SASC RESPONSE

Supported housing – calling for a fresh approach

Drive, commitment, ambition and achievement all emerge clearly from Mark Simms' article. The same can be said for all the other organisations which make up the SASH portfolio. Post-pandemic, local and national governments are going to need all the help they can get. We believe organisations like these can be a key resource, especially when there is a desire to 'level up'.

Two things make us worry that this potential may not be fully realised. To understand why that is, it is important to have a clear sense of what a SASH organisation looks like.

P3 and most other SASH borrowers share three key features. First, they are truly social organisations: they have no shareholders in the regular sense. This means that unlike 'profit with purpose' organisations, they face no distraction from their social purpose. But in financial terms, their legal structure ties one hand behind their back because it limits the funding they can get access to. This in turn limits their ability to grow and fulfil their potential.

The second key feature is that SASH borrowers deliver both support and housing. This goes against a common mindset that says housing can and should only be delivered by specialists in bricks and mortar. In many situations, housing ownership should indeed be left to housing specialists – but not all.

Finally, SASH borrowers are locally rooted. Even when they operate in more than one area, they have strong local connections in each one. A strong local focus has always been part of our investment thesis at SASC, and our experience with SASH has reinforced that view. Several of our existing SASH borrowers have come to play the role of a trusted partner for local commissioners. Other organisations that we are working with seem to be on track to achieve that status.

In our view, policy makers should want to see such local champions flourish. But two potential barriers lie in the way.

The first barrier is a high-level one. Some people believe that social housing should only be provided or owned by housing associations – ideally, at maximum scale. The UK has more than 1600 Registered Providers. They have a strong regulator and a clear identity: namely, they are the bricks and mortar specialists. Housing associations are also a key tool in national government's approach to what we at SASC call the UK's 'main' housing crisis – that is, the shortage of general needs housing.

The scale and nature of that 'main' housing crisis has led to an emphasis within the social housing sector on scale. A steady process of consolidation over time has seen fewer, larger housing associations emerge at the top end of the sector. 'There is now widespread acceptance in the housing sector,' according to one leading property consultant, 'of the need to operate as property development and asset management businesses.'[1] When it comes to building and managing the highest possible volume of general needs housing, SASC agrees.

But building new general needs housing is not the whole story; social housing also includes various categories of supported housing. One of these is the Transitional Supported Housing (TSH) that SASH focuses on. TSH represents about £14bn of housing stock and involves little if any new construction. It accounts for around 30% of the broader supported housing category, including care homes. It is around 5% of the total social housing market (see graphic on page 24). Where disadvantaged groups are concerned, TSH is what matters. And it needs to be thought about in a different way.

In Transitional Supported Housing, support and housing go together. We believe this combination can be delivered in a range of different ways. But SASH has been working with organisations that deliver both: that is, they own the housing as well as delivering the support. Some of these organisations started out as charities; others, as smaller housing associations with a focus on support. From our perspective, small support-oriented housing associations have more in common with large charities that provide supported housing than they do with scale-oriented housing associations that focus on general needs housing.

1. Source: 'Background to the UK Social Housing Market', Civitas Social Housing REIT prospectus, 1 November 2016

Whatever their origins, the local nature of the organisations SASH works with may make them too small to appear on national policy makers' radar screens. They may also fly in the face of the drive to maximise scale across social housing in general. But local authorities commission these local organisations to deliver vital services, and view them as 'go-to' partners.

This may reflect something called diseconomies of scale. Maximum scale may produce the lowest financial costs. But it may also lose local insights and relationships – things that do not fit easily into spreadsheets. The pandemic has provided all too many examples of the tensions that exist between national-scale 'efficiency' and the benefits of local knowledge.

We also know it would be naïve to think that simply 'being local' is enough. Policy makers are right to worry that good intentions alone do not create a viable and sustainable organisation. Not all local organisations have the capacity to become 'go-to' champions, or should receive investment support to do so. At SASC we try to be realistic and clear-eyed about the organisations we meet. Sometimes this realism may feel like 'tough love', but we believe it is in everyone's best long-term interests.

Imagine now that the first barrier mentioned earlier – invisibility – has been overcome. National policy makers and other stakeholders, including private investors, come to agree that local 'go-to' champions have a key role to play in a mixed social economy. This brings us to the second barrier – namely, how these organisations can access the right kind of funding to fulfil their potential.

Even before COVID-19, investors were becoming increasingly enthusiastic about social housing. Post-pandemic, the stability of government-backed rental income will be more attractive than ever. Investing in social housing also addresses the growing interest in 'impact'.

But we believe there is a real danger that some of the private investment that has been flowing into social housing tilts risk and return heavily in favour of the investor at the expense of the organisations receiving the investment.

This raises serious issues for many of the charities and housing associations we are working with. They need funding that does precisely the opposite of most of what is on offer. They want to provide a combined offer of housing and support for disadvantaged people. To do this, they need an investment partner that can absorb the risks that are preventing them from scaling up their response to this 'other' housing crisis.

It was to meet this need that we designed and launched SASH in mid-2019. We believe the success we have had with both investors and borrowers over the last eighteen months highlights the opportunity for truly social investment in this sector.

Our hope is that policy makers and other stakeholders will come to share both parts of our vision: the role that P3 and other local 'go-to' champions can perform in the years to come, and the need to think about financing in a different way.

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