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Valuation of Land
For Affordable Housing

Version 5.0

Contents

Course Objectives

By the end of the course you will be able to have an understanding of the methodologies to value land for affordable housing:

- Understand the context in which affordable housing is delivered
- Understand the basic regulation applicable to affordable housing.
- Understand the impact of the accommodation mix and tenure.
- Understand the inputs to a development appraisal

Personal objectives and concerns

List below your personal objectives for the course:

1. ____

2. ____

3. ____

4. ____

5. ____

List below what aspects of the valuation of affordable housing land you would specifically like to be covered:

6. ____

7. ____

8. ____

9. ____

10. ____

Course Agenda

Introductions

When does affordable housing get developed?

Affordable housing types for new developments

Methodology for developing development land

Factors affecting development land values – including GDV, costs, finance, etc.

Reporting

Introduction

Affordable housing is a key element in the provision of housing in England and Wales, particularly within the south-east where values of private housing has outstripped for example the ability for key workers to be able to get on to the property ladder. Affordable housing is required in most schemes throughout the country but the overall stock has been in long-term decline. The provision of affordable housing through mainly Section 106 Agreements throughout the recession, however, has focused developer's attention on the cost of this provision and the viability of development schemes. Nevertheless the demand for housing is still prevalent. In mid 2008, 1.8 million households were on Local Authority waiting lists. It continues to form an important part of the development framework and local authorities are recognising that a more flexible approach to the provision of affordable housing going forward is essential. Therefore, the phased approach and incremental percentages are some ways that local authorities are looking at providing adequate accommodation.

The Government have outlined proposals for their affordable housing programme providing some £6.5 billion over the next fours years, including £4.5 billion for new affordable homes. The New Homes Bonus will provide enhanced incentives for affordable homes. But that money must go further. So the Government has introduced new flexibilities for providers on using existing assets, and a new offer on rents. The objective of these flexibilities, including the Affordable Rent product, is to enable providers to deliver up to 150,000 new affordable homes.

This course looks to create an understanding of what is affordable housing and then takes us through the valuation process and the final reporting stage.

When does affordable housing get developed?

Exercise 1: How is affordable housing provided?

Planning Influences in England and Wales

Planning plays a central role in influencing the provision of affordable housing. Each local authority will have their target provisions based on the percentage of the total number of dwellings, or possibly based on floor area, and often these will be in the order of 35%-40% as a rule of thumb. In areas such as the south-east and particularly in Greater London, this might be higher at 50%. The difficulty with this is that in the current market such constraints can prevent development taking place as the provision for affordable housing is making many schemes unviable. That is not to say that the provision of affordable housing is the only cause of this lack of viability, and there are many other aspects within a planning permission and the market itself that could have a detrimental effect to the current viability of schemes.

As a result local authorities are being more innovative in the way they are applying their policies and may for example look to build on the provision of additional affordable housing through the life of major schemes, with the hope of clawing back additional provision in the future.

Adoption of the National Planning Policy Framework in March 2012 and introduction of 'Localism' may have a significant effect on the provision of affordable housing going forward.

When does HCA anticipate development of affordable housing?

See 2001-15 Affordable Homes Programme- Framework. The main circumstances that affordable housing will be delivered are expected to be:

a) as a result of using the additional borrowing capacity that can be generated from the conversion of social rent properties to Affordable Rent (or other tenures) at re-let, as well as borrowing capacity generated by the net rental income stream of the new properties developed; RPs gear up borrowing capacity on the basis of the overall business. There are a number of loan arrangements being negotiated including bonds.

b) existing sources of cross subsidy, including provider surpluses, income from developing new properties for outright sale, Recycled Capital Grant Funding (RCGF) and Disposals Proceeds Fund (DPF) and s106 cross subsidy; HCA funding where required for development to be viable; and

c) other sources of funding or means of reducing costs such as free or discounted public land, private land (Such as Rural exception sites.) and local authority contributions for example from the New Homes Bonus.

Of these different opportunities, at present the ones most regularly seen are the developments through S106 arrangements, RP developments with market housing subsidising development, and release of public land.

Notes

What is affordable housing?

In England, National Planning Policy Framework (NPPF) contains a definition of affordable housing:

> ***"Affordable housing:*** *Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision."*

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered as affordable housing for planning purposes.

In its simplest form there are two different tenure types, being social housing and intermediate housing. We will look at the different tenure types in more detail.

Social Housing

Social Rent

In England in 2001, a rent influencing regime was implemented as a result of a government Housing Green Paper in 2000 that identified marked variations in rental levels being charged by registered providers to tenants who lived in similar sized properties in similar locations.

The aim was to link rents to local earnings and property values. The Housing Corporation issued guidance in 2001entitled *Rent Influencing Regime: Implementing the rent restructuring framework*. The functions of the Housing Corporation were subsequently transferred to the Tenant Services Authority (TSA).

The rents that can be charged on social rent units are calculated in accordance with the guidance at levels below market rents. In order to ensure that they are affordable to those in housing need who cannot afford to access market or intermediate tenure housing, the levels vary from one region to another. The rents were indexed based on an assessment of the value of the property in January 1999. The basis of valuation adopted is EUV as set out in the RICS *Valuation Standards* at UKPS 1.3.

In 2002, the government required registered providers to calculate a target rent for each property so that by 2012 the actual net rent of the property would be adjusted to match this target rent (in real terms). The target rent is calculated through a formula that uses relative county earnings, relative property values and number of bedrooms to arrive at the target rent. In order to arrive at the target rent the net rent is tracked against an annual rate of RPI + 0.5% plus or minus £2 per week. Once the target rent has been reached rents track RPI movement + 0.5% per annum. The TSA issue guidance on rents, rent differentials and service charges changes from time to time and the latest guidance is available on www.tenantservicesauthority.org.

The target rents are subject to rent caps that are set according to the number of bedrooms. The rent caps are published annually by the TSA. Rent caps are essential in higher value areas in order to keep rents affordable for tenants on lower incomes. Rent caps track RPI movement + 1% per annum.

In Wales the rent is calculated from guidelines supplied by the Welsh Assembly Government. Gross passing rents are the sum of the weekly target rents prior to deducting any costs incurred.

The net passing rent is calculated by deducting the following costs from the gross rent receivable by the registered provider:

- management costs;
- repairs & maintenance costs;
- allowance for voids & bad debts;
- annual sinking fund (including allowance for major repairs); and
- unrecoverable service charge.

In order to arrive at the GDV the aggregate of the annual net passing rents is capitalised over the period of the cashflow at an appropriate discount rate reflecting:

- the sustainability of the existing rental income;
- the likely rate of future rental growth;
- the condition of the portfolio;

- the level of outgoing required to maintain the maximum income stream;
- the likely performance of the portfolio in relation to its profile and location;
- the real cost of borrowing; and
- the long-term rate of gilts.

If it is assumed that a Right to Acquire (RTA) will occur and that net receipts will be reinvested by a registered provider, this capital should be built into the cashflow and discounted back at an appropriate rate.

Target rents:

Extract from information in Cambridge Centre for Housing and Planning Research- Target Rents 2009

Table A1: Cross-tenure comparison of average rent by region and property size							
Dwelling Type	HA-all stock			HA-new lettings	LA-stock	Private Rent	HA Target Rent
Region	net rent	service charge	gross rent	gross rent	net rent	rent	rent
All property sizes							
London	90.25	8.23	95.45	110.83	82.38	221.89*	97.22
South East	84.59	4.79	87.00	94.06	73.68	147.32*	85.37
South West	73.37	3.73	75.16	81.98	61.07	126.94*	73.33
East Midlands	67.16	4.68	69.05	78.18	59.44	104.13*	68.36
East of England	76.22	4.26	77.80	83.91	69.39	126.64*	77.89
West Midlands	67.78	4.41	70.10	83.21	61.52	112.73*	68.79
Yorkshire and the Humber	61.99	4.68	63.91	74.34	56.20	109.92*	64.30
North East	61.63	4.29	63.11	73.28	56.95	100.85*	63.88
North West	64.64	4.40	66.29	74.50	57.36	110.67*	66.53
National average/total	**73.49**	**5.25**	**75.91**	**89.35**	**66.86**	**139.80***	**75.77**

Affordable Rent

The Affordable Homes Programme signals a significant change and heralds the introduction of a new more flexible form of social housing, Affordable Rent, which will be the main type of new housing supply. Affordable Rent will allow a more diverse offer for the range of people accessing social housing. As it is a new product in affordable housing, and appears to be the Government's preferred tenure for rented affordable housing, it is appropriate to go in to some detail on what it is and how it is expected to work.

