

Housing associations play a leading role in urban renewal programs. This is not just because they own properties in districts in need of urban renewal, but also because the current market situation actually offers opportunities to make investments that have future potential. A solid financial analysis of the projects identifies risks and clarifies the preconditions for financial feasibility. This makes the analysis a key ingredient for entering into cooperation with potential partners such as municipalities, project developers and real estate investors.

Housing Associations: the acce

Politicians aim to regenerate existing districts of cities, resulting in the announcement of a major urban renewal program. The housing associations often occupy a significant position in these districts, making them an important player in the process of urban renewal and restructuring. But in many cases these are area developments with a long development horizon on a scale that necessitates cooperation with other market parties to carry out the projects successfully.

As a way of limiting the risks, inner-city developments are typically embedded in separate companies in which housing associations and sometimes other project partners own a stake.

Eberhard van der Laan, the Minister of Housing, Communities and Integration, recently sent the Lower House of Parliament a proposal for new legislation that he wants to introduce so as to modernize the housing corporation system. Among other things the proposal will affect the way housing associations are able to allocate projects to subsidiaries.

Subsidiaries

With a view to mitigating risks, Mr van der Laan believes it is prudent to accommodate new (commercial) construction in subsidiaries. But he has proposed new rules for the financing of subsidiaries. They include a stipulation that housing associations





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Accelerators of urban renewal

may provide equity capital to subsidiaries up to a maximum of 33% of balance sheet total. The housing associations will not be allowed to provide their subsidiaries with loans, gifts or guarantees.

If the Lower House of Parliament supports the minister's proposals, it will be necessary to set up many (commercial) project development activities in cooperation with market parties. Consequently, a large proportion of the financing will have to be raised externally. In a small number of cases it will require loans guaranteed by the Social Housing Guarantee Fund (WSW). This makes a thorough financial validation essential in

certainties rooted in the project and the capabilities of the project partners. The constructions differ in their certainty, duration (like unchangeable interest rate periods) and thus financing costs. All too often housing associations are completely familiar with the optimization possibilities within real estate projects, but not with the profit achievable by optimizing the financing structure. Financing has to be given sufficient attention, especially in the present market conditions.

Accelerator

With many commercial real estate parties now sidelined, the market and government are looking to housing associations to

order to take stock of the financing requirement and then raise the necessary capital externally.

Thinking in cash flow terms

Zanders has the computer models and knowledge necessary to perform these financial analyses quickly and present them transparently. The analyses are always based on thinking in terms of cash flow. It makes no difference whether it's about determining the residual value of land, a multi-year exploitation program, the preparation of an investment plan or the computing of the realization of the value of an asset: when you work with cash flows, you find out the financing expenses that a project can bear, where the risks are located and how they can be spread among the project partners.

A 'static' calculation is unlikely to be sufficient to get external financiers involved in projects. Preparing liquidity forecasts shows all parties concerned who will need to put capital into the project and when and also the time at which the capital will be available again. It is also possible to compute various development scenarios in a simple way. After all, there is rarely a fully crystallized plan. Zanders identifies the impact that the different scenarios for the construction program, phasing and sales will have on the project financing requirement.

Liquidity forecasts produce a transparent picture not only of the effect of optimizing the 'bricks and mortar side', but also the effects of various financing constructions. Different financing constructions are often conceivable by taking stock of the

boost urban renewal projects. With the prospect of amended legislation, however, housing associations are not always able to secure the financing and must seek cooperation with other market parties and external financiers.

Although the investment scope of housing associations is under pressure – due to such factors as sluggish sales, corporation tax and index-linked rents – the associations can fulfill this role now and in the years ahead, provided that they clearly identify the financial risks. This further underscores the importance of a solid financial validation of restructuring projects. Zanders possesses the expertise necessary to optimize the project and the financing construction. Zanders has in-house all the expertise required to advise clients optimally at the interface of financing and real estate development. <



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