



# Brent Housing Companies Development Strategy

January 2022

Document Master Sheet

Amendments to this document detailed below:

Version	Date	Review Date	Comments/amendments	Approved by
1	Jan 22	Jan 23	Final	I4B & FWH Board

## **1.0 Introduction**

### **1.1 Introduction to Brent Housing Companies**

1.1.1 Brent Council has two wholly owned housing companies, i4B Holdings Limited (i4B) and First Wave Housing Limited (FWH). Both Companies look to support the Council's overall Housing Strategy by providing good quality accommodation to Brent families at affordable rates.

### **1.2 Introduction to i4B**

1.1.1 i4B Holdings Ltd was established to reduce homelessness, provide affordable, good quality homes, and invest to deliver regeneration and financial benefits for its sole shareholder, Brent Council (the Council). i4B will do this whilst also ensuring the business is financially viable and costs are sustainable.

1.1.2 i4B was set up with the purpose of acquiring, letting, and managing a portfolio of affordable, good quality private rented sector (PRS) properties. Properties are let to homeless families at Local Housing Allowance (LHA) levels. This enables the Council to either prevent or discharge its homelessness duty and therefore reduce temporary accommodation costs whilst also ensuring families have a secure and responsible landlord.

1.1.3 i4B is actively growing its portfolio and purchasing circa 48 PRS street properties a year.

### **1.3 Introduction to FWH**

1.3.1 FWH is a registered provider of social housing (RP). FWH's primary purpose is to provide good quality, affordable, secure, and well managed homes to Brent residents and to contribute to Brent's Housing Strategy. It does this by managing, maintaining and improving its stock of 217 rental properties.

1.3.2 Whilst in recent years FWH has not increased the size of its portfolio, it is one of several funding and delivery routes the Council has to increase the amount of affordable housing in the borough. Unlike i4B, as an RP FWH can attract grant funding.

1.3.3 FWH remains available, as an RP, to support the Council's affordable housing aspirations

### **1.4 Development Strategy**

1.4.1 In February 2021, Cabinet agreed the Business Plans for both companies. The Business Plans outlined the company's medium to long term objectives.

1.4.2 Both Companies have growth ambitions. i4B's principal strategic objective is to increase the supply of affordable housing in the borough and therefore increase i4B's contribution towards the Council's strategic theme of 'a future built for everyone, an economy fit for all'. In addition, FWH's business plan outlined how the company is a delivery option available to the Council if required.

- 1.4.3 In order to increase the supply of affordable housing in the borough, both companies would look to work with the Council, Registered Providers and private developers to identify new build development opportunities and develop a portfolio of affordable new build accommodation.
- 1.4.4 This document is the housing Companies' joint Development Strategy. The Strategy aims to ensure that future development by the Housing Companies:
- Supports the Council's Housing Strategy and relieves housing need;
  - Supports the financial viability of the companies; and
  - Is feasible and realistic.
- 1.4.5 The Strategy does this by outlining:
- The Strategic context for development including housing need, rental affordability, market supply, and the financial viability of the Company.
  - The type of development schemes i4B and FWH will look to target, including the viability criteria schemes must meet; and
  - Future actions the Company will take to support feasibility and viability.
- 1.4.6 The strategy is predominately focused on i4B as it is actively acquiring properties but the strategy is also applicable to FWH.

## 2.0 Background

### 2.1 Background i4B

- 2.1.1 As of November 2021, i4B has purchased 340 PRS street properties. This portfolio has been let to Council homeless nominees. To date, i4B's acquisition strategy has focused on properties in the South of Brent. Over 55% of i4B's PRS portfolio is in the South of Brent in the Inner North London Broad Market Rental Area (BRMA).

Table 1 – i4B portfolio as of November 2021

Area	No. Properties
Brent (North)	37
Brent (South)	185
Home Counties	74
Greater London	44
<b>Total</b>	<b>340</b>

- 2.1.2 The reason for this is that the higher LHA rates in the Inner North London BRMA increase the amount of financially viable properties that are available to i4B.
- 2.1.3 i4B has expanded its portfolio beyond street property accommodation. i4B has purchased a 153 unit block of accommodation that is being let to key workers. In the past, i4B has previously explored purchasing shared ownership units. i4B also has the ability to let 25% of its portfolio at market/higher than LHA rates.