The Affordable Homes Programme framework - PDF (473KB) explains the Affordable Rent model in more detail and the Capital Funding Guide provides guidance for Registered Providers who have received HCA funding for Affordable Rent.

Allocations and nominations processes for AR homes are expected to mirror the existing frameworks for social rented housing; and RPs will be under the same statutory and regulatory obligations as they are when allocating properties for social rent.

The minimum term of an Affordable Rent tenancy is 2 years, but providers are also able to offer longer fixed term or periodic tenancies.

For both new supply and conversions RPs will be required to assess the market rent (using the definition of the International Valuations Standard Committee as adopted by RICS) that the individual property would achieve and set the initial rent at up to 80% of that level (inclusive of service charges).

Exceptionally rents may exceed 80% of market levels in areas where an Affordable Rent would otherwise be lower than the target rent for the property. The target rent therefore constitutes a 'floor' for the rent to be charged. However RPs will be required to document such decisions together with supporting evidence for audit purposes.

In order to maximise their financial capacity HCA expects RPs to set rents at up to 80% gross market rent. Where in specific circumstances RPs can demonstrate it is appropriate to set rents at less than 80% of gross local market rents whilst still meeting local needs and delivering value for money they will be required to discuss such cases with their Agency lead investor team. Examples where it might be appropriate could include:

- where a rent at 80% of market rent would exceed the relevant Local Housing Allowance (LHA) cap or place the rent close to the cap,
- or if the local rented market was considered to be particularly weak or fragile.

Homes let on AR terms will not be subject to the rent restructuring policy for social rented housing as set out in the TSA's Rent Influencing Regime Guidance (RIRG). For further information, please see the TSA tenancy standard. The maximum annual AR increase will be Retail Price Index + 0.5%. RPI will be taken as at September of the previous year.

RPs will be required to rebase the rent on each occasion that a new AR tenancy is issued (or renewed) for a particular property; and ensure that the rent remains at no more than 80% of gross market rent (inclusive of service charges) as of the date the property is re-let – even if this means the new rent is lower than the rent previously charged.

The type of tenancy which RPs should use when homes are let on Affordable Rent terms is not prescribed. Therefore, RPs will be able to offer AR on flexible tenancies; retaining the option to offer Assured/Secure tenancies if they wish to. AR tenancies must be for a minimum period of no less than two years, but RPs have the flexibility to offer longer tenancies, including Assured/Secure tenancies. It's likely that in future RPs will be required to take into account Local Housing Authorities strategic tenancy policies.

Notes

Intermediate Housing

There are a number of products that are available, mainly NewBuild HomeBuy, shared equity, discounted market sales, etc. Intermediate rent and Rent to Home Buy also fall within this category. The type most usually encountered in new build assessments is NewBuild HomeBuy (NBHB).

It is housing that is priced below market price and that meet local affordability criteria to enable people to access housing, when they do not have the capacity to purchase within the private housing sector.

The affordability criteria are set by the local authorities and typically relate to the amount that a person can afford as a percentage of their gross income, to spend on housing costs.

Most of these tenures have been available for many years, so a brief resume only is provided here.

NewBuild HomeBuy

This was formerly known as shared ownership and is an intermediate product where an occupier purchases an initial percentage (usually a minimum of 25%, and up to 50%) of equity in their home and then pays an annual rental charge as a percentage of the retained equity. RPs typically charge this on a sliding rate, but 2.75% is widely adopted. Under Section 106 Agreement, this charge may be specified at a lower rate- which would affect the level of offer the RP could then make.This is also considered in view of affordability against income thresholds.

Occupiers have future opportunities to purchase additional tranches. This is known as staircasing from a registered provider. The occupier will also have the opportunity to staircase up to 100%, although in certain circumstances a maximum of 80% ownership is only allowed as part of a Section 106 Agreement.

NewBuild HomeBuy has to be affordable for the average person living in the community. Local authorities assess average incomes as part of their housing policy reviews and require that properties sold under this tenure should not be in excess of the total average income of potential purchaser(s). Assessment of affordability has regard to the total costs to a purchaser. The following table is an example of how this is established:

SHARED OWNERSHIP		
		1 bed flat
Market Value		£150,000.00
Deposit		£5,000.00
Initial Share		25%
Value of initial share		£37,500.00
Unsold equity		£112,500.00
Mortgage		£32,500.00
Mortgage period (Years)		25
Interest Rate		4.5%
Net income as a % of gross (Assumption)		70%
Monthly repayments		£180.65
Annual repayments		£2,167.75
Policy rent %		2.75%
Monthly rent		£257.81
Annual rent		£3,093.75
Monthly service charge		£87.00
Annual service charge		£1,044.00
Total annual housing cost		£6,305.50
Max % of net income on annual housing cost		40%
Max % of net income as % of gross income		28%
Income multiple		3.57
Min gross income required		£22,519.63

This means that there will be a value cap above which NewBuild HomeBuy is unlikely. In central London, as an example, £300,000 is considered the maximum affordable value.

Shared Equity

This is distinct to Shared Ownership where for example 75% (and this is not necessarily the agreed percentage) is held by the occupier and 25% is held by the housebuilder. At some point in time the balance may be acquired by the owner. The interesting part of this is whether the 25% has a value for the full 100% of that portion. Evidence is now emerging that the retained equity is worth 40 to 50% of the 100% retained value.

Discounted Market Sale

Often this is imposed through a Section 106 Agreement specifying the percentage of market price that can be charged for certain houses.

Notes

Methodology for valuing development land

RICS has produced two aids to assessing land value:

a) Valuation Information Paper 12- Valuation of Development Land

b) Practice Statement- Valuation of Land for Affordable Housing

VIP12- Valuation of Development Land

This paper is the lead authority prepared by RICS on the appropriate methodology for the valuation of greenfield sites. It does not specifically address the valuation of brownfield sites, although the general principles are considered to be similar. You need to be familiar with this paper to ensure your valuation methodology complies with best practice.

There are two approaches to the valuation of development land:

a) Comparison with the sale price of land for comparable development;

b) assessment of the value of the scheme as completed and deduction of the costs of development (including developer's profit) to arrive at the underlying land value. This is known as the residual method.

In practice it is likely that a valuation would utilise both approaches, and the degree to which either, or both, are relevant depends upon the nature of the development being considered, and the complexity of the issues. Valuation by comparison is essentially objective, in that it is based on an analysis of the price achieved for sites with broadly similar development characteristics. The usefulness of the comparison method of valuation of land for affordable housing is limited as a consequence of the amount and complexity of legislation and the planning restrictions associated with affordable housing. This means that the form and scale (and therefore value) of permitted developments can vary widely from site to site, even within the same local authority. As a result the comparable method may only, at best, be useful as a 'reality check' on the valuation, and even then the valuer should be aware of the impact that the availability of grant funding can have on the value of land for affordable housing.

The residual method, in contrast, relies on an approach that is a combination of comparison and cost and it requires the valuer to make a number of assumptions – any of which can affect the outcome in varying degrees.

The recommended approach follows a logical sequence:

a) Establishing the facts- Consider
   (i) Site specific information
   (ii) Existing planning matters

b) Assessing the development potential- Consider:
   (i) Is the existing consent optimum?
   (ii) Assess form and extent of physical development
   (iii) Likely development period
   (iv) Potential for “value engineering”
   (v) Environmental and climate change issues- NB Code of Sustainable Homes.
   (vi) Neighbouring land opportunities.

c) Valuation by the comparison method:
   Typically, comparison may be appropriate where there is an active market anda relatively straightforward low density form of development is proposed (EG If the land is greenfield within a rural economy where infrastructure costs are consistent and not excessive, or small residential developments, and small industrial estates), and it is likely that the density, form and unit cost of the development will be similar.

   In comparing sites the following factors, which are not exclusive, may be relevant:
   (i) values may differ considerably within a small geographical area;
   (ii) the condition of the site and associated remediation costs are very site specific and could differ significantly between greenfield and brownfield, and between brownfield, sites;
   (iii) site and construction costs, for example, in terms of infrastructure and service requirements differ;
   (iv) the type of the development will vary and may reflect a requirement to provide affordable housing. In the case of residential developments the density achieved can also affect the price;
   (v) the price may be affected by planning obligations;
   (vi) andin a rapidly changing market, the date of the sale of the comparable is relevant.

d) Valuation by the residual method
   Affordable housing schemes require a very technical approach and due to the variety of tenures no two sites are the same. Understanding the makeup of the valuation approach and unpicking comparable sales would be required to use the comparable method. Even then the particular detail of a comparable sale is unlikely to be known(eg level of internal subsidy), so that there is a preference for the use of the residual method which follows the way RPs assemble their bids for affordable housing land.

