



Delivery of new affordable housing

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Content of talk

Over the last four years I've been involved in a large number of transactions concerning the delivery of new affordable housing for rent in Wales, England and Scotland.

These started out as housebuilder/RSL package deals based on turnkey delivery of units under planning obligations. However, as we all know, the delivery of new (or existing) housing stock for rent became heavily constrained due to challenges introduced by the market, availability of government support and changing legislation.

Various RSLs/RPs and local authorities across the UK are now considering ways to tackle the supply issue and coming up with innovative ideas to address supply shortages.

This talk is a brief overview of some of the possible solutions and how different stakeholders (each with differing levels and types of demand and varying ideas) are seeking to address the problem. Many of their solutions following core themes which I have tried to set out.



The delivery conundrum

Key Constraints in delivery of housing stock for rent

- Housebuilder challenges to viability = reduced number of new units via section 106
- RSLs focussing precious resources and bank facilities on refurbishment to meet WHQS due to lack of social housing grants
- Many local authorities have insufficient resources (financial and staffing) to fill the gap
- Government policies are weakening supply solutions (SHG limitations, local housing allowance freezes, procurement delays)



Emergence of New Structures

In addition to package deals and grant funded schemes, RSLs and local authorities are combining to respond to shortages. New structures have emerged. These broadly break down into:

- Specific underwritten projects (Manchester, Cardiff)
 - Repeat joint ventures involving Council and RSLs/ private sector across various sites – (Aberdeen)
 - On lending schemes – local authority to RSL (Edinburgh)
 - Bulk purchasing of existing private landlord accommodation to bring into local authority use and ownership (London Boroughs)
 - Regeneration partnerships to speed up repairs, decant social tenants to better housing and infill existing estates (Milton Keynes, Thurrock)
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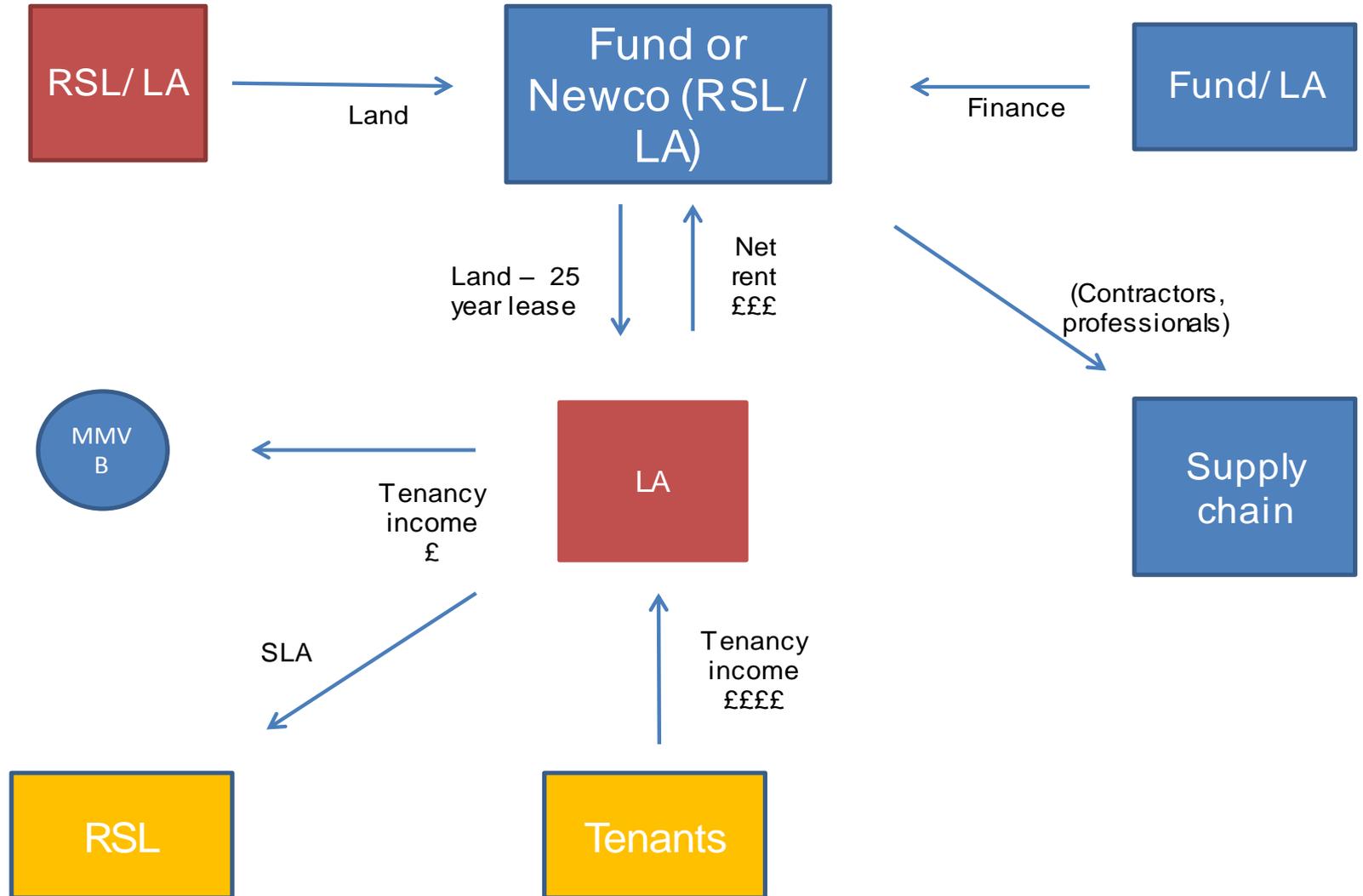


