

# SOCIAL INVESTMENT INSIGHTS SERIES

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August 2014

## Housing and Social Investment

*The UK is in the midst of a housing crisis, with a shortage of affordable and appropriate homes often experienced acutely by the most vulnerable and disadvantaged people. In this, the first in the Social Investment Insights Series to focus on a social issue, we look at how social investment could be used to support the housing sector. The paper includes a description of social need, summarises relevant market developments, outlines current challenges in the sector and suggests potential opportunities for social investment and Big Society Capital.*



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The Social Investment Insights Series are occasional papers drafted by members of Big Society Capital's team on areas of interest to the social investment market.

Big Society Capital is an independent financial institution with a social mission, set up to help grow the social investment market in the UK, so that charities and social enterprises who want to borrow money, or take on investment, can access the finance they need to do more. Since we were set up in 2012, we have committed nearly £150 million in investments to specialist organisations who lend to charities and social enterprises, and are showing that social investment can work. Over five years we will be capitalised with approximately £600 million - £400 million of public funds from English dormant bank accounts, and £200 million from the four main UK high street banks.



## EXECUTIVE SUMMARY

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The UK has a housing crisis where demand is outstripping supply. This is leaving many people unable to access suitable housing, with increased concerns about rising levels of homelessness and the poor quality of some private rented accommodation. In addition, there are groups, including older people and disabled people, who find it even more difficult to find suitable accommodation that facilitates their care and support needs.

The government, charities and housing associations currently deliver interventions to address the social need for housing, with most social and affordable housing development carried out by independent, non-profit housing associations. However the funding environment for housing and related interventions is changing significantly and established models of delivery will need to adapt. In light of this, we have sought to identify a number of specific areas where social investment could play a role in the development of more affordable housing, in more effective use of existing housing stock and in providing the support required to help people stabilise their housing needs and move on through the system.

Big Society Capital currently has two investments in its portfolio seeking to address this issue. The first is in Resonance Community Land and Finance CIC's Affordable Homes Rental Fund which provides affordable homes to local people by making loans to Community Land Trusts. The second is in the Real Lettings Property Fund which is supporting the lettings arm of homeless charity St Mungo's Broadway and providing transitional accommodation to formerly homeless people, or those at risk of homelessness.

As part of our Strategy from 2014 to 2017 we are seeking investments that have the potential to scale up and attract large pools of capital. We will seek to maximise the impact of our housing-related investments, by focusing on the needs of the relevant beneficiary groups, as well as through the catalytic impact that Big Society Capital's investment can have on the market.

This paper sets out our Big Society Capital's thinking in more detail, and invites those with ideas and opportunities to approach us for further discussions.



## SOCIAL NEED

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The provision of affordable housing and related support can generate valuable social outcomes as it meets a basic human need for shelter and can help to achieve other positive social benefits such as better health, stronger communities, improved employment opportunities and reduced crime.

The housing needs of the population are varied. England has a housing crisis where demand is outstripping supply resulting in an affordability issue as well as a large number of households who are unable to access suitable housing.

At the more acute end of housing need are those households who have applied for social housing. In England, 1.7<sup>1</sup> million households are on local authority waiting lists for housing. This number has risen by 65 per cent since 1997 as the supply of affordable homes has reduced due to factors such as a reduction in the number of new homes being built and social housing moving into the private market through the Right to Buy Scheme.

At the top end of the waiting lists is a growing number of homeless households. The number of homeless people has increased for three consecutive years as a result of housing shortages and welfare reforms and there are now over 185,000 people a year affected in England<sup>2</sup>. This includes both people who are statutory homeless and those who are yet unknown to local authorities and make up a growing group of hidden homeless.

There is a need to ensure accommodation is of a good standard, and suitable for the needs of households, regardless of tenure or ownership. There are concerns that poor quality private rented accommodation is being used as a last resort for those currently homeless or in danger of becoming homeless. 33% of private rented sector properties failed to meet decent homes standard compared to 15% of social rented properties<sup>3</sup>.

While some beneficiaries face a need for a long-term, permanent home, others require transitional interventions (of various lengths) in order to provide an effective pathway which breaks down social and economic barriers for those otherwise “stuck”. Where temporary accommodation is provided, it can be challenging for tenants to move on to either affordable or mainstream housing due to wider market failures and barriers to use of the private rented sector by such individuals. These include a lack of deposit, readiness of tenants to live independently, the willingness of private landlords to accept tenants on benefits and the gap between local housing allowance and market rents.

