Feasibility Study for a National Body of Student Housing Co-ops

written by

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for

Students for Cooperation

A democratically controlled network helping develop and create student-run services.

www.students.coop

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1) Executive summary

This report examines the feasibility of setting up a National Body of Student Housing Co-ops (NBSHC). It is interested in whether the creation of NBSHC will overcome the barriers to expansion of student housing co-operatives and whether there is a viable business model for this body.

For this report market research was undertaken, relevant legislation potential financial constraints examined.

This report found that the creation of a National Body of Student Housing Co-ops does overcome the barriers to expansion of student housing co-operatives and that there is a viable business model for this body.

In order to overcome the barriers:

- NBSHC must be a secondary co-op of fully mutual student housing co-ops.
- NBSHC must purchase the freehold of properties and lease them to its members.
- NBSHC must facilitate the setting up of a separate community benefit society that exists to raise capital for the creation of more student housing co-ops.
- NBSHC must issue loan stock to this community benefit society and co-opt members of its board onto NBSHC's financial board.
- NBSHC must also function as a mutual aid co-op that provides advice, support and training to its members. It must also expect a financial and time contribution from its members.

For there to be a viable business model:

- NBSHC must initially purchase property in areas that haver lower property prices.
- NBSHC must reduce its borrowing costs by issuing loan stock to the community benefit society equivalent to half the capital it needs to raise.
- NBSHC should purchase properties in Bradford and Nottingham initially.
- Students for Co-operation should secure funding to enter into phase two of this report.

2) Introduction

a) Background to study

The last year has seen a huge rise of interest in housing co-operatives amongst students, with new student housing co-ops being set up in Birmingham and Edinburgh. In addition a number of new student co-ops across the country are in the process of setting up with the aim to be up and running for the following academic year. These include groups in Sheffield, Bradford, Nottingham, Aberdeen and Warwick.

These co-ops face a number of barriers to their success, including:

- Limited access to finance
- Lack of experience of co-ops, business management and property purchasing
- High turnover of membership, with associated problems of continuity
- Lack of support
- No specific student co-operative rules
- No co-operative specific student tenancy agreements
- The affordability of new housing co-ops.

Students for Co-operation have initiated this report to investigate whether setting up a National Body of Student Housing Co-ops (NBSHC) would enable student housing co-ops to overcome the above barriers to developing more co-operatively owned student housing.

A body of work has been done by Radical Routes ('Co-op Clusters' report, see Appendix 4) and The Co-operative Living Freehold Society[1] to address some of these barriers in their own sectors of the co-operate economy.

The **outline proposal investigated in this report** is to set up a NBSHC with the following aspects:

- NBSHC will be a secondary co-op made up of student housing co-ops.
- NBSHC will access finance to purchase property freeholds. It will then lease these properties to its members, student housing co-ops.
- NBSHC will have equity finance from large existing co-operatives that wish to support it.
- NBSHC will also have experienced co-operators from these large societies on its board of directors to advise on all business matters.
- NBSHC will have paid staff that will provide support to its members in a similar manner to other housing services co-ops like North West Housing Services or Birmingham Co-operative Housing Services.

1 The Co-operative Living Freehold Society is a co-operative society that raises investment to purchase the freehold of property with poor energy performance, performs a whole house retro eco-refit and leases the property to a housing co-op. See http://coopliving.net/ for more info. See Appendix 10 for a copy of 'Rebooting the Co-operative Movement" which is the report that provides the background to this society.

- NBSHC will be a mutual aid network that uses it membership to provide support, advice and training to other members.
- NBSHC will require voluntary time commitments from its members.
- NBSHC will provide training and educational materials in order to assist its members in more effective running of a housing co-op.

b) Purpose of this report

This report examines the feasibility of setting up the National Body of Student Housing Co-ops (NBSHC). In order to do this it will investigate whether a National Body of Student Housing Co-ops will overcome the issues preventing the expansion of student housing co-ops. It will also aim to develop a workable business model for the new National Body of Student Housing Co-ops.

In order to achieve this, this report will investigate the needs of the client (Students for Co-operation); undertake market research to establish whether there is a need for this body; investigate the needs of potential student housing co-ops and investigate the availability of suitable properties.

It will then describe all the relevant legislation and regulator interpretation of this legislation. It will outline the financial constraints that will limit the choice of structure and business model. This will include feedback from potential lenders and seeing if the proposed model meets their requirements and concerns.

This report will then detail a proposed legal structure and financial model for NBSHC. The financial model will examine the potential revenue and capital streams of NBSHC. It will develop guidelines for lease levels and the affordability of properties and use these guidelines to create a working example financial model,

This report will make recommendations on the best method of decision making within NBSHC and its organisational structure. It will also examine the role of NBSHC as a support network and mutual aid co-operative.

This report gives very detailed information in places about the legal and financial background. This is to enable this report to be used as a reference document by the legal and financial working groups of a future NBSHC. In those sections I have also provided summaries of the information and conclusions.

3) Meeting with client

A meeting was held with the client, Students for Co-operation (SfC), at Edinburgh Student Housing Co-op (ESHC), on 31st October 2014. on the day before the national Students for Co-operation gathering. Present were delegates from groups from Aberdeen, Bradford, Birmingham, Edinburgh and Sheffield. The potential available legal structures were outlined and discussed. The discussion also included an overview of appropriate organisational structures and the relationship between various structures that would need to be set up. A brief for this study was developed and agreed, outlining the following parameters for this study.

a) Parameters for study

Legal and organisational structure for NBSHC

There was a very strong requirement that decision making power should rest primarily with the student housing co-ops. The decision making process should be a consensus based model with the support of voting if a consensus isn't reached. There should be advice and support from investors and workers that feed in to a delegate structure.

The national body should have limited power to intervene in the running of the individual student housing co-ops. The lease between NBSCH and individual housing co-ops should outline the rights and responsibilities of both NBSHC and the student co-ops.

Financial matters

The student housing co-ops surveyed are cash poor and are not in a position to borrow. Therefore there should be a limited cash burden on the creation of any student housing co-ops. This means that all leases must be periodic leases and must not have a premium.

NBSHC should provide buildings that are water and weatherproof, i.e. should be responsible for the exterior maintenance of the properties it owns.

The level of lease payments should be set fairly. They should not be set at a level that requires the members of the student housing co-ops to pay above market rent for students in that area. It would be preferable to set lease payments at a levels that is equivalent to Local Housing Allowance[2] (LHA) levels, for members staying on for a year afterwards.

Lease payments should be paid quarterly and in arrears. This is because student finance often only becomes available after the start of term. Student rent is therefore often late at the start of term. The student housing co-ops therefore have built in cash flow issues that require large expenses to be paid in arrears.

Nottingham Student Housing Co-op requested the study to examines *Lease to Buy* options.

2 Local Housing Allowance is the method for calculating housing benefit for tenancies that aren't with local authorities, registered social landlords or started before 15th January 1989. It creates Broad Market Rent Areas (BMRA) and calculates the LHA at the 30th percentile of the market rent in the BMRA. There are different rates depending on the bedroom entitlement of the claimant.

4) Market research

a) Demand for more student housing co-ops

i) Survey of potential customers

A survey form (see Appendix 1) was sent to 12 actual and potential student housing co-operatives (see Appendix 5). The list of potential customers had been provided by SfC.

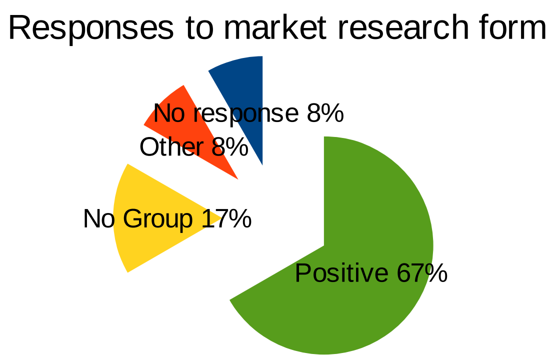
A response was received from 11 co-ops (92%), with the potential University of East Anglia co-op not responding.

A fully completed form was received from 7 co-ops (58%).

A positive email response was received from 1 co-op (8%).

There were 2 responses (17%) of either 'no group' or a current hiatus in the process.

Manchester's response was sufficiently different to be outlined below.



Of the 8 positive responses:

- 2 co-ops (17%) were fully functional and in properties.
- 1 co-op (8%) was incorporated, had a business plan and had a property in mind. This co-op is likely to be in possession of a property owned by the phone co-op at the beginning of April and to have moved in at the end of June.
- 2 co-ops (8%) were not incorporated, but have met, have started writing a business plan, have looked for properties and have begun the process of securing finance.
- 3 co-ops (25%) have had preliminary meetings.

All eight positive responses wished to be part of any new NBSHC. This clearly shows demand for a new body.

At least five of the groups are already in a position to become founder members. It is likely that by the date of incorporation for NBSHC all eight groups will be in a position to become members.

ii) Response from the Manchester group

A telephone conversation was had with Harriet Pugh, the education officer at Manchester University Students' Union. An email confirmation (see Appendix 6) of this conversation was received.

Manchester Students' Union is keen to promote the idea of co-operative living to its members. From the beginning of 2015 it will be running an official student union housing co-op campaign. It will be looking for external support for this campaign. This support will initially be provided by SfC, however any new NBSHC would be better placed to provide this support. NBSHC would then be in position to develop any new co-ops that are grown from this initiative.

This is a strong indication of future demand for NBSHC services.

iii) Addendum from University of East Anglia Student Housing Co-op

There was a late response from the University of East Anglia Student Housing Co-op. This is an unincorporated group that have just started meeting. It is currently investigating the possibility of their student union investing some of their reserves into this co-op. This would substantially affect the possibilities open to this co-op. They are interested in becoming part of NBSHC.

b) Availability of appropriate properties in required areas

Internet research and contacting estate agents was undertaken to identify suitable properties for the 5 co-ops that haven't got specific properties in mind. These are properties that meet the requirements of the co-ops as identified on their market research forms and are situated in appropriate areas.

i) Aberdeen

Aberdeen Student Housing Co-op are looking for a total of 30 members either in one property or split between three properties. There is only one 10 bed property available on the open market in Aberdeen. This is an 8 apartment building totalling 10 beds on Regents Quay and is on the market for £850,000. This is outside the affordability criteria for NBSHC outlined later in this report.

This report concludes there are currently no suitable properties available on the open market for this co-operative. If property was to be purchased in this area NBSHC and Aberdeen Housing Co-operative would be required to enter into private negotiations with large housing providers e.g. Aberdeen City Council or Grampian, Castlehill and Langstane Housing Association, to access suitable accommodation.

ii) Bradford

Bradford Student Housing Co-op currently have 10 members and are looking for a total of 30 bedrooms in the BD1 and BD7 areas. There were no properties with 30 bedrooms available on the open market in this area. However, there were 3 easily identifiable 10 or 13 bed properties in the BD7 area. These properties were within 5 minutes walk of each other. The asking prices for these properties were around £200k. Bradford Student Housing Co-op is amenable to leasing 3 smaller properties rather than one 30 bedroom property.

We conclude that there are suitable properties for this co-op within the affordability and area criteria.

iii) Bristol

Bristol Student Housing Co-op currently has 3 members and is looking for a 5 bedroom property in the Stokes Croft, Cotham, Redland, St Andrews or Bishopston areas of Bristol. The cheapest property available in this area was on Ashley Down Rd for £500,000. This would require a weekly rent of £157 and so is currently unaffordable.

This report concludes there are currently no suitable properties available on the open market for this co-operative. If property was to be purchased in this area it would either have to be at a later date when NBSHC has built up a surplus, Bristol Student Housing co-op would have to look at other areas e.g. St Pauls or Easton, or NBSHC and Bristol Student Housing Co-operative would be required to enter into private negotiations with large housing providers.

iv) Nottingham

Nottingham Student Housing Co-op currently have 22 members and are looking for ten 4 bedroom properties in the NG7 area. There were several 4 bedroom properties available on the open market in this area. The asking price for these properties ranged from £130k to £200k.

We conclude that there are suitable properties for this co-op within the affordability and area criteria.

v) Warwick

Warwick Student Housing Co-op is looking at purchasing property in the Earlsdon district of Coventry or in Lemington Spa. They would like to pay in the region of £250 a month in rent. There are no affordable appropriate properties on the open market in Lemington Spa. There is a twelve bedroom property in Regent St Earlsdon on the market at £525,000. This would require a rent of about £300 a month. This property is not currently affordable but is likely to become affordable after NBSHC has built up a surplus.

This report concludes there are currently no suitable properties available on the open market for this co-operative. If property was to be purchased in this area it would either have to be at a later date when NBSHC has built up a surplus, or NBSHC and Warwick Student Housing Co-operative would be required to enter into private negotiations with large housing providers.

5) Legal framework and taxation

In this section we will examine the legislation and regulatory guidance that informs our recommendations on legal structures and financial constraints. As this report aims to be a reference manual for any future NBSHC we have entered into detail, describing the relevant sections of the primary legislation. This section will be of most relevance to any legal group of any future NBSHC. The most relevant parts of this section are referred to in sections 6) Financial Constraints and 7) Legal Structures.

a) Relevant legislation

i) Corporation Tax Act 2010

Sections 642 – 649 of the Corporation Tax Act 2010 provide certain tax exemptions for some specific housing associations (the definition of which includes certain types of housing co-ops).

Section 642 allows that rental income received by a housing association from its members is disregarded for the purposes of corporation tax.

Section 643 allows that the same class of housing association is exempt from capital gains tax on any gains received by disposal of a property that has been occupied by one of its members.

Section 644 states that it is DCLG or its corresponding Scottish, Welsh or Northern Irish departments that have the power to approve housing associations.

Section 645 outlines the test that must be met by a housing association to be approved:

> 1) It is a housing association under either the Housing Associations Act 1985 or Part 2 of the Housing (Northern Ireland) Order 1992. A co-operative that provides housing and does not trade for profit is included in this description.
>
> 2) It is registered under the IPS act 1965 (since superseded by the Co-operative and Community Benefit Societies Act 2014)
>
> 3) It limits its membership to persons who are tenants or prospective tenants and precludes the granting of tenancies to non members. (However, the Secretary of State previously agreed that the definition of persons does include other housing associations that meet the criterium of being tenants or prospective tenants. This was in relation to section 488 of the Income and Corporation Tax Act, now replaced by the Corporation Tax Act. This definitio has not yet been put to the test under the new Act, but it is likely to remain the same.)

Section 647 2b however confuses the matter by allowing that the above criteria could only be substantially complied with. There is no case law to define *substantially* in this case. A request has been lodged with DCLG by the authors of this report for clarity on this matter

ii) Finance Act 2003 and Stamp Duty Land Tax Bill

Part 4 of the Finance Act 2003 outlines the charging of stamp duty land tax (SDLT), and the Stamp Duty Land Tax Bill proposes amendments to the rates of stamp duty land tax.

Section 71 of the Finance Act 2003 provides an exemption from SDLT for Registered Social Landlords (RSL) for certain transactions, specifically, if the RSL is controlled by its tenants, the vendor is a qualifying body[3] and the transaction is at least part funded by public subsidy[4].

The regulation of RSL was altered by the Housing and Regeneration Act 2008. RSLs in England are now managed by the Homes and Communities Agency who use the term "Registered Providers" to describe RSLs. In Scotland RSLs are managed by the Scottish Housing Regulator, in Wales by the Welsh Ministers for housing. All these regulators have different definitions of what is a RSL. It is beyond the parameters of this report to consider whether NBSHC should register as a RSL.

Schedule 5 of the Finance Act 2003 sets out the criteria for SDLT on leases. The SDLT is split into the amount chargeable to the lease premium and the 'net present value' [5] (NPV) of the rent payable on the lease. Leases with a premium are outside the scope of this report. SDLT is only chargeable on rent if the NPV is greater than £125,000, when it is chargeable at 1% of the value of the NPV above £125,000. Periodic or indefinite leases are treated as being fixed leases of the period to date. A periodic lease would therefore only be chargeable if it was greater than £125,000 or became greater than £125,000 in the course of the the lease.

The Stamp Duty Land Tax Bill received Royal Assent on the 12th February 2015 and is now law. I have therefore used its new proposed rates as the basis for all stamp duty calculations in this report. It changes the way stamp duty land tax is calculated. The tax is now charged so that the transaction value is split into different bands; with each part of the transaction charged a different rate.

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3 A qualifying body is either (a) a registered social landlord, (b) a housing action trust established under Part 3 of the Housing Act 1988 (c. 50), (c) a principal council within the meaning of the Local Government Act 1972 (c. 70), (d) the Common Council of the City of London, (e) the Scottish Ministers, (f) a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994 (c. 39), (g) Scottish Homes, (h) the Department for Social Development in Northern Ireland, or (I) the Northern Ireland Housing Executive.

4 Public subsidy means any grant or other financial assistance (a) made or given by way of a distribution pursuant to section 25 of the National Lottery etc. Act 1993 (c. 39) (application of money by distributing bodies), (b) under section 18 of the Housing Act 1996 (c. 52) (social housing grants), (c) under section 126 of the Housing Grants, Construction and Regeneration Act 1996 (c. 53) (financial assistance for regeneration and development), (d) under section 2 of the Housing (Scotland) Act 1988 (c. 43) (general functions of the Scottish Ministers), or (e) under Article 33 of the Housing (Northern Ireland) Order 1992 (S.I. 1992/1725 (N.I. 15)).

5 Net Present Value is a complicated measure used to predict the present value of future income. It is defined in schedule 5 of the Finance Act 2003 as:

$$v = \sum_{i=1}^{n} \frac{r_i}{(1+T)^i}$$

where v is the net present value, ri is the rent payable in year i, i is the first, second, third, etc year of the term, n is the term of the lease, and T is the temporal discount rate (currently 3.5%).

Amount of Transaction that	Rate
does not exceed £125,000	0%
exceeds £125,000 but does not exceed £250,000	2%
exceeds £250,000 but does not exceed £925,000	5%
exceeds £925,000 but does not exceed £1,500,000	10%
The remainder (if any)	12%

From the 1st April 2015 SDLT will be replaced in Scotland by a new land and buildings transaction tax (LBTT). There are currently different proposed rates and bands to those in England and Wales. The Scottish Government has announced it will seek approval of the proposed rates from the Scottish Parliament in early February 2015, however at the time of publication of this report no approval had been given. The proposed rates and bands are:

Amount of Transaction that	Rate
does not exceed £145,000	0%
exceeds £145,000 but does not exceed £250,000	2%
Exceeds £250,000 but does not exceed £325,000	5%
exceeds £325,000 but does not exceed £750,000	10%
The remainder (if any)	12%

iii) Co-operative and Community Benefit Societies Act 2014

Section 2 (3) of the Co-operative and Community Benefit Societies Act 2014 states that a co-operative society “does not include a society that carries on, or intends to carry on, business with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person.”

iv) Financial Services and Marketing Act 2000

The Financial Services and Marketing Act 2000 prohibited the communication of an invitation or inducement to engage in investment activity unless the communication is made by an authorised person or approved by an authorised person.

