Cambridge Centre
for Housing &
Planning Research

Social outcomes from private capital

Michael Oxley

National Housing Conference Ottawa
Plenary Panel November 22 2018

How can governments – central and local - incentivise private capital to deliver socially allocated housing (and other community benefits)?

1. Kick start social finance wholesalers

2. Promote housing associations that borrow commercially to deliver social outcomes

3. Use the land use planning system to promote the provision of affordable housing and mixed tenure communities

4. Use tax concessions to incentivise private capital to provide rented accommodation at sub market rents to low income households

Kick start social finance wholesalers

e.g.

2012: UK government used £400 million unclaimed cash in bank accounts to capitalize Big Society Capital (BSC) “the world’s first social finance wholesaler”. Brings funders and social enterprises together.

BSC has committed over £434 million and leveraged over £666 million in private capital for social finance, and, thereby, made over £1.1 billion in capital available to social purpose organizations.

Big Society Capital

£400M invested in housing to date

2,000 more people live in suitable housing

Finance to charities and social enterprises to deliver specialist accommodation for vulnerable people, explore alternative ways of delivering more affordable homes and offer transitional housing so homeless people can step from temporary housing into long-term affordable accommodation.

Promote housing associations that borrow commercially

e.g. Housing Associations (HAs) in England

- Strong regulation that reduces lending risks
- Loan guarantees
- Allowing and facilitating bank borrowing and bond issues by large associations
- Working with an affordable housing finance aggregator (such as the UK Housing Finance Corporation)

Housing Associations in England

Independent private sector, not-for-profit bodies.

Private investment facilities in England total £78.5 billion and c.£85 billion across the UK. 1,775 HAs manage 2.4 million homes in England. HAs completed 41,556 homes in 2017/18.

Private finance main source of investment funding. Bank and building society lending have predominated. Larger HAs have issue own bonds. Smaller HAs access capital markets via aggregating bodies, the most significant of which is The Housing Finance Corporation (THFC).

The Housing Finance Corporation (THFC)

THFC obtains funds from bond issues and bank loans including funding from the European Investment Bank (EIB). Lends to housing associations. Loans secured on the assets of the HA. THFC on-lends predominately long-term debt to over 170 individual housing associations throughout the UK.

THFC has delivered the government's Affordable Housing Guarantee Scheme (AHGS) 2013. Lowers the cost of private funding for development of affordable housing thus saving on grant expenditure.

Use the land use planning system to promote provision of affordable housing and mixed tenure communities

- e.g. Section 106 England.
- Cross subsidy through the private development process to provide socially allocated rental and low-cost home ownership dwellings.
- Over 40% affordable housing starts 2016/17 from S106.
- Section 106 agreements result of site-specific negotiations between planning authority and private developer. Negotiations take account of assessments of local housing needs and viability of the development.
- Outcome is a mix of affordable housing and market housing on new residential developments.

Use tax concessions to incentivise private capital to provide rented accommodation at sub market rents to low income households

Many examples world wide, e.g.:

France: Louer Abordable tax incentive: tax income deduction of up to 85% of rental income, depending on the location, rent levels and incomes of the tenants. Promotes rentals at submarket levels for low-income households.

USA: Low Income Housing Tax Credits (LIHTC). Federal tax benefits to investors in new rental housing for tenants with limited incomes paying limited rents. Restrictions on incomes and rents for 30 years or more. Developers allocated tax credits “sell” the credits to outside investors.

Cambridge Centre for Housing & Planning Research

http://www.cchpr.landecon.cam.ac.uk

UNIVERSITY OF CAMBRIDGE