

## Using the ProVal Private Finance Module Version 9.09 to Appraise Schemes for Rent to Homebuy.

In the current poor sales market a number of RSLs have been looking to appraise traditional shared ownership schemes, into a situation where the properties are initially rented (at sub-market rents) with a first tranche of the equity being sold some time into the long term cashflow. On 16 July the HC announced a pilot advocating this approach<sup>i</sup>.

This kind of scheme can be appraised in the Private Finance module, but as that module was not specifically designed to handle this scenario, you need to treat the units in a special way. The future update of ProVal due next year will offer this as a standard option.

Note that this cannot be appraised in the LCHO module only. It would be necessary to do a General Needs appraisal and consolidate it with a LCHO appraisal. However, further mathematical adjustments would be necessary and so we recommend that you contact SDS for instruction.

This Application Note has been updated from the Note which explained how this kind of appraisal should be carried out in Version 9.08 of the Private Finance module. The principal difference in Version 9.09 is the way the grant is set, the treatment of the first tranche sale and further staircasing events.

### Example

A scheme of 10 units starts out being developed for rented tenure and then 50% of the equity is sold at the end of year 5, with further staircasing thereafter.

It is necessary to "fool" the appraisal into seeing the units as shared ownership, but with no equity being sold at the outset. Setting the equity to be sold at the outset to 0% will not work, because it will be assumed that the units must be for normal rented tenure and therefore cannot be staircased.

#### Step 1 - Section A

Enter the units details as usual, but at the line **Sales % at Outset** enter the value **0.0001%**. In the example below this is illustrated in Column A. After entering it will show as 0% (as shown in Column B) but the actual value will be preserved.

| A Unit Details           |            |            |   |
|--------------------------|------------|------------|---|
|                          | A          | B          | C |
| Unit Description         | 1b2p Flat  | 2b3p Flat  |   |
| Net Area                 | 45.00      | 60.00      |   |
| Bedrooms                 |            |            |   |
| Persons                  |            |            |   |
| Units                    | 5          | 5          |   |
| Commercial - y?          | n          | n          |   |
| Flat (not house) -y?     |            |            |   |
| Shared Accom. - y?       |            |            |   |
| Habitable Rooms          |            |            |   |
| Storeys                  |            |            |   |
| Value at Jan' 1999       |            |            |   |
| Market Sales Value       | 110,000    | 125,000    |   |
| HC Product Type          | NB Homebuy | NB Homebuy |   |
| Catalyst Dev. Type       |            |            |   |
| Other Description        |            |            |   |
| Sales % at Outset        | 0.00001%   | 0%         |   |
| Res' Sold Equity         | 0          | 0          | 0 |
| Res' Unsold Equity       | 110,000    | 125,000    | 0 |
| Initial Commercial Sales | 0          | 0          | 0 |

This very low value effectively means that no equity is received at the outset.

## Step 2 - Section C

Grant can be defined using the Product Type table, either Per Unit or Per Person. The grant will automatically be entered into the appraisal. To choose between grant per unit and grant per person, use the drop-down box as shown below.

Inputs in the product table must be consistent, i.e. define grant for all product types either Per Unit, or Per Person.

### C Development Subsidy

|                                    |             | Total          | Av'ge per Res' Unit | Average per Person | % TSC as Section F |                    |                |
|------------------------------------|-------------|----------------|---------------------|--------------------|--------------------|--------------------|----------------|
| Received during development period |             |                |                     |                    |                    |                    |                |
| As Defined by Product Type Table   |             | 200,000        | 20,000              |                    |                    | Sources of Subsidy |                |
| Input by %                         |             | 0              |                     |                    |                    | HC                 | 200,000        |
| Input by Sum                       |             |                |                     |                    |                    | LA                 |                |
| Other Sum                          | Description |                |                     |                    |                    | RCGF               |                |
|                                    |             |                |                     |                    |                    | Total Other        | 0              |
| <b>Total</b>                       |             | <b>200,000</b> | <b>20,000</b>       |                    | <b>20.00%</b>      | <b>TOTAL</b>       | <b>200,000</b> |