Section 35 of the Financial Services and Marketing Act 2000 (Financial Promotion) Order 2005, provides an exemption for co-operative societies. The financial promotion restriction does not apply to any communication which: (a) is a non-real time communication or a solicited real time communication; (b) is communicated by an industrial and provident society; and (c) relates only to an investment falling within paragraph 15 of Schedule 1[9] issued, or to be issued, by the society in question.

v) Localism Act 2011

Section 185 of the Localism Act 2011, provides an exemption from houses of multiple occupancy (HMO) licensing for buildings run by co-operatives. It adds to Schedule 14 to the Housing Act 2004 buildings which are not HMOs for the purposes of that Act. The Housing Act 2004 created a requirement for HMOs to be licensed in England and Wales. This was then referred to in the Use Classes Amendment Order 2010 requiring a discretionary change of use planning permission to turn a house into a HMO as defined by the Housing Act.

Section 185 of the Localism Act 2011 provides an exemption for buildings controlled or managed by a co-operative society where:

> (a) that membership of the society is restricted to persons who are occupiers or prospective occupiers of buildings managed or controlled by the society,
>
> (b) that all management decisions of the society are made by the members (or a specified quorum of members) at a general meeting which all members are entitled to, and invited to, attend,
>
> (c) that each member has equal voting rights at such a meeting, and
>
> (d) that, if a person occupies premises in the building and is not a member, that person is an occupier of the premises only as a result of sharing occupation of them with a member at the member's invitation.

b) Regulator interpretation

i) Financial Conduct Authority (FCA) guidance on investor co-ops

Section 2 (3) of the Co-operative and Community Benefit Societies Act 2014 states that a co-operative society "does not include a society that carries on, or intends to carry on, business with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person."

Many co-ops have argued previously that if the primary object is not the making of profits for the payment of interest, then it is still within the law for if its main economic activity is the making of profits for the payment of interest. If the raising of capital is for social benefit then investment co-operatives have previously being a useful method of introducing capital.

The FCA have recently issued guidance that takes a strict interpretation of this section. The authors of this report entered into correspondence with the FCA over this issue. The FCA has stated that there can be no investment co-operatives as a method of introducing capital and any society that wished to solely raise capital and pay interest on this shares would have to be a community benefit society. This then limits the amount of interest payable as outlined below.

ii) CP14/22 Guidance on the FCA's registration function under the Co-operative and Community Benefit Societies Act 2014

The FCA produced a consultation document on its role as described by the Co-operative and Community Benefit Societies Act 2014 in October 2014. This consultation has been widely responded to by the co-operative movement including by Co-ops UK. A lot of responses criticised the FCA for expanding its remit beyond both the CCBSA 2014 and the 'ICA Statement of Co-operative Identity'. To date the FCA has not published its response to the consultation and so this report has to consider the FCA's currently stated position.

> Paragraph 6.47 of CP14/22 limits the value of investor shares in a co-operative society to 25% of the total share capital.
>
> Paragraph 5.5 of CP14/22 limits the return on share and loan capital to not more than a reasonable rate to obtain and retain enough capital to run the business.
>
> Paragraph 6.31 of CP14/22 limits the financial return on investments in the co-operative or community benefit society to levels that do not exceed the return on savings accounts.

iii) Department for Communities and Local Government (DCLG) feedback on fully mutual status

A request was lodged with DCLG by the authors of this report for clarity on Section 647 2b of the Corporation Tax Act 2010. Clarification is required because this subsection allows that the criteria laid out in section 647 could only be substantially complied with. There is no case law to define *substantially* in this case.

The request specifically asked: "If a society that met all the other tests in Section 645 of the Corporation Tax Bill, would it still qualify for the exemption outlined in section 642 if it had a single investor member? This investor member would be another society that existed to provide capital to the first society. It would have limited rights and would not be able to vote on motions to dissolve the co-op, turn it into a company, interest payable on shares or removing any asset locks."

The request was original submitted on the 5th December 2014. We received acknowledgement of the request on the 19th December and then had no further reply. We have from the 19th of January until the 6th of February repeatedly phoned DCLG and were told this request was with an advisor. We were informed on the 6th of February that this request has been delegated to the Homes and

Community Agency who have since failed to respond to any of our queries.

If this report finds that NBSHC's legal structure must fulfil the requirements of Sections 642 – 649 of the Corporation Tax Act, then this report must recommend that the legal structure must comply strictly with the Tests laid out in Section 645 as we have received no guidance to the contrary.

6) Financial constraints

a) Potential lender feedback

Five ethical lenders were approached and asked if they would be interested in lending to a proposed NBSHC and what their terms and conditions would be. The lenders were informed that NBSHC is in phase 1 of development. The parameters of NBSHC were described as follows:

- NBSHC will be a secondary co-operative society that buys the freehold of properties and then leases them to its members - student housing co-ops.
- NBSHC has the in-principle support of a number of retail societies, including East of England and The Phone Co-op.
- NBSHC will have equity finance from large existing co-operatives that wish to support it.
- NBSHC will also have experienced co-operators from these large societies on its board of directors to advise on all business matters.
- NBSHC will have paid staff that will provide support to its members in a similar manner to other housing services co-ops like North West Housing Services or Birmingham Co-operative Housing Services.

The responses from all five lenders are summarised below. For the full responses see Appendix 7.

i) The Ecological Building Society (EBS)

John Lee at EBS replied in a very positive manner (see Appendix 7). He was aware of the current moves to stimulate the development of student housing co-operatives and was very interested in exploring EBS's potential involvement in providing loan finance to NBSHC. EBS's terms are:

Maximum loan to value ratio	80% of the security
Interest rates	Variable as housing co-op 5.75%, however it is possible to classify the lending as to housing association in which case 4.90%
Length	Between 10 and 30 years
Arrangement fee	0.75% of sum applied for
Maximum loan	£1.4m
Lending in partnership	Yes with shared first legal charge

ii) The Co-operative Bank

Andrew Kenny from The Co-operative Bank replied by telephone. The Co-operative Bank is currently reducing its exposure to commercial property lending. It does support the ethics of NBSHC and based on NBSHC's support from other retail societies has a potential interest. Andrew would be interested in seeing the next stage of the business plan. The Co-operative Bank's specific terms would need to be negotiated for each loan, but in general they are:

Maximum loan to value ratio	50-60%
Interest rates	3% above base rate
Length	5 years
Arrangement fee	Between 1 and 2%
Maximum loan	£5m
Lending in partnership	It is possible, but it depends on the proposed mix

iii) Unity Trust Bank

Margaret Porter of the Unity Trust Bank replied by telephone and followed up with a confirmation email (see Appendix 7). The Unity Trust currently has a very healthy and liquid balance sheet and is very keen to lend. The NBSHC proposal fits in with its ethics and they wish to met once NBSHC has a working business model. The Unity Trust Bank's terms are:

Maximum loan to value ratio	70%
Interest rates	2-3% above base rate with a minimum of 4%
Length	Typically 25 years (maximum 30 years)
Arrangement fee	1.5% of loan
Maximum loan	£4.5m
Lending in partnership	Depends on the mix

iv) Triodos Bank

Paul Nicoll from Triodos Bank replied by email (see Appendix 7). Triodos Bank doesn't wish to comment at this early stage. Triodos Bank's terms are:

Maximum loan to value vatio	70%-80%
Interest rates	3% plus base rate
Length	25 years
Arrangement fee	1.25% of loan
Maximum loan	£15m
Lending in partnership	Not answered

v) The Nationwide Building Society

Neil Cartwright of The Nationwide Building Society replied by email[13]. At the current moment in time The Nationwide is restricted to lending to existing customers only.

b) Stamp duty land tax

Stamp duty land tax (SDLT) is an expense that has no associated income. It doesn't increase the lettable spaces or rental income potential of the housing co-op. Therefore it makes financial sense to reduce it as much as possible.

SDLT on property purchase

SDLT on property purchase disproportionately affects higher value properties. If all other variables are kept the same, e.g. location or state of repair, property prices increase with size of the property. Each property purchase has a £125,000 stamp duty land tax free allowance.

In terms of reducing SDLT, it makes sense to buy many smaller properties rather than one large property. If the vendor is the same, then the transactions are linked and SDLT is calculated on the total value. In this instance there is no benefit to buying several smaller properties.

In a very large property purchase, for example purchasing the 105 room building that Edinburgh Student Housing Co-op currently lease, the SDLT is prohibitively expensive. In that example a purchase price of £3.5m would incur LBTT of £378,350 and a similar purchase in England would incur SDLT of £333,750. In the case of Edinburgh the vendor would be a qualifying body as defined by the Finance Act 2004[6]. It is likely that with most purchases of very large properties the vendors may be a qualifying body.

This study can recommend that if NBSHC is to enter a transaction that fulfils the other criteria for SDLT exemption, it should closely examine registering as a Registered Social Landlord (RSL) in order to save the large financial burden of the SDLT. If NBSHC does

6 A qualifying body is either (a) a registered social landlord, (b) a housing action trust established under Part 3 of the Housing Act 1988 (c. 50), (c) a principal council within the meaning of the Local Government Act 1972 (c. 70), (d) the Common Council of the City of London, (e) the Scottish Ministers, (f) a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994 (c. 39), (g) Scottish Homes, (h) the Department for Social Development in Northern Ireland, or (I) the Northern Ireland Housing Executive.

register as a RSL then when purchasing very large properties it should prioritise purchasing from qualifying bodies. The National Lottery 'Power for Change' fund has lent to co-ops, to provide social housing and qualifies as a public subsidy under the Finance Act 2004.

SDLT on leases

NBSHC will not sell leases and so SDLT on lease premiums is outside the scope of this report. The SDLT due on the rent of leases is only due when the NPV is above £125,000. The strategy of buying many smaller properties does not work in this instance. If NBSHC leases multiple properties to the same entity e.g. Nottingham Student Housing Co-op, then the leases are bundled together for the purpose of SDLT. Also due to the nature of how SDLT treats periodic leases, then a lease of £30,000 per annum would have a NPV of approx £140,000 after 5 years and would then be liable for £157 SDLT.

As we will see later, if we assume each student pays between £55 and £70 a week rent, then for a lease to be above £125,000 in the first year there would need to be between 38 and 52 lettable spaces. In this instance the 1% SDLT becomes between 0.02 and 0.025% of the difference between the lease NPV and £125,000.

SDLT due on the rent of leases does not materially effect the financial viability of a co-op.

c) Need for making a profit in loan based finance

Loan based finance creates an inbuilt need for profit as explained below.

The repayment of loan based finance is split into the interest and capital portions. The interest portion is a legitimate business expense and is to be used in the calculation of your surplus or profit. The capital portion is simultaneously a reduction of your assets (cash from your bank account) and a matching reduction in your liabilities (money owed to your mortgage provider). This does not affect your surplus or profit. Therefore to have the cash to pay back this capital portion you are required to make a profit.

The amount of profit required is equivalent to the amount of money that you borrowed. If NBSHC is required to pay corporation tax, then it will require an extra quarter[7] of the amount borrowed to cover corporation tax.

The properties that NBSHC is looking at are between £175,000 and £3.5m. This would require between an extra £43,750 and £875,000 income to cover the corporation tax.

With mortgage style loans the capital repayment is weighted heavily towards the end of the loan. This means that you have to make more profit as time continues and therefore have to pay more tax as time continues.

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7 If corporation tax is 20% and Profit after Tax = Profit before Tax – Tax, then Profit after Tax = Profit before Tax – 20% of Profit before Tax. Therefore Profit after Tax=0.8*Profit before Tax. Therefore 1/0.8*Profit after Tax=Profit before Tax. Therefore 1.25*Profit after Tax=Profit before Tax.

With loan stock style loans[8], the capital is paid in a lump sum at the end of the period. This would require making the entire extra profit at the end of the period, unless you split the profit evenly over the period.

If you split the profit evenly over the 25 year period of a loan NBSHC would need to make between £1750 and £35,000 a year.

This is a potentially crippling burden and this report recommends that this burden limits NBSHC's choice of legal structure to one that satisfies the requirements for the exemptions outlined in sections 642 – 649 of the Corporation Tax Act 2010.

d) Cost of finance increases with size of property

There are two extra costs of finance on top of any potential tax burden. These are interest on loans or shares and loan arrangement fees.

i) Interest

The interest on loans or shares can be classified as an ongoing cost that has an associated income the income from the leases to NBSHC's membership.

1) Interest on loans

The size of the loan required increases as the size of property increases and therefore the interest also increases. The associated income increases as the size of property increases as there are more lettable spaces and so NBSHC can charge a higher lease.

The interest on loans will decrease over time as the balance of the loan decreases. The associated income will increase over time as the lease increases by inflation.

The increase in this cost of finance is therefore not a determining factor.

2) Interest on shares

The value of shares required increases as the size of property increases and therefore the interest on those shares also increases. The associated income increases as the size of property increases as there are more lettable spaces and so NBSHC can charge a higher lease.

The interest payable on those shares will either, stay the same if paid annually, or increase over time if compounded. The associated income will increase over time as the lease increases by inflation.

To receive the full benefit of the inflationary increase in its leases, this report recommends that if NBSHC has share capital, it pays its interest annually.

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8 Loan stock is a bond style method of raising money. Loan stock in a society is sold to another party for a fixed period and promised to be repaid in full at the end of that period. There is usually interest payable and this interest can be paid annually or accumulated. It must be issued for a discrete project during a described window of time.

ii) Loan Arrangement Fees

Loan arrangement fees are one off payments paid at the start of any loan. They don't have an associated income and are an extra cost. As an upfront payment, inflationary effects don't apply. This means that they have a disproportionate effect.

They are calculated as a percentage of the loan, ranging from 0.75% to 1.5%. On a smaller loan of £175,000 this is between £1,312.5 and £2,625. This is a manageable amount. On a larger loan of £3m this is between £22,500 and £45,000. This would require that NBSHC has either a lot of capital to cover this extra cost or that it can borrow this from another source and then would need to pay interest on this amount.

This report recommends that NBSHC reduces its exposure to loan arrangement fees as much as possible. This will require borrowing as much money as possible from non traditional lenders.

This report recommends that NBSHC purchases smaller properties early on. The surplus created from these properties can then be used to pay for the larger loan arrangement fees on the larger properties.

e) Property price per lettable space decreases as properties get larger.

The property price per lettable space is a useful indicator of the affordability of a particular property. As the price per lettable space decreases the likely hood of meeting the associated costs from rental income increases.

As opposed to early recommendations to buy smaller properties: if all other variables are kept the same, e.g. location or state of repair, the property price per lettable space decreases as properties get larger[9].

There are a number of different factors at play here.

i) All property has a premium price that covers the costs of things like planning permission, services, land etc. These costs don't increase in line with the increase in value of the property. This means that the proportion of this cost decreases as the size of the property increases.

ii) There are market pressures on three and four bedroom houses. This is the size of property most desired by the traditional family unit. There are similar market pressures on one and two bedroom flats and apartments as these are the properties most desired by single people and couples. Large shared accommodation is not the lifestyle of choice of the majority of the housing market.

9 The Nationwide survey of house prices, found at www.nationwide.co.uk/hpi, found that adding a bedroom increased property value by 11%. This means that for any property smaller than 9 bedrooms, adding 1 bedroom decreases. the property value per lettable space. This can be shown mathematically. If V=Property price and x=lettable spaces then we want to know the value of V/x . If you increase x by 1 then V/x becomes (V+0.11V)/(x+1) and so we are interested in whether 1.11V/(x+1) is less than V/x. Which can be expressed as whether 1 > 11%x. This is true for values x = 1- 9.

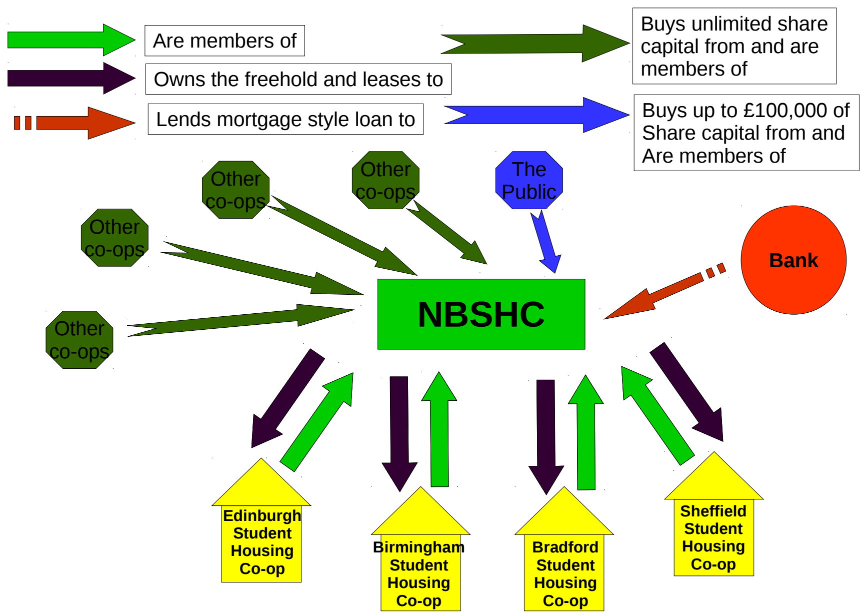
7) Legal structures

This section looks atthe legal structures available to NBSHC and any other bodies that need to be set up. It will address the best method for the movement of capital into NBSHC. It will also address the membership of each legal entity and examine the relationship between the different entities.

We will first look at a variety of structures and examine the advantage and disadvantages of each. When we have examined all the structures we will make a recommendation for the most suitable one.

a) Potential legal structures

i) Secondary co-op with direct funding through shares



In this structure NBSHC is a secondary co-op made up of a diverse membership. Its primary members will be student housing co-ops, but it will also have a class of investor members. The class of investor members can be limited to other co-ops or can be open to the public.

Capital is raised from investor members buying withdrawable shares that are either limited to £100,000 for the public, or unlimited in the case of other co-ops. This is supplemented with traditional mortgage type loans from banks or building societies.

This capital is used to purchase the freehold of various buildings, which are then leased to its primary members.

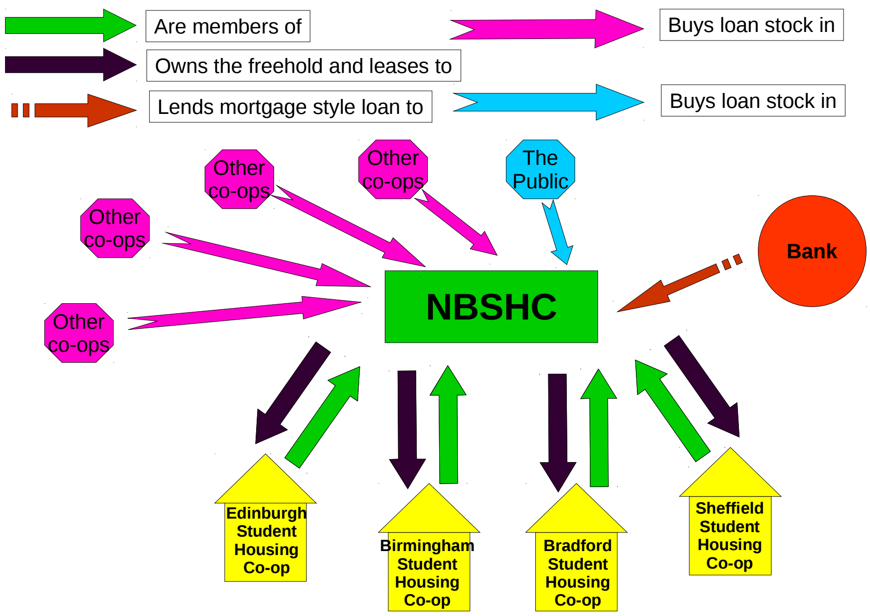
1) Advantages

- This is a relatively simple structure.
- There is only one co-op to set up and administer.
- Share capital does not have a repayment date and so repayments can be spaced out.
- Share capital repayments are discretionary and can be suspended in periods of poor cash flow.

