



There has been a marked shift in the metric used to value social housing stock – from existing use value - social housing (EUV-SH) to market value subject to tenancy (MV-STT). MV-STT is undoubtedly a crucial tool but it must be handled well.

Since the removal of Section 133 in England and similar provisions in Wales and Scotland, the drive towards uplifting to MV-STT has been an unstoppable trend. For many Registered Providers (RPs) challenged by the need to develop, achieve net zero or simply meet the demands of maintaining stock in a high inflation environment with slower rental growth, MV-STT uplift has been presented as a silver bullet.

Treasury advisers and solicitors alike have advised RPs that moving to MV-STT (arriving at a figure of say 50% to 70% of market value) is preferable to EUV-SH (say 25% to 30% of market value). Boards have concurred that this is their best option, but is it?

## THE CASE FOR MV-STT

MV-STT provides an undeniable increase in value that can be a game changer for some RPs, adding hundreds of thousands if not billions to the treasury pool. Against the background of the pressures mentioned above, who would not wish to take forward this opportunity and free their valuations from the more restrictive and lower values found in the world of the EUV-SH?

In the last five years Savills and others have undertaken hundreds of such MV-STT exercises, and for most there has been significant uplift that has allowed the RP to re-finance and fundamentally reassess its treasury strategy. However, for associations in areas of high social deprivation with limits on market appetite this may not be the panacea that a clean legal title may in isolation present.

## LOCATION IS KEY

Valuation is location dependent and not all markets yield the same potentials for uplift. As Phil Spencer and Kirstie Allsopp remind us, valuation is indeed “location, location, location” specific.

This principle is of course key to looking at former local authority stock which can be quite distinct in form, massing and broad market appeal compared to other stock in a given locality. The valuer is obliged to consider the elements of stock at a detailed block, cluster or title level and then aggregate these to form the view of the portfolio overall. In the absence of comparable evidence, a discounted cashflow is needed to derive the correct level of value. This detailed approach is essential. Sometimes we have noticed that this has been set aside in favour of a generic uniform level of say 65% of vacant possession value. These levels of value are often beyond the limit of yield analysis and may create problems for treasury teams in the future in terms of consistency of value.

## WHY SHOULD WE AVOID SUCH GENERIC APPROACHES TO VALUE?

Not all former local authority stock is the same, it varies in density, construction type, age, condition and most importantly in general market appeal. When sold as a single portfolio the stock characteristics and particularly location are key drivers of whether an investment buyer would wish to purchase and at what price.

In certain cases the poor or under-invested condition of the stock, the high concentration of households in significant poverty and the evident low market values and market rents will produce a weak MV-STT at best for some localities. A weak MV-STT does not serve either the lender's or the

### 3 REASONS WHY A WEAK MV-STT IS NOT WHAT YOU NEED

1. A weak MV-STT allows greater potential for a broader divergence of valuer opinion. The MV-STT model implies that in administration properties can escalate rents to a market level and voids can be sold in the open market. In areas of severe poverty or pockets of acute concentration of stock, the locality may be limited as to how far market rents may be pushed, or whether sales can be achieved in volume without debasing the local pricing level. These uncertainties mean that valuer assessments or projections are required based on their own analysis. The potential for a divergence of valuer opinion is therefore greatly amplified. This difference, in the context of a desire for valuer rotation, makes valuations less predictable for treasury management purposes.
2. Weak MV-STT may not make robust security for loan security over the loan term or beyond. All markets rise and fall and should such fluctuations fall upon a borderline MV-STT portfolio, the result may be that EUV-SH would have served the lender and borrower better.
3. A weak MV-STT may, after allowing for the lender's commercial tolerances on the value applied through the required loan to value ratio, result in lower realised lending than if EUV-SH had been maintained. This is not the result the borrower was looking for, particularly if assets for loan security purposes need to be optimised.

To move forward it is key that any portfolio is broken into component parts with explicit yields reported to ensure the valuation is robust. There are very few (if any) trades of former Large Scale Voluntary Transfer (LSVT) properties as large portfolios, it is therefore essential that first principle valuation methods are applied to speak into the silence of evidence.

Some parts of a portfolio with lower potential for uplift should be separated out from those parts that do, with part being charged at EUV-SH and the remainder at MV-STT. This also serves to strengthen the MV-STT element as it stands apart from stock that may not have the broader market appeal. Early involvement of a valuer in the process of considering whether to place stock at EUV-SH or MV-STT is advisable to avoid stock with clean legal title being limited due to market constraints at the last minute of charging.

#### OVERVIEW

MV-STT uplift is a crucial tool in meeting the demands and ambitions of the sector. If handled well it will take the sector forward positively, but if not there may be trouble ahead. Detailed dialogue with your valuer should help to ensure stock value is optimised for strained security pools and also provide comfort that market fluctuations will not leave portfolios exposed.

#### FURTHER INFORMATION

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