

Brighton & Hove City Council

Housing market intervention project

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1. Executive Summary

1.1. Scope of report

This report is based on a review of options for the Council to intervene in the local housing market, as a potential purchaser (or lessee) of new housing being brought forward on development sites in the City, to meet housing needs, including the delivery of homes to let at LHA rates to households to whom a statutory duty to accommodate is owed.

The report was originally separated into two stages, so that work on alternative private and public funded models was clearly separated. The report now combines elements of these stages, and in section 9 it focuses on the option of a council owned and funded delivery vehicle.

1.2. Case study approach

The report and in particular the financial modelling, is based on an illustrative case study through which a Council company acquires a number of properties from one or more developments under way in the city. The principal assumption is that the Council would be able to use its position of influence and financial strength to acquire a number of properties off-plan, at a discount to full market value.

Whilst the information to support the financial modelling is based on data for those case studies, it should be noted that this is largely illustrative with no certainty that the properties will be available for acquisition at the costs modelled. However, based on the property acquisition assumptions, the financial modelling then uses market information and reasonably standard assumptions in terms of rental yields and operating costs, to show if/how such a proposition could be financially deliverable.

1.3. Legal and financial structure

Section 4 sets out the options which are likely to be available in funding and structuring a new Council vehicle to support the objectives of this project. Section 8 outlines the principal funding options.

Whilst there is a wide range of options in terms of structuring (including third party involvement through a joint venture), and in funding (including third party or internal funding arrangements), the likelihood is that the objectives of this project could be most effectively delivered through a wholly owned and funded company. This is a relatively straightforward route which is being followed by a number of local authorities for similar projects.

1.4. Council company financial proposition

Section 9 sets out the financial implications of a new council owned and funded company being set up to acquire and let out properties. The assumption is that the company acquires properties and, to achieve a position which is financially viable from the company's perspective, it lets them out at a mix of market rent and LHA rent.

In terms of funding, it is assumed that the Council provides the company with finance to allow it to acquire the properties. The financial arrangements between the Council and company are then set up so that:

- They are fully compliant with the regulatory environment (tax, state aid and other government regulation).
- The company can afford to meet its financial commitment (interest payment to the Council) from the retained net rental income – i.e. it has a viable and deliverable business plan.
- The Council receives sufficient interest from the company to allow it to cover the additional interest cost it will incur in raising the finance provided to the company.

This arrangement would create a portfolio of properties, which the Council would have access to, available to be let out at LHA or intermediate rent levels, at no cost to the Council. The potential savings in temporary accommodation costs would be additional.

Whilst there are a number of issues which would need to be worked through, including more detailed financial analysis and risk assessment, it is a route which other councils are following, and ultimately the proposition is underpinned by the value of the Brighton housing market.

2. Introduction

2.1. Your requirements

You wish to review options for the Council to intervene in the local housing market, as a potential purchaser (or lessee) of new housing being brought forward on development sites in the City, to meet housing needs, including the delivery of homes to let at LHA rates to households to whom you owe a statutory duty to accommodate.

Whilst this review is to cover both private finance and public finance models, the work has been separated into two stages so that the work on these alternative funding sources is clearly separated.

- **Stage 1 – General market position and options appraisal**

This covers the core work which needs to be undertaken to address local authority housing intervention proposals such as these, whatever the source of funding – public or private.

- **Stage 2 – Financial model development and analysis**

This addresses the funding options which would be available to support the proposals, some of which would be classed as public and some as private.

2.2. Our approach

Case study approach

Our approach is based on case study housing developments under way in the area. For these developments, we have been provided with base information and have used this to present illustrative case studies, in terms of the numbers and nature of properties, the timing of their availability and costs/values.

Stage 1

We have separated our approach to this work into four areas:

1. Market assessment

The opportunities which are likely to exist in relation to the case study developments for Council intervention through the acquisition or development of new housing for rental. At this stage we have combined case study information provided, with our market knowledge and experience to ensure that the underlying case study presentations are based on reasonable underlying assumptions.

2. Models and structures

This phase of work involves summarising the key characteristics of existing models in the market place and setting out their relative merits in the context of a housing intervention project such as this, and in the light of the case study developments.

3. Financial viability and impact

Based on the model and structure review, and using the case study investment projects, we have carried out financial modelling to provide an assessment of the viability, affordability and deliverability of the model.

4. Legal issues

In the context of these models, we have provided advice on relevant legal issues that arise for each model, including powers, consents, tenancies, governance, procurement and state aid.

Stage 2

For the financial modelling at stage 1, no distinction was made in terms of the source of funding (public or private). In contrast, stage 2 looks specifically at alternative funding structures and sources.

2.3. Council owned and funded model

Having considered alternative funding structures and sources, we have then summarised (in section 9), a model being pursued by other local authorities, which is based on:

- Setting up a separate company wholly owned by the Council.
- The Council being the sole funder of the company.
- Properties being acquired by the company and let at a mix of rent levels to generate sufficient income for it to meet its funding commitments to the Council.
- A funding arrangement which is financially neutral for the Council, with the interest payments from the company covering the interest cost to the Council.

The potential advantages of such an approach are that new properties are available to be let out at LHA or intermediate rent levels, at no cost to the Council.

3. Brighton housing market and case study approach

3.1. Local housing market

Appendix 1 contains a review of the Brighton housing market.

3.2. Local Housing Allowance

Local Housing Allowance (LHA) is a rate set by Government to work out housing benefit for tenants who rent privately. The rates are set for different sized properties in each Broad Rental Market Area (BRMA). The 2015/16 LHA rates for the Brighton and Hove BRMA are:

2015/16 LHA rate £	Weekly	Monthly	Annual
1 bed	153.02	663	7,957
2 bed	192.48	834	10,009
3 bed	230.28	998	11,975
4 bed	339.36	1,471	17,647

Whilst LHA rates were linked to the rental market in each BRMA, in the 2015 Summer Budget it was announced that LHA rates would be frozen for 4 years from 2016/17.

3.3. Case study approach

Our work for both stages 1 and 2 is based on case study developments under way in the City. For each of these developments, we have looked at options for new properties to be made available for the Council to house homeless households at LHA levels.

4. Models and structures

4.1. Introduction

Over the past few years, a wide range of alternative local authority housing delivery models have emerged. Whilst the underlying motives and objectives behind these models have varied, there tend to be a number of common themes:

- **Separation of development and property rental**

Whilst local authorities have increasingly taken a greater involvement in development of new housing, as well as their acquisition and ownership/rental from a developer, it is generally accepted that these are two distinct activities which should be separately examined.

- **Creation of a new property rental vehicle**

For a number of administrative, legal and financial reasons, in most cases a new vehicle has been established to own and let out newly acquired rented housing. The preferred form of new vehicle is typically a company limited by shares, which is wholly owned by the local authority. However there are a number of alternative structural and ownership options.

- **Funding the new vehicle**

For simplicity and value for money reasons, local authorities have typically chosen to provide funding to the new vehicle themselves, rather than using third party sources – however many have explored alternative options in terms of the source of funding as well as the structure and terms.

Examples of current models have been summarised and examined in the context of this project.

4.2. Key features of this project

This project is not concerned with the development of new properties, but their availability for use by the council to house people at local housing allowance rent levels. The key features of the proposition are:

- New housing is acquired from a developer which receives a commercial price for the disposal – though, it is assumed that, in return for a commitment to buy a number of properties off plan, the developer will accept a discount on the full open market value
- The housing is acquired by a vehicle which then makes the housing available for use (by the Council) for households paying a rent level equal to the Local Housing Allowance

Within these principles, there are a number of options to be considered, which we have examined below:

- The legal structure and ownership of the vehicle

- The relationship between the vehicle and council in terms of the right to use the housing
- The respective responsibilities of the vehicle and council for letting, tenancy management, repairs and maintenance, insurance, life cycle replacements etc.
- The nature and source of funding for the vehicle to enable it to acquire the properties
- The long term ownership and use of the properties

4.3. Legal context

It is worth highlighting here some of the key legal issues which arise for any model.

- Housing homeless people in the exercise of the statutory duties relating to homelessness is inherently a general fund activity and not an HRA activity and this will affect the powers that can be used as well as the accounting treatment.
- The Council must have the power to undertake each step in the process to set up and fund a vehicle. Section 1 Localism Act gives Councils very wide powers – but they are not unlimited.
- Section 24 Local Government Act gives the Council wide power to support the delivery of privately let housing, and dwellings held by a vehicle owned or partly owned by the Council would count as privately let dwellings. Use of the s.24 power requires s.25 consent – there is a wide general consent for providing financial support of any kind including loans and guarantees – but the existence of this consent does not remove the need to consider state aid issues.
- A vehicle wholly or partly owned by a public authority may itself be subject to EU procurement rules as a contracting authority, if it is set up with a view to "operating in the general interest". A vehicle set up to operate genuinely commercially, even if wholly owned by the council, will not itself be subject to EU procurement. If it is set up to operate in the general interest then it will have to procure its own contracts in accordance with EU rules if any of the 3 following factors apply:
 - financed mostly by the Council; or
 - Subject to management supervision by the Council; or
 - More than ½ of the board of management is appointed by the Council
- Buying dwellings is not of itself an activity that requires a public authority to follow EU procurement processes – it is only if the way in which they are bought involves the purchaser engaging in development issues, by specifying what is to be built, that EU procurement becomes an issue. Buying from developers on the open market will not, even if the contract says, as it would in the case of any new build purchase, that the Council will only complete if it has NHBC and the dwellings have been constructed to the developer's specification and in accordance with planning. In 3.4.1 below we highlight some specific issues around procurement and joint ventures,

- If EU procurement rules are not engaged the Council must still comply with its own standing orders and comply with its fiduciary duty to tax payers to ensure it obtains best value. Sometimes people are so focussed on whether EU procurement does or does not apply they forget that other duties exist.
- State Aid is only an issue if the Council is financially supporting a project – a loan on proper commercial terms (and we set out below some suggestions as to how this would need to be validated) does not create State Aid issues. A loan at less than market rates, and guarantees and sales at less than market value or on better than market terms may create state aid concerns. If it is an issue then we have to see if one of the exemptions will apply. Generally speaking if a council is providing some kind of financial assistance to enable housing to be made available to people for whom the market does not provide housing, then state aid should not be a barrier.
- Tenants of vehicles owned by local authorities cannot under present law be secure tenants as for them to be a secure tenant the local authority would have to be the landlord. We are not aware of any current plans to change this – it would require primary legislation.
- The right to buy currently applies to secure tenancies, but not to tenants of separate vehicles, whether or not the vehicle is owned or financed by a local authority. Again, we know of no current plans for this to change.
- A council has no automatic liability for the debts of a wholly or partly owned vehicle. Liability may be created by the use of guarantees and indemnities but it does not arise from the corporate structure itself. If such liabilities are created how they are reflected in the Council's accounts is a matter of accountancy judgment rather than law – treatment of contingent liabilities does vary from Council to Council
- Nearly all the specific rules that relate to local authority companies which were introduced by the Local Government and Housing Act 1989 have been repealed – but if the company is "controlled" as defined then there are some non-financial rules that remain, which relate to propriety and which require local authorities to ensure for example that any directors appointed to a company that it controls would not be disqualified from being a local authority member; remuneration and expenses do not exceed levels that the local authority could pay, information must be provided to the local authority's auditor), and letterheads must show the relationship with the council.

