AHURi
Australian Housing
and Urban Research Institute

Long term investment and the role of guarantees in social housing finance

Dr. Julie Lawson
Hon. Assoc. Professor
AHURI Research Centre, RMIT

February 4-5, 2013

UNECE
Social Housing Forum
Geneva

Objectives

AHURi
Australian Housing and Urban Research Institute

- Growing reliance on private finance in difficult markets
- Emerging use of government guarantees to improve conditions
- Various illustrations inform best practice
- ‘Reactions’ by EU Parliament and Housing Ministers

Private investment in social housing

AHURi
Australian Housing and Urban Research Institute

- Now a strong feature of many European systems
- Approaches have different components – instruments, intermdiaries, investors
- Different government measures - co-financing, regulation, tax incenitves, guarantees
- Diverse outcomes before and after the crisis – volume, cost, organisational, policy
- Lessons to be learnt from this

Private finance is underpinned by many public measures

AHURi
Australian Housing and Urban Research Institute

For developers of housing and their tenants

- → Land supply and planning policy, prioritising affordable available housing
- → Grants from public sector for supply, to provide equity, collatoral
- → Low interest (subordinated) loans from public sector
- → Tax exemptions for operating non-profit business model and below market rents
- → Revenue assistance (RA) to ensure rents affordable to lower income households
- → Direct provision of RA to landlords to secure revenue (as in UK)
- → Adequate regulation standards of financial reporting amongst providers
- → Solidarity funds to support sector (as in NL)

For financial markets:

- → **Regulating fund management and creating semi-protected circuits**
- → **Facilitating special purpose financial intermediation for housing promotion**
- → **Publicly owned FI with off market, off budget closed circuits of savings and loans**

For investors and governments:

- → Tax incentives
- → **Guarantees**
- → Suborinated public loans

What are guarantees?

AHURi
Australian Housing and Urban Research Institute

- Guarantees influence the credit allocation of lenders by giving comfort to investors.
- This comfort comes in the form of a third party (e.g. a government agency) legal promise of performance to a beneficiary (investor).
- Performance is typically defined as the payment of an agreed interest (coupon rate) or principle within a particular time frame.
- In the event that the borrower fails to perform as agreed, the guarantor may be called on to make these payments.

Why governments use guarantees

AHURi
Australian Housing and Urban Research Institute

1. Address market failure causing undersupply in segments of housing market
2. In the context of shrinking government budgets and increased reliance on private investment, need to increase investor comfort and familiarity with new assets
3. Bolster credibility of investment to reduce cost, increase leverage and broaden access to finance
4. Speed up provision of necessary infrastructure at minimal government cost
5. Improve terms, amidst tighter borrowing conditions limiting long term debt, thereby maxmising benefit of any government subsidy

Guarantees – arguments for and against

AHURi
Australian Housing and Urban Research Institute

For – A 'virtuous circle'	Against – A 'distortion' of natural markets
✓ **Broadens access to mortgage credit to important but neglected segments of the housing market**	× Unnecessary as they have minimal effect on the cost of finance
✓ **Stabilizes housing markets, act counter cyclically by promoting mortgage bond liquidity and ameliorate negative effects of credit down turns on housing markets**	× Over investment in under demanded assets, leading over supply and posing excessive risks to guarantee provider
✓ **Protects investors from loss when lending criteria is broadened to encompass borrowers otherwise excluded do lack of asset policy or low yield**	× Shifts the risks inappropriately, promoting profit reducing and inefficient practices amongst borrowers
✓ **Reduces the cost and improves the terms of mortgage loans to regulated non-profit providers supplying lower rent dwellings accessible to lower income households**	× Undermines market discipline and misallocates credit, creating incentives for financial markets actors to take on excessive risk (moral hazard)
✓ **Supports social and economic policies of governments for (environmentally) sustainable investment in infrastructure such as social housing**	× May spill over to compete with other investments and crowd out investment.