2) Disadvantages

- Membership is wider than the student housing co-ops and so power is diluted from student housing co-ops.
- This structure does not fulfil the criteria laid out in the Corporation Tax Act 2010 and would not be eligible for a corporation tax exemption on profit from its members' rent.
- The current FCA guidance on investor shares limits the total amount of investor shares to 25% of total share capital. As student housing co-ops will start capital poor and have limited share capital in NBSHC, this would significantly curtail the amount of investor share capital.

ii) Secondary co-op with direct funding through loan stock



In this structure NBSHC is a secondary co-op with only student housing co-ops as members.

Capital is raised through the sale of loan stock. This can be to other societies or directly to the public. There is no limit to the amount that can be sold to either the public or other co-ops. This is supplemented with traditional mortgage type loans from banks or building societies.

This capital is used to purchase the freehold of various buildings which are then leased to its members.

1) Advantages

- This is a very simple structure with only one co-op to be set up and managed.
- This structure does fulfil the criteria laid out in the Corporation Tax Act 2010 and would therefore be eligible for a corporation tax exemption on profit from its members' rent.
- The decision making power for NBSHC in this structure lies solely with the student housing co-ops.

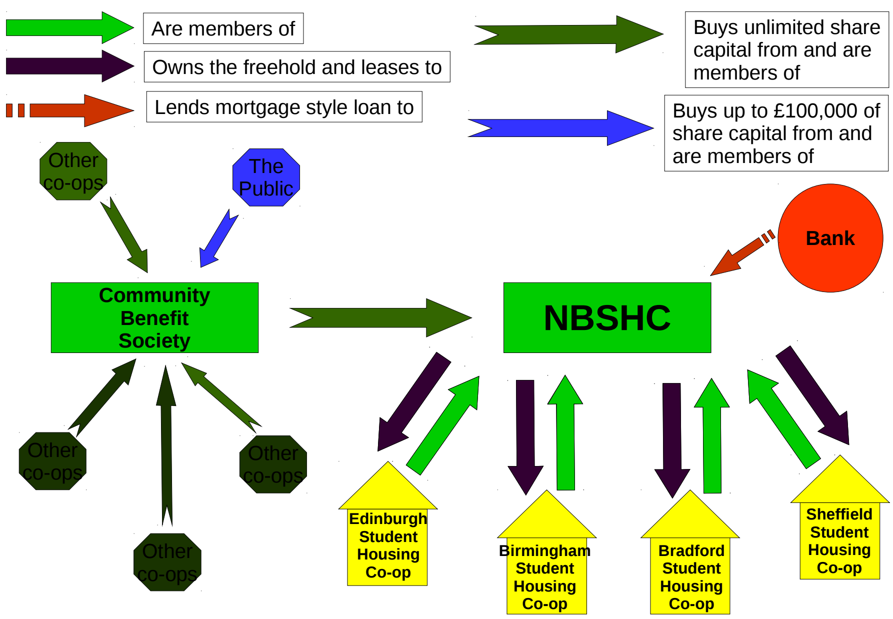
2) Disadvantages

- The finances of NBSHC are difficult to administer as

  a) Loan stock repayment is not discretionary. When loan stock matures it must be paid back immediately. This can create potential cash flow problems if lots of loan stock matures at the same time and

  b) Each issue of loan stock will have different maturation dates making the administration of NBSHC's finance complex.

iii) Community benefit society with share capital in NBSHC



In this structure a separate community benefit society is set up. The object of this community benefit society is to provide capital to increase the stock of student housing co-ops. It must be a community benefit society as its members are not the sole beneficiaries.

Its members can be limited to other co-ops or can be open to the public. The members buy withdrawable shares that are either limited to £100,000 for the public, or unlimited in the case of other co-ops.

NBSHC itself takes the form of a secondary co-op with two classes of members. The primary members are the student housing co-ops, but it will also have a class of investor members that is limited to the aforementioned community benefit society.

NBSHC raises capital by selling withdrawable shares to the community benefit society. There is no limit to the amount of withdrawable shares that may be sold. This is supplemented with traditional mortgage type loans from banks or building societies.

This capital is used to purchase the freehold of various buildings which are then leased to its members.

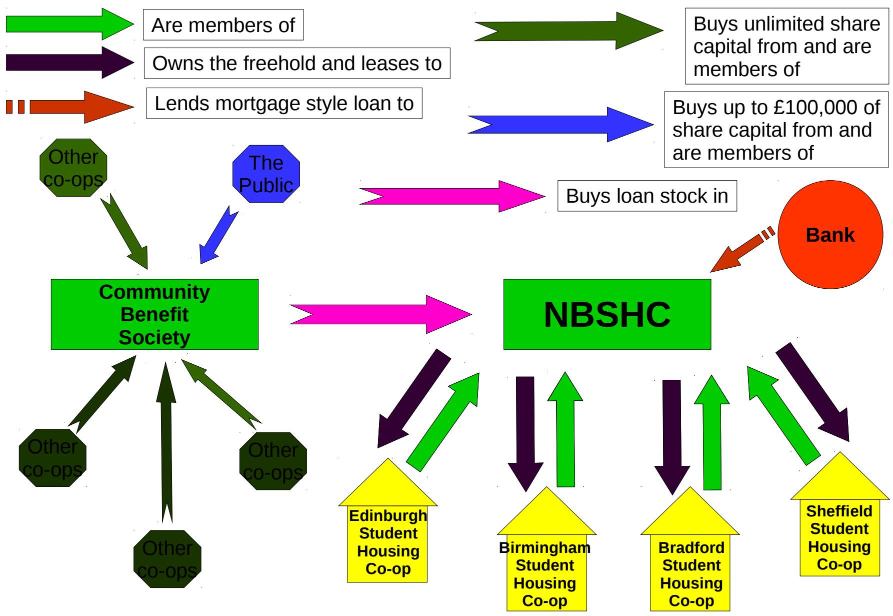
1) Advantages

- Share capital does not have a repayment date and so repayments can be spaced out.
- Share capital repayments are discretionary and can be suspended in periods of poor cash flow

2) Disadvantages

- This structure does not comply strictly with the requirements of Section 645 of the Corporation Tax Act 2010.
- This structure does not completely satisfy the desire of Students for Co-operation that all decision making power is with the student housing co-ops.
- The current FCA guidance on investor shares limits the total amount of investor shares to 25% of total share capital. As student housing co-ops will start capital poor and have limited share capital in NBSHC, this would significantly curtail the amount of investor share capital.

iv) Community benefit society with loan stock bought from NBSHC



Again in this structure a separate community benefit society is set up. The object of this community benefit society is to provide capital to increase the stock of student housing co-ops. It must be a community benefit society as its members are not the sole beneficiaries.

Its members can be limited to other co-ops or can be open to the public. The members buy withdrawable shares that are either limited to £100,000 for the public, or unlimited in the case of other co-ops.

In this structure NBSHC is a secondary co-op with only student housing co-ops as members.

Capital is raised through the sale of loan stock to the aforementioned community benefit society. There is no limit to the amount of loan stock that can be sold. This supplemented with traditional mortgage type loans from banks or building societies.

This capital is used to purchase the freehold of various buildings which are then leased to its members.

1) Advantages

- This structure does fulfil the criteria laid out in the Corporation Tax Act 2010 and would therefore be eligible for a corporation tax exemption on profit from its members' rent.
- The decision making power for NBSHC in this structure lies solely with the student housing co-ops.
- The community benefit society exists solely to provide capital to increase the stock of student housing co-ops. When the loan stock matures it will have a large amount of cash.

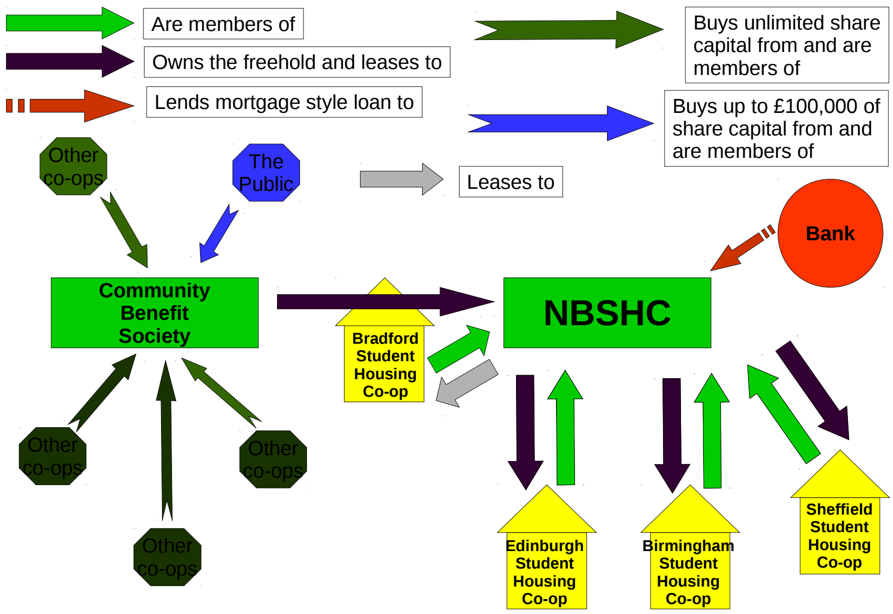
The community benefit society will be obliged to buy more loan stock in NBSCH with any cash that is not used to pay back shares that are withdrawnThis overcomes the problem of large cash demands on NBSCH when its loan stock matures

- Share capital does not have a repayment date and so repayments from the community benefit society can be spaced out. These share capital repayments are discretionary and can be suspended in periods of poor cash flow

2) Disadvantages

- There are 2 separate co-ops and therefore a larger administrative burden.

v) Investment co-op owns property



Again in this structure a separate community benefit society is set up. The object of this community benefit society is to provide capital to increase the stock of student housing co-ops. It must be a community benefit society as its members are not the sole beneficiaries.

Its members can be limited to other co-ops or can be open to the public. The members will buy withdrawable shares that are either limited to £100,000 for the public, or unlimited in the case of other co-ops.

In this structure NBSHC is a secondary co-op with only student housing co-ops as members.

The method for transferring capital from the community benefit society to NBSHC is for the community benefit society to buy the freehold of a building and lease it to NBSHC. This is to be at the equivalent amount as the interest rate on the loan stock would be and should cover the share interest payable by the community benefit society.

NBSHC will sublease this building to a member at a higher rate thereby building up a surplus. Once NBSHC has enough surplus it can access traditional mortgage type loans from banks or building societies. This capital is then used to purchase the freehold of more buildings which are then leased to its members.

1) Advantages

- This structure does fulfil the criteria laid outin the Corporation Tax Act 2010 and would therefore be eligible for a corporation tax exemption on profit from its members rent.
- The decision making power for NBSHC in this structure lies solely with the student housing co-ops.
- Share capital does not have a repayment date and so repayments from the community benefit society can be spaced out. These share capital repayments are discretionary and can be suspended in periods of poor cash flow.
- As there is no debt based finance between the community benefit society and NBSHC there is no maturation date and no date that the capital needs to be repaid.

2) Disadvantages

- It is an inelegant and complex solution. This may lead to misunderstandings later on.
- Some members of Students for Co-operation didn't understand it when presented to them.
- It will take a long time for NBSHC to build up enough surplus to buy the next property. This will limit the amount of new student housing co-ops.
- The investment co-op will be the ultimate landlords of at least one of the student housing co-ops. This gives more power to the investment co-op.

b) Recommended legal structure

This report recommends structure ***7 a iv) Community benefit society with loan stock bought from NBSHC.***

In our opinion this structure has the least disadvantages and most fulfils the parameters for the study, especially SfC's requirement that decision making power has to rest primarily with the student housing co-ops.

It also fulfils this reports' recommendation that the choice of legal structure satisfies the requirements for the exemptions outlined in sections 642 – 649 of the Corporation Tax Act 2010.

This report recommends that this structure is better than *7 a ii) Direct funding through loan stock* which also fulfils the above criteria. This is because the existence of the community benefit society relieves the large capital repayment pressure of many loan stock issues that mature at once. As the community benefit society's objects are “to provide capital to increase the stock of student housing co-ops”, unless it suffers from a massive share withdrawal, it should repurchase loan stock upon maturation.

The community benefit society has the advantage of being funded by withdrawable shares. According to *The UK Alternative Finance Report 2014* this type of share issue grew by 95% last year. It is possible to limit the amount of shares that can be withdrawn in a year and this is often limited to 10% of total capital. This provides the capital stability for the community benefit society to continue to repurchase loan stock from NBSHC.

8) Financial modelling

This section shows how a viable financial model for any future NBSHC may work. It will examine the various revenue and capital streams of all the different legal bodies. It will then outline all the assumptions made in describing a viable financial model.

It will show how to calculate lease levels and the affordability of properties. It will describe all the workings behind these calculations to enable future members of NBSHC's financial board to recreate them for differing circumstances.

It then will produce a set of guidelines for NBSHC for making future business decisions.

For this report to develop a viable financial model it has created a series of spreadsheets for its use and the future use of NBSHC. This section explains the use of those spreadsheets and then provides an example of their use in developing a viable financial model.

This section also briefly examines a request from Nottingham Student Housing Co-op to consider 'Lease to Buy' options.

a) Revenue and capital streams

i) NBSHC

NBSHC has two different parts to its business and this report recommends that they are kept separate in terms of budgeting, revenue streams and capital requirements as set out below. The two streams are 1) the support and mutual aid network and 2) the property purchase and leasing business.

1) The support and mutual aid network

a) Revenue

This arm of the co-op has a financial model that is very similar to many parts of the third sector. The expenses of this arm of the co-op will increase with the amount of work that NBSHC decides to undertake. The limiting factor on the expenses will be the capacity of NBSHC members to deliver and the income NBSHC can raise. The traditional model for this type of business is to raise income through grants and donations and then to decide which of its activities it can afford.

This report strongly recommends that this arm is treated as a stand alone business and there is no cross funding from elsewhere within the co-op. This is because it would be very irresponsible to use the large amounts of capital required for the property purchase and lease arm of this co-op for these activities. There is no financial return on these activities and the capital was invested for property purchase arm.

The expenses will include the promotion of student housing co-ops, the cost of a support worker, office, travel and gatherings.

This report recommends that they are funded by grants where applicable, the registration of new student housing co-ops, voluntary member time and through a member subscription. It is recommended that the member subscription is weighted, based on the size of the member co-ops.

This report recommends that NBSHC turns the traditional model on its head and decides and prioritises its activities first. After costing these activities and seeking funding it should calculate its members' subscriptions at a level to match its expenditure. If members decide that the level of member subscriptions is too high, NBSHC should reduce its expenditure in order of decreasing priority.

b) Capital

This arm of the co-op has no ongoing capital requirements.

2) Property purchase

a) Revenue

The revenue costs for this arm of the business are in order of size of cost:

- The cost of finance: mortgage interest,
- The cost of finance: loan stock interest,
- Buildings maintenance,
- Buildings insurance and
- Accountant/ audit fee.

These are to be met by the lease income from these properties.

b) Capital

The capital requirements of this arm of the co-op are:

- The freehold of new properties,
- Stamp Duty Land Tax (in England, Wales or Northern Ireland) or Land and Buildings Transaction Tax (in Scotland) on these freeholds and
- Loan arrangement fees.

These requirements will be met by mortgage style loans from traditional lenders and the sale of loan stock to the community benefit society. In the future some of these requirements will be met from NBSHC's own reserves. This will reduce the amount of borrowing required and therefore reduce the cost of finance.

ii) Community Benefit Society

a) Revenue

The revenue costs of the community benefit society are:

- The interest payable on share capital,
- A finance worker and
- Accountant/ Audit fee.

These costs are to be met by the interest receivable on its loan stock purchases.

b) Capital

The capital requirement of the community benefit society is the capital required to purchase loan stock from NBSHC.

This capital will be provided by the sale of withdrawable shares. **This report recommends that the withdrawal of these shares is prohibited for the first 5 years of their investment. It also recommends that the rules of the society allow for the suspension of share withdrawal if the percentage of share withdrawal reaches 10% of the total share capital.**

b) Explanation of assumptions

In continuing with the financial modelling of NBSHC this report has made a number of assumptions. In phase 2 of this project it will be necessary to firm up these assumptions and to make actual costings.

i) Start up costs

This report has assumed that the start up costs or phase 2 of this project have been met by grant funding. The spreadsheets created as part of this report allow for the costs to be met by loan stock, which is the other alternative.

ii) Loan stock interest rates and interest payment

This report has assumed that the loan stock NBSHC will issue will be offered at 3%. It has also assumed that the loan stock interest will be paid annually and not accrued. This allows the community benefit society to pay its interest and prevents NBSHC from getting into more debt due to compound interest.

This report does not believe that this rate should be the only rate ever offered. In the early years when the amount of loan stock offered is low it will make sense to offer a slightly higher rate to enable the Investment Community Benefit Society to meet its fixed costs. As time goes by and

NBSHC builds up surplus it may also make sense to offer a higher interest rate especially if the Bank of England base rate increases and savers can get better deals on the high street.

iii) Base rate and inflation

We are currently in a historically unprecedented period of low Bank of England base rate. This report recommends that for future predictions of mortgage repayments a higher base rate is assumed. This report has assumed that the base rate when the first properties are purchased is the current rate of 0.5%. It also assumes that they increase by 0.5% a year over the next 9 years to a more historically stable position of 5%.

