



APSE ONLINE HOUSING SEMINAR – BUILDING HOMES FOR THE 21ST CENTURY (FUNDING STRUCTURES)

25 February 2025 11.30am - 11.50am

Presented by Javid Patel, Senior Director -
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Eddisons

ABOUT EDDISONS

- Eddisons is advising public sector across the whole development and asset management lifecycle
- Direct call offs via Crown Commercial Services, Homes England and ESPO



GOVERNMENT AGENDA

- Government has set a target of 300,000 new homes pa for the duration of this parliament
- More than 200 councils would see their housing targets increase
- Land released in the Green Belt will be subject to the government's 'golden rules', 50% affordable homes
- The government will publish NPPF revisions before the end of the year, so policy changes can take effect as soon as possible
- Government will review Right to Buy more widely



GOVERNMENT INTERVENTION

- Funding Programmes are coming to an end soon
- LAs frantically spending monies by March 2026 to meet grant spending targets eg levelling up etc
- As programmes wind down, we are still waiting to hear new programmes albeit LAHF was announced recently

Future High Street Fund	X
Towns Fund	X
Levelling Up Fund	✓
Housing Infrastructure Fund	✓
Affordable Homes Programme (AHP) 2021 to 2026	✓
Local Authority Housing Fund	✓

MARKET IMPACT

- Housing capital and rental growth forecasted to continue to grow
- According to a report by Better Society Capital.
 - Pension funds provided one-fifth of all investments (£10billion)
 - Government bodies and local authorities 8% each.
- Funds such as Legal & General has raised £510 million for its affordable housing investment strategy as part of the second close of its Affordable Housing Fund, launched in July 2024.

Rental forecasts (2025-2029)

	2024	2025	2026	2027	2028	2029	2025-29
UK rental growth	4.0%	4.0%	3.5%	3.0%	3.0%	3.0%	17.6%
London rental growth	1.5%	2.5%	2.5%	2.5%	3.0%	3.0%	14.2%
UK Income growth	2.9%	+2.9%	+2.6%	+2.5%	+3.1%	+3.0%	15.0%

Source: Savills, Oxford Economics

	2025	2026	2027	2028	2029	5 years to 2029
North West	5.0%	7.0%	6.5%	4.5%	3.5%	29.4%
North East	5.0%	6.5%	6.0%	4.5%	3.5%	28.2%
Yorkshire and The Humber	5.0%	6.5%	6.0%	4.5%	3.5%	28.2%
West Midlands	4.5%	6.0%	6.0%	4.5%	3.0%	26.4%
Scotland	5.0%	6.0%	5.5%	4.0%	3.0%	25.8%
Wales	3.5%	5.5%	6.0%	4.5%	3.5%	25.2%
East Midlands	4.0%	5.5%	5.5%	4.5%	3.0%	24.6%
UK	4.0%	5.5%	5.0%	4.0%	3.0%	23.4%
South West	2.5%	5.5%	5.0%	4.0%	3.0%	21.6%
East of England	2.5%	5.0%	4.5%	3.5%	3.0%	19.9%
South East	3.0%	4.0%	3.5%	3.5%	2.5%	17.6%
London	3.0%	4.0%	3.5%	3.0%	2.5%	17.1%

