

Investing 4 Brent

Business Plan

November 2016

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1. The Purpose of the Company

- 1.1 Brent has one of the highest numbers of households in Temporary Accommodation in England. For quarter 2 of 2016-17, Brent reported having 2,895 households living in Temporary Accommodation, the 4th highest of all housing authorities in England. Brent, against the overall London trend, has managed to dramatically reduce the number of households in Bed & Breakfast accommodation during 2015/16 (from a peak of 242 households in Q2 2014-15 to 32 for the same quarter in 2016-17 – an 87% reduction. However, there are still too many households in temporary accommodation which is inadequate for their needs, and the needs of their children.
- 1.2 On 14 March 2016 Cabinet approved the council’s Temporary Accommodation Reform Plan, which responds to this challenge. One of the main measures outlined in the Plan is for Brent to acquire a large portfolio of Private Rented Sector (PRS) accommodation, which would be professionally managed and in which costs can be protected against rental inflation. It is intended that the council will acquire properties, either directly or through partner delivery agents, which will be let as long term PRS properties at Local Housing Allowance levels to prevent homelessness or end a homelessness duty.
- 1.3 In order to maintain the momentum it is important that a flow of suitable accommodation is available to provide a stable housing opportunity for those who would otherwise be in temporary accommodation
- 1.4 The primary purpose of the company will be to deliver the housing options defined in the TA reform plan. However the directors of the company will have limited discretion to let properties at affordable rents, higher than LHA rates, where it is affordable for the tenant household and provides additional funding stability for the company. The total mix of properties that may be let at greater than LHA rates is 25% of the portfolio, which may be flexed by prior agreement with the shareholders representative.
- 1.5 The secondary purpose of the company will be to carry out business development activities, to research new ways and opportunities by which it could support the achievement of the council’s wider objectives. Some ancillary expenditure towards this purpose is anticipated in the initial business plan period. The company will then present proposals, in the form of a revised business plan, for approval by the council, ideally before the end of the 2016/17 financial year.

2. The benefits of operating as a company

- 2.1 As a wholly owned, Local Authority Company, the company will operate at ‘arms length’ from Brent, with the remit of providing affordable Private Rented Accommodation to households for which Brent has a responsibility.
- 2.2 The company is set up with the following requirements:
 - After the initial set up period, the company operates with a retained surplus
 - The company will have discretion over the individual properties it acquires provided that:
 - They are in a suitable location for Brent to comply with its duty under the Homelessness Suitability of Accommodation Order of 2011

- They are within the affordability criteria set out in the company investment plan and Capital financing agreement with Brent
- The rental income will be broadly the Local Housing Allowances agreed and funded by Central Government

3. The structure of the company

3.1 The company will be set up as a company limited by shares, initially providing affordable homes for households who might otherwise be housed in temporary accommodation.

3.2 The company will be named Investing 4 Brent.

3.3 The company's registered office will be:

Brent Civic Centre,
Engineers Way,
Wembley
HA9 0FJ

3.4 The Company's Memorandum of Association and Shareholders Agreement are as set out in the relevant documents.

3.5 The Board of the Company will be chaired by an independent voting Director. The other directors of the company will be:

- Councillor George Crane;
- The Strategic Director of Community Wellbeing (Phil Porter); and
- The Director of Policy, Partnerships and Performance (Peter Gadsdon)

3.6 The company will purchase the minimum range of services under SLA with Brent including

- Support Services
- Property Services

3.7 The Company will purchase such other services as may be required to discharge this business plan under contract procured to demonstrate value for money including but not limited to:

- Property management and routine maintenance
- Major maintenance and refurbishment
- Rent collection and debt recovery
- Buildings Insurance
- White Goods
- Professional services for business development activities, to the extent that these are affordable and consistent with the governance framework.

4. The Company Financial Plan

4.1 Property Portfolio

4.1.1 The intention is that Investing 4 Brent will seek to purchase and manage c300 properties to provide an affordable housing option for Brent Residents, who may otherwise be placed into Bed and Breakfast accommodation.

