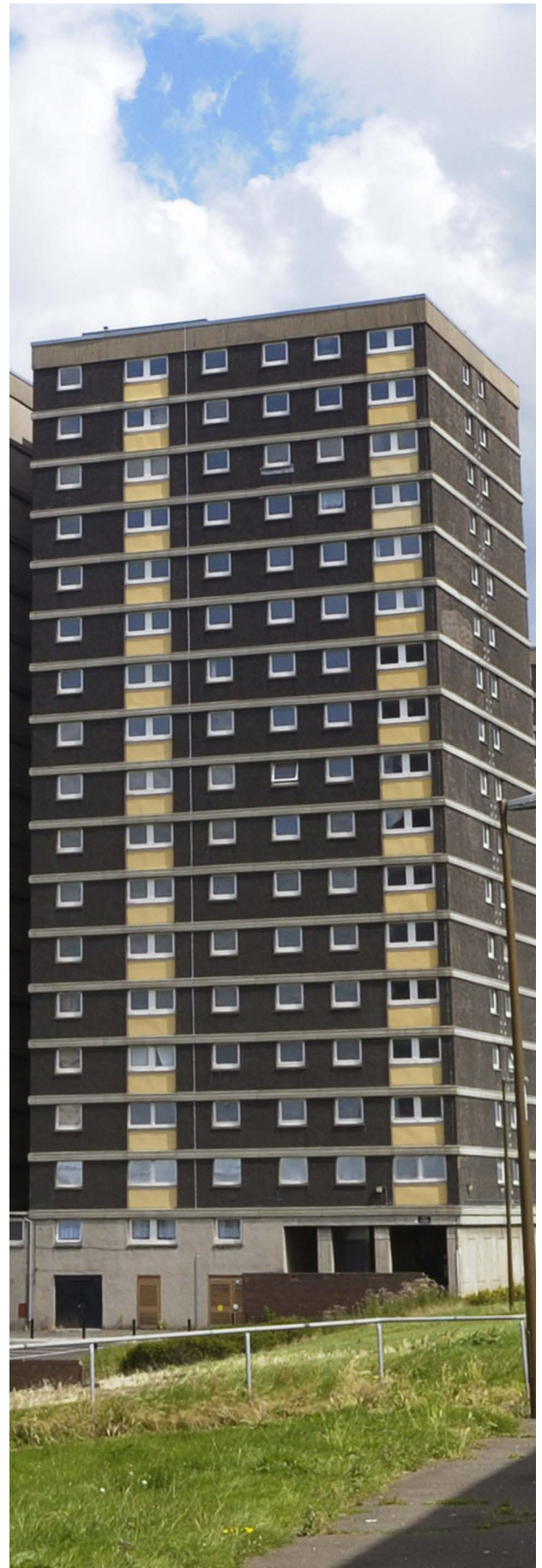
‘they believe that they can just bolt it on to their existing operations and run it in a very similar way to what they’re doing ... (for) their existing tenants in social housing. It isn’t that. It is a very different product, it’s a very different market and (there are) very different expectations from the customer base’ (HA interview respondent, 2015).

While some respondents were using existing management services in order to generate efficiencies or to utilise expertise; others had already moved away, or were planning to move away, from using existing housing management teams – which for some was seen as problematic; *‘I am quite convinced that our standard housing management practices just don’t meet the requirements of(the different customers)’* (HA interview respondent, 2015). In assessing their operational fitness, some organisations were committed to establishing distinctive and separate management teams with a different culture, responsive to the differing demands of the market rented sector – whether this involved evolving their existing provision or establishing a discrete team. Such evidence reinforced the Round Table discussion which, rather than assuming a straightforward transferability of management practices from the social to the market rented sector, acknowledged the differences in terms of the varying circumstances and expectations of market rented tenants.

There were varying experiences in relation to organisational structure and governance. As regards ownership the two options highlighted were a separate company or a division within the existing organisation. Where there was a larger scale, longer term strategic and financial commitment to market renting, organisations were more likely to have a separate company. For these organisations the need to have a clear separation between the different aspects of their business was seen as essential. The reasons given were to disaggregate where assets sat, recognise the different funding vehicles, to ensure there were no breaches of charitable status and to assure the regulator there was a separation between the social and commercial arm with no cross over in the use of assets. Where organisations were looking at small scale market renting, were at the stage of testing the water before deciding to invest further, or were only using market renting as a holding activity prior to outright sale, they were more likely to have a division within their existing organisation. Again, the need for careful management was acknowledged.

