

Business journalist of the year

The City Boy: interview with Peter Denton

<https://www.insidehousing.co.uk/insight/insight/interview-with-peter-denton-the-city-boy-56626>

The increasing influence of finance in the housing association sector and the attempts by housing associations to adapt to the need to become more market-focused to make up for a lack of government grant have been key themes for the sector in recent times. This interview was an ideal one to discuss those issues.

Peter Denton is not just the finance director of a major housing association, he is also far more experienced in the world of high finance than the average housing association executive. Luke pitched the idea after meeting Peter at MIPIM in Cannes, and executed it well.

The resulting interview is not just an important contribution to the debate about the marketization of social housing and an insight into the views of one of the most interesting thinkers in social housing finance. It is also a vivid personal portrayal of a fascinating person.

Valuers: 'abnormal uncertainty' on tower blocks post-Grenfell

<https://www.insidehousing.co.uk/news/news/valuers-abnormal-uncertainty-on-tower-blocks-post-grenfell-52740>

Not long after the Grenfell Tower fire, attention turned to possible problems with other towers around the UK. Apart from the natural concern for tenants' safety, the financial implications were impossible to ignore.

Just a week after the fire, Luke had had numerous conversations with high-level sources in the sector, who were all concerned about the valuations on their tower blocks. Initially, however, the valuers were unwilling to go on record.

Luke pressed JLL and Savills, the two leading valuers in the sector, continuously on the need to clear up the issue, as more and more sector contacts told them of their uncertainty.

Eventually, Luke's persistence meant that the valuers saw him as the main journalist covering the story, meaning that when they were ready to go on record, they contacted him immediately and exclusively.

£1bn government backed fund yet to make first investment

<https://www.insidehousing.co.uk/news/news/1bn-government-backed-fund-yet-to-make-first-investment-after-two-years-57624>

The government's decision in 2016 to tie-up with a hedge fund manager hoping to purchase social housing units raised some eyebrows.

Luke was the only journalist who kept following the progress of this fund, and this year was able to reveal it was spectacularly unsuccessful – failing to secure a single deal in the two years since its launch.

This scoop demonstrates how good built environment reporters can contribute to public policy – by keeping the public informed about the stories the government will never press release, which reveal the wasted time and resources when projects go wrong.

THE

Luke Barratt meets Peter Denton, group finance director at Hyde, to talk about his switch to social housing after years of working in finance

In Greek mythology, the Trojan princess Cassandra was cursed to utter doom-laden but accurate prophecies that no one would believe.

Peter Denton, the new group finance director at large London housing association Hyde, may be feeling a little like Cassandra. The former banker, who has held senior roles at Deutsche Bank and Barclays, is preoccupied with the potential for a fresh financial crisis, and what it would mean for his business.

Under his guidance, the association last year completed a major £760m refinancing programme aimed at giving it more of a financial cushion in the event of such a downturn. And it is something he does not believe parts of the sector is taking seriously enough.

“Anecdotally, I hear a section of the sector that says, ‘Don’t worry, we’ll get bailed out.’ I hear another section that says, ‘We think we’re fine and have no worries at all - what are you talking about?’” Mr Denton, 47, says.

Fears over a crash should be more of a worry for the sector now than ever before. In the last downturn, most landlords built sub-market rented housing with government grant - a fairly recession-proof product. But in recent years, as we all know, large social landlords have become more and more exposed to the volatile open sales market as grant has retreated.

This exposure is only expected to increase in future, with credit ratings agency Moody’s predicting that turnover from market sale - currently accounting for 18% of the sector’s total income - will rise to 26% as soon as 2019.

“At some point you’re proven right,” he says. “Rob Noel [chief executive of Land Securities] has been cautious in dialling down his exposure for years in anticipation of a crash. It hasn’t quite happened yet, but he’ll be right one day.”

The Regulator of Social Housing (RSH) has repeatedly encouraged housing associations to embrace ►

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News analysis

stress-testing in anticipation of such a crash, and will doubtless like the thrust of Mr Denton's thinking.

Indeed, his position is far from unique among many other finance directors of larger associations, a point he acknowledges. Nonetheless, his caution did cause him to enact some changes when he arrived at Hyde in February 2017. The refinancing programme was one of his first moves, in preparation for the worst-case scenario.

"The base case was perfectly fine," he explains. "It was making sure that we were as best supported as possible in a downturn. We had a structure of financing which was reflecting the world of the 1970s and '80s, where we lived off grant, and failed to take any account of the appreciation of property in London over the decades after that.

"We had all this hidden value and we had a structure that was looking at our grant, which didn't make much sense to me. There was a change in philosophy to look at our performance and look at our real balance sheet position, and secondly start making sure that we were as prepared as possible for any downturn."

He believes his city background makes him more cautious about development risk. After starting out as an accountant, he quickly began to specialise in property finance, before moving into the world of banking.

