Affordable Housing Commuted Sum Calculator Updated Report

On behalf of Buckinghamshire Council

May 2020

Report by A M Leahy BSc MIoD FRICS
Email: andy.leahy@bpglimited.co.uk

Bespoke Property Consultants
Arundene Orchard, Loxwood Road,
Rudgwick, West Sussex RH12 3BT

Tel: 01403 823425

www.bpglimited.co.uk

CONTENTS

Appendices

1.0 Instructions

1.1 We have been instructed by Judith Orr of Buckinghamshire Council, Planning Department to research the data necessary to create and populate the Council's proposed commuted sum calculator for off-site affordable housing provision.

1.2 The calculator is in effect to determine the amount of subsidy that a Registered Provider (RP) will require to provide the policy compliant level of affordable housing off-site. This is a requirement of local plan policy DM24 which sets out:

"*Within the Chilterns AONB, the Council will require a commensurate financial contribution towards the provision of affordable housing from all developments of between 6 and 9 dwellings and/ or over 1,000 square metres residential floorspace (inclusive).*"

1.3 In creating the calculator and in its use, the main assumption is that the off-site provision will be of similar kind to that on the application site in terms of unit types, sizes and mix, subject to agreement with the Council and in accordance with Policy DM24, thus complying with CIL regulation 122 and para 56 of the NPPF.

1.4 We were asked by the client to try and define data to support Commuted Sums that would reflect the market in each of the CIL Charging Zones (A&B). Unfortunately, only one of the respondents provided data on that basis and then only with regard to one type of unit in CIL Charging Area A. We have therefore averaged the data for the whole district as noted below.

2.0 Methodology

2.1 In accordance with CIL Regulation 122 and NPPF para 56 the methodology behind the calculation of commuted sums for affordable housing must be:

a) Necessary to make the development acceptable in planning terms

b) Directly related to the development

c) Fairly and reasonably related in scale and kind to the development

2.2 The calculations on the pro-forma calculator are aimed at establishing what funding a developer would have had to contribute to provide the affordable housing on site. This is without any assistance from Social Housing Grant.

2.3 The calculations **do not** try to share in the uplift in values that will be achieved by putting affordable housing off-site as this would not satisfy criteria a) at 2.1 above.

2.4 The calculations are based on the following formula which reflects the true cost to a developer, had the affordable housing been delivered on site (See Appendix B):

	Open Market value of units on site
Less:	Developer's profit (inclusive of marketing costs)
Equals:	cost of developing units on site (ie land + build + fees+finance)
Less:	value of the units to a Registered Provider (Capitalised rents, shared ownership sales)
Equals:	**Cost to developer of providing affordable housing**

2.5 The open market value of a particular unit and the profit associated with the scheme which is the subject of the planning application will be determined by the developer, from current market research relevant to the subject site. This will match the values used in a viability appraisal agreed with the Council (if submitted) which may have led to the off-site provision of affordable housing being considered acceptable. However there will be other circumstances in accordance with Planning Policy where a commuted sum may be applicable and the applicant should ensure that the values are based on research directly relating to the area in which the subject site is located as area wide averages would not be considered appropriate due to the large differences in values across the Council's area as demonstrated by their two levels of CIL.

2.6 The value of the off-site units to the RP has to be determined by reference to the gross rent that an RP would charge. This rent has been set at the Local Housing Allowance Rate for Chiltern BRMA.

3.0 Data Collection

3.1 In order to establish the management and maintenance costs the Council's RP partners were sent a pro-forma data collection spreadsheet. The results of this data collection and a summary of the average costs can be seen at Appendices A and B.

3.2 The partner RPs that took part in the survey were:

Housing Solutions

Vale of Aylesbury Housing Trust

Red Kite Community Housing Group

Hightown Housing Association

3.3 Having received the responses it is clear that different RPs do their calculations of value on slightly different basis which is a common issue. Therefore, all responses were checked and brought into a similar format to ensure consistency.

