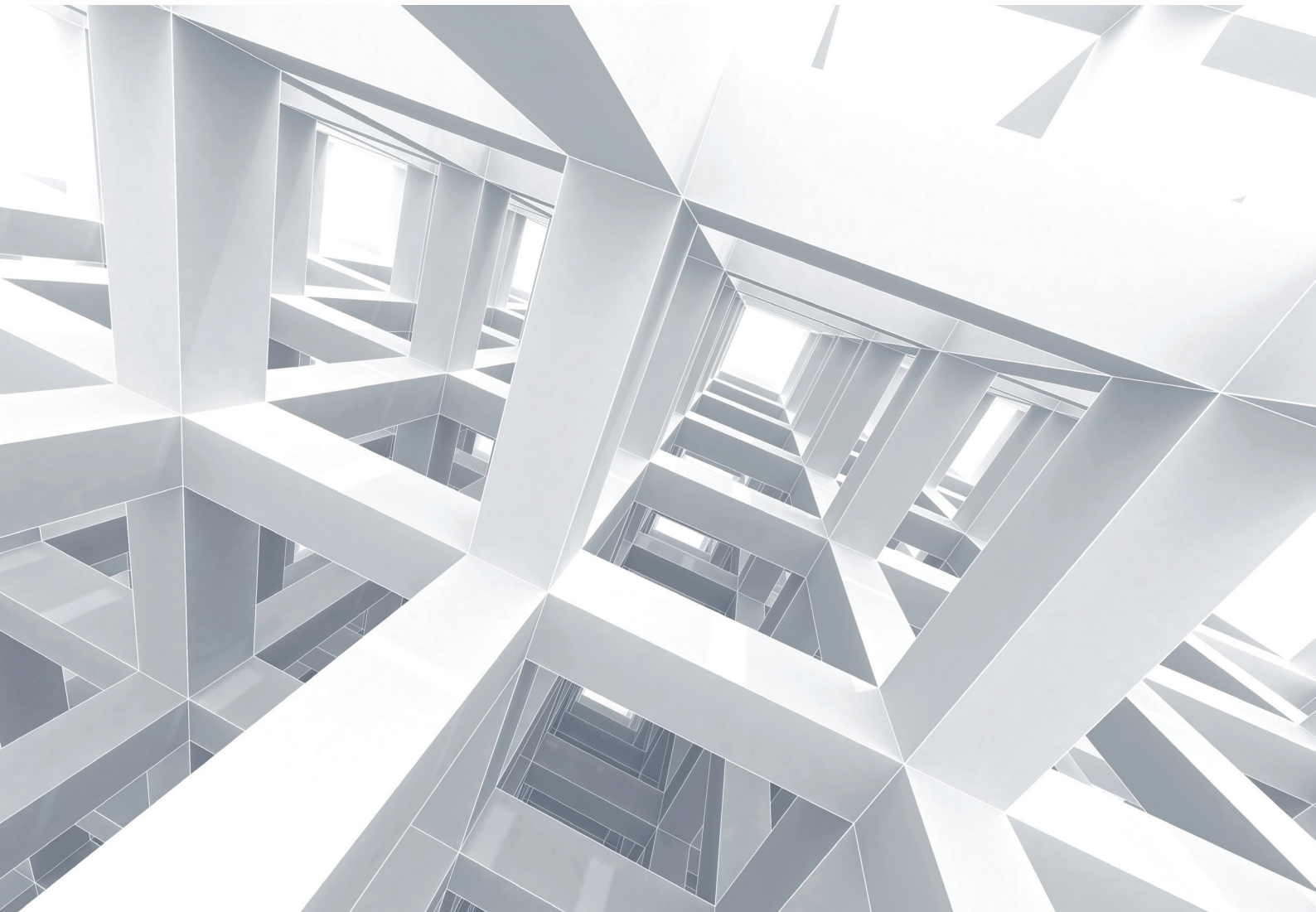




RICS professional guidance, England and Wales

Valuation of land for affordable housing

2nd edition, April 2016



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RICS professional guidance

International standards

Globally recognised high-level valuation principles and definitions are now embodied in the International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC). RICS has long been a supporter of the development of such universal standards, and not only fully embraces them itself, but also proactively supports their adoption by others around the world.

RICS Valuation – Professional Standards 2014, commonly referred to as the Red Book, formally recognises and adopts the IVS by requiring members to follow them. It also complements the IVS by providing detailed guidance and specific requirements concerning their practical implementation.

Member and firm conduct is underpinned through the application of the Rules of Conduct and the Global Professional and Ethical Standards and is assured through a well-established system of regulation. The whole ensures the positioning of RICS members and regulated firms as the leading global providers of IVS-compliant valuations.

RICS guidance notes

This is a guidance note. Where recommendations are made for specific professional tasks, these are intended to represent 'best practice', i.e. recommendations that in the opinion of RICS meet a high standard of professional competence.

Although members are not required to follow the recommendations contained in the guidance note, they should take into account the following points.

When an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of the contents of any relevant guidance notes published by RICS in deciding whether or not the member acted with reasonable competence.

In the opinion of RICS, a member conforming to the practices recommended in this guidance note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow the guidance.

It is for each member to decide on the appropriate procedure to follow in any professional task. However, where members do not comply with the practice recommended in this guidance note, they should do so

only for good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice.

Also, if members have not followed this guidance, and their actions are questioned in an RICS disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel.

In some cases there may be existing national standards that may take precedence over this guidance note. National standards can be defined as professional standards that are either prescribed in law or federal/local legislation, or developed in collaboration with other relevant bodies.

In addition, guidance notes are relevant to professional competence in that each member should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

This guidance note is believed to reflect case law and legislation applicable at its date of publication. It does however relate to an area where government policy and legislation is constantly evolving, and members are therefore expressly reminded of their responsibility to establish if any changes in case law or legislation after the publication date have an impact on the guidance or information in this document, and its application to the valuation advice or services they are providing.

Document status defined

RICS produces a range of professional standards, guidance and information documents. These have been defined in the table below. This document is a guidance note.

Publications status

Type of document	Definition	Status
Standard		
International standard	An international high-level principle-based standard developed in collaboration with other relevant bodies.	Mandatory. RICS has adopted these and they apply to the profession.
Professional statement		
RICS professional statement (PS)	A document that provides the profession with mandatory requirements in the form of technical requirements or conduct rules that members and firms are expected to adhere to. An RICS professional statement sets out the expectations of the profession. RICS-qualified professionals must comply with the professional statement applicable to their area of practice or be able to explain any departure from it. The relevant professional statement will be used by RICS and other legal and regulatory authorities in judging complaints and claims against RICS-qualified professionals. This category may include documents approved by RICS but created by another professional body/stakeholder, such as industry codes of practice.	Mandatory on the basis of 'comply or explain'. Professional statements set out how the profession is expected to meet the requirements of the international standards.
Guidance and information		
RICS guidance note (GN)	Document that provides users with recommendations or approaches for accepted good practice as followed by competent and conscientious practitioners.	Recommended best practice but not deemed by RICS to be in category of 'mandatory' for all practitioners.
RICS information paper (IP)	Practice-based information that provides users with the latest technical information, knowledge or common findings from regulatory reviews.	Information only.
RICS insights	Issues-based input that provides users with the latest information. This term encompasses Thought Leadership papers, market updates, topical items of interest, reports and news alerts.	Information only.
RICS economic/market reports	A document usually based on a survey of members, or a document highlighting economic trends.	Information only.
RICS consumer guides	A document designed solely for use by consumers, providing some limited technical advice.	Information only.
Research	An independent peer-reviewed arm's-length research document designed to inform members, market professionals, end users and other stakeholders.	Information only.

