

**BUILD TO RENT - ROUND 2
CONTINUOUS MARKET ENGAGEMENT (CME)
MAY 2015**

**DETAILED DUE DILIGENCE and KNOW YOUR
CUSTOMER (KYC) GUIDANCE NOTE
DDD1**

Build to Rent: Due Diligence and Know Your Customer (KYC) Guidance

1 Introduction

This note sets out Guidance for those applicants selected to proceed to Detailed Due Diligence and KYC (DDD) as the final stage of the application for Build to Rent Fund Round 2 (BTR R2) Continuous Market Engagement.

BTR is funded by the Department of Communities and Local Government (DCLG). The Fund is administered by the Homes and Communities Agency (HCA) on behalf of DCLG and the Greater London Authority (GLA).

Applicants should be aware that DDD remains a competitive process. More projects have been shortlisted than there are funds available. Only those projects that meet DCLG's investment criteria, and which offer the greatest chance of full recovery within the agreed timescales, will be allocated funding.

Applicants who withdraw from the Build to Rent Programme during the detailed Due Diligence and KYC process will be liable for their own costs and any costs incurred by the HCA from the start of DDD (the exact date to be agreed) up to and including the date of withdrawal.

2 Purpose of Due Diligence and Know Your Customer (KYC)

DDD will include (but not be limited to) testing and understanding the following:

- The detailed due diligence submission
- Know Your Customer (KYC) requirements
- The extent and detail of the project
- Title
- Planning
- Financial Viability
- The nature of the loan requested in relation to overall project finance
- The security to be provided for the loan
- The experience and financial standing of the applicant
- The exit strategy at which time the loan will be repaid with interest.

This will include:

- Satisfactory identification and address verification for all persons who exercise control over the business
- A detailed assessment of the viability and deliverability of the proposition, and where appropriate, including the wider development proposals. For example this may include wider infrastructure and other housing tenures and land uses which are integral to the overall scheme of which the PRS element forms a part.
- Confirmation of ownership and an investigation of Title.
- An assessment of deliverability, taking into account the planning status (including relevant documentation on the planning portal) set against a clear timetable for drawdown and repayment.
- A review of the applicant's Development Appraisal to fully understand the financial proposition and test the underlying assumptions including the reasonableness of projected costs and revenues.

- Costs will be considered on a whole life basis to ensure that the approach takes account of the long term use, providing high quality long term rental accommodation.
- The additionality of the funding will be tested to understand how the HCA funding contributes to the delivery of the scheme and what the likely outcome would be in the absence of such support.
- Confirmation that the applicant's equity contribution is appropriate. This must be at least equal to 20% of total development cost (TDC), where TDC excludes any return to the applicant for risk and profit.
- Confirmation of any third party funding required to complete the project (including amounts, drawdown and repayment arrangements; key funding conditions and security requirements).
- Identification of the minimum amount of BTR Funding needed to permit the scheme to proceed.
- Confirmation of the precise arrangements (including timing) for full recovery of the loan with interest.
- Assurance that the proposal maximises value for money for the HCA and DCLG.
- A clear understanding of partner roles and responsibilities.
- A review of the quality and robustness of the long-term management proposals and costs.
- An understanding of the management and letting strategy, including assumptions on rents, voids and lettings, and maintenance costs.
- Understand the approach to and anticipated length of tenancies.
- Independently value the developer's equity where equity investment is sought – based on current market values.
- A detailed assessment of the risk of non recovery.
- An understanding of the security offered for the loan.
- An assessment of the reasonableness of the exit strategy, when the loan will be repaid, and, as appropriate, the likely attractiveness of the completed development to institutional investors and/or the assumptions around long term finance.

In each case the HCA will:

- Test the proposition against the BTR Fund parameters
- Require an Independent Red Book Valuation prepared for loan purposes, commissioned and paid for by the applicant on terms acceptable to the HCA.
- Consider the most appropriate form of security for the loan. This will involve the use of charges and guarantees and negotiation with existing financiers. An Inter-Creditor Deed will be required in some cases,

3. THE HCA's Due Diligence Team

The HCA's DD team comprises

- A Lead HCA Officer
- An HCA Project Manager who will be the day to day contact for the applicant
- An independent property adviser from one of the HCA's retained firms.
- The HCA's legal representative from one of the HCA's firms of retained solicitors.

