



# SOCIAL & AFFORDABLE HOUSING

## White Paper

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

Asset Management | 8 December 2020



UNION BANCAIRE PRIVÉE

## Key points

- ◆ Over 1.1 million households in England are on local authority waiting lists for affordable housing.<sup>1</sup>
- ◆ Furthermore, it is widely expected that waiting lists will lengthen as more households will be forced to seek cheaper accommodation due to the impact of COVID-19.
- ◆ Ireland continues to feel the effects of the property crash following the GFC. Tighter credit reductions and fewer active developers caused housing completions to fall dramatically after the GFC.
- ◆ The undersupply of social housing meant that, in 2019, there were 68,693 households in Ireland on waiting lists.
- ◆ The ESRI published a special article on the effects of COVID-19 on the Irish property market. The most efficient policy response is for an increase in state provision of S&AH.<sup>2</sup>
- ◆ This brings about both short- and long-term financing opportunities. The short-term opportunity is to finance development and construction of new S&AH and the long-term opportunity is to lease the newly constructed S&AH to housing providers.

## INTRODUCTION

This white paper summarises the social and affordable housing (“S&AH”) sector in the United Kingdom and Ireland. There are similarities in the provision of S&AH in each country and in each there is a substantial shortage of supply.

In this paper, we are chiefly concerned with general rental needs, in particular:

- ◆ short-term financing for development and construction, and
- ◆ long-term (25–50 years) leasing of housing to regulated housing providers.

## SOCIAL AND AFFORDABLE HOUSING IN THE UK

### Background and Terminology

While there are different types of S&AH and no universal definition, in the social rented space the 50/80% definition is widely used. For example, on its website, the National Housing Federation (the trade body for housing associations) states that:<sup>3</sup>

**“Social rented homes are usually rented at about 50% of the average local market rent and affordable rented homes are rented at around 80% of the local market rent.”**

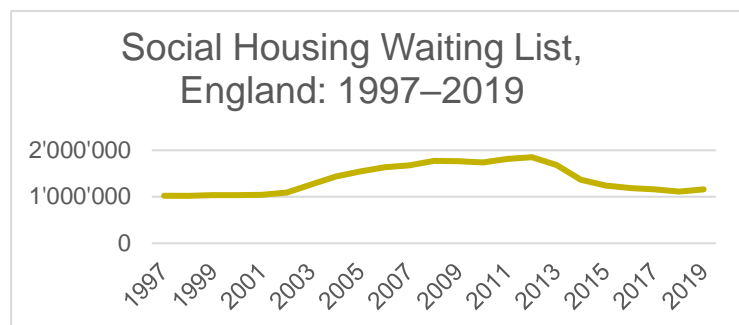
<sup>1</sup> <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies>

<sup>2</sup> ESRI Special Article, Assessing the Impacts of COVID-19 on the Irish Property Market: An Overview of the Issues.

<sup>3</sup> <https://www.housing.org.uk/about-housing-associations/what-housing-associations-do/>

<sup>4</sup> Regulator of Social Housing, Becoming a registered provider, May 2019

## Regulatory Framework

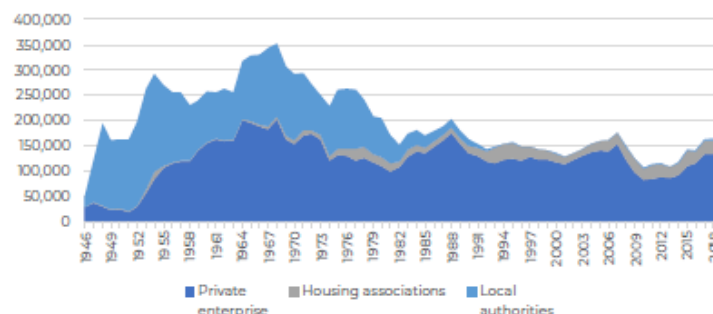


In England, the provision of S&AH is regulated by the Regulator of Social Housing (“RSH”). Historically, only non-profit-making organisations could be registered as providers of social housing. Since April 2010, profit-making organisations have been allowed to become registered providers (“RPs”). For the most part in England, RPs comprise local authorities and housing associations.<sup>4</sup>

