



A research collaboration between Mount Anvil and Arcadis

OPEX CONSIDERATIONS FOR HIGH QUALITY HOMES



Mount Anvil,
better London living



FOREWORD

INVEST IN QUALITY NOW, OR PAY FOR IT LATER

Mount Anvil has been working in repeat partnerships with housing associations for 30 years, and quality has always been foremost on the agenda. Quality is a wide word. And we have a responsibility to keep improving our understanding of how to deliver it. But like anything that is judged over the long-term, that's not easy.

Cost and time, the other two parts of the famous "triangle", make themselves known early on in a project. Quality, however, is judged by resident happiness and long-run maintenance cost. That spend can end up 5 or 10x the upfront capital investment. But it's only the latter that we scrutinise. Which is why all intuitively know that the bitterness of poor quality lasts once the sweetness of low first cost has faded.

So, we asked Arcadis to delve into this and quantify the true cost of poor quality — what does a pound or an hour misspent upfront cost RPs, the long-term holders of the homes we partner to deliver, in the future?

From this almost year-long research investment into quality, we know that RPs are reporting wildly varying spends on maintenance. There is clearly a big prize for getting it right. And a big price, paid by residents, when it's wrong.

Quality to us is a function of design, materials and delivery. We think this all comes back to people and culture. People working in integrated ways to design things, using their learning from the last time. People selecting appropriate materials, using their learning from the last time. And people who care, in the right site environment and right culture of responsibility, taking pride in their work. Making sure that the long-term cost of upkeep of our homes are at the right end of that cost spectrum is something we'll keep investing in — because it's residents who pay if we focus only on two parts of that triangle.

This research shows that the price tag is significant both in financial and reputation terms for organisations. And one look at the press tells us that there's an even higher cost in the form of wellbeing, happiness and safety of residents if their homes don't stand the test of time. We've made strides in better measurement which shows up in rafts of homes with zero defects at handover, which we're really proud of. But it's the strides we're making in creating an ever better culture of listening and learning which will show up in decades to come in the lives of residents.

Killian

Killian Hurley, Founder and CEO, Mount Anvil



OPERATIONAL COST AND QUALITY —

TIME FOR A RETHINK

Residents deserve and demand quality homes. And all housebuilders, developers and RPs have quality high on their agendas. But establishing a clear path to continually improving quality in our sector has proved no simple task.

Our view is that quality is a product of quality design, quality materials and quality execution on site — early inputs. The desired outcome is robust, durable homes that work for the people living in them — things that are measured in the long-term. We've sought with this research to understand the relationship between the two. Our goal is to start the conversation on how the current UK stock of homes managed by RPs are performing, as measured by the maintenance investment that they require.

And the headline is that the data shows us that the operational costs vary wildly. Which is why we think it's time for a rethink.

What also became clear in our research is that we can't yet see clearly as an industry *which* capital investment decisions drive operational costs in the right direction.



This is important, and it's important now. Because upcoming regulatory changes including the Social Housing Whitepaper, the Future Homes Standard and the Housing Safety Bill are only going to increase the expectations on how our homes perform and heighten the pressure placed on maintenance-related CapEx decisions. If a natural response to this is to search for savings, it's residents who might ultimately suffer. These new developments strengthen the case for truly long-term thinking, seeking to build with long-term quality and performance in mind.

From talking to RPs and developers it's clear that quality shouldn't only be achievable at high price points or the highest build costs. It takes an investment in time as well as in materials.

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Time up front making good, appropriate choices in material, layout and component selection. Time thinking in an integrated manner about trade-offs and learning from the past during the design phase. And time well spent on site for excellent execution with care and pride. Before we can do all of this, it's clear that we need to spend time better organising our data, industry-wide.

We looked in more detail at this by analysing annual maintenance costs from RP ONS data and rental incomes over the period 2012 to 2020, and in conversation with several RPs.

WHAT THE DATA SAYS

To test our hypothesis, we initially attempted to collect data directly from the RPs, but this proved too complicated given the lack of consistent and universal information. As an alternative we used openly available maintenance cost data for RPs taken from the Office of National Statistics¹. We selected 20 peer RPs (managing between 7,000 and 110,000 units) with operations in London (who

20

PEER RPS

770,000

HOMES

8

YEARS

collectively manage over 770,000 homes). Included in our analysis, and what we refer to as maintenance cost, are:

- Service costs
- Routine maintenance
- Planned maintenance

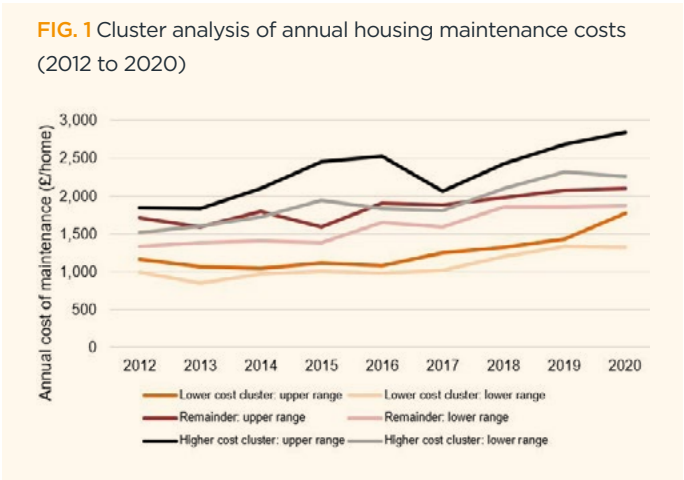
Our analysis spans the period March 2012–March 2020, but excludes 2020–2021, due to the potential distortions of the COVID-19 crisis.

