

# PANEL THREE—Housing Finance Innovation

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# Metro-led housing finance innovation

Community is built from the bottom up



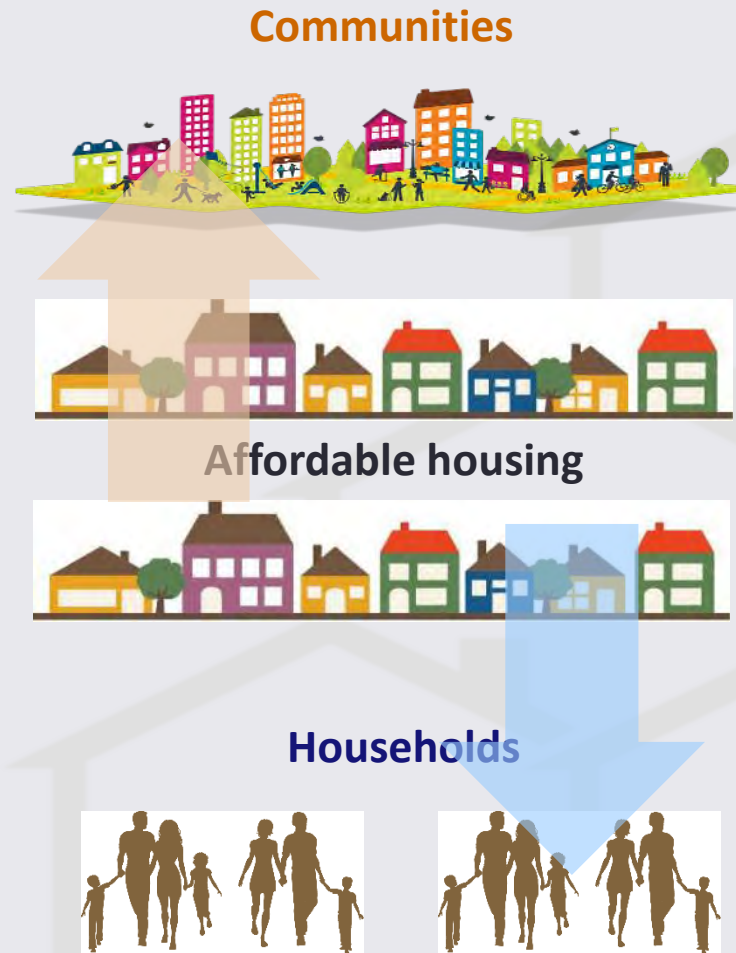
Boston University Initiative on Cities

9:00 am ♦ Tuesday, 9 Apr 2019

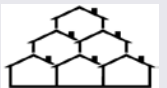
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# Housing is where community meets household

Affordable housing is urban infrastructure and social infrastructure



- 4+1 rule of 21<sup>st</sup> century sustainable jobs
  - Affordable housing anchors communities
    - ‘Green sustainable cities’ ↔ urban affordable housing
  - Housing touches everything
    - Jobs, transport, health, safety, community
  - Scale of success is neighborhood-plus
  - Time test of success is capital reinvestment
- 
- Affordability is end objective in itself
    - ‘Decent, safe, and sanitary’
  - Scale of success is the property
  - Time test of success is property viability
  - Households start out independent
- 
- Affordability is just start
    - “Housing *plus* services”
    - Housing is the platform for improvement
    - People are less than independent
  - Scale of success is person or household
  - Time test of success is life improvement

