Adrian Norridge Research Bursary 2011
Financing the Irish Social Rented Housing Sector: Lessons from England & Canada

Conor Farrell
The views expressed in this report do not necessarily represent the views of Clúid Housing Association.
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This report is a result of the Adrian Norridge Housing Research Bursary, created by Clúid in 2011. The Bursary was set up to support applied research on housing issues for the benefit the social housing sector.

This research was made possible due to the generous time and insights provided by the interviewees.
Foreword

This research is the first project funded by the Adrian Norridge Housing Research Bursary, which was established in honour of the founder of Clúid Housing Association, Adrian Norridge. Adrian retired from Clúid’s board of directors in 2010 after 16 years as a very active and inspirational board member. The bursary, which is awarded annually, supports applied research on housing issues that will be of relevance to the social housing sector in Ireland.

Clúid has been developing and managing housing since 1996 and currently owns over 3500 houses and apartments across the country, and manages another 1300 properties on behalf of others. Through provision of quality rented social housing and services for people who cannot afford to buy their own home or to pay the full market rent in private rented housing, Clúid aims to enable people to create homes and thriving communities.

The creation of the bursary marks a significant milestone for Clúid and underscores Clúid’s commitment to engage actively with the housing policy process.

The funding model for Irish housing associations is undergoing radical transformation. In the past, housing associations were funded by capital grants, which in many cases provided 100% of the costs of building social housing. But the current economic environment means that it is no longer possible for the government to continue with this type of funding. So, in common with many other countries, Ireland is moving away from the old system of grants towards a combination of much reduced government funding and funding from the private sector. This represents significant challenges for all stakeholders and it is still very much work in progress, so this report, through its examination of social housing finance in England and Canada and the lessons for Ireland, makes a huge contribution to an extremely important and topical debate.

I would like to acknowledge the dedication of my fellow members of the Adrian Norridge Housing Research Bursary committee: Mary Murphy from NUI Maynooth, and Christine Dibelius, Customer Services Director at Clúid.

I hope that you will find this extremely readable report an interesting and provocative read, and even if you are not an expert in social housing finance, I hope you will come away with a better understanding of this critically important topic.

Simon Brooke
Head of Policy
Chair: Adrian Norridge Housing Research Bursary
Executive summary

Background
Governments in many western countries have been looking at alternative ways to finance the delivery of social housing for some time. In many instances, the traditional policies of providing generous capital subsidies, along with ongoing operating subsidies have been scaled back. This process has been ongoing with varying degrees of success. The economic crisis of 2008 has led governments to re-assess their capital expenditure and examine alternative funding arrangements.

Ireland
It is within this context that the Irish government has been looking at new ways of delivering social housing. This began with the Rental Accommodation Scheme (RAS) in 2005, when local authorities started to use the private rented sector to provide social housing. The transition towards alternative and less capital oriented methods of delivery has been brought into greater focus since the collapse in the government’s finances and the establishment of the EU/IMF Programme of Financial Support for Ireland. The current government’s policy statement continues in this vein and puts an emphasis on the housing association sector delivery of social housing, using private forms of finance.

Research objectives
The main aim of this research was to examine the approaches taken to sourcing alternative forms of finance in two other jurisdictions, namely England and Canada and to determine if there are ‘best practices’ that can be applied in an Irish context. This involved examining in depth and illustrating the approaches that led to the successful use of private finance. Another goal was to highlight the conditions or reforms that might need to be in place to implement such approaches.

Research methods
The research involved four main aspects:
1) A review of existing literature on the financing of social housing internationally
2) A policy review of the three countries
3) In-depth interviews with over 30 key informants in the three countries; Ireland, England, Canada
4) An analysis of two case studies in the area of finance most relevant to the Irish situation – commercial lending and capital markets.

Recommendations
This paper makes recommendation across a number of areas:
- Strong regulatory framework
- Governance
- Treasury management and scale
- Role of central and local government
- Subsidy
- Guarantee
- Rent determination
- Autonomy over asset base
- Innovative approaches
- Promotion of the sector.

These recommendations focus on practical reforms to the sector that will place it in a better position to engage with different forms of private finance. The gradual transition towards private finance will take time and need ongoing government support through subsidies and regulation. The current state of the banking sector and Ireland’s position outside the bond markets means that this transition to private finance is unlikely to happen in the short term. It remains important that the sector is well positioned and prepared to engage with private finance when the conditions improve. The Government and the housing association sector now have a great opportunity to undertake a rigorous analysis of best practice and to put in place a strong framework for the sector to develop into the future.
The Irish housing association sector is currently making a transition from a generous, public grant-funded model of provision to one reliant on private forms of finance. There has been a shift from capital grant funding to revenue based funding through leasing agreements. This transition began with the introduction of the Rental Accommodation Scheme (RAS) in 2005. RAS involves local authorities leasing properties from private landlords to accommodate households who are 18 months or longer in receipt of a rent supplement. The shift will involve a transfer of risk from the State to housing associations (HAs). A similar process has been evolving in most developed countries over the past 10-20 years, where the private sector is now the primary source of finance for development. The economic crisis has put a greater focus on the shift to private finance, due to pressure to reduce Government debt.

The focus of this study is to examine private finance approaches to funding social housing in Canada and England. These countries were selected because they are similar to Ireland in terms of having a liberal housing regime, with a dominant owner occupier sector. The principal purpose of the study is to inform the development of private finance approaches in Ireland through learning from the experiences of other jurisdictions. It will also analyse the current model being developed in Ireland in light of international developments and provide recommendations on the framework needed to create a sustainable sector into the future.

Chapter 2 will give an overview of the research methods. Chapter 3 will provide an international literature review on the financing of social housing, which will focus on different types of financing namely rents, subsidies, debt and equity finance. The strengths and weaknesses of the different approaches will be outlined, along with the international trends in this area. It is important to consider housing policy within the social and economic context in which it is developed, so Chapter 4 will provide an overview of the policy in each of the three countries. Chapter 5 is a case study on the role of commercial banking finance in England. Chapter 6 deals with capital market financing such as bond finance. Finally, in Chapter 7 recommendations are made to inform the discussion and assist the sector in making the transition to private finance.

The study involved four parts:
- A literature review of international evidence
- A policy review of the three countries
- Thirty interviews with key informants in the relevant countries. This included; housing providers, financial institutions, officials in government departments and regulatory agencies, municipalities, philanthropic organisations, policy institutes and representative bodies
- Case studies on banking and capital market finance, primarily based on these interviews

1. Full list is available in Appendix 2
2. Research methods

2.1. Introduction
The purpose of this chapter is to outline the research methods used during the course of the report. It will provide the reader with some context on how the research was undertaken and what sources of information were used in reaching conclusions.

2.2. Research questions
A number of research questions were outlined at proposal stage:
- What lessons can be learned from Canada and England in sourcing alternative forms of finance for the sector?
- How have the chosen case studies in England and Canada illustrated the use of alternative forms of finance?
- Can the voluntary housing sector in Ireland adopt these approaches?
- What needs to be in place for these approaches to be applied in Ireland?
- What reforms might need to be undertaken to allow these approaches to flourish in Ireland?

2.3. Research methods
The research was implemented in three stages:
- Literature and Policy review
- Interviews
- Case studies.

2.4. Literature and policy review
This literature and policy review serves as a means of gathering information about the issues and trends in social housing finance. The literature originated from a range of sources, including academia, private consultants, professional bodies, and non-governmental organisations. It represents work from a number of disciplines, from economics to sociology.

The literature and policy review included three primary activities:
1. Identification of keywords for searches
2. Identification of key organisations as sources of information
3. Identification of appropriate databases and web sites for searches.

Keywords were used to search for relevant information from such sources as national and local organisations, research groups, institutes, journals, and databases.²

2.5. Interviews
Thirty interviews were undertaken with key informants in the relevant countries. This included: housing providers, financial institutions, officials in government departments and regulatory agencies, municipalities, philanthropic organisations, policy institutes and representative bodies. The interviews were undertaken, using a semi-structured, in-depth topic guide. This allowed for a conversational flow to the interview, while at the same time ensuring all the relevant topics were covered. The interviews were examined to identify common themes and the responses were coded on this basis.

² See Appendix 2 for a list of organisations and sources
2.6. Case studies

Case studies focusing on two areas of private finance – commercial bank lending and capital markets – were undertaken, as these two forms of financing were considered the most relevant to the Irish context.

The primary advantage of using a case study approach is that it provides a level of information that is not possible through other methods such as surveys. It also gives one the opportunity to present data collected from multiple methods, in this case, interviews, document review, and literature review. This allows one to provide a complete picture.

The main limitation of this approach is the absence of Canadian examples in these two areas relevant to the Irish context. This is due to the use generally of a guarantee for commercial bank lending and the lack of development of a capital markets approach to financing housing.
3. Literature review

3.1. Introduction

The purpose of this international literature review is to summarise the key issues and knowledge raised by previous research to date. It critically examines research on the different forms of finance utilised by social housing providers, with a focus on Canada and England. It must be noted that the transfer of ideas from one country to another on financing social housing must have due regard for the purpose of social housing and the institutional structures which operate within each country (Oxley, 2009).

Although the models of finance in each jurisdiction are reflective of their unique institutions and policies, it is still possible to identify key approaches to financing social housing and identify general trends. The impact of the financial crisis has varied greatly between countries, and the impact on the financing of social housing reflects this. It is clear that the most recent crisis is reinforcing governments’ shift away from capital intensive, long-term support for social housing towards a more targeted less capital intensive approach. The focus of new investment is now on alternative forms of private finance, using assets more effectively, privatisation, using commercial ventures, to cross subsidise development, or increasing rents.

The review will be structured around the main forms of funding social housing:

- Rental income
- Subsidies
- Debt finance
- Equity finance.

The interaction of these elements depends on many interrelated factors, such as how rent is determined, government support for social housing, the fiscal situation, the capacity of providers to borrow, regulation of the sector, and capital gains of the stock.

3.2. Rental income

Rents set at below market levels are a key feature of social housing. This has led to criticism that it distorts demand and may contribute to under occupation and immobility.3 The level of rental revenue depends on how the rents are determined. This varies considerably between countries. It can be based on the cost after capital subsidy, value based on market place, incomes, rents in other sectors or a mixture. There is also variation in terms of what level the rent is determined.

It can be at the level of the landlord, property or based on national policy. Guidance on general principles of rent determination is usually provided by central government. This does not necessarily mean similar rents across the social housing stock. The type of rent regime has a direct impact on landlords’ ability to build up reserves, invest in assets and attract private finance (Whitehead, 2007). The fragmented structure of the sector in some countries can limit the opportunity to pool rents across dwellings (Stephens et al., 2002). This is certainly the case in the non-profit sector in Canada and Ireland. Each approach to determining rents has distinct advantages and disadvantages. The focus here will be on cost, value and income-based rents.

Cost-based rents

These rents are based on the cost of delivering accommodation, taking into account any subsidies that are provided. The advantage of this approach is that rents relate directly to the cost of provision, i.e. the cost of running less subsidies equals the rent (Whitehead, 2008). There are generally two approaches to cost-based rents, one for individual dwellings and another which takes account of the cost of all the dwellings in a development, estate or municipality (these costs are shared across the stock). Indicators can also be used to decide rents based on the quality of individual units. This is a very simple way in which to apply rents. It has been argued that such an approach does not provide an incentive for the provider to control their costs and can lead to inflation of costs and thus rents. This approach can often mean that older dwellings can be considerably cheaper than newer dwellings, as the costs reflect historical costs and lower borrowed costs (Whitehead, 2008).

Value-based rents

Value-based rental systems use a formula, so the rent for a dwelling is a function of its size, quality and location (Oxley, 2009). England and the Netherlands provide examples of a type of value-based rents. The rent restructuring regime implemented in England over the past decade has focused on basing rents on the relative value of the property and the income of people in the locality. This replaced a cost-based rents system that involved the pooling of rents.

The method applied in England can lead to large regional variations, whereby the rents in London and the South East are much lower relative to private rents than in the northern regions of the country (Wilcox and Pawson, 2011: 12). The implementation of this approach
was brought about by annual increases in rents above inflation (known as ‘convergence’). The main idea was to bring a standardised rent determination across the social housing stock. This occurred after a period in the 1990s, when housing association, new let rents rose on average by 3 per cent per annum faster than private sector rents, as determined for housing benefit purposes (Whitehead, 1995). It must be noted that in both England and the Netherlands the rent charged is adjusted to take account of local earnings to reflect regional disparities. It is not strictly value-based.

The rent restructuring regime raises two questions concerning the management of stock and the role of non-profit providers. The value-based element means there are incentives for providers to invest in areas where rents and assets values are likely to be increasing in real terms rather than declining. The idea of efficient asset management can create tensions with the broader ethos of organisations (Walker and Marsh, 2003: 2043). Marsh and Walker (2003) also raise the issue of stock utilisation. The regime will, by its nature, provide incentives to households to optimise their housing consumption, a shift from allocation based on a bureaucratic notion of need towards more focus on ability to pay.

**Income-based rents**

These rents are based on the ability to pay, so if the household income is low, rent will be low. If the household income increases, so will the rent. Income-based rents operate in a number of countries including Ireland, Canada, New Zealand, Australia, parts of Germany and the USA. The rents can be very low compared to the cost of production and maintenance and thus need a large subsidy to cover the difference between revenue and costs (Oxley, 2009). There are concerns about the financial sustainability of such rental schemes, particularly when the households are on very low incomes. This problem of costs exceeding revenue can be even greater if household incomes are rising less than the cost of management and maintenance (Whitehead, 2008). In the Irish case, Coates and Norris (2006) argue that the absence of a direct linkage between rent and housing expenditure by local authorities gives no incentive to provide value for money or increase efficiency, and that reform to rent setting and increases in central government funding are needed for management and maintenance.

Income-based rents can also make it difficult to attract private finance to support new development. If the repaying of debt finance is based, at least in part by rental income, this income needs to be as stable as possible (Oxley, 2009). The rental income flow can be less uncertain when it is underpinned by a housing allowance system such as housing benefit in the UK. This can encourage private finance investment (Gibb & Whitehead, 2007; Williams, 2003). In a Canadian context, the application of income-based rents has not provided enough revenue to develop reserves for renovation. This is a particularly serious problem in Toronto with over C$300m worth of renovation work outstanding. Under the federal programmes, the operating subsidy expires with the mortgage on the dwelling. Serious questions are thus being raised about the future viability of this approach, given the age of the stock.

