



Merantun Development Ltd

Overview & Scrutiny Commission
Financial Monitoring Task Group

4th April 2019



James McGinlay

Managing Director
Merantun Development Ltd



Merantun
Development Ltd

Background

- Merantun Development Ltd (MDL) established: Dec 2016
- Company Limited by shares
- Classified as 'contracting authority' (significant for procurement)
- Purpose:
 - to develop council-owned sites into housing (or commercial development) for private rent and/or sale (where necessary)
 - to help generate income to the council, helping to protect and support local service provision
 - to meet the demand for new local housing



Company set-up

- Merantun registered at companies house
- Nominated Board of Directors:
 - Responsible for day-to-day running
 - SLLP - company secretariat services function
- Officer resource:
 - MDL staff: 1.4 FTE
 - Additional internal & external resource procured
- Service Level Agreements:
 - Agreed for various functions (Finance, IT, Procurement, SLLP etc.)
- Finance - loan agreement to be finalised



Council role

- The Council is the sole shareholder and lends money to the company at a commercial rate
- LBM retain ultimate control of Merantun via the annual business plan and Shareholder Agreement
- LBM will receive a financial return by way of dividend and interest charges
- The shareholder agreement outlines LBM governance role for matters not included in the company's articles of association
- LBM "Shareholder Sub Committee" make decisions on behalf of the Council as 'shareholder' and decides key issues (e.g. annual business plan)

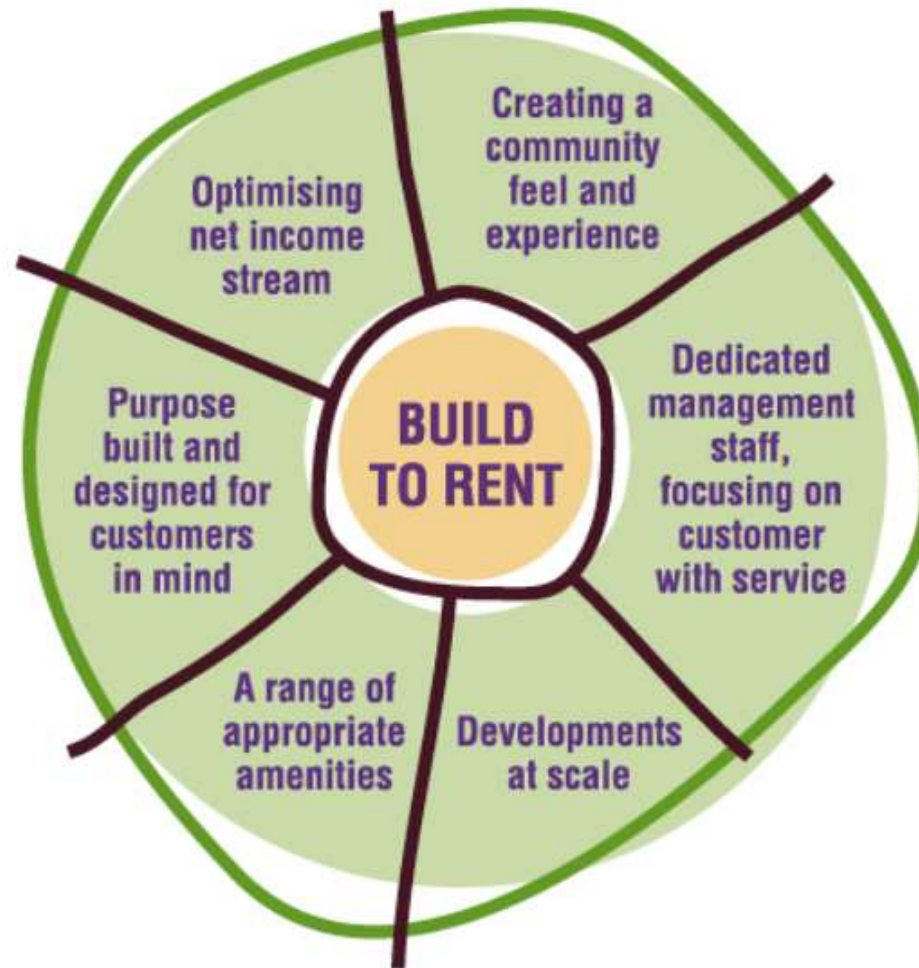


Company objectives

1. To provide a quality product in London's growing private rented residential market
2. To offer a competitive offer for long term private rent
3. To offer a well designed core residential product
4. To offer quality optional extras to tenants
5. To maximise customer satisfaction
6. To maximise the financial return to LBM as shareholder.