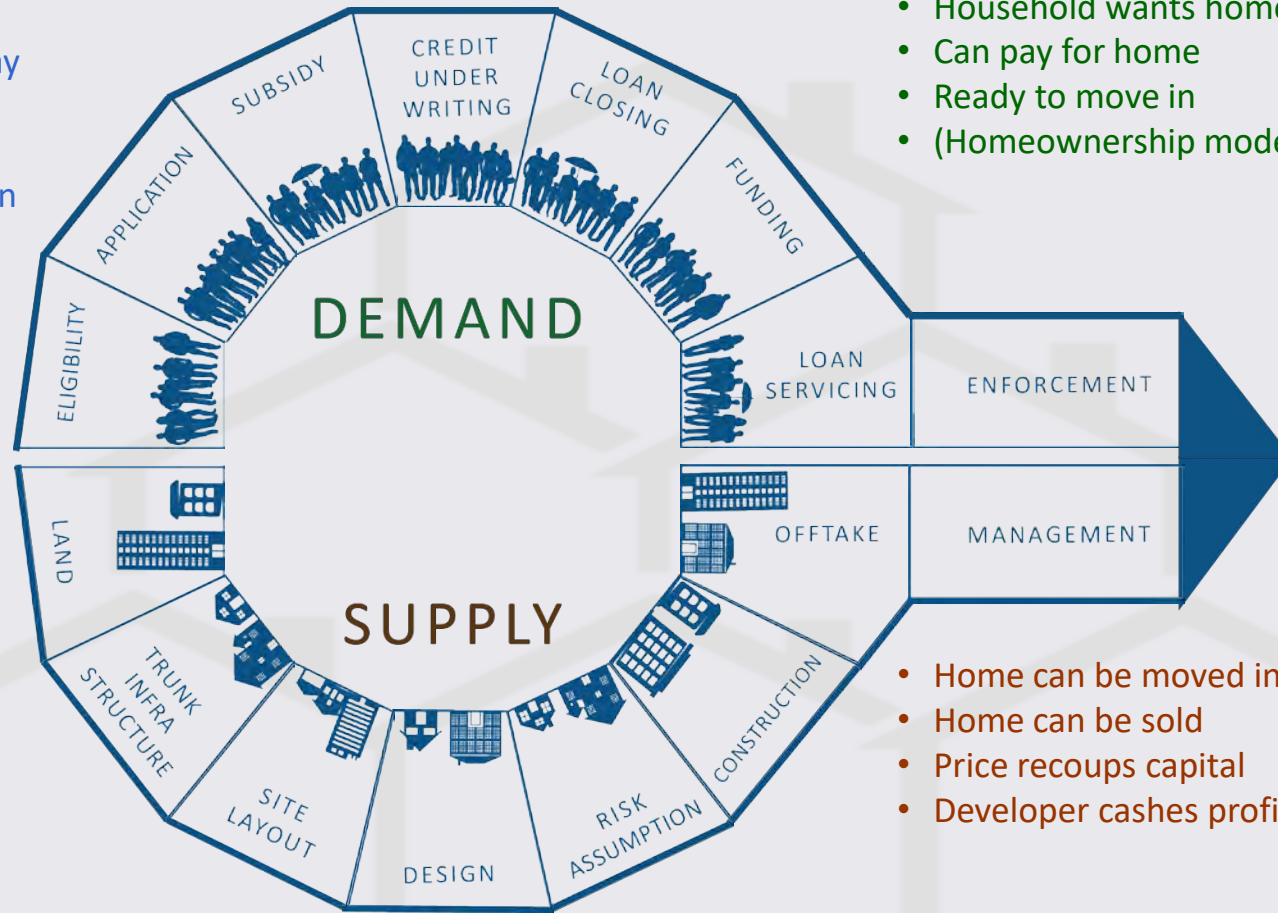


# 2 value chains, 16 links

In functioning markets, they work together and meet at a closing

- Many actors along the way
- Many handoffs
- Each relies on the next

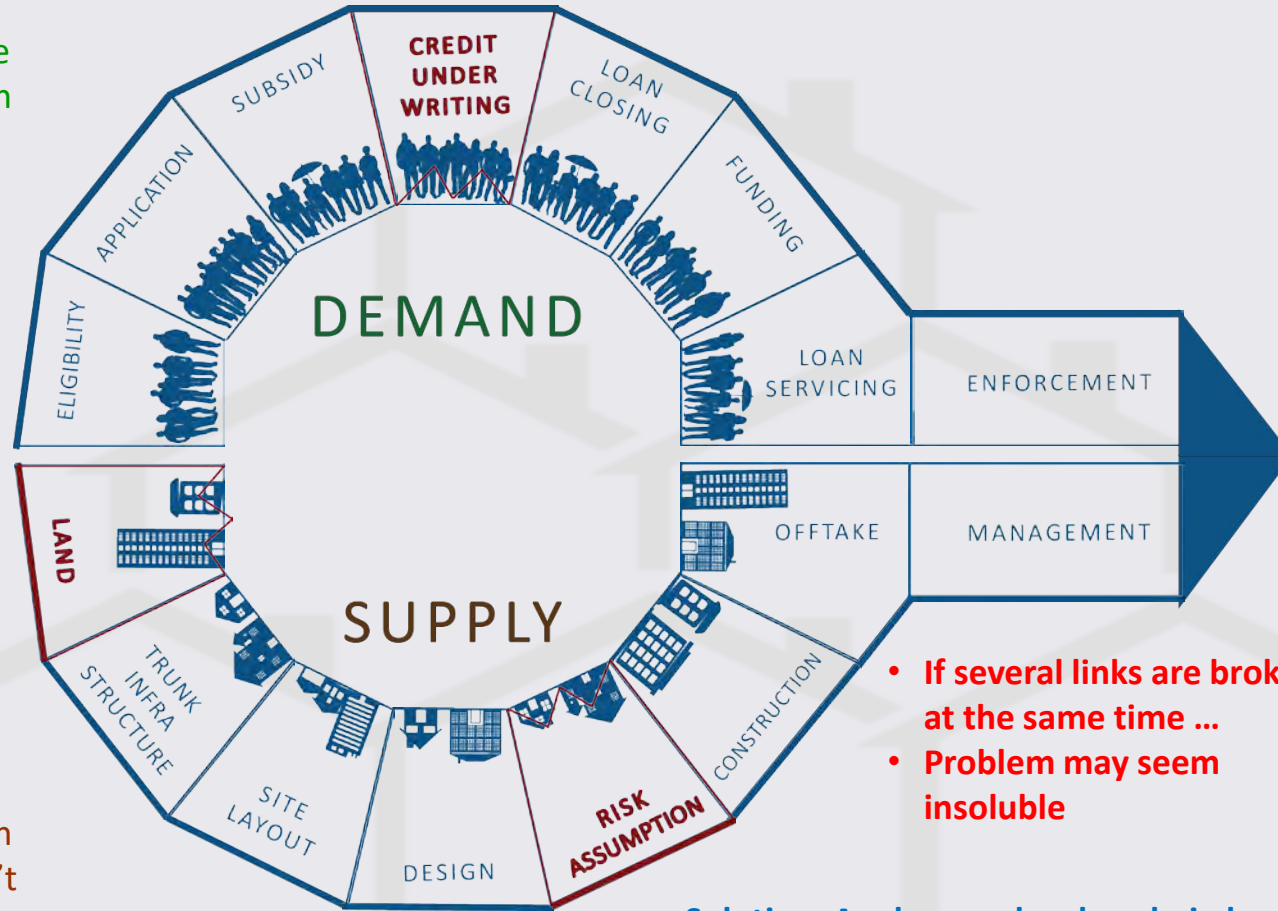
- Developers looking for opportunity
- New customer-price niche



# If any link doesn't work, the value chain is 'broken'

And in many (most?) markets, one or more links doesn't work

- If even one demand-side link is broken
- People can't borrow to buy



- If even one supply-side link is broken
- Homes aren't created

- If several links are broken at the same time ...
- Problem may seem insoluble



- **Solution: Analyze each value chain by observation**
- **Identify missing links, weak links, uneconomic handoffs**
- **Make 'maxi-min' changes at the weak links *only***





# 'Free' money comes in many forms

Non-cash converts to cash ↔ Cash converts into non-cash



## Cash

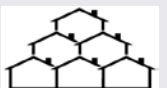
1. Grants
2. Hard debt with high leverage
3. Hard debt with interest subsidy
4. Soft debt
5. Hard equity
6. Soft equity
7. Operating subsidy
8. Redirective subsidy

## Non-cash

1. Land (cheap or free)
2. Zoning and density
3. Trunk infrastructure
4. Site infrastructure
5. Cheap or free utilities
6. Credit enhancement
7. Tax relief (VAT) on materials
8. Real estate tax (fees) relief

Every market has a distinctive mix – what is the mix in your market?