4.4. Legal structure and ownership of the vehicle

On the assumption that the council is not in a position to hold the properties directly itself, then they would need to be acquired and owned by a separate vehicle.

4.4.1. Ownership and control of the vehicle

The options for ownership (and control) of the vehicle are:

- Wholly owned by the council
- Partly owned by the council

- No council ownership

At Appendix 2 you can see 2 diagrams that show how a wholly owned company and a joint venture might be structured.

A wholly owned company is by far the most common model being pursued by local authorities, as it allows both control and retention of the long term value of the housing.

In the case of a partly owned company, so in practice a joint venture, an element of control would be ceded to a third party, who would also look to secure a return on its investment, in line with its risk exposure. Whilst the introduction of third party capital would involve some spreading of risk, the council would pay for this.

In terms of procuring a partner for a joint venture, the selection of a partner of itself would not require the Council to go through an EU procurement process because in the setting up of a JV there is not necessarily any contract for goods or services that would be within the scope of EU procurement. However, before going down the joint venture route, the Council will need to analyse what contracts it might want to let to the JV in the future. If for example it wanted to pass land to the JV on the basis of a development agreement where the Council was specifying what is to be built, that is going to be a contract that requires procurement. For an arrangement like that the Council may need to have procured the JV partner through a full process – and so if that kind of transaction is a possibility, we would advise procuring the JV partner through an EU procurement process in the first place, unless you decide to partner with another contracting authority like an RP or another local authority.

If the JV partner is itself a contracting authority for the purposes of the procurement Regulations then the Council could let contracts including selling land through development agreements, to the JV without going through the procurement process, because the JV is wholly controlled by two contracting authorities. This used to be called the Teckal exemption but is now set out in the Public Contracts Regulations 2015 (see regulation 12).

In short if the Council wishes to see acquisition of homes through a JV there has to be a thorough analysis of every contract the Council might want to let to the JV or to its partner before the decision is made as to whether to go through a full EU procurement process to choose the JV partner.

Note that the issue as to whether the JV partner must be EU procured, and the question as to whether the JV itself is a contracting authority (see para 4.3 4th bullet) are separate questions. The Council might decide not to EU procure its partner and to create a JV vehicle that itself has to EU procure its contracts or it might EU procure its partner but create a vehicle that is not a contracting authority.

Alternatively the properties could be acquired by an independent vehicle in which the council has no ownership.

4.4.2. Options for corporate structure

If a new vehicle were to be established, in broad terms, the three that are available are:

- Limited liability partnership (LLP)

- Company limited by shares (CLS)
- Company limited by guarantee (CLG)

In terms of the choice of vehicle the form really does need to follow the function, for example:

- What does the council want from its vehicle in the short medium and long term?
- Is this only about housing homeless people and saving money on that budget?
- Does the council expect to make money at some point by selling dwellings/buying more/asset managing?
- Is there an exit route that might involve selling the company?
- Might the council want to bring in external investors?

These issues need to be explored fully before a corporate structure is chosen.

One issue that has a fundamental effect on choice of corporate structure is whether or not the Council might want to try to obtain charitable status for a vehicle. Charitable status carries with it considerable tax advantages. However if that is wanted the Council would have to accept that the objects of the vehicle must be exclusively charitable – and that it may not be possible to register a charity that is owned by a council. The Charity Commission is usually unwilling to register these – although they may be willing to register a charity that is owned by a company which is owned by a council – so a more complex structure might be needed.

The main advantage of an LLP lies in its favourable tax status. Unlike a company which is a separate tax paying entity, an LLP is “tax transparent”, meaning that the tax treatment of the LLP follows the tax treatment of its members. This would have the advantage of preserving the Council’s favourable tax position for any commercial activity undertaken by the LLP, with a result that (unlike a company) there would be no corporation tax liability on any of the LLP’s profits.

However, there are a number of potential legal obstacles to the council setting up an LLP. If the Council wants to use the s.1 Localism Act power as the power to set the vehicle up, and the s.1 power is certainly wide enough to allow that, then if the local authority is setting the company up “for a commercial purpose”, it must do so through a company – and the Act defines company so as to exclude LLPs. If the Council wants to use an LLP then it will have to demonstrate that it is using a different power to set the company up, or it has to demonstrate that the company is not being set up for a commercial purpose.

Given the favourable tax position it may be well worth looking at powers other than the s.1 power. Councils have specific powers to undertake regeneration, they have investment powers, and of course given this project relates to homelessness they also have powers related to Part VI Housing Act 1996 and the ancillary power under s.111 Local Government Act 1972.

Alternatively it may be possible to establish that the vehicle is not being set up for a commercial purpose but to house homeless people. It really does depend on the underlying reasons for setting up a vehicle. If it is seen primarily as a route to intervening in a dysfunctional private rented market (as e.g. Red Door Ventures in Newham is) then it will be operating for a commercial purpose and so needs not to be an LLP. An LLP will always require at least 2

partners so they are more usually used where there is a joint venture, but it is possible, for example to form an LLP between a council and a company that the council owns.

A CLS is by far the most common commercial form of company. It is well known and recognised in the market, and is the option typically pursued by local authorities. There is also the advantage that a CLS wholly owned by the Council would be exempt from Stamp Duty Land Tax (SDLT) on any property transfers between it and the Council.

A CLG is likely to be the appropriate form only if there is interest in pursuing charitable status. A CLG is nearly always set up as a not for profit vehicle. They can be charitable or non charitable. If charitable then registration with the Charity Commission is needed. If charitable status is wanted then the Council could consider a community benefit society (which used to be called an industrial and provident society) registered with the Financial Conduct Authority which would be exempt from Charity Commission registration. The possibility of a Charitable Incorporated Organisation also exists – these are corporate entities registered with the Charity Commission but we do not recommend them for substantial projects where loan finance or investment finance may be needed.

4.4.3. Does the Council need a separate vehicle?

If the main purpose of the project is to house people in pursuance of the Council's homelessness functions then the Council has power to acquire dwellings for this purpose (s.120 Local Government Act 1972) and could in theory finance the purchase (or development on its own land) using prudential borrowing – if the modelling showed it was prudential to do so.

Dwellings acquired or developed to house homeless people will not be accounted for in the HRA as they will be held for the purposes of Part VI Housing Act 1996, and borrowings related to such dwellings should not be affected by the cap on HRA borrowing.

Why then are councils increasingly looking to set up separate companies? There are a number of reasons. Some councils want to make a profit to support their general fund activities. Others want to deliver certain kinds of housing in a more commercial way. Some want the freedom to sell properties in future without being constrained by constraints on councils disposing of property.

Usually there is a mix of reasons. Where as here a council wants initially to use the housing for homelessness, if the development is held by the Council, there may be concerns about the inflexibility of making sure dwellings are not being used for the purposes of part II Housing Act 1985 – if they are, then borrowing that relates to them will come within the cap and the cap could be inadvertently breached.

Using a vehicle allows for different financing arrangements and more flexibility into the future.

Note that just because a dwelling is held for the purposes of Part VI Housing Act 1996 does not by itself mean a tenant of it will not be a secure tenant. Tenancy status and the functions for which dwellings are held are covered by different tests.

4.4.4. Governance issues

If the Council decides it wants to deliver the housing through a vehicle there are a number of key governance decisions. Who sits on the board? How big is the board? How much continuing

influence or control does the Council want or need? The Council may retain control of a wholly owned company through its shareholding, but it cannot mandate the directors of it, even those it appoints. Directors must exercise their own judgement and whilst they can take into account the interests of the Council they cannot be required to follow its requirements. Once appointed, they would have separate statutory duties to their company. That makes the contracts/leases between the Company and the Council just as important if the company is wholly owned as if it is a joint venture.

Generally for the local government vehicles that many are discussing now people are looking at small boards of directors – often constructed on more commercial lines.

4.5. Access to housing

The proposition is based on new housing being made available to the council for use by households paying LHA rent level.

In terms of the nature of arrangement between the vehicle and the council, the simplest arrangement would be for the Council owned vehicle to let the dwellings on assured shorthold tenancies to homeless people nominated by the Council. They would be private sector tenants and able to claim housing costs through LHA, or universal credit as appropriate.

Note that in assessing the financial arrangements regard needs to be had to Universal Credit and the impact that may have on the cashflow of what is in essence a private sector landlord. Universal credit is paid monthly in arrears and there is likely to be a 7 day period for which no benefit is paid.

The alternative of the Council taking a leaseback of the dwelling could be considered. This would make the occupier a tenant of the council. Councils can charge what rent they want to on dwellings held for homelessness purposes – but the availability or otherwise of HB subsidy needs to be reviewed.

If the Council buys or develops land or land and dwellings itself for the purpose of leasing it on to the company then the property itself will never sit within the HRA (see s.74(3) (b) Local Government and Housing Act 1989). This means that the power to dispose is in the Local Government Act 1972 and must be at the best consideration reasonably obtainable in the circumstances or else a consent must be obtained. There are few general consents under the 1972 Act although there is still one for a disposal of up to £2m less than best consideration where the disposal is to enhance the wellbeing of an area. Note that there is no general s.25 consent that covers the disposal of general fund land at less than best value to a non RP.

4.6. Financial responsibilities of council and/or vehicle

The proposal is based on the housing being let at LHA levels, so generating a regular flow of income. However, as with any housing rental business, to achieve and sustain this level of income, there are likely to be a number of related costs:

- New lettings management – the cost of letting the property, including sourcing new tenants at the outset, and whenever a property becomes vacant, and the related administration.

- Rent loss through voids – the loss of rental income caused by properties being empty whilst during changes of tenants.
- Rent loss through bad debts – the loss of rental income through non-payment of rent or the related costs of pursuing.
- Day to day tenancy management – all day to day administration of the tenancy
- Furnishing costs and repairs – depending on whether the properties are let furnished or unfurnished.
- Minor repairs and maintenance – the costs of repairs which are not the tenant’s responsibility.
- Major life cycle and component replacement – the responsibility for the structure of the building and major components (eg windows, kitchen, bathroom, boiler etc)
- Insurance – buildings and contents

For each of these areas, there will need to be agreement on where the responsibility and related cost lies.

4.7. Nature and source of funding

Funding options are addressed in more detail in section 8, including loan and lease type financing. In both cases, the financing could be provided to a separate vehicle, by:

- The Council directly.
- A third party underpinned by a Council guarantee
- A third party with no guarantee

Note that it is now well established that Councils can borrow using prudential borrowing powers, and on-lend to a council owned company. If the company exists to make a profit the on-lending will almost certainly need to be on full commercial terms to avoid state aid issues. If the company is providing what Europe would regard as social housing then state aid is not an issue and the s.25 general consent can be used to lend at less than market rates if that is what is wanted.

The options for alternative debt and equity financial structures are also addressed in section 8. In this context, it should be recognised that if the Council is the sole shareholder in a company, then the value of its investment in that company will rise in line with the underlying asset values. This provides the flexibility to re-finance or release value through disposal at some future time. In this context, land and dwellings held by a council owned vehicle can be disposed of by the vehicle in accordance with its own powers – it is not affected by council limitations on the power to dispose.