Where the nature of the development is such that there are no (or limited) transactions to use for the comparative method, the residual method provides an alternative valuation approach. Factors to consider:

(i) Data inputs can make substantial differences to the end site value.

(ii) Small changes in any of the inputs can cumulatively lead to a large change in the land value.

(iii) Some of these inputs can be assessed with reasonable objectivity, but others present great difficulty.

The residual is calculated as follows:
(value of completed development) – (development costs + developers profit) = land value

Costs and values are based on current day levels.

Profit is usually assessed based on GDV or GDC. Where assets are being retained it is usual to judge the success of a scheme in terms of the enhancement of the balance sheet (net asset value (NAV)) rather than the profit and loss account (income). This may be assessed based on future income streams- DCF method. This approach is typical for RP assessments.

e) Assessing the land value- Consider:

(i) If based on comparable basis, is a basic residual or other "sanity check" sensible?

(ii) If valuing on a residual approach, is a sensitivity study needed? What inputs are based on uncertain assumptions?

Notes

Residual method:

Gross Development Value

Look at Guidance note: Valuation of Land for affordable housing for a full explanation of how to carry out a residual assessment for affordable housing land values.

There are three main components that make up the gross development value for affordable housing which are:

1. The rent and capital receipts from affordable units.

2. Proceeds that may be reinvested from staircasing receipts, right to acquire or external subsidies.

3. Any internal registered provider subsidy or cross subsidy by including market housing in the scheme.

Dealing with each in turn, with regards to rents, the gross rents need to be calculated and from these, costs need to be deducted in order to arrive at the net income. The cost that might be deducted would include management costs, repair and maintenance, allowance for voids and bad debts and an annual sinking fund and finally any unrecoverable service charge.

The next step is to capitalise the net income by the appropriate discount rate, which will reflect numerous factors such as future rental growth or condition of the portfolio, cost of borrowing, sustainability of the existing rental income and so on. This is usually assessed by RPs on a DCF basis. The following notes explain how this is done.

Discounted Cash Flow explained:

Valuation methodology- Income method.

The Income Method estimates the present worth of a property assuming projected future net income and re-sale value. The method uses the discounted cash flow (DCF) model to determine the present value of an investment. One underlying assumption of this approach is the principle of opportunity cost of capital, i.e. that money is of more value today than in the future. The principle of anticipation is fundamental to this approach. It states that value can be created today by expected future profits.

Procedure

1. This method relies on making certain key assumptions on:
    a) The prospective income generated by the property
    b) The resale value

    Example:(For DCF assessment on affordable housing is usually carried over a period of 30 years plus. For this example I will just look at a 10 year period for simplicity.)

    A two bedroom flat is to be acquired by an RP for Affordable Rent. Market data predicts that the flat will show an average annual increase of 5% in market value for the next 10 years. Affordable rent levels suggest I can expect to receive £4,000 of rent each year for the next 10 years.

2. In order to calculate the present value, prospective future income has to be discounted to reflect the cost of equity capital. This is part of the discounted cash flow (DCF). The opportunity cost of capital can be interpreted as the income that would otherwise have been generated had the capital been invested in an asset of similar risk instead.

    Example: Instead of an Affordable Rent flat, the RP could have invested in high-yield bonds that are assessed as being of similar risk. The highyield bonds generate an 8% yield, so I will assume my discount rate (cost of equity capital) to be 8%.

3. The difficult part in calculating the DCF is how to estimate the risk involved. In residential property dealings, these estimates are usually based upon historical data on house price volatility.
4. The next step involves calculating the present value (PV) of the property based on selling it for 50% more in ten years' time. The way to calculate present value (PV) is to divide the future value of a house by the discount rate plus one to the power of the number of years.

    Example: The three-bedroom flat costs £120,000. I expect to be able to sell it for £180,000 in 10 years. Discount rate= 8%. Calculation:

    Sale PV = £180,000 / $(1 + 0.08)^{10}$ = £83,375

5. In recognition of the fact that the property will also generate income over the next ten years we need to calculate the present value of this income stream and add it to the value calculated above.

    Example:

    Gross Rent: £4,000 pa.

Deduct annual running costs: £1,600

Net income: £2,400.

Discount rate: 8%.

The calculation for the net present value for Year1 income is:

Income PV = £2,400 / $(1 + 0.08)^1$= £2,222

And so on for the period the property will be held until sold. For a 10 year hold, the calculation is

Income PV = (£2,400 / 1.08^1) + (£2,400 / 1.08^2) + (£2,400 / 1.08^3) + ... etc ... + (£2,400 / 1.08^{10})

And results in an income PV = £16,102

Overall assessment is therefore:

PV = Sale PV + Income PV

PV = £83,375 + £16,102

PV = £ 99,477

The RP would therefore in this example not be prepared to pay the current price of £120,000.

RPs will assess the value of the properties using long term discounted cashflows 30 years plus, in some cases 45 years historically. Where a S106 agreement requires the affordable properties to be held in perpetuity a 10 year cashflow followed by a reversion to market value would not match the approach taken by RPs. The example set out above is more in line with the approach taken with shared ownership / NewBuild Homebuy where the net income from the asset is projected forward and a staircasing event modelled in the future for a capital receipt. However, forecasting future shared ownership staircasing is difficult and should also be done at a portfolio level so that a variety of scenarios can be tested to assess impact on overall value. Typically RPs have historically assumed that 70% of the SO units will staircase out within 7 years. At the time of the property crash they removed all staircasing from their appraisal but it is now creeping back in. There are no hard and fast rules here but valuers should understand the approach and have the appropriate market knowledge to support their assumptions.

It is worth noting that this valuation method generates a result that is highly sensitive to the variable assumptions

Income Method Advantages

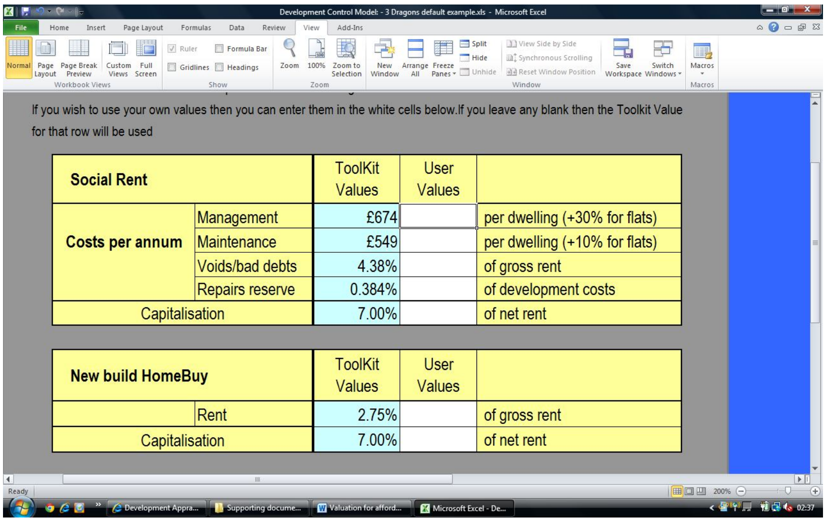
- It focuses directly on the value of the property to the individual concerned.

- Income analyses are very detailed and derive specific conclusions (in contrast to the more general approach practised in the Comparable Sales Method.

Income Method Disadvantages

- This method is more complex and less intuitive than the Comparable Sales Method. This is one of the reasons why it is often overlooked.
- This method ignores the actual market prices for property by neglecting the comparable sales analysis.
- The ultimate house price recommendation is highly sensitive to the assumptions made.

The following is an extract from the GLA Three Dragons Toolkit showing typical deductions and yield to get from gross rent to net for assessing on a DCF basis



If you wish to use your own values then you can enter them in the white cells below.If you leave any blank then the Toolkit Value for that row will be used

Social Rent		ToolKit Values	User Values	
Costs per annum	Management	£674		per dwelling (+30% for flats)
	Maintenance	£549		per dwelling (+10% for flats)
	Voids/bad debts	4.38%		of gross rent
	Repairs reserve	0.384%		of development costs
Capitalisation		7.00%		of net rent

New build HomeBuy		ToolKit Values	User Values	
	Rent	2.75%		of gross rent
Capitalisation		7.00%		of net rent

External subsidy- Grant funding

2011-15 Affordable Homes Programme

There is less grant funding available in the current economic climate than in recent years. The emphasis in providing affordable housing is likely to look to minimise grant funding where possible, and to ensure that the grant provides as many new affordable homes as is possible, in locations where there is maximum demand and need.

