

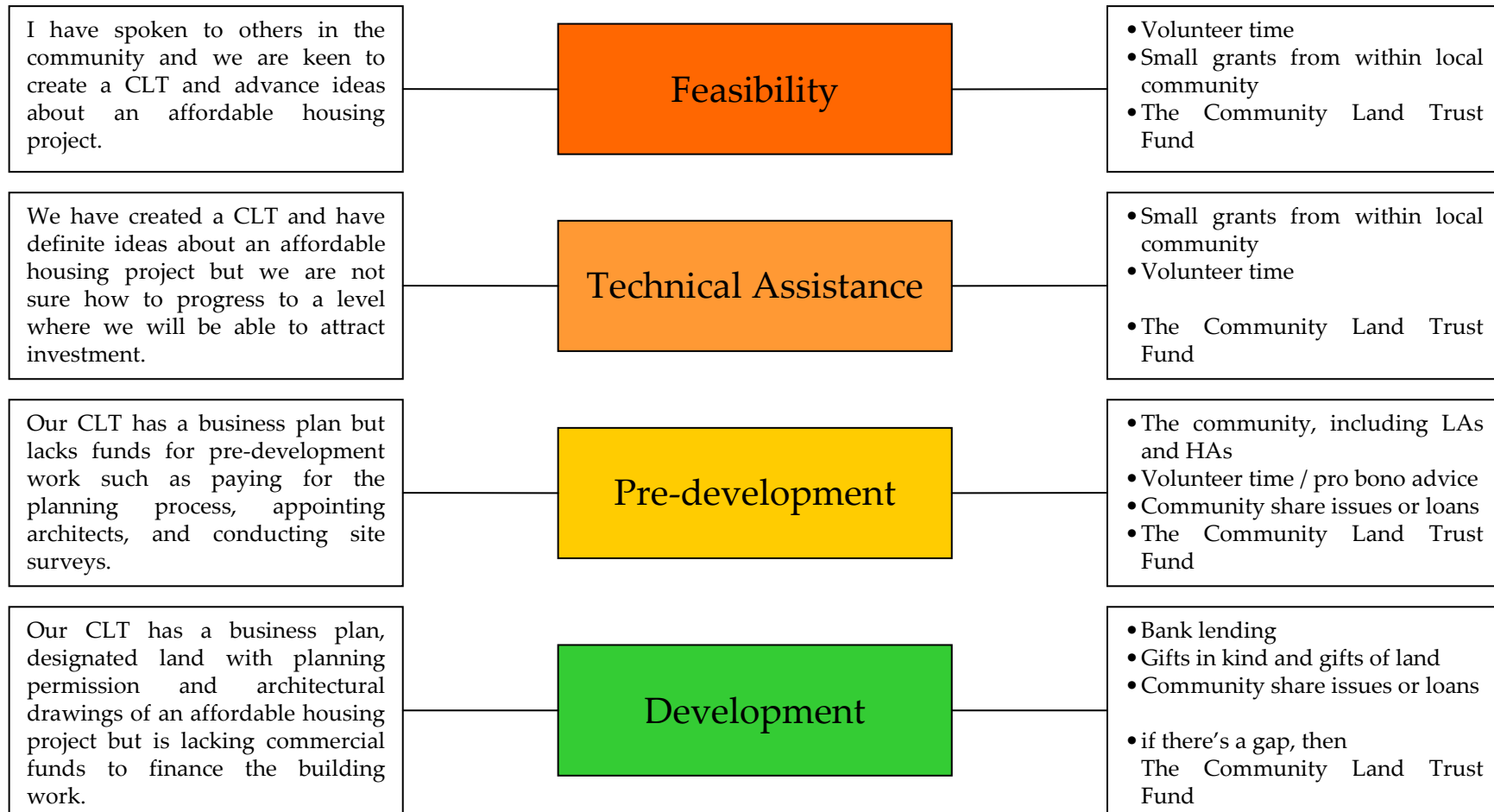
Financing your CLT *in practice*

- Objectives:
 - to understand the information needed to seek offers of pre-development support
 - to identify the what you can assume and what detailed work is needed before seeking finance
- Outcome:
 - you know what you need to do next to seek pre-development finance for your project

What stage is your project at?

