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Appendix: development and funding models

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<th>Who would use it?</th>
<th>How would it help?</th>
<th>How important?</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Homes Bonus (NHB)</td>
<td>Local authority collects it and could give or lend it to associations.</td>
<td>More homes built.</td>
<td>Our own survey suggested NHB is not enough to get more homes built but it could be used to create a revolving land bank fund; see below.</td>
</tr>
<tr>
<td>Revolving Land Bank Funds (RLBS)</td>
<td>Local authority establishes fund to buy sites and put in infrastructure.</td>
<td>Help registered providers (RPs) to access serviced land.</td>
<td>Highland LBF used council tax receipts from second homes to finance site purchase. Grown subsequently from land trading surpluses. Could be important</td>
</tr>
<tr>
<td>Loan guarantees</td>
<td>Local authority would guarantee a loan to an RP.</td>
<td>Access to cheaper loans, access to short-term funding.</td>
<td>Have been important in Sweden and the Netherlands.</td>
</tr>
<tr>
<td>Scottish Government loan guarantee</td>
<td>Used to set up the National Housing Trust which involves councils setting up joint ventures with developers.</td>
<td>Aims to deliver 1,000–2,000 homes in Scotland over 10 years.</td>
<td>Quite a complex scheme to procure new affordable homes from developers. Could be important in Scotland.</td>
</tr>
<tr>
<td>Section 106</td>
<td>Housing associations purchase housing from developers at reduced cost.</td>
<td>Directly helps housing associations with funding.</td>
<td>Less important in recession, but still considerable potential.</td>
</tr>
<tr>
<td>Community Infrastructure Levy (CIL)</td>
<td>Local authority uses developer contributions to provide necessary infrastructure.</td>
<td>Would enable homes to be built where previously infrastructure was lacking.</td>
<td>Important as applies to all development, not just large residential schemes.</td>
</tr>
<tr>
<td>Real Estate Investment Trusts (REITS)</td>
<td>Would allow housing associations to access investment from institutional investors</td>
<td>They provide tax breaks for investors so could incentivise private investment in affordable housing</td>
<td>A small number have invested in rental housing – but none are dedicated to housing investment. So far attempts have proved unsuccessful but the new regime looks more workable</td>
</tr>
<tr>
<td>Private Finance Initiative (PFI) set up in 1992</td>
<td>Local authority awards a 20- or 30-year contract to a private consortium to refurbish estate and provide services</td>
<td>Over 12,000 refurbished homes and 1,000 new-build by April 2009</td>
<td>National Audit Office found most schemes overspent. Credit crunch has raised costs further and CLG removed £160m unspent PFI credits from local authorities to help public deficit reduction. Unlikely to be important in future</td>
</tr>
<tr>
<td>Special Purpose Vehicles (SPVs) / Joint Ventures with private house builders</td>
<td>Set up by housing associations to develop/ refurnish affordable housing</td>
<td>Often used in PFI deals to protect local authority from potential losses or delivery failure</td>
<td>Although more expensive than traditional housing association loans, it is not secured against housing association assets so association is protected. High gearing means weighted cost of capital and finance is lower than usual. Could be quite important</td>
</tr>
<tr>
<td>Local asset backed vehicles / local housing company</td>
<td>SPVs owned by public/ private partnership for regeneration and renewal</td>
<td>Public sector invests land or stock into the SPV which are matched in cash by private partner</td>
<td>100% equity backed so expensive – in credit crunch may produce fewer units than planned or may simply be unviable. Not likely to be important in the future</td>
</tr>
<tr>
<td>Model</td>
<td>Who would use it?</td>
<td>How would it help?</td>
<td>How important?</td>
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<td>----------------------------------------------------------------------------------</td>
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<td>-------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>New Supply Shared Equity with developers</td>
<td>Scottish Government has one, so has HCA</td>
<td>Buyer purchases 80% share, 10% equity provided by developer and public sector</td>
<td>Only produces a small number of affordable homes that are usually lost to the market on resale</td>
</tr>
<tr>
<td>Second-hand market for shared ownership properties</td>
<td>Housing associations could issue new shared ownership property on leases that require first refusal on moves – the housing association would then retain property for shared ownership</td>
<td>Would increase the supply of shared ownership homes in the long term</td>
<td>Would take time to make much impact but could become important over time, especially if lenders become happier to lend on shared ownership once there is an established market</td>
</tr>
<tr>
<td>Tax Increment Financing (TIF)/ Accelerated Development Zones (ADZs)</td>
<td>Used in USA to stimulate economic development by enabling anticipated tax revenues to be spent to enhance the area</td>
<td>Can be created specifically to fund affordable housing. ADZs are similar but use retention of business rates and so sidestep legal problems that were a barrier to TIFs in UK</td>
<td>Waterfront in Edinburgh will be the first TIF project in the UK. Aire Valley Leeds is piloting the ADZ model. If successful, could be very important for large-scale regeneration schemes</td>
</tr>
<tr>
<td>Bond finance</td>
<td>Local authority or housing association could issue bonds</td>
<td>Would secure additional funding</td>
<td>Some large housing associations have issued bonds in their own name and there is growing interest. Bonds are now a standard part of housing finance in Austria</td>
</tr>
<tr>
<td>Local authority bonds</td>
<td>Local authority could use them to fund social housing and other projects</td>
<td>Secures additional funding at favourable rates</td>
<td>Local Government Association wants to launch a Scandinavian-type vehicle to raise money for councils on the bond market</td>
</tr>
<tr>
<td>Housing association bonds</td>
<td>Some large individual housing associations</td>
<td>Secures additional funding at favourable rates</td>
<td>Important to the housing associations that issue them – typically bought by investor who put them into illiquid funds to meet long-term obligations</td>
</tr>
<tr>
<td>Housing Finance Corporation bonds</td>
<td>Targeted at provision of affordable housing by housing associations</td>
<td>Secures additional funding for smaller and medium sized housing associations</td>
<td>Again, important to the housing associations that benefit – typically bought by life insurance companies and pension funds</td>
</tr>
<tr>
<td>Investment by institutions</td>
<td>Current yields on private renting only 3.5% whereas institutions require 7% – credit crunch is changing this</td>
<td>Secures additional long-term funding for major projects</td>
<td>Could become increasingly important as pension funds switch from higher yields to more secure returns in current economic climate</td>
</tr>
<tr>
<td>Sale and leaseback</td>
<td>Involves a pension fund selling a housing association a long-term lease on the properties it sells to the fund – freehold reverts to housing association at term for nominal fee, ie asset amortises to zero over time</td>
<td>Provides 20–30-year secure income streams to pension fund while enabling properties to be developed or renewed</td>
<td>Such deals have always been important in commercial property; could become important for social rental property particularly for the new ‘affordable rent’ policy</td>
</tr>
<tr>
<td>Model</td>
<td>Who would use it?</td>
<td>How would it help?</td>
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</tr>
<tr>
<td>-------------------------------</td>
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<td>-------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Community land trusts</td>
<td>Resident buys home for construction costs only, community retains land and can impose conditions</td>
<td>Can also be used for affordable rented homes. Have made some rural homes more affordable for local people</td>
<td>So far small scale. Unlikely to become important except in small rural areas unless government provides support</td>
</tr>
<tr>
<td>Charity Bank</td>
<td>A charity savings and loans bank</td>
<td>Use for affordable housing quite limited</td>
<td>Unlikely to become important in the near future</td>
</tr>
<tr>
<td>Triodos ethical bank</td>
<td>Dutch bank with offices in UK</td>
<td>Agreed £100m loans to housing associations in UK during 2009</td>
<td>Will not lend more than £30m to individual housing associations so aimed mainly at smaller housing associations, for whom it could be an important source</td>
</tr>
</tbody>
</table>

**International funding models**

<table>
<thead>
<tr>
<th>Country</th>
<th>Model Description</th>
<th>Result</th>
<th>Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria – housing bonds with tax incentives to purchasers</td>
<td>Created new system of housing finance with a protected circuit of housing construction convertible bonds to channel investment into affordable housing</td>
<td>Low-cost funds to social landlords to build affordable homes</td>
<td>Housing bonds are now a standard part of all financial investment portfolios in Austria</td>
</tr>
<tr>
<td>China – sale of publicly owned land</td>
<td>All land in China is publicly owned, so this is a system of selling land through auctions or competitive tenders. City retains 60% of proceeds</td>
<td>Since 1987 this land-based financing has helped localities to fund infrastructure</td>
<td>An important part of infrastructure funding in China</td>
</tr>
<tr>
<td>France – scheme to convert short-term savings deposits into low-interest long-term loans</td>
<td>Social landlords get low-interest loans for new development</td>
<td>The French think that this system is extremely successful – savers have a tax-free incentive and rushed to put their savings in the Livrét A savings accounts during the global financial crisis</td>
<td>This now accounts for the largest proportion of social housing finance in France</td>
</tr>
<tr>
<td>Hong Kong – sale of non-housing assets has financed new affordable housing</td>
<td>Hong Kong Housing Authority has been virtually self-financing since 1987</td>
<td>Requires a stock of non-housing assets which is common in Hong Kong – retail units beneath housing tower blocks</td>
<td>This is now the main form of finance for affordable homes in Hong Kong – previously sales of homes provided funds, but this was stopped in 2002</td>
</tr>
<tr>
<td>Singapore – compulsory savings bond</td>
<td>Central Provident Fund used to finance new construction while savers can eventually withdraw savings to cover mortgage repayments</td>
<td>Requires legal compulsion to save (rather like a tax). Avoids the need for costly open market borrowing by the government</td>
<td>This is the only form of finance for affordable housing in Singapore</td>
</tr>
<tr>
<td>Switzerland – Bond Issuing Cooperative</td>
<td>The Bond Issuing Cooperative raises funds with a state guarantee</td>
<td>Provides low-interest funds for new affordable housing by non-profit landlords without subsidy</td>
<td>Important for Swiss non-profit landlords but the non-profit housing sector in Switzerland is very small</td>
</tr>
</tbody>
</table>
Funding models for new social housing development projects

1. Government and Private funding sources

Section 106 (S106) of the Town and Country Planning Act 1990

S106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally binding agreement or planning obligation with a landowner in association with the granting of planning permission. The agreements are a way of delivering or addressing matters which make development acceptable in planning terms, such as support for the provision of services and infrastructure.