#### HC Regional Allocation per Unit

|                   |        |                |
|-------------------|--------|----------------|
| Rent              | 52,952 | As at Oct-2008 |
| NB Homebuy        | 18,939 |                |
| Intermediate Rent | 0      |                |

Confirm Grant to Set Aside When Staircasing  
Expected SHG to be Set Aside 200,000

Or, Enter Revised SHG to Set Aside

When using this table for either NB Homebuy, or KW NB Homebuy, the total grant attributable to those units alone will be shown as the *Expected SHG to be Set Aside*. In the above example this is shown as £200,000. If the total grant is not correct (as will be the case when an alternative grant input method is adopted, or when additional grant is entered) then the user must enter a **Revised SHG to Set Aside** in the cell below. This input should be equal to the total grant attributable to the LCHO units only.

When entering staircasing in the Shared Equity Report, grant set aside will now be handled automatically. However, if circumstances require that a manual calculation of the receipts to set aside is required (e.g. when sharing receipts with a developer) this option is still available.

## Step 3 - Section H

Check the inflation assumptions on rent and market sales values are appropriate. For example you may not want to inflate the initial rent at RPI + 0.5%, or the market values at historic levels.

### H Inflation

Base Inflation Rate  Inflation is applied 1

#### Inflation Margins & Periods for Income

|                                |              | Margin on Base Rate | Effective Inflation Rates |
|--------------------------------|--------------|---------------------|---------------------------|
| <b>Residential Tenant Rent</b> |              |                     |                           |
| Period 1                       | Year 1 to 5  | 0.00%               | 2.50%                     |
| Period 2                       | Year 6 to 45 | 0.50%               | 3.00%                     |

#### Commercial Rent - n/a

|              |  |  |
|--------------|--|--|
| Year 1 to 45 |  |  |
|--------------|--|--|

#### Ground Rent

|          |              |  |       |
|----------|--------------|--|-------|
| Period 1 | Year 1 to 45 |  | 2.50% |
|          |              |  | 0.00% |

#### Services (Charges & Costs)

|          |              |       |       |
|----------|--------------|-------|-------|
| Period 1 | Year 1 to 45 | 0.00% | 2.50% |
|          |              |       | 0.00% |

#### Market Sales Values (Residential)

|          |              |        |       |
|----------|--------------|--------|-------|
| Period 1 | Year 1 to 2  | -2.50% | 0.00% |
| Period 2 | Year 3 to 45 |        | 2.50% |

## Step 3 - Section I

Set the revenue periods and costs as shown below. The first period needs to be set to Year 5 because the first tranche sale will occur at the end of Year 5, after which different costs will apply. Note that if these units are being mixed in the appraisal with social rented units then all dwelling types must have all values set for both periods. Note that the Major Repairs sinking fund also needs to be adjusted.

| RSL Management |    | Per Unit Per Annum |     |
|----------------|----|--------------------|-----|
| Year 1 to      | 5  | 250                | 250 |
| Year 6 to      | 45 | 150                | 150 |

  

| Maintenance |    | Per Unit Per Annum |     |
|-------------|----|--------------------|-----|
| Year 1 to   | 5  | 200                | 200 |
| Year 6 to   | 45 | 0                  | 0   |

  

| Services Cost |    | Per Unit Per Annum |     |
|---------------|----|--------------------|-----|
| Year 1 to     | 5  | 0                  | 0   |
| Year 6 to     | 45 | 520                | 520 |

  

| Reinstatement Cost |    | Per Unit Per Annum |  |
|--------------------|----|--------------------|--|
| Year 1 to          | 45 |                    |  |

  

| Another Allowance |    | Per Unit Per Annum |  |
|-------------------|----|--------------------|--|
| Year 1 to         | 45 |                    |  |

  

| Voids & Bad Debts |    | % of Gross Rents & Service Charges |       |
|-------------------|----|------------------------------------|-------|
| Year 1 to         | 5  | 2.00%                              | 2.00% |
| Year 6 to         | 45 | 0.00%                              | 0.00% |