1 RICS Valuation Standards [the 'Red Book']

1.1 RICS (the Royal Institution of Chartered Surveyors) is the leading organisation of its kind in the world for professionals in property, land, construction and related environmental issues. As part of our role we help to set, maintain and regulate standards – as well as providing impartial advice to governments and policymakers.

1.2 To ensure that our members are able to provide the quality of advice and level of integrity required by the market, RICS qualifications are only awarded to individuals who meet the most rigorous requirements for both education and experience and who are prepared to maintain high standards in the public interest.

1.3 Members who qualify as valuers are entitled to use the designation 'Chartered Valuation Surveyor' and, in

addition to compliance with the general Rules of Conduct applicable to all members, must also comply with the *RICS Valuation – Professional Standards*, generally referred to as the 'Red Book'.

1.4 This guidance note describes the standard of work that is expected of a reasonable, competent valuer experienced in the subject to which this guidance note relates.

1.5 RICS has in place a regulatory framework. Where a valuer undertakes work that has to comply with the Red Book, that valuer is also required to register with RICS. Registration enables RICS to monitor compliance with the valuation standards and take appropriate action where breaches of those standards have been identified.

2 Scope

2.1 The aim of this guidance note is to assist practitioners in the approach to the valuation of affordable housing development land.

2.2 While the focus is on the valuation of land for housing and flats, the principles are broadly adaptable for other types of affordable housing, such as special needs and sheltered housing accommodation.

2.3 This guidance note has application only in England and Wales. However, see 2.4 below.

2.4 This guidance note has been written specifically with regard to practice in England where the provision of

affordable housing is governed through the planning system. Where it differs, the practice in Wales is noted separately. In Scotland, and Northern Ireland the provision of affordable housing is governed through the housing policy and, although the means of provision may differ in detail, the valuation approach is essentially the same and this guidance note may be adapted as necessary.

2.5 The effective date of this guidance note is 28 April 2016.

3 Introduction

3.1 The approach to, and generally adopted methodology behind, the valuation of land for affordable housing has much in common with a conventional valuation of development land, therefore this guidance note should be read with an understanding of the contents of VIP 12: *Valuation of development land*.

3.2 Valuation of affordable housing land is a special basis for a special purpose and not necessarily the same as Red Book market value. Special assumptions, such as the inclusion of grants, subsidies, etc., should be clearly stated where they have been taken into account in the valuation.

3.3 Any planning application for new development will need to comply with the relevant national and local planning policies, which may have an impact on development viability. The National Planning Policy Framework (NPPF) explains the government's recommendations on delivering sustainable development, with general principles on assessing development viability provided in Planning Practice Guidance (PPG).

3.4 The RICS guidance note *Financial viability in planning* responds to these documents and provides detailed guidance on area-wide and scheme-specific viability assessments. Demonstrating development viability and deliverability are important elements in obtaining planning consent and assessing land value. In most cases valuation methodology for viability testing or for other land valuation purposes will be the same. However, it may vary, notably with regard to assumptions made, growth modelling and scenario testing in viability assessments.

3.5 The valuation of affordable housing land can be very complex and relates to specialised markets. It requires a high level of expertise. Practitioners are reminded that PS 2 (Ethics, competency, objectivity and disclosures) in paragraph 3, Member qualification, states that they must possess the skills, knowledge and understanding to undertake the valuation competently, and recognise that assistance may be needed from other professionals.

3.6 A development scheme may range from one that is 100% affordable housing to one where affordable housing is an element of a larger mixed-tenure residential or mixed-use development (i.e. market-housing-led developments with affordable housing delivered through section 106 agreements and, increasingly, registered provider (RP), affordable-housing-led developments, with market housing cross subsidy). This guidance note gives advice only on the approach to the valuation of the land for the affordable housing element of a development scheme (the other elements being valued as discussed in VIP 12) on a cleared, or greenfield, site or where the site is to be

redeveloped by removing all, or substantially all, of the existing buildings and constructing new buildings. It does not apply to redevelopment based on a refurbishment of existing buildings with limited demolition, although many of the principles will apply.

3.7 Some planning authorities favour a distribution of the affordable housing elements throughout a scheme for social or other reasons. This is known as 'pepperpotting'. This distribution of accommodation within blocks of flats or throughout a housing or mixed-use development precludes the identification of a separate land value that can be attributed specifically to the affordable housing element. Its consideration will form part of the assessment of the value of the site as a whole. However an apportionment of the value of the whole site can be made between that used for affordable and open market accommodation. 'Pepperpotting' is not generally favoured by RPs because of management issues and is becoming less widely used.

3.8 The opportunity to develop starter homes on exception sites should be taken into account as a potential alternative to both market-housing-led development and affordable housing schemes. Exception sites include:

- commercial and industrial sites not currently identified as residential development sites and
- rural exception sites.

Starter homes have prescribed maximum sale values (in 2016 these were £450,000 in London and £250,000 elsewhere, inclusive of a minimum 20% discount). Planning Practice Guidance recommends that local planning authorities (LPAs) should require no Community infrastructure levy (CIL) or affordable housing provision in relation to these dwellings. Any market housing included within these schemes to make them financially viable would, however, incur CIL.

3.9 There are two approaches to the valuation of development land for affordable housing:

- comparison with the sale price of land for comparable development (see section 7) or
- assessment of the value of the completed scheme and deduction of the costs of development (including developer's profit) to arrive at the underlying land value. This is known as the residual method (see section 8).

3.10 In practice, a valuation would typically rely on both techniques, with the comparable method normally being used more as a 'reality check'. The degree to which either or both are used depends on the nature of the

development being considered, the certainty about the costs and factors that relate to affordable housing, and the complexity of the issues involved.

4 What is affordable housing?

4.1 The key starting point is an understanding and appreciation of what affordable housing is.

4.2 In England, the NPPF defines affordable housing as:

'Affordable housing: Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.'

(NPPF Annex 2: Glossary)

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4.3 In Wales the definition of affordable housing is contained within Technical Advice Note 2: *Planning and Affordable Housing* (TAN 2).

'Affordable Housing – housing provided to those whose needs are not met by the open market. Affordable housing should:

- meet the needs of eligible households, including availability at low enough cost for them to afford, determined with regard to local incomes and local house prices; and
- include provision for the home to remain affordable for future eligible households, or if a home ceases to be affordable or staircasing to full ownership takes place,

any subsidy should generally be recycled to provide replacement affordable housing.'

Affordable Housing can be considered in two categories:

- **social rented housing** – provided by local authorities and registered social landlords [RSLs] ... – the latter also referred to more commonly as housing associations (see below);
- **intermediate housing** – where prices or rents are above those of social rented housing but below market housing prices or rents. This can include equity sharing schemes (for example HomeBuy). Intermediate housing differs from low cost market housing, which the [Welsh] Government does not consider to be affordable for the purpose of the land use planning system.'

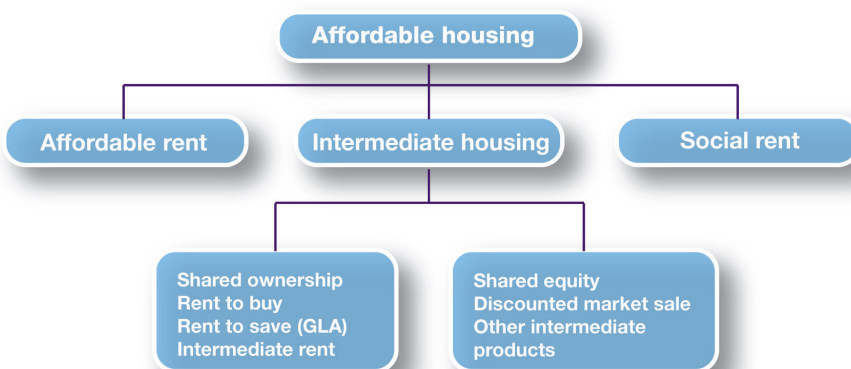
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4.4 To identify eligible households, studies are undertaken at a local level in order to assess housing needs, as well as the relationship between incomes and house prices.

