



NO SAFETY NET – Managing Assets in the New Environment



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We will cover the following:

- The Knowledge – understanding and managing the performance of your assets
- Sweating your assets– creating capacity for investment in improvement and development by charging affordable rents
- Trading assets to generate cash – stock rationalisation, decommissioning and disposal
- The NHF Good Practice Guide to Asset Management
- Carry on Maintaining
 - NHF Guide to Repairs and Maintenance
 - best practice
 - strategy, planning and advanced management techniques.



The Knowledge

Understanding the performance of your assets

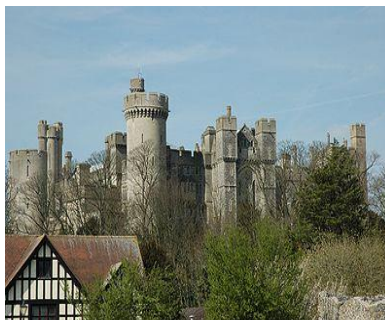
Understanding the performance of your assets

- Measure the **long term** performance of your assets
- Use modelling techniques to analyse worth
- Helps plan for replacement or modernisation of properties
- Provides an objective baseline on which to make investment decisions
- Generates candidate list for option appraisal
- Managing risks
- It's a component of business planning



Traditional thinking: “Static Asset Management”

- Properties remain in social housing forever
- “We built it so we’re the right landlord to manage it”
- Stock Survey provides Asset Intelligence
- Delivery of works programmes
- Managing budgets & spending money wisely
- Worst first
- Typical choices: invest or remodel



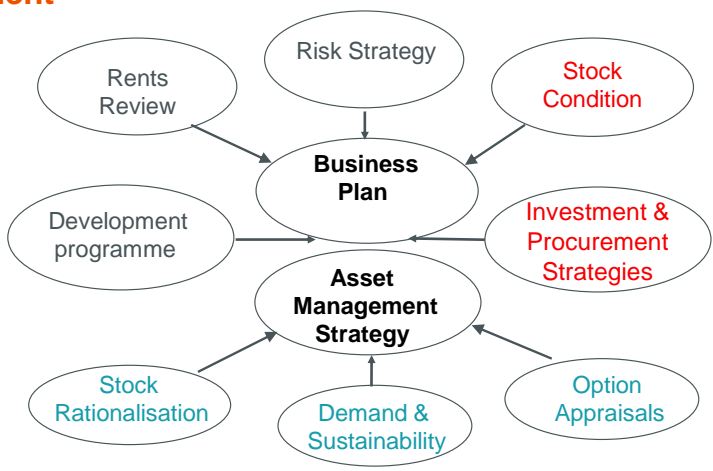
What is Active Asset Management?

- Using Economic Intelligence
 - Analyse worth
- Appraisals of the widest range of options
- Manage risks
- “Investment” means getting a return for landlord and tenant
- It’s a component of business planning



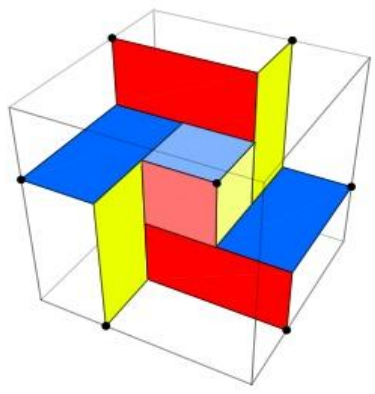


A key component of business planning



There you go making it complicated....

Can we make it more simple?



So how do we make sense of our assets?

- Use Net Present Value wizardry to measure worth to the business
- Combine with other factors
- Sort
- Explain
- Derive strategy



OK – So what's yours worth?

- Market value
 - Market Value with Vacant Possession
 - Market Value for Rent
 - Transfer value - from stock rationalisation
- Economic value
 - Net Present Value - worth to you the Landlord
 - Existing Use Value - worth to another Landlord





What's it worth to you? Street Properties - High Stock Investment

- Market Value - VP - £235k
- Market Value - Rent - £165k
- Net Present Value - worth to the Landlord - £50k
- Transfer value - from stock rationalisation - £60k - £90



What's it worth to you? Flat in Street Properties - High Costs

- Market Value - VP - £500k
- Market Value - Rent - £425k
- Net Present Value - worth to the Landlord - £60k
- Transfer value - from stock rationalisation - £60 - £80k





What's it worth to you?
Estate Houses -
Low Stock Investment

- Market Value - Vacant - £100k
- Market Value - Rent - £75k
- Net Present Value - worth to the Landlord - £25k
- Transfer value - from stock rationalisation - £45k