4.1.2 The plan for the acquisition of properties commenced early in 2016 and will continue until the end of the 17-18 financial year as detailed in the following table

| PRS Location | Target | 2016/2017 | | | 2017/2018 | | | |
|--|--------|-----------|-------|-------|-----------|-------|-------|-------|
| | | Qtr. 2 | Qtr 3 | Qtr 4 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 |
| Brent | 120 | 11 | 12 | 11 | 22 | 21 | 21 | 22 |
| Home Counties | 150 | | | | | | | |
| Low LHA rates Luton/Slough/ Bedford/Leighton Buzzard/ Dunstable/ Hitchin/ Letchworth/ Hemel Hempstead/Hatfield | | | 10 | 11 | 14 | 19 | 22 | 19 |
| Medium LHA Rates Watford/ Wycombe/ Aylesbury/ Maidenhead/ Reading/Amersham | | | | 6 | 7 | 13 | 15 | 14 |
| Greater London (or Home Counties) | 30 | | | 4 | 7 | 7 | 7 | 5 |
| Totals | 300 | 11 | 22 | 32 | 50 | 60 | 65 | 60 |

Figure 1 Indicative PRS property purchase phasing

4.1.3 For the company to be financial secure it is important that the right mix of properties are acquired. As the rental income is fixed to the Local Housing Allowance (LHA) the purchase price of the property can be flexed based on the LHA. In areas with a relatively high LHA, a higher purchase price can be sustained, whereas in areas with a lower LHA, a lower property purchase price would be required.

4.1.4 The intention is that a broad portfolio of properties will be purchased within specific areas:

- Brent
- Greater London / opportunity purchase
- Home Counties (Medium Local Housing Allowance Areas)
- Home Counties (Low Local Housing Allowance Areas)

4.1.5 Brent and Greater London have a higher LHA, therefore a greater purchase price is acceptable. To be a sustainable, viable company a minimum excess of income from rental above operational costs will be required. In purchasing a property, this margin can be expressed as a Gross Margin as a percentage of the annual LHA rental compared to the final purchase price.

- 4.1.6 Within this framework the company has discretion as to the mix of the properties provided that:
- The minimum number of properties are purchased and made available for affordable rent – minimum target number 300 properties
 - The total capital funding envelope is not exceeded – presently agreed funding envelope £100m
 - A Minimum target ‘Gross Yield’ is achieved

4.2 Capital Investment

4.2.1 Capital Expenditure

4.2.1.1 Modelling the likely portfolio of properties suggests a Capital requirement of c£100m (depending upon the average gross yield achieved and the mix of properties purchased).

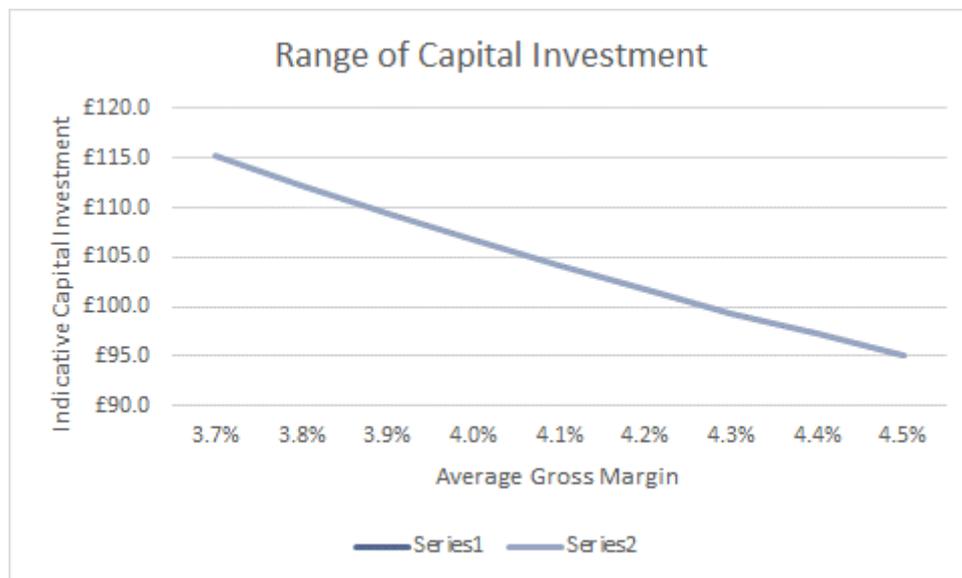


Figure 2 range of capital investment

- 4.2.1.2 For a given indicative pool of properties, the capital requirement reduces as the Gross Margin increases.
- 4.2.1.3 The funding model is based on a ‘bullet payment’. The company services interest on the debt only, the debt (and equity) being repaid upon the liquidation of the asset.

4.2.2 Funding of capital investment

4.2.2.1 The c£100m capital investment can be funded from a mixture of loan and equity capital. The amount that the company can afford to borrow will be determined by the availability of revenue funding to meet the interest payments on any borrowing. The amount of revenue funding available to meet repayments on capital will be driven by the Gross Margin.