The Affordable Homes Programme 2011-15 (AHP) aims to increase the supply of new affordable homes in England. During 2011-15, HCA will invest £4.5bn in affordable housing through the Affordable Homes Programme and existing commitments from the previous National Affordable Housing Programme. The majority of the homes built will be made available as Affordable Renthttp://www.homesandcommunities.co.uk/affordable-rent with some for affordable home ownership, supported housing and in some circumstances, social rent. For further information on how the programme works read the Framework document - PDF (473 KB).

Qualification
Organisations delivering programmes through the Affordable Homes Programme 2011-15 must be qualified as HCA Investment Partners.

Availability of grant funding

Given constrained public finances, it is important to make the best use of the range of sources of funding for new supply. The HCA wishes to see providers consider and maximise value for money by bearing down on the costs of new supply. Providers will be required to submit a procurement statement as part of their offers.

Given the uncertainty of the availability and level of grant funding, agreement should be reached in assessing the land value as to what assumptions should be made for grant funding. These assumptions should be made clear in the valuation report.

Use of public land

Providers carrying out developments on land owned by the public sector should aim to minimise other forms of subsidy such as HCA funding. Where a public body is unwilling or unable to transfer the land for free or for a nominal capital receipt, then it should be willing to share in the risks of development, with the deferred value to be realised over the lifetime of a project.

Section 106 schemes

HCA expectation is that s106 schemes can be delivered at nil grant input for both affordable home ownership and for Affordable Rent. For the latter, the assumption is that the price paid will be no more than the capitalised value of the net rental stream of the homes. Providers who are efficient in their operating costs are likely to have a competitive advantage in making offers. For affordable home ownership, HCA will expect the price paid to include reasonable assumptions about the likely value of homes and the initial average share to be offered. The price paid should also be based on reasonable assumptions about the rent to be charged on the unsold equity in the home. As with Affordable Rent, providers who are efficient in their operating costs are likely to have a competitive edge in making offers.

Grant bids will move away from scheme by scheme assessment. Scheme specific scrutiny should be expected where:

a) Any grant is sought;

b) the use of RCGF or DPF;

c) application of a provider's own resources;

d) funding from conversion is proposed,

e) on s106 sites.

Open book provision of data about the economics of the scheme will be required from both the developer and the long term owner of the affordable housing (if they are different). HCA may test the economics of individual schemes through their development appraisal tool, particularly where HCA funding is sought on s106 sites. If HCA funding is requested on s106 sites they would expect, as part of the appraisal, to see evidence that this will result in provision of additional affordable housing which would not otherwise be delivered including by reference to the local planning authority's viability assessment.

Design and Quality Standards

Offers must meet the HCA's Design and Quality standards (April 2007) http://collections.europarchive.org/tna/20100710184205/http://www.housingcorp.gov.uk/upload/pdf/Design_quality_standards.pdf and accommodate any changes in Building Regulations.

Some local authorities may require additional local standards and providers will need to liaise with local authorities in whose areas they will be developing new homes. Providers whose offers include proposals in London should also see chapter seven of this Framework.

2008-11 NAHP

This programme has now pretty well run its course, and there will be limited need in the future to assess land value subject to grant funding on this basis. Funding was primarily made available for social rented and LCHO tenures. Bids for funding were supported by an Economic Assessment Toolkit, replaced in April 2011 by a Development Appraisal Toolkit.

Notes

Internal subsidy and market housing cross subsidy

Internal subsidy:

RPs are in a competitive market amongst themselves to acquire new affordable housing. Having gone through the valuation exercise and assessed what the units may be worth under a DCF approach, considered if additional (external) funds may be available, there is a further assessment- What are these units worth to the overall business plan?

This is a very difficult area to quantify and currently very uncertain due to the HCAs Framework agreement. The level of cross subsidy will be dependent on a wide range of items hinged on whether an association has a contract with HCA under the new Framework. It is too early to tell where this will end up but it is likely that in order to be competitive in acquiring sites, RP will need to increase the level of internal subsidy if possible.

Internal subsidy is often revenue based with schemes running at a loss in the early years but likely to be more capital subsidy focused going forward as funds are used from profits made elsewhere in the RPs business. RPs will need to become more commercial and move towards private sales and market rents going forward.

There is evidence that RPs will bid higher than a standard EUV-SH calculation (by as much as 40%) where they can demonstrate efficencies in management costs better than other RP who may not have such a local presence.

Market housing cross subsidy:

Increasingly RPs are seeking to build schemes that include both affordable and market housing. This has the advantages of:

a) Providing a key planning aim of mixed sustainable communities

b) The capital receipts from the sale of market housing cross subsidises the delivery of affordable housing.

Surpluses generated from the sale of market housing cross may subsidise delivery of affordable housing with or without other sources of additional subsidy (ie internal subsidy or external grant funding). In assessing land value, an understanding of what the development scheme is likely to comprise is essential, and this should be specified in the valuation report.

Alternative approach to assessing affordable housing values-Comparable evidence

It is essential to carry out a careful comparison check when doing a DCF based valuation of affordable housing values. There is usually good market evidence available to experienced affordable housing valuers on what RPs will pay for all usual tenure types. RPs are not just taking account of the return on capital. They are looking at their overall business performance, meeting their policy objectives, and seek to meet tenant demand. As such, they will in many cases exceed the value that a DCF approach may show as the EUV-SH. Additional finance may be available through internal subsidy.

Exercise 2 looks at a valuation of social housing to illustrate how internal subsidy can be applied by RPs, and the relevance of comparable market evidence.

Notes

Establishing Development Costs

Costs will comprise the usual elements, such as build costs, fees, finance, tax where applicable, cash flow and developer's profit.

Build costs

Construction costs include the cost of building the residential units and any other associated site works or infrastructure costs. They include items such as materials and labour, as well as any remediation costs.

Affordable housing units have to comply with stringent standards if they want to secure SHG funding, although an increasing number of registered providers have adopted these as a minimum (regardless of the availability of SHG) and would expect all units to meet them.

In England these standards are specified by the HCA in their Design and Quality Standards (DQS), April 2007 (formerly known as Scheme Development Standards).The DQS cover three broad areas:

- Internal environment – Assessed by Housing Quality Indicators (HQIs), (for example, unit size)
- Sustainability (for example, Code for Sustainable Homes)
- External environment (for example, Building for Life)

These standards are currently more rigorous (and therefore often more expensive) than the general Building Regulations with which private units have to comply. In determining relevant build costs, reference should be made to published indices such as BCIS and CLG published "*Cost of building to the Code for Sustainable Homes*" as well as the surveyor's past experience of working on comparable affordable schemes.

Any site specific factors such as the presence of contamination (and the associated cost of remediation or benefits of and remediation relief under s. 70 of the *Finance Act* 2001) and the location and design of the scheme (whether predominantly houses or flats, high rise or low rise)that may impact upon build costs should also be considered.

Affordable housing that is to be provided without SHG funding does not have to comply with the standards detailed above and therefore may be less expensive to construct. It is worth noting, however, that many registered providers require affordable housing to comply with DQS whether or not SHG funding will be sought.

In Wales the Welsh Assembly Government is seeking to achieve at least Code Level 3 on all new housing. The Welsh Housing Quality Standard has been developed to provide a common standard for the physical condition of all social housing in Wales. This is a minimum standard and will apply to all houses being transferred under stock transfer schemes. Design Quality Requirements are higher standards that RSLs must meet when delivering new units. As from 1 September 2010 all new housing will need to achieve at least Code Level 3 of the Code for Sustainable Homes.

Build costs are assessed as at day 1- Not mid-point through the development period. That estimate is established by QS for a different purpose- The assessment of the total amount of loan the developer may need to arrange, where a judgement needs to be made about future costs. Build costs include preliminaries, profits and overheads of the builder, and may typically be between 17-22% of the core build cost. If using a build cost estimate provided by a QS check whether contingencies and professional fees are included- If so, ensure you do not "double count" by showing them as a separate cost.

Do Exercise 3- build costs estimate.

