Proof of Evidence

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October 2017

LPA Reference: 2016/1117/P

PINS Reference: APP/X5210/W/16/3165200

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1 THE WITNESS

1.1 My name is Jonathan Millership. I am currently the Head of Acquisitions and planning for One Housing Group. I have over 13 years' experience working for affordable housing providers in the UK and my career has been focussed on securing land led and s106 opportunities for affordable housing providers in London and the South East of England.

1.2 I have worked for One Housing Group in my current role since April 2016. Before this I worked as a Regional Development Director for Bedfordshire Pilgrims Housing Association, responsible for the delivery of new business affordable housing projects across the south east of England. Prior to this I held a number of project management roles responsible for the acquisition and delivery of large scale affordable housing projects across London, also with One Housing Group.

1.3 My professional experience includes considering the viability of both small and large scale affordable housing and s106 developments, securing new business opportunities for housing associations and advising of the viability approach for new business affordable housing developments. To date I have personally overseen the delivery of in excess of 2,500 affordable housing homes for registered providers.

1.4 I have used a number of different appraisal models within housing associations and have developed an excellent understanding of discounted cashflow models used by housing associations and registered affordable housing providers through my employment experience.

1.5 One Housing Group is a Registered Provider ('RP') of affordable housing across London and the Southeast and owns and manages in excess of 16,000 homes. The association develops new build affordable housing and currently has a development programme to deliver 1,500 affordable homes for the period 2015-19. The association delivers affordable homes for a range of tenures including Social Rent, Affordable Rent, Shared Ownership and Private Sale properties and elderly and vulnerable peoples housing.

1.6 My evidence will deal with the assessment of the expected value of affordable housing properties and how such values are arrived at. My evidence will further deal with the restrictions placed on affordable housing and how such restrictions affect the viability of affordable housing products. My evidence will deal solely with the proposed affordable housing products at Bangor Wharf and will not focus on the full range of affordable housing products available.

1.7 My evidence sets out details of the proposed affordable housing provision for Bangor Wharf and the Appellant's proposed inputs for the viability submission prepared by BNP Paribas to support the proposed affordable housing provision. My evidence is in response to reason for refusal 5 of the application – provision of affordable housing.

1.8 My evidence demonstrates that the proposed valuations for the affordable housing inputs of the BNP viability submission are robust and in accordance with industry practice for the valuation of affordable housing.

1.9 The evidence which I have prepared and provide for this inquiry in this proof of evidence is true and I confirm that the opinions expressed are my true and professional opinions irrespective of whom I represent.

2 SCOPE OF EVIDENCE

2.1 On 26th February 2016 One Housing Group (“the Appellant”) submitted to the London Borough of Camden (“the Council”) the appeal proposal (Council reference: 2016/1117/P). The proposal was validated on the 2 March 2016.

2.2 In summary, this planning appeal relates to the demolition of existing buildings at the appeal site and redevelopment to provide a mixed-use residential-led scheme comprising residential units and 604 sqm (GIA) B1a office floor space.

2.4 The scope of the evidence presented relates to the calculation of values for the affordable housing element of the proposed development as outlined by the Appellant which is itself an affordable housing provider. These values remain not agreed between the Appellant and the Council.

2.5 It should be noted that the Appellant will retain the affordable housing as part of its existing stock and has no plans or intentions to sell the affordable housing element to another Registered Provider or any other body at this time.

2.6 The consideration of the proposed value of the affordable housing element of the project therefore reflects both an assessment of the value that the Appellant would attribute to the affordable housing element, alongside an assessment of whether such sums could be considered as being value for money in the current market.

2.7 I comment purely on the capital valuations provided by the Appellant for use in the viability statement prepared by BNP Paribas. My evidence does not comment on the calculations used by the Council to arrive at proposed capital values for affordable housing within their evidence, as those calculations have not been made available to me.

2.8 Dr Lee has addressed matters relating to viability and in particular the economics of the provision. As part of the viability case Mr Shakespeare has provided evidence in respect of the Existing Use Value of the appeal site. Finally Mr Pittock has provided evidence demonstrating the policy context relevant to the delivery of affordable housing.

3 PLANNING POLICY CONTEXT AND GOOD PRACTICE GUIDANCE

3.1 The evidence should be considered in conjunction with the London Mayors Affordable Housing Supplementary Planning Guidance (“**Mayors SPG”**) dated August 2017 which (included in the appeal documentation as core document F3) and Homes for Londoners published in November 2016 (core document F7).

3.2 Other material considerations include the London plan Annual Monitoring Report 2015/16 published by the Greater London Authority dated July 2017 (core document F8).

3.3 The Mayor of London’s Affordable Homes Programme Funding Guidance 2016-21 (Homes for Londoners) (core document F7) provides further guidance to registered providers (RPs) on acceptable forms of affordable housing provision within the Greater London Area and the requirement to maximise affordable housing on site provision. Such provision should be balanced against the viability constraints of any proposed development.