One wall of his London Bridge office is made entirely from glass, and looks out over the steel and chrome skyline of the Square Mile. As he talks, Mr Denton points at the various parts of this landscape that bear his fingerprints.

"I ended up being a specialist in cross-border finance for Europe," he relates. "I did a bit in Britain. Actually, I advised on the Gherkin. I helped build Heron Tower. I financed and worked on Tower 42 for 15 years. I had an early-stage involvement in the Axa tower that you can see the construction on now."

The vast majority of his work, however, took place outside of the UK, which meant a period of living out of suitcases. "I was just living on a plane," he confesses. "I used to travel two or three days a week, not just in Europe. We had investors in Korea, China and America etc, so you had to handle that."

While the world of social housing finance may be a little more prosaic, there are benefits when it comes to family life. Mr Denton's wife is a



"There was a change in philosophy to look at our performance and balance sheet position."

partner at Magic Circle law firm Clifford Chance - an equally demanding job - and the pair have 10-year-old twins, a boy and a girl. Their drawings of dragons decorate Mr Denton's office, alongside a map of London made in 1809.

In 2012, Mr Denton left the world of banking, having "had enough" of it in a post-crisis world; but he was not bound for social housing just yet.

Breaking from tradition

His next move was to create a property investment business at Starwood Capital Group, the second-largest private equity firm for property in the world.

There, he created a real estate investment trust (REIT), a type of company that uses funds from the stock market to buy income-producing real estate.

Mr Denton recalls: "I started buying distressed loans in Spain and in Germany in particular. Loans that have defaulted, for banks, on property. Hotels in Spain... I had olive groves, I had ice cream factories. Warehouses, bit of resi. You name it, I had it.

"I had all these loans that the borrowers had defaulted on and the bank wanted to move the loans on. I bought a loan position on a hotel portfolio in Germany; we ended up taking ownership of the hotels and

sold a few years later for a billion euros when it was all nicely sorted."

It was after five years of this that he realised he wanted to move on, but at this stage he had only a vague ambition to work in the not-for-profit sector. Marrying this with his experience in property and a recent job opening at Hyde, however, made UK social housing the obvious choice.

Perhaps because of his history in the world of finance, Mr Denton is less attached to the traditional housing association model than some finance directors. He tells us he thinks the sector can afford to be less attached to owning everything it manages.

He's enthusiastic, for example, about the prospect of managing some of the homes that new entrant to the sector Legal & General is planning to build, though he clarifies he has had no discussions with the institutional investor on that subject yet.

"We manage 6,000 properties for Islington at the moment," he points out. "So why wouldn't we do that for a third party?"

In the past couple of years, a growing class of small housing associations have been doing just that: striking deals with REITs like the one Mr Denton created, to manage homes - mostly specialist supported housing - that they do not own themselves.

Generally, these housing associa-

tions pay inflation-linked rents to the REITs, which include a number of large organisations that have targeted the sector in the past two years.

Recently, the RSH has turned its lens on this part of the sector, criticising one of these associations - First Priority - for a "fundamental failure of governance", writing to similar organisations over fears of "conflicts of interest" and placing another of these associations - Inclusion Housing - on its 'grading under review' list.

Tough line

Would Mr Denton ever consider doing a deal with a REIT? Or taking out some of the lease-based funding deals being offered widely to associations at the moment?

"No," he says flatly. "I don't mind going on record. I have a very tough line on leases. Hyde will not take the new leases. Full stop. I don't see why I should credit-enhance a deal with my credit rating.

"That's a pretty blunt position that permeates through this place... We don't believe that sale-and-leasebacks are the right thing for housing associations. All you're doing is converting operational cash flow into a certain income stream for investors. To me, that looks like almost a free lunch for investors."

The 5% dividend sought by most of these REITs is, it seems, one of Mr Denton's issues with the model. After going through the maths in detail, however, he adds: "Please make sure this isn't reflected as me crapping on the REITs. It's not in any sense. It's simply saying that model isn't for us. I can see the advantages of it, but for me the disadvantages outweigh that."

Mr Denton, then, is not necessarily open to all the new models of working that are springing up in the sector, but he is still keen to explore non-traditional activities at Hyde, belying the pragmatism he shows in his attitude to planning for a possible crash.

He explains: "I'm actually not by nature a terrible pessimist. I just think that there's a differential between a person and a role.

"And I think the role requires that - though you might objectively think that the set of circumstances you're planning for are never going to occur - it's incumbent on you to plan for that."

Cassandra, then, he may be. But when another crash eventually does come, Mr Denton - and those who share his caution - could be vindicated. ■



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£1bn government-backed fund yet to make first investment after two years

NEWS 20/08/18 7:00 AM BY LUKE BARRATT

A £1bn government-backed housing fund aimed at councils *Inside Housing* can reveal.