The Team will review the information submitted and will contact shortlisted applicants with additional questions, to arrange site inspections etc during the DDD process. It is anticipated that the process will take no more than 8-12 weeks.

Once the HCA receives details of the shortlisted applicant's solicitors the HCA's legal advisers will start the process of checking title. This will happen in parallel with the detailed due diligence and KYC process and is to be undertaken at risk and at the applicant's cost.

It is anticipated that Heads of Terms will be agreed between the parties as part of the DDD process.

At the end of the DDD process the HCA Project Manager will make a recommendation whether or not to make the loan and upon what terms. The Project Manager's proposal will then be considered by the HCA's Projects Executive. At all times the HCA's decision will be final.

4 Due Diligence process

The following documents are available on the HCA website -

Reference	Name	Status
DDD1	Due Diligence Guidance (this document)	Guidance
DDD2	Due Diligence Questionnaire	For completion
DDD3	Build to Rent Cashflow (excel file)	For completion
*DDD4	Build to Rent legal information	For Information
DDD5		
DDD6	Know Your Customer (KYC) Questionnaire	For completion
DDD7	KYC Questionnaire Submission Document	For completion

The due diligence questionnaire (DDD2) seeks to clarify the following information for each site:

- The 'PRS Phase' - being the comprehensive development necessary to ensure the delivery and letting of the PRS units, i.e. including wider infrastructure and other housing tenures and land uses integral to the delivery of the PRS Phase.
- Proposed Delivery Partners and Structure
- The Proposition Summary
- Project Finance
- Security
- Long term Management Plan/Strategy
- Exit Strategy
- Project Details (by site)
- Indicative Scheme Layouts and Unit Design
- Proposed Milestones and Build programme

- Scheme Viability and Cashflow
- Risk Register and Management Plan
- Confirmation that the applicant is prepared to proceed on the basis of the standard Heads of Terms available which have been available since 30th May 2014 at <http://www.homesandcommunities.co.uk/ourwork/build-to-rent-round-2>.

As the due diligence and KYC process progresses, HCA may ask for additional information. Certain exclusions may apply with respect to Publicly Listed Entities (Plc's) and Registered Providers. Please ask your HCA contact for details.

In addition to the information described above, the HCA may seek financial information from bidders. The HCA will be carrying out a review of financial standing of each bidder starting with publically available information, information already held by the HCA and accounts requested in DDD2. Where further information is required, a specific request will go to the bidder.

HCA is seeking responses to the specific questions asked. Additional materials are not required so for example shortlisted applicants are not expected to prepare specific marketing material targeted at HCA. Shortlisted applicants should keep the due diligence questionnaire as concise as possible whilst addressing all of the requirements set out above.

Shortlisted applicants are required to complete the information sought and return submissions to HCA within 3 weeks of notification of acceptance into the detailed due diligence process.

Where any of the information requested at the due diligence stage has previously been submitted as part of the EOI or Initial Due Diligence stage, bidders should clearly reference this information in their response.

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5. Registered Providers

The Social Housing Regulator will review any applications where a Registered Provider is the lead partner or part of a delivery partnership. The Regulator will assess those submissions and provide advice on whether the Registered Provider(s) involved are:

- Currently in compliance with the Regulator's standards, including the Governance and Financial Viability Standard; and
- Likely to be able to continue to meet the standards, including the financial viability element of the Governance and Financial Viability Standard if the bid is approved.

The assessment will consider the financial parameters of the proposals and, where relevant, the specific requirement under the governance element of the Governance and Financial Viability standard related to arrangements in respect of non-regulated elements.

The DDD information should provide supporting documentation to facilitate an understanding of the Registered Provider's planned involvement. This should include the assurance provided to the Board on the assessment and management of risk relating to the bid.