Throughout the 1990s and up to 2007, the increasing use of S106 to deliver additional affordable housing meant that by 2006/07 nearly 60% of new affordable homes were delivered in this way. This is illustrated in Figure A1.

Figure A1: Section 106 completions as a percentage of all affordable housing completions and acquisitions in England

Research by Sheffield University showed the value of S106 in terms of both affordable housing and financial and in-kind contributions for other services and infrastructure, including roads, recreational facilities, education, health and community facilities (Crook et al, 2011). The value in 2007–08 was £4.9bn, of which approximately half was for new affordable housing. The use of S106 held up surprisingly well during 2008–09 and 2009–10 and is still responsible for over half of all new affordable homes in England.

However as the economic downturn persists we may see a decline, especially as government policy is now to encourage local authorities to renegotiate agreements downwards where developers can demonstrate that the S106 contributions are affecting...
scheme viability. There is also a significant risk that the reformed planning system, including the National Planning Policy Framework (NPPF) and CIL will offer less support for S106 delivery by housing associations than Planning Policy Statement 3 has done. For example, the final NPPF may allow developers to make more use of commuted payments in lieu of on-site delivery of affordable homes as is the current strong expectation.

The role of housing associations

Housing associations have become increasingly important in the delivery of additional affordable housing through S106. They have negotiated with developers to purchase the on-site affordable units at appropriate discounts, determined ultimately by the expected future rental stream / sale price (for shared ownership), the amount of grant if available, and the ability of the association to use its reserves. In practice shared ownership, which has been more desirable to the developer than social rented units, has been used to cross-subsidise the social rented housing, especially in the absence of grant.

However, the negotiations between developers and associations have been criticised for being a ‘beauty contest’ where the developer phones around several associations and asks for the highest offer. As a result some districts, such as Bristol, have established a matrix of prices that associations should pay (and developers should expect to receive) for different types of units determined by floorspace in inner and outer areas of the city. The prices are set in relation to the value of market housing in those areas. Other authorities have followed suit. This approach has only been partially successful, since in practice a developer can sell the units to anyone willing to pay more than the matrix prices. For many developers, however, it has provided greater certainty when undertaking development appraisals and purchasing land. In Bristol, the developer can expect to receive 50% of open market value (OMV) for social rented units and 60% of OMV for intermediate units (Bristol City Council, 2011).

Strengths: The main strength of the policy lies in the fact that it is a locally negotiated agreement. It does not simply feed into HMRC or the Treasury, nor is it redistributed to other areas on equity grounds. For these reasons it has been far more successful in extracting development value than attempts to impose a national tax on development value.

Weaknesses: The cumulative impact of planning changes including the NPPF and CIL may give local authorities less scope to successfully negotiate S106 affordable agreements than at present. After 6 April 2014, local authorities are not allowed to pool more than five separate S106 contributions to contribute to infrastructure to support development. This is partly in the expectation that most if not all authorities will introduce a CIL with a scaled back S106 relating only to affordable housing and mitigation of adverse impacts from the development. In a recent survey of local planning authorities there were no respondents who said that they would not be introducing a CIL.

New Homes Bonus (NHB)

The coalition government introduced the NHB to replace regional construction targets in England in order to stimulate competition between localities in new house building. The NHB, commenced in April 2011, will create an incentive for local authorities to deliver growth in their area. Under the NHB, councils in England will receive grants ‘matching the council tax raised on increases in effective stock’, for the following six years. Actual payments are based on the national average of the council tax band on each extra property, including empty properties brought back into use as well as new-build.
Communities and Local Government (CLG) has set aside almost £1bn over the Comprehensive Spending Review period for the scheme, including nearly £200m in 2011–12 in year one and £250m for each of the following three years. Under the current local government finance system, funding beyond those levels will come from formula grant, ie, centrally pooled business rates.

The Government estimates that at the start of the scheme the grant payable annually for each additional council tax band D property will be £1,439 (or £8,634 over six years). Linking payments to the relevant council tax band means bigger incentives to permit more upmarket developments. To provide a specific incentive for affordable housing, ‘affordable homes’ will generate a flat-rate premium of £350 on top of the standard payment. ‘Affordable homes’ means traditional social rented housing, the new ‘Affordable Rent’ tenure and intermediate tenure products.

For each additional new home built or brought back into use after NHB started, payments will be made for six years through non-ringfenced grant. This will be partially funded through top-slicing local authorities’ formula grant.

CLG’s initial impact assessment reported that by 2016/17 NHB will have increased supply by 8–13% above a baseline level. At the mid-point of this range, the impact would be equivalent to 14,000 extra homes annually. Set against the possible fall in house building arising from the Government’s ‘localist’ planning reforms, this would be a fairly modest figure – even if achieved.

Pawson and Wilcox (2011) comment that it is hard to predict local authorities’ response to the new system. However, they argue that for South East Strategic Leaders (of local authorities), NHB payments are not sufficient to induce councils to change their attitudes towards new development.

**Strengths:** This provides an incentive for local authorities that have vocal ‘NIMBY’ residents to persuade them that there can be important benefits from additional building, even of affordable housing.

**Weaknesses:** It is too early to know whether the incentive will have the desired effect.

**Private Finance Initiative (PFI)**

PFI was launched in 1992 to encourage private investment in the public sector. The local authority awards a 20- or 30-year contract to a private sector consortium. This is usually composed of two main elements: a short-term capital investment programme to refurbish and/or re-provide council-owned homes, shops and community facilities, as well as improvements to the surrounding environment on a particular housing estate (new private housing is developed as part of separate contracts); and a portfolio of long-term services previously carried out by the local authority such as repairs, estate management and maintenance, and communal services like caretaking and cleaning. Against these responsibilities is set a revenue stream based on rents and service charges.

Since 1998, £4.3bn has been allocated in England to local authority PFI housing projects (CIH Scotland, 2011). This funding had led to 50 approved projects, 25 signed deals, over 12,000 refurbished properties and almost 1,000 new properties by April 2009. However, a review by the National Audit Office revealed that 21 out of 25 PFI schemes received extra government funding between the submission of outline business case and contract signature. The report also criticised CLG for failing to assess projects for value for money, and found that all of the 25 projects had seen significant delays. A total of 12 schemes incurred cost increases of more than 100% above estimates in the initial business cases. In
June 2010, CLG withdrew £160m of unspent PFI credits from local authorities to assist with public sector deficit reduction.\(^1\) More generally, the credit crunch has substantially raised the cost of PFI project financing and so appears to have significantly undermined the value-for-money potential of this investment tool.\(^2\)

**Strengths**: A good PFI scheme should achieve a transfer from the public sector of risks that can be better dealt with by the private sector, whilst maintaining good value for money. Projects which benefit most from this method of procurement tend to have a capital intensive element and a service provision element, both of which are paid for by the local authority across a long-term contract (typically 25–30 years).

**Weaknesses**: The evidence on PFI is that PFI projects are extremely inflexible and thus difficult to operate (Grace and Ludiman, 2008). It has worked in a limited way for the refurbishment of street properties and some new building (Hodkinson, 2011). There are also funding issues and the credit crunch has had an adverse impact on PFI housing and regeneration projects. Before the credit crunch, housing associations were typically able to borrow at 65 bps (basis points) above the London Interbank Offered Rate (LIBOR). Today, it is more likely to be at 300–350 bps, with the additional risk that the existing lender might require refinancing of all existing borrowing at higher rates of interest.\(^3\)

On 15 November 2011, the government indicated it wished to reform PFI and it launched a call for evidence (http://www.hm-treasury.gov.uk/d/condoc_pfi_call_for_evidence.pdf). The government wants to consider how the private sector can deliver public assets and services and how market disciplines might play a stronger role.

It wants to explore accessing a wider range of financing sources, including encouraging a stronger role to be played by pension fund investment. It is possible that one outcome of this work will be a revised and renewed PFI scheme which could play an important role in housing and regeneration. It is thus important for the sector to take stock of what PFI could do if better structured.

**Special Purpose Vehicle (SPV)**

A SPV or a project company is set up by a housing association for the development and construction of affordable housing (or private housing for sale) and the refurbishment of existing housing.

A number of successful SPVs have been used around the country to deliver property/asset projects such as Urban Regeneration Companies; they have also been extensively used in PFI deals. In many of these partnerships, the local authority commits land to the SPV and establishes a contract with it to protect the council from potential losses or delivery failure. The council does not influence or control the SPV (but agrees and supports its purpose).

The SPV oversees development through contracts with developers and housing associations; it undertakes a strategic role, such as land assembly and recycling of funding. Hence it is not a delivery agent and does not take development risk, which is assumed by the developer/housing association. Usually, there is no upfront land payment or equity.

