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THE REAL ESTATE FUNDS FOR SOCIAL HOUSING: an insight into the Local Ethical Fund “FASP” in Piedmont

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MAIN QUESTIONS

What are at present the challenges to social housing providers?

How the fall out of the crisis is changing the financing environment and traditional financing institutions (i.e. public and private investors)?

What should financing vehicles be trying to accomplish?

Which social groups are suffering from housing stress?

The New Italian Housing Plan: a new coherent National framework

The Local Ethical Funds: a resourceful tool fitting the operators' and households' Expectations

The start up of the forthcoming Fund FASP in the local context of the Piedmont Region.





What are at present the challenges to social housing providers?

- Stability and Growth Pact, social inclusion, energy efficiency...
- From the “Bricks and mortar” public subsidies to the private investors commitment
- 3rd sector expertise & the cost effective philosophy”

Is How the fall out of the crisis is changing the financing environment and traditional financing institutions?

- Risk aversion 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

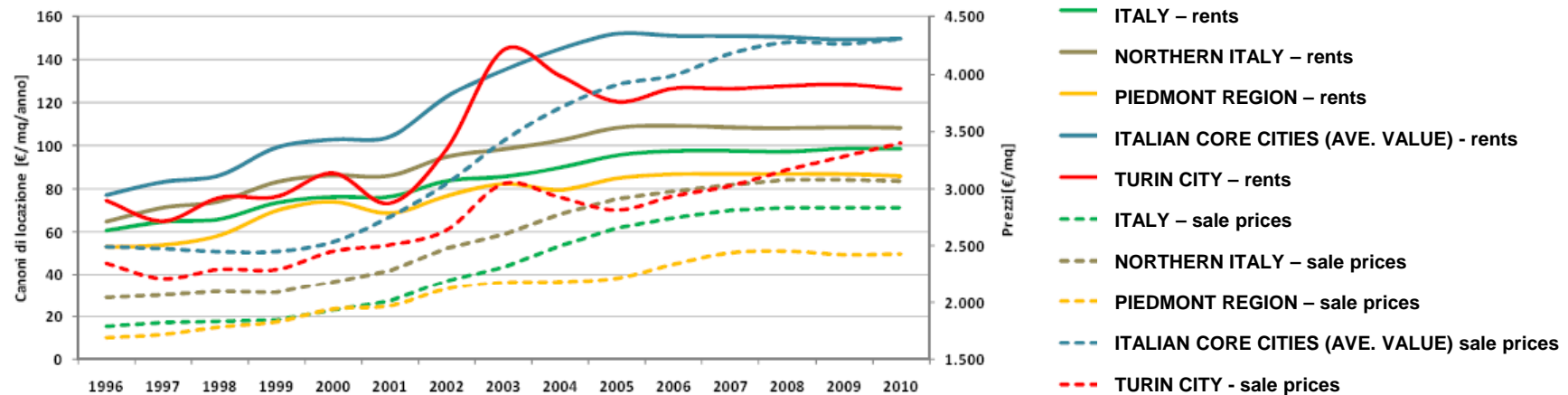
What should financing vehicles be trying to accomplish?

- **Both Public and Private potential investors 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

Early fallout of actions led by means of the advisory activity (demand-supply analysis)

Evolution of housing rents and sales (average data)