4.8. Management issues

If the dwellings are not leased back to the Council then the Council may want to provide housing management services to the vehicle. Even if the vehicle is itself a contracting authority for the

purposes of EU procurement, it can still let a contract to the Council without itself going through a procurement process. This is because the Public Contracts Procurement Regulations not only as set out in 3.4.1 above enshrine the Teckal principle so that contracting authorities can let contracts to their wholly owned subsidiaries (so long as at least 80% of their work is done for the contracting authority) but the reverse also applies so the wholly owned subsidiary can let a contract to its parent without procurement. If the chosen vehicle is a JV then if both JV partners are contracting authorities the same applies. If they are not so, for example if the Council partners with a private sector body, then if the JV is itself a contracting authority (and it may be – see 3.3 above) then it may have to go through a procurement process. Whether it does or not will depend on scale, thresholds, and how the dwellings get into the vehicle. So for example some services may be provided by the council as landlord if it acquires/develops and leases the dwellings onwards. But the procurement issues relating to any housing management agreement will need to be addressed.

4.9. Summary

	Comments
Wholly owned council company	<ul style="list-style-type: none"> • Simple and easy to set up • Provides council with complete control of housing • Council likely to bear all initial costs and provide finance – but the council would not automatically be liable for the company's debts • Alternative funding options, including direct funding by the council
Company which is partly owned or influenced by the council, though not controlled by it	<ul style="list-style-type: none"> • Council could lead on setting up the company to provide appropriate structure and degree of influence • Set up and governance arrangements would not be as simple as a wholly owned company – would need to be clear on the benefits of structure. Would want members/shareholders agreements • Alternative funding options, though as not controlled by the council, greater scope for private finance options • Vehicle would need to be able to rely on sufficient net rental income receipts, to meet financial commitments associated with acquiring the housing • Reliance could be provided through a leasing arrangement with the council which provided certainty of net rental income • Options for a council guarantee of funding

	Comments
Third party owner with council lease arrangement	<ul style="list-style-type: none"> • Could be an existing entity or a new vehicle set up for this purpose • Would need to be clear on the benefits of third party ownership, compared to alternatives • Alternative funding options, though as not controlled by the council, greater scope for private finance options • Vehicle would need to be able to rely on sufficient net rental income receipts, to meet financial commitments associated with acquiring the housing • Reliance could be provided through a leasing arrangement with the council which provided certainty of net rental income • Options for a council guarantee of funding

5. Case study 1

Confidential

6. Case study 2

Confidential

7. Case study 3

Confidential.

8. Funding options

8.1. Introduction

The previous sections have looked at the costs to a new vehicle of acquiring a portfolio of properties, and the income they would generate based on local housing allowance levels. They also included high level viability assessments which indicated how the proposals could be viable.

This section now looks at the options for sourcing the funding required to acquire the properties. These have been grouped into two categories of funding options:

- Loan financing – from PWLB, a bank or the capital markets (bond)
- Lease type financing – typically with inflation linked lease payments

In each case there are options for the funding to be arranged through the council or directly by the vehicle, with or without a council guarantee.

8.2. Loan financing

PWLB

The simplest source of new funding for local authorities is the Public Works Loan Board (PWLB). Variable rate loans are available for up to 10 years and fixed rate loans for up to 50 years.

Fixed rate loans are repayable by one of three methods:

- Annuity or Equal Repayments (ER): fixed half-yearly payments to include principal and interest; or
- Equal Instalments of Principal (EIP): equal half-yearly instalments of principal together with interest on the balance outstanding at the time; or
- Maturity: half-yearly payments of interest only with a single repayment of principal at the end of the term.

Fixed interest rates are determined by the UK Debt Management Office (DMO), by reference to gilt yields and published twice a day. Published rates for February 2016 were some 3.0% - 3.5% for 20 to 40 year loans.

Capital markets (bonds)

As with registered providers, councils can look to borrow in the debt capital markets through a bond issue – either a public issue or private placement. A public issue would deliver the most competitive funding price and would provide an opportunity for secondary trading for investors (pension funds/insurance companies). It would require the Council to secure an external credit rating (S&P, Moodys, Fitch). This option is not likely to be viable for less than £100m, as the issue costs would otherwise be too high a proportion of the amount raised. For large bond issues

by entities with a very strong credit rating, the pricing can be similar to council funding from PWLB.

A private placement would be far more suitable for smaller amounts of some £50m. It would be arranged through direct dealing with an institution, and would not provide an opportunity for secondary trading. Whilst a credit rating would not necessarily be required, it could help to reduce the price. In general, a private placement is likely to be some 10bps (0.1%) higher than a public issue. Overall, bond finance has many of the same characteristics as PWLB funding, and today the rates are similar. However, PWLB is far simpler to access and does not have the transaction costs associated with a bond.

Bank funding

Bank funding provides the simplest loan financing option for a new vehicle. As a newly formed vehicle without a track record, it may be difficult to access bank funding without some form of Council guarantee. However, once the vehicle was established and built up a track record, loan financing could be provided – either at a variable rate, or fixed for a period of time. The precise terms including period of loan, conditions and interest rates would depend on the strength of the business plan and market conditions at that time.

8.3. Lease financing

A number of institutional investors have substantial income annuity funds, with a need for long term index linked income. To meet this demand, the local authority sector is seen as an ideal target particularly in view of its credit rating. In recent times, a number of “income strip” transactions have been concluded with housing associations, and with local authorities, for office accommodation and car parks.

The structure of such arrangements is typically:

The preferred investor leasing structure is:

- Sale or long lease by the company to the investor of the properties
- Lease back by the company for 40 years (or potentially longer)
- Lease payments starting at an initial % yield and increasing by inflation each year
- At the end of the lease period the housing reverts to the company for a nominal payment

The attraction to the investor of this structure is that they have no exposure to the properties or their values, and have a predictable income stream from the company (guaranteed by the council).

In terms of pricing and suitability for new housing development, there are a number of advantages and disadvantages in comparing institutional investor sale and leaseback to PWLB or other loan financing. Typical rates quoted for such a lease are an initial yield of 3.5% - so for a £20m sale, the initial payment would be £7.0m. Based on the £20m being amortised over a 40 year lease term, and assuming inflation of 2.0% over this period would give an overall funding cost of some 3.7% pa.

Whilst this is higher than PWLB rates (currently some 3.0% - 3.5%) depending on repayment method), it does have some advantages:

- The escalation of lease payments in line with inflation, matches increases in the company's rental income from the housing, so reduces its risk exposure to higher or lower future inflation.
- Even with a higher overall funding cost, the cash flow profile of a lease is more favourable than any PWLB options in the early years. This is because PWLB does not offer the option of an increasing repayment.

Operating leases and finance leases

Under International Financial Reporting Standards (IFRS), there are two classifications of lease – an operating lease and a finance lease. The difference in accounting is:

Finance lease – Property held under a finance lease is recognised on the balance sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Operating lease – There is no recognition of an asset or liability on the balance sheet. Instead, rentals paid under operating leases are charged to the Income and Expenditure Statement as an expense.

Under current accounting standards, IAS 17 is used to determine whether a lease is classified as a finance or operating lease. This says that:

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases. Classification is made at the inception of the lease.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form. Situations that would normally lead to a lease being classified as a finance lease include the following: [IAS 17.10]

- the lease transfers ownership of the asset to the lessee by the end of the lease term
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised
- the lease term is for the major part of the economic life of the asset, even if title is not transferred
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset
- the lease assets are of a specialised nature such that only the lessee can use them without major modifications being made

Whilst there is no prescribed formula for testing the above criteria, there are some established principles.

The effect of this accounting standard is that the vast majority of leases are classed as finance leases, with the effect that their accounting treatment is very similar to loan financing.

8.4. Private funding options

There is often a misconception that the source of funding (public or private sector) or perhaps the identity of the recipient (Council or private company) will determine whether or not the funding will be classed as public or private funding from the perspective of Government. In reality the position is far more complex and there are many institutional investor funding models which would be classed as public sector borrowing – even though there is no direct borrowing by a public sector body.

The structure charts in appendix 2 illustrate the optional role for a private funder, both in a wholly owned or joint venture option. The various options are outlined below.

Council funding of company from existing resources

Depending on the scale of investment required and the Council's financial position, it may be that the Council has sufficient existing resources to fund the company's property acquisitions. In this case no new borrowing would be required – however the use of resources to fund capital investment in a separate entity (either wholly or partly owned) would require the council to make appropriate balance sheet accounting entries.

Council funding of company from new loan funding

It may be that the Council looks to secure new loan financing to support the funding it provides to the company ("on-lending"). Irrespective of the source of this loan funding (PWLB or bank) the new funding (whether to a wholly or partly owned vehicle) would need to go through the Council's accounts and be recorded on its balance sheet (probably as a loan matched by investment or capital expenditure).

Third party loan funding direct to company with a Council guarantee

As a new entity, it may be difficult for a company to access new loan funding from third party sources, without the support of the Council. In this case, the loan funding would be recorded in the accounts of the company (and not the Council), but separately the Council would need to recognise the potential liability from such a guarantee on its balance sheet. This position would be the same for a wholly or partly owned company.

Depending on the size of the company in relation to the Council (materiality), it may be necessary for the Council to prepare separate consolidated "group accounts". These accounts would be separate from the main Council accounts – effectively a supplementary note.

Third party loan funding direct to company with no Council guarantee

Whilst it may be difficult at the outset, at some point in time the company may be able to access loan funding in its own right (ie without recourse to the Council), with the lender covered by the

underlying property values. In this case, the borrowing would not be recorded in the Council's accounts.

However, depending on the scale of activity and extent of company ownership by the Council, it is possible that group accounts will again have to be prepared.

Third party lease funding directly to the company with a Council guarantee

To secure a competitive finance rate, any third party lease funding arrangement would almost certainly require a Council guarantee. On the basis that the lease is classed as a finance lease (see above), the accounting treatment would be similar to a council guarantee provided for third party loan funding.

Third party lease funding directly to the company without a Council guarantee

If the company was able to secure third party lease financing without a Council guarantee (eg using the underlying property values as security) the accounting treatment would be similar to third party loan funding as outlined above.

8.5. Illustration

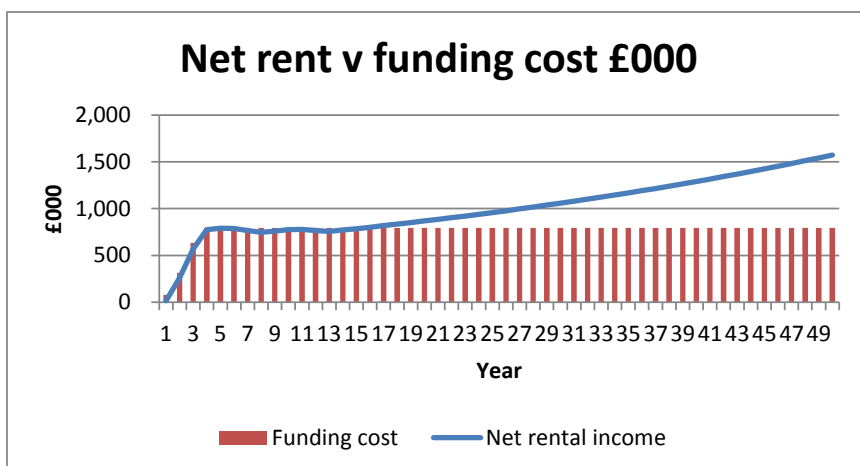
To illustrate the potential funding options, we have used a case study example with a rental mix which generates a IRR of 4% (44% LHA and 56% intermediate).

8.5.1. Loan financing

We have modelled the option of the vehicle sourcing loan finance at a long term fixed rate. Whilst current PWLB rates are some 3.0% to 3.5%, as the funding would not be required until 2018, we have assumed a rate of 4.0%.

