

# **Valuations and increased pressure on margins**

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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

# Rent Policy – Effect on Margins

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The Welsh Government issued a new one-year social housing rent settlement – capping the permitted increase in 2019/20 to inflation only. Under the new settlement, HA's were only able to raise rents by CPI – set at 2.4%.

The previous 5 year rent policy was that rents could be increased by CPI plus 1.5%

# The Independent Review of Affordable Housing Supply published in May 2019

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The Savills logo consists of a yellow square with the word "savills" written in lowercase red letters.

## Key Recommendations:

- The Welsh Government should implement a five year rent policy from 2020-21, providing stability for tenants and landlords.
- Further flexibilities should be introduced into the Welsh Government's rent formula regime in relation to bungalows (a higher upward differential) in order to better differentiate them from flats and the locational index (a limit on annual adjustment) in line with the recommendations of the Heriot Watt report.
- There should be a focus on landlords considering Value for Money (VfM) alongside affordability. An explicit annual assessment on cost efficiencies should be part of the rationale for justifying any rent increase.

# Welsh HAs: Valuations vs debt per unit

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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

# What is the impact of welfare reforms on English Housing Associations?

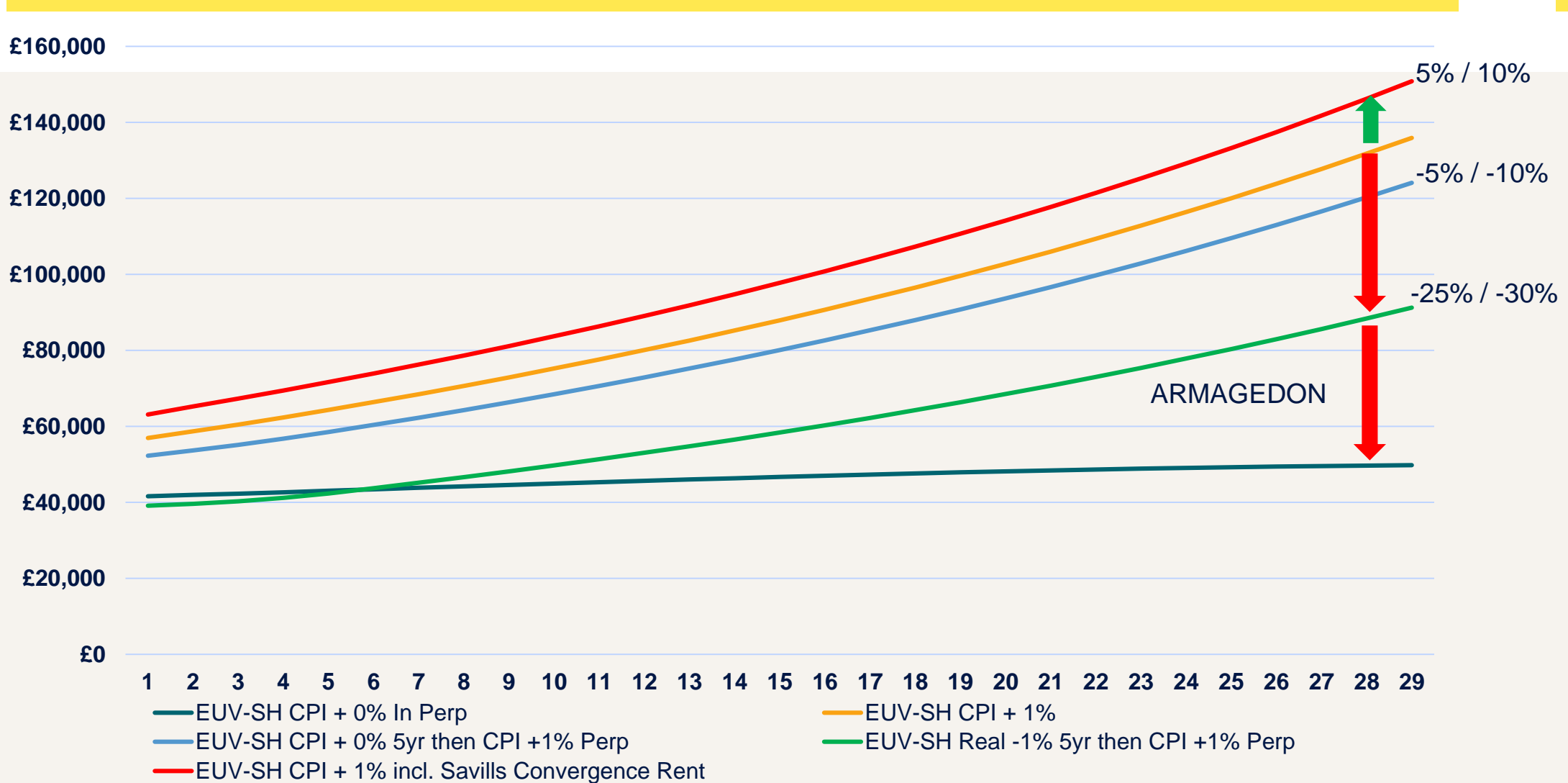
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The July 2015 Budget announced that social rents will be reduced in England by 1% real a year for four years from 2016–19.

