NO SAFETY NET – ACTIVELY MANAGING YOUR ASSETS

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savills

Questions from HRA reform:

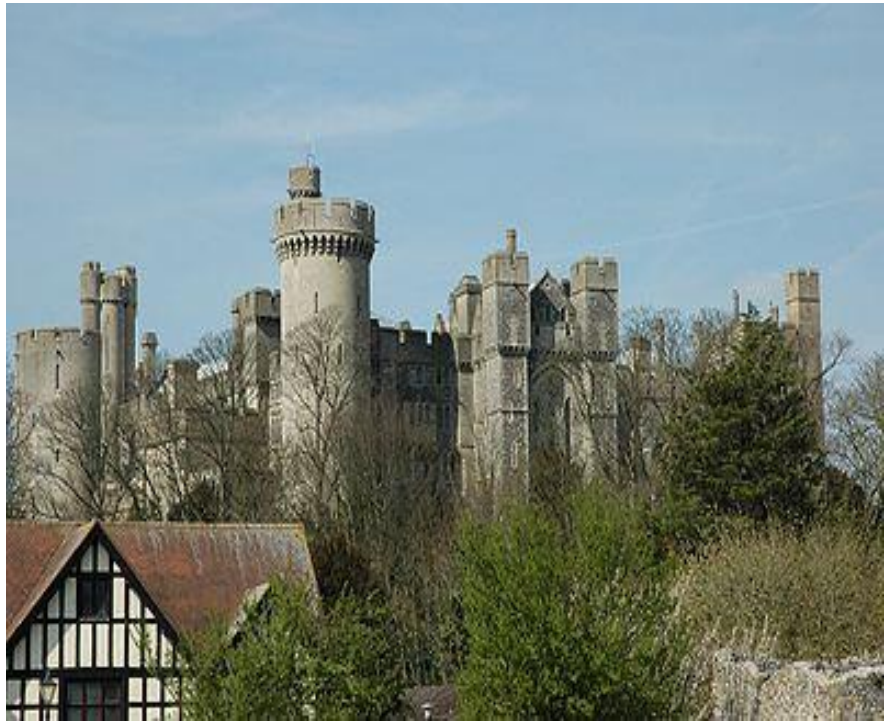
- The Knowledge – Do you understand the performance of your assets
- Risks and remedies – how do you manage under-performing assets
- Freedoms and flexibilities – what new opportunities are created?
- Managing the borrowing cap – do you need to release capacity?
- Sweating your assets – creating and using capacity for investment in improving the existing stock or enabling redevelopment without grant

Understanding the performance of your assets

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

Traditional thinking: “Static Asset Management”

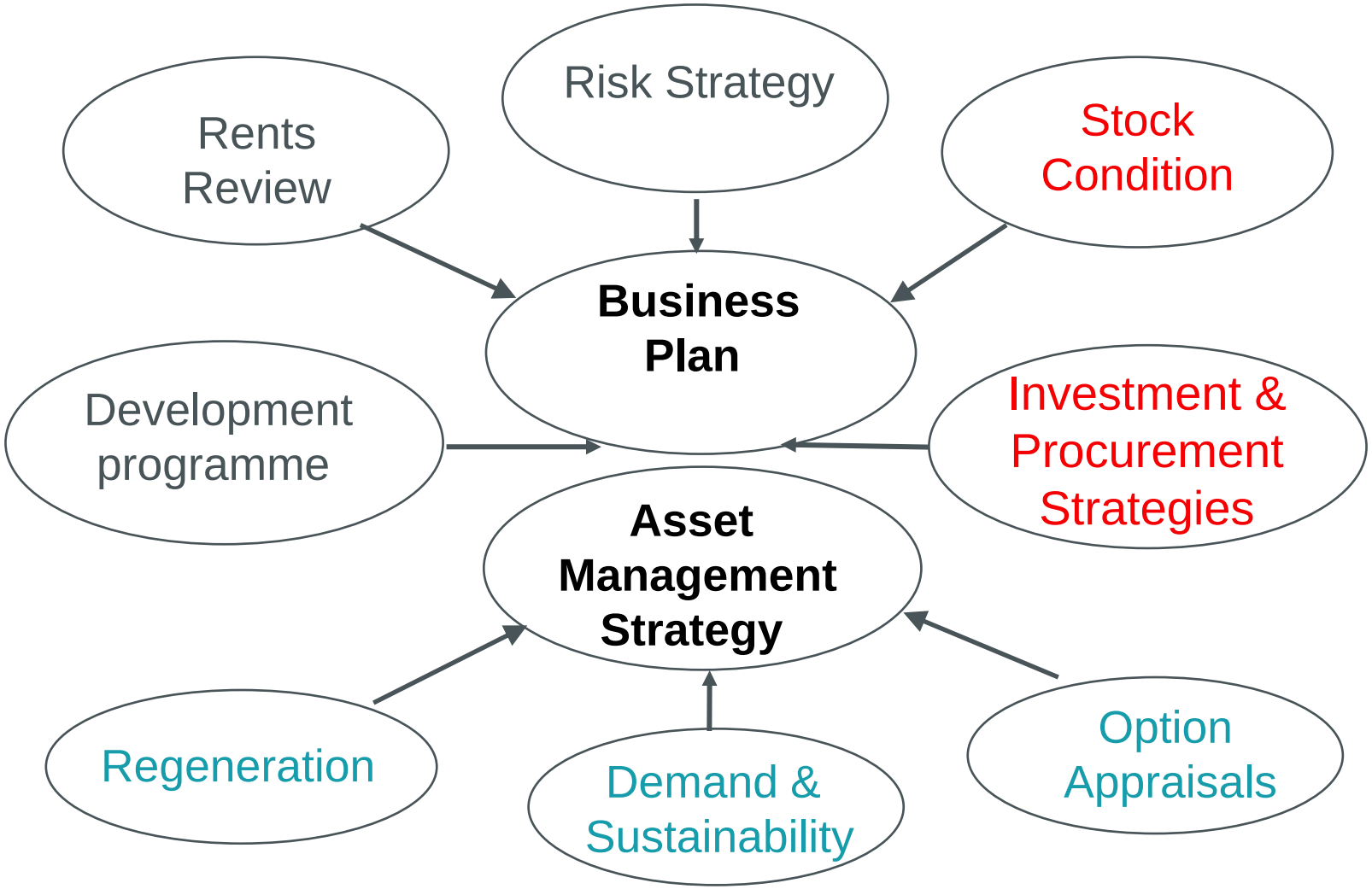
- Properties remain in social housing forever
- “We built it so we’re the right landlord to manage it”
- Stock Survey provides Asset Intelligence
- Delivery of works programs
- Managing budgets & spending money wisely
- Worst first
- Typical choices: invest or remodel



What is Active Asset Management?

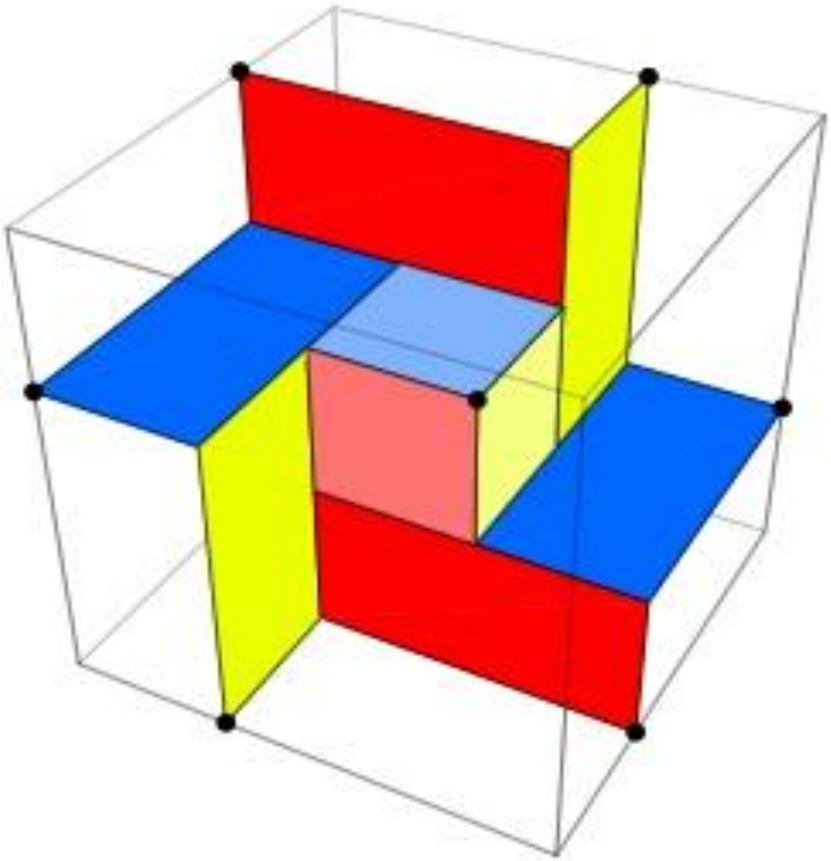
- Using Economic Intelligence
  - Analyse worth
- Options appraisals to decide between:-
  - Invest
  - Change use
  - Modernise
  - Transfer
  - Decommission and Dispose or Replace
- “Investment” means getting a return for landlord and tenant
- It’s a component of business planning

A key component of business planning



There you go making it complicated….

