

THE ITALIAN BANKING FOUNDATION COMMITMENT IN SOCIAL HOUSING

Affordable finance for affordable housing by
means of Real Estate Funds

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MAIN QUESTIONS

What are the challenges to social housing providers following the economic crisis of 2008/2009?

How will the fall out of the crisis change the financing environment and traditional financing institutions?

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What have we learned?

How can we adapt our business models to be more resilient in the future?

What should financing vehicles be trying to accomplish?

The Local Funds: a resourceful tool fitting the operators' expectations

What are the challenges to social housing providers following the economic crisis of 2008/2009?

- From the “Bricks and mortar” subsidies to the “3rd sector expertise & the cost effective philosophy”
- Stability and Growth Pact, Social Inclusion, Energy efficiency...

How will the fall out of the crisis change the financing environment and traditional financing institutions?

- Decreasing trust feeling of private investors (commercial players)
- Qualified investors avoiding free grants (Banking Foundations...)
- Restrains in public investments, grants, etc.. (Central Gov.)
- Hit the Real Estate Economy, didn't cut dwelling costs and housing discomfort

What have we learned?

- **Inadequate supply of houses on the rental market**
 - A strictly private market (80% private ownership) – rents submerged in the black market
 - The Public Building Trade is frozen (since '80s) due to central Gov. policies
 - Lack of available and fitting residential stock (for young, old people, students)
- **The decreasing wealth on the demand side**
 - Mid-class “new families” (changes in families structure)
 - quite stable incomes +10% per family (since '95)
 - Strong speed up in rents and prices +110% in metropolitan areas (s. '95)
 - A cluster discarded by the Governmental traditional deals

What should financing vehicles be trying to accomplish?

- **Both Public and Private players are looking for:**
 - Resilient investments (low risk, reliability, cost effectiveness)
 - Trusting partnership
 - New Central Regulation and more co-ordination with local programs
 - Local co-operations (commercial players, major investors, Public Bodies)
 - The 3rd sector expertise involvement
 - Tax privileged treatment

How can we adapt our business models to be more resilient in the future?

The Italian turning issue: development of Housing Finance

- **By 2009 a new Government Decree enabled a new coherent framework for social housing investments:**
 - An integrated system of Real Estate Funds (SIF): 1 billion €
 - → direct investment in Social Housing initiatives (10%)
 - → promotion and investment in Local Funds (up to 40% of each)
- **First operative stages: the role played by Banking Foundation**
 - The Company **CDP-Investment** (Deposits and Loan Bank), shared by the *Italian Banking Foundation Association (ACRI)* and the *Italian Banking Association (ABI)* become the **Investment Management Company (in Italy: SGR)**

The Local Funds: a resourceful tool fitting the operators' expectations

• Flexible, Granted, Controlled & in Partnership...

• Main Subjects and proper role

- **LOCAL PUBLIC BODIES** (Municipalities) providing areas and buildings at affordable price, or just in leasehold;
- **MAJOR PUBLIC AUTHORITIES** (Regions) investing equity through local social housing programs;
- **MAJOR PRIVATE INVESTORS** (Banking Foundations, Insurance Companies) whose involvement is a key driver to collect equity;
- **NO PROFIT ORGANISATIONS** whose experience in social issues management and tenants discomfort it's extremely useful;
- The National Bank "**Banca d'Italia**" to which the Funds Regulation Approval is bound.

The Local Funds: a resourceful tool fitting the operators' expectations

- Low risk and cost effective...
- Main Features and Mechanism
 - Profitability goal: 2% over the inflation rate
 - **Local Technical Advisor**: continuous support within the projects and the involved partners, being acquainted on the local issues and expected goals
 - **Tax treatment** of Real Estate Funds: **income tax exempted**, and other privileged conditions, 20% deduction on final revenues.
 - **Debt and leverage**
 - up to 60% of the Real Estate portfolio and up to 20% of the other investments
 - The **CDP-Investment** commitment, enabling to collect equity from a protected circuit of savings (40% on the tot portfolio). A note: the CDPI profitability expectation is around 3%-4% over the inflation rate

The Local Funds in Italy: Case record of the existing Regional Fund in Lombardia



Milan – in progress



Crema – to be finished in 2011

The first Regional Fund in Piedmont:

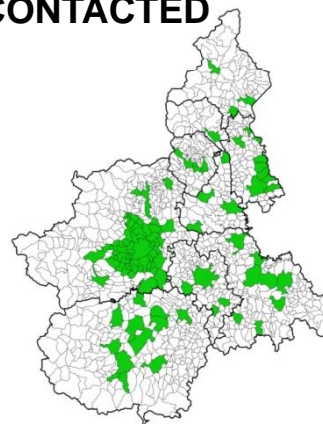
FASP

Fondo Abitare Sostenibile in Piemonte

- Land cover: Piedmont Region
- Investors' target: Closed, for qualified Investors