Always design programs and business models around unique mix

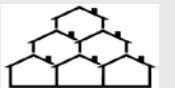


# Affordability tools

## States and locals can use



- Cheap land or trunk infrastructure
  - Government PPP
    - Redevelopment agency as land owner
  - Tax Increment Financing (TIF)
- Community reinvestment capital (CRA, PSL, Financial Sector Charter)
  - Mandated or incentivized
- Inclusionary zoning (density bonus)
  - Mandates, incentives, and everything in between
    - 880+ US jurisdictions: Chapter 40B
    - Going global: UK Section 106, India TDR's, Brazil CEPACs,
- Real estate tax incentives ('land value capture')
  - Abatements, exemption
- Investment tax credits
  - LIHTC, Historic, brownfield remediation, energy
- Sales tax (VAT) waivers on construction materials
  - Claimable and self-certified



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**MAYOR OF LONDON**

# Affordable housing in London

James Clark, Head of Housing Strategy  
Greater London Authority

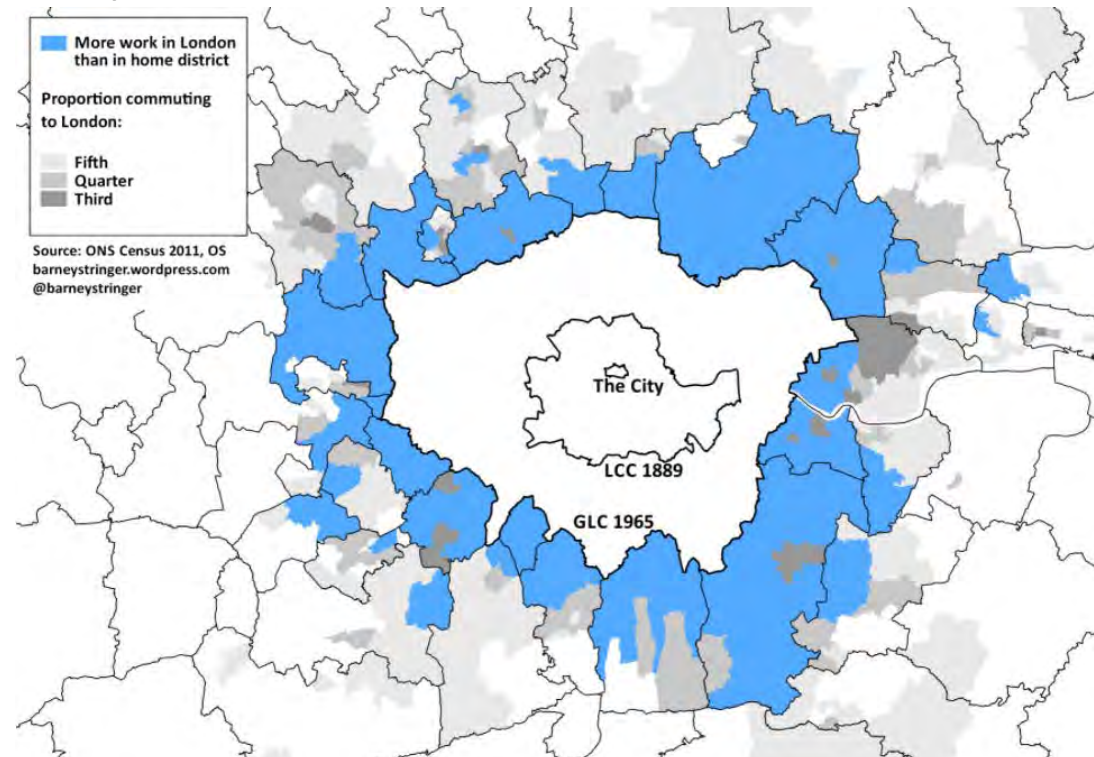
09 April 2019



# MAYOR OF LONDON

## About the Greater London Authority

- Top-tier administrative body for Greater London
  - Spatial planning, housing and transport policy
  - Major landowner and control of capital subsidies, including for affordable housing (\$900m pa)
- Governance arrangements have grown with the city: messy and under-bound
- Context: one of the most centralised OECD countries