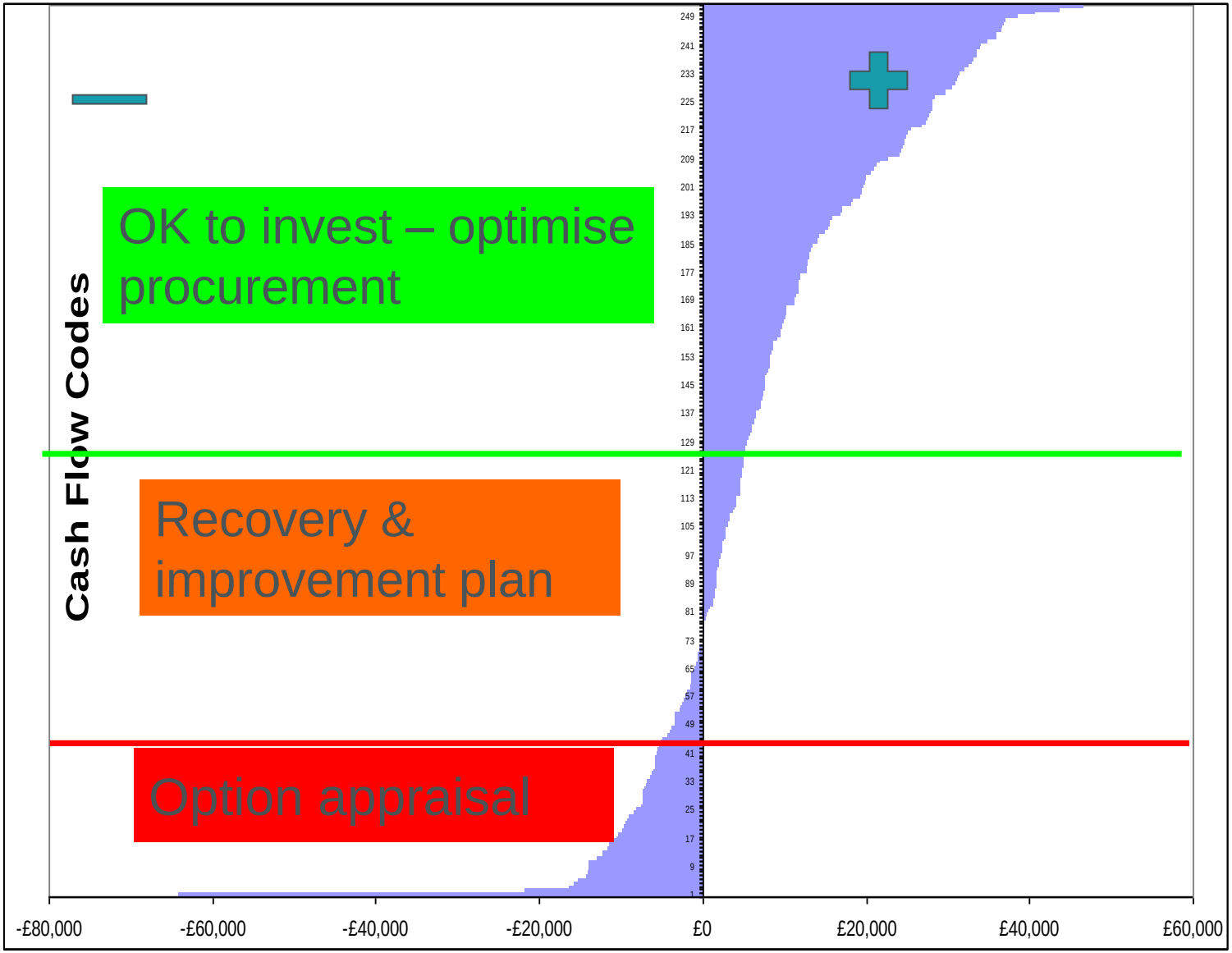
Can we make it more simple?



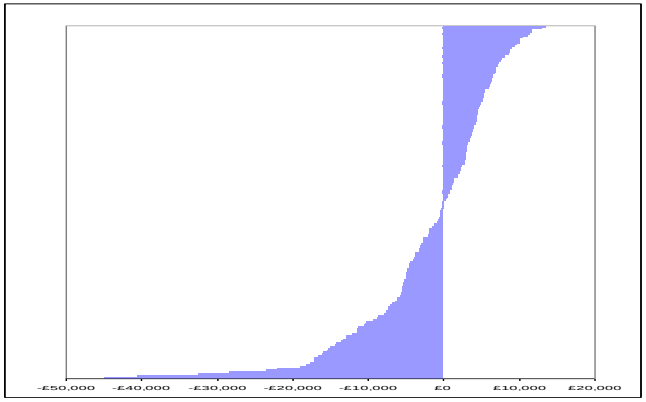
So how do we make sense of our assets?

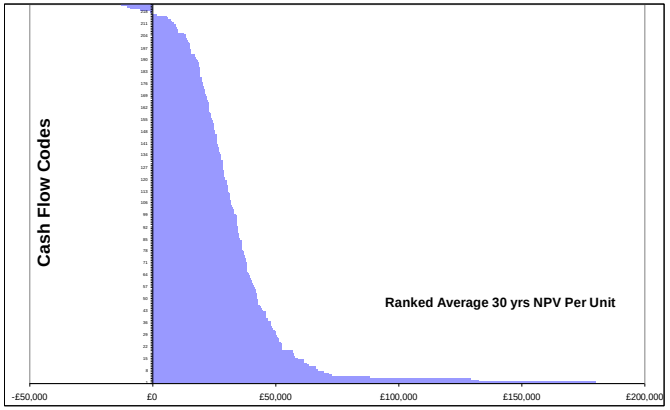
- Use Net Present Value wizardry to measure worth to the business
- Combine with other factors
- Sort
- Explain
- Derive strategy

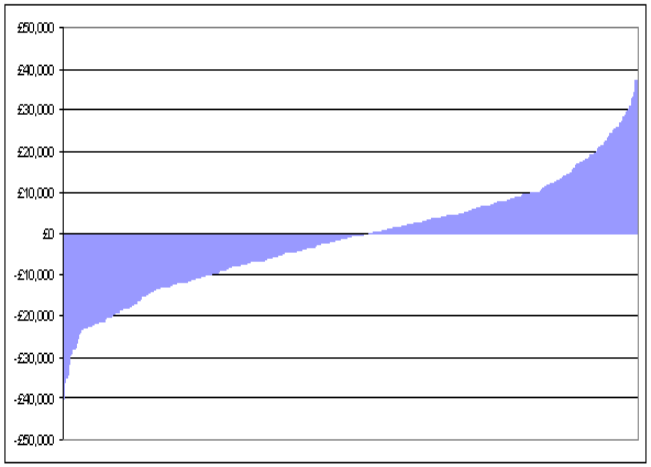
Identifying and managing under-performing assets

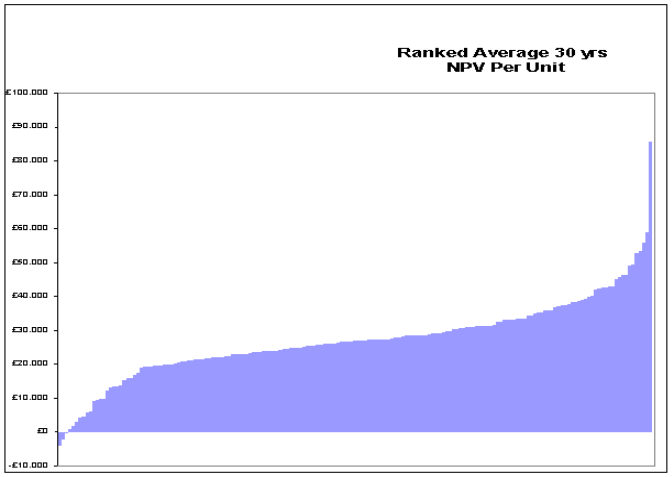


A Universe of Curves - which is you?



