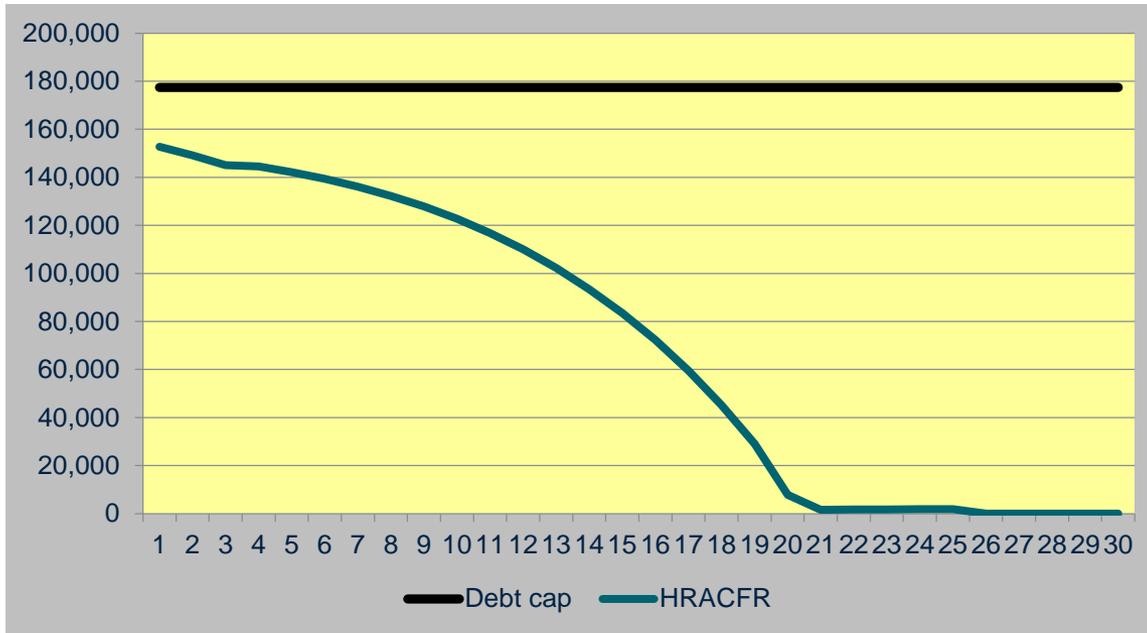


Scaling up through delivering value

Local Government Association
19 June 2018

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Director, Housing Consultancy

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

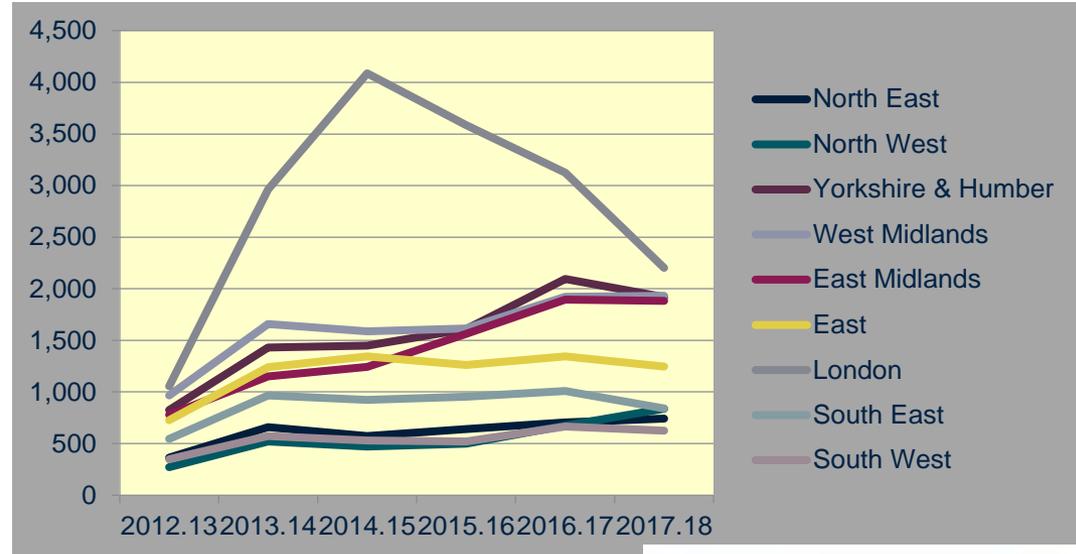
Adding to this funding capacity...

- 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?

