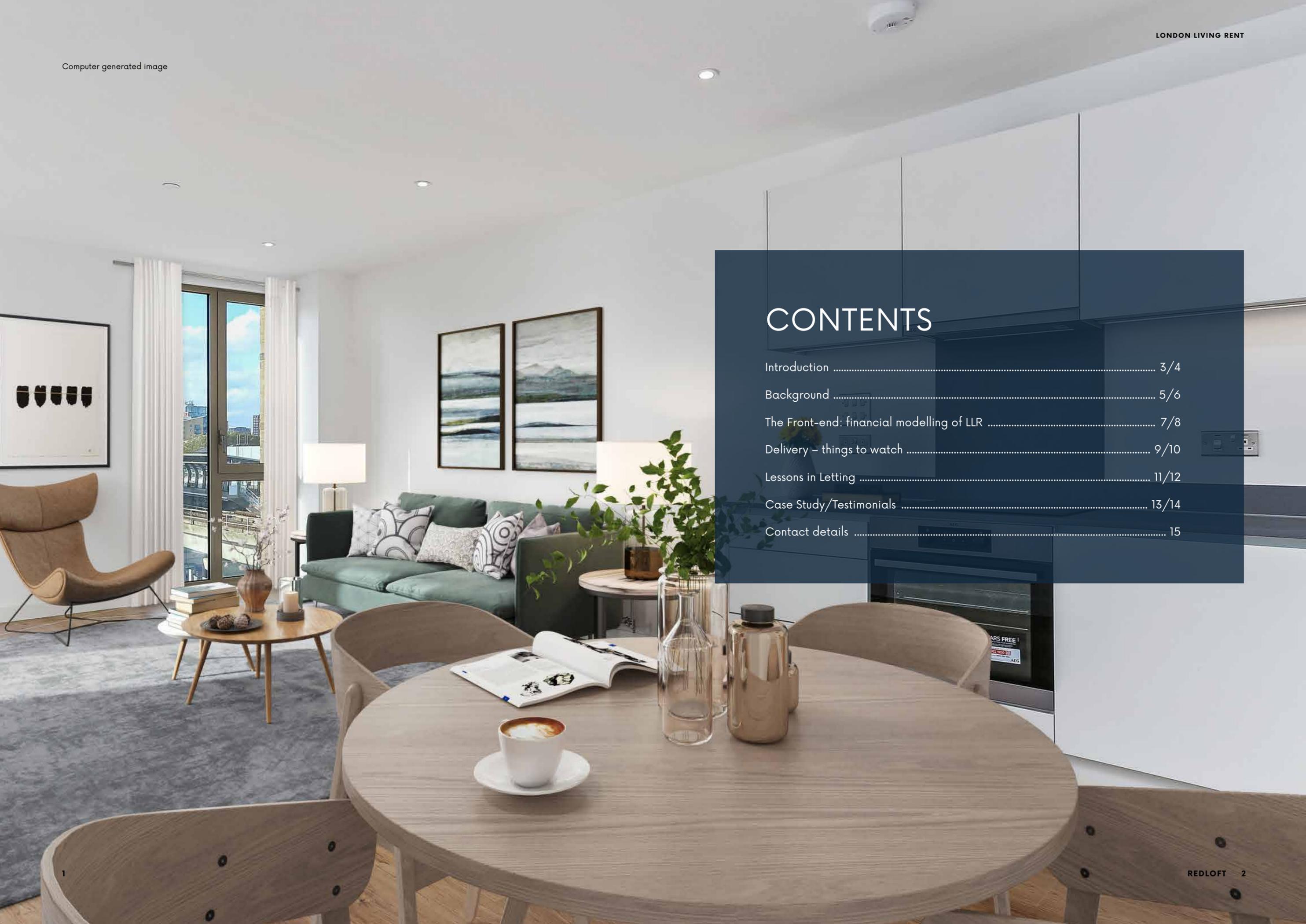


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CAPABILITY STATEMENT: **LONDON LIVING RENT**

Computer generated image



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## INTRODUCTION

**London Living Rent is one of three tenures eligible for almost £3.5bn of allocated funding within the GLA's 2021-2026 Affordable Homes Programme.**

While Social Rent and Shared Ownership – the two other eligible tenures – are well understood, London Living Rent (LLR) is a tenure still in its infancy. Although it first featured in the previous 2017-2021 funding programme, the expectation that LLR units are sold on a Shared Ownership basis within 10 years of first letting means that there is still uncertainty around how the reality will play out against business plan assumptions.