3.4 One issue that remains is that some of the RPs calculated the value of the affordable units on the basis of a discounted cashflow seeking to ensure a positive net present value, otherwise cross-subsidy is required from the RP's own funds. To keep it simple for end users, the calculator is based on applying a yield to the gross rental income before the management and maintenance costs have been deducted. There should not be too much difference in the resultant value from these two methods, but a lot will depend on the yields and discount rates/periods applied. The Council will keep these figures under review over the Plan period and update the calculator as necessary in line with the Affordable Housing market.

3.5 As noted in para 2.2 above the calculator is predicated on there being no Grant available, and as cross subsidy is not certain we have assumed that will not be available either. However, the assumptions in the responses provided by those surveyed may allow for some internal cross-subsidy which individual RPs believe is required to compete in the S.106 market.

3.6 Another issue which came out of the data collection was that each RP did not provide an allowance for the Planned and Cyclical maintenance requirement for each development. This may be because we are dealing with new properties or that our instructions were not clear. In any event we have sufficient data from other sources to advise that an allowance of between 10% and 12% is appropriate.

3.7 With regard to shared ownership we have noted a change in the methodologies employed by RPs to calculate the value of the equity they retain in the property. Some still apply a yield to the net rent after allowing a management charge for rent collection and others take the open market value of the equity after deducting a profit margin that will be released by future staircasing.

3.8 As the capitalization of gross rent on the retained equity more fairly represents the asset value to the RP, we have continued to use this method for the calculator.

3.9 With regard to the developer's profit margin (inc sales costs) to be used in the calculator, as its use is generally for smaller developments we have made the allowance at 17.5%. This represents 15% profit and 2.5% for the sales, marketing and legal costs of not selling units individually on the open market.

3.10 In order to encourage responses from the RPs and as the cost data is commercially sensitive we agreed with them that the data sources would remain anonymous.

4.0 Conclusions

4.1 The average costs and values are set out in the data collection sheet for each tenure type, as shown at Appendices A and B. The proposed Commuted Sum Calculator is shown at Appendix C with an example applied.

Affordable Rent

4.2 There were different methods of stating the management and maintenance costs, which we had anticipated in terms of a percentage of the rent or a cost per unit per annum but the variation was quite wide. This led to us discussing the basis of the calculation of the capital value with WDC officers and agreeing that the use of a yield applied to the gross rent (LHA rate) would provide the simplest and most consistent way of calculating the capital value.

4.3 We went back to the RPs who had responded to ask them to provide some example capital values (See Appendix A and B) to cross check the results from our initial data research. We then took these values and compared them with the previous results. To come to a conclusion on the appropriate gross yield we averaged the results, which gave us a figure of 5.7% for Affordable Rented units.

4.4 We recommend increasing this slightly to 5.75% to give a small safety margin which will slightly increase the commuted sum achieved.

Shared Ownership

4.7 The amount of first tranche sales varied between 30% and 40%, with an average of 36%, which is fairly standard in the industry. We recommend using 35% in the calculator.

4.8 The rent charged on the unsold equity was set by all RPs at the 2.75% maximum applied by Homes England. We recommend the 2.75% maximum is used in the calculator.

4.9 Most of the RP's charged leaseholders a flat rate per unit for management per unit, which we have converted to 7.82%, (See example calculation at Appendix B). This is higher than the average figures we have seen elsewhere.

4.10 The average net yield we deduced that an RP would use to calculate the value of the rental income of shared ownership units is 4.6%. This is above industry norms so again we discussed this with WDC officers and sought further advice from the RPs. This led us to conclude that a yield applied to the gross rent would provide the simplest and most consistent results. The average gross yield equated to 4.96% and we suggest increasing this slightly to 5% for the same reasons as given at para 4.4 above.

4.11 The yield on shared ownership units is normally lower than that for a pure rental unit as the risks are lower. If the rent is not paid a mortgagee will pay it to avoid a breach of the lease. The cost will then be added to the mortgage. If the property were repossessed the rent would still be paid for the same reason.

Other Issues

4.12 The method of filling out the calculator is set out in the Guidance notes we have provided at Appendix D which is capable of being uploaded to the Council's website along with the Commuted Sum Calculator shown at Appendix C.

4.13 Beyond the data that will be provided as defaults, the other inputs will be user defined as they relate to the value and number of units on the application site.

Appendix A

Appendix B

Appendix C

Appendix D