There are certain groups of beneficiaries who have specific accommodation requirements and who require care and support in addition to housing. These groups include older people and those with learning and physical disabilities. These individuals find it even more difficult to find suitable accommodation and, according to a recent report by Mencap, only 16% of people with a learning disability live in supported accommodation in the community with most living in institutions or with parents who find it difficult to cope.

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<sup>1</sup> DCLG Live Table 600: number of households on local authorities' housing waiting lists 1997 - 2013

<sup>2</sup> Crisis, The homelessness monitor: England 2013

<sup>3</sup> DCLG English Housing Survey, Profile of English Housing 2012



## INTERVENTIONS ADDRESSING SOCIAL NEED

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At the moment government and the social sector deliver interventions to address the social need in housing. However the funding environment for housing and related interventions is changing significantly and established models of delivery will need to adapt.

The government addresses housing need by supporting the provision of cheaper rental and mixed ownership options for people who struggle to access the mainstream private housing market. There are currently 3.7m households in England living in accommodation let by local authorities or housing associations at a subsidised rent<sup>4</sup>. Until recently, social rent dominated but following recent policy changes, there is a shift to affordable rent at up to 80% of market levels.

The private rented sector is playing an increasing role in housing provision. Due to the lack of appropriate housing options for individuals, local authorities house some people in temporary accommodation or outside their local area. In the first quarter of 2014, over 58,000 statutory homeless households (and over 80,000 children) were in temporary accommodation, 74% via the private rental sector and B&Bs<sup>5</sup> and 22% in another local authority district. While use of the private rented sector is not inherently problematic, there is a need to address issues such as poor standards, lack of security of tenure, location and accommodation that is not appropriate for the household's needs.

It is sometimes the transitions which are the difficult point, and charities and social enterprises often have the best information and skills to help people through those transitions successfully. There is a range of social sector organisations such as St Mungo's Broadway providing accommodation services such as day centres and night hostels as well as support services to bring about long term positive change (e.g. to assist homeless people transition into sustainable accommodation and employment). However local authority funding for homelessness services has been severely cut in the recent local authority budget cuts and this is already beginning to impact on the resilience of organisations providing these services.

A number of charities such as Golden Lane Housing and housing associations provide supported accommodation to specific groups, for example people with learning disabilities or older people with additional care needs. There is also a shift to move individuals from institutional provision into community-based housing.

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<sup>4</sup> DCLG, English housing survey 2012 to 2013: household report

<sup>5</sup> DCLG Live Table 775: Statutory homelessness: households in temporary accommodation 1998 to 2014



## CURRENT FUNDING ENVIRONMENT

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Most social and affordable housing development is carried out by 1,700 independent, non-profit housing associations who manage over 2.5 million affordable homes in England. Some housing associations also provide additional services, such as support for personal care and community services such as financial inclusion. The 50 largest housing associations each manage over 10,000 units compared to the smaller ones who are responsible for fewer than 1,000 units and rarely develop new property.

Housing associations have until recently been able to access substantial government grants for development of affordable housing, currently delivered by the Homes and Communities Agency (HCA). Over recent years, the level of grant has fallen by over 50% to £22,000 per new build. The availability of bank finance has also reduced since the financial crisis in 2008. To compensate, large and medium sized housing associations have had success in accessing the bond market for finance which is estimated to be worth c. £12 billion<sup>6</sup>.

A proportion of new affordable housing is also delivered via the planning system, through section 106 agreements with private developers. These agreements can be used to secure part of a development scheme for new affordable homes or to obtain financial contributions from developers to be used elsewhere.

In addition to the HCA's grant and guarantee programmes, recent policy initiatives could encourage the supply side of affordable housing such as the new Community Right to Build. A number of alternative development models have been emerging, such as Community Land Trusts and Empty Homes schemes (see overleaf).