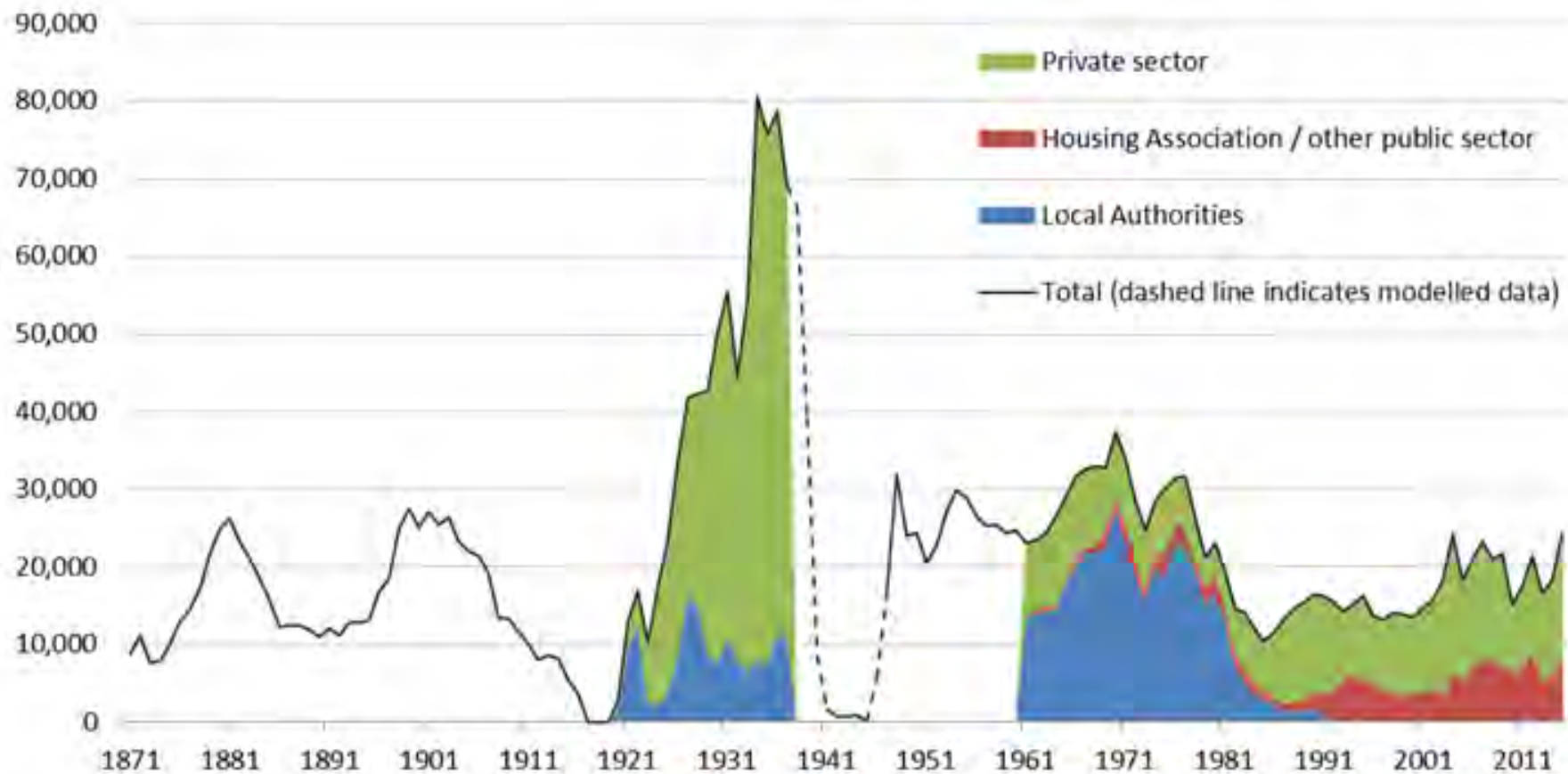


## MAYOR OF LONDON



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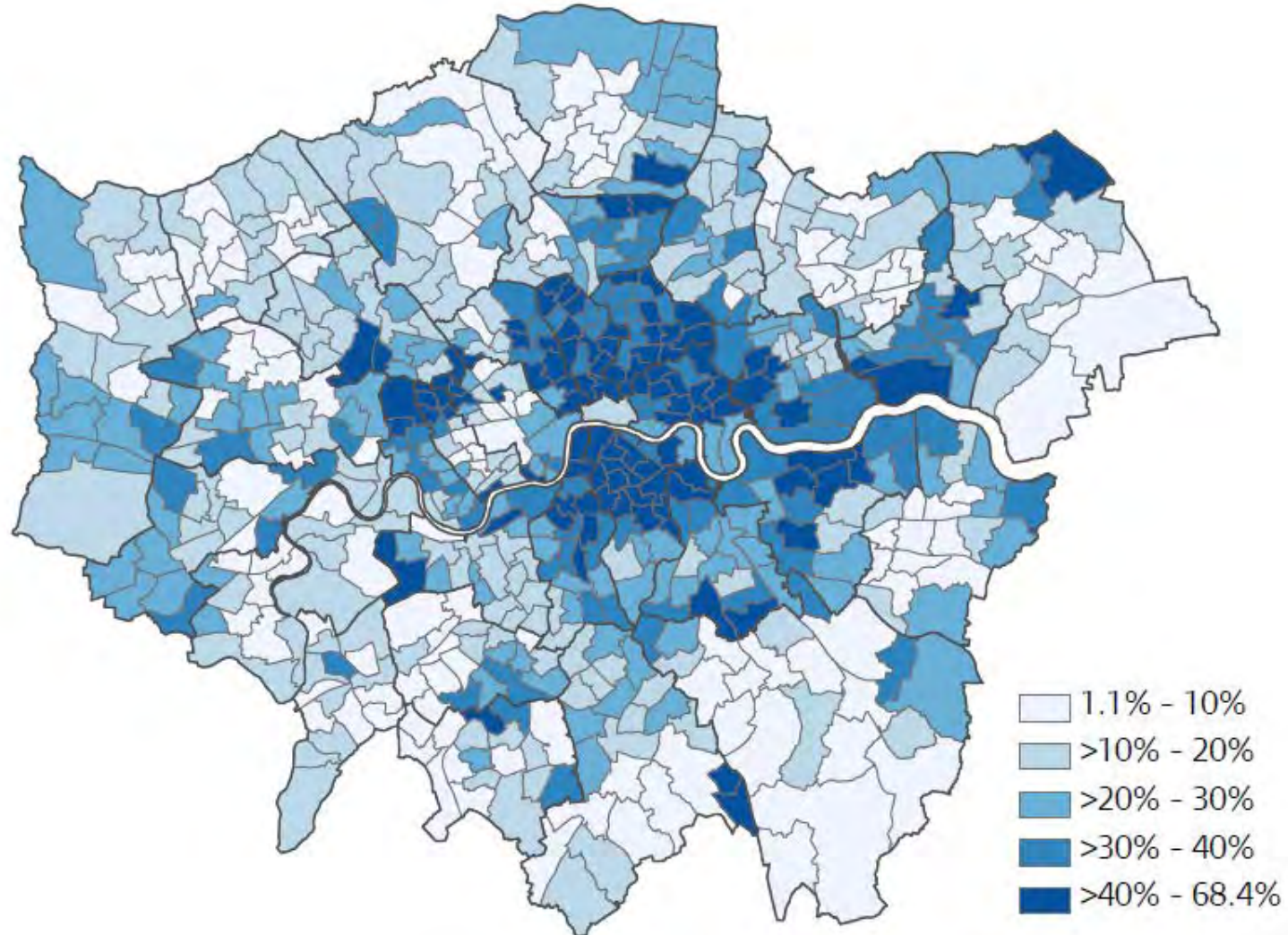
## Estimated number of new homes built in London annually, 1871-2015





