

Affordable Housing



Reading Borough Council Viability Testing Affordable Rent Tenure Options

Report By



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1. Introduction

- 1.1 BPS Chartered Surveyors has been appointed by Reading Borough Council to undertake a brief review of the ability of residential development to support the potential for delivering an enhanced affordable housing tenure mix and level of discount to market value in relation to the affordable rented tenure element.
- 1.2 Following adoption of the new Local Plan in November 2019 the Council is in process of updating its Affordable Housing SPD. As part of this process consideration is being given to the introduction of a “Reading Affordable Rent” for all of the rental elements of an affordable on-site contribution on sites delivering 10 units or more
- 1.3 Our specific brief is as follows:
 - a) To use the baseline of appraisals created in respect of the Local Plan viability evidence base to test the impact on viability of a number of potential changes.
 - a. 67% affordable rent at 65% of market rents / 33% shared ownership delivering 30% affordable housing.
 - b. 67% affordable rent at 70% of market rents / 33% shared ownership delivering 30% affordable housing.
 - c. Identify a breakeven point reflecting an adjusted balance between affordable rent and shared ownership assuming 70% of market rents. This could also include a reduction in overall affordable housing delivered
- 1.4 The intention of the review is to consider the impact of a potentially increased proportion of affordable rented tenure and a higher level of discount to market rental value.

Scope - Limitations

- 1.5 In view of the considerable economic uncertainty prevailing at the present time due to the Corona Virus the exercise has been based entirely on the assumptions underpinning the Local Plan viability evidence base which was concluded in March 2018.
- 1.6 It is acknowledged that these appraisals may no longer reflect current market assumptions, but in view of current volatility it has been considered by the Council a reasonable first step to use the same appraisals and assumptions as under pinned the Local Plan. This does not preclude further testing or updating of assumptions at a later stage.

Coronavirus - Material uncertainty

- 1.7 The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.
- 1.8 Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.
- 1.9 Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of this property under frequent review

2. Base Assumptions - Rental inputs

2.1 We have undertaken a review of market rents in the Reading area and determined the following market rents as the basis for our assessment:

	Weekly	Monthly
1 bed	£186	£806
2 bed	£258	£1,116
3 bed	£376	£1,629
4 bed	£394	£1,707

2.2 This was based on a report sample of 1889 properties within a 4 mile distance of Reading town centre

2.3 The above rents are contrasted with the previous rent assumptions which are shown in the table below together with the 2020 updated figures:

	2018 Rent		2020 Rent	
	Weekly	Monthly	Weekly	Monthly
1 bed	£191	£829	£186	£806
2 bed	£235	£1,020	£258	£1,116
3 bed	£317	£1,373	£376	£1,629
4 bed	£525	£2,276	£394	£1,707

2.4 The 2018 figures adopted an affordable rent based on 80% of market rent. For the purposes of testing the range of rental discounts to market value we have also considered the relativity of Local housing Allowance rates and the full set of estimated rents are shown in the table below:

	2018 Rent Weekly 80% discount	2020 Rent Weekly 65% discount	70% discount	LHA
1 bed	153	121	130	158
2 bed	188	167	180	200
3 bed	253	244	263	228
4 bed	253	256	276	315

3. Basis of Comparison – Deriving Conclusions

- 3.1 The basis for comparison is the viability results from the 2018 Local Plan Viability evidence base. To recap this this involved testing a number of residential development scenarios which can be broadly summarised by reference to their area and total number of residential units summarised in the table below:

Total Residential Units No's	Total Site Area Hectares
1.30	0.58
6	0.125
9	0.10
20	0.27
36	1.24
60	0.60
133	1.37
140	2.60
150	3.85
650	10.92

Assessing Viability

- 3.2 The measure of viability is to identify appraisals which deliver a positive residual value. The original viability report tested a range of affordable housing levels of delivery these being:

100% Private housing
50% affordable provision
30% affordable provision
20% affordable housing provision
10% affordable housing provision

- 3.3 Given that the Council's policy is now settled at a 30% target we have only focussed on those appraisals which model delivery at this rate for this exercise. The appraisals also modelled a range of tenure options

50% Social Rent 20%/ Affordable Rent 30%/ Shared Ownership
70% Affordable Rent/ 30% Shared Ownership
50% Affordable Rent/ 50% Shared Ownership

- 3.4 The Local Plan delegates the tenure requirements to be considered in full in the SPD and identifies under 4.4.26 the following overall tenure requirement:

- Social rented or affordable rent housing of no more than target rent - 70% of affordable housing units; and
- Intermediate and/or shared ownership housing - 30%.

3.5 The Local Plan Viability Assessment reviewed appraisals based on three groups of site typologies these being the scenarios utilised in the 2013/14 assessment of affordable housing policy. Additional appraisal scenarios were drawn from our analysis of the AMR for 2016/17. The final group of scenarios reflected the major sites allocations identified by the emerging Local Plan.

