



Llywodraeth Cymru  
Welsh Government

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# Innovative Finance

**“Moving from discussion to investment”**

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# Today's Coverage

- What's already happening?
- A role for Welsh Government
- Guarantees
- The Social Housing Revenue Grant
- RCT Homes

# A reality check!!

- 101,000
- 5,000 plus



# A Role for Welsh Government?





# Social Housing Revenue Grant

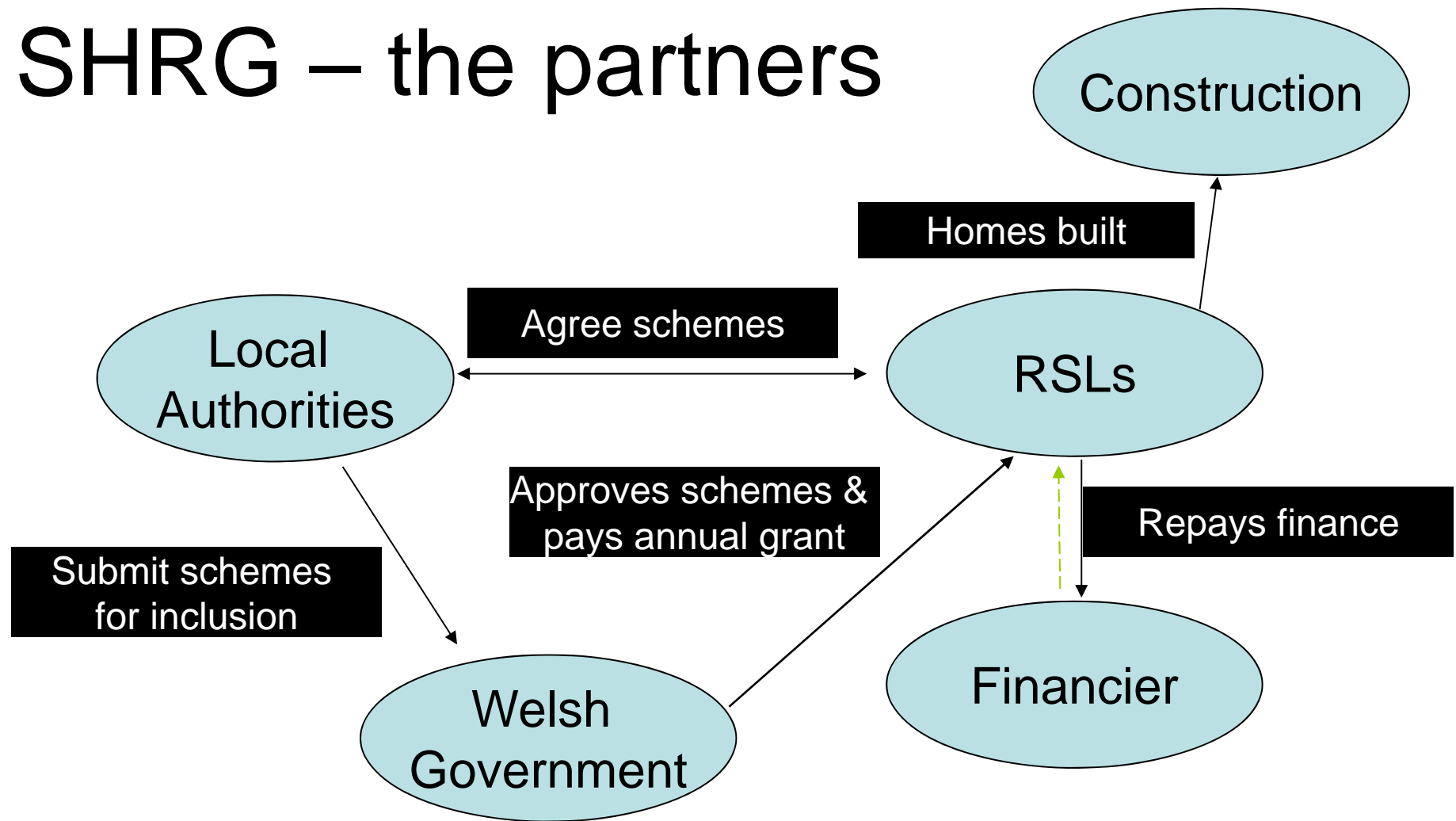
- £4 million per year for thirty years
- Raising through a collective borrowing product £140 million
- Building around 1,000 units across 2.5 years



