



Irish Council  
for Social Housing

# Finance for Development & Delivery

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# Presentation Title

## Efficient Access to the Capital Markets

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# Capital Markets

## – an efficient source of funding for Housing Associations

### The bond Markets represent an ideal source of funding for Housing Associations

- Long dated, fixed rate debt
- Flexible and lightly covenanted
- Wide group of providers
- Attracted by regulated, government sponsored borrowers

Yet even in the UK HA's fail to obtain the terms justified by their credit ratings

So what do they need to do to improve access to the global markets

And get the terms they deserve



# A failure to deliver three key messages to the markets

## Housing Associations are an “essential service industry”

Significant proportion of national housing stock

Important role in delivering government policy

High quality credits

Developing long term assets

To fulfil a public need

With significant support/oversight from government

Generating a predictable revenue stream



# The three key messages

## Housing Associations are also a global asset class:

- Ireland
- UK
- Netherlands.
- France
- Canada
- Australia
- South Africa
- ... and who knows how many more



# The three key messages

## Housing Associations are an ethical investment

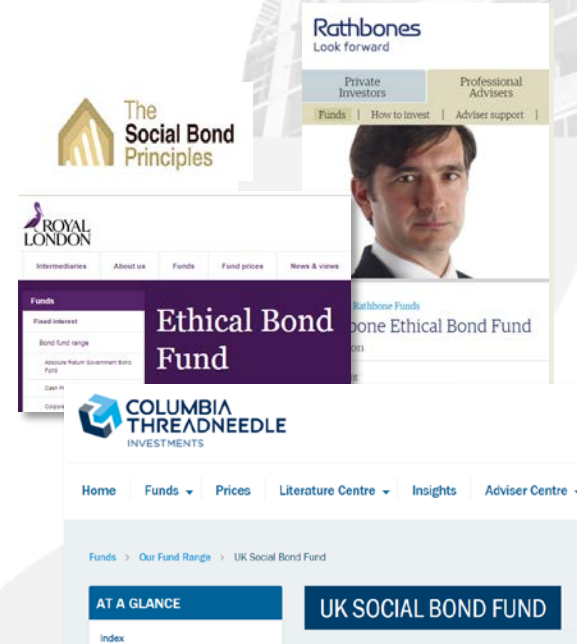
- Socially Responsible Investment now mainstream
- Most large investors now filter for range of “good” characteristics
- Formal social bond accreditation appeals to investors who positively vet for impact

## ICMA has published a social bond framework

- In Europe, a number of issuers are funding social housing through socially accredited bonds

## There is lack of social bond product

- Borrowers can obtain a second opinion to accredit them
- Many international banks are promoting this to expand demand



# Number of Social and Sustainability Bond Issuers Target Affordable Housing Category

Use of Proceeds Category	Bayern Labo	Kutxabank	Munich Hyp	BPCE	BBVA	Caja Rural de Navarra	HSBC	AfDB	BNG (Social)	City of Paris	Ile de France	NWB	Hemso
Affordable Housing	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Drinking Water							✓	✓					
Sanitation													
Transport							✓						
Health				✓	✓		✓	✓		✓			✓
Education				✓	✓	✓	✓	✓		✓	✓		✓
Financing								✓					
Employment Generation <sup>1)</sup>					✓	✓				✓			
Food Security								✓					
Socioeconomic Advancement						✓				✓	✓		
Second Party Opinion/CBI	O	S	O		D	S	S	S	S	V	S	S	S
Auditor Attestation	✓	Deloitte	O	✓	✓	PWC	S				Deloitte		EY

S: Sustainalytics C: Cicero V: Vigeo Eiris O: oekom EY: Ernst & Young D: DNV GL

16

Source: Issuer Bond Documentation

Note: on the 'Auditor Attestation' row a blank field refers to reviews being conducted internally; Kutxabank and Munich Hypo Social Bonds are Covered Bonds. The

