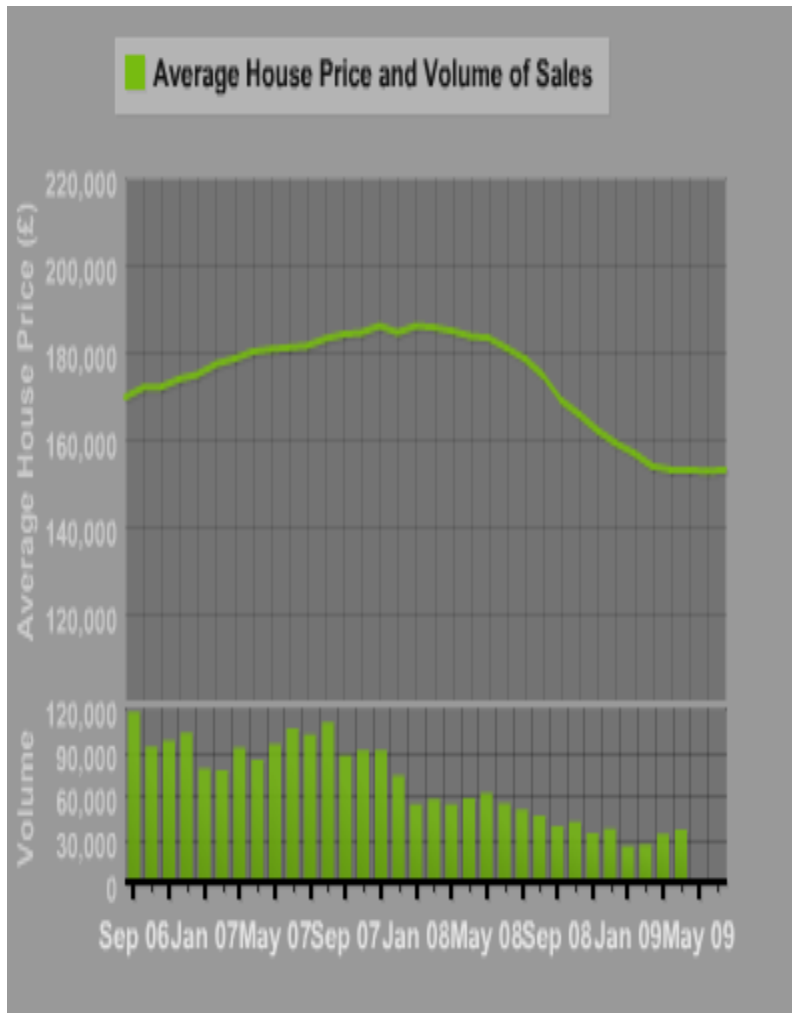


# Structuring Stable Business Deals in a Volatile Development Market

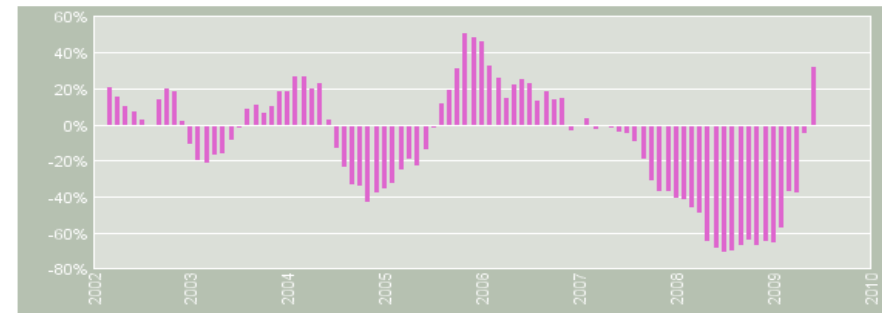
Richard A Jones FRICS | October 2009

# Unprecedented Times



- ❑ Reduction in residential values
- ❑ Historically high land values
- ❑ High densities
- ❑ Planning gain