- Impacts still being assessed but included **incentives of social tenants to move** affected (dependency), the **reduced revenue** available to social housing providers resulted in some **cuts to tenant services**.
- **Number and quality of homes** provided through the social sector, and hence the overall supply of housing and the wider housing market.
- **Lower void and bad debt levels** but, combined with **Universal Credit is a risk** to Landlords. **Reduced development viability** but **flight to submarket** tenures.
- In some parts of the country Social Rents are already close to Market Rent therefore **intermediate products may not always be an option** and these areas will need **more subsidy to continue development**. The impact is **disproportionate**.

# EUV-SH Scenario Testing - Rent Settlement Variables

## Av. Welsh Values (All LAs)



# Improved Efficiency

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## Challenges;

- 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
- Universal Credit Risk

## Mitigation;

- Improving management costs
- Stock Condition Survey re-profiling (30 yr. plan) WQS ++ or WQS
- Managing debt and voids
- Refinancing
- Economies of scale via mergers/collaborative approach to housing
- Maximizing Asset Value via funding/ charging process (extracting MV-STT where possible as unaffected)
- Stock Rationalization
- Modern Methods of Construction (MMC) – smaller HA may struggle to compete at scale and cost



# Valuations – The Current Position

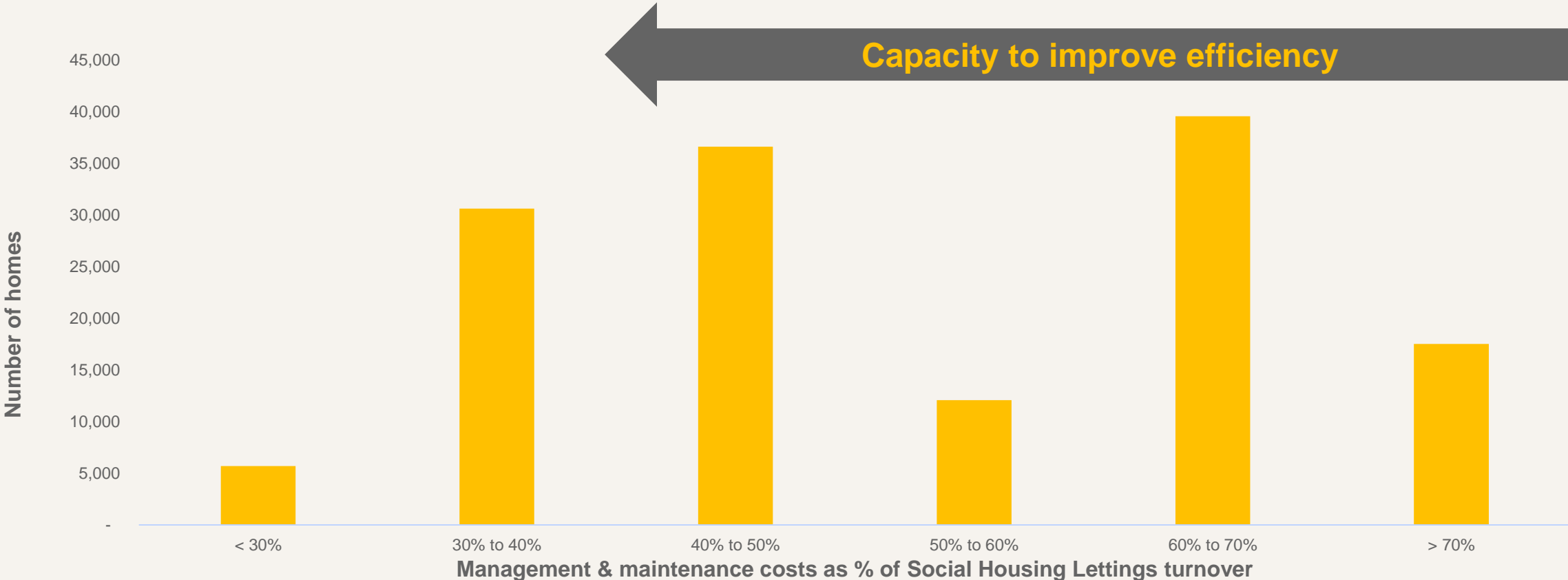
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- EUV-SH – Conceived 30 years ago as a way for lenders to sell security
- MV-stt – Assumes Void properties Sold and Rents increased
- The sector has matured and moved on
- Asset management
- Stock trading
- Deregulation – more liquidity
- EUV-SH does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