Additionally, the Localism Act 2011 reformed council housing finance, by ending the Housing Revenue Accounts subsidy system. Local authorities that own social housing can now keep their rental income and use it to fund their housing stock, in order to give them the flexibility to manage their own housing stock for the long-term. A council's ability to finance developments is dependent on building up surpluses from the management of existing stock. It is also constrained by current debt burdens and borrowing limits imposed by central government although it may be possible for councils to fund housing outside the HRA via their general fund.

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<sup>6</sup> The Housing Finance Corporation: Investing in Social Housing



## OPPORTUNITIES FOR SOCIAL INVESTMENT

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Social investors seek to achieve both a financial return and a social impact. Social investment is not intended to displace existing sources of funding, but instead to address social needs that are not being fully met by the state or private markets. Despite material cuts, housing continues to receive substantial funding from both the government and commercial investors. In light of this, our work to date has sought to identify a number of specific areas where social investment could play a role in the development of more affordable housing, in more effective use of existing housing stock and in providing the support required to help people stabilise their housing needs and move on through the system.

### Developing niche housing models

It is estimated that there are over 300,000 empty homes in the UK which need redevelopment. There is currently a range of community organisations that redevelop empty homes and provide training and job opportunities for people who have been unemployed. Some of these organisations have been funded by government grants but there could also be opportunities for social investment to scale successful approaches and/or supplement grants (for example, Midlands Together).

Community Land Trusts are non-profit, community based organisations that develop housing and facilities to meet the needs of their local community. There are now over 150 CLTs and the continued growth of this movement could provide opportunities for social investment in the form of loan finance and/or community shares. Small housing associations and almshouses are also in possession of assets but may lack the expertise to access finance for redeveloping their sites so could benefit from building their capacity to enable them to generate more impact with their assets, and to access bond markets.

### Scaling supported accommodation models

There are many charities for whom accommodation is a core activity as well as the base from which they provide support to their target beneficiary group (for example Mencap/Golden Lane Housing and extra-care charities). Social investment could assist these organisations in meeting their growing property needs and thereby scaling up their social impact by working with many more people. There may also be potential for investment into new supported accommodation within the community, for people moving out of an institutional environment.

### Investing in “mainstream” social housing

While as yet untested, social investment could play a role by catalysing new approaches to funding social housing development, in response to reducing HCA grants and local authority borrowing caps. Given the size and effectiveness of the housing bond market, this is more likely to be equity-like capital. To make a meaningful impact on the problem it is essential that this is additional to existing funding mechanisms, and also has significant potential to attract third party capital at scale once social investment has proved the model.

### Enabling move-on through the system

Around a third of people in social housing do not receive housing benefit<sup>7</sup> and could potentially afford to move on to the private rented sector or home ownership. Investments could be made into schemes which help tenants within the system move into ownership or into the private rental sector as this would free up existing social properties for those in greater need.

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<sup>7</sup> DCLG Statistical Data Set FA3611: whether receiving Housing Benefit by weekly rent net of services, 2011 - 12



# POTENTIAL CHALLENGES FOR SOCIAL INVESTMENT

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There are some key areas that potential investors into this space will need to consider when weighing up opportunities.

## Universal credit cap

The rental streams that underpin the affordable housing development model may become more volatile as the universal credit cap of £26,000 per household is rolled out. There is a risk of rising rent arrears due to benefit reductions and the direct payment of rent to tenants.

## Investable opportunities

Social sector organisations involved in housing and homelessness are having to find new sources of income to replace reducing levels of grant. A lack of sustainable revenue streams, short leases and restrictive covenants can make it challenging to invest in certain niche housing models.

## Exit routes

Many property-based investment approaches require an exit to generate a return for investors. This poses a risk that the property will cease to serve a social purpose and, at worst, the beneficiaries housed may be displaced. Given the relative capital intensity of housing as a means of delivering social impact, this risk and appropriate mitigants will need to be carefully considered by social investors.





# PRIORITIES FOR BIG SOCIETY CAPITAL

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## Current portfolio

Big Society Capital currently has two investments in its portfolio directly targeting some of the challenges around housing:

1. £2.5 million to Resonance Community Land and Finance CIC Affordable Homes Rental Fund which provides affordable homes to local people through the provision of loans to Community Land Trusts.
2. £5 million to the Real Lettings Property Fund which is supporting the lettings arm of homeless charity St Mungo's Broadway and providing transitional accommodation to formerly homeless people, or those at risk of homelessness.

