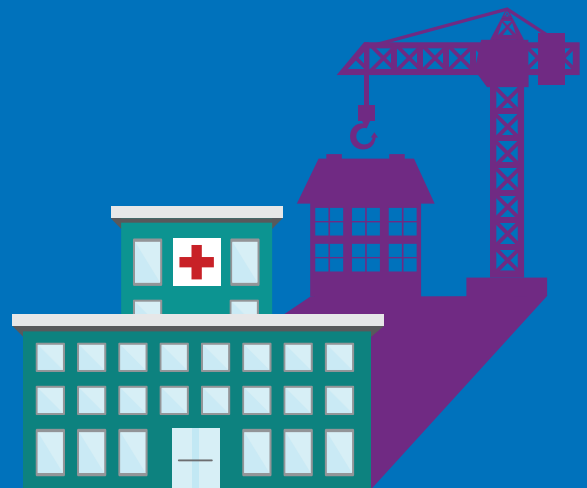




Build more houses - reduce rents

Using our best disruptive thinking to achieve public
policy goals



September 2018

kpmg.com/uk/reimaginepublicpolicy

Build more houses. Reduce rents

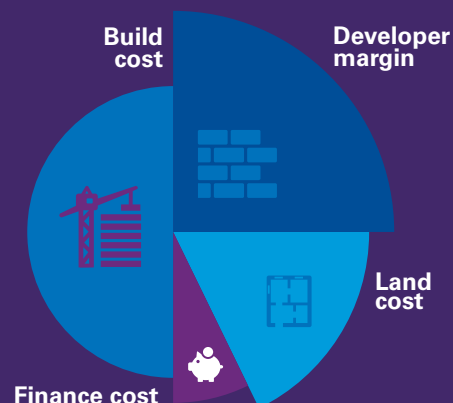
Mark Essex and Jan Crosby

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 absorption 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?

Cost of finance is the risk free return

Tenant credit risk covers for losses when tenants default on rent

Void risk covers loss of rent when property is not occupied



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:

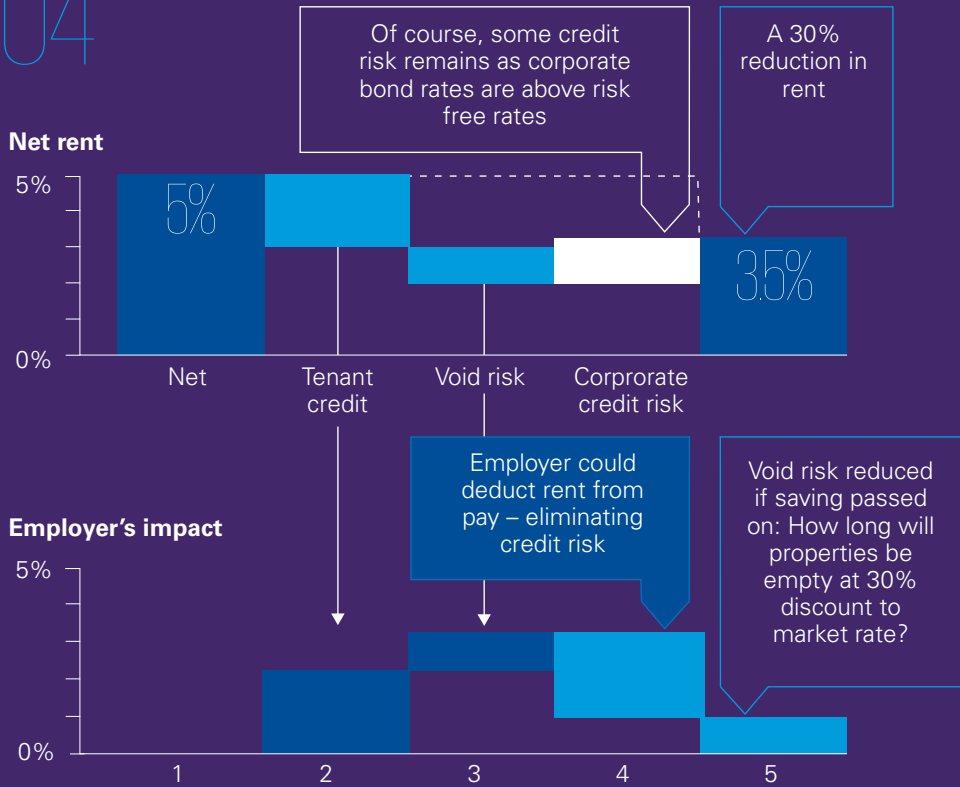
Net rate (the yield) is

5%

of property value

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

04



05

A game changing impact



06

...and finally

Government 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



20% –
35%

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

Contacts

We publish these ideas to stimulate debate so please contact us and share your own at ukfmppmarket@kpmg.co.uk
Alternatively, please feel free to contact the authors directly.

Jan Crosby

Managing Director

T: +44 7715 704901

E: jan.crosby@kpmg.co.uk

Mark Essex

Director, Public Policy

T: +44 7767 612 134

E: mark.essex@kpmg.co.uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

CRT096457 | September 2018