4.2.2.2 As the Gross Margin increases, the amount of income generated from rents increases in proportion to the amount borrowed. Any capital that the company cannot raise through borrowing could be made available from Brent in the form of Equity in the company. Equity would be an investment in the company whereby the financial return on the investment would take the form of dividends (annual share of any profits) or on liquidating the company's assets at some time in the future. If (say) the Authority lent the company 95% of its capital requirement and made the rest available as equity, a 1% p.a. rise in the value of the property would represent a 20% p.a. growth in the value of the equity held in the company (before tax).

4.3 Company Operational Finance

4.3.1 Company Turnover

4.3.1.1 Based on a final investment portfolio of up to £100m and a Gross Margin of 5%, the estimated turnover of the company would be £0.6m in the first year of operation, rising to £4m in year 3 once all of the 300 properties have been purchased, refurbished and let to tenants.

4.3.2 Operational Expenses

4.3.2.1 The company will operate with minimal operational expenses. There will be a core company cost including property management, finance and legal, company secretary and directors expenses (SPV). As well as the SPV costs there will be costs associated with reletting properties, minor and major maintenance, voids and bad debts. Allowance for all of these costs has been included in the financial modelling.

4.3.3 Company Tax Status

4.3.3.1 As a limited company registered under UK company law, the company will be liable to pay UK taxation on:

- VAT on inputs into the company – charges from the Local Authority and contracts for maintenance and management of the portfolio of properties. The company would not be able to offset VAT as the value of taxable supplies will be very small
- Corporation Tax – a taxation of the profits made by a company
- Capital Gains Tax – a tax upon the rise in the financial value of an asset

4.3.3.2 In addition, the company would be liable to pay Stamp Duty Land Tax on purchases for the property portfolio.

4.3.4 Financial performance

4.3.4.1 The company’s financial performance is dependent upon a number of variables:

- The profile of the properties within the portfolio
- The timing of the purchase of the properties
- The Interest rate charged on any borrowing
- The costs of refurbishing prior to first let
- The length of time between purchase and first occupancy
- Annual running costs and rental income

4.3.4.2 Appendix 1 gives some details on the assumptions underpinning the business plan

4.3.4.3 Based on these assumptions the financial model suggests that an overall loan to equity split of 95% loan, 5% equity maintains the right balance between benefits to the local authority and the viability of the company.

4.3.4.4 Modelling using the parameters outlined earlier in the business plan and the assumption contained within appendix 1, the company is forecast to begin operating at a profit from year 4 onwards.

| 5 yr Summary Forecast Trading Statement | % | Year | | | | | |
|---|---|--------------|--------------|--------------|--------------|--------------|--------------|
| | | 0 | 1 | 2 | 3 | 4 | 5 |
| | | 000's | 000's | 000's | 000's | 000's | |
| Gross Rental Income | | 664 | 3,182 | 3,996 | 4,036 | 4,076 | |
| Management/ Maintenance and Bad Debts / Voids etc | | (269) | (923) | (1,096) | (1,121) | (1,147) | |
| SPV Costs | | (306) | (312) | (115) | (118) | (124) | |
| Net Operating Income | | (306) | 83 | 2,144 | 2,782 | 2,793 | 2,805 |
| Debt Financing | | (635) | (2,041) | (2,257) | (2,257) | (2,257) | |
| Working Capital | | (6) | (12) | (8) | | | |
| Net operating Profit / Loss | | (306) | (557) | 91 | 517 | 536 | 547 |
| Corporation Tax | | | | | (56) | (109) | |
| Retained Profit | | (306) | (557) | 91 | 517 | 480 | 438 |
| Retained Profit (Cumulative) | | (863) | (772) | (255) | 225 | 663 | |

Figure 3 5 yr summary forecast trading statement

Appendix 2 gives more detail year on year.

4.3.4.5 The retained profit for the company peaks in year 20, at which point the company starts to make losses. These losses are such that the company’s retained surplus reduces to £500k at the end of the 30 year plan.

4.3.5 Cash Flow

4.3.5.1 A 24 month Cash Flow forecast (appendix 4) indicates that the company will need a working capital facility of c£1m until year 4, at which point it begins to accumulate retained surpluses. Interest on any working capital facility has been calculated at the same rate as the overall capital interest rate charged on the borrowing element of the property purchases.

