Cambridge Centre for Housing & Planning Research

Riding the wave or surfing with sharks; an update on Fizzy

Peter Williams, CCHPR, Cambridge

UNIVERSITY OF CAMBRIDGE

My presentation

- Time of unparalleled change and uncertainty
- Government housing refocus with a new White Paper
- Move towards a more balanced policy agenda re renting/owning
- But underlying squeeze on funding and thus drivers to do more outside of grant
- Build to rent now a growing market for the middle/upper end
- Fizzy one of several HA PRS ventures
- Previous presentation stands –this is an update!

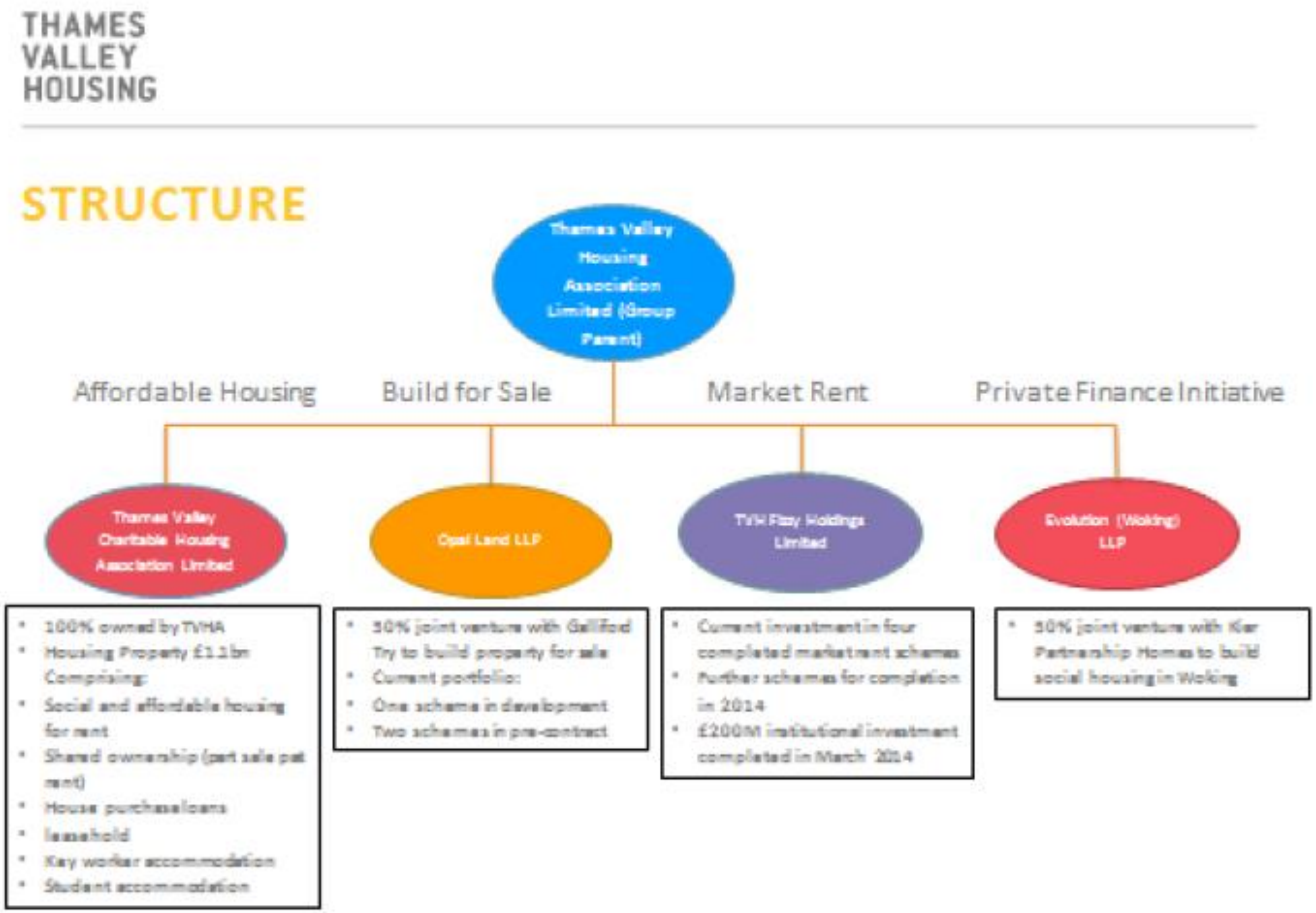
Recap

- Pressure to move up market/widen sources of surplus/profit
- Through disposals/rationalisation; efficiency savings/VFM, through joint ventures, acquisitions and new activity
- Cross subsidy for social housing, underfunded by govt.
- Issues with that in principle; mission creep; charitable rules
- Big issues re skills/capacity, understanding of new markets
- Issues too of scale, competition, and most notably of risk
- HCA rules on use of social housing assets
- Off/On balance sheet

Recap

- Some associations have rejected diversification
- Diversification; up 25% to £2.3bn
- Disposals/Sales in a bouyant housing market
- But become pro-cyclical?
- Fizzy, part of Thames Valley HA
- Always diversified –rental/shared ownership
- Then student/hospital accommodation
- Joint ventures, PFI and Fizzy
- Not been distracted by mergers (!) focussed on organic growth