New AHURI research

AHURi
Australian Housing and Urban Research Institute

- Lawson, J. (2013) *The use of guarantees in affordable housing investment—a selective international review*, Positioning Paper No.156. Melbourne: Australian Housing and Urban Research Institute.
- Lawson, J, Berry, M, Hamilton, C and Pawson, H (April, 2014) **Enhancing Affordable Rental Housing Investment via an Intermediary and Guarantee,** Final Report. Melbourne: Australian Housing and Urban Research Institute.
- Key input - Dr Gurtner, EGW and Mr Williamson, THFC

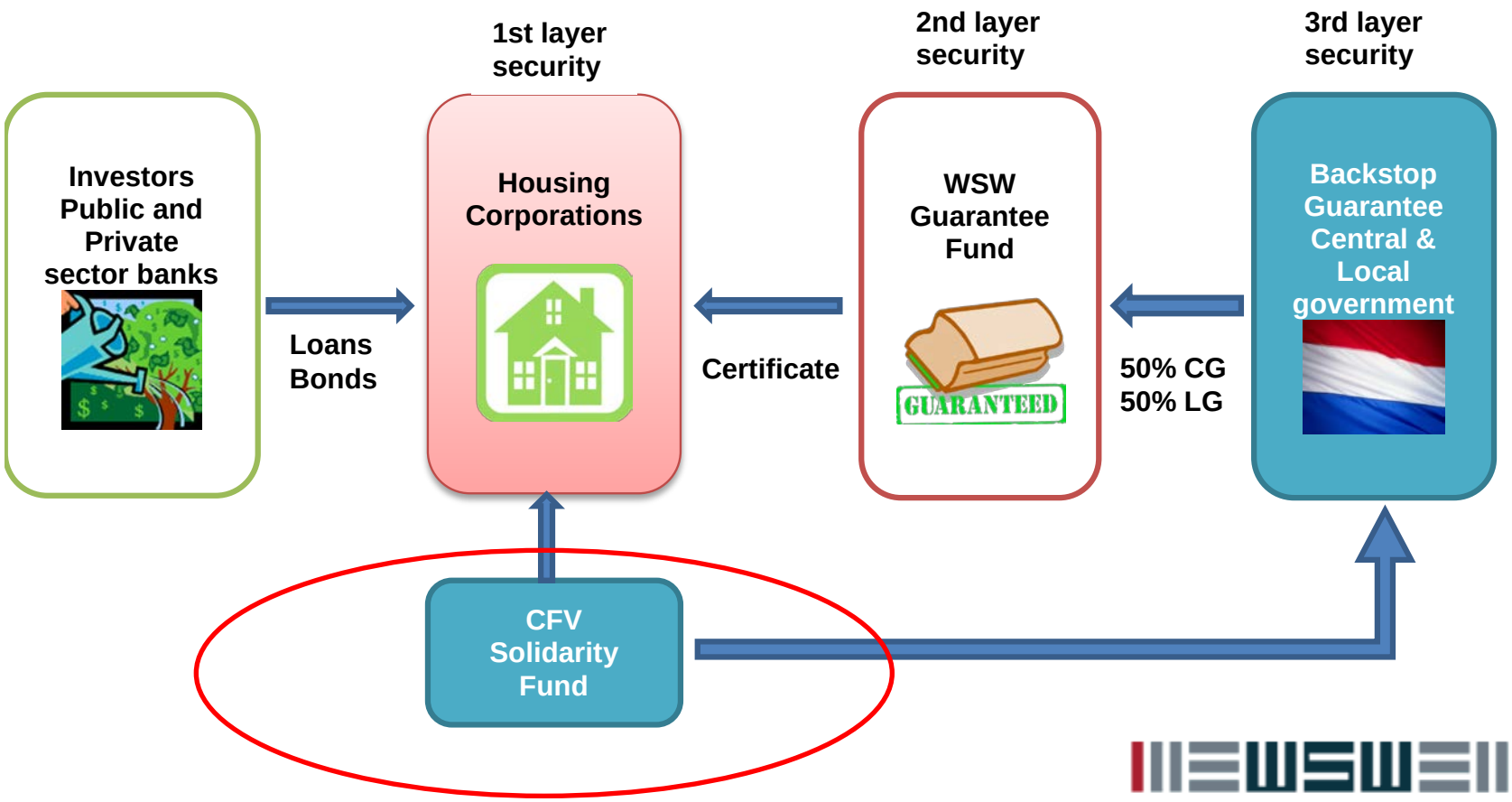
Selected guarantee schemes

AHURi
Australian Housing and Urban Research Institute

Guarantee Scheme	Intermediary	Targeting	Fin. Impact	Default rate
Dutch Guarantee Fund Social Housing (WSW) backed by the sector, a fund and central and local Dutch governments (1983)	Independent foundation	Yes	1-1.5% below going market rates for similar mortgages	0%
Swiss Bond Issuing Co-operative for Limited Profit Housing (EGW) backed by the Swiss Federal Government (1991)	Co-operative	Yes	Small margin above government borrowing costs	0% since 2003
