

Innovation in Finance and Delivery

Local Government Association
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Routes to Development: all *growth* areas

HOUSING REVENUE ACCOUNT

Borrowing Headroom Programme
Value captured – and ring-fenced
BUT...
Right to Buy
High Value Assets

HOUSING COMPANY MODELS

For Investment...
... and Housing

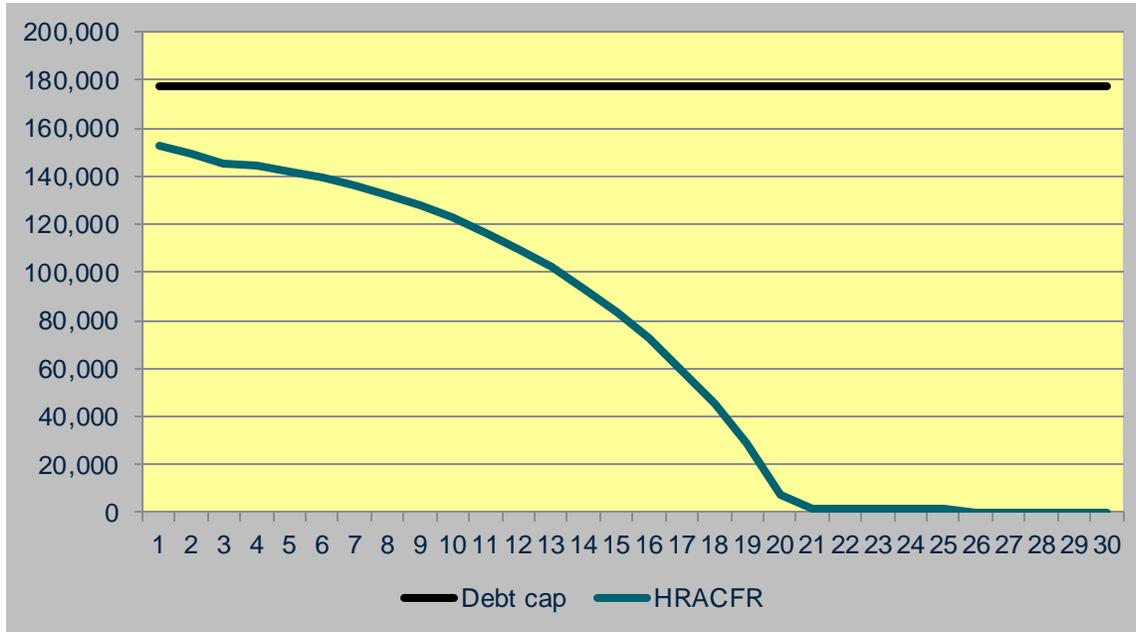
- Development, Acquisition and Landlord
- Sale and Rent
- Market and Affordable

PARTNER-SHIPS AND JVs

- Developers
- Investors
- Housing Associations

Looking for the “Right Deals”
Sharing risk/reward
Natural bedfellows?

