

# 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



# 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



Highly regulated, a long-term outlook



Interested in building a long-term relationship



HAs invest £6 for every £1 of public money they receive for building homes providing other socially beneficial outcomes including jobs and leisure spaces



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

## 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