## Local Authorities and Housing Associations

In the 35 years following the end of the Second World War, 4.4 million social homes were built in England.<sup>5</sup> As can be seen in the chart below, for many years local authorities were the main drivers behind new social homes.<sup>6</sup>

New build by tenure, England



**“Housing associations provide homes and support for almost six million people around England. They offer social homes, shared ownership homes, some market homes to rent and buy, and essential support and specialist housing.”**

<sup>5</sup>

[https://england.shelter.org.uk/support\\_us/campaigns/story\\_of\\_social\\_housing](https://england.shelter.org.uk/support_us/campaigns/story_of_social_housing)

<sup>6</sup> Making Housing Affordable Again: Rebalancing the Nation’s Housing System, Affordable Housing Commission, March 2020

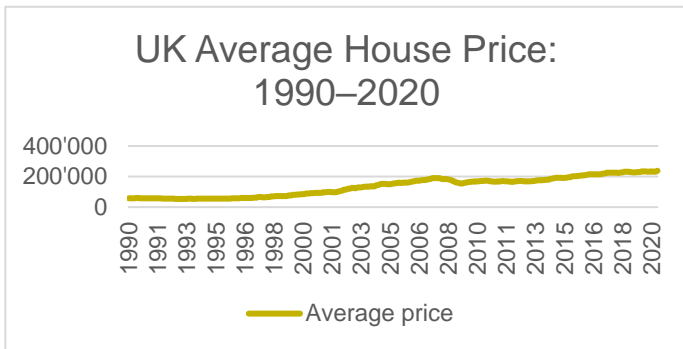
**Housing associations build thousands of new homes for communities around the country. In 2018/19, they built more than 45,000 homes, nearly a third of all new homes in England.**

**This includes more than 5,000 homes for social rental, more than 19,000 homes for affordable rental, and more than 14,000 homes for shared ownership.**

**Demand for Social and Affordable Housing**

As of 2019 there were over 1.1 million households on the local authority waiting list for affordable housing in England.<sup>7</sup>

The demand for affordable housing has been underpinned by house price inflation outpacing wage inflation. In the two decades from 2000 to 2020, average house prices across the UK went up from GBP 84,000 to GBP 238,000 – an increase of just over 180%.<sup>8</sup>



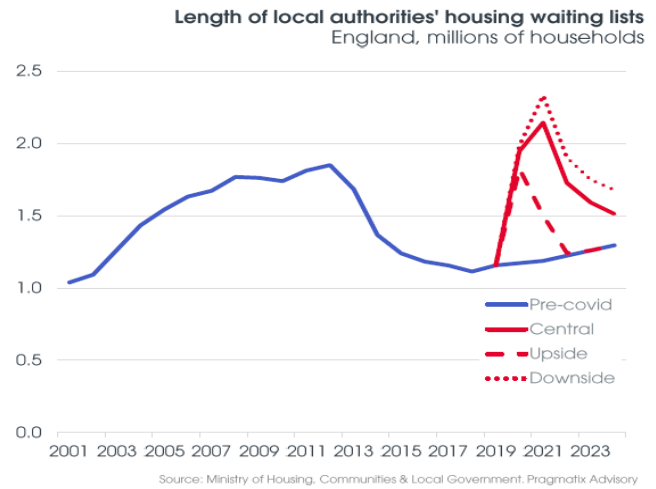
During this same period, average weekly earnings increased from GBP 307 to GBP 539, an increase of only 75%.<sup>9</sup> With mortgages capped at 4.5x annual salary, this has priced many individuals out of purchasing a home.<sup>10</sup> The affordability of house purchases is measured by the ratio of median house price to median salary: this ratio reached 8x in 2018.<sup>11</sup>

**The Impact of COVID-19**

The full social and economic impact of COVID-19 has yet to be revealed. Even so, it is widely expected that

