



Glossary for Financial Appraisal Tool

This glossary has been written for users of the National CLT Network's free Appraisal Tool. It covers terminology used in the tool, and should be read alongside other guidance and general information on our website, including the CLT Handbook and our general purpose jargon buster.

Affordability

The price of housing in relation to local incomes. That can either be the rent payable on housing for rent, the mortgage repayments on housing for sale, or the combination of rent and mortgage repayments on **Shared Ownership**. The usual benchmark is that these housing costs should not exceed 30-35% of lower quartile household incomes if they are to be classed as affordable. Do not confuse tenure with **Affordability** – see the next paragraph.

Affordable Housing

Social Rent or **Affordable Rent** and **Intermediate Affordable Housing**, provided to specified eligible households whose needs are not met by the market. This can either be publicly subsidised through the HCA's Shared Ownership and Affordable Homes Programme 2016-21 (see <https://www.gov.uk/government/collections/shared-ownership-and-affordable-homes-programme-2016-to-2021-guidance>) or its equivalent in London (see <https://www.london.gov.uk/file/11941201>).

In addition to those sources of capital subsidy, a significant element of **Affordable Housing** has been produced over the last few years by use of planning obligations under section 106 of the Town and Country Planning Acts. See **Section 106 Agreements**.

In addition, a number of equity investors are now funding **Affordable Housing**, usually by financing all of the **Development Costs** and then leasing the completed dwellings on a rental basis to RPs for 20-40 years.

Affordable Rent

Rented housing provided by RPs of social housing, that has the same characteristics as **Social Rent** housing except that it is outside the **National Rent Regime**, but is subject to other rent controls that require it to be offered to eligible households at a rent of up to 80% of local market rents. See <https://www.gov.uk/guidance/capital-funding-guide/4-housing-for-rent>

Asset Cover

This is a test to determine an organisation's ability to cover its debt obligations with its assets, after all its liabilities have been met.

Balance Sheet

The Assets and Liabilities of an organisation.

Best consideration

Under Local Government Act 1972: General Disposal Consent 2003, local authorities are required to obtain best consideration when disposing of assets such as land and property. This is usually thought of as the maximum amount of cash that can be realised by selling land or property.

The consideration can also be the achievement of policy objectives, e.g. the development of **Affordable Housing** available to local people, to which the local authority has nomination rights. See

<http://www.legislation.gov.uk/ukpga/1972/70/section/123> and <https://www.gov.uk/government/publications/disposal-of-land-for-less-than-the-best-consideration-that-can-reasonably-be-obtained-circular-06-2003>

Guidance is provided to valuers in the RICS “Valuation Standards”. The publication “Valuation of land for Affordable Housing” is very useful.

Bonds

Fixed interest financial instruments issued by governments, companies, banks, public utilities and other large entities. **Bonds** pay the bearer a fixed amount at a specified end date. Interest can either be paid over a specified interval (month, year etc.) or paid at the end date. See also **Community Bonds**.

Build Costs

The costs of construction of a development – usually the amount paid to the building contractor; this should not be confused with the total development cost (also called total scheme cost), which also includes the cost of purchasing the land, and any **On-costs** of development.

These costs are often quoted as a square metre rate, i.e. £/m² of the floor area of the houses built. However, it is important to be clear exactly what is included (or not) in any square metre rate quoted. At the very least it will include the costs of sub-structures (foundations and floor slab) and super-structures (everything above ground level). It may also include external works (gardens, footpaths, etc.), infrastructure (highways and services). In certain types of procurement, it may also include design, project management & other professional fees, statutory fees and charges (e.g. planning application & building regulations fees; warranties; highways and drainage bonds).

Build Costs can vary enormously, depending where in the country the development is located; how large the development is; whether there are any abnormal costs to remove contamination in the ground, to stabilise the site following coal mining, to bring services from a distance, to provide flood defences/alleviation measures or to

accommodate retaining walls and changes in level on a steep site; or to meet planning requirements for local materials or traditional detailing. It is essential that expert advice is taken at the outset to ensure realistic assumptions are made when doing initial appraisals.

Building Fund

A financial provision that is built up over a number of years to meet the costs of replacing components when they become obsolete e.g. boilers, windows, roofs. It is usually calculated as a percentage per annum of the initial build cost of the dwellings (i.e. sub- and super-structures costs only).

Cash flow

This can be for the development period or for the full appraisal term. For the development period, it comprises any income (from grants, deposits from purchasers and sales receipts), less the costs of site acquisition, **Build Costs** and **On-costs**. For the full appraisal term, it comprises the income (from rents and service charges) less expenditure (on maintenance and management) through the life of a development. This **Cash Flow** may be discounted for appraisal purposes.