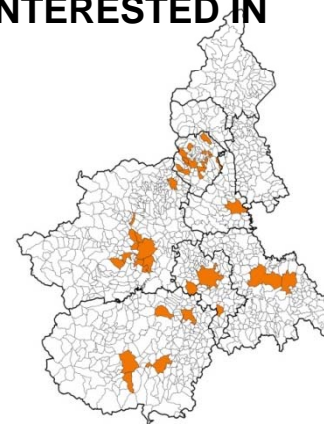


**105 MUNICIPALITIES
CONTACTED**



Legenda
Province
Comuni invitati incontri riservati presentazione FASP
Comuni non invitati
Comuni invitati (totali n°105)

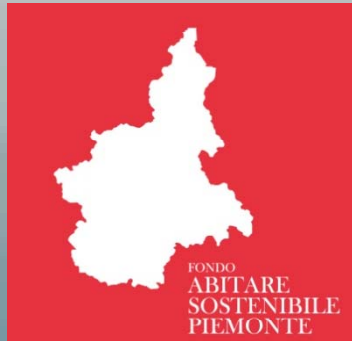
**37 MUNICIPALITIES
INTERESTED IN**



Legenda
Province
Comuni presenti incontri riservati presentazione FASP
Comuni assenti
Comuni presenti (totali n°37)

**SCOUTING IN
PROGRESS**

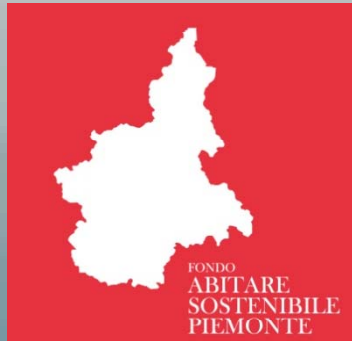




FASP

Fondo Abitare Sostenibile in Piemonte

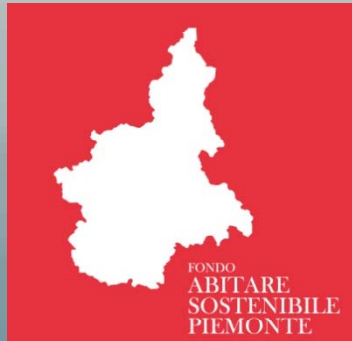
- **Subscribers** (tot portfolio=85 millions €)
 - 9 Local Banking Foundations → 45 millions € investment
 - Piedmont Region
 - CDPI – the national Deposit and Loans Bank
- **Duration: 30 years**
- **Equity (60-70%); Debt (30-40%)**
- **Local IMCo: *Polaris Sgr* (selected by ITB)**
- **Technical Advisors**
 - **FHS-Fondazione Housing Sociale** (Milan→ Expertise on Management)
 - **SisTer.srl** (Turin→ Expertise on local issues and Real Estate Market)



FASP

Fondo Abitare Sostenibile in Piemonte

- **Design:** eco-sustainability, energy efficiency
- **Target:** families or singles facing dwelling discomfort
- **Contracts:** permanent rents (3+2 or 6+2 years)
- **Social mix:** 3 income levels
- **Rent Levels:** -25%; -30% compared to the market
- **Presence of non residential activities**
- **Exit Strategy:** final sale (at a revalued cost; pre-emption right for Public Local Bodies)



FASP

Fondo Abitare Sostenibile in Piemonte

- **Threats elements**

- Development costs (area, buildings and start up)
- Urban, social quality
- Fair balance between offered rents and local Real Estate market
- Real Estate mix, both in lease/sale and in residences/services
- Rent levels mix
- Additional free grants, where necessary
- Use of revolving funds, thanks to the tenants' equity
- Profitability levels distinction (depending on the Investor)

- **Key tool:** the feasibility control by means of an Economic-Financial Model. It is a shared tool between the partners



FASP

Fondo Abitare Sostenibile in Piemonte

- **The setting of an EFM by the Technical advisor to demonstrate the Fund finance affordability**
 - It is a model developed for the FASP Fund, requested by the Compagnia di San Paolo to assess the future incoming cash-flows and to compare the different profitability and sustainability profiles. It depends on:
 - design choices
 - financial structure
 - promoter & investor type
 - management
 - It works through **hypothesis** (parameters, depreciations, inflations, Gross profit margin, taxes, financial management and exit strategy variables)
 - The **outcomes** concern financial ratios and results.

***Thank you for your kind
attention***

For any question please contact:

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