## 2.2 Background FWH

2.2.1 As the transfer of Granville New Homes has now been agreed, as of 1<sup>st</sup> April 2022, FWH will have 217 residential properties. The vast majority of FWH's portfolio is concentrated in Brent. A small number of properties are located in neighbouring boroughs. A breakdown of which is below:

Table 2 – FWH Portfolio as of 1<sup>st</sup> April 2022

<b>Product Type</b>	<b>No. Properties</b>
<b>General Needs</b>	<b>5</b>
3 bed	5
<b>Market Rented</b>	<b>45</b>
1 bed	45
<b>Settled Housing</b>	<b>167</b>
1 bed	10
2 bed	135
3 bed	22
<b>Grand Total</b>	<b>217</b>

2.2.2 General Needs properties are let at social housing rates. Settled Housing is a form of affordable accommodation where properties are let at 80% of market rate. Market rented accommodation is let at LHA levels.

2.3 i4B and FWH's ambition is for targeted block purchases to drive future growth. The reason for this is that compared to the purchase of PRS street properties. Block purchases bring a number of benefits to the Company and the Council:

- Street property purchases have been slower than envisaged, block purchases would allow i4B to quickly increase the size of its portfolio, allowing the companies to spread their fixed costs over a larger number of units;
- i4B and FWH would be able to increase its volume of properties at a greater rate, and therefore increase the rate of lets to homeless Brent families, thus increasing the financial savings the companies brings to the Council; and
- Blocks are easier to manage than sporadic street properties. This is because the respective company is the freeholder and therefore has greater control of management and maintenance costs.

2.4 This document outlines how i4B and FWH plan to grow their new build portfolios in a manner that supports the Council's homelessness objectives, supports financial viability, and is feasible and realistic.

### **3.0 Strategic Context – Housing Demand**

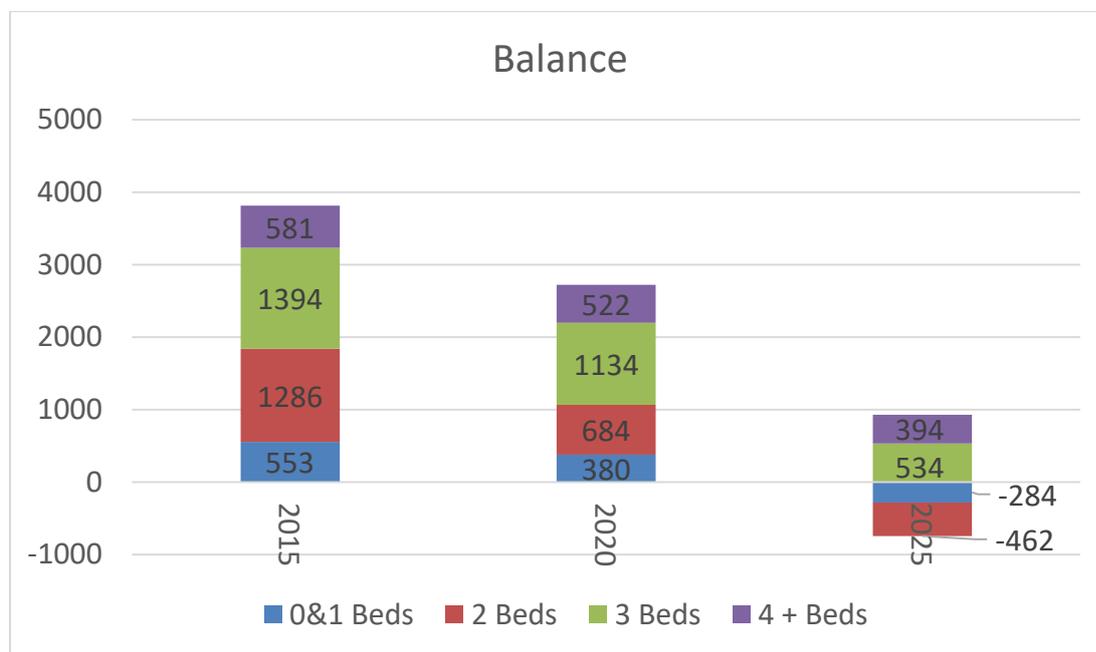
3.1 The following section outlines what demand for affordable housing is in the borough. This section has been developed in collaboration with the Council's Housing Needs service.