Community Bonds

Interest-bearing bonds intended for small scale community projects. They are usually issued by non-profit organisations such as Community Land Trusts. See also **Bonds**.

Cross Subsidy

Profits from one part of a scheme (e.g. housing for market value sale or commercial uses) used to meet deficits on another part (e.g. **Social** or **Affordable Rent**).

Development Costs

The full costs of development, including site acquisition, **Build Costs** (see above) and **On-costs** (see below).

Design & Build

A procurement method whereby the building contractor is responsible not only for building the development, but also some or all of its design and the fees associated with that.

Discount Rate

The annual rate at which costs and income are discounted in a **Discounted Cash Flow** to bring future costs and income to a Present Value (sometimes referred to as the **Net Present Value**). This is also used as a risk management tool: the higher the risk, the higher the **Discount Rate** and thus the lower the present value.

Discounted Cash Flow



The income (from rents and service charges) & expenditure (on maintenance and management) through the life of a development, discounted by application of the **Discount Rate**.

Equity Investment

Finance is provided by means of direct investment in an asset, as opposed to borrowing **Loan Finance** against the security of the asset. In this arrangement, the investor owns the development, and either leases it to the CLT, or employs the CLT as its agent to manage and maintain the dwellings. If the CLT leases the development, its lease charge (i.e. commercial rent) will usually increase over time to reflect increasing rental income, which means that the CLT is taking the risk for collecting the (increasing) rental income over the lease term. If it acts as the investor's managing agent, the investor is taking the risk and reward of rental growth.

Investors interested in **Equity Investment** in rented housing are looking for long term, steady income and growth, so tend to be pension funds rather than more speculative property funds.

The appraisal tool is designed to appraise proposals on a **Loan Finance** basis, and cannot be used for **Equity Investment** financed schemes.

Help to Buy

A government-backed suite of products to assist first time buyers:

- The **Help to Buy** ISA is a saving scheme to help people save the deposit for their first home.
- The **Help to Buy** Shared Ownership: see **Shared Ownership**.
- The **Help to Buy** Equity Loan: an equity loan scheme available to first time buyers and home movers on homes of up to £600k purchase price. The purchaser has to provide a 5% deposit; the government and house builder provide a 20% equity loan, which must be repaid when the house is sold; the purchaser obtains a mortgage of 75% of the purchase price.

See <https://www.helptobuy.gov.uk/>

HomeBuy

See **Shared Ownership**

Income & Expenditure account

The annual accounting for all income, expenditure and depreciation of the assets of an organisation.

Intermediate Affordable Housing

Housing at prices and rents above those of **Social Rent**, but below market price or rents. These can include **Shared Ownership**, **Limited Equity** or sub-market rent.

Interest Cover

This measures if an organisation can meet its interest obligations out of nett income.

Intermediate Rent

Housing let at rents between **Social Rent** levels, and full market levels – can be confused with **Affordable Rent**, but that has a more precise statutory definition. Typically **Intermediate Rent** levels are around 70-90% of full market levels. See <https://www.gov.uk/guidance/capital-funding-guide/4-housing-for-rent>. The **Affordable Rent** sheet can be used for this, with the percentage changed to reflect the appropriate value.

Limited Equity

A form of discounted sale where the purchaser buys at a percentage of the open market value, which can be a fixed percentage of the market value, or can be multiplier of local earnings. The purchaser then holds the property either for a limited period (typically 5-10 years) or until they sell the house at which point they repay the discount. The discount is usually secured by a second charge (i.e. ranking after the mortgage lender's security).

Loan Finance

Typically from a bank or building society, that is lent to a CLT. The CLT then repays the loan, usually by a combination of capital and interest repayments, although it is not unusual for early years' repayments to be interest only. It can be for a fixed or variable term, and can be at a fixed or variable interest rate – at present, it is usual for a long-term loan to be on fixed interest for the first few years, and variable thereafter. Usually, the shorter the term that the interest rate is fixed, the lower the rate. **Loan Finance** can be either secured (i.e. secured by a mortgage on the development) or unsecured. Secured lending is usually at a lower interest rate than unsecured. Development period lending is often (but not always) unsecured, whereas long term is secured on the completed development.

See also **Equity Investment**

Loan to Value percentage or ratio

The proportion of the **Security Value** that is represented by the amount of the loan.