‘Inbetweens’ and near market or ‘affordable’ rents

The Chartered Institute of Housing (CIH) in England define “a range of people looking for suitable housing options who are not in ‘priority’ housing need but whose income would not allow them to access home ownership – the ‘inbetweens’” (Davies & Lupton, 2010). They argue that intermediate rent schemes can make a big contribution to meeting the demand of ‘inbetweens’, achieving greater income mix, and maintaining new supply. Under the latest British Government programme, Affordable Housing Programme 2011-2015, the new ‘affordable rent’ will be up to 80% of the market rent level. HAs will also be allowed to re-let existing units at higher affordable rents. The idea is that lower grant levels for future investment will be supplemented through higher rents, which can be leveraged to borrow.

‘Affordable’ rent is a major policy departure, as, up to now, the intermediate market was met by shared ownership and affordable housing schemes in England. There was an implicit assumption in policy that people wanted access to home ownership. In particular, for those that cannot access social housing and home ownership, the private rental market has been used extensively in Ireland and England through rent supplements. As Gibb and Hall (2010: 24) argue, it is still unclear whom the Affordable Housing Programme is aimed at and how the subsidy will be paid. Overall, the ‘affordable rents’ scheme is a further departure towards self-financing. This approach is not new, but this is the first time it has been explicitly endorsed by policy. HAs have developed and managed market-rented schemes in England. There are many motivations for this approach; cross-subsidies, gaps in market, regeneration, diversification, reducing stigma. They have mainly been targeted at low-income professional and key workers in urban centres (Goodchild & Syms, 2003).
The ability of social housing providers to maintain and expand their supply of dwellings is very much dependent on the level of subsidies available from government. In general, below-market rents are not sufficient to maintain current stock and develop further dwellings.

Traditionally, social housing providers have received large-scale capital subsidies to fund the development of projects, along with revenue subsidies to meet ongoing costs. This has now changed considerably, with governments now reluctant to commit to long-term revenue and interest subsidies. There has been a clear emphasis on cutting general subsidies and tax breaks to reduce public expenditure, with the private sector being encouraged to fill the gap (Czischke and Pittini, 2007; Gibb, 2002; Turner and Whitehead, 2002; Whitehead, 2003; Lea and Chiquier, 2009). This has resulted in a shift from supply subsidies (focusing on bricks and mortar) to demand subsidies (focused on targeted income supports) (Priemus et al. 2002; Gibb 2002; Czischke & Pittini, 2007; Whitehead, 2008). The income supports for housing or rent supplements have certainly helped to increase demand for accommodation within the existing stock, but they provide no incentive for further development which was provided through supply side capital subsidies in the past. As noted by Whitehead (2008), there has been a general push to reduce investment unless other forms of subsidy are to be developed.

Subsidies from government can take a number of forms:

- Land
- Tax concessions
- Loans
- Guarantees
- Grants
- Housing allowances.

**Land**

A common method of subsidy is to reduce land costs for social housing developments. This usually takes two forms; land provided free or at sub-market levels and land provided cheaply or for free by private developers, as a condition of planning permission (Oxley, 2009). In the Canadian context, non-profit organisations often receive land for development from municipalities, charities or churches. This often comprises the community contribution of the development, which is required for projects to receive funding. Non-profit providers can also receive land from local authorities. This is also common in Ireland and England.

Conditions on planning permission can require developers to include a proportion of affordable homes in a development. This is the case in Ireland and England, whereby a certain proportion of a development has to be designated for different forms of low income housing.
It is known as Part V of the Planning and Development Acts 2000-2002 in Ireland and Section 106 of the Town and Country Planning Act 1990 in England. The aim is to increase supply, reduce expenditure for the government and create mixed communities.

**Tax concessions**

Tax concessions are another form of indirect subsidy. Many countries provide a variety of tax privileges to housing organisations registered as charities. These can include income and investment deductions, depreciation allowances, reduced sales and property taxes, and exemptions from capital gains tax. These indirect subsidies are provided on the basis that the organisations are trying to achieve the social policy objectives of governments. This approach is very common in the US, where tax credits are used to encourage private sector involvement in the production of social housing. In France, tax concessions relate to value added tax and property taxes. In the Irish, English and Canadian contexts, many of the non-profit providers have charitable status. This can lead to favourable tax treatment for the non-profit providers, compared to private providers of rental housing. In England, it was decided that the government would tax the profits of HAs in 2008. In Canada, the municipalities often waive development levies, and, in some cases, property taxes for non-profit providers. In the US, the tax system is the main source of investment funds for social housing. This is primarily in the form of the Low Income Housing Tax Credit Programme. Le Blanc et al. (2009) estimate that in the decade up to 2005, more than 1.1 million units were constructed under this programme.

**Loans**

Loans given by governments to support social housing development often include various direct and indirect subsidies. This can take the form of low interest or soft loans provided by the government at below market rates, and it can also be indirect subsidies such as State guarantees on loans issued by the private sector. This government guarantee will usually result in the loan being viewed as less of a risk and result in a lower interest rate, which in turn reduces the cost of financing and developments generally (Stephens at al. 2002; Whitehead, 2008).

**Guarantees**

Government guarantees are a common mechanism to assist access to private finance. A Guarantee Fund provides loans to Dutch HAs under a Government guarantee. This results in a triple A credit rating for Dutch HAs. It ensures access to market and low interest on loans (Elsinga & Wassenberg, 2007). In 2008, this mechanism funded new loans of €11bn and provided 80% of the funding for the sector (Garnier, 2009). Although not an explicit guarantee, the regulatory underpinning of the Tenants Services Authority (TSA) in the UK ensures that the possibility of default by a housing association is highly unlikely. Funding backed by municipal guarantee is common in Denmark, Sweden and France. The Canadian Mortgage and Housing Corporation (CMHC) used a similar guarantee in the past, which encouraged private sector investment. In Québec, the provincial government provides an implicit guarantee to non-profit providers. This loan is usually a 25-year mortgage but must be prolonged for a further 10 years with the proceeds given to the Québec Fund for Community Housing. The Fund redistributes the proceeds to non-profit housing organisations as seed funding for new development. Stephens et al. (2002) argue that loan guarantees have played a significant role in reducing social housing loan costs in some countries.

Loans can also be accessed through a state agency whose role is to source funding for social housing. The Housing Fund of Finland provides the most developed example of this approach. This state agency provides state subsidised loans, approves interest subsidies, designates and monitors approved borrowers and grants guarantees on commercial lending (Housing Fund of Finland, 2005). In Ireland, the Capital Advance Leasing Facility (CASF) which gives HAs a capital advance in the form of an unsecured low-interest loan which is made available from the Government to assist HAs in accessing finance through the Housing Finance Agency. This aspect of funding will be discussed in more detail in the section on debt finance below.

**Grants**

Large scale non-repayable cash grants for the capital cost of development have been commonly used in many countries. Their extensive use has declined significantly in the past two decades due to governments’ cutting of capital expenditure. The grant funding is increasingly used as leverage to access private funding (Gibb, 2002: 331). In Canada, the federal Government provides grant funding in the form of a one-time capital grant of 50% of capital costs up to C$75,000 per unit. This funding must be matched 50:50 by the provinces. Québec is only one of three provinces and territories, which has increased assistance to low-income households through investment in new social housing. In Québec, the provincial
government provide grants of 50% of development costs for low-income housing, 66% for homeless housing and 100% for housing for victims of domestic violence. In England, the Government grant required to fund new development has fallen to an average of 20% for rented units under AHP from around 75% in the early 1990s (Caven, 2011, Rowley, 2011).

**Housing allowances**

In countries such as Germany, the Netherlands, Sweden, the US and Australia, housing allowances have become a key instrument in housing policy, now that supply-side subsidies have been reduced or abolished. As has been noted in the introduction, demand subsidies have become the most dominant form of subsidy in recent decades. These are income supports for households to meet their housing costs. They usually take account of household size, incomes, and rent paid and can be applied to both public and private sectors (Oxley, 2009).

This subsidy takes the form of indirectly supporting the housing providers’ revenue stream, through ensuring steady rental revenue. This can be another factor that reassures investors and encourages favourable lending to the sector (Oxley, 2009: 26). There are schemes in Ireland, Canada and UK that support low-income tenants in meeting their rent through this form of income support. The Irish scheme is exclusively focused on the private sector, with 96,800 recipients accounting for about 40% of the private rental market, in receipt of rent supplement support. The scheme takes different forms in the Canadian provinces. It is usually highly targeted at the lowest income groups and those who become homeless.

Gibb (2002) and Whitehead & Turner (2002) argue that the shift to demand subsidies has fuelled real rent increases and higher household expenditure. This increased housing allowance expenditure can mean that those just above the threshold for allowance are considerably worse off (Scott, 2002). A French study found that rent increases were greater in subsidised dwellings than non-subsidised dwellings in the private sector (Laferriere & Le Blanc, 2004). The targeted means-test approach to provision in England has raised the issue of the creation of ‘polarisation’ and labour market disincentives (Hills, 2001). Gibb & Whitehead (2007) analyse the development of demand subsidies in the UK between 1975 and 2000. They point to the policy’s overall success, based on its objectives, but argue that it did not create a coherent housing finance policy. They point to the costs such as reduced production, residualisation and dependence on the private sector, and general macro-economic conditions.

Overall, for demand subsidies to be successful, the right balance has to be struck between social justice and market incentives, protecting vulnerable households while not creating high marginal effects and disincentive problems (Elsinga & Turner, 2005).

**Operating allowances**

Social housing providers often receive an operating subsidy to meet the difference between the cost of supply and the rent of low-income tenants. This has been the case in Ireland and Canada. In Ireland, providers receive a management and maintenance subsidy to assist with costs. In Canada, the providers enter into a long term operating agreement with federal government for the duration of the mortgage. These agreements are due to expire in the coming years, with large question marks regarding the viability of these developments into the future, given the age of the stock.

3.4. **Debt finance**

The role of debt finance has changed considerably in recent decades. In the past, debt finance was supplied solely by the public sector, often with subsidies to provide new investment for the sector. This form of finance contained an explicit subsidy in the form of sub-market interest rates or through a government guarantee. This resulted in financing costs well below market levels. These different types of preferential treatment given to housing providers have declined in recent years with increased pressure on public expenditure. Interest-rate subsidies have been withdrawn in some instances, and providers are increasingly forced to borrow on the private market. It must be noted that providers often secure private finance with some form of guarantee along with a secure rental income from housing support payments. The private sector is now the primary source of funding for new investment in many countries.

**Private finance**

Private finance involves social housing providers borrowing from the private market who lend on terms that are mutually beneficial. As noted by Whitehead (1999), the same general principles of lending apply to housing providers in assessing whether to lend. Funders are interested in cash flows, the extent to which rents and other incomes cover the regular outgoing, and the value of the assets on potential realisation. The origin of private funding can vary considerably between countries. Sources include commercial banks and building societies, pension funds, mortgage banks, public savings

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banks and other specialised housing finance institutions. As with all borrowers, the financing institution will set the interest rates after assessing the risks and the projected returns from their investment, taking into account the creditworthiness of the organisation. Any measures that reduce the risk usually result in reduced borrowing costs. The finance can be raised by HAs directly through banks or on capital markets (as is the case in England) or through intermediaries.

**Bank finance**

England and the Netherlands have the most developed markets for private borrowing. These markets have been growing for the past 20 years. Somewhere in the region of £60bn of loan facilities are in place for the social housing sector in the UK (Caven, 2011). Five lenders provide 85% of the funding. The success of engaging private finance has been contributed to by the structure of the Housing Benefit, the regulation provided by the TSA (formerly the Housing Corporation) and grant support from central government. Information on the sector is considered premium in terms of making investment decisions (Williams, 2003). The strong regulatory structure provides investors with a clear framework in which the majority of risk can be assessed (Whitehead, 1999). There has been no explicit guarantee provided by the regulatory system in England, which created certain private sector incentives and constraints to the provision of social housing. Some have argued that the provision of private finance has led to greater commercial awareness and professionalism in the sector (Williams, 2003). In the Netherlands, there was a write off of grants by central government. This resulted in HAs becoming financially self-sufficient using their cash flows and assets to raise finance. This is within the context of the Dutch government acting as a guarantor of last resort to loans to Dutch HAs.

In Canada, the CMHC, in the past, have offered a guarantee to non-profit housing providers that encouraged significant private investment in the 1970s and 80s. There was significant interest from the private sector due to the guarantee, the regulatory underpinning of the CMHC and the operational agreements put in place, which ensured a constant revenue stream. Many of the agreements are now beginning to expire after 25/30 years, with many units needing substantial development. This has resulted in parts of the sector looking to return to the market to seek further investment to keep the developments viable. In Québec, 24 local resources groups assist non-profit organisations in many aspects of development proposals, including sourcing private finance. The SHQ also takes 1% of the cost of each development towards the support of the sector overall. The private lending to HAs in Québec is back stopped by the provincial government (McGregor, 2011).

Overall, the international financial crisis has limited the appetite amongst financial institutions to provide the long term funding it has provided in the past. This is mainly the result of a shortage of liquidity and new bank capital requirements. As noted by Lea and Chiquier (2009: 385), the demand for capital market funding arises from the loan capital-intensive nature of development activity and the requirement to underpin the supply of assured investment funds for supporting their organisations in the long term. It can be argued that undiversified social lenders are countercyclical businesses, whereas wholesale bank funding tends to be cyclical. Thus, measures to diversify funding to include elements of both bank and capital funding could be viewed as prudent.

**Capital market/bond finance**

Bonds are “a certificate evidencing indebtedness – a legal contract sold by an issuer promising to pay the holder its face value plus amounts of interest at future dates” (TSA, 2009: 77). Bonds once issued (including the right to receive interest payments) can be traded on established markets. In a number of countries, bonds have enhanced the flow of development finance. This often involves the securitisation of rental income. The projected future rental incomes for a project are sold to an investor, similar to mortgage-backed securities. The default or non-payment risk is also transferred to the investor. Investors assess the potential of the project on projected rental income and expected vacancy rates. The use of bonds is highly developed in England, Netherlands, Austria and Switzerland.

**England**

The HA sector in England has been actively involved in the bond market for some time. There were £7.6bn bonds outstanding as of January 2011 (Williams et al., 2011). This is typically 30-year bullet repayment, meaning that the whole of the principle will be repaid on the maturity of the loan. The reputation of the sector has been enhanced by the stability during the credit crisis. Insurance companies such as Canada Life, Standard Life and Aviva have been traditional investors in HA bonds. Bonds issues have increased in recent time due to the cost and sometimes complete absence of bank finance (Lipscomb, 2011).
Austria

The Austrian model offers an innovative approach. It involves the sale of bonds via housing banks to channel investment into new affordable housing. Progressive tax incentives are provided for purchasers of Housing Construction Convertible Bonds (HCCB). Investment raised through these bonds has to be used to finance approved limited profit housing projects by social landlords within two years. The investors of HCC Bond coupons receive favourable tax relief on the first 4% of returns in return for holding coupons for a minimum of 10 years. After this period, some further tax deductions can be applied in certain cases. They save HAs around 0.75% in interest costs (Ball, 2005: 29). Lawson (2009) notes that, according to Housing Bank Austria, it is estimated that, for every €1 of foregone tax revenue, €19 of commercial investment has been committed to affordable housing production. These Housing Banks fund 45% of the financing requirement for new development and refurbishment for limited profit HAs. This approach has been affected negatively by international takeovers of banks and the risk adverse atmosphere created by the financial crisis.