UK Affordable and Private Rented Housing Guarantee Schemes, backed by UK government (NEW in development mid 2013)	Non-profit corporation	Yes	Aims to provide 30 year finance at small margin above government borrowing costs	0% based on lengthy THFC experience, guarantee introduced 2013
French Mutual Fund for Guarantees of Social Housing (CGLLS), backed by the French government (2001)	Publicly owned corporation	Yes	Market only exists with guarantee	0% since 2008, has been higher 0.04%
Irish Housing Finance Agency backed by the Irish government (1982 LAs/2012 VHBs)	Publicly owned company	Yes	Very limited market without guarantee	0% for LAH, new for VHBs
Scottish government's National Housing Trust, backed by the Scottish government (2010)	Publicly owned Trust	Yes	NA	0% new
US Risk Sharing Scheme between Housing Finance Authorities and HUD, backed by Federal Housing Administration insurance (1992 pilot/2001 permanent)	Publicly owned corporations	Yes	Diverse	NA

Dutch WSW

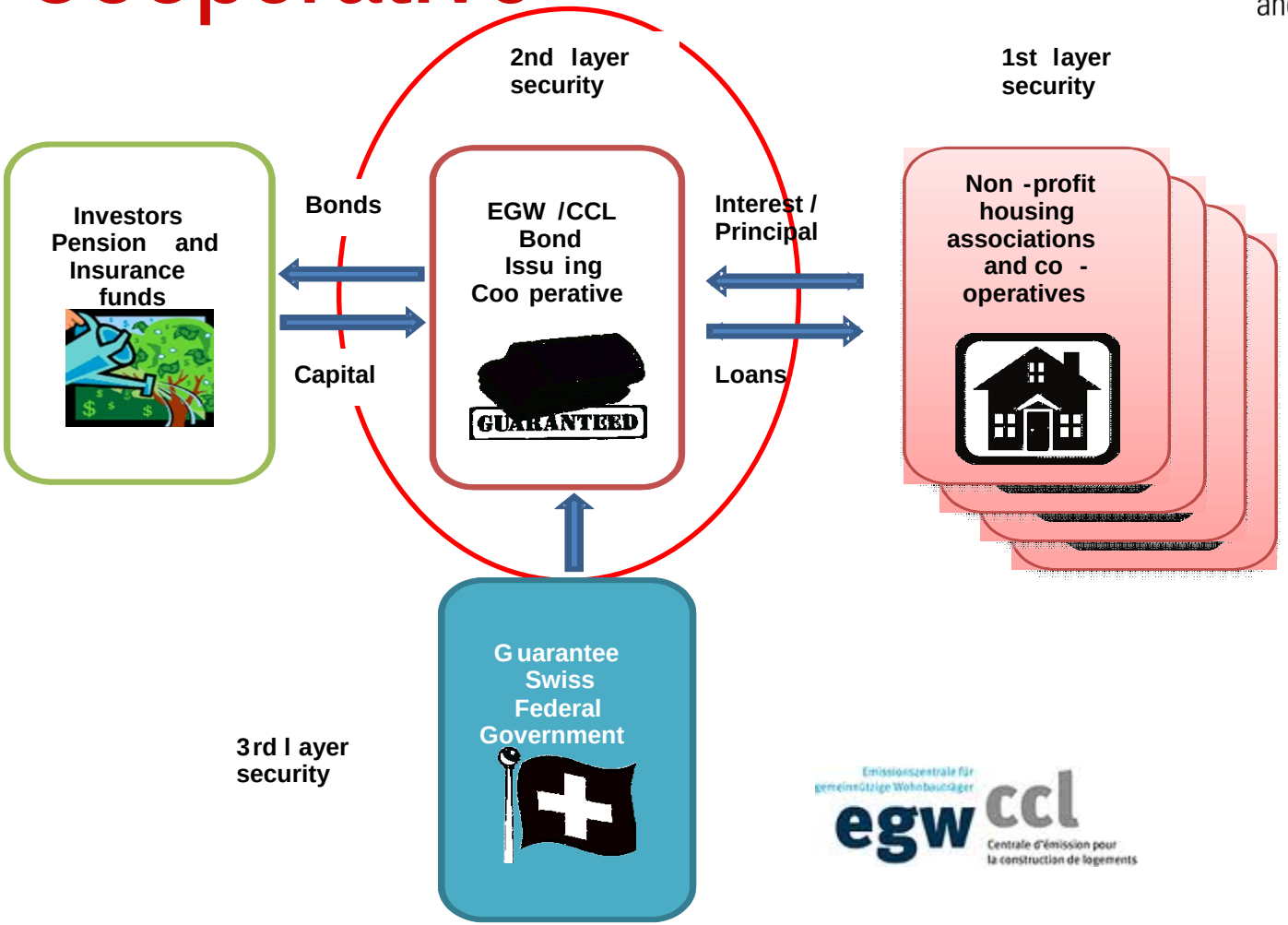
AHURi
Australian Housing and Urban Research Institute