3.2 The information in this section informs the purchasing/development criteria outlined in section 8.

### 3.3 Housing Demand

- 3.3.1 Accommodation acquired by i4B is used to end the main homelessness duty for households in Temporary Accommodation, who were accepted post the implementation of the Localism Act 2011. This is also the case for FWH re-let properties.
- 3.3.2 Since the introduction of the Homelessness Reduction Act in 2018, the volume of homelessness demand is broadly stable. Properties acquired by i4B have been primarily used to end the main housing duty, however, in practice i4B properties have also been used to prevent homelessness.
- 3.3.3 The Council's Housing Needs Service and Performance Insight, and Improvement Service have carried out a detailed assessment into the likely demand for homes in the future, based upon past performance. The purpose of this approach is to build a five year forecast (to 2025) to predict future demand for housing, and assess how much of this demand will be met with future supply.
- 3.3.4 The results of the modelling demonstrate that there is likely to be a fall in homelessness demand from 2015 to 2025. This is due to the progress the Council has made in reducing the number of families in Temporary Accommodation.
- 3.3.5 Graph 1 below shows the estimated change in demand profile over the 10 year period. Existing unmet demand in 2015 is 3,814, remaining unmet demand is forecast to reduce to 182 by 2025.

Graph 1 – Households on waiting list from 2015 to 2025



- 3.3.6 Forecasted demand does not reduce equally for different bed sizes. Demand for accommodation with more than three bedroom makes up all of forecasted demand in 2025. There is expected to be a surplus of one and two bedroom units. This is in

large part due to the amount of one and two bedroom new build accommodation being delivered.

- 3.3.7 The modelling should be heavily caveated. The figures are influenced by a number of factors and can be skewed when assumptions change. For example, if the Council's stock maximisation programme is a success, and Council tenants are able to be moved from three and four bed Council homes to one and two bed Council Homes, it is likely that there will still be a demand for one and two bed accommodation.
- 3.3.8 Furthermore, the modelling is dependent on the success of the delivery of new build accommodation across the borough. A 20% reduction in the supply of new build accommodation increases unmet demand to 844 units in 2025.

### 3.4 Adapted Units

- 3.4.1 The Council has a specific demand for adapted units. The Council is not easily able to secure ground floor or lifted level access properties in the PRS that have been adapted, either for wheelchair use or having access to a wet room. Therefore, families who require these type of properties tend to have the main rehousing duty accepted, as it is not possible to prevent their homelessness through securing alternative suitable PRS accommodation.
- 3.4.2 As of November 2021, there are circa 50 households living in unsuitable accommodation who require access to accommodation that has been adapted. There is also an ongoing demand from new applications received from families who are threatened with homelessness.
- 3.4.3 Landlords in the private rented sector are typically unwilling to have their properties adapted. Therefore the only housing option for this cohort is social housing (where stock is limited) or an i4B/FWH property.

## 4.0 **Strategic Context – Rental Affordability**

- 4.1 This section is more applicable to i4B as its rents are higher than FWH's rent. i4B properties are let at local housing allowance levels (LHA). i4B typically purchases properties in South Brent where LHA rates are higher. This increases financial viability of accommodation for i4B. The table below provides a breakdown of rents.

Table 3 – i4B rents in comparison to other products

Accommodation Type	LHA (South Brent)	Social Cap* <sup>1</sup>	London Living Rent* <sup>2</sup>
One bed	£295	£145	£180
Two bed	£366	£158	£200
Three bed	£442	£166	£219
Four Bed	£594	£175	£239

\*<sup>1</sup>This is the social housing rent cap – the maximum rent RPs can charge for social housing.