Canada

The Toronto Community Housing Corporation (TCHC) has issued a number of bonds in the past to fund development. The last bond issue was in February 2010 and raised C$200m over a 30-year maturity. The coupon was 5.395 per cent. The S&P rating was AA-/Stable. The agents in the deal were a number of well known Canadian financial institutions. TCHC is in a position to go to the market, given the scale of the organisation as the second largest landlord in North America housing 58,500 households.

Alternative forms of Institutional Investment

England

The pension fund industry has been increasingly viewed as a potential funder for HAs. This is within the context of the need for outstanding debt to be refinanced, banks seeking to re-price debt and unwillingness to lend in the long term. It is argued that the HA sector is a good fit with pension funds (Williams et al., 2011). The income streams from social housing in England increase at RPI+0.5%. These index-linked cash flows match the long-term index-linked portion of a typical pension funds defined benefit liabilities.

One option is to issue long-dated inflation-linked debt, which pension funds can invest in. This debt can be secured against the HAs portfolio. HAs receive rents that are linked to RPI. This results in an inflation-linked cash flow. HAs can mitigate against inflation risk by linking debt coupon repayments to inflation. The inflation could also be capped to match the pension fund’s liability.

Another option is a sale and leaseback arrangement, whereby an investor agrees to purchase a group of existing homes from a HA and agrees to lease them back. This would be over a long period – typically 30-50 years. When the lease period is over, ownership may return to the HA, with the pension fund receiving an amortization of the capital value over the term of the lease. Similarly to the long dated inflation-linked debt, the rent can be linked to inflation to assist the pension funds in matching liabilities.

Development Partnership can take a number of forms including full development partnership and forward sale. In a full development partnership the pension fund provides the capital from the beginning. In the later – forward sale – the pension fund agrees to provide equity investment once development has been completed.

Ontario

The pension fund of the employees of Canada’s largest federal public service workers’ union invested $2 million in social housing in 2007. This was the first investment by a pension fund in affordable housing in Canada. The funds were invested in the Alterna Community Alliance Housing Fund. The $2 million was invested at market interest rates with Alterna Savings and designated specifically to fund affordable housing projects that meet certain criteria. The Ottawa Community Loan Fund, a non-profit organisation that provides community-focused financing, will be responsible for screening the projects to make sure they meet the following core criteria:

- Housing will be affordable to those most in need of housing
- Housing will be affordable in the long term
- Housing will be constructed by unionised workers.

Ireland

The new focus on the use of private finance, has led to an examination of the different options available. With the banking sector in a period of reform and recapitalisation, the pension industry is viewed as a possible alternative source of finance. The de-risking of mature pension...
Another way to finance social housing is through using the equity in the existing stock, reserves and other assets, such as land. The existing stock may be regenerated in partnership with developers, resulting in increased density (which provides new stock) while also providing a developer with units to sell. The assets can also be used as leverage for new investment, or the proceeds from sales can also support this goal.

3.5. Equity finance

Another way to finance social housing is through using the equity in the existing stock, reserves and other assets, such as land. The existing stock may be regenerated in partnership with developers, resulting in increased density (which provides new stock) while also providing a developer with units to sell. The assets can also be used as leverage for new investment, or the proceeds from sales can also support this goal.

Privatisation

The sale of dwellings to existing tenants is the most common form of realising equity. This is often at a discount. Such privatisation has a number of objectives – realising the tenant’s desire for home ownership, helping to create tenure mix and, most importantly, allowing funds to be reused for new development. The right-to-buy scheme in the UK has been the largest of such schemes. Ireland also has had different forms of right-to-buy, with the incremental purchase scheme being the latest incarnation. Countries such as the Netherlands, France and Sweden have also used this mechanism. This approach has not been developed to any degree in Canada, although a debate is taking place about selling 1,000 units in Toronto. Lupton et al. 2011 argue that HAs in the UK need more flexibility from the regulatory body in terms of managing their assets. This would lead to more investment in new development through sales of stock. It would also allow HAs to meet the specific needs in their locality, while taking account of local property prices and rents (Lupton et al., 2011).

Reserves and other equity

In many countries, reserves and surpluses are used to finance or part-finance development projects. These assets may have been built up from subsidies, and from rental income exceeding outgoings. In England there has been a focus on building up these reserves to meet funding ratio requirements necessary to support private finance. In 2010, English HAs had £15.5bn in reserves (TSA, 2011b).

In Ontario, the Social Housing Services Corporation (SHSC) is mandated by law to invest the capital reserve funds of housing providers. The SHSC coordinates an investment program for the pooling of capital reserve funds for housing providers. This approach offers benefits that can only be achieved by pooling the funds of hundreds of providers – professional money management, assistance in asset allocation, low management fees, and ultimately, higher potential returns.

In Québec, non-profit organisations must contribute 15% of the value of the development before funding can be approved. This cash can come from reserves, charity or private sector donations, or from the local municipality in the form of land.

New housing association structures: social enterprise models

A think-tank, Policy Exchange, based in England, makes a proposal for a new social enterprise model for the sector, whereby debt is exchanged for equity. The Policy Exchange argues that the ‘equitisation’ of the sector could result in funds of around £30bn being raised (based on surpluses of around 1.6bn a year and examining yields in similar organisations and assuming a ‘risk premium’).

The report recommends that associations should move towards social enterprise structures modelled on the successes of Co-ops, the John Lewis Partnership or BUPA. Under these mutual models, investors use flexible methods like buying preference stock – where interest gets paid only when the housing association is in profit. This could, they argue, help to fund 300,000 new homes (Elphicke, 2010). It would replace the role of grant funding and result in more homes being built with the same level of debt.

Public/private partnerships

Public/private partnerships have been used quite successfully in a number of jurisdictions, including Canada and the US, as a means of providing funds for new investment, particularly in regeneration projects where the housing provider uses existing land to increase the density of a development in partnership with a private sector developer. The provider increases their number of units, while the developer receives a
number of units, which will be sold on the private market. The general approach results in large gains in value, due to the restructuring of land use. This approach relies on positive market conditions, which will result in the increased equity value of the development over time.

Regent Park, Toronto

The Regent Park development in Toronto is viewed one of the big success stories of public private partnerships in social housing. The City of Toronto, Toronto Community Housing Corporation (TCHC) and the Daniels Corporation will carry out the master plan for the area, in a number of phases over 15 years. The plan includes replacing existing social housing along with bringing in an additional 3,300 mixed-income market units, 300 of which will be for affordable homeownership. All partners contribute and share the risks and rewards of the project. The City of Toronto is waiving developmental fees and property taxes on all supportive housing units, as well as a sizable portion of the infrastructure costs. TCHC undertook a number of feasibility studies to determine the best approach to generation and is providing funding for social housing. The developer, Daniels, will finance the projects and will perform all the construction-related project management. The first phase has been completed and Daniels has been awarded the contract to complete the remaining phases. A question mark remains regarding how affordable the mixed income units will be (Moskalyk et al. 2011).

Ireland

The experience in Ireland with public-private partnership involvement in regeneration of social housing has been one of mixed success. These arrangements have been used, in a small number estates in Dublin. The regeneration of Fatima Mansions is viewed as an example of the success of PPPs. It has allowed for the development of community facilities that may not have been funded under traditional mechanisms. The approach taken is one where private developers are given some of the land to develop private dwellings for sale on the open market. They must also deliver social rented and affordable-purchase units as part of the deal. Concerns have been raised about appropriateness of tenure mix and the notion of giving land to private developers (Norris and Redmond, 2007). The collapse of PPP deals with the chosen private sector developer in Dublin in 2008 highlighted the difficulties in completing such agreements in a volatile market with declines in land prices and uncertain underlying assets values (Norris & O’Connell, 2010, Bisset, 2008). There is currently no cohesive framework in which to develop public private partnership arrangements between HA's and those interested in investing in residential developments.

The National Housing Trust Scotland (NHT)

The NHT is a new Scottish initiative aimed at increasing affordable housing supply from limited public resources and restarting stalled developments. It is achieving this by moving from a grant funding model to one based on working with local authorities and developers and using expected future receipts from house sales. In the first phase of NHT, the Scottish Government is providing financial guarantees to underpin borrowing by local authorities. Introduced in 2010, it involves collaboration between the Scottish Government, ten local authorities and the Scottish Futures Trust (SFT) (Government company involved in infrastructure investment).

Phase one of the Trust has been launched. It involves new homes being procured from developers. When a developer’s bid is accepted, they will build the homes on their site to an agreed timescale. Special purpose vehicles (SPVs) are set up to oversee progress on each developer’s site within a local authority area. The SPV will be a company with a board involving the developer, local authority and SFT representative. When the homes are complete, the SPV will purchase them for between 65% and 70% of the agreed price. The relevant local authority will loan the funds to the SPV through Public Works Loan Board (a UK public funding body). The outstanding amount (30% to 35%) will be provided by the developer in a mixture of equity and loans.

Properties are then let, with rents set at approximately 80% of the local housing allowance (LHA) to ensure access to housing benefit. The maximum life of each NHT scheme would be 10 years, after which the properties would be sold and lending redeemed. However, the private parties could start to sell the properties after five years. The Scottish Government sees the scheme as providing good value for money because funds will be recycled on resale rather than provided as a grant.

Each SPV’s income from tenants’ rents will be used to pay interest to the local authority so it can finance its own borrowing for the initiative and will also pay interest on the loan from the developer and pay for agents responsible for managing and maintaining the homes. The Scottish government will provide a guarantee, to participating local authorities that it will step in if there is a problem and the SPV is unable to pay what it owes to the local authority.
3.6. Real Estate Investment Trusts (REITs)

These are funds whose purpose is to invest in property. They are investment vehicles that raise equity and use this money to buy developments. The aim of these funds is to pool equity for investments in an efficient manner. North America and a number of EU countries such as the Netherlands and Belgium have long established REITs. England introduced them in 2007. As noted by Lea and Chiquier (2009), there are a number of advantages to these vehicles:

- Net returns are potentially bigger because of professional rental management and economies of scale.
- Risks are reduced because the portfolio of the fund consists of multiple properties, which can be located in different regions or parts of the cities, and thus, rental and geographic risks are mitigated.
- There is no indivisibility effect (no minimum investment required), which is favourable in terms of portfolio composition for individual investors.
- The investment is more liquid.

The rules applicable to REITs vary across countries. The essential principle is that investors do not have to pay double taxation. They only pay tax once on their personal investment income and so the REIT is itself exempt from tax on profits. In order for this benefit to apply, there are restrictive rules on the activities REITs can pursue. The regulatory authorities in countries that have REITs apply strict regulations to ensure that the fund is used appropriately. The application of this approach to social housing is rare unless other incentives are provided, such as further tax breaks. The Community Development Trust in New York has been very successful. Their aim is to increase supply of affordable housing, while giving a good return for their investors. They have invested in over 20 states and private investors have received a return of almost 5% on their investment per annum.

REITs have failed to engage with residential property in England. The focus has been on retail and commercial property investments. Of the 23 REITs in the UK, none have a sizable housing stock. There has been no appetite for institutional investors to engage with residential property through REITs. A number of HAs did come together in 2007 to form a Housing Association REITs but this did not lead to any development. This has been due to many factors including a 2% conversion rate. In late 2011, the Treasury proposed changes to rules governing REITs that could make them more attractive to HAs. The proposed changes include the abolition of the conversion charge and a reduction of stamp duty charged on bulk land transfers. Other relaxations of legislation would see REITs listed on stock exchanges other than the London Stock Exchange, while certain other accounting restrictions could also be lifted (HM Treasury, 2011).

3.7. Conclusion

While approaches vary between countries, there are a number of common trends in the literature.

- There has been a general trend towards bringing social rents closer to market levels. (Van der Heijden, 2002; Gibbs & Whitehead 2007; Berry et al., 2009). This increase has been offset by increased housing allowances. The type of rents applied and the revenue achieved has a direct impact on financial sustainability and on the ability to raise private finance and investment.

- The financial crisis has put severe pressure on Governments to cut debt. This has led to a reduction in subsidies and a reinforcing of the shift from supply to demand side subsidies. The Government's focus is on increasing the role of private finance (in various forms) in the development of new social housing and making more efficient use of existing assets.

- There are a myriad of institutional models for housing finance, types of providers, rent policies, applicable laws and tax treatment. This can vary from the approach in Ontario, which provides minimal capital funding for development, to Ireland, which up until recently provided 95% capital grants.

- International evidence does not provide a definitive answer to the most effective and efficient system of financing social housing. The role of interrelated factors such as benefit policies, institutional framework and the supply and demand of housing all have an impact on the development of financing approaches.
4. Policy review

4.1. Introduction

This section will provide some background information on how social housing is delivered in Ireland, England and Canada. This will allow for a better understanding of the approaches taken to financing social housing. In a Canadian context, the focus will be on the provinces of Ontario and Québec.

This policy review will examine a number of characteristics of social housing:
- Definition of social housing
- Policy objectives
- Eligibility, allocations and affordability
- Rent setting
- Policy making and implementation
- Regulation and institutional architecture
- Financing of the sector.

4.2. Definition of social housing

There is no single definitive definition of social housing that can applied to the three countries under review. The definition used in each country can convey slightly different meanings. This may reflect the ownership of the dwellings (local authorities, non-profit organisations, co-ops) or those who provide funding (federal, provincial, municipality in Canada, central government in Ireland, or a mixture of public and private funding in the UK). The specific objectives of provision also vary between countries. In general terms, the aim of social housing in the three countries is to provide housing for households who cannot meet their housing needs from the market. Social housing, in this context, is almost always delivered by public or non-profit organisations at sub-market rent levels. It must be noted that social housing in a Canadian context can be referred to as public or community housing.

Social rented housing has traditionally fulfilled four functions. These are to:
- Reduce shortages of housing
- Improve the affordability of housing
- Allow people who could not afford to do so in the free market to gain access to adequate housing
- Act as a safety net for more marginal households who would otherwise be homeless (Oxley, 2009).