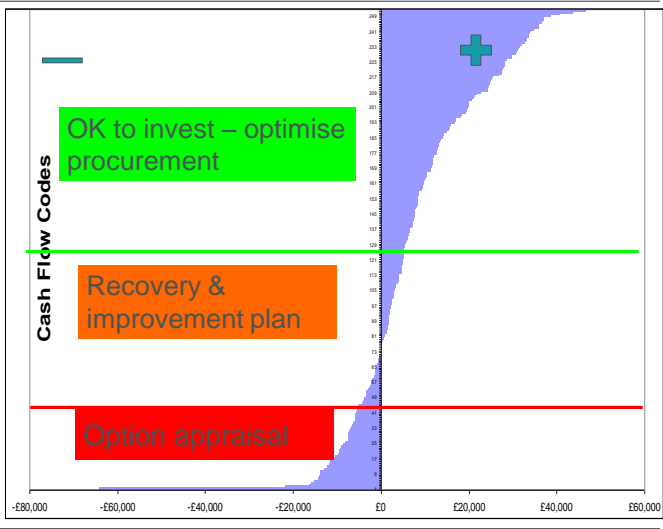
What's it worth to you?
Sheltered Units -
High Stock Investment

- Net Present Value - worth to the Landlord - £25k
- Transfer value - from stock rationalisation - £0
- Net Site value - £7.5k
- Market Value for Rent or other uses - £45k – typically achieving £1.5 - £2m per scheme

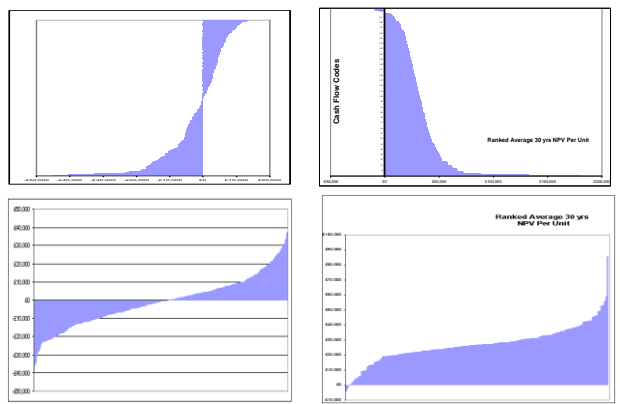




Identifying and managing under-performing assets

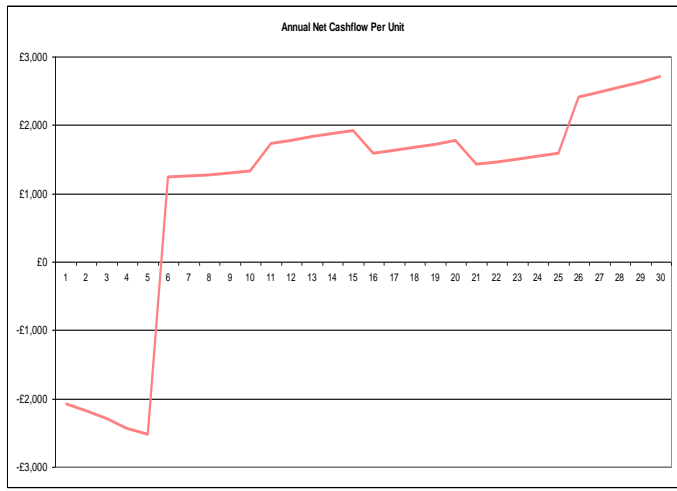


A Universe of Curves - which is you?