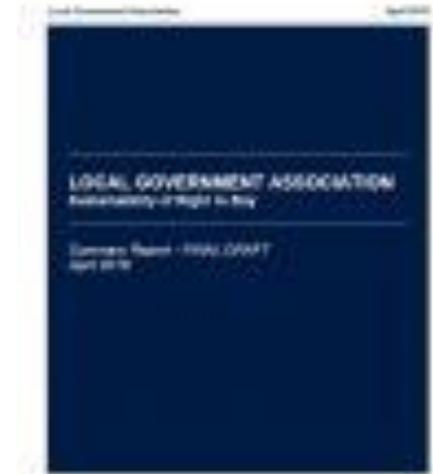
A new look at the Right to Buy?

Research and analysis into the sustainability of the “141” replacement programme

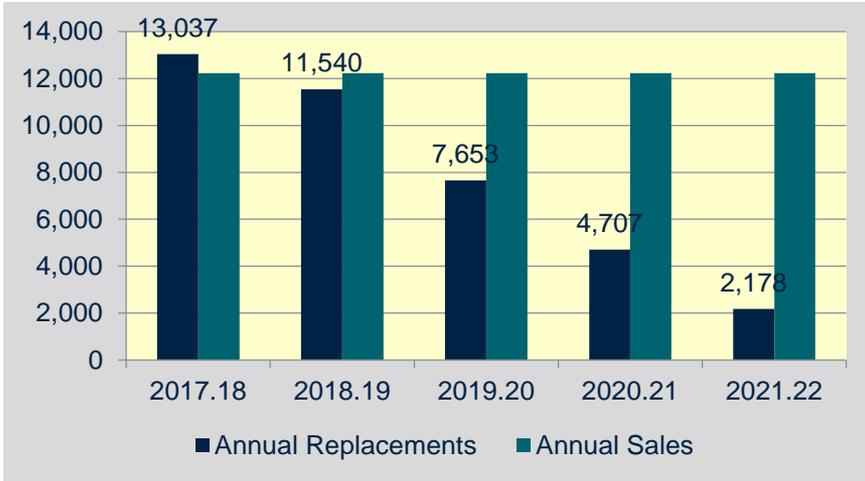
- Identifying trends and modelling future replacements
- Engagement with 12 local authorities to understand local experiences
- Developing a national model built from individual local authorities – experiences differ across the country...
- ... especially between the four “southern” regions and the five “midlands and north” regions



- Also considered the impact of changing rates of discounts
- Testing the LGA position on locally determined discounts



Headlines



Reducing discount rates by £20k flat

2017.18	Reduction in sales	Net increase in receipts
		£'000s
North East	186	2,811
North West	152	2,833
Yorkshire & Humber	535	8,027
West Midlands	507	3,642
East Midlands	487	5,319
Total	1,867	22,632

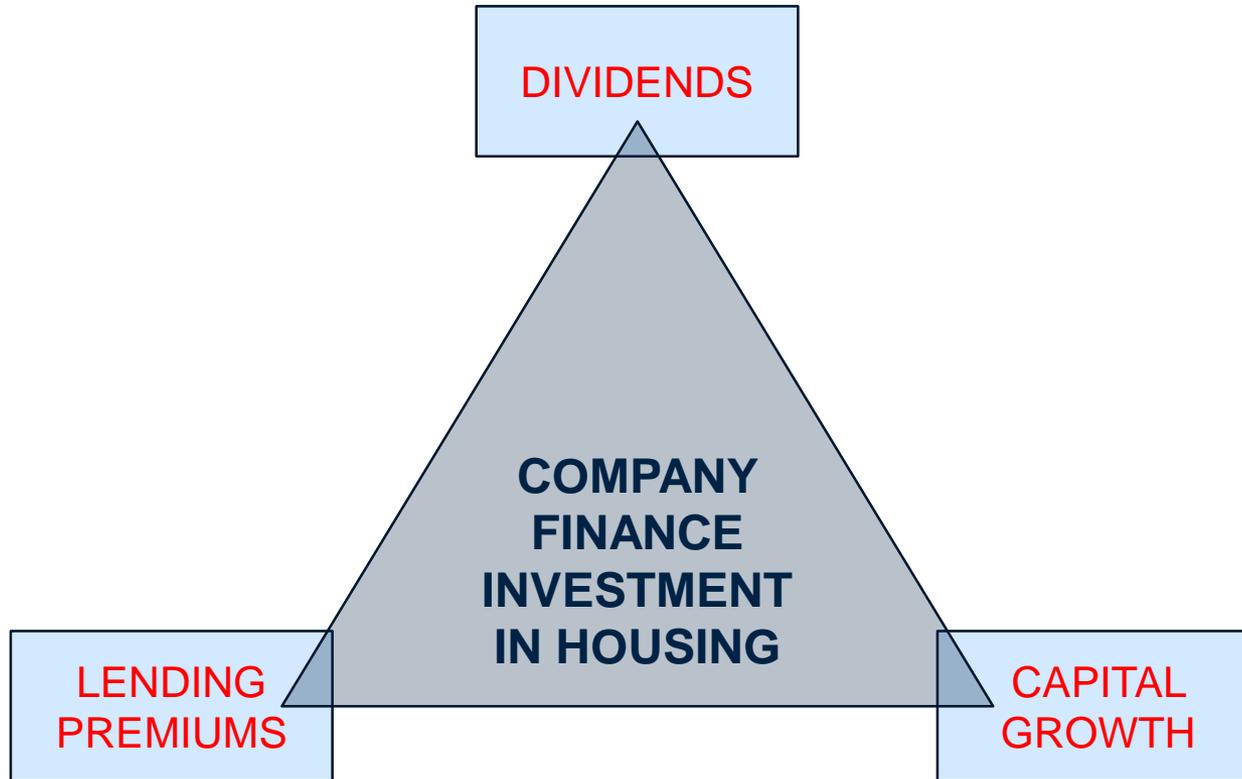
- Debt cap could all but eliminate replacements in 5 years – require an extension and LIFTING
- The 30:70 matching principle does not maximise replacements for all – need for local flexibility to move to 40:60 or 50:50
- Need to move to 5 year replacement timeframe
- Definitions of affordable housing for reinvestment should be widened – and also enable investment into companies
- Restricting discounts – selectively and on a local basis – could increase replacements, without affecting the fundamentals of the RTB policy