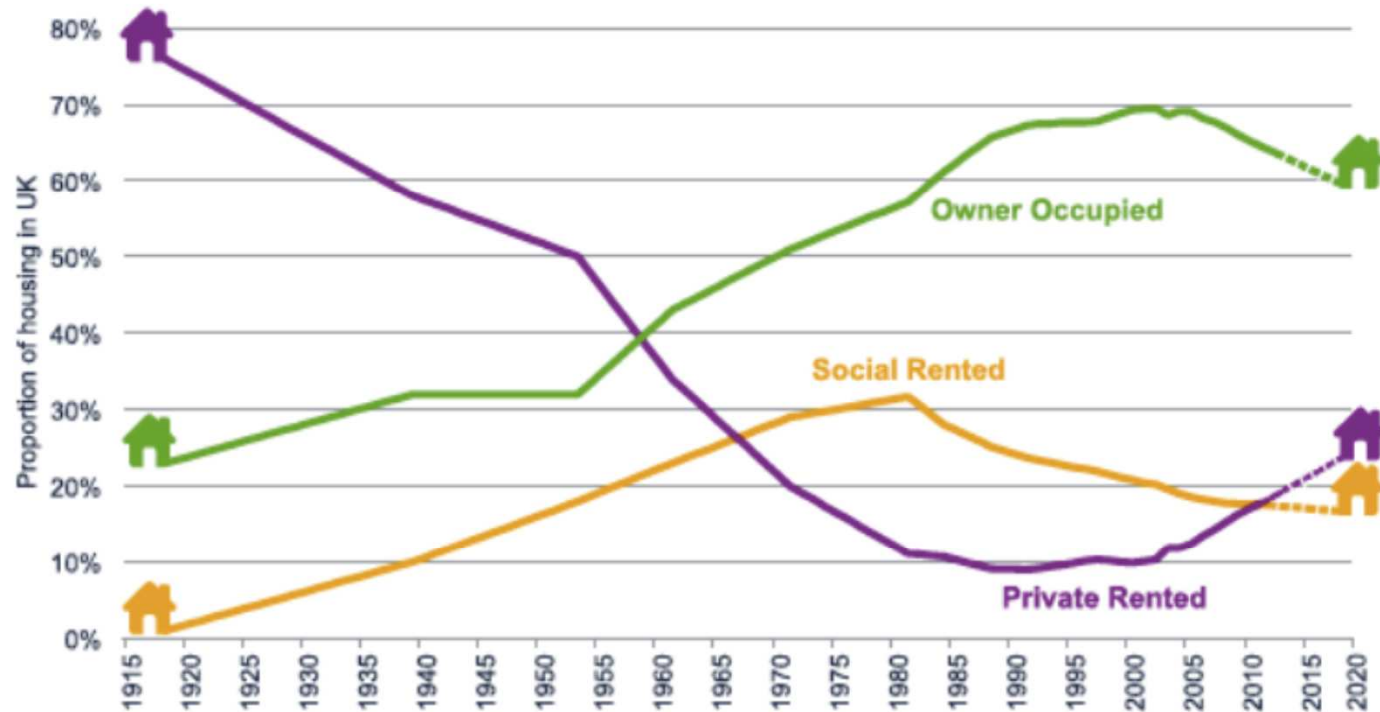
Private rented sector opportunity



Private rented sector & product

The market

Changing Tenures



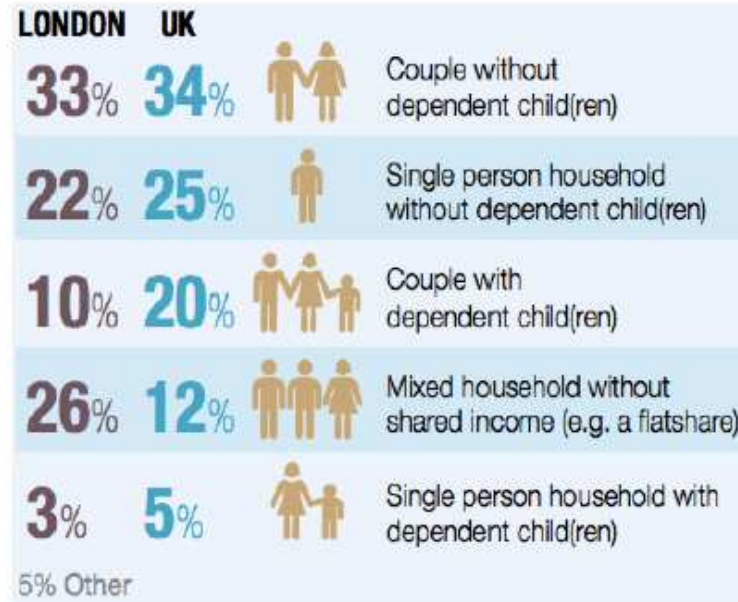
Private rented sector & product

The demand

Forecast tenure (households),