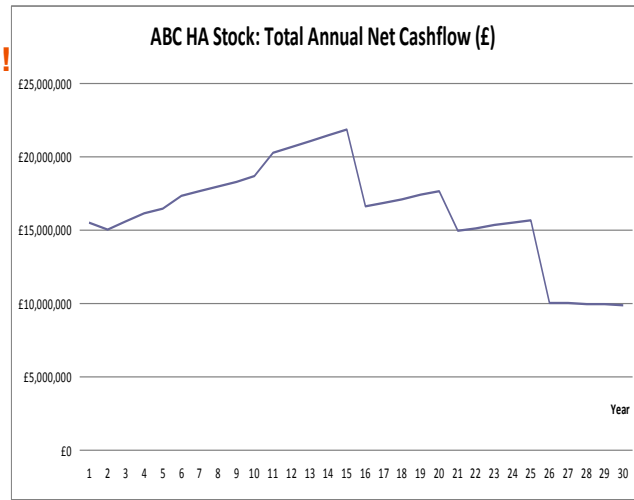




Cash Flow Per Unit - Invest & Enhance

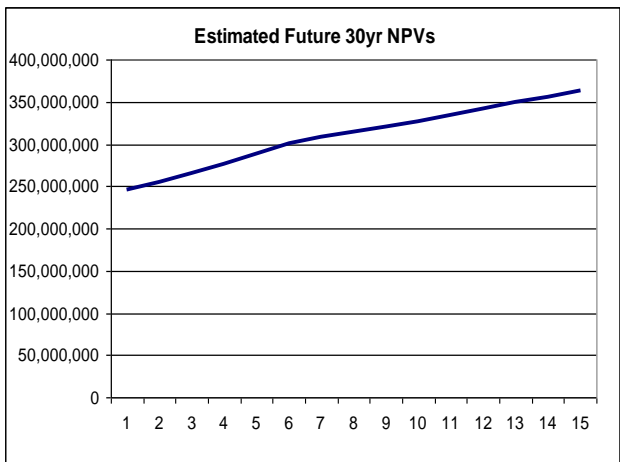


Cash Flow - Begin Replacement Now!

