

CEPS lunch debate

“What future socially responsible investing ?”



“How can finance help society meet its long-term economic and social challenges?”

Policy recommendations from affordable housing providers of what could be done at EU level

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Secretary General
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Brussels
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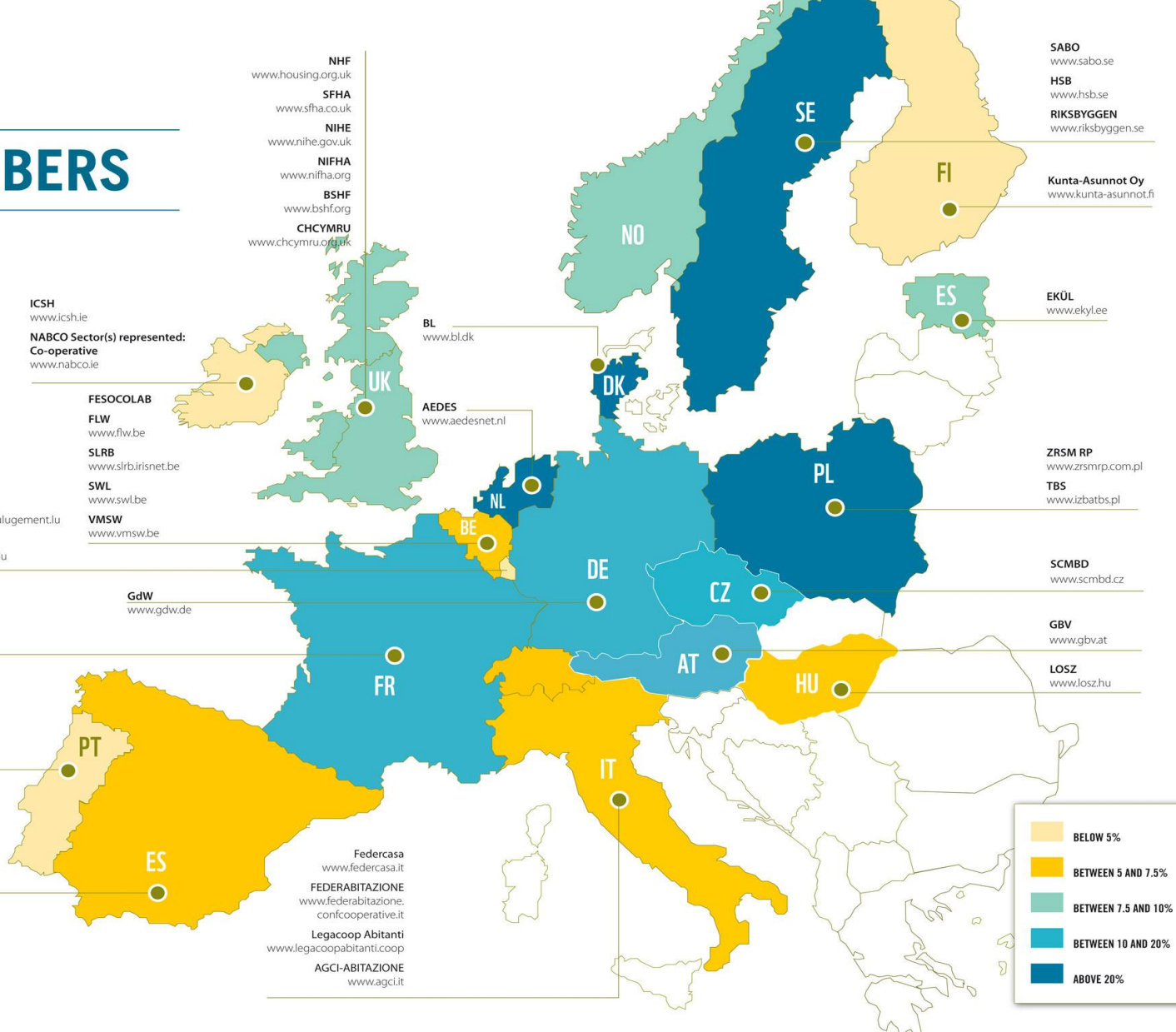
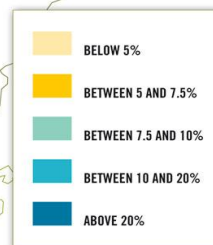
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Our perspective