**Mortgage approvals (% year on year)**



# The Perfect Storm

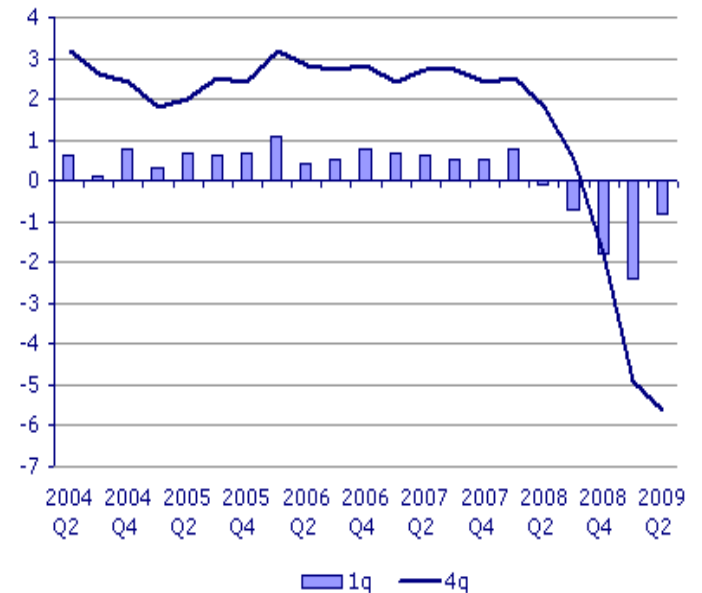


- ❑ Financial liquidity
- ❑ Mortgage pre-conditions
- ❑ Economic uncertainty

## GDP Growth

Economy contracts by 0.7% in Q2 2009

Percentages



# A Transparent Approach



Investment  
and planning  
obligations  
Responding to  
the downturn

Good Practice Note

- ❑ Collaborative and transparent
- ❑ Equitable risk share
- ❑ Strengths and contributions

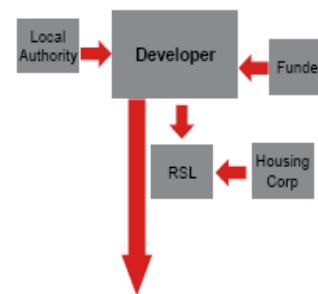
## TRANSPARENT VIABILITIES

### A collaborative approach to development management

45. A collaborative approach to development management can unlock stalled developments, and maximise the value that each party can bring to the development. The optimum scenario is that the parties come together recognising what each can contribute for the benefit of the scheme as a whole and work in partnership on a commonly understood financial basis. The following diagram illustrates the difference in this approach to traditional arrangements.

### Collaborative Planning Approach Transparent Financial Modelling

A need to move from this:



To this:



# A New Model



## Key Business Objectives

- 22. In the context of our vision and business objectives for the period 2008/09 to 2010/11:
  - (i) to establish the H&CA as a leading business
  - (ii) to respond effectively to the needs of our customers
  - (iii) to maintain delivery of our core services
  - (iv) to initiate the single business plan and establish new regional relationships
  - (v) to demonstrate the value of our partnerships, in particular with our delivery partners, by flexing funding structures
  - (vi) to develop and pilot new and innovative delivery tools.

- Different deals
- Different approaches
- Everyone is talking about it!



# Three Main Ingredients



**Asset**



**Money**



**Expertise**

# Two Main Partnerships



□ Public Sector Partnerships

□ Private-Public Sector Partnerships

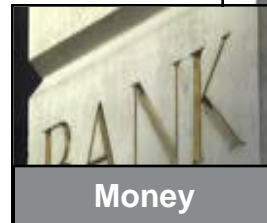
# Public Sector Partnerships



## Local Authorities and the HCA



Asset



Money



Expertise



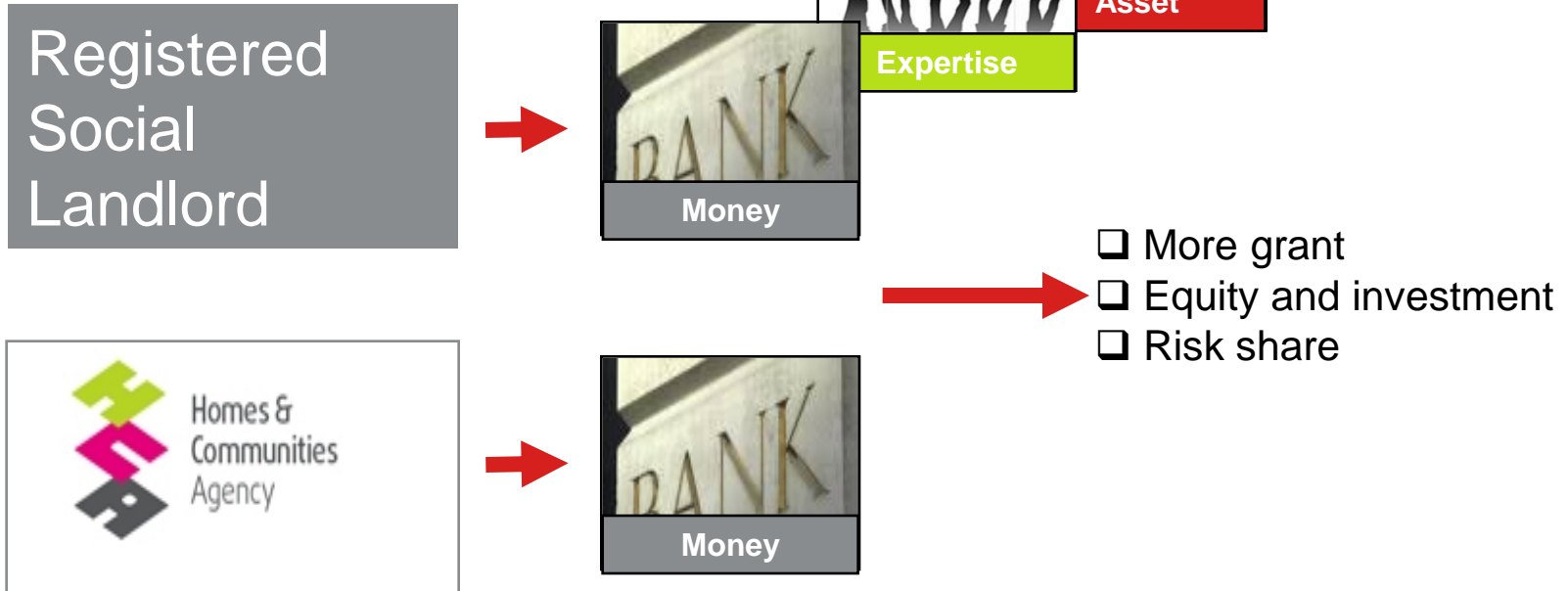
- “Virtual Developer”
- Value generation
- Ring fenced return
- Mutual set of objectives
- Self financing