Recap


THAMES
VALLEY
HOUSING
STRUCTURE
Thames Valley Housing Association Limited (Group Parent)
Affordable Housing
Build for Sale
Market Rent
Private Finance Initiative
Thames Valley Charitable Housing Association Limited
Opal Land LLP
TVH Fizzy Holdings Limited
Evolution (Woking) LLP
• 100% owned by TVHA
• Housing Property £1.1bn Comprising:
• Social and affordable housing for rent
• Shared ownership (part sale part rent)
• House purchase loans
• leasehold
• Key worker accommodation
• Student accommodation
• 50% joint venture with Galliford Try to build property for sale
• Current portfolio:
• One scheme in development
• Two schemes in pre-contract
• Current investment in four completed market rent schemes
• Further schemes for completion in 2014
• £200M institutional investment completed in March 2014
• 50% joint venture with Kier Partnership Homes to build social housing in Woking

Recap

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WHAT'S THE STRATEGY

- Why do it and opportunity cost? What's the target market within Market Rent
- Where
- What - flats, houses, build or buy
- Scale - on balance sheet or investor input
- Measuring returns
- Management model
- Exit or not

Recap

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TVHA 'FIZZY' STRATEGY

- Target market is the 'rentysomethings'
- Assets newly built minimum of 50 units per scheme
- Located in London and SE commuter spots
- TVH invested £30m – acquired 4 buildings with gross asset value of £64.8m. Debt funding from Macquarie Capital
- Current returns are 5% net yield
- TVH sold interest in Fizzy to a subsidiary of the Abu Dhabi Investment Authority, Silver Arrow, who have committed upward of £200m capital to grow the platform
- The pipeline is growing. A further two schemes agreed in the next month

Recap

- Safe & Secure NEW Buildings of C 100 apartments
- 1 Beds C 30%, 2 Beds C 55%, 3 Beds C 15%
- Sizes – 1 Bed – 500 sq ft
- 2 Bed 2 Bath – 800 sq ft
- 3 Bed 2/3 Bath – 1,000 sq ft
- Adjacent to Transport Hubs
- Comprehensive Local Amenities
- Exemplary Management via 'Bob'
- Communal Facilities where appropriate

Recap

- Purchase discounts minimum 10% on Red Book (15-20% OMV)
- Initial rental voids 6%, reducing to 3% PA
- Gross to Net Rent discount target 25%
- Average development cost estimated at £20-30m
- Hold Period 7-9 Years
- Variable Exit Routes
- Target Equity/Debt ratio 40:60
- Suitable for Joint Venture structures

The market

- On balance sheet; Land Q, NHHT, Peabody, Family,A2.
- Off balance sheet with investors - Fizzy
- Competition is very strong not least for sites at key transport interchanges
- The Build to rent market is growing outside of London though capital remains the focus
- Question re Brexit impact on London

Fizzy

- Fizzy Enterprises currently owns 5 stabilised assets;
- Epsom (63 units), Canning Town (75 units), Poplar (45 units), Stepney Green (63 units) and Lewisham Phase 1 (68 units) – 314 units.
- Under construction for delivery in 2017; Blackhorse Lane Walthamstow (111 units), The Old Vinyl Factory Hayes (189 units) and Lewisham Ph 2 (68 units) – 368 units.
- So by the end of 2017 Fizzy will have 682 units under management.
- Currently in the planning system is Silvertown Way (TVH's jv with a builder Galliford Try) where Fizzy will take 292 units.

Fizzy

- Fizzy concentrating on its ‘young professional’ target tenant, confirmed by its current average customer being 34 years old and earning £44,500.
- Fizzy provides comprehensive property and asset management, as well as acquisition services and project/development management at around 25% of gross rent, but that includes service charge, planned maintenance and a manager at each building.
- Carry out an annual customer satisfaction survey which to date has always returned a positive score above 95%.
- Turnover is around 40% across the portfolio. About 25% of tenants are true transients and will move on after 6 months and about 20% of tenants in each building have been there from the start.
- Turnover is good as return a unit to a market rent level – long term tenants benefit from a sub market reversion but Fizzy benefits of no void loss. Our target maximum void is 3%, which we have beaten until 2016 when it hit 4.5% - though we still achieved budget gross rent

Fizzy

- Reasons for higher voids were new buildings being released onto the market affecting sales rates at Poplar and Lewisham.
- The plan geographically was to concentrate on London and SE until we have reached 1,000 units, after which we could spread out UK wide. Nearly there and putting together a business plan to establish a countrywide management strategy.
- No rent guarantee in place – the investor agrees to underwrite an agreed rental level at the point of investment approval – so far have always exceeded the underwrite.
- No plans yet for an exit. ADIA's appetite for new investments is tempered by worldwide events, so concerns about Trump's policies are just as relevant as Brexit. Brexit no negative impact on demand because supply is still strangled, the population growing and targeting the market dynamic which is most affected by the high cost of housing and lack of saved funds to cover a deposit.

Outlook

- See institutionally owned and professionally managed rental sector as a major source of home delivery in the UK, filling the gap between Social Housing and private sale which prior to 1980 was provided by Local Authorities.
- 76% of Fizzy tenants would qualify for Intermediate Housing, yet they rent at market rent with no need for any form of grant support.
- Indicates capacity/appetite to stretch - rent better in right location compared to allocated home with social landlord (if possible) or bought home of lower quality/poorer location?
- Shift in preferences/capacity?
- Student debt, low wage inflation in age group, mortgage restrictions

Conclusion

- Landlords favour debt and ownership? Why?
- Equity investors/fund managers looking for long term stable income streams
- So far a few coming on stream – Funding Affordable Homes (FAH)
- Purchasers of HA bond issues instead?
- Who is the problem –the funds/fund managers or the associations? Both probably!
- Fizzy has shown a way forward and ADIA appetite considerable
- Expect to see slow growth in this option