

LAPP - Financial implications**Appendix A****Options Appraisal**

Options: Purchase 50, 100 or 200 properties, and charging rent as follows:

Option 1 (Maximum) : Amount bridging the gap between the mortgage paid by the buyer and the full rental value of the property

Option 3 (Minimum) : Amount required by the Council to cover its borrowing costs

Option 2 (Intermediate) : Intermediate level

No of properties	Option 1: Maximum rent charged	Option 2: Intermediate rent charged	Option 3: Minimum rent charged
Rent charge on 30% owned by SBC	£490	£475	£460

Option A: 50 properties - £4.65m**CAPITAL****TOTAL CAPITAL commitment**

Maximum indemnity - committed by guarantee

REVENUE:

Rental stream - over 25 years

Rent collection costs - over 25 years

Premium on mortgage receivable

TOTAL REVENUE BENEFIT

	A1	A2	A3
TOTAL CAPITAL commitment	£6,812,899	£6,812,899	£6,812,899
Maximum indemnity - committed by guarantee	£2,170,000	£2,170,000	£2,170,000
REVENUE:			
Rental stream - over 25 years	(£8,009,671)	(£7,764,477)	(£7,519,283)
Rent collection costs - over 25 years	£400,484	£388,224	£375,964
Premium on mortgage receivable	(£669,472)	(£669,472)	(£669,472)
TOTAL REVENUE BENEFIT	(£8,278,659)	(£8,045,725)	(£7,812,791)

Option B: 100 properties - £9.3m**CAPITAL****TOTAL CAPITAL commitment**

Maximum indemnity - committed by guarantee

REVENUE:

Rental stream - over 25 years

Rent collection costs - over 25 years

Premium on mortgage receivable

TOTAL REVENUE BENEFIT

	B1	B2	B3
TOTAL CAPITAL commitment	£13,625,798	£13,625,798	£13,625,798
Maximum indemnity - committed by guarantee	£4,340,000	£4,340,000	£4,340,000
REVENUE:			
Rental stream - over 25 years	(£15,784,142)	(£15,300,954)	(£14,817,766)
Rent collection costs - over 25 years	£789,207	£765,048	£740,888
Premium on mortgage receivable	(£1,326,575)	(£1,326,575)	(£1,326,575)
TOTAL REVENUE BENEFIT	(£16,321,510)	(£15,862,481)	(£15,403,453)

Option C: 200 properties - £18.6m**CAPITAL****TOTAL CAPITAL commitment**

Maximum indemnity - committed by guarantee

REVENUE:

Rental stream - over 25 years

Rent collection costs - over 25 years

Premium on mortgage receivable

TOTAL REVENUE BENEFIT

	C1	C2	C3
TOTAL CAPITAL commitment	£27,004,411	£27,004,411	£27,004,411
Maximum indemnity - committed by guarantee	£8,680,000	£8,680,000	£8,680,000
REVENUE:			
Rental stream - over 25 years	(£30,745,083)	(£29,803,907)	(£28,862,731)
Rent collection costs - over 25 years	£1,537,254	£1,490,195	£1,443,137
Premium on mortgage receivable	(£2,609,859)	(£2,609,859)	(£2,609,859)
TOTAL REVENUE BENEFIT	(£31,817,688)	(£30,923,571)	(£30,029,454)

1 The maximum of and minimum local authority purchased (rented) share of £120k has been recommended for cabinet approval.

This relates to the 30% Council share of the property.

The current model uses £310k as av 3 bed property. This is the CURRENT median price. With increasing prices, should cap at a higher amount. Say £400k. Thus at 30% this is £120k

2 The maximum loan size (based on maximum property valuation) of £266k has been recommended for cabinet approval.

This relates to the share of the property covered by the buyer's mortgage (95% of 70% of property price).

As 1 above, if this is capped at £400, the maximum loan size is 95% of 70% of £400 i.e £266k

3 The maximum limit for the total indemnity to be offered of £4.4m has been recommended for cabinet approval.

This is the maximum indemnity at any one time, and based on the amounts required to cover 100 properties.

£2.2m would be required for 50 and £8.7m for 200.

The Council will receive a premium of a fixed amount per mortgage completion, modelled at the typical rate of 3%. This model assumes that an average of 5% of mortgages are redeemed and renewed each year.

4 Av rent to be charged

Max rent we could charge pcm

Monthly mortgage paid on 66.5% of av 3 bed

£860

Av rent for 3 bed property pcm

£1,350

Difference = max rent chargeable

£490

Say

£490

Maximum rent

Intermediate rent we could charge pcm

£475

£475

Intermediate

Min rent we could charge pcm to recover investment

Interest pcm at PWLB loan rate

£459

£460

Minimum rent

5

Annual rental income when running at full property purchase:

	Option 1: Maximum rent	Option 2: Intermediate	Option 3: Minimum rent
A: 50 properties	£294,000	£285,000	£276,000
B: 100 properties	£588,000	£570,000	£552,000
C: 200 properties	£1,211,280	£1,174,200	£1,137,120

6 Rate of scheme uptake

Purchases per year	2016/7	2017/8	2018/9	2019/20	Total
A: 50 properties	15	35	0	0	50
B: 100 properties	15	60	25	0	100
C: 200 properties	15	60	75	50	200

The financial model assumes that a maximum of 4% of the total property purchases in Slough Borough Council over the first three years will be made using the LAPP scheme.

7 Sensitivity analysis

Option B2 is developed based on average rents for a 3 bed property at £1,350, The following analysis shows that av rents could be as low as £1,265 before the breakeven point is reached.

Option B: 100 properties	B2	Breakeven
Average SBC rents	£1,350	£1,265
SBC rent on 30% share of property held	£475	£405
TOTAL CAPITAL commitment	£13,625,798	£13,625,798
REVENUE:		
Rental stream - over 25 years	(£15,300,954)	(£13,046,076)
Rent collection costs - over 25 years	£765,048	£652,304
Premium on mortgage receivable	(£1,326,575)	(£1,326,575)
TOTAL REVENUE BENEFIT	(£15,862,481)	(£13,720,348)
Forecast surplus	(£2,236,683)	(£94,550)

Indemnity breakeven

With Option B2 above, assuming an average mortgage turnover of 5% per year, the maximum cumulative indemnity provided over the life of the scheme is £9.3m (i.e. £4.3m on initial 100 mortgages, plus a further £5m as mortgages are granted to new buyers).

Note that if the total properties in the scheme remain at 100, at any one time the maximum exposure will be £4.3m.

Up to 24% of buyers would need to default, with a maximum claim on the indemnity, before the £2.2m forecast surplus is completely eroded.