




Affordability Commission

Cabinet – 10/05/2016

Appendix 3 – Presentations

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





Housing Policy & Affordability Commission

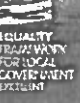


Meeting 1 – Wednesday 16th December 2015


Housing need and affordability

Martin Ling – Housing Strategy Manager

Overview of Tower Hamlets













Population overview





- 2011 Census day population estimate **254,100**, an increase of 29.4% since the last census.
- Population density – 4th most densely populated regionally and nationally with 12,845 residents per square kilometre.
- 19,040 Tower Hamlets residents (7.5%) had a second address outside the borough. re usually residents elsewhere.
- Population expected to rise to over **370,000** by 2035



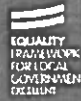
Changing Tenure



Tenure	2003	%	2011	%	2014	%
Owner occupied	27308	31%	25339	23%	27179	23%
Council owned	24200	28%	12500	12%	12087	10%
Registered Provider	17828	20%	26484	24%	30540	26%
PRS	17513	20%	41870	39%	45978	39%
Shared ownership	500	1%	2000	2%	2340	2%
Total	87349		108193		118125	

London SHMA projections – Per year





Housing Type	Number	%
Market Housing	23,217	48%
Intermediate housing	9,902	20%
Social rented housing (including affordable rented housing)	15,722	32%
	48,841	100%


















LBTH 2013/14 SHMA projections to 2035

Housing Type	Number	%
Market Housing	19,400	32.8%
Intermediate housing	2,500	4.4%
Social rented housing (including affordable rented housing)	36,300	62.8%
	58,300	

   					
Measuring Need – Waiting List (Includes over 2000 households in temporary accommodation)					
	April 2011	April 2012	April 2013	April 2014	April 2015
Band 1	2,638	2,480	2,364	2,073	1,976
Band 2	9,457	9,325	9,339	9,225	8,720
Band 3	7,988	8,471	9,358	9,127	9,087
Band 4	3,053	3,109	3,353	Band no longer exists	
TOTAL	23,136	23,385	24,414	20,425	19,783

   					
Annual Social Housing Lettings					
Lets by bed size	10/11	11/12	12/13	13/14	14/15
Bedsit	168	88	106	88	78
1 Bed	816	854	840	652	722
2 Bed	799	1013	843	699	662
3 Bed	361	545	432	361	313
4 Bed+	108	203	214	107	97
TOTAL	2,252	2,703	2,435	1,907	1,872

   					
LBTH – Affordable New Build Housing Delivery					
	Total Rent	Social Rent	Affordable Rent	Total Intermediate	Total
2010/11	323	323		323	646
2011/12	1597	1597		371	1968
2012/13	384	382	2	185	569
2013/14	390	303	87	191	581
2014/15	463	242	221	147	610
2015/16 (Forecast)	965	374	591	358	1323

   						
Projected Housing Growth						
Year	Annual Housing Target	Housing Target - Cumulative	OAN	OAN - Cumulative	Annual Units	Cumulative Unit Delivery
2015/16	2,885	2,885	2,885	2,885	1,642	1,642
2016/17	2,885	5,770	2,885	5,770	3,016	4,658
2017/18	3,931	9,701	2,885	8,655	3,533	8,191
2018/19	3,931	13,632	2,885	11,540	5,901	14,092
2019/20	3,931	17,563	2,885	14,425	5,971	20,063
2020/21	3,931	21,494	2,885	17,310	7,270	27,333
2021/22	3,931	25,425	2,885	20,195	5,520	32,853
2022/23	3,931	29,356	2,885	23,080	4,113	36,966
2023/24	3,931	33,287	2,885	25,965	3,828	40,793
2024/25	3,931	37,218	2,885	28,850	2,187	42,980
2025/26	3,931	41,149	2,885	31,735	2,083	45,064
2026/27	3,931	45,080	2,885	34,620	2,056	47,119
2027/28	3,931	49,011	2,885	37,505	746	47,866
2028/29			2,885	40,390	873	48,739
2029/30			2,885	43,275	1,049	49,787
2030/31			2,885	46,160	928	50,715
2031/32			2,885	49,045	674	51,389
2032/33			2,885	51,930	442	51,831
2033/34			2,885	54,815	368	52,199
2034/35			2,885	57,700	265	52,464
2035/36			2,885	60,585	520	52,984

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1 bed flat for sale
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£3,000,000 ☐ Buy properties below market value





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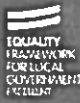