Red Loft have had involvement in every stage in the LLR process, with our teams undertaking financial modelling, project management during construction right through to letting of units. We were delighted to recently mark our 175th LLR letting, and it seemed an opportune time to share some of our insights.

## BACKGROUND

### So how did LLR come about and what are its key features?

Although LLR is a London-only product, its introduction is part of a wider trend and a recognition by central government of the limitations in the supply of homes. In February 2017 the government published a housing White Paper "Fix our broken housing market" which set out 4 key measures to address this.

- Step 1 Planning the right homes for the right people.**
- Step 2 Building homes faster.**
- Step 3 Diversifying the Market.**
- Step 4 Helping people now.**

The introduction of London Living Rent by Sadiq Khan, the Mayor of London, fits neatly with this wider ambition.

LLR is designed to provide genuinely affordable homes for middle-income earners across the capital, with a £60k household income cap on eligibility, and provide a route to ownership for those without access to the necessary deposits to secure a mortgage.

The scheme works by charging a lower-than-average rent. The money customers save on rent should then be put into savings for a deposit to later purchase a home through shared ownership. Rents are established at a local ward level and are based on one third of average local household incomes. Rents for each ward are published on an annual basis and are available on the Greater London Authority (GLA) website.

Across London the average price for a two bedroom LLR home is around £1,100 per month, roughly two thirds of the median market rent.

The scheme also ensures tenants are not stung by excessive and unreasonable rental fees sometimes seen in the market rented sector. Again, this chimes with wider government aspiration, and in 2019 the Government introduced the Tenancy fee Act. This was to help to make the market more accessible to people on average incomes by effectively banning any unreasonable agency or landlord fees when setting up a tenancy agreement. This was good news for tenants, with caps on deposits and fees.

Anyone who has worked in affordable housing for any length of time will know that products come and products go (Starter Homes anyone?) but with LLR filling a distinct gap in the market and aligning with both GLA and central government priorities, it feels like this will be a tenure that is here to stay.

MIDDLESEX COURT, HOUNSLOW,  
developed by RHP. Red Loft were  
appointed as sales and lettings agent  
for 21 Shared Ownership and LLR units



# THE FRONT-END: FINANCIAL MODELLING OF LLR

**Red Loft work closely with both private and affordable developers in assessing new development opportunities and appraising the value of affordable housing proposals.**

Much of the challenge in modelling prospective LLR schemes lies in the uncertainty around the assumptions applied, with little evidence from existing or historic stock to draw from. In our experience, Registered Providers modelling LLR tend to adopt a combination of their standard rental tenure assumptions for the initial rental period, reverting to shared ownership assumptions at the point the unit is sold.

We have found that the timing of this sale differs between organisations, generally taking place anytime from 5 to 10 years following initial let. Additionally some organisations have in fact opted not to model a sale at any point, preferring the certainty of an intermediate rent product, let at the means tested LLR levels.

From a capital value perspective this variance in the sale of the unit is significant. To evidence the impact, we have appraised a single 2b unit from a hypothetical scheme in Chadwell Heath, LB Barking and Dagenham (location noted for LLR ward level).

Tenure	Value/Package price per unit
Private sale	£300,000
Shared ownership	£225,000
LLR (Sale at year 5)	£205,000
LLR (Sale at year 10)	£180,000
LLR (Rent in perpetuity)	£110,000



This is not a formal valuation, but serves as an exercise to demonstrate the sensitivity of the tenure when all other variables are consistent. The variability of the results would of course be much greater when testing other assumptions in addition to the above, including house price inflation and the rate of shared ownership staircasing.

