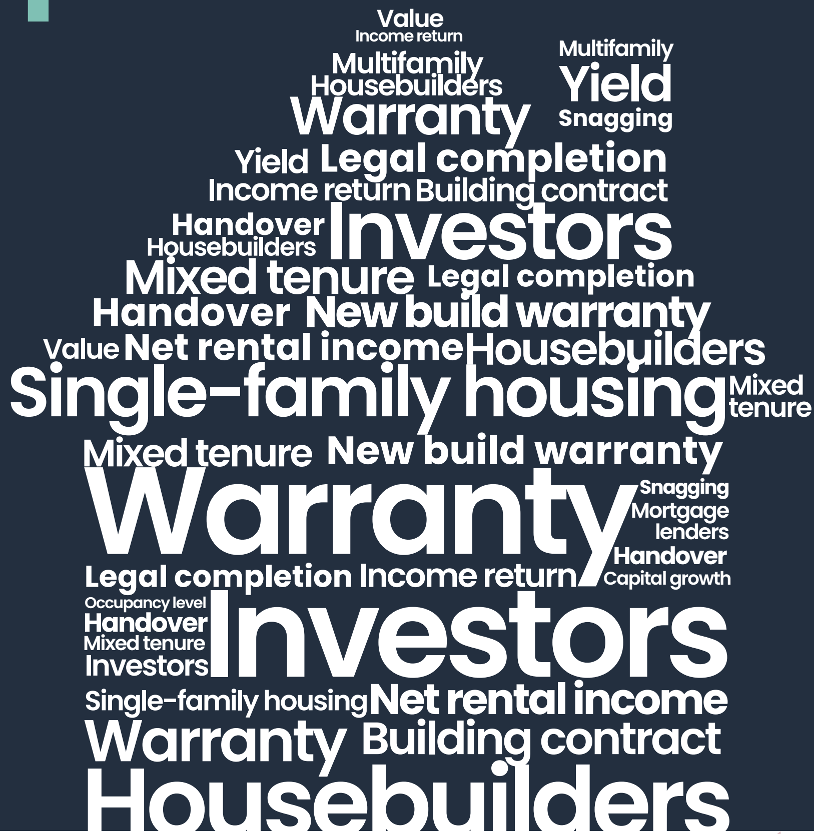
The NHBC single-family housing jargon buster

Breaking down language barriers for better deal making



NHBC

Supported by

WOMBLE BOND DICKINSON

Contacts

Niki Kyriacou

Sector Lead – BTR
NHBC
M: **+44 7543300352**
E: **nkyriacou@nhbc.co.uk**
W: **nhbc.co.uk**

Tom Willows

Partner
Womble Bond Dickinson (UK) LLP
M: **+44 7740 177483**
E: **tom.willows@wbd-uk.com**
W: **womblebonddickinson.com/uk**

NHBC

This introductory glossary of terms is designed to help those working in single-family housing, clarifying the myriad of terminology and vocabulary that has been adopted by this rapidly growing sector. This continually evolving glossary will be an invaluable tool, particularly for those newer entrants to the market.

Absolute return

The return an asset achieves over a specific period, typically expressed as a percentage.

Annualised rent

The total amount of rental income a property is expected to generate over a full year, based on the rent agreements in place. Whether the property is leased on a monthly, quarterly, or any other term basis, the annualised rent calculation provides a view of its earning potential over the course of a year. By annualising rent, one can assess the performance and profitability of a property in a consistent and standardised manner.

Building contract

A building contract where a party engages a contractor to build (or design and build) the development. In some forward funding arrangements there will be a building contract let by a developer outside of the development agreement whereby the developer passes some or all of its development obligations onto a building contractor. In other instances, the development agreement itself and the developer are the building contract and building contractor respectively.

Build to Rent (BTR)

Properties purpose-built for rental including customer service and maintenance support; concierge and/or community curation.

Capital deployed

The amount calculated by deducting the current liabilities from the total balance sheet assets.

Capital growth

The value by which an asset (property) increases over time.

Capitalisation rate

A ratio generated by dividing the annual net operating income by the market value of the property.

Cash-on-cash yield

A calculation to identify the return (being income generated) against the cash invested in a property.

Supported by

WOMBLE BOND DICKINSON

Collateral warranties

A type of legal agreement that serves essentially as a bridge, providing third parties, such as lenders, tenants, or subsequent owners, with a direct contractual link to professionals and contractors involved in the construction or development of a project. These warranties extend certain rights and protections beyond the primary contract, ensuring that the quality of work or services meets agreed standards and specifications.

Council of Mortgage Lenders (CML)

A shorthand term for the point at which a new build warranty cover note is issued for a property. The term arises as that is typically the point at which a mortgage lender would be prepared to lend against a property. The term is used as shorthand and is outdated as CML has been replaced by "UK Finance Lenders' Handbook".

Coupon rate

A coupon or coupon payment is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.

Defects liability period (DLP)

The period after practical completion and handover during which the developer is obliged to continue to be responsible for remedying defects arising with the property.

