IBP National Journalism Awards 2019 business journalist of the year: Luke Cross, editor, Social Housing

As the finance magazine for the UK affordable housing sector, our mission at *Social Housing* is to provide unrivalled specialist content that combines both exclusive and in-depth analysis and detail that readers won't get anywhere else.

Although a monthly, I have shown we can still deliver scoops in print, as well as online, while providing the insight and informed coverage that our readers – finance specialists and senior housing professionals – expect of us.
My approach draws on a background in newspaper journalism mixed with well-informed story-building that ensures we are seen as credible among our knowledgeable audience.

US banking giant Wells Fargo plans move into UK social housing:
https://www.socialhousing.co.uk/news/us-banking-giant-wells-fargo-plans-move-into-uk-social-housing-61278

This story of the biggest commercial real estate lender in the US planning to enter the UK affordable housing sector was a major scoop.
The story epitomised international interest in the sector at a time when UK social housing is seeing unprecedented change in the funding markets, particularly with the emergence of more overseas and US-based funds.
The story is a reflection of my strong, trust-based relationships with senior finance figures in sector, one of whom was happy to make a direct introduction to the bank.
Critical to our readership, however, isn't just the top line – it's about providing enough detail of the plans to ensure the report offers our readers the added value expected of us.
The news piece was accompanied by a feature covering the trend of new global banks entering the sector, and a cross-reference to another scoop about National Australia Bank coming into the market.

Club loans return to social housing as banks agree £400m deals:
https://www.socialhousing.co.uk/news/news/club-loans-return-to-social-housing-as-banks-agree-400m-deals-62168
This is another story that symbolises the *Social Housing* approach. As a specialist finance publication read by senior and experienced professionals in sector, we not only need to inform our readers of what's happening and what's coming, but put that in the context of what's gone before.
This was actually two big stories rolled into one, covering off two major funding deals worth close to half a billion pounds, with details of the structures and the context of the direction of the market.
This story was about the return of what was the primary way that HAs borrowed money before the financial crash – syndicated and club loans.
But the move of some banks – including traditional lenders to sector – to providing unsecured borrowing options to what has always been an asset-backed sector also marks a major change in direction for the funding landscape.
Trust is a major part of the process here – and the strong relationships in sector that give my contacts and the parties involved the confidence in our reporting.

M&G plans equity drive into shared ownership
https://www.socialhousing.co.uk/news/mg-plans-equity-drive-into-shared-ownership-61766

The advent of equity investments into the traditionally non-profit social and affordable housing sector has been talked about for many years, but has only recently begun to happen at any scale.
I landed this exclusive about the sector's biggest provider of institutional debt launching a new equity offer through its real estate arm – a finance scoop that straddles UK social housing and real estate.
One of our best-read stories, the difference once again is the level of detail we provide about the structure of the plan, while tying the story into a broader topic of the rise of 'for-profit' affordable housing providers.
The piece is a good example of looking at shared ownership investment proposition from more than one perspective; from the investor, social housing and real estate points of view, thereby tapping into a broader audience.

US banking giant Wells Fargo plans UK social housing move

by **Luke Cross**

The biggest commercial real estate lender in the US is looking to make its entrance into the UK affordable housing sector.

Wells Fargo – which entered the UK property market with a £4bn takeover deal five years ago – now sees expansion into UK social housing as a "natural progression", according to Stacey Flor, managing director of UK commercial real estate at the bank.

Ms Flor told *Social Housing* that the team has spent "a lot of time establishing relationships with some of the larger housing associations".

She said the bank brings a strong balance sheet and one of the best credit ratings in the real estate sector, which can potentially unlock "quite a bit of capacity that the sector is in need of right now".

The bank – one of the biggest private placement providers globally – will also look to arrange bonds and private placements for housing associations.

"As a lender we're always keen to strengthen our business and balance sheet, and where possible, complement our service offering with what we do in the States," she said.