Excluding any additional grant funding or subsidy, it is clear that the timing of the unit sale when it 'flips' to shared ownership has a significant bearing on the value of the unit.

Having an awareness of this sensitivity around LLR is crucial, both for RPs in determining parameters for Land and New Business teams to offer on schemes, as well as for developers looking to design schemes with an affordable element that will be both attractive to acquiring parties while ensuring scheme viability. Red Loft's Land and Viability team has developed extensive experience in helping clients navigate this process to enable projects to come forward.

## DELIVERY – THINGS TO WATCH

**Does delivery start when land has been acquired or when a project starts on site? A question for the ages and one we won't resolve here. But for the purposes of this, we will include the planning process within the delivery phase.**

### PLANNING AND S106

Since it was introduced by the GLA the number of LLR units delivered by the private market, i.e. via Section 106 agreement, have been relatively low. This is mainly because they sit under the same Intermediate umbrella as shared ownership, which will on average generate a higher capital value when sold to a purchasing RP on a like for like basis, as set out in the analysis above.

We have also found, for this reason, that private developers will sometimes seek to specify shared ownership as the sole intermediate tenure within the Section 106, to the exclusion of LLR, and this has been accepted by some Local Authorities.

In fact, if the Section 106 allows flexibility to deliver a range of intermediate tenures, including both LLR and Shared ownership, this promotes the marketability of the Section 106 opportunity to a wider pool of Registered Providers. We have found this to be important particularly when drafting the Section 106 agreements for smaller affordable housing

packages where there is a reduced market of potential operators.

From an RP perspective, even if the RP is committed to delivering the units as Shared Ownership at the point of planning, if the last few years have taught us anything it's that being agile in a rapidly changing world is crucial. We are working on a number of schemes where providers took the decision to flip Shared Ownership units to LLR during construction to mitigate against over-exposure to Sales in the short-term due to Covid uncertainty. Therefore we would always recommend RPs work closely with local authorities to ensure definitions within S106 agreement do not restrict Intermediate units to a single tenure, but also negotiate Development Agreements with housebuilder partners that will enable flexibility to move between intermediate tenures if required.

### DESIGN AND SPECIFICATION

LLR is an Intermediate product, with an expectation the unit will be sold.

This should be the starting point in terms of both location of LLR units within the development and specification. This may be a point that needs to be made early and often in the design process, particularly where smaller or one-off developers may not be as familiar with what can seem like a baffling set of terminology within Affordable tenures.

This is important not only to ensure a scheme is attractive to both RPs and the residents themselves, but also crucial in ensuring valuers can support the plot GDVs underpinning financial models.

Many providers use their Shared Ownership specification for LLR, and this is certainly a sensible starting position if in doubt.

### BURNT OAK BROADWAY

Digitally altered image



**Red Loft project managed this 100 unit scheme on behalf of Network Homes during the pre-construction phase. We negotiated a S106 Agreement that facilitates delivery of both SO and LLR tenures, and the scheme is due to complete in 2022.**

# LESSONS IN LETTING

Red Loft has been offering our LLR Lettings service since April 2020 and have completed just over 175 to date for our clients, including Network Homes, Croydon Churches Housing Association, Optivo and Richmond Housing Partnership. The vast majority of units have been let on completion, minimising void loss for clients. This has given us a great insight into the market and how to ensure successful LLR letting across London.

We thought we'd fire some questions at Terence O'Connor, our Director of Sales and Lettings for some key pointers.



Terence O'Connor

## Q What are the eligibility criteria.

Eligibility is restricted to households that are currently renting (either from a private or social landlord), with a maximum income of £60,000 and who are not currently able to purchase a home (including through shared ownership) in the local area.

Where there is more than one eligible applicant for a property, tenants will be determined through priority group or groups identified by the local borough i.e., those currently living or working in the Borough.

## Q How do Red Loft assess this?

Red Loft will carry out a full reference check, working with our partners FCC Paragon, to satisfy that the households can afford to both pay the rent (without recourse to Housing Benefit) and accumulate savings, using standard affordability tests. This will also include an employment and bank reference and a right to rent check.