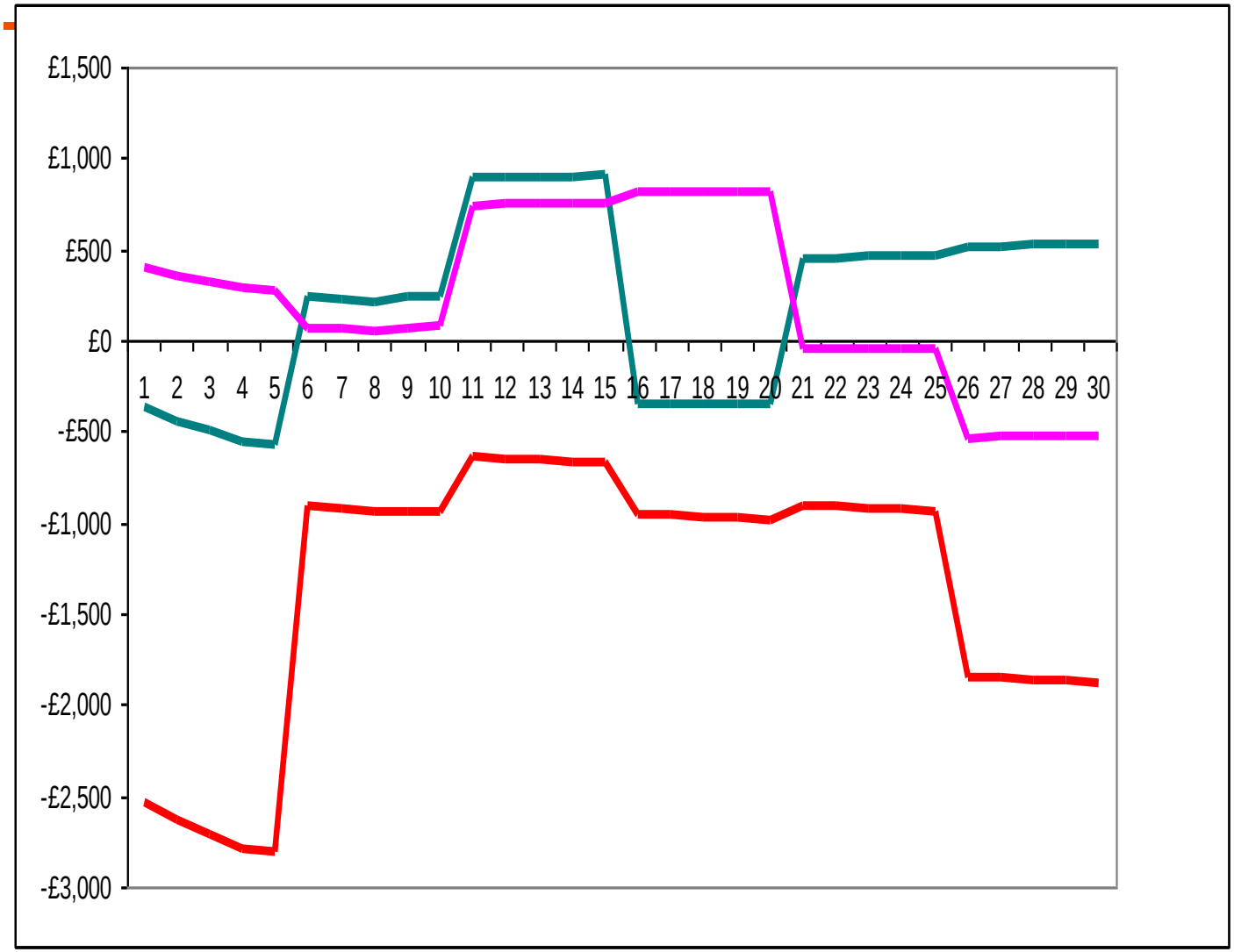




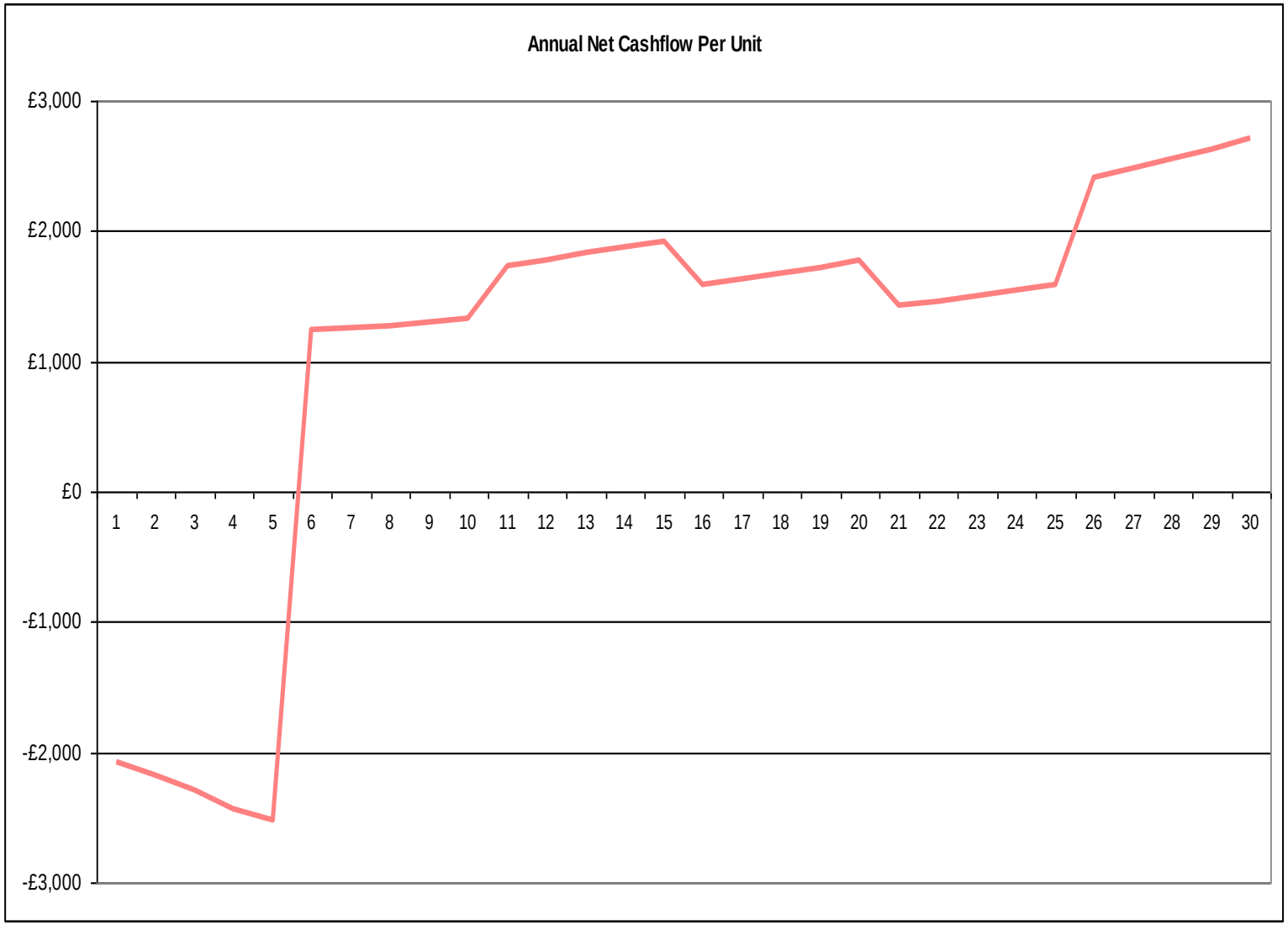


Cash flow per unit - how different units perform

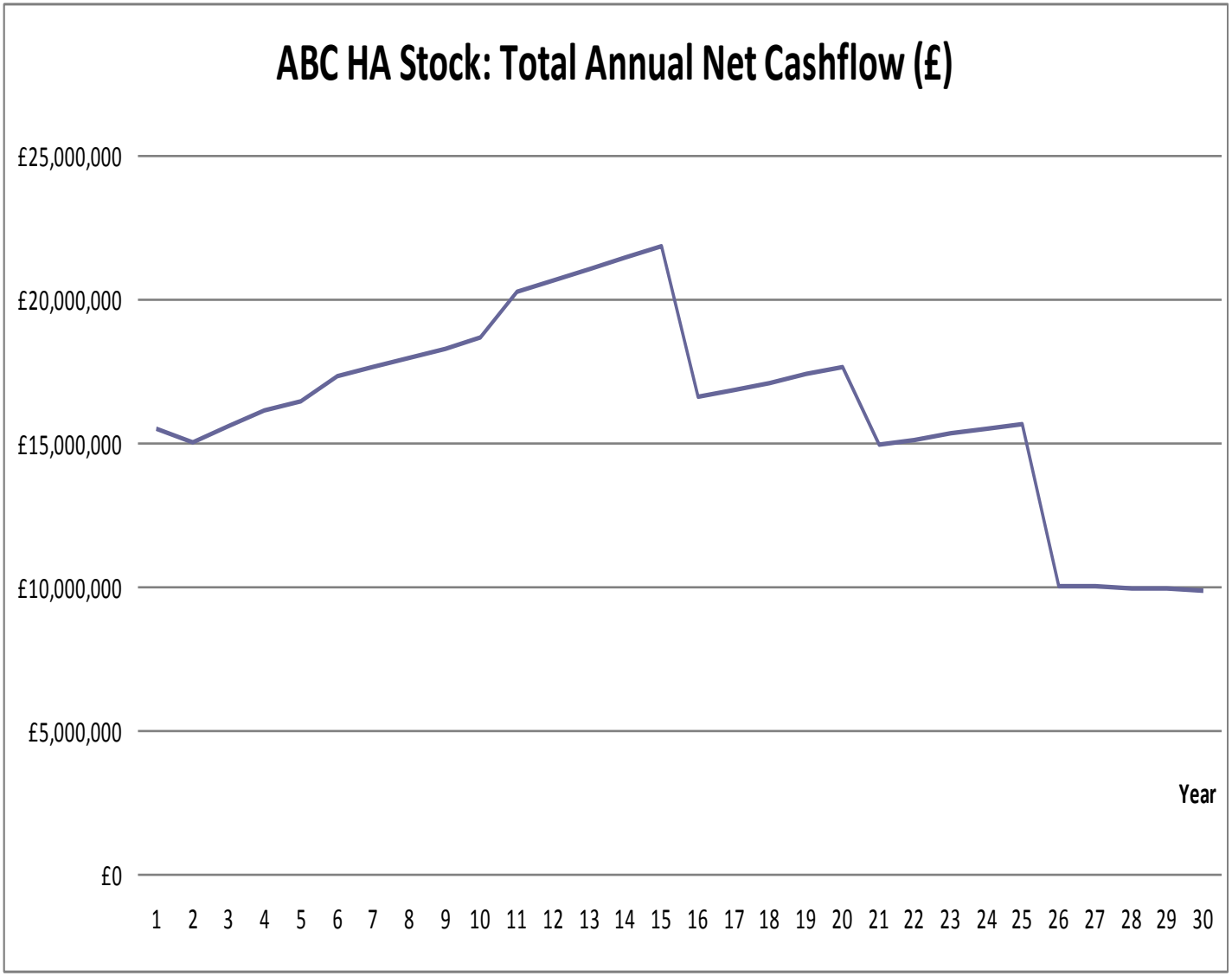
- Three tower blocks
- Surplus/deficits
- Different outcomes