It must be noted that in the countries considered here, social housing exists explicitly to provide good quality affordable housing to those who cannot afford market housing. This is not the case in all countries. In countries such as Sweden, the Netherlands, and Austria social housing does not exclusively provide homes to people who cannot afford market housing.

The extent to which the definition above applies has varied over time and between the three countries. The key differentiation between social housing and other forms of housing is how it is allocated. Social housing is allocated based on need and not on the ability to pay, as is the case with the private market. This means that policy decisions are used to allocate dwellings and access is based on how needs are defined and applied (Oxley, 2009). For the purposes of this report, social housing will refer to all rental housing, be it public, non-profit or private that has been subsidised by the government and allocated according to need.

There are several terms used to describe non-profit, non-governmental organisations that provide low cost housing to those in housing need. These can range from legal definitions such as Approved Housing Bodies in Ireland and Registered Social Landlords in England to organisme sans but lucrative d’habitation in Quebec and non-profit housing associations in Ontario. For the purposes of this report and to avoid any unnecessary confusion all of these bodies will be referred to as housing associations (HAs).

Ireland

Social housing in Ireland is provided through local authorities and housing associations. HAs are voluntary and co-operative non-profit housing organisations. Social housing is targeted towards those on lowest incomes who cannot afford home ownership or market rent. Norris & Fahey, (2009), note that the meaning of social housing has changed considerably over time, with the distinction between social housing, private renting and home ownership now becoming blurred. This is due to numerous policy innovations, which have resulted in new forms of social housing. In more recent times, the definition of social housing has broadened and is now referred to as ‘social housing support’, in order to reflect the different forms of delivery. According to the Housing (Miscellaneous Provisions) Act, 2009, this social housing support may encompass any of the following:
Dwellings provided by a housing authority under the Housing Acts 1966 to 2009 or provided under Part V of the Planning and Development Act 2000, other than affordable housing (this would be considered traditional supply side delivery)

Dwellings provided by an approved body, (i.e. HAs and co-ops)

The sale of a dwelling under the incremental purchase scheme (a low-income home ownership scheme)

Entering into and maintaining rental accommodation availability agreements, (leasing from private sector landlords/HAs)

The provision of sites for caravans referred to in Section 13 of the Act of 1988 and any accommodation provided to Travellers under the Housing (Traveller Accommodation) Act 1998

The provision of sites for building purposes (this can include public private partnerships)

Purchasing, building, leasing or otherwise acquiring dwellings or sites

Converting buildings

Refurbishing dwellings.

There are numerous delivery mechanisms outside the traditional supply of grant funded Local Authority (LA) and HAs delivery. The focus of recent government policy has been on the use of long term leasing as a social housing delivery method. These agreements range from 5 to 30 years in duration.

Canada

Social housing is often referred to as assisted housing and is owned and operated by different levels of government and non-profit and cooperative housing organisations. The distinction is sometimes made between social housing and public housing, which was first funded by the federal government in the 1950s. The most definitive definition used to describe social housing programs is from the Canadian Mortgage and Housing Corporation (CMHC) in its Directory of Federal-Provincial Programs and Activities, 1992-1993.

“Social housing programs are designed to assist households which cannot afford to acquire adequate and suitable housing at affordable prices on the private market. Social housing, which is an important component of the social safety net, includes programs specially adapted to various client groups such as seniors, handicapped persons, native people, victims of family violence, single-parent families and the working poor” (Government of Canada 1993: Section 26, 1).

The policies of the provinces of Québec and Ontario broadly adhere to this definition. The roles of the provincial and municipal governments in the provision of social housing vary, reflecting the political, economic and social situation of the different provinces.

4.3. Policy objectives

Ireland

Irish government policy, up to very recently, has been focused on the promotion of home ownership. This is evident through generous supports such as mortgage interest tax relief, subsidised low cost home ownership, through tenant purchase and the absence of residential property taxation. It is the only OECD country that allows homeowners deductions for mortgage interest at the same time as not taxing property values, capital gains or imputed rent (Barham, 2004 and van der Noord, 2005). This led to a situation where over a 27-year period the user cost of housing was negative for homeowners (Barham, 2004).

In more recent policy frameworks, there has been a change in the focus of Government towards a notion of creating sustainable communities. Sustainable communities are places where people want to live and work, now and in the future. They meet the diverse needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life.
They are safe and inclusive, well-planned, built and run and offer equality of opportunity and good services for all (Government of Ireland, 2007). Integrated, mixed-tenure developments are central to the idea of sustainable communities.

According to the Government’s most recent policy statement, “the vision for the future of the housing sector in Ireland is based on choice, fairness, equity across tenures and on delivering quality outcomes for the resources invested” (Government of Ireland, 2011). The overall objective is tenure-neutral, which means there is no policy preference for one particular type of tenure over another and person-centred, “to enable all households access good quality housing appropriate to household circumstances and in their particular community of choice.” This is a continued break with the past when home ownership was given priority over other forms of tenure.

The main focus of government support will be on “meeting the most acute needs – the housing support needs of those unable to provide for their accommodation from their own resources” (Government of Ireland, 2011).

England
The overall aim of English housing policy has been summarised by variations of the following expression, “a decent home for all at a price within their means” (Hill, 2007). The Government objectives are quite broad with a focus on all tenures. It “believes everyone should have the opportunity of a decent home, which they can afford, within a sustainable mixed community. This means providing a wide choice of housing to meet the needs of the whole community in terms of tenures and price ranges. This should include affordable housing, both social rented and intermediate” (Communities and Local Government 2006).

Housing policy is focused on four main themes:
- Increasing the number of houses available to buy and rent, including affordable housing
- Improving the flexibility of social housing (increasing mobility and choice) and promoting home ownership
- Protecting the vulnerable and disadvantaged by tackling homelessness and supporting people to stay in their homes
- Making sure that homes are of high quality and sustainable.

Canada
The broad objective of the current federal program for social housing is, “to improve the living conditions of Canadians in need by improving access to affordable, sound, suitable and sustainable housing.” The intended outcome, “is to reduce the number of Canadians in housing need” (CMHC, 2011b).

Ontario
The overall vision of the Ontario Government is, “to improve Ontarian’s access to adequate, suitable and affordable housing, and provide a solid foundation on which to secure employment, raise families and build strong communities” (Ministry of Municipal Affairs and Housing, 2010).

The long-term affordable strategy has the following objectives:
- Working with municipalities to create local housing plans that clearly define and address unique needs of communities by 2012
- Working with partners to establish the specific components for consolidating approximately $200 million in housing and homelessness programs by 2013
- Securing agreement from the federal government to move forward on an automated tax-based, rent-geared-to-income approach
- Reporting on local progress indicators by 2013
- Working with municipalities to engage the federal government to commit to adequate, long-term funding (Ministry of Municipal Affairs and Housing, 2010).

Québec
Société d’habitation du Québec is the government agency with responsibility for housing. Their mission is to facilitate access to adequate housing for all Québéceurs, taking into account their financial resources and the diversity of their needs.

Société d’habitation du Québec Corporate plans outline the objectives of the government; namely to:
- Ensure access to low-cost, rental housing for low income households
- Increase the quantity of community (non-profit) housing

(Communities and Local Government 2011c).
Support people’s autonomy and maintain people with disabilities in their homes
Upgrade the social housing stock
Support the renovation of private homes
Co-ordinate and intensify the government’s intervention in support of community initiatives and social housing (Société d’habitation du Québec, 2008).

4.4. Eligibility, allocations and affordability

Ireland
Households can apply for local authority housing if they are in need of housing and cannot provide it from their own resources. The local authority is then required to undertake a housing needs assessment of the household. There are a number of standard criteria that determine an applicant’s eligibility and need for social housing support. These include household income, right of residency, rent arrears and availability of alternative accommodation.

When a household qualifies for social housing, they are placed on a housing list. Houses are allocated to applicants in order of priority, taking all circumstances into account. Each local authority has a specific scheme of letting priorities. This generally follows the direction of central government. It outlines rules for the order of priority on the housing list. The Irish government is in the process of moving towards a more uniform allocations model across local authorities. LAs approve the allocation of social housing provided by HAs and tenants are taken from the LA waiting list. There are some exceptions where the HA can independently allocate 25% of the dwellings in developments.

The Social Housing Allocation Regulations 2011 allow LAs to introduce choice-based lettings (CBL) schemes. Choice-based lettings are very common in England, allowing people applying for a home (including existing tenants who want a transfer) to bid for properties which become available. They provide tenants with an element of choice.

The DECLG and LAs have a statutory obligation to produce a national housing needs assessment at least triennially. In 2011, the DECLG rolled out a new version of the housing needs assessment. It provides a standard approach to the carrying out of assessments across all housing authorities. The current maximum income eligibility thresholds vary across three bands between €25,000 and €42,000, depending on household composition and location.

England
The legislation applying to the allocation of social housing prioritises those in greatest housing need. This applies to LAs and HAs. Each LA has to apply and publish an allocation scheme that details their approach to allocating housing. By law, the scheme must acknowledge certain categories of individuals and give them ‘reasonable preference’ when it comes to allocation (Hills, 2007). The majority of LAs operate a points-based system that takes into account length of time on a waiting list, level of housing need and other designated priorities. HAs have their own waiting lists and lettings policies, although they are expected to make a proportion of their lettings available to LA approved applicants.

Many local authority areas have Choice-based lettings schemes. They are designed to introduce an element of choice for people who apply for LA and Housing Association homes. This focus on choice and mobility has resulted in the introduction of a new programme called HomeSwap Direct. It will enable social housing tenants to take greater control and to manage their own moves. Through HomeSwap Direct, tenants will have access to a web-based service that will allow them to identify suitable properties anywhere in the UK.

The recent Government strategy proposes changes to regulation, to provide significantly increased freedom to social landlords on the types of tenancies they can grant, subject to appropriate parameters and protections. The standard minimum length of tenancy will be five years. The Localism Act creates a new, flexible tenancy for local authorities. It is proposed that LAs will be given freedom to use SH more creatively to support the social mobility people.

Canada
Core housing need
The national indicator for housing need is known as ‘core housing need’. It is assessed in relation to the three standards; adequacy, suitability and affordability. Adequacy refers to the physical condition of a dwelling. A dwelling is deemed to be inadequate if it requires major repairs or lacks proper plumbing facilities. Suitability relates to the size of a dwelling, i.e. whether or not the number of bedrooms is sufficient for the size and composition of the occupant household.
Affordability refers to the cost of a dwelling as a share of household income. The benchmark for affordability is that households should not spend 30% or more of their pre-tax income to pay the median rent (including utilities costs) of local market rent that meets all three standards (CMHC, 2011a).

The national housing agency, CMHC deems a household to be in core housing need if their dwelling fails to meet one of these three standards and the household pays 30% or more of its income to pay the median market rent for alternative local market housing. The ‘core housing need’ measure is often used in determining eligibility of tenants for social housing.

Ontario

Municipal governments in Ontario are responsible for the both the funding and administration of social housing programs. In 2002, the Ontario government passed legislation (Social Housing Reform Act) that transferred this responsibility from the province to municipalities. The eligibility criteria and rent levels are still controlled by provincial government. The rent is also geared to income and it is set at 30% of household income. The process of assessing social housing depends on the municipality. In Toronto, there are 185 social housing providers who are mandated to use one waiting list organised by an organisation called Housing Connections. This organisation is also the central point for applications for tenants.

Québec

Tenant eligibility is subject to a provincial by-law, but is carried out on a municipal level. It focuses on certain target groups and there is a maximum allowable income as part of the criteria. There are generally three types of social housing; dwellings for older people, families and those with special needs. Households must apply to be entered on the register of applications.

The rents are geared to incomes, which means that tenants pay a certain proportion of their income, 25% in this case. This 25% includes the rent or mortgage along with property taxes and heating costs. The landlord assigns a vacant dwelling to an applicant in the order of priorities established in the eligibility list. The municipal housing bureau in each municipality is responsible for listing eligible households, based on the criteria for the allocation of low-income housing. Housing development constructed by non-profit organisations must have a certain proportion of social housing in their development, usually at least 50%. The remaining tenants are selected by the organisation’s own criteria.

4.5. Rent setting

Ireland

Social housing tenants are charged rents based on the differential rents scheme (i.e. based on the income of the household). This is similar to the rent-geared-to-income approach in Canada. The nature of the differential rent schemes are decided by each local authority and follow broad guidelines set by the DECLG. The rent levels of social housing are considerably below the market level, due to the low incomes of tenants. According to the 2011 Housing Needs Assessment, over three-quarters of households in need of social housing had gross annual incomes of less than €15,000. Overall, 89.6% of households seeking housing support from local authorities had incomes of less than €20,000 (Housing Agency, 2011: 3).

Tenants, in general, pay between 14% and 20% of their assessable income on rent. There is often a minimum and maximum rent level. The rents within the housing association sector vary greatly based on the funding schemes from €47 to €65 per week in 2009 (ICSH, 2010).

England

There are currently two sets of rent systems being applied, one for existing social housing and another known as affordable rent for new or re-let dwellings.

The nature of rent determination has changed significantly in recent years under a rent restructuring process, which began in 2001. The overall objective has been to try to ensure consistency of rent levels between LAs and HAs. There has also been a focus on increasing rent levels across the social housing stock, to ensure that providers are in a financially viable position.

Under current rent setting policy, LAs are moving rents levels gradually to a formula social rent level. This will mean that all social housing tenants pay a similar rent for a similar property in a similar area. The formula rent is based on a combination of individual property values and average earnings in each area. In order to prevent excessive rent rises for individual tenants during the period leading to convergence, the rent formula limits any annual rents to retail price index + ½% + £2 per week each year until they reach the formula level. (Communities and Local Government, 2010). The current Government estimated that rents will be converged by

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5. A good overview of this process is provided in a parliament briefing note, Rent setting in social housing tenancies: www.parliament.uk/briefing-papers/SN01090.pdf
The rents of social housing are generally well below the market level. This varies between regions, with the largest divergence in market and social rents in London and the South East. Here the social rents are a considerable way below market rent levels (Wilcox and Pawson, 2010). Low income and welfare dependent tenants in England receive housing benefit, which is a rent payment paid to their landlord from LAs. Under the Affordable Homes Programme 2011-2015, social landlords can charge up to 80% of the market rent for new dwellings and re-lets. This income will be used for further investment in the stock. It remains to be seen whether this approach will be a success in terms of providing the considerable funds for new investment.

Ontario

Low income households generally pay rent-geared-to-income (RGI). These rents are subsidised to about 30% of the entire household's gross income. Certain non-profit providers such as the Toronto Community Housing Corporation (TCHC) can charge rents close to market levels. The rent may be reviewed once a year to reflect changes in buildings' expenses or policy.