Source: Savills Research

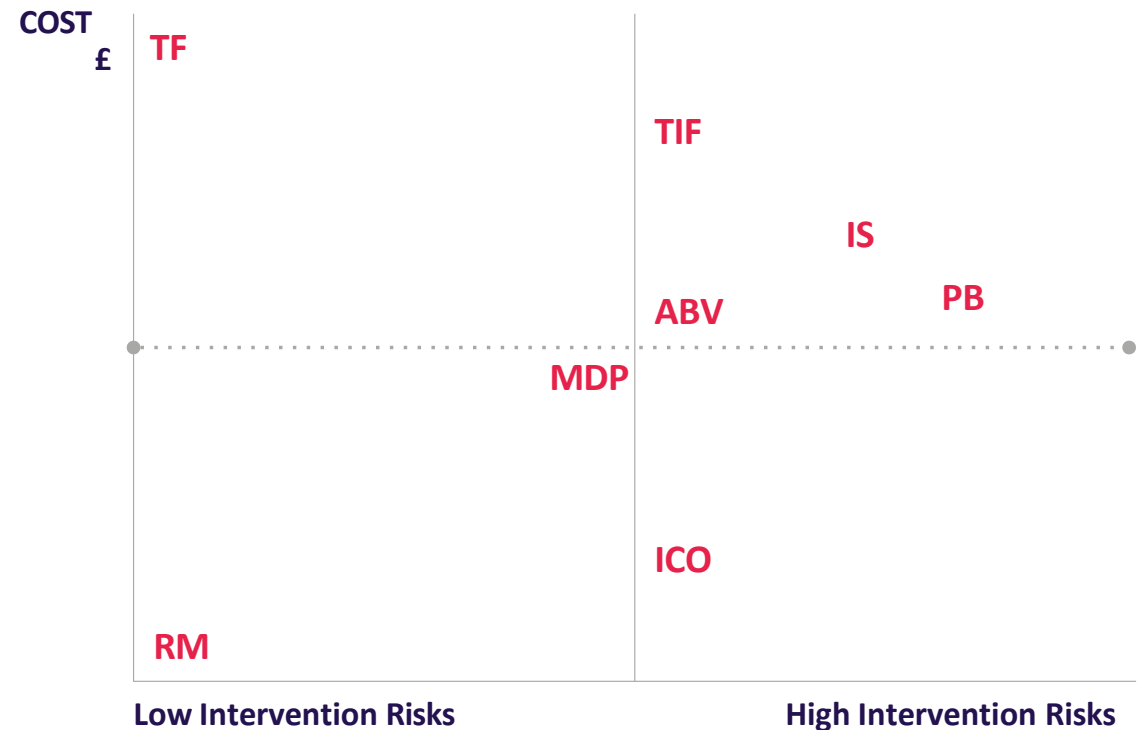
FUNDING STRUCTURES

- There are a whole host of delivery structures - Direct and Indirect
- Increased cost of Prudential Borrowing is creating viability challenges
- Private sector intervention will need to increase to deliver housing targets

Key

- RM** Regeneration Management
- TF** Grants eg Towns Fund
- ICO** Integrating Community Ownership
- ABV** Asset Backed Model
- TIF** Tax Increment Financing
- IT** **Income Strip Lease**
- PB** **Prudential Borrowing**
- MDP** **Master Developer Partner**