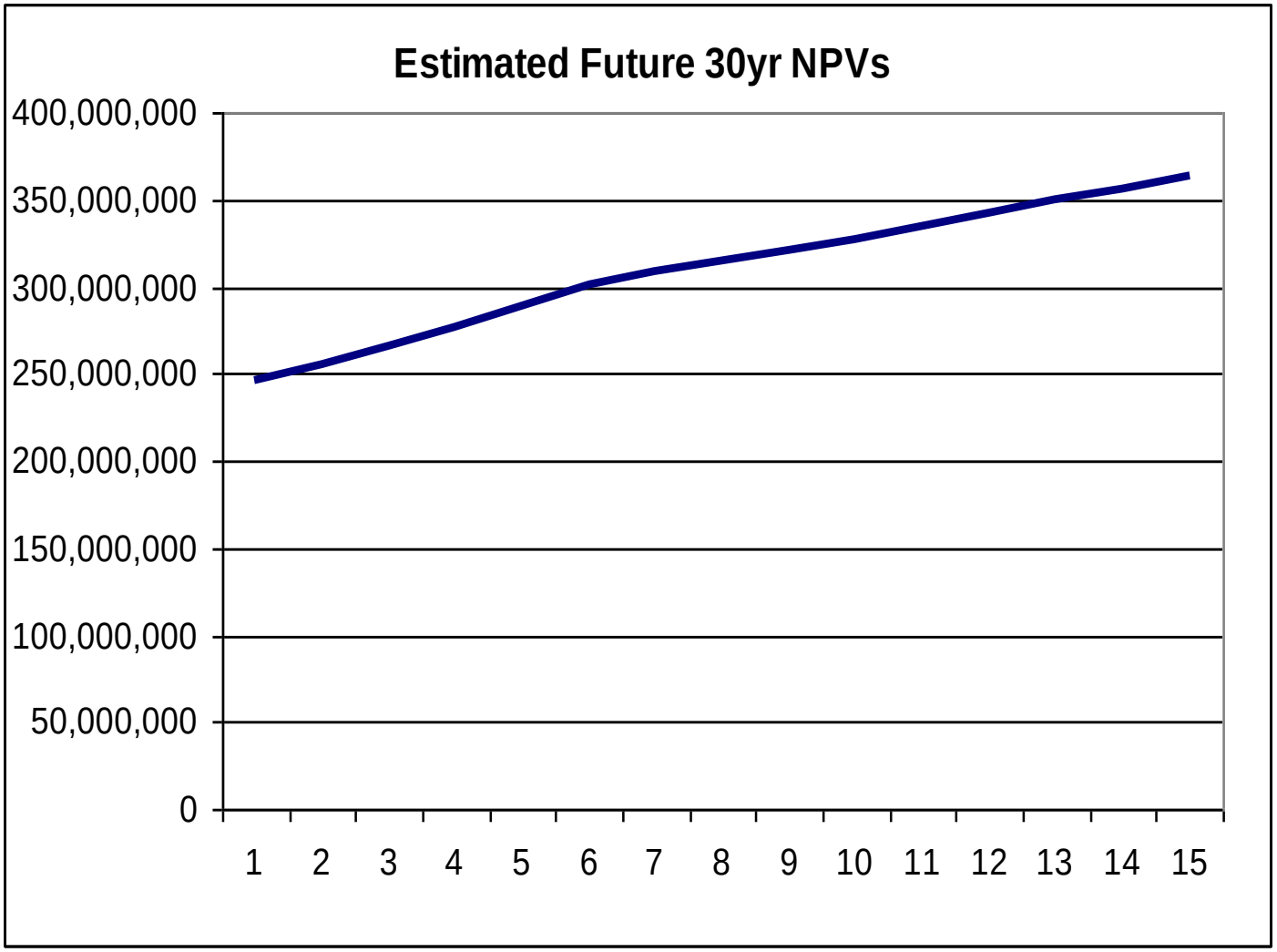
Cash Flow Per Unit - Invest & Enhance



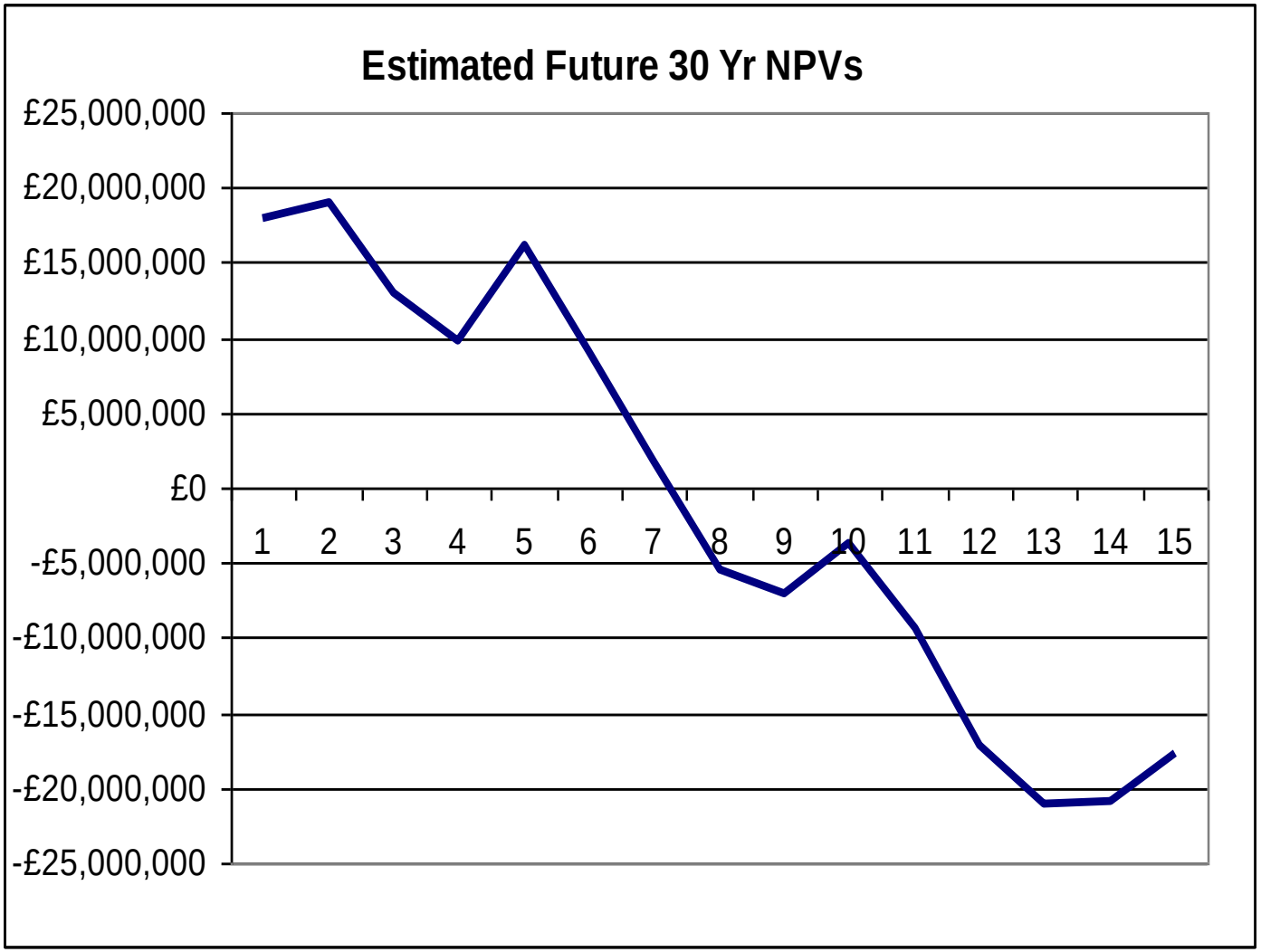
Cash Flow - Begin Replacement Now!



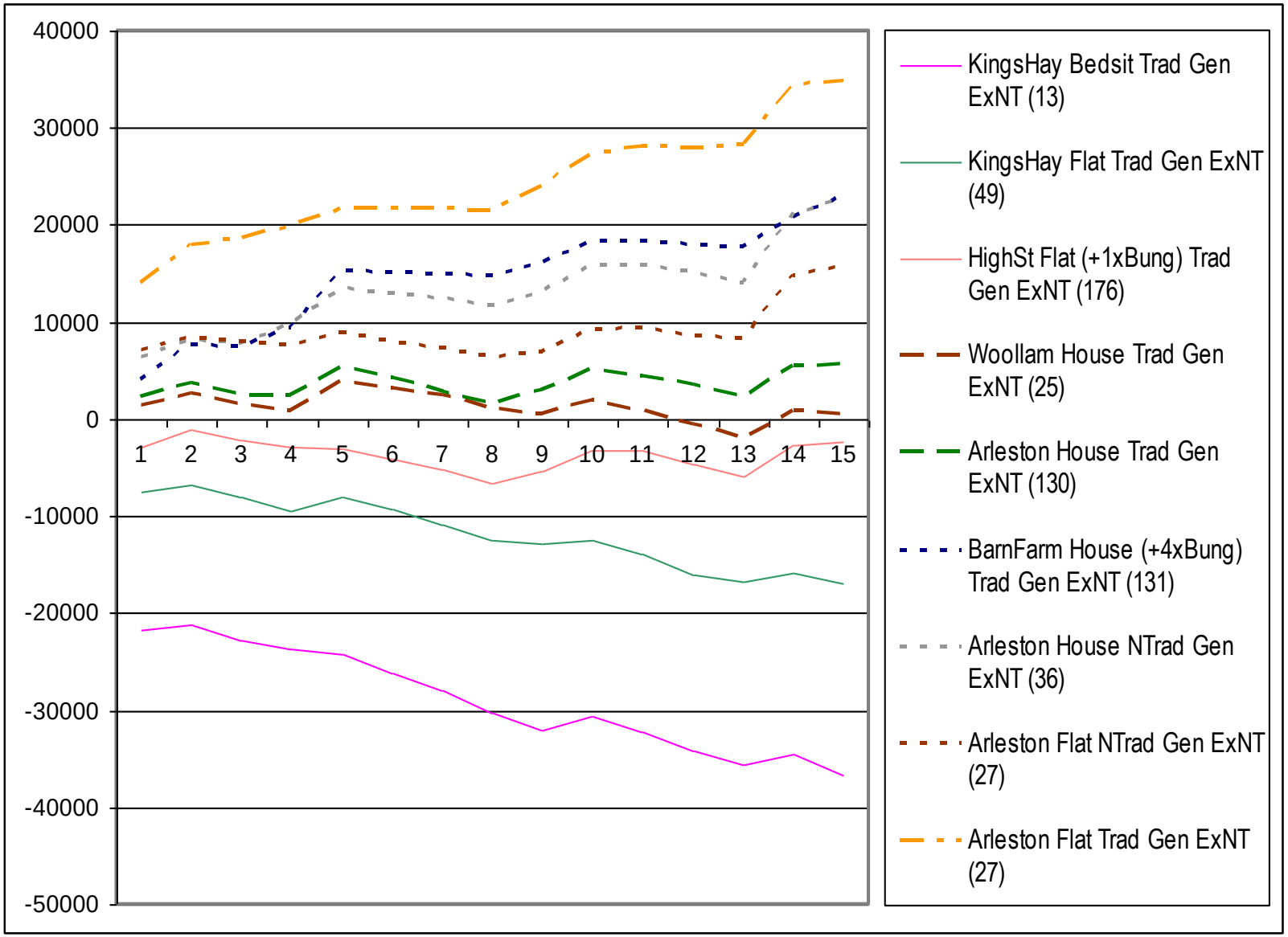
Estimate of Future Value



Estimate of Future Value - worst performers



Output Area Profiles: Future Values



Summary output for an asset group

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Genesis - PCHA

ASSET MANAGEMENT STRATEGY

CASH CODE PROFILE - INDIVIDUAL UNITS

NB: The results shown here are for the cashcode applicable to the property in question, *not* the individual unit itself.