# Efficiencies in management and maintenance



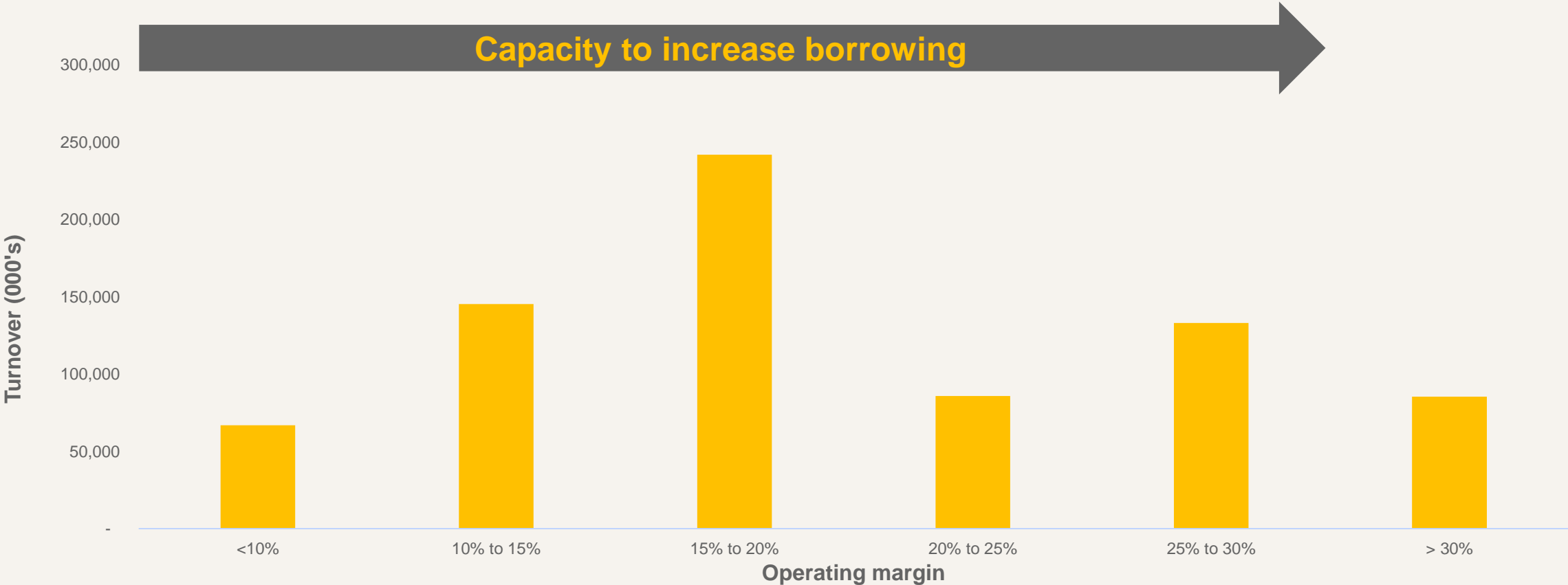
Source: Sample of 23 Welsh housing associations 2016/17 published financial statements



