Because good homes make everything possible

GROWTH STRATEGY
2016–2021
Executive Summary

While the external context for this strategy is uncertain, with more unpredictability in government policy than for a generation, internally Network is better placed to be competitive in the market than ever before, with a consolidated structure, strong financial capacity, a clear strategic framework, and a new single brand.

Context

> While the external context for this strategy is uncertain, with more unpredictability in government policy than for a generation, internally Network is better placed to be competitive in the market than ever before, with a consolidated structure, strong financial capacity, a clear strategic framework, and a new single brand.

Geography

> With strong demand and major potential development opportunities opening up in our current markets, we will continue to focus mainly on London and Hertfordshire. However, we will actively examine potential for expansion against agreed criteria into areas adjacent to current areas of strength and will be open to possibilities outside of this geography for outright sales and Build to Rent schemes.

> We remain ambitious to place-make in local contexts where the strategic opportunity looks strong and where the risk-reward equation is acceptable.

Product and Offer

> Network Homes will provide homes for all kinds of customers and for all stages of life. We will offer a range of creative housing solutions for rent and sale, including researching and developing new products and financial innovations. Build to Rent will be an increasingly important tenure for us in the coming years.

> We will support the government’s drive for home ownership, yet always remembering our purpose as a housing association. Our profits are for a purpose: to deliver our social objectives and maximise growth of affordable homes.

Design and Construction

> We will continue to create award-winning developments which are right for customers and achieve value for money. Top quality developments and beautiful homes bring reputational gain, support business-winning, motivate staff and help develop the Network Homes brand.

> We will explore a range of methods and technologies to keep build costs down while delivering high quality homes. This includes Building Information Modelling, Construction Management and further examining off-site manufacturing.

Working in Partnership

> Despite potential risks, partnership working is increasingly attractive in complex and unpredictable market conditions. Our approach will be flexible and guided by the nature of the partnership on offer. Deals will be evaluated against a range of clear criteria set out in the strategy.

> We expect growing opportunities to partner with local authorities where investment in stock may become increasingly difficult as budgetary pressures rise further.

> Starter Homes will complicate relationships with developers, but we will work with developer partners to realise the potential of extended relationships across s106 and Starter Homes development.

Financial Capacity and Risk Management

> We have the financial capability to support our ambitious development plans and a clear business plan in place to increase capacity, plus solid options for future financing and/or generating additional income and efficiencies.

> It is in our business interest to be an active player in what will be a growing sector mergers and acquisitions market. Network Homes will be an attractive partner for other associations. However, we will assess opportunities against the clear criteria detailed in this strategy.

> Risk management is critical in an ever more commercial, competitive and uncertain development world. Our approach to risk management is strong and we will continue to scrutinise, monitor and update our ‘live’ risk map quarterly.
Introduction

This Growth Strategy sets out how Network Homes intends to meet its growth ambitions over the next five years.

Our Growth Strategy sits within the context of our new Five Year Strategy 2016-21 and is closely linked to a number of other key corporate strategies, including the Business Plan, Customer Service Strategy and the Asset Management Strategy.

The growth objective within our Five Year Strategy is to ‘maximise growth within our resources’. Our ambition is to develop 1,000 additional homes each year across all tenures. We will also actively consider acquisition and merger to enable us to do more where possible.

This is a deliberately stretching target in a context of increasing financial and operating pressures. But the extent of housing need in the areas where we work demands that we be ambitious, that we ‘sweat our assets’, and that we make every effort to achieve this goal.

We have shown in recent years how ambition, commitment, expertise and passion can lead to outstanding results. In 2014/15 we produced the biggest percentage increase in stock of any housing association in the country. In 2013/14 we were the Chartered Institute of Housing’s Development Team of the Year. Last year we won six major awards for the quality of our new homes, showing that we can grow very substantially without losing our focus on quality and design.

We have become one of the GLA’s most important development partners in London and for 2015-18 we have the second largest grant allocation in London of any housing association. Our ‘trusted status’ for development is shared by only six other housing associations in the country.

We are also leading some of London and Hertfordshire’s biggest and most complex regeneration projects, and are now partnering some of the most prestigious private developers in England on substantial and multiple sites.

We have a lot to be proud of. But the pressure of housing needs across all tenures is unrelenting and continuing to deliver at the volumes, quality and pace that we have in recent years will be even tougher in future, as this strategy makes clear.

It will require innovative thinking around our products, our contractual arrangements and construction methods, development finance, and how we market ourselves to partners, potential partners and customers.

Bringing Network together as one organisation with one Board and with all assets in one place will help us achieve our goals. It will support our financial capacity and efficiency; we can make decisions more quickly; our new brand will support business winning and improved stakeholder relations and eliminate existing branding confusion in our markets; and we will work more consistently and effectively with a single culture and clearer strategic direction.

We will look to implement this strategy with all the confidence, skill and passion that has driven our success to date.
The strategy has been developed in the context of a rapidly changing external policy environment.

Housing associations are facing considerably increased financial and operating pressures, linked partly to changing government policy and, to a lesser extent, the general economic climate.

The government focus on housing associations has been intense. The range of policies which will or may have impacts on our financial capacity and ability to maximise growth (positively or negatively) is extensive and includes:

- The 1% reduction in social and affordable rents for four years to 2020
- Further welfare reforms, due to save £12 billion a year by 2021
- The extension of the Right to Buy to housing associations
- The Starter Homes scheme and potential linked impacts on s.106 policy
- The Office for National Statistics reclassification of housing associations as public bodies
- Continuing change to the regulatory regime
- The Affordable Rents regime
- The redirection of government subsidy towards home ownership models and products
- Relaxation of constraints on private developers bidding for grant
- Cuts in the AHP2 funding programme between 2016-18
- Further cuts to local authority partner budgets to 2020

The scale of the task facing housing associations working in London and the South East to meet housing needs is enormous (see policy). Housing supply continues to lag well behind demand and wages continue to rise more slowly than house prices and market rents.