1) Includes SME financing and Microloans

□ Indicates Sustainability bonds. ■ notes FIG, ■ notes SSA, ■ notes Corporates

MOR

With kind permission of BAML



# A perfect product for the capital markets

**This should make them perfect candidates for Capital Market Finance**

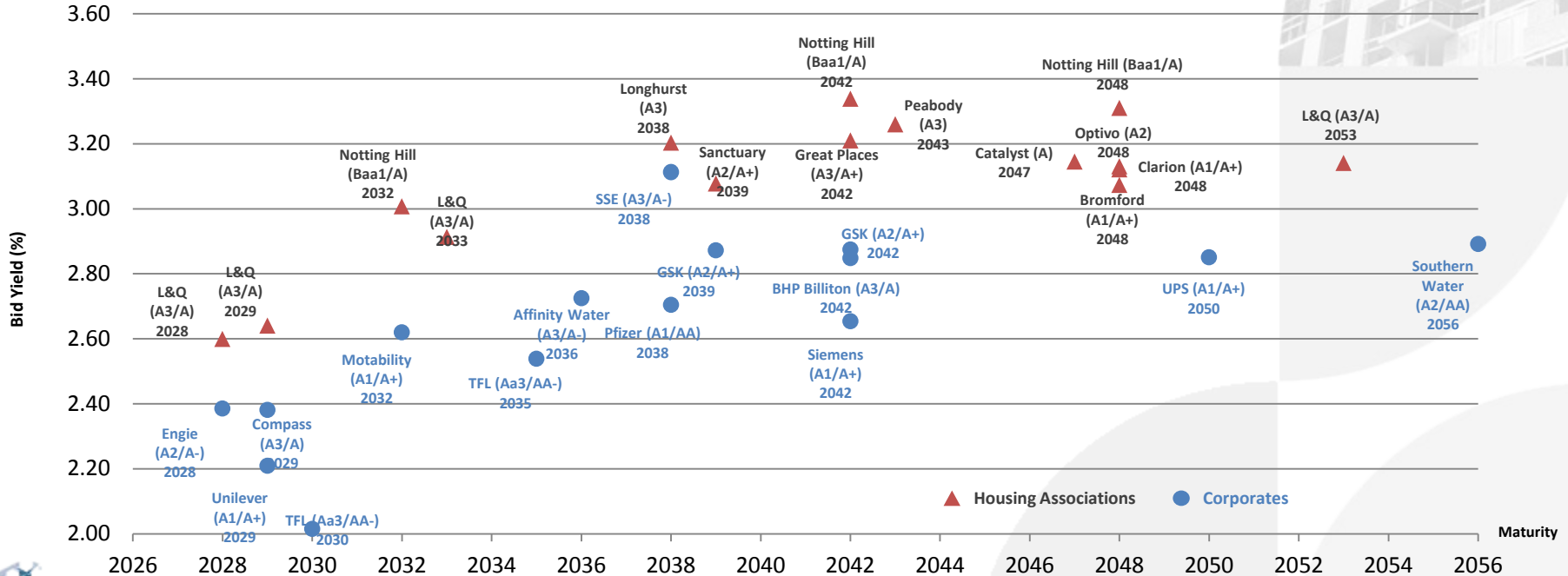
- **High quality credits**
- **Strong asset base**
- **Implicit Government support**
- **Predictable long term revenue base**
- **Strong regulatory oversight**
- **Social imperative**
- **Conservative financial management**





# And yet they struggle for acceptance

Take the example of the UK



Source: Bloomberg, Graph with kind permission of Morgan Stanley International



# HAs price wider than utilities despite giving security

## Secured Housing Association Deals

Date	HA Issuer	Maturity/ Margin	Rating
14/9	Blend	29/158	A2(-)
7/9	Peabody	30/155	A3
7/6	Orbit	30yr/160	A2
8/5	Longhurst	25yr/148	A3

## Unsecured and subordinated Utility deals

Date	Utility Issuer	Maturity/ Margin	Rating
12/9	UU	7yr/96bpts	A3/A-
10/9/	Cadent	11yr/200	-/BBB/-
27/7	Wales & West	20yr/132	-/A-/A-
24/7	Connect plus	20.7yr/115	A+



# The Challenge of the Capital Markets

**In the last 20 years, bond markets have undergone a major consolidation**

- Fewer, larger investors
- Looking for more commoditised product
- In large, liquid, index eligible transactions
- With increasing dependence on international demand
  - To create a sufficiently broad spread of investors, and
  - Support secondary market liquidity