# Profile of operating margins

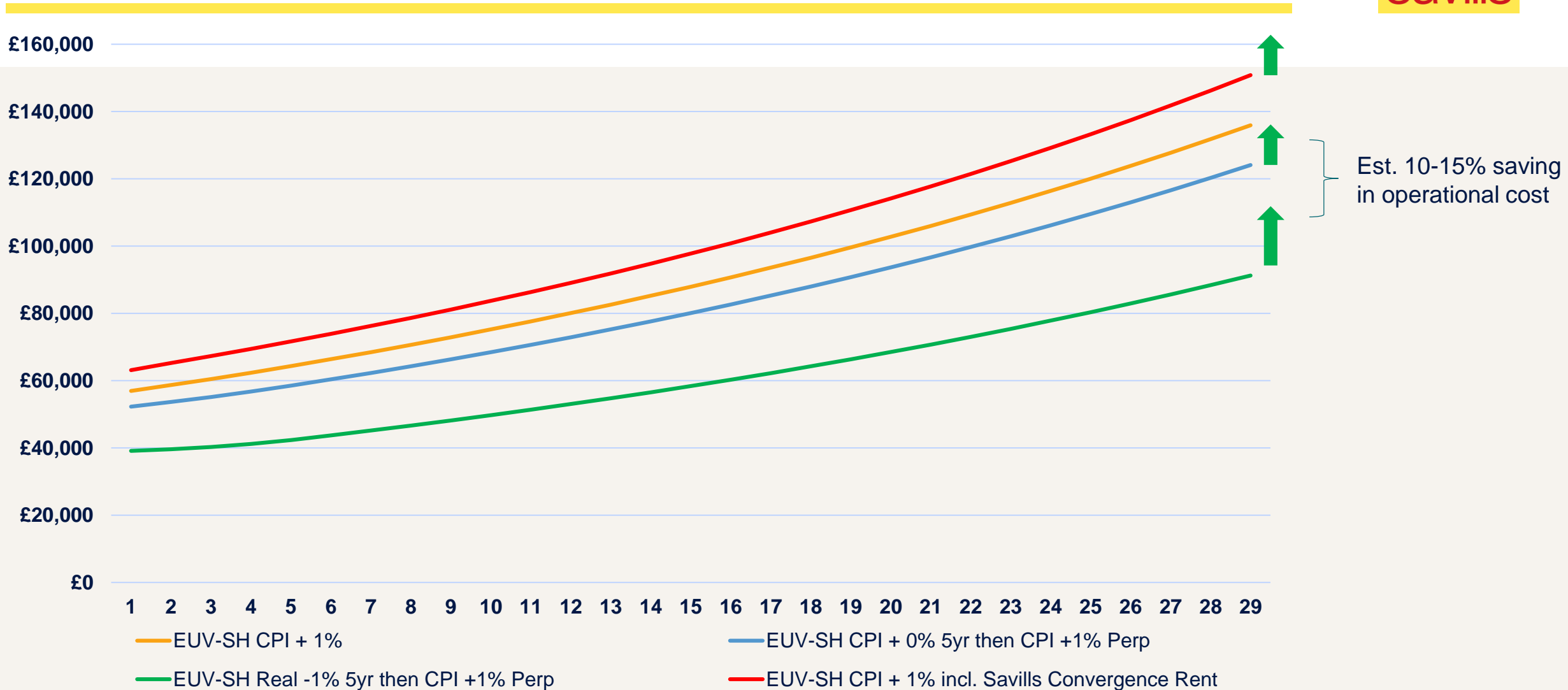


Source: Sample of 23 Welsh housing associations 2016/17 published financial statements



