futureproof.

5. futureproof: Encouraging Investor Interest

Aligning to investor needs and risk profiles is clearly essential – and understanding these in detail formed a critical part of the proof-of-concept research.,

Investment Returns

The financial sector feedback was that the futureproof model needed to generate returns of between 3-4% annually, on an index linked basis, over the lifecycle of the building (which we have assumed to be more than 60 years for the purpose of modelling).

Returns will be available through 3 sources:

- Occupier asset finance – mortgage debt, equity, rental payments.
- Property value increase.
- Ancillary services – although it has been pointed out that the value of ancillary services when compared with the previous two sources are relatively small.

Fund Liquidity

The ability to move well beyond the basic scope of a build to rent scheme and enable occupiers to bring equity and mortgage finance into the mix has the added benefit of increasing the liquidity of the institutional investment, enabling reinvestment, and indeed reducing the time taken to secure a return and reducing risk further.

Speed of Return/ Driving Demand

The ability to build the properties quickly – at a rate which is greater than a traditional route – will enable earlier returns.

Innovation in Infrastructure Delivery

A sustainable design and technology focused approach that minimises the abnormal costs associated with expansion of the utilities network and mitigates risks associated with reliance on the existing providers. FutureProof is predicated on the belief that sustainable, quality buildings will only truly come about when the owner (investor) has a long term, vested interest in performance, and therefore exerts influence over the design and development process.

Phasing of Investment

The overwhelming feedback in relation to institutional investment was management of (pension) fund aversion to the 'paranoia of downside') risk.

Coupled with a lack of expertise and knowledge of the development / construction sector within pension fund management teams and boards.

The introduction of an institutional investment partner effectively eliminates sales risk. The ability to secure early-stage development finance through this route was deemed almost impossible.

In respect of actual timing of financial commitment from institutional investors, therefore, there are two key elements:

- Firstly, institutional investment can be secured, but only drawn down at the point of completion of a building (Phase 3 onwards). Therefore, whilst it will not be obtainable for Phases 0-2, it can be used as a means of establishing a reduced overall development risk profile because sales risk is eliminated.
- Secondly, this itself has the knock-on effect of reducing the cost of finance for Phases 0-2, and so the introduction and in principle commitment of the institutional investor at Phases 0&1 is critical and is a key aspect of a robust business plan developed in Phase 2.

A funding gap, therefore, remains in relation to Phases 1 and 2, and whilst the cost of finance related to these phases can be lowered given the introduction offsite manufacture. The gap still needs to be filled.

In practice we anticipate funding Phases 1 and 2 would be through a combination of sources, rather than a single source, including high net worth individuals, landowners, local authorities, and traditional development finance.

OUTCOME

The need for more than one investor may be necessary and the idea of a group of pension funds began to be investigated, with different risk profiles to address different stages of the development process.

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