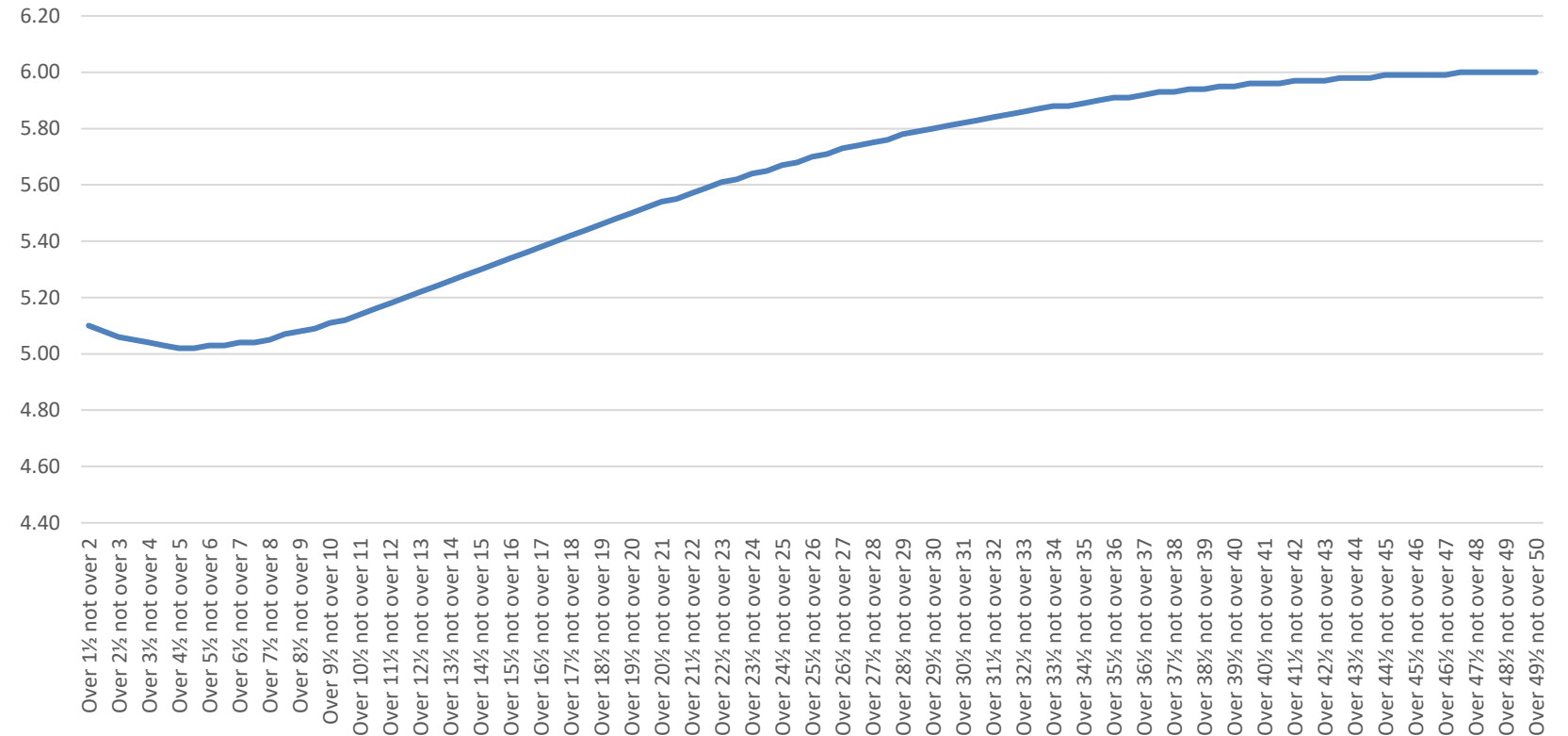
Intervention Options Comparison



PRUDENTIAL BORROWING

- Changing Funding Climate
- Long term Interest rate risen to 6%
- Funding projects proving to be challenging without grant support

Public Works Loan Board EIP Fixed Rates



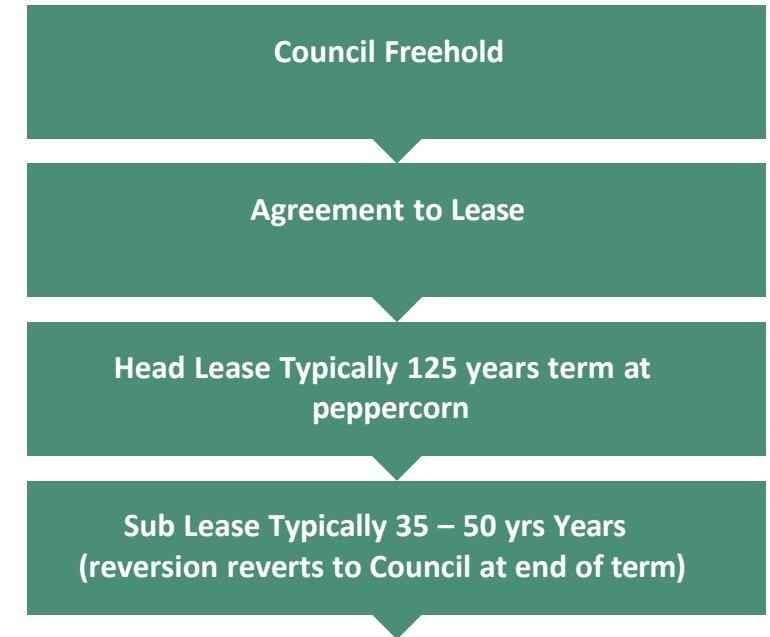
INCOME STRIP LEASE

- 60s, 70s and 80s Local Authorities facing higher costs of debt pursued income strip lease structures to facilitate development such as shopping centres and affordable housing
- Investor community would bring significant capital and development expertise
- With schemes becoming less viable do we need to seriously consider a return to this type of funding model?