The current Consumer Price Index (CPI), the government’s preferred measure of inflation, is at 0.5%. This report recommends that future predictions are based on a higher estimate of CPI. This report has assumed that the CPI will be the government's target of 2%.

iv) Withdrawable share interest rates

This report has assumed that the interest rate payable by the community benefit society on its withdrawable shares is set at 2.5%.

v) Withdrawable shares churn rate

The churn rate is the rate at which shares are replaced within a business. This report has assumed that its recommendations on the limit of share capital are implemented. It therefore has assumed that there is no share withdrawal for the first 5 years and that the share withdrawal is set at 10% of the total share capital.

vi) SDLT and LBTT

This report has assumed that NBSHC does not apply for registered provider status and therefore has to pay either Stamp Duty Land Tax (in England, Wales or Northern Ireland) or Land and Buildings Transaction Tax (in Scotland) in all cases. If NBSHC does become a registered provider it will improve the financial position of NBSHC.

vii) Maintenance split

This report has assumed that responsibility for the maintenance of the fabric and exterior of the building falls with NBSHC. It correspondingly assumes that the responsibility for the maintenance and the upkeep of the interior of the building falls with the student housing co-ops.

viii) NBSHC's maintenance costs

This report has assumed that each property owned by NBSHC will have exterior maintenance costs of 1/15th (or 6.67%) of the property value every 10 years. This is based on the extraordinary maintenance required by both Radical Routes and EBS in a housing co-op's loan applications. This is usually set at 1/20th (5%), but Radical Routes co-ops are expected to perform part of this maintenance themselves. To allow for the possibility of NBSHC not having the skills to do some of the work themselves this report has increased the proportion.

ix) Buildings insurance

This report has assumed the buildings insurance is set at an annual rate of 1/200th of property value or £1000 which ever is greater. This is again based on the experience of assessing loan applications for Radical Routes housing co-ops. Due to NBSHC having a large property portfolio it is likely that it will be able to access better insurance rates. This report recommends that phase 2 of this project researches this possibility.

x) Support worker

This report has assumed that NBSHC will employ a support and admin worker. It has assumed that the employee will work 1 day a week and will receive the average uk wage of £24,000 pro rata.

xi) Member contributions

This report has assumed that members' contributions would cover the expenses of the wages of a support/ admin worker plus NI contributions and office costs. This work may be put out to contract instead of direct employment. For the purposes of this report it doesn't matter which as there will be a net cost of 0 either way. The contributions are divided up equally depending on the number of lettable spaces a member co-op has.

xii) Asset revaluation

This report has not assumed an increase in the value of NBSHC's assets through the growth in property prices. This is because that the increase in value is tied up in the asset. NBSHC is not in the business of buying and selling property, and once property has been bought it will hopefully not be resold. This report recommends that to assume an increase, would show an overinflated asset position.

xiii) Investment community benefit society finance contract

This report has assumed this contract would be the equivalent to two days work per month at the UK average wage of £24,000 pro rata. The cost of £1578 per annum is equivalent to the finance contract for Rootstock, another community benefit society that invests in housing co-ops and has shares open to the public.

ixv) Student housing co-op void rate

This report has assumed that the void rate for the student housing co-ops is 10%. This is in line with Radical Routes and EBS requirements in their loan applicants. Voids is an assumption of empty rooms. A 10% void rate is the equivalent of 1 room being empty for (1.2*the number of lettable spaces) months of the year: e.g. in a 10 bed co-op a 10% void rate is 1 room being empty for 12 months of the year.

xv) Shares in student housing co-operatives

This report has assumed that all students buy £100 of withdrawable shares in their housing co-op. These shares attract no interest and are withdrawn at the end of the period that they are members. They take the place of a deposit and remove the legal requirements on how to keep deposits, and they are also *at risk capital*, encouraging responsibility in the co-op members. If the co-op does not meet all its obligations due to higher then predicted voids or mismanagement then the shares will be redeemable at a reduced rate. This system is currently practised by Edinburgh Student Housing Co-op and is working.

xvi) Student housing co-ops maintenance

This report has assumed that student housing co-ops will have to spend 10% of their lease amount on ongoing maintenance.

c) Guidelines to lease levels and affordability

For a property purchase to be affordable NBSHC must be able to set a lease level that meets its ongoing and non yearly expenses and allow it to have the cash flow to repay the capital part of its mortgage. At the same time the lease level must be affordable to a student housing co-op. You can therefore put these to equations together to check whether a property is affordable.

The following mathematical approach allows to create a number of useful guidelines that can be used by NBSHC in making future business decisions about which properties to buy. This is suggested as a first step to be followed up by testing any properties in the NBSHC spreadsheet. A separate spreadsheet called *Lease income mathematical approach* has been created for this first step.

The mathematical calculations are given below to allow future adjustments should the parameters change in the future (e.g. interest rates increase). This report has included the full workings for these calculations primarily for the use of any future financial board members of NBSHC. It has included the workings to enable financial board members to recreate these calculations once parameters change.

These mathematical calculations provide a useful rule of thumb for working out the initial affordability of a property.

These calculations have only been taken on the property purchasing and leasing side of the co-op due to this report's strong recommendation that the mutual aid and the support arm of the co-op is financed separately.

i) Ongoing Profit

The profit (or surplus) of a business can be expressed as its *income – expenses*, and NBSHC needs to make a surplus. NBSHC's only income, for these purposes , is its rental income from leases.

Income ≥ Expenditure

∴ Rental Income ≥ Cost of Finance + Insurance

∴ Rental Income ≥ (1/x)(property value)(loan stock interest rate) +(1-1/x)(property value)(mortgage interest rate)+insurance

Where x= the percentage of loan finance provided through loan stock issue.

This is only true for the first year as the capital owed on the mortgage loan decreases over time, but it is a very good approximation for the first half of a mortgage. After that, if the expenses go down and the profit therefore increases, the surplus can be used to buy more properties.

This report recommends that NBSHC raises at least half of its loan finance through the sale of loan stock. In that instance:

∴ Rental Income ≥ 1/2V3% + 1/2V4% + Insurance. Where V- Property Value

∴ Rental Income ≥ 3.5%V + (0.5%V or 1000 which ever is greater)

So to make a surplus every year leases must be set at a level where Rental Income ≥ 4%V or 3.5%V + 1000 which ever is greater.

However NBSHC must make enough profit to build up a reserve. This is because it has other non-yearly expenses that it must cover. See the calculations below:

ii) Meeting NBSHC's non-yearly expenses

NBSHC must in the first 10 years make enough of an ongoing surplus to cover the cost of Stamp Duty (SD), Extraordinary Maintenance (EM), Survey (S) and Legal Fees (LF).

This can be expressed as:

10 * Yearly Profit ≥ SD+EM+S+LF, and as Yearly Profit = Rental Income – 4%V

∴ 10(Rental Income – 4%V) ≥ SD+EM+S+LF

∴ Rental Income ≥ (SD+EM+S+LF+40%V)/10

∴ Rental Income ≥ (SD+6.67%V+2000+40%V)/10

∴ Rental Income ≥ SD/10 + 4.67%V+200

The formula for Stamp Duty depends on the Value of the property.

For properties where V<£125,000

SD = 0

For properties costing less than £125,000, to cover all expenses the Rental Income must be set at a level of greater than 4.67%V+200

For properties where V<£250,000

SD = 2%(V-125,000)

∴ Rental Income ≥ (2%(V-125,000))/10+4.67%V+200

∴ Rental Income ≥ 0.2%V-250+4.67%V+200

For properties costing between £125,000 and £250,000, to cover all expenses the Rental Income must be set at a level of greater than 4.87%V – 50.

For properties where V<£925,000

SD = 2%(125,000)+5%(V-250,000)

∴ Rental Income ≥ (2%(125,000)+5%(V-250,000))/10+4.67%V+200

∴ Rental Income ≥ (5%V-10000)/10+4.67%V+200

∴ Rental Income ≥ 0.5%V-1000+4.67%V+200

For properties costing between £250,000 and £925,000, to cover all expenses, the Rental Income must be set at a level of greater than 5.17%V – 800.

For properties where V<£1,500,000

SD = 2%(125,000)+5%(675,000)+10%(V-925,000)

∴ Rental Income ≥ (2%(125,000)+5%(675,000)+10%(V-925,000))/10+4.67%V+200

∴ Rental Income ≥ (10%V-56250)/10+4.67%V+200

∴ Rental Income ≥ 1%V-5625+4.67%V+200

For properties costing between £925,000 and £1,500,000, to cover all expenses, the Rental Income must be set at a level of greater than 5.67%V – 5425.

For properties where V>£1,500,000

SD = 2%(125,000)+5%(675,000)+10%(575,000)+12%(V-1,500,000)

∴ Rental Income ≥ (2%(125,000)+5%(675,000)+10%(V-925,000))/10+4.67%V+200

∴ Rental Income ≥ (12%V-86250)/10+4.67%V+200

∴ Rental Income ≥ 1.2%V-8625+4.67%V+200

For properties costing more than £1,500,000, to cover all expenses, the Rental Income must be set at a level of greater than 5.87%V – 8425.

iii) Covering Capital Repayments

The above calculations show the levels that the lease must be set at to cover all expenses. They don't cover the capital repayments on the loan as these aren't expenses. The total capital repayment on the loan is the same as the amount borrowed.

1) For mortgage repayment

This is a capital repayment that must be met on an ongoing basis and some of it is paid every month.

The yearly capital repayment can be approximated to the amount of the loan divided by the length of the loan. This is only a vague approximation as at the start of the loan there is very little capital repayment. This correspondingly means that at the end of the loan there is more repaid than the loan divided by its length. However it is a workable approximation and if applied will generate a healthy surplus.

Therefore to cover the mortgage repayments, Rental Income should be set at the level specified above + ((1/2)V)*length of loan, or V/(2 * length of loan). For a 25 year mortgage this equates to 2%V or a 30 year mortgage 1.67%V.

2) For loan stock repayment

With loan stock there is no capital repayment until the end of the loan period. A co-op that issues loan stock should build up a surplus to repay this capital when it becomes due. It is however possible to refinance at this point, either by re-issuing loan stock, or, as the mortgage tends to be repaid, re-mortgaging.

The calculation of the amount needed to be put aside is the same as for the mortgage repayment and is V/(2 * length of loan).

iv) Is the lease level affordable to Student Housing Co-ops?

To make a surplus the student housing co-ops must have greater income than expenditure. Their income is number of lettable spaces (LS) * weekly rent (R) * 52 and their expenses are The Lease (called Rental Income above), Voids (V) and Maintenance (M)

$\therefore$ Rental Income + V + M < LS*R*52

$\therefore$ Rental Income < LS*R*52 – V – M

$\therefore$ Rental Income < LS*R*52 – 10%(LS*R*52) – 10% Rental Income

$\therefore$ 110% Rental Income < 90%(LS*R*52)

$\therefore$ Rental Income < LS*R*42.55

v) Is this property affordable?

For a property purchase to be affordable NBSHC must be able to set a lease level that meets its ongoing and non yearly expenses and allow it to have the cash flow to repay the capital part of its mortgage. At the same time the lease level must be affordable to a student housing co-op. You can therefore put these to equations together to check whether a property is affordable.

LS*R*42.55 > Rental Income ≥ SD/10 + 4.67%V+200 + (V/(2*length of loan)

means that

LS*R*42.55 > SD/10 + 4.67%V+200 + (V/(2*length of loan)

For properties where V<£125,000

4.67%V+200 +(V/(2*T) < LS*R*42.55 (where T=length of loan)

assuming T=25

The value of the property must be less than LSxRx637.93 – 2998.50, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 640 minus 3000.

For properties where V<£250,000

4.87%V – 50 + (V/(2*T) < LS*R*42.55 (where T=length of loan)
assuming T=25

The value of the property must be less than LSxRx619.36 + 727.80, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 620 plus 700.

For properties where V<£925,000

$5.17\%V - 800 + (V/(2*T) < LS*R*42.55$ (where T=length of loan)
assuming T=25

The value of the property must be less than LSxRx593.44 + 11157.60, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 590 plus 1100.

For properties where V<£1,500,000

$5.67\%V - 5425 + (V/(2*T) < LS*R*42.55$ (where T=length of loan)
assuming T=25

The value of the property must be less than LSxRx554.76 + 70730.12, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 555 plus 70000.

For properties where V>£1,500,000

$5.87\%V - 8425 + (V/(2*T) < LS*R*42.55$ (where T=length of loan)

assuming T=25

The value of the property must be less than LSxRx540.67 + 107052.09, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 540 plus 107000.

d) Financial guidelines for NBSHC's future business decisions

NBSHC will need to make a number of business decisions based around what properties to buy to help set up student housing co-ops. This report has made some recommended guidelines to aid in these decisions.

- NBSHC should never buy a property where the ongoing yearly expenses and 10 yearly maintenance can't be met by the Rental Income.
- NBSHC should not buy a property where the rent levels that students pay are required to be higher than the market level for students in that area.
- NBSHC should start by buying properties that can build up a surplus quickly.
- This means that NBSHC should look at buying smaller properties first.
- Until NBSHC has a surplus NBSHC should buy properties whose rental income can meet the ongoing costs, the non yearly expenses and cover the capital repayment of the mortgage.
- NBSHC should use any surplus to meet the stamp duty and loan arrangement fees of the larger co-ops.
- NBSHC should try and meet half of the property purchase price through its own cash or through the sale of loan stock in order to reduce loan arrangement fees.
- All co-ops need to refinance. NBSHC should limit this refinancing to the re-issuing of loan

stock. Each property should need no more than 1 refinancing.

- Loan stock should be issued for a period of 20 years.

The above mathematical calculations provide a useful rule of thumb for working out the initial affordability of a property. However when the parameters change (e.g. interest rates increase) the formulas will need to be updated using the methodology shown above.

The mathematical calculations are a rule of thumb and if properties seem viable they should be plugged into the spreadsheets created for NBSHC.

e) Explanation of spreadsheets created

We have designed five spreadsheets for the use of NBSHC in making future business decisions, comprising

- a spreadsheet predicting future cash flow, profit and net worth for NBSCH
- a spreadsheet predicting future cash flow, profit and net worth for the investment body,
- a spreadsheet for student housing co-ops
- a spreadsheet utilising the mathematical approach outlined above to find a fair level to set the lease amount at and
- a spreadsheet to work out the stamp duty on leases.

Below we explain the different spreadsheets in more detail, including cells that need to be filled in with data. The following section should be read in conjunction with the spreadsheets.

Note: All spreadsheets are password protected. This is to protect the sheets from user error. The password will be given to NBSHC after a training session with members of NBSHC who are spreadsheet literate.

All sheets have a similar colour scheme. Purple is for titles, yellow is used to divide the sheets and to highlight areas and green denotes cells that are for entering data. You can only enter data into the green cells.

i) NBSHC

This spreadsheet is to be used to predict future cash flow, profit and net worth of NBSHC. It has 25 sheets. It is set up to look at the purchase of up to 8 properties. This can be extended by a spreadsheet literate person. It also allows for up to 8 mortgage loans.

1) Abbreviated cash flow

This sheet takes the headline data from the cash flow sheet and shows it in an easily accessible form. There are no cells for data entry in this sheet. This sheet shows total cash in and out on a yearly basis. It also shows NBSHC's closing cash position and then expresses this as a graph by year.

2) Abbreviated profit and loss

This sheet takes the headline data from the profit and loss sheet and shows it in an easily accessible form. There are no cells for data entry in this sheet. This sheet shows total income and expenditure on a yearly basis. It also shows NBSHC's yearly surplus and then expresses this as a graph.

3) Abbreviated balance sheet

This sheet takes the headline data from the cash flow sheet and shows it in an easily accessible form. There are no cells for data entry in this sheet. This sheet shows NBSHC's predicted equity and then expresses this as a graph by year.

4) Cash flow

This sheet is a 40 year predicted cash flow forecast for NBSHC.

This sheet shows itemised cash in, itemised cash out on an ongoing basis and itemised extraordinary cash out, as well as the closing cash position at the end of the year.

It has a number of data entry cells.

> **Cell D3** is for the opening cash position. This is to be used for any donations or grants that NBSHC has before set up.
>
> **Cell D5** is for the Bank of England base rate.
>
> **Cell J3** is for predicted inflation.
>
> **Cell J5** is for the interest NBSHC will receive on cash it has in the bank.
>
> **Cell N3** is for the percentage of property price that is set aside for maintenance every 10 years.
>
> **Cells E9 – AQ9** are for the predicted changes in the base rate. This is to allow for a predicted increase in mortgage interest rates.
>
> **Cell D77** is for admin/ support worker wages.
>
> **Cell D80** is for office costs. These should be zero if the admin worker position is contracted out.
>
> **Cell D81** is for accountancy costs.

All other cells are dependent on other sheets.

5) Profit and loss

This sheet is a 40 year predicted profit and loss forecast for NBSHC.

This sheet shows itemised income and itemised expenditure, as well as the predicted yearly surplus

It has no data entry cells and all cells are dependant on other sheets.

6) Balance sheet

This sheet is a 40 year predicted balance sheet forecast for NBSHC.

This sheet shows itemised assets and itemised liabilities, as well as the predicted equity of NBSHC.

It has no data entry cells and all cells are dependant on other sheets.

7) Starting cost

This sheet itemises the costs of phase 2, the setting up of NBSHC.

Cells F3 – 15 are data entry cells and should include the costings recommended later in this report.

8) Loan stock

This sheet is for entering NBSHC's loan stock issues. It allows for nine loan stock issues.

For each issue it has four data entry cells. These are :

- **Starting Year** (the year of the loan stock issue),
- **Length** (the length until the loan stock matures),
- **Amount** (the amount issued) and
- **Interest Rate** (The interest payable on the loan stock).

This sheet then shows yearly for the next 40 years: predicted cash in from loan stock, predicted yearly interest, predicted cash out due to loan stock repayment and total amount of loan stock issued.

9 -16) Properties 1 – 8

These eight sheets are replicas of each other to allow for eight different properties.

They allow for the data entry required for each property.

> **Cells C5 - 9** are for the address of the property.
>
> **Cell C10** are for the web address if it exists.
>
> **Cell C11** is for the number of lettable spaces in the property.
>
> **Cell C13** is for the year purchased, with the current year as year 1.
>
> **Cell C15** is for the Purchase Price of the Property.
>
> The stamp duty is then calculated based on the value of **Cell C15**.
>
> **Cell C19** is for the cost of the buildings insurance.
>
> **Cells C21** and **23** are for the other purchase costs i.e. legal fees and survey.
>
> **Cell C25** is for the income from the lease.

17 – 24) Mortgages 1 – 8

These eight sheets are also replicas of each other to allow for eight different mortgages.

These sheets calculate monthly cash repayment of each mortgage. They also divide this payment into its interest and capital portions and calculate the principal balance at the end of every month for the next 40 years.

Cell C3 is for the starting year of the mortgage, with the current year as 1.

Cell C5 is a drop down list of the four potential mortgage providers.

Cells C7- 13 then provide the terms of the mortgage provider selected.

Cell C15 ask for the loan amount.

Cells C17-19 are a drop down list of the properties that this mortgage can be secured on.

Cell F23 will then inform whether there is enough security to met the loan to value ration of this mortgage provider.

25) Mortgage overview

This sheet summarises the mortgage amounts and their providers.

It totals amounts lent by each provider and checks that the loans are below their maximum loan amounts.

It has no data entry and all cells are dependent on other sheets.

ii) Investment body.

This spreadsheet is to be used to predict the future cash flow, profit and net worth of the investment community benefit society. It has three sheets.

1) Cash flow

This sheet shows a predicted 40 year cash flow for the investment community benefit society.

