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Private financing of low cost rental housing: the UK experience

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The Presentation

- Brief summary of UK situation
- The lenders experience
- Impact upon housing associations
- Consequences for the Government
- Transferable lessons?
- Conclusions

Overview

- Private finance began in mid 1980s
- To date about £29 billion lent, no losses!
- Housing associations in UK are grant aided (second charge), government regulated and rents are 'controlled' but in 70% of cases met by Housing Benefit – a state payment
- 3,000 HAs ranging from 100 homes to 50,000
- Around 600 developing HAs

Overview

- Voluntary committees, no govt/lenders on them
- Paid staff
- Regulated/funded by Housing Corporation in Eng
- Funders have right of possession but through a statutory insolvency procedure
- Mixture of secured fixed rate/variable rate debt

Lenders' Experience

- Sound attractive business but moderate return – fallen from 200bps to around 40bps
- Back book/front book
- Move from pricing to fees
- Complex sector requiring detailed knowledge and understanding
- Exposed to political and policy risk as well as demand risk
- Very competitive- debt and bond finance – some lenders have exited
- Deal sizes 0.5m to £100m – at present a bit small for investment market

Impact on Housing Associations

- More business like
- Customers without drive to the bottom line
- Typically want relationship borrowing because of changing environment
- Becoming more sophisticated over time
- Asset management/balanced funding
- Price driven

Impact on Housing Associations

- Growth of sector and via local authority stock transfer (LSVT) to new HAs
- LSVT brought in new big associations
- 100% debt financed with dowry
- Regenerating public housing estates
- Private finance for low cost home ownership via associations - development cost and buyer mortgage

Consequences for the Government

- Now have to take funders into account!
- Market resists policy change
- Constraint on changes to housing benefit
- Nervous about private market, risk transfer and VFM
- Pushing for more innovative funding
- Still not good at understanding potential

Consequences for the Government

- Extra resources
- Alternative to local government housing
- Access to private finance to tackle LA problems via stock transfer to HAs
- Around 150 local authorities have transferred their stock - inc Glasgow City 100,000 homes

Transferable Lessons

- Terms of trade changed radically since market began – must expect that!
- Relatively safe secure lending
- Need housing benefit? Rents to meet costs?
- Or access to assets to underpin borrowing
- Longer term – higher aspirations – equity funding?

Transferable lessons?

- But in Australia % rent and no benefits?
- Poor state housing - stock transfer - sale/refurbishment
- Aggregating the social rented sector to attract funding?
- Need an intermediary regulatory body?
- Or Dutch loss guarantee model?

Transferable lessons?

- Low cost home ownership
- Shared ownership - mix of 50% rent/50% own
- Shared equity - 70% mortgage/30% equity loan from housing association
- Development finance - grant/private finance
- Borrower - 70% mortgage
- Cost to Govt; Intermediate tenure?

Conclusions

- Limited number of lenders
- Returns declined but fees
- Not been fully pricing for risk
- Basel 2 impacts
- HA sector does not have normal business features
- Could remove regulation and price commercially (1%) . Could it work?

Conclusions continued

- Been the most successful private finance initiative in the UK
- Now being used to fund transfer/ improvement of poor local authority stock
- Significant expertise acquired in UK
- Low cost home ownership reform
- Pressure to diversify and into intermediate renting – funders comfortable with that
- Overall a success!