

Releasing untapped potential for more homes

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Where's the money?

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Cashflow

How much additional borrowing could Welsh Housing Associations service through existing cashflow and improved operating efficiency?

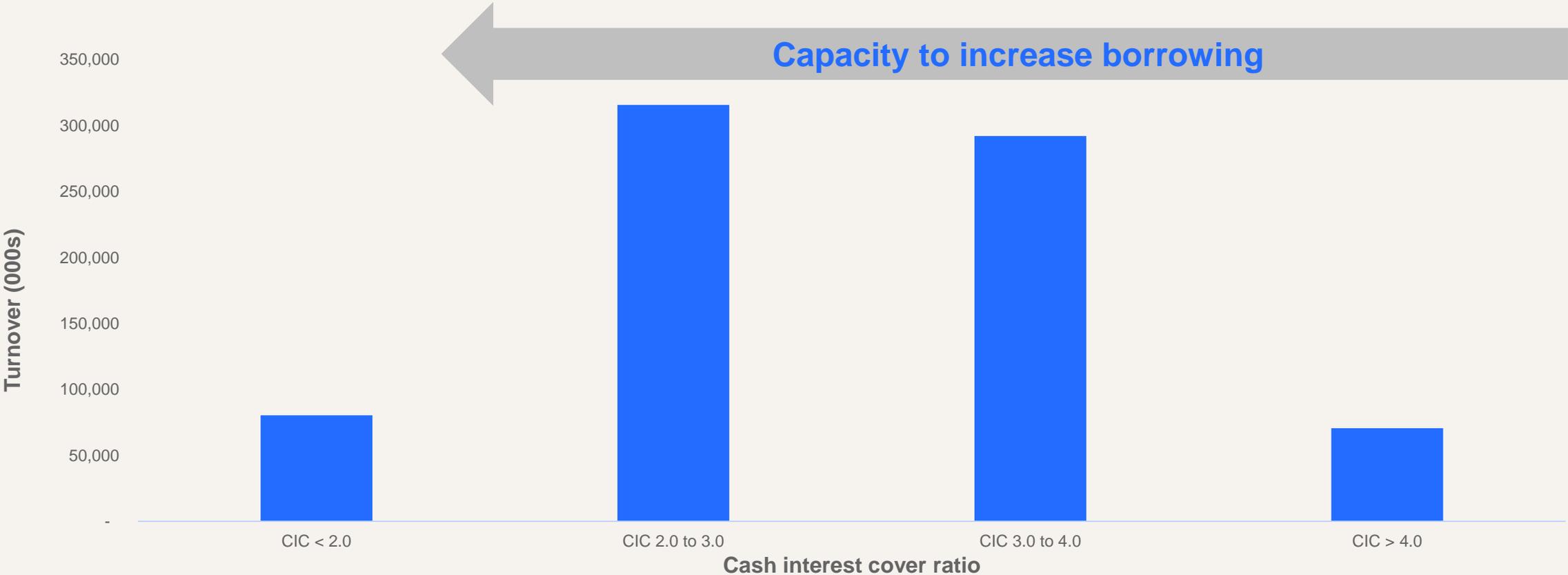
How much additional borrowing could Welsh Housing Associations back with existing assets?

Balance sheet

Making the most of existing cashflow capacity



Source: Sample of 23 Welsh housing associations 2016/17 published financial statements



How far towards 1.2 to go?