4.5 There are several different tenure types that qualify as affordable housing. Figure 1 shows the three main tenures and types of housing within each tenure type.

4.6 A more detailed explanation of each tenure type and affordable product is contained in section 9 and appendix A.

Figure 1: Tenure types



5 Establishing the facts

5.1 In addition to establishing the type and amount of affordable housing, it is essential that the practitioner has an awareness of the characteristics of the existing site and an adequate knowledge of each of the development components (see section 2 of VIP 12 for a more detailed discussion on establishing the facts).

5.2 The purpose of the valuation will influence the extent of the information that is required.

6 Assessing development potential

6.1 While much of section 3 of VIP 12 is applicable, and the methodology generally used for the valuation of land for affordable housing has many aspects in common with a conventional appraisal of land for private residential development, there are important differences.

6.2 The key differences that affect revenues and costs are:

- the impact of regulation in the affordable housing sector and
- the availability of subsidies in the form of grants or otherwise.

6.3 While a conventional appraisal is not undertaken within a policy vacuum, the constraints on costs and revenue for affordable housing have a greater proportional impact on the end site value.

Planning influences in England

6.4 The impact of national policies has to be considered when undertaking a valuation of land for affordable housing.

6.5 These will be supported by a local housing strategy, local affordable housing policy, and the supporting evidence base required in NPPF, i.e. the Strategic Housing Market Assessment (SHMA), the Strategic Housing Land Availability Assessment (SHLAA) and the economic appraisal of the local affordable housing policy. Particular regard should be given to the RICS information paper entitled *Spatial planning and infrastructure delivery*.

Planning influences in Wales

6.6 Housing, town and country are devolved matters and different considerations will apply:

- Local Development Plans replaced the Unitary Development Plans in 2005. There has been a transitional period to cover their introduction.
- The Wales Spatial Plan (WSP) does not depend so much on a land use base – planning and policy decision-making is required to take account of WSP provisions.

- Welsh policy guidance is found in Technical Advice Notes (TANs). They differ in form and content from the NPPF.
- The Welsh Assembly is seeking powers to suspend Right to Buy in areas where there is a housing need.

Planning constraints

6.7 In a market-led residential appraisal, the scheme make-up will be based on permitted massing, densities, saleability and a unit mix that will generate the optimum development and highest value for a developer. When assessing development potential for affordable housing land it will be necessary to assess not only the issues above but any constraints on the type of housing, for example, dwelling size, type, price and tenure, that may be appropriate to comply with local and national policy on affordable housing and local housing need.

6.8 In England the NPPF recommends such constraints to be identified as plan-wide and overall tenure mix targets and as location or site-specific requirements. The impact of these requirements will depend on the soundness of the supporting evidence base.

6.9 In Wales TAN 2 applies.

6.10 Additionally, 100% affordable housing schemes may not necessarily incur the same planning obligations as a market-led residential scheme and consideration should therefore be given to a local authority's relevant planning policies when assessing the value to be reported.

6.11 A valuation can be undertaken to:

- appraise the value of land for a 100% affordable housing scheme
- assess the value of completed affordable housing units required by a planning obligation as part of a wider development or
- assess the value of land required to be used for affordable housing as a planning condition.

7 Valuing by the comparison method

7.1 An explanation of valuations by the comparison method is contained in section 4 of VIP 12.

7.2 While there are well-understood difficulties with analysing and applying comparison land sales evidence, it is of increased relevance in the context of planning policy viability and competition with market-housing-led developers.

7.3 The NPPF addresses the issue of viability and deliverability of sustainable development as follows:

‘To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.’

(NPPF paragraph 173)

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7.4 As a result the comparable method may be useful where evidence is available as to the levels of competitive return landowners would require to release land for affordable housing development.

7.5 This is particularly relevant in the valuation of rural exception sites, where the assumption is that planning consent for housing would generally not be granted and is only permitted because of the inclusion of high levels of affordable housing or starter homes.

7.6 However, the heterogeneity of individual sites, including the form and scale (and therefore value) of permitted developments can vary widely from site to site, even within the same local authority. Care should therefore be taken to avoid over-reliance on comparable site value. It is more usefully used as a ‘reality check’ on the valuation. Even then the practitioner should be aware of the impact that the availability of grant funding can have on the value of land for affordable housing. Analysis may usefully be expanded by reference to price per habitable room, percentage of gross development value (GDV) or, when densities are similar, the price per acre/hectare.

7.7 In urban areas a key consideration of site value is often the value of the existing or alternative uses for the site, and the level of return a landowner would require to bring the site forward for development. Delivering viable developments of affordable housing in these circumstances is often unlikely without some form of market housing being included in the development by way of cross subsidy.

8 Valuing by the residual method

8.1 The methodology detailed in VIP 12 generally applies, but there can be more complexities in assessing gross development value (GDV) and development costs in a residual appraisal for affordable housing land than for a market-led scheme and these require further explanation.

8.2 There are two main components required to ascertain the value of land for affordable housing by the residual method:

- assessing the potential GDV or revenue of the scheme and
- deducting any costs associated with constructing the scheme.

9 Establishing the GDV

9.1 While the value of the completed development (or GDV) for a market-housing-led residential development is normally relatively straightforward to calculate, often using comparables to work out private sales rates, the process of calculating the GDV for affordable housing is more complex.

9.2 There are three main components that make up the GDV of affordable housing:

- (a) Rental and capital receipts from the affordable units. Income from this source will be from:
 - (i) the capitalised net annual rents (for a given time period at a given discount rate) from the social rented, affordable rented and intermediate rent, and the rental element of the shared ownership units
 - (ii) the capital receipts from initial equity sales and future tranche sales of shared ownership and shared equity
- (b) any proceeds that may be reinvested from staircasing receipts, Right to Acquire (RTA) or external subsidies, such as capital grants and New Homes Bonus
- (c) any internal registered provider subsidy.

9.3 To reflect the many variables in a complex scheme practitioners will typically adopt a discounted cash flow valuation approach.

Affordable housing tenures

Affordable rent

9.4 Affordable rent (AR) is the main type of new housing supply and is let by local authorities or registered providers (RPs) of social housing to households who are eligible for social rented housing. AR is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

9.5 The minimum term of an AR tenancy is two years, but providers are also able to offer longer fixed-term or periodic tenancies. (Note: also available is a one-year starter tenancy, which then converts to a fixed term tenancy providing there are no issues.)

9.6 For both new supply and conversions the RP will be required to assess the market rent (using the definition of the International Valuations Standard Council as adopted by RICS) that the individual property would achieve and set

the initial rent at up to 80% of that level (inclusive of service charges). In most cases these rent levels will take into account housing benefit levels and will be lower than local housing allowance (LHA) levels.

9.7 Exceptionally rents may exceed 80% of market levels in areas where an AR would otherwise be lower than the social rent tenure target rent for the property. The target rent therefore constitutes a 'floor' for the rent to be charged. However RPs are required to document such decisions together with supporting evidence for audit purposes.

9.8 In order to maximise their financial capacity the Homes and Communities Agency (HCA) expects RPs to set rents at up to 80% of gross market rent. In specific circumstances, where an RP can demonstrate that it is appropriate to set rents at less than 80% of gross local market rents while still meeting local needs and delivering value for money, they will be required to discuss such cases with their agency lead investor team. Examples where it might be appropriate could include:

- where a rent at 80% of market rent would exceed the relevant LHA cap or place the rent close to the cap
- where the local rented market is considered to be particularly weak or fragile or
- where rents agreed by London boroughs within the greater London area (GLA) in Local Framework Agreements are not at 80% of market.