# MAYOR OF LONDON

## Social tenants as a proportion of all households in London by ward, 2011



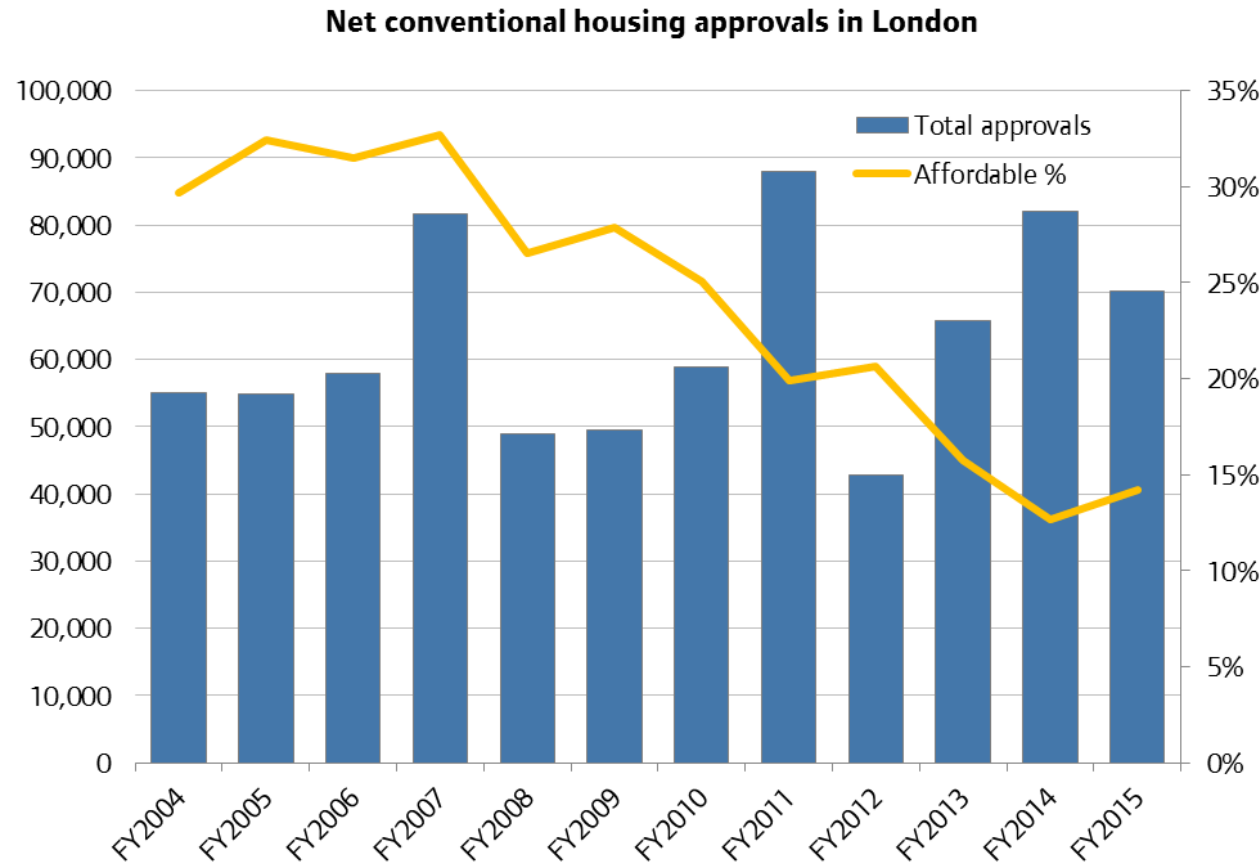




## Housing associations

- Independent, not-for-profit, statutory duties to assist
- Rent and private finance
- Capital grants, reserves and cross subsidy secure affordability
- Nowadays, credit-rated housing associations and intermediaries raise bond and debt finance at historically low rates of interest
- House one in eight London households and build one in three new homes (in a good year)
- Government support and regulation, e.g.
  - Regulator of Social Housing
  - The Housing Finance Corporation
  - Stock transfers
  - Housing Benefit

## Section 106, viability and affordable housing



*“If market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for sites and try to recover some or all of this overpayment via reductions in planning obligations”*



## Learning to live with Section 106



- Aims to embed cost of affordable housing policy obligations into land values
- Sets a 'threshold' of between 35% and 50% affordable housing in return for a fast-track to avoid 'viability'
- If threshold not met, financial viability scrutinised and review mechanisms applied
- All secured and enforced via Section 106 agreements
- Recent approvals running at around 30%



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## Decline of council housing...



- Right to Buy
- Withdrawal of subsidy
- Financial constraints
- Stock transfer
- Stigma

## ...and partial resurgence



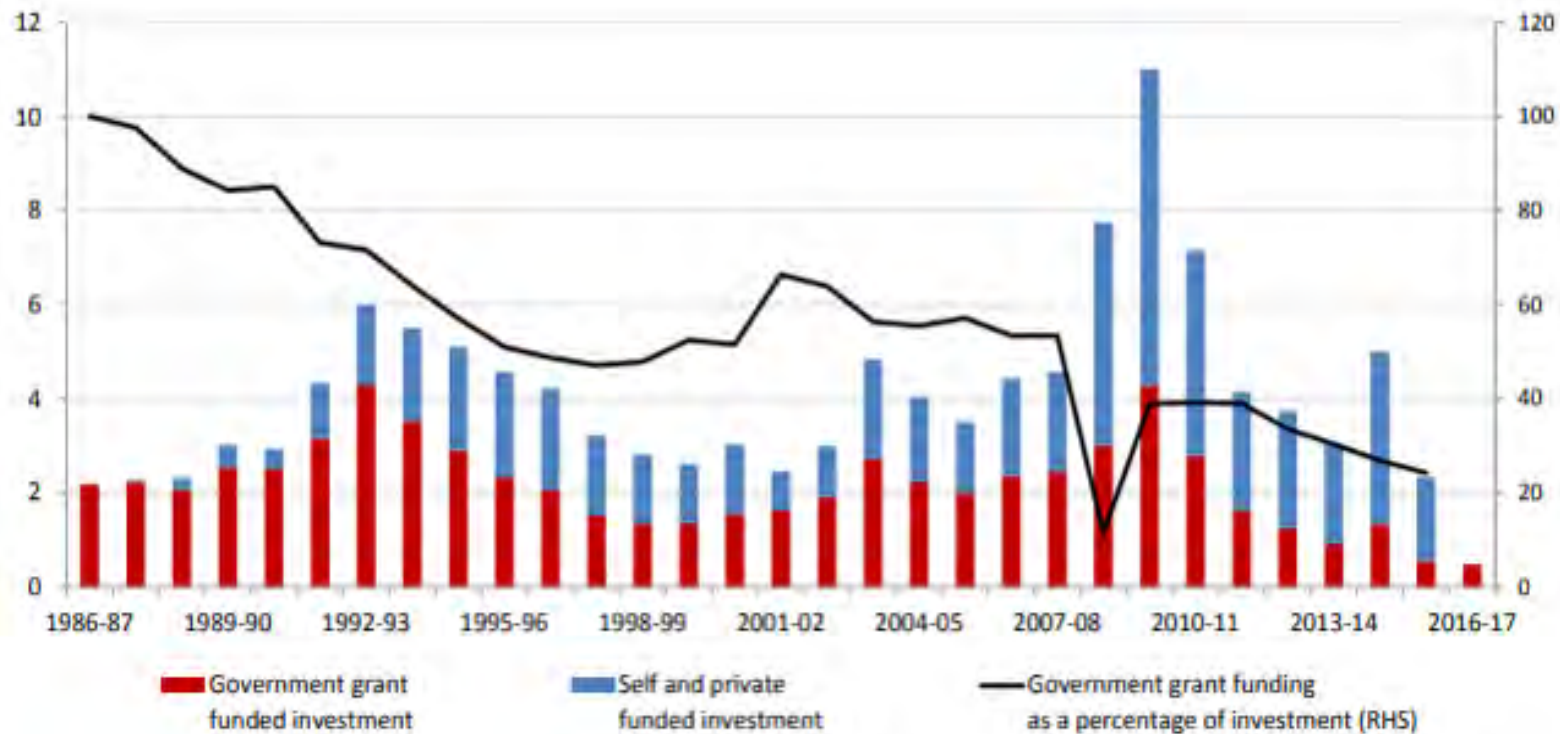
***“Mayor agrees £1 billion plan to build 11,000 new council homes”***