CIL and S106 costs

Nearly all residential developments will be subject to planning policy obligations. These may be under emerging Community Infrastructure Levy (CIL) or S106 Town & Country Planning Act 1990 arrangements.

CIL: CIL is charged on the net increase in the gross internal area of development on the site. Affordable housing is exempt. The levy on the qualifying net increase varies for each local authority, with separate rates applied for different use classes. In London, there is an additional Mayoral CIL of up to £50/m2.

S106: NPPF explains what the tests are for planning authorities to seek s106 obligations. A planning obligation must be:

(i) necessary to make the development acceptable in planning terms;
(ii) directly related to the development; and
(iii) fairly and reasonably related in scale and kind to the development.

The use of planning obligations must be governed by the fundamental principle that **planning permission may not be bought or sold**. It is therefore not legitimate for unacceptable development to be permitted because of benefits or inducements offered by a developer which are not necessary to make the development acceptable in planning terms.

Similarly, planning obligations should never be used purely as a means of securing for the local community a share in the profits of development, i.e. as a means of securing a "betterment levy".

Below is an example of a range of s106 obligations assessed by a planning authority in SE England:

Housing	Beds	Transport	Open Space & Recreation	Built sports	Primary Education	SPA	Secondary Education	Special needs Education	Library	Community Centres	Youth facilities	**Totals**
Private	1	£2,147.00	£1,000.00	£335.00	£0.00	£1,536.00	£0.00	£0.00	£220.00	£600.00	£0.00	**£5,838.00**
	2	£2,147.00	£2,000.00	£670.00	£940.00	£1,536.00	£1,470.00	£0.00	£220.00	£600.00	£40.00	**£9,623.00**
	3	£2,147.00	£2,000.00	£670.00	£3,295.00	£1,536.00	£1,765.00	£945.00	£220.00	£600.00	£40.00	**£13,218.00**
	4	£2,147.00	£2,000.00	£670.00	£4,990.00	£1,536.00	£4,415.00	£945.00	£220.00	£600.00	£40.00	**£17,563.00**
	5	£1,502.90	£1,400.00	£469.00	£3,360.00	£1,075.20	£4,326.00	£661.50	£154.00	£420.00	£28.00	**£13,396.60**
Affordable	1	£2,147.00	£1,000.00	£335.00	£0.00	£1,536.00	£0.00	£0.00	£220.00	£600.00	£40.00	**£5,878.00**
	2	£2,147.00	£2,000.00	£670.00	£940.00	£1,536.00	£1,470.00	£0.00	£220.00	£600.00	£40.00	**£9,623.00**
	3	£2,147.00	£2,000.00	£670.00	£3,295.00	£1,536.00	£1,765.00	£945.00	£220.00	£600.00	£40.00	**£13,218.00**
	4	£1,932.30	£1,800.00	£603.00	£4,491.00	£1,382.40	£3,973.50	£850.50	£198.00	£540.00	£36.00	**£15,806.70**
	5	£2,147.00	£2,000.00	£670.00	£4,800.00	£1,536.00	£6,180.00	£945.00	£220.00	£600.00	£40.00	**£19,138.00**

Do Exercise 4 to consider if the S106 tariffs in that exercise meet NPPF criteria.

On Costs/ Professional Fees

These need some consideration as there may be instances where the registered provider is being provided with a “turnkey” scheme, where the costs are borne by the developer as part of the construction process.

Finance

This is taken from market knowledge of the rates of borrowing that registered providers are securing in order to fund their developments. The majority of residual appraisals assume that a registered provider would borrow 100% of the money needed to fund the scheme.

In general, registered providers are able to secure more favourable rates of financing on their loans than private residential developers, as they are perceived by lenders to be well managed and monitored, and provide a predetermined exit route. Also attractive to a lender is a registered provider’s ability to borrow against their large portfolios of existing stock that have relatively secure income streams from tenants who are often in receipt of government housing benefit.

Tax

Registered providers are generally treated differently from a private developer from the point of view of both tax relief and recoverability of VAT on fees.

Where a development is subject to a VAT election there are a number of options available to RSL to recover VAT. One such option is for the RSL to purchase the site only when construction has reached a point at which buildings, and not land, are being transferred. This is often referred to as a ‘golden brick’ payment. The particular circumstances will need to be established and reflected, as appropriate, in the valuation.

RPs are generally exempt from Stamp Duty Land Tax on land purchase.

Receipts

Up front payments or payments in phases through the life of the scheme together with receipts during the scheme will influence finance costs. Management of this can be very important and can alter viability.

Developer's Profit

On the basis that the registered provider is the developer it is assumed that they will not seek to make a profit. However, RPs will allow for the risk on sales pries on New Build Homebuy properties- This will vary but 10% of sales value is not unrealistic as a general guide.

Where the valuation is of a Section 106 package, then a level of profit needs to be built in to reflect the risk to a developer.

Notes

Land value

The result of deducting development costs from the gross development value is the residual land value. This needs to be looked at critically to check if it makes sense. Is it at a level that falls within valuer expectations? If not, look at the assessment critically to understand what the factors are that have produced this value. Land value can be a negative value.

Compare the result to any comparable evidence, if available.

Notes

Other issues:

Land value for (Rural) Exception Sites:

NPPF s54: *"In rural areas, ... through rural exception sites ... consider whether allowing some market housing would facilitate the provision of significant additional affordable housing to meet local needs."*

Factors to bear in mind:

- HCA grant not normally available.
- Developer- Should you assume RP is the developer cross subsidising affordable housing with market housing? NPPF is not specific about this, and a valuer may need to allow for market developer with profit requirements.
- Benchmark/ Land value- What is a "competitive return"?

Clearly the valuer needs to bear in mind what this land is- a site that would otherwise not be expected to receive planning consent for development in the immediate or near future. It may however have potential at some indeterminate future date. What therefore is a competitive return under these circumstances?

This is a matter of valuer judgement supported by any market sales evidence that may be available. This is one of the few occasions where a residual approach is less likely to be helpful than a market evidence base. There are market sales of sites on a reasonably regular basis and values are often expressed on a "per plot" basis. If assessing on this basis care needs to be taken to understand what the comparable "plot" comprises- ie is it a plot for a flat or a 5 bed house etc?

Commuted Sum

NPPF S50 allows a *"...contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock)."*

Notes

Reporting the Valuation

The format for reporting depends on the instructions, and the legal status of the body you are valuing for. If the purchaser/ owner is a public body (ie Local authority), you need to comply with CIPFA guidelines or HM Treasury rules. These use IFRS valuation basis of “Fair Value”, which in this case represents the same definition as RICS Red Book definition of Market Value. If not a public body, but a charity, valuation is likely to be under UK GAAP guidelines, following Charities SORP (2009), valuing to RICS Red Book definition of Market Value.

Check VS2 (Terms of Engagement) and VS3- the wording on some definitions have changed subtly. The report should be signed by the valuer, not the firm, should include a statement regarding any conflict of interest (And policy relating to this), and if the report is likely to be used by more than one party, other users should be named in the report.

You must have regard to VS 6 Valuation Reports and in particular, 6.1(a) to (t), in particular:

a) the basis of valuation must be clearly stated. Where a basis other than Market Value is adopted this must be fully explained. (PS 6.1(f));
b) all the assumptions made must be stated and, where appropriate, comment made on the effect of those assumptions where they are material. (PS 6.1(k));
c) and the statement requiring comment on the valuation approach is particularly important in these valuations (PS 6.1 (q)).

It may be appropriate to provide a copy of the appraisal and sensitivity analysis. If the land has a negative value, the negative value must be reported. Higher value alternative uses also need to be considered.

Where the purpose of the valuation is not one where a single figure valuation is required it is acceptable to agree with the client that a range of values be reported, particularly where the report includes a sensitivity analysis, with an explanation of the reasons for the range adopted.

Notes

Summary

- We have looked at the background to affordable housing and the issues facing.
- The types of affordable housing have been considered.
- We have then examined the detailed elements of an appraisal.
- Important points regarding the treatment of profit, phasing and subsidies have been outlined.
- Finally, we have looked at the report contents.

Notes

GLOSSARY OF TERMS

Affordable Housing
Affordable housing includes social and affordable rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. Affordable housing should:

- Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.
- Include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision

Affordable Homes Programme (AHP)
The Agency's main funding stream for affordable housing for 2011-15, which aims to increase the supply of new affordable homes in England. The majority of the homes built will be made available as Affordable Rent with some for Intermediate Housing, Supported Housing, and in some circumstances Social Rent (please see definitions below).