The continuing rapid growth in house prices and housing demand creates advantages and disadvantages for Network Homes as a business – it helps our revenues from sales but increases the risks of another housing market collapse and future unsold product. The London market, in particular, has been strong for several years and price increases at the rates seen recently are not sustainable. The increase in Stamp Duty on Buy to Let purchases is likely to have some dampening effect on investor demand in the early part of this strategy at least. Our financial plans are stress-tested against the possibility of a market slump, although the latest Office for Budget Responsibility economic forecasts see house prices continuing to rise steadily by 4-5% over the five years to 2021. Rising housing costs have little upside for most of our potential customers, however. It makes it harder for them to afford to buy, even at low cost home ownership levels, and harder to staircase if they do manage to buy. Rising market rents make it more difficult for people to save for a deposit. Excessive housing costs in other parts of the market also prevent a natural churn from social housing at previously seen levels.

More broadly, the UK economic environment looks stable, with reasonable levels of growth, low inflation, and high rates of employment throughout the forecast period. The biggest threats to the economy are a further external shock or too rapid growth in consumer debt, which is now rising again. The Bank of England has consistently put off interest rate rises to date and rates are now expected to rise more slowly to the new norm of 2.5-3% during the next 3-4 years.

Overall, therefore, the wider economic picture looks reasonably supportive for our growth plans.
The housing market in London and Hertfordshire – key facts (Dec 2015)

+10%  
The average house price in London reached £500,000 in autumn 2015 and prices in the capital have gone up by 10% in the last year.

+12%  
The average house price in Hertfordshire in autumn 2015 was over £311,000, with house prices rising nearly 12% in the previous year, far outstripping wage inflation.

15x  
Average house prices are now nearly 15 times the average full-time London salary of £34,000. The London Living Wage was £19,000 in 2015.

£900pm  
The average market rent in East Herts in 2014 was almost £900 a month.

£1,300pm  
The average market rent in London in October 2015 was £1,300 a month and is rising at an annual rate of 11.6%.

Market rents are also increasingly unaffordable, driven higher by inadequate supply of new affordable housing and house prices out of reach for too many households.

+22k  
The majority of new applicants for Housing Benefit are employed and increasingly living in the private rented sector.

630  
In our three main local authorities of Brent, Lambeth and East Herts 22,371 families were on the housing waiting list in 2014/15.

3,400  
Last year in these three areas just 630 new affordable homes were completed, many of them by Network.

Brent had over 3,400 homeless families in temporary accommodation in 2015 – the highest in London – with 50 families applying for temporary housing every week.
However, a number of key internal pressures remain and we will continue to adapt the way we work to ensure we can deliver this strategy effectively.

People
In particular, the employment market for high quality development staff is fierce and we face a consistent battle to recruit and retain the excellent people we need to deliver our programmes and to help us innovate successfully within our product offer and approach to construction. Our future success depends on ensuring our employment package for high calibre staff is attractive. Our new three year people and culture programme will help us attract new people, as will our already strong reputation as a developer.

Brand positioning
For the first time, Network will now be a single organisation and we are creating a single brand. This will allow us to promote ourselves in the market much more effectively and there will be a considerable push to develop the Network Homes brand over the next 12-18 months (see page 29-30).

Market intelligence
To help deliver competitive advantage, Network Homes is also establishing a new strategy & research team. This will provide critical market intelligence and research around all of our key local authority areas, the land market, new products, customer demand, competitors, and the direction of housing and planning policy, including tracking major redevelopment opportunities, such as Old Oak Common.
This will support our ability to be more pro-active and strategic in our development approach in the future, alongside reacting to the key opportunities which are often presented to us. Our success in recent years has encouraged approaches from landowners, developers, agents and consultants, local authorities and others and we must continue to be alive to new opportunities within the strategic framework of this Growth Strategy.

Finance and risk management
Despite the dramatic changes in our operating environment, we are clear that we will do everything possible to continue providing affordable rented housing for people in serious housing need to fulfil our social mission. Increasing land prices and build costs in the economically buoyant London and East of England regions make this even more difficult.
Cross-subsidies from market sale and rent and from sub-market sales will inevitably play a bigger part in supporting our social objectives. We will need to be more innovative in both product development and our financial models. We will have to take additional measured risks and the Board will need to keep our risk appetite under regular review.
Continuing to build our financial strength to support more risk will therefore be very important and we will continue to develop a multi-faceted approach to building our financial resilience (see pages 25-28).

Customer experience
Finally, we have developed much better collaborative working between development, customer services and asset management over the past 18 months. This has already helped improve the quality of our built product, created a smoother and more consistent handover procedure, and supported the success of our aftercare team. We now have a good and improving record of minimising and managing defects and customer satisfaction with our new homes is running at 97% for rented homes and 70% on properties for sale.
As we move into new markets, such as Build to Rent, the quality of our customer offer is becoming ever more important to our ability to deliver new schemes with high calibre private developer partners. We will continue to progress stronger cross-team working to ensure the customer experience for people moving into our new homes for both rent and sale is second to none.

Context // Internal
The structural changes we have made since 2013 have strengthened Network enormously and put us in a better position to deliver strong growth than ever before.