~~100%~~



£1.2bn

£600m

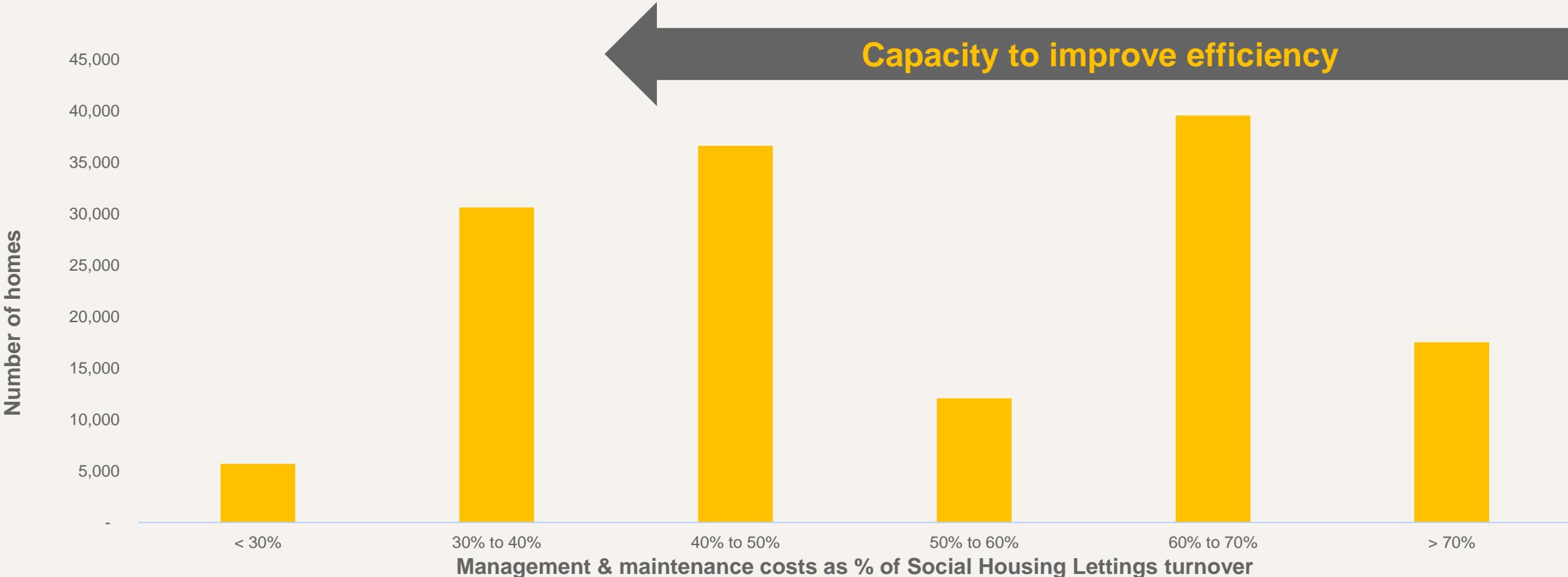
£300m



Efficiencies in management and maintenance



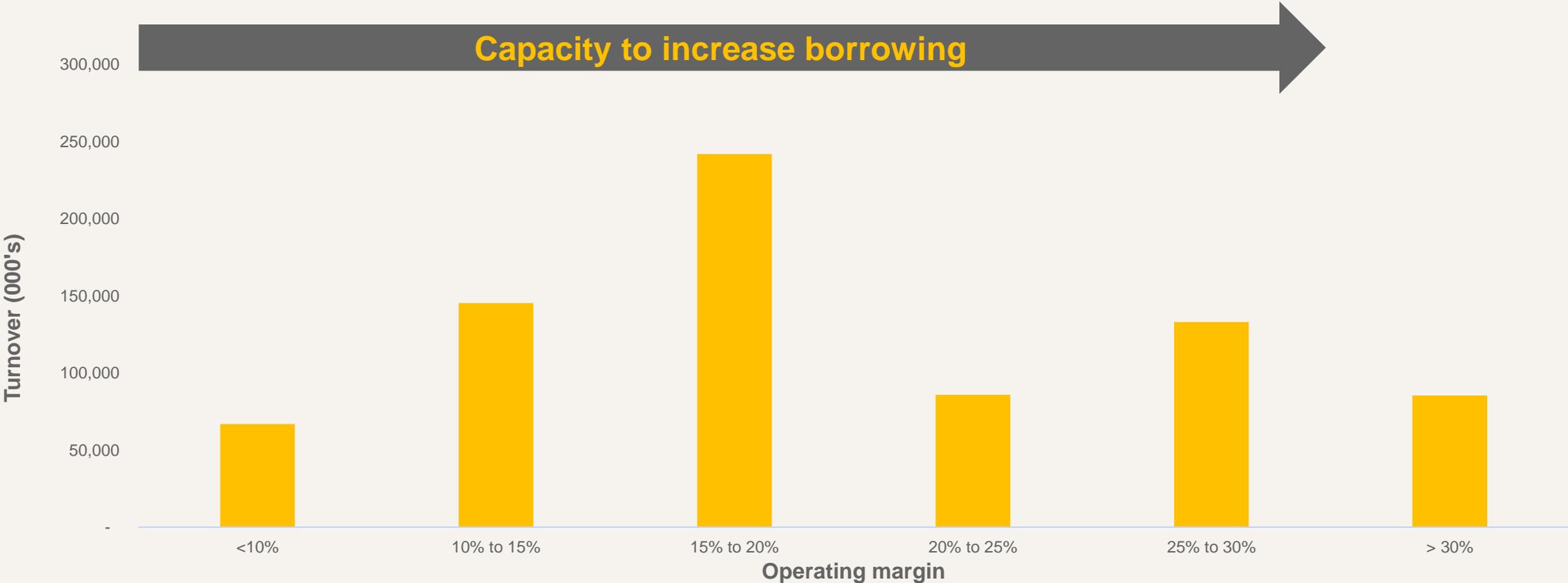
Source: Sample of 23 Welsh housing associations 2016/17 published financial statements