Québec

The level of rent depends on the type of housing provided. Generally, in traditional social housing the tenant will not pay more than 25% of their total household income on rent, including heating costs. This has traditionally been the norm for social housing.

In more recently developed social housing, many of the funding programs insist on mixed rental tenure. The AccèsLogis Québec program provides funding for developments where up to half of the units are for those paying an economic rent i.e. 75%-95% of the median market rent level. The AccèsLogis program is aimed at those on low and modest incomes.

4.6. Policy making and implementation

Ireland

Social housing policy making is carried out by central government. The DECLG is the main policy-making body. The local authorities implement policy on behalf of the DECLG by assessing need and allocating social housing. LAs also work in partnership with HAs. The Housing and Sustainable Communities Agency work with and support: local authorities; HAs; and the Department of the Environment, Community and Local Government in the delivery of housing, planning and related services. The Dublin Regional Homeless Executive is responsible for the planning, co-ordination and administration of funding in relation to the provision of quality services to people who are homeless in the Dublin area, and for the development of responses to prevent homelessness. These two organisations also support the Department in implementing policy.

England

Policy making is carried out by central government through the Department of Homes and Communities. The national housing agency, the Homes and Communities Agency (HCA) supports government in this role. The HCA provides investment funds for new social housing, improvements to existing social housing and also funds for regeneration programmes. The LAs and HAs implement government policy at a local level in communities around England. The most recent Government Strategy puts a focus on the role of local communities through the Localism Act.

There have been large scale stock transfers from LAs to HAs in the last decade. HAs now manage over half of the social housing stock. Almost all new social housing is developed by HAs. It is expected that approx. 90% of the 170,000 homes under this programme up to 2015 will be constructed by HAs (Communities and Local Government 2011b). LAs and HAs work in partnership to deliver social housing at a local level.

Changes to the regulatory framework now allow for the registration of for-profit providers for the first time. The entry of new providers has the aim of encouraging innovation and greater competition in the sector.

Tenants Services Authority (TSA)

The TSA is the independent regulator for social housing in England. It works with social housing landlords and tenants to regulate the sector and improve the standard of service for tenants and residents. The TSA ensures independent implementation and enforcement of the government's regulatory standards. The TSA will be merged into the HCA in 2012 but remain independent. It will retain the key features of the existing
regulatory regime, such as economic regulation and the independence of functions.

Canada

The Canadian constitution does not make it clear what level of government is responsible for housing. This has resulted in shared responsibility amongst the three levels of government. Social housing policy making lies between the federal and the provincial or territorial governments. The federal government provides an overarching framework with general objectives, outcomes and principles, but the responsibility for delivery lies with provincial governments and municipalities. The federal government provides funding on a match-funding basis, i.e. the federal government will match the proposed investment amount of the provincial government.

Historically the federal government played a large role in the administration of housing. In 1996 the vast majority of these homes were transferred to provincial administration. The federal government retains administration of a small portfolio of housing (roughly 20%) and services, about half of which are non-profit housing co-operatives that successfully fought to avoid being downloaded to provincial administration (Shapcott et al. 2010). The non-profit sector has a very strong role in the delivery and management of social housing in partnership with the government and the private sector.

Ontario

In 1998, the Ontario government started to devolve social housing to municipalities. It also required them to maintain central waiting lists for most (though not all) types of social housing. This process was formalised in 2002, when the Ontario government passed legislation (Social Housing Reform Act) that formally transferred this responsibility from the Province to municipalities. The provincial government still decides on criteria and rent levels.

Québec

The Government of Québec and Société Habitation du Québec (SHQ) create policy at provincial level. SHQ acts as the principal advisor to the Québec government in housing and reports to the Minister of Municipal Affairs, Regions and Land Occupancy. It develops and implements policies and programs in the field of housing. It is also responsible for the largest social housing stock in Québec.

SHQ works in partnership at local level with four types of social housing providers: low-rent housing bodies; housing cooperatives; non-profit (NPO) housing organisations and municipal housing bureaus.

4.7. Regulation and institutional architecture

Ireland

The social housing sector is currently regulated by the DECLG. Funding provided by Government is based on detailed scrutiny of individual schemes. The amount of regulatory legislation is small and central government circulars on social housing only have advisory status. This means LAs are not legally obliged to follow them (Norris and Rhodes, 2007).

In terms of HAs, they must be approved to receive public funds and developments must be supported by the relevant LA. As noted by Brooke and Clayton (2005), data collection of the relevant department focuses on accounting for funding distribution under schemes, rather than data that could be applied to monitoring or evaluation of housing management performance. LAs are, in theory, responsible for the regulation of governance, technical standards and financial operations of HAs.

There is no overarching, regulatory framework in terms of holding LAs and HAs to account in areas such as dispute resolution, governance and financial viability. In a recent review of HAs (Grant Thorton, 2009), the most common legal structure was a company limited by guarantee, with co-operative bodies and trusts forming the balance. Almost all have charitable status from the tax authorities. This review goes on to recommend that the DECLG should obtain evidence of sufficient corporate governance practices before funding. There is no guidance from the DECLG on governance, financing and transparency in the sector.

The previous government had the intention of including certain parts of the sector, i.e. standard social housing under the remit of the Residential Tenancies Act. (Silke and Farrell, 2011). The current Government has also committed to this goal, “to bring tenancies in the voluntary and cooperative sectors within the PRTB’s remit” Government of Ireland, 2011). This would mean the tenant-landlord relationship would be regulated by the PRTB.
In terms of more specific regulation on finance, governance and standards, the latest government policy statement also notes that the Government are committed to working in partnership with social housing providers in the transition to their new role and “to implement the recommendations set out in the independent review on the future of the sector, and to ensure that the necessary regulatory framework is in place. A paper setting out possible options for the future regulation of the social housing sector generally, making use of the existing institutional landscape, is currently being prepared for consultation” (Government of Ireland, 2011). The DECLG is currently working with the ICSH in developing a voluntary code of conduct for the sector, which may eventually form the basis of a statutory framework.

England

The social housing sector in England is comprehensively regulated. The Department of Communities and Local Government sets policy on regulation. The TSA ensures that social housing providers follow these regulations.

TSA has ten statutory objectives set out under the Housing and Regeneration Act, 2008. These include all aspects of social housing provision including tenant/landlord relationship, financial regulation, built quality and governance.

The TSA has six standards:
- Tenant involvement and empowerment
- Home
- Tenancy
- Neighbourhood and community
- Value for money
- Governance and financial viability.

The TSA deals with landlord-tenant disputes that cannot be resolved locally. In housing provided by local authorities, complaints are dealt with locally and by the Local Government Ombudsman as a last resort.

One of the TSA’s roles is to monitor the financial health of social landlords. They currently publish:
- An annual review of housing association private finance;
- An annual review of the global accounts of HAs; and
- Quarterly surveys of HAs.

In addition to this, the TSA also publish regulatory judgements summarising overall assessments of provider’s compliance with the regulatory framework. The judgements set out the TSA’s view as to whether the organisation is viable, properly governed and properly managed. The regulatory framework is being revised to reflect the Localism Act and directions to the regulator.

Canada

The regulation of the sector is divided between the different levels of government. The federal role, as outlined in the National Housing Act, focuses on regulation of financial institutions, tax policy, model national building code, research and market analysis, public policy spending (in the range of C$3.0-3.5 billion per annum in recent years) and responsibility for housing on First Nations reserves. The provincial role is to provide social assistance, building codes, land use planning, landlord-tenant laws, public health and safety regulation, provincial tax policy, public policy spending and programme administration. The municipal role consists of local plans and bye laws, development control and approval, bye law enforcement, property taxes, housing project management and some public policy spending. Under federal funded programmes, the CMHC set and enforce standards to ensure modest and maximum unit prices were used to control costs.

The particular co-operatives and non-profit housing organisations are regulated under the Acts in law that relate to them. In the case of co-ops, this is the Canadian Co-ops Act. Non-profits are constituted and regulated under Part III of the Companies Act or Part II of the Canada Corporations Act.

Québec

SHQ has a role in terms of working with partners in providing social housing and ensuring that the developments meet the requirements in terms of target groups, cost requirements and economic viability. La Régie du logement deals with tenant landlord disputes. It is a specialised court, exercising jurisdiction in all residential leases. It is similar in ways to the Private Residential Tenancies Board which operates in the private rental market in Ireland.

Ontario

Similarly to Québec, the provincial government has a role in the regulation of social housing to ensure it meets cost requirements and economic viability. Ontario also has a board that deals specifically with landlord-tenant
discussions. The Landlord and Tenant Board’s role is to provide information about the Residential Tenancies Act (RTA) and to resolve disputes between most residential landlords and tenants. Certain aspects of the act such as rules around rent do not apply to social housing.

4.8. Financing of the sector

It must be noted at the outset that social housing needs to be subsidised in some form or another. The provision of housing at often well below market rents would not be economic without some type of subvention.

As noted by Whitehead (2008), there are three main ways of funding social housing:

- Rental income from tenants
- Borrowing by social housing providers
- Payments to providers from different sources, primarily government.

This section will briefly examine what mixes of these elements are applied in each of the countries. It is covered in more detail in the literature review.

Ireland

Rental income from tenants

Social housing is targeted toward those with the lowest incomes in society and the rent paid is based on incomes. This has resulted in housing needing subsidies to make up the cost of provision. This has primarily been through bricks and mortar subsidies. As noted by Norris & O’Connell (2002), rental income can often be below management and maintenance costs, which results in LAs approaching central government to fund refurbishment. This has also been true for HAs, which receive a subsidy for each tenancy to pay for management and maintenance costs.

Borrowings

HAs are beginning to use private sector funding for new developments with the assistance of the Capital Advance Loan Facility (CALF) established in 2011. CALF provides HAs with an equity injection in the form of a loan to assist them in securing private finance or finance from the Housing Finance Agency (HFA). The loan is a bullet loan for a maximum of 30% of construction or acquisition. It is unsecured, with a simple interest of 2% charged.

The HFA’s function is to advance loan finance to local authorities and the voluntary housing sector, to be used for any purpose authorised by the Housing Acts, 1966-2009, and to borrow or raise funds for these purposes. It is envisaged that, while funding will eventually come from the private sector, the HFA will act as an interim funder for HAs (HFA, 2010). A number of HAs have been successful in achieving approved borrower status from the Agency. The HFA provide loans at variable interest rates.

Payments

Traditionally, social housing construction has been funded by large capital grants to LAs and AHBs. There have also been ongoing subsidies to LAs and HAs to cover repairs and maintenance on the dwellings. The majority of voluntary and co-operative accommodation was provided under two DEHLG funding schemes: the Capital Assistance Scheme (CAS) and the Capital Loan and Subsidy Scheme (CLSS).

CAS was introduced in the mid 1980s and has been used since to meet the special housing needs of persons including older people, people with a disability, homeless people, returning emigrants, etc. 75% of the tenant allocations are required to be made to persons eligible for local authority housing.

CLSS was introduced in the early 1990s and was used to meet the general housing needs of low-income families. It was a requirement of CLSS that all tenants should be eligible for local authority housing and the rents charged were based on the differential rents scheme (i.e. based on the income of the household). New funding under the CLSS is no longer available. The only capital funding available will be through the CAS scheme, €90m in 2011. The focus has now been placed on long-term leasing arrangements.

Payment and availability agreement

Approved Housing Bodies (AHBs) or HAs can directly provide properties for social housing purposes under the Social Housing Leasing Initiative. An AHB can source properties in three ways:

- Lease properties from a private owner/developer
- Purchase properties using private/HFA finance or
- Construct properties using private/HFA finance.

Once the AHB has the appropriate approval, the availability of properties is secured for social housing purposes, by way of a payment and availability agreement. This agreement is between the local authority and the AHB.
Different levels of funding are available depending on whether properties are leased or owned by the AHB. Where property is leased, the amount payable to the AHB is approximately 80% of market rent. Where property is owned by the AHB, the amount payable to the AHB is approximately 92% of market rent. The extra 12% is for management and maintenance of the properties.

Incremental Purchase Scheme

There is also an Incremental Purchase Scheme similar to ‘Right to Buy’ in England. This allows local authority tenants to purchase their home at a discount in increments. The Incremental Purchase Scheme is planned to replace the existing Tenant Purchase Scheme. The scheme will be made available to existing and prospective tenants of rented social housing to purchase new LA and HAs dwellings. The purchase of apartments was added at the end of 2011.

Part V of the Planning and Development Acts 2000-2002 requires that up to 20% of all new housing developments be provided as social and affordable housing. The implementation of the Irish scheme failed to reach the targets outlined under various Governments, even during the record levels of output. (DEHLG, Quarterly Housing Bulletin, various years).

England

Rental income from tenants

The main focus of recent reforms was to ensure social rented housing tenants are treated equally, while increasing rents in order to fund new development. The rent restructuring regime changed the way rents were determined from cost-based rent to rents based on a formula that takes account of local earnings, dwelling size and property values (Whitehead, 2007). This has contributed to LA rents now generating a surplus over their historically low costs (Wilcox and Pawson, 2010). Wilcox and Pawson (2011) notes that the higher rent levels under the new programme could well increase output significantly from a constrained grants budget, but at the same time this raises questions about work incentives and housing benefit dependency. He also notes that the new higher rent levels would also need to be cognisant of any changes in the level at which the local housing allowance rates are set for private rented tenancies.

The new scheme of affordable rents will be used to fund the increase in supply of affordable homes by 150,000 (Communities and Local Government, 2011b). This will be achieved by a combination of additional borrowing raised against the higher income from ‘affordable tenancies’ and grant funding. It is in line with a general shift from supply to demand side subsidies.

Borrowing

The UK has a highly developed market for borrowing by social landlords for new developments and investment in improving the stock (Whitehead, 2008). Heretofore, the risk premium has been minimal and there have been many providers in the market. The collateral asset values used to secure finance remain high and rental revenues due to the housing benefit generate considerable income (Whitehead, 2008). The Housing Benefit reforms have raised concerns over the impact on debt financing.

Financial institutions have made £60bn available to the sector (UK Parliament, 2010). At the moment HAs have £40 billion of debt drawn down at interest rates that are cheaper (some 100 to 150 basis points) than those for non-regulated housing developers. The TSA argue that the regulatory system is crucial to the continued flow of lending. They make the point that an efficient and stable national regulatory system is crucial to the flow of £20 to £25 billion of lending that will be needed over the next five years (TSA, 2011b). Independent research shows that regulation currently reduces interest costs by around £500 million per year.

