Filling the £35bn funding gap
How insurance capital helps fund social housing in the UK

The social housing crisis

The UK needs 145,000 affordable homes to be built each year, 90,000 are needed for social rent

Cuts to funding mean that just 6,000 social rent homes were built in 2018

Housing Associations face a funding shortfall with increasing building costs and decreasing government investment

Over the last ten years, the average cost of building a home for affordable rent in the south east has increased by 43%

Government investment has fallen from 50% of the cost of building a home before the financial crisis to just 12% today

Why insurers with pensions to pay make good partners for Housing Associations:

- As the pension risk transfer market grows, insurers have large amounts of money that they need to invest in long-term assets
- Offer flexibility of finance and certainty of future funding costs to meet exact requirements of HA partners
- Invest for the very long term (30-40 years and longer)
- Need secure debt investments to back long-term pension payments
- They are actively seeking strong, long-term partnerships within the HA sector

Pension insurers help fill the funding gap by investing to back their long-term pension payments

HAs have become an increasingly important partners for institutional investors

In 2018, HAs raised a combined £4.9bn in funding via 48 bond issues or private placements, almost double the £2.6bn raised via 26 capital markets transactions in 2017

Institutional investors with long-term liabilities need to match their pension payments with secure long-term cash-flows

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Success factors for HAs seeking private investment:

- Actively engage in the due diligence process and demonstrate active risk oversight throughout the business
- Implement suitable communication strategies for investors, rating agencies and other stakeholders
- Develop long-term relationships built on trust, with clear and open communication channels
- Credit ratings - useful for some HAs - attract a wide pool of investors and can lower the overall cost of borrowing
- Have a clear, long-term strategic rationale

PIC’s role

- To date, PIC has invested more than £2bn directly in social housing, lending to more than 20 HAs across the UK since 2013
- In 2019, PIC provided funding for the development or acquisition of 3,500 social housing properties, as well as funding the maintenance of about 220,000 existing properties
- PIC’s debt investments in the sector are typically between £50m and £100m

Why do insurers like Housing Associations?

The long-term nature of HAs means they can borrow money and provide high quality, secure debt with attractive returns for investors looking for income.

- HAs invest £6 for every £1 of public money they receive for building homes providing other socially beneficial outcomes including jobs and leisure spaces
- Highly regulated, a long-term outlook
- Interested in building a long-term relationship
- Are good at managing risks focusing on our purpose of paying pension benefits
- Are active in the real economy, providing employment, skills and social support, as well as housing

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