

Appendix C - A transcript of Alison Hadden's presentation on Development of new Housing.

Development of New Housing by Housing Associations - Alison Hadden

This presentation is about how Paradigm provides new housing. Housing Associations can be simply described as having a very big mortgage. The rent is the salary to pay the mortgage. The equity in the property was the 40% of cost which was paid by the government.

Social Housing Model

- Target Rents
- Grant freely available – even for Section 106 sites
- Bank funding freely available
- Low Rates <1% margin
- Only Problem, lack of land

How the numbers work – Social Rent

- Costs (total cost of new house say land, build and on costs): £140,000
- Income:
 - Rent say £100pw x 52 £5,200
 - Less repair managed cost - £1,200
 - Net Income £4,000 pa
- Capitalised value of income
 - Bank borrowing 5% £80,000
 - HCA Grant £60,000
- Total £140,000
- Shortfall Zero

Recession

- Reduced bank borrowing available
- Bank re-pricing
 - Cash calls
- RP turn to bond issues

- More expensive money
- Greater security needed (Charging)

Since the recession the shortfall for housing associations is no longer zero.

Affordable Rent

- Government reduce expenditure
- Less Grant – 60% cut in grant from Department of Communities and Local Government
- Value of existing stock falls
- New homes secured against existing stock instead of new build
- Affordable Rent 80% of the market rent – Paradigm Housing are not charging above the Local Housing Allowance.

Affordable Rent

- Increase rental income
- Increase borrowing
- Existing bank covenant stretch
 - E.g. Cost to value ratios
 - Interest income ratios
- Limited capacity to borrow more

How the numbers work – Affordable Rent

- Cost: (new house) £140,000
- Income:
 - Rent say £900 pcm or £200 pw
 - At 80% £160pw
 - Less service charge £10pw
 - £150pw x 52 £7,800

• Less repair management more bad debt voids etc.	-£1,600
• Net income	£6,200
• Capitalised value of income:	
– Band Bond borrowing 7%	£86,800
– Grant	£40,000
• Total	£126,000
• Shortfall internal resources	-£14,000

Since the recession housing associations now have shortfalls to cover, which Paradigm currently self-fund. This is not a viable long-term solution.

Other Constraints

- Planning
- Land availability
- Prices increasing
- Poor return for REIT

A lot of government grants end in 2015, all building work needs to be completed by 2015 or Housing Associations lose the funding. There is also a current shortage in bricklayers and bricks.

Future of Development

- Affordable Rent not sustainable long term
- RP Need:
 - Conversion cash
 - More efficiencies
 - Cross subsidy
 - LA money/grant
 - LA land
 - Innovation/Joint Ventures