Where there was a strong strategic commitment to growing market renting these interviewees suggested that separate governance arrangements were essential. There was a view amongst some that in order to function effectively in a competitive environment and take advantage of opportunities, decision making needed to be fast and flexible. Separate governance arrangements were seen as one way of achieving this depending on the composition of the board and its relationship with the group parent.

Across the research data, it was evident that there were varying attitudes to 'ownership' and 'separateness' – different combinations of driving forces created different priorities and approaches within organisations in relation to market rented provision, emphasising the absence of a 'one size fits all' solution. The importance of 'doing it right' (HA interview respondent, 2015) was emphasised, but it was evident that this was open to interpretation in practice.



6.0 Discussion



The research illustrated the diverse nature of engagement with market renting provision amongst housing associations, not only in terms of levels of provision, but also the nature of provision, its perceived role within the organisation as a whole, and its potential function within the local housing market. Such diversity within a regional setting demonstrates a more complex picture in terms of the relationship between housing associations and market renting than might initially be expected.

While there were aspects of continuity in line with the Goodchild and Syms (2003) research, there was also evidence of considerable change. For example, although there was a continued emphasis on the traditional types of stock, locations and households, it was also clear that market renting provision amongst housing associations is not necessarily confined within these boundaries. A flexible approach to the product was evident reflecting the nature of demand in local markets and the influence of other internal and external forces. Housing associations were actively engaging with evolving segments of the private rented market as well as existing ones – perhaps most significantly through family type provision. The range of experiences amongst the housing associations in this research – the multiple routes into market renting and the variety of products and practice – emphasised the importance of developing a deeper understanding of how housing associations are interpreting, and interacting with, external and internal forces in making their decisions in relation to market rented provision.

The timing of this project meant that the research provided a window on the nature of strategic considerations facing housing associations within the context of a fundamentally altered social housing platform. The rapid and radical nature of the changing policy context – and the ongoing nature of reform – was a significant external influence, alongside the nature of the local housing markets that housing associations were operating in. However, the importance of examining internal forces relating to business drivers, organisational culture and existing skills, and crucially how these interact with each other as well as with external forces, became increasingly evident within a dynamic analysis of decision making.

Again, a more complex picture emerged in terms of the multi-faceted and diverse nature of motivations – particularly in terms of the varying relative emphases placed on different aspects by different organisations. For example, while the research reinforced the prominence of financial motivations for some i.e. market rented provision was seen as a discrete mechanism for achieving income to cross subsidise their core social housing purpose, there was also evidence of associations incorporating market rented provision within their core purpose. The blurring of the boundaries between social and business rationales, involving a reinterpretation or broadening of housing need by some housing associations, meant that for some of the respondents in our sample, market renting was more than just a means to an end, it was an end in itself.

The combination of an evolving housing system and a radically altered operating environment for housing associations poses new opportunities as well as challenges for individual housing associations. In the context of wider strategic debates facing the market rented sector and the housing association movement as a whole, this research illustrates the need to recognise the strategic debates that are taking place at the individual organisation level, reinforcing the importance of not viewing housing associations as a homogenous group.

6.1 Implications for practice

As regards policy and practice, it is clear that there is no single model or approach; organisations are engaging (or not engaging) in different ways and for different reasons. Therefore strategic decisions need to be grounded in a full understanding of the influencing internal and external forces – organisations need to look inwards as well as outwards in making decisions about whether market renting is for them. Particularly in turbulent times it is essential to revisit core organisational values and consider how these can be met, and whether market renting is a mechanism to help achieve these? It is crucial to embed this debate within a comprehensive knowledge of the local housing markets in order to inform sound decisions about property portfolio diversification, financial investment and operational delivery. Associations must address key strategic considerations:

- What are your key drivers and how do they interact with other influences?
- Are there clear and explicit objectives about why you are getting involved with market rented provision as an organisation?
- What does this mean for how you organise and deliver the activity?