Picture: Getty

Sharelines

▶ A £1bn government-backed housing fund has failed to make any investments in the two years since its launch #ukhousing

The New Communities Partnership was launched in 2016 with the support of the government's housing delivery agency, the Homes and Communities Agency (now Homes England).

But two sources close to the partnership have told *Inside Housing* that it is still yet to make an investment.

The fund is managed by Kier Living (the contractor's affordable housing, care and student accommodation arm), investment management firm Cheyne Capital, and the Housing Growth Partnership, a joint venture between Homes England and Lloyds Banking Group.

When it was launched, the partnership said it had "ambitions to help the public sector to build 10,000 new homes across the UK".

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Valuers: 'abnormal uncertainty' on tower blocks post-Grenfell

NEWS 13/10/17 7:30 AM BY LUKE BARRATT

Valuers are inserting an 'abnormal uncertainty' clause into their assessment of values of tower blocks, in a reflection of the Grenfell Tower disaster.

Sharelines

Twitter Valuers: 'abnormal uncertainty' on tower blocks post-Grenfell



There has been widespread uncertainty over what value tower blocks should be considered to have, following June's fire at Grenfell Tower in west London. JLL and Savills, the two leading valuers in the sector, spoke out for the first time about their concerns this week.

Social housing properties are typically valued using the Existing Use Value – Social Housing (EUSSH) methodology, which includes an assessment of the cost of repairing and maintaining the property and could be affected by safety works, such as the removal of cladding.

Valuers have therefore taken the unusual step of introducing an "abnormal uncertainty" clause into their assessments.

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Robert Grundy, head of housing at Savills, told *Inside Housing*: "It is a requirement of good, professional practice – as set out by RICS [the Royal Institution of Chartered Surveyors] – that valuers advise their clients when markets are in an uncertain state, caveating reports by referring to 'abnormal uncertainty'. This happened after 9/11, it happened after the credit crunch and it happened after Brexit.

"We don't know whether the cladding is the whole story in the terrible events at Grenfell Tower. There are other factors that could be at play and it would

at Grenfell Tower. There are other factors that could be at play and it would be inappropriate to comment at this stage. The ongoing review of building regulations is crucial in moving forward safely.

"Unfortunately, it remains the case that fires are a frequent occurrence in tower blocks. A very unusual and clearly tragic set of circumstances must have occurred for the fire at Grenfell Tower to have behaved in the way it did."

JLL also warned that investor confidence in such buildings could take some time to be restored and that current valuations should be treated with "considerable caution".

Richard Petty, lead director of residential advisory at JLL, told *Inside Housing*: "If you were acquiring the asset today, how much would you build in for works when you don't know what the works requirements will be? Different buyers will form different views and therefore the range of bids could vary quite widely."

"Hypothetically, if you put a building similar to Grenfell Tower on either the stock rationalisation market – offering it for sale, tenanted just to [housing associations] – or on the open market today, somebody might literally bid you a pound and somebody else might bid you £20,000 a flat. People's perceptions of risk will be different, and so for that reason we have an abnormal uncertainty clause."

The outcomes of the government's review of building regulations, the public inquiry into the Grenfell Tower fire and the criminal investigation into the fire could all have effects on the values of tower blocks.

JLL said it would revisit these valuations when these various issues were resolved.



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House: councils should welcome £1bn fund

At the time, it also said that it hoped to break ground on its first schemes before the end of the year.

The partnership offers finance to housing providers, especially councils, to develop schemes without government grant. Under the proposals, the homes would then be owned by Cheyne Social Property Impact Fund and leased to the council for a period of usually 20 years.

Local authorities striking deals with the partnerships would then be obliged to pay index-linked returns.

The social housing sector has traditionally been cautious about leaseback funding, which could explain why the fund has yet to be used by providers.



As well as two sources confirming that no deals have been done since the fund was launched in May, the New Communities Partnership's website has been taken offline.

The model of the partnership is similar to that of The Legacy Foundation, which was also set up in 2016 by former England football captain Rio Ferdinand and fellow footballers Bobby Zamora and Mark Noble.

That scheme immediately struck a deal with Central Bedfordshire Council, which planned to build 1,000 homes using the funding provided by insurance company Aviva on a 45-year index-linked agreement.

Work has not yet started on this development, which is over a year behind schedule.

The Legacy Foundation has also struck a £90m deal with Wirral Council to build apartment blocks in Birkenhead's docklands.

Cheyne Capital and Homes England declined to comment on the story.

A Kier Living spokesperson said: "Developing delivery vehicles is obviously done against a changing regulatory and funding backdrop, so NCP [New Communities Partnership] hasn't been taken up by public sector bodies in the volume originally envisaged, but Kier Living and Cheyne Capital continue to work closely together should an opportunity arise where the NCP model can add value, as the vehicle still provides opportunity for public bodies to build homes without being an immediate burden to the public purse."

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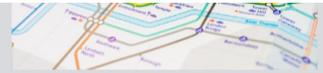
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