

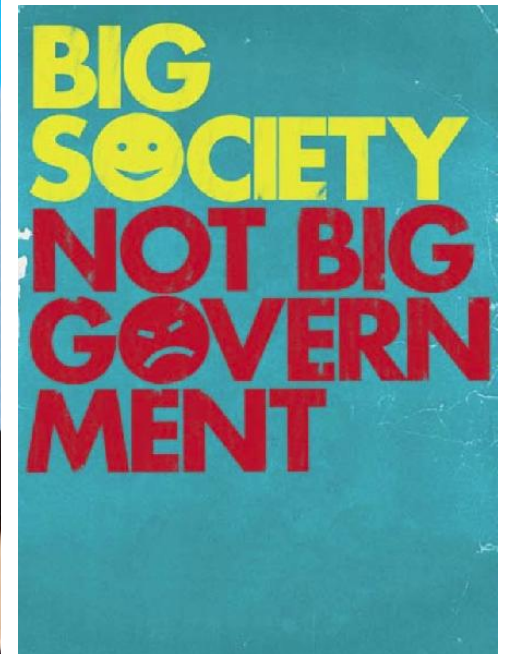
Understanding The Skill Set Needed To Deliver Housing In A Changed World

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Uncertainty in the Housing Market



Things are Different



Three Elements



Market



Management



Risk

Market

- One dimensional short term view of value
- Weak and unpredictable value growth
- The need for;
 - strategic long term view of the pricing points in the market
 - the local new build premium and its rate of decay over time
 - understanding the prevailing and likely future housing liquidity
 - evaluating the profile of current and likely future demand
- Shaping the market rather than reacting to it



Market

- Key decisions supported by robust credible evidence
- The potential for future value
- Value profile can increase beyond the development process
- Emerging alternatives – rental, part rental?
- Shifts in the market will require different skills



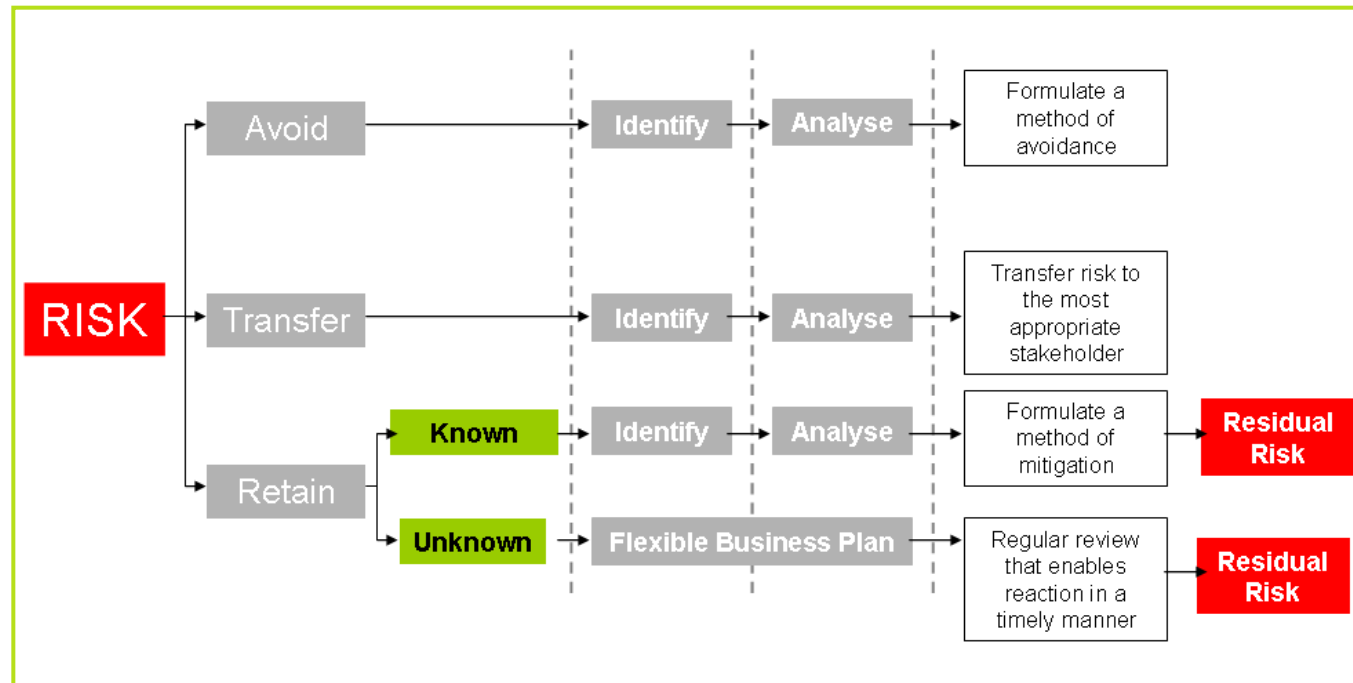
Management

- Working collaboratively with different players
- Single combined equity approach
- Different strengths and contributions from different partners
- Trust requires transparency of the “deal” for all stakeholders that is transparent and equitable
- Skills audit – success will rely on a comprehensive blend of skills
- Comprehensive benefits case, both financial and non-financial
- Understand, align and blend different interests
- Comprehensive, complementary and aligned



Risk

- Biggest barrier to action
- Lowering risk can open the way to more sources of funding
- Risk plus Opportunity



