

HOW TO WEATHER THE STORM - RESIDENTIAL SURVIVAL STRATEGIES IN A CHANGING MARKET

“It has been widely discussed that the key for house builders and residential developers to weathering the current financial storm is to act quickly and decisively to ensure they are in good shape to benefit from the eventual return to market stability.”

So what needs to be on the ‘health check’ list for the residential sector in this period of transition?

- **Having a controlled operating overhead which is transparent.**

Efficiencies are maximised and the balance between in house and external cost base is optimised. Organisational design has to be lean and efficient but not decimated to prevent scalability in the future. Some M&A activity in recent years has led to sub optimal corporate structures that are not fully integrated/refined.

- **Seriously reviewing supply chain initiatives and innovative sourcing.**

This is not the same as unilateral cost cutting imposed on suppliers but adopts a more sophisticated approach to understanding, even in a contracting spend market, where you can maximise buying leverage. It can also pay to apply a real strategy to overseas materials sourcing relative to the current volatile international currency exchange rate patterns. The Euro zone is not a place to be importing from if the same product exists in the US for instance.

- **Review product for the current market - not one that existed 2-3 years ago!**

The so called ‘new build premium’ is no longer tenable unless there is something special about the offering relative to existing stock. The only way of facing the market is understanding the dynamics of change, what is becoming clear is that pitching the product at the new build buy to let sector may now be a flawed business plan.

- **Understand the potential of maximising the short to medium term uplift in private rental demand by ‘build to let’.**

The real trick for the future is to innovate a business case for deliberate asset retained delivery that can tap into this market which is being driven by the uncertainty around entering owner occupation. The government has a role to play here in incentivising activity linked to the planning system as well as possible tax efficient vehicles. If outright house ownership alone is not going to achieve 3 million new homes by 2020, how can a private rental or extended shared equity market support it?

- **Pre-empt the due diligence required now by most funders.**

To get past credit committees prior to seeking the funding - don't waste time on 'dead duck' deals. The key now, more than ever before, is location, differentiation and robust appraisal and business plan assumptions.

- **Reviewing and mitigating potential Section 106 obligations.**

Maximising negotiations around tariffs imposed on affordable housing and other community benefits. The private sector is the enabler for the government's new homes agenda - without viability, there will be much reduced delivery so a serious review of planning liabilities is not 'off limits'

- **Maximising the benefits of partnership with Registered Social Landlords.**

Some innovative models are being implemented that share risk and reward between a newly dominant RSL sector and the pressurised house builder sector. This is not the same as a 'fire sale' of unsold stock to RSL's. Any informal 'Housing Market Package' type initiative as seen in the early 1990's will increasingly be taken up by RSL's through access to land and development opportunity (shared or otherwise), not cash hungry distressed stock disposals.

Contact

Mark Farmer

Partner, Head of Residential Private and Commercial Development

e property@echarris.com

w echarris.com/residential

“The current landscape of UK residential development is likely to change significantly in the next 12 months. The more forward thinking organisations are actively seeking to pre-empt the opportunities of tomorrow’s market by planning for it now.”