# Guarantees

- LAMS
- Help to Buy
- Affordable Housing Guarantee
- Private Rented Sector Guarantee

# SHRG – the partners





# Other Schemes

- Warm Wales/BRE/Geo Capital
- Capital Black
- Bellerophon
- Ely Mill





# Summary

- Challenging times but not without hope
- £4 million - £140+ million investment
- Building 1,100 – 1,200 new homes
- New Minister focusing on housing supply
- No lack of investors out there but they want a return

# Achievable reality





# Innovative Finance

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# **Malcolm Wilson**

## **DCEO & Commercial Director**

### **RCT Homes**

## **The Bellerophon Procurement**



# Why we procured

- No Grant
- Want to replace RTBs
- Cost of building high due to low volumes
- Seeking to provide energy efficient homes
- Seeking new sources of funding at significant volumes
- Break the mold with a true partnership
- Challenge from ministers



# The Procurement

- Formed a development subsidiary Porthcwlis
- Went out to OJEU March 2012 for £1 billion funding to provide 11,000 homes
- Seeking a one stop solution for AFFORDABLE housing including funding
- Two tenders
- 24 House types – 13 approved by WG



# The Procurement

- All built to code four standard
- Costs 20 to 30% cheaper than current code three costs
- Bellerophon preferred supplier November 2012
- Framework open
- First schemes start on site September 2013?



## The Structure - delivers

### Bellerophon Housing Model Provides the following.

- ✓ **Quality Affordable Housing without Grant or Public Sector Capital**
- ✓ **Creates True Public-Private Sector Partnership**
- ✓ **Socially Responsible Attitude to Development**
- ✓ **Accessible Procurement Route (Wales & South West England)**
- ✓ **Takes on all Development Risk once incomes agreed from RSLs/RPs/LAs**
- ✓ **Land values created based rental streams with delivery of Affordable Homes!**

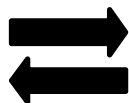
**The Building of High Quality Low Cost Affordable Homes  
Via  
True Public/Private Sector Partnership**



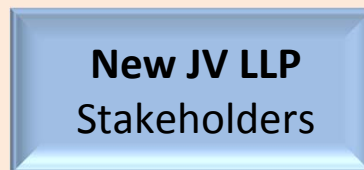


## BELLEROPHON LLP JV STRUCTURE

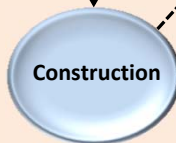
LAND GIFTED TO JV LLP AT ZERO  
COST = LONG TERM EQUITY  
(POTENTIAL CAPITAL PAYMENT AT  
PC OF PROPERTIES)



DEVELOPER RECEIVES EQUITY IN JV LLP FOR  
DEVELOPMENT RISK & DEFERMENT OF 15%  
PROFIT ON COST



### BELLEROPHON FRAMEWORK



Long Term Finance at Build  
Completion

OPERATOR GRANTS 35 YEAR  
FRI LEASE IN RETURN FOR  
EQUITY WITHIN JV LLP





OPERATOR

### Financial Assumptions

Number of Properties	100 (Minimum Lot Size £10m)
Lease Length	35 years
Rent Indexation	RPI (Assumed@2.5%pa)
Operator Costs	25%
Rent Increasing at RPI (FLAT) C&C	0-5%
Void & Bad Debt Assumption	5%
Management & Maintenance	20%



