

---

---

## ARCON HOUSING ASSOCIATION

---

---

### ASSET MANAGEMENT STRATEGY

#### **Introduction**

Arcon Housing Association recognizes that successful asset management is the key to the Association's long term viability and the meeting of its strategic aims and objectives. In devising its asset management strategy the Association recognizes the need to not only look at the physical structure of the properties it manages but also to take account of the economics and demographics of the areas in which it operates. The asset management strategy has been drawn up in order to ensure that Arcon's properties continue to meet the needs and standards required by its tenants in the most efficient way, both now and in the future.

#### **Property portfolio**

The asset management strategy covers all properties owned and managed by the Association but it is primarily concerned with the Association's Social Housing properties to rent. These properties comprise over 90% of the Association's property portfolio and of these 30% are refurbished terraced houses. The maintenance cost for these properties, both planned and response, are normally greater than the repair costs for the Association's new build properties. The majority of the Association's Social Housing properties were built with the aid of Housing Association Grant the 1970's and 1980's and consequently the Association is in the middle of a programme of major repair works and/or further refurbishment. As the Association currently does not receive any grant monies from government for major repairs it is essential for the Association's long term viability that option appraisals are carried out as to whether properties are retained, sold, transferred or in extreme circumstances boarded up or demolished. In carrying out these option appraisals the Association will take account of demand, sustainability of tenancies, local authority plans, tenant aspirations and financial appraisals as well as the long term viability of the Association.

#### **Stock Condition Survey**

The basis of the Association's asset management strategy is the stock condition survey which currently holds data on over 80% of the Association's properties. The stock condition surveys give details amongst other things of the property's original construction, condition and expected life of key building components, SAP ratings,

and whether it meets the Decent Homes standard. It forms the basis on which planned maintenance is programmed and allows the Association to forecast and manage its repairing liabilities.

The stock condition survey database is continuously reviewed and updated both by work carried out by the Association's appointed consultants but also by the Association's maintenance department.

## **Planned Maintenance**

The Association's planned maintenance programme consists of cyclical maintenance and major repairs/re-improvements. The cyclical maintenance programme covers all the Association's properties on a four yearly cycle. The portfolio is split equally over the cycle and also into suitable geographical groupings. Tenants are surveyed prior to the programme being carried out and properties are fully inspected. The programme covers external joinery, rainwater goods, roof repairs etc as well as common parts.

The other part of planned maintenance is the major repair/re-improvement work. This is carried out on all the Association's new build properties and work typically includes the upgrading of kitchens and central heating systems, the replacement of windows with upvc double glazed units, improvements to common parts and insulation systems as well as roof repairs etc.

For new build properties the Association anticipates properties will require major repair and re-improvement work every 25 years and, as the majority of the Association's properties were built in the period from 1975 to 1985, the first cycle of major repair/re-improvement work is due to be carried out between 2000 and 2010. The properties to be included in the programme are specified for at least 5 years in advance and this information is made available to tenants and leaseholders.

Residents are widely consulted prior to the work being carried out and the Association is conscious that because a large part of the work involves working in occupied properties, the attitude and behaviour of the contractors is of prime importance. After the work has been completed, all residents are surveyed as to their satisfaction with the standard of the work as well as the consultation process and the attitude of the contractors.

In respect of refurbished properties the Association anticipates properties will require major repair and re-improvement work every 15 years but this cycle is less easily predicted than for new build properties as it is dependant on the specific condition of each house eg damp proof course, quality of construction etc. Budgets are set each year to bring these properties up to the decent homes standard and decants are usually arranged where there is any substantial work carried out and the property is not void. In some instances tenants request that repair work is not carried out due to the disruption caused and in these cases the Association will ensure that the necessary waivers are obtained. In addition the Association has a programme of improvement work based on length and conduct of tenancy that includes the installation of double glazed windows and energy efficiency works and in respect of all these works tenants are consulted and surveyed as for new build properties.

## **Valuations, Monitoring and Accounts**

As part of the Association's rent plan, open market valuations at January 1999 were ascribed to all its properties and these are reviewed to reflect re-improvement work carried out. The property database also includes an insurance valuation figure for each property as well as the cost of acquisition or refurbishment.

In order for the Association to manage its property portfolio effectively, the Association needs to produce relevant and accurate accounting information. Consequently, reporting procedures are continuously reviewed and amended so as to report on income and costs relevant to the different areas of the business. Void rent losses, maintenance costs and surpluses generated/deficits incurred will be calculated to allow effective option appraisals to take place.

Economic and useful lives are also ascribed to each property in line with accounting standards and impairment reviews are carried out on an annual basis where the carrying cost of an asset in the balance sheet may be in excess of its value.

The Association will also prepare and maintain a 30 year forecast which will give amongst other things details of anticipated income, variable costs and predicted values.

