



SOCIAL HOUSING OUTLOOK



POSITIVE MOMENTUM

With a strong commitment from the Government to deliver a range of social housing initiatives over the next five years, the outlook for the social housing sector has never been brighter, although some challenges remain, according to Donal McManus, CEO of the Irish Council for Social Housing (ICSH).

The launch of the Government's social housing strategy in November 2014 is widely regarded as one of the single biggest and most ambitious initiatives undertaken in recent years.

Social Housing Strategy 2020: Support, Supply and Reform commits to providing housing for up to 110,000 households at a cost of €3.8 billion over the next six years, as well as setting out a blueprint for change in the way social housing in Ireland is delivered and funded. It also sets out a road-map to making a major dent on the local authority waiting lists, which on the last count, were circa 90,000. Now, less than a year on from its publication,

the finer details are still being thrashed out among the key stakeholders, but throughout the sector, there is a general consensus among these stakeholders that the outlook is positive.

"The launch of the strategy represented a significant milestone in the development of social housing in Ireland. Having a plan in place in itself is a huge step, but having one that deals with the financial and funding aspects of social housing was most welcome," says Donal McManus, CEO of the Irish Council for Social Housing.

"In the intervening year since the strategy was launched, a lot of work on the actual detail, particularly around areas like targets, land and financing, has been undertaken by the various stakeholders and it's still ongoing. But we now need to ensure that we all focus on the strategy and its commitments, timescales and work collaboratively to deliver much needed social housing in Ireland," he says.

Representing 270 housing associations of various sizes, ICSH members account for approximately 85% of all housing association stock in Ireland. Between them, they manage in the region of 30,000 homes, in turn, providing



Donal McManus

CEO of the Irish Council for Social Housing

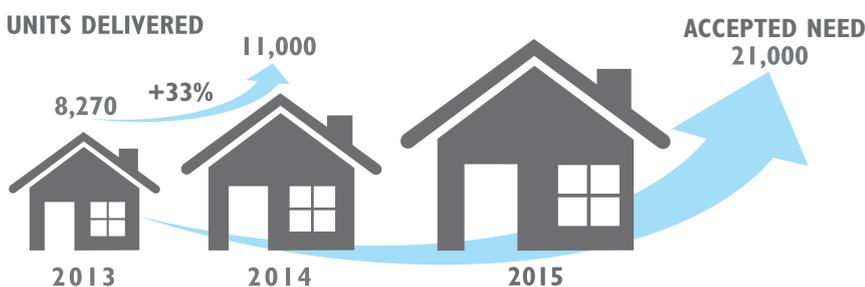
housing for up to 65,000 people in 500 different communities. With greater clarity and visibility in terms of Government strategy, the ICSH is also working to tackle other issues, chief of which is capacity and the sector's ability to grow in line with best practice and the emerging financial and regulatory ecosystem.

"Capacity is a big issue for all the stakeholders involved in the provision and funding of social housing in Ireland," says McManus.

"For most housing associations, the building of capacity in recent years has focussed on the engagement of expertise in areas like finance and housing project development. More people with financial and development expertise are now working in the sector than ever before. They are actively working with stakeholders in the private sector, particularly the financial institutions who are relatively new, but welcome players, in the market. More board members with new financial expertise have also come into the sector in recent years. All of this builds on the considerable experience and expertise the housing associations have built up over many years and will serve to strengthen the sector. But there are other areas housing associations need to work on too," he adds.

One of the challenges facing the sector is the regulatory requirement for AHBs to have longer-term development plans in place. >>

POSITIVE MOMENTUM: NATIONAL HOUSING SUPPLY



AHB CAPACITY BUILDING



“Capacity is a big issue for all the stakeholders involved in the provision and funding of social housing in Ireland”

“This is a big issue for the ICSH and its members. Having longer-term development plans in place allows housing associations to plan with greater certainty. It will also allow financial institutions to focus on the level of demand for private financing and tailor their responses accordingly,” he says.

“It is also important that in this new emerging financial environment, decisions relating to financing, funding approval, sanctioning, land assembly and transfer have to be dealt with efficiently, so that potential housing projects and developments are not lost to the wider private sector, and that’s going to be a challenge to those financial institutions,” he adds.

“Aligned to this is the need for well-priced funding from financial institutions, both for development and acquisitions. With this, I think there is an opportunity for banks to develop other financial products for housing associations to cover important things like stock-transfer, regeneration, joint-ventures and refinancing of financial products. In other EU countries, and particularly in

the UK, the role of private finance has been instrumental in delivering social housing while it has also created greater competition and products and services that have been customised for the social housing sector. It is our view that, overall, a stable and co-ordinated policy environment, comprising of good regulation, strong policies and a competitive financial environment, lead to much better outcomes for housing associations and their ability to deliver more housing,” he says.

At a wider sectoral level, he points out that the new funding environment may also test the collective capacity of other important stakeholders.