9.9 In London the Mayor's Housing Covenant proposes that AR products should be split equally between capped and discounted rents.

- Capped are at 50% of market rent (MR) in the area (or lower quartile MR in high value areas).
- Discounted are the lower of LHA or 80% of MR.

9.10 The maximum annual AR increase from 2015 will be up to CPI + 1%. (Note: from April 2016 rents decrease by 1% p.a. for 4 years.)

9.11 Registered providers are required to rebase the rent on each occasion that a new AR tenancy is issued (or renewed) for a particular property, and to ensure that the rent remains at no more than 80% of gross market rent (inclusive of service charges) as of the date the property is re-let – even if this means the new rent is lower than the rent previously charged.

9.12 The type of tenancy that an RP should use when homes are let on AR terms is not prescribed. Therefore, RPs can offer AR on flexible tenancies, retaining the option to offer assured/secure tenancies if they wish to. The

Localism Act 2011 requires local authorities to produce tenancy strategies, which RPs need to have regard to in determining tenancy types.

9.13 Rents may be at or near market rent under 'pay to stay' provisions where household incomes exceed specified levels.

Intermediate housing

9.14 Intermediate tenure products are aimed at those who can afford to pay more than social rent but less than market price or market rent. The main types of intermediate tenure products are:

- (a) intermediate rent (Note: this will not receive grant funding, but is an affordable product within NPPF definitions)
- (b) shared ownership
- (c) shared equity
- (d) discounted market sale (DMS) (Note: DMS may not be affordable housing unless there is provision for the discount to remain in perpetuity. It does not meet the criteria for HCA funding.) and
- (e) rent to buy (in GLA, rent to save).

9.15 These products are aimed at potential occupiers who qualify within specific income criteria that are linked to local average earnings and housing needs assessments at a local level. Some local authorities will link affordability criteria to a maximum percentage of a household's net income that should be spent on housing costs.

a) Intermediate rent

9.16 Intermediate rent is an affordable housing tenure within the NPPF, but is not eligible for grant funding, and most local authorities seek to have the tenure altered to affordable rent. In order to calculate the GDV for the intermediate rent units the aggregate of the net annual passing rent receivable is capitalised over the period of the cash flow at an appropriate discount rate.

9.17 The passing rent of the unit is usually calculated as the weekly rent that a tenant would be able to afford having regard to local policy on affordability and the proportion of a household's net income that should be spent on housing costs. The income criteria for applicants will be set by individual local authorities to ensure that intermediate rent products are only accessible by those who are unable to afford open market housing.

b) Shared ownership (England only)

9.18 For shared ownership units, the lump sum receivable from the initial equity sale is added to the net annual rent, capitalised at an appropriate discount rate, charged on the retained equity. HCA currently specifies a minimum

threshold of 25% initial equity sale and limits the rent on the retained equity (still owned by the RP) to 3% rent but encourages providers to set rents at no more than 2.75%. The GLA Mayor's Housing Covenant states that rents should be at 2.75%.

9.19 If it is assumed that staircasing will occur and that net receipts will be reinvested by an RP, this capital should be built into the cash flow and discounted back at an appropriate rate as set out in 'RTA and staircasing receipts' below.

c) Shared equity

9.20 Shared equity products comprise an initial equity sale. A combination of the initial equity lump sum receivable and any future staircasing receipts will constitute the total GDV for the scheme as no rent is charged on the equity retained by the RP or local authority.

9.21 The consideration of the impact of staircasing will be as set out in paragraphs 9.39 to 9.44.

d) Discounted market sale (not HCA funded)

9.22 The GDV for discounted market sale will comprise the lump sum receivable from the purchaser of the unit. There is no rent chargeable on the unsold equity and no potential for future staircasing as the unit is discounted from the market value into perpetuity.

e) Rent to buy (in GLA, rent to save)

9.23 HCA is not funding rent to buy under the 2015–18 programme. There is a separate £400m affordable rent to buy fund, announced in Spending Review 13. GLA funds rent to save.

9.24 GDV for rent to buy/save can be calculated on one of two bases, either:

- on the assumption that the unit will continue to be rented in perpetuity and the occupier will never purchase the unit under the shared ownership scheme – in this case the GDV is arrived at by capitalising the net rent
- or through a combination of:
 - the net rent receivable for the initial rental period (five years for HCA and seven years for GLA maximum) and
 - the initial equity sale receipt and subsequent capitalised rent on the retained equity when the unit reverts to shared ownership once the occupier has decided to purchase.

9.25 The initial net rent receivable is capitalised at an appropriate discount rate for an appropriate length of time to reflect the initial rental period. At the point the purchaser decides he/she wants to purchase the unit, the unit is then

valued using the same methodology as for shared ownership, but deferred for the length of the initial rental period.

9.26 If the practitioner assumes that staircasing will occur and that net receipts will be reinvested by an RP, this capital should be built into the cash flow and discounted back at an appropriate rate as set out in 'RTA and staircasing receipts' below.

Social rent

9.27 The rents that can be charged on social rent (SR) units are calculated in accordance with the guidance at levels below market rents. In order to ensure that they are affordable to those in housing need who cannot afford to access market or intermediate tenure housing, the levels vary from one region to another. The rents are indexed based on an assessment of the value of the property in January 1999 and take account of local earnings. The basis of valuation adopted is existing use value (EUJ) as set out in the *RICS Valuation – Professional Standards UK 2014* (revised April 2015) at UKVS 1.3. Rents are inflated at CPI + 1%. (Note: from April 2016 rents decrease by 1% p.a. for 4 years.)

9.28 However, as for affordable rent tenures, rents may be at or near market rent where household incomes exceed specified levels.

Assessment of net rents and capital receipts

9.29 Guidance on rents in England is in the Regulatory Framework for Social Housing published by the HCA.

9.30 In Wales the rent is calculated from guidelines supplied by the Welsh Government.

9.31 Gross rents are the sum of the weekly rent prior to deducting any costs incurred.

9.32 The net rent is calculated by deducting the following costs from the gross rent receivable by the RP:

- management costs
- repairs and maintenance costs
- allowance for voids and bad debts
- annual sinking fund (including allowance for major repairs) and
- unrecoverable service charge.

9.33 In considering these costs, practitioners will need to take account of the approach adopted by RPs. Service charges can vary widely. The reasonable costs of management and maintenance and repairs may be recoverable from the occupiers.

9.34 An allowance for bad debts is factored into appraisals of all products, with an element of rent that is payable (including shared ownership).

9.35 An assumed level of voids should be built into the valuation for all rented products (not usually shared ownership) to cover voids between tenancies. In the case of new affordable products such as rent to buy/save, there will be no existing evidence of typical void periods for the tenure, but assumptions can be made on the basis of typical void rates for comparable tenures (for example, intermediate rent) in comparable areas.

9.36 In order to arrive at the GDV the aggregate of the annual net passing rents is capitalised over the period of the cash flow at an appropriate discount rate reflecting:

- the sustainability of the existing rental income
- the likely rate of future rental growth
- the condition of the dwellings being valued
- the level of outgoing required to maintain the maximum income stream
- the likely performance of the dwellings being valued in relation to their profile and location
- the real cost of borrowing and
- the long-term rate of gilts.

9.37 In carrying out DCF-based valuations, care should be taken to consider market evidence of prices paid for affordable housing, particularly from section 106 schemes. This is to ensure that the assessed values reflect market value.

9.38 If it is assumed that a right to acquire (RTA) will occur and that net receipts will be reinvested by the RP, this capital should be built into the cash flow and discounted back at an appropriate rate as set out in 'RTA and staircasing receipts' below.