## Future opportunities

As part of our Strategy from 2014 to 2017 we are seeking investments that have the potential to scale up and attract large pools of capital. In addition, we will seek to maximise the impact of our housing-related investments, by focusing on the needs of the relevant beneficiary groups and through the catalytic impact that Big Society Capital's investment can have on the market.

The areas below include where we would particularly welcome investment ideas related to housing:

- Housing solutions where there are clear social outcomes for vulnerable or disadvantaged beneficiary groups (such as homeless people, people living in poverty, older people, disabled people or people with mental health needs). This could include the provision of housing as an end in itself but we would also welcome investment proposals which include additional support services.
- Schemes where additional employment and training social outcomes are targeted by involving certain beneficiary groups in building or refurbishing property.
- Scaling proven housing models which have evidence of impact (such as supported or temporary accommodation) but cannot yet access sufficient commercial or government funding to do so.
- Innovative schemes for funding of social housing development, including those that involve a cross subsidy model if there are clear social outcomes on both element of the model. BSC would wish to play a catalytic role, acting as a cornerstone investor to attract substantial third party investment.
- Mechanisms to support bond issues or other capital raising by housing providers who cannot yet access investment in the mainstream markets and are delivering positive social outcomes.

Big Society Capital is a social investment wholesaler, which means we can only invest via social investment finance intermediaries. However, we would also be interested in hearing from charities, social enterprises, housing associations and property specialists with a social mission who have an idea which may lead to opportunities for social investment finance intermediaries.

Please note the following list is not exhaustive so if you have an enquiry about whether a potential investment for housing is eligible for investment please contact us through the enquiries form on our [website](#).



## CASE STUDIES

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### Providing a route back to independent living for homeless people

#### Real Lettings

Making the transition from living in temporary accommodation into a stable home can be tough. That's why the homelessness charity Broadway set up Real Lettings, a service which not only provides homes for homeless people to rent, but also helps them settle in, maintain their tenancies and find a job. By offering them stable, affordable private sector tenancies, Real Lettings also frees up hostel places to cope with the rising numbers of rough sleepers on London's streets. Suitable accommodation is bought through the Real Lettings Property Fund, which was developed and is now managed by Resonance, a social investment company supported by investment from Big Society Capital.

So far the Real Lettings Property Fund has bought, or is in the process of buying, over 160 properties for homeless people to rent in London. It aims to buy 220 properties, providing a route to independent living for over 600 people over the life of the fund.

*"It's been a new lease of life for me, because this is the first time in 18 years that I've had my own front door"* Gary, Real Lettings Client

### Pioneering the use of charity bonds to provide supported housing

#### Golden Lane Housing

Golden Lane Housing (GLH) works with people with a learning disability to provide supported housing around which they can build their lives. GLH was established as an independent registered charity by Mencap in 1998 to help tackle the immense challenges that people with a learning disability face in finding a home. GLH has used bond finance in order to fund its portfolio of property. Since 2013, it has raised £21m through two bond issues in order to provide housing to over 200 tenants and a lasting legacy for future generations of people with a learning disability. Investors benefit from a reliable income stream and valuable asset base.

Friends Sarah, James, Claire and Lizzie from North Yorkshire are among some of the first people to benefit from the bond capital. Having met at school they developed great friendships. They all have severe to profound learning disabilities and Claire has some mobility disabilities. GLH worked with the individuals, families and Mencap, their support provider to find their new home in a location of their choice. Using bond money GLH purchased a high quality spacious bungalow adapting it to make it just right.

Since moving in life has improved for them all. Taking control and living the life you choose is important to anyone. By using Mencap's 'What Matters to Me', a progressive tool it enables them to pursue their aspirations and learn and develop skills to live independently in the home and be part of in their community.



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The information and opinions in this report were prepared by Daria Kuznetsova, Strategy and Market Development Associate, and Anna Shiel, Senior Investment Director, on behalf of Big Society Capital.

### **Titles available in the Social Investment Insights Series**

Growing Social Enterprise Through the Holding Company Model: Groupe SOS (June 2014)

Social Impact Bonds: Lessons Learned (June 2014)

Growing the Market for Charity Bonds (July 2014)

Housing and Social Investment (August 2014)

Financial Inclusion and Social Investment (Coming Soon)