Payments

The right-to-buy scheme has resulted in considerable payments from tenants to social landlords in England. This scheme allows social housing tenants to purchase their home at a considerable discount. It has involved the transfer of around 1.3m units since 1990 (Gibb & Hall, 2011). These transfers involve a proportion of equity and debt finance contribution by the tenant as well as subsidy from government. The vast majority of this money since 2005 has been returned to central government. There has also been a debate on selling social housing in high-value areas, which would raise funds for new social housing (Morton, 2010).

Government subsidies

Social housing grants have been the main form of capital subsidy for the sector. This has been used by the HA sector for the capital costs of development.

Housing Benefit represents around two-thirds of the income received by social landlords. (Gibb & Hall, 2010). Claimants include low-paid workers, unemployed
job seekers, low-income pensioners and economically inactive adults such as the long-term sick, the disabled and full-time, unpaid carers.

As of November 2010, there were 4.8 million claimants of housing benefit, with 1.5 million of those renting in the private sector. Reforms on how housing benefit is paid are currently being developed. This will result in savings of £2.4bn, according to the government. The main aim of the cuts is to ‘incentivise’ people to move to a smaller home in the social rented sector. There is some concern about the planned reduction in housing benefit that will take place in 2013. The National Housing Federation have suggested that the Housing Benefit reforms could be a barrier to the development of new affordable homes.

Private sector contributions

The state can require contributions to affordable housing from developers by acquiring a proportion of affordable housing from at least major developments. This policy is known as Section 106 of the Town and Country Planning Act 1990 and has supported well over 50% of new affordable housing provision in recent years. (Whitehead, 2007). This is essentially a tax on developers and applies on developments over a certain size and is dependent on location.

Canada

Payments from tenants

This generally depends on the type of development. In traditional public housing the rent levels paid by low-income tenants are not sufficient to cover costs. They are covered by an ongoing operation agreement that provides subsidies, many of which are due to expire in the coming years.

More recently, affordable housing developments by non-profit organisations have set rents at different levels (50th/65th/80th percentile of market rents), including a mandatory amount of social housing. This allows the project to service its borrowings and set aside money in a sinking fund.

Borrowings

The sector has considerable borrowing from the private sector, as these loans were given a guarantee by the CMHC. The loans were taken out mainly by the non-profit sector, and the operating agreements provide the revenue to repay the debt.

Payments

All levels of government provide funding to social housing. This can be in the form of supply and demand side subsidies. There has been a focus on once-off capital investment from federal government, rather than a long term funding commitment.

As of 2009, Canada’s municipalities spent almost as much on housing as the federal government. This is most obvious in Ontario where local governments spent more than double the amount that provincial government spend on affordable housing. Québec and Alberta also impose a significant responsibility on local governments for funding affordable housing (Shapcott et al. 2011).

Ontario

Rental income from tenants

As mentioned above, tenants usually pay rent-geared-to-income, particularly in former public or federal housing. Non-profit organisations have tended to develop mixed income units, using the higher rents to cross-subsidise other units within a development. The organisations with high volumes of rent-geared-to-income tenants are finding it very difficult to fund their renovation and maintenance programmes.

Borrowings

In Ontario, as in Canada, generally private funding has been utilised with an implicit guarantee at federal or provincial level. This has encouraged investment in affordable housing and helped to achieve a competitive interest rate on the debt (Gadon, 2011).

Payments

There are a number of federal programs that provide subsidies to social housing providers. This is through capital subsidies and the operating agreements for ongoing debt servicing and management. The Affordable Housing Framework agreement between federal and provincial government also provides funding to municipalities to allocate to different housing providers, either through capital for new investments or through rent supplements.

The private sector has also been given incentives to engage with the development of social housing through increasing density through revitalisation. The Regent Park development in downtown Toronto is the prime example of the use of public private partnerships.
Québec

Rental income from tenants

As noted above the rents in the programmes funded under the AccèsLogis program are a mixture of rent-geared-to-income and mixed market rents.

Borrowings

Under the current social housing programme, AccèsLogis, 35% of the cost of the project is funded by borrowing. This is often provided through many of the co-operative financial groups that are common in Québec. The province provides an implicit guarantee for the borrowing. The SAQ provide 50% of the capital costs with the remaining 15% provided by the community.

Payments

The SHQ finances the municipal housing organisations by covering their operating deficits – the difference between operating costs of the buildings and income from rents – through grants. These are financed through federal government, the Québec government and the municipalities. Assistance to housing co-operatives and non-profits have mainly taken the form of start-up grants, capital subsidies and grants to cover operating deficits for up to 35 years.

Under the AccèsLogis program almost half of the units will be eligible to rent-geared to-income supplement under which tenants will pay roughly 25% of their income in rent (Villancourt, 2007). Under the affordable housing initiative of the Québec programme, the project will be funded to a maximum of 75%. This includes direct financial assistance, donation of land, interest-free loans and professional services donated.

The maximum federal contribution amounts to an average of C$25,000 per unit. These properties must be primarily rental, but 25% of the units may be subsidised home ownership. Units funded will remain affordable for at least ten years. The implementing rules of this contribution are defined in bilateral agreements. Jurisdictions must provide a total contribution equivalent to that of the federal government. However, this contribution may be made in kind, for example, by making available land owned by the municipality.
5. Case study: Commercial lending

5.1. Overview: England

As noted in the literature review, the use of private finance has been developed over 20 years in England. Commercial lending from financial institutions has played a dominant role. This is quite unusual, given the long maturities involved in financing housing.

The global accounts for the HA sector in 2011 provide financial analysis of the 400 providers with at least 1,000 social homes. This makes up more than 95% of the sector's stock. This publication gives a good account of the levels of debt and the possible potential of this source of finance over time in Ireland.

<table>
<thead>
<tr>
<th>Table 1: Financial indicators of HA sector in England</th>
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<tr>
<td>Indicator</td>
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<tr>
<td>Gross Book Value (£ billion)</td>
</tr>
<tr>
<td>External debt (£ billion)</td>
</tr>
<tr>
<td>Grant (£ billion)</td>
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<tr>
<td>Debt per home (£)</td>
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<tr>
<td>Weekly rent per social housing unit (£)</td>
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<td>Operating surplus (£ billion)</td>
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<tr>
<td>Operating margin (%)</td>
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<td>Gearing (%)</td>
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Source: (TSA, 2012a)

The gross book value (GBV) of the sector’s assets (total cost and valuation) is £109.4 billion. This was supported by £45 billion of external debt and £46.7 billion in grants. The debt per home is just over £17,000. There were reserves of £18.3 billion. The sector has an operating surplus of £2.7bn and an operation margin of 18%. Gearing when measured, using the adjusted net leverage ratio, was 40.9% in 2011. The sector continues to benefit from low interest rates: interest costs only rose by £64 million while total debt increased by £2 billion in 2011 (TSA, 2011b).

5.2. Development of banking finance

At the outset, capital market or bond finance was the dominant source of finance. This was when grants providing over 80% development funding. This began to change in the late 1980s/early 1990s and banking finance began to take over. The residential mortgage market had matured and the banks viewed the HA sector as a new business opportunity for lending.

This led to 15 years of low-cost bank finance, which was made even more attractive by providing the flexibility to revisit margins and covenants. The banking sector undertook a considerable amount of maturity transformation: borrowing short and lending long. The HAs were able to borrow at historically very low margins – typically 20-30 basis points over LIBOR (the London interbank rate) during this period. This resulted in the dominance of bank finance, which continues today. According to the sector’s quarterly survey from September 2011, 89% of the sector’s total agreed facilities are attributable to bank loans and 10% to capital market funding. (TSA, 2011a)

5.3. Current trends

The information in Table 1 provides a good overview of the financing of the sector as a whole, but it fails to provide a snapshot of the current activity in the sector and the impact of the financial crisis on funding. The TSA quarterly survey from December 2011 provides an overview of the finance market in the housing association sector. The sector has reported total borrowing facilities of £61.4 billion. £52.6 billion is currently outstanding, with a further £11.5 billion of undrawn facilities. The following information gives some sense of the current activity in the sector:

- The planned draw downs in the next 12 months total £4.8 billion (September £4.8 billion).
- Average facilities extend for 28 months, even after excluding those providers with more than 10 years’ facilities.
- Total asset sales of £389m (September £426m) were achieved in the quarter generating a surplus of £104m (September £117m). As in previous quarters, 50% of the sales were attributable to shared ownership homes.
- New facilities arranged in the quarter totalled £842m, an increase of 22% over those arranged in Quarter 2 (£693m). Bank lending accounted for the majority of this new finance, along with a £100m THFC bond finance and Aster Group’s PFI scheme.

(TSA, 2012b).

The financial crisis of 2008 has resulted in increased capital requirements for banks, a slowdown in lending and a considerable increase in the price of bank debt.
New lending facilities are offered at around 125-200 basis points over LIBOR. This reflects the Banks costly existing loan book, with funds lent on generous terms over 25/30 years. There has been some evidence to suggest banks might have been restricting criteria for new lending and in some instances seeking to re-price existing loans to HAs as their own cost of funding makes the loans uneconomic (House of Commons, 2009; TSA, 2011b: 2). It is a generally held belief that recent developments in the banking sector are leading to a shift towards a more tiered debt market, with banking providing the short term finance (under five years) and institutional markets providing for the longer term. (Williams et al. 2011: 4; Duxbury, 2011). This has encouraged a renewed interest in bond finance and other forms of institutional investment in recent years in England discussed below.

There are a number of factors that led to the success of commercial bank lending in England:

- Regulation
- Housing benefit
- Grant
- Pricing
- Autonomy of HAs.

These will now be examined in detail below.

### 5.4. Regulation

The role of regulation cannot be underestimated. The financial institutions and rating agencies are given assurance by a robust regulatory system. They mention it constantly in their analysis of the sector. The regulatory system has been tested (in the case of the collapse of Ujima) and has used its powers effectively. The regulator stepped in successfully to ensure an orderly wind down of Ujima and the transfer of stock to another HA. It has an almost unique credit history in that no investors have lost money on their investment. The regulator also assisted the sector through the downturn by encouraging increased grant to stabilise the sector’s exposure to private developments. The regulator is in constant consultation with stakeholders to ensure that any issue raised can be dealt with at an early stage. The banks are constantly in dialogue with the regulator and there are regular formal consultations with stakeholders, including the Council of Mortgage Lenders Social Housing Panel.

The role given to the regulator is outlined in 10 objectives in the Housing and Regeneration Act 2008:

1. To encourage and support a supply of well-managed social housing, of appropriate quality, sufficient to meet reasonable demands
2. To ensure that actual or potential tenants of social housing have an appropriate degree of (a) choice, and (b) protection
3. To ensure that tenants of social housing have the opportunity to be involved in its management
4. To ensure that registered providers of social housing perform their functions efficiently, effectively and economically
5. To ensure that registered providers of social housing are financially viable and properly managed
6. To encourage registered providers of social housing to contribute to the environmental, social and economic well-being of the areas in which the housing is situated
7. To encourage investment in social housing (including by promoting the availability of financial services to registered providers of social housing)
8. To avoid the imposition of an unreasonable burden (directly or indirectly) on public funds
9. To guard against the misuse of public funds
10. To regulate in a manner which:
    a) Minimises interference
    b) Is proportionate, consistent, transparent and accountable.

Section 93 of the Act gives the TSA real powers to act as it see fit, “The regulator may do anything it thinks necessary or expedient for the purpose of or in connection with the performance of a function conferred on it by this Part or another enactment. In particular, the regulator may do anything it thinks appropriate for advancing its fundamental objectives.”

The robust nature of these powers enshrined in legislation provides real confidence in the sector.

### 5.5. Housing benefit

Housing benefit is the rent supplement payment for low-income tenants. These payments make up two thirds of the revenue of HAs. Housing benefit is linked to the retail price index (RPI) and paid directly by local authorities to HAs. The security of this revenue stream is vital to encourage lenders to lend. It provides them with peace of mind that there will be a sufficient and stable revenue stream to pay back debt. The credit risk of a
LA who provides housing benefit payment to HA is very different to that of an individual. Housing benefit lowers the risk and, thus, the cost of debt.

5.6. Grant

Social housing by its very nature cannot be developed without some form of subsidy. While private finance has had a greater and greater role, the government, throughout the period continued to provide significant grant funding for development. This has varied from 40-45% of cost pre-credit crunch to an average of 15-20% under the current programme. The latest round of funding for new development is tied to a model of affordable or near market rent. This aims to fund future supply by leveraging increased revenue through rents to raise private finance investment.

The current round of funding is on a four-year rather than scheme-by-scheme basis. The grant is allocated through a competitive bidding process, to ensure the best output for taxpayer investment. The HCA provides a certain amount of grant to ensure that a HA provides a designated number of homes in a certain area, representing different proportions and types of homes, responding to housing needs. The four-year funding cycle allows HAs to be more flexible and responsive to market conditions and housing need.

5.7. Autonomy of HAs

The HA sector has been encouraged by Government to use private debt and make efficient use of its balance sheet. HAs have accessed private finance mainly by securing mortgages against their stock. The larger HAs work relatively autonomously, which allows them to act swiftly on development opportunities. This is mainly due to a funding structure that is not scheme or development led but based on the strategic goals of the organisation’s business plan. Lenders prefer this treasury management funding approach, as there is less credit risk when lending is underpinned by the organisation as a whole. HAs continue to be viewed as a ‘safe lend’ and lenders were reassured by the sector’s handling of credit crisis. The credit ratings agencies give HAs and the sector generally very good ratings.

5.8. Price

Bank finance, in many ways, was a victim of its own success. The relatively cheap and flexible nature of bank debt drove lending. The financial crisis has put an end to low cost bank debt. This has increased funding costs for the banks, which has put pressure on account managers to re-price the loans if any of the covenants are broken. In many ways the dominance of the secured mortgage model of finance was a result of serendipity. The sector is now shifting towards capital market funding, whose maturities are more reflective of the long-term nature of housing investment.

5.9. Conclusion

The banking sector in Ireland is currently not conducive to the growth of lending that has taken place in the past 20 years in England. There are projects being funded, often based on a strong business relationship and large capital reserves. It may take some time for financial institutions to engage with the sector, given the nature of the crisis and pressure on increasing capital ratios.

The HFA is currently providing a role as an interim lender. The Housing Corporation undertook a similar role in the past in England when private finance was first introduced. The credit assessment process undertaken to gain approved status by the HFA will assist the sector to develop experience and knowledge of how to approach the process of acquiring private finance.
6. Case study: Capital markets

Social housing can offer a long-term, low-risk secure investment, generating a predictable and rising income flow from well-regulated landlords. It can be argued that this presents an ideal opportunity for pension fund and institutional investors to enter into the social housing sector, using index-linked investments or more traditional bond finance.