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<div>    </div> <div>  </div>					
Local Rents - Overview					
	1 Bed	2 Bed	3 Bed	4 Bed	5 bed
2015/16 LBTH Social Rents - Council	£99	£112	£126	£141	£157
2014/15 Social Rent Housing Association	£138	£146	£154	£162	£170
2014/15 Affordable rent	£206	£244	£266	£284	£312
2014/15 Local Housing Allowance	£255	£299	£351	£413	£413
2014/15 80% Market rents	£254	£354	£425	£484	£555
2014/15 Market rents	£317	£442	£531	£604	£694

			INVESTORS IN PEOPLE	
Local Housing Allowances				
Type of accommodation	Local Housing Allowance (April 2014, weekly)	Local Housing Allowance (April 2015, weekly)		
*Shared Accommodation	£98.16	£102.09		
1 Bedroom	£254.80	£257.35		
2 Bedroom	£299.34	£302.33		
3 Bedroom	£350.95	£354.46		
4 Bedroom and above	£412.89	£417.02		

Room to rent in Wallwood Street, London E14 - 33864385 - Zoopla - Windows Internet Explorer provided by London Borough of Tower

http://www.zoopla.co.uk/to-rent/details/33864385?search=score:Per+2724747657000w1045e1d7e99000e11e0Q7gTCpL8GmH0pL97

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3 bed shared accommodation to rent in Thomas Road, London E14 - Zoopla - Windows Internet Explorer provided by London Borough of T

http://www.zoopla.co.uk/to-rent/details/24170319?search_id=1402672291255646d44267847519C07127031924170319

3 bed shared accommodation to rent in Thomas Road,...

Zoopla For sale To rent House prices New homes Commercial Overseas

Results: 3 bed shared accommodation to rent in Thomas Road - This property

3 bed shared accommodation to rent **£700 pcm (£162 pw)** [Check broadband availability](#)
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1 bed flat to rent in Kirkwall Place, London E2 - 36977...

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Mocha Court, Bow, London, London - East, E3 2PQ

Full price £290,000 **minimum share £87,000 (30%)**

Affordable housing scheme - resales ('part buy part rent' on 2nd hand homes)


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Budget calculator

Share	Share price
100% deposit (%)	£
£ 700	30
	£ 87 000

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Estimated total monthly cost £977 (includes: rent £466, service charge £158, estimated mortgage £357)



2 bed flat to rent in Buckfast Street, Bethnal Green E2 - 37752434 - Zoopla - Windows Internet Explorer provided by London Bond

<http://www.zoopla.co.uk/property/details/37752434>


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2 bed flat to rent **£1,733 pcm (£400 pw)**

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Caramel Court, Bow, London, London - East, E3 2PP | Two bedroom apartment in Bow | Shared Ownership

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Nearest Tube Stations

0.3m Bow Church
0.3m Pudding Mill Lane

Caramel Court, Bow, London, London - East, E3 2PP

Full price £360,000 minimum share

Two bedroom apartment in Bow
Affordable housing scheme / sales ('part buy part rent' on 2nd hand home)


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Budget calculator

Share	Share price
Share deposit percentage (%)	Share price (£)
10.000	30
100.000	100.000

[Update](#)

Estimated total monthly cost £1,281 (includes: rent £378, service charge £188, estim









Affordability – It's getting confusing?


Equality Framework for Local Government Excellence

Investors in People

Tower Hamlets















Affordability – It's getting confusing?

- Rents as a % of market rent or Rents as a % of income – 30, 40 or 50% +
- GLA Rent guidance – two products; a lower 'capped' rent (50 % market rent) aimed at those most in need and a 'discounted' product (80% market rent or LHA) which is aimed at low income working Londoners.
- 1% rent cut for next 4 years for Council and Housing Association tenants – Reducing the deficit, increasing affordability?
- In work benefits and the welfare cap further distort the picture....















Household 1: Married parents with 2 children of junior school age, neither of whom are working




Annual Incomes at different rent levels	2 Bed	Annual Rent	Taxable earned Income	Income Support	Working tax credit	Child tax credit	Child benefit	Housing benefit	Council tax Support	Weekly Income	Annual Total Income
2015/16 LBTH Social Rents Council	£112	5824	0	114.85	0	117.52	34.40	112	17.68	398	20614
2014/15 Social Rent Cap Levels Registered Provider	£148	7592	0	114.85	0	117.52	34.40	148	17.18	430	22382
2014/15 POD Affordable rent levels	£244	12688	0	114.85	0	117.52	34.40	233.23	17.18	518	26918
2014/15 Local Housing Allowance	£299	15548	0	114.85	0	117.52	34.40	233.23	17.18	518	26918
2014/15 80% Market rents	£354	18408	0	114.85	0	117.52	34.40	233.23	17.18	518	26918