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Subject Address: **Flat A 79 Talbot Road London W2 5JN**

Cashcode: **Bayswater Neighbourhood General FLA 0 1969-80**

Asset Management Category: **Cat 4**

		Subject	Whole Stock
Total Units		**1**	**9366**
Revenue		£ pw	£ pw
Secure Ave Rent £ pw		£76.56	£78.69
Assured Ave Rent £ pw		£78.74	£83.40
Non Social Ave Rent £ pw		£0.00	£117.57
Service Charge £ pw	1	£3.17	£3.44
Target Ave Rent £ pw		£93.53	£91.06

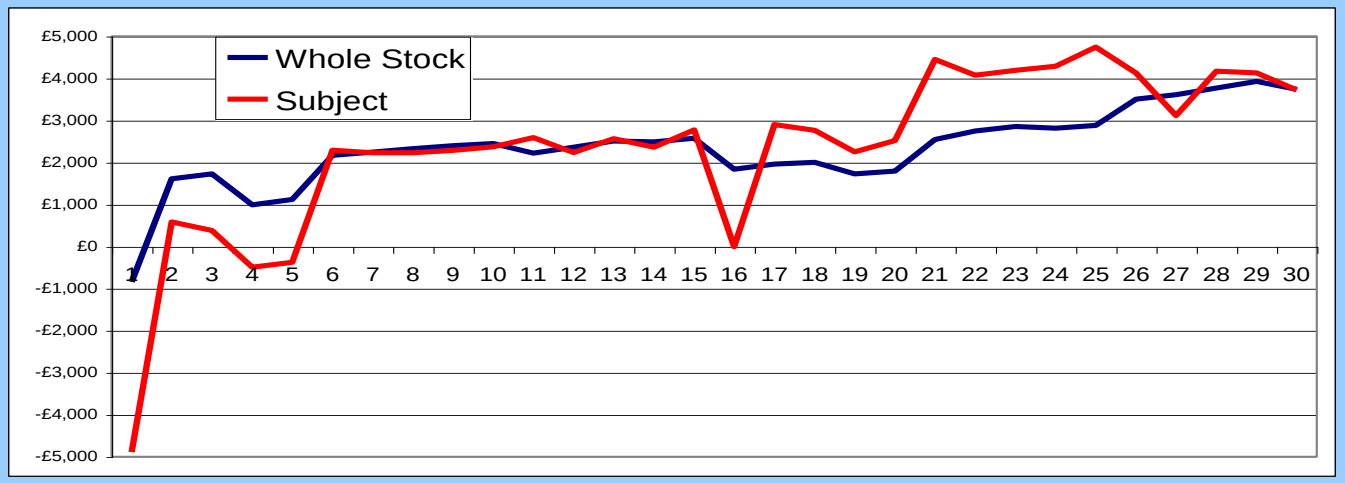
		Subject	Whole Stock
Performance		Subject	Whole Stock
Void Rate		1.7%	1.4%
Turnover (relet) rate		2.8%	3.4%

Current day prices - 2005 data

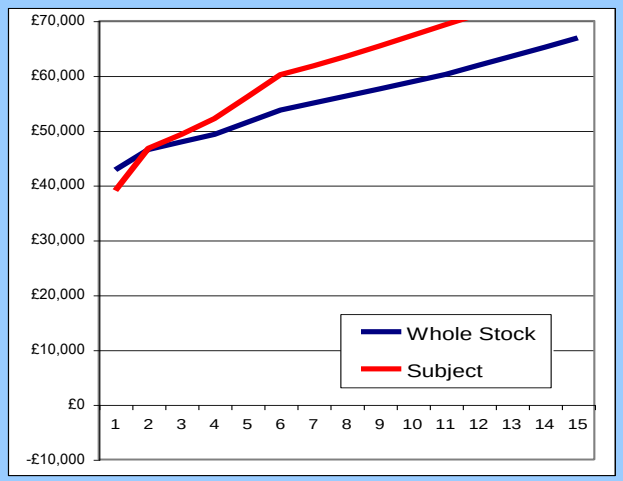
	Subject		Whole Stock	
Expenditure	Total	Average pa	Total	Average pa
Capital expenditure total per unit yrs 1-5	£9,351	£1,870	£4,580	£916
Improvements total per unit yrs 1-5	£3,727	£745	£2,139	£428
Capital expenditure total per unit yrs 1-30	£33,488	£1,116	£30,019	£1,001
Management Cost per unit pa		£987		£998
Service Cost per unit £ pw (52) & £ pa	£7.00	£364	£3.80	£198
Reactive & Cyclical Maint per unit pa yrs 1-5		£742		£837

	Subject	Whole Stock
Outputs		
Average Surplus/ Deficit per unit per annum 1st 5 yrs	**-£960**	£918
Net Present Value (NPV) 30 yrs	**£24,399**	£29,881
Net Present Value (NPV) Perpetuity	£39,042	£42,820
NPV growth factor - expected growth over 15 yrs	**2.00**	1.63
Estimated Market Value per unit Q1 2007	£355,080	£277,494