It starts with four variables. **Cells D3 and 5** are data entry cells, with **Cell D3** for the interest rate payable on its withdrawable shares, and **Cell D5** for the opening cash position. **Cells H3 and 5** are linked to the sheet 4 'Cashflow' in the NBSHC spreadsheet and are protected. They are for predicted inflation and bank interest rates.

The sheet then shows the movement of withdrawable share capital. **Cells D to AQ9** are data entry cells for share capital in. Rows 10 and 11 then calculate shares withdrawn and share balance based on the assumption that there is no share withdrawal for the first 5 years and that the share withdrawal is set at 10% of the total share capital.

The sheet then itemises and totals cash in and also itemises and totals cash out. It uses this data to calculate the end of year cash position. It then expresses this graphical showing end of year cash position versus year for 40 years.

In this table of Cash in and Cash out only **Cells D23 and D24** are data entry cells. All other cells are calculated based on information in this sheet or taken from sheet 8 'Loan Stock' in the NBSHC spreadsheet.

Cell D23 is for Accountants Fee.

Cell D24 is for the Finance Contract.

2) P& L (Profit and Loss)

This sheet predicts the Profit and Loss of the investment community benefit society for 40 years.

It separates out income and expenditure from cash movements and calculates the yearly surplus.

It then expresses this graphically, showing predicted surplus against year for 40 years.

There are no data entry cells in this sheet.

3) Balance Sheet

The sheet predicts the net worth and reserves of the investment community benefit society for 40 years.

It shows the amount of loan stock its owns, and its cash position. It then totals its assets and express them as net worth. It then shows how its worth is made up, split between members shares and its own reserves from its profit and loss account.

It then expresses graphically, the societies own reserves against years for 40 years.

There are no data entry cells in this sheet.

iii) Student housing co-op

This is the last spreadsheet that predicts future income and is linked directly to the NBSHC spreadsheet and is to be used to check affordability of lease income for the student housing co-ops.

There are eight identical spreadsheets that are linked to the eight properties in the NBSHC spreadsheet.

Each spreadsheet has three sheets.

1) Front Sheet

This sheet is in two halves. The left hand half shows the property details, bank interest rate and inflation all gathered from the NBSHC spreasheet.

It then has a number of data entry cells.

> **Cell C15** is for the weekly rent level. This is then used to calculate total rental income per year in **cell C17**

Cell C19 is for the percentage void level.

Cell C21 is for the withdrawable share purchase required from its members.

Cell C23 is the monthly maintenance costs.

Cell C25 is for start up costs – initial decorating, white goods purchasing etc.

Cell C27 is for contents insurance if required.

Cell C29 takes the lease amount form the NBSHC spreadsheet.

Cell C35 is for the accounts/ bookkeeping fees.

The right hand side is in case the student housing co-op needs a loan.

It has five data entry cells and then it calculates either the yearly interest payment or the monthly mortgage payment.

Cell L3 allows a choice between loan stock or mortgage type loan.

Cell L5 allows a choice between yearly interest payments or cumulative interest for loan stock.

Cell L7 is the loan amount.

Cell L9 is the length in years of the loan.

Cell L11 is the interest rate.

2) Year 1 Cash flow

This sheet predicts the cash flow for the first year of the housing co-op.

It has one data entry cell **D3** which allows for any starting cash.

It then itemises and totals the cash in and cash out for each month and calculates the end of month cash position.

3) 10 Year Cash flow

This sheet predicts the cash flow for 10 years.

It has no data entry cells

It itemises and totals the cash in and cash out for each year and calculates the end of year cash position.

iv) Lease income mathematical approach

This spreadsheet utilises the mathematical approach outlined above to find a fair level to set the lease amount at. This spreadsheet is to be used to get a rough idea of the lease amount and whether it its affordable to student housing co-ops. Once the lease amount has been calculated, this should be plugged into the NBSHC spreadsheet.

At the top it has five data entry cells and all the other cells gather their amounts from the NBSHC spreadsheet.

The five data entry cells are

> **D2** property value,
>
> **D8** the amount of own cash that NBSHC can provide without borrowing,
>
> **M4** the percentage of loan finance that is from loan stock sold to the investment co-op,
>
> **N8** the number of lettable space the property has and
>
> **P8** the weekly rent the student housing co-op will charge.

It then creates a table with the columns headed by lease income expressed as a percentage of the property price. The table looks at 1 to 15% in 0.5 increments.

The rows show the percentage of the property price that it is needed to set the lease income at to make an ongoing profit, and to meet the cash flow requirements. The cash flow requirements are split into repaying all the capital or just the mortgage capital, planning on refinancing when the loan stock matures.

There are then four blocks of rows that correspond to the stamp duty bands. There will only be entries in the block of rows that correspond to the stamp duty band of the property.

Each block has four rows. The top row expresses the extraordinary costs as a percentage of the property value. These are stamp duty, survey costs, loan arrangement fees and legal fees. The next three rows show

> a) whether that column's lease level can meet the ongoing profit + extraordinary costs,
>
> b) whether that column's lease level can meet the cash flow levels with all capital repaid + extraordinary costs or
>
> c) whether that column's lease level can meet the cash flow levels only paying back the mortgage capital (expecting to refinance loan stock)+ extraordinary costs.

There are then two blocks of rows that look at whether that lease level is affordable to student housing co-ops.

The two blocks correspond to whether there is stamp duty or not on the lease level.

There are two rows in each block. The top row expresses yearly rental income as a percentage of property prices. The bottom row calculates the ongoing expenses for the student housing co-op and expresses whether the rental income could met them.

For a lease level to work it must show a yes twice in the same column. This yes must be in both, one of the two student housing co-op blocks and at least the cash flow refinancing loan stock row in the appropriate NBSHC block.

v) SDLT (Stamp Duty) on leases

This spreadsheet is used to calculate the Net Present Value of a periodic lease at yearly intervals. This then calculates the whether stamp duty is to be paid, the stamp duty to be paid to date and who much stamp duty is due in each year.

It has one data entry cell C3. This is for the lease amount in year one.

f) An example financial model

This report has used the above spreadsheets todevelop an example viable financial model. This example shows that the concept of NBSHC can work and exist as a profitable business if it follows the guidance produced by this report. This example answers the question “Is a national body of student housing co-ops feasible?” with a resounding yes!

This example takes advantage of the fact that NBSHC is a national body. This allows NBSHC to initially purchase properties in areas where property is cheaper e.g. Bradford and Nottingham. This means that NBSHC can rapidly build up a reserve and cash surplus. It can then use this cash surplus to buy properties in other less cheap areas.

To develop this model, this report researched available properties in each area. These properties were run through the “Lease income mathematical approach” spreadsheet to check their affordability, based on the rent levels requested by each student housing co-op. The properties that were the most affordable were then plugged into sheets 'Properties 1-8' in the “NBSHC” spreadsheet.

This report then put the requested rent levels in the “Student Housing Co-op” spreadsheets to double check that the housing co-ops could afford the lease levels set.

All the properties in Bradford showed Bradford Housing Co-op making over £10,000 a year surplus and so the lease level for Bradford properties was increased so that the surplus was transferred to NBSHC.

The report then recommended using Unity Trust Bank for the mortgages for these properties as it had the best interest rate. It entered three mortgages and three loan stock issues that covered the total cost of properties purchased in each year as well as all extraordinary costs associated with the property purchases e.g. Stamp Duty, Legal Fees, Survey and Loan Arrangement Fees. This showed NBSHC making a very healthy surplus and increasing its cash position rapidly.

This report then put the properties that were slightly less affordable through the “Lease income mathematical approach” spreadsheet with NBSHC having its own cash position in year 5 and these properties where then all affordable.

The report then looked at the amount of share capital that the Investment Community Benefit Society needed to raise to purchase the loan stock NBSHC needed to sell. It found that the amount needed was below the £800,000 break even point if loan stock was set at 3%. It therefore set this initial loan stock at 3.25%. This is explained in more detail at the end of section 8 f ii) investment body.

In this model NBSHC buys eight properties in the first three years. Three properties are in Bradford, four are in Nottingham and one is in Sheffield. NBSHC issues £635,000 of loan stock in the first 3 years and borrows £710,000 as a mortgage style loan from Unity Trust Bank. It can pay back all its loans and has a predicted net worth of £377,000 by the end of year 5.

The spreadsheets for the model are included in their entirety in Appendix 9) Example financial model.

The different bodies are outlined in more detail below.

i) NBSHC

1) Year one

In year one NBSHC buys two 13 bed properties in Bradford. These cost £200,000, all the properties mentioned are included in Appendix 2. These properties are leased to Bradford Student Housing Co-op for £35,000 each. It also purchases two four bed properties in Nottingham. These cost £150,000 and £155,000 respectively. These are leased to Nottingham Student Housing Co-op for £11,375 each. To achieve this NBSHC issues £360,000 worth of loan stock to the investment community benefit society and borrows £360,000 from Unity Trust. All other variables are at the rates outlined in Section 8b) Explanation of assumptions.

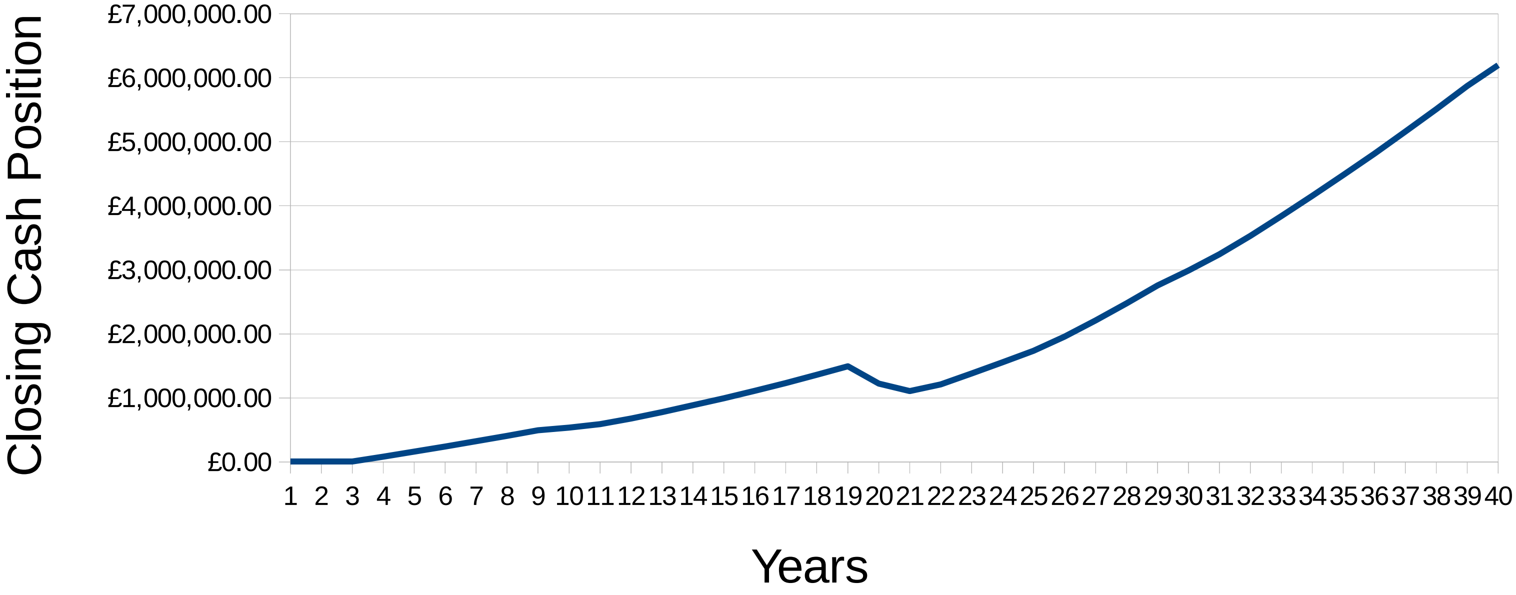
2) Year two

In year two NBSHC buys one ten bed property in Bradford. This costs £200,000 and is leased to Bradford Student Housing Co-op for £25,000 per year. It also purchases two four bed properties in Nottingham. They cost £175,000 and are leased to Nottingham Student Housing Co-op for £11,375 per year each. To achieve this NBSHC issues £230,000 of loan stock and borrows £270,000 from Unity Trust Bank.

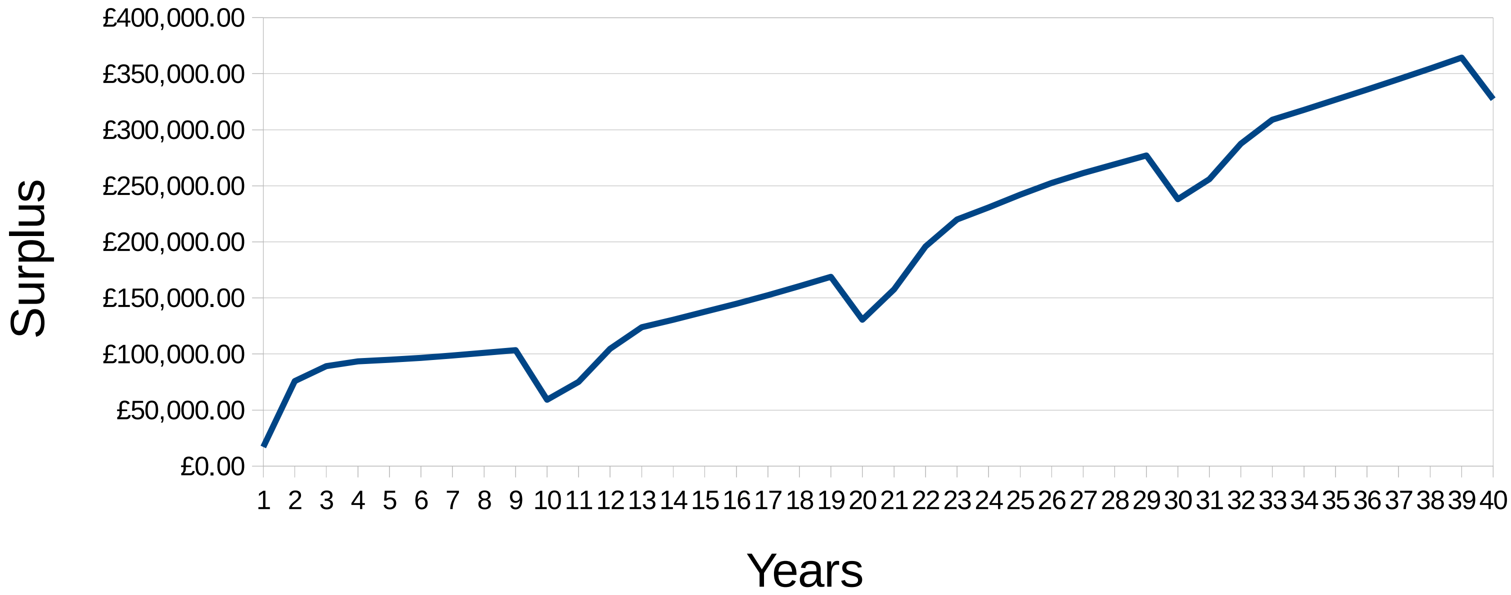
3) Year three

In year three NBSHC buys the property that Sheffield Student Housing Co-op currently lease. This costs £195,000 and is leased for £12,675 per year. It achieves this by issuing £45,000 worth of loan stock and borrowing £80,000 from Unity Trust.

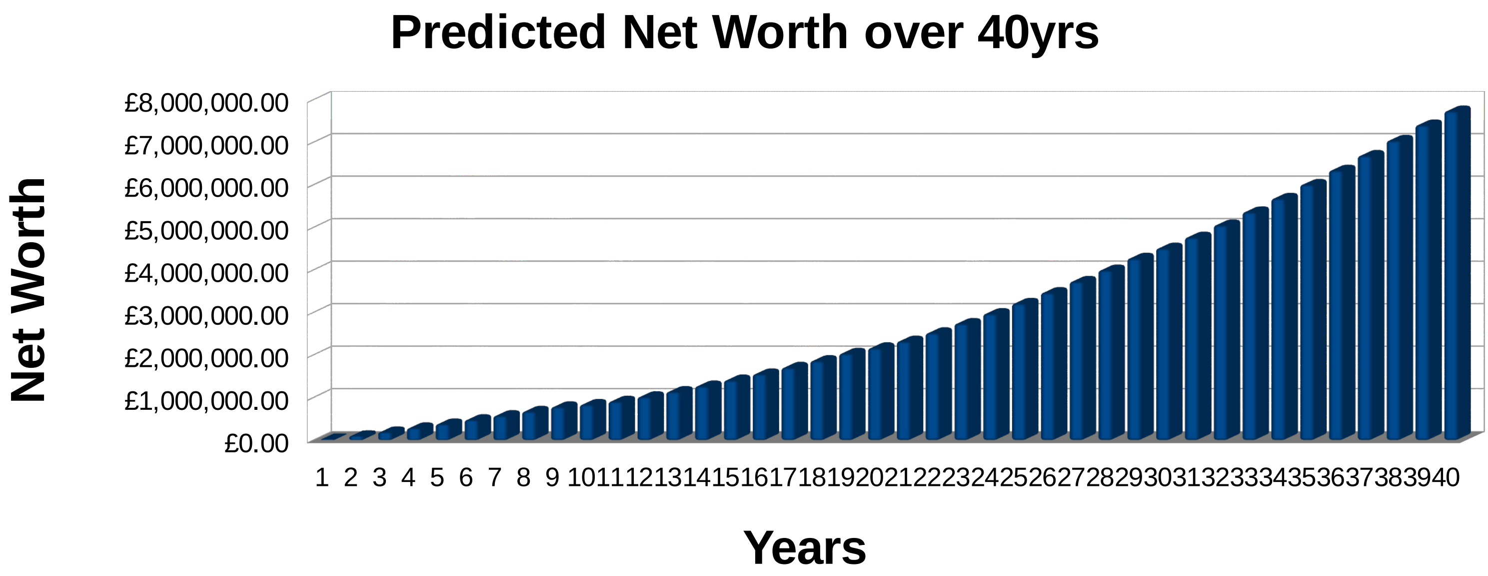
If NBSHC undertakes the above transactions then the graphs below show its predicted cash flow, annual surplus and net worth for the next 40 years.



Closing Cash Position
£7,000,000.00
£6,000,000.00
£5,000,000.00
£4,000,000.00
£3,000,000.00
£2,000,000.00
£1,000,000.00
£0.00
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
Years



Surplus
£400,000.00
£350,000.00
£300,000.00
£250,000.00
£200,000.00
£150,000.00
£100,000.00
£50,000.00
£0.00
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
Years



This model clearly shows that NBSHC makes a substantial profit very quickly and soon builds up cash reserves to purchase more properties.