Right to acquire (RTA) and staircasing receipts

9.39 In England, the *Housing Act 2004* (as amended by the *Housing and Regeneration Act 2008*) sets out provisions for qualifying tenants housed in properties that are eligible for RTA. The Homes and Communities Agency's (HCA) Capital Funding Guide provides further detail on qualifying tenants and properties that are eligible. In addition, there are proposals extending right to buy for Housing Association tenants (in 2016).

9.40 In Wales these provisions also apply but the Welsh Government is considering suspension of the right to acquire in certain areas.

9.41 The HCA's Affordable Homes Programme (AHP) sets out provisions for the majority of tenants housed in affordable housing to staircase out (i.e. acquire 100% of

the property). The only exceptions are shared ownership schemes for the elderly and rural restricted staircasing schemes.

9.42 Practitioners will need to consider market evidence on whether tenants exercise their right to acquire/right to buy or staircase up/out, and then make a judgment as to how a registered provider will treat these receipts.

9.43 The HCA AHP and the GLA Mayor's Housing Covenant provide guidance on the extent to which an RP is required to reinvest any receipts from RTA or staircasing, and what proportion it is able to use at its sole discretion.

9.44 An RP could use net RTA and staircasing receipts in one of the following ways:

- make an assumption as to the level of net receipt on a scheme and input this into the cash flow in order to underpin an offer for the land or
- make no assumption about this net receipt and just use it for other wider affordable housing business purposes as and when it accrues.

Other receipts

9.45 Ground rents can be charged to occupiers of any affordable tenure or product but they are only recoverable from tenants on particular products (predominantly intermediate). If the ground rent is not recoverable the RP has to pay it itself, which reduces the net rent and hence value. If the RP is subject to a ground rent as head lessee it could seek to recover it through the intermediate product sublease.

9.46 The value of any ground rent receivable is ascertained by capitalising the ground rent at an appropriate yield.

9.47 Other income, such as receipts from occupiers from the sale of car parking spaces, should also be included within the calculation of the GDV.

10 External subsidies

10.1 External subsidies may be available in the form of social housing assistance (SHA) or by some other mechanism such as the new homes bonus. Their availability and quantum is subject to change. When it is available, SHA is a form of government subsidy allocated to registered providers (RPs) to facilitate the provision of affordable housing. Practitioners should assume that no grant is available for section 106 schemes except in specific circumstances – HCA policy is clarified below.

10.2 In England any SHA allocated to a scheme can come from either:

- an allocation straight from the HCA's 2015–18 Affordable Homes Programme (AHP) (in London this is managed by GLA through the Mayor's Housing Covenant (MHC) 2015–18), or other funding initiatives or
- the Recycled Capital Grant Fund (RCGF).

10.3 In Wales the social housing grant (SHG) system is directed by the Welsh Government and differs from that in England.

10.4 There is less grant funding available in the current economic climate than in recent years. The emphasis in providing affordable housing is likely to look to minimise grant funding where possible, and to ensure that the grant provides as many new affordable homes as is possible, in locations where there is maximum demand and need.

10.5 For the 2015–18 AHP, the HCA will continue to pay particular attention to delivery in population settlements of 3,000 or less. In order to classify whether a scheme is rural the HCA relies on the Department for Environment, Food and Rural Affairs government-wide rural definition.

10.6 The AHP aims to increase the supply of new affordable homes in England. The majority of the homes built will be made available as AR with some for affordable home ownership, supported housing and in some circumstances, SR. For further information on how the programme works see the AHP Prospectus.

10.7 Organisations delivering programmes through the AHP must be qualified as HCA investment partners.

10.8 The 2015–18 AHP offers two funding routes:

- a mixed (indicative and firm scheme) approach and
- a firm scheme only approach.

RPs successful in obtaining funding will supplement this by active asset management, for example, by:

- converting empty properties to affordable rent tenure

- market housing cross subsidy
- using existing housing stock income and procurement economies.

Payment will generally be on a per scheme basis: 50% at start on site and 50% on practical completion. The GLA MHC approach is similar, with the emphasis being on value for money, deliverability and strategic fit.

10.9 Given the uncertainty of the availability and level of grant funding, agreement should be reached in assessing the land value as to what assumptions should be made for grant funding. These assumptions should be made clear in the valuation report.

10.10 Providers carrying out developments on land owned by the public sector should aim to minimise other forms of subsidy such as HCA/GLA funding. Where a public body is unwilling or unable to transfer the land for free or for a nominal capital receipt, then it should be willing to share in the risks of development, with the deferred value to be realised over the lifetime of a project.

10.11 RCGF comprises staircasing proceeds from shared ownership, land sales and property sales. These proceeds are then reinvested by the registered provider back into building affordable housing. When a registered provider applies for SHA on a site, any RCGF that they propose to use is treated by the HCA/GLA as 'other public subsidy' and is deducted from the total subsidy required to ensure the scheme is viable. The remaining shortfall in subsidy is filled by SHA.

10.12 The HCA Design and Quality Standards (April 2007) and Housing Quality Indicators no longer apply for the 2015–18 AHP. The HCA prospectus addendum clarifies the technical requirements that bidders will be expected to meet or consider in submitting their bids, based on the outcomes of the Housing Standards Review. Because of the necessary period of transition to the government's preferred approach, bidders will need to make reasonable assumptions about other factors likely to impact on their proposed developments, including in some cases taking into account local authority planning policies, which will be permitted to continue in similar form as a result of the review process (where aligned with outcomes of the Housing Standards Review), or which may remain in force at the time that development comes forward.

10.13 GLA apply the London Housing Design Guide for London affordable housing. Design and quality standards are in the process of review (Technical Housing Standards Review), and are likely to change in the near future.

Practitioners should therefore be aware of the review process and the practical consequences for build costs.

10.14 In addition to the design criteria, the provider must demonstrate that the scheme is deliverable and the unit mix provided will go towards meeting local housing need and regional housing priorities. The provider must also ensure that the use of grant delivers value for money.

10.15 In some circumstances, SHA, and other subsidies, can be put into the cash flow as an additional revenue stream and can be envisaged as a receipt by the provider contributing to the GDV of the scheme (but also having regard to section 11 and paragraph 15.3).

10.16 Viability appraisals are undertaken at a scheme level and the HCA have viability toolkits that assess the need for a grant in delivering a target percentage of affordable housing.

10.17 Local authorities and practitioners also use proprietary and bespoke tools to appraise and negotiate the extent and nature of affordable housing in a section 106 agreement.

10.18 NPPF paragraph 54 states:

‘In rural areas, ... through rural exception sites ... consider whether allowing some market housing would facilitate the provision of significant additional affordable housing to meet local needs.’

Grant funding under the HCA’s 2015–18 Affordable Homes Programme may be available for schemes on rural exception sites. Any proposals will be assessed in accordance with the AHP 2015–18 Prospectus.

11 Section 106 affordable units

11.1 Section 106 agreements: The legal basis of planning obligations is set out in section 106 of the *Town and Country Planning Act 1990* (TCPA 1990). A section 106 agreement is a legally binding private contract between a developer (or a number of interested parties) and a local planning authority, and it operates alongside a statutory planning permission. These agreements are a legal charge on the land, so they transfer automatically with any change in ownership. Such agreements require developers to carry out specified planning obligations when implementing planning permissions and are the result of negotiations on these matters between the two parties. Obligations may be entered into to:

- prescribe the nature of development
- secure a contribution from a developer to compensate for any loss or damage caused by a development or
- mitigate a development's wider impact.

Obligations can be carried out either by providing what is needed to a standard specified in the agreement (such as affordable housing) or by paying a sum to the planning authority, which will then itself provide the facility.