## Q What makes for successful marketing of LLR units?

The key to a successful LLR marketing campaign is early engagement with the potential client base. For LLR we focus on the local market in this first instance so those currently living and working in the borough. We find prominent site signage is essential to build the early database and this coupled with portal listings at least 3 months ahead of handover can be enough to ensure all homes are allocated at the point of handover.

## Q Who are the residents?

Residents generally tend to be a younger demographic, typically in their twenties and thirties usually in the early stages of their chosen career. Many are in local employment such as teachers, NHS and government or local authority employees.

Many of those who find homes through the scheme are living at the family home and really pleased to find an affordable product that allows them to live independently for the first time.

Red Loft manage the end-to-end lettings process on behalf of registered providers and it's been really rewarding helping residents find a new affordable home in London.

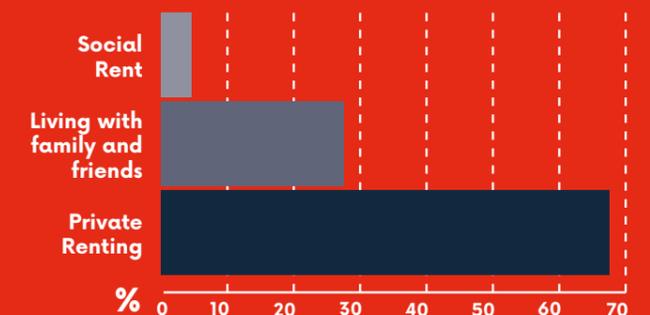


CAIRO NEW ROAD, CROYDON,

developed by Optivo. Red Loft provided consultancy services to Optivo on the project and were appointed to let 52 LLR units

## LLR RESIDENTS

### Previous housing situation:



# CASE STUDY/ TESTIMONIALS

## CROYDON CHURCHES HOUSING ASSOCIATION CUSTOMER AT WOODFORD COURT.



'I recently received a fantastic service from Red Loft Partnership, particularly from Senior Sales Consultant Lauren Irwin. Extremely pleased with the consistent good communication and responsiveness to queries. I couldn't have asked for a better experience. I am very happy and now settled in my new home. Thank you Red Loft!'



CAIRO NEW ROAD

## JANE WILLIAMS HEAD OF SALES AND MARKETING - OPTIVO



Red Loft is appointed to let a number of homes through the London Living Rent product, their knowledge and experience is invaluable. As part of their service, they provided Optivo's in-house sales team training on this product. The Red Loft team provide a very professional and efficient service resulting in quick turnaround times and happy residents. I wouldn't hesitate to recommend Red Loft to support with LLR letting.



## CAIRO NEW ROAD CUSTOMER



I'm truly grateful for the help of Joseph and his team at Red Loft, for making this process as smooth and swift as possible. Joseph has been so helpful throughout the whole process, he was always available to answer or aid me with any queries. He is a lovely and considerate person, easy to communicate with. He makes you, the customer feel valued. Thank you for a lovely experience, 100% recommended.



## CARL ROBERTSON, SENIOR BUILD TO RENT MANAGER - NETWORK HOMES

'We have worked with Red Loft on a number of our London Living Rent schemes and have found them to be professional, efficient and effective. The sales team provide regular updates, manage the journey from applicant registration to move in and liaise with other service providers involved in the process. It is a pleasure to work with them.'



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# HOW WE CAN HELP

**Our Red Loft team have huge experience at every stage in the development process, and are able to provide practical advice for successful acquisition, delivery and letting of London Living Rent units.**

**As well as helping clients with LLR, our other services include:**

- Financial Viability Appraisals for both developer and local authority clients
- Marketing Research and bespoke consultancy advice
- Project Management services for delivery of schemes through all RIBA stages
- Work with clients to produce development strategies and procedures
- New build agency services in sales, marketing and lettings
- Shared Ownership resales and staircasing services

Please get in touch to discuss how we can help with your projects.



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