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\(^2\) ‘PFI dead in current form, Treasury signals,’ *Financial Times*, 14 November 2010 [http://www.ft.com/cms/s/0/0344a800-0edd-11e1-b585-00144feabd0.html#axzz1dlq1OGfO](http://www.ft.com/cms/s/0/0344a800-0edd-11e1-b585-00144feabd0.html#axzz1dlq1OGfO)

contribution from the developer or housing association but they guarantee future payments to the SPV.

On projects funded in this way, it is possible to secure 90–95% of the funding required from a bank or other debt provider. Typically, bank (or senior) debt is priced at the LIBOR rate, to which a margin is added to reflect the risk profile of the project borrower. This rate is usually fixed (hedged) at financial close, thus negating the risk of interest rate movements during the life of the project (Parker, 2008).

Strengths: As lenders are dependent on the project revenues being sufficient to repay the loans they have advanced, the project will be subject to significant due diligence (which in itself should be of comfort to a housing association). A number of housing associations have delivered, or are working up, projects using SPV. The approach is attractive not just because of the contractual and financial rigour that accompanies it, but because it is particularly well suited for large and complex projects (Parker, 2008).

Weaknesses: Finance raised in this way is generally more expensive than traditional housing association funding, because it is not secured against the assets of the housing association but against the revenues to be generated by the project. In this way, the housing association’s balance sheet is protected. Between 5% and 10% of the project funding needs to come from the project sponsors (the owners of the SPV). This could be funded from cash reserves or the value of any assets (land or property) that the housing association is contributing to the project. Equity is by definition risk capital, and equity returns will only be earned if the SPV delivers sufficient revenues to permit the payment of dividends. The high gearing (debt: equity structure) means that the weighted cost of capital and the cost of financing a project are lower than is typically the case for more speculative or uncertain developments.

Example: SPV to provide mortgage lending for home purchase

An SPV was created by Gentoo HG to acquire and sell on units of housing. It involved the set- up of a new funding structure, the ‘Gentoo Genie’, as shown in Figure A2. The fund was approved by the Financial Services Authority. Social landlords, private developers and councils can sell land and units of stock to the fund. The fund has first refusal on re-purchasing the unit at a market price. Gentoo was initially set up to provide funding for just 60 new-build properties. The intention was to grow the fund to 100 properties by the end of 2011 and achieve full occupation by the end of the first quarter of 2012.

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4 ‘FSA-registered fund aims to slake mortgage lending drought,’ Social Housing, July 2010 http://www.socialhousing.co.uk/News/FSA-registered_fund_aims_to_slake_mortgage_lending_drought
A long-term structured payment plan, the Genie Home Purchase Plan, was introduced to sell the units on to residents incrementally over a 25-year period. The Genie Home Purchase Plan offers the following benefits to purchasers:

- No mortgage required
- Monthly residency fee
- No deposit required
- Share of ownership grows over time
- Flexibility to vary the monthly residency fee to suit changing personal circumstances
- Secure long-term residency
- Five-year certainty of residency fee
- Rights like an owner
- The ability to sell the accumulated shares in the home at any time.

The only upfront cost to the property purchaser is a set-up fee which has provisionally been set at £600 plus VAT. Monthly ‘residence fees’ will be set at market rent levels for five-year periods and will increase in line with inflation. The monthly fee includes an element of equity purchase which will be accrued incrementally over the life of the contract. This will enable buyers to accrue between 60% and 90% of the property’s value; they will also be able to buy the unit outright or make additional ‘top-up’ payments at any point. The opportunity to scale back their monthly contributions in times of financial need is also built into the contract.
Joint venture

Joint ventures are increasingly common in the social housing sector. Housing associations are willing to take more risk in return for greater rewards and are entering into joint ventures with private house builders. Joint ventures are often formed for the purpose of a single project, eg, the development and on-sale of housing, and it is anticipated that the venture will come to an end when all the objectives of the project have been met. There are three common types of joint venture arrangement:

1. Joint venture company (JVC)
2. Limited liability partnership (LLP)
3. Partnership.

Since the Limited Liability Partnerships Act 2000 came into force, LLPs have become the most common form of new social housing joint venture vehicle and partnerships are much less common.

In a JVC, the parties set up a company and issue shares to themselves. The respective rights and liabilities of the parties are set out in the company’s memorandum and articles of association and a joint venture/shareholders’ agreement between the shareholding organisations.

Strengths: A JVC can raise finance in its own name and create fixed and floating charges. It has the flexibility with regard to risk and control. The parties can have different sized shareholdings, perhaps to reflect the amount of their investment, or different categories of share conferring different rights and duties.

Weaknesses: Joint ventures can be expensive to set up and involve complex documentation. Due diligence has to be undertaken to identify areas of risk. Also, if the housing association contracts with the JVC for the supply of works, services or supplies above the EU threshold, this will be subject to EU procurement.

Local Asset Backed Vehicles (LABVs)

LABVs are special purpose vehicles owned 50/50 by the public and private sector partners with the specific purpose of carrying out comprehensive, area-based regeneration and/or renewal of operational assets. In essence, the public sector invests property assets into the vehicle which are matched in cash by the private sector partner, as illustrated in Figure A3.

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6 'Due diligence vital to identify areas of risk in joint ventures, mergers and acquisitions,' Social Housing, April 2009, p. 18.
7 Joint ventures and social housing,' January 2008
The partnership may then use these assets as collateral to raise debt financing to develop and regenerate the portfolio.

The first LABV was set up in 2008 when Croydon Council signed a 25-year agreement with John Laing to redevelop parts of the town centre and build a new headquarters for the council, which is now under construction. The 50/50 liability partnerships will undertake the £450m regeneration of part of Croydon town centre. Development on four sites will see over 1,300 new homes created in partnership with residential development group Gladdedale.8

**Strengths**: The LABV structure allows the public sector to transfer risk, as their assets are assigned a guaranteed minimum price at the outset, regardless of future outcomes. LABVs incentivise the private sector to invest and deliver over the longer term, as returns are subject to performance of the partnership over 10–20 years as an entire neighbourhood or town centre is uplifted. In contrast to PFIs, LABVs are flexible enough to add further projects during the life of the partnership and to change direction by simple agreement of the parties rather than a significant re-writing of the legal documents (Grace and Ludiman, 2008).

**Weaknesses**: LABVs rely on the public authority having a decent estate portfolio, and while not every site has to be perfect, on balance there must be value to leverage finance against. Councils also need an entrepreneurial bent – rather than simply selling the land and pocketing the cash they must take the risk of putting land into long-term partnerships.9 And, as with the early days of PFI, Harrison and Marshall (2007) find that LABV contracts are complex and expensive to set up.

Local Housing Companies (LHCs) – joint ventures and asset backed local authority vehicles

One form of Local Asset Backed Vehicles is the LHCs which operate in England. LHCs are one of the joint venture models outlined in the *Housing Green Paper, Homes for the Future: More Affordable, More Sustainable*, in July 2007. They are also a form of asset backed local authority vehicle specifically created to develop local authority land. They are trailed as a

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8 ‘Croydon Council picks John Laing to pioneer local asset-backed development vehicle,’ *Social Housing*, July 2008, p. 17.
new way forward to give an incentive to local authorities to invest their land in housing and to capture development gain. English Partnerships (now HCA) announced 14 pilot projects in November 2007 – Barking & Dagenham, Bristol, Dacorum, Harlow, Leeds, Manchester, Newcastle, Nottingham, Peterborough, Plymouth, Sheffield, Sunderland, Wakefield and Wolverhampton.

**Figure A4: LHCs were specifically created to develop local authority land**

The LHC is a joint venture between the public and private sectors, with local authorities ‘investing’ land in the development process and private developers and other investors providing funding to an equivalent level. The venture is either jointly owned, with a 50/50 split, or 51% by the private sector and 49% by the public. The LHC would be responsible for design, obtaining detailed planning consents and compliance with building regulations. It would then engage contractors to build the infrastructure and homes, and an agent to market them. The LHC would bear the full development risk: design and specification risk; build and house price inflation risk; financing risk; and product pricing and demand risk. LHC returns would be shared equally between the local authority and the private sector, by reference to the value of the share capital they have contributed.

**Strengths:** LHCs will increase the supply of a range of homes, including affordable homes; allow local authorities to invest land in housing development to capture a share of increasing land values; position local authorities at a stronger point in the centre of the development process; provide opportunities for a range of investment and development players to become partners of local authorities; and create quality schemes with wider consumer choice and tenure options.

**Weaknesses:** Parker and Gorman (2009) note that LHC presupposes a local authority has suitable assets to exploit, demands skills an authority may typically not have access to, and calls for an appetite for risk that many local authorities simply do not possess, even though risk is shared with a private sector investor. Because of the profound changes in macroeconomic conditions since the LHC model was launched, many house builders and developers have had to absorb massive balance sheet write-downs as land values have collapsed. With regard to funding, Social Housing Grant is not available to the LHC. It is
therefore expensive to fund an LHC on the basis that it is 100% equity backed. They conclude that in some instances, this funding approach will result in delivery of fewer new-build units than planned, while in others it will mean that a LHC is simply unviable.

Real Estate Investment Trusts (REITs)

REITs are property companies that escape corporation tax as long as they pay 90% of their income to shareholders. Participating landlords would be expected to transfer some homes into the REIT before it was floated on the stock market. REITs are closed-ended companies or trusts that hold, manage and maintain real estate for investment purposes. There are two kinds of REITs:

- Equity REITs own a portfolio of property assets and the income that these generate (ie, the rental yield) is passed on to shareholders in the form of dividends
- Mortgage REITs lend money to developers and the interest received from the loans is also passed on to shareholders.