“As we see it, one of the key challenges for the wider sector is the collective capacity of the Government and the local authorities to be able to deal with the new environment of private finance. Issues surrounding awareness levels about this new mixed funding environment are critical, and we need to ensure that decisions are made on a timely basis, particularly when housing associations are engaged in seeking and developing projects with the private sector. It is imperative that everyone understands the importance and the urgency of this,” he concludes.



Maura Moore

Head of Professional Services and Nonprofits, AIB.

BUILDING FOR SUCCESS

AIB is enabling delivery of social housing to communities around Ireland, writes Maura Moore.

Housing firmly remains a policy priority for the Irish Government. Approved Housing Bodies (AHBs) therefore have a significant public policy role to fulfil in increasing the supply of social housing. A legacy of the recession and collapse of the economy is that house building almost ceased and the social housing waiting list has circa 90,000 households.

Since the economic downturn, new house completions have significantly reduced from record levels of 93,419 units in 2006, to 11,016 units in 2014. The decline in completions was most pronounced in Dublin, with an 88% decrease in activity in the period 2006 to 2014.

“A radical rethink was called for and Social Housing Strategy 2020, together with Construction 2020, is ambitious in its impact investing remit.”

An unpalatable consequence of the growing demand for new homes is rising rents in the capital and pressure on affordability. A radical rethink was called for and *Social Housing Strategy 2020*, together with *Construction 2020*, is ambitious in its impact investing remit.

The necessary onset of regulation (based on a Voluntary Regulation Code) to meet the step change required in the supply of new homes and facilitate investment, has seen the establishment of the Housing Agency (HA) Regulation Office as interim Regulator for AHBs. Significantly, the regulation code has been adopted by over two thirds of AHBs and represents in excess of 80% of stock under management. Research* by AIB, *Outlook – NonProfit Sector*, which was published in December 2014, confirmed a willingness to embrace good governance, transparency

* Ipsos MRBI



and accountability, underpinned by strong financial planning and management, affording protection to both financiers and tenants alike in capacity building and the delivery of new homes. Some 80% of AHB stock is owned and managed by larger (Tier 3) AHBs representing just 10% of the sector and which have total assets of €1.9 billion.

Currently controlling 30,000 houses, the AHB sector is critical to the success of *Social Housing Strategy 2020*. With greater governance and enhanced capacity, it means it has a justifiable ambition to deliver 5,000 units over the next three years. Daniel McLoughlin, Chair of the Dublin Housing Supply Coordination Taskforce, notes that there has been “good solid progress in this regard with collaborative discussions between the task force and the AHB sector; creating clear visibility around the delivery of 2,000 units in the Dublin region alone. As recently as July, Minister Kelly announced funding of €151 million for AHBs to construct 521 units and purchase a further 536.”

“... a collaborative approach between local authorities, AHBs, the private rental sector and joint ventures involving private finance.”

In parallel, the local authority sector has been ramping up its capacity, progressing schemes through planning and design and year-to-date have some 1,800 units approved for funding with an associated budget of €342 million.

McLoughlin was also praiseworthy of delivery performance noting the record of delivery of the local authorities with 137,000 units already under control.

“The rollout of the Housing Assistance Payment scheme (HAP) is now underway in 15 local authorities with the remainder to come on stream by the year end. The current

TIER 3: STRONG BORROWING CAPACITY



*Based on cost of housing assets. Source: Housing Agency Regulation Office Annual Report 2014.

weekly average of new recipients is 85 and 3,300 households have now being signed up, a figure set to more than double by the end of 2015. In addition, €300 million has been set aside for PPP opportunities and the first of these is under assessment by the NDFA (National Development Finance Agency) using six sites put forward by the Dublin local authorities,” he says.

Social Housing Strategy 2020 delivery and success is critically dependent on the now current collaborative approach between local authorities, AHBs, the private rental sector and joint ventures involving private finance. AHBs operate capital intensive business models now requiring constant debt finance (hitherto exchequer funded) to fund social housing development with many availing of quasi-equity funding under Capital Advance Leasing Facility (CALF) public funding to bring projects to market. EIB funding to the sector has been notable in providing both disruption and impetus to the sector.

AIB has engaged with and sanctioned debt to different types of AHBs from the larger Tier 3 AHBs to the smaller Tier 2 and Tier 1 bodies. AIB is also providing development finance to developers and investors during the construction phase who in turn have formed strategic partnerships and/or alliances with AHBs. By participating in the Department-led Social Housing Proposals Clearing House, AIB has shown its willingness to consider new, innovative solutions in a collaborative way and partner in the delivery of social housing.

“It is fair to say that there is no shortage of development capital or project finance to enable capacity building for projects with robust business cases.”

Although uptake of private finance and development capital has been slow, it is fair to say that there is no shortage of development capital or project finance to enable capacity building for projects with robust business cases, competent management and which satisfy The Financial Standard and Regulation Framework, a prerequisite for State support. Undoubtedly, with the onset of regulation, there will be consolidation, as is typical for most industries.