6 Value for money

The HCA will look to maximise value for money across the BTR Programme and will work with bidders to identify appropriate cost savings. The HCA cannot lend more than 50% of TDC on any individual site. The Agency's objective is to provide the minimum funding that enables the scheme to be developed.

Where the developer is seeking HCA equity funding the Homes and Communities Agency investment will not be greater than the developer's assessed equity contribution.

HCA reserves the right at Detailed Due Diligence and KYC to reject projects or specific changes within the proposition which materially impact the scoring or ranking of the project. In particular, changes in the nature or amount of the funding sought which would worsen the position on value for money or recoverability will not be allowed.

HCA reserves the right to request additional financial information from any bidder if necessary. We also reserve the right to take account of a bidder's track record on working with the HCA on current and previous programmes.

7 Terms

Heads of Terms were made available on the Build to Rent 2 webpage of the HCA website from 30th May 2014.

8 The Freedom of Information Act 2000

The HCA is one of the authorities subject to the provisions of the Freedom of Information Act 2000 ("the Act"). The Act provides for information to be exempt from the general right of access if its disclosure would, or would be likely to, prejudice the commercial interests of any person. A shortlisted applicant may request that certain information in their bid and any subsequent Agreement is treated as covered by this exemption. However if the information is requested the availability of this exemption will be subject to a test of whether the public interest lies in disclosing the information or keeping it confidential.

9 How to request commercial confidentiality

Requests for information to be treated as commercially confidential should accompany the shortlisted applicant's completed submission and must include clear and substantive justification together with a time limit after which such information may be disclosed. A shortlisted applicant should make sure any information that is considered to be commercially confidential is clearly marked as such and kept separate from the rest of the submission. A shortlisted applicant should be aware that while the HCA will endeavour to take into account its views as to the keeping of information confidential, it reserves the right to disclose information if required to do so.

10 Data protection

The information you provide will be held in the strictest confidence and adhere to the provision of the Data Protection Act 1998. More details on our Data Protection Policy can be found at <https://www.gov.uk/data-protection>

11 Accuracy of information

It is the shortlisted applicant's responsibility to ensure that all the information supplied in their response is up to date and accurate and to advise the HCA immediately of any changes to the information supplied. In the event that the HCA enters into a contract or formal agreement with the applicant, the figures and information given by the applicant will be binding on the applicant and any misrepresentation by the applicant may lead to termination of the contract or agreement.

12 Cost of responding and the Detailed Due Diligence Process

The HCA will not be liable for and will not reimburse any costs associated with the Due Diligence and KYC submission or incurred by the applicant in relation to the Detailed Due Diligence process.

13 Disclaimer

The contents of Detailed Due Diligence and KYC documents (DDD1 – DDD7) are strictly confidential and for use only by the HCA, its advisors and shortlisted applicants. This document is being provided solely for information purposes. This document does not constitute part of, and should not be construed as an offer, nor shall this document nor any part of it nor the fact of its distribution form the basis of or be relied upon in any way in connection with any contract or commitment whatsoever, nor shall its issue be taken as any form of commitment on the part of the HCA to proceed with any transaction.

Submissions will be able to be made electronically via the data sharing tool, Huddle. You will have your own secure folder area where you can upload documents. We will email you details of how to access the folder.

14 Your Information

We may use credit reference agencies in order to verify your identity using information from the Electoral Register and other public sources connected with your business, charity or body.

We may use details of your credit history to assess your suitability for an investment and your ability to meet your financial commitments.

15 Crime Prevention and Debt Recovery

To prevent crime, verify your identity and to recover debt, we may exchange information where appropriate, with fraud prevention agencies, law enforcement agencies, debt recovery agencies and other organisations including other lenders. If you give us false or inaccurate information and potential fraud is identified, details will be passed to fraud prevention agencies to prevent fraud and money laundering.

16 Data Processing

Information may also be processed for the purpose of complying with applicable laws, including, without limitation, anti-money laundering and anti-terrorism laws and regulations and fighting crime and terrorism. This may require the disclosure of information to a UK or other governmental or regulatory authority or to any other person we reasonably think necessary for these purposes.