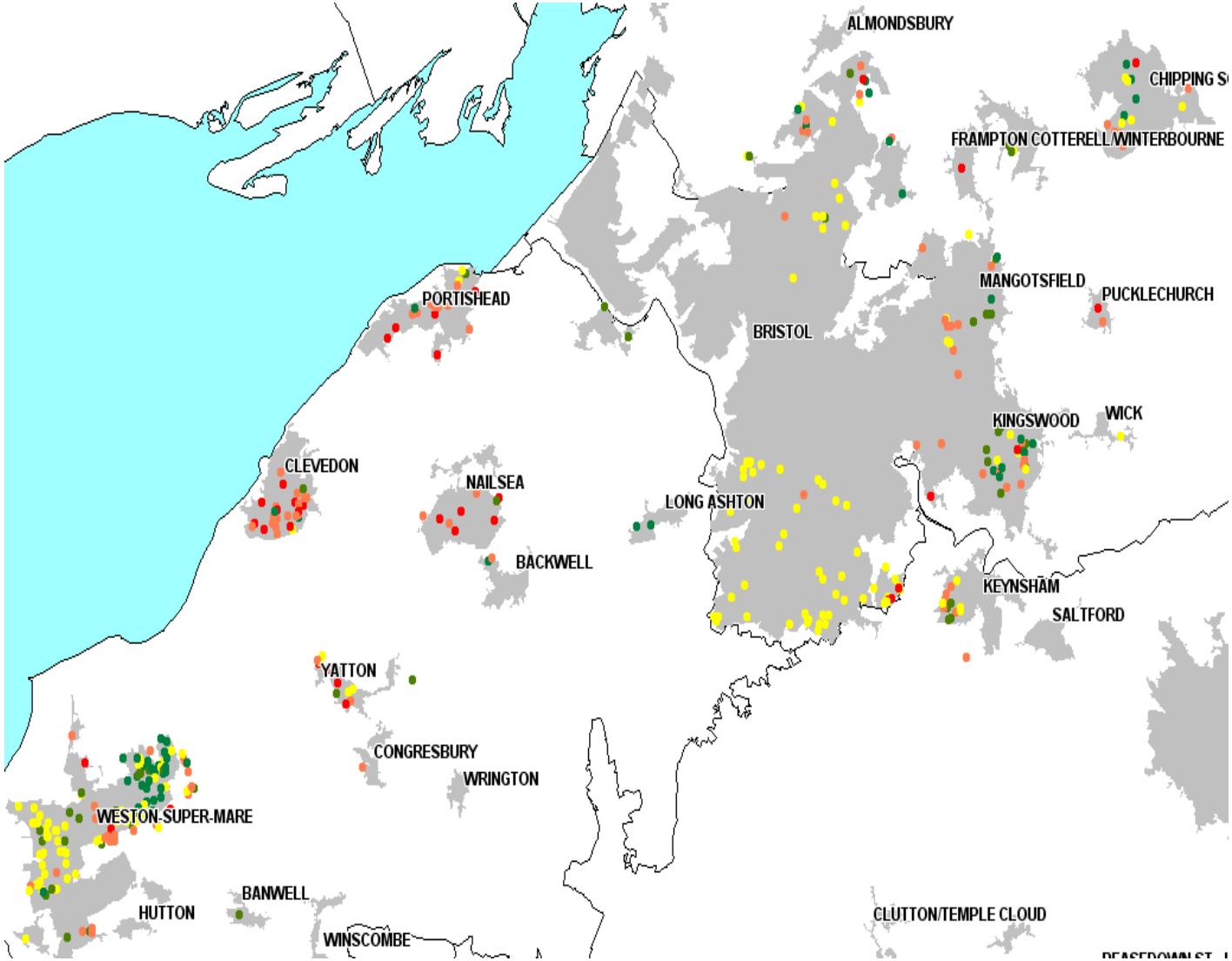
Surplus/ Deficit £ per unit



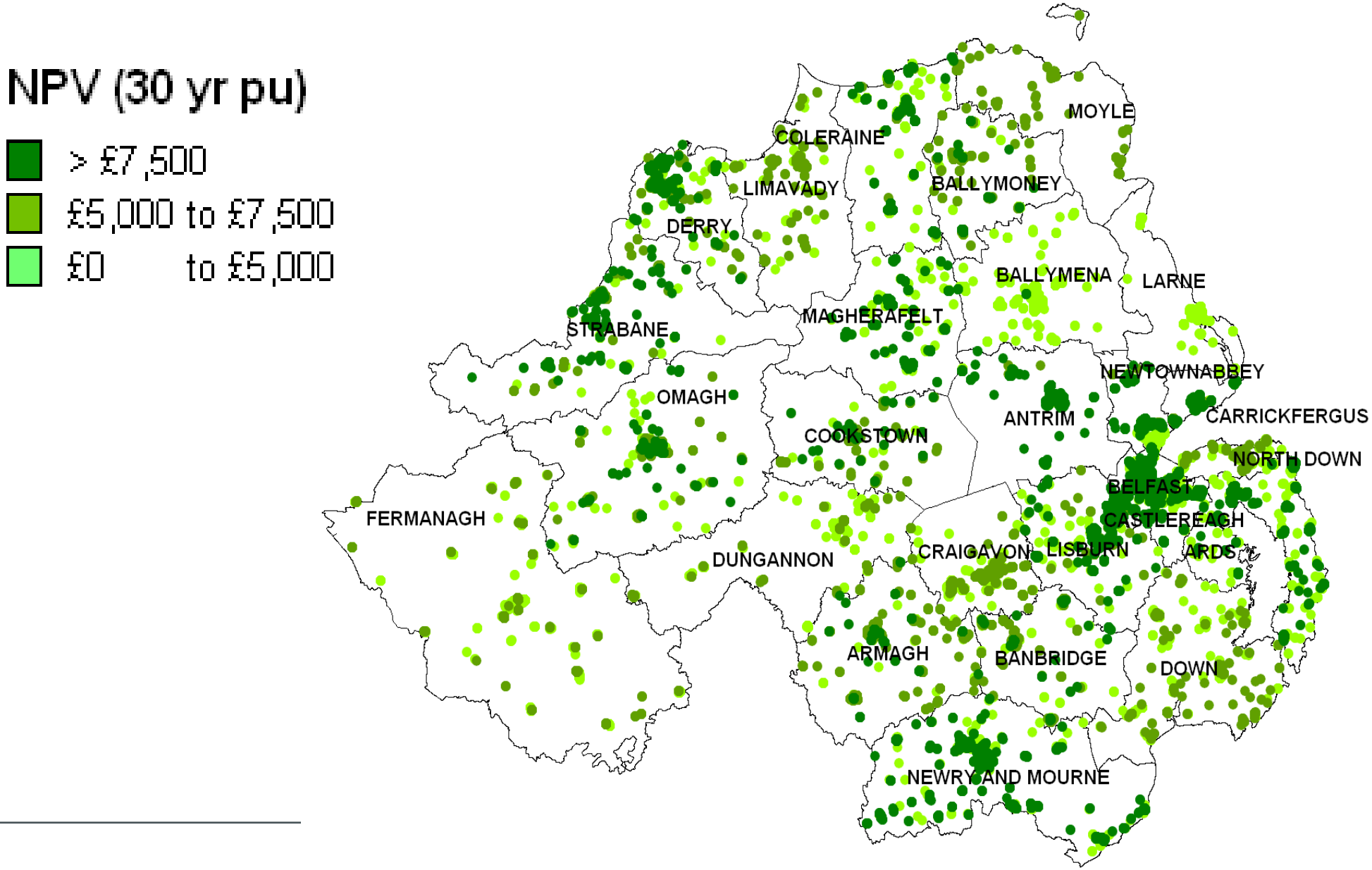
Estimates of Future NPV



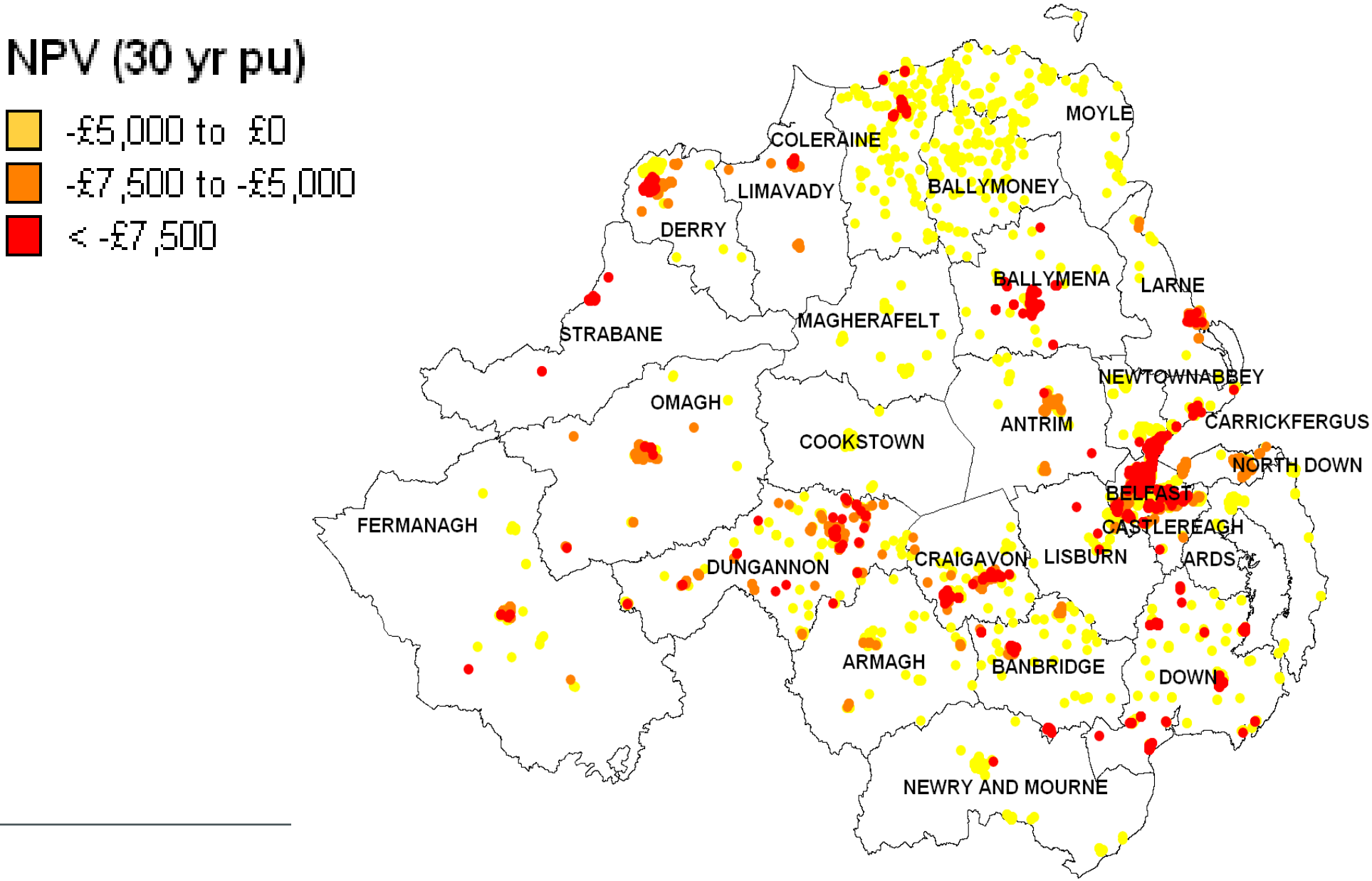
Presentation of results - 30 yr NPV in GIS