The research reinforces the extent of local diversity within a regional setting and the importance of developing flexible and responsive local policy and practice. Within this context, national, regional and local policy makers need to recognise the diverse nature of housing associations - their varying business models, cultural contexts, and strategic approaches, as well as the different local markets they operate in – and their potential to take on multiple roles across different tenures in different local contexts.

6.2 Further Research

A number of issues for further consideration have emerged from this research. For example, it would be interesting to know more about the market intelligence upon which the housing associations had relied as part of their strategic decision making regarding market renting activity. Also, while this project focused on the provision of market rented stock by housing associations, some respondents expressed current or future interest in managing rented properties for other landlords. Given the cultural, business and organisational issues discussed in this research it would be interesting to examine this area of activity further, from both the perspective of housing associations and private investors. Also, in the light of the re-emphasis on home ownership in the Government's policy agenda there is scope for further research into the nature, extent and success of rent to own or alternative flexible models amongst housing associations.

This research project was conducted during a period of radical policy reform and the housing association respondents were operating within an uncertain environment. While the research highlighted a potential for growth in market rented activity amongst housing associations, questions were also raised about this option compared to alternatives in relation to their strategic direction. How many housing associations will follow through or reject plans for market rented provision into the future? Amongst those who are currently involved, how will their market rented activity evolve? As the implications of the most recent policy changes become clearer, and given the signalled potential for further policy developments, it would be extremely valuable to reassess the relationship between housing associations and market renting in five years time. Where will housing associations and market renting be in 2020?

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8.0 Acknowledgements

We are extremely grateful to the senior housing association representatives who gave up their valuable time to participate in the research during what was a particularly demanding time for all housing associations.

We would also like to thank the senior national and regional stakeholders who took part in interviews, or participated in the Round Table discussion. We are particularly grateful to Lord Best for chairing the Round Table event.

Finally, considerable thanks to our Advisory Group members:

Monica Burns, External Affairs manager (North East and Cumbria) National Housing Federation

Tracey Hartley, Director of Residential Operations, Grainger plc

Brian Robson, Policy and Research Programme Manager, Joseph Rowntree Foundation

Professor Paul Syms, RICS Research Trust

Their support and insight throughout the research project has been much appreciated by the research team.



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United Kingdom RICS HQ

Parliament Square, London
SW1P 3AD United Kingdom

t +44 (0)24 7686 8555

f +44 (0)20 7334 3811

contactrics@rics.org

Media enquiries

pressoffice@rics.org

Ireland

38 Merrion Square, Dublin 2,
Ireland

t +353 1 644 5500

f +353 1 661 1797

ricsireland@rics.org

Europe

[excluding UK and Ireland]

Rue Ducale 67,
1000 Brussels,
Belgium

t +32 2 733 10 19

f +32 2 742 97 48

ricseurope@rics.org

Middle East

Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates

t +971 4 446 2808

ricsmiddleeast@rics.org

Africa

PO Box 3400,
Witkoppen 2068,
South Africa

t +27 11 467 2857

f +27 86 514 0655

ricsafrica@rics.org

Americas

One Grand Central Place,
60 East 42nd Street, Suite #542,
New York 10165 – 2811, USA

t +1 212 847 7400

f +1 212 847 7401

ricsamericas@rics.org

South America

Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil

t +55 11 2925 0068

ricsbrasil@rics.org

Oceania

Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000, Australia

t +61 2 9216 2333

f +61 2 9232 5591

oceania@rics.org

East Asia

3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong

t +852 2537 7117

f +852 2537 2756

ricsasia@rics.org

China (Shanghai)

Room 2006, Garden Square,
968 Beijing Road West,
Shanghai, China

t +86 21 5243 3090

f +86 21 5243 3091

ricschina@rics.org

China (Beijing)

Room 2507-2508B, Jing Guang Centre,
No.1 Hu Jia Lou Road, Chaoyang District
Beijing 100020, China

t +86 10 6597 8586

f +86 10 6581 0021

ricschina@rics.org

Japan

Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan

t +81 3 5532 8813

f +81 3 5532 8814

ricsjapan@rics.org

ASEAN

06-22 International Plaza,
10 Anson Road,
Singapore 079903

t +65 6635 4242

f +65 6635 4244

ricssingapore@rics.org

South Asia

48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org