11.2 HCA and GLA MHC expectation is that section 106 schemes will be delivered at nil grant input for both affordable rent and for affordable home ownership. If HCA funding is requested on section 106 sites they would expect, as part of the appraisal, to see evidence that this will result in provision of additional affordable housing that would not otherwise be delivered, including by reference to the local planning authority's viability assessment.

11.3 Further consideration of the factors affecting delivery of affordable housing through section 106 agreements and the methodology for assessing viability is provided in the RICS guidance note *Financial viability in planning*.

12 Internal and cross subsidy

12.1 The primary function of an RP is to provide homes that are affordable for those in housing need. Where they are 'not for profit' organisations they will not, generally, look to develop affordable housing at a surplus in the same way as a developer will build private housing.

12.2 RPs may develop certain tenures of affordable housing (for instance affordable rent) at a loss and may input cash from their own reserves in order to make an offer competitive. This is in keeping with their remit as not-for-profit housing providers.

12.3 The extent to which internal subsidy is included will be determined by a number of additional considerations, mainly business related, particularly where operational efficiencies can be delivered. The level of internal subsidy that an RP may put into a scheme should be carefully considered when calculating the GDV. This is a difficult figure to measure and will vary between RPs according to tenure priorities, market conditions and the specific

opportunity. RPs will be more likely to provide internal subsidy for affordable rent as this tenure is considered less risky than intermediate tenures. The actual figures assumed as internal subsidy should come from market evidence of subsidies provided by RPs for specific tenure types in specific locations.

12.4 In strong market conditions RPs have looked to mitigate any deficit on affordable rent units through cross subsidising (offsetting a loss on one tenure by a surplus on another tenure) revenue from intermediate tenure units.

12.5 Cross subsidy may also be provided by including market housing within the development. This has the advantage of providing a key planning aim of mixed sustainable communities. Surpluses generated from the sale of market housing may cross subsidise delivery of affordable housing with or without other sources of additional subsidy (i.e. internal subsidy or external grant funding).

13 Establishing the development costs

13.1 The development costs taken into account by the RP as developer/land buyer are explained in the following paragraphs. The approach taken to assess costs where the RP is the purchaser of the completed section 106 affordable housing units differs in some aspects and is explained in VIP 12. Much of the development costs section of VIP 12 (paragraph 6.6 onwards) is applicable to this guidance note but further explanation is needed on the treatment of the following items when undertaking a valuation of land for affordable housing:

- (a) Build costs
- (b) On-costs/professional fees
- (c) Section 106 and CIL costs
- (d) Finance
- (e) Tax
- (f) Receipts
- (g) Developer's profit.

a) Build costs

13.2 Construction costs include the cost of building the residential units and any other associated site works or infrastructure costs. They include items such as materials and labour, as well as any remediation costs.

13.3 The HCA's 2015–18 Affordable Homes Programme prospectus addendum clarifies that grant-funding conditions (in relation to technical standards) will adopt the outcome of the 2013 Housing Standards Review (implemented in 2015). Note that, regardless of the availability of grant, an increasing number of RPs have adopted higher quality or technical standards than those required to comply with HCA funding conditions. In London, standards are currently included in the London Plan and London Housing Design Guide and comply with government implementation of the Housing Standards Review.

13.4 In determining relevant build costs, reference should be made to published indices such as BCIS, Spons, the practitioner's past experience of working on comparable affordable schemes, and other sources of information, such as a QS-prepared build cost estimate.

13.5 Any site-specific factors, such as the presence of contamination (and the associated cost of land remediation

relief under HMRC CIRD60050) and the location and design of the scheme (whether predominantly houses or flats, high rise or low rise), that may affect build costs should also be considered.

13.6 Affordable housing that is to be provided without grant funding does not have to comply with the standards detailed above and therefore may be less expensive to construct. Affordable housing provided under section 106 may have to comply with standards set by the planning authority.

13.7 In Wales the Welsh Assembly Government is seeking to achieve at least Level 3 *Code for Sustainable Homes* on all new housing of more than five dwellings. The Welsh Housing Quality Standard has been developed to provide a common standard for the physical condition of all social housing in Wales. This is a minimum standard and will apply to all houses being transferred under stock transfer schemes. Design Quality Requirements are higher standards that RSLs must meet when delivering new units.

b) On-costs/professional fees

13.8 These are additional costs associated with the construction of affordable housing on a site. On-costs differ whether the appraisal is for a 100% affordable housing scheme or a section 106 package of units.

13.9 The reason for the difference is that a number of costs (for example, professional fees) will not be incurred by the RP if it is purchasing the units as part of a section 106 obligation. In this scenario the RP is effectively purchasing a 'turn-key' deal of completed units from a developer, with many of the costs being borne by the developer as part of the construction process.

c) Section 106 and CIL costs

13.10 Nearly all residential developments will be subject to planning policy obligations. These may be under the Community Infrastructure Levy (CIL) or section 106 *Town and Country Planning Act 1990* arrangements.

13.11 CIL: CIL is charged on the net increase in the gross internal area of development on the site. Subject to passing a series of tests, 100% relief is available for affordable housing. Tests relate to the type of product and

provider. The levy on the qualifying net increase varies for each local authority, with separate rates applied for different use classes. In London, there is an additional Mayoral CIL.

13.12 Section 106: the NPPF explains what the tests are for planning authorities to seek section 106 obligations. A planning obligation must be:

- necessary to make the development acceptable in planning terms
- directly related to the development and
- fairly and reasonably related in scale and kind to the development.

13.13 The use of planning obligations must be governed by the fundamental principle that planning permission may not be bought or sold. It is therefore not legitimate for unacceptable development to be permitted because of benefits or inducements offered by a developer that are not necessary to make the development acceptable in planning terms.

13.14 Similarly, planning obligations should never be used purely as a means of securing for the local community a share in the profits of development, i.e. as a means of securing a 'betterment levy'.

d) Finance

13.15 Another important cost in producing a residual land value is the cost of finance. This is taken from market knowledge of the rates of borrowing that RPs are contemporaneously securing in order to fund their developments. The majority of residual appraisals assume that an RP would borrow 100% of the money needed to fund the scheme.

13.16 Use of the capital markets in recent years, including bond issues, is a sign in the shift in funding sources from RPs. In general, RPs are able to secure more favourable rates of financing on their loans than private residential developers as they are perceived by lenders to have government support and provide a predetermined exit route. Also attractive to a lender is an RP's ability to borrow against its large portfolios of existing stock that have relatively secure income streams from tenants, who are often in receipt of housing benefit.

e) Tax

13.17 Stamp Duty Land Tax (SDLT): A relief from SDLT is available where a registered social landlord buys land and property, as long as one of the following conditions is met:

- the majority of the board members of RPs are tenants occupying properties from the social landlord

- the seller of the property is a 'qualifying body' such as a local council
- the purchase is funded by public subsidy.

It is therefore usual for the land to be purchased by the RP, where it controls the development (i.e. when affordable housing is not provided under a section 106 agreement).

13.18 Registered providers will usually agree a contract with a building company for a design and build package to deliver the completed building works.

13.19 VAT: RPs are generally treated differently from private developers or building contractors for both tax relief and recoverability of VAT on fees. There is often a conflict between the two parties' VAT preferences. The developer/contractor may wish to opt to tax the property, so that any VAT can be recovered on the land and related professional fees. However, where the RP cannot register for VAT, and so cannot recover VAT on the purchase price, alternative arrangements may be appropriate – such as described below.

