

Financing and Resourcing Affordable Housing in Westminster



Options for Consideration

Potential options for the Housing Commission to explore include:

- Indirect investment vehicles
- Intermediate housing tenures
- Engagement with private sector developers/direct investors
- PFI structures
- Joint ventures

A brief analysis of various options is presented in the first report and an in depth analysis of two options selected by the Housing Commission might be undertaken. It is suggested that these should be options which do not require legislative change and could start to impact within a short time-frame

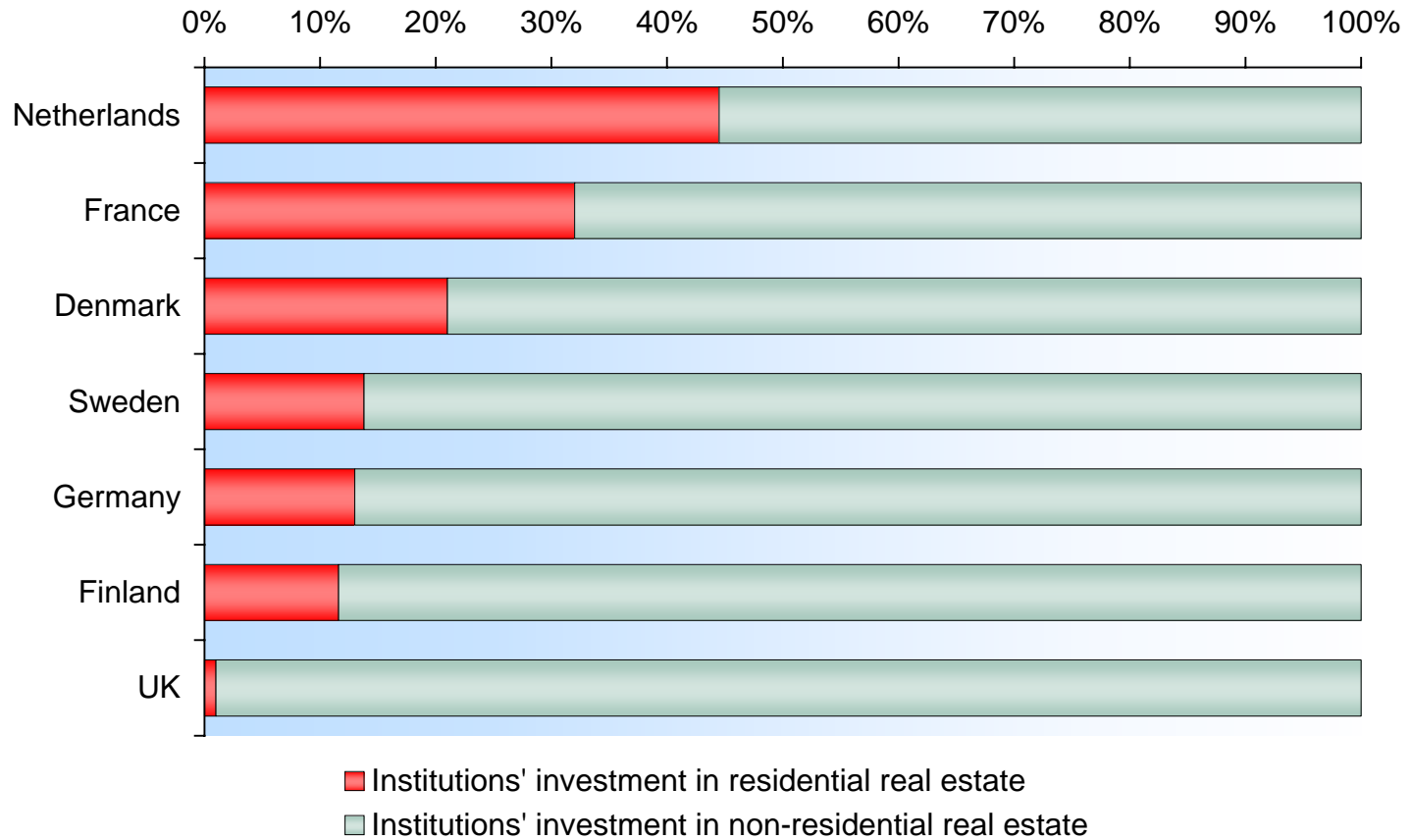
Key Issues for Financing and Resourcing of Affordable Housing in Westminster

- High land cost - difficult for the private sector to make a return
- Development size - over 2/3 of the affordable housing provision in Westminster is anticipated to come from sites of less than 0.5 hectare.
- Mature environment – certain products rely on an intervention creating a significant uplift in capital values to enhance return.
- Central London location – investors/banks will have a definite view on central London as an investment location.