- ❑ **Social investment** : a value added to the society : job inclusion, economic stability, local development in deprived areas, providing basic goods and services to all
- ❑ **Responsible housing** : affordable price with a minimum ecological footprint > what we believe require public policies support to channel investments
- ❑ **Social impact** : highly questionable approach referring to moral values, very resources demanding in forecasting, require social outcomes that can truly be related to the actions undertaken (what is the real motto of inclusion/ example of the WWW homeless project in NL)
- ❑ To measure our **socio-economic impact** : different approaches developed in the last decade with two main objectives : **explaining our business model to investors** and **provide accountability proofs** to public authorities supporting the sector (and more generally to stakeholders/ tenants)

Short index of the presentation



- ❑ What are the investment needs in responsible housing ?
- ❑ what is the business model behind social housing provision ?
- ❑ Current context for social housing bonds
- ❑ What needs to be better research/define for the take up of social housing bonds ?
- ❑ What could be the role of the EU, future steps to go forward ?

Long-term challenges for the Affordable Housing Sector?



- ❑ **Affordability of housing:** part of financial market stability/ instability
- ❑ **Housing supply:** insufficient, not affordable, not decent, inadequate
- ❑ **Housing refurbishment:** massive investment needs for the next decades

The housing needs

- ❑ **33.8%** of the Europeans feel that they are facing disproportionate housing costs (EU SILC)
- ❑ **52 million people** in the EU unable to keep their home adequately warm (Prof Bouzarosky)
- ❑ Housing expenditures makes up **22.9%** of total household consumption (Eurostat)
- ❑ **In UK, in 2011: 390,000** new households were formed and only 114,000 new homes built (NHF, home truth 2012)

Directing investment to local employment & green building industries: the potential of financing housing energy refurbishment



The situation:

- Construction industry lost millions of jobs since the beginning of the crisis
- New built homes should be soon Nearly Zero Energy: new technics, new industrialisation process
- Refurbishment of 200 millions homes in the EU, consuming 30% of the energy is needed; (a maximum of 50 millions homes are up-to-date in terms of energy standards)
- 3% renovation rate per year of the housing stock would mean in EU 6 millions home, thus 1.5 millions direct jobs across EU (for more than 100 billions investment): only possible with subsidies, the pay-back time has to include the societal benefit. Social and poor tenants needs to be part of the energy transition
- The EU drivers to activate: EU funding opportunities, Energy legislation and a combination of both to create **more local energy efficiency Funds** to address the needs of each area

