

ANNEX 1 – DISCOUNTED CASH FLOW MODELLING – JJ VIABILITY – METHODOLOGY

The modelling was conducted by Jane Seymour, Consultant (JJ Viability) and Bradley Tollon, Development Viability Advisor. It considered how development of a new average sized two bedroom social rent home could be funded in both London and the North West of England. It considered the impact of varying both the discount rates used in the valuation of these social homes and the interest rates charged on government loans for the development of social housing.

Valuation of social rented homes assuming different discount rates adopted by councils and for-profit providers

The modelling used a 45 year discounted cash flow to work out the Present Value (PV) of the net rental stream generated by this two bedroom social rented home in both London and the North West. The assumed rents for 2026/27 were £160pw and £110pw for London and the North West respectively with total operating costs of approximately 31% and 37% respectively deducted to calculate the net rent. Rental growth was assumed at 3% to 2036 and 2.5% thereafter with operating cost inflation at 2.5% over the modelling period.

It was assumed that a council would apply a discount rate of 5.5% to value these homes which generated a value of £146,560 for a social rented home in London and £92,670 for a home in the North West.

If a higher discount rate of 6.5% was used, these valuation figures reduced to £124,410 and £78,726 in London and the North West respectively, meaning that additional grant of £22,150 and £13,944 would be required to fund the project. This modelling assumed that the council or for-profit RP could only borrow/invest the PV of the net rental income scheme generated by the property in its development.

Funding the gap between delivery costs and grant rates through PWLB loans

The modelling looked at the loan period and interest rates required for councils to be able utilise these loans to deliver new council homes based on the following;

- Development costs were assumed to be a total figure of £440,000 in London and £230,000 in the North West in line with the assumptions used in the Savills report.ⁱ
- Average grant rates of £220,000 and £83,322 respectively were assumed based on GLA and Homes England published grant rates at 2025/26.ⁱⁱ
- In this modelling, it was assumed that councils could borrow more than the PV of the net income generated by the social rented home. This is in line with current guidance which

does not tie loans for new social housing to the value of individual properties but looks at the overall ability of councils to meet interest and capital repayments from the HRA.

- It was however assumed that interest and capital repayments would be met using the net income from that new home over the assumed loan period. It was assumed that the loan would be paid off over the loan term, as opposed to using maturity loans. This was considered prudent to prevent burdening councils with continued debt.
- The assumptions on net rent were the same as those used for the valuation approach explained above.

A number of scenarios were modelled that considered the impact of:

- The interest rate applied over the loan period and whether this enabled the council to repay both the initial loan and the interest on the outstanding debt.
- The interest rate on councils' ability to borrow the amount required to fund the gap between the development costs and the assumed grant over 60 years.
- The outcome in terms of loan period if loans were available to fund the full development costs at 0.1% assuming no grant was available.

The impact of different interest rates on viability

As tables 1, 2, and 3 below show, high interest rates are making many council housing schemes unviable. This is because the ongoing cost of borrowing is too high to bridge the gap between development costs and the benchmark grant rate, assuming reasonable loan repayment periods.

Interest Rate	London		North West	
	Yr1 Interest	Payback Period	Yr1 Interest	Payback Period
	Cover Achieved?		Cover Achieved?	
6.50%	No	>100 years	No	> 100 years
5.50%	No	>100 years	No	> 100 years
4.50%	No	68 years	No	78 years
3.50%	No	47 years	No	51 years
2.50%	Yes	38 years	Yes	40 years
1.50%	Yes	32 years	Yes	34 years
0.50%	Yes	28 years	Yes	30 years

Table 1

Table 1 above shows the payback period on a range of interest rates assuming councils borrow the full shortfall in development costs after grant funding. Development costs are assumed to be £440,000 per unit in London and £230,000 per unit in the North West with available grant

rates being £220,000 per unit (£220,000 shortfall) and c£82,000 (£148,000 shortfall) respectively.

London			
Interest Rate	Loan Amount	Shortfall	Payback Period
6.00%	£149,000	-71,000	60 years
5.00%	£184,000	-36,000	60 years
4.22%	£220,000	-	60 years
3.70%	£220,000	-	50 years

North West			
Interest Rate	Loan Amount	Shortfall	Payback Period
6.00%	£94,500	-53,178	60 years
5.00%	£116,000	-31,678	60 years
3.98%	£147,678	0	60 years
3.40%	£147,678	0	50 years

Table 2

Table 2 above shows how much councils could borrow assuming 6% and 5% interest and a loan period of 60 years. At both rates there is a shortfall in both London and the North West, meaning the council would not be able to borrow enough money to fund the scheme. This shortfall would need to be made up by additional grant above the average grant rates provided in 2025/26, or from cross-subsidy from section 106 and Right to Buy receipts, or additional surpluses from existing stock if HRA debt is cancelled.ⁱⁱⁱ The table also shows the interest rates and loan periods required to service the full development costs assuming that grant is available at standard rates. In London, the interest rate would need to reduce to 4.22% to enable councils to borrow enough over 60 years or 3.7% over 50 years. In the North West the figures are 3.98% and 3.4% respectively as the net rental income used to cover the loan costs is proportionally lower than in London.

London			North West		
Loan Amount	Loan Period	Yr1 Interest Cover Achieved?	Loan Amount	Loan Period	Yr1 Interest Cover Achieved?
£440,000	43 years	Yes	£230,000	38 years	Yes

Table 3

Table 3 above shows the benefits of providing loans at a finance rate of 0.1% which would enable councils to borrow all the development costs and repay the loan and so no grant would be required. The table shows the payback periods for loans provided on this basis.

ⁱ Savills, [Options for reducing Housing Revenue Account debt](https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/research_options_for_reducing_housing_revenue_account_debt), Shelter, July 2026, https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/research_options_for_reducing_housing_revenue_account_debt

ⁱⁱ Savills, [Options for reducing Housing Revenue Account debt](https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/research_options_for_reducing_housing_revenue_account_debt), Shelter, July 2026, https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/research_options_for_reducing_housing_revenue_account_debt

ⁱⁱⁱ Savills have undertaken prospective modelling over new potential sources of subsidy that draw on existing cash flows unlocked by debt write off (forthcoming).