Profile of operating margins



Source: Sample of 23 Welsh housing associations 2016/17 published financial statements



How far towards 30% margin to go?

~~100%~~
100%



£980m

£490m

£245m

Total cashflow capacity

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£600m

+

£490m

=

£1.1bn

Welsh HAs: Valuations vs debt per unit

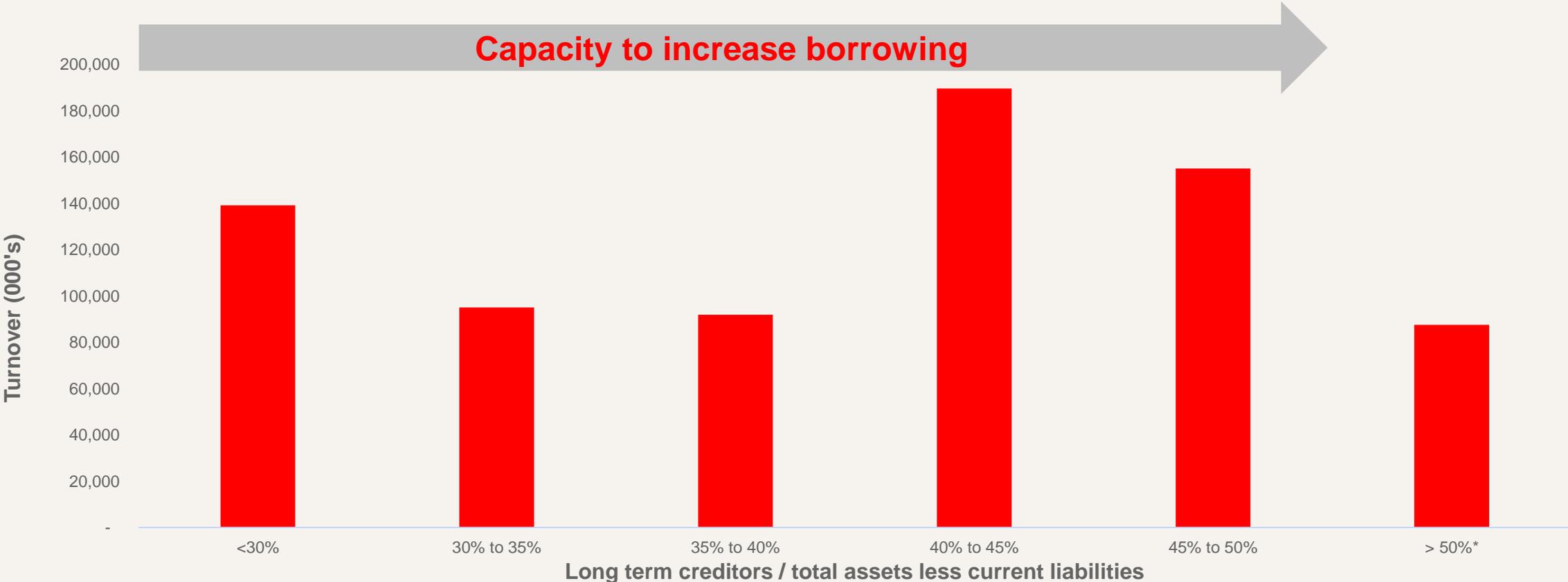
Source: Sample of 23 Welsh housing associations 2016/17 published financial statements