On this basis, the table and chart below shows the annual interest charge and compares it to the forecast net rental income.

Year	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28
Fixed rate debt										
Loan at start of year		3,896	11,806	19,873	19,873	19,873	19,873	19,873	19,873	19,873
Acquisition loan	3,896	7,909	8,068							
Loan at year end	3,896	11,806	19,873	19,873	19,873	19,873	19,873	19,873	19,873	19,873
Interest charge	4%	78	314	634	795	795	795	795	795	795
Net rent		16	260	568	772	788	786	765	744	759
Net after interest		-62	-54	-66	-23	-7	-9	-30	-51	-36



This shows that in the initial years, shortfalls would arise, but that over time, substantial annual surpluses will arise in the vehicle, resulting from the inflationary increase in net rental income compared to a fixed interest rate.

The shortfall could be addressed by capitalising (rolling up) some of the interest in the early years.

8.5.2. Lease financing

We have modelled the option of the vehicle sourcing lease finance on the basis of a fully amortising lease so that at the end of the term there is no financial liability remaining.

Based on current market conditions, we have modelled two options:

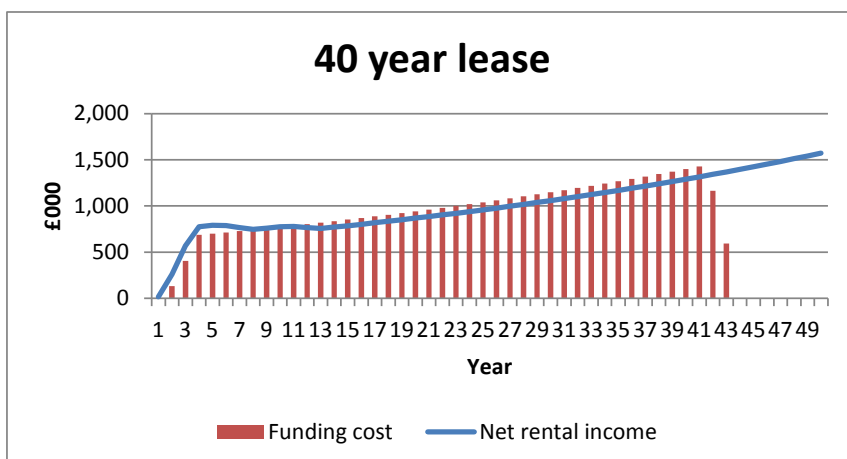
- A 40 year lease with an initial yield of 3.4%
- A 50 year lease with an initial yield of 3.0%

In both cases the lease payments increase each year by CPI (assumed to be 2.0%).

So, for example, if £10m finance were provided, the annual lease payment for a 40 year lease would start at £340,000 and would increase by 2.0% each year. Then at the end of the 40 year period, the £10m would be fully repaid.

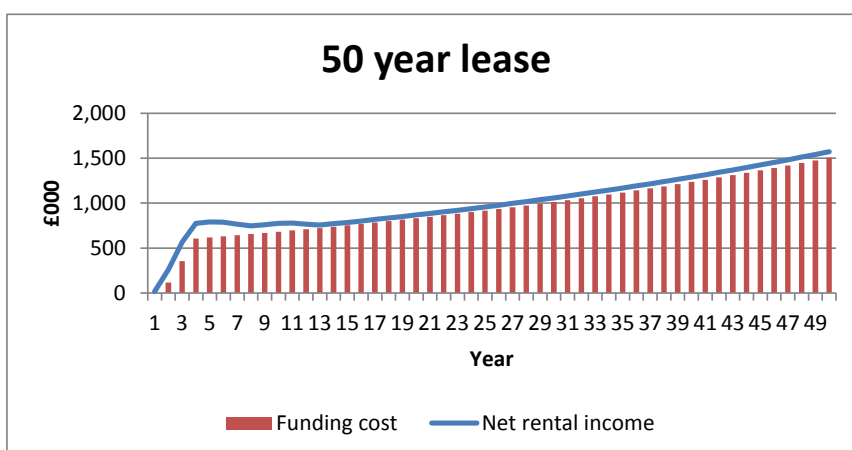
The tables and charts below compare the net rental income to the lease cost (for both a 40 year and 50 year lease) based on three separate leases for the three tranches of property acquisition in 2018, 2019 and 2020.

Year	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28
£000										
Net rent	16	260	568	772	788	786	765	744	759	774
40 year lease cost		132	404	686	700	714	728	743	758	773
Surplus 40 years	16	127	164	86	88	72	37	1	1	1



This shows that a 40 year leasing arrangement would be affordable in the initial years, but then have shortfalls in later years as life cycle commitments arose.

Year	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28
£000										
Net rent	16	260	568	772	788	786	765	744	759	774
50 year lease cost		117	357	606	618	630	643	656	669	682
Surplus 50 years	16	143	211	167	170	156	123	88	90	92



For a 50 year leasing arrangement, the annual lease payments would be affordable for every year of the lease.

These tables and charts illustrate the advantages of a funding arrangement which starts with a lower financial commitment and then increases over time in line with net rental income. They also show how a longer lease period can produce a proposition which is in surplus each year.

9. Council company financial forecasts

9.1. Introduction

The previous sections have provided illustrations for the case study sites and have looked at the costs to a new vehicle of acquiring a portfolio of properties, and the income they would generate based on local housing allowance levels. They also included high level viability assessments which indicated how the proposals could be viable, and have explored alternative funding options.

This section now looks at the option of a wholly owned Council company which is funded entirely by the Council, to illustrate the way in which such a proposition could be:

- Viable from the perspective of the company
- Financially neutral (or positive) for the Council

9.2. Case study assumptions

These forecasts are based on a case study, with 70 properties being acquired by the company (with funding provided by the council) and let at a 50/50 mix of market rents and LHA rents.

Acquisition costs

Using case study assumptions, the properties acquired, and their acquisition costs would be:

			2018 values		
	Number	Av size (sq ft)	Market value £/sq ft	Av market value £000	Acquisition price (90%)
1 bed	25	600	400	240	216
2 bed	43	850	400	340	306
3 bed	2	950	400	380	342
	<u>70</u>				

Property acquisitions costs

	Total	2018.19	2019.20	2020.21
Property numbers	70	14	28	28
Cost £000	19,873	3,896	7,909	8,068

Net rental income

On the basis that 50% of the properties are let at LHA rates, and 50% at market rent, the 2018 rental income of the case study portfolio of 70 properties would be an average of £12,684:

Annual rents 2018 £	LHA	Market rent	Average
1 bed	7,957	12,600	10,279
2 bed	10,009	17,850	13,929
3 bed	11,975	19,950	15,962
Average	9,332	16,035	12,684

Combining these rent levels with operating cost assumptions as before, leads to net rental income as in the table below.

Year	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28
Operating summary £000										
Gross rent	37	345	711	916	929	948	966	986	1,006	1,026
Rent bad debts	1	7	14	18	19	19	19	20	20	21
Management	12	39	58	48	49	50	51	52	53	54
Maintenance	5	16	28	28	29	35	48	61	63	64
Life cycle						12	36	61	63	64
Relet costs		1	5	9	9	9	9	9	10	10
	19	64	105	103	105	125	164	204	208	212
Net rental income	19	281	606	813	824	823	803	782	798	814
<i>Number of properties</i>	14	42	70	70	70	70	70	70	70	70
Gross rent per unit	3	8	10	13	13	14	14	14	14	15
Net rent per unit	1	7	9	12	12	12	11	11	11	12
Net/Gross	50%	82%	85%	89%	89%	87%	83%	79%	79%	79%

Within the company, the net rental income would need to meet:

- Company administration costs – for the purposes of the financial modelling, additional company administration costs of £20,000 pa has been included to cover the additional administrative costs of the company.
- Funding cost – the costs of servicing the funding provided to the company to acquire the properties (see below)
- Tax cost – corporation tax payable on the profits of the company (see below)

9.3. Company funding arrangements

9.3.1. Funding structure

Whilst it may be possible to source funding for the company from third party providers, the working assumption is that the Council provides funding for the company. This is the option which is being pursued by most local authorities setting up new housing companies, largely based on simplicity and value for money, and the flexibility it provides to return surpluses to the Council as revenue.

To model the financial impact of Council funding for the company, assumptions need to be made on:

- **The form of funding provided to the company.** The two main options are for the Council to invest share capital in the company (in return for dividend income and capital growth), or to make loans to the company on which interest is paid.
- **The interest charge made by the Council to the company.** The rate of interest charged by the Council to the company on loans, which would need to be set at a broadly “commercial rate” to satisfy state aid requirements (depending on the proposed activities of the Company).
- **The cost to the Council** of accessing funding to provide to the company, which would take account of the Council’s overall financial position, including the availability of internal resources, and the need to borrow.

Form of funding

A typical commercial arrangement would see the company established with a mix of share capital (equity) and loans (debt). As the sole shareholder, the mix of debt and equity would be a decision for the Council, and would have regard to the need to establish the company as a sound and viable business, as well as state aid and tax implications.

Higher levels of debt would increase the interest charge in the company, reducing its liability to corporation tax and generating more revenue for the Council. However, an excessive amount of debt (which is not regarded as a normal commercial arrangement) may lead to a challenge from HMRC with the effect that some of the interest costs are not allowable as a tax deduction.

For the purpose of the financial modelling in this section, it has been assumed that a 65%/35% debt/equity split would reflect a normal commercial arrangement and lead to a level of interest charge which would be acceptable to HMRC.

Loan interest rate and terms

As outlined above the terms and rate of interest associated with any loan would need to take account of state aid considerations.

Under the market economy investor (or lender) principle, if the Council is acting in a way that a private lender and/or investor would in similar circumstances in a market economy then the Council's investment is considered a market activity and not State Aid. For example if the Council provided a loan on commercial terms and at a commercial interest rate, properly taking into account risks and/or made an equity investment on terms and for the return which a private investor would do, then such activity would not constitute unlawful State Aid.

Whilst it would depend on the precise capital structure and activities of the company, the specific circumstances at the time of the loan, and the terms and conditions attaching to the loan, we have based the financial modelling on a loan interest rate of 5.5% pa.

The length of the loan facility would also need to be agreed as a part of the funding agreement. To reflect a typical commercial arrangement, the working assumption is that the term would initially be for 5 years. This period would provide the company with sufficient time to establish the business and demonstrate the ability of the company to deliver a business plan whilst providing a lender with an exit opportunity in the medium term. Towards the end of the term the company would look to refinance the existing debt, and the terms of any refinancing would then take account of the track record of the company and the likely increased equity, resulting from capital growth in its asset base.

On this basis, financial modelling assumes that a further loan facility would be agreed at the end of this 5 year period, so that a loan at an interest rate of 5.5% has been assumed throughout the period of the financial modelling.

Council cost of funding

The cost to the Council of providing funding to the company will depend on its overall financial position, including the availability of internal resources, and the need to borrow. At this stage, for the purposes of the financial modelling, a cost of funding to the Council of 3.5% has been assumed, based on current PWLB rates.

9.3.2. Funding summary

Based on the 65%/35% funding structure outlined above, the £19.9m acquisition of the portfolio would be funded by £6.96m share capital (equity) and £12.92m loan.

Funding £000	Total	2018	2019	2020
Equity	6,956	1,364	2,768	2,824
Loan	12,918	2,533	5,141	5,244
Acquisition cost	19,873	3,896	7,909	8,068

The loan would bear interest of 5.5%, i.e. £710,000 pa once it reaches the £12.92m total.