In numbers

£250m
Value of National Australia Bank's launch into the sector

2013
Year Wells Fargo entered UK real estate market

£20m-plus
Value of Wells Fargo's loans across UK commercial real estate

News of the San Francisco-based bank's prospective move into the market comes after a flurry of new global entrants, including from Australia and Japan.

Social Housing exclusively revealed last month that National Australia Bank has launched into the sector with £250m of deals.

It also comes as a number of US investors enter UK social housing through the private placement market.

Social Housing revealed that both Bromford and Network Homes have closed innovative funding deals at low rates.

Wells Fargo came into the UK real estate market in 2013 with the acquisition of Commerzbank's Hypothekenbank Frankfurt (formerly Eurohypo) UK commercial real estate portfolio, taking on £4bn of commercial real estate loans.

It set up a new headquarters in the City last year, marking its first international real estate purchase outside of the US.

Ms Flor added: "We have a meaningful presence in other sectors and we expect that if the appropriate opportunities arise, [social housing] will become a meaningful part of our book as well."

It also intends to have a long-term commitment in commercial real estate, lending through the cycle with a "considered approach [which] means we won't be coming in and going when we don't get pricing".

The bank will take a "very disciplined" approach and plans to supplement rather than change the UK market, she added.

The bank's lending platforms include secured finance on a non-recourse project basis, and a corporate platform through which it has provided lines to listed companies and real estate investment trusts (REITs).

It can offer corporate-style revolving credit facilities and development finance and has provided unsecured loans to UK REITs.

Across UK commercial real estate, its loans are typically greater than £20m, with a range of products including development finance, corporate facilities, floating and fixed rate loans and services across debt capital markets, and derivatives.

Wells Fargo remains one of the leading lenders in America's affordable housing market, working with non-profit and for-profit developers and investors, along with Fannie Mae and Freddie Mac loan programmes.

Last year, it became the latest lender to face a multibillion-dollar fine for its role in the sub-prime mortgage market in the run-up to the financial crash.

● **Read more on p10-11**

Sage chief steps down

Sage Housing's chief executive has stepped down, with Rod Cahill – former chief of Catalyst – coming in to the for-profit provider as interim CEO.

In a statement at the end of April 2019, the group said Mr Cahill will take over from Joe Cook and oversee the transition of Sage Housing to a new group structure.

Sage was set up with investment from equity giant Blackstone, and has more than 8,000 affordable homes in its current pipeline.

It uses its cash to buy Section 106 packages, predominantly from the country's top six builders.

Mr Cahill – who retired from Catalyst at the end of 2018 – said he will work with the Sage Housing board and use his experience "to support Sage to build on its success to date".

Alison Thain, chair of Sage Housing, said it is "a testament to Sage Housing, and Joe Cook's achievements, specifically building Sage from scratch, that we have been able to attract someone of Rod's calibre and experience".

> **"I am immensely proud of what the dedicated team at Sage has achieved over the past two years"**
>
> **Joe Cook, Sage Housing**

Ms Thain, who retired as chief executive of Thirteen Group in 2016, said she "looks forward to working with Rod to take Sage Housing forward into its next phase of growth".

Mr Cook said: "I am immensely proud of what the dedicated and enthusiastic team at Sage Housing has achieved over the past two years and look forward to seeing it continue to grow and deliver much-needed new affordable homes."

Sage's shareholders – primarily Blackstone – said that Mr Cook has done "an amazing job taking Sage Housing from start-up to where it is now". It said as the business becomes more diverse, "it is the right time to move to a group structure".

By early January 2019, Sage had exchanged on 4,800 properties worth £700m.

Its five-year plan to reach 20,000 homes by 2022 requires billions of pounds in capital funding, with equity for the acquisitions committed by Blackstone.

REIT with for-profit RP reports dividends

A housing real estate investment trust (REIT) that launched a for-profit registered provider last year has announced shareholder payouts for the quarter.

Residential Secure Income (ReSI) – which invests in affordable shared ownership, retirement and local authority housing – declared an interim dividend of 1.25 pence per ordinary share for the period from 1 January 2019 to 31 March 2019.