6.1. Bond finance

Bond finance often has significantly different covenants from those of a banking facility. They usually require adequate cashflow to repay debt from the assets pledged and several require no valuation or corporate financial covenants. They typically do not have capital return or tax indemnities. They are viewed as relatively stable in terms of cost and risks but HAs must take account of the inflexibility when compared to bank facilities. Bond terms are not easy to change and early repayment will usually cost significantly more than, for example, unwinding a hedged bank facility (TSA, 2009: 33).

There has been a substantial increase in the use of bonds to fund longer term debt in recent years. Of the £70bn in private finance in the sector around £8bn is bond finance. Bond issuance has risen dramatically since the financial crisis began. In the three years up to 2008, capital markets made up less than 5% of all new private finance. This is now in the region of 32% (TSA, 2011a).

In 2009-10, £988m was raised at rates of between 5.42% and 6.35% and in 2008-09 £986m was raised at between 5.96% and 7.25% (TSA, 2011b: 12). The issuing of bonds by HAs directly is limited to around the top 50 HAs (Williams et al. 2011: 5). These single name bonds are issued via a number of organisations including Royal Bank of Canada, Barclays, Royal Bank of Scotland, Morgan Stanley and Credit Suisse and Lloyds. The bonds are usually secured against the assets of HAs, although for the first time this year one HA has issued an unsecured bond. The smaller and medium sized associations often aggregate their debt requirements and secure bond finance through a conduit.

6.2. The Housing Finance Corporation (THFC)

THFC is the most prominent aggregating funder in the UK. It is an independent, specialist, not-for-profit organisation that makes loans to social landlords, by issuing bonds to private investors and by borrowing from banks. This involves the aggregation of HAs debt requirements in order to reach a scale suitable for the institutional market. In the earlier part of this decade before the financial crisis, 30-year bullet (interest-only) structure bonds issued by The Housing Finance Corporation on behalf of HAs achieved margins under 100 basis points below the treasury-bond rates for similar timescales with an AA rating. (Lea and Chiquier 2009: 385).

THFC has a considerably lower loan to value ratio than the bank sector. It would almost always be under 66%. THFC match fund, whereby it borrows for 30 years to lend for 30 years. Its entire loan book is credit scored and a credit committee assesses new lending. The THFC does not take currency or interest rate risk. The aggregating of debt involves getting a number of HAs to come together to agree to the same cash flow characteristics. THFC holds back 5% of the bond to ensure that cash is kept in reserve as liquidity support to ensure continued repayment and time to secure revenue from assets. THFC has ‘A+/A-1’ rating from Standard and Poors.

One of the THFC recent deals was a 30-year bond. The cost of funds was 5.4 per cent, and the spread over gilts (the difference between the cost of funds and the price of government bonds) was 0.99 per cent. This was the first time since 1997 that HA bonds were less than 1%.

A number of HAs are given credit ratings by well know credit ratings agencies. These range from Aa2 to A1 with stable outlooks. (Williams et al. 2011: 5). The HA sector has formed a Treasury Management Group, which is an independent group made up of finance professionals from major HAs to share best practice. (Williams et al. 2011: 6) outline the main factors required for the sector to remain attractive to the institutional bond market:

- HAs have a low risk profile. This is due to their public policy role and strong demand for social housing.
- The regulatory framework has placed an emphasis upon the continuance of strong governance and high levels of administrative capability around portfolio oversight, asset and treasury management, strategic planning and procedures, and good quality technology/systems. This has helped the housing association sector to cope with difficult strategic decisions when required.
- The legal ability of a mortgagee in possession to sell units at market value subject to existing tenancies, providing a further level of credit enhancement.
In terms of financial sustainability they highlight:

- Freely available cash, predictable cashflows with limited correlation with economic or investment cycles.
- Financial flexibility – including the ability to raise cash through property disposals of let or void properties.
- Continued low leverage – average leverage for UK associations is 42% (taking grants into account as equity). Given that most RPs hold assets at depreciated historic cost, rather than existing use or market value subject to tenancies, this figure probably overstates the effective level of balance sheet gearing.
- Strong cash flows, underpinned by good rent collection records and government housing benefit.

6.3. Pension funds

Pension funds investing directly into social housing have been the focus of much discussion on the future financing of social housing (New Economics Foundation, 2010; Williams et al. 2011; Clarke, 2011). In the region of one per cent of UK insurance and pension funds’ overall investment in property is in the residential sector (Alakeson 2011). Many have argued that there is considerable potential for development and a clear synergy between the needs of the HA sector and those of pension funds. HAs need long term maturities. Pension funds need index-linked, secure and steady income flows. (Williams et al. 2011; New Economics Foundation, 2011). When pension annuities go into payment, investment is usually put into gilt edged securities (GILTs) (English government bonds). Investment mandates for annuity funds insist that investments must be safe, secure, and a return over GILTs. Annuity funds would appear to be natural suppliers of funding for the sector. The New Economics Foundation have estimated that the required size of investment in England is a challenge at between £12 billion and £20 billion per year for five years. This is a reasonably large proportion (1.5 per cent to 2.5 per cent) of the total holding of bonds in the UK pension fund and insurance sector – £877 billion (of which £178 billion are index-linked gilts) (New Economics Foundation, 2010).

6.4. Models of pension fund investment

There are number of different models of pension fund investment. In most instances, a Special Purpose Vehicle (SPV) would be set up to allow the pension fund and HA to work together in a structure that ring-fences the project and limits liability to both parties. The level of equity investment can vary depending on the project. The pension fund can provide 100% of the capital or there can be a joint investment with the HA. HAs would fully manage all aspects of the properties while the pension fund would in effect be a ‘silent investor’ and provide capital and be involved in returns and risks. The different types of housing built will have a large bearing on the risk involved in the project. This will allow for a mixed tenure approach and diversify risk involved in having a tenure neutral approach.

6.5. Buy and lease back model

One of the most common forms of pension investment involves the buy and lease back model. In a sale and leaseback arrangement, the pension fund agrees to purchase a development from a HA and then leases it back to them over a period, usually 30-50 years. At the end of the lease, the ownership of the buildings can return to the HA with the pension fund receiving an amortization of the capital value over the term of the lease. These lease arrangements can be modelled to increase in line with inflation to provide pension funds with revenue flows that match their liabilities.

The Aviva group in England recently made an investment of £45m to fund the purchase of 1,000 homes under a buy and lease back deal with Derwent Living HA. Investors buy stock and lease it back to the HA over 50 years, after which time the lease would return to the HA for a nominal £1 fee. The investors would get a return linked to the retail price index. The funding was provided by the Aviva Investors REaLM Social Housing Fund, which is part of the asset manager’s Return Enhancing and Liability Matching (REaLM®) strategy, which aims to address the current underfunding issue being experienced by UK pension schemes, by hedging against inflation risks and generating returns in excess of liabilities. Pension funds are enticed by the long date, low risk, income from long lease property.

6.6. Index-linked debt

Another approach that has been discussed is HAs issuing long-dated inflation-linked debt, which pension funds can invest in. The debt can be secured against the HAs assets and HA rents that are linked to RPI. Since they are in receipt of inflation-linked cash flows they can reduce inflation risk by linking the debt coupon repayments to inflation. It is also possible that such inflation can be capped (e.g. at 5%) to better match a pension fund’s
liabilities. Unfortunately, some HAs potentially have limited scope to issue new debt.

In England, M&G investment company have launched a social housing fund that will be looking to provide institutional investors with access to inflation-linked debt issued by HAs, thus helping pension funds to match their inflation-linked liabilities. The fund will look to attract capital from pension funds, although M&G life insurance is also a potential investor in this product. Most index linked pensions are subject to a cap on RPI, typically at 5%, and a floor of 0%. Therefore mature pension funds are happy to buy index linked assets with similar floor and cap, known as limited price inflation.

6.7. Development partnership

Some HAs have reached their maximum level of balance sheet leverage, This has led them to look for investors who can make equity investments in new development projects. Social housing development projects can have many of the same characteristics as other forms of infrastructure development. Getting involved in the development stages of a building project brings with it a lot of extra risks not found in debt or sale and leaseback arrangements. This could happen in two ways:

1. **Full development partnership**
   Pension fund provides development capital from the outset of the project.

2. **Forward sale**
   Pension fund enters an agreement with a Housing Association to provide equity investment once the development has completed.

6.8. Conclusion

Housing bonds have been issued in the past in the early 1980s by the Housing Finance Agency. Given the current situation of the Irish sovereign in capital markets, it may be some time before HAs would be in a position directly or indirectly to issue bonds. There remains scope for institutional investors. The yields on some schemes may be attractive to some domestic pension funds. The nature of the social housing projects has attracted interest from pension trustees looking to de-risk their funds. It also would be attractive to organisations moving from a defined benefit to defined contribution scheme. Given the current status of Irish sovereign debt, many international investors view Ireland as too risky. This leaves the domestic market as the only future area of growth.

There is a general view within the sector, that capital markets debt may take some time to develop and that in the initial period of private finance that commercial banking finance would be viewed as a first step. Many believe that capital market investment would require a substantially robust legislative regulatory framework, which would need to be developed over a number of years.
7. Recommendations

The future development of private finance in Ireland can learn from the experiences of other jurisdictions. The shift to private finance has generally been successful due to a number of factors. These factors are outlined below with a number of recommendations on how these factors can help create a vibrant role for private finance in the social housing sector.

- Strong regulatory framework
- Governance
- Treasury management and scale
- Role of central and local government
- Subsidy
- Guarantee
- Rent determination
- Autonomy over asset base
- Innovative approaches
- Promotion of the sector

7.1. Strong regulatory framework

The importance of regulation for the sector in Ireland has been highlighted (Government of Ireland, 2011; Grant Thornton, 2009). There is currently a voluntary code in place, which may form the basis of statutory regulation. The HFA is the only body currently providing a form of financial regulation in the sector. The HFA has worked with a consultancy, Tribal, to assess loan applications examining a whole range of factors that impact on credit risk. The current situation whereby the lender is providing de facto regulation is unsatisfactory and does not encourage other lenders into the market.

The sector needs an independent, centralised, robust and well-resourced regulator. Regulation is the single most important element in creating a vibrant, sustainable private finance model. The regulator needs to ensure transparency and the efficient use of tax payers’ subsidies by the HA sector.

There are a number of key characteristics of such a model. The regulator must be independent of HAs and government and have powers:

- To recommend that funding be withdrawn if the HA does not co-operate or if fraud of other problems emerge
- To force a HA to be taken over by another HA.

The level of scrutiny must be proportionate, that is appropriate to the risk and acknowledges the fact that the housing association sector is heterogeneous. In other words, small HAs with no existing or planned development programme would be regulated much less intensively than large HAs with substantial development programmes. The overall level of regulation must be commensurate with the level of risk and should be rigorous enough to provide comfort to lenders whilst, at the same time, not micro managing HAs.

Regulation of the sector can include many elements including financial, governance, accommodation standards, landlord-tenant relations, management of stock and development plans. Each element cannot be treated in isolation, as they all have an impact on the overall economic sustainability of a HA.

In terms of detailed financial regulation, there will inevitably be two tiers of regulation, one for those who engage in private finance and one for those who do not. There are numerous models of regulation that are applied in other jurisdictions. The creation of a regulator in Ireland would involve taking best practice internationally and tweaking it for the Irish context. A small levy on the HAs may be a means to fund such a regulator.

According to the latest Government policy statement, the regulation of tenant- landlord relationships may come under the remit of the PRTB. The other areas of regulation may be covered under another organisation. Some have questioned such a multi-agency approach to regulation, arguing that it may be difficult to determine the roles and responsibilities of organisations under the different aspects of regulation. Central government needs to take a lead on regulation and consult with all the stakeholders, LAs, HAs, tenants, lenders and investors.

7.2. Governance

Expertise in the area of private finance is required on the board of directors and senior management teams of HAs. Lenders need assurance that the management and board of directors understand the level of risk involved and have enough expertise to ensure financial viability of the organisation. This expertise is required to undertake
the long term financial forecasting. The future merging and consolidation of organisations may allow for skills and resources in this area to be shared and developed. As the sector develops, organisations will have to adopt a treasury management approach to their organisation’s finances.

Improved governance similar to regulation needs to be proportionate to the level of risk being managed. The DECLG should issue minimum standards relating to governance, in consultation with stakeholders, which would be specifically designed for HAs seeking private sector funding. This would provide some comfort to lenders.

7.3. Treasury management and scale

The use of private finance will be limited to a number of larger organisations that have the skills and scale to convince lenders to invest in their organisation. Some banking institutions are generally not interested in lending below €5m (Joanne McArdle, 2011). The use of bond finance is based on HAs adopting a treasury approach to their financing. This is the preferred approach of those providing funding (Mark Amis, 2011, Piers Williamson, 2011). This reduces the risk involved in development finance. The level of complexity and experience needed to deal with bond structures is rare in the HA sector in Ireland. There is currently a lack of capacity in the sector to work with complex financial instruments involved in bond finance. The sector needs to attract talent from other sectors and jurisdictions in order to engage with the capital markets and conduits. The TSA in England has developed good practice guidelines on treasury management, which provide a great insight into the long-term financial forecasting and risk management that HAs undertake (TSA, 2009). It focuses on treasury risk management and policy and financial and operational risk management.

Standards and guidance on treasury management should be produced to enable HAs to engage with private forms of finance in a strategic manner which lenders are more comfortable with. The THFC began as part of the Housing Corporation, the HA regulator in England. The role of the HFA may be reviewed to give them a role in preparing guidance for HAs on treasury management, which may facilitate a move towards bond finance.

The current global macro-economic uncertainty and the sovereign’s position in the capital market mean that bond finance is some way off. Even taking the optimistic assumption that the Sovereign returns to the bond markets in 2013, it may take some time (3-5 years) before there will be an appetite for a form of housing bond. This will give the sector time to put in place the infrastructure to support these new forms of finance.

The development of private finance in Ireland is somewhat constrained by scale. Bond market funding in general begins at around €100m. Even at its peak the LA and HA sector combined were producing 6,801 units per annum, which is nowhere near the scale of production required for the development of a bond finance market. Given the current capacity within the sector, no one individual HA in Ireland has the scale or necessity to issue that amount of debt. HAs in Northern Ireland have used the services of the THFC to raise funds. Some of these organisations have subsidiaries in the South. The aggregation of debt by a number of HAs is the most viable option. It remains to be seen whether there is an appetite domestically for an organisation to provide such an aggregation service to the sector. International organisations may not be interested, given the Irish sovereign status. As noted in the case study on commercial bank finance, the absence of a substantial asset base and credit history remains significant barriers to the development of capital market finance. Scale is also an issue for commercial lenders.

