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Spotlight
Housing Association Financial Capacity

2016

Housing associations have up to £7.4bn of additional asset-backed borrowing capacity that could be used to deliver more homes

The Government drive for increased new housing supply has put political and financial pressure on housing associations to increase their housing delivery. Housing associations delivered 40,000 homes in 2015/16, around a fifth of total housebuilding, with 43% of those homes delivered outside the Affordable Homes Programme. The National Housing Federation (NHF) now has an aspiration for the sector to hit 120,000 new homes per year by 2035. This research looks at the additional financial capacity of housing associations that could be unlocked to help them make this step change in housebuilding output.

Housing associations should be well positioned to increase new housing delivery. Their existing stock ownership provides an ideal asset to borrow against during this period of tighter development funding. The cashflow from their existing business can help smooth out the business cycle, avoiding the boom and bust that has hurt private sector small and medium housebuilders in recent decades. Their ability to deliver and manage homes across a range of tenures could help increase build-out rates on sites of all sizes. That all suggests housing associations could be significant contributors to new housing supply in the future.

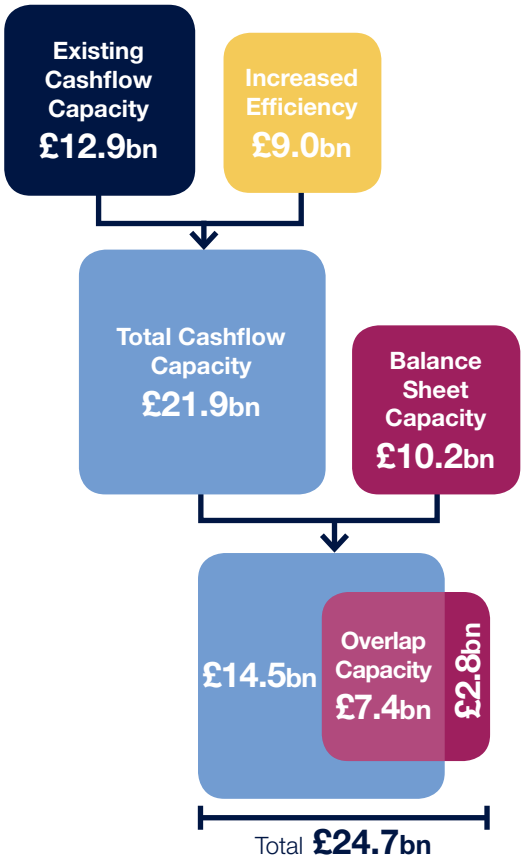
However, there are outstanding questions, the most important of which is: what is their actual financial capacity to deliver new homes? In this first of two research publications, we have looked at the potential for additional financial capacity amongst housing associations. Our second publication, to be published on 28 November, will build on this analysis to identify whether this financial capacity is sufficient for housing associations to meet the NHF aspiration of building 120,000 homes per year and what other challenges they might face.

Our analysis of additional financial capacity is based on the financial accounts of over 175 of the largest associations. Between them, they own 91% of general needs housing stock and therefore the results can be considered as indicative of the sector as a whole. The additional borrowing capacity has been considered in light of the ability to service more debt from existing cashflow, the potential to increase cashflow by improving operating margins and the extent to which the existing balance sheet provides loan security for greater gearing.

Existing cashflow capacity

We have examined the existing cashflow of housing associations to assess the extent to which they could service interest repayments on additional borrowing. Our analysis shows that the majority of associations have additional capacity in their cashflow. It is important to maintain a healthy ratio of cash to interest repayments but our analysis shows many associations have capacity to reduce this ratio without undue risk. Reducing the ratio of cash to interest repayments towards 1.2 could enable associations to service additional →

FIGURE 1
Additional Financial Capacity



Source: Savills Research

borrowing of up to £45bn. Housing associations will be reluctant to increase their indebtedness this far, not least given pressures on social housing income. We have therefore assumed that they might each be prepared to unlock 30% of the additional capacity, which would provide £12.9bn in additional borrowing.

Improved management and maintenance efficiency

Improved cashflow from existing portfolios would provide housing associations with greater comfort to take on more debt and expand their activities. Our analysis suggests it has the potential to make a significant difference. Over 40 of the 175 housing associations spend more than 50% of their social housing lettings turnover on management and maintenance, while a further 70 spend between 40% and 50%. Improving the management and maintenance efficiency of these housing associations could unlock additional cashflow capacity to support £9.0bn additional borrowing.

Adding the existing capacity and improved efficiency, this analysis suggests that there could be sufficient cashflow to support the interest payments on at least £21.9bn of additional borrowing across 120 of the 175 housing associations.

Existing balance sheet capacity

There are a number of ways of raising debt but the simplest route would be to secure it against existing assets. Housing associations' ability to do that will determine the extent to which other sources of finance, such as issuing bonds, need to be considered. Our analysis shows that increasing the gearing against existing assets to 75% could support £10.2bn of new borrowing across 110 housing associations.

We recognise, however, that the primary constraint facing many associations is the ability to fully utilise their assets as security for borrowing. This may be the result of legacy valuation issues or an inability to release assets from existing borrowing arrangements.

Overlapping capacity

Gearing, not cash, will usually be the overriding constraint on additional borrowing. Half of the housing associations in our analysis have both additional cashflow and balance sheet capacity. Our analysis indicates that they have current additional borrowing capacity of £7.4bn, which is both supported by their balance sheet and can be funded from existing cashflow.

Potential additional capacity

Further borrowing of £14.5bn is potentially serviceable from existing cashflow. However, accessing this would require associations to work with alternative sources of capital or release additional balance sheet capacity through financial restructuring.

A further £2.8bn of potential additional borrowing capacity is held by housing associations that have balance sheet capacity but no cashflow capacity. Accessing this may require these associations to form partnerships with other organisations that do have the cash to service additional debt.

Other considerations

Identifying financial capacity to build new homes is just the first step. There are also the challenges of finding land, obtaining planning permission, construction, sales and management, and a host of other issues. Some housing associations will be better positioned to capitalise on their financial capacity, particularly those with existing development programmes. However, others will have to develop skills in a completely new area and for some such activity may be a step too far beyond their intended charitable purpose. Our research later in the month will tackle these questions and others as we identify how many new homes housing associations could deliver and whether the sector can meet the NHF's long-term ambition to deliver 120,000 new homes per year.

Our analysis of housing association capacity will continue in our report published on 28 November

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