However, a number of key internal pressures remain and we will continue to adapt the way we work to ensure we can deliver this strategy effectively.
Geography

We work in the most economically buoyant and active development markets in the country, and in the areas where levels of housing demand are at their greatest.

Up to now we have maintained a reasonably tight operational geography in London and Hertfordshire and, given the general level of development opportunity and housing need in these areas, our own capacity constraints and increasing competition, there are few incentives to expand our geography in any concerted way.

Major opportunities in existing areas

So we will continue to focus predominantly on the London and Hertfordshire markets. Through the GLA and HCA Affordable Housing Programmes we are committed to delivering 1,300 new homes in London and a further sizeable programme of 450 homes in Hertfordshire during 2013-18.

Substantial new potential opportunities are also arising within our key markets as a result of government and regional policies. Notably, major infrastructure projects such as Crossrail and HS2 are creating large scale opportunities in the heart of our operating area, such as Old Oak Common and Park Royal, where the new development corporation will look to deliver 24,000 homes across 950 hectares of land. Additional opportunities are appearing as the Crossrail line heads west through our operating areas. Transport for London is also seeking partners to develop 75 sites in the capital over the coming years.

The Mayor of London has announced Housing Zones in 20 areas across Greater London with £400m of public funding to help facilitate and speed up regeneration and development. Several of the new zones are in key areas for us, including Wembley, Alperton, Harrow, Hounslow, Southall and Lambeth. We are in early discussions with local authority partners in a number of these areas to ensure we are ready to react to and help implement their plans as they are established.

Considering opportunities to expand

However, as the ‘Where we work’ panel below shows compared to other large developing London and Home Counties housing associations, Network Homes has genuine strength in the market in few local authority areas. Increasing our strength in a number of other areas would make us a more competitive force across a wider span of our geography and spread our development risk.

So we will remain open to new opportunities and actively research the potential for expansion, particularly into areas adjacent to current areas of strength. For example:

> In Hertfordshire our policy will remain to seek opportunities within an approximate 25 mile radius of our base in Hertford, taking in the key local growth areas of Harlow, Stevenage and Bishop’s Stortford

> This will include seeking opportunities along the corridor between our corporate base in Brent and our base in East Hertfordshire, which will help connect operations in our two main regions and support our cultural integration as a single organisation

> Our growing focus on outright sale to cross-subsidise affordable development presents the chance to examine schemes purely for sale outside of our existing areas where we believe these could make a substantial contribution to our overall objectives. However, we will be mindful of the resource implications of pursuing schemes in areas where we lack detailed market knowledge and expertise and will be discerning about what we will consider

> We will actively seek opportunities for large scale regeneration schemes – a field where we have real expertise and can compete effectively – including in areas outside our current geography where we believe there is a valuable strategic opportunity of adequate scale. These opportunities may increase as local authority budgets are cut further

> We will actively explore merger and acquisition opportunities where we consider these represent a strong strategic fit and will deliver valuable additional financial capacity to help fulfil our social objectives (see pages 25-28)

> We will consider stock swaps with and purchases from other housing associations which help us to build strength in key areas or otherwise support our strategic objectives

Within London and Hertfordshire we have decided not to prioritise between local authority areas. Our few ‘business critical’ areas are clear from the panel below. Beyond these, we want the flexibility to react to major strategic opportunities which could transform our position and produce real strength in a new local authority area, just as Stockwell Park has transformed our position in Lambeth.

Scale of opportunity is important in this regard. We remain ambitious to place-make where the strategic opportunity looks good and where we believe the risks are reasonable. Through the Alperton regeneration we have developed the skills and expertise to enable us to pursue further place-making opportunities. While these clearly have attendant risks, the rewards for getting it right are also high, with the uplift in values which comes from creating a market rather than following it. The reputational gains with partners can be high too and contribute to future business winning.

Overall, we will look to do more to pro-actively seek out potential opportunities which represent a good strategic fit, as well as reacting to opportunities which come to us.
Commercial expansion
We will take a more flexible view regarding purely commercial opportunities for outright sale or Build to Rent. Our entry into new commercial tenures offers the potential to move into new areas without the same need to maintain concentration in geography that attaches to our social housing management. This brings the prospect of delivering profits quickly which can then be used within our main operating areas. For Build to Rent we will also consider ‘management only’ contracts which can help establish our brand and presence in an area and may lead to further opportunities.

Where we work – market share and current development activity (Dec 2015)

<table>
<thead>
<tr>
<th>36</th>
<th>54%</th>
<th>87%</th>
</tr>
</thead>
<tbody>
<tr>
<td>We own stock in 36 LAs</td>
<td>Nearly 1/3 of all stock is in Brent; nearly 1/4 in East Herts (54% of all stock is in these 2 LAs)</td>
<td>of stock is in 12 LAs where we hold at least 200 homes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>70%</th>
</tr>
</thead>
<tbody>
<tr>
<td>of our stock is in 4 LAs – Brent, East Herts, Westminster and Lambeth</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>&gt;50</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 12 LAs we have fewer than 50 homes</td>
</tr>
</tbody>
</table>

Our entry into new commercial tenures offers the potential to move into new areas
Network Homes is now a whole market provider – we produce homes across the tenure spectrum. We also provide homes for all kinds of customers and for all stages of life.

Someone born into one of our homes should know that however their life develops with regard to health or income or family, we have a home which could meet their situation. It makes sense to continue with this broad-based approach to development given the scale and range of housing needs within our operating areas.

Government policy
We must also take proper account of fast-moving government policy. Network has always sought to work with the grain of government policy and we will continue to do so.