13.20 If the developer is prepared to wait until completion of the development, the first sale of a new dwelling house would be zero-rated, enabling recovery of the VAT incurred. However, from a cash flow point, it is not attractive to wait for payment on completion. The solution is 'the golden brick arrangement'. The golden brick stage differs from project to project depending on design, but is generally taken as being one brick above the foundation course level.

f) Receipts

13.21 When complying with a section 106 package of affordable housing units, RPs may make payments up front and/or during construction. The impact of these on the funding required to finance the scheme, and therefore the value of the land, needs to be considered. The impact will vary between RPs and other providers.

g) Developer's profit

13.22 On an appraisal of land for a 100% affordable housing scheme where a 'not for profit' RP is acquiring the land directly, it should be assumed that as the RP is acting as the developer it will not seek to make a profit. Therefore no allowance should be made for developer's profit.

13.23 Occasionally a 'for profit' RP is the developer. It is reasonable in these circumstances to reflect a profit level based on market evidence in these circumstances.

13.24 An RP may build in a surplus for one tenure type on a scheme, but this will generally be to offset a loss on

another tenure (i.e. intermediate or market housing) being provided at the scheme, and should not be treated as a profit.

13.25 Where market housing is included to cross subsidise delivery of affordable housing, the RP would take into account the uncertainty of achieving anticipated sales prices. This is, in effect, the 'risk' element of 'risk and reward' in the developer's profit requirement.

13.26 For an appraisal of a section 106 package of affordable housing units, a contractor's return on development design and build costs should be assumed to reflect the risk to a developer of the sale to an RP of the section 106 affordable housing units.

14 Affordable housing delivered outside the HCA's regulatory framework

14.1 The NPPF allows for affordable housing needs to be met by organisations that fall outside the remit of the HCA's regulatory framework.

14.2 Section 10 details the HCA compliant method of delivering affordable housing. In England, in order to access grant from the HCA, affordable units must comply with the regulations and restrictions discussed. In Wales social housing grant is only available to RSLs.

14.3 However, some house builders involved in the delivery of affordable housing do not use grants. A number of these companies offer variations on intermediate tenure products but, because they do not need to access grants, there is more flexibility in how value can be generated.

14.4 While similar products to intermediate rent and shared ownership are offered, they are not subject to the same restrictions. For instance, in the case of shared ownership, companies may offer smaller initial equity shares than 25% or may charge a higher rent on the retained equity than the limits imposed by the HCA.

14.5 In the case of a discounted market sale, the GDV is driven by the initial equity sale, in much the same way as the sale of a private unit on the open market.

14.6 While a number of companies offer these products, they depend on the LPA approving their use and they are subject to planning restrictions if these products are intended by developers to comprise all or part of the section 106 affordable housing obligation.

15 Establishing the land value

15.1 Where a comparative approach is followed the land value is determined at an early stage. However, the practitioner may wish to check the result against a simplified residual valuation, or consider if any of the factors explicit within a residual valuation (such as specific planning or site characteristics) have been appropriately reflected in any adjustments that have been made to the comparables.

15.2 The calculation of the worked through residual land value (being a percentage of GDV) is often used to provide a useful check, where other comparable residual land valuations have been made that show up a common range of percentages.

15.3 Where a residual approach has been followed, the practitioner draws together the various elements and, having established the completed value, by deduction of the various costs, determines the maximum price that the RP can pay for the land. It is a matter of judgment as to whether or not this figure represents the market value of the land.

15.4 Care should be taken over how any subsidies are treated in establishing the residual value. In certain cases it may be appropriate for a level of subsidy to be incorporated within a valuation if, for example, its presence is either included as an assumption or special assumption or, in the case of a calculation of worth, it is specific to a particular RP. Where it can be assumed that subsidies will be available to, or supported by, an RP they should be included within the valuation.

15.5 If the valuation is of a section 106 package of affordable housing units, then the overall residual value of the units should be calculated in line with the methodology detailed in this guidance note. This residual value should then be incorporated into the overall scheme appraisal and treated as the GDV (or revenue) that a private developer could expect to receive from an RP for the affordable element of a scheme.

16 Reporting the valuation

16.1 The precise format of the report depends on the instructions given and its purpose but regard must be had to the requirements of VPS 3, complying with IVS 103 paragraphs (a) to (n) and in particular:

- the basis of value must be clearly stated (e)
- all the assumptions made, including any special assumptions, must be stated (i)
- the effect of any assumptions that have a material effect on the valuation need to be commented on and
- the statement requiring comment on the valuation approach is particularly important in the valuation of these assets (l).

16.2 It may be appropriate to present an appraisal based on provable values alongside a sensitivity analysis to show the effect on the land value of differing assumptions as to factors such as:

- projected values (as per VPS 4 paragraph 5, Special assumptions related to projected values)
- availability of grant and
- different levels of an RP's internal subsidy.

The aim is to assist the client in assessing the land value by reference to different potential scenarios of shifts in both market practice (amount of subsidy) and policy changes (availability or otherwise of grant). In these instances and in common with all other valuation exercises, practitioners need to be transparent about their approach and, particularly when reporting for loan security purposes, these elements of the reported value are to be identified separately.

16.3 Should the land have a negative value, even if it is not to be developed, the negative value must be reported in accordance with VPS 3(m).

16.4 If an alternative use can be made of the land that produces a higher value, that should be reported together with any relevant assumptions made in arriving at that conclusion.

16.5 Where the purpose of the valuation is not one where a single figure valuation is required, it is acceptable to agree with the client that a range of values be reported, particularly where the report includes a sensitivity analysis, with an explanation of the reasons for the range adopted.

Appendix A: Glossary of terms

Affordable home ownership

A general term used to describe the various types of funding for home ownership with subsidy, such as the different forms of shared ownership and right to acquire (RTA).

Affordable Homes Programme (AHP)

This is HCA's main funding stream for affordable housing, which aims to increase the supply of new affordable homes in England. The first programme 2011–15 and the 2015–18 programme are broadly similar in approach to grant funding. The 2015–18 programme splits the grant between GLA (£1.2bn) and the rest of England (£1.7bn).

Affordable housing

Affordable housing includes social and affordable rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. Affordable housing should:

- meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices and
- include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.

Affordable rent (AR)

A form of social housing, involving homes being made available at a rent level of up to 80% of market rent (inclusive of service charges); the principal product available as new supply through the Affordable Homes Programme.

Homes let at an affordable rent for a fixed term: the Government Spending Round in June 2013 announced a new scheme designed to help people who need a limited period of support through a sub-market rent before they are able to achieve their aspiration of home ownership.

Capital grant funding

Introduced in AHP 2011–15 to replace social housing assistance (SHA) (see definition below), capital grant is provided by HCA/GLA to fully or partially fund RPs when developing new affordable housing – for affordable rent and affordable home ownership (shared ownership). It is not usually available for section 106 schemes. Nationally, £2.9bn capital grant funding has been made available to fund affordable housing over the three-year programme period, 2015–18.

Code for Sustainable Homes (CfSH)

An environmental assessment method for new homes based on BRE Global's Ecohomes. CfSH contains mandatory performance levels (from 1–6). Note: it is now replaced in England (see Housing Standards Review).

Discounted market sale (DMS)

An intermediate tenure product that sees the registered provider or developer offer the unit for sale to prospective purchasers (who meet specific affordability criteria) at a specified discount to the market value of the unit. This is typically around 80% of market value, with the purchaser buying the whole 80%. In order to ensure that these units are maintained as affordable into perpetuity, when the purchaser sells the unit on, it must be at 80% (or whatever the original percentage purchased was) of the current market value.

The provision of DMS is driven by local policy, where a local authority may accept the provision of this product as part of the affordable housing obligation. Often covenants will be built into DMS leases to ensure that if the property is re-sold in the future the discount to market value is maintained into perpetuity.

Homes and Communities Agency (HCA)

The HCA is the government's housing, land and regeneration delivery agency, and the regulator of social housing providers in England. The HCA has a statutory duty in England (excluding London) to improve the supply and quality of housing. The 2015–18 Affordable Homes Programme aims to increase affordable housing supply by investing £1.7 billion, which will contribute to the delivery of 165,000 new homes by March 2018.

