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WORKSHOP 3: HOUSING AND URBAN DEVELOPMENT

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THE "PHILOSOPHY" OF SOCIAL HOUSING AND POSSIBLE FUNDING SOLUTIONS

by

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"For me, it is not just about creating a sustainable building, but enabling people to live a sustainable life."

Elliot Lipton, Managing Director, First Base[2]

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Introduction

It is not the aim of this short paper to revisit the broad operational conditions and parameters for PPPs which have been well-aired already at this conference primarily in the context of major infrastructure projects and which apply equally to housing. Rather, my objective is to highlight what I consider to be significant differences between major infrastructure investment and housing programmes and to suggest possible funding solutions for the latter.

My starting assumption is that when one talks about "housing" in a PPP context, one effectively means "social housing", ie affordable housing for rent – or, possibly, purchase – by lower income individuals and families.

So, in essence, we are looking at an area which both past and current experience makes clear is very prone to market failure, ie:

- The private sector has proved unwilling and/or unable to deliver sufficient provision; and

- Government programmes alone to fill the gap have increasingly proved unsustainable.[3]

Public Social Private Partnerships (PSPPs)

By definition, such social housing programmes should fall under a sub-category of PPPs, ie "Public Social Private Partnerships" or PSPPs.

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[1] The views expressed in this article are those of the author and do not necessarily represent those of Nomura International plc.
[2] See http://www.londonsdc.org/londonleaders/who/Elliot_Lipton.aspx.
[3] See, eg, "The Role of Public-Private Partnerships in Funding Social Housing in Canada" by Alexandra Moskalyk (CPRN Research Report, September 2008).

Box 1: The 2012 Olympic Village

Note: although the 2012 Olympic Village is certainly something of a special case, at minimum the final six bullets listed below should be broadly applicable to any PPP in social housing.

Brief:

- Private contractor (*Bovis Lend Lease*) responsible for all aspects of the project including funding, design and construction, and marketing and sale of the completed product.
- The team is developing the site in two phases from 2008 to 2011, then 2013 to 2020.
- Phase One is worth around £2bn and involves the development of around 4,200 homes and related infrastructure and support services.
- Phase Two involves refurbishing the Athletes Village after the Games, and developing a further 500,000 square metres of commercial, retail, residential and community space; estimated value £2b+.

Size/description:

- The Olympic Village will provide 17,000 beds for athletes and officials during the Olympic Games and 7,500 in the Paralympic Games.
- Every apartment will provide comfortable accommodation and state-of-the-art communications facilities, including internet access and wireless networking.
- All the apartment blocks will be fully accessible and equipped with modern lifts.
- After the Games, the Village will become part of the overall Stratford City regeneration scheme, including a new regional shopping centre with additional leisure, office and residential areas.
- It will be transformed into up to 3,300 new homes with environmentally friendly waste treatment and renewable energy, and accommodation for sale and rent.
- The communities which develop in the area after the Games will be supported by new parks, open space, community facilities and transport links.
- Buildings used to house the clinic, administration offices and supporting facilities are to be converted to an academy education campus for 1,800 students for adult, primary, secondary and nursery schooling.
- Before 2012 (phase one) there will also be 10ha of open space including five parks, squares, tree-lined streets, a water feature, courtyards and roof gardens.
- Transport will include a new DLR station, high speed shuttle service to central London, 2,500 parking spaces, new bus routes and a host of cycle paths and pedestrian footpaths.

Experts consider PSPPs (which are the subject of a significant body of academic and empirical literature in their own right) to be a vehicle of ensuring that relevant PPPs:

- Are (most importantly, in my view) firmly rooted in a sense of community benefit;
- Are built around mid- to long-term sustainable partnerships; and,
- Are characterised by conditions and resources consistent with ensuring sustainable results.

Such an approach should, in principle at least, respond positively to some of the criticisms levelled at PPPs *per se*, at least in their earliest manifestations, when avoiding increases in public debt was often a higher priority for sponsoring governments than ensuring value-for-money (a feature which, one suspects, may make something of a come-back in the wake of the financial crisis).

In particular, PSPPs should help:

- Strike a balance between the private sector's relative short-termism – especially in terms of return on investment (RoI) – and the "public good";
- Ensure the long-term maintenance of the facility under the terms of the original PSPPs agreement;
- Facilitate a partnership which places housing *per se* firmly in the wider neighbourhood context of infrastructure, recreational facilities and, indeed, the community as a whole (again, in my view, the most important element).

In other words, PSPPs are about much more than just "bricks and mortar". As the East Thames Housing Association, one of the partners in the PPP under which the 2012 Olympic Village is being developed (see Box 1 above), puts it:

> *"We are much more than a landlord: our mission is '**to make a positive and lasting contribution to the neighbourhoods in which we work'.** We are committed to working with and serving local communities, and developing sustainable, cohesive and happy neighbourhoods."*[4]

Finding The Finance

That long-term commitment needs to be assumed by not only the public sector partner(s) in a PSPP but also by the private sector one(s). And that, in turn, raises issues over financing and – for the private sector especially – return on investment. This is not a straightforward issue by any means. But here I would like to offer two thoughts which stand to be particularly relevant to the MENA region as a whole and which are certainly areas where investment banking expertise such as we have at Nomura becomes extremely relevant.

The Relevance Of Islamic Banking…

It seems to me that much of the essence of PSPPs is at least largely consistent with the underpinning principles of Islamic banking. By way of example, one of

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[4] *See http://www.east-thames.co.uk/what_we_do.asp.*

our speakers earlier today outlined broad "best practice" contractual arrangements for PPPs which seemed to me to be a close fit with one central principle of Islamic banking, ie "equitable contracts".

Now, I am <u>not</u> suggesting that adherence to such principles is a prerequisite of successfully funding PSPPs – indeed, far from it. But I would argue that, in looking for financial partners for social housing, authorities in this region may have a comparative advantage in the form of the potential attraction of such programmes to Islamic banking institutions and funds.

…And Sovereign Wealth Funds (SWFs)

Similarly, the MENA region may well have a second comparative advantage in the form of the richness – in both senses of the word – of its SWF community.

SWFs are increasingly looking to diversify their investment portfolios, including via what appears to be a clear shift towards investment in infrastructure including real estate. At the same time, they remain committed to long-term investment. And they already have an embedded "social" dimension in their very *raison d'être* insofar as they are the guardians of part of the national wealth of their home country.

For all these reasons, it seems to me that, whether under Islamic banking principles or otherwise, SWFs should be very open to at least the principle of financing PPPs in social housing.

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