In the Spending Review 2015, the Government cut grants for affordable rented homes and provided a massive boost for low cost home ownership schemes. For the 2018-21 AHP there will be:
> £4bn to deliver 135,000 new Help to Buy: Shared Ownership homes
> £2.3bn to support building of 60,000 of the 200,000 planned Starter Homes
> £200m to build 10,000 Affordable Rent to Buy homes at 80% of market rent, which must be sold off after five years
> £400m for specialist older people’s and supported social rented housing

Homes for sale provide valuable cross-subsidies which are increasingly important to meeting our social objectives. Network has a strong track record of delivering a range of sales products and a growing expertise in providing homes for outright sale.

Our policy
We will therefore help deliver the Government’s policy whilst always remembering our origins and purpose as a housing association. Our profits from sale are for a clear purpose: to help deliver our social objectives. Our main focus will remain on using whatever financial mechanisms we can to maximise growth of affordable homes for those who cannot afford the open markets for rent or sale.

The dysfunctional housing market in London and the South East is leaving too many people with too few choices about where they live. Social and affordable housing is too scarce for most ordinary working people to now be eligible, and open market house prices and deposit levels are too high for most people not already on the ladder to afford without help from relatives. The average deposit for a first time buyer in London in 2015 was £82,000.

We will therefore aim to provide a range of creative housing solutions for rent and sale, including researching and developing new products and financial innovations to enable us to meet our objective of maximising growth within our resources, despite the increased difficulties and risks inherent in our marketplace.

Our current contracted programme with the GLA and HCA for 2015-18 will produce around one third of homes for affordable rent, one third for low cost home ownership and one third for market rent and sale products.

Beyond this, while government policy remains oriented to home ownership, we will seek to ensure that a minimum 25% of the homes we build are for rent at below market levels and where financially viable we will look to do more.

Build to Rent
The private rented sector and low cost home ownership are growing rapidly as tenure options. About 26% of London’s households now live in private rented homes (up from 17% in 2001) and this is set to increase to around 35% by 2025. However, the private rented sector is also the tenure where satisfaction of residents is lowest, often driven by high rents, poor living conditions, poor management standards and lack of security.

There is an opportunity for housing associations to develop a unique Build to Rent offer, delivering a good quality product at a reasonable rent and with high quality management standards. This will be a key port of London’s market for the foreseeable future.

Network is now involved in two major projects with top flight private developers to create around 1,000-1,500 high quality Build to Rent homes over the next three years. This includes our exclusive, multi-site agreement with Stanhope, one of the UK’s most prestigious developers. Build to Rent will be an increasingly important tenure for us during the course of this strategy.

Sub-market sale
There will now be substantial new opportunities for low cost home ownership development. We have real expertise in development for shared ownership, but we need to expand our offer to meet growing sub-market sale demand, being driven by poor market affordability.
The Government’s policy, which includes removing many eligibility restrictions and offering Help to Buy: Shared Ownership to households on incomes as high as £90,000 in London and £80,000 elsewhere, will create new product possibilities within the market.

We will give full consideration to a range of products from ‘low share’ shared ownership (perhaps offering 10% or 15% shares as the entry point) to more high end shared ownership and shared equity homes with the purchaser generally buying around a 70-80% share initially. We will also actively consider ‘rent to buy’ style products.

The Government’s Starter Homes policy may change the face of affordable housing development. Based on current overall development levels and the Government’s Starter Homes ambitions, we can assume around 15-20% of all building to be for Starter Homes over the next five years, although the detailed policy has yet to be published.

Most reasonable sized sites will now involve a level of provision of Starter Homes, with no requirement for any other ‘affordable’ product where Starter Homes meet planning obligations. Delivery of other affordable products will depend on the policy of individual local authorities and the quality of relationships between housing associations and developer partners.

While we anticipate some s.106 affordable housing still coming through, Starter Homes will undoubtedly make inroads into our previous s.106 arrangements, which have accounted for around 30% of all our development activity. Network Homes cannot afford to stand aside from delivery of Starter Homes and we will actively identify opportunities to participate, to compete for sites and to bid for grant, where this is justifiable within our charitable objectives.

Homes for older people

Whilst our market rent and sub-market sale homes will mostly benefit younger households, we recognise the changing demographics of our country and the need to provide an appropriate level of housing for the rapidly growing number of older people, including the frail elderly. The rise in the number of older people is expected to be particularly acute in our Hertfordshire area.

We now have seven extracare or flexicare schemes and have established considerable expertise in their provision in recent years. Over the next five years we plan to build 500 new homes for older people, including at least one additional extracare scheme. Expert partners will provide the care element of these. We will also appraise our existing sheltered homes and, where necessary, bring forward plans to further upgrade or redevelop the sites.

These plans will be subject to further evaluation following the government’s final decision on whether sheltered and supported housing will be included within the Local Housing Allowance rent cap policy from 2017.

Specialist housing

Network Homes currently has a substantial portfolio of Private Sector Leased temporary accommodation and specialist key worker accommodation for NHS trusts. These markets are very fluid and can be quickly impacted by change in Government and social sector policies. We want to help people in difficult housing circumstances who have no ability to pay market level rents. So we will remain alive to the possibilities these markets present, but our stance will of necessity be reactive and driven by viability and resource priority considerations.

Regeneration

Network Homes has excellent experience and expertise in regeneration and transforming localities. We are leading the large scale regeneration of some key areas in London and Hertfordshire including Stockwell Park, South Kilburn, Rectory Park and The Ridgeway. Our partnership with Hill Developments and Brent Council at Alperton has also been important in building our place-making skills.