# Public Sector Partnerships



## ❑ RSL and the HCA



# Public Sector Partnerships

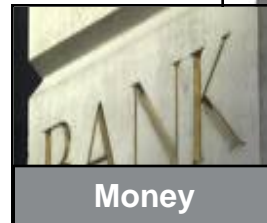


## Local Authorities and RSL's



- Much needed investment
- Regeneration
- Value generation

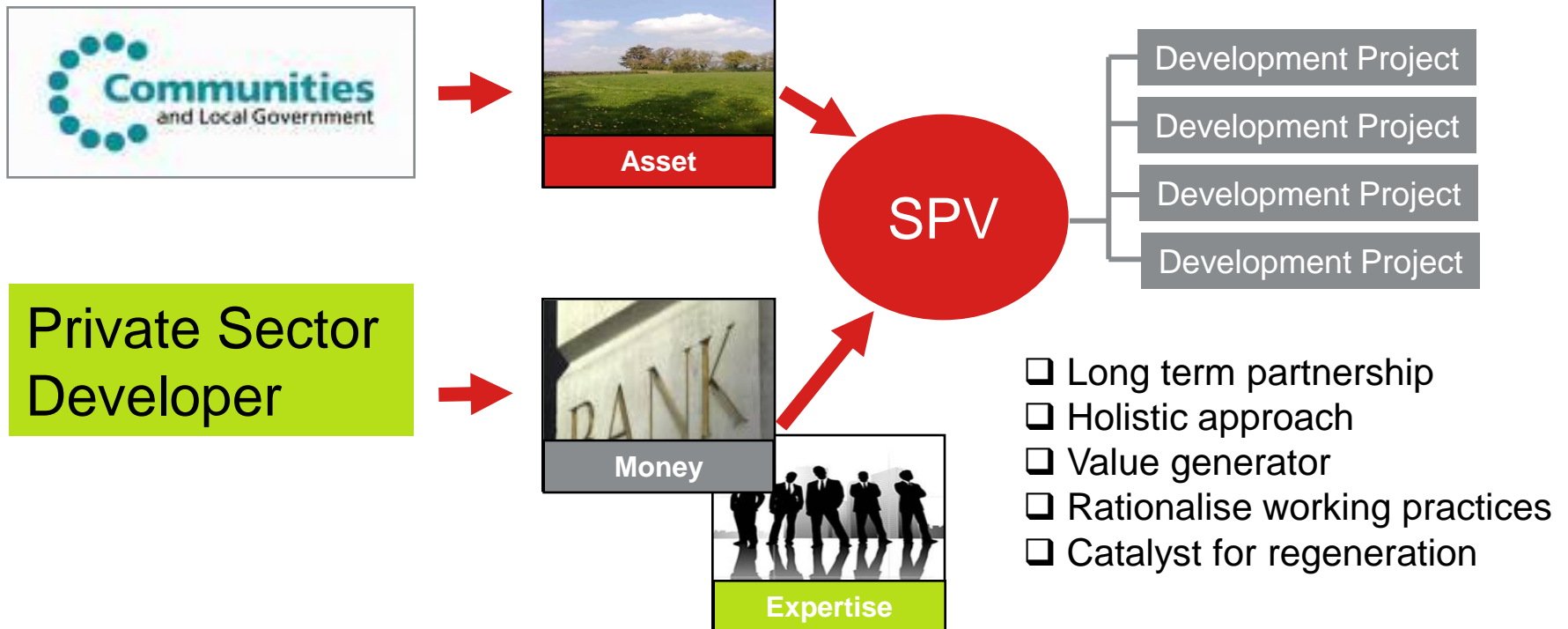
Registered  
Social  
Landlord



# Private-Public Sector Partnerships

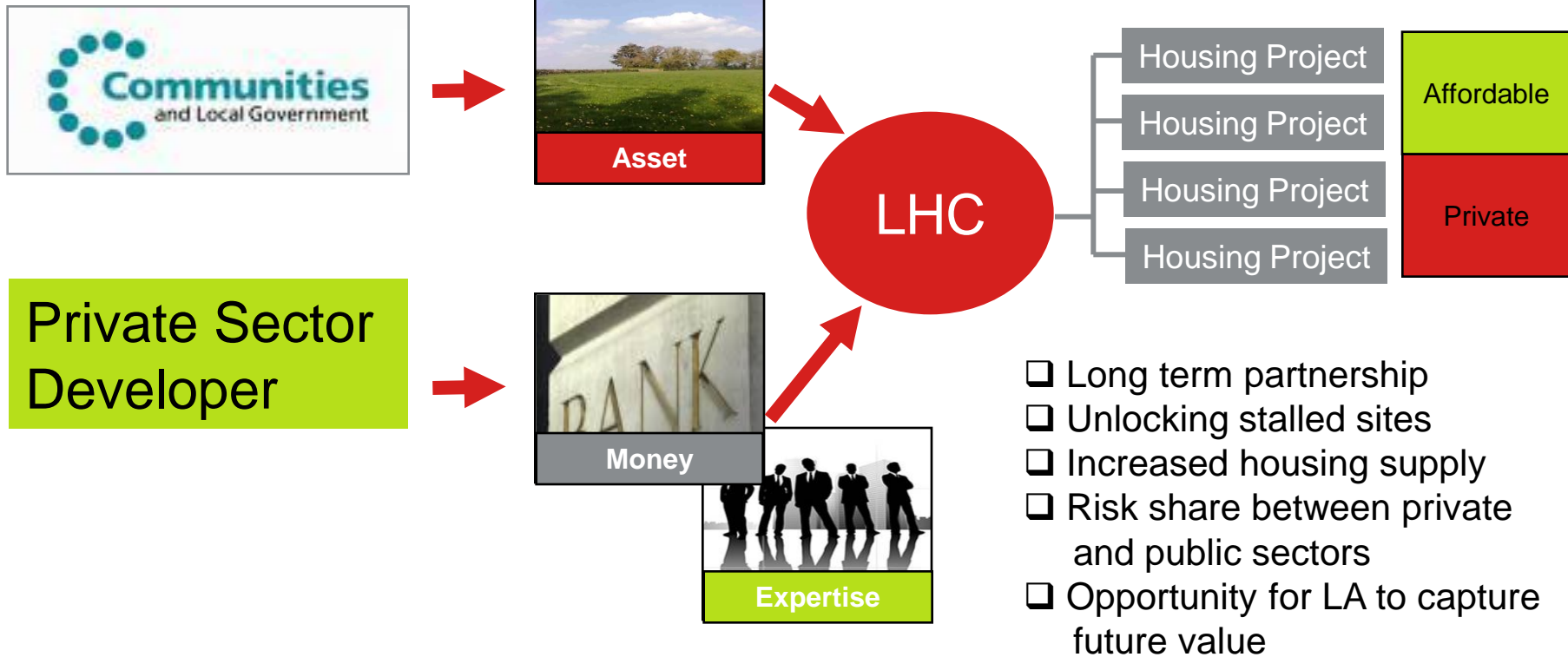


## Local Asset Backed Vehicle



# Private-Public Sector Partnerships

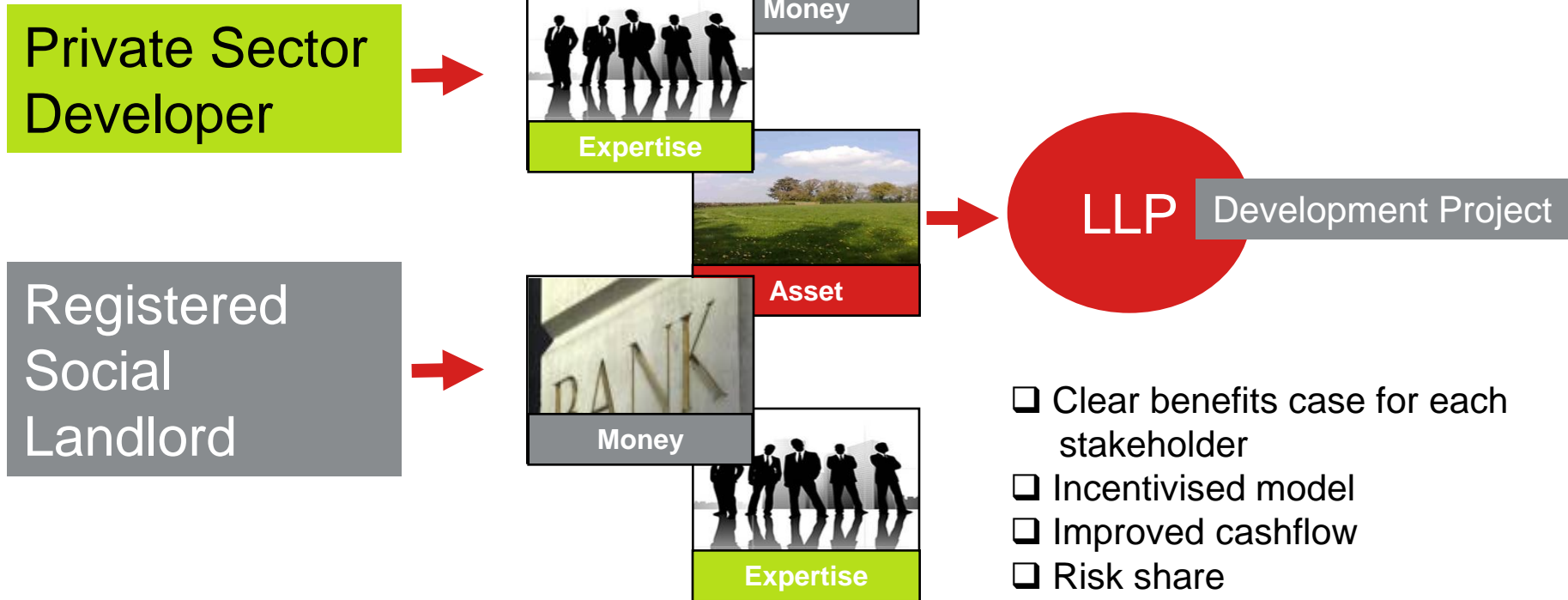
## Local Housing Company



- Long term partnership
- Unlocking stalled sites
- Increased housing supply
- Risk share between private and public sectors
- Opportunity for LA to capture future value

# Private-Public Sector Partnerships

## ❑ The Joint Venture



- ❑ Clear benefits case for each stakeholder
- ❑ Incentivised model
- ❑ Improved cashflow
- ❑ Risk share
- ❑ Competitive supply chain