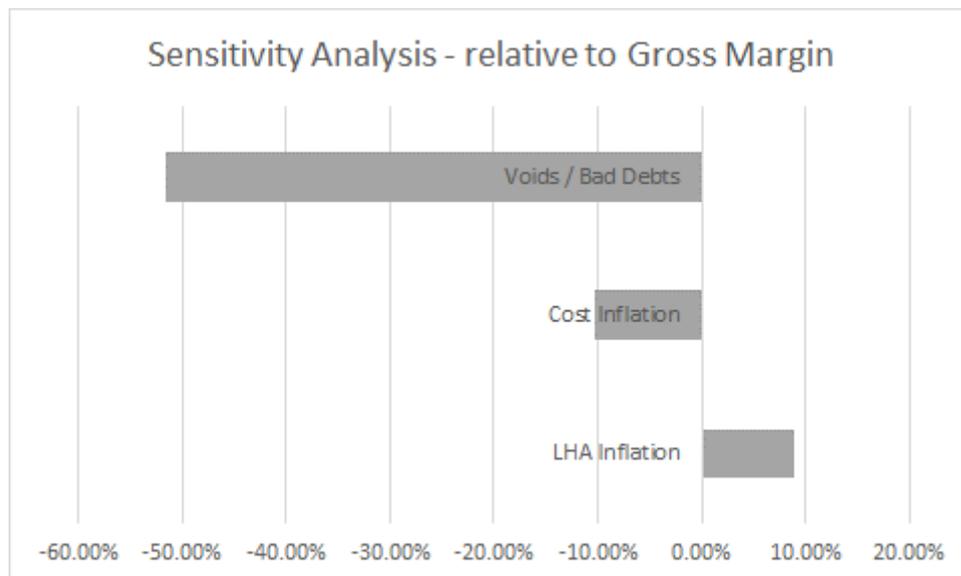
5. Sensitivity Analysis, risks, Issues and mitigations

5.1 Sensitivity Analysis

5.1.1 Operating at LHA rental income, the company operational financial margins are small. The company is therefore unusually sensitive to a number of factors that underpin its performance. The key Factors being:

- Gross Margin
- Inflation
- Management of voids and bad debts
- Property portfolio

5.1.2 Each of these factors has been expressed as a percentage impact of the Gross Margin, assuming all other factors remain unchanged.



5.1.3 The sensitivity analysis shows that in order to have the same impact as changes to the Gross Margin, Voids / Bad Debts would need to be more than 50% lower than modelled, Cost inflation 10% lower and LHA inflation 9% higher than modelled.

5.2 Risks, Issues and Mitigations

5.2.1 There are a number of financial risks facing the company. The sensitivity analysis shows that the biggest risk is at the acquisition stage. It is critical to the sustainability of the company that the right mix of properties are acquired for the portfolio.

5.2.2 Analysis of risks, issues and mitigations

| Risk / Issue | Impact | Mitigation |
|---|--|---|
| Portfolio of properties does not achieve the target Gross Margin | The relative income from property rentals at LHA rates is insufficient to fund the full business plan of the Company | Property acquisition is targeted to achieve the target gross margin. Intelligent purchasing is aided by dedicated market surveillance software. The loan / equity proportion could be flexed as tranches of properties are added to the portfolio during the acquisition phase |
| The portfolio of properties can sustain the company for the early years, but is not able to sustain for the full 30 year plan | The company becomes insolvent | Properties could be transferred to a different model of social rent with a higher yield than LHA rents. |
| LHA income inflation does not achieve the increases in the model | The company cannot achieve the required income levels | Properties could be transferred to a different model of social rent with a higher yield than LHA rents |
| Cost Inflation is higher than included in the model | The company's cost base is higher than that included in the model | Properties could be transferred to a different model of social rent with a higher yield than LHA rents |
| Contract management / re-let and maintenance costs are higher than modelled | The company's cost base is higher than that included in the model | Properties could be transferred to a different model of social rent with a higher yield than LHA rents A high Gross Yield target could be set, limiting the availability of suitable properties in some geographical areas |
| The mix of Freehold / Leasehold properties is not as modelled | The additional costs associated with Ground Rent and Service Charges may be more than included in the model | The value of the major repairs provision may be used to offset additional service charges for elements of maintenance or local sinking funds. The purchasing portfolio may be flexed to |

| | | |
|--|--|---|
| | | accommodate more freehold properties and properties could be transferred to a different model of sub market rent with a higher yield than LHA rents |
|--|--|---|

6. Key Targets

| Key Target | Measure | Impact | Verification |
|--------------|--|--|---|
| Gross Margin | Greater than 4% for affordable housing and Greater than 5% for sub-market / market housing | A minimum gross margin is required in order to make the company sustainable and a higher margin is expected from commercial investments | Based on detailed financial analysis underpinning the company business plan |
| Borrowing | 95% | A 0.2% increase in the Gross margin will increase the income available to the business by £3.5m over the 30 year business plan | |
| Equity | 5% | Higher revenue costs or below target gross margin will | |
| Cash Flow | Peak working capital requirement | The company requires a working capital (cash flow) facility during the initial business plan period whilst properties are purchased, refurbished and first let | |