Regeneration helps strengthen existing partnerships, provides the potential to enter new areas at a viable scale, and can support rapid growth through acquisition. Regeneration skills will also be key within the major infrastructure projects like Crossrail, in the Housing Zones and on the Transport for London sites.

Crucially, regeneration schemes not only improve the attractiveness of places, they boost local economies and help improve the quality of life for local residents. They play an important role in meeting our social objectives, turning around some of London and the South East’s most run down areas.

We are in a strong position to support local authority partners who decide to re-evaluate their stock investment approach, whether as a result of continuing austerity cuts or for other reasons. We have shown we have the appetite and financial capacity and skills to deliver large scale, complex, multi-use schemes over many years and this should be attractive in our marketplace.

However, we need to be clear about our criteria for entering into projects which are often resource intensive over a period of years and where the risks can be significant. We will consider regeneration projects which:

- Are a good strategic fit with our geography and existing operations
- Are of sufficient scale to merit the necessary resource allocation
- Will help improve the quality of life for locally affected people
- Will help build stronger local relationships and partnerships with valued partners
- Can support new housing supply through densification
- Do not carry an unreasonable burden of financial or reputational risk
- Would enable us to enter a new local authority area at scale or significantly bolster our strength in an area where we have a relatively small number of properties
- Have the potential to boost our reputation and brand by showcasing our skills

This is a field of genuine strength where we expect new opportunities to arise. We will define our offer more clearly, research the market more consistently and market our offer more effectively to win new business.
Design and Construction

We pride ourselves in creating high quality homes which meet our customers’ diverse needs and where they feel proud to live.

The quality of our developments has been recognised through a range of prestigious awards over recent years, including important wins at the Evening Standard New Homes Awards, the Sunday Times British Homes Awards, the Building Excellence Awards and the What House? Awards.

However, with land and build costs continuing to rise it is a constant challenge to produce top quality schemes which deliver excellent and sustainable living environments. Building technology and construction and procurement methods are changing fast and we need to innovate to keep up with the market and, where we can, get ahead of our competitors.

We also need to think carefully about the types of homes we build and the challenges and risks of producing an increasing percentage of homes for market sale and rent.

Our two primary markets of London and the northern Home Counties are very different. In London, the pressure is often to build upwards, to make the most of available land and improve viability. In Hertfordshire the emphasis is on low rise apartments and houses.

Most of the homes we build are also in mixed tenure and tenure-blind developments. We need to continue the improvements we have made in our working practices with internal colleagues to ensure our developments can be effectively managed and maintained over the long-term for all residents, regardless of tenure. We are committed to the communities where we work and our new developments must reflect those sustained commitments.

Creating high quality environments

As a responsible developer with social values, we have a wider duty to create beautiful places where people feel proud to live, so we will continue to create award-winning developments. These have to be right for the intended target customers and they must also offer value for money. But there is considerable value to us in producing landmark, award-winning homes. The reputational gain supports future business winning and helps develop Network Homes’ external profile and brand. Awards also give a useful motivational boost to our staff and support our ability to recruit and retain good people. All of this is important if we are to achieve our growth ambitions in a highly competitive sales market.

Our major development at 243 Ealing Road shows how it is possible to deliver award-winning design quality with strong value for money. Our partnership deal with Hills has produced high quality, substantial savings on build costs, an improved build time and quicker than anticipated sales at strong values. 243 Ealing Road has won several notable awards, including at the 2015 Evening Standard awards and the What House? awards. The key to these achievements is focusing on the design elements that make a genuine difference to customers and to kerb appeal.

We will also continue to create design that is right for our different marketplaces. For example, in London we have an established set of criteria that we use to judge the merit of the increasing number of high rise opportunities presented to us. There are particular sensitivities here with building high end private apartments for outright sale within the same towers as affordable and social rented apartments and we will pay careful attention to ensuring buildings successfully meet the needs and expectations of all customers.

In Hertfordshire, we are learning from previous planning difficulties and ensuring that we engage effectively with local planners and communities to produce schemes that work with the local vernacular and pay due regard to the considerable local sensitivities to new development.

We take development and community sustainability seriously and we will continue to build energy efficient schemes which help keep utility costs down for our customers and tackle fuel poverty. However, our approach will remain pragmatic, balancing the costs of low carbon construction and energy efficiency with our overall objective to maximise development within our resources.

Where we can we will also look to Wi-Fi enable new developments to support Network Homes’ policy of encouraging channel shift and self-service among customers and to support residents to manage their affairs as more public services and welfare benefits administration moves online only.

Procurement innovation and build cost management

We will continue to explore and use a range of methods and technologies to keep build costs down while delivering high quality and staying competitive in the market.

Building Information Modelling/Management (BIM) is a process which delivers a single integrated platform of data across all elements of a development project, using virtual 3D modelling. All partners, consultants and contractors use the
same data to ensure a common understanding of spatial, technical and materials issues throughout the build, with a view to improving efficiency, quality, safety, sustainability and conflict resolution. It also provides real ‘as built’ information for asset managers to work from post-construction, with lifecycle costings built in. Build cost savings of up to 20% are anticipated. The Government expects all publicly funded development projects to meet BIM 2 standards from 2016. We are currently using BIM on the Thrayle House redevelopment in Stockwell and we will closely monitor the results before rolling this out more widely.

We are also piloting Construction Management during the 2015-18 programme, starting with John Barker Court, a 33 home scheme in Brondesbury. Construction Management not only has the potential to deliver build cost savings of around 15%, it should also improve the project management expertise and supply chain knowledge of our team, improve our clienting expertise on traditional schemes and give us additional flexibility during the construction process to vary specifications and quality. Network will lead and control all aspects of the build, working closely with an expert Construction Management consultancy. We will assess the risks and benefits from the pilot and roll out this procurement method more widely if it proves successful.

