

Social Housing Market Review Spring 2018

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Gambit Corporate Finance

Established in 1992, Gambit is an independent corporate finance firm specialising in advising private and public organisations on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in corporate finance advice having built up detailed industry knowledge and an enviable track record in deal origination, financing and execution.

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Jason Evans
Partner, Debt Advisory

Jason Evans is the partner that leads Gambit Corporate Finance's Debt Advisory team. Prior to joining Gambit, Jason was Regional Director for Lloyds Banking Group, heading up the regional corporate banking team in the Mid-Market and working with organisations with turnover between £10m and £750m.

After graduating from the University of Reading in 1991 with an honours degree in economics and accounting, Jason began his career at Coopers & Lybrand Deloitte. During his 25-year career, Jason has held various senior roles, including Divisional Head of Leveraged Finance for HSBC.

He is also an Associate of the Securities and Investment Institute, holding an advanced corporate finance qualification from the Institute of Chartered Accountants in England and Wales (ICAEW). Jason has also been voted "Corporate Banker of the Year" on a number of occasions at the Insider Dealmaker Awards.

Executive Summary

Macroeconomic Overview:

The global economy is growing at its fastest pace in seven years. Global output is estimated to have grown by 3.7% in 2017, with forecasts for 2018 and 2019 revised upward to 3.9%. MPC predictions signal a buoyant UK economy, as UK GDP growth is expected to average 1.8% per annum from 2018-21, ahead of estimates of potential growth of 1.5%.

Inflation has been above the 2% target over the past year due to a sharp fall in sterling, triggered by the EU referendum. This has increased speculation of a tightening of monetary policy during 2018.

Despite Brexit concerns, unemployment levels reached a 42 year low of 4.3% in 2017. Based on the Q4 2017 Bank of England Summary of Business Conditions, investment intentions remain consistent with modest growth.

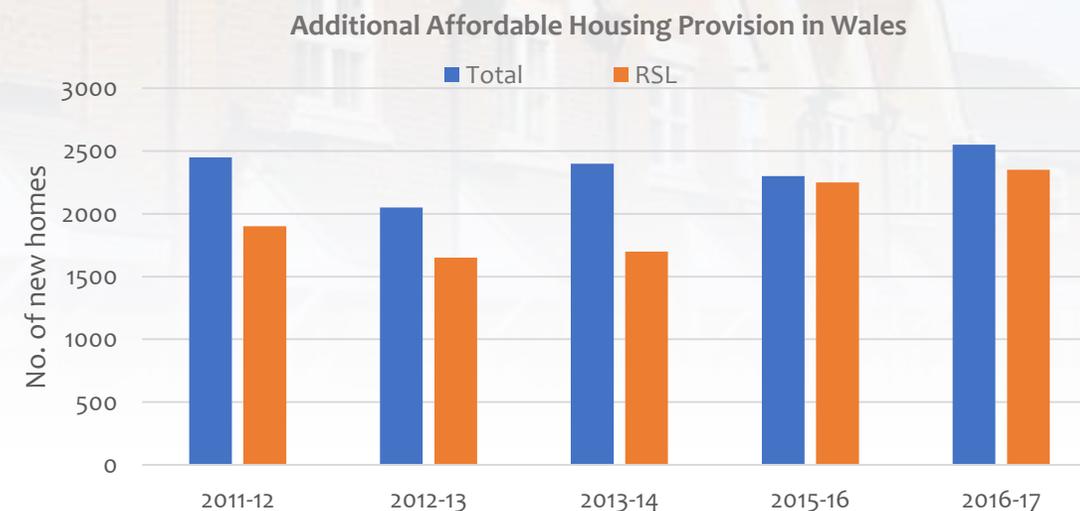
- A wall of liquidity is currently available in credit markets, looking to be deployed by an ever increasing range of institutions – it is important to consider the full range of debt options.
- Interest rates are expected to continue rising gradually across major economies, but remain very low by historic levels - implementing a strategy in the shorter term is likely to be constructive, particularly for longer term funding.
- The full implications of Brexit on Institutions and markets is unclear and those with refinance dates either side of Brexit, may want to consider accelerating the process.

In Summary:

- Registered Social Landlords (RSLs) are regarded as financially stable, with a clear ongoing commitment to the delivery of new affordable housing.
- Provision of affordable housing continues to increase as a result of the Welsh Government's 'Taking Wales Forward 2016 – 2021' programme.
- The move from Housing Benefit to Universal Credit (UC) represents the largest change to RSLs' income streams for a generation.
- Collaboration and consolidation has been a prominent theme in the wider sector, particularly amongst mid sized organisations.
- As borrowing facilities approach maturity, it is a favourable time for associations to review their capital structures and debt positions well in advance.

Affordable Housing Provision

- Affordable Housing provision has **steadily increased across Wales in recent years**, with 2,547 additional affordable housing units delivered in 2016-17 – **an increase of 6% on the previous year.**
- This increase has been driven by The Welsh Government's current programme '**Taking Wales Forward 2016 - 2021**' which includes a commitment to deliver an **extra 20,000 affordable homes** during 2016-21. The programme includes supporting the construction of more than 6,000 homes through the '**Help to Buy**' scheme, whereby the Welsh Government will provide home buyers with a shared equity loan of up to 20% of the house price.
- To support the achievement of the 20,000 affordable homes target, the **Welsh Government, Community Housing Cymru and the Welsh Local Government Association** have collectively agreed that local authorities and **Registered Social Landlords will deliver 13,500 homes** towards the target.
- The local authority with the highest number of affordable housing units delivered in 2016-17 was the **Vale of Glamorgan**, where provision increased by 74% from the previous year.
- **RSLs continue to make the largest contribution to the provision of affordable housing, delivering 93% of all additional affordable housing in Wales in 2016/17.**

