

Workshop 3c: Asset management – the magic answer?

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Chaired by: Graham Gowland
Room: Warwick Room



National Housing Maintenance Forum

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Asset Management The Magic Answer

Presentation by James Sparrow



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The Old World



- More money flying around
- More certainty over funding
- More availability of funding
- Grant for new build
- Thou must meet Decent Homes
- Get the money spent
- Major imperative to simply deliver the programme
- Little imperative to have an active asset management strategy
- Technical, Finance and Housing not linked



The New World



- Much less money flying around (apart from LA's)
- Much less certainty over funding
- Less availability of funding
- Grant for new Build very limited
- The creation of an institutional class private rented sector
- Decent Homes is largely history
- Increasing energy sustainability agenda
- Major imperative to have an active asset management strategy.



What is Asset Management?



- "The practice of managing assets to achieve the greatest return"
- "Anything that monitors and maintains things of value to an entity or group"
- "The art and science of making the right decisions and optimising physical and non physical assets"
- "Asset management is maintaining a desired level of service for what you want your assets to provide at the lowest cost"
- "This is the activity that ensures that the land and buildings asset base of an organization is optimally structured in the best corporate interest of the organization concerned"

1,000 things to 1,000 people

"To effectively manage your assets you need to understand their performance in all respects and also the rules of the game in terms of what you are trying to deliver"



What happens if you don't understand it?

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So what are the rules of the game?

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- Corporate Objectives
- Life after Decent Homes
- Sustainability / Energy
- Value for Money
- Compliance
- Lack of Development Funding
- Business Plan Affordability
- Tenants aspirations in terms of the standards adopted



Dispelling the obvious myths

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- It is all about decent homes
- There is a single answer to the investment required in a portfolio
- We will have the same property portfolio in 30 years time
- Investment should be prioritised on a worst first basis
- Asset Management is about delivery the major work programme



Corporate Objectives

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- Cannot develop an asset Management Strategy without understanding the corporate objectives
- Maintenance of existing stock versus developing new
- The standards the organisation seeks to achieve
- Business Plan Constraints
- Maximising Funders Valuation
- Procurement Routes / Local employment
- Customer care



Understanding the performance of your assets

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- Measure the **long term** performance of your property portfolio
- Use modelling techniques to analyse value to the business plan
- Provides an objective baseline on which to make investment decisions
- Identifies properties requiring an option appraisal



Do all properties make an equal contribution

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Active Asset Management



- Helps plan for replacement or modernisation of properties
- Make better use of capital
- Integrate business planning and asset planning
- Assets are not uniform
- Challenge the notion of unchanging asset ownership



What information is required to do all of this



- Management Costs / Data which can be disaggregated
- Rents
- Void Information
- Accurate Stock Investment Data
- Accurate Compliance data
- Accurate Energy Data



Sense check the data

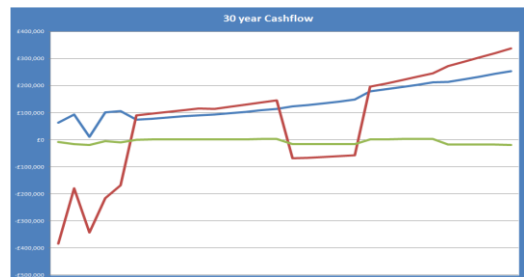
How do we measure performance and worth?



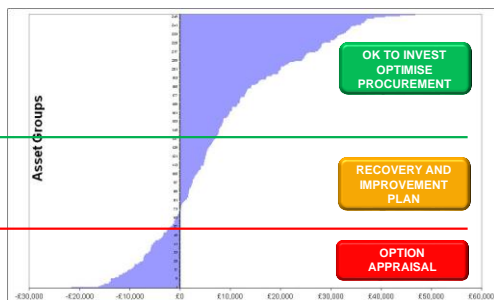
- Group similar properties - Asset Groups
- Separate analysis for non housing assets
- Assemble data - agree assumptions
- Generate cash flows



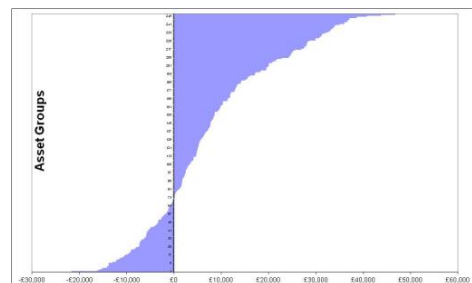
Net cash flow per annum Example of different groups of properties

