

Sevenoaks District Council Affordable Housing Company Business Case Addendum

Prepared by Mark Baigent Consulting Limited (MBCL) March 2018

This addendum has been produced following a scheme appraisal for a specific SDC-owned site. The note reports on remodelling of the affordable homes income, costs and returns based on the specific scheme appraisal.

The initial modelling (December 2017) assumed an investment in 10 x 2 bedroom affordable rented homes. At that stage, the assumed costs used were £100,000 open market land value per home and £200,000 development costs per home, totalling £300,000 total scheme costs per home, i.e. £3 million for the scheme of 10 homes when full land value is included.

SDC has now procured a specific site viability appraisal (February 2018) for a proposed development of 24 flats, with an assumed mix of 10 affordable and 14 market sale homes. This appraisal delivers a land value c.£2 million and a developer profit c.£860,000 (which is presumed to be a return to Quercus 7, SDC's existing commercial property development company). The appraisal assumes sale of the 10 affordable homes for c.£2.375 million.

This translates to a unit cost of £237,500 per affordable home (i.e. £62,500 cheaper than the initial AHC modelling assumption). The site is in the High Weald BRMA so affordable rents are assumed at £176.56 per week for 2 bedroom flats (whereas the initial modelling assumed development of affordable homes in the cheaper North West Kent BRMA, i.e. £23.54 per week less income per unit).

Thus there is consequently an improvement in the Affordable Housing Company business modelling on the basis of delivering 10 affordable rented homes as part of a 24 home mixed tenure development, at a lower unit cost (due to cross-subsidy from market sales) and with a higher rental income due to the site location.

Using the same other assumptions as the earlier business case, the final option (G) has been remodelled using the mixed tenure site specific cost and income figures, as follows:

Option G(m)

	£M
Land at full market value	£2.000
Development costs (incl. developer profit)	£5.175
Total scheme costs / GDV	£7.175
Price of affordable units to AHC (CAPEX)	£2.375
Grant (s106 funds) 100% of CAPEX	£2.375
Debt 0% of CAPEX	£0
Effective grant rate	100%

The remodelling produced the following outputs:

Option	G(m)
Debt	£0m
Effective grant rate	100%
Breakeven year	Yr1
Surplus/loss (Y1-Y40)	£1.2m

The table below shows how this option performs at snapshot stages during the 40 year business plan, including both Management and Maintenance costs and the estimated Affordable Housing Company running costs.

Option G(m)	Year 1	Year 11	Year 21	Year 31	Year 40
Income	£87,210	£106,309	£129,589	£157,969	£188,787
Debt	£0	£0	£0	£0	£0
M&M costs	£17,500	£21,333	£26,004	£31,699	£37,883
AHC costs	£50,000	£60,949	£74,297	£90,568	£108,237
Surplus/loss	£19,710	£24,026	£29,288	£35,702	£42,667

As with the initial modelling, this new option has been sensitivity checked for the impact of CPI+1% rent inflation (whereas the base model was CPI only). This resulted in a continued breakeven at Yr1 with the 40 years surplus increasing to £2.5m.

The AHC running costs would not be expected to scale up significantly as more homes are developed; therefore subsequent development opportunities would be expected to deliver a more substantial surplus, assuming continued 100% effective grant rate using s106 sums.

Conclusion

This brief addendum demonstrates the improved surpluses that can be achieved through delivery of affordable homes as part of a mixed tenure development site. This note focuses on the position for the proposed Affordable Housing Company. It is also important for SDC to consider the risk profile for Quercus 7 and put in place an appropriate agreement between Q7 and the AHC to maximise the cash flow benefit for Q7 whilst shielding the AHC from the site development risk associated with development for market sale. In effect, the AHC would be in a position to buy "off-plan" from Q7, with a deposit payment at an early stage and potentially stage payments through the construction period as the affordable homes are built. This will reduce the level of peak debt taken on by Q7 during the construction phase, ahead of market sales receipts being secured to clear the development debt and return profits to Q7. This approach would enable Q7 to benefit from the debt-free 100% grant model proposed for the AHC, whilst SDC will benefit from full market value for the land disposal.