Risk

- Known risk – good risk management practice
- Unknown risk – a flexible business plan
- Good risk management should;
 - create value
 - be an integral part of the decision making process
 - be transparent
 - based on the best available information
 - quick, dynamic and responsive to change
 - use the most appropriate skills
 - be placed with the most appropriate party



Rethinking the three key elements



Market



Management



Risk

A simple example

Traditional Appraisal Model

Revenues					
Private Sales	650	units	@	£250,000	£162,500,000
Affordable Housing	350	units	@	£75,000	£26,250,000
Grant	350	units	@	£0	£0
Revenue	Sub-Total				£188,750,000

Costs					
Land	1000	plots	@	£30,000	£30,000,000
Build	75,000	m2	@	£1,300	£97,500,000
Infra-structure	lump sum				£20,000,000
Planning Obligations	1000	units	@	£10,000	£10,000,000
	upfront payment for specific infra-structure				£10,000,000
Fees					£10,000,000
Finance					£10,000,000
Costs	Sub-Total				£187,500,000

Headline Margin					1%	£1,250,000
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A Simple Example

Adopting some of the principles referred to:

Market (Skills: Strategic market research and analysis)	
1. Create the market rather than replicate it. Right product in the right location establishes "place making" credentials that outperforms adjacent benchmarks	say 5% on value
2. Consider the relationship of value and cost growth, what is the likelihood of value growth outstripping cost growth over the project programme	say 5% on value
3. An optimised sales rate that , because the product is right and the location is right sells quicker. In addition our model is flexible and the product is able to change to match demand so it has the potential to always be achieving maximum sales.	say 10% reduction on finance
Management (Skills: Collaborative working/ financial management)	
4. Working collaboratively with a Local Authority who has the land but does not need to crystallise value until value generation.	No upfront land payment, 25% reduction in finance costs
5. Establish a proposition that looks attractive to the HCA: An investment opportunity that allows the use of HCA funding more flexibly (eg upfront payment)	Upfront fees and infra-structure costs covered, 25% reduction in finance costs
6. Establish a proposition that looks attractive to the HCA: being able to demonstrate non-financial as well as financial benefit eg. Sustainability, employment profile etc.	Certainty of HCA funding
7. Establish a proposition that looks attractive to the Funders: being able describe the business case in their terms, and ensure that it acheives their required Kpi's	Certainty of private funding
8. Create a proposition for an RSL partner who may be willing to provide cross subsidy on the affordable housing to cover build cost (Through the opportunity to maybe share in open market risk)	say £30,000 per affordable housing unit
9. Transparency of business case allows a collaborative working relationship with LA that establishes a "smoothed " cashflow across s106 and Infra-structure requirements. In addition the opportunity to work with the Local authority and use their local knowledge /planning expertise to get a better planning	10% reduction in finance charges
Risk (Skills: Risk management/ financial engineering)	
10. Model different tenure groups eg Private Rented, to ensure that the business plan is able to react to changes in the market	Flexibility of business plan
11. Establish risk appetite of all strategic partners and model the range of their contribution.	Flexibility of business plan
12. Programme scenerio testing, to see the impact on viability and fundability of different delivery profiles	Flexibility of business plan

A Simple Example

A New Approach with New Skills

Revenues				
Private Sales	650	units	@ £275,000	£178,750,000
Affordable Housing	350	units	@ £75,000	£26,250,000
RSL Subsidy	350	units	@ £15,000	£5,250,000
Grant	350	units	@ £50,000	£17,500,000
Revenue	Sub-Total			£227,750,000
Costs				
Land	1000	plots	@ £30,000	£30,000,000
Build	75,000	m2	@ £1,300	£97,500,000
Infra-structure		lump sum		£20,000,000
Planning Obligations	1000	units	@ £10,000	£10,000,000
		upfront payment for specific infra-structure		£10,000,000
Fees				£10,000,000
Finance				£4,000,000
Costs	Sub-Total			£181,500,000
Headline Margin			20%	£46,250,000

Comparing Skills

DEVELOPMENT APPAISAL	OLD MODEL	NEW MODEL
	Current day cost , current day value	Comprehensive, transparent and flexible appraisal model
REVENUES	SKILLS USED	SKILLS USED
PRIVATE SALES	•Estate Agency Pricing	•Strategic Market Research and analysis •Market forecasting
AFFORDABLE HOUSING PRICE	•Pure Procurement	•Housing Consultancy
PUBLIC SECTOR GRANTS	•Pure Procurement	•Housing Consultancy
OTHER		•Ground Rent expertise •ESCo/InfraCo expertise
less		
COSTS		
LAND	•Negotiation	•Financial engineering
RESIDENTIAL BUILD COST	•Historic Cost Benchmarking	•Cost Consultancy/Engineering •Value Engineering •Cashflow Analysis •Specialist infrastructure costing expertise •Cost forecasting
INFRASTRUCTURE	•Historic Cost Benchmarking	•Partnering skills •Planning expertise
PLANNING OBLIGATIONS	•Planning Policy/Negotiation	•Financial engineering
FINANCE	•Internal Audit skills	
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MARGIN	•Delivery skills	•RISK MANAGEMENT

Conclusion

- For the ambitious an opportunity to drive the housing industry in a much more smarter, dynamic and ultimately profitable way
- If the right skills are in place it does not need to come with greater risk
- Partnerships are an imperative
- Different skills required
- Creating the market, collaborative working, and financial engineering are all new skills
- There is the challenge!