\*<sup>2</sup> London Living Rent is a type of intermediate affordable housing for middle-income households who want to build up savings to buy a home. Rents are set by ward. Rent levels are derived from average local incomes and ward-level house prices. This is the South Brent ward average.

- 4.2 Approximately 50% of households where the Council accepts the main housing duty are affected by the overall benefit cap. By letting at LHA levels and affordable rent levels there are affordability issues when letting i4B properties to families affected by the OBC. Since the implementation of the Government's welfare reforms, the total amount of welfare benefits received by a lone parent or couple with children has been capped at £23,000 (£442 p/w) in London and £20,000 (£385 p/w) outside of London. The Council has recently seen an increase in the number of families affected by the cap, due to having recently lost their employment because of the pandemic.
- 4.3 The current weekly Local Housing Allowance (LHA) caps for the North and South of Brent and their comparison with the overall benefit cap (OBC) are listed in Table 4 below:

Table 4 – LHA Rates and the Overall Benefit Cap

Bedrooms	OBC	South Brent LHA	South Brent LHA Diff with OBC	North Brent LHA	North Brent Diff with OBC
Shared Room	£442	£147	£295	£113	£329
1 Bed		£295	£147	£230	£212
2 Bed		£366	£76	£288	£154
3 Bed		£442	£0	£357	£85
4 Bed		£594	-£152	£426	£16

- 4.4 Families affected by the OBC will be unable to afford South of Brent LHA rates. For example, a family with a four bed need would have an income of £442 (the OBC) their rent would be £594 (the south Brent four bed LHA rate), they would therefore have an income shortfall of £152).
- 4.5 In the North of Brent, only two bedroom properties will be affordable. A family with a two bed need would have a weekly surplus income of £152. Any less than this, and the family would not have enough income to live on.
- 4.6 Ultimately, if a family is affected by the OBC it will be difficult for i4B to house these families. i4B also cannot afford to reduce rents to a sufficient level to make rents affordable. These families are better suited to social housing rents.

## **5.0 Strategic Context – Supply**

- 5.1 The following section gives a summary of current market prices in relation to the housing companies' price caps, and a summary of development in Brent.

## 5.2 Price Caps and market value

5.2.1 Both companies' financial viability models generate price caps. These price caps are the maximum the companies can pay for a unit in order for it to be financially viable for the company.

5.2.2 The below analysis is focused on i4B and its experience of acquiring street properties since 2017. i4B is generally restricted in what they can pay, and generally targets properties in the bottom 10<sup>th</sup> percentile of the market by price. This makes the purchase of street properties difficult. i4B acquisitions are typically focused in areas like Harlesden and Stonebridge. These are areas in the Inner North London BRMA, where property prices are lower but LHA rates are high.

5.2.3 The table below shows i4B's price caps against market prices in the Inner North London BRMA. i4B is restricted to the bottom 10<sup>th</sup> percentile of the market.

Table 5 – Price caps and market prices in the Inner North London BRMA

# bedrooms	Price Cap	10th	25th	50th	75th	90th	Total # listings	# listings within price cap	% listings within price cap
2	<b>£389k</b>	£450k	£520k	£650k	£800k	£1.020m	6,573	<b>272</b>	<b>4%</b>
3	<b>£495k</b>	£525k	£675k	£880k	£1.200m	£1.795m	3,359	<b>216</b>	<b>6%</b>
4	<b>£702k</b>	£750k	£1.00m	£1.425m	£1.950m	£2.950m	1,510	<b>118</b>	<b>8%</b>

\*Note the price cap for FWH acquisitions will vary by acquisition. This is because acquisitions will likely be at social and affordable rates. This will vary from scheme to scheme.

5.2.4 i4B's price caps also mean it is limited to the bottom 10<sup>th</sup> percentile of the market in the North West BRMA. However, there are a smaller number of total listings within price caps in this area.