England 2021



Source: Knight Frank Research



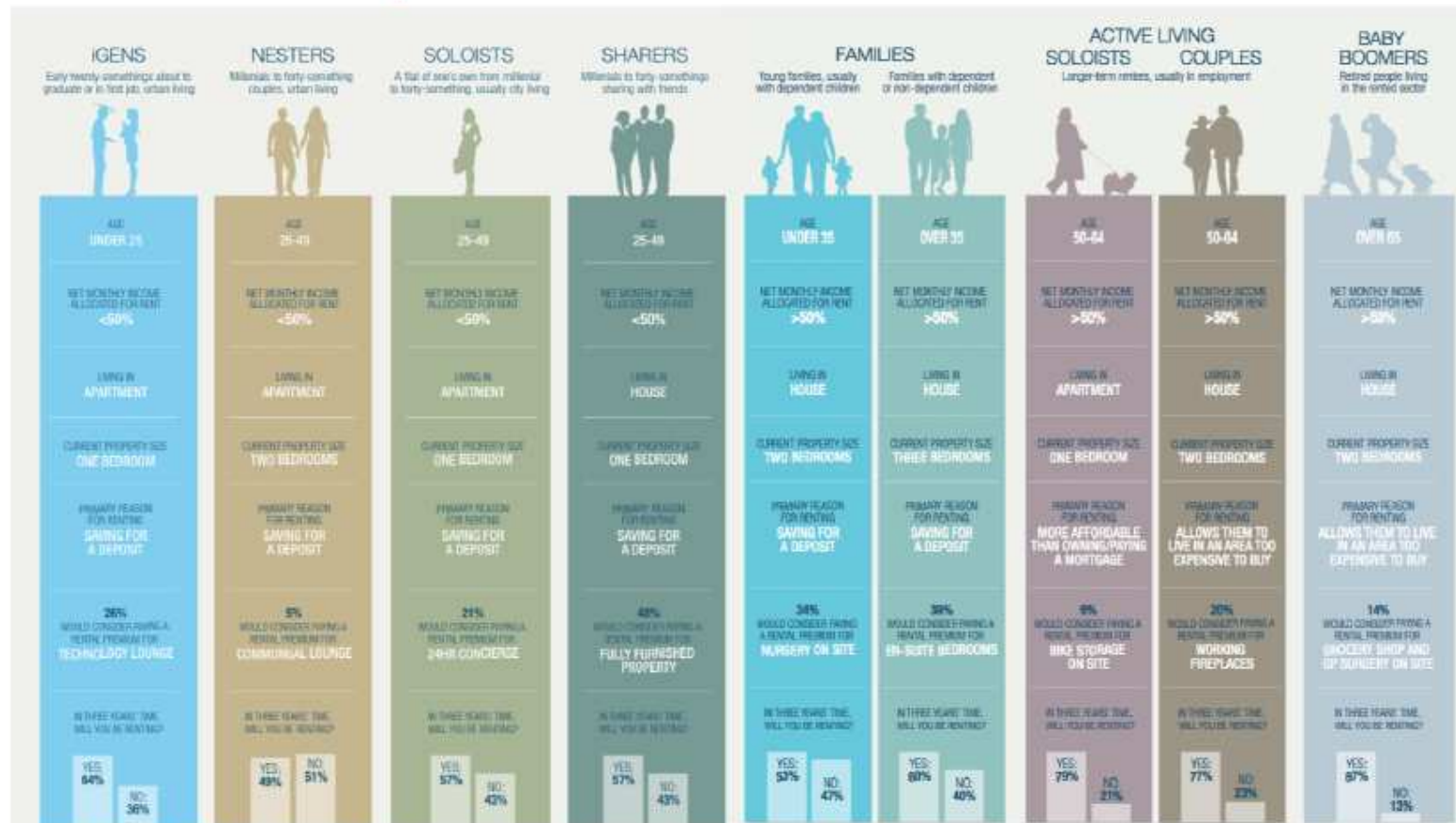
Mayor of London
Sponsored ·

40% of Londoners will be private renters by 2025. Join Talk London and have your say on the biggest issues with renting!