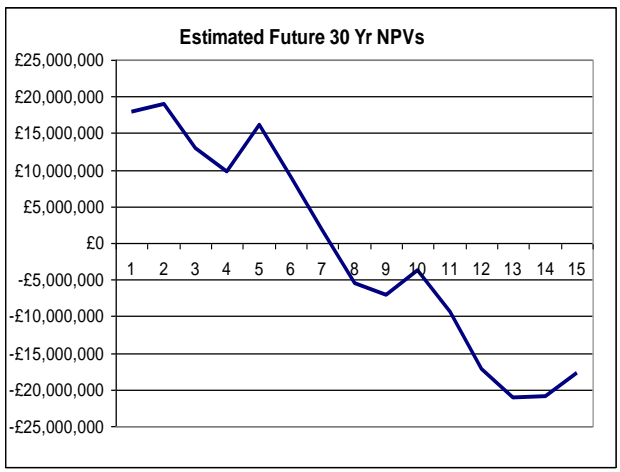


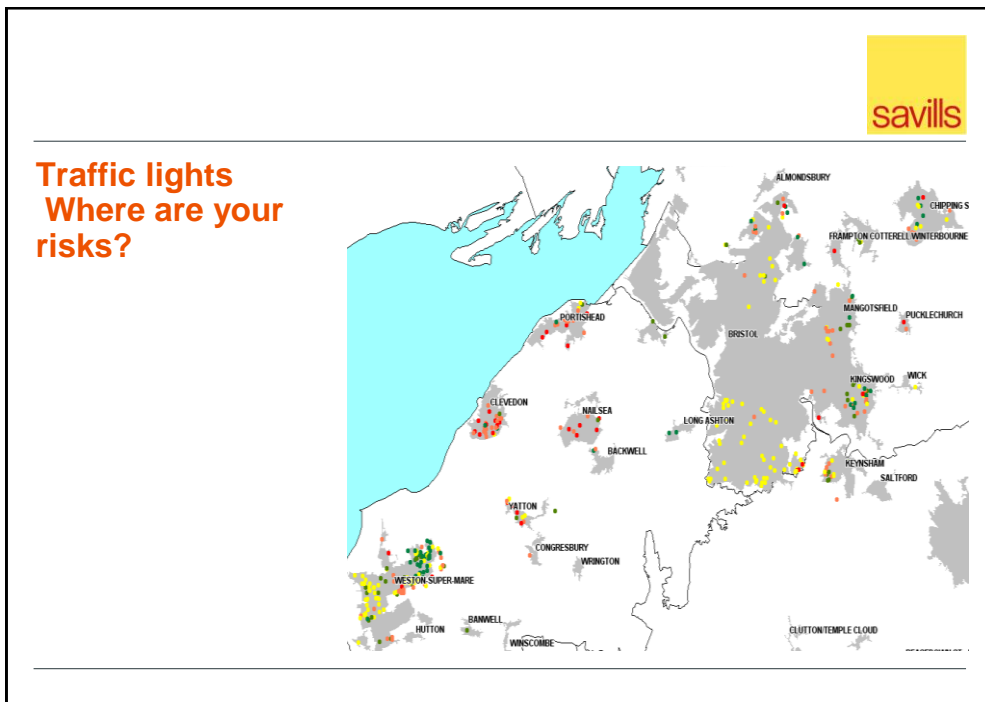


Estimate of Future Value



Going down! - worst performers





**Traffic lights
Where are your risks?**

Candidate List of poor performing asset groups	Cashflow Code	NPV pu 30yr
	Gasworks House Trad Gen ExNT (158)	-£3,435
	Woodnorth House Trad Gen ExTDC (148)	-£3,346
	Malinslee1 Flat Trad Gen ExTDC (18)	-£3,303
	Shawbirch Flat Trad Gen ExTDC (9)	-£3,272
	HighSt Flat (+1xBung) Trad Gen ExNT (176)	-£2,800
	Madleytrad Bung Trad Gen ExNT (68)	-£2,679
	HollinNdev Flat Trad Gen ExTDC (4)	-£2,472
	HollinsDev Flat Trad Gen ExTDC (106)	-£2,276
	Buxton House Trad Gen ExNT (84)	-£2,063
	Ironbge Bung Trad Gen ExNT (28)	-£1,770
	Randlay Bung Trad Gen ExTDC (19)	-£1,503
	Hillslane House (+4xBung) Trad Gen ExNT (149)	-£1,479
	Brookdev Bung Trad Gen ExTDC (11)	-£1,238
	Well3 House (+3xBung) Trad Gen ExNT (24)	-£1,204
	Lancaster House NTrad Gen ExNT (121)	-£1,203
	WoodSouth House Trad Gen ExTDC (66)	-£1,055
	Lancaster House Trad Gen ExNT (37)	-£932
	Well2 Flat Trad Gen ExNT (22)	-£715
	Hadley5 House Trad Gen ExNT (38)	-£555
	Hadley3 Flat Trad Gen ExNT (23)	-£507
	Ardem Flat NTrad Gen ExNT (14)	-£473
	Ket1 Bung Trad Gen ExNT (47)	-£293
	MadeleyTDC Bung Trad Gen ExTDC (45)	-£291
	DON8 Bung Trad Gen ExNT (15)	-£49

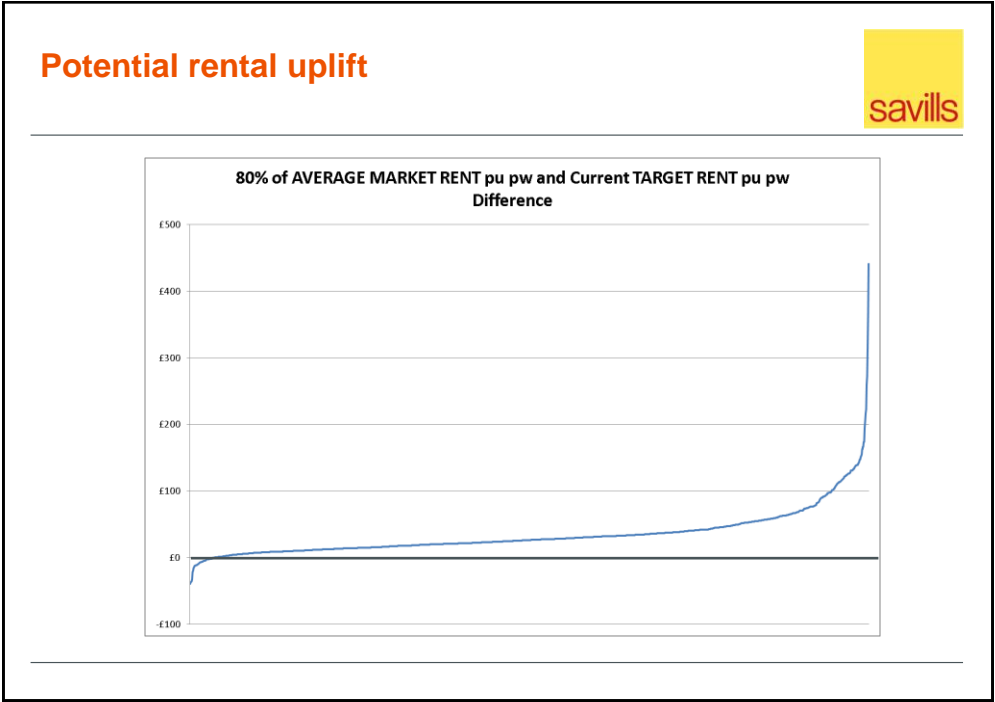
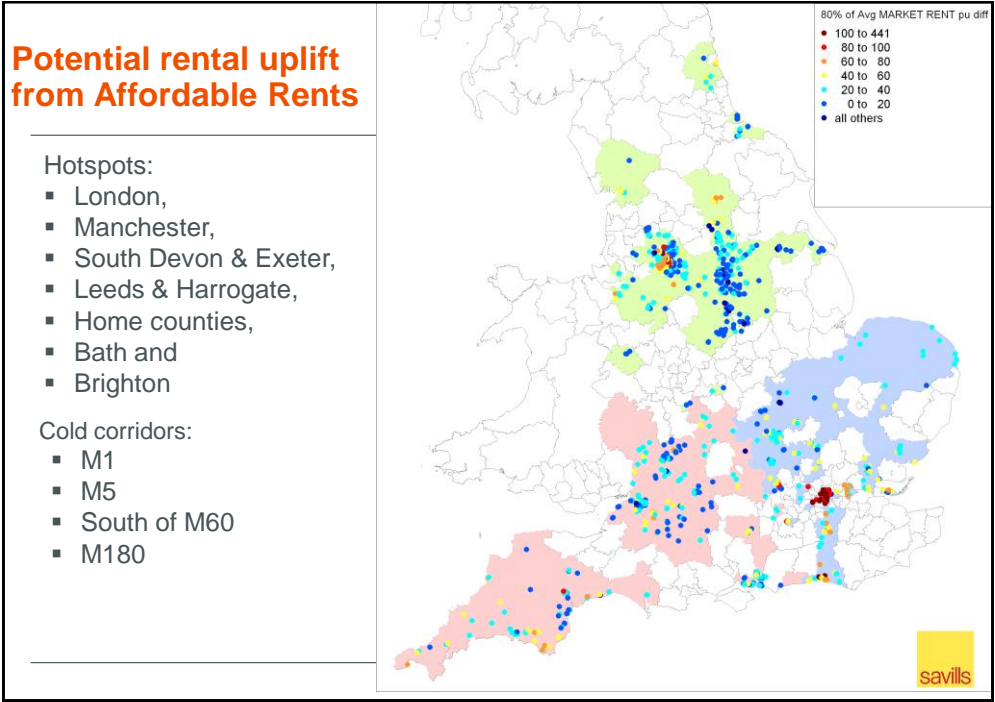
What do we do with the 'Candidate' Properties?