REITs are already a feature of a number of mature economies such as the USA and Australia, but have only been permitted to operate in the UK since 1 January 2007. The Government believed that the introduction of UK-REITs would lead to improvements in the UK property investment market by:

- Providing liquidity to the current range of property investment vehicles
- Giving small-scale investors the opportunity to access commercial property returns, currently unavailable without significant capital outlays or tax inefficiency
- Improving stability in the property investment market by rebalancing some debt with equity among property companies
- Providing the opportunity for companies to release property assets from the corporate balance sheets into professionally managed companies
- Potentially improving the housing market through greater professionalisation in the private and social rented sectors
- Alongside wider reforms in the planning system, providing a route into which newly developed rented accommodation can be sold, thereby increasing the willingness of house builders to increase supply.

(Northern Ireland Assembly, 2010)

In the US, where residential REITs are known to have been established successfully, REITs have predominantly invested in communities of 200 or more small apartments in urban areas, as well as student accommodation and sheltered housing for older people (Jones, 2007).

In the UK, REITs are mainly involved in commercial and retail investments, although a small number also invest in rental accommodation. However, there are no REITs involved solely in residential property. In 2007, a consortium of over 20 housing associations (including large housing associations such as Affinity Sutton, Genesis and Peabody Trust) attempted to establish the first residential REIT in the UK, which was to be known as the ‘HA REIT’. The consortium pledged £250m worth of properties to the ‘HA REIT’ and it was envisaged that other housing associations would be able to sell properties to the REIT or manage properties on behalf of the REIT. It was estimated that the initial start-up costs associated with the REIT would run into millions of pounds, but the consortium was said to have started negotiations with a major investment bank to secure the necessary finance. However, around 10 housing
associations were reported to have withdrawn from the REIT consortium\cite{10} and as yet no HA REIT has been formed.\cite{11}

Forthcoming legal changes in the 2012 Finance Bill will provide a more favourable environment for REITs. The proposed changes include a number of measures that will improve the prospect of developing a successful REIT. In particular, it will abolish the 2% conversion charges for companies joining the REIT regime, relax regulation on listing requirements and introduce a three-year grace period for the diverse ownership rule.\cite{12} Recently the government has appointed Sir Adrian Montague to lead a review of institutional investment in the private rented sector.

**Strengths:** A drop in home ownership has increased the demand for market rental properties that can fuel REITs’ income. REITs can help housing associations to access investment from institutional investors.

**Weaknesses:** A number of administrative and tax hurdles. For example, current regulations concerning stamp duty act as a huge disincentive for institutional investors, such as REITs, to get involved in the residential property market. Current stamp duty policy means that a single investor who buys a number of residential properties must pay stamp duty at a higher rate than investors who buy one residential property each.

**New Supply Shared Equity with Developers (NSSED)**

As part of its current Low-cost Initiative for First Time Buyers (LIFT) arrangements, the Scottish Government recently introduced a New Supply Shared Equity with Developers (NSSED) trial scheme. This £2.5 million trial scheme, which is expected to allow an extra 100 first-time buyer households to buy a home under shared equity arrangements, is very similar to the conventional Shared Equity scheme, except that buyers purchase a home built by a developer rather than a housing association, and there are three (home owner/ Government/ private developer) rather than two (home owner/ Government) equity partners (Christman, 2010).

Under the NSSE schemes, a home owner is expected to pay 60–80% of purchase price, with the Scottish Government and developer jointly funding the balance. For example, under NSSED, equity shares could be divided as follows:

- Home owner: 60%
- Government: 20%
- Private developer: 20%

Home owners are entitled to subsequently increase their share of the property, paying the Government and the private developer equal sums in order to purchase further shares. The first increase must take a home owner’s stake to a minimum of 80%. If a home owner does not own 100% at the time of the property sale on the open market, the Government and the private developer receive a share of sale proceeds in proportion to their equity shares at the time of sale.

The legal documentation for NSSE with developers contains a hardship clause which may allow a shared equity owner an extension to their 10-year agreement if they have not been

\begin{itemize}
  \item \cite{10} ‘Ten associations withdraw from first REIT plans,’ *Inside Housing*, 26 January 2007 [http://www.insidehousing.co.uk/ten-associations-withdraw-from-first-reit-plans/1448551.article](http://www.insidehousing.co.uk/ten-associations-withdraw-from-first-reit-plans/1448551.article)
  \item \cite{12} The diverse ownership role states that 35% shares of a REIT have to be in public hands
\end{itemize}
able to tranche up to 100% within the 10-year period. Any decision to extend the period of
time to allow a shared equity owner to repay the amount owed will be at the discretion of
Scottish Ministers and the developer.\(^{13}\)

**Strengths:** This approach enables risks to be shared between all parties while at the same
time providing finance for first-time buyers to part-purchase a home.

**Weaknesses:** A drawback of the current three-way shared equity trial is the continuing
requirement for the home owner to fund a minimum 60–80% of the initial purchase price.

**Community Infrastructure Levy (CIL)**

The CIL is a mandatory charge that will be payable by developers and contribute towards
the cost of local and sub-regional infrastructure that the council or local community have
identified such as new schools, health centres and parks. The CIL came into force in April
2010. Local authorities are now able to levy the charge throughout England and Wales on
most new developments in their area. The aim of CIL is to provide greater flexibility in the
deployment of financial resources than relying solely upon S106 agreements. The main
difference between the CIL and planning obligations is that the levy is intended to provide
infrastructure to support development across an area rather than to simply make individual
planning applications acceptable. The levy will be charged on almost all development. The
levy and planning obligations are intended to operate in a complementary way, and
limitations are placed on the use of planning obligations to avoid overlap. CLG estimated
that the levy has the potential to raise an estimated additional £1bn a year of funding for
local infrastructure by 2016 (CLG, 2011). In addition to a first round of eight ‘Front Runners’,
a further 20 local authorities have been selected to develop ways to implement the reformed
CIL in their areas.\(^{14}\)

To encourage and safeguard the provision of social housing, the Government has exempted
affordable housing from paying CIL.

**Strengths:** CIL can apply to almost any new developments, even small projects. Monies can
fund infrastructure across an area, rather than just making an individual development
acceptable.

**Weaknesses:** In a similar way to S106, CIL will be dependent on the viability and profitability
of market development.

**Tax Increment Financing (TIF)**

TIF, which was announced in the Comprehensive Spending Review in October 2010, is
becoming increasingly important for financing infrastructure projects. TIF is a mechanism for
funding urban regeneration pioneered in the US, and is sometimes known in the UK as ‘local
tax reinvestment programmes’. It is used by municipal governments in nearly all US states to
stimulate economic development in a targeted geographical area. TIF uses anticipated
increases in tax revenues to finance current improvements (such as new or improved
infrastructure) that are expected to generate those increased revenues. TIF works on the
principle that the supply of new or improved infrastructure usually leads to both new

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\(^{13}\) New Supply Shared Equity with Developers scheme (NSSE with Developers scheme) 2011/12, 27 October 2011.
http://www.scotland.gov.uk/Topics/Built-Environment/Housing/BuyingSelling/lift/NSSE201112summary

\(^{14}\) Latest councils at forefront of bringing growth-led benefits named, 29 June 2011
development and an increase in the value of surrounding property, both of which serve to increase the level of property taxation in the area.

In the US, when a TIF district is established, the ‘base’ amount of property tax revenue is recorded based on the status quo before improvements. To stimulate redevelopment within a designated tax increment district, the municipality then makes, or funds a developer to make, capital improvements, such as new roads, water, sewers, and other public amenities. To the extent that such efforts are successful, property values rise, leading to an increase in actual property tax receipts above the base.

The ‘base’ amount of property tax revenue continues to be used to fund city services but, over a set period of time, the increase in tax revenue above the base (ie, the increment) is captured by the tax increment district as revenue, which is used to reimburse the community (or a partner developer) for the cost of the initial and subsequent improvements that spurred the rise in property values and tax revenue. The incremental increase in sales taxes in the district can also be either captured by the district as revenue or used to pay back the bonds. Financing debt issued to pay for the project utilising increased tax revenues can take up to 20–25 years, but in some cases the timeframe can be much shorter (British Property Federation, 2008).

There are three main ways in which TIF districts in the US can be used to support affordable homes: 15

1. In some communities, TIFs are created expressly to fund investments in affordable homes. In such cases, affordable housing is the capital investment that is intended to fuel community revitalisation. In Massachusetts, for example, the Department of Community Development and Housing’s Urban Center Housing – Tax Increment Financing Program (UCH-TIF) authorises local governments to use TIF financing for affordable housing in commercial centres that have a low population during non-business hours. Municipalities must demonstrate the need for multi-family housing within the area they target under this programme, and designate at least 25% of new housing units to be affordable.

2. In other communities, TIFs are set up principally to fund other investments – roads, sewers, etc. – that are intended to stimulate economic revitalisation or growth in a community. Affordable housing is funded as a secondary activity using revenues generated from the primary capital improvements or bond proceeds raised in anticipation of those revenues. The logic of this use of TIF revenue is that, as property values increase over the lifespan of a TIF district, housing becomes less and less affordable. Over time, long-term residents may risk displacement due to higher taxes, escalating rents or home prices and communities may no longer be able to provide housing opportunities for families with a diverse range of incomes.

Because there is generally considerable competition for the expenditure of TIF revenue, a number of states and localities have passed legislation to require that a minimum portion of TIF revenue go towards affordable homes. For example, the State of Utah mandates that municipalities that adopted TIF after May 2000 and generate US$100,000 of annual tax increment must set aside at minimum 20% of the funds collected for affordable housing construction, retention, or development within TIF boundaries. An additional 20% of TIF revenues can be used to replace homes lost to urban renewal and to housing preservation efforts outside of the TIF project area.

