

The Brewery, Hambrook Street Redevelopment

Business Plan for formation of company 'Hambrook Street Ltd'

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Executive Summary

1. Hambrook Street Ltd ("the Company") will acquire the property 'The Brewery' Hambrook Street ("the Site") from Ravelin Housing Ltd ("RHL").
2. The Company will be a private limited company that is 100% debt funded from Portsmouth City Council, as lender and principal shareholder of the Company.
3. The Companies core purpose is to hold the asset of 'The Brewery' and to maintain and manage the asset during its occupational phase.
4. The Company will assess the most cost effective and efficient way to manage the asset. This could include direct management options or procurement of third parties to perform the functions of the lettings management and maintenance/facilities management for the site. Procured services will be engaged under contract using service level performance agreements. Council Officers working under a contract will carry out the day-to-day activities of the Company, including if applicable, procurement of third-party services, contract management, financial processing and accounting.
5. The Company will periodically review the investment performance of the asset to analyse and advise the shareholder of the optimum time to crystallise and leverage the value from the investment to provide a capital receipt and profit return to its shareholder. It is anticipated that this will occur in year 10.

Business Plan - Hambrook Street Limited

1. Introduction

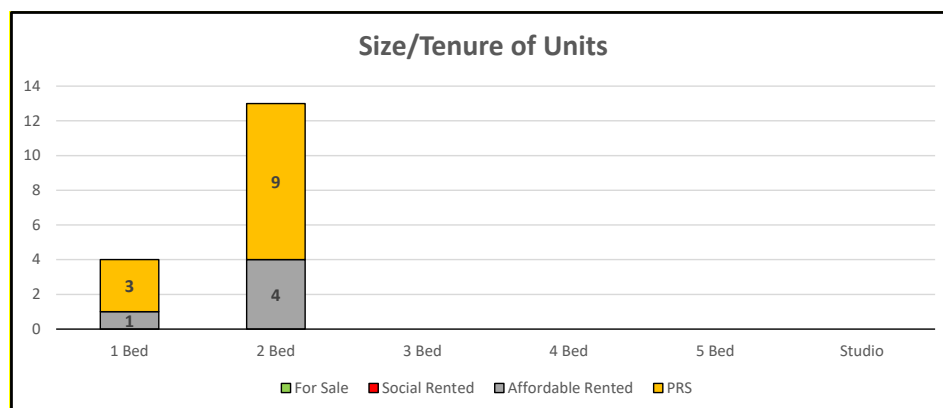
The building is a former Brewery that is currently being converted into 17no flats for the purposes of being rented on the private market as a build to rent product. It is intended that three out of the 17 units will be let as affordable private rent, capped at 80% of the market rent.

The objectives of the Company are to ensure the operational status and functions of the Site; ensuring high quality standards are achieved for the product and services experienced by the tenant. Alongside this, financial return to the Company's shareholder must be achieved to, as a minimum, be in line with the business case to develop the asset, approved by the Ravelin Housing Ltd (RHL) Board and Shareholder at Cabinet in September 2020.

2. Background

In August 2021, RHL a wholly owned company of Portsmouth City Council, approved a business case to acquire, convert and redevelop 'The Brewery' into 17 residential build to rent apartments. RHL's purpose is to complete projects that deliver regeneration and economic growth within local communities whilst satisfying the need for housing, using non-traditional approaches. As set out in the business plan for the development, RHL's focus is on the construction phase, once completed the Business Plan set out that the Site would be sold and transferred to a separate subsidiary company. It is proposed company 'Hambrook St Ltd' will be that subsidiary company and focus on the operational phase only, not the construction.

The below figure shows the mix of units being proposed and their tenure within the Brewery development.



3. Purpose of the Company

The Company will own, operate, and maintain the Site in accordance with this Business Plan and the Business Case. It will assess the most cost effective and efficient method of operating the Site. This could include direct management or procurement of third parties to provide lettings management and maintenance/facilities management under contract to fulfil the functions required. However, the company would enjoy all the risks and rewards of ownership in a tax efficient structure. The Company will periodically assess and report on the investment performance to inform whether to continue to hold the Site for income generation and capital growth or dispose to realise the value and return a capital

receipt and profit back to its Shareholder. It is forecast that the investment will be debt positive and, in a position, to return a profit after year 10.