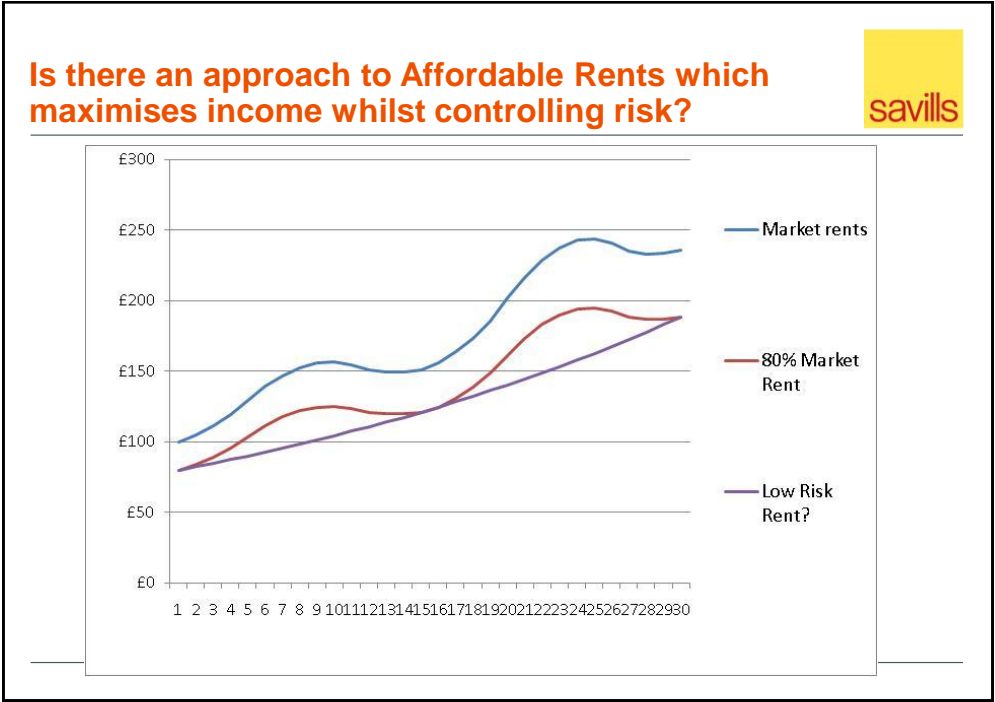
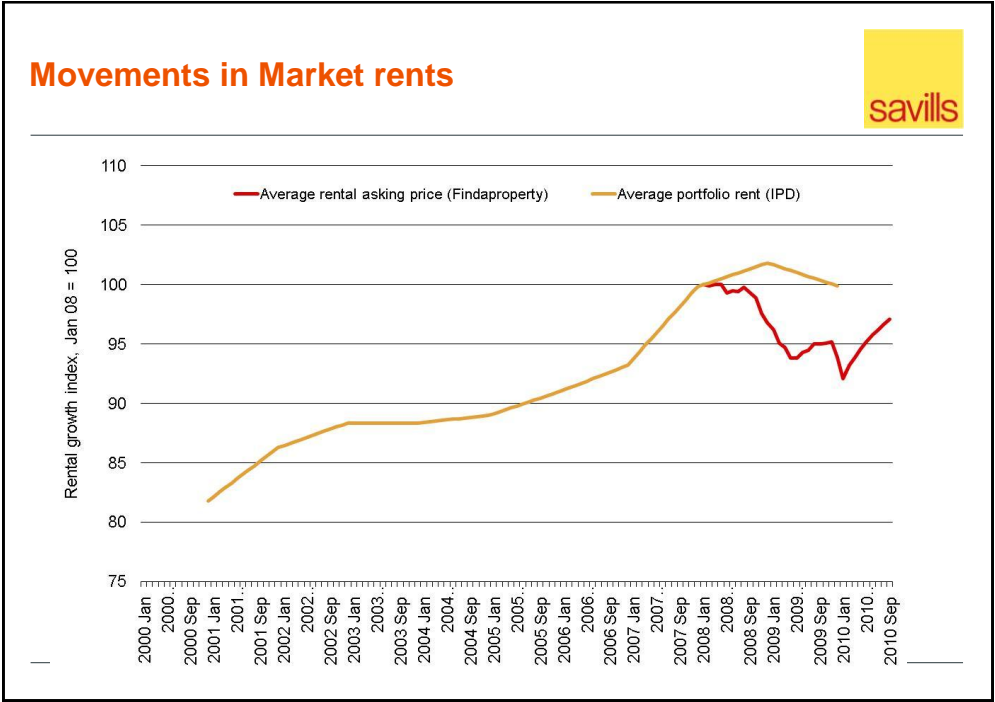
- Asset Managers take control of process
- Need to assess potential options –
 - Low level of investment (refurb, env improvements) and dispose
 - Charge Affordable rent?
 - Redevelopment to refresh the portfolio over the longer term
 - Transfer tenanted to another landlord
 - Disposal (TSA - Option of 'Last Resort')
 - Timing of actions - when heavy investment inevitable

