Rents, viability and value in black and minority ethnic housing associations

Black and minority ethnic housing associations (BMEs) are more financially vulnerable than the majority of associations and are finding it harder to achieve their specific objectives and to maintain development programmes. Research by the Property Research Unit, University of Cambridge, found that:

- BMEs fall into two main groups: those, usually smaller, associations aiming to provide a specifically community-oriented service, and those that are more mainstream in their approach, which tend to compete more directly with non-BME associations.
- BMEs' rent levels are higher than average but perhaps not as high as national (CORE) data suggest. Rents for new homes are often lower than those for new tenancies in older homes reflecting the extent to which BME associations must compete for development.
- The vast majority of BMEs have little or no capacity to keep rents on new lettings down by cross-subsidising from earlier developments. Moreover, their financial situation is worsening and growth rates are slowing.
- BMEs are financially vulnerable to changes in economic circumstances - notably interest rate rises - to the impact of rent restraints and to changes in housing benefit.
- BMEs both tend to provide larger properties and have higher densities of occupation across the range of property sizes.
- The more community-oriented BMEs provide specialist services - often using staff specifically recruited for their relevant skills - which are used by their tenants on a day-to-day basis.
- Although partnerships with non-BME associations are seen as necessary and work reasonably well, BMEs often feel like junior members and do not always achieve the types of development that address their particular objectives.
- The researchers conclude that BMEs need to develop individual, longer term plans to realise their particular objectives and to utilise their particular skills. It is important that these qualities are not lost in the face of increasing pressures for growth and standardisation.

Background

When the second Housing Corporation strategy for black and minority ethnic associations came to an end in 1996 there was concern about their future. As an earlier study by the same institution showed ('Financing black and minority ethnic housing associations', *Findings Ref. H180*), most BME associations are relatively small, young and potentially financially vulnerable, especially those that have grown rapidly in the last few years. Changes in the policy and economic environment could put many of them at risk. At the same time, BME rents are thought to be higher than for the majority of associations, which raises questions about whether they are providing good value for money. This new study therefore concentrated on three questions:

- Are BME rents actually higher than average?
- Are the associations financially viable in changing circumstances? and
- Do BMEs provide different types of properties and services for different types of tenant?

Rents

At the national level, rents charged by BMEs for all types of property tend to be higher than for non-BME associations of all sizes (Figure 1). Excluding the very small number of bed-sits, these differences range from about 10 per cent to over 20 per cent for larger units. However, the differences do not appear to be as great as suggested by the national (CORE) statistics, which only cover the larger associations. Moreover, rents on new properties are closer to average levels than rents for new tenancies in older homes, reflecting the extent to which BME associations must compete for development.

At the scheme level, rents for the same or similar properties differ between associations - whether BME or non-BME (Table 1). Rents charged by mainstream type BMEs tend to differ little from those charged by non-BME associations. It is the rents of usually smaller, culturally oriented associations, aiming to provide additional services, that are significantly higher. Housing-specific service charges do not differ much, but where they do, this worsens the comparative position.

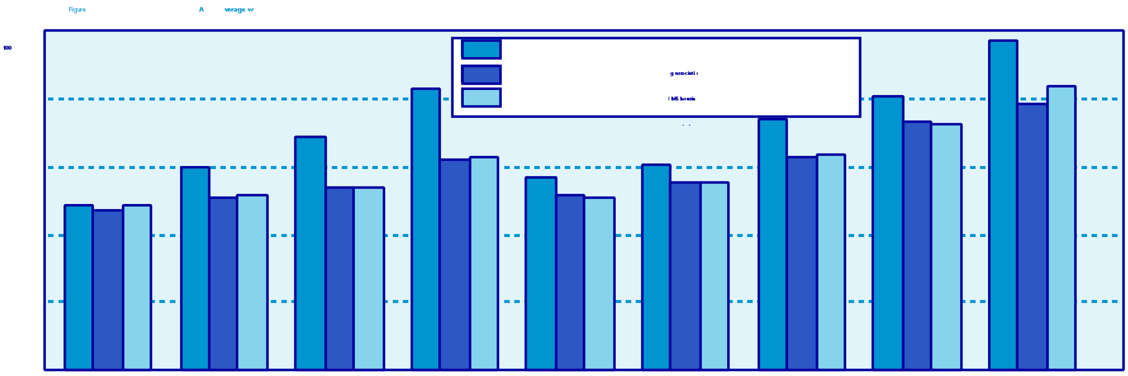
Financial viability

Detailed analyses of the accounts of the 66 BMEs registered with the Housing Corporation provide evidence on current financial viability, measured in terms of a range of ratios, as well as some evidence on how these ratios are changing.