15 Utilize Tax Increment Financing to Fund Affordable Homes, 2011, Center for Housing Policy
http://www.housingpolicy.org/toolbox/strategy/policies/tif.html
Some communities are using TIF as a mechanism to invest in transit, using a portion of the increment for affordable housing near the station area.

3. Tax districts can also be created to preserve affordable housing opportunities in neighbourhoods poised for rapid increases in housing prices. While this use is not as common as the other two, and does not necessarily rely on public investment to create incremental property taxes, the city of Austin, Texas has adopted a policy along these lines and this approach appears to hold promise as a strategy for preserving affordable housing in the case of gentrification.

**Strengths**: TIF offers a strategy for municipalities to ‘self finance’ a redevelopment project without having to raise or impose new taxes. Property owners in the district may see their property values rise after the development. Public improvements can be created without increasing the burden of property taxes on existing taxpayers as TIF enables local authorities to use funds that would not have been generated without the TIF. As well as stimulating economic activity within the TIF district itself, a TIF might increase economic activity in surrounding areas which will be taxed at full value. Moreover, once the TIF district expires, the Treasury may enjoy the wider fiscal benefits of the scheme – higher stamp duty revenues resulting from rising property values, higher income and corporate tax revenues due to more economic activity, and lower health, security and benefits costs as the community enjoys the social benefits of regeneration. The full increased revenue from business rates in the TIF district will also be available to the Treasury after the funding cost for the infrastructure has been paid off (Core Cities Group and the British Property Federation, 2010).

**Weaknesses**: The major inherent risk of TIF is that the projected tax revenue will not materialise. Borrowing against projected TIF revenues may be overly optimistic and may lead to financial problems if growth does not match projections.

Also, Coulter and Dennison (2011) noted that in the UK senior lenders and other financiers may be reluctant to lend into TIF projects because section 13 of the Local Government Act 2003 provides that a local authority cannot mortgage or charge any of its property as security (and that ‘all money borrowed by a local authority shall be charged indifferently on all the revenues of the authority’), with the effect that security over TIF cash flows cannot currently be created. Unless senior lenders are prepared to take a more general (unsecured) view on local authority covenants to contribute amounts equivalent to the relevant tax increment, it might be some time before lending into TIF projects, and particularly social housing TIF projects, which have substantial upfront funding requirements, really takes off.

**Example: TIFs in Scotland**

Legislation was passed by the Scottish Parliament in December 2010 to approve the use of TIF for six projects. Full approval was granted in March 2011. Six TIF pilot projects will be developed across Scotland. The first three pilot projects include the £84m Edinburgh waterfront redevelopment, £70m Ravenscraig regeneration (North Lanarkshire Council) and the £80m expansion of the Buchanan Street Galleries shopping complex (Glasgow City Council). It is estimated that the three pilots will bring £250m of public sector investment and further unlock more than £1.5bn of private sector investment (Sear, 2011).

The waterfront area of Edinburgh will become the first TIF project in the UK. This area lies between Leith and Granton and has a history of heavy industrial activity. It includes three of the most deprived council wards in the city and requires intensive regeneration. Edinburgh Council intends to recreate the waterfront as an area centred on mixed residential, commercial and light industrial activity, and tourism.
Total new infrastructure funding required for the wider waterfront project is estimated to be around £500m by 2020, involving investment in transport (£230m), schools (£90m), land, water and utilities (£25m) and public realm/social infrastructure (£140m). Current (optimistic) expectations of section 75 developer contributions are in the region of £25m, leaving a £475m funding gap. This is considered too large a sum and to carry too much risk to TIF in total. However, a smaller TIF scheme has been proposed involving £84m of prudential borrowing from the Public Works Loan Board for four initial infrastructure projects (a new road link, a public esplanade, a new finger pier and new lock gates) to be repaid by hypothecated incremental non-domestic rates over 25 years. This hypothecation is awaiting final Scottish Government approval.

The economic appraisal undertaken for the project suggests the proposed infrastructure investment will create around 800,000 square feet of commercial space, up to 1,100 hotel beds and 1,240 new residential units, that it will help unlock up to £660m of private investment, including around £60m in new infrastructure, will create an additional 4,900 full-time equivalent jobs and will generate Gross Value Added of around £140m per annum (CIH Scotland, 2011).

**Accelerated Development Zones (ADZs) in England**

In England, TIF is sometimes referred as ADZs. ADZs are based on the principles that underpin TIF in the US (Core Cities Group and PricewaterhouseCoopers, 2008):

- ADZs are defined as physical areas, consisting of either a single or multiple administrative area linked by a common infrastructure requirement
- Within ADZs, local authorities could retain new business rates that are supplementary to the existing revenues for the area and securitise that income to raise funding for upfront infrastructure investment
- Business rate growth would be captured and reinvested, eg for a maximum of 20 years or more until finance raised to invest upfront enabling infrastructure is paid.

The reason for using the ADZ model rather than directly lifting the TIF concept from the United States is because of differences in the tax regimes between the two countries.

Key to the success of ADZs is financial devolution from central government to local authorities (e.g. in the form of controlling and retaining local business rates). In England, there has been a move towards giving local government the tools to support growth and the flexibility to attract investment into their areas through developments such as the Business Rate Supplement and the Community Infrastructure Levy.

An ADZ pilot programme was announced in March 2010 by the Labour government. The pilot scheme was intended to be introduced in locations across England in 2011–12. A pot of £120m was earmarked for ADZs which could eventually allow local authorities to capture increases in business rate revenues through the TIF route. Following the 2010 general election, the coalition government confirmed its commitment to the introduction of TIF and ADZs. CLG published a consultation paper, *Local Government Resource Review: Proposals for Business Rates Retention*, on 18 July 2011, and the consultation ran until 24 October 2011. The proposed local retention of business rates will remove the most important barrier to TIF/ADZ schemes (CLG, 2011).

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16 Infrastructure grants bring TIF one step closer, 24 March 2010

17 Local Government Resource Review: Proposals for Business Rates Retention – Consultation, 18 July 2011
The Aire Valley Leeds is one of the ADZ pilots. Leeds city region, which contains the 11 local authorities of Barnsley, Bradford, Calderdale, Craven, Harrogate, Kirklees, Leeds, Selby, Wakefield, York and North Yorkshire County Council, had applied for the Aire Valley regeneration project to be designated an ADZ. The project in South Leeds would see the 1,000-acre site transformed into the region’s first eco-settlement – boasting 15,000 new homes and creating 27,000 jobs. Being an ADZ would involve Leeds City Council taking a series of taxpayer-funded loans totalling up to £250m, which would pay for the infrastructure improvements needed to attract businesses.\textsuperscript{18}

**Strengths:** Like TIF, ADZs offer a means of ‘self-financing’ whole areas for redevelopment without having to introduce new taxation. Existing businesses may find their property values have risen if the scheme is successful and the local tax base will therefore increase further.

**Weaknesses:** The introduction of TIF legislation which restricts the tax base for TIF solely to business rates could effectively exclude housing schemes and confine its use to business parks and retail schemes, whilst the focus on funding infrastructure ignores other vital pre-development activities such as land assembly and acquisitions, professional fees and even development financing, and favours large-scale schemes over smaller projects.\textsuperscript{19} Also, the debt financing could be expensive if central government does not stand behind TIF/ADZ schemes with some kind of guarantee (All Party Urban Development Group, 2009). Other obvious hurdles are the UK’s planning system and the lengthy legislative process to ensure councils can retain the growth in business rates brought about by the scheme (Sear, 2011). To improve the success of ADZ schemes, the All Party Urban Development Group recommends that HCA should play an important role in providing expert advice to local authorities in terms of practical implementation, particularly as regards risk analysis and mitigation (All Party Urban Development Group, 2009).

**Loan guarantees**

Gibb and O’Sullivan (2010) examine loan guarantee schemes for social housing. They note that the availability of loan guarantees has been found to play a significant role in reducing social housing provider loan costs in some countries such as Sweden and the Netherlands. Their reviews of international experiences of social housing loan guarantee schemes find that:

- A guarantee scheme can be organised in several ways in terms of the balance between central and local government responsibilities, and whether or not a specific guarantee vehicle is established to coordinate the process.
- Guarantees can be used to cover only the high credit risk portion of a loan, which may well be a smaller proportion than the 75% covered under the Business, Enterprise and Regulatory Reform scheme operated by the UK Government to guarantee loan guarantee to new businesses.
- Fees are often charged to the beneficiaries of loan guarantees. These tend to involve both an upfront joining charge and a recurring fee thereafter. This reduces the subsidy element of a guarantee scheme and offers opportunities to recycle funds to further support housing development activity.
- Loan guarantee schemes seem to produce lower lending margins.

\textsuperscript{18} Lib Dem Conference: Cash regeneration pledge for Leeds City Council, 21 September 2011
http://www.yorkshireeveningpost.co.uk/news/latest-news/central-leeds/lib_dem_conference_cash_regeneration_pledge_for_leeds_city_council_1_2253086

\textsuperscript{19} ‘Introduction of tax-based regeneration financing could leave housing in the cold,’ Social Housing, February 2011
http://www.socialhousing.co.uk/Columns/Introduction_of_tax-based_regeneration_financing_could_leave_housing_in_the_cold
The main practical problem in creating such a scheme would be that there is no prior experience of providing such guarantees for social housing in the UK. But Dunmore suggests that public bodies, such as local authorities and the Homes and Communities Agency, have the power to provide such guarantees (Dunmore 2009).