Indirect Investment Vehicles

- UK does not have a history of indirect investment vehicles offering residential risk despite historic returns
- Residential activity is limited when compared to the US and other European countries
- Partly explicable by the relatively small private rented market in the UK

Low proportion of institutional investment in residential real estate in the UK



REITs (Further Update from Government in early December)

- REITs have been effective in the USA and in certain parts of Europe
- A form of indirect and liquid investment in most forms of property assets including residential
- generally perceived as income rather than capital growth driven investments

Tax transparent

Conversion charge for existing companies

No anticipated incentives for affordable housing

Shared Ownership REIT (London First)

- Developer builds out the development, selling a percentage of units as shared ownership to key workers
- the fund holding the unsold portion converts to a REIT

For the investor, advantages over affordable rented housing would be:

- Less voids and maintenance on shared ownership
- Stronger cash flow generated by staircasing and churn

Properties would probably need to revert to the open market within a defined period (10years) to underpin return

Could be applicable to Westminster

SIPP Self Invested Personal Pension

- SIPPS will be allowed to invest in residential property from 2006
- Initial growth likely to be fuelled by individuals transferring buy to let properties and/or first and second homes into their own SIPP
- Buy to let market currently valued at £80bn – if 10% of these transfer, that would lead to a 30% increase in SIPPs
- Affordable housing unlikely to generate return

Unlikely to be applicable to Westminster

Community Land Trusts

Not-for-profit, community-controlled organisation

Key feature is to retain ownership of land in the Trust and grant long renewable leases to families who want to live there.

Provides affordable housing for community residents

- Promotes resident ownership and control of housing
- Keeps housing affordable for present and future residents
- Captures the value of public investment for long-term community benefit

Possibly applicable to Westminster if subsidised land available

US Developer Tax Credits - UK Applicability?

Some \$3bn allocated annually on a state by state basis for rental development for those with low incomes:

- creates equity to fund low yielding properties
- Credit can be traded
- Rental restrictions apply for 15-18 yrs

One of the principal mechanisms for supporting this type of housing in the US.

Requires legislative change

Affordable Housing Models Generating a Commercial Return

None of these require subsidy

Assettrust – investment weighted towards shared ownership

Pocket – intermediate housing for outright sale

CASPAR – renting at just above social rents

Applicable to Westminster

London Wide Key Worker Initiative and Intermediate Tenure Models

- Intervention by English Partnerships to provide housing for key-workers (average income £33,000), in mixed tenure developments
- Form of shared ownership marketed via zone agents (LWI tenure and the First Base tenure)
- Section 106 will only require property to be restricted to key workers until the first sale under LWI
- First Base Tenure will effectively create a “flawed” lease
- Legal structure still to be finalised

Applicable to Westminster

Products under the Homebuy Banner

- **Right to Buy and Right to Acquire**
- **Social Homebuy**
- **New Build Homebuy**
- **Open Market Homebuy**

Target Market:

- Existing social tenants
- Key workers
- First-time buyers

Applicable to Westminster

Student Accommodation

Characteristics of Student Accommodation

- Strong RPI linked cash flow
- Ancillary services to enhance the yield
- Strong demographic evidence for continuing growth

Funders and investors participate in the market in a number of forms, including

- joint ventures
- charitable trusts
- PFI style structure
- direct investment

Applicable to Westminster

How to capitalise on RSLs financial strength and borrowing capacity

- RSLs are the main conduit of bank lending into affordable housing -
- £28bn

RSLs could be encouraged to

- Consider more risk sharing in developments where the housing for sale will cross subsidise the social housing.
- Explore more joint ventures with funders.
- Bespoke structured products to facilitate the acquisition or holding of street properties for affordable housing.

Applicable to Westminster

Finance for Affordable Housing Bond FAHB (London First)

Based on existing government benefit commitments to provide an income stream

Bank would fund the development of units against a forward take-out from a bond

The model would require two government income streams

- Development grant (paid upfront)
- Housing benefit

The bond would be based on a net cash flow established based on income (rents and benefits) and outgoings (maintenance and repair)

Requires legislative change

The Options

Possible strategic options:-

Short term impact

intermediate tenure developments

engagement with commercial investors/developers

facilitation of bank/RSL joint ventures

Exploration of wider applicability of structures
currently used for student accommodation

Possible longer term benefit

REITs for shared ownership and where
affordable housing is part of a portfolio

Concepts requiring legislative change

Developer Tax Credits

FAHB

Options for Increased Affordable Housing