Table 6 – Price caps and market prices in the North West BRMA

# bedrooms	Price Cap	10th	25th	50th	75th	90th	Total # listings	# listings within price cap	% listings within price cap
2	<b>£297k</b>	£310k	£350k	£400k	£475k	£550k	3,405	<b>233</b>	<b>7%</b>
3	<b>£375k</b>	£450k	£500k	£575k	£650k	£775k	3,748	<b>120</b>	<b>3%</b>
4	<b>£469k</b>	£575k	£650k	£750k	£895k	£1,128m	1,754	<b>31</b>	<b>2%</b>

### 5.3 Development Pipeline in Brent

- 5.3.1 There is a healthy pipeline of development in Brent. As of November 2021, there are 7,697 private residential units in the planning pipeline within the Borough of Brent in schemes with at least 100 private units. Of this, 1,115 are at the application stage, 5,592 have consent but have yet to start on site, and 990 are under construction. Of the 990 units under construction, circa 431 (44%) have been sold off plan.
- 5.3.2 Development in the borough is concentrated in North Brent in the North West BRMA. Land is generally cheaper here than in South Brent. The development pipeline in Brent is largely concentrated in a limited number of schemes in Wembley Park, Alperton, and Northwick Park. Table 7 shows that of schemes in Brent with at least 100 private units over 95% of units delivered are in the North of the Borough. As a result, any future new build acquisition would likely be in the North of the Borough.

Table 7 – Units in planning pipeline in schemes over 100 units by BRMA

<b>BRMA</b>	<b>No. of units</b>
Inner North	230
North West	6319
<b>Total</b>	<b>6549</b>

## 6.0 **Strategic Context – Finance**

- 6.1 The following section sets out i4B and FWH's financing arrangements and their viability criteria.

### 6.2 Financing Arrangements

- 6.2.1 i4B and FWH acquisitions are financed via a shared loan from Brent Council which borrows funds and then on lends this to the companies. Funding is provided through cross-subsidisation. To date, all loan funding has been used to fund i4B acquisitions. Brent Council has borrowed £230 million and then on-lent this to at a higher interest rate. The intention of the loan is for i4B to deliver affordable housing in the borough.
- 6.2.2 i4B has committed £158m of the loan funding, and is on track to have used up its total loan funding of £230m by the end of the 2023/24 financial year. The intention is that this funding will primarily be used to acquire new build schemes.

### 6.3 Viability Criteria

- 6.3.1 All development schemes are appraised using an appraisal model. The appraisal model enables investment returns to be calculated over any given time period and can account for inflation on rents, management costs, asset prices and capital costs. The key cost drivers in the model are the purchase price, the financing rate and the rent levels. Schemes will be appraised using a 50 year appraisal period as this improves the range of viable investment options.
- 6.3.2 The key elements for financial viability of the business are the impact that an investment has on the company's cash flow and its ability to finance the debt incurred

when purchasing an asset. The key variables that influence the cash flow and the ability to finance the debt are:

- The purchase price of the asset
- The potential build/development costs
- The rental income available from the property
- The financing rate used to fund the debt

6.3.3 One factor that has not yet, but needs to be factored into the viability model is potential climate change works. The Government has set requirement of achieving net zero by 2050. Therefore, there is a need to drastically reduce emissions in the affordable housing sector. It is likely that i4B/FWH, will need to carryout decarbonisation works in the next 10 to 15 years. These costs need to be factored into the appraisal model, this is particularly relevant for the acquisition of PRS street properties. More information on this is detailed in section 8.

6.3.4 The key tests of how these variables interact can be measured in:

- the length of time it takes to repay the debt
- how long it takes for an investment to generate a positive cash surplus
- the year in which it the first debt repayment can be made

6.3.5 The i4B and FWH Boards have adopted the following financial viability criteria. This is the minimum criteria that schemes must meet in order to be deemed financially viable.

- Be able to repay debt within 50 years
- Make a positive cash flow from year 2 onwards
- Start repaying debt by year 10

6.3.6 These criteria are not a determination of value for money. A property may be affordable but represent poor value for money if it is above the prevailing market value.

## 6.4 Risks

6.4.1 Key risks related to the Development Strategy are:

Table 8 – Key risks

<b>Risk</b>	<b>Comment</b>
Inflation	Cost inflation without rent inflation increases costs, thus reducing the number of schemes that are affordable to i4B and FWH.
Build costs	Increased build costs reduce the viability of new build schemes
Finance Rates	Increased interest rates mean i4B and FWH cannot fund acquisitions

Arrears	Arrears level are higher than assumptions.
Climate Change Works	The scale of capital investment for decarbonisation works is currently unknown.