Strengths: A loan guarantee scheme for affordable housing would be a useful tool for meeting short-term credit famines and might, over the longer term, help stretch available public expenditure for housing investment by lowering loan costs.

Weaknesses: Gibb and O’Sullivan noted that English housing associations rejected this model because it involved a ‘club’ approach, which was unattractive to wealthier associations as they felt they were effectively being asked to cross-subsidise financially weaker ones (Gibb and O’Sullivan 2010). Charitable associations were also concerned that a guarantee scheme would conflict with governance requirements as their tenants may not be the direct recipients of scheme benefits.

Example: Loan guarantees provided by the Scottish Government

The Scottish Government is providing a loan guarantee for the set-up of the National Housing Trust (NHT), which involves councils setting up joint ventures with developers. The NHT aims to deliver around 1,000–2,000 homes in Scotland over 10 years.

In phase 1 of the NHT initiative, new-build homes are being procured from developers, and when a bid from a developer is accepted onto the initiative, the developer will complete the homes on their site to agreed standards and time scales. Special Purpose Vehicles (SPVs, see above), involving the relevant developer and council and a representative of the Scottish Futures Trust, are being set up to oversee progress on each developer’s site within a council area. Once the homes are completed the SPV will buy them, paying between 65% and 70% of an agreed purchase price to the developer upfront. This contribution will be funded by participating councils which will provide loans to the SPVs in their area – councils are likely to fund this by borrowing from the Public Works Loan Board (PWLB). The remaining 30% to 35% will be contributed by the developer as a mixture of loan funding and equity investment. The homes are expected to be available to tenants for affordable intermediate (mid-market) rent for five to 10 years and the developer will oversee an agent(s) who will manage the homes and carry out maintenance and repairs to agreed customer service standards. The managing agents will allocate homes to tenants based on criteria agreed with the council. Each SPV’s income from tenants’ rents will be used to pay interest to the local authority so it can finance its own borrowing for the initiative and will also pay interest on the loan from the developer and pay for agents responsible for managing and maintaining the homes. The Scottish Government will provide a guarantee to participating councils that it will step in if there is a problem and the SPV is unable to pay what it owes to the local authority.

Bond finance

Bonds are a proven mechanism for raising private capital, used by both the public and private sectors. A bond is a debt security, in which the authorised issuer owes the holders a debt and, depending on the terms of the bond, is obliged to repay interest at fixed intervals. Once issued, bonds – including the right to receive the issuer’s payments – can be traded on established markets. Government-secured bonds typically offer investors low-risk, low-interest and fixed income securities. Governments throughout the world use bonds to

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generate funds for a particular purpose. Currently, bonds are considered as a major source of private finance for major housing projects.

**Local authority bonds**

Local authority bonds, popular in the UK until the 1990s and still popular in other parts of the world, look set to make a return. Following the Comprehensive Spending Review in October 2010, local authorities’ cost of borrowing from Public Works Loan Board increased from 20 basis points (bps) to an average of 100 bps above gilts. As bond margins below 100 bps may well be available for many local authorities, local authorities are beginning to look into possible bond issues more closely to fund social housing and other projects (Coulter and Dennison, 2011).

Bonds might be issued by a single local authority or by a club of local authorities using a special purpose issuing vehicle, the latter offering potential cost savings through the sharing of fees and economies of scale. In fact, the Local Government Association, along with the Chartered Institute of Public Finance and Accountancy and several banks, is looking to launch a Scandinavian-style vehicle (such as Munifin, a company owned by Finnish local authorities, local government pension funds and central government) to raise money for councils on the bond market. It would be similar to the Housing Finance Corporation, which issues bonds for smaller housing associations.21

**Housing association bonds**

Historically, the housing association sector has issued a number of bonds which are structured bonds and are de-linked from the direct credit risk of the housing association. Affinity Sutton was the first housing association to issue a new type of secured corporate bond based on its own assets and the corporate credit rating (in 2008, Affinity Sutton was rated Aa2 by Moody’s).22 Housing association bonds have typically been a much less liquid market than other corporate bonds. Most housing association bonds are bought by investors who typically put the bonds into illiquid funds to meet their own long-term obligations.

The largest amount of bond finance raised by a housing association was £300m by London and Quadrant (a London-based housing association with 63,000 homes). It was reported that the 30-year repayment deal was three and a half times oversubscribed within an hour of hitting the markets. The money raised will support development plans for 10,000 homes over the next five years (Northern Ireland Assembly, 2010).

**Strengths:** Bond issues provide a means of obtaining private sector finance for affordable housing. This is particularly useful when, as at present, lenders are cautious and additional funding can be difficult to arrange.

**Weaknesses:** Raising finance from the bond market is expensive compared to debt finance. For example, in May 2011, Places for People raised £175m through an unsecured bond, priced at 170 bps over gilts. However, pricing for secured issues has generally ranged from 100-110 bps over the last two years.23 Bond issues are currently limited to larger associations.

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23 ‘Housing association issues £150m bond,’ Inside Housing, 16 September 2011 [http://www.insidehousing.co.uk/finance/housing-association-issues-%C2%A3150m-bond/6517819.article](http://www.insidehousing.co.uk/finance/housing-association-issues-%C2%A3150m-bond/6517819.article)
Bond issuance for medium-sized housing associations

A new capital market funding platform tailored to suit medium-sized housing associations has been proposed by GB Social Housing, an incorporated company managed by Cutwater Asset Management (formerly MBIA Asset Management). It plans to offer flexible loan volumes and covenant terms, funded through a secured note bond issuance programme as shown in Figure A5.

Figure A5: GB Social Housing’s funding structure

The new platform is to group mid-sized and smaller housing associations together and then issue bonds as one global note programme. An initial £200m issue, divided between two to six housing associations, was aimed to be launched by early summer 2010. It was planned initially to offer 30-year fixed-rate loans but will be able to issue fixed, floating or index-linked rates in future. Participating housing associations must secure a rating from Moody’s, and the note programme itself will receive a Moody’s rating which will comprise an aggregate of participating housing associations’ individual grades.\(^\text{24}\) Progress to date seems to have been limited.

\(^{24}\) ‘New capital issuance platform bids for mid-rank RSLs’ business,’ Social Housing, March 2010
http://www.socialhousing.co.uk/News/New_capital_issuance_platform_bids_for_mid-rank_RSLs_business
The Housing Finance Corporation (TFHC) bonds

THFC administers bonds targeted at the provision of affordable housing through housing associations. The first TFHC bond was issued in 1987 for £30.75m for six housing associations. THFC recently issued Euro-bonds on behalf of housing associations to fund affordable housing. THFC’s bonds are typically bought by institutional investors such as life companies and pension funds.

Revolving Land Bank Funds (LBF)

Local authorities establish LBFs to acquire sites, take forward any required remediation work and put the necessary infrastructure in place to enable housing and other development. Revenues raised from the sale of sites, and any developer contributions, could be used to pay back into the fund, thereby facilitating further investment and development.

An LBF was set up in 2005 by Highland Council, supported by a £5m grant from the Scottish Executive which was matched by the Council (drawn from council tax receipts from second homes). The fund has provided ‘soft loans’ to the Highland Housing Alliance to finance the purchase of sites and subsequent infrastructure investment. It has also provided both repayable and non-repayable grants to the housing association sector to fund land acquisition and contribute to the cost of housing development. The Alliance has used funds from the LBF to buy and service land that is then sold to the housing association sector and the private sector. Loans are repaid to the LBF and surpluses retained for future investment. The Highland LBF has been subsequently grown through hypothecation of council tax on second homes and from land trading surpluses. By August 2008, the LBF stood at £15.5m, with outstanding commitments of just under £4m. A total of £12.8m had been loaned since March 2005, of which around £7m had been repaid (CIH Scotland, 2011).

Strengths: A revolving fund provides a way of enabling land and infrastructure to be made available for new development on a rolling basis.

Weaknesses: Timing is crucial when establishing LBFs as markets are cyclical. The Highland Council LBF was established when land and property markets were inflating rapidly. The scope for generating surpluses on land and property deals is more limited now than in the period 2005–2007.

Investment from pension funds/sovereign wealth funds

Institutions have already been investing in affordable housing through social housing bonds. However, institutional investors, in particular pension funds and life companies, but also potentially sovereign wealth and opportunity funds, typically require a yield of around 7% on their investment. Indications suggest that investment performance for residential let properties in England has provided a return well below this rate, at approximately 3.5%. Recent volatility in the financial markets and diminished opportunities for such a high level of return on investment has resulted in an increased appetite for lower-yield, but more secure, returns (Williams et al, 2011).

Recently, housing associations have increasingly been seeking many different types of investors from as many different jurisdictions as possible to diversify their sources of private fund. For example, Places for People (with 62,000 homes) raised £76m on the US bond

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markets in April 2011 and another £76m on the Japanese bond market in May 2011. It is now actively looking at Chinese pension funds and insurance companies in China and the Middle East.26

**Sale-and-leaseback – housing association deal with pension fund**

Housing associations represent ‘an ideal instrument’ for pension funds and other institutional investors.27 A recent example is the introduction of sale-and-leaseback deal by Derwent Living with pension fund manager Aviva.