- Average Welsh EUV-SH – £55k
- Average Welsh MV-ST – £74k
- More than 140k units in sample, 115k of which are GN rental stock
- Average debt per unit: all stock – £15k
- Average debt per: GN rental stock only – £18k
- Over 75k GN units have a debt per unit of less than £20k

Indicative balance sheet capacity



Source: Sample of 23 Welsh housing associations 2016/17 published financial statements



How far towards 70% to go?

~~100%~~

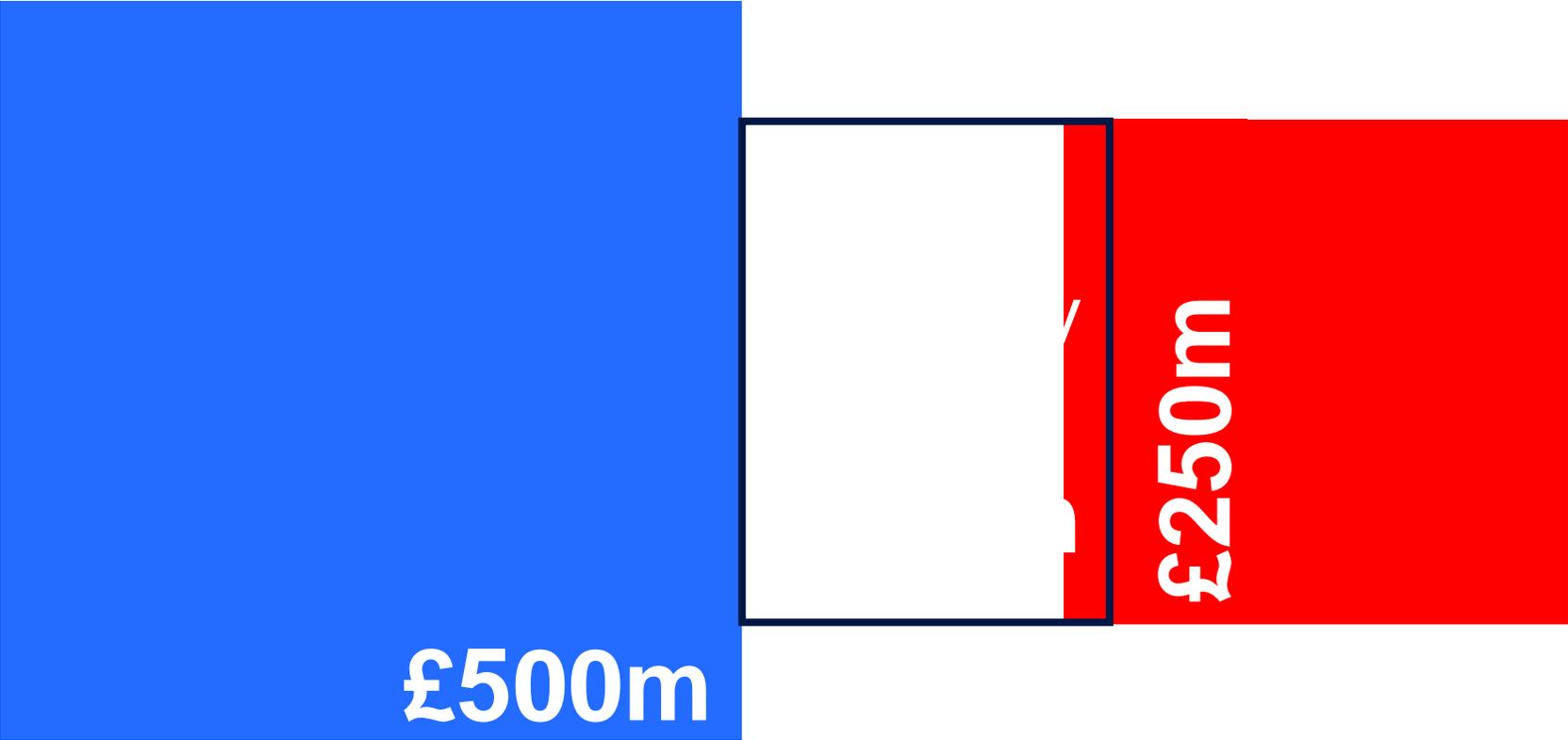


£1.7bn

£850m

£425m





Challenges to unlocking capacity

- Management challenges especially in rural areas
- Ageing stock profile, population demographics and changing patterns of demand
- Some organisations still delivering transfer / regeneration promises
- Diverse housing market with significant regional differences
- Methodology can be applied but parameters need to reflect these characteristics

The Welsh HA sector

- Welsh housing policy supports development of new affordable housing:
 - Target to deliver 20k new homes by 2020
 - Grant funding still available – SHG pot increased from £68m to £100m
 - Rent policy favourable previously at CPI+1½%
 - Right to Buy has now effectively been abolished
- Rent policy review due 2019
- ONS has also effectively reclassified HAs as private sector bodies

Summary

- **Welsh HAs have the capacity to deliver the Assembly's aspirations:**
 - Grant funding regime in Wales de-risks growth
 - Rent policy remains favourable and supports operating cashflow
 - Stability of the core social housing business supports diversification into market facing tenures
- **Key issues to consider:**
 - How / when / where to utilise spare capacity and on what tenures?