3.6 We have drawn the results together from the 2018 report in relation all those appraisals which tested 30% affordable housing delivery and the range of tenure options. These results are shown below:

30% aff 70AR/30SO	Scenario 3	-£57,241
30% aff 70AR/30SO	Scenario 16	£334,619
30% aff 70AR/30SO	Scenario 29	£463,943
30% aff 70AR/30SO	Scenario 42	£1,119,485
30% aff 70AR/30SO	Scenario 55	£8,269,863
30% aff 50SR/50SO	Scenario B2	-£29,594
30% aff 50SR/50SO	Scenario C2	-£1,156,537
30% aff 50SR/50SO	Scenario D2	£522,067
30% aff 50SR/50SO	Scenario F2	£209,102
30% aff 50SR/50SO	Scenario G2	£972,865
30% aff 50SR/50SO	Scenario H2	£312,623
30% aff 50SR/50SO	Scenario I2	£104,626
30% aff 50SR/50SO	Scenario J2	£423,387

3.7 In summary the above illustrates that 76.9% of valuation scenarios were seen as viable.

4. March 2020 Appraisals Results – Report Conclusions

4.1 Three sets of appraisals were undertaken in accordance with the brief and the appraisal results are summarised below under the description of each scenario:

Scenario 1

- 67% affordable rent at 65% of market rents / 33% shared ownership delivering 30% affordable housing.

Appraisal Results - Showing Residual Values

30% AH	Scenario 3	-£233,241
30% AH	Scenario 16	£278,619
30% AH	Scenario 29	£199,943
30% AH	Scenario 42	£567,485
30% AH	Scenario 55	£6,757,863
30% AH	Scenario B2	-£45,594
30% AH	Scenario C2	-£1,316,537
30% AH	Scenario D2	-£478,252
30% AH	Scenario F2	-£230,898
30% AH	Scenario G2	-£1,219,135
30% AH	Scenario H2	-£1,071,377
30% AH	Scenario I2	-£193,089
30% AH	Scenario J2	-£514,131

4.2 The appraisals run on the test assumption shows that the number of viable scenarios falls to 30.8%. Therefore, the tenure option is significantly less viable. However, it is clear that almost a third of sites could support this tenure split and a lower discount to market rent than identified in the Local Plan assessment which assumed 80% of market rent for the affordable rent tenure.

Scenario 2

- 67% affordable rent at 70% of market rents / 33% shared ownership delivering 30% affordable housing.

Appraisal Results - Showing Residual Values

30% AH	Scenario 3	-£233,241
30% AH	Scenario 16	£310,619
30% AH	Scenario 29	£311,943
30% AH	Scenario 42	£799,485
30% AH	Scenario 55	£7,101,863
30% AH	Scenario B2	-£37,594
30% AH	Scenario C2	-£1,260,537
30% AH	Scenario D2	-£222,252
30% AH	Scenario F2	-£70,898
30% AH	Scenario G2	-£635,135
30% AH	Scenario H2	-£663,377
30% AH	Scenario I2	-£105,089
30% AH	Scenario J2	-£298,131

- 4.3 Although the level of rental discount to market value is slightly less than Scenario 1 and the residual values of most appraisals has consequently increased, the overall number that are viable is no different from the previous scenario at 30.8%

Scenario 3

- 4.4 The third scenario below seeks to find a break-even position. Noting from the 2018 results that not all scenarios were viable, we have also sought to adjust the overall level of affordable housing for just these appraisal scenarios.
- Identify a breakeven point reflecting an adjusted balance between affordable rent and shared ownership assuming 70% of market rents. This could also include a reduction in overall affordable housing delivered

Appraisal Results - Showing Residual Values

		Units No's		Market	Total	Percentage		
		AR	SO			AH Overall	AR	SO
Scenario 3	£108,092	1	2	6	9	33%	33%	67%
Scenario 16	£310,619	4	2	14	20	30%	67%	33%
Scenario 29	£311,943	13	5	42	60	30%	72%	28%
Scenario 42	£799,485	28	12	93	133	30%	70%	30%
Scenario 55	£7,101,863	29	13	98	140	30%	69%	31%
Scenario B2	£124,652	1	0	5	6	17%	100%	0%
Scenario C2	£19,463	0	0	36	36	0%	0%	0%
Scenario D2	£4,819	28	17	105	150	30%	62%	38%
Scenario F2	£2,638	18	9	69	96	28%	67%	33%
Scenario G2	£52,865	69	43	264	376	30%	62%	38%
Scenario H2	£3,429	35	31	158	224	29%	53%	47%
Scenario I2	£46,911	10	6	36	52	31%	63%	38%
Scenario J2	£58,637	22	15	88	125	30%	59%	41%

- 4.5 The above matrix shows that in order to generate a positive residual value (column 2) we have had to reduce the level of affordable housing overall in the four non-viable appraisals. It will also be seen that because the appraisals work to whole unit numbers, some of the smaller sites show results which are close to but do not precisely correspond to the required overall affordable housing percentage of 30%.

Overall Conclusions

- 4.6 Taking the results above as whole we have sought to draw some overall conclusions about tenure mix and affordable percentage and this is summarised in the table below:

	affordable %	Affordable Rent Element	Intermediate Element
Average	27%	60%	33%
Median	30%	63%	33%
Mode	30%	67%	33%

- 4.7 It is clear that the analysis does not present an even split of tenure which totals 100%. This is because two of the scenarios B2 and C2 delivered 0% intermediate tenure which skews the overall percentage totals.
- 4.8 We have therefore reworked the above table excluding scenarios B2 and C2 and rerun the same calculations, the revised table shows the following results:

	affordable %	Affordable Rent Element	Intermediate Element
Average	30%	62%	38%
Median	30%	62.5%	37.5%
Mode	30%	67%	33%

- 4.9 The above table is based on 84.6% of all scenarios as such provides a result with a high level of significance and supports the adoption of a 62/38% split of tenure. Where the affordable rent tenure reflects a 30% discount to market rental value.