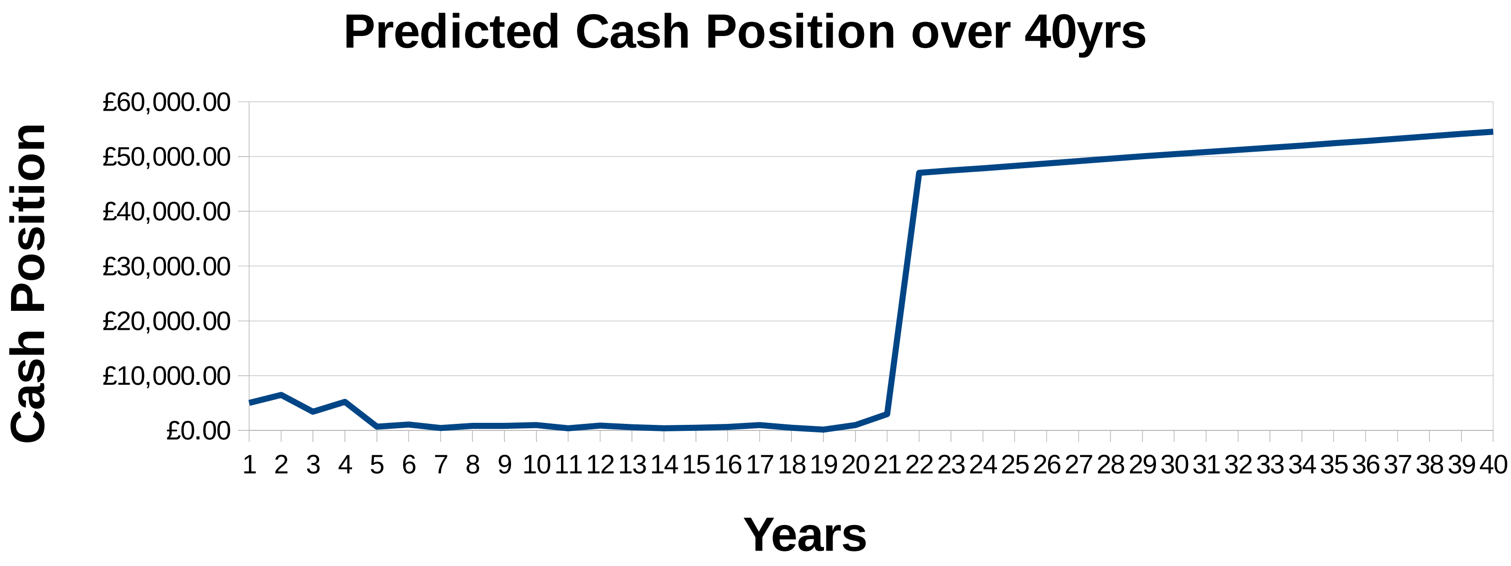
ii) Investment Body

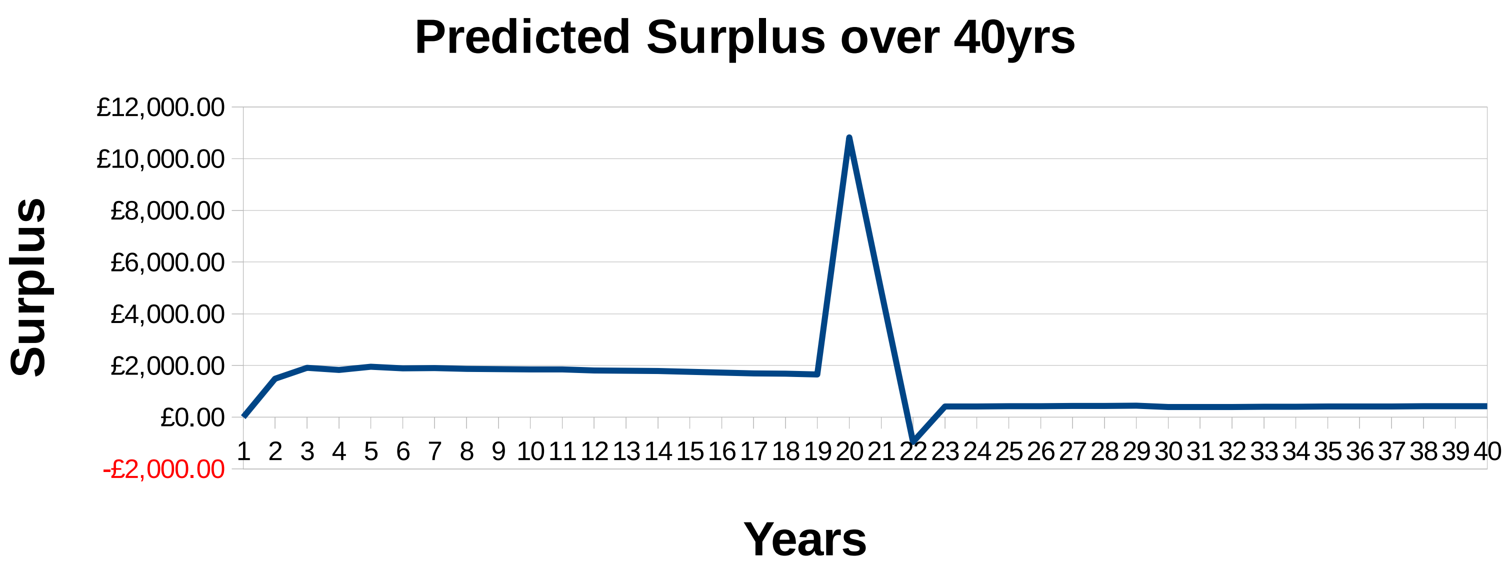
The investment community benefit society needs to raise £365,000 worth of shares in year one to cover the purchase of loan stock and create a reasonable cash reserve. It then needs to raise a further £230,000 in year two and £40,000 in year 3. After this it needs to replace the share capital lost through withdrawal, but makes enough surplus to always need less reinvestment than withdrawal.

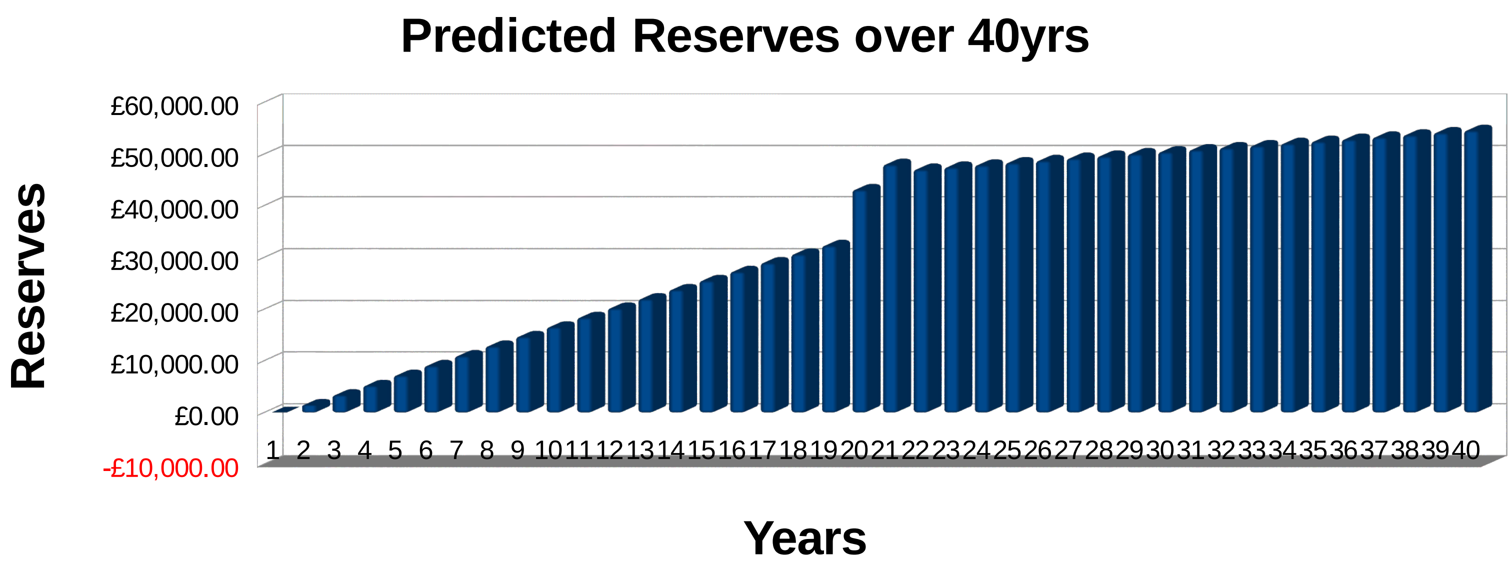
It slowly reduces its share capital from £635,000 in year three to £603,000 in year 19. In years 20 and 21 as its loan stock matures in can then reduce its share capital to zero. In this model it is left with £47,000 of cash and balance sheet reserves.

Once the loan stock matures, if share capital is not repaid, then it will quickly make a substantial loss. To show the share capital withdrawn in this model, this report has modified the investment body spreadsheet. This new spreadsheet is called *investment body modified*.

In this model the investment body has the following predicted cash flow, surplus and reserves over 40 years.


Predicted Cash Position over 40yrs
Cash Position
£60,000.00
£50,000.00
£40,000.00
£30,000.00
£20,000.00
£10,000.00
£0.00
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
Years


Predicted Surplus over 40yrs
Surplus
£12,000.00
£10,000.00
£8,000.00
£6,000.00
£4,000.00
£2,000.00
£0.00
-£2,000.00
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
Years


Predicted Reserves over 40yrs
Reserves
£60,000.00
£50,000.00
£40,000.00
£30,000.00
£20,000.00
£10,000.00
£0.00
-£10,000.00
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40
Years

In this model the initial loan stock is offered at 3.25% to enable the community benefit society to meet its fixed costs. It has fixed costs of approximately £4000 per year. If it buys loan stock at 3.25% and offers 2.5% on its withdrawable share capital then it has a gross profit margin of 0.75% and a break even point of just over £530,000. If the amount of loan stock brought was higher it could buy loan stock at 3%. In this instance the profit margin would be 0.5% and the break even point would be at £800,000.

The assumption of 3% in most of this report is based on the community benefit society purchasing more than £800,000 of loan stock. If NBSHC sticks to a 50:50 funding mix then this will be reached after buying 8 properties in the cheaper areas.

The more loan stock bought the higher the surplus of the community benefit society. It would therefore be in the interest of the community benefit society to reinvest in NBSHC to help it buy more properties.

This model also uses the annual surplus created by the investment community benefit society to reduce its amount of withdrawable share capital. If the society was to reinvest this capital as more loan stock it would also gain more surplus. As the amount of loan stock and therefore surplus increases it would be reasonable for the society to offer shares at a slightly higher interest rate e.g. 2.75 or 3 %

iii) Property 1

This is a 13 bed property on Great Horton Rd, Bradford. It is leased at £35,000. It can set a weekly rent level of £65 a week, which is the lowest level requested by Bradford Student Housing Co-op. At this rent level Bradford Student Housing Co-op will make a cash surplus of approximately £3000 a year.

iv) Property 2

This is a 13 bed property on Ashgrove, Bradford. It is leased at £35,000. It can set a weekly rent level of £65 a week, which is the lowest level requested by Bradford Student Housing Co-op. At this rent level Bradford Student Housing Co-op will make a cash surplus of approximately £3000 a year.

v) Property 3

This is a four bed property on Swenson Avenue, Nottingham. It is leased at £11,375. It can set a weekly rent level of £71 a week, which is in the lower end of market rents for students in this area. At this rent level Nottingham Student Housing Co-op will make a cash surplus of approximately £600 a year.

vi) Property 4

This is a four bed property on Fredrick Grove, Nottingham. It is leased at £11,375. It can set a weekly rent level of £71 a week, which is in the lower end of market rents for students in this area. At this rent level Nottingham Student Housing Co-op will make a cash surplus of approximately £600 a year.

vii) Property 5

This is a 10 bed property on Pemberton Drive, Bradford. It is leased at £25,000. It can set a weekly rent level of £65 a week, which is the lowest level requested by Bradford Student Housing Co-op. At this rent level Bradford Student Housing Co-op will make a cash surplus of approximately £3000 a year.

viii) Property 6

This is a four bed property on Coleby Avenue, Nottingham. It is leased at £11,375. It can set a weekly rent level of £71 a week, which is in the lower end of market rents for students in this area. At this rent level Nottingham Student Housing Co-op will make a cash surplus of approximately £600 a year.

ix) Property 7

This is a four bed property on Cloister Street, Nottingham. It is leased at £11,375. It can set a weekly rent level of £71 a week, which is in the lower end of market rents for students in this area. At this rent level Nottingham Student Housing Co-op will make a cash surplus of approximately £600 a year.

x) Property 8

This is a five bed property on Northfield Rd, Sheffield. It is leased at £12,675. It can set a weekly rent level of £66 a week, which is £1 a week higher than requested. It will need to issue £500 of loan stock to see it through the first year. At this rent level Sheffield Student Housing Co-op will make a cash surplus of approximately £900 a year.

g) Time frame until self sustaining

This is a difficult question to answer. There are many different definitions of self sustaining. The above model shows that NBSHC would not need to borrow any more money after year three and will pay all outstanding debts by year twenty eight. However it would make sense for NBSHC to buy more properties and it doesn't have the cash to buy more properties outright until year six. It can also only buy properties in either Bradford, Nottingham or Sheffield at that point. It would take until year eight to be able to purchase the £368,000 Birmingham Student Housing Co-op property outright and year 32 to buy the 3,500,000 Edinburgh property outright.

It is the amount of cash that NBSHC has that is most important for buying properties. The larger its own pot of cash the less it needs to borrow and the cheaper the cost of finance. In the above model NBSHC has £83,000 of cash to put towards buying the next property in year 4. If we look at the property in Birmingham to afford the £368,000 purchase price a lease income of 7.5% of the purchase price is required. This would require a rent level of £69 a week. This is substantially above what they wish to pay. If in year 4 NBSHC used its £83,000 to reduce the amount it needed to borrow then the lease level could be reduced to 6.5% which would in turn allow the rent level to be reduced to £53.50 a week. This would then make this property affordable.

This report shows that if its financial guidelines are followed it NBSHC can afford more properties including ones that are currently unaffordable. It can also repay all its debts and not need to refinance.

h) Lease to buy

A request was made by Nottingham Student Housing Co-ops for this report to examine Lease to Buy options. There are many forms of Lease to Buy, but they all follow a basic scheme.

The owner and potential purchaser agree a lease term over which the potential purchaser pays the owner a periodic rent. This periodic rent should cover both the normal rent and a rent credit which allows for the potential purchaser to build up a deposit for the eventual purchase. At the end of the lease term the potential purchaser has first option on the property at a pre-agreed price. It is usual to agree the eventual selling price at the start of the lease term.

In the event of the potential purchaser going ahead with the purchase the deposit accrued during the lease term is released and forms part of the sale. If the purchaser doesn't wish to go ahead with the sale, or can't secure the rest of the finance, the deposit is not returned and the purchaser is released from the responsibility of the sale.

There is also a down payment at the start of the lease from the potential purchaser, often called the option fee. This is the potential purchaser buying the right to purchase the property later. This fee can be nominal. This also will form part of the deposit at the end of the lease term. In the event of a non sale it is also not returnable.

This report can not see any problems for NBSHC in creating a lease to purchase scheme. It can however see potential pit falls for the student housing co-ops.

i) Benefits

This scheme will benefit NBSHC in its primary aim of setting up more student housing co-ops. If the purchase went ahead NBSHC will free up lots of capital to enable it to purchase other properties, but the sale of part of its existing portfolio will be to a student housing co-op. This will be a net increase in student housing co-ops.

This scheme has no financial risk to NBSHC. This is due to the non returnable nature of the rent credit so if the student housing co-op can't find finance or pulls out of the sale then NBSHC gains the rent credit. The monthly payments will also cover the normal lease payment and therefore NBSHC's expenses relating to this property will be covered.

The main risk to sellers of property through lease to purchase schemes doesn't apply in the case. The risk is that a purchase price is agreed at some point in the future. If during this time there is a massive increase in property prices then the seller will be selling at a below market levels at the point of sale. This is not important in this case as NBSHC would otherwise not be selling this property. NBSHC will not have realised any capital gain due to increase in property prices. NBSHC will therefore not make a loss.

There are a number of advantages to the student housing co-ops. By entering a lease to buy agreement they will automatically be saving up for the purchase deposit. This scheme allows the student housing co-op to begin trading with very little initial capital outlay. At the point of purchase the student housing co-op will have a trading record, this should make it easier for them to access loan finance.

ii) Potential problems.

There are two main problems for the student housing co-op.

> 1) If they can not raise the rest of the finance at the point of purchase then they will lose all the extra payments they have made. This can be minimised by making the initial option fee a nominal amount of one pound.
>
> 2) The monthly payments will be larger than otherwise. These payments will have to cover the normal lease level and have an additional amount for the rent credit. This will mean that the members of the student housing co-op will be required to pay a higher rent to cover this extra payment. The students paying this higher rent, will not be the students that will be members when the option to purchase matures.

iii) Recommendations

This report recommends that, if a student housing co-op wishes to enter into a lease to buy scheme with NBSHC, then NBSHC should create one.

This report recommends that any initial option fee should be of a nominal amount of one pound.

This report recommends that the rent credit should cover 20% of the agreed purchase price split equally over the duration of the lease. This is because the Student Housing Co-op would only be able to get a mortgage for 80% of the purchase price and so needs to save a deposit of 20%.

This report recommends that the lease level should be set as if there was no lease to buy agreement and then the rent credit added on top.

The report strongly recommends that NBSHC does not subsidise the student housing co-op by reducing the normal lease level. This would mean that NBSHC would not be covering its costs on that property.

9) Organisational Structure

The parameters for this report outlined by Students for Co-operation include that NBSHC's decision making must rest primarily with the student housing co-ops and that decision making must use a consensus based model.

All the potential financial lenders approached required that NBSHC had experienced co-operators and people with business experience on the board.

There is also a requirement for businesses to be able to make decisions in situations where consensus cannot be reached.

To reconcile these potentially conflicting positions this report recommends the following organisational structure.

a) Decision making

NBSHC's decision making body is a general meeting of its membership. All members may have one voting delegate at each meeting, although attendance by non voting members of NBSHC's member co-ops is to be encouraged. Decisions are to be made by consensus minus 1/6th of its membership.[10]). If the same motion is brought to the general meeting three times and consensus can not be reached a vote should be taken on that motion, requiring a ¾'s majority to pass. General meetings should happen at least quarterly. This model meets the needs of the client to have decision making predominantly by consensus and the business need of being able to make decisions when consensus can't be reached This structure is based on Radical Routes' decision making process. Radical Routes manages to make quick decisions on issues that need a speedy resolution, but also achieve consensus on decisions that have wider ramifications. Experience has shown that it is only extremely divisive issues that eventually force a vote if people aim for consensus. In the 25 years of Radical Routes there have been three votes.

b) Finance Board

This report recommends an additional financial board. This board exists to supervise the ongoing finance of NBSHC and any large business decisions, e.g. the decision to buy a new property. This board is not empowered to make decisions, but may be given power by the general meeting to make certain non material decisions e.g. which bank account should NBSHC's money be in to gain the most interest. The role of this board in bigger decisions e.g. the affordability of buying a new property, is to make recommendations that should be approved or not by the general meeting.