Moving forward?

- Government has committed to consulting on reform of the 141 RTB replacement programme
- Many of the flexibilities analysed within the report are likely to be part of the consultation
- Are there any more fundamentals around the Right to Buy to tackle?
 - Is this a policy that has “had its day”?
 - Treasury retention of the pooled amount
 - Restriction on certain types of property in certain parts of the country
- Or... Have we turned the corner and sales will reduce to a “stable”/ nominal level over time?

- Moving forward...
- Opportunity to scale up HRA and potentially company delivery via the availability of funding and more flexibility
- Many of the areas that the sector has asked for are on the point of being delivered...
- ...the ability to mix grant with RTB receipts with borrowing cap extension is where most feel they need to be
- Essential that the sector response is positive and over-subscribes the programmes – no need to and don't wait to engage with MHCLG officials!

Delivering value through companies



- 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	✓		✓	✓		
Acquire existing		✓			✓	
Acquire new build		✓	✓	✓		

1. **Development focused**.... Profits focused on asset sales + development finance premium more limited?
2. **PRS focused**.... Profits from rental activities, lending premiums, and maybe asset growth in future
3. **Affordable rental focused**... Profits from rental activities, lending premiums

Bespoke to all authorities

New sources of private investment: some headlines

SOCIALHOUSING

FINANCE, BUSINESS AND GOVERNANCE IN HOUSING

Manchester pension fund invests £25m in council joint venture

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

Blackstone takes stake in 'for profit' housing association Sage

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

LA pension fund puts £120m into Heylo

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

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

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

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

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

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

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

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

Investment manager launches 'social property impact' fund

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

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.*

What might investors be looking for?

NOT A ONE-SIZE FITS ALL

- But there are some key features...
- Investors like...
 1. *The long-term, stable, income-producing nature of affordable housing assets*
 2. *The fundamental market dynamics: supply and demand*
 3. *The covenant strength of local authorities*
 4. *The expertise and knowledge of locally-based social landlords*



- Q: A Wall of Money – does it exist?
- A: potentially yes – if the deals are right, investment could outstrip public funding over time

Something to consider?

A potentially big game – but (of course) not the only one...

- Part of the solution
 - Supplement and complement
 - 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 private investors will look at you as a someone they want to work with

Future trends?

Pension Fund long lease deals – keener pricing, shorter terms, development finance



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



Risk profiles changing... Investors starting to take the risk on rents

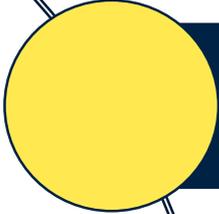


Number of investors into the dozens – genuine competitive tension

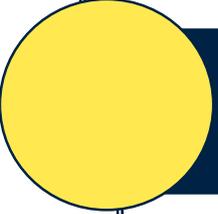


Moving towards a genuine division of RISKS/REWARDS – where increasingly investors take a more realistic and proportionate view on rents, occupancy and management

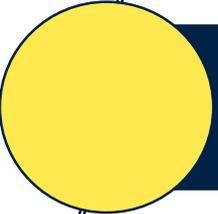


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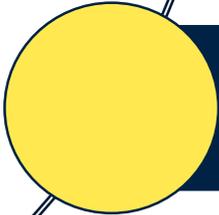
Local authority = a good place to be on many levels

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Appetite from investors, developers and housing associations

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Key = to develop the land / funding / capacity equation in the context of a genuine partnership

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Delivery leads to more delivery... Moving forward on all opportunities

Thank you

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