The stage you're at:

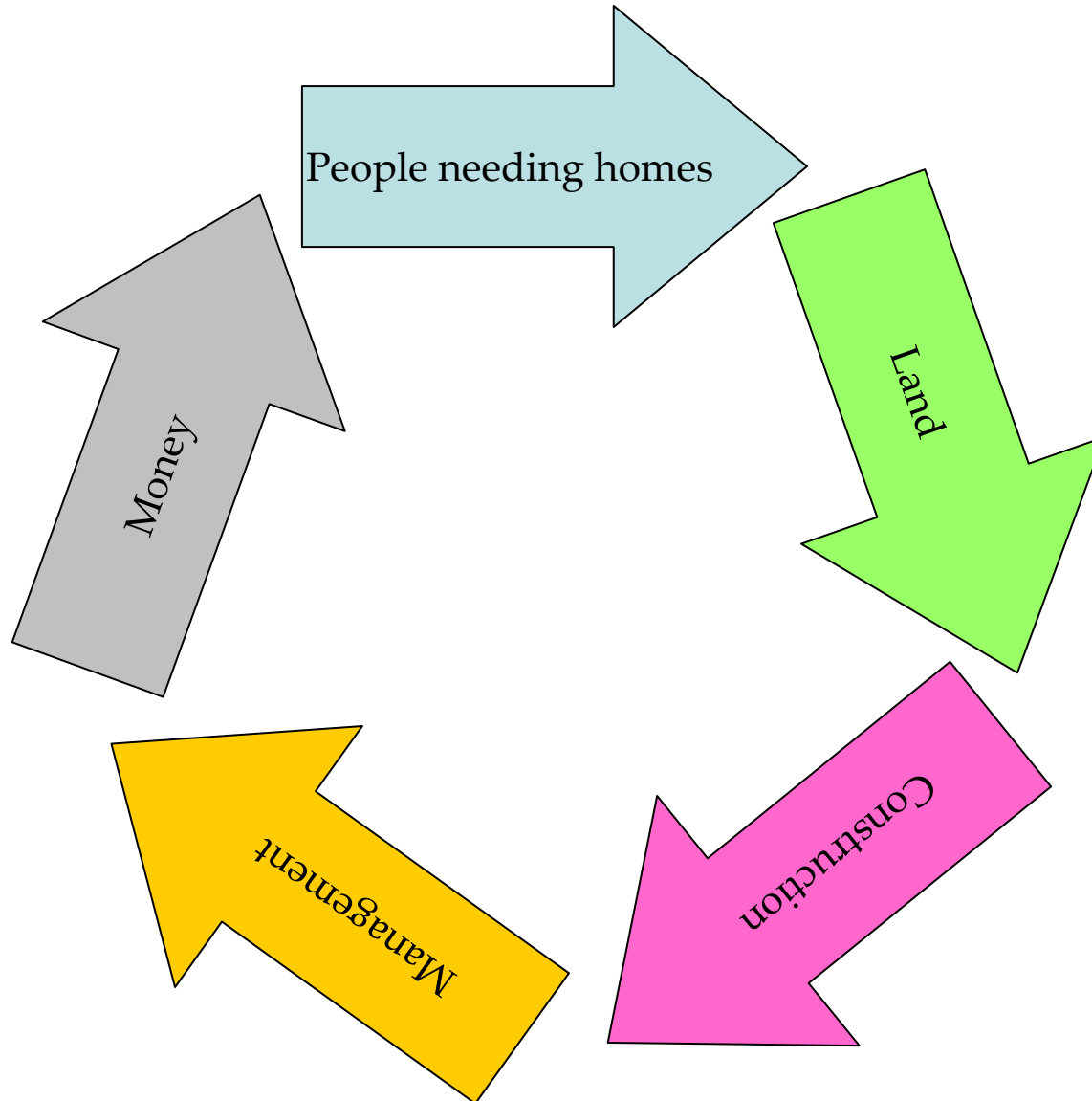
Resources available:



What stage are you at?

What do you need to do next?

Seeking pre-development finance



Seeking pre-development finance

People	What is the Housing need in the area?
	Within this, can you describe demand – incomes and savings?
	Target market – what constrains who you are wishing to support?
	Tenure – is shared equity or rental wanted, needed, feasible?
Land	Is land available – at what cost, on what terms and when?
	What is the planning context for the land? status of site and MIPs
	Is the site viable for construction and occupancy?
Construction	What mix of units do you want to build?
	What build method will you use?
	What are your estimated costs?
	Who will do the work – architects, contractors etc.?