Derwent Living has become the first social landlord to sign up with the fund in a deal worth £40–45m with Aviva. Aviva will give Derwent a 50-year lease over the properties it sells to the fund, in exchange for which Derwent will pay Aviva 4% of the gross purchase cost per year, increasing annually at the rate of retail price inflation (RPI). The freehold will revert to the landlord at the end of the term for a nominal re-purchase price of £1, meaning that effectively the asset amortises to zero over time.28

**Figure A6: Sale-and-leaseback funding**

![Sale-and-leaseback structure](source: Social Housing, July 2011, p. 3)

**Strengths:** Such model will provide 20- to 30-year income streams, indexation and highly secure cash flows to pension fund trustees.

**Weaknesses:** Most associations are likely to find it difficult to find pension fund partners to enter into sale-and-leaseback deals.

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26 ‘Landlord heads to China and Middle East for funds,’ *Inside Housing*, 4 November 2011. 
http://www.insidehousing.co.uk/finance/landlord-heads-to-china-and-middle-east-for-funds/6518812.article

27 ‘Social Housing: The foundations of an investment opportunity for pension funds,’ Redviews, 9 June 2010. 
http://www.redington.co.uk/Redington/Media/PDFs/redviews/RedViews-Social-Housing.pdf

28 ‘Derwent Living pioneers re-introduction of sale-and-leaseback with £45m Aviva deal,’ *Social Housing*, July 2011, p. 3.
2. Charity and ethical investment sources

Community Land Trusts (CLT)

A CLT is a mechanism for the long-term ownership of land by the local community. Through the CLT model, local residents could be able to purchase a home or an equity share in a home by only needing to pay for the costs of the construction (not the land value). The community could retain a stake in the home, in the initial years at least, through their ownership of the land the home was built on. The CLT could potentially also place some conditions on who the owner could sell their home on to in the future.

One example is the Stonesfield Community Trust in Oxfordshire, which is a charity established 25 years ago that now owns 14 dwellings let at affordable rents to people on a working income. It also owns the village post office and the village pre-school. Stonesfield Community Trust is working with Gloucestershire Land for People, an umbrella body for community land trusts in Gloucestershire, and Bibury Parish Council to launch a Community Bond to allow Arlington Mill to be bought and owned by the community. The mill building would be converted into workspace studios with living accommodation attached, for craftspeople ‘living over the shop’, which would bring increased employment and economic activity to the village. The proposed development would also provide a living display of the mill’s history and machinery. Finally, if possible, they are looking to restore the old mill wheel and use it to generate electricity. The Community Bond would be needed to pay the cost of acquiring the building.29

Strengths: Christman notes that CLTs have made some new rural housing more affordable (Christman 2010). Access to affordable homes in this way and the potential economic spinoffs could, particularly in rural areas, act as an incentive for families and young people to remain in the area. Approaches might also involve financial arrangements which linked residents into the collective value of their homes. These might allow them to benefit from any local house price increases, with opportunities to accumulate equity shares in the value of the homes owned mutually by the residents.

Weaknesses: The number of homes provided by CLTs is very small.

Charity Bank and Triodos

Charity Bank finances a range of charitable initiatives including the provision of rural affordable housing. Savers and investors in Charity Bank receive competitive interest rates and can be either individuals or limited companies (Dunmore, 2009).

A number of housing associations in England have borrowed from ethical bank Triodos. Triodos is a public bank based in the Netherlands with offices in the UK. The bank primarily restricts its lending to businesses judged to be of social or environmental benefit. Triodos agreed nearly £100m of new loans with housing associations during 2009, making lending to associations the bank’s largest growth area during this period.30 It is reported that Triodos will not lend more than £30m to individual housing associations, which may rule out the largest housing associations.

29 What other specialist delivery vehicles can provide affordable housing? Local Government Yorkshire and Humber 2011 http://www.deliveraffordablehomes.co.uk/coreareas/fundingoptions/q6/
Strengths: The focus of these banks is on small to medium housing associations with around 6,000 homes or fewer. For example, Triodos Bank provided Cornwall Rural Housing Association with a structured £2m loan and a £900,000 revolving loan facility.31

Weaknesses: The number of loans provided to housing associations is very small.

3. European and international funding models

Since the mid-2000s there has been a return to more supply-side strategies to improve the delivery of affordable housing.

Austria – Housing Construction Convertible Bonds

In 1993, the Austrian Government passed the Housing Construction Subsidy Act to create a new system of housing finance. A protected circuit of capital involving the sale of Housing Construction Convertible Bonds (HCCB) via housing banks was set up to channel investment into new affordable housing. The Austrian tax office offers progressive incentives for purchasers of HCCB and requires that any funds raised by housing banks through the sale of bonds have to be used to finance approved limited profit housing projects by registered social landlords, in the form of lower interest capital market loans.

Housing bonds are now a standard part of financial investment portfolios in Austria. Funds raised from the sale of bonds must be invested in approved projects, with size, construction cost and rent limits. Between 1993 and 2003, six housing banks raised €6bn via the sale of housing construction bonds and these funds were channelled into the production and renovation of around 120,000 affordable dwellings by limited profit housing associations (Milligan et al, 2009).

China – sale of the use right of publicly owned land

Land in China is owned by the state and developers purchase land-use rights from local governments on a leasehold basis (Zhu, 2005). A system of housing property rights has evolved out of the initial sale of land-use rights. These included the right of households to acquire full property rights and to sell properties and retain (post-tax) profits.

The sale of the use right of publicly owned land to the private sector plays an increasingly important role in raising finance for public projects in cities where governments are empowered with greater control over land. In the early phase of the centrally planned period (1949–62), the central government was the sole planner and financier of urban infrastructure projects and city governments functioned as executors of the central plans under the state’s monopoly of fiscal revenues. In 1962, the central government permitted 66 big cities to retain three types of taxes (industrial and business tax, public utility additional tax and real estate tax) as the funding of urban construction. In 1978, the central state allowed cities to retain 5% of industrial and business profits as special funding for construction and maintenance of municipal utilities. In 1985, the city maintenance and construction tax was implemented to substitute for the retention of industrial and business profits. Since 1987, land-based financing has become an important source of funding urban infrastructure. Shenzhen, Guangzhou, Tianjin and Shanghai were the first batch of cities permitted to sell the use right of state-owned land through open auction or competitive tendering. Of the incomes generated from the conveyance of land use rights, 40% were escrowed to the central

31 Case study: Helping provide low-cost, high quality homes http://www.triodos.co.uk/en/business/who-we-finance/social-housing/
government and the city government was allowed to keep the remainder. In 1992, the BOT (build–operate–transfer) arrangements were introduced. Under the BOT contract, a foreign firm contributed the initial capital cost of the utility and operated it under the oversight of the relevant authorities for a fixed period, ultimately transferring the utility to the municipal government (Wang et al, 2011).

Diverse financing sources, which include taxes and grants, administrative fees, loans, resource incomes and self-raised funds, are accessible to relevant governmental departments or project investors. In many urban infrastructure projects, the government bodies may act as investors, regulators, operators, facilitators, managers and evaluators. Based on the main source of investment and the main actor to manage urban infrastructure projects, three financing modes can be identified (Wang et al, 2011):

- Government-led financing – the use of budgetary public money (mainly from taxes, grants and administrative charges/fees) to fund urban infrastructure.
- State-owned enterprise-led financing – the use of unconventional funds by quasi-public entities in the form of Urban Investment and Trust Corporations (UITCs) to finance urban infrastructure. Almost all cities have established UITCs, first as a vehicle to attract outside capital but later as an omnibus financial arm of city government. Organisationally and operationally, the UITC can be regarded as a shareholder company. However, the primary shareholder is the city government. The chairmen of the board or the chief executives of the corporation come from the city government. The UITC is authorised to raise unconventional funds through market-based instruments, and invest in and recoup from public utilities operations. The UITC acts as a representative of the Government and interacts with private enterprises to make such financing work. Currently, common arrangements for public–private partnerships are build–operate–transfer (BOT) or build-transfer (BT).
- PPP-led financing – mainly targets projects that possess potential for self-finance.

In addition to the expansion of regular taxation sources, market-based financing instruments, particularly in the form of ‘the monetisation of land’, open up new venues for city governments to go beyond budgetary constraint to mobilise resources. Even though the central Government sets statutory restrictions on land-dependent financing, city governments have a strong fiscal incentive to circumvent the central regulations. Local governments also rely heavily on land leasing and taxation on real property transactions in funding public expenses of urban infrastructure (Tang et al, 2011).

**France – Livrét A saving scheme**

French social housing is built and managed by 563 public offices and privately run companies known as Habitation à Loyer Modéré (HLM). Their performance is controlled by the Ministry of Housing and Finance, which can force mergers in the event of non-compliance. These organisations manage an average of 7,400 dwellings, and are limited profit (4% return) organisations whose rents are linked to costs of construction and finance and who are exempt from company tax (Milligan et al, 2009).

The mains sources of public funding are:

- Direct contributions from the national budget for construction subsidies and individual allowances
- The primary lender of finance loans, the Caisse des Dépôts et Consignations (CDC), which provides funds from the Livrét A fund (a savings fund with regulated interest rate and not subject to tax). The Crédit Foncier de France
and the Comptoir des Entrepreneurs are also involved. These are both specialised financial institutions from the private sector

- The employers' contribution (the so-called 'one per cent housing contribution'), which was designed to promote housing for employees. These funds are used for loans and for grants and to promote rental accommodation or home ownership
- Local authorities. Most of the time local authority contributions take the form of supplementary funding, topping up that provided by the French Government. (Milligan et al, 2009)

The key components of social housing finance in France on the supply side incorporate state subsidies (3%), local authority subsidies (7%), CDC off-market loans (70%) and other commercial loans (13%; Milligan et al, 2009).