1.1. These key targets are dependent upon a number of key variables that underpin the finance model in the company business case

| | | | |
|---|-----------------------------|---|---|
| Property portfolio | 300 properties, £100m capex | A balanced portfolio of properties has been included in the model to achieve both the target gross margin and the Capex target | The property model is based on the published L:HA rates for the target areas. These are published on .gov.uk |
| Balanced portfolio of Leasehold / Freehold properties | 65%/35% | A higher Leaseholder based portfolio would decrease the share of income available for rent repayment and core company services. A higher share of freehold properties increases the programme cost. Leasehold properties are subject to freeholder investment strategies which gives less predictability to major works investment. | This assumption is based on the mix of properties initially included in the property portfolio. Market surveillance indicates that properties with a limited lease period that makes a mortgage more difficult readily achieve the target gross margin |
| Tax | | Corporation tax, VAT, Stamp Duty and Land Tax | The model informs the potential for |

| | | | |
|---|--|--|---|
| | | | payments of Tax |
| Turnover | 4 year average tenancy turnover | A higher turnover of properties would increase the number of homeless family supported but potentially increase void maintenance costs and potentially rent loss | The average turnover has been modelled based on experience by Social Finance. The plan is that households would be encouraged to move on into alternative accommodation, freeing up the property for use by further households. |
| Housing Management and Maintenance Services | £2,000 (can this be shown as % of property value per annum | A higher cost would reduce the share of income available for loan repayment. A lower cost would increase the stability of the company and support an increased loan to equity ratio borrowing ratio or provide funds for additional investment | The rate per property has been based upon the Social Finance model and local experience of using BHP. This will be market tested through a current procurement exercise. |
| Insurance | £200 per property p.a. | A cost at variance to this would have an impact on the financial model. | This is based upon the Social Finance model and experience. The final property portfolio will drive the insurance costs. Internet research suggests that the average cost of buildings insurance in the consumer market is £84 p.a. |
| Voids and Bad debt | 1.5% void 2% bad debt | A higher cost would reduce the share of income available for loan repayment. A lower cost would increase the stability of the company and support an increased loan to equity ratio borrowing ratio or provide funds for additional investment | Based on rates from Mears and cross referenced to BHP. The expectation is that the client group would be more likely to be able to meet their rent obligations. |
| Major works | 0.5% of property value per annum after 4 years | A 1% increase/decrease in the Major Works costs would result in an increase or decrease of the business plan of £200k over the 30 year business | Based on modelling provided by social finance. The actual cost of major works will be tested during the life of the |

| | | | |
|--|--|-------------|---|
| | | plan period | business case. The cost of works will be flexed depending upon the condition of the property at point of relet. |
|--|--|-------------|---|

7. Key performance indicators

The Company will provide regular performance information

KPIs – non financial

KPIs – financial

| Name | Description | Target |
|--|---|--------|
| <u>Purchase Phase</u> | | |
| Gross Margin | The ratio of the LHA to the purchase price of the property | >5% |
| Average Purchase Price | | |
| Average refurbishment costs | | |
| Average income foregone during refurbishment | | |
| <u>Operational Phase</u> | | |
| Income | | |
| Total potential income | Potential income if all properties were occupied Income due and received from tenants Income due but not yet paid Income due but unlikely to be recovered Income formally written off | |
| Income received | | |
| Debts | | |
| Bad Debts | | |
| Write Offs | | |
| | | |
| Running Costs | | |
| Total operational maintenance costs | | |
| Total major refurbishment costs | | |
| Gross Profit | The operational profit of the housing stock (rental income less voids and bad debts) less management, refurbishment, maintenance | |
| Company operational costs | The operational and administrative costs of the company | |
| Net Profit | The operational profit of the company after deducting company running costs and administration | |
| Value of acquisitions | Number and value of new property acquisitions | |

| | | |
|---|---|--|
| Value of disposals Current value of properties under management | Number and value of property disposals The current value of the company property assets | |
|---|---|--|