## **Classification of Social Housing properties**

In respect of Social Housing, the Association's property portfolio can be subdivided between new build properties, which the Association constructed itself, and rehab properties, where the Association refurbished properties typically built between 1890 and 1930. For both divisions, the Association has further classified its properties into three distinct categories, A, B and C on the basis of their location and condition.

Category A properties are houses and flats situated in a good location where there is a healthy letting demand and for which open market values are expected to increase at rates at or above the regional average and where disposal on the open market is not anticipated to be difficult in average market conditions.

Category B properties are houses and flats situated in a reasonable location where there is letting demand and for which open market values are expected to increase at regional average rates and where disposal on the open market is anticipated to be achievable after a reasonable period of time in average market conditions.

Category C properties are houses and flats situated in a poor location where there are or have been demand problems and for which open market values are expected to increase at below regional rates and for which disposal on the open market is anticipated to be difficult in average market conditions.

Reporting systems will be reviewed so as to provide management and accounting information based on these three categories. The empirical evidence obtained will be used to aid option appraisals and review classifications where necessary.

Resource allocation investment decisions cannot be pre-defined in this strategy document and will depend on individual circumstances existing at the time that the decision is made. The A, B and C method of property classification is not designed to prioritise certain schemes for major repairs or re-improvement but will inform decision making and disclose information which might otherwise be hidden.

### **Option appraisals**

In order to efficiently and actively manage its assets the Association regularly carries out option appraisals in respect of individual properties and the different classes and types of property it owns. The options open to the Association in each case will normally consist of continuing to let with or without major repairs or refurbishment, selling, transferring or boarding up or demolition. Option appraisals whilst being undertaken in the overall context of the Association's long term viability, will not evaluate options purely from an economic standpoint but will take account of the need to fulfill social and community obligations. Option appraisals will consider the historic demand for the property involved and the sustainability of tenancies in the area as well as Local Authority and other Housing Association neighbourhood and stock rationalisation plans.

### **Property disposals and transfers**

Option appraisals will show in respect of certain properties that it is in the interest of the viability of the Association to sell properties on the open market and so generate a capital receipt that can be invested into new developments or into major repairs on properties it intends to keep. For properties with high repairing liabilities the sale may also have a positive effect as well on future net revenue streams.

Before deciding on whether to sell a property the Association will carry out a financial appraisal, usually in the form of a discounted cash flow calculation, to compare the net sale proceeds with the present value of funds generated from keeping the property tenanted. Consultation with the Local Authority will also take place and the effect of the sale on the local community considered. The Association when putting a property up for sale may place restrictive covenants on the conveyance so as to ensure that the property is only sold to owner occupiers. The Association will however not normally sell a property that it has built for a special client group or within 10 years of a property being built or refurbished.

Option appraisals may also show that it is in the best interest of the Association and its tenants to transfer the management and ownership of its properties to other Housing Associations. As part of the Association's Race Equality and Diversity strategy the Association has transferred the properties it owns in Moss Side to Arawak Walton Housing Association. The Association is also discussing with other members of the Northern Lights Group opportunities for further stock rationalisation.

In respect of shared ownership properties the Association has the ability to buy back properties should it so wish and it will also consider buying back properties sold under the Right to Buy legislation should the option appraisals show this to be the best course of action.

### **Specialist Housing**

In respect of specialist housing, the Association works together with various care agencies to provide accommodation to people with special needs. Properties are managed on the same basis as Social Housing except that re-improvement work is often driven by regulatory requirements and option appraisals will be carried out with the care agency rather than the residents.

### **Market Rent**

The Association's non registered subsidiary Arcon Developments owns the Group's market rent properties for which the main objective is to generate surpluses to fund its social housing activities. Consequently option appraisals will tend to focus primarily on the financial aspects so as to maximize returns.

The Association built its first scheme in 1998 and the intention is for these properties to be held for at least 10 years before any option appraisals take place. Arcon Developments' business plan shows a phased sale programme either to tenants or when properties become void, so as to effect the disposal of the majority of properties before the first major repair/re-improvement work becomes necessary.

### **Managed Properties**

The Association manages properties for 2 Almshouse charities and one small Housing Association and where relevant adopts the same asset management strategy for these organizations as it does for its own properties. As all of the properties managed are Grade 2 listed buildings the Association instructs a qualified architect to supervise certain repair works to these properties.

### **Miscellaneous**

The Association carries out disabled adaptations on a tenant request basis and these will continue to be carried out and funded out of the Association's reserves or by means of disabled facilities grant.

Historically the Association has based investment decisions for extensions etc on the basis of a 5% per annum return on capital but this methodology is now no longer appropriate if it produces a rental figure above that of the target rent. Consequently after agreement with tenants the Association looks to cover small capital works by the rechargeable repair procedure with payment deferred over a period of years.

## **Related Procedures**

- M009 – Cyclical Maintenance
- M011 – Stock Condition surveys
- M012 – Major repair and Improvement
- M015 – Disabled Adaptations
- M016 – Extensions