Delivery versus payment (DVP)

A warranty issued by a professional appointee so that the receiving party benefits from a direct commitment from that appointee. This gives that party direct recourse against the appointee should they fail to act properly in accordance with the terms of their appointment.

Development management

The obligations taken on by a development manager to manage a development project. Typically these include taking some degree of responsibility for ensuring the development progresses in an agreed manner, often in return for a "DM fee". The development manager is not always the developer and is ordinarily a contractual arrangement between a developer and development manager. The developer remains responsible to the investor to procure delivery of the development but sub-contracts some or all obligations to a manager under a development management agreement.

Discount market rate (DMR)

Homes that are offered by Build to Rent owners/investors at a discounted rate on market price. A form of affordable rental housing.

NHBC

Duty of care deed

A deed issued by a professional appointee (such as employer's agent) so that the receiving party benefits from a direct commitment from that appointee to act with an agreed level of skill and care and offering that party direct recourse against the appointee should they fail to do so.

Employer's agent (EA)

The agent employed by either developer or investor (or both) and typically owing a duty of care to the other, being the professional expert who signs off whether practical completion has occurred. Relying on the professional opinion of an insured appointee avoids delays in developer and investor having to agree (or have determined in the event of dispute) directly whether practical completion has occurred.

Estimated rental value (ERV)

The estimated open market rent expected to be achieved.

Forward commitment/ purchase of completed stock

This typically involves a deposit paid at exchange of contracts with the balance paid at completion (which occurs when the homes are satisfactorily completed and ready to be handed over, at which point legal title transfers). Sometimes also referred to as "turnkey" or "bulk deals".

Forward funding

This typically involves a transfer of land up front with a simultaneous but separate development agreement, whereby the (new) owner of the land contracts with the developer to enter onto the land and procure the delivery of the development. This structure may contain tax advantages and allows for early ownership of the site by the investor. "Step in rights" are often required to enable the investor to independently deliver the development should the developer fail. Payments are also made in advance of delivery, which is a cashflow advantage for the developer. This creates some increased risk for the investor which must be weighed against the tax and other benefits for the investor. Sometimes also referred to as "land and build" arrangements.

Gilts

UK government bonds with typically low return rates but regarded as secure with low default rates.

Gross development value (GDV)

The estimated market value for the entire completed development.

Gross rental income (GRI)

Represents the total amount of money collected from tenants or users of a property before any expenses are deducted. It is a crucial metric for property owners, investors and managers, highlighting the property's revenue-generating capability from rental agreements.

Gross rental yield (GRY)

A yield generated by measuring income generated against price paid prior to deducting operating and other costs.

Handover

The handover to an investor of the property and all associated documentation, including certification (such as gas and electrical safety) and other requirements (such as keys) which allow the investor to immediately let the property.

Income return

An assessment (shown as a percentage) of the net income generated over a period as a proportion of the capital employed over that period by the investor.

Internal rate of return (IRR)

A key financial metric that calculates an investment's annualised return rate, guiding investors to assess profitability. By calculating the IRR, decision-makers can identify which projects or investments are likely to yield the best financial returns, allowing for informed strategic planning and resource allocation.

International Financial Reporting Standards (IFRS)

A set of globally accepted accounting principles that guide how companies prepare and present their financial statements. Adopted by companies across over 140 countries, IFRS aim to bring consistency, transparency, and comparability to financial reporting.

Joint venture (JV)

Where two or more entities agree to enter into a commercial arrangement to achieve a specific objective by sharing skills, resources and risk. This can be for a fixed or indefinite period of time and can be project-related or wider in scope.

Leakage

A loss of revenue caused when the rental income does not exceed the property's operating costs.

Legal completion

The legal transfer of title to the investor. On a forward fund arrangement legal transfer of title happens in advance of practical completion and handover. On a forward commitment the legal completion typically only occurs once practical completion is achieved and handover has occurred.

Let up period

The anticipated or actual time to lease/let rental homes.

Like-for-like rental income growth

Measures the increase in rental income from properties owned for comparable periods, excluding the impact of acquisitions, disposals or major developments.

Liquidated and ascertained damages (LADS)

A pre-agreed rate of damages (often expressed on a daily or weekly rate basis) payable to an investor by the developer for late delivery by the developer in circumstances where the developer is not entitled to an extension of time.

Loan to value (LTV)

A measure comparing the amount of borrowing debt in relation to the property as a proportion of the overall value of that property.

London Interbank Offered Rate (LIBOR)

This was a benchmark interest rate at which major global banks lent to one another in the international interbank market for short-term loans. LIBOR has now been phased out and is no longer used by financial markets.

Mixed tenure

Any residential development providing a mix of different tenures within one scheme or development. Tenures may include open market sale owner-occupier; short term market rentals; discount market rentals; shared ownership; affordable rental products, First Homes etc.

Monitoring surveyor

Performing a function similar to employer's agent but typically only engaged by an investor.