Affordable Rent
A form of social housing, involving homes being made available at a rent level of up to 80% of market rent (inclusive of service charges); the principal product available as new supply thorough the Affordable Homes Programme in 2011-15.

Arms Length Management Organisation (ALMO)
A body set up by some local authorities to take over the day-to-day running of their properties and bring social housing up to a decent standard, separating the landlord role from their wider strategic function in order to improve the quality and management of their housing.

Business Expansion Scheme (BES)
A tax efficient vehicle used for funding housing and other types of business. No longer available

Brownfield
A piece of land which has been previously developed for a use other than agriculture or forestry and which has one or more permanent structures on it. These sites can be in urban and rural areas and examples include industrial sites, defence buildings and land used for mineral extraction and waste disposal.

Code for Sustainable Homes (CSH)
An environmental assessment method for new homes based upon BRE Global's Ecohomes and contains mandatory performance levels (please see the BREAM website for details). In April 2007, the Code for Sustainable Homes replaced Ecohomes (please see definition below) for the assessment of new housing in England.

Commission for Architecture and the Built Environment (CABE)
Organisation which aims to improve peoples' lives through better buildings, spaces and places. CABE promotes high standards in the design of buildings and spaces between them, helping and advising those who create, manage and use the built environment.

Committed Programme
Schemes approved in previous years.

Compliance Audit
The procedure by which the independent auditors of RPs that are subject to a PPA and/or the Agency's local Design & Standards Managers check the quality and procedural compliance of schemes developed by RPs. Every RP that is subject to a PPA with a grant-funded programme is audited every year, whilst specialist RPs are audited at least every two years.

Cost Floor
In the context of the Right To Buy, those costs in respect of the Dwelling, which are treated as incurred after 31 March 1974 and relevant in accordance with the Secretary of State's Determinations made under Section 131 of the Housing Act 1985 as amended by Section 122 of the Housing Act 1988. In cases where the Landlord's notice under Section 125 of the 1985 Act is issued after 9 March 1989, the Secretary of State's Determination made in March 1989 shall apply.

Disabled Facilities Grant (DFG)
Government funding to local housing authorities to provide and improve adaptation services to disabled people enabling them to continue to stay in their own homes.

Deemed Loan Debt (DLD)
This is the amount of the Total Capital Costs of scheme not funded by either:

- public capital subsidy (Grant/RCGF/DPF plus any Other Public Subsidy)
- Sales receipts (if applicable) or
- the RP's own resources

If the project includes more than one property, the Deemed Loan Debt must be apportioned between them using the same formula as that used to apportion the Capital Grant. This formula must not be altered by adding, for example, any penalty charged by a lender for premature redemption of a loan, or substituting the actual loan debt should it be greater.

Designated Protected Areas
A principle introduced by The Housing (Shared Ownership Leases (Exclusion from Leasehold Reform Act 1967) (England) Regulations 2009 with effect from 7th September 2009, to assist the retention of shared ownership property in hard to replace areas (e.g. those exempted from the Right to Acquire) by either restricting staircasing or requiring the leaseholder to sell back to the landlord.

Designated Protected Areas Repurchase
Repurchase of grant funded shared ownership property originally built subject to the Agency's Protected Areas policy (please see Protected Areas above) by the landlord or a suitable nominated organisation. Where alternative means of funding have been robustly explored, the Agency will fund the repurchase of eligible Protected Area grant funded shared ownership property.

Disposal Proceeds Fund (DPF)
An internal fund within the accounts of an RP allowing the re-use of the Net proceeds of sales under Right To Acquire (RTA) and Social HomeBuy (SHB) procedures.

EcoHomes
Building Research Establishment (BRE) rating for environmental sustainability. In most cases, this is now superseded by the Code for Sustainable Homes above.

Estate Renewal Challenge Fund (ERCF)
Form of capital subsidy paid to an RP (ex-RSL) which has taken on stock transferred from a local authority under the ERCF programme. This is a historic funding stream, and is not available under the current programme.

European Regional Development Fund (ERDF)
A form of public subsidy.

Existing Satisfactory Purchase (ESP)
A form of acquisition for rent using grant where little or no repair, replacement or improvement work (i.e. approximately £1500 or less) is required to provide suitable housing.

Final Cost (FC)
The Final Cost stage grant claim, triggered by the issue of a Certificate of Practical Completion, or Certificate of Partial Possession (or equivalent), when all the properties are handed over by the contractor to the RP. A Certificate of Partial Possession (or equivalent) may be issued when all units are handed over to the RP but some work, like landscaping, remains to be completed.

Framework Delivery Agreement
Contract between the Agency and Registered Providers, detailing the terms and conditions under which capital grant for Affordable Homes Programme purposes is paid.

Flexible Tenure
The use of RCGF by an RP (ex-RSL) to repurchase some, or all, of a leaseholder's shares where the leaseholder is in mortgage difficulty. Sometimes known as reverse staircasing (see also – Leasehold Repurchase).

Grant Agreement
Contract between the Agency and those Registered Providers who were not previously Registered Social Landlords, detailing the terms and conditions under which capital grant for Affordable Homes Programme purposes is paid.

Housing Association as Managing Agents (HAMA)
Accommodation managed by an RP as an agent for the owner.

HAMA Plus
Accommodation managed by an RP as an agent for the owner and improved with capital grant under the former HAMA Plus initiative

HomeBuy
Since April 2006, HomeBuy is the generic name for a suite of low cost home ownership products (Shared ownership, Equity Loans, New Build HomeBuy, Social HomeBuy Open Market HomeBuy, and HomeBuy Direct) designed to help social tenants and others in priority need purchase a suitable home. These products were launched within the NAHP for 2006-08, with HomeBuy Direct being available from February 2009.
There have been various other products named Homebuy available prior to April 2006. The forms of Homebuy that were in operation before April 2006 are referred to with a capital H and lowercase b (Homebuy), whilst versions of HomeBuy in operation since April 2006 use a capital H and a capital B – as in HomeBuy. A small but important change!

HomeBuy Agents
The Homes and Communities Agency currently has a network of 15 Local HomeBuy Agents providing coverage across England. The network provides a one stop shop for potential buyers looking to access affordable home ownership.
Developing RPs must enter into and sign up to the Service Level Agreement with the HomeBuy Agents that operate in the localities where they are developing.

HomeBuy Direct
Available under the 2008-11 NAHP, a low cost home ownership product designed to help eligible applicants to buy a newly built property on selected sites with the assistance of two equity loans. The equity loans are of equal amounts, one funded by the Agency and one by the Developer, to be used by applicants in addition to their conventional mortgage loan and any savings.

Hostel

This is defined in section 63 of the Housing Act 1996 as a building in which is provided for persons generally or for a class or classes or persons:

- residential accommodation otherwise than in separate and self-contained premises; and
- either board or facilities for the preparation of food adequate for the needs of those persons, or both.

Housing Benefit (HB)

A government benefit which pays all or part of the rent and service charge for a property.

Housing for Older People

Accommodation specifically for older people which either incorporates a range of basic facilities and special design features or are specially designated housing for older people. The distinctive design features should be over and above lifetime homes adaptations to general needs properties. The age of tenants actually resident is not a defining feature. HCA divides housing for older people into three types:

- Housing for older people (all special design features)
- Housing for older people (some special design features)
- Designated supported housing for older people

See Circular 03/04 for definitions of supported housing and housing for older people stock.

Housing for sale

A general term covering mixed funded shared ownership and rehabilitation for outright sale schemes.

Housing Market Renewal Fund

Government funding to tackle low demand in areas where the housing market is thought to be failing.

Housing Market Renewal Pathfinder (HMRP)

See Pathfinder.

Housing Quality Indicator (HQI)

A comprehensive set of measures used to evaluate existing and planned housing developments on the basis of quality as opposed to simply cost. The indicators cover the location, the design and the performance of the housing project – these 3 categories produce 10 'Quality Indicators' that make up the HQI system. The Agency requires that HQIs are used for all grant funded new developments – developing organisations submit HQI data to a national database, managed as part of the Agency's Information Management System (IMS).

Investment Management System (IMS)

The Agency's computer system for:

- the processing of schemes and payments of grant

- Data collection for RCGF spend without new grant and
- End of Year Returns for the RCGF and DPF

All RP Milestone notifications and payment claims for grant must be submitted onto IMS via the Internet.

Intermediate Housing
Housing at prices and rents above those of social housing, but below market price or rents. This includes New Build HomeBuy), Equity Loans and Social HomeBuy.

