

London borough of Tower Hamlets Affordable Housing Commission

Council Led Housing Development and Making Best Use of Existing Assets – The Challenges and Interaction between Viability, Affordability and Business Plan Capacity

LBTH Council Housing Development – Challenges

- Housing Revenue Account (HRA) financial limits, capacity and debt caps
- Central Government policy changes – rent reduction of 1% for 4 years (what will happen after then?!)
- Sale of/levy on high value voids
- Importance of maintaining Decent Homes
- Long term investment in housing stock and public realm
- High London construction costs
- Construction sector capacity issues
- Offering high quality new build homes at genuinely affordable rents, catering for a range of local demand and need
- Ensuring development and construction risks are well managed

LBTH Council Housing Development - Opportunities

- Use of on-going Retained Right to Buy Receipts
- Ability to borrow at competitive rates through the PWLB
- Opportunity to set up subsidiary and arm's length development company
- Option to release and realise high land values for cross subsidy
- Potential for a wide range of LA owned and LA led development, regeneration and renewal opportunities

Affordable Rents for Different Client Groups ?

		Affordable rent (net of service charge)			
Unit type		35% of MR	50% of MR	65% of MR	80% of MR
1 bed	Per annum	£ 4,730	£ 7,092	£ 9,455	£ 11,817
	Per week	£ 91	£ 136	£ 181	£ 226
2 bed	Per annum	£ 7,337	£ 10,817	£ 14,297	£ 17,777
	Per week	£ 141	£ 207	£ 274	£ 341
3 bed	Per annum	£ 9,017	£ 13,217	£ 17,417	£ 21,617
	Per week	£ 173	£ 253	£ 334	£ 414
4 bed	Per annum	£ 10,592	£ 15,467	£ 20,342	£ 25,217
	Per week	£ 203	£ 296	£ 390	£ 483

LBTH Owned Site – Working Example

- 0.2 hectares, but no housing on the site currently
- Bethnal Green- Close to local facilities and excellent transport links
- Brownfield site with significant abnormal costs
- Railway to northern boundary
- Requires vacant possession of light industrial site
- LBTH in-house capacity study indicates potential for 56 new build units, with potential for more
- Study unit mix - 13 x 1 bed, 14 x 2 bed, 24 x 3 bed, 5 x 4 bed
- All to London Housing Design Guide standards

Viability comparison at 100% Affordable Rented Housing

Rent level scenario	No' of units	Total scheme cost	Total scheme cost per unit	Net present value (NPV) of income stream	RTB receipts	Combined value of NPV and RTB receipts	Surplus or deficit	Net debt
35% of MR	56	£17.35m	310,000	4.95m	5.2m	10.15m	7.19m	12.14m
50% of MR	56	£17.35m	£310,000	7.2m	5.2m	12.4m	4.95m	12.14m
65% of MR	56	£17.35m	£310,000	9.57m	5.2m	14.77m	2.57m	12.14m
80% of MR	56	£17.35m	£310,000	11.96m	5.2m	17.16m	0	12.14m

- 35% to 65% potential HRA scheme deficit of minus **£2.5m** to over **£7m**
- Over **£12m** of net debt to the HRA - impact on capacity and borrowing cap

Issues and Options

- Establishing financial viability
- Reducing debt burden to the HRA
- Increasing capacity to the HRA
- Releasing land value
- Participating in cross-subsidy and development profit
- Establishing development and construction partnerships and realising cost efficiencies
- Managing risks effectively

Incorporating Market Sale and/or Market Rent

- 56 units
- 38 affordable rent
- 24 market sale
- AR – 9 x 1 bed, 16 x 2 bed, 10 x 3 bed, 3 x 4 bed
- Affordable rent levels between 35% and 80%
- Market sale – 8 x 1 bed, 11 x 2 bed, 5 x 3 bed

Starter Homes/Shared Ownership models can be built in

Financial Comparison - 100% Affordable Rent v Mixed Tenure

Potential outcomes	100% Affordable rent	Mixed tenure
Net debt to HRA	£12m	£5.1m
Surplus/deficit	Minus £2.5 to minus £7.2m	Breaks even
Use of RTB receipts	£5.1m	£3.3m
No of AR units	56	38

Unit Mix Comparison – 100% Affordable Rent v Mixed Tenure - increase in unit numbers

	100% AH	Mixed tenure model (AR and MS)		
Unit type	AR	AR	MS	Total
1 bed	13	9	8	17
2 bed	14	16	11	27
3 bed	24	10	5	15
4 bed	5	3	0	3
Total	56	38	24	62

Maintaining an Affordable Housing Mix in the Mixed Tenure Scenario -

Unit type	Rent level (per week) net of service charge	No' of units	Potential client group/nominations route
1 bed at 65% of MR	£ 181	4	Housing list - in part-time work/full time work or on benefits
1 bed at 80% of MR	£ 226	5	Intermediate rent/key workers
2 bed at 50% of MR	£ 207	6	Housing list - in part-time work/full time work or on benefits
2 bed at 65% of MR	£ 274	10	Housing list - in part-time work/full time work
3 bed at 35% of MR	£ 173	4	Housing list - on benefits/in part time work
3 bed at 50% of MR	£ 253	6	Housing list - in part-time work/full time work
4 bed at 35% of MR	£ 203	3	Housing list - on benefits/in part time work
Average rent/total units	£ 217	38	

- **Same size properties – but with differential rents?**

Delivery Options

- Land development and construction agreements between LBTH HRA and the private sector (land value cross subsidy)
- Option for LA Subsidiary or Arm's Length Development Company
- 50:50 JV or partnership with private developer/investor
- Company could sell for market sale and/or hold for market rent and covenant surpluses back to the Council
- Consider use of RTB receipts through delivery options

What are Other Boroughs Doing?

- London Boroughs of Ealing, Southwark, Hackney, Enfield, Newham, Barking & Dagenham, Camden, Havering are all pursuing supporting mechanisms such as DevCo's, SubCo's, JVs and land development agreements to help address HRA capacity and risk
- Aim to maintain a good range and balance of affordable rents, releasing of land value to enable cross subsidy, participation in development profit and/or long term income streams

Challenge for the LBTH Affordable Housing Commission

- How can and how should LBTH secure and deliver the right balance between limited HRA capacity, delivering much needed new supply which is genuinely affordable to local housing needs & demand and ensuring financial viability?
- How can LBTH establish a 'holistic', robust and viable housing investment and development strategy and deliver genuine social, economic and physical regeneration, and tackle local housing need and demand?