From the Council's perspective, it would need to provide £19.9m funding in total to the company. Based on the assumption this is funded through a loan of £19.9m at an interest rate of 3.5%, it would have an interest cost of £696,000 pa – less than the annual interest receipt of £710,000.

9.4. Taxation

Whilst the Council has a favourable tax position, the company will be liable for:

- VAT on operating costs which cannot be recovered – 20% VAT cost has been included in the operating cost allowances (see section 5.4)

- Corporation tax on its profits

For the rental business, corporation tax will be payable on profits, which are based on gross rental income received, less:

- Operating costs – Whilst this will include property management and maintenance costs, it would not necessarily include major life cycle works. Depending on the precise nature of such works, they may not be allowable. On this basis, a simple assumption that 50% of life cycle costs are not allowable has been included.
- Company administration costs – These are likely to be allowable as a deduction against the rental income.
- Interest payable – Whilst there is some risk that interest would not be deductible if the funding arrangement was not a normal commercial arrangement (see above), the assumption is that the company will be set up and funded so that interest costs will be tax deductible.

The table below summarises the corporation tax liability which would arise, based on these assumptions.

Year	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25
Tax calculation							
Net rental income	19	281	606	813	824	823	803
Life cycle costs	50%					6	18
Company administration	-20	-20	-21	-21	-22	-22	-23
Interest payable	-52	-316	-602	-710	-710	-710	-710
Taxable profit	-54	-55	-17	81	92	96	88
Losses in year	-54	-55	-17				
Profit before tax				81	92	96	88
Losses used				81	44		
Taxable in year					48	96	88
Tax payable	20%				10	19	18

This shows how losses incurred in the initial period can be carried forward and offset against future profits, so that 2022/23 would be the first year in which tax would arise. This would be payable the following year.

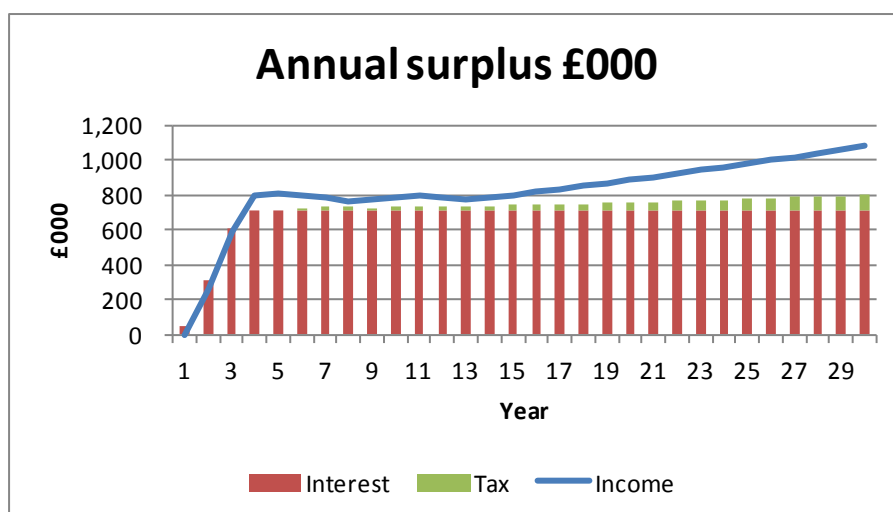
9.5. Company summary

9.5.1. Annual cash flow

Combining net rental income with assumptions on interest and tax give the following overall position for the company:

£000	Total 5yr	Total 20 yr	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25
Cash flow									
Net rental income	2,542	15,015	19	281	606	813	824	823	803
Company admin	-104	-486	-20	-20	-21	-21	-22	-22	-23
	2,438	14,529	-1	261	585	792	802	801	780
Interest	-2,391	-13,048	-52	-316	-602	-710	-710	-710	-710
	48	1,482	-54	-55	-17	81	92	90	70
Tax		-404						-10	-19
Total for year	48	1,077	-54	-55	-17	81	92	81	51
Cumulative			-54	-109	-126	-44	48	128	179

Whilst there are relatively small deficits in the initial years as the portfolio is built up, the position quickly moves to one of annual surpluses. The chart below shows how the annual position improves over time as inflation increases the net rental income compared to static interest charge.

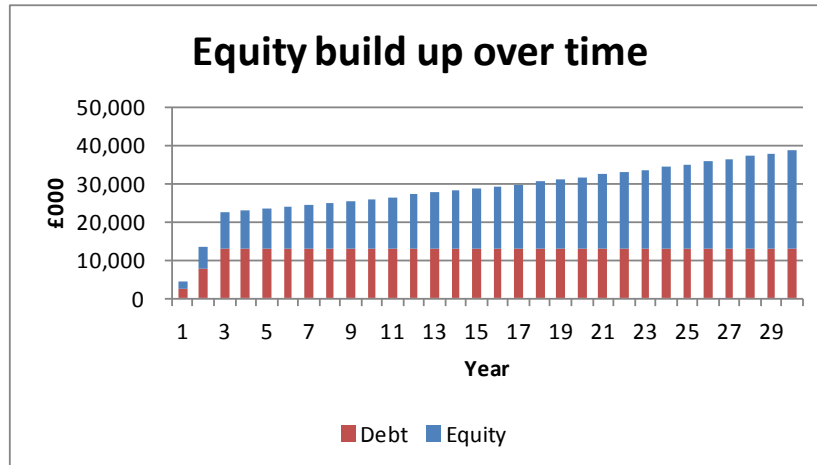


This shows company financial forecasts which could be delivered within the funding assumptions, and so represent a viable proposition.

9.5.2. Equity growth

As well as generating an annual cash surplus from its property portfolio, the company would also own a property portfolio which is likely to increase in value over time. The table and chart below shows how the forecast increase in market value of 2.0% pa combined with a fixed level of debt, leads to an annual increase in equity in the company.

£m	Total 5yr	Total 20 yr	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24
Company equity								
Number of properties			14	42	70	70	70	70
Market value	23,489	31,613	4,340	13,280	22,577	23,028	23,489	23,958
Debt	12,918	12,918	2,533	7,674	12,918	12,918	12,918	12,918
Equity	10,571	18,695	1,807	5,607	9,659	10,110	10,571	11,041



Whilst this equity value is not immediately available to the Council, as owner it would benefit from the increase in equity which it could release through disposal of some of the underlying properties, or of a part of the share capital of the company.

9.6. Council financial implications

9.6.1. Lender

As a lender, the Council can properly charge interest on its loan funding to the company, in accordance with the terms of its funding agreement. Under state aid regulations the interest rate would almost certainly be higher than the Council's cost of funding (see above). As interest payments are tax deductible, the payment of interest passes pre tax profits to the Council and reduces the tax liability in the company. It should be noted that any excessive interest payments or non-commercial arrangements could be subject to challenge by HMRC (see above).

Based on the assumptions within this business plan, the Council would provide loan funding to the company during the acquisition period, totalling £12.92m. In return, the Council will receive interest from the company (modelled at 5.5%). This interest received by the Council could be used to meet the Council's cost of funding for its loan to (and investment in) the company.

9.6.2. Shareholder/investor

The proposal is for the Council to invest £6.96m as share capital in the company. This would set up the company with a reasonable level of equity, so that a viable rental business could be established. In return for this investment, the Council would be entitled to receive dividend payments from the company. The level of dividends paid would be a decision for the shareholders, and they could only be paid out of the company's accumulated profits. Dividends are paid out of the company's taxed profits.

In the longer term, the company would continue to hold the properties for rent, and as outlined in section 9.5 above, the impact of inflation would see net rent growing, compared to a static debt cost, leading to escalating profits. In addition to these profits, the shareholders would also benefit from the longer term growth in value of the properties. This is shown in section 9.5 above.

9.6.3. Projected financial return for the Council

It has been assumed that the Council would need to pay for the cost of funding its investment in and loan to the company, and that the cash financial return from the company would pay for this. As dividends can only be paid out of accumulated profits, the company will not be in a position to pay dividends in the initial years.

The table below compares the interest received on the loan with the interest payable on funding for both the loan and investment.

£000	Total 5yr	Total 20 yr	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25
Council									
Investment in company			1,364	4,132	6,956	6,956	6,956	6,956	6,956
Loan to company			2,533	7,674	12,918	12,918	12,918	12,918	12,918
Total Council funding			3,896	11,806	19,873	19,873	19,873	19,873	19,873
Interest payable on funding	-2,340	-12,774	-51	-309	-589	-696	-696	-696	-696
Interest received from comp	2,391	13,048	52	316	602	710	710	710	710
Net interest	50	274	1	7	13	15	15	15	15
Dividends	38	1,027					38	71	52
Total return	88	1,301	1	7	13	15	53	86	67

This shows that a 5.5% interest charge to the company on the loan, will provide the Council with sufficient resources to cover the 3.5% cost of funding for the combined loan and investment.

In addition to receiving dividends and interest payments, the Council may provide services to the Company. The (arm's length) charge for such services by the Company would be tax deductible. At this stage, it has been assumed that any services are paid for by the company at cost – ie there is no financial benefit arising to the Council through provision of services to the company. In reality it may be that the Council provides services to the company, and that the charge to the company properly includes a contribution to the fixed cost base of the Council. This benefit to the Council has not been factored in at this stage.

In addition to this projected cash return to the Council as shareholder and investor, the company will own a portfolio of 70 properties. Section 9.5 above shows the equity value of these properties in the company, and as owners of the company, this underlying property equity remains in its control of the Council.

9.6.4. Temporary accommodation savings

In addition to the direct financial implications of the company on the Council, the presence of a company which increased the availability of properties to let at LHA levels would lead to a saving in temporary accommodation costs. We understand that the potential saving could amount to £11,960 pa per property, so based on 35 properties available to let at LHA levels this would amount to some £418,000 pa.

9.7. Financial risks and sensitivities

The financial forecasts set out above are based on a number of underlying assumptions which are partly outside the control of the Council/company, in particular:

- Future property prices and rent levels
- Interest rates and inflation

The principal way in which these risks can be managed lies in the adoption of a robust property acquisition strategy which sets minimum rental yields and assesses the likely rental demand for the property.

After acquisition, if economic or market factors change and more income is necessary, the option to switch properties from LHA to market rent would be there. To show the impact of lower yields and the level of switching of rent levels which would be required, we have looked at the impact of a 0.25% and 0.5% reduction in gross rental yields for all market rent properties.

Whilst a reduction of 0.25% (to 5.0%) could be accommodated within the current forecasts, if market rental yields were 0.5% lower (at 4.75%), then an adjustment to the mix of rents (to 40% LHA rent / 60% market rent) would be needed to preserve viability.

In terms of inflation and interest rates, there is a certain amount of natural protection as inflation and interest rates are, to an extent, linked. If inflation is higher than anticipated, it is likely that net rental income and property values would also increase, so that the impact of higher interest costs would be covered.

It should also be remembered that the company will be the owner of a portfolio of properties in Brighton, so there is always the option of releasing capital through subsequent disposal of one or more properties.

9.8. Summary

Case study financial modelling shows a proposition which is likely to be viable from the perspective of the company and Council, and in addition to deliver temporary accommodation savings to the Council of some £418,000 pa. This is based on:

- 70 properties a mix of 50% LHA and 50% market rent
- A gross rental yield on the market rent properties of 5.25%
- Funding from the Council of 65% debt and 35% equity with the debt having an interest rate of 5.5%.