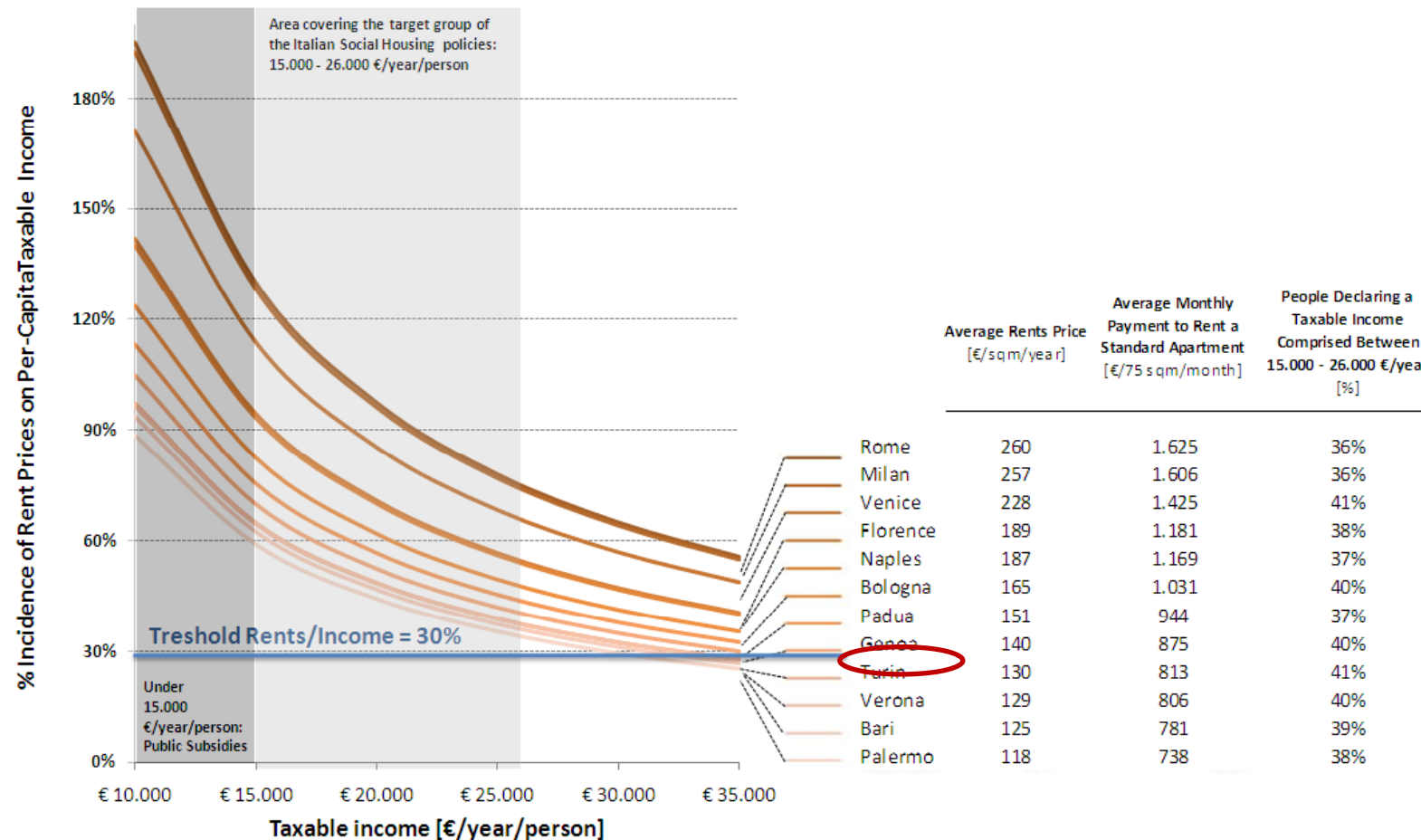
Time series: 1996-2010 (at constant values)



In order to gather the sense of the FASP Fund and to address the right social housing interventions within the Piedmont Region, this paper offers an insight of the present **housing stress in Piedmont (Northern Italy) and in its core city “Turin”**, with a particular deepening into **rent** and **income** levels, as well as into some demographic variables, especially for **particular social groups**, emerged through the recent phenomenon of fragmentation of the family unit .

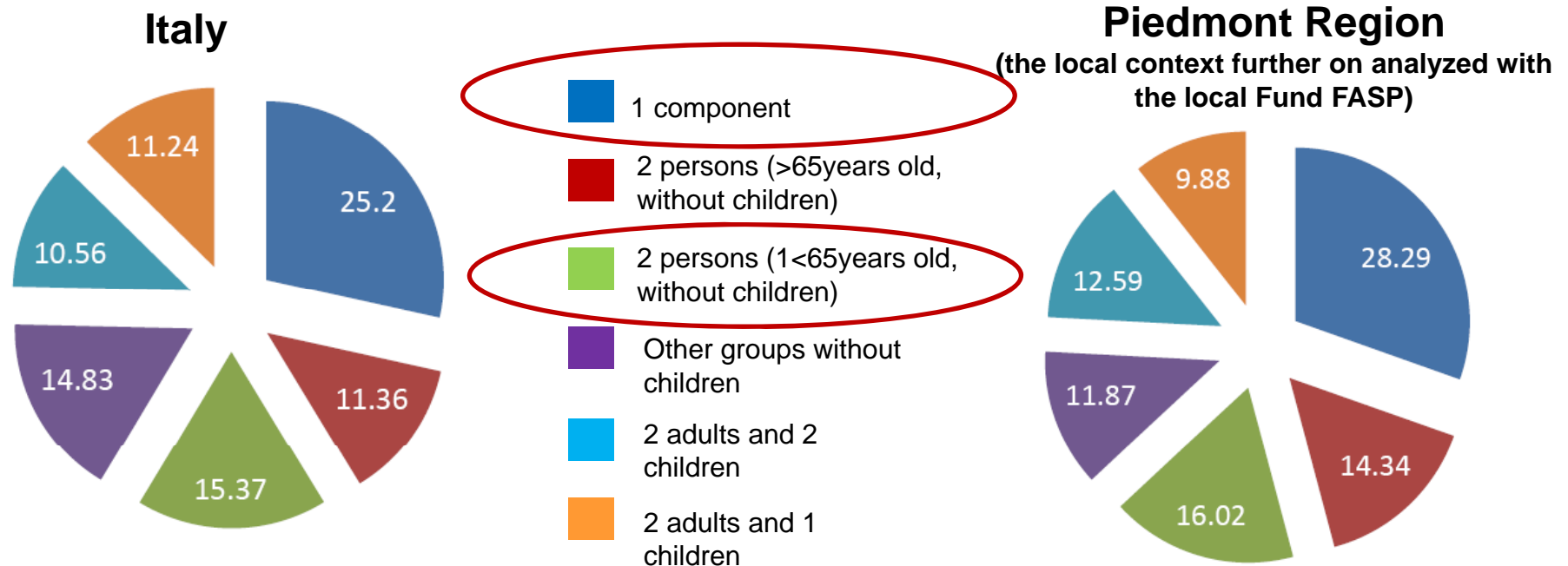
Early fallout of actions led by means of the advisory activity (demand-supply analysis)

