

# affordable housing: alternative funding

**Cuts in Government funding and the decline in long term Bank lending have seen Registered Social Landlords (RSLs) in England turn to the Bond market as a route to raising finance. However, while the top 20 RSLs in England are reported to be looking to raise finance on the bond market over the next 3 years, Scottish RSLs may not find their route to the Bond market as easy as their English counterparts.**

Given the current constraints on the public purse and the need for continued investment in social housing, RSLs particularly in England, are tapping into the Bond market for private investment and moving away from the traditional reliance on government funding and bank borrowing.

RSLs currently offer an attractive and secure lending opportunity for private investors. They are seen as a stable investment opportunity, being heavily regulated, with a strong income stream through rental payments which are paid directly by the Government to the landlord from housing benefits (although uncertainty over the future of direct payments may put this in jeopardy). Lenders also take comfort from being able to take security against a Housing Association's assets.

The recent successful bond issuance by Notting Hill Housing Trust, Places for People, A2 Dominion and Great Places demonstrates the growing success of English RSLs in the Bond market. Places for People's recent retail bond issuance was heavily oversubscribed opening at £50 million but eventually raising a total of £140 million. Scottish RSLs are now paying attention to this alternative funding route but it remains to be seen whether they will enjoy the same success in the Bond market as their English counterparts.

The relaxing of the "20 year rule" in Scotland has opened up alternative funding models, to a certain extent, to Scottish RSLs. Legislation passed late in 2010 made changes to the "20 year rule" as a result of which RSLs can now grant securities over long leases where they are the tenant and therefore they can now enter into sale and leaseback arrangements and access funding on that basis.

This has allowed Scottish RSLs to enter the Bond market but it is still debatable whether or not bond issuance can be as successful on a smaller scale in Scotland.

Scottish RSLs are comparably much smaller than those in England and tend to have smaller loan facilities. Traditionally it has not been seen as economic to issue bonds, rather than subscribe for debt, for less than around £150 million given listing and other costs. However, two Scottish RSLs have overcome the cost barrier by going to the Bond market in a club through The Housing Finance Corporation which issues bonds on behalf of groups of associations.

Early in 2011, Glen Oaks Housing Association secured £14 million through The Housing Finance Corporation's 30 year club bond deal as one of eight RSLs raising a combined £76.6 million. New Gorbals Housing Association followed as one of a club of four RSLs, raising £4 million through a subsequent Housing Finance Corporation £31 million tap issue.

With Scottish RSLs traditionally being considered too small to issue bonds in their own name, any associations interested in raising funds on the bond market would require to go to the market with a club bond deal. This would benefit smaller associations by giving them access to similar terms that attach to a much bigger RSL. The



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Housing Finance Corporation has been a successful route to the market for Housing Association clubs offering economies of scale by grouping the requirements of individual RSLs.

The retail bond market will also favour the smaller Scottish RSLs. Places for People, which originally wanted to borrow the relatively low figure of £50m, went to the growing retail bond market (although due to high demand eventually raised £130m). The retail bond market releases bonds denominated in £1000 or less. Releasing smaller sums will allow individual private investors (including Pension Funds which are increasingly looking to RSLs to invest) an attractive alternative to equity investment and a route to invest in RSLs which, by their nature, should offer a stable and certain return.

Issuing bonds is a complex procedure requiring detailed diligence and a raft of legal documentation. However, in the current financial climate, RSLs are being forced to considering alternative funding routes to sustain and increase the development of social housing. The bond market is certainly an option for Scottish RSLs but it would seem that the key to getting this right will be finding the right club and lead manager with the experience to navigate the procedures required to go out to the retail bond market.

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