The REIT will have paid 2.5 pence per ordinary share for the financial year and is targeting a dividend yield of five per cent per annum.

Last year the REIT became the first listed fund to have a registered provider, ReSI Housing.

www.socialhousing.co.uk

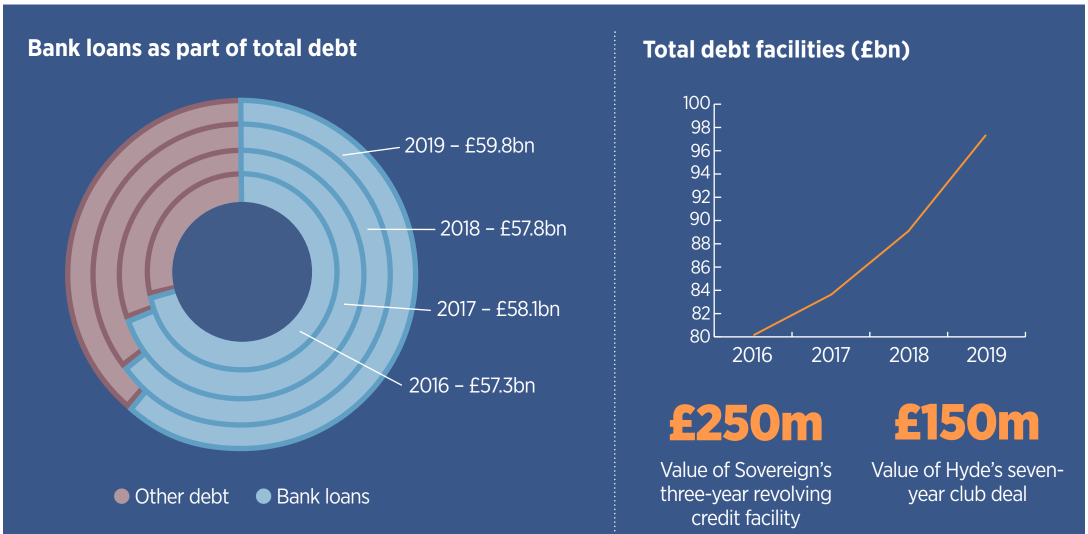
SOCIAL HOUSING

FINANCE, BUSINESS AND GOVERNANCE IN HOUSING

VOL 31/NO 7/JULY 2019

Getty

Club deals return to social housing



Source: Regulator of Social Housing Q4 quarterly surveys, 2016-2019

by **Luke Cross**

Banks have joined up to deliver £400m of club loans, marking a return of the approach for the sector as well as the first unsecured deal of its kind.

Sovereign has completed a groundbreaking three-year £250m unsecured revolving credit facility with five lenders as it looks to mitigate market volatility and support plans for a move to more land-led development (see page 5). The syndicate is led by NatWest and includes Lloyds, MUFG, National Australia Bank and SMBC.

Hyde has arranged a £150m seven-year club deal with three banks as part of a £350m funding exercise (see page 5). Its club is led by Lloyds and includes BNP Paribas and AIB but has an "accordion structure" that enables more lenders to join.

Club loans were traditionally popular in the sector, particularly to support large-scale voluntary transfers where banks wanted to spread the risk. Many housing associations (HAs) have restructured their legacy syndicates at significant cost and moved to the longer-dated debt capital markets or shorter-dated bilateral bank deals.

The latest move to club deals – used commonly by large corporates and real estate firms – represents a further diversification of recent funding arrangements seen in the social housing sector, including to unsecured institutional debt and overseas investors, and a flurry of new entrants in the market.

Social Housing has reported on just one major syndicated or club loan in the 10 years since the financial crash – Anchor's £265m facility with Barclays, Santander and MUFG. This marked the latter's entry into the UK social housing sector. More recently there have been some club approaches to bridge-to-bond loans, used to provide flexibility around an issuance and repaid once the borrower raises the new funds.

