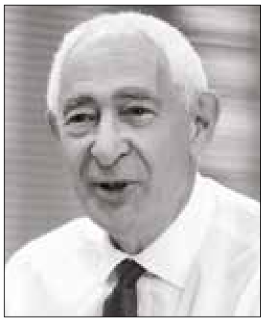
Breaking through on social housing:
Achieving a holistic impact

Lord David Triesman *(www.salamanca-group.com)*

The UK has a long-term housing problem which every government has promised to address – and every government has failed. About five million people need a home and many more live in over-crowded and sub-standard housing. Each year we build a few tens of thousands of homes with two inevitable results.

First, the housing list gets longer, the gap wider, and families and people with special needs become more desperate. Health declines as it is harder to access regular primary care. School attendance becomes more erratic as frequent moves cut children off from stable schooling and their results get worse as they have nowhere to do homework or even read. Depression and other chronic conditions become worse, often resulting in an inability to get and keep a job. For older people isolation becomes an additional millstone.



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Second, such homes as are built become unaffordable, ever further beyond the means of families and individuals who need homes. Some of the individuals have jobs but typically in vital but relatively low-paid work including nursing, teaching and health care. Those individuals move away from the main urban centres where rents are beyond reach.

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Both sets of problems have the greatest impact on those with the gravest social, physical and economic difficulty, and the organisations to which they traditionally turned for social housing provision – local authorities and housing associations –have a lessening capacity to cope with demand.

Of course, everyone can wring their hands and lament the downward spiral. That, however, doesn't help and what is demanded is new thinking, new financing and a sense of mission drawn from new values. When Salamanca Group Merchant Bank applied itself through a new business, Funding Affordable Homes (FAH), we consciously tried to break the log-jam. Thinking went along these lines.

To have a meaningful impact new money was needed, and the public purse has not been deep enough for decades. The money would need new

characteristics. It would not be straightforward philanthropy because it would never generate the volumes needed. Nor would it come from straightforward commercial investment because private development of housing is driven by the characteristics of the housing market in the UK. This is precisely where prices are spiralling beyond the means of those most in need.

We needed a middle path, an investment structure which produced modest but long-term returns and had impact out of all proportion to the normal attributes of property investment. Some deep thinking and challenges that the team at FAH set themselves led to a set of new conclusions.

First, we wanted to provide homes for those most vulnerable – the home is itself a valuable goal, but the aim had to be impact on schooling, health, employment and strong communities. With wonderful encouragement on aspirations and finances from Big Society Capital and some inspirational and well-off individuals, FAH devised investment criteria for the new schemes to be developed. With detailed advice and an ongoing overview from *The Good Economy* we adopted a 'Social Assessment Methodology' which specified any investment must provide an improved supply of good-quality, affordable housing and accommodation. The percentage of our developments which would meet this standard was set at 100%. The outcomes were that everyone would have a 'decent home to live in and good housing management services; access to local shops and services; those with vulnerabilities are able to live as independently as possible with appropriate support'. And we would focus on 'employment opportunities, better health and thriving local communities'.

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So, social impact is central alongside financial investment considerations of risk and return. FAH screens for all these when making investments and all housing providers with which we work make reports where we can assess, with the judgement of *The Good Economy*, the metrics through which we know if we are moving in the right direction.

Second, we needed a new financial model. Social housing has been highly regulated in the UK so it has been broadly possible to predict rents and the costs of services over lengthy periods. There have been some recent changes in the government's approach to the way Housing Associations can expect Government support through housing benefit but the essential characteristics are well-established. This makes investment rather like bonds or infrastructural investments. The FAH model is that we build or buy the property and make it fit for purpose, and the homes and occupants are looked after by housing associations, public and quasi-public bodies. They are good at their job and typically are well-regarded by tenants. So, to use the jargon, FAH is the PropCo and the providers are the OpCo's. Candidly, there is no need for the providers to own the property. Their goals are to provide it at an excellent standard. FAH launched a fund and it has been used to make the first investments; either building new homes, buying homes from providers or converting existing buildings. It is all new capital in play.

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Of course, FAH had to have a compelling reputation. Its directors have been drawn from the leaders in the social housing field and include, alongside commercial experts, a former chairman of the National Housing Federation and CEO of the Peabody Trust, Richard McCarthy CBE, and the former Chair of the Joseph Rowntree Foundation, Debby Ounsted CBE. I had the privilege of chairing the Cabinet Office National Inquiry into Housing Benefit.

Third, we closed our initial fund in September 2015 and have completed three investments in well over 200 properties and have now created a pipeline exceeding £400m and over 3,000 properties across the UK. Our business plan forecast an IRR of about 8%. We have exceeded 10%. The model of impact and sensible returns is encouraging a second round of fundraising not least because the scheme has significant attractions to long-term investors including pension funds and philanthropic individuals who want the scheme to grow. Indeed, its growth potential is likely to make it one of the most dynamic contributors to shrinking the housing list.

But does it work for the tenants as well as for the investors? Does it really meet the social objectives? So far, so good. While this is the view of *The Good Economy* review team, which is gratifying, perhaps an example would be most useful.

In Luton, just north of London, we bought and converted a large building into 78 apartments. The young people who have moved in had the prospect of jobs if they had somewhere reliable to live, and somewhere to live if only they could get a job. In short they were caught in a Catch 22. The new tenants had been sleeping rough, in B&Bs, hostels, living on friend's floors, in temporary accommodation, hospital or in probation hostels. A small number had unsatisfactory short-term private accommodation. The men and women in the new accommodation are properly housed, now have jobs and all those wanting it have access to tertiary education. Their home is run by the YMCA and the feedback of the tenants is heart-warming. In due course, many will move on to flats but they are becoming independent livers with a chance in life you can't get sleeping in a shop doorway.

Our other projects involve older people who need supported living but treasure their independence, young adults with learning difficulties, and so on. We will, of course, house conventional families in due course, because strong communities are also diverse communities. In every case one of our goals is that tenants have a strong voice in their lives – that they are the authors of their own future.

It works financially, it works in tangible and measurable impact, it is scalable and it addresses head on an issue where we have failed as a country. I think this makes it impact philanthropy which stimulates still more impact philanthropy. As the old saying goes: a hand up rather than a hand out. And FAH is always willing to go through how it works.

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