A number of tax provisions promote lower social housing costs. These include a lower sales tax for social housing construction (5.5% instead of 19%) and eligibility for land tax rebates, as well as collateral provided by local authorities.

The most significant proportion of social housing finance is provided by off-market loans which are pooled by CDC from French Livrét A savings scheme. The French scheme converts short-term deposits into low-interest long-term loans for social housing. Every French household has the right to open a tax-free Livrét A Savings Account at their local bank (since 2009 all banks; formerly only at two savings banks and the post bank), depositing up to €15,300 (which has been capped since 1990), with the average deposit being €3,000. Their savings are pooled by a state-owned financial intermediary known as the Caisse des Dépôts et Consignations (CDC), which pays a fee to the banks for collecting the funds and a defined interest rate.

**Figure A7: The Livrét A savings scheme**

Source: Milligan et al, 2009, Fig. 12

As the deposits in the tax-free Livrét A Savings accounts pooled by CDC are guaranteed, amidst global financial turbulence there has been a rush to deposit savings in them, increasing the amount of funds available for social housing development. According to the Principal Economist for CDC:

> For 50 years we have transformed short-term deposit savings (which are 8% of financial assets of households in France) into long-term loans (15 to 50 years) for financing rental
housing and urban renewal. And this has not changed much, recent changes are more adjustment to European Union regulations and better tuning of the system, which is rather robust in the present financial world turmoil.
(J-P Schaefer, CDC, March 2009 cited in Milligan et al, 2009).

Hong Kong – self-finance public housing sector

In Hong Kong there are approximately two million people (about 30% of Hong Kong’s population) living in 700,000 public rental flats provided by the Hong Kong Housing Authority. The Hong Kong Housing Authority has been entirely self-financed since 1987, when the Government injected an interest-bearing permanent capital of HK$16.4bn to the Authority (Chiu, 2010). The Government has continued to provide free land for building public rental housing, and land at cost price for the construction of subsidised home sale schemes. Before the suspension of the subsidised home sale schemes in 2001 and their termination in November 2002, the Housing Authority had three major sources of regular income to support the operation of its public housing programme:

- Sale proceeds under the subsidised home ownership schemes.
- Rental incomes from the commercial properties associated with housing projects.
- The rental income from public rental housing.

Although the Housing Authority had to subsidise the operation (mainly building management and maintenance) of public rental housing amounting to HK$230 per flat (Chiu, 2010), the overall income covered the expenditure because of the large surplus margin of home sale schemes, with the exception of the Tenant Purchase Scheme introduced in 1998.

The termination of all subsidised build-for-sale schemes in November 2002 removed a major source of income, ushering in a new phase of financial arrangements between the Government and the Housing Authority. It was decided that the Housing Authority would sell most of its retail properties and car parks to a listed company set up for the purpose of owning and operating these properties for the continued fulfilment of the statutory requirements (as stated in the Housing Ordinance) of meeting the daily needs of public housing residents. The proceeds from the sale, amounting to US$4.345bn, has been generating investment income for the Housing Authority to support the operation of the public housing programmes (Chiu, 2010).

Singapore – the compulsory social security savings fund

Singapore has the largest proportion of the population living in public housing in the world – 85% since 1985, with the majority (95%, or nearly 3m people) owning the flat they occupy. Such a large scale of public housing provision can be attributed to the use of the Central Provident Fund (CPF) as an instrument of housing finance. The CPF is a state-managed employees’ compulsory social security savings fund which was set up in 1955. The contribution rates peaked at 25% of wages for both employers and employees from 1984 to 1986 (Phang, 2001). The contribution rates have varied depending on economic conditions and have on occasion been used as an instrument to control wage costs. Each year the Singapore Government will increase its CPF along with the growth in the economy, and this policy enables the Government to avoid inflation.

Initially, the Government ran the CPF savings programme specifically for retirement funding. These fairly substantial forced savings may be withdrawn at age 55 or earlier for various approved purposes. Between 1968 and 1981, they could be withdrawn for purposes of down-payment, stamp duties, mortgage and interest payments incurred for the purchase of
public-sector-built housing. In 1981, the scheme was extended to allow for withdrawals for mortgage payments for the purchase of private housing. During the past decade, rules governing the use of CPF savings have been gradually liberalised to allow for withdrawals for medical and education expenses, insurance and investments in various financial assets.

Through the CPF the Government also finances the public housing programme provided by the Housing Development Board (HDB). The CPF operates in a circuit in which financial resources are channelled from the public via the CPF to finance the construction of public housing, which the public, in turn, purchase using their CPF savings. CPF savings make up the bulk of national capital formation and have allowed the Government to amass substantial foreign reserves. A proportion of this has been channelled towards investment in public housing. CPF funds are also used to purchase government bonds that are partly used to finance loans and subsidies to the HDB. These set-ups allow the Government to draw from the savings of the public to finance public housing. The HDB can thus avoid the expensive interest rates of commercial lending institutions.

**Switzerland – the guaranteed cooperative housing bond**

The Swiss non-profit sector is small. There are more than 1,700 associations and cooperatives which contribute 8% of all dwellings (up to 20% in urban areas) and 14% of rental accommodation. State ownership of public housing is limited – around 3%. Providers are typically small and self-managed (<100 dwellings) but there are around 30 larger social landlords with 4,000–5,000 dwellings each.

The only government subsidy to the public housing sector is the provision of land at discounted prices for sale or lease by public landholders. Beyond this important subsidy, there are no public loans or grants for construction. Thus, new projects and renovations are primarily dependent upon private finance.

The following innovative instruments have emerged from cooperatives to fund their housing projects (Milligan et al, 2009):

- A revolving fund financed by the state but operated by the sector
- A bond-issuing cooperative which draws private funds at lower interest rates towards its not-for-profit members by profiting from federal guarantees
- Federal collateral security granted to a mortgage guarantee cooperative established by the sector itself, which can also reduce the cost of lending for non-profit builders.

The Swiss Bond Issuing Cooperative (BIC) was established in 1990 to raise funds for not-for-profit housing entities that have formed a cooperative. The BIC pool allows smaller not-for-profit builders to join together, improving their access to finance on more favourable terms. In this way, it plays a leading role in financing small non-profit housing projects. It has about 350 members and has helped to finance approximately 877 projects to supply 30,000 dwellings. Institutional investors such as pension funds and insurance companies are attracted to BIC bonds by the state guarantee and high credit rating (AAA; shown in Figure A8).
Summary of European/international funding models

Table A2: Models of financing affordable housing supply in Asia and Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Model Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>‘Structured finance model’&lt;br&gt;Long-term low-interest public loans and grants, combined with commercial loans raised via Housing Construction Convertible Bonds and developer/tenant equity sustains a tightly regulated form of cost rent limited profit housing. Production supported by municipal land policy and land banking.</td>
</tr>
<tr>
<td>China</td>
<td>‘Sale of land use right model’&lt;br&gt;The sale of land use right of publicly owned land to the private sector is used to raise finance for public projects. Also, Build-Operate-Transfer arrangement was introduced to ask private firm to contribute the initial capital cost of the utility and operated it under a fixed period, then transferred the utility to the Government.</td>
</tr>
<tr>
<td>France</td>
<td>‘Savings scheme model’&lt;br&gt;Tax-free household savings scheme finances off-market loans to HLM providers alongside state and local subsidies, tax incentives and other loans. Land provided by local authorities and development contributions.</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>‘Self-finance model’&lt;br&gt;The operating cost of public housing is cross-subsidised by the sale proceeds from the subsidised home ownership schemes and rental incomes from commercial properties associated with housing projects.</td>
</tr>
<tr>
<td>Singapore</td>
<td>‘Compulsory social security savings model’&lt;br&gt;The compulsory savings programme to fund the operation of the large-scale public housing programme and the provision of mortgage finance to home buyers.</td>
</tr>
<tr>
<td>Switzerland</td>
<td>‘Cooperative finance model’&lt;br&gt;Commercial loans, loans from a bond-issuing cooperative, revolving loans, and own equity and supported by municipal urban policy and land banking. A liberal rent policy allows landlords to raise rents to recover costs, including changing financing costs.</td>
</tr>
</tbody>
</table>
Lessons learned from European/international models

There are very significant contextual differences between each financing model in the provision of affordable housing. Overall, these models highlight:

- The importance of responsive and conditional fiscal incentives, public grants, favourable loans and guarantees to steer housing outcomes – Austria and France’s long-term supply strategies, incorporating public and private loans and tax incentives (Milligan et al, 2009).
- The use of household saving schemes to channel investments towards social housing – the French Livrét A saving scheme converts short-term deposits into low-interest long-term loans for social housing, as does Singapore’s Central Provident Fund.
- The need of institutions/mechanisms to channel private capital/household savings for public use – Austria’s Housing Banks to collect funding from bonds, China’s Urban Investment and Trust Corporations, French CDC, Singapore’s Housing Development Board and the Swiss Bond-Issuing Cooperative.
- In the case of England, the importance of strong regulation in the housing association sector – Heywood (2010) notes that regulation can bring comfort to lenders and investors through minimum standards of governance, promoting financial viability and reducing the probability of financial default. As the rating agencies have repeatedly reminded the sector, without regulation interest rates would rise, terms would become fiercer and the availability of finance would almost certainly fall. In fact, there are reasons why an element of strong regulation should stay. The Financial Services Authority has admitted in its analysis of the causes of the banking crisis that light-touch regulation has not been effective in the private sector.32

32 ‘Future shape of regulation under question due to sector’s changing financial model,’ Social Housing, July 2011, p. 17.