

# Developing social housing with Affordable Rent



Software specialists Shelton Development Services (SDS) has been helping housing associations model internal subsidy generated through the Government's new Affordable Rent offer. Here, chairman David Shelton, discusses how it will work.



**T**he Homes and Communities Agency (HCA) has published its investment model for delivering new affordable housing between now and 2015.

For many associations there is the very real prospect that Social Housing Grant as we know it will become as rare as hens' teeth. Without grant the whole development cost will have to be funded by the association.

By charging rent on a proportion of re-lets at up to 80 per cent of market rent, additional income will be generated and this has to be used to subsidise new social rented housing. The association will be expected to enter into an agreement with the HCA requiring it to deliver an agreed programme of development, in return for being allowed to charge Affordable Rents.

The idea of internal subsidy is not new to associations. Nearly all social rented schemes currently require some element of internal subsidy to make them viable. This comes either from surpluses made on schemes developed for sale, or from existing capacity within the association's

business plan. Willingness to subsidise schemes varies greatly across associations, with some refusing (or being unable) to subsidise, whilst others being prepared to contribute tens of thousands of pounds per unit. Internal subsidy cannot be equated with conventional grant. Internal subsidy arises over the long term as the higher rents are received.

For those associations looking to boost subsidy via Affordable Rent, it will mean additional borrowing, higher interest costs and higher gearing, all adding up to higher risk. For some associations this higher risk will be too much to embrace.

Associations are currently assessing the development capacity which they can generate from switching some re-lets to the new affordable rent tenure. SDS has been helping associations with this and has produced a simple model to give some indication of what that capacity might be. The assessment is made from two perspectives: firstly, what is the Net Present Value (NPV) of the increase in net rent over the life of the business

plan and secondly, how many additional units (at the new rent) are needed to repay the increased private finance.

The capacity is sensitive to a number of inputs. Key amongst them is the size of the association's general needs stock, the potential rate of re-lets and, in particular the extra net rent that can be generated.

Many in the sector have raised concerns that borrowing potential for associations developing in the North will be drastically different to that in the south. This is because in many parts of the North, social rents and Affordable Rents will be similar. Thus, the additional revenue that will result from charging 80% of market rents may be insufficient to generate resources to build new homes.

**“**FOR MANY ASSOCIATIONS THERE IS THE VERY REAL PROSPECT THAT SOCIAL HOUSING GRANT AS WE KNOW IT WILL BECOME AS RARE AS HENS' TEETH  
David Shelton

The main difference between these areas will be the increase in the net rent generated from the new tenure. Net rent is defined here as the rent after deducting rent allowances. Some associations are concerned that the new arrangements will increase their housing management costs and incur higher bad debts. Such considerations need to be reflected in the extra net rent which will be received. In addition, the increase will need to be adjusted for the cost of services, as the new rent is deemed to include any service charges the tenant might have to pay.

Alternative sources of subsidy may be available to the association. Amongst these could be grant from the local authority, increased surpluses through stock disposal and asset management strategies, and of course surpluses from schemes for sale.

The last of these is the riskiest of the options. Speculative development requires private sector development experience and knowledge. Dwelling design, specification, mix optimisation and marketing techniques are all different from more typical social housing requirements. Associations attempting private sales without this knowledge will, sooner or later, wish they hadn't. ■