## 7.0 Criteria for Future New Build Developments and Acquisitions

7.1 This section outlines the type of new build schemes i4B and FWH will look to acquire and develop with the objective of ensuring potential schemes meet Council demand, are financially viable, and are feasible. The section is informed by the Strategic context sections and will outline:

- Who i4B and FWH will house
- Where i4B and FWH will target acquisitions
- What units i4B and FWH will target
- How schemes will be procured
- Viability criteria schemes must meet.

7.2 It should be noted that it is unlikely that future acquisitions and developments will meet all the criteria listed below. Therefore, key actions to further develop the strategy is to carry out work on prioritisation, viability, and feasibility. These actions are outlined in section 8. When actions in section 8 have been carried out, the criteria listed below will be reassessed.

### 7.3 Who i4B and FWH will house

7.3.1 Future new build schemes will still be based on the objective of housing homeless Brent families where the Council has accepted the main duty.

7.3.2 Due to the affordability concerns outlined in section 4.0. The companies will not be able to house those affected by the overall benefit cap. The rents i4B charges are not affordable to families affected by the overall benefit cap. By housing these families, i4B would risk pushing families into arrears. Furthermore, i4B is unable to afford the rent reductions needed to make rents affordable.

7.3.3 In addition, unless FWH can acquire schemes for social rent, it is unlikely that it will be able to house families.

7.3.4 i4B and FWH recognise that they are one of the few avenues the Council has to house the cohort of families requiring adapted accommodation. The companies therefore, have an ambition to purchase a bespoke portfolio of adapted accommodation. However, there are concerns about the feasibility of developing a portfolio of adapted accommodation. This is namely due to:

- A lack of adapted new build and PRS properties on the market;
- Properties that are adaptable often exceed price caps.

7.3.5 The companies will therefore carry out a pilot purchasing adapted properties. Further information on this is outlined in section 8.

7.3.6 i4B and FWH will also explore the possibility of letting properties at market rates in order to cross subsidise schemes and deliver affordable units.

#### 7.4 Where i4B and FWH will target acquisitions

- 7.4.1 The companies will primarily look to acquire/develop schemes in Brent. It will target properties in the following post codes. This is based on an analysis of local market prices and where price caps are more competitive.

<b>South Brent</b>	<b>North Brent</b>
NW2 2	HA3 5
NW2 3	HA3 7
NW2 6	HA8 0
NW6 5	HA8 7
NW10 1	HA9 9
NW10 3	NW10 0
NW10 4	NW9 6
NW10 6	NW9 8
NW10 9	

- 7.4.2 There is a preference is to purchase properties in the north of the borough. The reason for this is that the lower LHA rate in this area makes rents more affordable to tenants. Furthermore, whilst there is a steady pipe line of PRS street properties in the South of the Borough, it is envisaged that larger new build schemes will be acquired/developed in the North of the Borough. This is because the future development pipeline in Brent is largely concentrated in the North of the Borough
- 7.4.3 The companies will continue to review new build opportunities in the South of the Borough. When reviewing these opportunities i4B and FWH will explore options for reducing rents at properties.
- 7.4.4 If Brent supply is limited, the companies will also look to purchase schemes in neighbouring boroughs, as long as they are within a 45 minute radius of Brent.
- 7.4.5 Current price caps mean the companies are restricted in what they can pay in the North of the Borough. Therefore, a key action to further develop the strategy will be assessing whether price caps are viable for acquisitions in the North of the Borough. Further detail on this is contained in section 8.0.

#### 7.5 What units i4B and FWH will target

- 7.5.1 i4B and FWH's preference is to acquire larger schemes comprising of 50 units or more. The reason for this is preference for larger schemes is it will enable the companies to increase their portfolio of properties at a greater rate, and therefore increase the rate of lets to homeless Brent families, thus increasing the financial savings to the Council.
- 7.5.2 The companies will target schemes with a larger proportion of three and four bed units. The reason for this is that future Brent demand is forecast to be for larger units.
- 7.5.3 i4B and FWH will also look to target larger five and six bedroom units. These will likely need to be large houses.