WSW
waarborgfonds sociale woningbouw

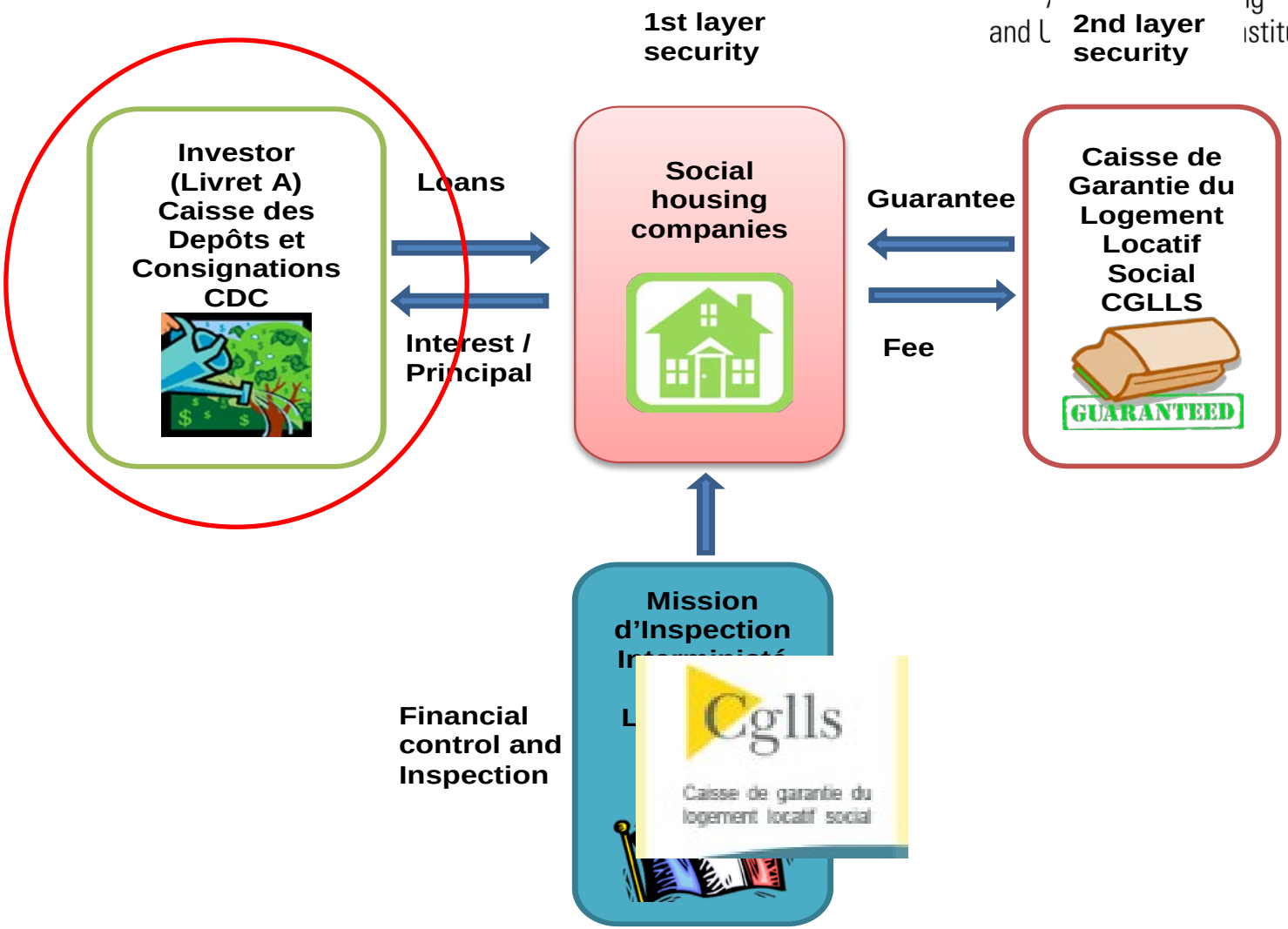
Swiss Bond Issuing Cooperative

AHURi
Australian Housing and Urban Research Institute