The short-term ratios suggest that almost all the BMEs are able to meet their immediate obligations, but also that some of their liquid assets are not being used as effectively as possible. Moreover, the solvency position of almost 50 per cent of BMEs is worsening. The position with long-term ratios is similar: the vast majority of BMEs can readily meet their interest payments, but the cushion is falling for a significant proportion. Almost all have some potential for additional borrowing but most are becoming more cautious in their attitudes to new development. Reserves are generally not growing as rapidly as in the past - and in some cases are being run down. Over a third of the associations had rental losses above the benchmark. For over 40 per cent, rental losses from empty properties ('voids') and bad debts have increased, while rent arrears are growing in more than 50 per cent. In the main, these indicators move together so those associations that

Table 1: Average rent levels of BME and non-BME associations on case study schemes compared with CORE new let rents

	1 bed	2 bed	3 bed	4 bed	5 bed
Area 1					
BME	63.16	73.50	84.91	99.71	156.23
Non-BME	53.16	66.30	72.41	80.14	95.25
CORE: all HAs (new lets)	-	68.20	78.30	-	110.50
Area 2					
BME	46.82	56.48	59.32	66.40	-
Non-BME	45.45	56.85	61.09	67.80	-
CORE: all HAs (new lets)	-	54.70	58.30	64.80	68.50
Area 3					
BME	-	63.04	69.29	66.64	78.66
Non-BME	48.82	58.42	61.33	64.91	77.08
CORE: all HAs (new lets)	43.10	52.70	56.80	60.10	76.00
Area 4					
BME	-	65.30	71.01	68.50	-
Non-BME	48.14	56.54	64.77	67.73	85.37
CORE: all HAs (new lets)	54.70	57.60	59.40	62.60	64.70



are doing well on one tend to do well on the others, while those faring worse on one tend to be worse across the board. The position of those associations that are developing tends to be worsening - but from a relatively strong initial position.

Relating these quantitative indicators to qualitative measures suggests that London associations and those with higher staff resources tend to be stronger, but that factors such as age of the association or percentage of mixed funding are not particularly important in predicting viability. Although there is some relationship between size and viability, many of the smaller associations are financially strong.

Forward-looking sensitivity analysis of the accounts suggests that the established worsening trends will continue to worsen. The majority of business plans still assume that rents can rise faster than the rate of inflation. Higher interest rates would make life more difficult and rent regulation will now restrict their capacity to adjust to external changes. Many of the BMEs will not be able to continue to develop in present conditions.

The impact of rents on viability

At the moment, rent levels among BMEs have little impact on bad debts, voids and arrears because of the very high proportions of tenants on benefit. However, there are problems when low income tenants have to pay all or part of their rent and there is evidence that those in low-paid employment may refuse offers of accommodation because of high rents and the poverty trap problems. Similar problems are mentioned by the non-BME associations - but to a lesser extent.

Only two of the case study BMEs felt that they had the capacity to ‘rent pool’ (i.e. keep new rents down by cross-subsidy from earlier developments) - in contrast to all the non-BME associations. These generally had adequate surpluses to fall back on if there were problems. There are widespread fears about the effect of more rent regulation as well as the threat of changes in housing benefit. Non-BME associations see the same problems emerging but are not yet so heavily constrained.

Managerial viability

A particular concern in the organisation and management of BME associations is the extent of skill and staff shortages at senior and management levels, the problems of staff turnover and the need to buy-in certain professional services, notably in the context of development.