We will continue to examine the potential for using off-site manufacturing. There are good prospective gains in terms of build time and cost through using off-site technologies, but there are also difficulties. In particular, build volumes need to be substantial to merit the investment in off-site factories. Network Homes could not deliver these volumes alone and we therefore need to take a partnership approach to investigating and investing in these technologies to produce the necessary economies of scale.

We are actively involved in an exploratory project with several other G15 members and our future approach will be guided by the learning from this and the appetite from our fellow housing associations. We have identified the redevelopments of the Olympic Office Centre and Press House in Wembley as potential opportunities for using off-site technologies and have appointed architects for both schemes on the basis of their experience in this field.

More generally, partnership arrangements offer the possibility to reduce the costs and risks of new development, particularly across larger schemes (see pages 22-24).

Working in Partnership

Partnership working offers a range of potential advantages. As the financial risks of our development programme rise, partnership working is increasingly attractive.

It can allow us to share risk on large and complex schemes, gain entry into new localities or ways of working, and offers the opportunity to utilise a partner’s differing expertise and to learn for the future. Partnerships account for around 40% of our overall development work in 2015/16 and we expect this percentage to grow.

We are already moving beyond simply working in traditional ways with local authority and developer partners. We now have experience of genuine Joint Venture working, for example with Hills at 243 Ealing Road, and have formed an important exclusive strategic alliance with one of the country’s most prestigious developers, Stanhope, to deliver Build to Rent homes. We have learnt a lot from these arrangements which will make us an attractive partner to others and support our ability to create successful new partnerships.

Approach

Our approach will be flexible and guided by the nature of the partnership deal on offer. Trust is a crucial element of partnership working and the risks can be substantial if things go wrong.
So we need to be confident that a partnership represents the right way forward. Our decision making will be influenced by the following:

- **Scale** – for true Joint Ventures we would need a minimum size project of around 150-200 homes to make the initial set up investment worthwhile
- **Share** – we might be the dominant or secondary partner, but there is unlikely to be sufficient value for us in a situation where we are less than a 30% partner. This will also partly be guided by scale
- **Portfolio gain** – We will look to ensure partnerships increase our homes in management and deliver long-term housing management deals
- **Due diligence** – we will need to satisfy ourselves that ways of working are compatible, the partner is financially sound, and is reputable and trustworthy
- **Shared vision** – we will need to be clear that we are working to common objectives and targets and have a shared vision of the project
- **Strategic gain** – can we achieve more through a true partnership than we could through other methods of working? Is there a risk to existing partnerships increase our homes in management and deliver long-term housing management deals
- **Resource implications** – we will need to justify the required resource allocation against our overall ambitions and other programme commitments
- **Non-exclusive** – we will actively seek multi-site partnerships and strategic alliances, but will look to maintain the flexibility to work with others on similar projects where appropriate. Exclusive arrangements will need to deliver significant market gains for us to be considered
- **Cost-benefit** – taking all of the above into account

### Local authority partnerships

We are conscious of the very significant resource strains and constraints on our local authority partners being critical by the large cuts in government funding. These are set to continue through to 2020/21. Local authorities are critical partners for us. They need us to support them in fulfilling their statutory obligations, but they also have land which they can release to support our programmes and they deliver the essential planning permissions we need. Many still have large estates in need of regeneration, but now have limited resources and skills to manage the necessary investment. They will also lead the new Housing Zone projects and will be key partners in all of the major strategic infrastructure projects being established. We also need to position ourselves to manage the new planning obligations environment of Starter Homes and s.106.

We anticipate growing opportunities to work more in partnership with the local authorities in our areas. While their land availability is important to us, our skills and financial strength and expertise are valuable to them. We want to build these closer ties for mutual advantage through Joint Ventures or other forms of formal development agreements where we can. We will step up our engagement with local authorities to try to identify opportunities and build closer relationships (see pages 29-30).

### Starter Homes and s.106

Private developers will be in a stronger position in the market following the Government’s policy that Starter Homes for sale at 80% of market price will count as ‘affordable housing’ for planning purposes. Constraints on private developers competing for government grant are also being lifted, meaning we will be in competition for Starter Home funding and, to a lesser extent, for the new Help to Buy: Shared Ownership grants.

The quality of our relationships and partnerships with developers will be vital to our ability to fulfil our ambitions.

Starter Homes will represent around 15-20% of all new development over the coming years, but we expect some s.106 deals still to be available. These will continue to support developer cash flow and many local authorities will want to ensure a level of affordable rented housing is built in their area through one mechanism or another. We have built good relationships across multiple projects with some developers based around s.106. We will look to continue these and extend them, including examining the possibilities of partnership for Starter Homes development.

However, this is an evolving situation and we will finalise our strategy as full details become clear and our discussions with partners progress.

### NHS Trusts and other large employers

We have a solid existing relationship with five NHS Trusts and other large employers

We have a solid existing relationship with five NHS Trusts and other large employers. We have built good relationships across multiple projects with some developers based around s.106 and we will continue to support developer cash flow and expect some s.106 deals still to be available. These will continue to support developer cash flow and many local authorities will want to ensure a level of affordable rented housing is built in their area through one mechanism or another. We have built good relationships across multiple projects with some developers based around s.106. We will look to continue these and extend them, including examining the possibilities of partnership for Starter Homes development.

However, this is an evolving situation and we will finalise our strategy as full details become clear and our discussions with partners progress.