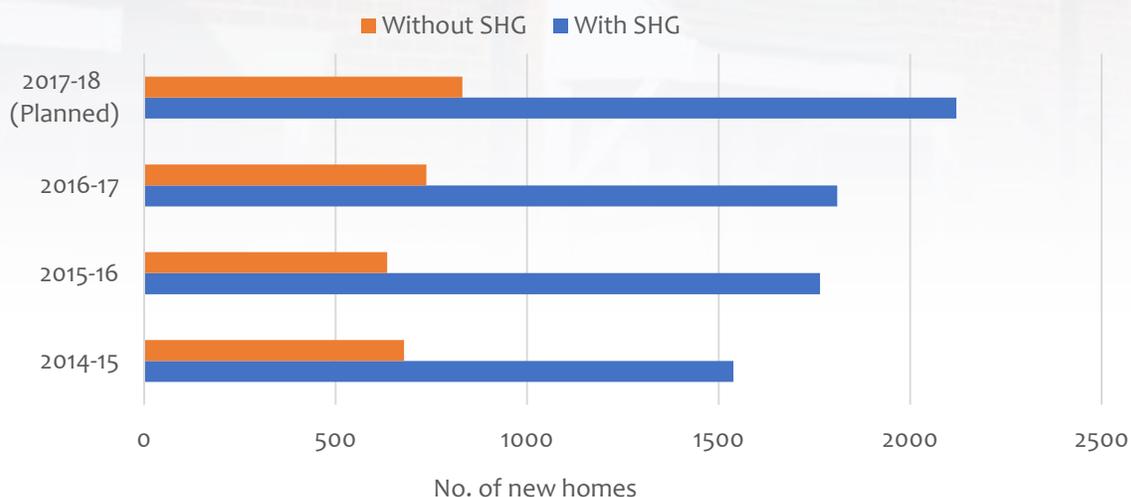


Source: Welsh Government affordable housing statistics

Funding Programmes

- The 2018/19 Welsh Government budget includes a commitment to £340m of capital to support the construction of the targeted 20,000 homes.
- The availability of the **Social Housing Grant (SHG)** has significantly contributed to the provision of affordable housing in Wales, with the number of **units delivered using SHG increasing by 3% on last year.**
- Although **75% of all provision from RSLs in Wales is delivered with SHG**, use ranges across local authority areas, from **100% in Flintshire, Merthyr Tydfil and Blaenau Gwent to just 22% in the Vale of Glamorgan.**
- It was announced in October 2017 that 22 affordable housing projects are underway to develop the **'Homes for the Future'** with the support of the Welsh Government's **'Innovative Housing Programme'**. The Programme aims to help inform the Welsh Government, RSLs and local authorities about the type of homes it should support in the future.
- The initial phase of the **'Homes for the Future'** consisted of £20m, available to **public bodies only.** The next phase will constitute a **£70m fund**, available to **both public and private organisations.** Private organisations will be looking for larger scale sites to prove commercial viability, as a result of the new carbon reduction targets coming in place for 2018.
- The Government's **'Rent to Buy'** scheme enables those who are not yet able to buy a house to rent at lower than market rates; helping them save towards a deposit. The **'Help to Buy'** scheme supports the purchase of homes up to £300,000. Tenants will have to contribute a 5% deposit, whilst the scheme provides a shared equity loan of up to 20% of the purchase price.

Additional Affordable Housing Provision in Wales



Source: Welsh Government affordable housing statistics

Welfare Reform

- **Universal Credit remains the reform with the greatest potential risk for most registered providers.** Evidence from the Direct Payment Demonstration Projects (DPDPs) suggests that **there is a risk of an increase in arrears in the short term, during the initial transition to the new system.**
- While the pace of roll-out has picked up in the last year, it is still relatively limited to date. Up to March 2017, there were 490,000 live Universal Credit claims across all tenures in Great Britain, compared to a **total potential pool of around 7,000,000 claims.**
- The Department for Work and Pensions (DWP) announced that roll-out will **accelerate from October 2017 and is expected to be completed by 2022.**
- **The rent regime in the sector is now clearer**, where in England rent increases of CPI+1% will return after 2020. In Wales, the settlement is confirmed to remain at CPI+1.5% for 2018/19 - subject to review this year.
- The Prime Minister also announced that **plans to cap housing benefit at Local Housing Allowance rates would be scrapped.** This has provided social landlords with some much needed certainty as there were previous concerns that implementing such a scheme would, much like the roll out of UC, increase the risk of arrears.
- **A clearer rent regime has improved lender appetite and the confidence of RSLs to continue investment and consider the wide sources of finance available.**

Debt Finance

- **Total Debt for RSLs in Wales stands at c.£2.3bn**, which has been increasing at **c.£200m per annum** over recent years. **RSLs should consider the financing instruments available to them to ensure an optimal debt structure.**
- Welsh RSL Pennaf recently become the **country's first to issue a public bond**, after receiving sign-off on a secured £250m package.
- **A high level of liquidity is currently available in credit markets.** It is important to consider the **full range of funding options available.**
- The implications of Brexit are still very unclear and those with refinance dates either side of Brexit, may want to consider accelerating the process.
- **Interest rates remain low by historic levels - implementing a strategy in the shorter term is likely to be favourable, particularly for longer term funding.**
- **HAs should look to simplify their balance sheets with regards to the number of lenders, differing maturities, and historic covenants.**

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