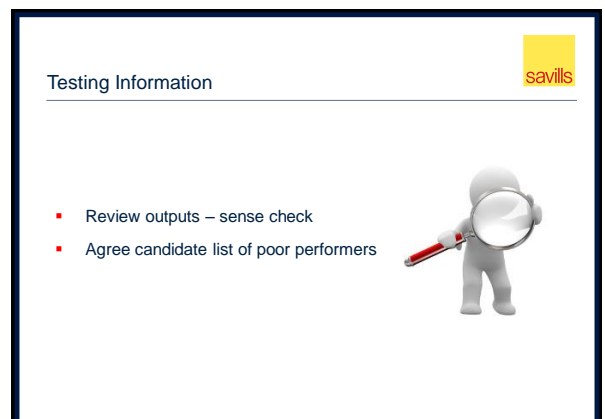
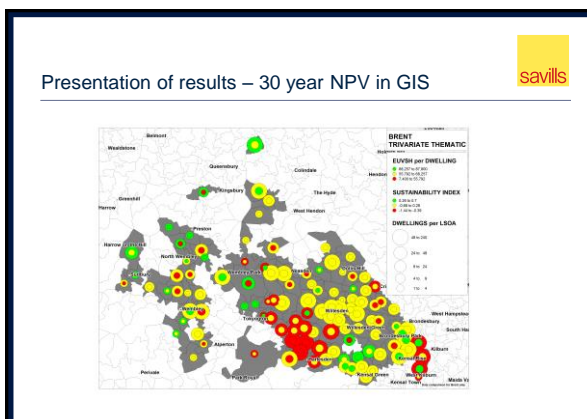
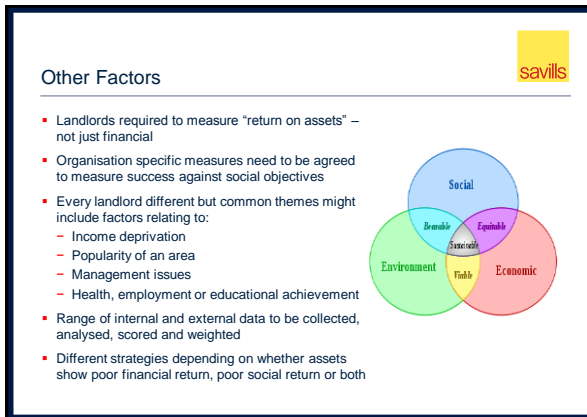
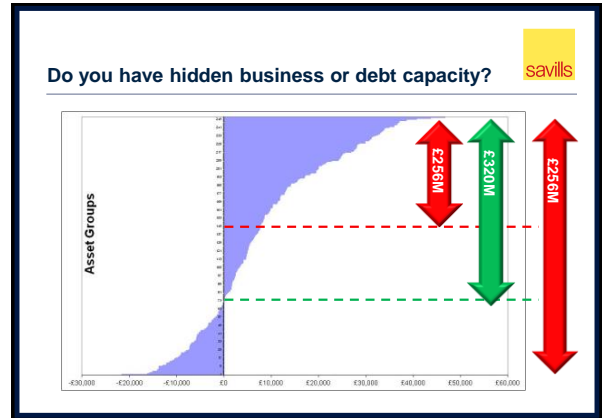
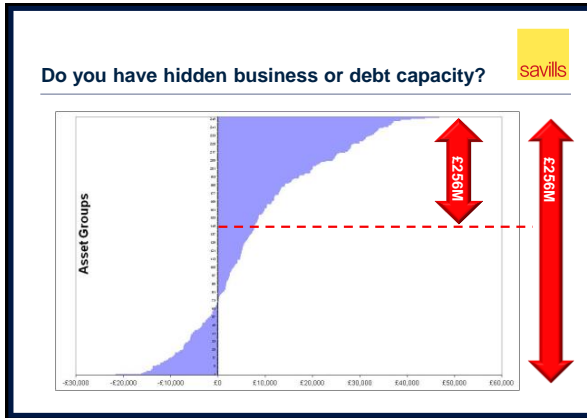


Whether to Invest or Not?



Do you have hidden business or debt capacity?





Options for candidate properties



- Investment standard
- Timing - when heavy investment inevitable
- Link to development opportunities
- Redevelopment and regeneration
- Change of tenure
- Transfer tenanted to another landlord
- Disposal (option of 'last resort')



Active Asset Management Strategy



- Strengthen business plan
- Make more efficient use of capital resources available
- Consider long-term planning for obsolescence
- Obtain a balance between new build, remodelling & stock investment
- Test alternative strategies
- Enable balanced investment decisions and support difficult decision making
- Communicate reasons to members, staff and residents
- Assist the organisation in delivering its social, financial and housing objectives

Key message so far



Difficult to plan investment in the stock without understanding the whole picture

Lets look at the Data Requirements in detail

Management costs/data which can be disaggregated



- Management costs
- Rents
- Demand / Void levels



Accurate stock investment data



- Accurate and up to date Stock Condition Survey
- Stock Condition Survey Database
- Life Cycle Costings
- Ability to model any group of properties based on different standards



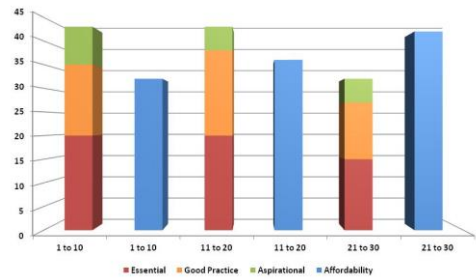
The issue of Standards



- Decent Homes
- Decent Homes Plus
- Aspirational
- Showers, energy works, environmental works etc



Investment required to the stock (Total)



Accurate compliance data



- Asbestos database
- Fire Risk
- Legionella
- DDA
- Gas
- Electrical tests

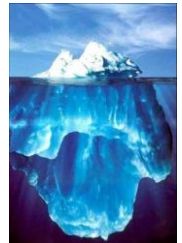


Energy Sustainability



The Context:

- Energy prices rising
- Fuel poverty increasing
- UK carbon reduction required
- Poor thermal performance
- Political interference on all things energy



Energy Sustainability



Preparing for the future:

- Need to understand asset performance
- Review energy issues in context of portfolio
- Assess options and aspirations – SAP 60, EPC D?
- Funding challenges and business planning
- Develop realistic plan



Back to our original question



- There is no silver bullet solution
- The rules are there are no fixed rules
- The subject is complex covering many areas
- First and foremost need to understand the question – what are the corporate objectives
- Need to model and / or understand the performance of the stock against those objectives
- Develop the Asset Management Strategy based on the above



The Result



If you get your Asset Management Strategy right:

- You can maximize the overall value of the assets
- You can avoid throwing good money after bad
- You can provide a better quality of service and product to the tenants
- You can develop the investment plan and procurement strategy to tie in with the business plan and corporate objectives.