  

| Major Repair Sinking Fund Options |   |              |              |         |            |
|-----------------------------------|---|--------------|--------------|---------|------------|
| <b>Option 1</b>                   | % Selection                                 | % User Input | Year 1 to 5  | 0.80%   | on 650,000 |
|                                   |   | User Input   | Year 6 to 45 | 650,000 |            |
| <b>Option 2</b>                   | Per Unit, Per Annum, Com. Rented Units Only | Year 1 to    | 45           |         |            |
| <b>Option 3</b>                   | Per Unit, Per Annum, Res. Rented Units Only | Year 1 to    | 5            |         |            |
|                                   |   | Year 6 to    | 45           |         |            |
|                                   | Sinking Fund at Year 1                      |              |              | 5,200   |            |
|                                   | Defer the Start of the Sinking Fund to Year |              |              |         |            |

## Step 4 - Section L

Set rents in two separate periods following the same logic as explained in Step 3.

| Preferred Yield % on Unsold Equity (Shared Equity Units) |         | 2.50%   |
|--|---------|---------|
| Residential Shared Equity units only                     |         |         |
| Unsold Equity Share %                                    | 100.00% | 100.00% |
| Cost Rent % of u/s Eqty                                  | 5.70%   | 6.69%   |
| Rent p.w at 2.50% Yield                                  | 52.88   | 60.10   |

  

| Set Residential Tenant Rents per week as at Year 1 up to 45 years |    |       |        |
|---|----|-------|--------|
| Year 1 to   | 5  | 90.87 | 102.98 |
| Year 6 to   | 45 | 52.88 | 60.10  |

  

| Set all service charges received per week |    |       |       |
|---|----|-------|-------|
| Year 1 to                                 | 5  | 0.00  | 0.00  |
| Year 6 to                                 | 45 | 10.00 | 10.00 |

  

| Set Ground Rents received per annum |    |  |  |
|-------------------------------------|----|--|--|
| Year 1 to                           | 45 |  |  |

Note that the rent has been set to an intermediate rent for the first 5 years and from year 6 at 2.5% of the unsold equity. At Year 1 this shared ownership rent will be incorrect, because the unsold equity at Year 1 is virtually the full sales value. However, when the first tranche sale is entered (as explained in the next step) the rent will get reduced in line with the remaining unsold equity, i.e. 2.5% on 50% of the sales value.

## Step 5 - Shared Equity Report

Go to Section F in the Shared Equity Report. Set the first tranche sale at Year 5 to say 50%.

### F Staircasing

On staircasing, all allowances (except Service Costs & Major Repairs) reduce pro rata to the Equity Remaining  
Staircasing events are assumed to take place at the end of the year. Inflation is applied from Year 2.

|  |           |      |  |   |
|--|-----------|------|--|---|
|  |           |      | <b>Confirm Set Aside for SHG in Long Term Cashflow (LTC)</b> |   |
| Total Value of Shared Equity Units     | 1,175,000 |      | Grant Total Identified to Set Aside                          | 200,000   |
| Total Shared Equity Sold at Outset     | 1         | 0%   | Receipts in LTC will be reduced for Set Aside to             |   |
| Total Unsold Equity at Start of Year 1 | 1,174,999 | 100% | <b>Manually Adjust S/csg Receipts in LTC, y/n?</b>           | <input type="text"/>  |
| Last Year of Staircasing               | 5         |      | Total Receipts 784,587                                       | Ignore First S/Csg Event for SHG Set Aside, y/n? <input type="text" value="y"/> |
| Unsold Equity at start Year 6          | 784,587   | 50%  | Receipts in LTC 784,587                                      | 0 Unused Receipts (Set Aside)   |

| Year                    | 1         | 2         | 3         | 4         | 5             | 6       | 7       | 8       |
|-------------------------|-----------|-----------|-----------|-----------|---------------|---------|---------|---------|
| Shared Unsold Equity    | 1,174,999 | 1,263,124 | 1,357,858 | 1,459,697 | 1,569,175     | 843,431 | 906,689 | 974,690 |
| Shared Unsold Equity %  | 100%      | 100%      | 100%      | 100%      | 100%          | 50%     | 50%     | 50%     |
| <b>Staircasing %</b>    |           |           |           |           | <b>50.00%</b> |         |         |         |
| Year End Receipt        | 0         | 0         | 0         | 0         | 784,587       | 0       | 0       | 0       |
| Shared Equity Remaining | 1,174,999 | 1,263,124 | 1,357,858 | 1,459,697 | 784,587       | 843,431 | 906,689 | 974,690 |
| Equity % Remaining      | 100%      | 100%      | 100%      | 100%      | 50%           | 50%     | 50%     | 50%     |