*“London’s housing crisis is hugely complex and has been decades in the making. There is no simple fix – but council housing is the most important part of the solution”*

# MAYOR OF LONDON

## Decline of Government grant funded investment

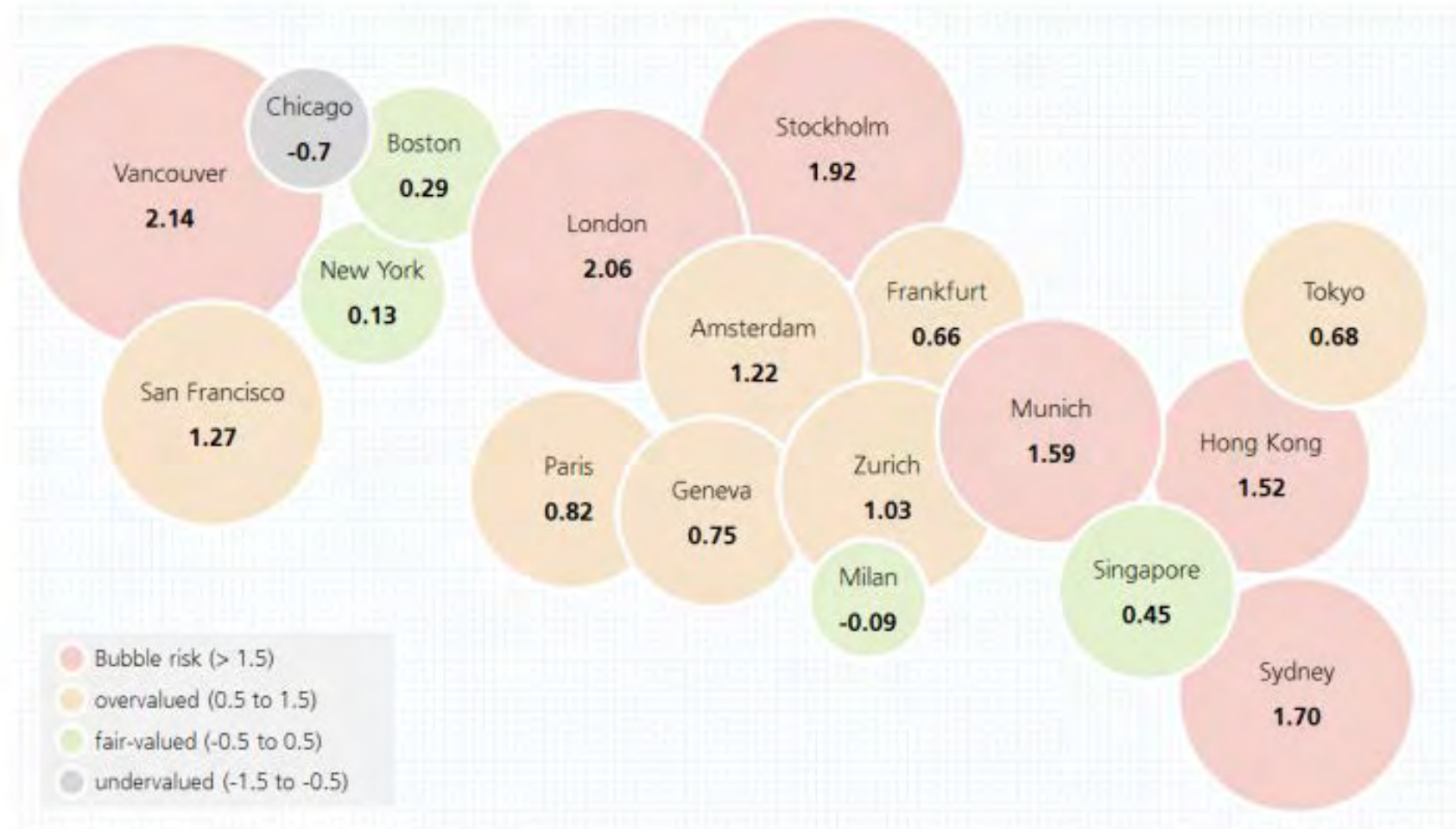
*Gross investment by source of finance (£ billions, 2017-18 prices) and grant funded investment as share of investment in England*



Source: Capital Economics/Shelter, 2019

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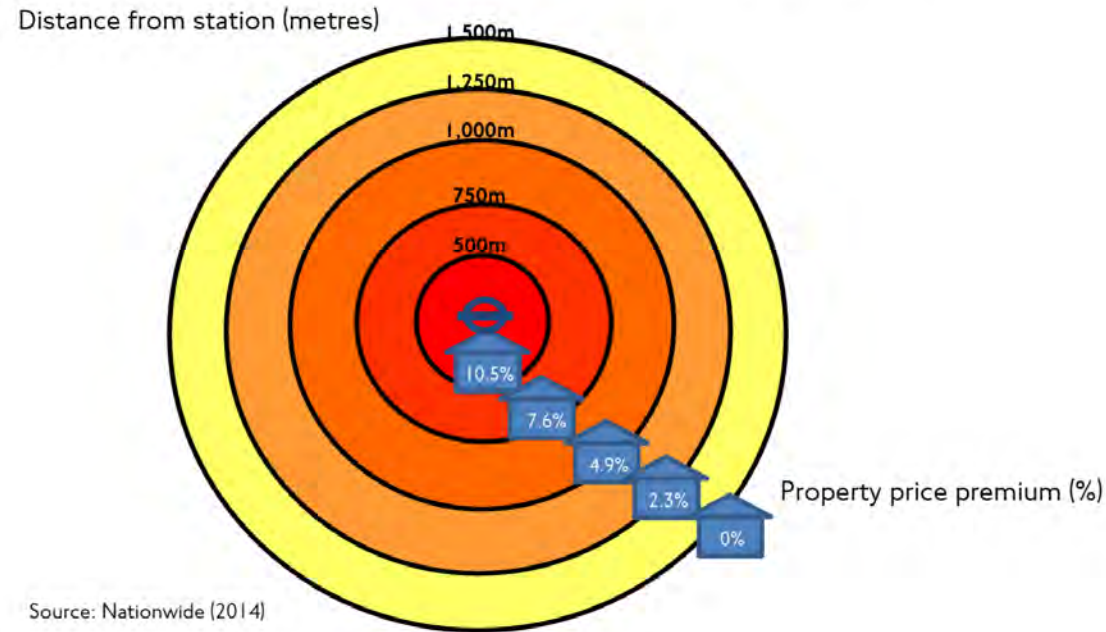
## Global real estate bubble index