Sweating your assets

Creating capacity for investment in development (and improvement?) by charging affordable rents







Appreciating Assets

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A new approach to managing assets, allocations and expectations

- Savills and CiH research into re-letting homes at Intermediate or Market rents.
- Objectives to:-
 - Produce better balanced communities by breaking up concentrations of very poor people
 - Release resources for investment in new homes



Bringing it all together	South East	South West	West Midlands	South Midlands	East Midlands	East Anglia
Number of units used for active asset management	786	257	309	54	697	75
TOTAL additional CAPACITY generated (000)	£ 19,091	£ 19,883	£ 26,638	£ 2,251	£ 27,156	£ 1,169
Approximate net new units generated from the additional capacity	297	343	477	49	338	31
Ratio of new additional units in portfolio to properties part of active asset management	0.4	1.3	1.5	0.9	0.5	0.4

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If you want to raise capital to reinvest or just raise cash

Stock rationalisation, decommissioning and disposal



Stock rationalisation - how do we select our candidates?





Footprint Transfers



Selection of Candidates for Footprint Transfer

- Selection relies on analysis at local authority level of
 - Density of holdings – Lead/Follow/Exit model
 - Changing demand for a product eg
 - Sheltered housing
 - Supported housing
 - Tenant Satisfaction at local authority level
 - Contribution to neighbourhood sustainability
 - Financial imperatives measured by NPV or worth
 - Relative efficiency
 - Development opportunities and likelihood of capital funding

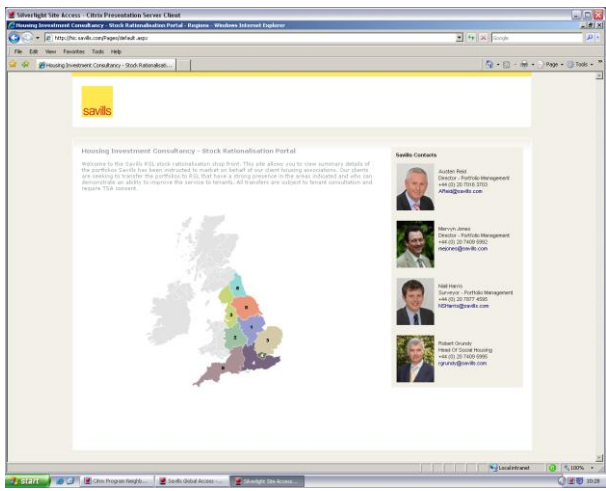


Selection of Candidates for Footprint Transfer

- Employ a customised “**Priority Index**” to combine these factors with appropriate weightings
- Check against Business Plan/Accounts/Budget