## Cost Comparison Bellerophon v Traditional Sale & Leaseback

	Bellerophon	Private Finance Solution
Land	Injected In return for Equity in LLP/JV	Negative Residual Land Value
Delivery Cost (Construction, Planning & Professionals)	£95,000	£115,000
Developers Profit	Invested	Min. 25%
Funding Term	35 Years	45-60 Years
Total Payments (Funding Term)	£172,636	£413,287
Value of Property (At Year 45)	£143,381	£286,762
Net Life Cycle (At Year 45)	£29,255	£126,525
RATIO (Bellerophon v Private Finance)		

EXAMPLE – 3 Bed House



### All Homes in The **£1 billion** Welsh Scheme to be Let at Intermediate Rents

Plans to build 11,000 new affordable homes in Wales have taken a giant leap forward after the landlord responsible for the £1 billion scheme appointed its development partner.

Developer Bellerophon Projects won the contract to build the homes for Pontypridd-based RCT Homes after it secured funding from a 'major' pension fund. The developer would not name the pension fund at this stage.

RCT Homes first announced its plans for a pan-Wales development company Devco Wales Number 1 in April (Inside Housing, 5 April). The 10,000-home organisation hopes to recruit landlords from across Wales to the for-profit subsidiary in exchange for development land. The landlords will receive an equity stake in the company.

The news will provide a boost to the Welsh Government, which has pledged to build 7,500 affordable homes by 2016 in a bid to cut the country's 91,000-strong housing waiting list. RCT Homes' plan will meet a large proportion of the government's requirements if it is successful.

Bellerophon will enter into joint ventures with local authorities and housing associations to build the homes over the next seven years, carrying out the construction itself.

Three quarters of rental income from the homes will service the investment, with the rest going to the local authority or housing association for management costs. The homes will be built to level 4 of the code for sustainable homes. All the properties will be let at intermediate rents based on local housing allowance rates so the schemes will generate enough income to give the pension fund an attractive return of around 4 per cent but still fall below benefit caps.

Chris Barnett, development director at Bellerophon, said: 'We look forward to concluding the formalities over the coming few weeks and then moving swiftly to the matter at hand - delivering quality housing in sufficient numbers to start to impact on the current Welsh housing shortage.'

Malcolm Wilson, commercial director at RCT Homes in Aberdare, said the first four homes would be delivered ahead of finalising the contract with Bellerophon to fast-track the scheme.

Cardiff-based Bellerophon Projects was set up in February 2011. It is currently working on a 17-acre leisure and retail development in Cardiff Bay for Cardiff Council, plus a 1,000-home scheme in the centre of Cardiff, to include around 250 affordable homes.



# Risks & Mitigations

- The deal is not risk free
- The loan is RPI linked – no more than 10% of stock through this model
- Rents mainly linked to Local Housing Allowances
- CPI/RPI risk around rents
- Cash retained in LLP to offset risk
- Appraisals to establish borrowing done at sub LHA levels



# Risks & Mitigations

- Most tenants not typical RSL tenants
- Management risk different client base
- RSL carries maintenance risk after servicing loans
- Needs to be recognised and different management model contemplated
- Ability to charge higher rents if needed up to market rents
- Developer to reduce equity share if CPI/RPI risk materialises



# Benefits

- No development risk - all carried by developer
- High value schemes can cross subsidise low value schemes
- Funding in place
- Developer takes no profit day one likely to realise between 10 and 15 years
- Developer interested in high quality homes being built as has interest
- After 35 years LLP has debt free homes



# Partners



## Affordable Housing Solution

***"Without the need for Grant Subsidy"***



AFFORDABLE HOMES

CONSTRUCTION

EMPLOYMENT

ECONOMIC STIMULUS

Supported by:



Austin-Smith:Lord



ARUP

Davis Langdon

SCOTT  
BROWNRIGG





# Thank You - Questions