Source: UBS



Figure 1 - The 'transport premium' in London property prices



## Elizabeth line







# Thank you

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# “Meeting the Challenge: Global Innovations in Urban Housing”

*Instruments to Provide Social Houses in São Paulo Municipality:  
Cepacs, Urban Operations and Zeis*

Boston University, April 8-9, 2019

Paulo Sandroni



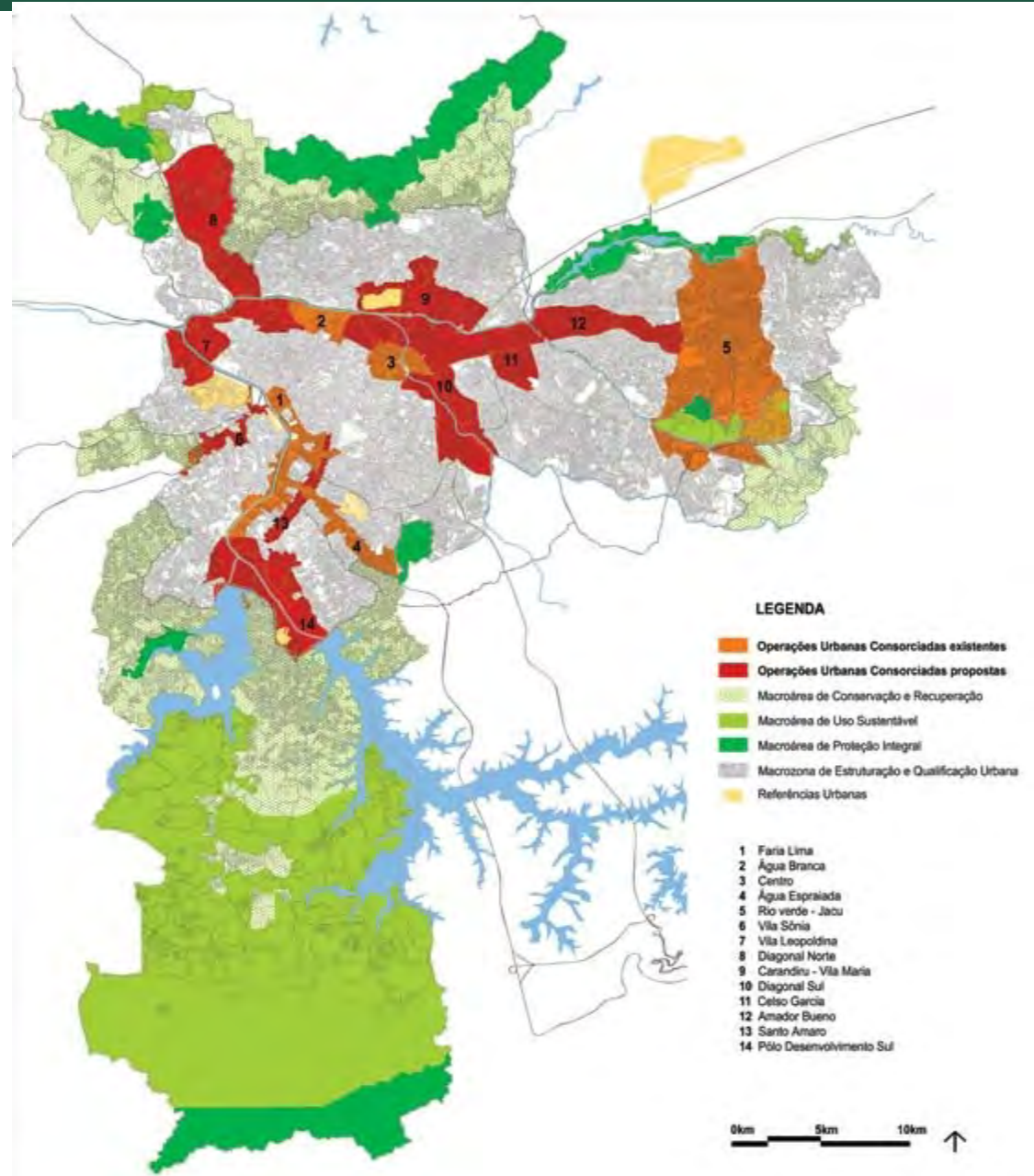
- Social Houses:
- Two major problems: (among others)
- Financing and Location

- Financing:

Value capture from selling construction rights over FAR 1.0 to a maximum of 4.0.

- Instrument: The Certificate of Additional Construction Potential (Cepac) sold in Stock Market auctions to landowners/developers inside Urban Operations perimeter.

Urban  
U.Operations  
occupy  
almost 24%  
of 1,500 Km<sup>2</sup>  
total  
Municipal  
area, and 40%  
of its 960 Km<sup>2</sup>  
urban area



# Income from Cepacs used to finance social houses

Over the red line (right)  
potential bought by developer  
and income used to finance  
construction of social houses  
in Curruiras slum (below)





# Bridge and Jardim Edith slum



Poliza Curitiba II

# Bridge and slum in UO Agua Espraiada with Cepacs income

Bridge over Pinheiros River -U\$ 120 million;  
252 social houses constructed in Jardim  
Edith slum - U\$ 30 mi.

