Delivering value for money in asset management

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About Origin Housing

Community based housing association since 1920’s

5,500 homes in North London and Hertfordshire

Develop new homes

Wide range tenure types: general needs; supported housing; shared ownership; key-worker housing

Active business rationalisation
Our housing stock

0-150 years old
90% flats in small blocks and estates up to 300 units
Value as existing use is £400m
Open market value £1.2bn
Why we engaged Savills

Next step after geographical rationalisation
Understanding our assets better
Improving the performance of our assets
Making better decisions
Not wasting money
Releasing resources

= value for money
Registered providers shall:

“understand the return on assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving value for money including the potential benefits in alternative delivery models - measured against the organisation’s purpose and objectives”
Registered providers shall:
“enable stakeholders to understand the return on assets measured against the organisation’s objectives”
“evidence value for money gains”

Registered providers’ boards shall:
“demonstrate to stakeholders how they are meeting this standard”
It's to achieve New Delivery

NATURE VS. NURTURE
IF YOU'RE GONNA BE DUMB, YOU'D BETTER BE TOUGH

(origin HOUSING)
Great homes, positive people, strong communities
Evidencing value for money – metrics

Private investors employ the KISS principle

- Gross Initial Yield i.e. rent net of service charges divided by capital employed
- Net operating margin i.e. surplus to repay debt and equity after operating costs
- Operating margin is a snapshot of NPV.
- RP operating margins increased during 2010 from 14% to 18%. Private landlords would expect >30%
- Bromford 32%
Gross Initial Yield on Market Value (st VP)
Return on assets

Return on Assets is a simple ratio of the return divided by the value of the assets (or funds invested), but:

- What is return – what about capital growth (or loss)?
- What is the value of the assets – historic cost, investment, value?

Ratio of pure rent to:

- EUV-SH – “social housing return”
- MV-STT – market renting return
- MV-VP – gross initial yield
Social Return on Investment (SROI)

To involve stakeholders in assessing need
To gain clarity on the return
To value the things that matter – using financial proxies to drive a “market” focussed approach
To only include what is material – an evidence based approach
Not to over-claim – using appropriate benchmarks, targets and external standards
To be transparent – reporting and accountability
To verify the result through independent assessment
Value for Money and Asset Management

- Measure the **long term** performance of properties
- Use modelling techniques to analyse **worth**
- Helps plan for conversion to affordable rent, investment, modernisation or replacement
- Provides an objective baseline on which to make investment decisions
- Generates candidate list for option appraisal
- It’s a component of business planning
So what’s an Asset Manager?
Managing assets

• Asset Managers will have to understand:
  – Local markets
  – The long term performance of their property portfolio
  – The investment performance of each individual property.
Cash flow per unit - how different units perform

- Three tower blocks
- Surplus/deficits
- Different outcomes
Whether to invest or not?

- OK TO INVEST
- OPTIMISE
- PROCUREMENT
- RECOVERY AND
  IMPROVEMENT
- PLAN
- OPTION
  APPRAISAL
Matrix Methodology

**NPV Analysis**
- Assessment of existing worth of stock to Origin
- Separate Discounted cashflow model
- Uses Origin Business Plan assumptions
- Based on income and cost data provided by Origin
- Provides a 30 Year NPV by Asset Group

**Matrix Score**
- Total score for three separate evaluations of the Asset Group
- Based on a weighted scoring mechanism
Matrix Methodology

Property Performance Data

- Scored between 1 (Poor) and 10 (Good)
- Criteria weighted equally

<table>
<thead>
<tr>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Rent per Week</td>
</tr>
<tr>
<td>Average Service Cost Deficit per Unit per Annum</td>
</tr>
<tr>
<td>Void Rate per Unit per Annum</td>
</tr>
<tr>
<td>Turnover Rate per Unit per Annum</td>
</tr>
<tr>
<td>Average 30 Year Capital Investment per Unit</td>
</tr>
<tr>
<td>Average SAP Score</td>
</tr>
<tr>
<td>Average Arrears per Unit as at January 2012</td>
</tr>
</tbody>
</table>
# Matrix Methodology

<table>
<thead>
<tr>
<th>Staff assessment Criteria</th>
<th>Socio economic Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management time expended</td>
<td>Average gross income per week</td>
</tr>
<tr>
<td>Access to public services</td>
<td>% of population claiming Housing Benefit</td>
</tr>
<tr>
<td>Access to green spaces</td>
<td>% of households in poverty</td>
</tr>
<tr>
<td>Long term demand issues</td>
<td>% of economically active in (full or part time) work</td>
</tr>
<tr>
<td>Social cohesion</td>
<td>% of pupils achieving 5 GCSEs at Grades A – C</td>
</tr>
<tr>
<td></td>
<td>% of economically active with limiting long-term illnesses</td>
</tr>
<tr>
<td></td>
<td>Total number of reported crimes</td>
</tr>
<tr>
<td>Tenure Type</td>
<td>Unit Count</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>General Needs</td>
<td>3206</td>
</tr>
<tr>
<td>Intermediate and Market Rent</td>
<td>292</td>
</tr>
<tr>
<td>Keyworker</td>
<td>478</td>
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<tr>
<td>Leaseholders</td>
<td>398</td>
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<tr>
<td>Retirement</td>
<td>395</td>
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<tr>
<td>Shared Ownership</td>
<td>278</td>
</tr>
<tr>
<td>Supported Managed not Owned</td>
<td>52</td>
</tr>
<tr>
<td>Supported Owned and Managed</td>
<td>185</td>
</tr>
<tr>
<td>Supported Owned not Managed</td>
<td>74</td>
</tr>
<tr>
<td>Grand Total</td>
<td>5358</td>
</tr>
</tbody>
</table>
The benefits to Origin of the model

- Supports strategic planning
- Informs business priorities
- Data all in one place and accessible
- Targets management action
- Prevents wasteful investment
- Asset performance tracked over time
- Meets regulator requirements on value for money
How Origin is using the model

- Helping staff to understand asset performance
- Identifying assets for review by staff teams
- Taking actions to improve performance
- Setting goals to increase overall performance
- Monitoring movements in performance
- Identifying candidates for stock option appraisal
Active asset management is

- A different way of doing things!
- Essential for improving business performance
- Helpful in managing business risk
- Necessary to evidence value for money
- Expected by the HCA
- Easier with a bespoke tool