Common Themes – best practice

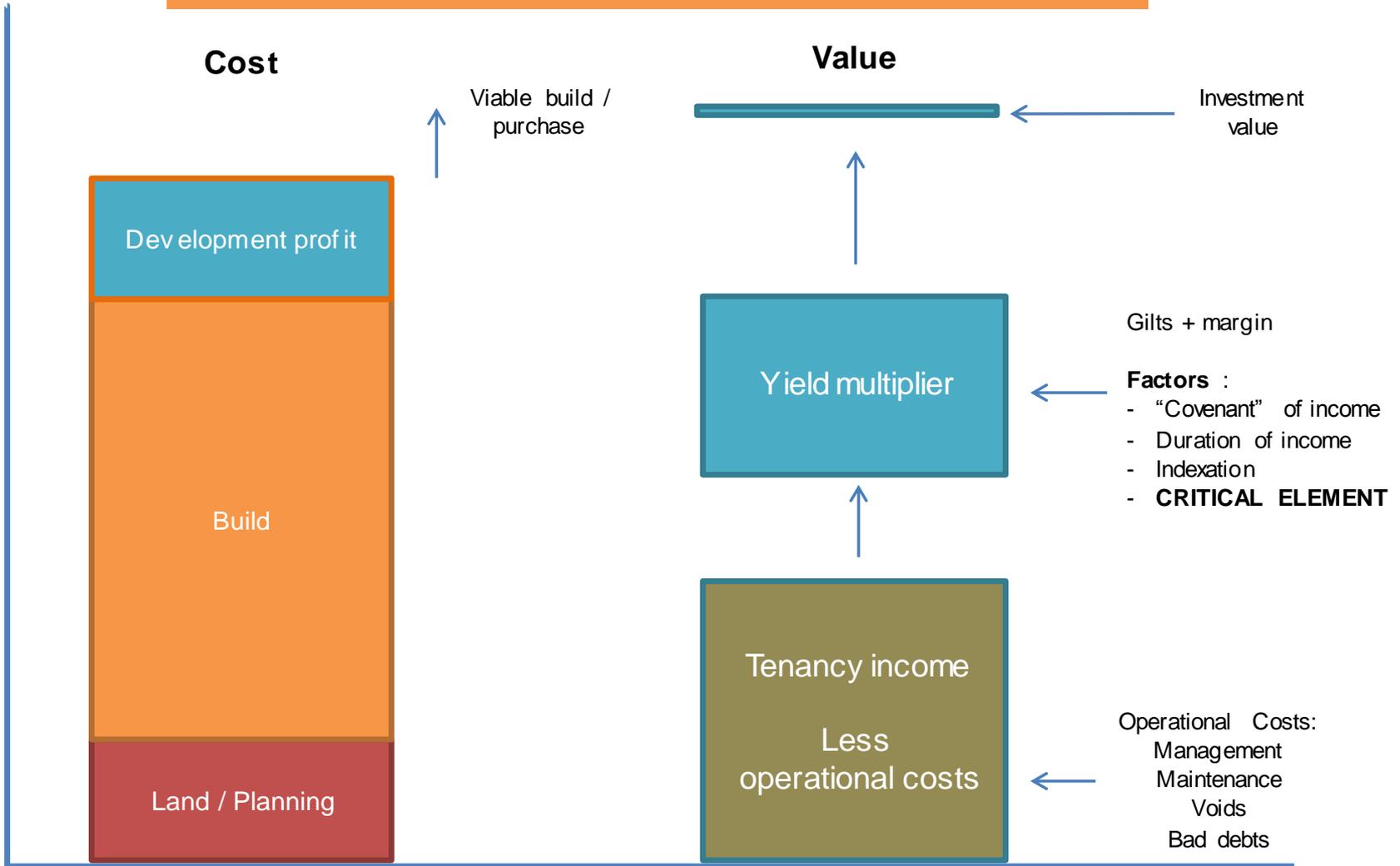
There are several themes that the above schemes have in common:

- Using local authority borrowing power to leverage finance - to decrease reliance on RSL borrowing and involve wider pool of RSLs in development
- Harnessing skills of RSLs on management and maintenance
- Combining skills through joint ventures to demonstrate value for money
- Treating private sector with caution in terms of profit extraction and value for money
- Avoidance of RPI linked funding deals – consideration of other forms such as on lending from local authority
- Consideration of modern methods of construction to decrease build costs with economies of scale

Common Structure



Core Financial Principles – rental property





Important Considerations #1

Procurement and State Aid

- Formation of a joint venture and partner/supply chain selection
 - Restricted, open and competitive dialogue alternatives – timing and advice – **Teckal** structures and RSLs
 - Land supply - State Aid
 - Loans to joint venture – State Aid
 - Benchmarking and market testing JV processes and supply chain
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Important Considerations #2

Joint venture partnership

- Best structure – LLP, LP, limited company, charity
 - Council restrictions (RR7, local authority regulations, conflict management, land supply and loans)
 - risk management tools – risk register, risk manager, board
 - supply chain – profit extraction, external resource, contracting techniques to limit cost
 - Long term asset ownership - benefits
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Important Considerations#3

Rental mix and modelling

- Securing social rent
 - Using “intermediate” rent and PRS as overflow/cross subsidy in calculations and to provided mixed communities
 - Rights to buy – funder perception
 - Quality management, costs and life cycle (Management, maintenance, voids and bad debts)
 - Indexation considerations – fixed interest, RPI and CPI
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Important Considerations #4

Funding

- Leaseback/underwriting structures – advantages and disadvantages
- Use of nominations – as a protection but also as a financial tool
- On / off balance sheet



Important Considerations #5

Viability

- Reduction of build costs – standardisation – MMC
- Grant availability
- abnormals and site servicing
- Cross subsidy – market sales, PRS, other sites



How we can help

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- Structuring advice
 - Links to funders
 - Links to financial modellers
 - Award winning team
 - All Wales framework
 - Successful track record