# EUV-SH Scenario Testing - Rent Settlement Variables

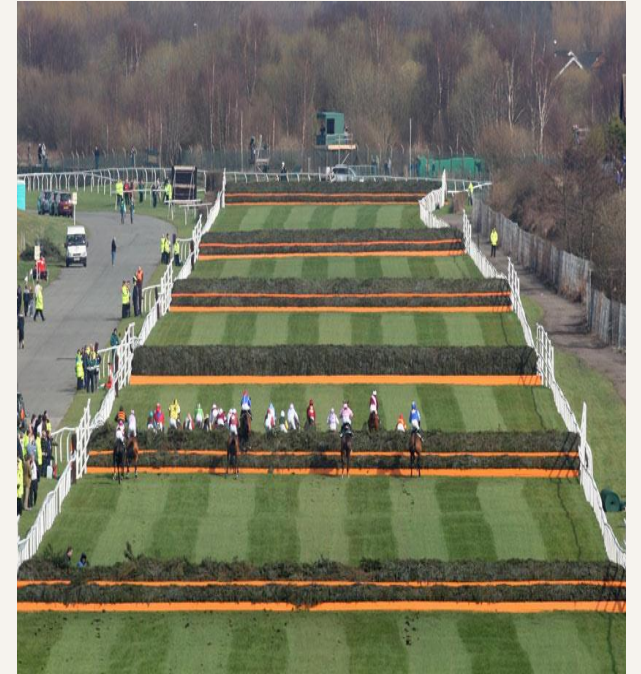
## Av. Welsh Values (All LAs) – Reduced M&M costs



# 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

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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


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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

# Loan Security Capacity by Region

## LSVT MV-STT uplift



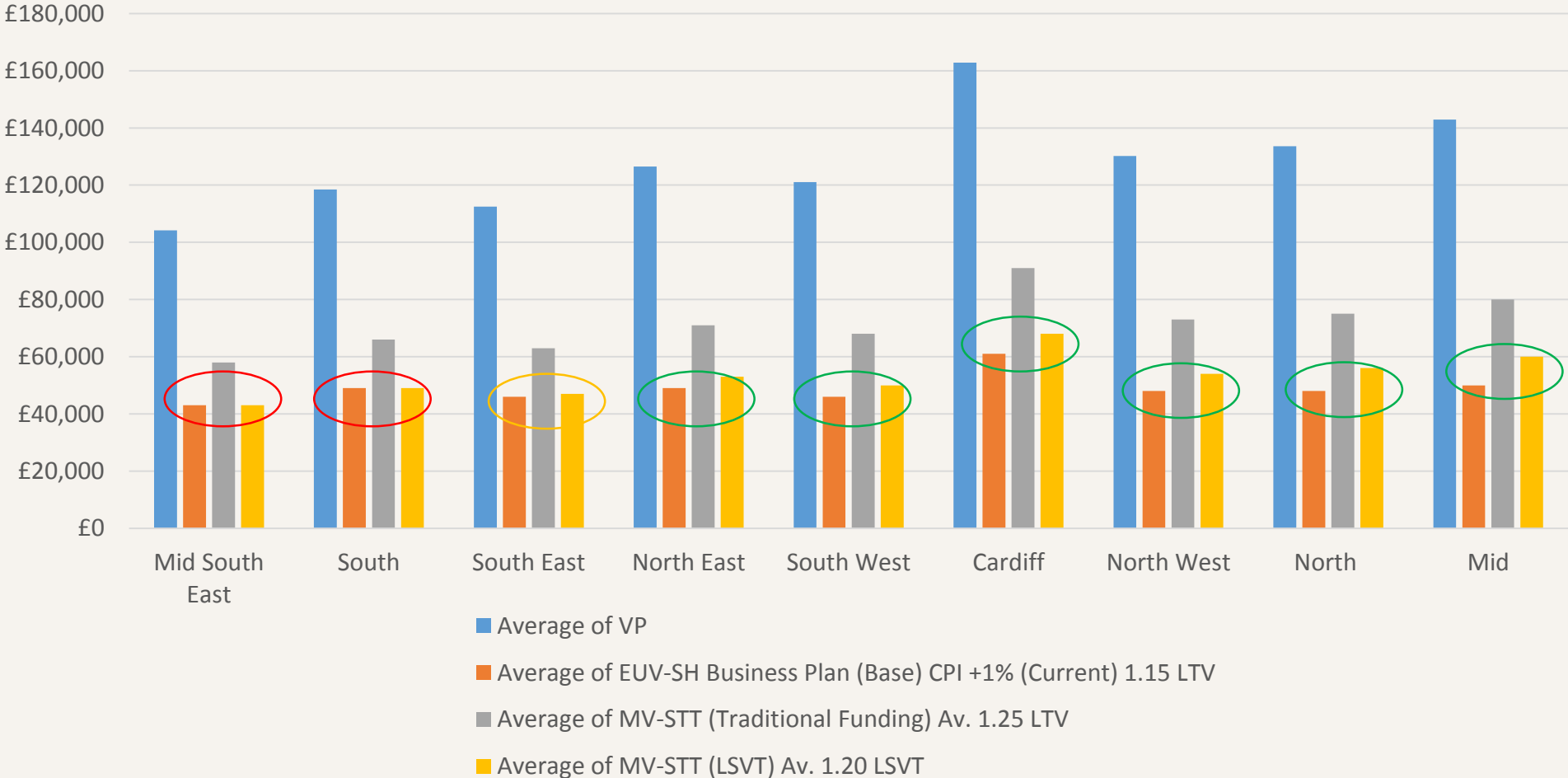
Region	Average of VP	Average of EUV-SH Business Plan (Base) CPI +1% (Current) 1.15 LTV	Average of MV-STT (Traditional Funding) Av. 1.25 LTV	Average of MV-STT (LSVT) Av. 1.20 LSVT	Average of MV-STT LSVT Uplift Borrowing Capacity	Uplift to MV-STT on LSVT (Range)
Mid South East	£104,207	£43,000	£58,000	£43,000	0%	
South	£118,486	£49,000	£66,000	£49,000	0%	
South East	£112,496	£46,000	£63,000	£47,000	2%	
North East	£126,492	£49,000	£71,000	£53,000	8%	
South West	£121,029	£46,000	£68,000	£50,000	8%	
Cardiff	£162,800	£61,000	£91,000	£68,000	10%	
North West	£130,188	£48,000	£73,000	£54,000	11%	
North	£133,647	£48,000	£75,000	£56,000	14%	
Mid	£142,917	£50,000	£80,000	£60,000	17%	



