NHF - SORP Sounding Boards
Social Housing Valuations

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Disclaimer – please note:

- These slides express the views of those who presented at the various Sounding Board events on impairment and valuation and are intended to be a helpful contribution to the debate rather than a definitive record or guidance on these issues. They have not been reviewed by the SORP working party as a body and therefore should not be regarded as a substitute for the SORP itself once this is published later this year, nor as a substitute for independent professional advice.
Bases of Valuation

RICS Valuation Standards ‘The Red Book’

**UKVS 3.9 Secured lending valuations for registered social housing providers**

Valuations of a registered social housing provider's housing stock for secured lending purposes shall be on the basis of either:

*Market Value (MV)*; or

*Existing Use Value for Social Housing (EUV-SH).*
Market Value (MV) – **VPS4 1.2**

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Existing use value for social housing (EUV-SH) is the estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion - subject to the following special assumptions:

- that the property will continue to be let by a body pursuant to delivery of a service for the existing use;
- at the valuation date any regulatory body in applying its criteria for approval, would not unreasonably fetter the vendor’s ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body’s requirements;
- properties temporarily vacant pending re-letting would be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession; and
- any subsequent sale would be subject to all of the above special assumptions.
Existing Use Value – Social Housing - background

- EUV-SH – originally created for stock transfers
- Based on principles of Market Value, as explained
- What another RP would pay to acquire the stock (before there was a market)
- Monetised assets that were not then traded – value, not worth
- Retained within the regulated environment
- Existence of a regulator is key – external control
- HCA won’t consent to mass disposal on any other basis
EUV-SH – position today

- Stock rationalisation market has emerged – immature, but growing
- Trades on basis of EUV-SH – what regulator will consent
- Some hidden distortions – but fundamentally true
- “Prudent lotting” is key to market success and best value
- Not how balance sheet valuations are generally done today
Actual market evidence

- Sale of 15,000 units, £1.25 bn
- Suggests RP market will pay in excess of “traditional EUV-SH” in certain circumstances
- Last year – 3,500 units, wide range of values
- Body of evidence only recently established on sufficient scale
- As valuers, we have to have regard to this market evidence from now on
- Little or no impact on bulk portfolios
- Main impact on EUV-SH of smaller lots
- Sales are only to RPs within RP market
- Evidence complies with EUV-SH definition
Single portfolio or lots?

This page provides access to detailed information by portfolio, lot and scheme. The key resource for pricing is the Master Data Sheet, which can be downloaded in full from this page. Extracts can be downloaded by lot or scheme from the respective pages.

Bidders contemplating acquiring the entire portfolio will need to consider the obligation to accept a transfer of the entire staff complement - listed here, along with Terms and Conditions of Employment and Job Descriptions. The staff associated with each lot are listed on each lot page.

A successful bidder for the entire property portfolio will also be expected to acquire the Regional Office and the DLO.

Also included are samples of the Tenancy Agreements and Leases and a briefing on the Nominations Arrangements that are in place. Nominations Agreements are supplied at Lot level.

Support services to Assisted Living Schemes are supplied by Serite. The income and expenditure is reflected in the Master Data Sheet and Scheme Budgets. The agreements with the Supporting People Authority are supplied at Lot level.
Evidence of sales from stock rationalisation

Spread of Bids by lot and EUV-SH

Max Bid
Min Bid
EUV-SH Pricing

Price Per Unit
Lots sorted by EUV-SH per unit
Are there any alternatives?

- Market Value, assuming vacant possession?
  - Would not reflect reality / not permitted by regulator on any scale
- Market Value, subject to tenancies (MV-T)?
  - Only accessible by mortgagee in possession – outside grasp of regulator
  - No market evidence at all
- Depreciated replacement cost (DRC)?
  - Method, not basis
  - No relationship between cost and value
  - Against RICS guidance – last resort when there is no market
- EUV-SH is our only choice as a basis of valuation
What is EUV-SH?

• So it has to be EUV-SH - but what kind of EUV-SH?
• Not a challenge to the fundamental basis of valuation
• Rather, a matter of the assumptions we are allowed to make
• Are we valuing at portfolio / stock level, or scheme level?
• Are we building up the aggregate valuation, or breaking it down?
• Implications of market evidence are clear
• As are implications of required impairment approach
• Nothing preventing an “asset level approach” for accounts valuations now
But there will be challenges

• Not the accepted way of doing things!
• Consistency of approach would be desirable across valuations for different purposes
• But it’s all a matter of our instructions…
• What approach / assumptions are we instructed to adopt:
  • For accounts valuations?
  • For loan security valuations?
• Funders unlikely to accept step change increase in asset values
• Or to accept the consequences
• But head in the sand approach becomes increasingly untenable
• Also questions of practicality – more to come
Impairment triggers

- FRS 102 – important considerations for valuers anyway
- Change in market conditions (potentially braced for greater volatility)
- External changes – government intervention (eg, change in rent regime)
- Change in financial markets – affecting discount rates
- Physical obsolescence
- Physical condition
- Decline in operating performance
- All should be captured in considering carrying value and realisable value
Cash generating units

- How far does “independence” have to go in practice?
- Adjoining estates or schemes under common management / contracts?
- Go too far, and assets could become unsaleable (see evidence)
- Prudent lotting not necessarily consistent with single schemes
- And underlying definition requires “best price”
- BUT – CGUs don’t require us to go to that level
- Flexibility to consider assets in judged lots
- Would valuers have access to reliable data to achieve sufficient granularity?
- Experience suggests often not
- Significant impacts on RPs and valuers – time, trouble, cost
Affordable Rents

- Valuation background post-introduction somewhat controversial
- Some funders remain resistant
- Should be valued separately from social rents
- Complete lack of transactional evidence so far (not surprising)
- Snag: HCA investment contracts – not a level playing field
  - Vary between RPs
  - Confidential
  - Do not “run with the land”
- Some purchasers might pay more; others less?
Market issues

• EUV-SH valuations should adhere to principles of definition
• Not a calculation of worth (and not therefore “value in use”)
• Must be linked to the market
• Not everything is saleable
• Distorting factors – special purchasers, tenure change, asset management
• Similar issues in all markets to degrees, but probably greater liquidity?
• Is “planned internal subsidy” identifiable, or part of “market value”?
• EUV-SH “plus a bit” or just EUV-SH properly assessed?
Is the market large enough for our purpose?

- How far can we go with limited evidence?
- Can we infer big market from small – issue largely for auditors?
- Same question must arise for property companies / residential landlords
  - Look at aggregate Market Value assuming individual asset sales
  - No discount for flooding market or quantum of portfolio
  - Reality would be different, but gets ignored by valuers and auditors
- If not market-driven realisable value, what else and on what valuation rationale?
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