KPMG

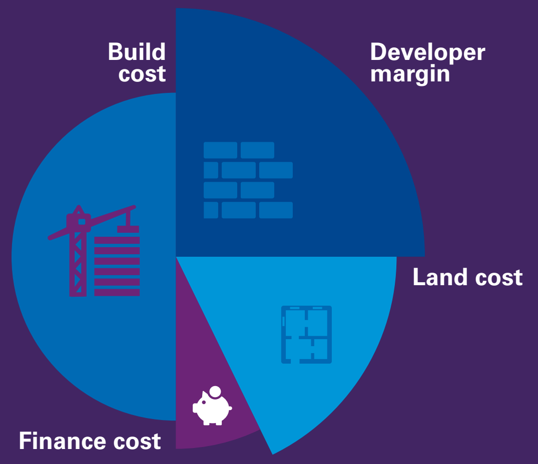
Employer nominated housing: more housing, affordable rents

There are not enough houses being built. Developers say they can build them but they can't sell them. **Can employers help?**

01 The way it's done now: build for sale

Typically, build costs and land costs are givens. Developers preserve their margin by achieving a sales price high enough to provide their return.

Market absorbtion pricing in the second hand market means that if the developer over-supplies the market, the price falls. That's the main reason supply is constrained.



02 Why not build to rent instead?

Building for rent means developers must swap a cash receipt on sale for a stream of less certain future cash flows. They offset that risk by charging a gross yield higher than their cost of financing, typically six percent. But what if a tenant's employer assumed some of the risk? Could the developer achieve the same risk – adjusted return but charge less rent?

03

If employers took on some of the risks, could that help reduce the yield and lead to lower rent? Let's look at a hypothetical example.

Gross rent is

6% of property value

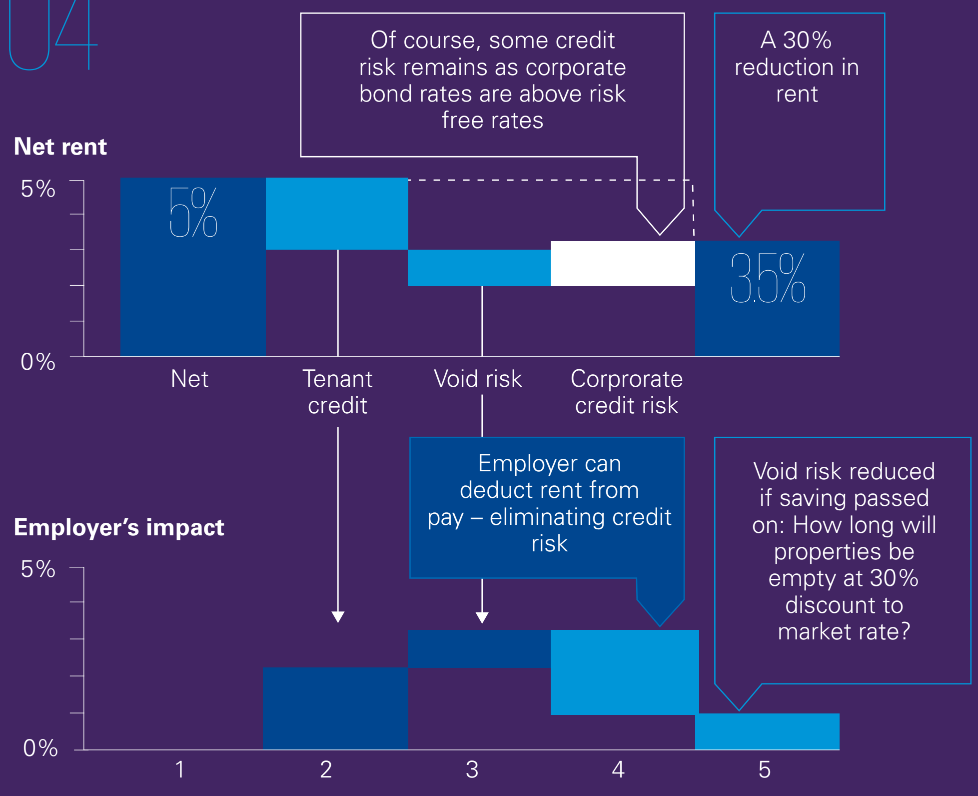
Taking off administration, collection costs and maintenance gets to:

Net rate (the yield) is

5% of property value

A solution: Employers take a bigger role in meeting staff housing needs

04



05 A game changing impact

20% - 35%

Reduction in market rent payments for participating employees, depending on employer's credit worthiness

06 ...and finally

Goverment is an employer too, with a credit risk equivalent to gilt rates.

Could housing be part of a new deal for public sector workers?

AND, could government-backed build to rent be a new way to stimulate social housing developments

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