The Company expects to achieve a gross profit from year one, and a net profit in year 15.

4. Company Values

The way the Company will operate is an essential part of the Business Plan and Business Case. The Company will strive to become a highly regarded proprietor in the City and seek to be:

- A trusted partner of its shareholder Portsmouth City Council;
- A trusted private sector landlord providing quality homes and services that are sought after by investors;
- A business that operates with integrity and treats tenants, contractors and partners with respect and monitors performance with engagement surveys.

Performance against these values will be monitored via periodic engagement surveys with key stakeholders. Performance will be monitored through achieved occupancy rate, tenant turnover, waiting lists for accommodation and reviews.

Periodic inspections and audits will be undertaken of the supply chain to ensure industry standards and contract obligations are being met.

The investment model requires periodic investment analysis, reporting and market engagement to inform any investment recommendation to dispose of the asset. This in turn will indicate whether the operational model has achieved its objectives and values based on its attractiveness to the market.

5. Company Objectives

The Company's objectives are:

- To deliver a housing solution using an alternative delivery model focused on build to rent and affordable private rent markets. A key objective is to acquire the developed site and then hold, operate, and maintain the asset;
- To remain financially viable and commercially sustainable;
- To ensure efficient landlord services are archived to include housing management and maintenance;
- To maintain "The Brewery" to a standard that meets tenants' reasonable expectations, protects shareholder reputation and shareholder investment in the Company;
- To be an example of how a Build to Rent product could operate in the City of Portsmouth to help attract further investors to the City;
- To maximise capital value and create a saleable asset should the generation of a capital receipt become a priority for the Shareholder.

6. Potential Customers

As of December 2021, the UK Buy to Rent ("BtR") stock stood at 70,800 completed homes with a further 41,200 under construction. Looking at the pipeline of UK residential developments BtR will represent just under 4% of the private rented sector.

No specialist BtR schemes have been developed in Portsmouth to date, this development will be the first to be developed. Albeit this development is small in scale and will consequently not demonstrate the full spectrum of residential amenity areas and concierge that may be experienced on larger scale BtR developments.

The build to rent market is a sub-set of the private rented sector. It is aimed at those for whom home ownership is unrealistic but access to social or affordable housing is unlikely; for those where flexibility and mobility is valued; with above average incomes

Young professionals no longer make up the largest group living in the private rented sector, having been overtaken, marginally, by 35–49-year-olds. This age group is expected to show the biggest growth in households in the private sector over the coming years, with difficulty in obtaining a mortgage deposit to buy a home remaining a hurdle.

7. Affordable Homes policy

The Company will let 3 (out of the 17 units) as affordable private rented units. The units will be of the same quality and standards as private market units (tenure blind) but be at 80% of the market rent. The provision of these units will be legally protected under the S106 planning agreement and condition. The management of the units will be incorporated into the overall asset management of the Site. Lettings management policies could look to prioritise local residents and key workers.

8. Targets

- To let all 17 Units by June 2023;
- To maintain a minimum 95% occupancy for the first 5 Years;
- Be cash positive for the first 5 years;
- To maintain the property with a view to maximising the capital value;
- To periodically assess the investment value of the operated asset and crystalize the investment opportunity and dispose of the asset at the optimum time to give the maximum reward to the Company and its Shareholder;
- To demonstrate best practice with tenants needs.

9. Return to Shareholder

As well as maintaining good quality homes for its tenants and a return to its Shareholder the Company will:

- Ensure that profit from income is first used to meet its debt liability to the Council;
- Monitor investment performance of the asset to inform decision making on whether to continue to hold the asset for income generation or dispose of the asset for capital receipt and return, if third-party investment needs to be leveraged quickly to release equity for Portsmouth City Council;
- Maximise income and efficiency of property management services;
- Prioritise repayment of debt before paying dividends.

10. The Programme

'The Brewery' is currently under construction by Ravelin Housing Limited. The development should be completed and ready for occupation by March 2023.