4 AFFORDABLE HOUSING TENURES

4.1 As part of the Localism Act in 2011 responsibility for affordable housing delivery and investment was devolved from the Homes and Communities agency (HCA) to the Greater London Authority (GLA). As part of the London Plan the Mayor has produced a supplementary planning document which deals solely with affordable housing and viability.

4.2 The Mayor's SPG (core document F3) describes the types of affordable housing provision that are considered to be acceptable, when determining on-site and off-site provision of affordable housing in planning applications. This position is further supported by the London Plan and the GLA through their affordable homes programme in Homes for Londoners (core document F7) and includes **Rented** Affordable housing products **(**London Affordable Rent, Affordable Rent, and Social/Target rent) and **Intermediate** Affordable Housing Products (London Living rent, London Shared Ownership and Shared Ownership) products.

4.3 All of the products in the Mayors SPG, Homes for Londoners and the London Plan are considered to be acceptable forms of affordable housing provision when determining the provision of on-site affordable housing.

4.4 In the case of the appeal site the Appellant has proposed two traditional affordable housing tenures: Shared Ownership and Social Rent. The details of each of the proposed tenures are discussed below.

Social Rent

4.5 The NPPF describes social rented housing as housing for which guideline tTarget Rents are determined through the national rent regime and determined in line with the Department for Local Government and Communities Agency 'Guidance on Rents for Social Housing' (GRSH) published May 2014 (core document F22).

4.6 In essence the rent that can be charged on a social rented property is set according to a formula contained within the above guidance and which is described further in section 5.

4.7 It should be noted that Social Rents are not set by Registered providers or Local Authorities but are determined by the Nation Rent Regime formula contained within the guidance mentioned above. As such there is very limited scope for interpretation on what a Social Rent should be as it is determined by specific criteria relative to a property's value and location.

Shared Ownership

4.7 Shared ownership homes allow a home buyer to purchase a share in a new home and pay a regulated rent on the remaining unsold share.

4.8 Paragraph 20, page 10 of the Mayors ‘Homes for Londoners’ document (Core Document F7) states that;

‘*purchasers should have household incomes that can support an initial purchase of between 25per cent and 75 per cent of the* value *of a property and usually a mortgage deposit of around 10 per cent of the share to be purchased. Initial rents on the unsold equity can be no more than 2.75% of the value of the unsold equity at the point of initial sale….’*

4.9 Shared Ownership Housing is considered is considered an acceptable form of affordable housing under the Mayors SPG. In the context of this site its inclusion in the mix of affordable housing provided is to satisfy the requirements of the NNPF paragraph 173, namely to maximise affordable housing whilst maintaining the viability of the development as described in Dr Lee’s evidence.

5 RENT SETTING AND AFFORDABILITY

5.0 Calculations in respect of the capital values attributable to affordable housing products rely first and foremost on the rental incomes and (in the case of shared ownership units) capital receipts generating a loan for the affordable housing provider that can then be used to purchase a property, or a number of properties.

5.1 In this case the Appellant will not be purchasing the properties, but developing them. Nonetheless, for the purposes of calculating the viability of a proposed development a capital value must be arrived at for each tenure type for inclusion in the viability assessment. It is this capital value that forms one of the areas of dispute between the Appellant and the Council.

5.2 In this respect it is necessary to understand how such receipts are calculated by an affordable housing provider when an offer is made to purchase the s106 element of a proposed development.

5.3 Rent setting and affordability criteria are defined by both the London Plan, Homes for Londoners and the Mayors SPG and all registered providers are expected to adhere to the guidelines set out in each of the documents when selling or letting properties of a defined tenure.

5.4 These restrictions will determine the income that properties of each tenure will produce and consequently the capital value that can be derived in order to purchase the properties from a developer.

5.5 The basis for the calculations for rents and affordability are therefore described in more detail below:

Social Rent

5.6 As described above, social (or formula) rents are set according to specific criteria and are not determined by a local authority or registered provider. The GRSH guidance is attached as a core document. The basis of the calculation of Target rents is as follows:

- 30% of a property’s rent should be based on relative property values
- 70% of a property’s rent should be based on relative local earnings
- a bedroom factor should be applied so that, other things being equal, smaller properties have lower rents

5.7 The specific values for the above criteria are defined within the GRSH and are complex. These calculations make references to local property values, local incomes and local rents and are therefore not specific to any one registered provider. The formula is a mathematical calculation and its complexity requires that appraisal systems are required to have the ability to automatically calculate the social or target rents for registered providers.

