

# BUILD TO RENT

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## Our Sector Expertise



## Build to rent: funding Britain's rental revolution

Housing work is a key practice area at Addleshaw Goddard and our dedicated cross-disciplinary housing group acts for a large roster of clients in the sector ranging from registered providers and their funders to high-end London developers, PRS and other developers, volume house builders, funds and funders and local authorities.

What differentiates us from our competitors is our innovative and commercial approach to the work and the relationships we build with our clients. On each transaction the housing team seeks to better understand the client's business, commercial ambitions and financial goals in order to provide our clients with the knowledge and experience they need to make commercial decisions with confidence. In doing this the team can offer:

- ▶ highly regarded corporate property specialists, able to advise on routine, complex and innovative corporate structures including joint ventures and forward funding deals
- ▶ a market-leading housing finance team that advises on a significant proportion of the affordable housing finance deals that are completed in the UK each year
- ▶ a market-leading construction practice, with considerable expertise in housing and PRS and a reputation for dynamic, commercially-focused delivery
- ▶ a breadth of experience and expertise from one of the biggest divisions in our firm, real estate - from straightforward site acquisitions to innovative tax-efficient corporate structures, from complex development agreements to disposals, our real estate lawyers will be able to advise you
- ▶ specialist real estate tax lawyers to ensure deals are structured as tax efficiently as possible
- ▶ planning lawyers with extensive experience in the housing sector and the particular issues that apply to affordable products including CIL and 106 advice.

We also place a strong emphasis on service delivery: this means communicating effectively with clients, providing fast response times and a cost-effective service. From the routine to the novel and innovative, we believe in providing our clients with an excellent service with a focus on solutions, not problems. If we are not yet working together, or you want to know more about any aspect of our approach, we would be delighted to hear from you.

# Issues to consider

Some examples of the issues on which our cross-disciplinary team can advise:

ISSUE	CONSIDERATIONS
<b>FUNDING</b>	<p>The residential market has in the last two or three years moved on greatly in terms of funding options. In addition to bank development finance, current sources include:</p> <ul style="list-style-type: none"> <li>▶ government funding</li> <li>▶ institutional forward funding</li> <li>▶ income strip funding</li> <li>▶ long term investment debt</li> <li>▶ private equity.</li> </ul>
<b>TAX AND LEAKAGE</b>	<p>VAT is a particular area of importance on residential schemes, with issues such as zero rating, golden brick transactions and minimisation of VAT leakage. The new rules on SDLT and residential accommodation can also impact this market, depending upon the nature of the transaction as a whole, and whether the various exemptions can be used.</p>
<b>MANAGEMENT GOOD PRACTICE AND TENANT PROTECTION</b>	<p>The PRS market is increasingly the subject of regulatory interest on the basis of codes of conduct as opposed to formal statutory regulation, such as the Council of Mortgage Lenders good practice guidance published in April 2015.</p> <p>Management of tenants in a letting scenario is something that is increasingly viewed by funders of all varieties as being of vital importance, in particular, the provisions of management arrangements with third parties.</p>
<b>CONSTRUCTION</b>	<p>The procurement of construction and design partners is vital for the delivery of a successful scheme. Most of the risk in a development is in its early stages of construction and design and construction risk must be passed on to the appropriate persons involved in this process and not retained within the development organisation. This often requires quite carefully tailored construction contracts which are acceptable to institutional funders and pass down the risk satisfactorily.</p>
<b>PUBLIC SECTOR INVESTMENT</b>	<p>The public sector is intensely interested in this area, particularly where it impacts upon the local amenities directly. As such they may be inclined to engage to a greater degree than they might on other developments - this process needs to be managed, during the planning application process and post construction.</p>
<b>PLANNING</b>	<p>PRS presents novel issues to be addressed with local planning authorities, who may not be fully attuned to its specific funding requirements and the consequential effect this has on assessing the viability of such schemes. It is important the funding structure for PRS schemes is understood by the local authority, being the rationale for a departure from the 'traditional' freehold sale approach taken to assessing viability, to form the basis for requested planning obligations.</p> <p>It is essential the longer term benefits of PRS schemes are understood by local authorities, being the provision of purpose built rented accommodation as a solution to tackling a shortage of housing, providing a rationale for removing the need to provide an affordable housing element within schemes. We have experience of dealing with local planning authorities on PRS schemes, and in particular brokering discussions with planning officers on these issues in an effective manner.</p>

## Expertise

Our experience in this sector includes advising:

- ▶ **Bank of Ireland** on the refinancing of a PPP between the London Borough of Ealing, Safe Haven London and the Mears Group including Plexus for the provision of affordable housing for homeless people
- ▶ **Canada Life** on a development facility to the Dolphin Square Charitable Foundation to develop affordable, intermediate and social unites in Pimlico
- ▶ **Croydon Council Urban Regeneration Vehicle (CCURV)** on a joint venture between the Council and John Laing, on the regeneration of a number of strategic sites owned by the Council. A particularly complex and ongoing transaction is that for the Taberner House site, the Council's former headquarters building. The proposed development is a 30 storey tower to be developed for private rental purposes and three lower affordable and market sale buildings. CCURV has created a tax-efficient LABV structure and is negotiating a forward funding and development agreement with a well-known PRS developer and a registered provider for the affordable and market sale elements of the scheme
- ▶ Advised **Dandara Group** on the creation of [the UK's largest single 'build to rent' development portfolio in the Private Rental Sector \(PRS\) to date](#). The deal will see the development of over 2,000 high quality rented apartments. The transaction is the latest sign that PRS can bring in substantial additional housing and become recognised as an institutional asset class. The portfolio, which sees support from the Homes & Communities Agency (**HCA**) and HSBC Bank PLC, will deliver 995 apartments in Manchester, 744 in Leeds and 323 in Birmingham to create a PRS portfolio with an estimated GDV in excess of £400million
- ▶ **ISIS Waterside Regeneration** on schemes including Brentford Locks, further phases of which have been earmarked for PRS under the build to rent scheme
- ▶ **HUB Group**, the mid-market specialist developer set up in 2012 by the founders of Squarestone, on three of its key London schemes:
  - ▶ **The Rehearsal Rooms (previously known as Victoria Square)**, a 152 home PRS scheme in North Acton, \$45million forward funding by M&G Real Estate and which, once completed, will sit within M&G's UK Residential Fund
  - ▶ **Hoola development at the Royal Docks**, where we advised on:
    - ▶ the acquisition of the development site, negotiating and agreeing the Section 106 agreement and on the forward sale of all 360 apartments within the scheme
    - ▶ the development finance facility from alternative lender Venn Partners
  - ▶ **Old Vinyl Factory development in Hayes**, one of west London's most ambitious regeneration schemes:
    - ▶ on its purchase of two sites at the Old Vinyl Factory - The Boiler House and The Material Store in 2014
    - ▶ on Fizzy Living's offer to forward fund HUB's Material Store development. It is set to be one of London's biggest rental housing schemes - The 189-home scheme has been designed by HUB for the private rental market in partnership with Bridges Ventures. It has a GDV of £65m, and is HUB's second bespoke rental scheme. The Material Store is located within the Old Vinyl Factory, a 17-acre regeneration project in Hayes set across EMI's former estate. Once finished, it will create a new community with more than 630 homes and 750,000sqft. of commercial and leisure space – including offices, a museum, restaurants, shops and bars
- ▶ **Lloyds Banking Group** on its £86.5million loan to London Square Group for residential redevelopment of The Royal Star & Garter Home in Richmond
- ▶ **MODA Living**, a UK market leader for high quality professional PRS, on its construction contracts for its private rented scheme in the heart of The Co-op & Hermes' 20 acre NOMA masterplan in central Manchester. The scheme involves constructing a 35 storey tower to be known as Angel Gardens and will deliver circa 460 apartments with 30,000sqft of dedicated resident amenity space
- ▶ **Mount Anvil** on a number of its schemes, most recently the acquisition of Keybridge House in Vauxhall for £92.5million, in a JV with A2Dominion. Formerly the site of the world's largest digital international telephone exchange, the site was acquired from BT Group and has planning consent for over 400 new homes and 3,500sqm of new commercial and retail space. Once built it will include the UK's tallest residential brick tower, at 129m high
- ▶ **Notting Hill Housing Association** on the acquisition and development of a number of sites for a mixture of private and affordable housing uses. We have been involved in these sites from their acquisition, through planning and into development giving advice at every stage of the process on issues ranging across the whole spectrum of property, planning and development
- ▶ **a pension fund** on the funding of the contractual JV between Rent Plus and Registered providers (including Tamar Housing Society Limited) in respect of a national project to build/refurb and let residential accommodation to be let on affordable/intermediate rents
- ▶ **a pension fund** on the funding of the JV between the London Borough of Bromley, More home LLP and the Mears Group to acquire and refurbish units for use as homeless accommodation
- ▶ **Standard Life** on the funding the acquisition, development and operation of extra care facilities between the Pennaf Housing Group and Ty Glas Housing Society.

## Build to rent: funding Britain's rental revolution

As part of our commitment to gaining insight from the market and keeping close to policy issues, in 2014 we published 'Making Renting Viable,' in association with the **British Property Federation** – a report on challenges, opportunities and policy recommendations for the PRS sector. [Click here](#) to download the report.

Our second report **Building Britain's Rental Revolution** - outlines how Build to Rent could bring in substantial additional finance for housing investors who have traditionally developed, offices, shopping centres and warehouses. It highlights that the growing demand for housing presents a prime opportunity to create steady, long-term returns that can be used to fund the liabilities of pension or insurance companies. Download the report [here](#).



## Who to contact

For more information, please check out our sector website: [www.addleshawgoddard.com/en/sectors/real-estate/](http://www.addleshawgoddard.com/en/sectors/real-estate/) and follow us on Twitter [@RealEstate\\_AG](https://twitter.com/RealEstate_AG).

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