<sup>7</sup> <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies>  
<sup>8</sup> <https://landregistry.data.gov.uk/app/ukhpi/browse?from=1990-01-01&location=http%3A%2F%2Flandregistry.data.gov.uk%2Fid%2Fregion%2FUnited-kingdom&to=2020-08-01>  
<sup>9</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/kab9/emp>  
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waiting lists will grow as more households will be forced to seek cheaper accommodation. A recently published study suggests that waiting lists are likely to surpass the previous peak.<sup>12</sup>



**SOCIAL AND AFFORDABLE HOUSING IN IRELAND**

**Background and Terminology**

Local authority new builds fell significantly in the late 1980s. The volume of local authority new builds recovered over the following 20 years before falling dramatically as a result of the GFC.<sup>13</sup> There has, however, been increased supply from the voluntary and co-operative sectors, in particular housing associations. Historically local authority-built houses were referred to as “council” or “social” houses. More recently, the expressions “social housing” and “affordable housing” are often used interchangeably.

**Regulatory Framework**

In Ireland S&AH may be provided by local authorities or by Approved Housing Bodies (“AHBs”). “AHBs are not-for profit organisations that have a social purpose to provide for people’s housing needs by working in close co-operation with the Government, local authorities and relevant agencies”.<sup>14</sup> In 2012, the Housing Agency was established as a government agency with a focus on supporting local authorities, the Department of Housing, Local Government and Heritage, and AHBs for the

<sup>10</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/amendments-to-the-pras-rules-on-loan-to-income-ratios-in-mortgage-lending-november-2016>  
<sup>11</sup> <https://commonslibrary.parliament.uk/research-briefings/cbp-7747/>  
<sup>12</sup> Building post-pandemic prosperity, pragmatix advisory, October 2020  
<sup>13</sup> Norris and Fahey  
<sup>14</sup> [housingalliance.ie/about-us/](http://housingalliance.ie/about-us/)

purpose of delivering sustainable and affordable housing.<sup>15</sup>

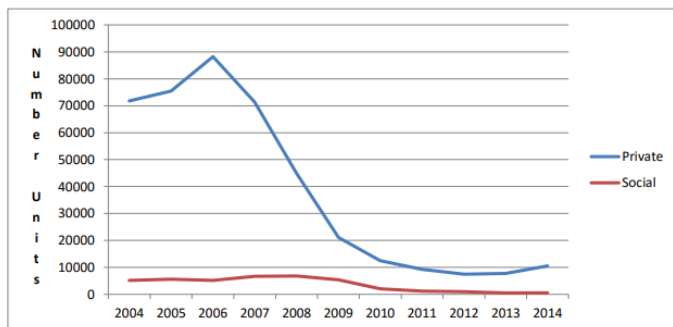
### Local Authorities and Housing Associations

Local authorities continue to hold the majority of social housing stock but AHBs have grown in importance in recent years. As of 2019 they were responsible for over 30,000 social homes. Six of the largest AHBs together are responsible for over 20,000 homes.<sup>16</sup>

### The Irish Housing Market

Ireland continues to feel the effects of the property crash at the time of the GFC. Tighter credit reductions and fewer active developers caused housing completions to fall dramatically after the GFC, particularly in the main cities and urban areas where they are most needed, largely as a result of tighter credit markets.<sup>17</sup>

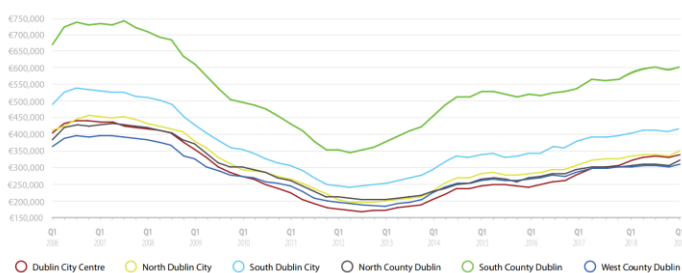
### Housing Completions by Sector: 2004–2014



Source: Report of the Committee on Housing and Homelessness, June 2016

House prices fell significantly until 2012 and have since rebounded, but remain below pre-GFC levels.<sup>18</sup>