The principal risk to viability lies in the ability to achieve sufficient net rental income from the properties to meet financing costs. In this context, it would be important to adopt a robust property acquisition strategy which sets minimum rental yields and assesses the likely rental demand for the property.

Appendix 1 – Housing market report

Housing Market Intervention Project

Housing Market Report

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1. Brighton Overview

1.1. Location Map



1.2. Location

Brighton is situated on the south coast of England and forms the largest part of the city of Brighton and Hove. The 2011 census estimated the population of Brighton and Hove as 273,400, making it the largest local authority in the South East of England. Worthing lies to the west, approximately 14.5 miles (23 km) and Eastbourne to the east, an approximate 22 miles (35 km). Horsham lies approximately 24 miles (39 km) to the north of Brighton.

1.3. Population and Demographics

The population in the 2011 census for Brighton & Hove was estimated at 273,400 people, an increase of 25,552 since the 2001 census. The latest estimate, for 2012, is 275,800 residents with further growth projections of 5.1 per cent by 2021, which would take the resident population to 289,900 (Figure 1). The city has an unusual age distribution compared to both the national and regional profiles; there are fewer children and old residents, but a clear swell in the proportion of adults aged 20-44 years (Figure 2). There is a substantial student population in the city; at the time of the 2011 census full time students aged over 16 years accounted for 14 per cent of the population living in the city (32,920). The average proportion of the population who are students is eight per cent in the South East and England.

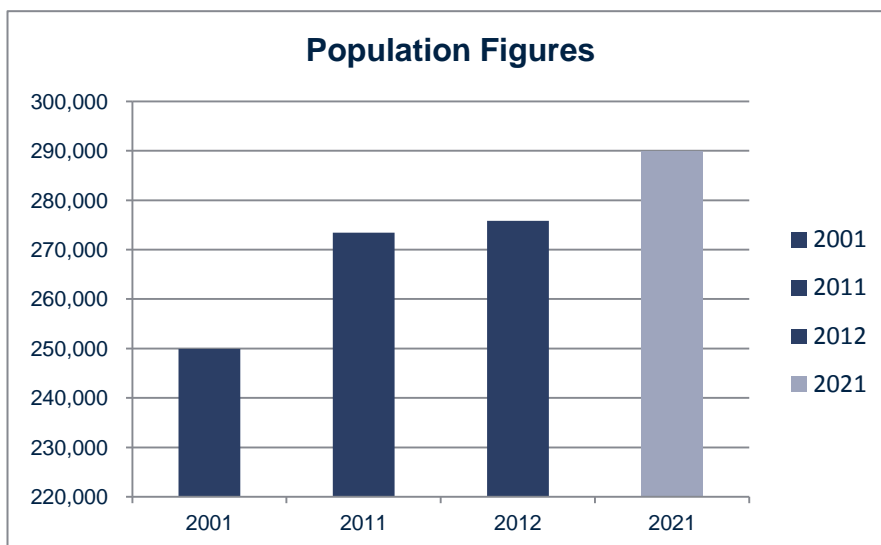


Figure 1 – Population of Brighton & Hove at indicated years, including forecast to 2021

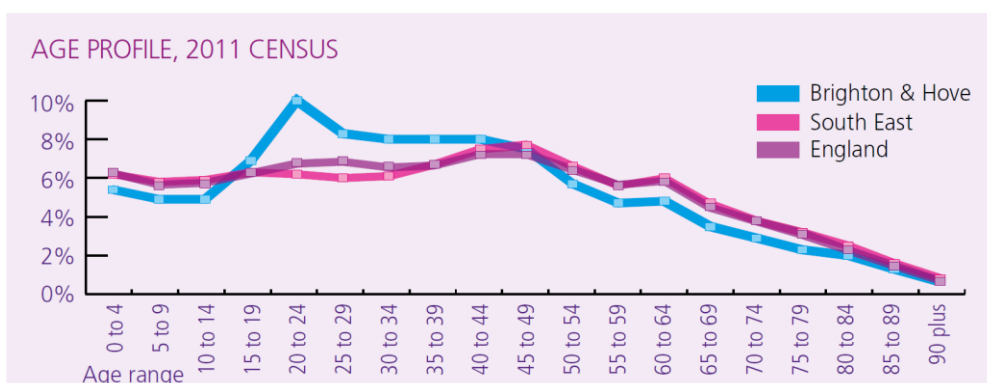


Figure 2 – Age profile of Brighton & Hove in comparison to the South East and England

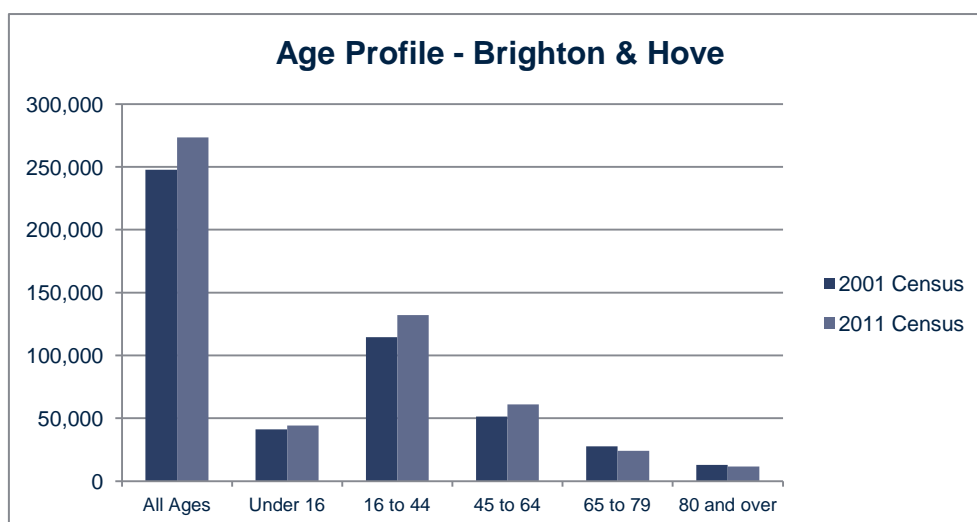


Figure 3 – Age profile of Brighton & Hove in 2001 and 2011

1.4. Transport

Brighton is connected to the national road network by the A23 (London Road) northwards, and by two east–west routes; the A259 along the coast and the A27 trunk route inland. The A23 joins the M23 motorway at Pease Pottage near Gatwick Airport. Frequent trains operate from Brighton railway station with Brighton residents commuting to work in London. Destinations include London Victoria, London Bridge and St Pancras International. Most trains serve Gatwick Airport, and those operated by Thameslink continue to Luton, Luton Airport and Bedford. The fastest service from London Victoria takes 51 minutes. Brighton Airport offers chartered and scheduled flights using light aircraft, is 9 miles (14 km) west of Brighton near the town of Shoreham-by-Sea. Gatwick Airport, one of Britain's major international airports, is 22 miles (35 km) north on the A23; regular coach and rail services operate from Brighton.

1.5. Housing

Nearly a third of households in the city are private renters (35,959 households, 29.6%), this compares to only 16.3% in the South East and 16.8% in England. There are 10,691 more households renting from a private landlord or agency in 2011 than there were in 2001, an increase of 45.7%. Figure 4 below provides a summary of various housing tenures.

Figure 4 – Brighton Tenure Profile

Tenure								
	Census 2011				Census 2001		Change 2001 - 2011	
	Brighton & Hove		South East	England	Brighton & Hove			
	Number	%	%	%	Number	%	Number	%
Tenure	121,540				114,479			
Owned outright	28,397	23.4%	32.5%	30.6%	29,810	26.0%	-1,413	-4.7%
Owned with a mortgage or loan	36,393	29.9%	35.1%	32.8%	40,131	35.1%	-3,738	-9.3%
Shared ownership	1,045	0.9%	1.1%	0.8%	639	0.6%	406	63.5%
Rented from council	11,928	9.8%	5.8%	9.4%	11,779	10.3%	149	1.3%
Social rented: Other	6,259	5.1%	7.9%	8.3%	5,017	4.4%	1,242	24.8%
Private landlord or letting agency	34,081	28.0%	14.7%	15.4%	23,390	20.4%	10,691	45.7%
Private rented: Other	1,878	1.5%	1.6%	1.4%	3,713	3.2%	-1,835	-49.4%
Living rent free	1,559	1.3%	1.3%	1.3%			1,559	

2011 Census data taken from ONS table QS105EW

2. Private Rented Sector Overview

There were 4.3 million households in the private rented sector in the UK in 2011. Savills expects the number to grow by one million over the next five years.

Although renting privately continues to be a short-term measure, more people are renting for longer. The biggest group of private tenants is aged between 25 and 34. However the fastest growing group of private tenants are aged between 35 and 44, a quarter of who are young families. Terms for this group include “Generation Rent” and the “Rentysomethings”.

For some of this group, the aspiration of home ownership may not be satisfied until much later in life. However due to a combination of high prices and increasing interest rates, some may never have the financial capacity to buy a property, with this group dubbed the “New Excluded”.

It is likely that increasing numbers of tenants being priced out of the purchase market will lead to rented becoming a credible alternative for future generations.

The mismatch between supply and demand is driving up rents. This combined with the population of London expected to rise from 8.3 million in 2013 to 9 million by 2020 has led to Savills Research anticipating that Greater London will outperform the wider UK regions over the next five years.

This upward pressure on rents will also be felt within the commuter belt towns and cities. The supply of new housing in London is falling way short of demand; the Mayoral Housing Strategy targets the delivery of 42,000 homes per annum over the next 10 years whereas latest figures supplied by the DCLG indicate current annual house building starts of 21,370.

The lack of supply will drive renters to look at alternative locations due to a combination of being priced out of particular markets but also seeking an improved standard of living to what London could offer.

Brighton’s demographic characteristics, together with its strong transport connections to London and vibrant social / leisure offer, have unsurprisingly made it a popular rental market. Approximately 26% of the population is within the key 20 to mid 30s years of age bracket. The above combination has resulted in private renting in Brighton being the second most popular tenure behind owner occupation with mortgage; a figure of 28% which is almost double the national average.

Brighton’s strong PRS dynamics undoubtedly puts it on the target location list for the growing number of professional investors in the sector. Below we provide a brief overview of the type of organisations who are investing and the method they employ when appraising an opportunity.

2.1. Investors

A wide range of investors are actively acquiring PRS opportunities. These investors can broadly be grouped into three groups:

- **Commercial and Institutional Investors**
- **Existing Private Sector Portfolio Owners**
- **Individual Buy to Let Investors**

Each group has different requirements and strategies for holding stock. Residential is a total return asset, with the return comprising an element of capital growth and rental income. As such some of the above groups will be long term holders, with the prime aim income albeit with some trading as and when properties fall outside the core portfolio holding. For others, capital growth is the key driver, with the strategies adopted to acquire portfolios at discount and undertake a phased trade out for profit after hold and sales costs.

2.2. Investment Metrics

There are broadly three investment metrics which investors will consider when determining the level of price they would be willing to offer for an existing residential property:

- Gross and Net Yield
- Discount from aggregate vacant possession
- Internal Rate of Return – based on cash flow

All of the above investor groups will look at yield and discount, however in general it is mainly Commercial and Institutional Investors who will also seek internal rate of return metrics which requires the preparation of discount cash flows.

These metrics are used to compare projects against each other, enabling investors to gauge which projects produce the best risk adjusted return. Funding costs play a large part in desired return levels; investors who use higher cost mezzanine funding would require a greater return than those who raise funds via cheaper bond finance.