Intermediate Rent
A sub-market rental scheme available under the 2008-11 NAHP for keyworkers and others where the rent is to be no more than 80% of local market rents.

Independent Qualified Valuer
The District or Borough Valuer or a professional associate or fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers or any successor body or bodies thereof, who is not employed by, or acting on behalf of, or a member of the family of, the person or organisation selling or transferring or purchasing the property or land being valued. 'Member of the family' is defined in section 62 of the Housing Act 1996 (as amended by the Civil Partnership Act 2004) as spouse of that person, or living together as husband and wife, or that person's parent, grandparent, child, grandchild, brother, sister, uncle, aunt, nephew, or niece. A relationship by marriage is the same as by blood, half-blood as whole-blood, and stepchild as child.

Large Scale Voluntary Transfer (LSVT)
Whole or partial transfer of the housing stock from a local authority to an RP (ex-RSL). This can take two forms:
- transfer to an existing RP
- transfer to a new RP established specifically to take the transfer, either as an independent RP (ex-RSL) or as part of an existing RP group.

Lead Provider
Where a number of RPs have formed
- a partnership to develop schemes under the Partnering Programme route, or
- A consortium under the 2011-15 AHP

One RP is required to undertake the role of Lead Provider The Lead Provider will be deemed responsible to the Agency for a number of additional responsibilities and obligations on behalf of the other RPs within that partnership. These responsibilities are referred to in the Partnering Programme Agreement.

Leasehold Repurchase
The repurchase by a RP of some, or all, of the leaseholder's shares in a grant funded shared ownership property, potentially with new grant. Includes New Build HomeBuy where the leaseholder is in mortgage difficulty, Rural Repurchase and Protected Area Repurchase (see also – Flexible Tenure).

Letting
This includes a sub-lease, sub-tenancy, or licence and an agreement for a lease, tenancy, licence, sub-lease, or sub-tenancy.

Local Authority
This is defined in section 106 of the Housing Associations Act 1985 as "a county, county borough, district, or London borough council, the Common Council of the City of London or the Council of the Isles of Scilly and in S84(5) includes a joint authority established by Part IV of the Local Government Act 1985 and the London Fire and Emergency Planning Authority and in section 85(4) includes such a joint authority as the London Fire and Planning Authority and a police authority established under section 3 of the Police Act 1996 and the Metropolitan Police Authority."

Local Enterprise Partnerships
Locally-owned partnerships between Local Authorities and businesses, playing a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs.

Local Investment Plans
Plans created by Local Authorities following engagement with the Agency. Full details are available on the HCA website.

Low Cost Home Ownership (LCHO)
A general term used to describe the various types of funding home ownership with subsidy, such as the different forms of HomeBuy and RTA.

Major Repairs Works,
Works, other than improvements or cyclical maintenance, to a dwelling owned by an RP in order to ensure the continued habitability of the dwelling. Part of the Miscellaneous Works category.

Market Value
A formal valuation method set out in the RICS's Red Book.

Mixed Funding (MF)
The generic term to describe the combination of Social Housing Assistance and private borrowing. See also Rent Mixed Funding.

MF Rent
Mixed funded rent.

Modern Methods of Construction (MMC)
A broad category of building methods that are designed to be more efficient and effective ways of constructing buildings than traditional methods (brick and block). Examples embraces a variety of build approaches including OSM, 'TunnelForm' and H&HCelon 'Thin joint blocks'.

Mortgage Rescue
Operational from January 2009, this product aims to assist eligible homeowners to avoid repossession. There are 2 products:

- Government Mortgage to Rent, whereby a home owner sells their property to an eligible provider and becomes a tenant and
- Shared Equity where a home owner sells part of their equity to an eligible provider but still remains the owner.

National Affordable Housing Programme (NAHP)
The name given to the Housing Corporation’s main investment programme for 2006-2008 and 2008-2011. Previously it was known as the Approved Development Programme (ADP). From 01 December 2008, this became one of the HCA’s programmes. From April 2011, the programme has been superseded by the Affordable Homes Programme (AHP – please see definition above), which runs from 2011-2015.

National Housing Building Council (NHBC)
A provider of warranties against defects in new build housing.

National Planning Policy Framework
This the planning framework that replaces Planning Policy Statements, introduced on 27 March 2012. Local authorities will need to review their Local Plans to ensure they meet this framework. There is a 12 month period from introduction of NPPF where LA planning policies adopted since 2004 will be given full weight.

New Build HomeBuy
A version of the Shared Ownership product available since 2006. See Shared Ownership, and also entries for Protected Areas, Protected Areas Repurchase and Rural Housing.

Open Market HomeBuy (OMHB)
A former Low Cost Home Ownership (LCHO) product that helped purchasers to buy a property outright on the open market, with the assistance of one or more equity loans in addition to their mortgage loan.

Other Public Subsidy (OPS)
That part of the capital cost of property met by funds from a public body other than by SHA e.g. Local Authority, Health Authority, etc. It may be free or discounted land or a cash contribution.

Off Site Manufacturing (OSM)
The term used to cover all forms of construction where a significant part of the process takes place in a factory rather than the building site. This can range from wall sections to entire pre-finished room modules. See also MMC.

Partner Programme Agreement (PPA)
Funding arrangements through which the great majority of the Agency's Investment is channelled through organisations (which may be consortia) which have met specific criteria).

Partner Status
The status of any RP (ex-RSL) bidding through the PPA route (see above).

Participating Lender (EOMHB)
One of four banks or building societies, approved by the then Housing Corporation, who were formerly willing to provide equity loans for this programme.

Pathfinder Projects
Projects to cover areas most acutely affected by low demand and abandonment in order to return these areas to sustainable communities. The pathfinder will restructure the areas' housing markets to ensure there is a more sustainable balance between housing supply and demand and address any other social and economic regeneration issues. The Agency is represented nationally on the Pathfinder steering group and regionally at Pathfinder board meetings. The Pathfinders cover: Birmingham and Sandwell; East Lancashire: Humberside; Manchester and Salford; Merseyside; Newcastle and Gateshead; North Staffordshire; Oldham and Rochdale and South Yorkshire.

Post Sales HomeBuy Agent
Appointed to collect fees and equity loan redemptions in respect of HomeBuy Direct, First Time Buyer Initiative and the London Wide Initiative.

Practical Completion (PC)
A term taken from the JCT family of building contracts (although other families of building contracts use different terms for the same event). A building contract reaches Practical Completion when the works described in the contract documents are sufficiently finished, and sufficiently free of defects that the employer (the RP) is willing to accept the properties as operational i.e. able to be used. It is not a clear-cut definition, but is a judgement made on a scheme by scheme basis.

A Certificate of Partial Completion may be issued when all the dwellings are handed over to the RP but some external works are incomplete, such as landscaping or boundary walls. It is the trigger for claiming grant under the 2011-15 AHP (for schemes funded under the 2008-11 NAHP; PC will trigger the Final Cost payment of grant.

Priority Investment Area (PIA)
Applicable for shared ownership schemes, a PIA is defined by local offices of the Agency. It is either an urban or rural area of housing stress which ranks for priority investment of public funds, particularly for rehabilitation projects.

Prospective Rents
The rent which an RP, on the basis of its rent policies and business plans, would expect to charge at first letting for the house types in the schemes for which it had bid. This would also be the rental figure indicated in the bid itself.

Protected Areas
A principle introduced by The Housing (Shared Ownership Leases (Exclusion from Leasehold Reform Act 1967) (England) Regulations 2009 with effect from 7th September 2009, to assist the retention of shared ownership property in hard to replace areas (e.g. those exempted from the Right to Acquire) by either restricting staircasing or requiring the leaseholder to sell back to the landlord.

Protected Areas Repurchase
Repurchase of grant funded shared ownership property originally built subject to the Agency's Protected Areas policy (please see Protected Areas above) by the landlord or a suitable nominated organisation. Where alternative means of funding have been robustly explored, the Agency will fund the repurchase of eligible Protected Area grant funded shared ownership property.

Public Sector Body
A local authority, health authority, new town corporation, a nationalised industry, a Government Agency, an urban development corporation, the Crown, a housing action trust and a residuary body.

Purchase and Repair (P&R)
The RP (ex-RSL) acquires a second-hand property for rent, or sale as shared ownership, and the cost of essential repairs is less than £10,000 but more than £1,500.

Qualifying Lending Institution
Qualifying lending institutions are organisations who are authorised under the Financial Services and Markets Act 2004, and who have permission to enter into regulated mortgage contracts.