 - What does utilising spare capacity and/or diversification do to the risk profile of the business?
 - How will this change in the risk profile impact on funders and regulators views of the business?

Valuations – The Current Position

- EUV-SH – Conceived 30 years ago as a way for lenders to sell security
- MV-stt – Assumes Void properties Sold and Rents increased
- The sector has matured and moved on
- Asset management
- Stock trading
- Deregulation – more liquidity
- EUV-SH does not bridge the gap
- Resistance from funders with loan books and undrawn debt on very conservative basis

Updating the Definitions of Value

- 2017: Valuers proposed amending EUV-SH
- Met with resistance from funders and RICS/CIPFA

Problems:

- Existing loan agreements – need consistent definition
- Desire for valuation basis that assumes reletting as social housing
- Need to avoid volatility
- Used for accounting purposes – change would be difficult

- But issues with the definition of EUV-SH still remain
- Evidence from stock trading
- Deregulation – more liquidity
- EUV-SH cannot reflect prices paid when stock traded

Revised Proposals

- EUV-SH
 - Modest change to words.
 - No change to values
 - Still assumes reletting as social housing

- MV-SH
 - Proposing a new basis of valuation for the sector
 - Valuers could reflect prices paid in trading
 - Reflect any change in behaviour after deregulation

- MV-STT
 - No change

MV-SH – a new basis of valuation?

- Not compulsory
- Offered as a choice to the sector
- Directly reflects evidence from trading stock between HA's
- Restricts the market only to sales within the HA market
- Funders can sell with a clear conscience
- Allows EUV-SH to continue