# Private-Public Sector Partnerships



## ❑ The Collaboration Agreement



Expertise

Private Sector Developer

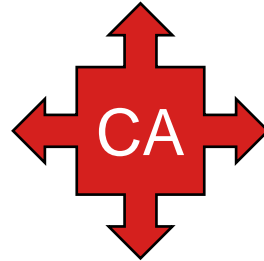


Asset



Money

Registered Social Landlord



Homes & Communities Agency



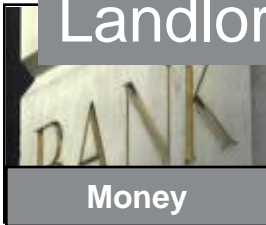
Expertise



Communities and Local Government



Asset



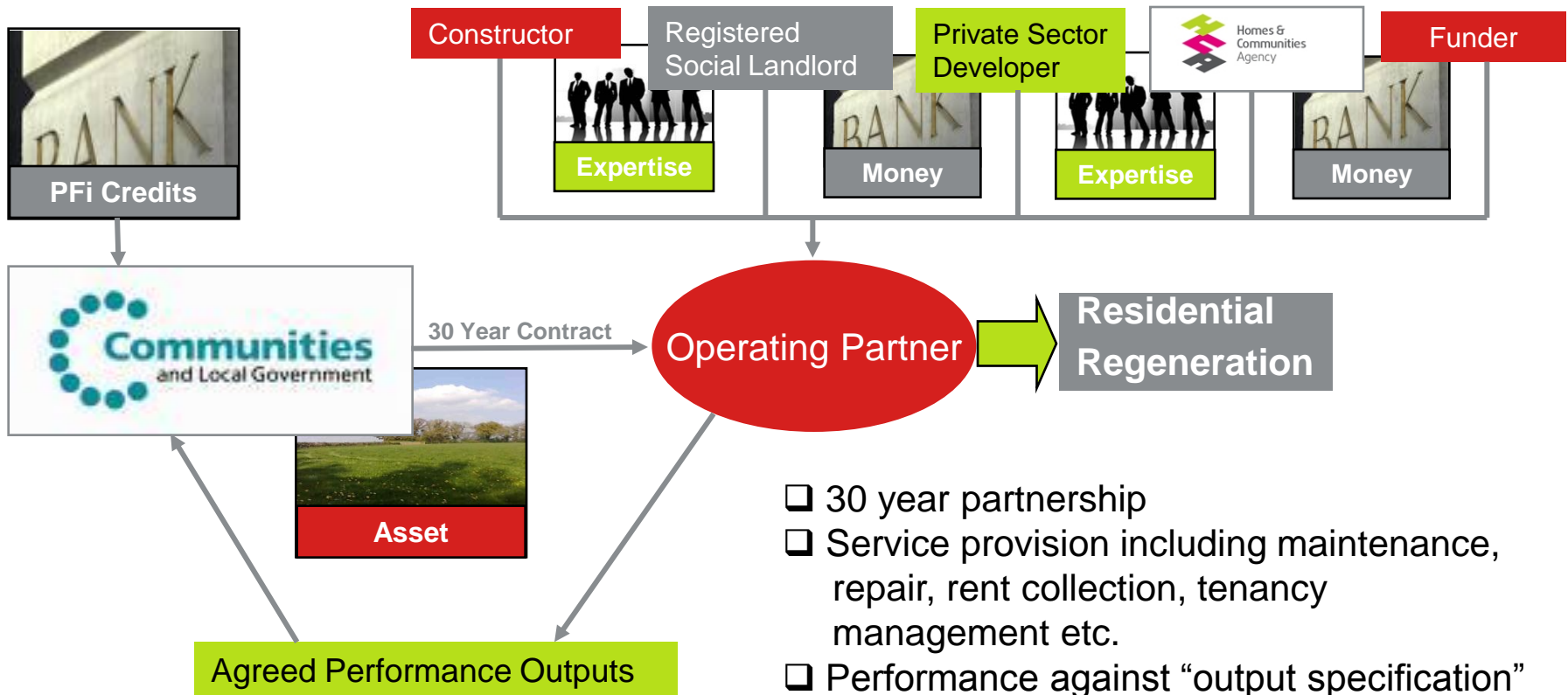
Money

- ❑ Looser arrangements
- ❑ Less complicated
- ❑ Quicker
- ❑ Pre-cursor to a more formal arrangement


# Private-Public Sector Partnerships



## ❑ Residential PFI



# New Initiatives



## Kickstart Housing Delivery

### Unlocking stalled sites

### Assessment

**Expression of Interest**

The Expression of Interest template is available on the HCA website. Contact details are also provided and any queries should be sent to the competition email address in the first instance.

**Expressions of Interest will be reviewed for eligibility against the following criteria:**

- \* stalled site
- \* number of homes
- \* bid not solely for affordable housing
- \* housing led
- \* deliverability
  - planning
  - site ownership
  - ability to start on site and complete
  - absence of site constraints

**Fit and secure**

- \* HomesBy Direct being additional to S106 (and where relevant, existing HomesBy Direct allocations)
- \* agreement to accept the HCA's Heads of Terms
- \* fit with criteria of existing HCA investment
- \* availability of development finance - Finance Direct
- \* and HomesBy Direct price - a maximum £300,000. If it is confirmed that bidders are prepared to pursue an equity towards the purchaser's maximum 30 per cent loan (see Section 6).

**Bids will then be assessed on the basis of:**

- \* indicative value for money against each of the fund programmes and across the total Kickstart investment (where necessary).
- \* planning
- \* deliverability
- \* fit with local and regional policies
- \* local context
- \* mix of tenures
- \* unit types and number of bedrooms
- \* design and quality
- \* sustainability

- Upfront investment
- Infra-structure and other development costs
- Viability test
- £1.06bn allocated





# New Initiatives

- ❑ Higher income yields
- ❑ House Price inflation
- ❑ Build for rent
- ❑ Good rental demand
- ❑ Opportunity to let to Intermediate market