7.4. Role of central and local government

The funding process needs to be streamlined. This would allow HAs to act quickly on development projects and ensure no loses on revenue arising from void non-payment penalties. The process needs to be centralised – having to seek approval from so many different LAs is unwieldy and doesn’t instil confidence in potential funders.

International evidence (Oxley, 2009 Whitehead, 2008; Czischke and Pittini, 2007) shows that Governments are putting increased pressure on greater output for fewer subsidies. The most transparent way to do this is to create a tendering/procurement model whereby subsidy is awarded to the organisation that produces the greatest number of units for the lowest level of subsidy. This would involve a shift to funding based on general plans rather than specific schemes. The approach can insist on co-operation and co-ordination between providers to help consolidate the sector.
7.5. Government subsidy

All sub-market rental housing needs some form of subsidy from the government. These subsidies, which are stable forms of revenue, are taken into account when assessing the risk involved in investment. Investors need to be assured that this support will be available for the duration of the lending. The housing benefit scheme in England has guaranteed a stable inflation linked revenue flow for a housing association, which has been vital in encouraging private sector investment. The current debate around housing benefit reform, whereby a housing benefit cap will be introduced in some areas, has raised concerns about the future lending to the sector. The Government has assured the sector that safeguards will be put in place to help protect social landlords’ income streams (Communities and Local Government, 2011a). In Ireland, the current proportion of market rent provided by the State under rent and availability agreements may change over time as it looks to reduce its exposure. If so, the difference will have to be made up through social welfare payment or by the tenant. This possible lack in stability in the level of subsidy can have an impact on risk and, thus, cost of funds.

The uncertainty of general macroeconomic conditions heightens the risk of market rents in lenders’ views. The variability of upward/downward rent review increases the level of risk. Lenders are also conscious of demand risk, when payments can be terminated if voids are not filled in 12 weeks.

The level of subsidy must be appropriate and adequate subsidies must in place in the early stages to satisfy funders and achieve levels of output required. This must take account of the capacity of the sector and experience of HA involved with private finance. Lenders generally require a larger subsidy at the outset. This can be reduced over time as was the case in England as confidence grows in the sector.

Overall, the State needs to be conscious of the level of subsidy that is needed to encourage private investment. It does not make sense for the State to pay a premium to encourage the private sector that is significantly over the cost of provision of finance by the State, solely to keep it off the balance sheet.

7.6. Guarantee

It has been suggested in the past that the Government provide a guarantee to underpin private finance in the sector (Grant Thornton, 2009). This would in some sense defeat the purpose of shifting to a private finance model, as the guarantee would remain on the Government’s balance sheet and risk would not be transferred. As has been noted in England, “such a guarantee would fatally undermine the non public sector status of HAs, thus their ability to borrow outside of public expenditure rules and constraints” (THFC, 2010: 22). Guarantees have been used successfully in other countries mainly due to the strong economic position of their sovereign, which is backed by the highest ratings provided by the credit agencies. The use of a guarantee is highly unlikely under the current EU/IMF Programme of Financial Support for Ireland. Recent experiences with guarantees suggest there is little political appetite for such a measure. The use of a guarantee should only be viewed as a last resort. Many argue that the role of a good regulator should avoid the need for a guarantee, as early warning signs will trigger action before any guarantee needs to be called into effect.

7.7. Rent determination

The continued use of differential rents in Ireland is unusual within an international context of private finance. Many jurisdictions no longer use income-based rents but apply cost or value based rents. Lenders have a negative view of income-based rents because of their volatility. The rent and availability agreement in Ireland overcomes this uncertainty by providing a relatively stable revenue flow.

The absence of coherence in the differential rent schemes does not inspire confidence in lenders. The differential rent scheme will need to be reformed to provide more coherence and clarity to lenders. There needs to be further consolidation of differential rent schemes. The levels of subsidy received by households, in all forms of social housing, needs to be consistent to ensure perverse incentives are not created. The interaction between levels of social housing support and household income needs to be more dynamic to ensure that support is as targeted as possible. There may need to be a focus on greater assessment of income to ensure that people are paying the sufficient amount relative to their income.

Lenders prefer if HAs have the ability to set their own rents. This allows them to have control over revenue flows. Some lenders look to see if debt can be repaid even in the absence of State subsidies. The HA sector in Ireland currently does not have the ability to set its own rents. The government needs to create a more coherent differential rents system and examine the possibility of HAs having more autonomy over setting rents.
7.8. Autonomy over asset base

When HAs shift to private finance models, the risk is transferred from the state to the HA. The shift needs to be accompanied by a proportionate transfer of control to the HA in developing projects. In most jurisdictions, this shift in risk results in giving HAs greater autonomy over assets and development. This allows for projects to be brought on stream swiftly without any funding gap in the initial years. This shift towards independence is underpinned by a strong regulatory regime that ensures compliance.

The HA sector in Ireland is in an advantageous position as it has a relatively new, well built stock. The low levels of gearing due to the high levels of grant funding up to now, provides considerable room for debt funded growth.

The adoption of private finance needs to be supported by the release or subordination of charges on CLSS mortgages. This will allow HAs to use their asset base as security for future lending. It will also help reduce the risk associated with lending solely on the security of development projects, which may lead to lower interest rates. The secured mortgage model is arguably the most appropriate model for the Irish HA sector. Lenders often take first charge over existing unencumbered assets, rather than the scheme that funds are being provided for. The LA may wish to have a secondary charge, which may insist that a HA must get permission before the disposal of assets.

The release of charges will also allow HAs to be more strategic in terms of asset management. It would provide HAs with the opportunity to dispose of assets and use this cash for reserves or to reinvest in new development. Control over the asset base requires the development of a greater commercial mindset within the HA sector. Their focus needs to be on asset values over the long term and market rent yields on developments.

The ability to dispose of HA units may give rise to question marks over the charitable status of HAs. The surpluses created from private rental units and disposals may bring into question the tax status of HAs as charities. The Government needs to be conscious of this, given their preference for mixed tenure approaches. The government needs to examine solutions to overcome this problem, whether through the tax code or allowing HA to create a separate company, with a HA group structure, while maintaining charitable status.

7.9. Innovative approaches

Mortgage to rent schemes

The use of innovative approaches with the sector needs to be encouraged. The introduction of a mortgage to rent scheme to tackle the mortgage arrears crisis may be a way to get private finance to lend to the sector. Clúid is currently working with the Department of Environment, Community and Local Government on developing the scheme and one transaction has already taken place. The continued mortgage arrears crisis may put pressure on the financial institutions to lend to the HA sector through the Mortgage to Rent Scheme. This would involve the lender selling the dwelling at market value to a HA, financed by a loan from a financial institution. The former homeowner would become a tenant of the HA. It would not only help solve great personal financial strain on households. It would also increase HA stock and kick start lending to the sector.

Public non-governmental partnership

The land banks acquired by NAMA and LAs may provide an opportunity for HAs and government agencies to work together to increase the provision of social housing. This may be in the form of low cost land for development, which may reduce the level of State subsidy required. The LAs need to work in partnership with the HA sector drive forward these developments.

Private development

The HA sector also needs to think about private development and possible areas to grow revenue such as; eldercare, student accommodation, intermediate rents and private sales. This should not be viewed as undermining HA ethos but securing their future. The community development objectives of HA must now be built upon a solid financial foundation.

Collaboration

The ICSH collaboration toolkit is an example of the innovative thinking that is needed. It outlines ways in which HAs can come together to fund projects. Openness to this kind of collaborative thinking is vital if HA wish to develop into the future.

7.10. Promotion of the sector

The creation of a credit history and getting a credit rating from agencies takes time to develop. The importance of educating investors about the role of the sector cannot be underestimated. Indigenous banks have no history of long term secured lending to the sector. HAs need to create a portfolio for investors that provides a commercial overview of the sector, outlining the key positives of investing in the sector. The Quebec model of investing in resource groups may be worth exploring. This would assist organisations in putting proposals together to potential investors.

The banking institutions in Ireland need to be educated around the role of the HA sector and the rent and availability agreements underpinning developments. There seems to be little understanding and some confusion amongst the banking sector on the role of HAs and their financial models. This is understandable, given that heretofore banks have not engaged in commercial lending on any great scale to HAs. Like all lenders, financial institutions are also concerned about the implications of enforcing their security and evicting what can be vulnerable tenants. The length of time taken to get projects to a credit committee stage would be greatly reduced if the banking sector were made more aware of the sector’s role. This would save each individual HA the time needed to inform each financial institution every time they try to arrange financing. In some instances, it has taken 8 to 12 months to get a bank to bring forward a project to a credit committee.

The sector in England is now increasingly targeting pension funds as a source of investment. Like most investors, pension funds need to be informed of the types of investment options available. Williams et al. (2011) advocate a number of measures that would facilitate greater understanding of the sector amongst institutional investors. A number of these are outlined below:

- Set up a structure for bringing the social housing sector and institutions together to engage in a sustained dialogue. This can build onto the existing presentations to institutional debt investors with the aim of improving understanding of the sector.

- Undertake a specific study of how current shared ownership/equity assets might be monetised.

- Undertake a detailed study of the costs and benefits of index linked finance for registered providers (RPs).

- Take forward the exploration on equity investment in RPs. In particular, the possibility of reclassification of existing social housing grants to facilitate equity investment and suitable governance structures could be explored. (Williams et al. 2011: 18)

There is no reason why similar measures cannot be developed in an Irish context.

- Preparation of a prospectus on the strengths and capacity of the affordable housing sector and the potential returns to institutions. This will require detailed work on yields and returns under the new rent regime.
8. Appendix 1: List of interviewees

**England**

Jamie Ratcliff, Homes and Communities Agency  
Gill Rowley, TSA  
Ruairi McCourt, Watford Housing Trust  
Piers Williamson, THFC  
Corine Meier, National Housing Federation  
Kathleen Scanlon, London School of Economics  
Mark Amis, Lloyds Bank Corporate Markets  
Grainia Long, Chartered Institute of Housing

**Canada**

Brian Davidson, CMHC  
Michael Shapcott, Wellesley Institute  
Denis Robitaille, ROHQ Coalition du Habitation Québec  
James McGregor, Société d’habitation du Québec  
Nicholas Gazzard, Co-operative housing  
Dallas, Alderson, Canadian Housing and Renewal Association  
Sean Gadon and Nicole Stewart, Affordable Housing Office, City of Toronto  
LoriAnn Girvan, Toronto Community Housing Corporation  
Lizette Zuniga, Toronto Community Housing Corporation  
Annie Malhotra, SVQ  
Derek Ballantyne, Consultant (Former CEO of TCHC)  
Cynthia Ross, Margie Carlson, SHSC

**Ireland**

John O’Connor, Housing and Sustainable Communities Agency  
Rosalind Carroll, Housing and Sustainable Communities Agency  
David Silke, Housing and Sustainable Communities Agency  
John Rogers, Respond  
Philip Nugent, DECLG  
Karen Murphy, ICSH  
Joanna McArdle, Barclays Bank  
John Hannigan, Sunbeam  
Michael Raffery, Oaktree  
Paula Ter Brake, Weston and Wellington  
Barry O’Leary, Housing Finance Agency  
Ian d’Alton, Housing Finance Agency  
Annette Hughes, DKM Consultants
9. Appendix 2: List of organisations and sources for literature review

9.1. Key organisations

A list of search sources included key organisations:

**England**
- Chartered Institute of Housing
- National Housing Federation
- Homes and Communities Agency
- TSA
- The Housing Finance Corporation
- National Housing Federation
- Shelter
- Joseph Rowntree Foundation

**Canada**
- Canada Mortgage and Housing Corporation (CMHC),
- Canadian Council on Social Development (CCSD),
- Federation of Canadian Municipalities (FCM)
- Social Housing Services Corporation (SHSC)
- Société d’habitation du Québec
- The Wellesley Institute
- Canadian Housing and Renewal Association
- Selected publications by Canadian research centres such as the Centre for Urban and Community Studies (University of Toronto)

**Ireland**
- Irish Council of Social Housing
- Housing and Sustainable Communities Agency
- Focus Ireland

Databases and web sites

Databases such as InformaWorld, Academic Search Complete, Social Science Index, and Ebscohost were used to trace relevant articles. Among academic and professional journals covered were: Housing Studies, Journal of European Housing Policy, Journal of Housing Finance, Journal of Urban Studies, Journal of Housing and Built Environment, International Journal of Housing Policy, Journal of Housing Economics, and the Journal of Public Economics.
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## 11. Glossary

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AHBs</td>
<td>Approved Housing Bodies</td>
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<tr>
<td>AHP</td>
<td>Affordable Homes Programme 2011-2015</td>
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<td>CMHC</td>
<td>Canadian Mortgage and Housing Corporation</td>
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<tr>
<td>CALF</td>
<td>Capital Advance Loan Facility</td>
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<td>CAS</td>
<td>Capital Assistance Scheme</td>
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<td>CBL</td>
<td>Choice-Based Letting</td>
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<td>CIH</td>
<td>Chartered Institute of Housing</td>
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<tr>
<td>CLSS</td>
<td>Capital Loan and Subsidy Scheme</td>
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<tr>
<td>DECLG</td>
<td>Department of Environment, Community and Local Government</td>
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<tr>
<td>GILTs</td>
<td>Gilt Edged Securities</td>
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<td>HAs</td>
<td>Housing Associations</td>
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<td>HCCB</td>
<td>Housing Construction Convertible Bonds</td>
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<td>HFA</td>
<td>Housing Finance Agency</td>
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<td>ICSH</td>
<td>Irish Council for Social Housing</td>
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<tr>
<td>LIBOR</td>
<td>London Interbank Rate</td>
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<td>NHT</td>
<td>National Housing Trust Scotland</td>
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<td>NPO</td>
<td>Non-profit</td>
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<td>PPP</td>
<td>Public Private Partnerships</td>
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<td>RGI</td>
<td>Rent-Geared-to-Income</td>
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<td>RPI</td>
<td>Retail Price Index</td>
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<td>RSLs</td>
<td>Registered Social Landlords</td>
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<tr>
<td>SFT</td>
<td>Scottish Futures Trust</td>
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<td>SHQ</td>
<td>Société Habitation du Québec</td>
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<tr>
<td>SHSC</td>
<td>Social Housing Services Corporation</td>
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<tr>
<td>SPVs</td>
<td>Special Purpose Vehicles</td>
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<tr>
<td>TCHC</td>
<td>Toronto Community Housing Corporation</td>
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<tr>
<td>TSA</td>
<td>Tenants Services Authority</td>
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Clúid... Leading the way home