Mapping Positive Worth



Mapping Negative Worth



Estate Sustainability Modelling

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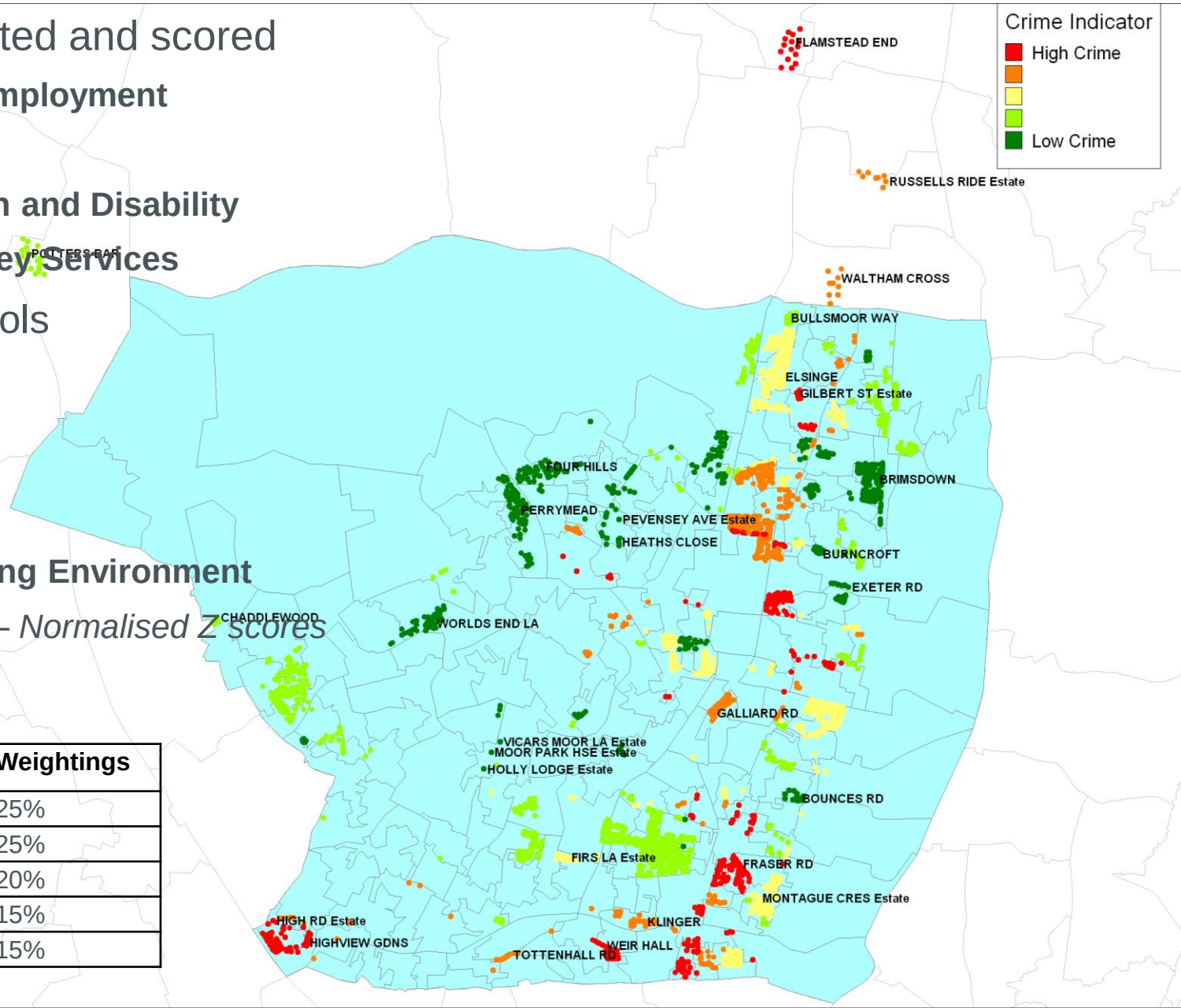
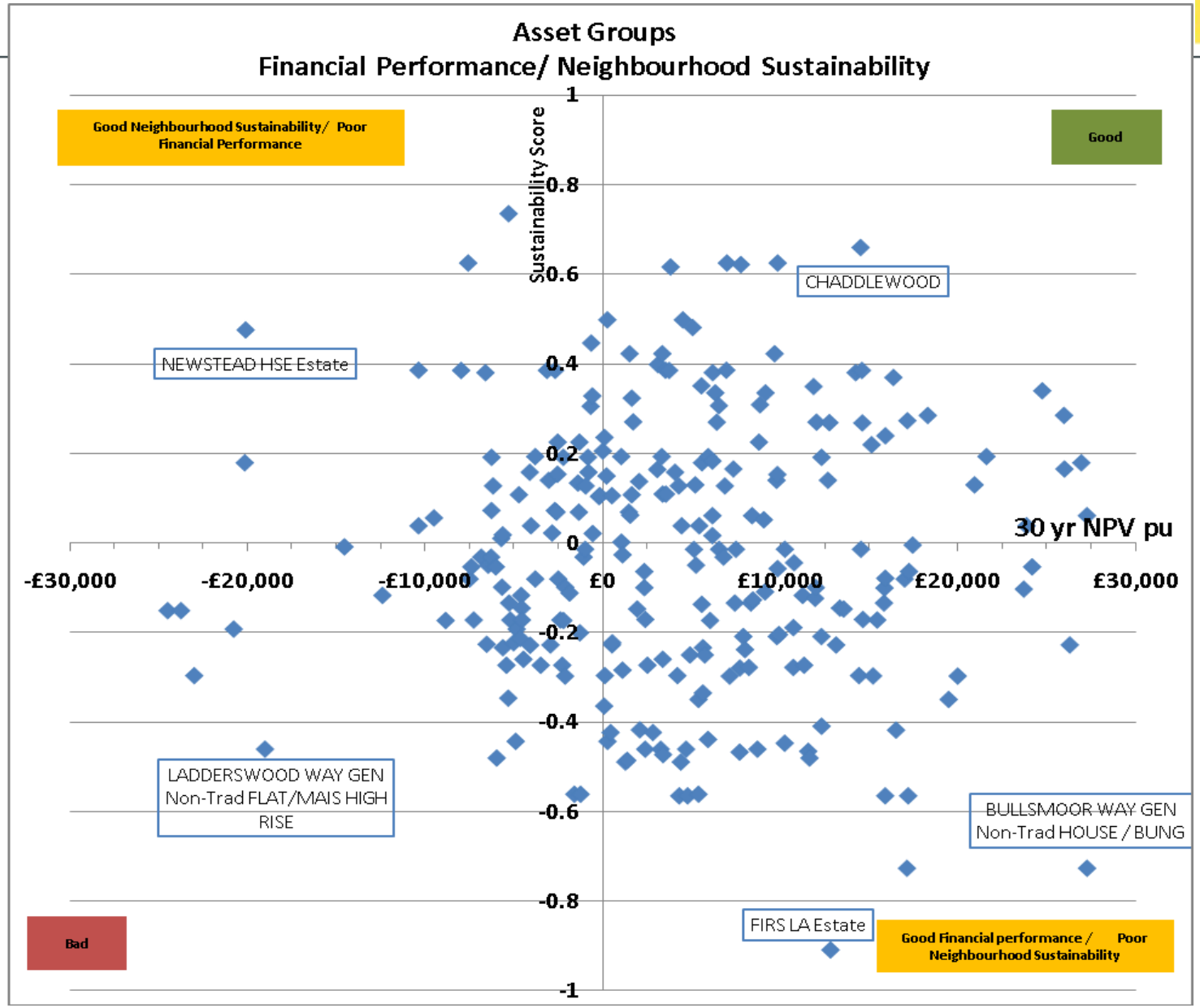
- Key criteria selected and scored
  - **Accessibility to employment**
  - **Crime domain**
  - **Health Deprivation and Disability**
  - **Accessibility to Key Services**
    - Primary Schools
    - GPs
    - Hospitals
    - Foodstores
  - **Quality of the Living Environment**

Aggregation Method – Normalised Z scores



Indicator	Weightings
Accessibility to Employment	25%
Crime	25%
Health Deprivation and Disability	20%
Accessibility to Key Services	15%
Quality of the Living Environment	15%

Model Outputs: 30-Year NPV per Unit



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What do we do with the 'Candidate' Properties?

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

What do we do with the 'Candidate' Properties?

- Savills Detailed Option Appraisal Model
  - Links main model results to actions at an Asset Group level
  - Allows modelling of the above options
  - Financial analysis supported by "qualitative appraisal"
  - Good reporting tool for approval of local asset management decisions

Detailed Option Appraisal Model

- Sits between Asset management model and business planning model
- Starts with base case derived from Asset Management Model
- Asset manager can run various scenarios and options – it's driven by the client
- NPV output collected on a summary sheet for comparison & dropped into detailed option appraisal

Churning voids??

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A new approach to managing assets, allocations and expectations

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

Wrekin Housing Trust – Case Study

Disposals

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

Wrekin Housing Trust – Case Study

Outcomes - The Wrekin "7 Win Effect"

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