Impact on affordability of each rent level	2 Bed	Annual Rent	Annual Total Income	Income after rent	Rent as % of Income	Commentary
2015/16 LBTH Social Rents Council	£112	5824	20614	14790	28%	Affordable
2014/15 Social Rent Cap Levels Registered Provider	£148	7592	22382	14790	34%	Affordable
2014/15 POD Affordable rent levels	£244	12688	26918	14230	47%	Borderline affordable at present, with HB top up required from other benefits. Rent will be unaffordable when benefit cap is reduced to £23k reducing HB and demand for private rented accommodation.
2014/15 Local Housing Allowance	£299	15548	26918	11344	58%	Unaffordable
2014/15 80% Market rents	£354	18408	26918	8485	68%	Unaffordable

   										
Household : 2 parent, 3 children, single earner on 40 hour week, minimum wage										
Annual Income at different rent levels	3 Bed	Annual Rent	Taxable earned income	Income Support	Working tax credit	Child tax credit	Child benefit	Housing benefit	Council tax Support	Weekly Income
2015/16 LBTH Social Rents Council	£126	8552	12564	0	36.14	171.02	48.10	68.37	0	565
2014/15 Social Rent Cap Levels Registered Provider	£154	8008	12564	0	36.14	171.02	48.10	98.37	0	593
2014/15 POD Affordable rent levels	£266	13632	12564	0	36.14	171.02	48.10	208.37	0	705
2014/15 Local Housing Allowance	£354	18431	12564	0	36.14	171.02	48.10	268.37	0	793
2014/15 80% Market rents	£425	22100	12564	0	36.14	171.02	48.10	268.37	0	793


Impact on affordability of each rent level	3 Bed	Annual Rent	Annual Total Income	Income after rent	Rent as % of income	Commentary: - Benefit system assumes weekly income of £292pw/£15195 pa is adequate to meet all costs beyond rent and council tax. HB top up is required to support all rents and as long as person remains in work they will be affordable. If the main earner was to lose his/her job then they would not be able to afford POD rents and above.
2015/16 LBTH Social Rents Council	£126	8552	20393	22841	22%	Affordable
2014/15 Social Rent Cap Levels Registered Provider	£154	8008	30849	22841	26%	Affordable
2014/15 POD Affordable rent levels	£266	13632	36673	22840	38%	Affordable
2014/15 Local Housing Allowance	£354	18431	41428	22840	45%	Affordable
2014/15 80% Market rents	£425	22100	41428	19149	54%	Affordable

   					
Affordability – It's getting confusing?					
<ul style="list-style-type: none"> Home ownership - Salary x 3.5 plus 5% or 10% deposit? Starter Home ownership - Under 40 and a 1st Time buyer = 20% discount... or Whatever you can afford.... 'Everything is affordable to someone' 					











Government Direction – Home Ownership please....



- Definition of Affordable Homes – to include Starter Homes
- Registered Providers - Right to Buy available to 1.3m tenants
- Local Authorities – Sale of high value voids and 'Pay to Stay'
- Higher stamp duty/tax changes for Buy to Let landlords



Summary

- Families on full benefits only have access to exiting social rented housing
- Families in low paid work, reliant on benefit are at risk if they fall out of work
- Existing waited list reveals large numbers of households excluded from the open market housing
- SHMA forecasts majority of new homes have to be well below market rents to be affordable to local people







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Summary

- Private rented sector provides an option for those who don't qualify or don't feel it is worth joining local waiting list
- Many people in the PRS will be spending a large % of their income on rent
- Shared Ownership may provide a more secure option for these people at similar costs
- Provision of further affordable housing may be hindered by the provisions in the Housing and Planning Bill – more detail will be required.



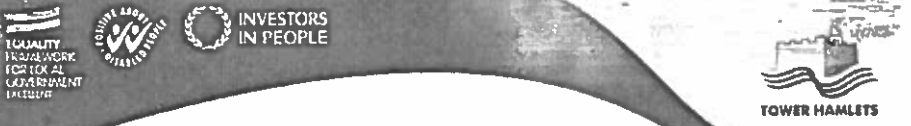
London Borough of Tower Hamlets Affordable Housing Commission

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 ?




Unit type		Affordable rent (net of service charge)			
		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	4.96m	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?