5.8 In order to allow RPs to make offers quickly and with relative ease, it is industry standard practice to use to a discounted cashflow financial appraisal model to calculate capital values. One common element of such appraisal models is that they include an integrated algorithm which automatically calculates the Target Rent for a property based on specific inputs.

5.9 There is then a published Rent Cap for each property type, based on the government prescribed formula and which must not be exceeded. Therefore the income produced by any rented property is restricted, being the lower of the Target Rent or Rent Cap.

5.10 In the case of the Appellant, the appraisal system that is used is licensed from Shelton Development Services through a programme called Proval. Proval is an industry standard system used by numerous RPs, local authorities and developers for affordable housing valuations. Different providers may use different systems, but nearly all work on similar principles.

5.11 The appraisal systems generally require only two inputs for a practitioner to calculate the Target Rent in most bespoke models. The value of the property as of January 1999, and the name of the local authority in which the scheme is located.

5.12 The January 1999 value (or '99 value) is calculated in numerous ways, however the most common for RPs is to use the Nationwide House Price calculator or land registry data. In either case the current value of the property is entered and then deflated based on historical house price data, to give an estimate of a property's value as of January 1999.

5.13 This will in turn produce a Target Rent. The appraisal model then inflates this rent based on estimates of RPI/CPI and compares this rent to the government issued Rent Cap to produce a Rent for the property.

5.14 Table 1 below demonstrates the rents for the Social Rented properties proposed in the revised affordable housing offer for Bangor Wharf:

Table 1

Unit Type	Current Market Value (Avg)	Estimated January 1999 Value	Target Rent (Proval Estimate)	Rent Cap (Proval Estimate)
1b2p Flat	£584,000	£136,173	£137.40	£140.62
2B3P Flat	£654,000	£152,495	£153.31	£148.87
2b4p Flat	£786,000	£183,273	£170.02	£148.87
3b5p Flat	£871,000	£203,093	£187.83	£157.15

5.15 The rents above will then be used to calculate the capital value that can be offered by an affordable housing provider for the social rented units as described in section 6.

5.16 It is relevant to note that discussion on what rents a property will be let at the point of completion will continue between the RP and the Local Authority. The starting point for the rents to be charged are however those on which the RP has based their assumptions as above.

Shared Ownership Valuation and Affordability

5.17 Shared ownership properties are valued by registered providers on the basis three key inputs; the the capital value of the property at the point of sale, the share of the equity to be sold and the annual rent chargeable on the equity share retained by the RP. These inputs then generate a capital value for the property (or properties) which the RP will pay as a package price to a developer.

5.18 Any RP when making an offer will also need to have regard to the affordability criteria published by the GLA (in the case of London) through the London Plan annual monitoring report. Paragraph 3.62, page 136, of the latest Annual Monitoring Report states that Shared ownership properties should be affordable to households with a Gross Income of £90k pa.

5.19 The guidance further states at paragraph 3.63 that a range of income levels should be offered in developments. For a property to be deemed affordable to an income threshold, the SPG states that:

"annual housing costs, including mortgage (assuming reasonable interest rates and deposit requirements), rent and service charges should be no greater than 40 per cent of net household income"

5.20 The Appellant and the Council have previously agreed that for the purposes of calculating affordability, net income should be assessed as being 70% of gross income. A worked example of the calculation of the maximum affordability of a property in London, in line with the affordability cap from the London plan, is detailed below:

Gross Income =	£90,000
Net Income =	£90,000 x 70% = £63,000
Maximum household expenditure on housing costs =	£63,000 x 40% = £25,200

5.21 Table 2 below details the assumptions for the proposed properties by the Appellant for the maximum housing costs for each of the shared ownership property types at the appeal site. In each case below an interest cost of 5%, on a mortgage repayable over 25 years has been used. A 10% deposit for the mortgage element has been assumed:

<u>Table 2</u>

Property Type	*25% purchase share at current market value*	*Mortgage Repayment per annum*	*Rent On Unsold Equity Per annum*	*Service charges per annum*	*Total Annual Housing Costs*	*Minimum income required to purchase*
1B2P Flat	£142,886	£8,885	£6,430	£942	£16,257	£58,060
2B4P Flat	£183,347	£11,402	£6,875	£1,231	£19,508	£69,671
3b5p Flat	£229,162	£14,251	£6,875	£1,582	£22,708	£81,100

5.22 In order to maintain affordability and ensure compliance with the London Plan and Homes for Londoners, the rent on unsold equity for the proposed shared ownership properties have been reduced dependent on property size ranging from 1.5% on 1 bed properties to 1% on the larger 3 bed properties. This is to provide a range of incomes for the local community in Line with the Mayors guidance.

6 CALCULATING AFFORDABLE HOUSING CAPITAL VALUES

6.1 In order to calculate the value attributable to Affordable Housing Properties to be purchased, RPs will use an appraisal model known as a 'Discounted Cashflow Model'. Models take many forms and as previously explained the Appellant, like many other associations, uses Proval.