# Loan Security Capacity LSVT Wales V Mixed Funding

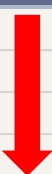
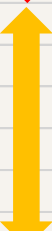
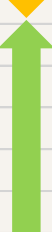
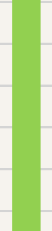



Valuation Basis - LTV on MV-STT & EUV-SH

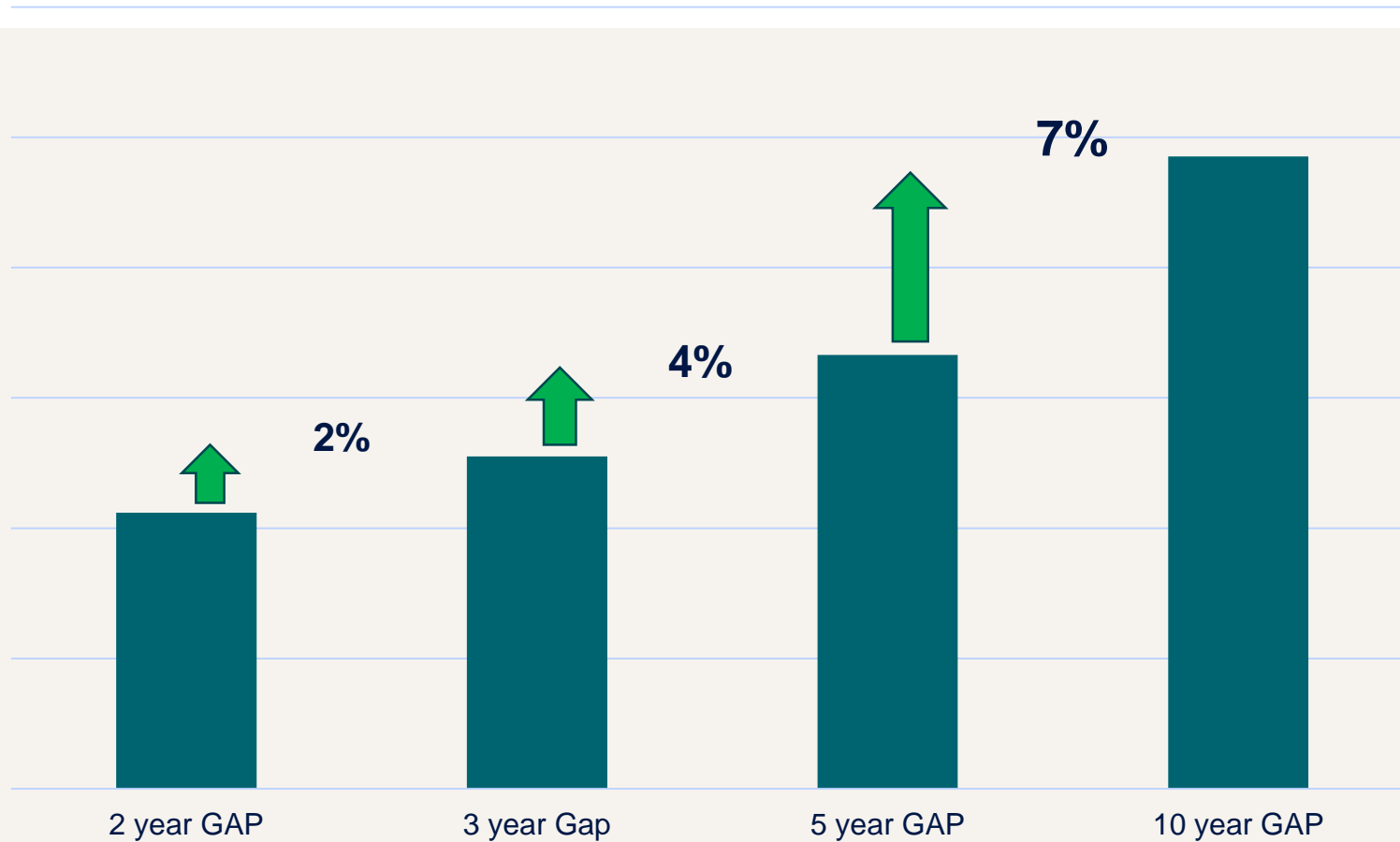


# Loan Security Capacity by LA

## LSVT MV-STT uplift

Region	Local Authority	EUV-SH Business Plan (Base) CPI +1% (Current) 1.15 LTV	MV-STT (Traditional Funding) Av. 1.25 LTV	MV-STT (LSVT) Av. 1.20 LTV	MV-STT LSVT Uplift Borrowing Capacity	MV-STT LSVT Uplift Sale	Notes
South East	Blaenau Gwent	£42,000	£43,000	£32,000	-24%		Unlikley
South East	Merthyr Tydfil	£43,000	£48,000	£36,000	-16%		
South	Neath Port Talbot	£47,000	£56,000	£41,000	-13%		
South	Caerphilly	£48,000	£60,000	£45,000	-6%		
South	Bridgend	£48,000	£64,000	£48,000	0%		Possible
South East	Torfaen	£46,000	£62,000	£46,000	0%		
Mid South East	Rhondda Cynon Taf	£43,000	£58,000	£43,000	0%		
South	Swansea	£48,000	£65,000	£48,000	0%		
South West	Carmarthenshire	£45,000	£63,000	£47,000	4%		Likley
North East	Denbighshire	£49,000	£69,000	£51,000	4%		
North East	Wrexham	£49,000	£69,000	£52,000	6%		
South East	Newport	£47,000	£69,000	£51,000	9%		
North East	Flintshire	£51,000	£74,000	£55,000	8%		Likley
Cardiff	Cardiff	£61,000	£91,000	£68,000	11%		
North West	Isle of Anglesey	£49,000	£74,000	£55,000	12%		
North West	Gwynedd	£46,000	£72,000	£53,000	15%		
North	Conwy	£48,000	£75,000	£56,000	17%		Likley
South West	Pembrokeshire	£46,000	£72,000	£54,000	17%		
Mid	Powys	£50,000	£79,000	£59,000	18%		Likley
Mid	Ceredigion	£50,000	£81,000	£60,000	20%		
South	Vale of Glamorgan	£52,000	£87,000	£64,000	23%		Likley
South East	Monmouthshire	£52,000	£93,000	£69,000	33%		

# Welsh LSVTS & GAP Funding Guarantee over 2 years



# Questions ?

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Thank you

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