Private rented sector & product

The customer profile



Our core offer

Customer Priorities



- Customer focus to define the product and our position in the marketplace



Our core offer

- 1/2 bed accommodation
- Low maintenance
- Robust build
- Robust kitchen / bathroom fit-out
- Media and wifi enabled



Options

- Furniture packages
 - Full / partial
- Cleaning packages
- Bike rental
- Car club access / Electric vehicles



Layout



Lifestyle





Housing delivery



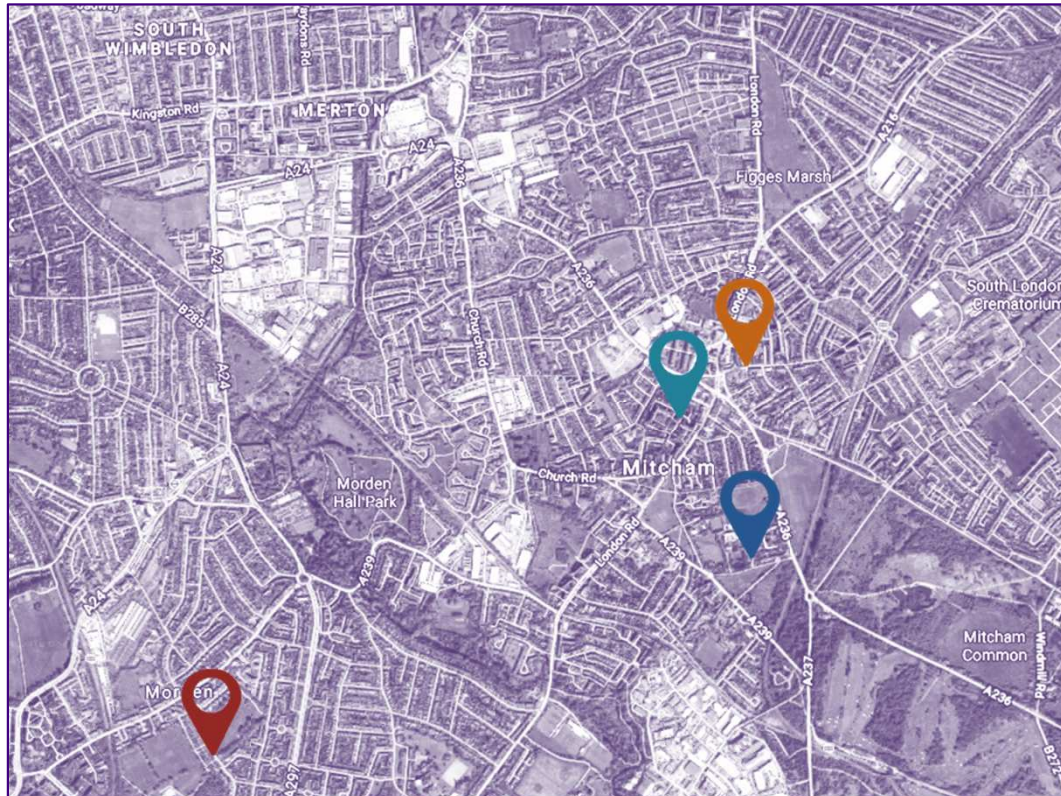
Merantun
Development Ltd





Housing Objectives

- Purpose: to develop council-owned sites into housing (or commercial development) for:
 - i. Private Rent (assumed 2-year shorthold tenancies)
 - ii. Sale (where necessary)
 - iii. Affordable – sell off to RP's in accordance with planning policy
- Aim to deliver fully sustainable communities
- Responding to housing market changes
- First tranche - four sites to deliver 77+ units



Pilot sites



-  Elm Nursery
Mitcham Town
-  Raleigh Gardens
Mitcham Town
-  Canons Place
Mitcham Cricket Green
-  Farm Road
Morden



Canons Place

Mitcham Cricket Green



- Example precedent image



Raleigh Gardens

Mitcham Fair Green



- Example precedent image



Farm Road

Morden - St Helier



- Example precedent image



Elm Nursery

Mitcham, London Road



- Example precedent image



Pilot sites

Estimated capacity*:

Canons Place

Mitcham Cricket Green

16 units

Raleigh Gardens

Mitcham Town

25 units

Elm Nursery

Mitcham Town

28 units

Farm Road

Morden

18 units

*Subject to ongoing review
viability and design detail





Merantun
Development Ltd

Company Operations

Budget
Service Level Agreements
Company Policies
Post-Completion
Staffing

Operational



- Commissioning Company
 - Small core staffing team
 - Commission specialist services
 - Architectural Design
 - Planning
 - Viability
 - Costing
 - Project Management
- Buy in services from LBM via service level agreements
 - Finance / Legal / HR / Procurement / Accommodation



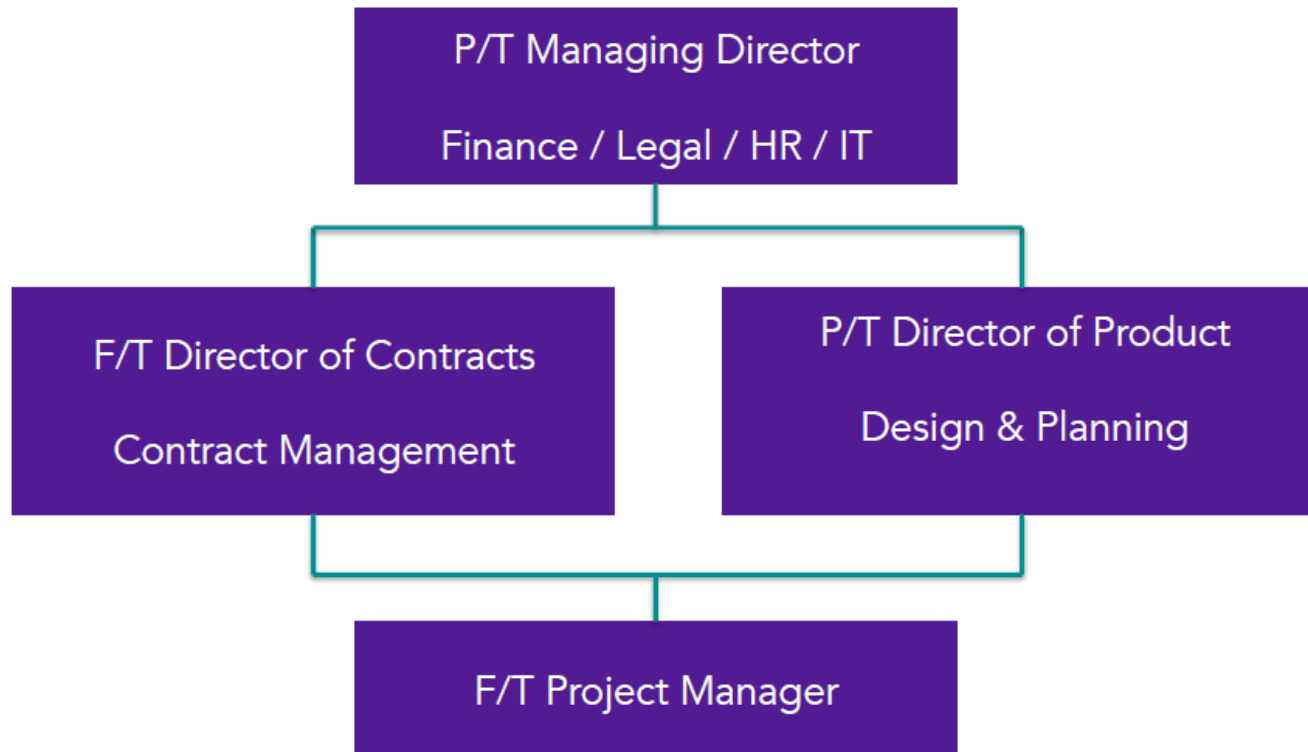
Post Completion



- Management Costs
 - Lettings / Lease agreements, credit checks and other statutory requirements (to be procured)
- Maintenance Costs (planned and reactive)
 - Cyclical maintenance
 - Statutory checks (gas/elec/water etc)
 - Day to day maintenance, cleaning etc
 - Landscaping



Structure



Progress so far...