The market is pushing us to go further

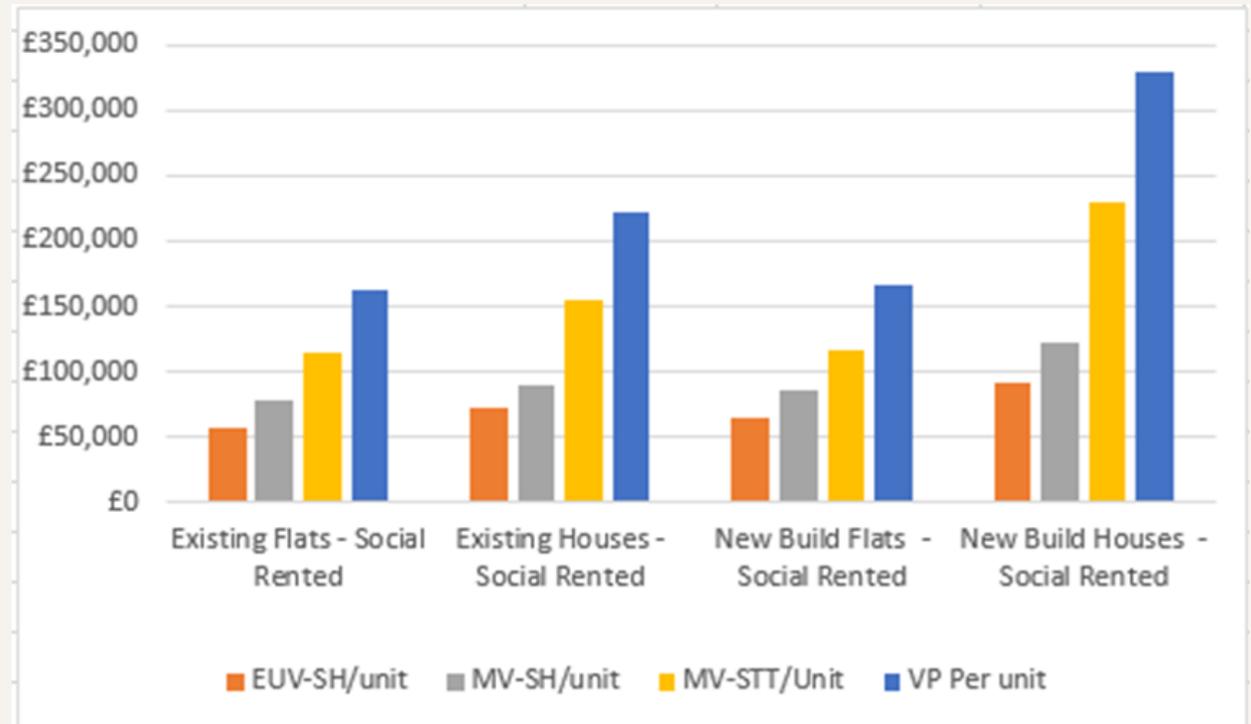
- MV-SH - Proposed new basis of valuation

- *“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties has each acted knowledgeably, prudently and without compulsion...”*
- *Subject to the following special assumptions that:*
- *the vendor would only be able to dispose of the property to organisations intending to manage their housing stock in accordance with the regulatory body’s requirements; and*
- *that the property will continue to be managed in accordance with the expectations of the Regulator of Social Housing and with legal requirements.*

Impact of MV-SH on Values?

- Not one simple answer
- Will depend on property type/location/local market conditions
- Example:

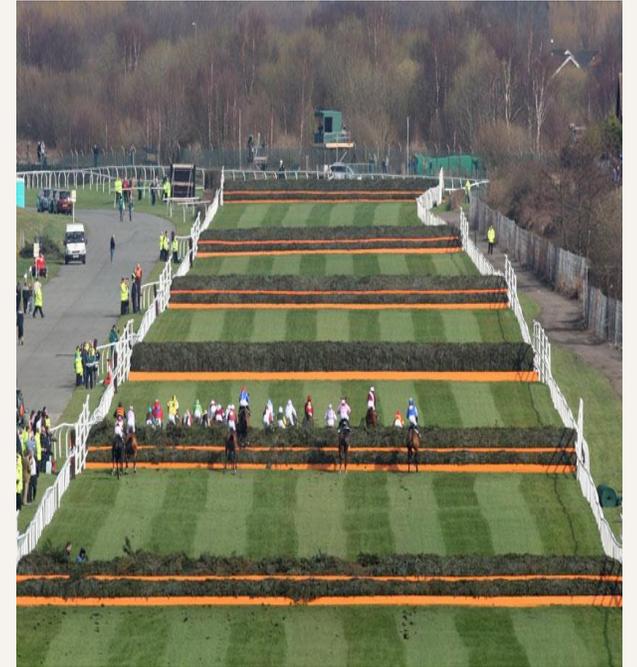
200 units in The South East
+25% to 40% over EUV-SH