## The Private Rented Sector: its contribution and potential

Julie Rugg and David Rhodes

Centre for Housing Policy THE UNIVER

**EC HARRIS**  
**BUILT ASSET**  
**CONSULTANCY**



Communities  
and Local Government

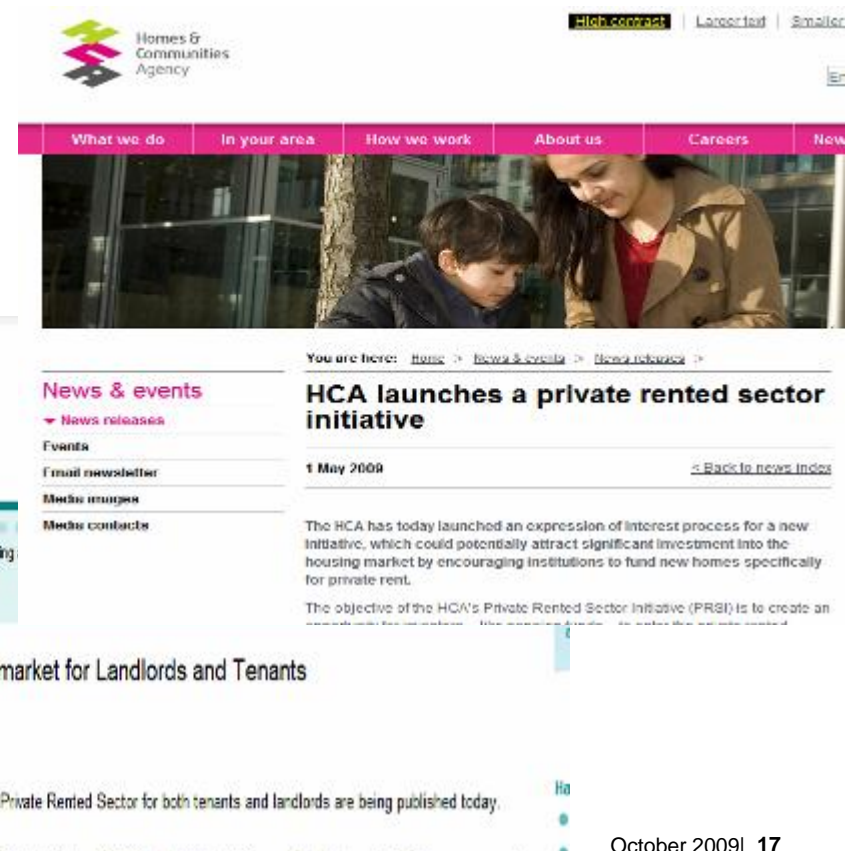
Corporate →  
About us  
Freedom of Information  
Petitions to Ministers  
Research and statistics

Corporate :: Newsroom :: Latest news :: Creating  
[www.communities.gov.uk](http://www.communities.gov.uk)

### Creating a less risky rental market for Landlords and Tenants

Published 23 October 2008

Major recommendations to improve the Private Rented Sector for both tenants and landlords are being published today.



Homes & Communities Agency

High contrast | Large text | Smaller

What we do | In your area | How we work | About us | Careers | News

### HCA launches a private rented sector initiative

1 May 2009 [Back to news index](#)

The HCA has today launched an expression of interest process for a new initiative, which could potentially attract significant investment into the housing market by encouraging institutions to fund new homes specifically for private rent.

The objective of the HCA's Private Rented Sector Initiative (PRSI) is to create an