- April 2017 Council Approval
- August 2017 Company Registration
- November 2017 Cabinet Sub Group established (and quarterly meetings held)

MDL:

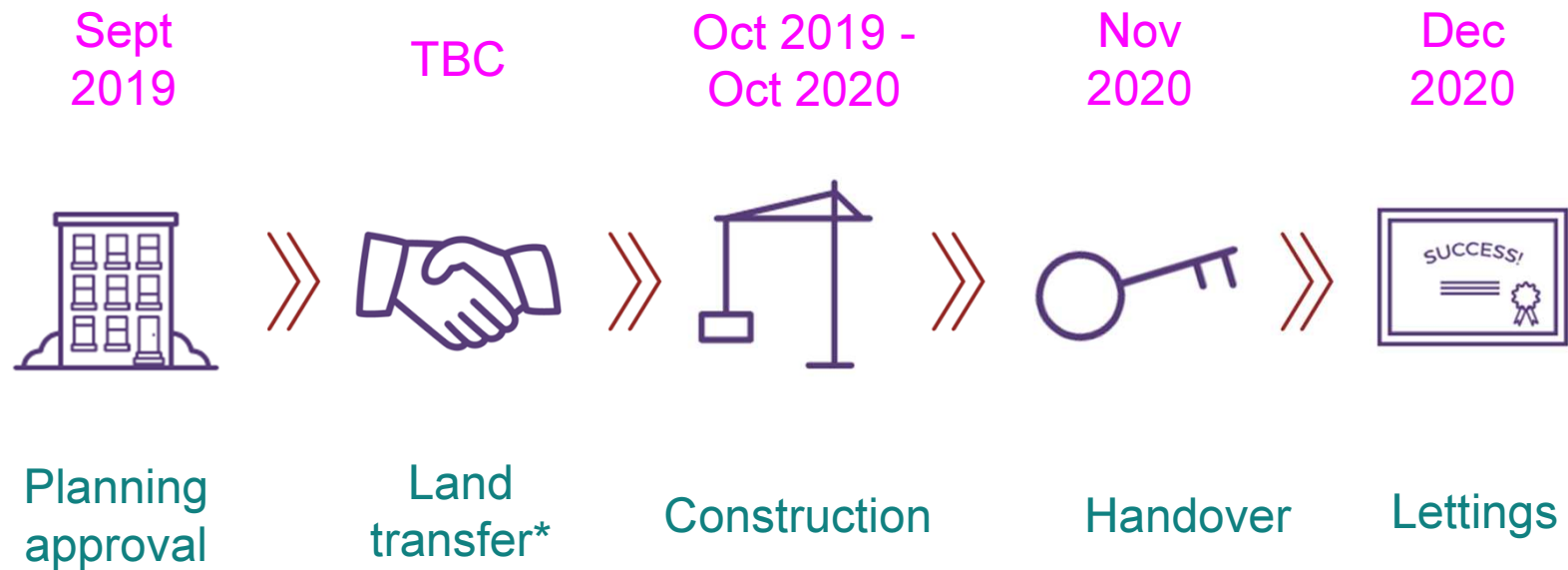
- Staff team up and running
- Appointment of Architectural Design team completed
- Sub-Consultant team established
- Site capacity (RIBA stage 0-1) Complete
- Viability and affordable housing RP engagement started



Summary timeline



Summary timeline cont.



Funding

Capital investment from shareholder

Capital loan from shareholder

Land transfer as investment. shares issued

Valuations @

- Planning
- Completion
- Occupation (investment proposition)



Returns to shareholder

Profile

Banker (LBM) debt repayments and interest charge headroom

% interest rate to be agreed – market competitive

Trowers – legal advisors

PWC – financial advisors

BBP – development advisors





Funding Detail



Merantun
Development Ltd

Operational Costs



- Circa £160,000 per annum (staff / SLAs / insurance)

Funding:

- LBM Approved
- £13,022,000 loan contribution
- £3,256,000 cash equity
- Land as equity £8,413,000 (subject to revised valuations)
- Gearing excluding land 80%
- Gearing including land 53%



Income to MDL



- Year 4 c £2.7m (handover of affordable units)*
- Year 4 £ 725,000 per annum (based on 80% occupancy levels)*
- Year 5 £ 835,000 per annum (based on 92% occupancy and 3% customer turn over)*

(* estimates)



Servicing Debt



- Loan facility drawn down as required based on the construction contract and timeline
- Borrowing costs rolled up for the first 4 years, until 2022/23
- Income in 2021 from handover of affordable units



Dividend on profits



- Dividend on profits (lettings) in year 15
- Debt paid off in full over 20 years
- Cash reserves maintained covering two years of loan repayments



Risks

- Procurement / construction market
- Industry supply chains (post EU exit)
- Interest rate changes
- Political (national / local)
- Reputational



Notes



- Loan facility is based on a commercial borrowing rate from LBM to MDL
- Land transferred post planning approval
- Income reflects net position (after management and maintenance costs)





Thank You.

Questions?



Merantun
Development Ltd