While often referred to as syndicated loans, the club structure is technically different in that it does not include an underwriting from the lead bank.

Costs for syndicates and clubs are also likely to entail commitment fees, the interest rate and agent fees.

Phil Jenkins, managing director at Centrus, which advised Sovereign, said that syndicated and club facilities had fallen out of favour partly because of legacy arrangements that were difficult to manage, whereas the Sovereign deal is a relatively short-term agreement at current market terms.

He said that the approach was "very much a Sovereign-led strategy", rather than something led by the banks, and reflects a shift in sector dynamics to strong credits like Sovereign taking on "more of a private sector mindset in setting the basis of their financing structure and looking to bring funders along".

Hedley Hadfield, director of housing finance at NatWest, said the new approach is very different to syndicated deals done 10 or more years ago, which he likened more to "project finance-type" facilities in the way they were structured.

"Will others do it? It really depends on their specific needs, and whether the organisation is prepared to pay for the flexibility it gives them."

He said the bank is willing to lend unsecured to customers of the "size, sophistication and credit quality of Sovereign", albeit the majority of its lending will be on a secured basis.

Mr Hedley said that while the unsecured lenders that are party to the facility sit behind secured creditors, there is comfort in knowing that the bank is one of five in the unsecured club. There are also provisions within the loan agreement should a lender leave the club for any reason.

He added that the approach could also potentially streamline the lender consents process for the borrower, should they be required, as the agent would act on behalf of the lenders.

David Cleary, head of housing at Lloyds – which is the lead bank on Hyde's deal and in the Sovereign syndicate – said that the club approach "very much echoes what we see in the corporate world", particularly with the accordion structure. As lead bank on the Hyde deal, Lloyds' role includes administering drawdowns and managing the facility.

Mr Cleary said that for some new-to-sector lenders, the club offers some "comfort" to be alongside the long-standing banks.

"From our side it means we are alongside other banks and all on the same terms and same structure."

He added: "I think we will see more [club deals] as we go on."

Jonathan Walters, deputy director of strategy and performance at the Regulator of Social Housing, said the message to HAs is to understand the risks and the benefits of any new financing structure, along with what happens in a crisis situation for the registered provider or its counter-party, if and when someone else in the club fails, and how flexible the deals are to restructure later on.

➔ Read more on page 5

M&G plans equity drive into shared ownership

by **Luke Cross**

The residential real estate arm of M&G is planning to launch into shared ownership this year with an equity offer and a for-profit registered provider (RP), *Social Housing* can reveal.

M&G Real Estate's residential team is looking to emulate its track record in the private rented sector, where M&G Real Estate's UK Residential Property Fund has grown to £1bn and 3,000 homes in five years.

The proposal is to forward-fund new build shared ownership primarily, alongside potential acquisitions, including on the Section 106 market.

The investor – already the biggest institutional debt provider to the housing association sector with £6.5bn of investments – is now looking for housing association (HA) partners to build and manage new homes.

The structure is likely to be similar to the residential fund but with an asset-owning entity sitting within it, which *Social Housing* understands could mean launching a for-profit registered provider and applying for government grant funding.

Call for partnerships

M&G follows other major investors looking to place equity into affordable housing through a variety of structures, including Blackstone, Legal & General Capital, CBRE Global Investors and Man Group.

Shared ownership in particular has received a surge of government grant funding in recent years, as well as investment from for-profit RPs.

The equity offer would operate alongside M&G's social housing debt business (see page 8).

Alex Greaves, head of residential investment at M&G Real Estate – who has grown the residential business from a seed fund – told *Social Housing*: "We're hoping to partner with HAs to help fund the development of new build shared ownership properties; we'd like to have a seed portfolio in the same way I had a seed portfolio six years ago and went out to see investors.

"And then we have done soft market testing with the various pension fund consultants and intermediaries who really like the product and opportunity."