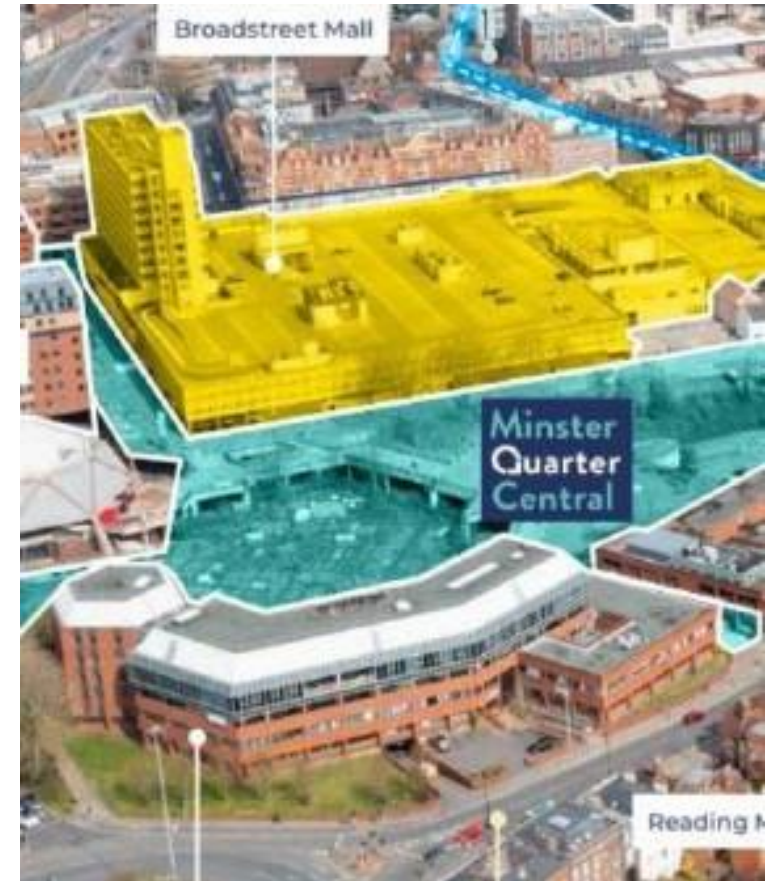
INCOME STRIP LEASE CASE STUDY

- The Council procured through a competitive tender process awarded a Finance, Design and Build contract.
- Waypoint Government Income Fund with Kajima Partnerships Ltd and Tolent were awarded the contract. The Council income strip structure involved:
 - Agreement to lease: Obliges the partner to DBF
 - Head Lease: Once the condition of the agreement for lease are met the Head Lease is enacted. This is the transfer of land from the Council to the investment partner.
 - Sub Lease: Once the buildings are completed they are handed back to the Council under the “Occupational Lease”
- The schemes have also benefited from investment from Homes England’s Shared Ownership and Affordable Homes Programme.



MASTER DEVELOPER PARTNER

- Local Authority can lean on developer market to forward fund housing
- Housing Infrastructure Fund £2m grant
- Land receipt paid
- Developer agreements involved:
 - Development Agreement - obligation to obtain planning and fund development in a timely manner
 - Ground Lease - Grant of head lease to allow funding of construction works
 - Freehold Transfer - On satisfactory completion of works.
 - Includes overage in the event developer profit exceeds blended target Rate of return



CONCLUSIONS

- Income Strip Lease offers a route to fund development
- Investor appetite is strong in the housing sector
- Risk transfer