This organisational structure is also based on Radical Routes' structure. Radical Routes have been

10 This means that in an organisation with 5 members the agreement of all members is required to reach consensus; in an organisation with 7 members the agreement of all but one is required; and in an organisation with 13 members, the agreement of all but 2 is required etc.

making decisions on loans for the past 25 years with a current loan portfolio of over £750,000 and have never had any bad debt. Within Radical Routes there is a finance group that makes recommendations on the viability of any loan applications. However, the final decision about loan applications rest with the general meeting of delegates. Radical Routes has found this a successful way of making consensus based business decisions where a small group have specialist knowledge but all members are involved in the decision making

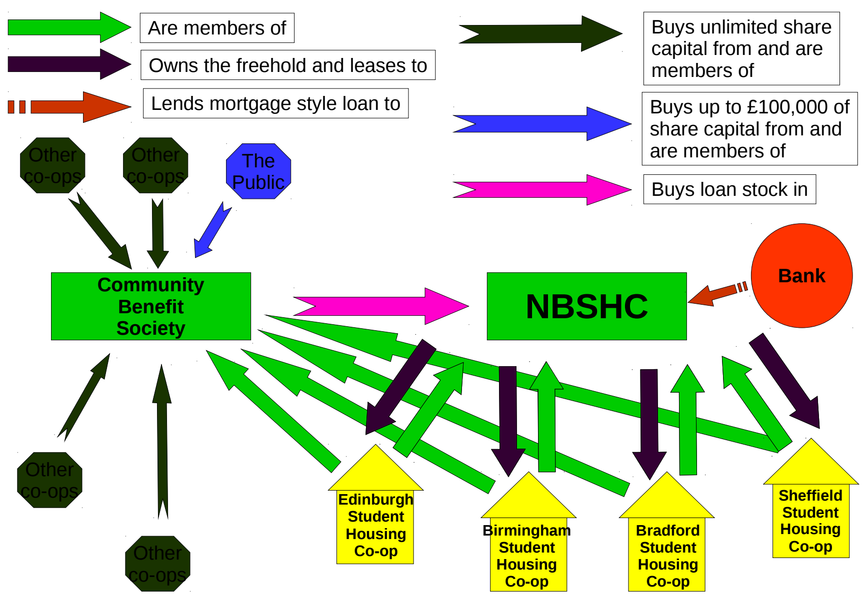
This report recommends that the finance board is composed of NBSHC's administrative worker, volunteers from NBSHC's member co-ops and members of the board of of the investment community benefit society. A further recommendation is that loan stock is only bought by the community benefit society on condition of at least two of its board members to be co-opted onto the finance board of NBSHC.

This report also recommends that NBSHC employs or contracts out the equivalent of one day a week's work. The person or organisation contracted will be responsible for managing the day to day finances of NBSHC, preparing end of year interest payments, checking that lease payments have been made as well as being a point of contact for co-ops wishing to receive support from NBSHC.

In addition this report recommends that NBSHC have on contract a person/ organisation that can provide back office services for its member co-ops, e.g. invoicing, rent collection, book keeping and bill paying. This is intended as an additional service that member co-ops can pay for if they need to. If possible this person/ organisation and the person/ organisation above are the same.

Neither of the two aforementioned people/ organisations are to have decision making powers but are accountable to the general meeting of NBSHC. It is however recommended that they sit on the financial board.

This report also recommends that all members of NBSHC must be members of the investment community benefit society. This is an important factor in the financial stability of NBSHC. As the beneficiaries of the investment community benefit society, they should be able to hold the society to account. This should be made a condition of membership of NBSHC. The legal structure would now look like this:



10) NBSHC as a mutual aid co-operative

For the long term financial security of NBSHC there needs to be ongoing support to its members. These student housing co-ops will have a much higher turnover of members than many other co-ops. This creates some additional risk factors for the sustainability of the student housing co-ops. These risk factors include lack of continuity of experience, limited time for hand overs and difficulty in in-coop peer to peer training. Any risk to its members will also create risk for NBSHC. This is because NBSHC receives the most of its income from its members.

NBSHC as an overarching organisation is well placed to address these risk factors.

This report therefore recommends that all member co-ops are required to contribute a number of hours of voluntary time to the running of NBSHC. This report recommends that each member co-op is required to donate on average half a day a week for every 5 people in its membership.

This work commitment shall be carried out within one of a number of working groups within NBSHC. These groups should have no decision making powers and be accountable to the general meeting. Working groups should be responsible for the management of pre-agreed budgets, to enable them to carry out their work. The role of these groups is not only to carry out the tasks to enable them to fulfil their responsibilities, but more importantly to build up a body of knowledge and to provide for continuity of that knowledge within NBSHC.

This report recommends that at least the following working groups are set up:

a) Finance Board – This should oversee the finance side of the work of the admin worker, make recommendations on business decisions and provide support to the treasurer.

b) Training Group – This should develop accessible trainings for members of student housing co-ops on all elements of running a successful co-op.

c) Mediation Group – This should provide mediation to the tenants within student housing co-ops to enable them to continue to function effectively and continue to paythe lease.

d) Communications Group - This should be responsible for communication between NBSHC and the wider co-operative network, to enable NBSHC to access ongoing support. It should also be responsible for publicising the idea of student housing co-ops to the wider student population.

e) Gatherings Group – This should be responsible for organising the quarterly general meetings.

f) Secretarial Group – This should provide support to the Secretary and oversee the administrative side of the work of the admin worker.

g) Legal Group – This group should be responsible for keeping up to date on any legal changes that may affect NBSHC. This will include changes to co-operative legislation as well as any changes to tenancy and housing law.

h) Buildings Group – This group will be responsible for overseeing the maintenance of

NBSHC's properties. It will also be responsible for developing a database of building and architectural skills within NBSHC.

As well as these different working groups that are required to keep NBSHC running smoothly this report recommends a number of trainings that all new groups and new members of existing groups should undertake. This report recommends that new groups must undertake these trainings as a condition of membership of NBSHC. It also recommends that all student housing co-ops have a set of workshops that new members must undertake. These workshops should be developed by the trainings working group but can be delivered within the student housing co-op or at pre-advertised points in the gatherings of NBSHC.

This report recommends that all new groups must have all their members attend the following workshops: introduction to consensus, introduction to facilitation, introduction to NBSHC, introduction to the roles and responsibilities of co-op members, how to run a successful housing co-op.

This report proposes that any future new members of student housing co-ops should also attend the above workshops.

It also recommends that all times at least two members of each student housing co-op have attended the following workshops: Financial literacy for co-ops, introduction to NBSHC's finances, introduction to mediation and introduction to co-op law.

11) Risk management

a) SWOT analysis

Strengths	Weaknesses
1. NBSHC will be an exciting new organisation and will be able to attract lots of support from the wider co-operative movement. 2. NBSHC already has lots of support from large organisations such as The East of England Co-operative Society, who funded this report. 3. The concept of student housing co-ops has support from other large organisations e.g. The Phone Co-op who have funded the purchase of properties for student housing co-ops. 4. There are already three student housing co-ops in existence who can support NBSHC from an existing position. 5. There are other secondary co-ops that provide mutual support between co-ops. NBSHC can learn a lot and get support from these organisations. 6. As NBSHC has a national reach it can use the surplus generated by co-ops in areas where property is relevantly cheap to fund the development of co-ops in areas that co-ops have traditionally found it hard to get started. 7. As a larger organisation NBSHC can access finance and services at a cheaper rate than individual co-ops. 8. After its first year of trading NBSHC will always have a strong equity base. 9. It has the in principal support of four mortgage lenders.	1. NBSHC is a new organisation with no track record and many new businesses fail within the first five years. 2. NBSHC is cash poor and the cost of borrowing is the biggest expense in any property management business. 3. There is a tight deadline to set up before the next academic year. 4. The membership of NBSHC's member co-ops will turnover relatively quickly. 5. The term based nature of student renting means that co-ops can only start at specific points in the year.
Opportunities	**Threats**
1. Once NBSHC's model is developed it will be much easier to negotiate with the bigger players in this sector, e.g. NUS, Universities, Councils etc. This will enable more properties to be available. 2. There is plenty of free publicity available through national newspapers and co-	1. The Bank of England base rate could increase to a level where the cost of borrowing is prohibitive. 2. The cost of property may increase at a faster rate than the income available from renting. 3. The membership of NBSHC's member

operative networks due to the interesting and novel nature of this enterprise. This could be really useful in the launches of attempts to get capital. 3. NBSHC may become a registered provider, enabling access to more properties and not having to pay stamp duty on certain purchases. 4. NBSHC could grow to a size where it is better to split geographically and spawn other NBSHC's. 5. The stable base of many student housing co-ops could provide a platform for the creation of many other student co-ops. 6. The exposure of students at a formative time in their lives to co-operative values may help to grow the co-operative movement and create life long co-operators.	co-ops may turn over before systems are in place to enable continuity of experience. 4. A co-op may not pay its rent. As rent is to be paid quarterly in arrears expenses will occur before the lack of income is noticed. 5. A member co-op may become dysfunctional. 6. If a member co-op becomes dysfunctional it may take a while to find another co-op to become tenants. 7. NBSHC could grow to a point where there is member disengagement and a reduction in the democratic nature of the organisation. 8. The creation of a national network of housing co-ops that has financial obligations may allow housing co-ops to become the sole focus of SfC.

b) Risk assessment

Threat	Likelihood (1-10)	Severity (1-10)	Combined threat score (%)	Mitigation
The Bank of England base rate could increase to a level where the cost of borrowing is prohibitive.	7	8	56	NBSHC should reduce the amount borrowed from a traditional mortgage provider by increasing the amount of loan stock issued. NBSHC should always allow for the possibility of an increase in mortgage interest rates whenever making financial forecasts or business decisions. NBSHC should aim to keep a cash reserve equivalent to one percentage point increase in mortgage repayments for one year.
The cost of property may increase at a faster rate than the income available from renting.	6	7	42	NBSHC can use the surplus it has developed from its other properties to subsidise the purchase of new properties. NBSHC can use this time as a period of consolidation until such time that rental incomes rise to match.
The membership of NBSHC's member co-ops may turn over before systems are in place to enable continuity of experience.	5	7	35	NBSHC's inaugural meeting should create working groups. It should be the first task of all working groups to discuss methods of keeping knowledge at an organisational level and to make sure that it doesn't leave the organisation with key personnel.
A co-op may not pay its rent. As rent is to be paid quarterly in arrears expenses will occur before the lack of income is noticed.	4	8	32	NBSHC should have robust systems in place to monitor the health of its member co-ops. Member co-ops should be obliged to submit their accounts to NBSHC, attend quarterly gatherings and report on the state of their co-op. NBSHC should aim to have cash reserves equivalent to a quarter's expenses to cover this possibility. NBSHC should aim to have these reserves at a set period e.g. five years. This will be a reduced risk factor during the initial stages as experience has shown that the founder co-operative members of NBSHC are more likely to function properly during this period. It would also

				be difficult for NBSHC to accumulate extra cash during this period (in fact it would have to come from borrowing which would be counter productive as that would incur an additional cost). NBSHC should ring fence properties where ever possible. This means that NBSHC should, as much as possible, only secure a mortgage on the property that the money was borrowed to purchase. This will reduce the amount of properties affected.
A member co-op may become dysfunctional.	4	7	28	NBSHC should have peer to peer support systems in place to support any co-ops that are dysfunctional. NBSHC should have a training group and insist that all its member co-ops have at least 2 people undergoing each of the trainings it develops once a year. NBSHC should have a mediation group to step in when tenants within a housing co-op are in conflict. NBSHC must be prepared to evict co-ops that aren't engaging or fulfilling the criteria of their lease.
If a member co-op becomes dysfunctional it may take a while to find another co-op to become tenants.	3	8	24	NBSHC should engage with its members in the manner described above and prevent this situation occurring. NBSHC should be aware of this oncoming situation for a while before crisis occurs. This will give NBSHC time to reach out to other co-ops or student groups in the area of its property. NBSHC's communication group should have good working relationships with the students union, and other student groups in all areas where it has properties.
NBSHC could grow to a point where there is member disengagement and a reduction in the democratic nature of the organisation.	5	4	20	NBSHC should insist that members of its member co-ops regularly attend general meetings and that the delegate role is rotated as a condition of membership. NBSHC should plan to federate when it reaches 20 members. At the point of 20 members it should split into 2 co-ops of 10 co-ops. The split should be

				done geographically. A transfer of engagements should be used to divide the assets and liabilities between the two new co-ops. This should be done equitably. NBSHC will then become a federal co-op of 2 members. If at any point one of these new co-ops grows to 20 members it should repeat the above process, making NBSHC be a federal co-op of 3 members etc.
The creation of a national network of housing co-ops that has financial obligations may allow housing co-ops to become the sole focus of SfC.	3	6	18	Whilst NBSHC should have its gatherings simultaneously with SfC, SfC should have time in these gatherings that is taken up by non NBSHC business. This report recommends a day that has NBSHC and the rest of SfC members meet separately and one day where they meet together,

12) Conclusion

This report set out to examine the feasibility of setting up a National Body of Student Housing Co-ops. It also examined whether a National Body of Student Housing Co-ops would overcome the issues preventing the expansion of student housing co-ops. Finally this report set out to develop a workable business model for the new National Body of Student Housing Co-ops.

This report investigated the needs of its client, Students for Co-operation. It then undertook market research to establish the need for this body, investigated the needs of any potential student housing co-ops and the availability of suitable properties.

This report then pulled together all the appropriate legislation and regulator interpretation of this legislation. It approached potential lenders and received feedback as to whether their previous concerns would be meet by this new body. It also outlined all the financial constraints that would limit the choice of structure and business model.

This report then detailed five potential legal structures and examined their ability to receive capital and the control and membership of these organisations. It outlined the advantages and disadvantages of each and then made a recommendation as to the most appropriate legal structure.

This report then looked at the potential revenue and capital streams of each organisation. It made some assumptions based on experience and detailed these. It then looked at how to develop guidelines for lease levels and the affordability of properties. It used this work to create a set of financial guidelines for any future NBSHC and using these guidelines developed a working example financial model,

This report finally examined decision making within NBSHC and its organisational structure. It also examined the role of NBSHC as a support network and mutual aid co-operative.

a) Findings

This report has found that it is feasible to set up a National Body Student Housing Co-ops. It has found that this new body can overcome the limits to expansion in the sector of student housing co-ops. It has also developed a working business model for NBSHC.

This report has found that as a mutual aid and support network, NBSHC can over come the barriers due to lack of experience by the development of training workshops that are made a condition of membership of NBSHC. These workshops will also overcome the obstacles to expansion caused by the high turnover of members by creating pathways for knowledge to flow to new members, and allow knowledge to stay at an organisational level. The creation of student housing co-op specific legal documents e.g. tenancy agreements and student housing co-op model rules will also increase the level of support available.

This report has found that by setting up a secondary co-op that owns the freehold of properties and leases these to its members, the student housing co-ops, NBSHC can overcome the hurdles caused by lack of finance and affordability.

This report has found that co-operative lenders that were unwilling to lend directly to student housing co-ops are willing to lend to NBSHC. They are willing to lend to NBSHC as NBSHC will have experienced people with capital invested on its financial board.

This report has found that NBSHC can initially purchase properties in areas of relatively low property prices. As a national body NBSHC can then use the surpluses built up from leasing these properties to reduce the borrowing required to purchase properties in more expensive areas. This reduction in borrowing reduces the cost of finance and thereby increases the affordability of property.

b) Recommendations

This report concludes that this project should continue.

This report advises that NBSHC is incorporated as a secondary co-op whose members are fully mutual housing co-ops. NBSHC should purchase the freehold of properties and then lease them to its members.

This report recommends that NBSHC sets up an Investment Community Benefit Society that issues withdrawable shares to other co-ops and the public. The Investment Community Benefit Society should use this capital to buy loan stock from NBSHC.

It is the opinion of this report that NBSHC should purchase properties in Bradford and Nottingham in the first two years. NBSHC should buyas many properties at the prices included in the example financial model as it can raise the share capital for, up to the limit of members wanted by Bradford and Nottingham Student Housing Co-ops. This report recommends that NBSHC uses Unity Trust Bank as their mortgage provider for these properties.

This report proposes that NBSHC uses the surplus generated by the lease of these properties to purchase more properties as NBSHC builds up enough cash reserves to make them affordable.

This report also recommends that NBSHC is set up as a mutual aid network. It strongly advises that NBSHC employs a part time support worker for its members. It also advises that a condition of membership of NBSHC should be the contribution of voluntary time to the smooth running of NBSHC and the support of other co-ops within it.

To achieve the above ends this report recommends implementing the following as *Phase 2* of this study:

- It recommends a business plan is written based on the specific properties agreed by Bradford and Nottingham Student Housing Co-ops.
- It recommends that a standard lease agreement is drawn up for NBSHC.

- It recommends that a standard tenancy agreement is drawn up for student housing co-ops. It also recommends that the lease sets out that these tenancy agreements must be used.
- It recommends that a standard set of model rules for student housing co-ops is created. It also recommends that the lease agreement sets out that these model rules must be used. These rules should allow NBSHC to intervene in the management of the student housing co-ops if the co-op becomes dysfunctional. This includes failure to have general meetings, failure to pay the lease amount, failure to restrict tenancies to members and failure to comply with statutory requirements.
- It recommends that a loan stock agreement is drawn up that requires allocating positions on the financial board to the investment community benefit society.

This report has also made a number of recommendations in its various sections. They will be repeated below for the sake of clarity.

In section 4b) Availability of appropriate properties in required areas, this report concludes there are suitable properties within the affordability and area criteria for Bradford and Nottingham student housing co-ops.

In section 6b) Stamp Duty Land Tax on property purchase, this report concludes that if NBSHC is to enter a transaction that fulfils the other criteria for Stamp Duty Land Tax (SDLT) exemption, it should closely examine registering as a Registered Social Landlord (RSL) in order to avoid the large financial burden of the SDLT. If NBSHC does register as a RSL then when purchasing very large properties it should prioritise purchasing from qualifying bodies[11]. The National Lottery 'Power for Change' fund has lent to co-ops, to provide social housing and qualifies as a public subsidy under the Finance Act 2004.

In section 6b) Stamp Duty Land Tax on leases, this report concludes that SDLT due on the rent of leases does not materially effect the financial viability of a co-op.

In section 6c) The need for making a profit in loan based finance, this report concludes that taxation on the profit required is a potentially crippling burden. This report recommends that this burden limits NBSHC's choice of legal structure to one that satisfies the requirements for the exemptions outlined in sections 642 – 649 of the Corporation Tax Act 2010. These requirements are detailed in 5ai) Corporation Tax Act 2010.

In section 6di1) Interest on loans, this report concludes that the increase in cost of finance associated with an increase in property size is not a determining factor.