Maintenance costs

Expenditure on the property during its life, to keep it in good condition. This may be either reactive (e.g. repairing a broken window – also known as repairs), or cyclical (e.g. re-painting).

Major Repairs Provision/Fund (MRP)

See **Building Fund**

Management costs

Direct expenditure on staff or agency costs associated with letting, rent collection, etc., plus overheads such as property insurance.

Market Rent

Rented housing let at the maximum rent level that can be achieved in the local market. Like market sale values, these can fluctuate (up or down) over quite short time periods, as the local supply/demand balance changes.

National Planning Policy Framework (NPPF)

This document has reduced the amount of policy control by central Government over local planning authorities, from several thousand pages in the Planning Policy Statements such as PPS3. The relevant parts of the PPSs were summarised in the NPPF. As far as housing is concerned, the key content of PPS3 has been replicated in the NPPF. See Annex 2, page 50 of:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

National Planning Practice Guidance (NPPG)

This on-line resource supplements NPPF. See

<http://planningguidance.planningportal.gov.uk/>

National Rent Regime

The **National Rent Regime** is based on a formula that generates “target rents” for **Social Rent** homes, with reference to local house prices and local earnings. The objective is for those target rents to be affordable for people in low paid employment or dependent entirely on state benefits. Target rents can increase at no more than CPI +1% per annum thereafter.

Whilst this was meant originally to harmonise rents between local authorities and housing associations, that process was discontinued in 2014.

Net Present Value (NPV)

The result of a **Discounted Cash Flow**, bringing together the Present Values of income and expenditure through an appraisal period.

Nomination Rights

The ability of a local authority to nominate households to be granted the tenancy of available, **Social** or **Affordable Rent** dwellings.



On-costs

Expenditure in addition to land acquisition and **Build Costs**, including professional fees, statutory fees & charges, finance charges during the development period, sales costs, etc.

Off the Shelf

A Procurement method where newly-completed houses are purchased from a developer

PPS3: Planning Policy Statement 3 (Housing)

This document underpinned the delivery of the Government's strategic housing policy objectives and aimed to “ensure that everyone has the opportunity to live in a decent home, which they can afford in a community where they want to live”. This document was superseded by the NPPF in March 2012, but is still a useful reference.

Private Registered Provider (PRP)

Any non-local authority organisation that provides **Affordable Housing** is registered as a PRP.

Public Registered Provider

A local authority that provides **Affordable Housing**. The differentiation between public and private relates to the fact that borrowing by local authorities counts as public sector borrowing and is controlled by government, whereas that by **Private Registered Providers** does not.

Procurement method

The contractual arrangements used to develop the scheme.

Profit & Loss account

See **Income & Expenditure account**.

Registered Provider (RP)

A provider of **Social Rent** housing registered with the Homes and Communities Agency, the regulator. See **Private Registered Provider** and **Public Registered Provider**.

Registered Social Landlord (RSL)

The term **Registered Provider** superseded this in 2010.

Repair

See **Maintenance Costs**

Section 106 Agreements

Agreements under Section 106 of the Town and Country Planning Act 1990. Such



agreements represent a charge on the land for which planning permission is granted, which imposes obligations on both the current and any future owners of that land. This has the impact of reducing the value of the land in question.

This provision has been used to great effect over the last few years, to subsidise the provision of **Affordable Housing** as part of mixed tenure and mixed **Affordability** housing developments. See NPPF.

Security Value or Valuation

The value that a lender considers the property to be worth in the event that the borrower defaults on their loan repayments. It is usually somewhat below market value, to reflect the costs of repossession and sale.

Shared equity

See **Limited Equity**.

Shared Ownership

The government brand for **Help to Buy** affordable home ownership schemes outside of London. See <https://www.helptobuy.gov.uk/>. In London, it is called London Shared Ownership, and works in a similar way.

They offer a form of tenure whereby the purchaser buys a proportion of the equity of the property (usually 25-75%) and rents the balance at a subsidised rent (typically 2.75% pa of the un-bought equity).

Social Rent

Housing for which guideline target rents are determined through the **National Rent Regime**. This has been superseded by **Affordable Rent** for new, publicly-funded provision. See <https://www.gov.uk/guidance/capital-funding-guide/4-housing-for-rent>

Traditional procurement

The procurement method where an architect or surveyor designs all aspects of a development, and a building contractor builds it to those detailed designs.

Turnkey

See **Off the Shelf**

Void or voids provision

When a rented property is empty and thus generating no rental income.

With Contractor's Design

See **Design & Build**



Works costs
See **Build Costs**

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