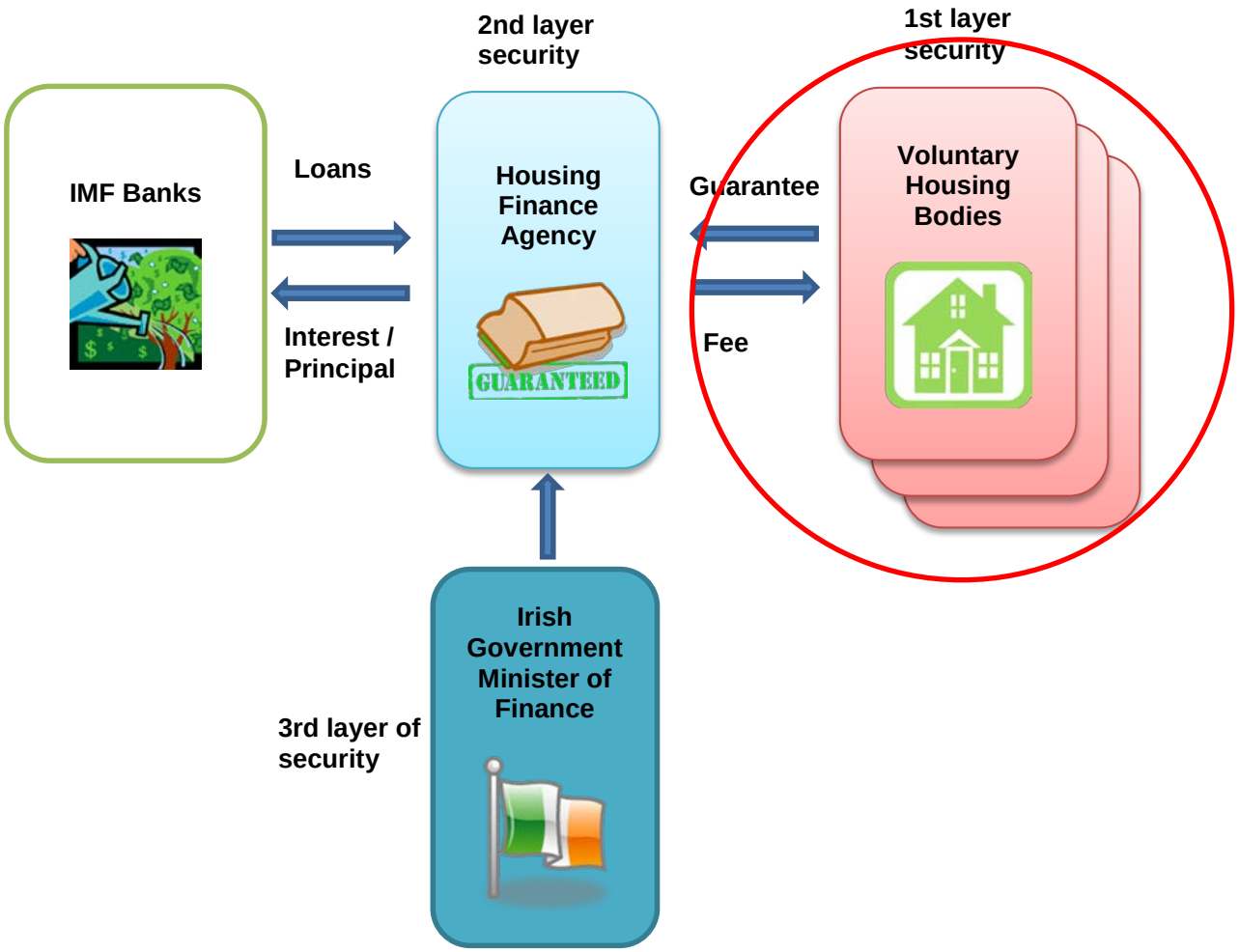
Emissionszentrale für gemeinnützige Wohnbauträger
egw ccl
Centrale d'émission pour la construction de logements