Gross and Net Yield

Put simply this is the percentage return of the rental on the purchase costs incurred in acquiring a portfolio. The Gross Yield is based on the gross rent, with the Net Yield based on the net operating income after operating costs are deducted.

Returns vary however the general trend is investors will seek a higher level of rental yield for properties which are either more management intensive, or where capital growth prospects or where tenant demand is limited.

Examples of such properties included HMO's, older stock requiring modernisation and stock in lower value markets where extensive regeneration is required to lift an area to establish it as an attractive rental destination for tenants.

Lower returns are accepted for properties with stronger capital growth prospects with a large pool of prospective tenants. Examples would include properties in established residential locations in inner London Boroughs, where ongoing development and the established leisure offer, combined with excellent commuter links, makes them popular destinations for tenants.

Accepted day one yields from investors will vary. However even for higher quality opportunities where a greater proportion of the return will be capital growth, commercial investors will generally want the net rental yield to exceed their cost of funding by year 5 as the aim will be to generate an element of profit and not be reliant on capital growth as the main driver of return.

Discount from aggregate vacant possession

Along with yield, investors acquiring portfolios will look to acquire the units at discount from their perceived individual vacant possession market value. The discount immediately provides capital upside and protects investors returns to some degree if operating cost assumptions are too low.

As noted, for some speculative trader investors, the discount is the key metric as their return will be the profit after hold costs from phased sales. As long as they feel they have secured the portfolio for a true discount of vacant possession value, this investor group will accept a net rental yield below cost of funds as their hold period will be short term, with the aim of trading out of the portfolio.

However even for long terms holders, the discount is relevant as it will enable a profit to be achieved if the rental performance and yield is below expectations resulting a decision to exit the portfolio on a phased sale basis.

Internal Rate of Return

As noted a key metric for commercial and institution investors is the Internal Rate of Return. The internal rate of return is the discount rate used where the net present value from the cash flow is zero.

This will be calculated using a discounted cash flow which adopts a discount rate to the net operating income stream.

The discount rate reflects the risks associated with the ownership of the specific property opportunity. It is based on the risk free rate (yield on 30 year gilt) plus an appropriate risk premium.

Again return requirements vary, particularly when gearing (debt) is introduced. However on an ungeared (100% equity) basis investors would accept returns of below 10%, with returns upwards of 15% on equity sought on geared opportunities. Investors would also look at the equity multiplier, which reflects the multiplier increase in the equity which has to be put into a project which the investment generates over its hold period.

Metrics Commentary

The nature of PRS is such that each opportunity should be appraised on its own metrics as the specific characteristics of a scheme will determine what return levels investors would seek. It is not possible to apply an arbitrary "typical" discount across a variety of schemes within a city as scheme location and specific design factors will influence demand, rental growth and operating costs. By way of example, the level of return and discount investors would seek for a brand new scheme comprising larger than average apartments, several lift cores and on site communal leisure space would be significantly different to levels sought for an older scheme with no lift and limited on site communal space.

3. Market Overview

We have undertaken research using a combination of Land Registry and Rightmove data combined with interviewing several agents active in Brighton to provide an overview of the general trends in the housing market, with a specific focus on rental. Our summary is provided below:

Housing Market Intervention Project

Housing Market Report



	1 bedroom apartment	2 bedroom apartment	3 bedroom apartment
Typical Sales Value Range (£)	£185,000 - £295,000	£275,000 - £400,000	£350,000 - £465,000
Typical Rental Value Range (£)	£795 - £1,100	£1,100 - £1,400	£1,400 – £1,900
Typical Residential Yields (%)	5 / 6 %	5 / 6 %	5 / 6 %
Overall Demand	One bed apartments are the most in demand properties in Brighton. There is high demand for both 1 and 2 bed apartments but low supply. There is very little demand for 3 bed apartments.		
Specific Tenant Demand	There is very good demand from single professionals who are mainly seeking 1 bed apartments. The demand for 1 and 2 bed apartments is predominantly from professional singles and cohabiting couples. International students also generate a high demand for 1 and 2 bed apartments, especially in the area around Brighton Station. There is some demand from domestic students for lower spec 1 and 2 bed apartments. There is little demand from families; those that are seeking rental accommodation are mainly looking for 3 bed apartments.		
Factors Important to Tenants	<ul style="list-style-type: none"> • Approximately 80% of young professionals and couples are mainly looking for unfurnished units. • International students also require unfurnished but they also have a preference for basic furnishings or unfurnished with white goods provided. They are willing to pay a premium for basic furnishings. • Parking is considered a bonus in 1- 3 bed apartments, but this is becoming less of a requirement. 		
Notable future developments	Royal Alexander Quarter, Dyke Road, BN1 3HR is in the final phase of development and is due to complete at the end of this month. Martello Loft, Portland Road in Hove, build due to complete winter 2015. One Hove Park, BN3, due to complete September 2015.		
Time period void units require to be re- let	Maximum 2 - 3 weeks void a year. During first year of purchase, factor in a months void.		
Other Comments	Outline research focussed on the centre of Brighton within close proximity to Brighton Station. The market within the area is very buoyant especially for 1 and 2 bed apartments. Most 1 bed apartments are let within 7 days of marketing, 1 week – 10 days for 2 bed apartments and 3 beds can look to be let within about 2 weeks.		

4. Comparables Summary – Rentals and Sales

In addition to the general market overview, we have reviewed the rents and sales prices being achieved / quoted at a selection of modern schemes within Brighton, which will assist in the assumptions we using for the modelling scenarios.


Our summary is provided below:

Scheme Name	1 Bed Apartment		2 Bed Apartment		3 Bed Apartment	
Atrium House, 30 Regent Street, BN1 1UU	Average Rent pcm (£)	1,017	Average Rent pcm (£)	1,550	Average Rent pcm (£)	2,000
	Average Rent p/w (£)	234	Average Rent p/w (£)	358	Average Rent p/w (£)	462
	Average Size (sq ft)	538	Average Size (sq ft)	N/A	Average Size (sq ft)	N/A
	Average Rent psf pa (£)	22	Average Rent psf pa (£)	N/A	Average Rent psf pa (£)	N/A
	The scheme is a new build development, ideally situated minutes from central Brighton shops and restaurants. The properties are only a five minute walk from Brighton Station.					
RENTS						
Description	Rent pcm (£)	Rent p/w (£)	Status			
1 bed apartment	1,050	242	On the market			
1 bed apartment	1,000	231	Let agreed			
1 bed apartment	1,000	231	Let agreed			
2 bed apartment	1,550	358	On the market			
2 bed apartment	1,550	335	On the market			
2 bed apartment	1,550	358	On the market			
2 bed apartment	2,000	462	On the market			
SALES						
Description	Sale Price	Price psf (£)	Status			
2 bed penthouse	550,000	656	On the market			
2 bed penthouse	550,000	656	On the market			

Housing Market Intervention Project

Housing Market Report



Scheme Name	1 Bed Apartment		2 Bed Apartment		3 Bed Apartment	
Cawthorne House, Dyke Road, BN1 3GZ	Average Rent pcm (£)	1,450	Average Rent pcm (£)	1,638	Average Rent pcm (£)	N/A
	Average Rent p/w (£)	335	Average Rent p/w (£)	377	Average Rent p/w (£)	N/A
	Average Size (sq ft)	N/A	Average Size (sq ft)	809	Average Size (sq ft)	N/A
	Average Rent psf pa (£)	N/A	Average Rent psf pa (£)	22	Average Rent psf pa (£)	N/A

The scheme is located between Clifton Hill and Seven Dials, is 0.2 miles from Brighton train station with regular services into London Bridge and London Victoria. It is also close to the City centre and seafront restaurants, café culture and shops. The development includes private landscaped gardens and private parking for larger apartments.

RENTS

Description	Rent pcm (£)	Rent p/w (£)	Status
1 bed apartment	1,450	335	On the market
2 bed apartment	1,600	369	Let agreed
2 bed apartment	1,700	392	On the market
2 bed apartment	1,750	404	On the market
2 bed apartment	1,500	346	On the market


SALES

Description	Sale Price	Price psf (£)	Status
1 bed apartment	315,000	562	On the market
1 bed apartment	350,000	626	On the market
1 bed apartment	330,000	590	On the market
1 bed apartment	320,000	571	Sold
1 bed apartment	325,000	580	On the market
2 bed apartment	480,000	588	Sold
3 bed penthouse	1,100,000	N/A	On the market
3 bed penthouse	1,100,000	N/A	On the market

Housing Market Intervention Project

Housing Market Report



Scheme Name	1 Bed Apartment		2 Bed Apartment		3 Bed Apartment	
Stepney Court, Fleet Street, BN1 4GS	Average Rent pcm (£)	N/A	Average Rent pcm (£)	1,722	Average Rent pcm (£)	2,213
	Average Rent p/w (£)	N/A	Average Rent p/w (£)	399	Average Rent p/w (£)	511
	Average Size (sq ft)	N/A	Average Size (sq ft)	941	Average Size (sq ft)	861
	Average Rent psf pa (£)	N/A	Average Rent psf pa (£)	21	Average Rent psf pa (£)	31

Just a few minutes walk to Brighton train station, this is an ideal location for commuters & students and with easy access to local amenities. Modern décor throughout and finished to a high standard.

RENTS

Description	Rent pcm (£)	Rent p/w (£)	Status
2 bed apartment	1,850	427	On the market
2 bed apartment	1,750	404	On the market
2 bed apartment	1,750	404	Let agreed
2 bed apartment	1,750	404	Let agreed
2 bed apartment	1,700	392	Let agreed
2 bed apartment	1,650	381	On the market
2 bed apartment	1,450	345	On the market
2 bed apartment	1,850	427	On the market
2 bed apartment	1,750	404	On the market
3 bed apartment	2,300	531	On the market
3 bed apartment	2,200	508	On the market
3 bed apartment	2,400	554	On the market
3 bed apartment	1,950	450	Let agreed


SALES

Description	Sale Price	Price psf (£)	Status
2 bed apartment	390,000	348	On the market
2 bed penthouse	600,000	398	Under offer
3 bed apartment	390,000	415	On the market
3 bed apartment	425,000	452	Sold

Housing Market Intervention Project

Housing Market Report



Scheme Name	1 Bed Apartment		2 Bed Apartment		3 Bed Apartment	
Embankment House, 7 Fleet Street, BN1 4HD 	Average Rent pcm (£)	1,283	Average Rent pcm (£)	1,525	Average Rent pcm (£)	N/A
	Average Rent p/w (£)	296	Average Rent p/w (£)	352	Average Rent p/w (£)	N/A
	Average Size (sq ft)	526	Average Size (sq ft)	788	Average Size (sq ft)	N/A
	Average Rent psf pa (£)	29	Average Rent psf pa (£)	23	Average Rent psf pa (£)	N/A

Apartments in a luxury new development, currently under construction adjacent to Brighton Station offering direct links to London. The apartment is enviably located with within easy reach of numerous restaurants, cafes and entertainment facilities.