The Financial Services Authority (FSA) keeps a register of authorised firms on its website along with a list of "permissions," i.e. activities an authorised firm has permission to undertake. The register can be found at on the FSA website and accessed via the lenders name and reference or postcode.

Quality Assurance and Impact Visits
Assessment carried out by the Agency to help assess the effectiveness of investment decisions and to see if scheme objectives envisaged at bid stage are later achieved.

Recovery Determination
A legal document setting out the Agency's principles for the recovery of grant.Available in Grant Recovery section 1.

Recycled Capital Grant Fund (RCGF)
An internal fund within the accounts of an RP used to recycle HAG/SHG/SHA in accordance with Agency policies and procedures.

Registered Provider (RP)
Any organisation registered with the Tenant Services Authority as a provider of social housing. This can include Housing Associations, Local Authorities and private companies.

Registered Social Landlord (RSL)
A Housing Association or a not-for-profit company formerly registered with the Tenant Services Authority to provide social housing. RSLs registered with the TSA immediately prior to 01 April 2010 become Registered Providers (RPs) - please see definition of RPs above.

Regulatory Code
The Tenant Services Authority's (TSA's) governance, management & operational expectations of RPs (ex-RSLs) that applied until 1 April 2010. Replaced by TSA standards – see entry below.

Re-improvements
Work to property in the RP's ownership which was originally produced with public sector funding. The re-improvement work can be improvements or conversion, and be sufficient to justify an increase in rent. If no rent increase is justifiable, the work is likely to be classed as Major Repairs.

Relevant Date
A Grant Recovery term.The date on which repayment of Capital Grant is due, according to timetables published by the Agency from time to time.

Relevant Event
Any event relating to property or land funded the Agency, which the Recovery Determination specifies as being a trigger for grant recovery.

Rent Influencing Regime
The process by which the Tenant Services Authority seeks to bear down on rent increases through the issue of a guideline limit for rent increases, and influence rent levels through the rent restructuring framework.

Rent Mixed Funding
Schemes made available through RPs or others that provide permanent housing for rent at Target rent levels, funded partly from SHA or other public subsidy and partly from private loans.

Rent Programme
A general term covering housing for rent (MF Rent). It includes Works to the RP's (ex-RSL's) Stock and Temporary Social Housing (TSH).

Rent Restructuring Framework
The framework to meet the Government's objectives for all social rent setting based upon relative property values, local earnings and property size. It applies to Council and RP housing.

Resource Expenditure Limit (REL)
The annual financial resource (cash payments and year-end accruals) available to the each local office to finance its programme.

Restructured Rents
From April 2002 rents are calculated according to a formula based on relative property values, local earnings and property size. Restructured rents are calculated using the formula and data set out in the DCLG's Guide to Social Rent Reforms. Circular R2-27/01 Rent Influencing Regime - Implementing the Rent Restructuring Framework also sets out the calculation for target rents.

Right to Acquire (RTA)
Under the Housing and Regeneration Act 2008, specified tenants of specified RP rented stock developed with SHG/SHA (but not HAG) have the legal right to purchase their home.

Rural Housing
Part of the NAHP funding social housing in villages with a population below 3,000. See also Protected Areas and Protected Areas Repurchase.

Rural exception sites: Small sites used for affordable housing in perpetuity where sites would not normally be used for housing. Rural exception sites seek to address the needs of the local community by accommodating households who are either current residents or have an existing family or employment connection. Small numbers of market homes may be allowed at the local authority's discretion, for example where essential to enable the delivery of affordable units without grant funding.

Scheme Development Standards (SDS)
A set of design standards published by the Agency setting out the essential and desirable standards for grant-funded property acquired or developed by the RP. Applicable to schemes bid for in the 2004-06 and 2006-08 programmes, which may still be completing.

Section 106 Agreement
A contract entered into by a local planning authority and a property developer under section 106 of the Town and Country Planning Act 1990 under which the developer agrees to provide defined facilities as part of the proposed development. Such planning obligations are often used as a legally binding agreement between a local authority and developer to deliver additional affordable social housing within a development.

Self Build or self-build
Self Build refers to a housing development for outright sale undertaken by a mutual co-operative Self Build Group, with sale permitted only to members of that group. This was a historic Housing Corporation funding stream under the National Loan Fund.
The term self-build refers to a bid for funding by an RP (ex-RSL) for NewBuildHomeBuy or Social Rent under the current NAHP. The RP (ex-RSL) bids for the product in the normal way, but the construction is undertaken by self-builders instead of by a commercial house builder. The self-builders' physical contribution to the construction is reflected in what is referred to as 'sweat equity'. The 'sweat equity' can then be offset against an equivalent 'share' in a shared ownership property, or the first option on any property developed for social rent.

Shared Housing
Residential accommodation other than in separate and self-contained premises.

Shared-ownership
Housing sold on a part rent/part sale basis. The shared owner buys a percentage of the property, funded by a mortgage and/or savings. The remaining percentage is still owned by the developing organisation who charges rent on it. Please see also entries for Protected Areas, Protected Areas Repurchase and Rural Housing.

Social HomeBuy (SHB)
Scheme introduced in April 2006 to allow RPs (ex-RSLs) and LAs to dispose of their rented housing at a discount to secure tenants on shared-ownership terms.

Social Housing Assistance (SHA)
Capital grant provided by the Agency to fully or partially fund Registered Providers when developing social housing as defined within the Housing and Regeneration Act 2008. SHA is paid under S19(6) of that Act.

Social Housing Grant (SHG)
Capital grant provided by the Agency to fully or partially fund Registered Providers who were formerly Registered Social Landlords or those paid via a Grant Agreement – see definitions above) when developing social housing, under S18 or S27A of the Housing Act 1996. It replaced Housing Association Grant (HAG), a similar capital grant paid under previous legislation. From 01 April 2010 no new allocations of SHG has been made; subsequent allocations of capital grant are to be paid as Social Housing Assistance (SHA – see definition above).

Social Housing
Low cost rental accommodation and low cost home ownership as defined by section 69 of the Housing and Regeneration Act 2008. Aimed at people whose needs are not met by the commercial market.

Social Rent
Social housing available for rent at or close to Target rents on the basis of the Rent Influencing Regime Guidance.

Specialist Route
The former process under the 2008-2011 NAHP for obtaining funding for organisations without Partner Status.

Start on Site (SOS)
Applicable to schemes bid for under the 2008-2011 programme, the Start on Site grant claim was triggered by the building contractor taking possession of the site or property, and the RP & builder having both signed the building contract. From April 2006 this will generally represent 50% of the allocated grant.

Supported Housing
Supported Housing is accommodation provided for a specific client group to enable them to adjust to independent living or to enable them to live independently. The term supported housing applies to purpose-designed or designated supported housing. See Circular 03/04 for definitions of supported housing and housing for older people.

Sustainable Development
Development that balances the environmental, social and economic needs of the present generation, without compromising the ability of future generations to meet their own needs.

Target Rent
The rent which is derived by applying the formula set out in the guidance in Circular 27/01.

Temporary Empty Homes (TEH)
A product available under the AHP 2011-15 to help RPs bring into use at affordable rents, accommodation acquired on a temporary basis with a life of more than 5 but less than 30 years. Replaced Temporary Social Housing (see below).

Temporary Social Housing (TSH)
A product available under previous programmes to help RPs bring into use at sub market rents, accommodation acquired on a temporary basis with a life of more than 2 but less than 30 years. Replaced by Temporary Empty Homes (see above).

Tenant Services Authoritiy
The national regulatory body for social housing landlords and standards for tenants. Please see the TSA website for more details.

TSA Standards
The Tenant Service Authority's (TSA's) governance, management & operational expectations of RPs that apply from 1 April 2010.Replaced the Regulatory Code – see entry above.

Valid Valuation
A valuation dated no more than three months before the date of exchange of contracts to sell a Property or land, or the period of validity stated in the valuation, or the shared ownership lease if applicable.

Works Only New Build
A new build development on land in an RP's ownership which has previously had the support of public sector funding/grant. It can also be the demolition and redevelopment of property owned by the RP whether or not the property was originally public-funded. The prior permission of the Agency is needed if Grant funded property is to be demolished.

Works Only Rehabilitation
Works to property in an RP's ownership that has previously had the support of public sector funding/grant.

Works to RP Existing Stock (WTRPS)
A NAHP term covering Miscellaneous Works, Works Only Rehabilitation and Re-improvement

Notes