The local authorities and developers we wish to partner with often have considerable choice of housing association partners. Developers are also being placed in a position where some will feel they no longer need to work with housing associations in the same way as in the past. Some competition will become fiercer. The quality of our offer, of our skills and expertise, and of our market knowledge will therefore need to be outstanding to allow us to build stronger and more strategic partnerships in a more complex and difficult operating environment. This increasingly includes our housing management offer, not just what we can do on development. This is examined further in the section on ‘Partner of choice’.
Financial Capacity and Risk Management

Impacts of government policy

Our ambitious growth plans require significant financial capacity to enable them to be achieved. And government policy since the 2015 election has created uncertainties in the financial environment for housing associations.

We must assume that, provided the latest fiscal forecasts are reasonably accurate, the November 2015 Spending Review has delivered a solid indication of the environment we will be operating in for the period of this strategy.

The key elements of this are:

> A much higher volume of overall grant available for shared ownership during 2018-2021, with nearly £3bn for the final two years, 2019-21
> Grant for affordable rented housing cut back for 2016-18 and then reduced to just £600 million for the entire 2018-21 programme, with two thirds of this allocated for older and supported housing for more vulnerable households
> £2.3bn in funding for Starter Homes, much of which may go directly to private developers, but where there may be opportunities for us to compete
> Housing Benefit for affordable rents restricted to Local Housing Allowance rates for all tenancies signed after Apr 2016 (with the restrictions effected from 2018)

> A 1% real terms rent cut across all affordable tenancies for four years, 2016-2020, with no certainty that CPI + 1% will be reinstated after that
> New receipts from Right to Buy sales, which must partly be used to replace homes sold with new properties either for rent or shared ownership
> A marginal increase in rent receipts from ‘Pay to Stay’ (should we choose to implement it)

The precise financial impacts of some of these decisions remain difficult to judge. The final details of the Right to Buy, for example, are not yet known and it now seems likely that it will be rolled out in phases. A big unknown surrounds what will happen to affordable and social rents after 2020, and this has a potentially large impact on our revenues and capacity going forward. It seems at least possible, based on the Spending Review restriction of Housing Benefit to LHA rates, that this ‘inflation-only’ regime might become the new norm post-2020.

Business plan modelling

Our financial modelling and stress-testing shows that, despite the major changes in policy and provided there are no further major financial shocks, our position on operating margin, gearing and interest cover will remain strong and our ability to finance our plans is good. We will continue to make a solid surplus on core activity throughout the period of this strategy and beyond before accounting for sales.

The Government’s economic forecasts assume house prices continuing to rise at around 4-5% a year, but, clearly, with a London market that has been so strong for so long, there must be some risk to this in the capital at least. Market falls are accounted for within our stress-testing scenarios.

Over the course of our Five Year Strategy 2016-21 our aim is to increase investment capacity to nearly £200m (from £125m today) and grow borrowing capacity by around £450m from our current £950m.

We will continue our policy to invest no more than 50% of reported accumulated reserves on a company level at any one time.

Future funding options

The government’s policies and the attendant uncertainties are having some effect on loan pricing. Future rates are likely to be based much more on individual housing association financial strength with less regard for assumed government backing in case of difficulty. Our business plan modelling factors in increases in the cost of capital over coming years.

However, credit availability from both the capital markets and high street banks is strong and the current historically low interest rates are officially forecast to rise only very slowly over the next five years.

In addition to our traditional sources of finance, we have the option to approach the capital markets. We might do this in a range of ways, either with a credit rating or without. More lenders are coming into the housing association market as knowledge and experience of our business model improves, including insurance companies and pension funds. This is creating a more competitive and innovative lending environment, which may benefit us in future. Our strong financial position means we can remain confident about accessing new sources of development finance at reasonable cost as necessary.
With our excellent track record as a high quality developer and strong financial position we also have the option of considering project financing for specific schemes, in particular for schemes exclusively for sale or on Build to Rent.

**Generating additional income and efficiencies**

Our current modelling includes only limited assumptions around further internal cost efficiencies or other income generating measures we might take to improve our financial position if required. We have a range of additional options open to us, including for example:

- More focus on active asset management to drive financial performance of existing stock and rationalise or restructure our portfolio
- Delaying planned investment in existing stock
- Increasing our focus on profit-oriented development
- Reviewing our office portfolio
- Campaigns to increase staircasing or resales receipts
- Investing to save – for example, in our IT systems, customer-facing digital technologies, and ‘lean’ systems thinking
- Refocusing our discretionary community investments or seeking new sources of funding to maintain programmes
- Reducing pay and non-pay costs further
- Creating additional procurement savings

In addition, Right to Buy receipts will support provision of new homes, although the volume and timing of these will remain unpredictable.

**Mergers and acquisitions**

Inorganic growth represents a further major opportunity to increase our financial resilience and grow our overall financial capacity. The National Housing Federation’s ‘mergers code’ for the sector may lead to Network Homes being a target for other large associations, while also creating opportunities for us to take a more active approach to acquisition. Growth through merger and acquisition can make it harder for others to target us, while adding to our financial strength.

The Government is also explicit in its desire to see consolidation in the sector and the 1% rent cut policy is likely to lead to a number of associations seeking strategic partners in some shape or form as time goes on. If the rent regime does not revert to CPI + 1% after 2020, this will have additional adverse impacts on income. Network Homes will remain a relatively strong player and our attraction as a partner could therefore increase further. The greater clarity in our governance and our brand may also add to our attractiveness as a partner.