We calculated the average annual maintenance costs per unit² for each of the analysed RPs, across the 2012-20 timeline. Results reveal that costs differ significantly between RPs within a single year, often by 350% or more. The range has been decreasing over time, but the costs at each end of the range still differed by 250% in 2020.

RESULTS REVEAL THAT COSTS DIFFER BETWEEN RPS IN A SINGLE YEAR BY

UP TO 350%

Figure 1 displays summary cost range data for three clusters of RPs, those with low maintenance costs, higher costs and the remainder costs. For each cluster the upper and lower range has been plotted³.



Over the eight-year period, the average cost of a notional 1,000-home estate managed by RPs associated with low maintenance cost would have been around £11.9 million, whereas the RPs with higher costs would typically pay £22.6 million. This is a very significant differential, partially a result of the performance of the asset, and in particular the costs of planned and unscheduled repairs and maintenance. This finding highlights the benefits of thinking about operational issues early, minimising the future risk of excess maintenance costs through the design and construction of new homes.

THE COST OF POOR QUALITY IS HIGH, AND IT'S RESIDENTS WHO PAY IT

Our interviews with RPs reaffirm that every organisation wants to think long-term, and better balance CapEx considerations with OpEx results. The non-financial cost of poor quality is significant. Resident satisfaction and RP reputation are linked directly to the quality of homes, as seen in design, specification, comfort, performance and defects.



Killian Hurley, Mount Anvil

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Not considering what impacts OpEx at the outset is like one part of the business taking out a payday loan and then asking another part of the business to pay it back, interest and all. Good idea at the time, terrible in the long run

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COST INFLATION OUTSTRIPS GROWTH IN RENTAL INCOME

Our analysis uncovered another issue which is equally challenging for RPs. Not only are cost differentials between high and low-cost RPs significant, but maintenance cost inflation over the period has been much higher than the balancing growth in rental income. This highlights that maintenance costs have become an even bigger problem for all RPs over the eight-year period. The gap between rental growth and the growth in maintenance costs is between 2.0% and 3.1% per annum (see Table 1).

Maintenance inflation metric	Average annual inflation	Average annual inflation net of rental growth	Difference between growth in rental income and maintenance cost at Year 10
ONS rental income	1.9%	-	-
ONS maintenance cost (low range)	3.9%	2.0%	20%
ONS maintenance cost (high range)	5.0%	3.1%	31%

Table 1 Comparison of cost and income inflation differentials

Clearly this represents a significant future risk. RPs need to take steps to optimise the management of maintenance costs on both their existing and new-build stock.

1. The data has been sourced from the ONS Collection Global accounts of private registered providers, to be accessed here: <https://www.gov.uk/government/collections/globalaccounts-of-housing-providers>
2. Defined as a sum of service costs, routine maintenance and planned maintenance divided over a number of managed homes
3. The clusters were initially identified through ranking exercise that identified organisations with consistently high and low costs. The consistency of this analysis is validated using descriptive statistics. To highlight the clusters, the chart plots the upper and lower quartile data for each of the three clusters.

WHAT REGISTERED PROVIDERS SAY

GETTING TO THE CORE OF THE ISSUE

From interviewing people responsible for maintenance spend in various major RPs, five key themes emerged:

1 THERE ISN'T A CONSISTENT METHODOLOGY FOR RECORDING COSTS RELATED TO ASSET PERFORMANCE

Without consistent, detailed data it's hard to systematically track and understand how day one CapEx decisions impact long-term OpEx.

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I'd underestimated the cost range of poor quality and I think we as an industry should pay more attention to this during design and construction.
”



2 INDUSTRY SILOS BETWEEN DELIVERY, HANDOVER AND OPERATION STILL REMAIN

Without integration of teams and stages from the outset, it's really difficult to establish the relationship between CapEx decisions and OpEx.

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Design, construction and operation are still too often treated as separate and siloed stages.
”

4 DELIVERING QUALITY IS A TEAM EFFORT

The collaboration between client, consultants and contractor is critical to success. RPs need to work together with their supply chain, particularly when it comes to the design and specification of elements which impact long-term operational performance.

“
Improving the quality of homes is a team effort
”

3 NOT ALL PROCUREMENT ROUTES ARE EQUAL

Plenty has been written about transactional vs strategic procurement routes. RPs are still affirming that strategic partnerships, set up with the long-term in mind, provide a better environment for continuous learning and better decision-making.

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The procurement route determined the quality of the constructor relationship and their qualitative approach to design, construction and aftercare.
”

5 THE FUTURE LOOKS COSTLY

Regulatory change and the drive to continually improve outcomes for residents mean that there will be increased pressure on CapEx decisions. Which means now is the time to get clearer on the relationship between CapEx decisions and future OpEx liabilities.

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The ability to quantify the impact of CapEx decisions on OpEx more precisely is essential.
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LET'S GET STARTED

Faced with multiple challenges regarding customer experience and decarbonisation, it is critical that we have a clear understanding of the interdependencies between CapEx and OpEx costs. And with CapEx investment likely to increase, it is essential to be able to evidence the advantage of investing in quality from day one.

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But without basic tools and methodologies in place to monitor and control the OpEx costs, there is a lot that needs to be done. Let's fix this in a smart way. The challenges we identified in this paper are universal and the industry needs to approach them together — and agree on the common methodology and tools. Only in this way will we be able to reap the benefits of investment in systematic data collection, create foundations for knowledge exchange and share the risks involved. Together, we can realise the benefits faster and ensure that the homes we are delivering are of the quality that residents deserve.

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With thanks to our generous contributors:

A2Dominion
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Detailed statistical findings available from Arcadis and Mount Anvil.
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