## 7.6 How housing will be procured

- 7.6.1 It is envisaged that growth will be driven by developments and acquisitions from the private market through off-plan purchases. By adopting this approach, i4B and FWH can pivot units from market levels of rent to affordable tenures and therefore increase the number of affordable units delivered in the Borough.
- 7.6.2 i4B and FWH will also not actively look to purchase section 106 schemes. These units will be purchased by registered providers operating in Brent and the companies would therefore not be adding to the net supply of affordable accommodation in the Borough. For similar reasons, the companies will not look to acquire stock from the Council's development pipeline.
- 7.6.3 However, when instructed by the Shareholder/Guarantor, the companies will look to purchase s106 schemes or Council developments that meet viability criteria. It may be that an acquisition is more viable under the i4B and/or FWH business model as opposed to the Council's.
- 7.6.4 When acquiring schemes, it is likely that i4B and FWH would purchase fully designed and specified dwelling (either through off-plan purchases, or turnkey schemes). By adopting this approach, i4B and FWH are less exposed to risks around the build and construction of schemes. At present, i4B and FWH are not development companies and have limited experience of development. However, by adopting this approach, i4B and FWH would have limited control over design. Design choices would likely be limited to choices over fittings and finishes.
- 7.6.5 In cases where there is scope for i4B and FWH to have design input, i4B and FWH would look to increase the amount of units that meet the Council's demand requirements, this will typically be increasing the amount of larger units in a scheme as well as increasing the amount of adapted accommodation.
- 7.6.6 i4B and FWH will not look to undertake large scale land-led development schemes, where it would purchase and develop land itself. Due to the companies' small portfolio, the risks associated with undertaking a large land-led scheme are not in line with i4B and FWH's risk profile. In 2022/23, i4B and FWH will review whether carrying out smaller land-led schemes is viable and within the Companies' risk profile.
- 7.6.7 As mentioned, one of the drawbacks of acquiring developments directly is that there will be limited design input. The result is that properties may not be in line with the Council's demand requirements (i.e. larger units and adapted properties). A key action for 2022/23 is reviewing whether purchasing schemes directly would compromise the company's ability to deliver accommodation that best meets the Council's Housing Need.

## 7.7 Viability criteria schemes must meet

- 7.7.1 Any potential future acquisition would have to be in line with price caps and viability criteria. Therefore, schemes must:
- Be able to repay debt within 50 years
  - Make a positive cash flow from year 2 onwards
  - Start repaying debt by year 10

7.7.2 There are mechanisms available to i4B to increase the financial viability of a potential acquisition. This includes:

- Utilising profits
- Working with the Council to review financing rates and financing assumptions
- Potential capital/equity injections into i4B
- FWH also has capacity to bid for and utilise grant

7.7.3 i4B and FWH will review the viability of price caps in 2022/23 to ensure they are viable and feasible.

## 8.0 Development Strategy Feasibility Actions

8.1 The Companies recognises that it is unlikely that they are going to be able to acquire/develop schemes that meet all of the criteria listed above. For example, it may be not be feasible for the company to purchase units that best meet Council demand via off-plan purchases. Alternatively, price caps may prove restrictive for purchasing in the North West BRMA.

8.2 Therefore, further work is needed to ensure the criteria outlined above is feasible and realistic. Work is also needed on prioritisation; if a scheme does not meet all criteria what characteristics should be prioritised.

8.3 Below are actions intended to support feasibility, viability, and prioritisation. These actions will put the Companies in a position where it is clear in what schemes they can and cannot deliver and what deals it will prioritise.

Table 9 – Development Strategy Actions

Ref	Action
1	Review of new build schemes in the Borough
2	Review of feasibility of land-led schemes
3	Pilot of adapted properties
4	Pilot of larger acquisitions
5	Review of arrears
6	Review of climate change capital investment requirements
7	Potential review of options for increasing affordability

### 8.4 Review of new build schemes in the borough

8.4.1 The combination of current market conditions and the current viability criteria means the companies are restricted in what they can purchase. i4B and FWH will therefore carry out a review of new build schemes over 10 units that were purchased in the borough over the past three years to see:

- Whether they meet current price caps

- Whether they meet housing need.