Appendix 1 – assumptions underpinning the financial case

| Description | Assumption |
|---|--|
| The timing of the purchase of the properties | The timing of the purchase of the properties has been derived from the table at Figure 1 of this report |
| The profile of the properties within the portfolio | The timing of the purchase of the properties has been derived from the table at Figure 1 of this report |
| The Gross Margin | An average Gross Margin of 4% has been used in the financial modelling |
| The Interest rate charged on any borrowing | The interest rate that the Local Authority will finance the loan at has been modelled at 3% |
| The costs of refurbishing prior to first let | The costs of refurbishing have been derived from a sample of properties recently purchased for all programmes with the local authority |
| The length of time between purchase and first occupancy | An average period of three months has been modelled for the period between purchase and first occupancy. The costs of refurbishment have been equally spread over this period. |
| Rental Income | The Local Housing Allowance rates have been used to derive Rental Income. A composite rate has been used for The Home Counties low and medium property. Brent LHA has been used for Brent and Greater London purchases |
| Voids | A void rate of 2% has been used over the life of the model |
| Bad Debts | An allowance for Bad Debts at 1½% of gross rental income has been included in the model |
| Major Repairs | A provision for the costs of major repairs has been included from year 5 of the model |
| Local Management (SPV) Costs | A small cost for managing the programme and properties (SPV) has been included in the modelling |
| Start up costs | A cost representing the costs of establishing the company and procuring the first properties (£318k) has been included as part of the start up costs of the company. This cost will be recovered from initial profits of the company |
| Taxation | Tax has been included at the prevailing rates. The cash flow forecast includes irrecoverable VAT being paid quarterly in arrears |

Appendix 2 – Company 30 year financial plan

| Propco 30 year Operating Statement | | % | Year | | | | | | | | | | | | | | | |
|---|-------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| | | | 000's |
| Gross Rental Income | | | 664 | 3,182 | 3,996 | 4,036 | 4,076 | 4,117 | 4,158 | 4,199 | 4,241 | 4,284 | 4,327 | 4,370 | 4,414 | 4,458 | 4,502 | |
| Management/ Maintenance and Bad Debts / Voids etc | | | (269) | (923) | (1,096) | (1,121) | (1,147) | (1,650) | (1,689) | (1,729) | (1,770) | (1,812) | (1,855) | (1,899) | (1,944) | (1,991) | (2,038) | |
| SPV Costs | | | (306) | (312) | (115) | (118) | (121) | (124) | (127) | (130) | (133) | (137) | (140) | (144) | (147) | (151) | (155) | (159) |
| Net Operating Income | | | (306) | 83 | 2,144 | 2,782 | 2,793 | 2,805 | 2,340 | 2,339 | 2,337 | 2,335 | 2,332 | 2,328 | 2,324 | 2,318 | 2,313 | 2,306 |
| Debt Financing | 2.78% | | (635) | (2,041) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) |
| Working Capital | | | (6) | (12) | (8) | | | | | | | | | | | | | |
| Net operating Profit / Loss | | | (306) | (557) | 91 | 517 | 536 | 547 | 83 | 82 | 80 | 78 | 75 | 71 | 66 | 61 | 55 | 49 |
| Tax | | | | | | (56) | (109) | (17) | (16) | (16) | (16) | (15) | (14) | (13) | (12) | (11) | (10) | |
| Retained Profit | | | (306) | (557) | 91 | 517 | 480 | 438 | 66 | 65 | 64 | 62 | 60 | 57 | 53 | 49 | 44 | 39 |
| Retained Profit (Cumulative) | | | (863) | (772) | (255) | 225 | 663 | 729 | 795 | 859 | 921 | 980 | 1,037 | 1,090 | 1,139 | 1,183 | 1,222 | |

| | | % | Year | | | | | | | | | | | | | | | |
|---|-------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|
| | | | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | |
| | | | 000's | |
| Balance Sheet | | | | | | | | | | | | | | | | | | |
| Long term Loan | 95.0% | | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | 81,204 | |
| Equity Finance | 5.0% | | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | 4,274 | |
| | | | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | 85,478 | |
| Gross Rental Income | | | 4,547 | 4,593 | 4,639 | 4,685 | 4,732 | 4,779 | 4,827 | 4,875 | 4,924 | 4,973 | 5,023 | 5,073 | 5,124 | 5,175 | 5,227 | |
| Management/ Maintenance and Bad Debts / Voids etc | | | (2,087) | (2,136) | (2,187) | (2,240) | (2,293) | (2,348) | (2,404) | (2,462) | (2,521) | (2,581) | (2,643) | (2,707) | (2,772) | (2,838) | (2,906) | |
| SPV Costs | | | (163) | (167) | (171) | (175) | (179) | (184) | (189) | (193) | (198) | (203) | (208) | (213) | (219) | (224) | (230) | |
| Net Operating Income | | | 2,298 | 2,290 | 2,281 | 2,271 | 2,259 | 2,247 | 2,234 | 2,220 | 2,205 | 2,189 | 2,172 | 2,154 | 2,134 | 2,113 | 2,091 | |
| Debt Financing | 2.78% | | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | (2,257) | |
| Net operating Profit / Loss | | | 41 | 33 | 23 | 13 | 2 | (10) | (23) | (37) | (52) | (68) | (85) | (104) | (123) | (144) | (166) | |
| Tax | | | (8) | (7) | (5) | (3) | (0) | | | | | | | | | | | |
| Retained Profit | | | 33 | 26 | 19 | 11 | 2 | (10) | (23) | (37) | (52) | (68) | (85) | (104) | (123) | (144) | (166) | |
| Retained Profit (Cumulative) | | | 1,255 | 1,281 | 1,300 | 1,310 | 1,312 | 1,302 | 1,280 | 1,243 | 1,191 | 1,123 | 1,038 | 934 | 811 | 667 | 501 | |