- Cepacs can also be used to finance infrastructure





# Metro line in Agua Espraiada Urban Operation

- U\$150 million invested in Metro Line 17





# Metro line 17 seen from 15th floor Jardim Edith social houses building



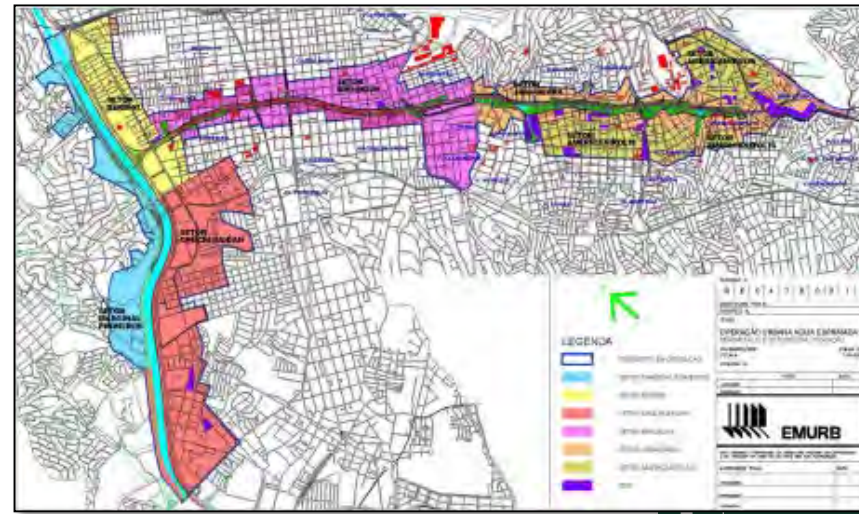
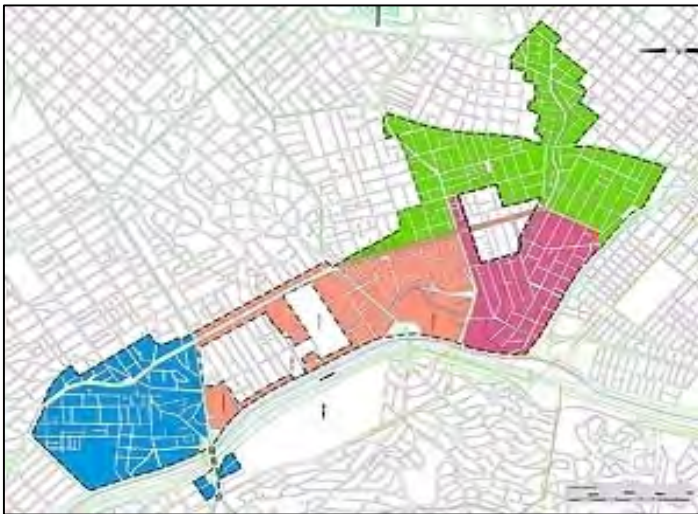


# More than 200 projects used Cepacs

Income from Cepacs (Dic. 2016)

- Faria Lima = U\$ 895 mi  
Agua Espraiada = U\$ 1,867 mi  
Total = U\$ 2,762 mi

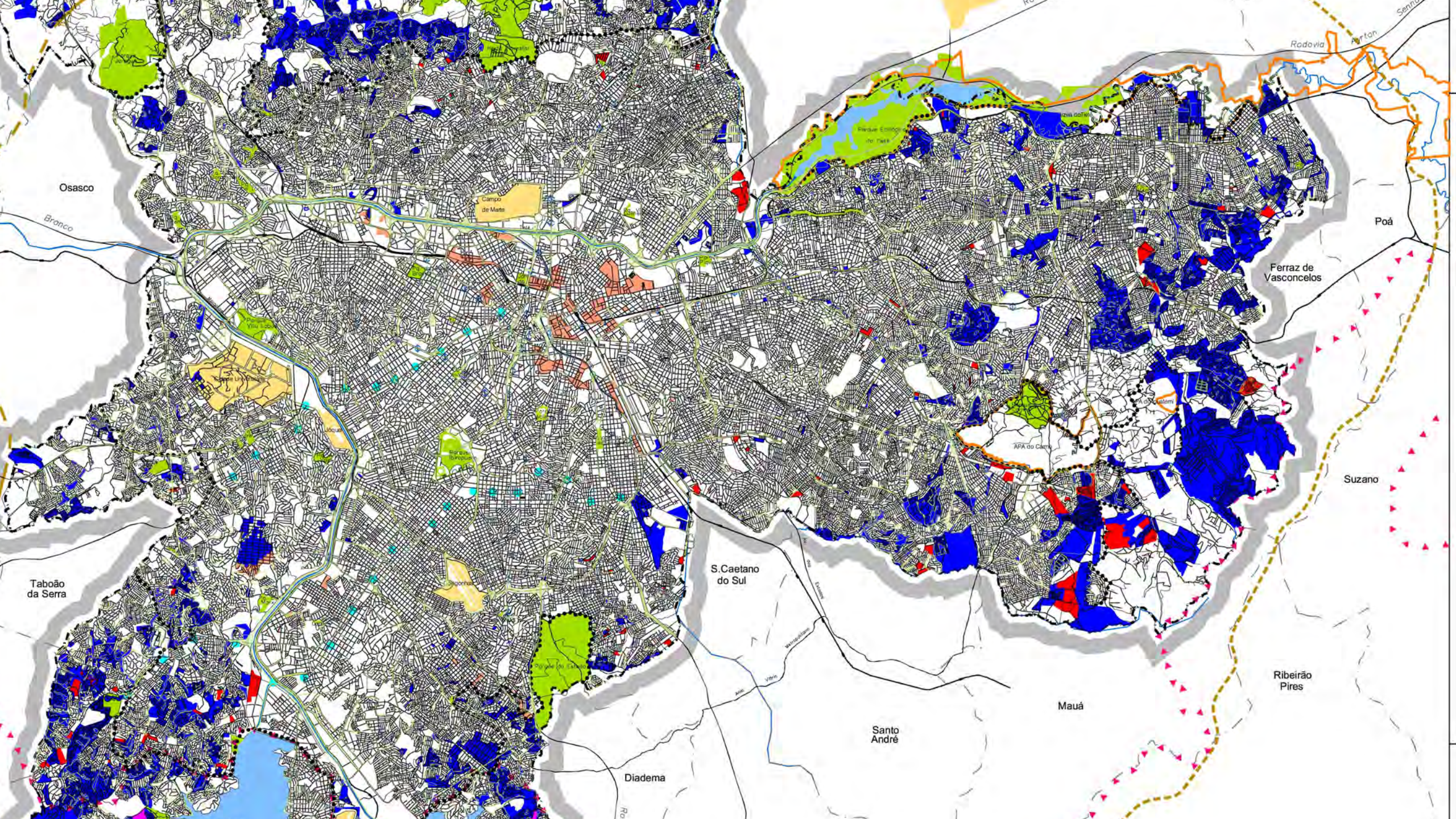
**This represented between 15% and 18% of all investments made by the municipality during that period.**



- Cepacs combine high government intervention and the most efficient market approach to price determination: auctions.

- **Location:**
- ZEIS – Especial Zones of Social Interest: only social houses in these plots
- Reduces the highest and best use to social houses land prices.
- (expropriations are cheaper)













- Inside Urban Operation Agua Espraiada there are more than 15 Zeis Areas and almost 8 thousand families living in slums yet to be urbanized. 1.5 thousand families formerly in slums have been urbanized since 2010.



# No Parking here?



- Thanks!