Mr Greaves added: "The penny dropped for me about two years ago that shared ownership is a brilliant investment opportunity for pensioners and pension funds; you can not only provide something for my investment base but do something from a social housing point of view that's beneficial."

In numbers

£1bn
Value of M&G's UK Residential Property Fund

5-7%
Returns that would be sought by shared ownership platform

37
Number of investors in UK Residential Property Fund

£40m
Value of residential business' lease-based portfolio

Getty

Strong investor appetite

The residential fund is an evergreen, semi-open-ended fund that has 37 investors, primarily from local government pension funds, corporate funds, and insurance and assurance companies that invest for anywhere between 10 and 50 years. It has also attracted investment from overseas, with the potential for a social housing fund to tap into the impact investing market.

A shared ownership platform would seek returns of between five and seven per cent, which is slightly below the seven to eight per cent that the market rent fund offers to investors.

The rental element of shared ownership is not affected by the government's reduction on social rents. So for investors seeking inflation-linked cash flows, it can provide Retail Price Index-linked income.

Mr Greaves added: "I go back to the 'three Ds': defensive, demand/supply and diversification – these are three key reasons for investing in residential.

"[This offers] a combination of an index-linked income stream and exposure to a market that is under-supplied and unlikely to change any time soon, and is a diversification from the other asset classes."

The residential business already has some exposure to shared ownership, with a historic lease-based portfolio of around £40m of properties through advisory firm Chaco.

But Mr Greaves said that the new equity offer would not take a leaseback approach, instead building and funding developments to sell to "an end user".

"We have very strong investor appetite for it and in the early days of what is a much longer journey.

"In the same way as the residential fund, we want to build really efficient, good-quality homes."

That means putting people in locations "where [they] can aspire to own a home", and where service charges will not make it difficult for people "to make ends meet".

"We are super-keen on partnership; the transactions in forward-funding for residential have got more complicated, take a long time and are difficult to do, so we do them with people with whom we can do it on a repeat basis, which is why you need that shared philosophy."

It could also mean a single organisation having an oversight role in property management.

Mr Greaves said that M&G has a "strong handle on the market and market risk" and supply and demand in local housing markets in the event of a housing downturn.

Asked whether the offer could also constitute a more 'commercial' type of shared ownership, Mr Greaves said: "Whether it is social or not is irrelevant to me in terms of its legal definition.

"This is more about on one hand creating a quality product and a return to my investors, but actually I can do something with a social benefit to it, too – and that's attractive both on a personal and a professional level, to my underlying investors and the people who are then being housed."

English HAs raise record amount of new finance

English housing associations raised a record £13.5bn of new finance in the past year, and are forecasting a 25 per cent increased investment in new housing supply.

Providers are expecting to invest £14.9bn, having spent £11.8bn on delivering homes in 2019.

The knock-on for new finance has meant a record quarter for the January to March 2019 period with £4.5bn raised by 56 providers – representing the highest amount of new finance arranged in a single quarter since the Regulator of Social Housing (RSH) began collecting this data in 2008.

> "In 2018/19, the sector raised an unprecedented amount of new private finance"
> **Fiona MacGregor, RSH**

The quarter was also expected to be the period leading into the UK's exit from the EU, with reports that housing associations were securing facilities to provide additional liquidity headroom.

The figures tally with *Social Housing*'s front page report in March 2019 that the sector was on track for around £4bn of new funding.

That quarter – January to March 2019 – also saw a further increase in market activities, across both shared ownership and outright sale. Total sales receipts in the quarter amounted to £1.5bn – the second-highest in the past three years.

Over the next 18 months, providers expect to almost double their outright sales delivery. They expect to complete 31,901 affordable homeownership properties and 13,783 market sale homes. This compares with 21,490 affordable homeownership units and 7,344 market sale properties developed in the past 18 months.

Fiona MacGregor, chief executive of the RSH, said: "In 2018/19, the sector raised an unprecedented amount of new private finance from banks and the capital markets in order to support plans for increased capital investment."

● **Read more on this story online at www.socialhousing.co.uk**