ARA Venn to look at Asia roadshows for £3bn AHGS

by **Sarah Williams**

The delivery partner on the government's new Affordable Homes Guarantee Scheme (AHGS) said there is a "real likelihood" of roadshows to raise capital for the scheme going out to Asian investors through its Singapore-based group parent.

European debt business ARA Venn, which was confirmed as the provider on the new £3bn scheme in October, is part-owned by real assets fund manager ARA Asset Management, which acquired a majority stake in March this year.

The ARA group and its associates manage assets totalling S$110bn (£63bn), according to 30 June figures recorded on its website.

Richard Green, partner in the commercial real estate business of ARA Venn (pictured), told *Social Housing* that having the asset manager as its parent brings a number of advantages.

"ARA is a well-known name – it is quite a large manager in Asia, so we think it will help us bring Asian capital into our funds and investment vehicles within Europe, and we think that can bring significant amounts of capital, which can potentially be attractively priced," he said.

When asked if this would include bond issuance to fund the AHGS road-showing to Asian investors, Mr Green said this was "a real likelihood".

The AHGS 2020, like the predecessor £3.5bn scheme run by sector funder The Housing Finance Corporation (THFC) through its subsidiary Affordable Housing Finance (AHF), is underwritten by the government's balance sheet to provide cheaper lending to RPs. It aims to support the development of 17,000 affordable homes in England.

Social Housing revealed in July that ARA Venn was understood to be the preferred bidder on the scheme, beating THFC as well as applications from other sector players at earlier stages.

The firm, formerly known as Venn Partners, is also the provider on the sister to the previous scheme, the Private Rented Sector Guarantee Scheme (PRSGS), which was again worth £3.5bn. Launched in 2014, the PRSGS closed to applications in 2018 but is continuing to deploy capital, with £1.4bn of loans completed to date.

In numbers

17,000
Number of affordable homes it is hoped AHGS 2020 will support

£3bn
Potential value of possible top-up

S$110bn
Assets managed by ARA group

Mr Green said the slow speed of uptake reflected the nascent nature of the PRS sector at that time, and the need for the fund to lend against existing buildings – many of which had not yet been built.

By the close of applications in 2018, the fund had attracted more than £11bn of applications for funding, according to Mr Green, and the company has lent more than £400m so far this year.

MTN programme to boost speed

Venn will raise funds for the AHGS 2020 through a medium-term note (MTN) bond programme it will set up to allow speedy access to the capital markets at a range of maturities.

Whereas the AHGS under THFC made use of around £1.5bn of long-dated lending from the European Investment Bank (EIB) alongside its capital markets issuances, Mr Green does not see the removal of this option as a barrier to cheap finance.

"Not having access to EIB does not make any difference to our funding; we have no concerns about accessing the bond market in size. We issue our PRS bonds at different maturities, and the longer the maturity you go, generally speaking the supply and demand gets more in your favour," he said.

What this might translate to in terms of a discount for borrowers will depend on market conditions when the programme comes to issue.

"I think the cost saving is going to be significant relative to other sources of borrowing that RPs will have access to – whether it's one per cent, 1.5 per cent, time will tell – but it is going to be significant," Mr Green said.

Issuing through the MTN programme will enable Venn to issue bonds of any maturity up to 30 years, which is the maximum loan term available through AHGS 2020.

Mr Green said: "Our role now is to engage with RPs, and get a sense of where the appetite may be at different maturities."

The MTN programme will have an initial value of £3bn, with an option to extend by a further £3bn should the government grant an extension to the scheme.

> "Not having access to the EIB does not make any difference to our funding"

To date, the Ministry of Housing, Communities and Local Government (MHCLG) has only confirmed the initial £3bn value, but the potential for a further £3bn top-up at the guarantor's sole discretion was outlined in original tender documents for the AHGS 2020, as reported by *Social Housing* last year.

Under the previous AHGS, through AHF, a total of around £3.2bn of loans were made to 67 housing associations by the scheme's close in March 2018.

Saltaire Housing

Venn is preparing to announce a series of appointments to support delivery of the scheme. As with its PRS programme, the AHGS will sit within a wholly owned subsidiary of Venn. The subsidiary, named Saltaire Housing, will have a board to oversee delivery, including members of ARA Venn. Meanwhile, ARA Venn as investment manager will provide day-to-day resources.

A launch date has not yet been announced, but the MHCLG has confirmed the scheme will launch by the end of the 2020 calendar year. The window for applications will run for an initial three years.

Loans will be made against existing affordable housing assets, but with additional covenants stating the provider must start on site to build out schemes within its approved pipeline within 24 months of drawdown.

Draft rules published to date are "close to final", Mr Green said, and while the eventual publication may look to clarify any areas of confusion, the core rules around security and lending are "unlikely to change".

This includes interest cover covenants set at the corporate borrower level, requiring a minimum of "1.0x at all times", the guidelines state. Borrowers will also be required to pay "the same ongoing percentage management fee", the document adds, which is undisclosed.

For-profits welcome

The new AHGS is notably open to for-profit RPs, on broadly similar terms. While also technically eligible under the previous iteration, for-profit providers were then few and far between, so no such loans were taken out.

Mr Green said: "[For-profits] have been made distinctly eligible within the scheme rules [...] I hope that we will engage with a number of the for-profits in time."

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