In section 6di2) Interest on shares, this report recommends that in order to receive the full benefit of the inflationary increase in its leases, this report recommends that if NBSHC has share capital, it

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11 A qualifying body is either (a) a registered social landlord, (b) a housing action trust established under Part 3 of the Housing Act 1988 (c. 50), (c) a principal council within the meaning of the Local Government Act 1972 (c. 70), (d) the Common Council of the City of London, (e) the Scottish Ministers, (f) a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994 (c. 39), (g) Scottish Homes, (h) the Department for Social Development in Northern Ireland, or (I) the Northern Ireland Housing Executive.

pays its interest annually.

In section 6dii) Loan arrangement fees, this report recommends that NBSHC reduces its exposure to loan arrangement fees as much as possible. This will require borrowing as much money as possible from non traditional lenders. In practice this will mean issuing loan stock to the Investment Community Benefit Society.

This report also recommends that early on NBSHC focusses on purchasing smaller properties. The surplus created from these properties can then be used to pay for the larger loan arrangement fees on the larger properties.

In section 8ai1a) The support and mutual aid network revenue, this report strongly recommends that this arm is treated as a stand alone business and there is no cross funding from elsewhere within NBSHC.

This report also advises that the expenses for this arm of the co-op should be funded through grants (where applicable), the registration of new student housing co-ops, voluntary member time and through a member subscription. It is recommended that the member subscription is weighted, based on the size of the member co-ops.

This report also recommends that NBSHC decides and prioritises its activities as a first step. After then costing these activities and seeking funding it should calculate its members' subscriptions at a level to match its expenditure. If members decide that the level of member subscriptions is too high, NBSHC should reduce its expenditure in order of decreasing priority.

In section 8aiib) Community benefit society capital, this report advises that the withdrawal of its withdrawable share capital is prohibited for the first 5 years of their investment. It also recommends that the rules of the society allow for the suspension of share withdrawal if the percentage of share withdrawal reaches 10% of the total share capital.

In section 8ci) Guide to lease levels and affordability, ongoing profit, this report finds that to make a surplus every year leases must be set at a level where Rental Income ≥ 4%V or 3.5%V + 1000 which ever is greater. (Where V is property price.)

In section 8cii) Guide to lease levels and affordability, meeting non-yearly expenses, this report finds that:

For properties costing less than £125,000, to cover all expenses the Rental Income must be set at a level of greater than 4.67%V+200. (Where V is property price.)

For properties costing between £125,000 and £250,000, to cover all expenses the Rental Income must be set at a level of greater than 4.87%V – 50.

For properties costing between £250,000 and £925,000, to cover all expenses, the Rental Income must be set at a level of greater than 5.17%V – 800.

For properties costing between £925,000 and £1,500,000, to cover all expenses, the Rental Income must be set at a level of greater than 5.67%V – 5425.

For properties costing more than £1,500,000, to cover all expenses, the Rental Income must be set at a level of greater than 5.87%V – 8425.

In section 8cv) Guide to lease levels and affordability, is this property affordable, this report finds that:

For properties costing less than £125,000, the value of the property must be less than LS (lettable spaces) x R (weekly rent levels) x 637.93 – 2998.50, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 640 minus 3000.

For properties costing between £125,000 and £250,000, the value of the property must be less than LSxRx619.36 + 727.80, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 620 plus 700.

For properties costing between £250,000 and £925,000, the value of the property must be less than LSxRx593.44 + 11157.60, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 590 plus 1100.

For properties costing between £925,000 and £1,500,000, the value of the property must be less than LSxRx554.76 + 70730.12, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 555 plus 70000.

For properties costing more than £1,500,000, the value of the property must be less than LSxRx540.67 + 107052.09, or approximatively the weekly rent multiplied by the number of lettable space multiplied by 540 plus 107000.

In section 8d) financial guidelines for NBSHC, this report outlines a number of financial guidelines that NBSHC should use in making future business decisions. These are listed in full below:

- NBSHC should never buy a property where the ongoing yearly expenses and 10 yearly maintenance can't be met by the Rental Income.
- NBSHC should not buy a property where the rent levels that students pay are required to be higher than the market level for students in that area.
- NBSHC should start by buying properties that can build up a surplus quickly. This means that NBSHC should look at buying smaller properties first.
- Until NBSHC has a surplus NBSHC should buy properties whose rental income can meet the ongoing costs, the non yearly expenses and cover the capital repayment of the mortgage. This means that NBSHC should focus on smaller properties until it can build up a surplus to cover the loan arrangement fees and stamp duty of larger properties.
- NBSHC should use any surplus to meet the stamp duty and loan arrangement fees of the larger co-ops.
- NBSHC should try and meet half of the property purchase price through its own cash or through the sale of loan stock in order to reduce loan arrangement fees.

- All co-ops need to refinance. NBSHC should limit this refinancing to the re-issuing of loan stock. Each property should need no more than one refinancing.
- Loan stock should be issued for a period of 20 years.
- The above mathematical calculations provide a useful rule of thumb for working out the initial affordability of a property. However when the parameters change (e.g. interest rates increase) the formulas will need to be updated using the methodology shown above.
- The mathematical calculations are a rule of thumb and if properties seem viable they should be plugged into the spreadsheets created for NBSHC.

In section 8hiii) Lease to buy recommendations, this report recommends that, if a student housing co-op wishes to enter into a *lease to buy* scheme with NBSHC, then NBSHC should create one.

This report recommends that any initial option fee should be of a nominal amount of one pound.

This report recommends that the rent credit should cover 20% of the agreed purchase price split equally over the duration of the lease. This is because the student housing co-op would only be able to get a mortgage for 80% of the purchase price and so needs to save a deposit of 20%.

This report recommends that the lease level should be set as if there was no lease to buy agreement and then the rent credit added on top.

The report strongly recommends that NBSHC does not subsidise the student housing co-op by reducing the normal lease level. This would mean that NBSHC would not be covering its costs on that property.

In section 9a) Decision making, this report recommends a consensus minus 1/6th of its membership decision making process. It also recommends the back up of a super majority voting system when consensus can not be reached. It recommends that NBSHC's decision making body is a general meeting of its membership.

In section 9b) Finance board, this report recommends an additional financial board. The role of this board is to make recommendations that should be approved or not by the general meeting. This report recommends that the finance board is composed of NBSHC's administrative worker, volunteers from NBSHC's member co-ops and members of the board of the investment community benefit society. A further recommendation is that loan stock is only bought by the community benefit society on condition of at least two of its board members to be co-opted onto the finance board of NBSHC.

In section 9) Organisational Structure, this report recommends that NBSHC employs or contracts out an admin and support worker. It also recommends that NBSHC has on contract a person/ organisation that can provide back office services for its member co-ops.

This report also recommends that all members of NBSHC must be members of the investment community benefit society.

In section 10) NBSHC as a mutual aid co-operative, this report advises that all member co-ops are required to contribute a number of hours of voluntary time to the running of NBSHC. This report recommends that each member co-op is required to donate on average half a day a week for every 5 people in its membership.

It also recommends that the work is done in one of the following working groups: finance board, training group, mediation group, communications group, gatherings group, secretarial group, legal group or buildings group.

It also recommends that all new co-ops and new members of existing co-ops must attend a number of trainings.

In Section 11b) Risk assessment, this report makes a number of recommendations to mitigate against risk. It is the opinion of this report that these recommendations must be complied with. They are repeated in full again for emphasis.

To mitigate against an increase in the Bank of England base rate this report recommends that:

- NBSHC should reduce the amount borrowed from a traditional mortgage provider by increasing the amount of loan stock issued.
- NBSHC should always allow for the possibility of an increase in mortgage interest rates whenever making financial forecasts or business decisions.
- NBSHC should aim to keep a cash reserve equivalent to one percentage point increase in mortgage repayments for one year.

To mitigate against turn over of members preventing continuity of experience this report recommends:

- NBSHC's inaugural meeting should create working groups. It should be the first task of all working groups to discuss methods of keeping knowledge at an organisational level and to make sure that it doesn't leave the organisation with key personnel.

To mitigate against a co-op not being able to pay its rent this report recommends:

- Member co-ops should be obliged to submit their accounts to NBSHC, attend quarterly gatherings and report on the state of their co-op.
- NBSHC should aim to have cash reserves equivalent to a quarter's expenses to cover this possibility. NBSHC should aim to have these reserves at a set period e.g. five years.

c) Critical pathway for Phase 2

This section outlines the steps that are required for *Phase 2*, i.e. the steps that must be undertaken to go from here to a trading NBSHC. It places the steps in an order and shows what steps are dependent on other steps and which can happen simultaneously. In the diagram below dependent steps are represented by boxes linked with arrows. Steps that can happen concurrently are represented by boxes that are not linked and occur on different horizontal lines. Each box includes in brackets at the bottom recommendations for which organisation should deliver each step. Each step is expanded on below.

Agree this report

Students for Co-operation should meet and discuss the recommendations in this report. If they approve this report's recommendations then they need to secure funding for *Phase 2*.

Agree on two co-ops and properties

Students for Co-operation should decide on two initial co-ops to focus on, this report recommends Bradford and Nottingham Student Housing Co-ops. These co-ops in consultation with Students for Co-operatin should agree on the number of and which properties are to be purchased,

Write business plan

A business plan based on specific properties and agreed lease levels should then be written. This can now have much more specifics and should get quotes for all the costs to be incurred including insurance, legal fees, survey costs etc. This report recommends that Acorn Co-op Support, the authors of this report, are best placed to undertake this work.

Decide on rules for NBSHC

NBSHC needs to agree on a set of rules in order to be incorporated. This report recommends that Acorn Co-op Support are best placed to assist Students for Co-operation and any founder members of NBSHC in achieving this.

Create rules for student housing co-op

NBSHC needs a set of model rules that are wrtitten specifically for student housing co-ops. This report recommends that these rules are based on the newly created RRFM14 rules for housing co-ops. This report recommends that Donal O'Driscoll, the primary author of these rules, is best placed to make the required changes.

Form three student housing co-ops

NBSHC will need at least three founder members and this report recommends that these members incorporate with these new model rules. This report also recommends that existing student housing co-ops adopt these rules.

Incorporate NBSHC

Once its rules are decided and it has three founder members then NBSHC can become incorporated. This report recommends that Acorn Co-op Support is best placed to manage the incorporation.

Employ admin/ support worker

Once NBSHC is incorporated and ready to start trading it can employ its admin and support worker. This responsibility should rest with NBSHC.

Decide on rules for investment body

The investment community benefit society also needs a set of rules. These rules should be agreed by Students for Co-operation and the three founding members. This report recommends that any proposed rules are made open to potential investors for consultation. This report recommends that Acorn Co-op Support is best placed to assist Students for Co-operation in this.

Incorporate investment body

Once its rules are settled on and there are three founder members the investment community benefit society can be incorporated. The three founder members could be either three student housing co-ops members or three investor members. This report recommends that Acorn Co-op Support is best placed to manage this.

Seek share capital

Once incorporated the investment community benefit society can approach investors and seek share capital. The share capital sought should reflect the amount of loan stock NBSHC wishes to issue. This will be known as this step can only happen after the business plan is written. This report recommends that NBSHC and the investment community benefit society are best placed to undertake this work.

Seek loan finance

With an actual business plan, specific properties and financial forecasts then NBSHC can approach the mortgage lenders recommended by this report to secure mortgage finance. This report recommends that NBSHC will be best placed to undertake this.

Create loan stock agreement

A loan stock agreement that is specific to NBSHC and the Investment Community Benefit Society needs to be drawn up. In addition to the standard conditions of a loan stock agreement this agreement must include the condition of at least two of the Investment Community Benefit Society board members to be co-opted onto the finance board of NBSHC. This report recommends that Acorn Co-op Support is best placed to draw up this agreement.

Create lease agreement

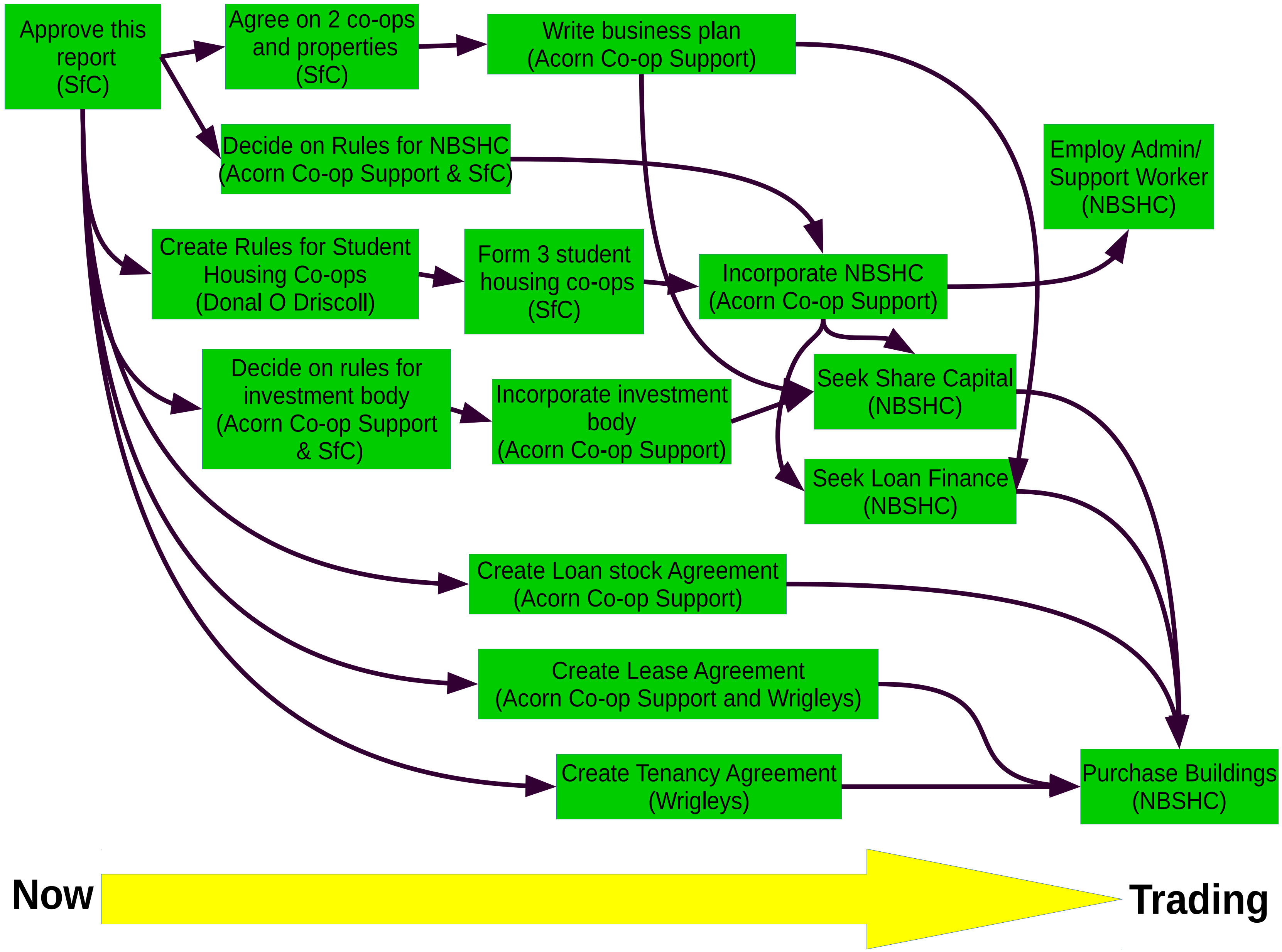
A standard lease agreement for all properties leased by NBSHC to student housing co-ops must be drawn up. This report recommends that this is drawn up by a firm of solicitors that understand both co-operative and housing law. This report recommends that Wrigleys Solictors are best placed to draw up this agreement. This report also recommends that to reduce costs Acorn Co-op Support should facilitate an agreement between NBSHC and the student housing co-ops describing the rights and responsibilities of both parties. This is then to be given to Wrigleys Solicitors to be included in the lease agreement.

Create tenancy agreement

A student housing co-operative specific tenancy agreement is to be created that can be used by all student housing co-operatives. As there is some quite complex tenancy law that impacts on this agreement this report recommends that this agreement is drawn up by Wrigleys Solictors.

Purchase buildings.

Finally in order to start trading NBSHC must instruct a firm of solicitors and purchase the buildings agreed upon.


Approve this report (SfC)
Agree on 2 co-ops and properties (SfC)
Write business plan (Acorn Co-op Support)
Decide on Rules for NBSHC (Acorn Co-op Support & SfC)
Employ Admin/ Support Worker (NBSHC)
Create Rules for Student Housing Co-ops (Donal O Driscoll)
Form 3 student housing co-ops (SfC)
Incorporate NBSHC (Acorn Co-op Support)
Decide on rules for investment body (Acorn Co-op Support & SfC)
Incorporate investment body (Acorn Co-op Support)
Seek Share Capital (NBSHC)
Seek Loan Finance (NBSHC)
Create Loan stock Agreement (Acorn Co-op Support)
Create Lease Agreement (Acorn Co-op Support and Wrigleys)
Create Tenancy Agreement (Wrigleys)
Purchase Buildings (NBSHC)
Now
Trading

d) Phase 2 Costings

This report recommends that the work for phase two is divided between Students for Co-operation, Acorn Co-op Support, Wrigley Solicitors and Donal' O Driscoll.

This report recommends that Students for Co-operation and the formative NBSHC are responsible for agreeing this report, deciding which co-ops to move forward with, forming three student housing co-ops, seeking share capital, seeking loan finance and purchasing the first buildings. It is expected that SfC and NBSHC will do this work pro bono.

This report recommends that Acorn Co-op Support are responsible for co-ordinating phase 2, adopting rules for NBSHC and incorporating it, adopting rules for the community benefit society and incorporating it, writing a specific business plan that enables NBSHC to seek share capital and loan finance, creating a bespoke loan stock agreement and instructing Wrigleys on rights and responsibilities for the lease agreement. Acorn Co-op Support have quoted £6,100 for this work. This includes external fees of £675. For a copy of this quote see Appendix 11.

This report recommends that Wrigleys Solicitors draw up a model lease agreement and tenancy agreement. Wrigleys have quoted a range from £3750 to £5350 for this work. This report recommends that £5350 is secured for this work. For a copy of this quote see Appendix 11.

This report recommends that Donal O' Driscoll drafts a set of model student housing co-op rules, adapted from the RRFM14 set. Mr O' Driscoll has quoted £4,150 for this work. This quote includes payment of fees to the FCA, Co-ops UK and the current owner of the rules. For a copy of this quote see Appendix 11.

Phase two will therefore cost £15,600. This report recommends that SfC secure grant funding for this work. If grant funding can't be found then this report recommends that SfC secure a long loan at a low interest rate. In our example model after 4 years of trading NBSHC has £87,375 and can afford to pay back this £15,600 plus interest.

Appendixes

Appendix 1) Survey forms

Appendix 2) Properties

Appendix 3) Spreadsheets

Appendix 4) Radical Routes 'Co-op clusters' report

Appendix 5) List of Student Housing Co-ops

Appendix 6) Email from Manchester

Appendix 7) Email replies from potential lenders

Appendix 8) Identified potential investors

Appendix 9) Example financial model

Appendix 10) Rebooting the housing co-op movement report

Appendix 11) Quotes for phase two