Multifamily

An expression derived from the fact that multiple "families" occupy one building, so this is typically taken to mean high-rise blocks of flats. Alternatively known as "Build to Rent apartments".

Net effective rent (NER)

The adjusted cost of leasing property, factoring in discounts and incentives - it offers a true representation of a tenant's financial obligation, simplifying lease comparisons.

Net equivalent yield (NEY)

A time-weighted average of the net initial yield and reversionary yield, representing the return a property will produce based upon the timing of the income received.

Net initial yield/ untrended yield (NIY)

The current annualised rent, net of costs, expressed as a percentage of capital value, after adding notional purchaser's costs.

Net operating profit after tax (NOPAT)

A key financial metric that reveals a company's operational profitability after accounting for taxes but before financing costs and non-operational transactions.

Net present value (NPV)

The difference between the present value of cash inflows and the present value of cash outflows over a period of time. NPV is used in capital budgeting and investment planning to analyse the profitability of a projected investment or project.

Net rental income (NRI)

The profit realised from leasing properties after subtracting all operational expenses associated with maintaining and managing those properties.

Net rental yield (NRY)

The annual net income a property generates as a percentage of its purchase price or current market value.

Net reversionary yield (NRY)

A forward-looking metric that reflects the anticipated yield a property investment is expected to generate once all current leases are renewed at market rental rates.

New-build warranty

A comprehensive insurance policy designed to protect owners of newly-constructed homes against structural defects.

NHBC

Occupancy level

The level or proportion of the available rental homes within a development or scheme that are let out at any given time.

Operating expenditure (OPEX)

The money spent by an operator of a property on the "day to day" running expenses of a property, development or scheme. This is distinct from capital expenditure (or "capex" for short) which is the capital sums incurred from time to time to upgrade property.

Planned preventative maintenance strategy (PPM strategy)

A proactive approach organisations adopt to schedule and perform regular maintenance activities on equipment, facilities and infrastructure. This strategy is designed to prevent unexpected breakdowns, extend asset lifespan and maintain optimal operational efficiency.

Retention

Money held back from final payment due on practical completion/handover which is used as security for the developer's obligations in the Defects Liability Period.

Return on capital (ROC)

The return on the money invested in a property. Sometimes also referred to as "ROCE" (Return on Capital Employed).

Return on invested capital (ROIC)

This measures how effectively a company generates profits from its total invested capital. It provides a clear snapshot of the efficiency with which a business uses the funds invested and is calculated by dividing net operating profit after tax (NOPAT) by invested capital.

Single-family housing (SFH)

An expression derived from the fact that typically a single "family" occupies each building, so this term ordinarily refers to houses rather than flats. Often also referred to as "Build to Rent houses" or "suburban BTR" or "suburban family rental".

Snagging

To many developers, this will mean minor outstanding items which of themselves are not material enough to hold up practical completion (but sometimes which if taken in aggregate in sufficient volumes, can be regarded as something more substantial than snagging items) and which a developer should seek to remedy during a defects liability period. To some investors, this term is used interchangeably with the items identified in the run-up to practical completion which need to be rectified in order to achieve satisfactory practical completion.

Sterling Over Night Indexed Average (SONIA)

A key interest rate benchmark that reflects the average cost of overnight borrowing for banks in the British pound sterling market. SONIA is widely used in the financial industry to price and settle a vast array of financial products, including loans, mortgages and derivatives.

The profitability index (PI) or value investment ratio (VIR) or profit investment ratio (PIR)

This calculates the ratio of the present value of future expected cash flows to the initial investment cost. A PI greater than 1 indicates that the project's returns exceed its costs, signalling a profitable opportunity. Conversely, a PI less than 1 suggests that the costs outweigh the benefits, marking it as less desirable.

Trended yield

The trended yield on cost includes property yield with financing and growth projections, considering factors like market trends and growth. In contrast, the untrended yield on cost looks at an asset's return after purchasing and renovation expenses, without factoring in financing or major market growth trends.

Underwriting cash flow

The stream of cash that flows in and out of an insurance company, primarily from the collection of premiums and the payment of claims and operating expenses related to its underwriting activities.

Void period/risk

The period following completion or handover and before letting occurs. During this period the owner will be responsible for all costs associated with the property whilst not generating any rental income.

Weighted average cost of capital (WACC)

This is a critical financial metric that represents the average rate a company expects to pay to finance its assets, blending the cost of equity and the cost of debt. It is a key indicator of the minimum return a company must earn on its existing assets to satisfy its investors, lenders and shareholders.

Yield

This refers to the earnings generated and realised on an investment over a particular period of time. It's expressed as a percentage based on the invested amount, current market value, or face value of the security.

Notes

Supported by

WOMBLE BOND DICKINSON

NHBC, NHBC House, Davy Avenue, Knowlhill, Milton Keynes, Bucks MK5 8FP
Tel: 0344 633 1000 www.nhbc.co.uk

Supported by

WOMBLE BOND DICKINSON

W202 05/24