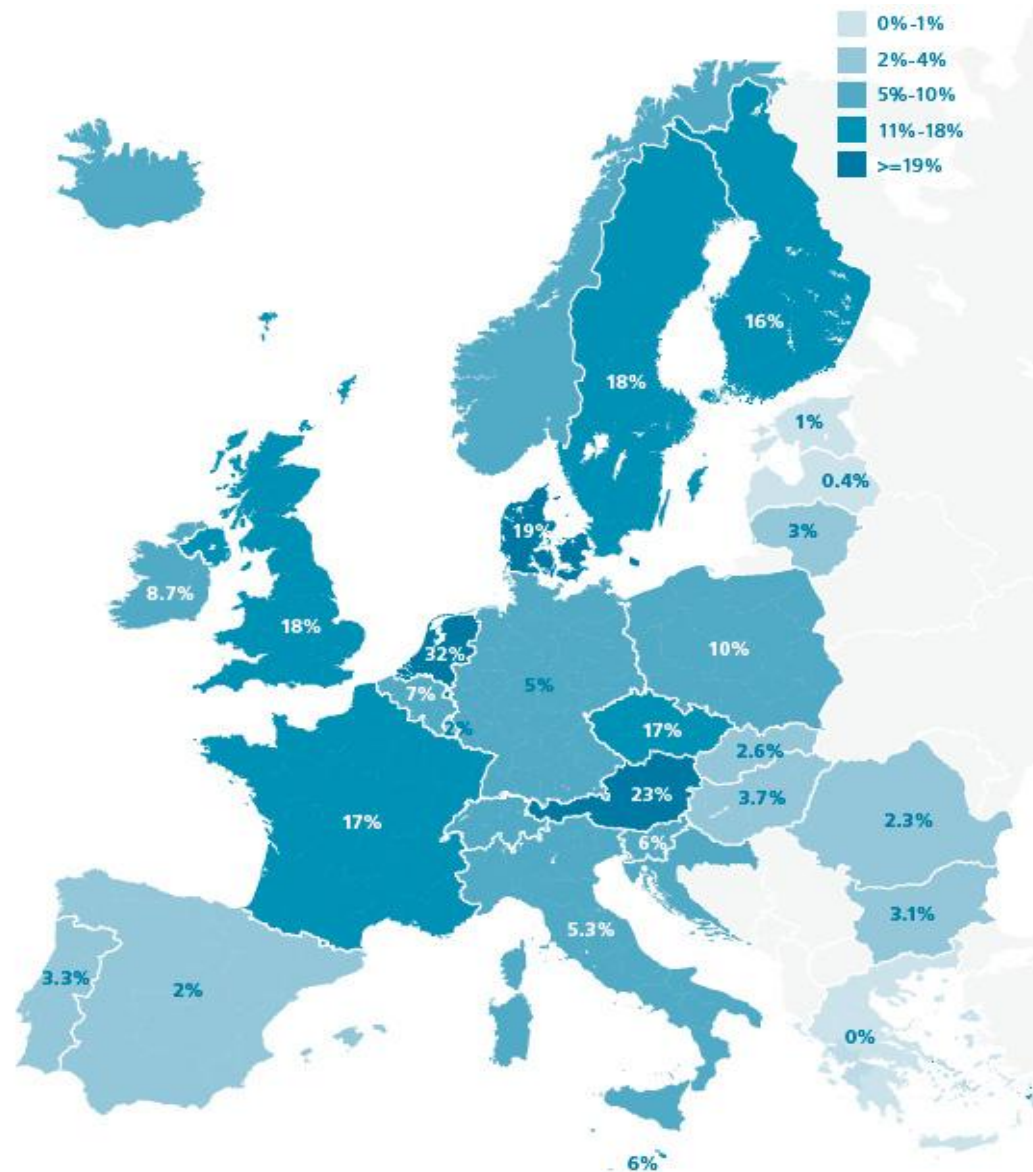
The need of public and private finance to meet these challenges



- ❑ Before crisis investment level in the sector: 36 billion Euros of loans/bonds for 330.000 new homes and 230.000 renovated (in our sector/membership)
- ❑ Social –mortgage undeveloped market
- ❑ Deleveraging of Irish and Spanish banks : opportunity to create a social rental stock

Social/ affordable rental housing in the EU27

- Largest in NL, followed by AT and DK.
- UK, FR, SW and FI also have a large social/public housing sector
- On the contrary, no rental social housing in EL, very small share in CEE as well as PT, ES