French CGLLS



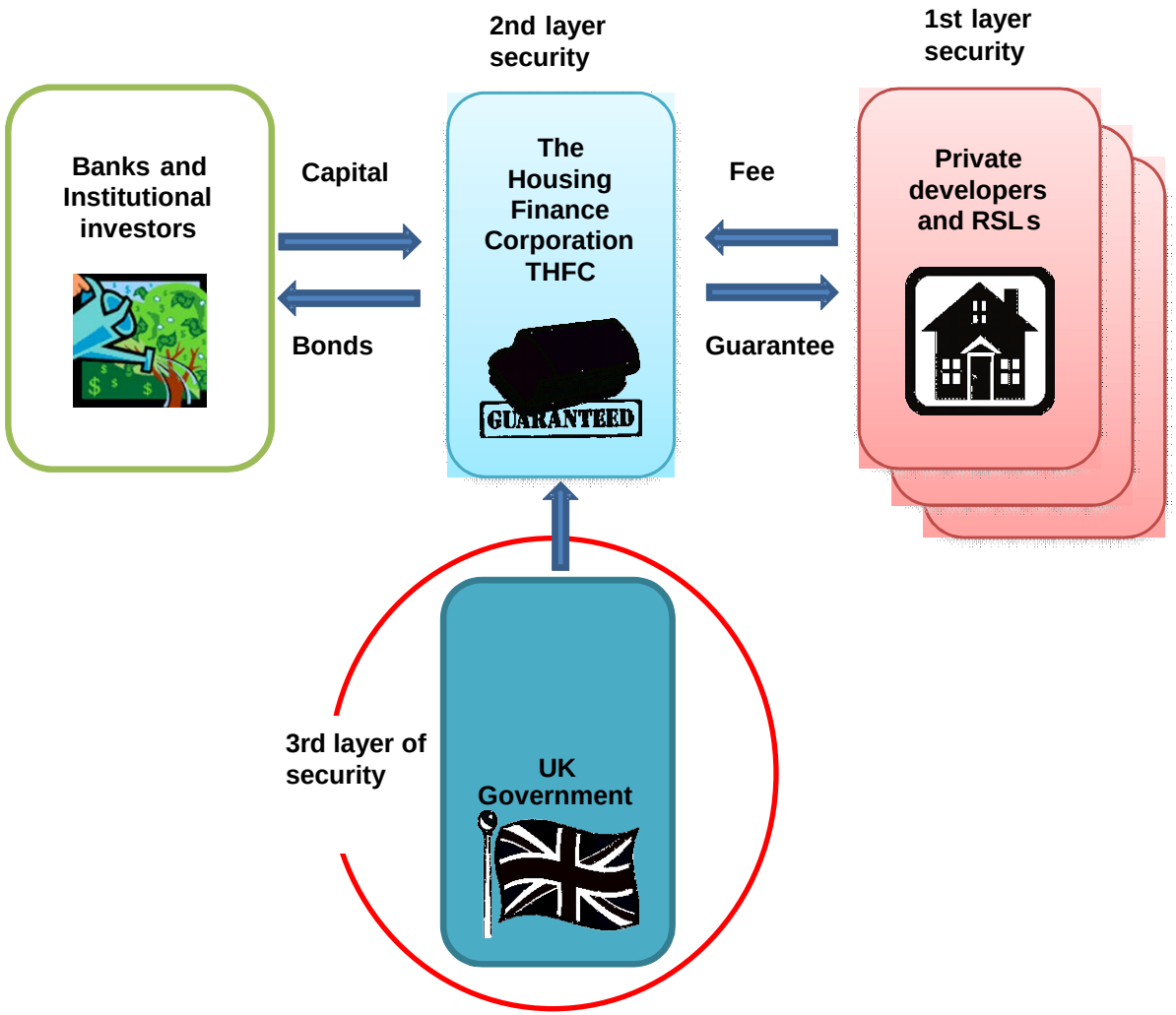
Irish HFA

AHURi
Australian Housing and Urban Research Institute



