

# REPORT FOR OVERVIEW AND SCRUTINY COMMITTEE

7 July 2020

## NORTH DOWNS HOUSING LIMITED

### **Purpose**

This report summarises the objectives, progress and operation of North Downs Housing Limited (NDH) since its formation in 2016.

Most of the information has been drawn from the original 30 year business plan, 2016 - 2046. The financial information is however updated on an annual basis. The link to the original plan is as follows:

[https://www.guildford.gov.uk/media/32230/North-Downs-Housing-Business-Plan-0717/pdf/NDH\\_Business\\_Plan\\_40717.pdf?m=637275772012470000](https://www.guildford.gov.uk/media/32230/North-Downs-Housing-Business-Plan-0717/pdf/NDH_Business_Plan_40717.pdf?m=637275772012470000)

### **Background**

NDH was set up on 28<sup>th</sup> April 2016 to be the housing trading arm of Guildford Borough Council. The company was set up by the Council and is owned by Guildford Borough Council Holdings Ltd. The holding company is in turn wholly owned by Guildford Borough Council. NDH is a separate legal entity managed by independent directors.

The Council's Executive is the Shareholder Committee for both Guildford Borough Council Holdings Ltd and NDH. Elected Members who are appointed as either Guildford Holdings Ltd directors or NDH directors, will not be full members or substitutes of the Shareholder Committee.

The current directors of NDH are:

- Sarah Creedy (Chair)
- Gordon Jackson
- Mike Parsons
- Sue Reekie
- Angela Goodwin

### **Purpose of NDH**

NDH exists to enable the Council to offer a range of housing solutions to those in our community who, for whatever reason, find access to purely market-based options a challenge. The company has to date focussed on the third quartile of the housing market. This activity supplements the Council's own housing offer which is aimed at providing social housing to those most in need.

Under the arrangements that have been established, the Council invests in NDH to enable it to acquire property in the ratio 60% loan and 40% equity (i.e. shares in the company). NDH rents the properties to tenants, meets all of its costs of operation and subsequently delivers a financial return to the Council in the form of interest on loans and, in the long term, operating profit.

The stated objectives of NDH are:

- to meet in such manner as the Company thinks fit, identified housing need and increase the provision of housing accessible to lower income households in the Guildford borough and surrounding areas;
- to generate returns for the Council's General Fund;
- to accelerate development of brownfield land in the Guildford borough;
- to carry on any other business or do such other things which may seem to the company capable of being conveniently carried on in connection with any of the above specified objects, or calculated to enhance the value of the Company's services, assets, property or rights.

The company therefore seeks to deliver homes for rent and homes for sale.

### **Business Plan objectives**

The company has a business plan covering the period 2016 to 2046.

The company intends to grow initially by acquiring properties. Its cumulative acquisition and development target for the 5 years period up to 2026 is:

1/4/2020	2020/21	2021/22	2023/24	2024/2025	2025/2026
48	75	100	125	150	200

The number of properties acquired has been lower than originally planned and this is due to a number of factors, including the properties available on the market at a suitable price and the resources available within the Council to support the company in their acquisition and letting.

NDH remains keen to create a development "pipeline" by constructing homes. In a market where land availability is heavily constrained, achieving this has been and continues to be challenging.

It is likely that over the next five years NDH will be heavily reliant on the Council to deliver development opportunities. It will, however, proactively seek development opportunities that do not involve reliance on the Council.

If NDH manages to expand through development, it will revise its medium term targets.

### **Funding requirements and projection**

The Business Plan anticipates that over the next 5 years the company will require access to funding of up to £50 million.

Of this, £30 million would be loan capital with the balance being an equity investment.

The Business Plan makes a series of assumptions, which have been incorporated into a financial model spanning a 30-year period. For the purposes of the financial model, it has been assumed that after 30 years, the company will be dissolved and all assets sold, debt repaid and share capital redeemed.

The company seeks to achieve a gross initial yield of 4.5% on each property. It is important to note that this is the key factor used when deciding whether to buy a property.

On the assumption that the Council continues to structure its investments on a 60:40 debt : equity basis, NDH project the Council will achieve an equity return of 7.5% (nominal, post-tax) over the 30-year period reflected in the financial model.

### **Financial**

NDH operates a traditional property investment model. The company is financed through a series of loans and equity investments. Without an established track-record, the only funder in the early stages has been the Council.

The Council has provided a loan and equity investment of £13.6 million, on a 60:40 loan : equity basis. Further funds of £8.9 million are approved and ready to be drawn down when needed.

### **Assumptions**

The financial model for NDH uses the assumptions set out below.

Item	Assumption
Borrowing rate*	5.1%
Repayment method	Cash sweep
Equity investment/unit	40% unit cost
Inflation - CPI	2%
Rental inflation	CPI + 1%
Expenditure inflation	2%
Annual house price inflation	5%
Av. Monthly rent 2 bed	£1,150 (house) £1,050 (flat)
Av. purchase price 2 bed	£350,000 (house) £280,000 (flat)
Void and bad debts allowance	5% (PRS)
Management fee/unit	8% of rent due
Other costs including - marketing fees, maintenance, legal, valuations, stamp duty	At cost

- \* Bank of England base rate plus 5%

## **Operations**

NDH manages its property portfolio through a series of service level agreements with the Council. These agreements cover:

- Acquisition and disposal of properties including land
- Marketing, letting and management of individual properties
- Development of new properties
- Financial management and reporting for company activities
- Legal support associated with the management of its property portfolio.

NDH use other suppliers to support those provided by the Council where it is more cost-effective to do so. Examples include conveyancing and specialist development expertise.

Whilst NDH is wholly owned by the Council, it falls outside the provisions of the Public Contract Regulations. It is therefore free to procure services from the market in a manner that is in the best interests of the company.

In terms of the people that NDH has been able to offer homes to, these are a mixture of singles, couples and families with a household income of between £30,000 and £50,000. Occupations of NDH tenants include those from healthcare, Local Government, National Rail and tradespersons.

Properties sought are those within commuting distance of Guildford and with good transport links that reduce the need for travel by car.

## **Progress to date**

As at 1<sup>st</sup> April 2020:

48 properties have been acquired: 23 Houses and 25 Flats

Number of voids: 0

The supply of new homes in the area has been relatively low over the last five years reflecting the local planning environment. The adoption of the Local Plan, which includes an ambitious new build target, should see a step change in the pace of development over the next 5 years. However, the market will dictate the rate at which sites are built out and this is difficult to predict.

## **Next steps/Future areas for development**

Further work is being undertaken to develop the resource to purchase more properties. This is based on the terms of the SLA's agreed with the Council and will form part of the annual service plan process.

NDH wish to further explore the potential to build properties rather than just acquire existing properties and discussions are to be arranged with representatives from the Council.

NDH focusses its activity within the borough of Guildford as the local housing market tends to be more resilient and Guildford remains a very popular area to live. However, where there are acquisition and development opportunities that meet the

company's criteria immediately outside the borough, these will be pursued. To date NDH has acquired four properties located immediately outside the borough.

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