Financing social housing: the economic model simplified



DEMAND SIDE

SUPPLY SIDE

Rent

Affordable price

Total cost

Households expenditure

Social/protection policies counted as social expenditure

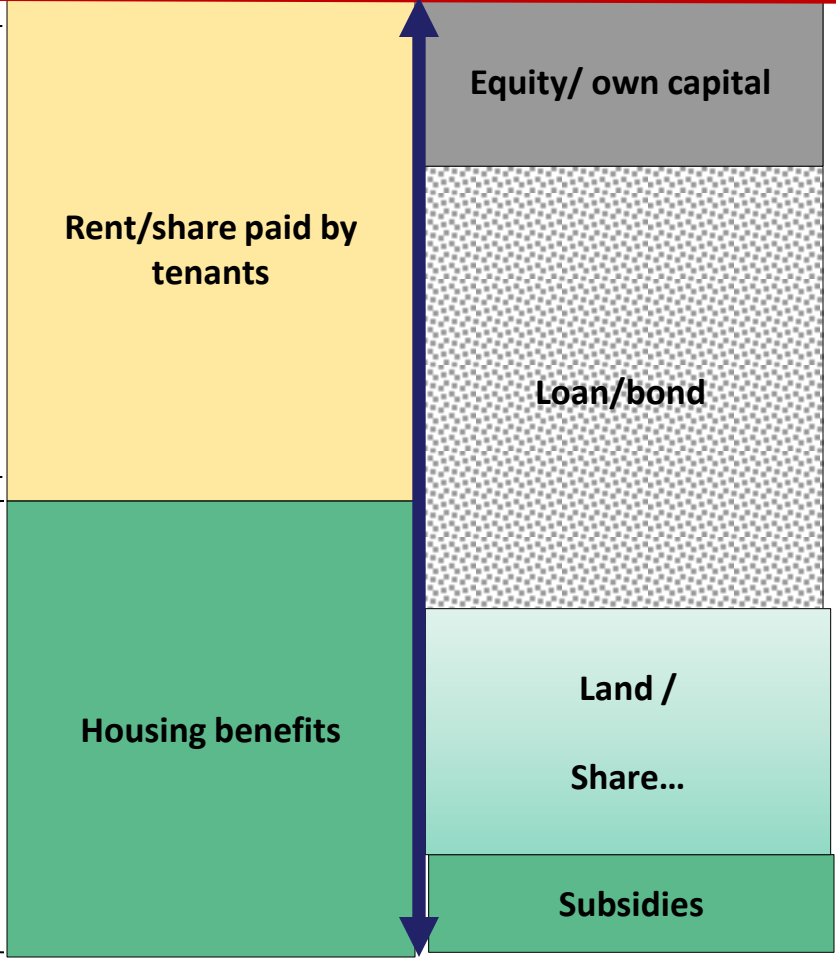
It depends on history of affordable housing supplier

Better conditions if:

- Public guarantee
- risk sharing mechanisms
- Good financial track records

- Land at preferential price (or not)
- Community land trust,....
- Or shared ownership...

- Public grants generally decreasing
- tax advantages



Public support/expenditures

Public support as guarantee, preferential price...



Why the interest in Housing Bonds

- ❑ 2008/09 Credit Crunch: sudden withdrawal of normal availability of finance
- ❑ Worldwide inability/unwillingness of banks/finance houses to lend
- ❑ Affected some countries/sectors worse than others
- ❑ “A” Countries: France, Germany, UK, Holland, Nordic countries; business as usual (more or less)
- ❑ “B” Countries: Spain, Portugal, Ireland, Greece; very difficult or impossible to raise finance from banks



Impact on social housing sector

- ❑ For A countries: some effect, but housing companies continue to develop and meet housing need
- ❑ Tighter bank lending led to increased use of bond finance esp. in U. K. using The Housing Finance Corporation (THFC)
- ❑ For B countries: total or near collapse of state funding systems, little or no access to private finance: near or complete collapse of social housing provision,
- ❑ Dysfunctional housing market, increased mortgage arrears, negative equity, potential increase in foreclosures, growing housing need
- ❑ Diminished ability of central & local governments & social housing sector to meet growing housing need

Affordable/Responsible Housing Bonds are:



- ❑ A prudent recognition of changed financial environments in a number of member states
- ❑ An additional source of finance, not a replacement of existing funding systems in member states
- ❑ An opportunity to create a financial product specifically for the social housing sector across Europe
- ❑ A way of meeting growing housing need across Europe
- ❑ A long-term project with long-term benefits

Main Activities to be measured- what needs to be better defined



- ❑ **Financial Performance**: All aspects of financial performance which impact risk & return
- ❑ **Management Performance**: How efficient is the company in providing homes and services
- ❑ **Environmental/ Energy Performance**: How green/energy efficient is the housing stock
- ❑ **Social Return on Investment**: What additional (measurable) benefits does it bring to neighbourhoods and society

What is the single biggest obstacle to scale up bonds into responsible/affordable housing sector ?



- ❑ Investment criteria purely financial outcome driven: change it (Long- term is not 5 years, but 40 (or more); social and environmental KPI by sector)
- ❑ Pooling needs beyond borders, cross-national guarantees...

Which would be the single measure you would look for? Or change to improve things?

Invest in affordable housing will benefit all EU even if built locally, by creating a more stable economy: why the European Investment Bank should not prioritise its activities into affordable housing ?