**This has posed a particular challenge for housing associations**

- Not recognised as a global asset class (unlike utilities)
- Strong domestic focus
- Limited, irregular requirement for debt



# The example of the UK

## The UK is a good example of the problem

High quality credits, dependant on:

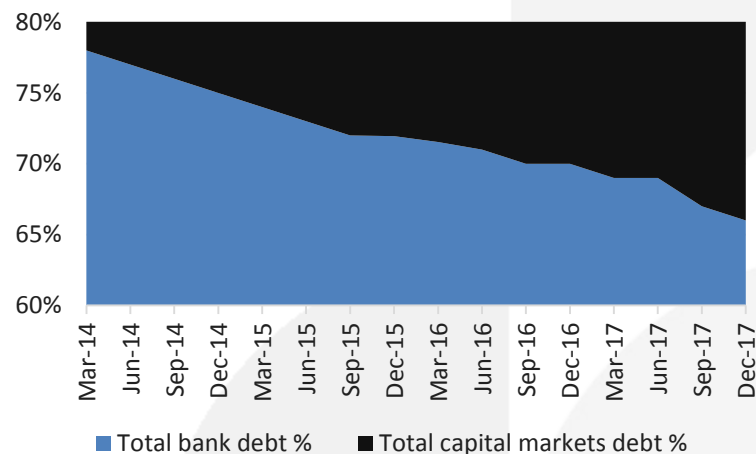
- 4 – 5 domestic banks
- 4 – 5 debt arrangers/underwriters
- 15 – 20 domestic investors
- 95% placed domestically

Borrowing cost at least ½% expensive to inherent value

- £60+bn of debt outstanding
- Where ½% = £300m per annum

## Increasing dependence on the Capital Markets

### Bank vs Capital markets debt



# Market characteristics

## Same Banks

Sterling Bond League Table 2017 Source Bloomberg	No. of HA deals 2017	No. of HA deals 2018 to date
Barclays	8	4
HSBC	4	7
NatWest	4	4
RBC	5	2
Lloyds	3	3
Deutsche Bank	-	-
JP Morgan	-	1
Morgan Stanley	-	-
Citi	-	-
Santander UK	3	4

## Small investor base

Small no of investors > £10m tickets	
LGIM	Insight
M&G	Henderson
RLAM	Blackrock
PIC	Schroders
Rothsay	Kames
BAE FP	Aviva
Aberdeen Standard	Threadneedle

## Lots of small deals

Outstanding – Public Issues	2017
No of HA own name bonds	74
No of HA own name issuers	55
Repeat own name issuers	11
Size of smallest HA bond	£23 m
Size of largest HA bond	£600 m
Size of average HA bond	£212.6 m

Outstanding – PPs	2017
No of PP	69
No of repeat PP Borrowers	7
Size of smallest PP	£15m
Size of largest PP	£156m
Size of average PP	£45.6m



# Making it easy to invest

## Success is about

- Matching your need for money
- With the investors desire to provide it

## In the current market this is about offering investors:

- Large liquid issues
  - One (preferably 2) international credit ratings
  - Benchmark issues forming a curve
  - Part of major bond indices
- Frequent issuance
  - Dealer programme with
  - A group of incentivised dealers
  - Reaching out to international investors
- Robust credit
  - Risk bearing capital
  - Sound operating structure
  - Government support
- A recognised corporate structure
  - High levels of governance/ transparency
  - With regular investor relations programme
  - Relevance – Social Bond Accreditation



# The need for central borrowing vehicles

**This can largely be achieved by using a centralised borrowing vehicle**

**Centralised borrowing is well established in Europe**

- Netherlands through NWB and BNG
- Germany ...
- Ireland from HFA

**However, Central Borrowing vehicles are only just beginning in many**

**Success is determined by**

- the systemic relevance of the vehicle to the sector
  - What proportion of the sector does it serve
  - What have they invested and
- the level of government support if any



# Forming a central borrowing vehicle is a challenge

## Requires buy-in from the sector

- Cash and commitment as well as good will

## Requires support from Government

- Underpin the credit in the early stages

## Requires a strategy to drive in spreads

- Create price tension/build support from investors

## Never price as Government bonds

- But being an SSA borrower opens up a broad and competitive market





# Thank you!



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