RENTS

Description	Rent pcm (£)	Rent p/w (£)	Status
1 bed apartment	1,300	300	Let agreed
1 bed apartment	1,450	335	On the market
1 bed apartment	1,100	254	Let agreed
2 bed apartment	1,650	381	On the market
2 bed apartment	1,650	381	On the market
2 bed apartment	1,500	346	Let agreed
2 bed apartment	1,550	358	Let agreed
2 bed apartment	1,450	335	Let agreed
2 bed apartment	1,400	323	Let agreed
2 bed apartment	1,500	346	Let agreed
2 bed apartment	1,500	346	Let agreed

SALES

Description	Sale Price	Price psf (£)	Status
1 bed apartment	285,000	N/A	Sold
1 bed apartment	299,950	N/A	Under offer
2 bed apartment	365,000	N/A	Under offer
2 bed apartment	399,950	531	On the market
2 bed penthouse	550,000	417	On the market
3 bed penthouse	499,950	490	Under offer
3 bed penthouse	650,000	572	On the market

Housing Market Intervention Project

Housing Market Report



Scheme Name	1 Bed Apartment		2 Bed Apartment		3 Bed Apartment	
New England Square, Stroudley Road	Average Rent pcm (£)	N/A	Average Rent pcm (£)	N/A	Average Rent pcm (£)	N/A
	Average Rent p/w (£)	N/A	Average Rent p/w (£)	N/A	Average Rent p/w (£)	N/A
	Average Size (sq ft)	N/A	Average Size (sq ft)	N/A	Average Size (sq ft)	N/A
	Average Rent psf pa (£)	N/A	Average Rent psf pa (£)	N/A	Average Rent psf pa (£)	N/A

Brighton's best connected new development by Hyde Vale. A selection of 1, 2 & 3 bedroom apartments adjacent to Brighton Mainline Railway Station. Exceptionally stylish living with the majority of apartments benefiting from either a balcony or terrace. 53x shared ownership and 94x 100% sale homes.


SALES

Description	Sale Price	Price psf (£)	Status
2 bed apartment	360,000	472	On the market (SO)
2 bed apartment	340,000	419	On the market (SO)
2 bed apartment	350,000	536	Sold
2 bed apartment	299,950	406	Under offer
2 bed apartment	350,000	474	Under offer
2 bed apartment	350,000	536	Under offer
2 bed apartment	550,000	666	On the market
2 bed apartment	365,000	478	Under offer
3 bed apartment	499,950	490	Under offer
3 bed apartment	825,000	626	On the market
3 bed apartment	650,000	572	On the market

Housing Market Intervention Project

Housing Market Report



Scheme Name	1 Bed Apartment		2 Bed Apartment		3 Bed Apartment	
Brighton Belle, 2 Stroudley Road, BN1 4ZD	Average Rent pcm (£)	1,225	Average Rent pcm (£)	1,500	Average Rent pcm (£)	N/A
	Average Rent p/w (£)	282	Average Rent p/w (£)	346	Average Rent p/w (£)	N/A
	Average Size (sq ft)	484	Average Size (sq ft)	705	Average Size (sq ft)	N/A
	Average Rent psf pa (£)	27	Average Rent psf pa (£)	26	Average Rent psf pa (£)	N/A

Situated close to Brighton Railway Station, the area is sought after with easy access into the city centre and Brighton's famous North Laines. The scheme features a communal roof gardens with panoramic views of Brighton, the station and sea.

RENTS

Description	Rent pcm (£)	Rent p/w (£)	Status
1 bed apartment	1,100	254	Let agreed
1 bed apartment	1,050	242	On the market
1 bed apartment	1,450	335	On the market
1 bed apartment	1,300	300	Let agreed
2 bed apartment	1,500	346	Let agreed
2 bed apartment	1,400	323	Let agreed
2 bed apartment	1,600	369	Let agreed
2 bed apartment	1,500	346	Let agreed
2 bed apartment	1,500	346	Let agreed
2 bed apartment	1,500	346	Let agreed
2 bed apartment	1,450	335	Let agreed
2 bed apartment	1,550	358	Let agreed


SALES

Description	Sale Price	Price psf (£)	Status
1 bed apartment	230,000	445	On the market
1 bed penthouse	315,000	650	On the market
1 bed penthouse	315,000	650	Sold
2 bed apartment	310,000	457	Sold
2 bed apartment	320,000	472	Sold
2 bed apartment	375,000	536	On the market

Housing Market Intervention Project

Housing Market Report



Scheme Name	1 Bed Apartment		2 Bed Apartment		3 Bed Apartment	
	Average Rent pcm (£)	1,025	Average Rent pcm (£)	1,585	Average Rent pcm (£)	1,919
	Average Rent p/w (£)	237	Average Rent p/w (£)	365	Average Rent p/w (£)	442
	Average Size (sq ft)	549	Average Size (sq ft)	872	Average Size (sq ft)	840
	Average Rent psf pa (£)	22	Average Rent psf pa (£)	22	Average Rent psf pa (£)	23

Situated in the centre of Brighton, City Point. Being just a minutes` walk to Brighton Train Station this is an ideal location for commuters & students. Easy access to local amenities. The scheme also benefits from a communal roof terrace and passenger lift.

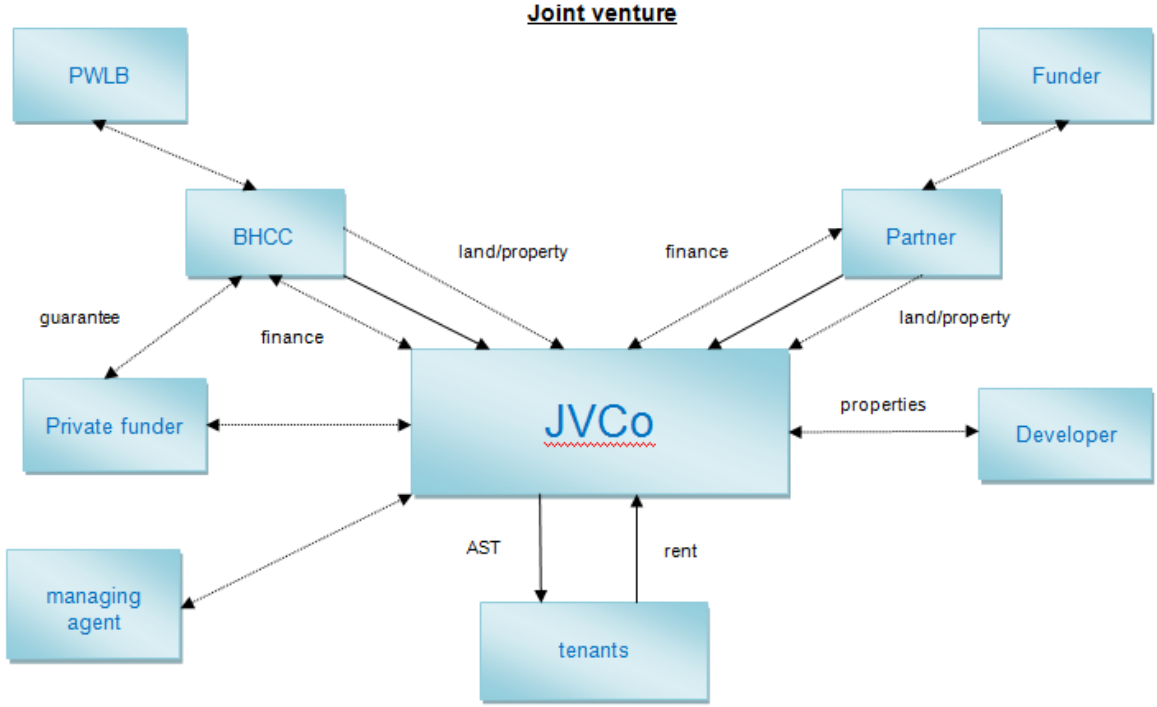
RENTS

Description	Rent pcm (£)	Rent p/w (£)	Status
1 bed apartment	1,025	237	Let agreed
2 bed apartment	1,725	398	On the market
2 bed apartment	1,700	392	On the market
2 bed apartment	1,200	277	On the market
2 bed apartment	1,950	450	Let agreed
2 bed apartment	1,350	312	On the market
3 bed apartment	1,500	346	Let agreed
3 bed apartment	1,700	392	On the market
3 bed apartment	2,275	525	On the market
3 bed apartment	2,200	508	On the market

RENTS

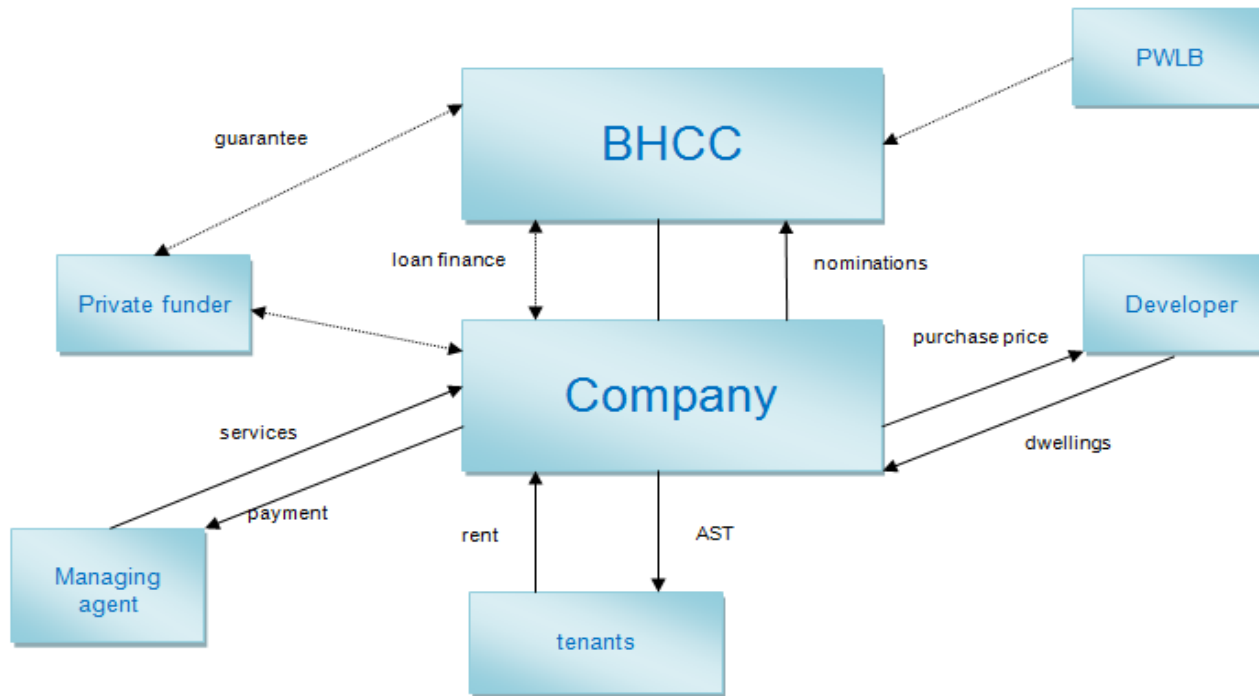
Description	Sale Price	Price psf (£)	Status
1 bed apartment	219,000	357	Sold
2 bed apartment	310,000	374	Sold
2 bed apartment	325,000	393	Sold
2 bed apartment	325,000	418	On the market

Appendix 2 – Structure charts



- 1 JVCo could be LLP if powers available – or CLS
- 2 Ownership/profit share in JV to be agreed
- 3 JV parties could put properties in or acquire from third party
- 4 One of JV parties could be managing agent

Wholly owned company structure



- 1 Assumes BHCC is sole shareholder
- 2 Could be privately financed or Council borrowing and on lending
- 3 Company buying off plan of existing dwellings
- 4 Potentially management could be with Council