Appendix 3 – Company 24 month profit and loss forecast

| 24 Month Profit and Loss Forecast | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Year 1 |
|-----------------------------------|---------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| | | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's |
| Net Revenue Income | | 0 | 15 | 15 | 15 | 23 | 30 | 38 | 50 | 60 | 72 | 89 | 108 | 127 | 641 |
| Management and Maintenance Costs | | 0 | (4) | (6) | (8) | (11) | (13) | (16) | (20) | (24) | (28) | (33) | (38) | (43) | (245) |
| SPV Costs | | (306) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (26) | (618) |
| Interest | | 0 | (13) | (17) | (22) | (29) | (35) | (41) | (51) | (62) | (73) | (85) | (96) | (110) | (635) |
| Interest on Working Capital | Monthly | 0 | (0) | (0) | (0) | (1) | (0) | (1) | (1) | (0) | (1) | (1) | (0) | (1) | (6) |
| Surplus/(Deficit) | | (306) | (29) | (35) | (42) | (44) | (44) | (46) | (48) | (53) | (56) | (55) | (52) | (53) | (557) |
| | | | | | | | | | | | | | | | |
| | | | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | Year 2 |
| | | | 000's | |
| Net Revenue Income | | | 147 | 167 | 190 | 210 | 232 | 258 | 280 | 301 | 321 | 321 | 321 | 321 | 3,071 |
| | 0 | | (48) | (53) | (59) | (64) | (69) | (74) | (74) | (74) | (74) | (74) | (74) | (74) | (811) |
| SPV Costs | | | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (115) |
| Interest | | | (122) | (134) | (149) | (162) | (174) | (186) | (186) | (186) | (186) | (186) | (186) | (186) | (2,041) |
| Interest on Working Capital | Monthly | | (1) | (0) | (1) | (1) | (0) | (1) | (1) | (1) | (2) | (2) | (1) | (2) | (12) |
| Surplus/(Deficit) | | | (33) | (30) | (29) | (26) | (20) | (12) | 9 | 31 | 50 | 50 | 51 | 50 | 91 |