Seeking pre-development finance

Management	How is the organisation constituted?
	Who is involved now?
	What skills do you need to “buy-in”?
	How will the development be managed in the long-term?
Money	What are the total costs likely to be?
	Will the revenue from equity sales and long term lending against rents = total costs?
	What do you need to spend: <ul style="list-style-type: none">• before planning permission is granted<ul style="list-style-type: none">• on planning permission• during construction• to market the properties

Example: XYZ CLT

People	<p>Housing need: XYZ Parish housing needs survey</p> <ul style="list-style-type: none">• 1700 homes in parish; 70% home ownership• 30 households expect to need housing in next two years• house prices 50% greater than national average; average price 2-bed flat six times average salary.
	<p>Housing demand: supplementary interviews by CLT of those in housing need</p> <ul style="list-style-type: none">• eight households identified in housing need with incomes in range £20,000 - £40,000 (average salary in area c£22k)• four households also hold some savings or can attract family assistance• housing required 2 or 3 bedroom houses• preferred tenure: 60% prefer ownership / shared ownership
	<p>Target market: <i>intermediate, shared ownership</i></p> <ul style="list-style-type: none">• within CLTs allocation policy (cascading from parish, to area etc)• within local authorities definition of intermediate affordability (80% of OMV for share equity; X% of local incomes for rented)• targeting household incomes in range £18 - £30k plus savings of £5 - £15k

Example: XYZ CLT

Land	Land for sale: 12 plots at £6k per plot, purchase may be competitive with local housing association
	Planning: Site outside development boundary, but local planners have already indicated (in writing) the site could be considered as an exception site
	Section 106 negotiations will be required. Initial discussions with planners indicate their willingness to accept mortgagee in possession.
	Viability: <ul style="list-style-type: none">• construction – level site with good access for heavy vehicles. Sewers and utilities in access road already• occupancy – site 5 – 10 mins walk from village centre shops, school, GP. Buses to nearest town four per day.

Example: XYZ CLT

Construction assumptions developed with professional help	Units: <i>initial assumption to develop with architects, HA</i> <ul style="list-style-type: none">• Build six units – 2 2-bed flats 65sq. m., 2 2-bed houses 75 sq. m., 2-3-bed houses 85 sq. m.• Sell other six plots to housing assoc for social rented
	<i>Assumption for build method at this stage:</i> <ul style="list-style-type: none">• standard block and brick construction
	<i>Cost Assumptions</i> <ul style="list-style-type: none">• build costs £1,100 per sq. m.• on costs of 20%, broken down in to specific items• costs of finance included in on-costs, based upon assumptions of build time and therefore interest costs payable
	<i>Assumed procurement method:</i> <ul style="list-style-type: none">• CLT commissions architect, main contractor etc.

Example: XYZ CLT

Management	Organisation: company limited by guarantee with charitable objects seeking registration as a charity
	Trustees: <ul style="list-style-type: none">• all local people• mixture of business, community and construction industry skills <i>in conversation with Trustees their motivation is apparent, as is their willingness to devote substantial time to get the project up and running</i>
	Need support on CLT technical issues such as <ul style="list-style-type: none">• charity law• section 106 negotiations
	Plans for long-term management of the properties not yet developed

Money	Total costs:		
	Land	12 x £6k	= £72k
	Construction	2 x 65sqm x £1100 = £143k 2 x 75sqm x £1200 = £165k 2 x 85sqm x £1200 = £287k	
	On costs	20% of construction	= £100k <i>includes contingency</i>
	Total costs		= £665k
	<i>of which, spend pre-planning = £20k on-costs plus £6k deposit on land</i>		
	Target revenue:	Within constraints?	
	Land sale to HA	£36k	
	2-bed flats 2 @ £92,000	£184k	OMV £130k i.e. sell 70%
	2-bed houses 2 @ £105,000	£210k	OMV £160k i.e. sell 65%
	3-bed houses 2 @ £118,000	£236k	OMV £190k i.e. sell 62%
	Total revenue	£666k	
	Target market assuming deposit of £5k - £10k, assumed borrowing limit 2.75 joint incomes, 3.5 single incomes:		
	2-bed flats: couple earning £31k combined; single income £25k;		
	2-bed houses: couple earning £35k; single income £28k		
	3-bed houses: couple earning £39k; single income £31k		
	<i>which is within the range of incomes of our target market</i>		

some variations on the XYZ scheme

- What if incomes were lower but the same sizes of unit were required?
 - Revenue < Costs,
 - Could a broader range of property create cross subsidy?
 - Would rental work?
 - probably not without lower costs or subsidy
- In a falling market, isn't a definition of affordability tied to open market values a risk?
 - yes!
 - try a definition tied to incomes; or ensure plenty of headroom

some key points

- you *can* write a 2 page “concept note”
- make assumptions (educated guesses) and then test them out
- iterate your concept note until it works and you know what you need to spend money on to prove it
- *then apply for some pre-development support*