However, we must be clear about the criteria we will adopt for any merger and acquisition opportunities. To be considered, proposals should:

- Fall within or adjacent to our existing areas of operation, or
- Fall in a range of 25-30 miles from existing operations if of sufficient scale to represent a ‘complete’ operation in itself with Network Homes’ backing, and have good opportunities for more local growth
- Add to financial capacity, ie. not have intractable operational or financial problems that might act as an ongoing drain on our resources
- Build on or create strong influence for Network Homes as a local provider of homes and services
- Be with organisations who are culturally and operationally compatible

**Risk management**

Our firm belief in maximising growth within our resources to deliver more affordable homes inevitably increases risk as our world becomes more commercial and competitive and policy uncertainties continue to grow. Financially, our growth ambitions are attainable, but risk management will be critical. We will be building more homes for the market and more homes for sale to achieve our goals and to enable development for affordable rent.

Our approach to risk management is strong and dynamic. We will continue to monitor, scrutinise and update risks regularly through a series of channels, including our monthly risk workshops and Development Cabinet quarterly risk sessions.

Our approach to risk management is strong and dynamic. We will continue to monitor, scrutinise and update risks regularly through a series of channels, including our monthly risk workshops and Development Cabinet quarterly risk sessions.
Market Positioning

A new, clearer brand

The new Network Homes brand is being introduced at the same time as this strategy.

This represents an ideal opportunity to raise our corporate marketing game and to position ourselves effectively in the market for the coming challenges. Stronger competition will demand that we engage with key stakeholders more consistently.

The creation of a single organisation, adoption of our revised Five Year Strategy, together with this Growth Strategy, will bring a clarity and coherence to our external messaging and positioning which has not been possible up to now.

A full brand development and communication plan is being put in place to guide our corporate marketing and stakeholder engagement activity for the 2016/17 year and beyond. The new brand will be a one-off opportunity to boost our engagement levels and we need to commit the senior staff time required to implement this successfully.

The results of our first independently conducted stakeholder perception survey, completed in November 2015, will also inform our future positioning. This will be repeated at intervals during the course of this strategy to examine our progress and help us to adapt our brand strategy.

Our market offer

The perceptions survey, together with the consultation and research for this strategy, has helped identify many of the strengths we can sell into the marketplace more consistently to support our growth. Key elements of our offer include:

- Development delivery – we have an excellent track record in delivering on time and budget
- Ambition – we want to maximise growth and are willing to sweat our assets to achieve that
- Financial strength – we are now a top-performing housing association financially
- Our values – partners recognise our genuine belief and passion in our social purpose, while understanding that we think commercially
- A good partner – our values and delivery record encourage trust from partners and we are open to new forms of alliance and partnership
- Quality – the awards we win help promote the quality of what we offer
- Range of product – we have the skills and expertise to operate across the whole tenure spectrum
- Open and innovative – we have a ‘can-do’ attitude when faced with complex prospects or problems and are good at finding practicable financial, legal and development solutions
- Regeneration expertise – we have a strong track record including on large scale projects
- Shared ownership expertise – our product is good, we have a long track record and we are skilled at selling
- Housing management – we have an improving story to tell on quality and performance
- Commitment – we have a long-term commitment to the communities where we work

We will work more consistently to promote these strengths, tailoring our approach to different stakeholders.

Market intelligence

We recognise that we have not yet developed the market intelligence capability of some of our competitors. This is becoming more urgent as policy drives changes in our marketplace. We need to find new ways to establish competitive advantage.

Improved market intelligence and research will support our ability to act more strategically, and improve the balance between working pro-actively to create opportunities which clearly meet our strategic objectives and preferences and reacting opportunistically to proposals presented to us. A more strategic approach can be self-reinforcing, helping over time to improve the quality and strategic logic of the opportunities which come our way.

Better market knowledge will also improve our attractiveness as a partner for stakeholders and increase the perception of our quality and professionalism, supporting new business winning. It should also increase the speed with which we can properly judge the value and impact of proposals.

Network Homes’ new corporate strategy & research team will have a level of resource dedicated to supporting growth – building the quality of our market intelligence, supporting analysis of opportunities and helping with the evidence base for bids and tenders. It will also support the building of our reputation through ‘thought leadership’ and research projects.
Conclusion

We are fortunate to work in economically buoyant areas with housing markets which are in high demand.

Together with our own expertise, positive major changes in our internal structures and increasing confidence in our capabilities, this has helped Network Homes deliver exceptional financial and development results. We are now recognised as one of the strongest developers of affordable housing in London and the South East by both our government funders and our developer and local authority partners.

As a housing organisation with social objectives, this brings a considerable responsibility to do everything we can to keep helping people get decent homes at a price they can afford. The London and South East economy and housing market has an increasingly polarising effect, creating housing winners and losers.

This Growth Strategy shows how Network Homes will deliver on its strategic objective to maximise growth within our resources to meet our social objectives in the context of a fast-changing and increasingly different operating environment to the one housing associations have traditionally been used to.

It takes properly into account the new operating and policy uncertainties, the growing competition we will face and increased measured risks we will need to take to meet our ambitions. It also sets out for the first time clear criteria for partnership working and how we will deal with particular opportunities such as large regeneration deals or possible mergers and acquisitions. It shows how we will strengthen our market intelligence, build stronger relationships and create a clear offer to position ourselves effectively in the market with our new single brand.

The strategy provides a clear reference point to guide our development work for the next five years, in line with the broader strategic objectives of our Five Year Strategy.

Above all, despite the many challenges, it shows a financially powerful organisation with the passion, skills, commitment and values to create exceptional new homes which we are proud to develop and which our customers are proud to live in.