# New Initiatives



Memorandum of  
Information

Relating to the Contract  
for a **DELIVERY PARTNER  
PANEL**

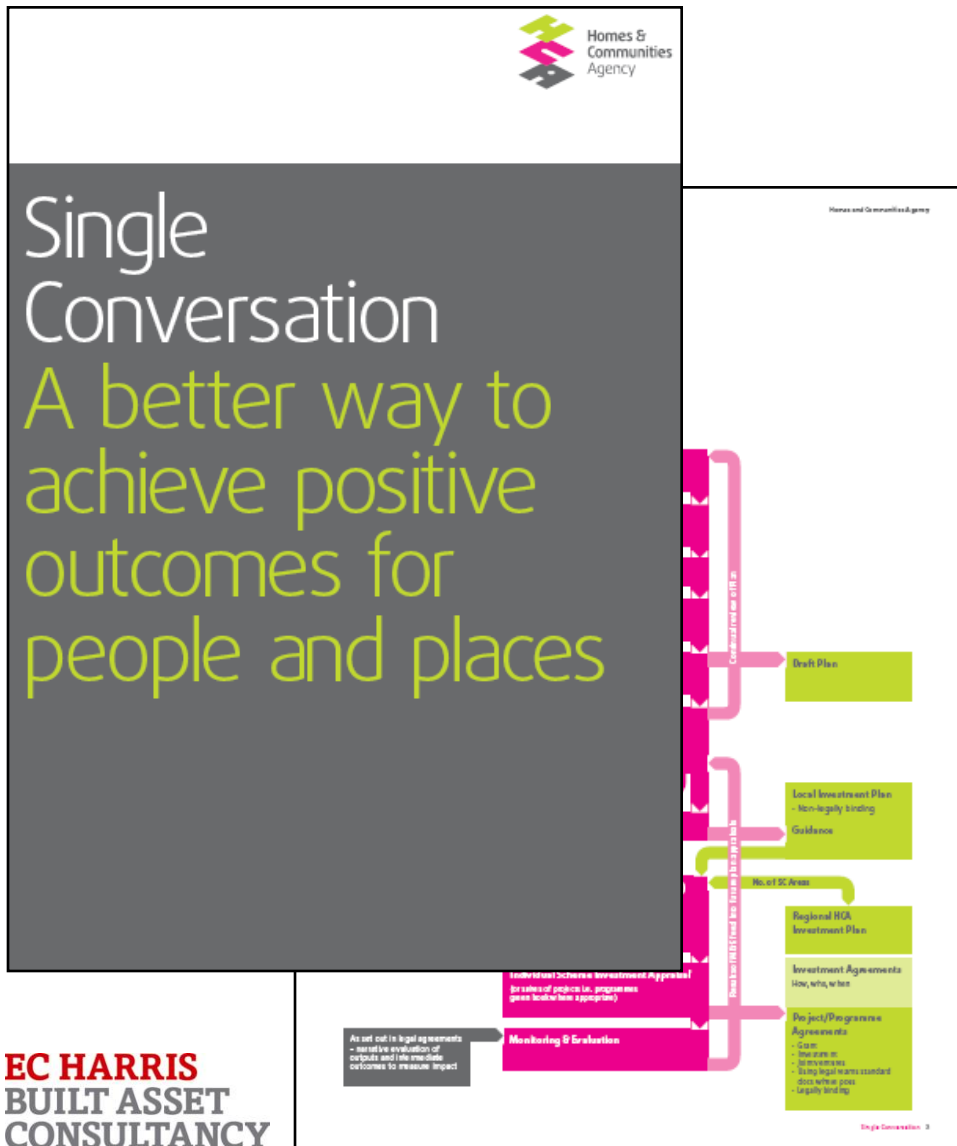
2009 – 2012

- Bring into play other Constructors
- Public sector land
- Deferred payment mechanism
- 1,250 units initially (500 affordable)

## Delivery Partner Panel



# New Initiatives



- ❑ Bridges local ambition and national targets
- ❑ A shared vision through shared investment agreements
- ❑ Secure local delivery
- ❑ Positive outcomes for people and places



# Conclusion

## Structuring Stable Business Deals in a Volatile Development Market

- ❑ Unprecedented times
- ❑ Times of challenge, times of change
  
- ❑ Opportunity
- ❑ Remodel and re-engineer housing delivery



# Conclusion

## Structuring Stable Business Deals in a Volatile Development Market

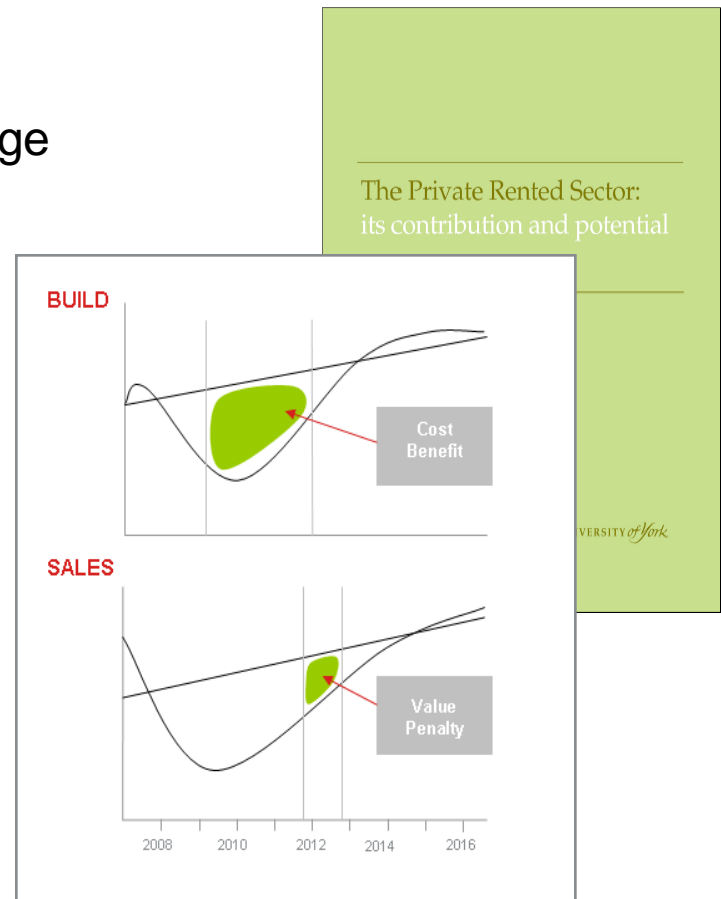
- ❑ Transparency
  - Clarity on drivers for each party
  - Acknowledgement as to what each stakeholder needs from the scheme
  - Transparency on what each party takes away from the deal (financial & non-financial)
  - Agreement on the risk and reward share
  - An agreement which is equitable for all parties



# Conclusion

## Structuring Stable Business Deals in a Volatile Development Market

- ❑ Different and the opportunity to encourage new players
- ❑ Viability – Look at the upside as well as downside



# Conclusion

## Structuring Stable Business Deals in a Volatile Development Market

- ❑ Risk strategies that provide comfort to the key stakeholders
- ❑ Benefit, both financial and non-financial
- ❑ Holistic business case creates sustainability



# Conclusion

## Structuring Stable Business Deals in a Volatile Development Market

- ❑ The challenge for individual organisations is to understand the direction of change and to adapt accordingly
- ❑ The challenge for the industry as a whole is to see how the new models may be harnessed to meet the very much unsatisfied demand and need for homes