Soft Marketing Portal
<http://hic.savills.com>





Price by Type of Portfolio

	Units	% of EUV-SH	Yield	Bid per Unit	Total Bid Received
General Needs	1807	146.46%	6.46%	£73,427	£122,125,792
General Needs/SO	301	130.32%	6.44%	£49,423	£14,253,000
GN/Sheltered	969	168.12%	10.59%	£37,783	£33,172,761
GN/Shlt/SO	168	186.94%	6.53%	£49,405	£8,300,000
GN/Shlt/Sup	224	81.92%	27.34%	£10,022	£2,245,000
GN/Shlt/Sup/SO	188	123.81%	8.48%	£43,335	£8,147,000
GN/SO/Leasehold	330	74.50%	14.28%	£19,258	£6,010,000
GN/SO/Sheltered	89	161.71%	8.34%	£57,444	£517,000
GN/Sup/SO	195	147.03%	6.46%	£54,513	£10,630,000
GN/Support/SO	107	100.70%	7.80%	£60,000	£6,420,000
GN/Supported	398	148.25%	0.00%	£58,605	£21,778,976
GN/Supported/She	280	127.50%	14.68%	£24,850	£6,087,000
Sheltered	799	102.00%	9.66%	£27,939	£2,238,362
Supported	122	206.36%	6.88%	£52,500	£6,690,000
	5977	137.99%	7.75%	£51,485	£273,240,359



Tenanted Transfers Out of Sector

- Care Homes
- Market rent, student and key worker schemes
- Shared Ownership
- Still a lively market
- Investors looking for product
- Scale preferred

**Freeholds
subject to long
leases
Ground rents**

- Leasehold – ex Right to Buy or fully staircased Shared Ownership;
 - Older part-sold shared ownership
 - The residents must be consulted to a high standard
 - The terms of the lease must be honoured.
 - Management must be delivered by a Registered Provider. This could be an existing not for profit organisation or a newly created private RP.
-

**Shared
Ownership
– transfer
of freehold**

- The value to a purchaser will arise from:
 - Rent on the unsold equity increasing by RPI +2%
 - On the other hand, there is usually no ground rent, defined as “the minimum rent”
 - Service Charge including allowable administrative charges and the potential value of insurance commissions
 - Potential staircasing receipts
 - The freehold reversion
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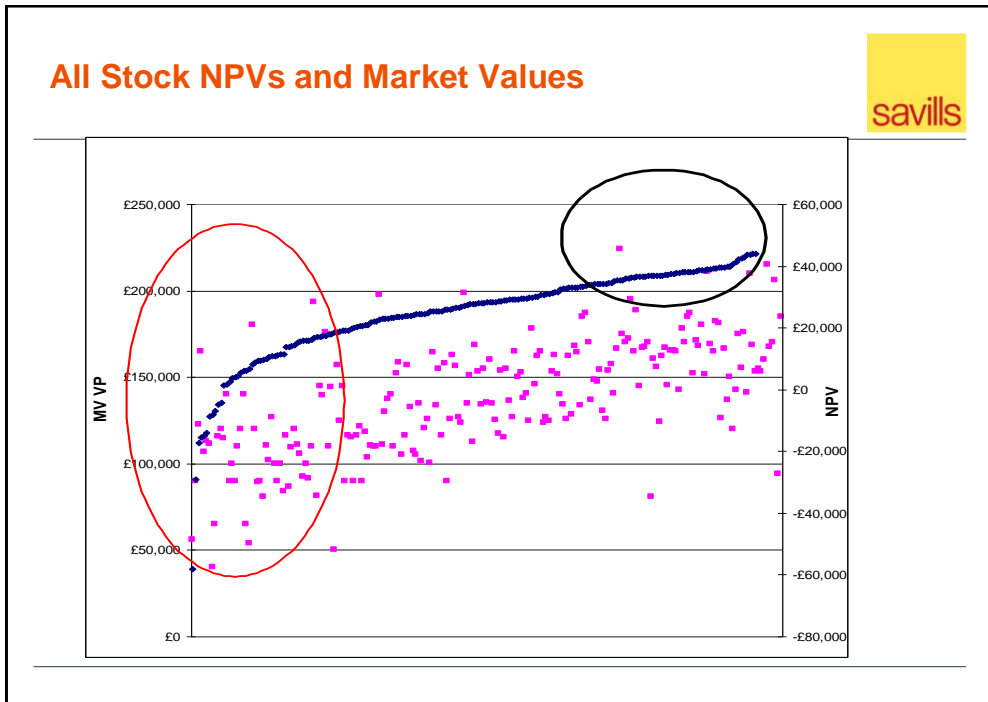
Disposals vacant