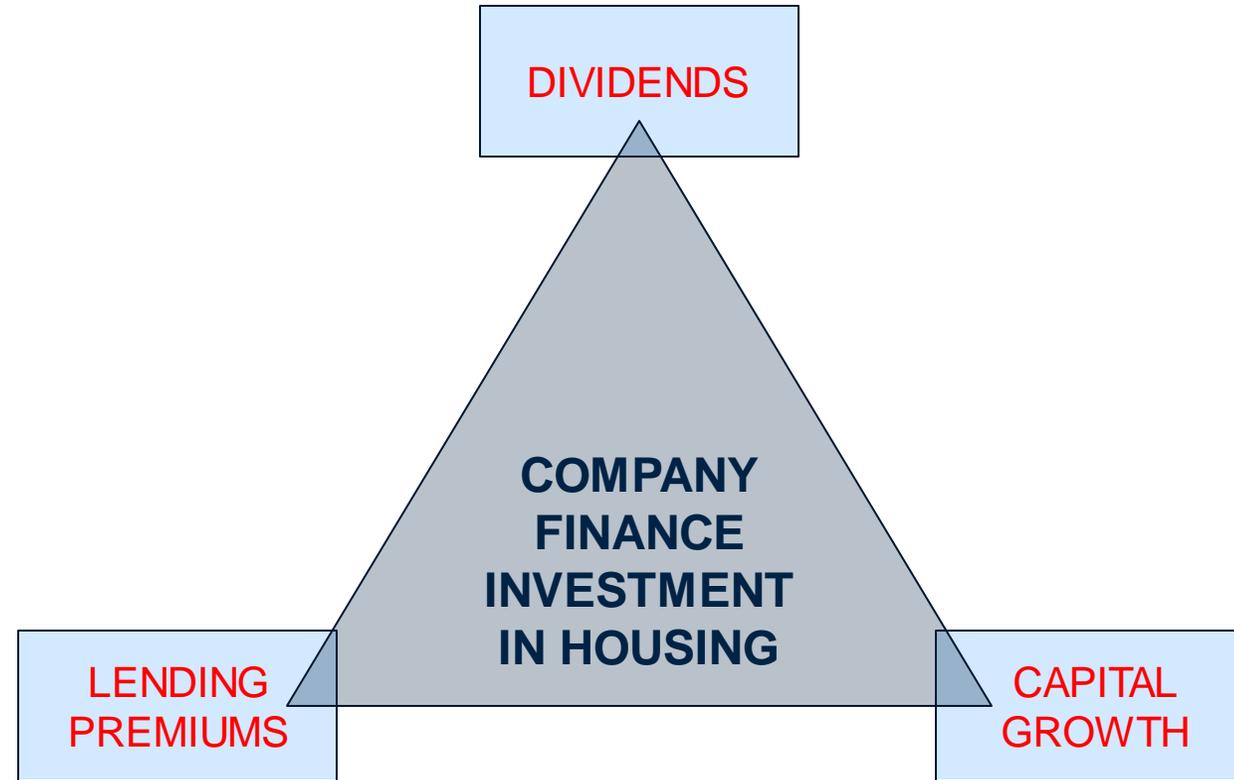
A further word on the HRA



- Most HRAs retain future funding capacity to deliver new homes
- Despite the rent cut, RTB
- Important that remaining policy uncertainties are removed

Adding to this funding capacity...

- Opportunity for grant
- Opportunity for additional borrowing
- Critical that criteria for the programme are clear, unambiguous, lack strings and are published soon
- Value captured and “ring-fenced”... Is there scope for diversification?



- 3 routes to financial returns to support delivery and local services...
- Delivering value through Companies Acts
- Balance between these key to understanding what will be successful

Company variants – variations in return?

	Market for sale	Market rent	Affordable - other	Affordable rent	Temp Accom	Social
Build / Develop	Light Green	Light Green	Dark Green	Dark Green	Light Green	Light Green
Acquire existing	Grey	Dark Green	Grey	Grey	Dark Green	Grey
Acquire new build	Grey	Light Green	Dark Green	Dark Green	Light Green	Light Green

- **Development focused**.... Profits focused on asset sales – development finance premium more limited?
- **PRS focused**.... Profits from rental activities, lending premiums, and maybe asset growth in future
- **Affordable rental focused**... Profits from rental activities, lending premiums
- **Shared ownership/Rent to Buy**... All three areas part of the plan?
- Bespoke to all authorities

- Development activities require three things...
 1. **FINANCE** (equity and debt, local authority backed)
 2. **LAND** (which could be acquiring completed units)
 3. **RESOURCES** (skills, expertise, delivery capacity)
- How much of these are around? To what extent? Where will they come from?

- **In theory**, finance from local authority sources could be unlimited
- **In practice**, Treasury Management and Borrowing strategies set logical limits to exposure
- If the financial dynamics and underlying viability of the schemes stack up – whether private/commercial at commercial rates, or whether at (reduced) affordable-finance rates...