The HCA also provides financial support to help improve the condition of existing stock particularly through the Decent Homes programme and by supporting initiatives such as retrofitting.

Housing benefit

Housing benefit is available for qualifying low income households. It includes an 'eligible rent' – the reasonable rent for a suitable property in the area and includes service charges (e.g. for lift maintenance or a communal laundry), but may be reduced if there is (are) a spare bedroom(s). It excludes costs such as heating, hot water, energy or food.

Housing for rent

Housing for rent covers those affordable housing types that are purely for rent and do not have a sale element to them.

This includes social rented tenure and the intermediate rent and rent to shared ownership types that are intermediate tenure.

Housing for sale

Housing for sale covers those affordable housing types where occupiers have the opportunity to purchase a stake in their home. The types of housing that fall under this category are intermediate tenure and include:

- right to acquire
- equity loan and
- shared equity.

Housing Quality Indicators (HQI)

A former HCA measurement and assessment tool designed to allow housing schemes to be evaluated on the basis of quality rather than simply cost. HCA no longer uses HQI to assess schemes.

Housing Standards Review

The government's Housing Standards Review (2013) concluded that the proliferation of housing design codes should be scaled back in favour of a Building-Regulations-led approach supplemented with a few optional enhancements (i.e. no further approvals for CfSH schemes from 2015; however, existing approved schemes will be built-out as planned).

The new Housing Standards comprise Building Regulations and new national technical standards. Key points to note are:

- a mandatory improvement for home security (e.g. door and window locks similar to the Secure by Design standard) and
- optional enhancements (but subject to local viability testing) for Part M (access), water efficiency and space standards.

Intermediate housing

Housing that is at prices and rents that are above those of social rent but below market price or rents, and that meet local affordability criteria that will enable people unable to access market housing to afford them. The affordability criteria are set by local authorities and are typically related to the amount that a person can afford, as a percentage of their gross income, to spend on housing costs.

Intermediate tenure can include a number of products that have an element of equity sale, or are purely for rent.

Intermediate rent

An intermediate tenure product where an occupier pays a rent to the RP (who retains full ownership of the unit) that is above that of social rent and is more closely related to the market rental value of the unit. How much a tenant should pay is related to specific affordability criteria within a

local authority (i.e. the maximum incomes prospective tenants should have in order to qualify) but the HCA designate that the maximum a tenant can pay is 80% of market rent inclusive of service charge.

Local housing allowance (LHA)

Local housing allowance is housing benefit available to low income households. It is administered by the local authority and helps pay the rent and some service charges to a private landlord. The amount of LHA depends on household income, the maximum rent allowed for properties in the area (assessed by VOA) and the number of rooms the council decides are required. LHA is subject to Benefits Cap.

Mayor's Housing Covenant 2015–18

The HCA statutory duty in England to improve the supply and quality of housing is met in London by the GLA. Advice on delivery of affordable housing and provision of grant funding is provided in the Mayor's Housing Covenant 2015–18.

National Planning Policy Framework (NPPF)

The NPPF replaced *Planning Policy Statement 3: Housing*. The NPPF, in Annex 2: Glossary, includes a definition of affordable housing split into social rented, affordable rented and intermediate housing.

Planning Practice Guidance (PPG)

This follows on from the NPPF and covers a number of elements that need further explanation. It sets out key principles in understanding viability in plan-making and decision-taking.

Recycled Capital Grant Fund (RCGF)

An internal fund within the accounts of an RP used to recycle historic grant receipts in all their forms, such as HAG/SHG/SHA, in accordance with HCA/GLA1 policies and procedures.

Registered provider (RP)

Any organisation, not for profit and for profit, registered with the regulator as a provider of social housing. This can include housing associations, local authorities and private companies.

Registered social landlord (RSL)

A housing association or a not-for-profit company registered with the regulator to provide social housing. RSLs registered immediately prior to 1 April 2010 became registered providers (RPs).

Rent to buy/rent to save (GLA)

An intermediate tenure product where new-build homes are rented on an intermediate rent basis for up to a

maximum of five years, after which the occupier has the opportunity to purchase the home through the shared ownership scheme.

Registered providers (RPs) offer a number of different incentives to encourage the occupier to purchase at the end of the rental period.

These options are:

- a percentage of the rent that the occupier has paid is returned to him/her to help use as a deposit
- the RP matches the savings that an occupier has accumulated over the rental period in order to use as a deposit and
- the RP gives the occupier a lump sum (according to length of occupation) to help with a deposit.

Right to acquire (RTA)

Under the *Housing and Regeneration Act 2008*, specified tenants of specified RP-rented stock developed with SHG/SHA (but not HAG) have the legal right to purchase their home.

Section 106 agreement

A contract entered into by a local planning authority and a property developer under section 106 of the *Town and Country Planning Act 1990*, under which the developer agrees to provide defined facilities, such as affordable housing, as part of the proposed development. Such planning obligations are often used as a legally-binding agreement between a local authority and developer to deliver additional affordable social housing within a development.

Shared equity

Similar in principle to shared ownership, an intermediate tenure product whereby an occupier purchases an initial percentage (or tranche) of equity in their home. Shared equity differs from shared ownership in that the occupier does not pay rent on the equity they do not own.

Shared ownership

This is an intermediate tenure product whereby an occupier purchases an initial percentage (or tranche, usually between 25–75%) of equity in their home and pays an annual rent as a percentage of the retained equity to the RP. Occupiers will have future opportunities to purchase additional tranches (known as ‘staircasing’) from the RP. The occupier will often have the opportunity to staircase up to 100% ownership, but some shared ownership occupiers are capped at a maximum of up to 80% ownership by restrictions in section 106 agreements (especially in rural locations).

Social housing

Low-cost rental accommodation and low-cost home ownership as defined by sections 68–70 and 77 of the *Housing and Regeneration Act 2008*. Aimed at people whose needs are not met by the commercial market.

Social housing assistance (SHA)

Prior to AHP 2011–15, a capital grant provided by HCA to fully or partially fund RPs when developing social housing as defined within the *Housing and Regeneration Act 2008*. SHA was paid under section 19(6) of that Act and replaced social housing grant paid under section 18 or section 27A of the *Housing Act 1996*.

Social housing grant (SHG)

A capital grant provided by HCA to fully or partially fund RPs who were formerly RSLs or those paid via a grant agreement. From 1 April 2010 no new allocations of SHG were made; subsequent allocations of capital grant were paid as social housing assistance (SHA), see definition above.

Social housing grant (Wales)

A grant given to registered social landlords by the Welsh Government. The grants aim to provide new affordable housing for rent or low-cost home ownership.

Social rent

This is rented housing that is owned and managed by local authorities and RPs. The rents are regulated by the HCA in order to keep them affordable and differ according to the unit size, market value of the unit and relative earnings.

Staircasing

Staircasing is the process of purchasing additional shares of a shared ownership property. Depending on the terms of the shared ownership lease, there may be restrictions on the timing and amount of staircasing.

Starter homes

Development of housing being sold to first time buyers under 40 at a discount of at least 20% of market value and at less than the price cap of £250,000 (or £450,000 in London). There is a minimum time limit on unit re-sale of five years. Development will usually be on brownfield or rural exception sites. Brownfield exception site policy comprises under-used or unviable industrial and commercial land that has not been currently identified for housing.

Supported housing

Supported housing is accommodation provided for a specific client group to enable them to adjust to independent living or to enable them to live independently. The term supported housing applies to purpose-designed or designated supported housing.

Target rent

This is the rent at which RPs let SR properties. Target rents increase by up to CPI + 1% (but note the 1% annual decrease for four years from April 2016). Guidance on rents is provided in *Rents in Social Housing 2015–16*.



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