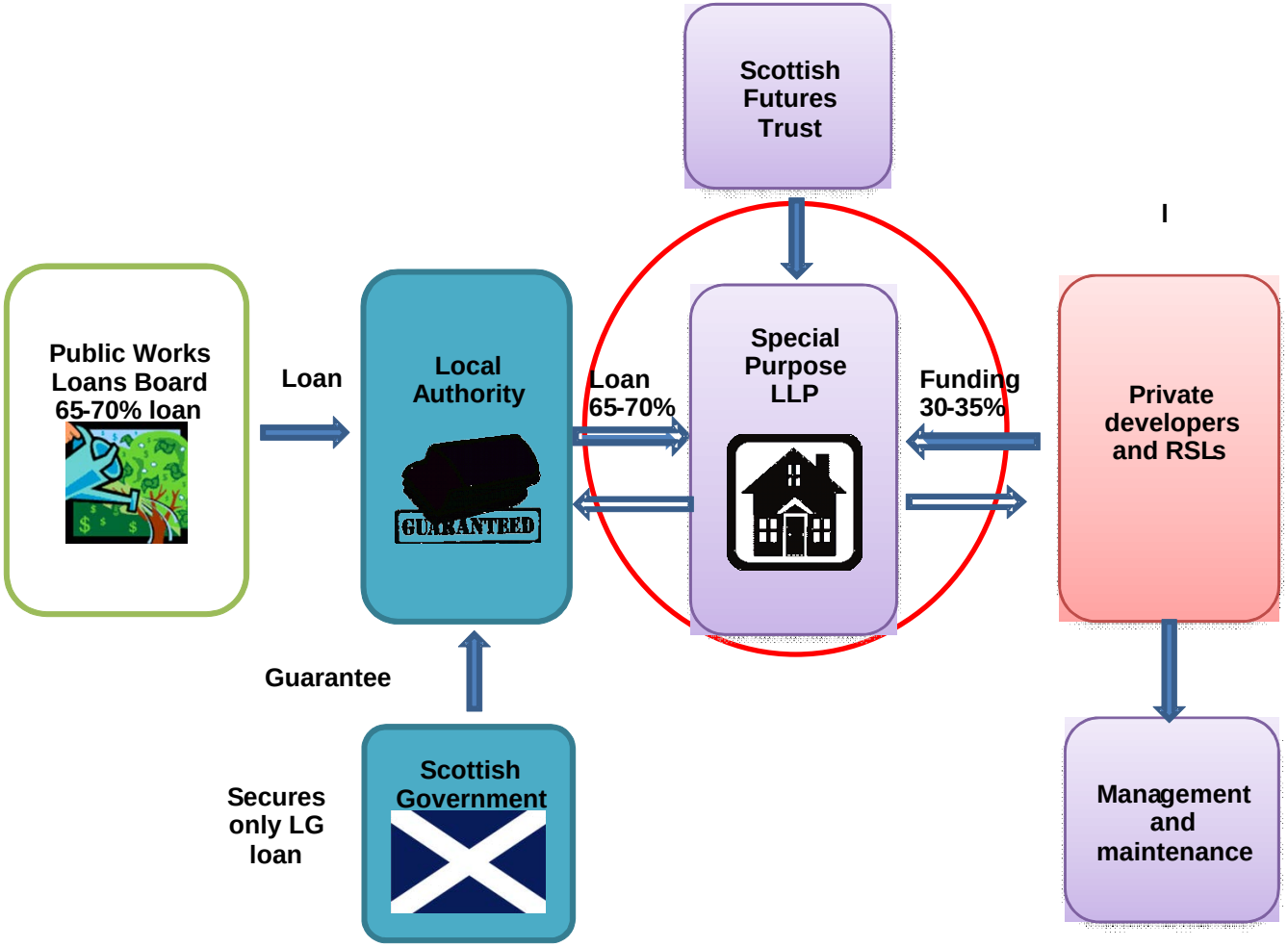
UK Guarantee for private and affordable rental housing (potentially with EIB loans)