Look at the top right corner of this section. Note that this first sale does not require grant to be set aside so set **Ignore First S/Csg Event for SHG Set Aside, y/n?** to **y**.

Now click the green button *Set or Clear Staircasing Profile* for further staircasing, if appropriate.

The options selected in this example show the balance of the equity at Year 6 (£784,587) being staircased from Year 10 and finishing in Year 20, *Up to a Maximum Sold Equity %* of 80%.

Note how the grant set aside is now automatically adjusted for this position as shown below.

### F Staircasing

On staircasing, all allowances (except Service Costs & Major Repairs) reduce pro rata to the Equity Remaining  
Staircasing events are assumed to take place at the end of the year. Inflation is applied from Year 2.

|  |           |      |  |   |
|--|-----------|------|--|---|
|  |           |      | <b>Confirm Set Aside for SHG in Long Term Cashflow (LTC)</b> |   |
| Total Value of Shared Equity Units     | 1,175,000 |      | Grant Total Identified to Set Aside                          | 200,000   |
| Total Shared Equity Sold at Outset     | 1         | 0%   | Receipts in LTC will be reduced for Set Aside to             | 87.95%  |
| Total Unsold Equity at Start of Year 1 | 1,174,999 | 100% | <b>Manually Adjust S/csg Receipts in LTC, y/n?</b>           | <input type="text"/>  |
| Last Year of Staircasing               | 20        |      | Total Receipts 1,780,393                                     | Ignore First S/Csg Event for SHG Set Aside, y/n? <input type="text" value="y"/> |
| Unsold Equity at start Year 21         | 928,599   | 20%  | Receipts in LTC 1,660,393                                    | 120,000 Unused Receipts (Set Aside)   |

| Year                    | 1         | 2         | 3         | 4         | 5             | 6       | 7       | 8       |
|-------------------------|-----------|-----------|-----------|-----------|---------------|---------|---------|---------|
| Shared Unsold Equity    | 1,174,999 | 1,263,124 | 1,357,858 | 1,459,697 | 1,569,175     | 843,431 | 906,689 | 974,690 |
| Shared Unsold Equity %  | 100%      | 100%      | 100%      | 100%      | 100%          | 50%     | 50%     | 50%     |
| <b>Staircasing %</b>    |           |           |           |           | <b>50.00%</b> |         |         |         |
| Year End Receipt        | 0         | 0         | 0         | 0         | 784,587       | 0       | 0       | 0       |
| Shared Equity Remaining | 1,174,999 | 1,263,124 | 1,357,858 | 1,459,697 | 784,587       | 843,431 | 906,689 | 974,690 |
| Equity % Remaining      | 100%      | 100%      | 100%      | 100%      | 50%           | 50%     | 50%     | 50%     |

The grant total to be set aside is shown: *£120,000 Unused Receipts (Set Aside)*. This is the adjusted SHG to be set aside for the extra 30% of equity which has been staircased. No further action is required by the user; the receipts in the long term cashflow will be adjusted accordingly.

## Step 6 - Section M

In the Long Term cashflow ensure that the **NPV Calculation Options** is set to **Net Rent + Cap. Val. - Loan**

Note that the *Adj. Stairc'sg Receipts* line shows the initial tranche of equity income at Year 5 and that the *Gross Rent* drops significantly in Year 6.

### Note

This example is entirely fictitious. It should not be used as a guide to current costs , values or staircasing policy.

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<sup>i</sup> <http://www.housingcorp.gov.uk/server/show/ConWebDoc.14588>