- ❑ support the creation of Social Housing Funds with public banks
- ❑ Increase the investment capacities of the Council of Europe Bank which finance exactly affordable housing and have the know-how

Short-, Medium- & Longer-Term Aims



Short-term

Identify pilot project leading to the issuing of European Social Housing Bond

Medium-term

Look to establish a Financial Intermediary (like THFC)

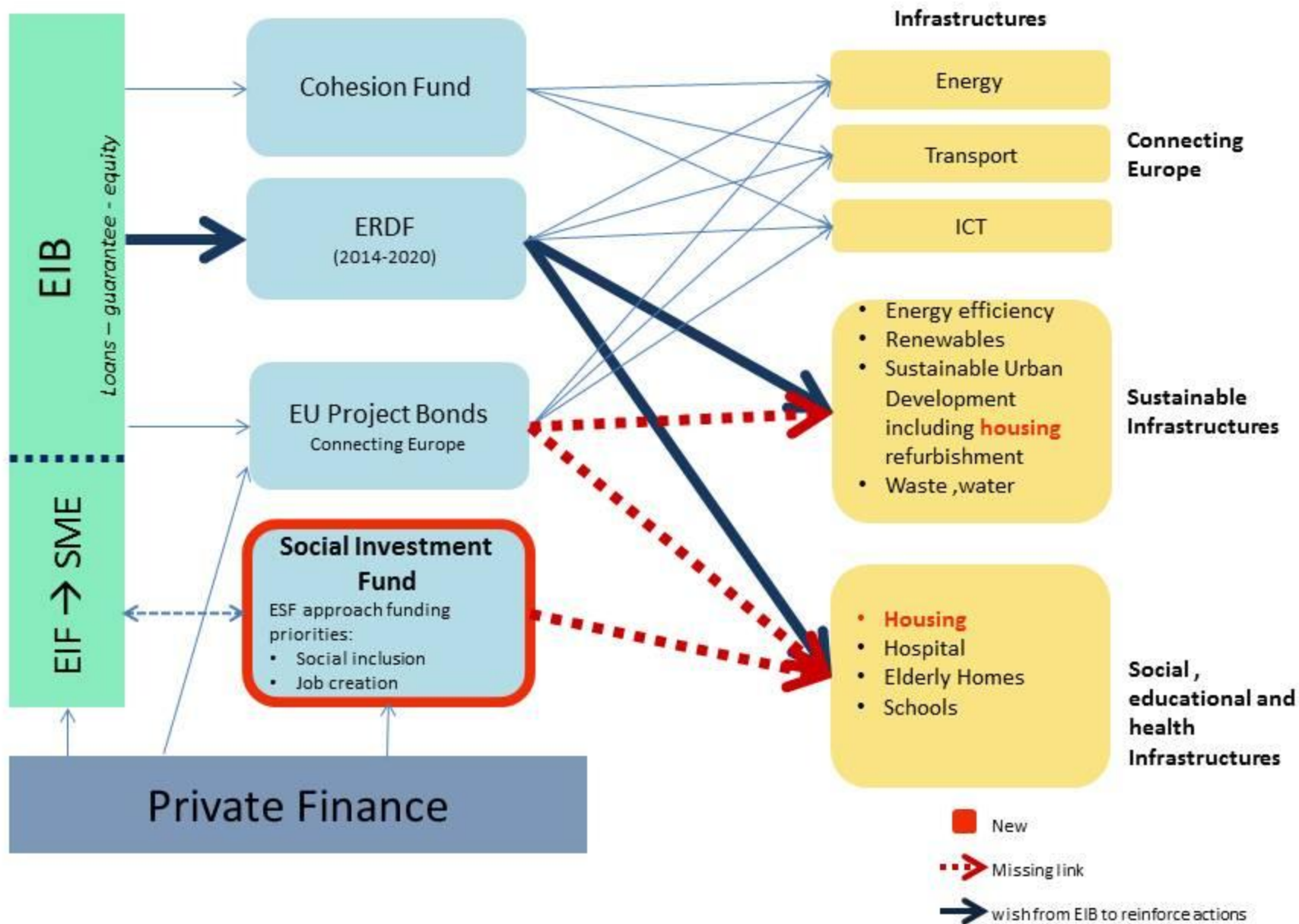
Establish a credible track record for social housing companies with investors by raising funds on a regular basis by issuing European Housing Bonds

Longer-term

Build reputation as solid performer to attract investors and enable qualifying social housing companies from B countries to access funds

EU investment tools:

The missing links to develop social infrastructures



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