- Homes under the hammer
- Market still strong



Case Study Strategies for Vacant Disposals - Large London based RSL

- Cash flow issues
- Required short term disposals programme
- Identified negative worth & weakly performing properties but with high market values
- Result: minimised number of disposals, improved business plan, back on track



Wrekin Housing Trust – Case Study

Disposals

- 800 units with a negative, zero or weak NPV
- Developed an asset renewal strategy
- Dispose of negative NPV properties (for an average of £60K)
- Use the proceeds in place of Social Housing Grant
- Sold 532 negative, zero or weak NPV units, as they have become void, achieving proceeds of £42m
- Invested the proceeds to purchase 1176 new units (without the need for Government grant) and has a balance of £17m remaining





Wrekin Housing Trust – Case Study

Outcomes - The Wrekin "7 Win Effect"

- Increased stock numbers by 644
 - No reliance on Grant
 - Disposal of 532 units that were a drain on the business plan
 - New units contributed to the achievement of the Decent Homes Standard
 - Tackled fuel poverty for some 1176 tenants
 - Increased overall SAP score
 - A positive impact on the business plan
-



Use of receipts from transfers or disposals

- New modern better quality economically strong assets
 - Greater tenant satisfaction
 - Resolves dilemma between investment and replacement
-



The NHF Good Practice Guide to Asset Management

- In preparation
- Information
 - Active Asset Management
 - Energy Efficiency
 - Risks
 - How to....
- What else?



No Safety Net



Repairs and Maintenance



Previously????

Performance Monitoring Regimes



- Mainly tick box.
- Housing Corp/Audit Commission inspection.
- Performance Targets to meet regulators;
 - Emergency – 1 day
 - Urgent – 7 days
 - Routine – 30 days or similar timelines etc.
- Nothing wrong with this but not necessarily what suits your business.
- Not the way you would run a business.



What could the new environment be ?

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- No certainty yet but possibly much greater flexibility.
- Opportunity to shape things to suit you.
- Self designed performance criteria – reflective of tenant and business needs.
- More focus on client side performance as well as contractor.
- Don't throw away everything that's gone before – adapt to suit.
- Set it up the way you would perhaps run a business.



Key Themes

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- Financial prudence.
- Good practice for use of an in-house contracting arrangement.
- Good practice for a contracted out arrangement.
- Greater integration of processes.



The performance environment

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- 3 key measures as always required (but not often done):
 - Time targets – to reflect your needs
 - Quality targets – tenant satisfaction
 - Cost monitoring
- Most organisations monitor 1 or 2 but very few all 3.




A rounded performance regime

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- Time and Quality – what matters to you and your tenants – not usually how long it took but was it done right first time.
- Cost – a business needs to be able to break down costs to ensure they can be managed :
 - Cost per job type
 - Output against resources
 - % sub contracting
 - Materials costs, wastage
 - Cost monitoring
- Monitoring of client team – decision making, timescales, response times.




Continuous Improvement



- Setting realistic targets for improvement – must benefit the business.
- Encouragement to achieve those targets.
- Commercial understanding especially of cost in the market.
- Benchmarking clubs such as Housemark but also local/regional clubs between similar organisations.
- Monitoring of client team – decision making, timescales, response times.



Energy Efficiency and Sustainability




Key considerations are:

Ensuring that repair and maintenance activity is undertaken in a sustainable way :

- operatives' travel and transport;
- use of environmentally sound and responsibly sourced materials and products (e.g. timber);
- careful and efficient use of materials and resources; and
- the reuse, recycling or safe disposal of waste.

Incorporating 'opportunist' energy efficiency measures.

Collecting, checking and updating of energy data.

Energy Efficiency Rating		Current	Potential
Very energy efficient - lower running costs			
(92 to 100)	A		
(81 to 91)	B		
(69 to 80)	C		
(55 to 68)	D	67	79
(39 to 54)	E		
(21 to 38)	F		
(1 to 20)	G		
Not energy efficient - higher running costs			
England & Wales		EU Directive 2002/91/EC 	

Preparing for the future



- Analyse existing arrangements, compare against your peers and externally.
- Develop a picture of where you want to be and a timeframe.
- Explore ways of improving your service - good practice and the NHF Maintenance Guide.
- Involve tenants in shaping the service.
- Formulate a plan that meets your business objectives.