- Sources of finance from LA can be justified
- Can be supplemented by...
 - Investment from private finance in joint ventures
 - Investment of housing association finance alongside LA finance
 - Sharing risk and rewards can deliver more in partnership in some markets – depends on demand

Generally... finance and funding may not be the biggest issue

- Many companies based on “**quick wins**” – HRA land, General Fund land, general consents and other relatively painless transfers in
- This should not be overstated because many authorities have lots of land, BUT...
- **Many LAs report HRA land in short supply**
- **Many LAs also report GF land for housing in less supply than it was**

- Implications?
- Parallel experience in HA sector – land-led development strategies
- Focus on acquisition of completed properties (s106, existing stock with refurbishment)
- Or...
- Land acquisition strategies
- Skills, expertise and capacity to get into this market – realistic?

Access to land becoming harder: need to move into the market?

- In-house delivery capacity in relative short supply
- Some LAs and ALMOs building (or re-building) their in-house teams
- Development management – AND – direct construction delivery through DLO diversification
- For a majority, skills and capacity shortage a principal barrier to growth in direct LA delivery
- Expertise in appraisal, design, development, valuation

- Housing associations (small-medium) face similar issues
- Construction workforce, the EU and demographics
- For LAs and LA companies, development management = critical
- Partnership with housing associations – a “win-win” for both?
- Other options in the marketplace

Delivery capacity – the biggest challenge?

Developer appetite

- Joint Ventures with developer partners a long established route to building capacity for delivery
- Developers like... Access to land and opportunity, the predictability of a public sector partner, the reputational advantage of partnership

Some factors

- History – may have sometimes been affected by a perception of a RISK/REWARD imbalance
- Reputations affected by the behaviour of some?
- “Viability” under pressure?

Trends in the market might therefore be for...

- A new form of engagement where land, funding and capacity is genuinely shared
- Access to public finance sources – for SMEs and developer-contractors
- A greater focus on “place-shaping” (cf “house-building”)
- Key question... Can there be profit compromise for partnership?

Housing Association and LA partnerships

- A key trend for natural bedfellows?
- Combining land and funding
- Combining skills and expertise
- A “win win” for both
- HAs motivated to utilise their funding capacity, and gain access to land
- LAs motivated to access additional funding, spread risk and access skills

- Some examples...
- Brighton & Hove CC and Hyde Group
- Fareham, Eastleigh and Vivid
- Proposed partnerships for Combined Authorities and combinations of housing associations

Will we see this as a major development in the market place?

New money: some headlines

SOCIALHOUSING FINANCE, BUSINESS AND GOVERNANCE IN HOUSING

Manchester pension fund invests £25m in council joint venture

L&G provides £50m loan to Housing Solutions

LA pension fund puts £120m into Heylo

Abu Dhabi sovereign fund takes stake in Fizzy with direct £200m injection

Rent to buy housing specialist secures £35m from BAE Systems pension fund

Investment manager launches 'social property impact' fund

Croydon council seeks 'better deal' on flats for homeless families from new landlord Cheyne

Manchester council partners with Abu Dhabi fund for £1bn housing plan

Places for People sells 4,000 homes with L&G leaseback deal

Islington council pension fund looks to social rent housing as 'safer' investment

First social housing REIT launches with £350m stock market float

Overseas investors target London PRS as UK groups focus on market sale

L&G CEO says UK 'awash with money' as investor looks to work with 'enlightened' councils

Genesis and M&G in £125 million sale and 35-year operating lease

Equity funder to buy £15m of property for care charity

Work underway on 'pioneering' rent-to-buy scheme in Newton Mearns

One Housing leverages shared ownership homes to raise £85m in unique deal with M&G