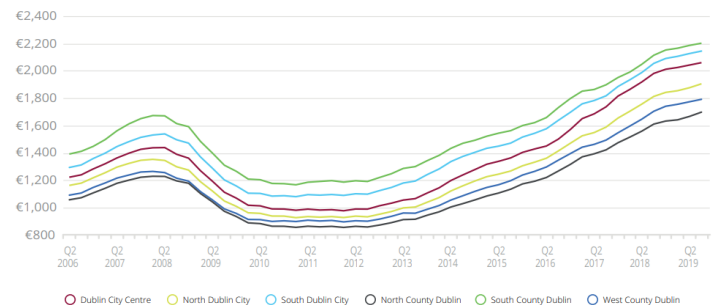
### Dublin House Price Evolution: 2006–2019



To avoid a return to the pre-GFC property bubble, the Central Bank of Ireland introduced mortgage controls, limiting mortgages to 3.5x gross income throughout Ireland, requiring first-time buyers to put down a deposit

of 10% and second-time buyers a deposit of 20%. The mortgage measures have dampened house prices and, together with the reduced supply of houses, have forced many to turn to rental accommodation.

### Dublin Rental Evolution: 2006–2019



With fewer houses built and mortgage limits in place, more people have turned to renting, driving up rent levels and creating a rent trap. Tenants paying high rents cannot save for a mortgage down payment. The Economic and Social Research Institute (“ESRI”) reports, “there were only 21,000 housing completions in 2019. This is well short of the amount of housing needed to keep up with the level of structural demand, estimated to be in the region of 30,000–35,000”.<sup>19</sup>

### Demand for Social and Affordable Housing

In 2005, just 6% of new housing was social housing; in 2015 the state built just 75 units.<sup>20</sup>

Notwithstanding the backdrop of economic growth, the undersupply of social housing meant that in 2019 there were 68,693 households in Ireland on waiting lists.<sup>21</sup> To put this in context, just over 21,000 houses were completed in Ireland in 2019, and due to COVID-19 no more than 15,000 are likely to be developed in 2020.<sup>22</sup>

### Impact of COVID-19

At end September 2020, the ESRI published a special article on the impact of COVID-19 on the Irish property market. The most efficient policy response is for, “an increase in the State provision of S&AH.”<sup>23</sup>

The Irish government set a goal of providing housing support to 27,500 households in 2020. COVID-19 restrictions have caused substantial delays: only 9% of new builds were supplied, the number of properties being leased is only 15% of target, and the number of

<sup>15</sup> Housingagency.ie

<sup>16</sup> housingalliance.ie/about-us/

<sup>17</sup> Rebuilding Ireland Action Plan

<sup>18</sup> Daft.ie

<sup>19</sup> ESRI Special Article, Assessing the Impacts of COVID-19 on the Irish Property Market: An Overview of the Issues.

<sup>20</sup> Delivering Social Housing, An Overview of the Housing Crisis in Dublin, Critical Housing Analysis, 2018

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<sup>21</sup> Summary of Social Housing Assessments 2019, Rebuilding Ireland and The Housing Agency

<sup>22</sup> Is Investment in Social Housing the Next Big Trend for Ireland? CBRE, July 2020

<sup>23</sup> ESRI Special Article, Assessing the Impacts of Cov-19 on the Irish Property Market: An Overview of the Issues.

homes purchases by local authorities is half the target.<sup>24</sup> There is a need for considerable additional investment before social housing needs in Ireland will be met.

- ◆ financing new housing stock that on completion is sold to housing providers, and
- ◆ financing new housing stock that on completion is leased to housing providers.

## FINANCING OPPORTUNITIES

### Short-Term Financing

The short-term opportunity is to finance development and construction of new S&AH. New social and affordable housing is built following discussions with local authorities, RPs and AHBs to understand the local need for housing, including, for example, location, houses vs. flats, bedroom mix and specifications.

Typically, there is an offer to acquire or take delivery of the housing prior to construction and the sale or delivery is fully contracted during construction.

In general, there are two models, both of which are underpinned by deep institutional demand:

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<sup>24</sup> <https://www.rte.ie/news/business/2020/1007/1170071-social-housing-supply-severely-impacted-by-covid-19/>

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