8.4.2 The work will allow the companies to assess:

- Can direct scheme purchases from the market meet housing need?
- Are price caps prohibitive in the purchases?
- Enable work to be undertaken on reviewing options for increasing the affordability of new build schemes.
- Enable Board and Council decisions to be taken on the prioritisation of schemes.

#### 8.5 Review of feasibility of land-led schemes

8.5.1 It is envisaged that there may be difficulties in procuring a large amount of adapted properties, and three and four bedroom properties from the market. This project would involve looking at a current council scheme with adapted units. An assessment would be carried out to see whether the companies could viably deliver a scheme and assessing it against risk appetite.

8.5.2 This work will enable:

- A decision to be made on whether the companies can viably self-deliver smaller land-led schemes with a high concentration of properties that meet the Council's housing need.

#### 8.6 Pilot of adapted properties

8.6.1 In 2022/23, the companies will carry out a pilot exercise looking at the cost of acquiring properties that are suitable for adaptations as well as schemes with a large number of adapted units.

8.6.2 This will outline the costs of developing a portfolio of adapted accommodation, whether this is affordable to the Companies, and if not what additional finance is required to support the Companies to do this.

8.6.3 This work will enable the companies to understand:

- Whether they can be delivered through PRS street property purchases or is better suited to new build developments.
- Whether a large portfolio of adapted accommodation can be realistically delivered within current price caps;
- If not, what financing would be required.

#### 8.7 Pilot of larger acquisitions

8.7.1 There is a demand for larger properties with four plus bedroom. i4B has typically struggled to afford properties with more than four bedrooms. The reason for this is that the LHA rates are capped at four bedrooms. Therefore, it is difficult to find properties with more than four bedrooms that meet viability requirements.

8.7.2 In 2022/23, a pilot exercise will be carried out looking at the cost of acquiring larger units. Like the adapted properties pilot, this will outline costs and whether purchasing larger units is affordable to the companies and if not, what additional finance is required.

8.7.3 This work will enable the companies to understand:

- Whether it can purchase larger units with more than four bedrooms
- If not, what financing would be required to do this?

## 8.8 Arrears Pilot

8.8.1 This action is only applicable to i4B as it has higher rents. There is concern that i4B rents are too high and unaffordable for tenants. In addition to this, it means that bad debt levels are high. This impacts financial modelling and price caps. i4B will work with the Council's Income team to analyse the drivers of high arrears levels and implement any specific improvement actions where necessary.

8.8.2 This work will enable i4B to:

- Increase the accuracy of bad debt assumptions.

## 8.9 Review of climate change capital investment requirements

8.9.1 The Government has set a requirement of achieving net zero by 2050. Therefore, there is a need to drastically reduce emissions in the affordable housing sector. It is likely that i4B/FWH, will need to carry out decarbonisation works in the next 10 to 15 years. For the acquisitions of street properties (and potentially new build schemes), the companies need to factor into viability modelling future capital investment requirements for decarbonisation works. Therefore, in 2022/23, the companies will commission a review to understand what the level of investment required to upgrade stock to EPC B. This will then be factored into future modelling.

8.9.2 This will enable the companies to:

- Understand the cost of future decarbonisation works;
- Factor these costs into future viability modelling.

## 8.10 Potential review of options for increasing affordability

8.10.1 The above actions will give the companies a better understanding of the properties they can acquire/develop that are financially viable and technically feasible. The criteria outlined in section 7 can then be reassessed to see if they are feasible.

8.10.2 If the companies are not able to deliver accommodation that best meets the Council's housing demand, they will work with the Council to review options for increasing viability. This will be with a view to being clear on the type of accommodation they can feasibly deliver, and what accommodation will need to be delivered by the Council via alternative routes.

8.10.3 This will work will review the below options:

- Utilising profits
- Working with the Council to review financing rates and financing assumptions
- Potential capital/equity injections into i4B.
- FWH also has capacity to bid for and utilise grant