A little encouragement from the top table

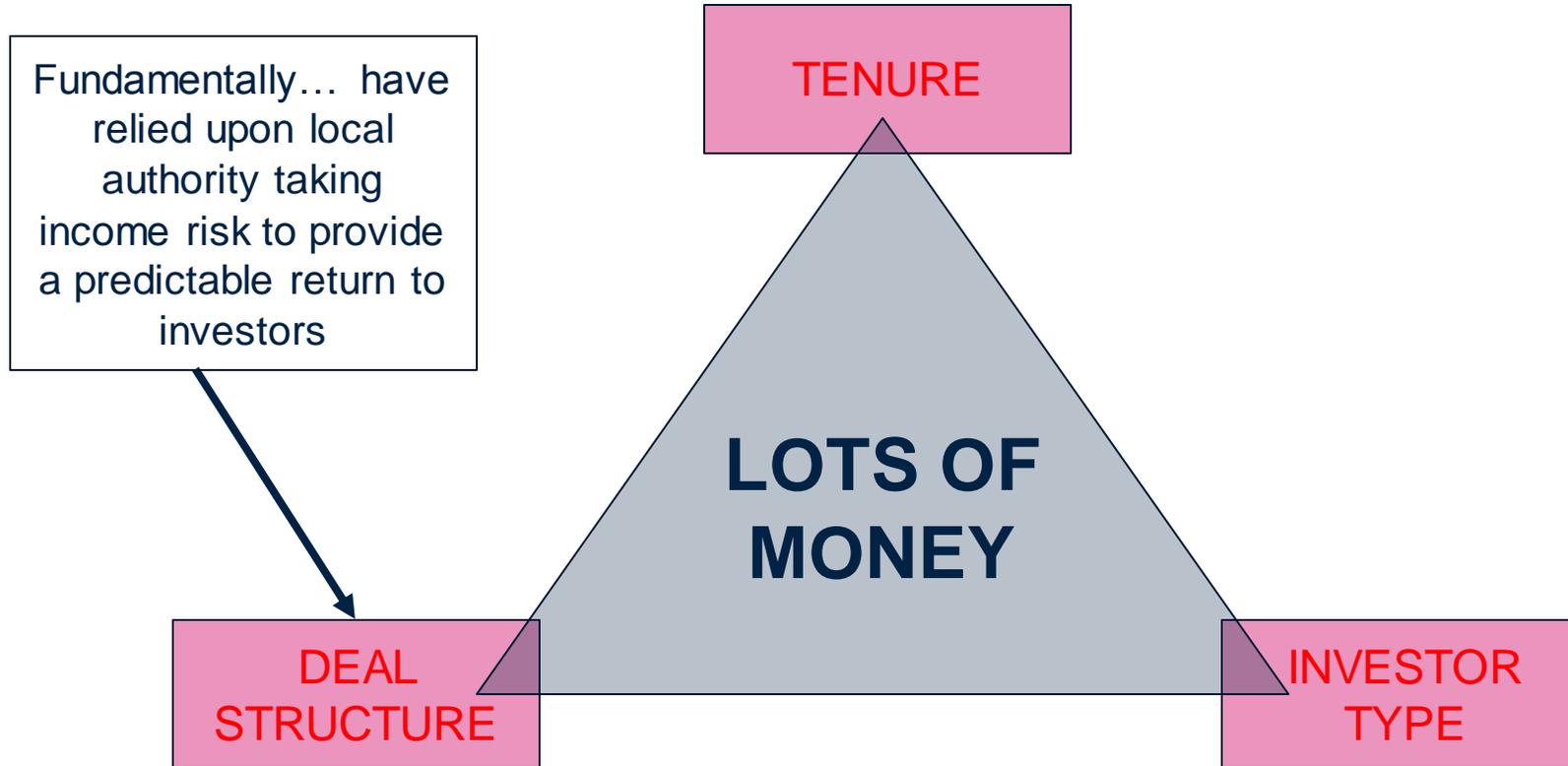
*Encouraging more institutional investors into housing, including for **building more homes for private rent**, and encouraging family-friendly tenancies;*

We want institutional investors to invest more widely in housing, including shared ownership. Pension schemes are increasingly regarding housing as an appropriate investment. The pooling of local government pension funds will increase opportunities for their assets to be used to support infrastructure projects, including housing.