Appendix 4 – Company 24 month cash flow forecast

| 24 Month Cash Flow | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Year 1 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | Year 2 | |
|------------------------------------|------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|----------------|
| | | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | 000's | |
| Cash Flows | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Capital | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loan | 95% | 3,719 | 1,947 | 1,947 | 2,061 | 2,869 | 2,646 | 2,869 | 4,409 | 4,811 | 4,659 | 5,055 | 5,114 | 5,940 | 48,044 | 5,074 | 5,586 | 6,577 | 5,449 | 5,312 | 5,163 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 33,160 |
| Equity | 5% | 196 | 102 | 102 | 108 | 151 | 139 | 151 | 232 | 253 | 245 | 266 | 269 | 313 | 2,529 | 267 | 294 | 346 | 287 | 280 | 272 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,745 |
| Total Capital Income | | 3,915 | 2,049 | 2,049 | 2,170 | 3,020 | 2,785 | 3,020 | 4,641 | 5,064 | 4,905 | 5,321 | 5,383 | 6,252 | 50,572 | 5,341 | 5,880 | 6,923 | 5,736 | 5,592 | 5,434 | 0 | 34,906 |
| Capital Purchases | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Purchases | | -3,866 | -1,974 | -1,974 | -2,091 | -2,906 | -2,685 | -2,906 | -4,474 | -4,886 | -4,724 | -5,118 | -5,178 | -6,012 | -48,793 | -5,138 | -5,653 | -6,650 | -5,520 | -5,384 | -5,218 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -33,562 |
| Works | | 0 | 0 | -19 | -39 | -59 | -69 | -76 | -85 | -98 | -118 | -136 | -145 | -152 | -996 | -168 | -168 | -173 | -182 | -185 | -180 | -166 | -110 | -56 | 0 | 0 | 0 | -1,387 | |
| VAT | | | | | | -28 | | | -64 | | | -97 | | | | -131 | | -150 | | | -154 | | | -66 | | | | | |
| Total Capital expenditure | | -3,915 | -1,974 | -1,993 | -2,130 | -2,992 | -2,754 | -2,981 | -4,623 | -4,985 | -4,842 | -5,351 | -5,323 | -6,164 | -50,027 | -5,437 | -5,820 | -6,823 | -5,852 | -5,569 | -5,398 | -320 | -110 | -56 | -66 | 0 | 0 | 0 | -35,451 |
| Capital cash Flows | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Monthly | 0 | 75 | 56 | 40 | 27 | 32 | 39 | 18 | 79 | 62 | -30 | 60 | 88 | | -96 | 59 | 100 | -116 | 23 | 36 | -320 | -110 | -56 | -66 | 0 | 0 | | |
| | Cumulative | 0 | 75 | 131 | 170 | 198 | 229 | 268 | 286 | 365 | 427 | 397 | 457 | 545 | | 449 | 509 | 608 | 493 | 516 | 552 | 232 | 122 | 66 | 0 | 0 | 0 | | |
| Revenue | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gross Rental Income | | 0 | 15 | 15 | 15 | 23 | 31 | 40 | 52 | 62 | 74 | 92 | 112 | 131 | 664 | 152 | 173 | 197 | 218 | 241 | 268 | 290 | 312 | 333 | 333 | 333 | 333 | 333 | 3,182 |
| Voids | 2% | 0 | 0 | 0 | 0 | 0 | -1 | -1 | -1 | -1 | -1 | -2 | -2 | -3 | -13 | -3 | -3 | -4 | -4 | -5 | -5 | -6 | -6 | -7 | -7 | -7 | -7 | -7 | -64 |
| Bad Debts | 1½% | 0 | 0 | 0 | 0 | 0 | 0 | -1 | -1 | -1 | -1 | -1 | -2 | -2 | -10 | -2 | -3 | -3 | -3 | -4 | -4 | -4 | -5 | -5 | -5 | -5 | -5 | -5 | -48 |
| Net Rental Income | | 0 | 15 | 15 | 15 | 23 | 30 | 38 | 50 | 60 | 72 | 89 | 108 | 127 | 641 | 147 | 167 | 190 | 210 | 232 | 258 | 280 | 301 | 321 | 321 | 321 | 321 | 3,071 | |
| Management and Maintenance Costs | | | -4 | -5 | -7 | -9 | -11 | -14 | -17 | -20 | -24 | -28 | -32 | -36 | -207 | -40 | -45 | -50 | -54 | -58 | -63 | -63 | -63 | -63 | -63 | -63 | -63 | -63 | -685 |
| SPV Costs | | -255 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -22 | -515 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -8 | -96 |
| VAT | | | | | | -67 | | | -19 | | | -24 | | -110 | -31 | | | -20 | | | -35 | | | -39 | | | | -125 | |
| Interest on Loan | | 0 | 0 | 0 | -53 | 0 | 0 | -105 | 0 | 0 | -187 | 0 | 0 | -291 | -635 | 0 | 0 | -405 | 0 | 0 | -521 | 0 | 0 | -557 | 0 | 0 | -557 | -2,041 | |
| Interest of Working Capital | | | | | | 0 | -1 | 0 | -1 | -1 | 0 | -1 | -1 | 0 | -4 | -6 | -1 | 0 | -1 | -1 | 0 | -1 | -1 | -1 | -2 | -2 | -1 | -16 | |
| Revenue Cash Flows | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Monthly | -255 | -11 | -12 | -67 | -76 | -3 | -102 | -9 | 18 | -161 | 15 | 54 | -223 | | 62 | 113 | -273 | 127 | 165 | -334 | 174 | 229 | -307 | 210 | 249 | -307 | | |
| | Cumulative | -255 | -265 | -278 | -344 | -420 | -423 | -525 | -534 | -516 | -677 | -663 | -609 | -831 | | -770 | -657 | -930 | -803 | -637 | -971 | -798 | -568 | -876 | -666 | -417 | -724 | | |
| Total Cumulative Cash Flows | | -255 | -190 | -147 | -174 | -222 | -194 | -257 | -248 | -151 | -250 | -266 | -152 | -286 | | -321 | -148 | -321 | -310 | -122 | -420 | -566 | -446 | -810 | -666 | -417 | -724 | | |