Box 2.4.1: A proactive response to the credit crunch

The direct consequences of the credit crunch for housing associations have been well documented: unsold shared ownership and outright sale properties, cash flow difficulties, cash or margin calls, funders repricing old loans, deflation, the highest real interest rates in 20 years and impairment of value in annual accounts.

The valuation effects of the credit crunch have been felt differentially between tenures:

- Market Value Subject to Tenancy, used for market and intermediate rent – has drifted down from 60–75 per cent of VP to 55–65 per cent because of lower future values. Net initial yields have moved out from 3–6 per cent to 6–8 per cent.
- Existing Use Value for Social Housing has remained stable – Savills uses relatively soft NPV discount rates to smooth out variations. The values are supported by initial market evidence from stock rationalisation.
- Existing Use Value for Social Housing 'Basis Two' assuming sale of units falling vacant are down because the market can't absorb the volume of properties and values are depressed.
- Value of Landlord's interest subject to Shared Ownership leases – values are down because whilst the income stream is reliable, staircasing receipts are affected by house prices. Many lenders require that receipts are ignored for the purposes of valuation.

The social impact is beginning to be felt, and this will have long-term impacts on landlords' businesses:

- Sharp increase in market failure in certain areas.
- Economic failure leading to more demand for affordable housing.
- Potential for weakened community cohesion.
- Threats to neighbourhood sustainability.

To date, despite these economic and social impacts, we have not seen the failure of any major social landlords. This appears to be because the additional investment by the HCA to kick-start development schemes has had the effect of recapitalising landlords. Prospects for 2010 are more challenging as promised reductions in public expenditure feed through.

Savills has advised the TSA on a 'Regulatory Approach to Housing Associations That Face Viability Issues'. Its own contribution to the research is based around its belief that asset management is key to sorting out these issues. Our only reservation is that work-outs take time, which implies that there is a powerful case for an early warning system to guide timely intervention. This would also permit greater tenant involvement.

The asset management techniques will include:

- Better asset management to drive down costs or increase income.
- Tackling toxic assets.
- Disposals of voids (although this is not so effective in a falling market).
- Transfer of tenanted property, or stock rationalisation.
- Ultimately, the restructuring of landlords and their assets.

We have managed the transfer of over 4,000 homes. Our experience is that prices average £55,000 per home, which represents a premium over EUV-SH that this is fairly consistently in the range 20-50 per cent. Feedback from tenants is positive. The transferors enjoy increased liquidity to invest in other assets or simply to weather the recession. There are other advantages too; the recipients tend to be middle-scale associations with cash or undrawn facilities that the sector as a whole needs to mobilise.

Ultimately, the credit crunch may claim scalps. Savills' long-term view is that the sector needs to be self-reliant and, to achieve this, will need a rescue fund based on the Dutch model.

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