***For lenders, institutional investors and capital market participants**, the Government is offering a clear and stable long-term framework for investment, including products for rent. In return we call upon lenders and investors to back developers and social landlords in building more homes.*

Where do investors and private finance fit in?

- Part of the solution
 - Supplement and complement
 - Fund schemes and development not otherwise fundable via traditional routes
 - Offering skills, expertise and in many cases capacity for delivery
 - Sharing risks (and rewards)
- 1. PROVIDE OR RELEASE ADDITIONAL CAPITAL**
 - 2. PROVIDE ADDITIONAL REVENUE**
 - 3. PROVIDE OPPORTUNITIES FOR LONG TERM INVESTMENT**
- Not an either/or – the more diverse your strategy, the more you fund directly...
 - ...the more private investors will look at you as a someone they want to work with, and the keener they will price the deals



- Investors: Pension Funds – Institutions – Family Offices – High Net Worths

1 – Long term sale and leaseback – focus on income

FACTOR	FEATURE
TERM	Long – 30 years plus
CAPITAL RETURNED?	No – nil reversion to LA at term end
OPENING YIELD	Low – depending on index linking
DEVELOPMENT FINANCE	Originally not keen – but major investment recently

- Who : large institutions, pension funds

- Opportunities
 - Lower yield requirements – becoming keener
 - Comfort with deal lengths becoming shorter
 - Removes re-finance risk

- Key challenges...?
 - Finance lease on balance sheet – BUT...
 - Long term guarantee of index linked income when rent policy is unpredictable
 - Flexibility around options to exit?

2 – Operating leases – focus on income with reversion

FACTOR	FEATURE
TERM	Medium – up to 20/25 years
CAPITAL RETURNED?	Yes – reversion to investor at term – with safeguards (e.g. pre-emption)
OPENING YIELD	Low – depending on index linking and on open market values
DEVELOPMENT FINANCE	Yes – via specialist providers

- Who : Cheyne Capital, QSH, Funding Affordable Homes, Heylo (shared ownership), Civitas and other REITs (acquisition)

- Opportunities
 - Development finance --- adding to stock and revenues
 - Yield requirements becoming keener
 - Removes re-finance risk
 - Shorter term deals control risk
 - Off balance sheet – BUT...

- Key challenges...?
 - What happens at term end? Pre-emption / reversion / renewal?
 - 20 years index-linked lock-in might still be too long for some
 - Reputation of “private equity”?

3 – Diversified products – focus on capital returns

FACTOR	FEATURE
TERM	Short-Medium – up to 20 years
CAPITAL RETURNED?	Yes – through sales to tenants or on the open market
OPENING YIELD	Depends entirely on prospects for capital returns
DEVELOPMENT FINANCE	Yes – via specialist providers

- Who : Rent Plus, Heylo, Funding Affordable Homes, Rent to Buy

- Opportunities
 - Development finance --- adding to stock and revenues
 - Product diversification – pathways to affordable home ownership
 - Shorter term deals control risk – controlled / flexible exit
 - Starts to look a bit more like PRS

- Key challenges...?
 - Pricing might not be so keen – uncertain capital returns
 - Unpredictability of exercise of purchase options
 - Difficulty in getting investors to buy in

Future trends?

Institutional long leaseback deals – keener pricing, shorter terms, accepting some reversion, development finance



Management agreement type deals – emerging market, deals being concluded for both development and acquisition (for capital release)



REIT investment – at scale quickly – focus on acquisition



Risk profiles changing... Rent review processes being built in, so...



Are we moving towards a genuine division of RISKS/REWARDS – where increasingly investors take a view on rents and occupancy?





Thank you

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