AHURi
Australian Housing and Urban Research Institute



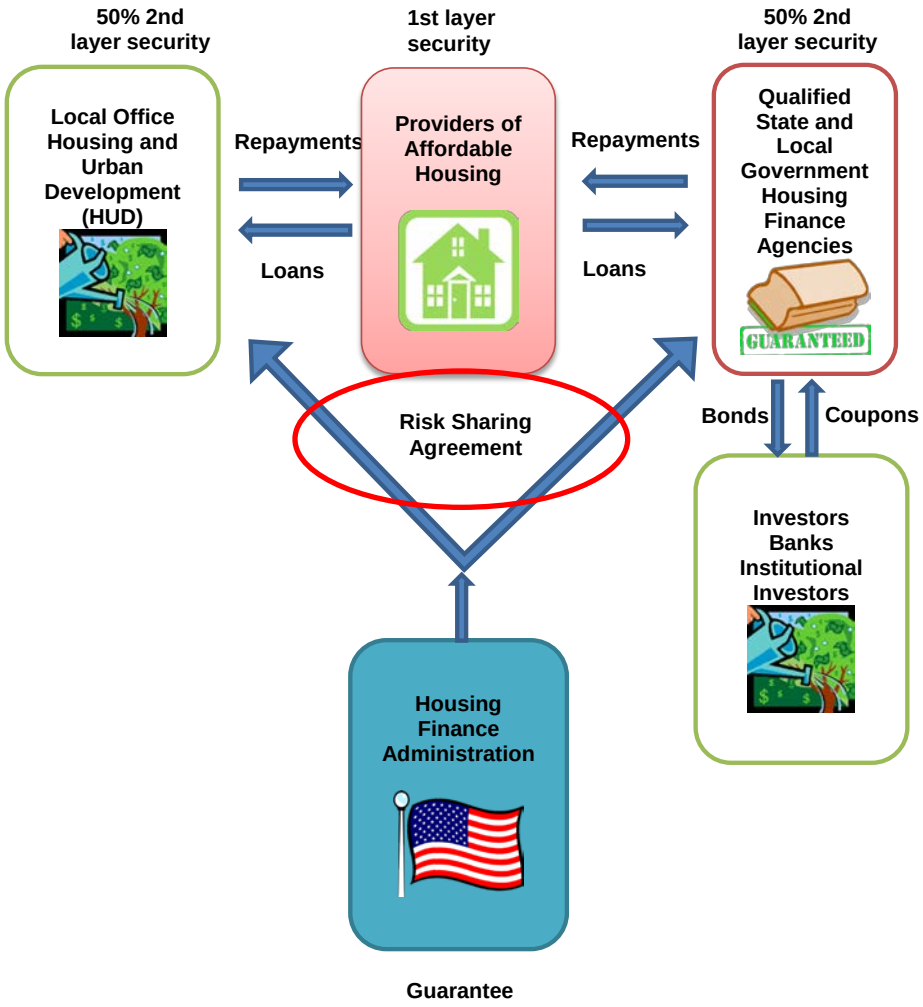
Scotland's National Housing Trust

AHURi
Australian Housing and Urban Research Institute



US HUD-HFA risk sharing scheme

AHURi
Australian Housing and Urban Research Institute



What can we learn from this experience?

AHURi
Australian Housing and Urban Research Institute

Principles	What does this mean in practice?
Boundaries	✓ Agreed principles, defined characteristics of eligible projects for guarantee, overall and project related borrowing volume cap (and hence contingent liability for government), competitive allocation process for certificates, long term policy commitment to co-financing and revenue arrangements
Lowering risk	✓ Expert management and regular professional reports, appropriate regulation and enforceable compliance, sufficient equity and revenue base, back stop role of government
Transparency and commitment	✓ Professional audit and accounting, commitment to a sustainable business model (equity and revenue), appropriate joint marketing strategy by stakeholders involved
Expert intermediary	✓ Vetting and herding CHO investment needs, independent and expert, able to assess proposals, their risks and enforce compliance amongst borrowers
Scale and frequency	✓ Pool multiple smaller borrowing demands to achieve efficient scale, regular bond issues to sustain market interest, offer a pipeline of tradable investment opportunities
Adequate structure	✓ Clear and agreed structure including compliance process, lines of defence against default, expert resources to assess risk and build up reserves and agreed loss sharing arrangements.

The sustainable financing of housing

AHURi
Australian Housing and Urban Research Institute

- Growing interest in mechanisms to achieve long term financing across the UNECE region.
  - → Green Paper on Long Term Financing of the European Economy, March 2013
  - → EU Housing Ministers Meeting December 2013
- Rejection of marginalisation of social housing
  - → European Social Charter (Article 31)
  - → Resolution of the European Parliament on social housing 2012/2293(INI) - 11/06/2013
- Gaps in knowledge and expertise
- Exchange and (re) build capacity in this area

Moving forward

AHURi
Australian Housing and Urban Research Institute

- Focus on the established and excellent track record different types of intermediaries and guarantee schemes serving social housing in the UK, the Netherlands, Austria, Switzerland and France
- Zero default rate, very low risk, low fees and commissions, lower interest rates, longer terms
- Potential for closer collaboration between intermediaries
- Build positive relations with appropriate financial institutions – managed funds, industry pension funds (certain portfolios and payment strategies), EIB
- Learn from and promote good practice in this field

Further information

AHURi
Australian Housing and Urban Research Institute

Search online for research reports
www. ahuri.edu.au

→International financial mechanisms
http://www.ahuri.edu.au/publications/download/ahuri_30440_rp
→Social Housing Guarantee Research
http://www.ahuri.edu.au/publications/projects/p53019/
→Housing Supply
Bonds: http://www.ahuri.edu.au/publications/p30652/

Or make direct contact with researchers

Julie.lawson@rmit.edu.au

Thank you