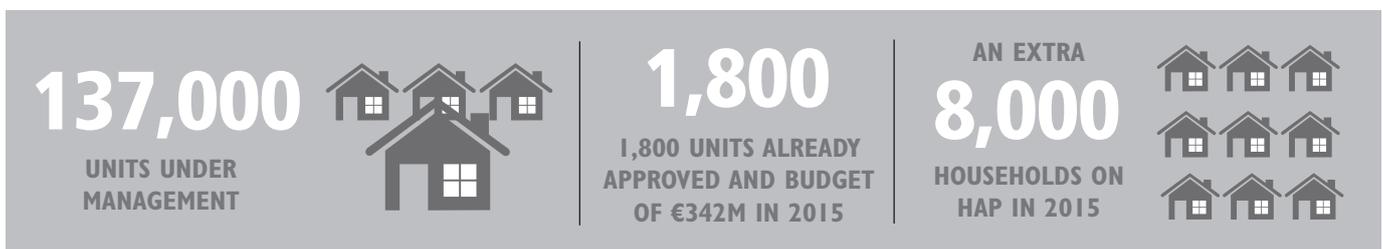
For all social housing stakeholders who are contemplating sourcing development or project finance, on the back of robust business plans, contact AIB to see how best we can support your individual needs.

AHB REGULATED STOCK



Source: Housing Agency Regulation Office.

LOCAL AUTHORITIES



CASE STUDIES

Two customers of AIB share their views on the future of the social housing sector in Ireland.



THE SKIBBEREEN-BASED CARBERY HOUSING ASSOCIATION

is in the process of completing one of the more noteworthy transactions to take place under the Government's mortgage-to-rent initiative which was

set up to help home-owners who can't afford their mortgage repayments.

To qualify for the mortgage-to-rent scheme the homeowner must be involved in the mortgage arrears solution process with their lender and agree that they can no longer afford to pay their mortgage loan now or in the future. The scheme works by the homeowners voluntarily surrendering possession of their home to their mortgage lender which immediately sells it to an AHB which then rents it to the previous owner. The previous owner can then continue living in their old home as a social housing tenant and have a tenancy agreement with the AHB. The previous owner also has an option to buy back the property after five years if their financial circumstances improve.

José Ospina

“Under the terms of the deal, AIB has extended project lending finance to Carbery to support the acquisition of seven properties in Cork”

Under the terms of the deal, AIB has extended project lending finance to Carbery to support the acquisition of seven properties in Cork under the mortgage-to-rent initiative. Initially, four houses will transfer to Carbery with the additional three at a later stage. While national take-up of the scheme has been slow to date, it does demonstrate another important role housing associations have to play in the provision of social housing around the country, says secretary of Carbery Housing Association (CHA), José Ospina

Set up in 2001, CHA is one of the smaller housing associations in Ireland. With six properties under management in West Cork prior to the latest expansion, Ospina says he would like it to grow by adding further capacity.

“We are a small association compared to others, but as a committee, and as a long-standing community organisation, we have built up plenty of experience and a long track-record. We are only now buying our first properties, having relied on leasing to date. We have built up useful expertise, local knowledge, prioritising working closely with residents. This has allowed us to deliver and manage social housing in a more personal and cost effective manner. We are always on the lookout for new and innovative initiatives, especially those involving increased participation from residents such as community self-building, and better environmental performance, such as more near-zero energy homes,” he says.

“Over the last few years, a lot of progress has been made in terms of developing new social housing models and plans are in place to facilitate growth, so it is time to review the role that local authorities can play and to further enhance their role as key enablers of housing associations (as well as direct providers) so that associations can take on more responsibility for the development, allocation and delivery of social housing,” he says.



OAKLEE HOUSING TRUST has 500 houses and residential units under management in counties like Dublin, Monaghan and Donegal. Although independently managed and operated, it forms part of the Belfast-headquartered Choice

Housing which manages 9,500 properties on the island of Ireland.

According to group finance director Michael Rafferty, the emerging landscape for social housing offers plenty of scope for new and innovative ways of thinking, particularly when it comes to financing new developments or re-financing existing ones. But it's not without challenges, as he points out.

Michael Rafferty

“The new funding structure relies on debt finance. The model is highly geared and it brings with it a degree of financial risk and requires, in many cases, strong financial resources. So, this will always be a concern for some associations, particularly smaller ones, and indeed the financial institutions who are now lending into the sector,” he says.

“On the other side, however, there is a lot of collateral tied up within the sector that could be used to stimulate more construction.

“A lot of the old ways of thinking need to be challenged or changed but it's a very exciting time for the sector and it's now in a position where it needs to deliver.”

Housing associations that have received grant finance, for example, don't pay it back, so I don't see why their assets can't be used as collateral. It would be a win-win scenario for everyone. It would also speed up and facilitate land acquisition for housing associations, particularly in the Dublin area where demand is significant and where they compete with private developers. At the moment, for example, we have 500 properties that we would love to be able to use as collateral to expand, but we can't,” he says.

“A lot of the old ways of thinking need to be challenged or changed but it's a very exciting time for the sector and it's now in a position where it needs to deliver. There are enough good people working in the sector to rise to the challenge and make it happen,” he concludes.

Certain opinions and comments expressed in this Outlook Update do not necessarily reflect those of AIB.

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