

## **A new way to finance supported housing - Social and Sustainable Housing (SASH)**

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Social and Sustainable Housing (SASH) helps well-established frontline charities buy, rather than rent, the properties they use in the provision of their services. Owning, not renting property, helps build out the strength of charities that are key partners for local commissioners, and thereby generates a unique form of social impact.

*Link to SASH website ->*

<https://www.socialandsustainable.com/a-new-way-to-finance-supported-housing/>

### **A new way to finance supported housing**

Most property investment follows a traditional 'landlord' model. For many situations and organisations, this model makes perfect sense, and will continue to dominate. But [Transitional Supported Housing](#) is one area where there is a need for a more robust alternative model – because the landlord model is increasingly unable to provide or guarantee the supply of enough of the right kind of homes for the vulnerable people who need this type of supported housing. SASH has developed an alternative to renting that we call the 'Distributed' model. The same two parties are involved: namely, investors and supported housing providers who need access to housing. The distributed model simply matches their needs in a new way.

Under the landlord model, a property investor or fund typically buys properties which it then rents out (leases) to organisations or individuals who need to use them. The investor acts as landlord. Its investment return consists of current income (rent) plus any capital appreciation on the property value. Like any investor, landlords try to maximise their return while minimizing their risk. There is little they can do about the risk of property values, but they do everything possible to minimize the risk to their current income. In an ideal world they therefore seek to make their rental income as high, fixed and long-term as they can.

Tenants are on the other side of the transaction in this traditional model. A retailer that rents stores from a landlord is insulated from swings in property prices: the landlord absorbs that risk. But in return the landlord offloads performance risk onto its retailer tenant. The burden of fixed rental payments over the long term leaves the tenant exposed if its performance falls below expectations. (That's why leases like this are known as 'off balance sheet debt': accountants cannot put them on the tenant's balance sheet, but their effect is similar to debt.)

The landlord model has been around for centuries. It will no doubt continue to exist for centuries more, because the way it parcels out risk and return works well for many situations. But it doesn't suit everyone – which is why families have spent the last hundred years or more getting out of renting the homes they live in to become owner occupiers. The security and stability of ownership turned out to suit most households better than renting – and many large investors also discovered that letting homes to families exposed them to reputational risks they didn't much care for.

Transitional Supported Housing (TSH) is another area where a different model can work well for both property investors and organisations that need access to specific types of housing. The [Social and Sustainable Housing fund](#) (SASH) uses the 'distributed' model, in contrast to the traditional 'landlord' model. 'Distributed' means that it provides the investment capital, and its investors get property market exposure; but it delegates many landlord functions to the organisations that need the housing in the first place. It is the supported housing providers who actually buy, own, manage and control the housing under the 'Distributed' model.

Most of the organisations that deliver TSH are charities, which means that it is hard for them to raise the large amounts of equity funding needed to buy property. Even if they can get a mortgage, it usually requires a sizeable up-front deposit.

The traditional landlord model offers them a potential way round the lack of up-front capital – and if they're lucky, they will be able to rent properties of the right quality, in the right location, for the long term, at a reasonable cost, from a supportive housing association that shares their social purpose. But these properties are becoming harder and harder to find – and the tenant is still taking on most or all of the performance risk, which has been shown to be capable of becoming a serious problem.

It's not only retailers that have gone bust because of their overbearing fixed lease payments. Ten years ago, the UK's largest care home operator, [Southern Cross](#), was housing 31,000 elderly people when it went bankrupt because of rent payments that were too high, fixed rate and very long term.

TSH is often commissioned by a local authority, which gives the provider some security of income – but even these public commissioners rarely commit to a contract longer than two years. Big landlords typically look for leases that are much longer than this, leaving the provider stuck in the middle and carrying an open-ended risk.

One of the key objectives here is to help Social Sector Organisations (SSO's) become stronger and more self-reliant. Imposing open-ended risks onto them is not wise nor part of any sensible game-plan.

The traditional landlord model also fails to meet another important objective of SSO's; to achieve enduring scale. A supported housing organization that expands by renting properties is only growing temporarily. When the lease ends, the property quite often goes back to the landlord. When this happens the supported housing organization goes back towards its original size. No permanent change has taken place.

Permanent growth in this context means buying properties, not renting them. But this objective must not mean that unacceptable risk is loaded onto the SSO. Fortunately, a rapidly growing number of investors are ever more interested in finding ways to make a difference with their funding, while still generating compelling returns. These investors are both experienced in and structured to manage risks which, charities typically aren't set up for and therefore find unpalatable. The 'Distributed' model is a way to better match the needs of both sides, allowing TSH organisations to further expand permanently, by buying homes, versus renting them – but without doing so in a way that burdens them with unfamiliar or unpalatable risk.

The investment capital provider makes a ten-year loan to supported housing organizations that meet stringent screening tests in terms of track record, strong governance, effective management and stable commissioner relationships. The charity uses the loan to fund 100% of the purchase price of suitable homes. The charity owns the housing; the capital provider having a first charge over the asset. Instead of a fixed interest rate however, the charity passes through a pre-agreed share of the net rental income generated by the housing; in effect, transforming the cost from a fixed to variable one. At maturity in year ten, the charity's loan repayment is a function of the property value at the time. This relieves the charity of exposure to property prices; and gives the capital provider's investors the desired exposure to a diversified portfolio of lower-quartile dispersed housing across the UK, with a clear and robust social purpose.

The nature of the housing involved has some unique characteristics. It is hard for large investors to get exposure in the first place to dispersed housing of the sort typically involved; and even harder to find and assess a range of social borrowers with deeply rooted local relationships. In effect, the capital provider delegates sourcing and property management to local experts spread across multiple locations, rather than to a centralized single landlord. But the most important feature of the Distributed model stems from its key overriding objective: to channel investor capital into helping SSO's grow robustly and permanently – by acquiring housing assets rather than renting them. This approach creates a unique level of sustained social impact: in identifying long-established and well-managed supported housing providers and then helping them become enduringly stronger and more resilient.

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