Removal of Section 133 Hurdle – LSVT Valuations

Section 133

- Used to be a show stopper and would restrict to EUV-SH in perpetuity
- Prior consent no longer required for disposal of former LSVT stock.
- This is the removal of the largest fence – but only one of many in the race to the line for MVSTT



Warning

Legal checks of loan and title documentation essential

- Value not realised until legal checks complete
- Different lenders are engaging with MV with differing appetites
- One less hurdle but other fences may cause limitation to EUV-SH
- The MV-stt values for LSVT stock will not be as high as those for conventional HA Stock



MV-stt Values for LSVT Stock

1. Location Analysis - from Good to Poor
2. Sales Receipts
 - Price level
 - Stability of Market
 - Data on House Price Growth - Savills Housing Research
 - Stock concentration and turnover
 - Unattractive stock may add little or no sales receipts
3. Growth of Rent - Household income is key to assessing rental growth potential
4. Use information to gauge the potential for households to withstand an increased rent
5. Anticipated Outgoings from Rent

Discounted Cashflow – has to be a granular approach

Conventional DCF model typically has 10 sub groups
Not enough for this level of analysis

Multiple DCF approach is require

e.g

- Title level
- Scheme level
- And below

1,600 DCFs for our first bond!



Modern Methods of Construction

Valuation - Points to Consider

- It will trade, therefore has a value and IS Chargeable
- Knee-Jerk Reactions: EUV-SH Only ?
- Knee-Jerk Reactions: 10-20% of loan or number of units?
- Development of Standard Guidelines
- Downward valuation profile?
- Valuation review frequency (Annual?)
- Maintenance Schedule – from Manufacturer
- Quality & Maintenance review frequency
- Insurance/Warranties
- BOPAS
- Extended Warranties

Why does it matter?

*“Modernisation is not just about offsite construction, it is about **a much wider ‘design for manufacture and assembly’ ethos** which brings lean thinking to construction and overcomes the non-collaborative failings of our industry.”* The Farmer Review, 2016

- *Economic - Speed of construction increased by up to 60%, Cash Flow improved, Snagging and defects reduced by up to 80% and Improve corporate identity*
- *Social - Health and Safety can be improved up to 80%, Improved working conditions, Housing can be more affordable and increased quality and customer choice*
- *Environmental - Traffic reduced by up to 60%, Energy used reduced by up to 80%, Waste reduced by up to 90% and Building efficiency improved by up to 25%*

Grenfell Update 1

- Hackitt Report – implications for future expenditure
- Refurbishment & maintenance costs likely to be higher
- Valuations of high rise social rented properties likely to be lower in some cases
- No “one size fits all” valuation answer
- We continue to obtain as much information as possible on remedial costs, future maintenance, management costs, voids

Grenfell Update 2

- Very little transactional evidence
- Expect abnormal uncertainty clauses to remain (RICS duty)
- Not just social housing - applies to all high rise residential
- Regular dialogue between valuers, promoted by RICS
- High end, new-build private sales largely unaffected
- But secondary market struggling
- Some serious “blight”
- Shared ownership in new high rise has transacted

Steering Group – Affordable Housing Supply Review

The Savills logo, consisting of the word "savills" in a lowercase, red, sans-serif font, positioned to the right of a yellow square.

Lynn Pamment - Chair

Dr Peter Williams

Helen Collins

Professor Kevin Morgan

Dr Roisin Willmott OBE FRTPI

Phil Jenkins

Affordable Housing Supply Review – workstreams

- Understanding housing need
 - Grant allocation and intervention rates
 - Rent policy
 - Standards / DQR
 - Local Authority building
 - Modern methods of construction
 - Public sector land
 - Capacity of public sector and housing associations –
 - Use of existing powers
 - Leveraging the investment potential in stock transfer and LA organisations
- programme of sector engagement summer/autumn 2018

Questions ?





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Thank you

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