Following practical completion, it is proposed that 'Hambrook Street Ltd' will purchase and acquire the freehold of the Site from RHL. It is anticipated that marketing for occupiers would commence from December 2022 so that residents could begin to commence occupancy as soon as practical completion is achieved. It could be that some residents may be in occupancy at the point of completion but is forecast to be fully let within 3 months of practical completion.

11. Company Structure

The Company will have one Shareholder, Portsmouth City Council.

The company will be financed through a Mortgage loan from Portsmouth City Council.

The Company will have three Directors

Thomas Giles Southall

Wayne Paul Layton

To be confirmed

The skills required by the Directors should ideally include financial directorship, investment management experience and residential or facilities management experience.

12. Delivery Model

The services of the Company include property management, facilities management, asset management, valuation, insurance, service charge management, legal advice and procurement will most likely be provided by third parties under contract and service level agreement. The option to directly manage will be considered as part of the assessment into the most cost-efficient way to operate the Site. The costs for the services engaged will be met by the Company in accordance with the agreed contractual terms. The costs for the services will be met from the income received from Tenants occupying the residential properties.

13. Taxation

Corporation Tax

'Hambrook Street Ltd' will pay Corporation Tax on any profits it makes. All operating and debt costs will be deductible for Corporation Tax Purposes.

Repayment of Debt finance is not deductible for tax purposes.

Stamp Duty

When the property is acquired from RHL no Stamp Duty will be payable by RHL or the Company as the transfer of the freehold is between two associated companies. This will be reassessed prior to any transaction in case of any changes to position or legislation.

Note: the companies (RHL and 'Hambrook Street Ltd) are not in the same group but are associated as they have the same Shareholder.

VAT

When the property is acquired from Ravelin Housing Ltd this will be the first transfer of a residential property and therefore will be treated as Zero Rated for Taxation purposes.

The only income that the Company will receive is that of rental income from its tenants, this means that it is unable to recover any input tax on its operating expenses.

The Company will not need to register for VAT as its taxable turnover is below the £85,000 current annual threshold. This is on the assumption the company turnover is achieved from VAT exempt rental income.

14. Risks

- **Funding Costs** - The UK is experiencing extremely high inflation costs currently and the Bank of England has indicated that they intend to use Interest rates to tackle inflation which means that potentially rates could increase to 3% to 4% in the short term. The Company has already agreed that any lending will be on fixed rate basis and will conclude the financing documents as soon as possible to ensure the lowest rates possible are secured.
- **Funding Availability** - Changes to the PWLB and Treasury Management Rules could mean that the Council's ability to invest in the Company could be hindered if more draconian measures are put upon them. It is unlikely however that these new measures would come in prior to January 2023 when the loan is taken.
- **Rental Income** - The Company relies solely on rental income to raise revenue, changes in market forces and the introduction of a Government imposed rent cap could affect the ability of the Company to maintain this revenue. The business plan assumes a modest growth of 2% in rental value and as Hambrook will not be a registered social proprietor it is in effect protected from the Government policy as a private company.
- **Capital Growth** - At the moment, the UK has seen a significant increase in the value of both rental yields and sales growth. However, the UK house market is cyclical in nature and the market is just starting to see the value of house growth turn. In March 2022 house growth was 3%, in April prices reduced by 0.3%.
- **Increased Costs** - Inflation is likely to top approximately 7% - 10% in autumn 2022 and this remains a significant risk to the Company business plan. The Company will seek to mitigate this through procurement.
- **Capacity** - Hambrook Street Limited is unlikely to employ any staff directly and more likely to commission staff from the Council to manage the third-party contractors on the Company's behalf. However, this is a relatively new venture and the Company will need to be satisfied that the Council have sufficient skill and expertise to provide services to it and assess the most cost effective way of operating.

15. Governance

Governance of the Company will be detailed in the Articles of Association, of the Company. However, as a company wholly owned by the City Council there will be additional reporting requirements and restrictions placed on the Company Acts such as:

- A requirement to report quarterly on the performance of the Company to the Shareholder
- Restrictions on the appointment of Directors, require Shareholder approval, refer to Section 6 for further details on Directors.
- Restrictions on the ability to borrow any money other than the City Council.

16. Financial Projections

The financial projections that relate to this Business Plan can be found in Appendix One of this report

Appendices

Appendix One - Financial Projection and Market Context in relation to the Business Plan