BME associations have difficulties in recruiting partly because of financial constraints, but also because of the added criterion of wanting to recruit from the relevant ethnic community to provide language and other services to meet their commitment to their tenants.

Development viability

In the main, BME associations feel less able to develop than in the past and therefore are introducing strategies to diversify or consolidate their activities.

Partnerships between BME and non-BME associations are widespread. They work reasonably well, although the BMEs often feel that they are not regarded as equal partners and have less say in developing policy. Partnerships between BMEs are rare - they either feel they are doing a different job or that they are in competition.

Local authority support is becoming increasingly important. This works for both BME and non-BME associations as the money is often not forthcoming unless both are involved, but it can also be a source of tension.

Value

About 60 per cent of BME association tenants are from ethnic minorities. There is an emphasis on housing families and, to a lesser extent, special needs groups and older people. A higher than average proportion of tenants are on housing benefit and working incomes appear to be considerably lower than average.

Many BMEs regard themselves as providing more appropriate housing services in terms of both size and design. Reflecting both ethnicity and the emphasis on families, they tend to have larger than average proportions of bigger homes.

In the scheme by scheme analysis, the properties generally differ little from one another, whether owned by BME or non-BME associations. BMEs, however, usually own and/or manage a larger proportion of the bigger properties. But there is also evidence that they cannot always have the types of property that they would like and have, for instance, to knock properties together or allocate two to one household to accommodate larger families. BMEs feel that they have to take what they are offered and are inadequately consulted on their requirements, often frustrating their objectives.

The density of occupation (actual or projected) is generally higher than average for culturally oriented BME associations - but not for the more 'mainstream' ones.

Many BMEs also provide translation and other services to tenants on a daily basis. This may take hours of staff time every day where ethnicity is a particular issue. Here there are two distinct types of general needs BME association - those housing large proportions of non-English speaking Asian or Chinese tenants, where these services are vital; and those that concentrate on homelessness and/or the Afro-Caribbean community - where these services are less important. Non-BME associations in the same areas also offer services but to a lesser extent and in ways that may be less sensitive to individual needs.

Conclusions

Many of the BME associations do have to charge more, but usually they are the ones that are more sensitive in what they provide. The majority of BMEs are coping well with their relatively difficult financial position, which arises from being young and active. But they are more vulnerable than older, larger non-BME associations and have much less capacity to adjust to external change - whether that be interest rate increases or rent regulation policies. The partnership approach has worked reasonably well, if rather inflexibly, in the past. The future requires much more association-specific planning - and the recognition that there are very different needs from different ethnic communities.

About the study

The research was undertaken by Dawn Marshall, Caroline Royce, Paul Saw, Christine Whitehead and Jane Woodrow of the Property Research Unit, University of Cambridge. The methodology involved a questionnaire to all BME associations to provide details of their stock, their tenants, their organisation and particularly their rents; a financial analysis looking at the associations' basic strengths and weaknesses; case studies of BME and comparable non-BME associations in four local authority areas, including detailed scheme-by-scheme analysis of a range of associations in each scheme; a similar analysis of a larger sample of associations covering different levels of financial viability and spread more widely across the country; and, finally, sensitivity analysis of the impact of economic and policy change on the financial viability of BME associations.

How to get further information

The full report, A level playing field? Rents, viability and value in BME housing associations by Dawn Marshall, Caroline Royce, Paul Saw, Christine Whitehead and Jane Woodrow, is published for the Foundation by YPS (ISBN 1 899987 76 2, price £9.95 plus £1.50 p&p). It is available from York Publishing Services Ltd, 64 Hallfield Road, Layerthorpe, York YO31 7ZX, Tel: 01904 430033, Fax: 01904 430868.

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Published by the
Joseph Rowntree Foundation
The Homestead, 40 Water End, York YO3 6LP
Tel: 01904 629241 Fax: 01904 620072
http://www.jrf.org.uk

ISSN 0958-3084

The Joseph Rowntree Foundation is an independent, non-political body which has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policy-makers and practitioners. The findings presented here, however, are those of the authors and not necessarily those of the Foundation.

5118