6.2 The principle of such models is to look at the income produced by sales and rental incomes over a defined period (known as the Long Terms Cashflow) and then, through a defined set of parameters, assess the return against a number of factors to ascertain how much can be paid for such properties.

6.3 Different RPs will have different criteria under which they will assess the value of affordable housing properties (known as Hurdle rates), however all have common factors used to undertake the assessment. Such factors will be determined by the business model the RP has adopted.

6.4 The appraisal system will traditionally have two cashflow systems. The development cashflow and the long-term cash flow.

The development Cashflow

6.5 The development cashflow will assess the costs of developing a site over a development period to create a loan amount. Such costs will include the fees and interest incurred over the development period and will typically include Acquisition and Works costs, Legal fees, valuations, consultants' fees, interest costs and any other costs associated with developing the properties.

6.6 Inputs such as the length of time taken to develop the properties, any abnormal site costs that the RP may have to incur and any delays to the period of development will affect the inputs into the development cashflow and the higher those costs are, the larger the loan to be transferred to the long term cashflow will become.

Long Term Cashflow

6.7 The loan from the development cashflow will then be transferred to the long term cash flow to be paid off over a defined period of time, usually between 25-40 years. The repayment of the loan will also be measured against the Net Present Value (i.e. the value of the future expenditure in today's value) and an Internal Rate of Return. These form the hurdle rates which will govern the size of the loan transferred from the development cash flow in order for the anticipated income to enable the project to meet the hurdle rate.

6.8 The RP will then increase the Acquisition and Works costs inputs into the development cashflow until the hurdle rates are met. The resultant figure is the price the RP would pay a developer for the units and is known as the package price.

6.9 The Appellant has submitted to the Council its proposed package price for the properties at the appeal site based on a number of agreed assumptions. A statement of common ground relating to the viability inputs for the appeal scheme has been agreed and includes:

- The capital value for the affordable housing units
- The % share and rents on unsold equity for Shared Ownership products
- The service charges for the affordable housing units

6.10 Some RPs will also make assumptions around purchasers staircasing (buying future shares of a shared ownership property), however as this is an unpredictable it is not considered appropriate for use in assumptions for assessing the viability of a project for planning purposes.

6.11 The Appellant has run appraisals on both separate tenures to ascertain a capital value on a value per square foot of property using the above methods. Table 3 below illustrates the proposed package price for the affordable housing units:

Table 3

Tenure	Package Price	Total Net Square Footage	Capital Value per sq. ft.
Shared Ownership	£2,920,000	8,901	£328.05
Social Rent	£800,000	6,964	£114.88

6.12 The Council have disagreed with the proposed calculations and state that it is their belief that a higher package price value could be achieved if the units were to be sold in a competitive bidding process to another affordable housing provider and therefore such inputs are not appropriate for inclusion in the viability appraisal.

6.13 The Appellant has not had sight of how the valuations proposed by the Council have been arrived at nor what methodology has been used to assess the affordable housing values and therefore cannot comment on the legitimacy or otherwise of the Councils assumptions save to say that our own calculations do not support the Councils proposed figures.

6.14 As demonstrated above, whilst the Appellant is clearly not in a competitive bidding situation for the properties and will retain the affordable housing in perpetuity, the capital figures have been calculated taking into account recognised methodology and industry good practice and represent an accurate assessment of the value of the affordable housing properties.

6.15 The assessment of value has been conducted in line with the Appellants own hurdle rates for assessing affordable housing value and represents a true reflection of the price that would be payable were the applicant bidding for the same properties on the open market.

7 CONCLUSIONS

7.1 The Appellant has opted to provide affordable housing products that maximise provision of affordable housing properties on the appeal site whilst having regard to the economics of provision and ensuring delivery of much need affordable housing.

7.2 The proposed tenures of affordable housing are acceptable under Mayoral Guidance and are in line with the affordability requirements of the London Plan. The tenures also seek to offer a range and mix of affordable housing products to cater for the needs of local people.

7.3 The Appellant has demonstrated that the housing will be affordable to a range of occupiers and provides and increased number of social rented affordable housing units to ensure that such housing is affordable to local people.

7.4 The Appellant has correctly assessed the affordable housing revenues in line with national and regional policy when determining a value for the affordable housing units for inclusion in the viability assessment in order to maximise affordable housing provision. Such assessments have been made in line with recognised methodologies for calculating affordable housing values.

7.5 The Appellant has followed standard industry practice in arriving at a capital value for the affordable housing units in line with recognised methods of affordable housing viability and has applied the results appropriately to the submitted viability model.

7.6 The affordable housing revenues should be included in the viability model submitted as part of this appeal and should be considered as an appropriate assessment of the market value of the affordable housing units.