A diffused emergency, particularly evident in the core italian cities



Early fallout of actions led by means of the advisory activity (demand-supply analysis)

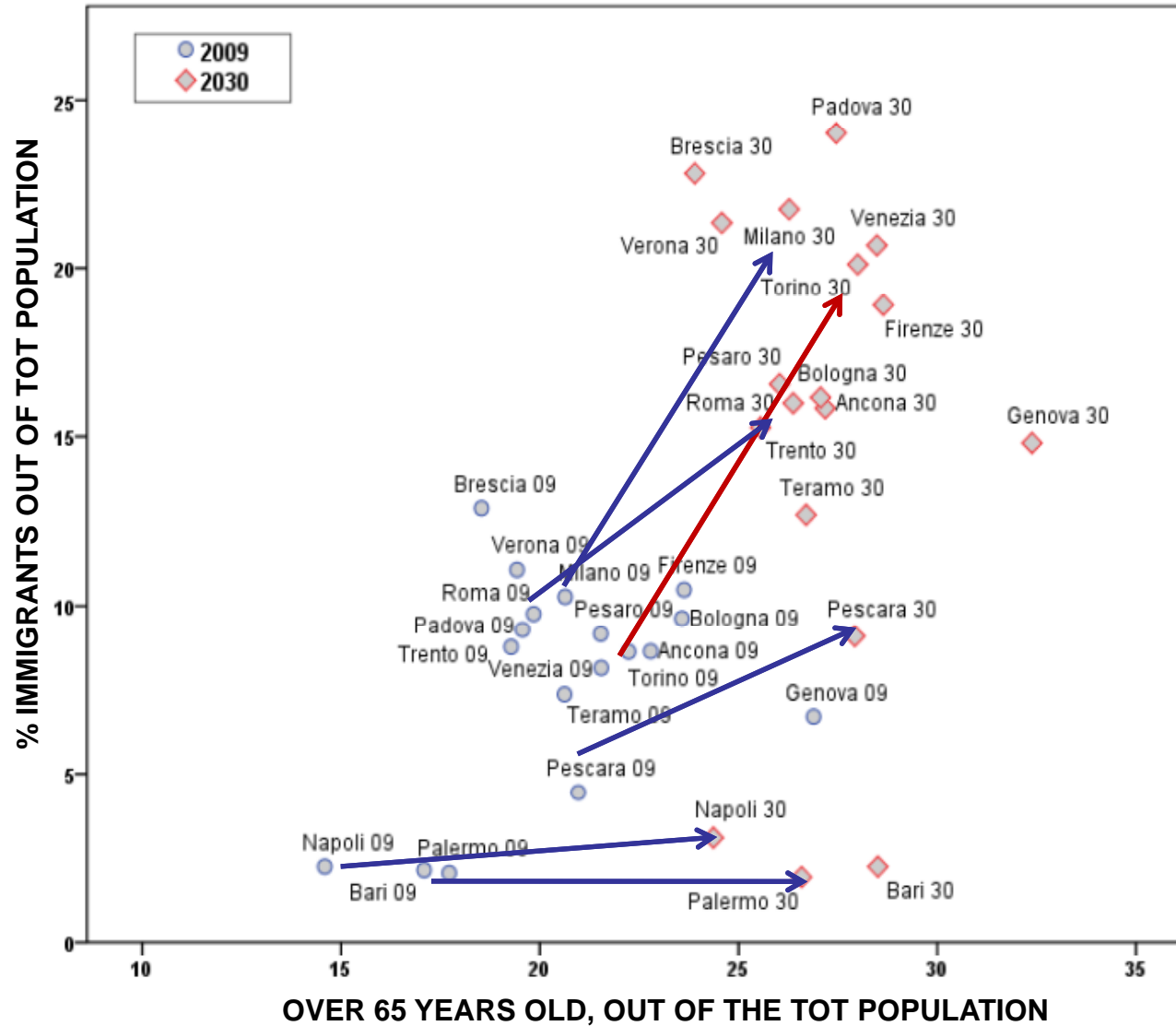
Household belonging to an intermediate-low income bracket (2° statistic quintile, 26,000 - 50,000 €/year (Italian Social Sousing target): the singles and the elderly people are a particular target group especially in Piedmont



Source: Prometeia elaborations on Istat data, 2010

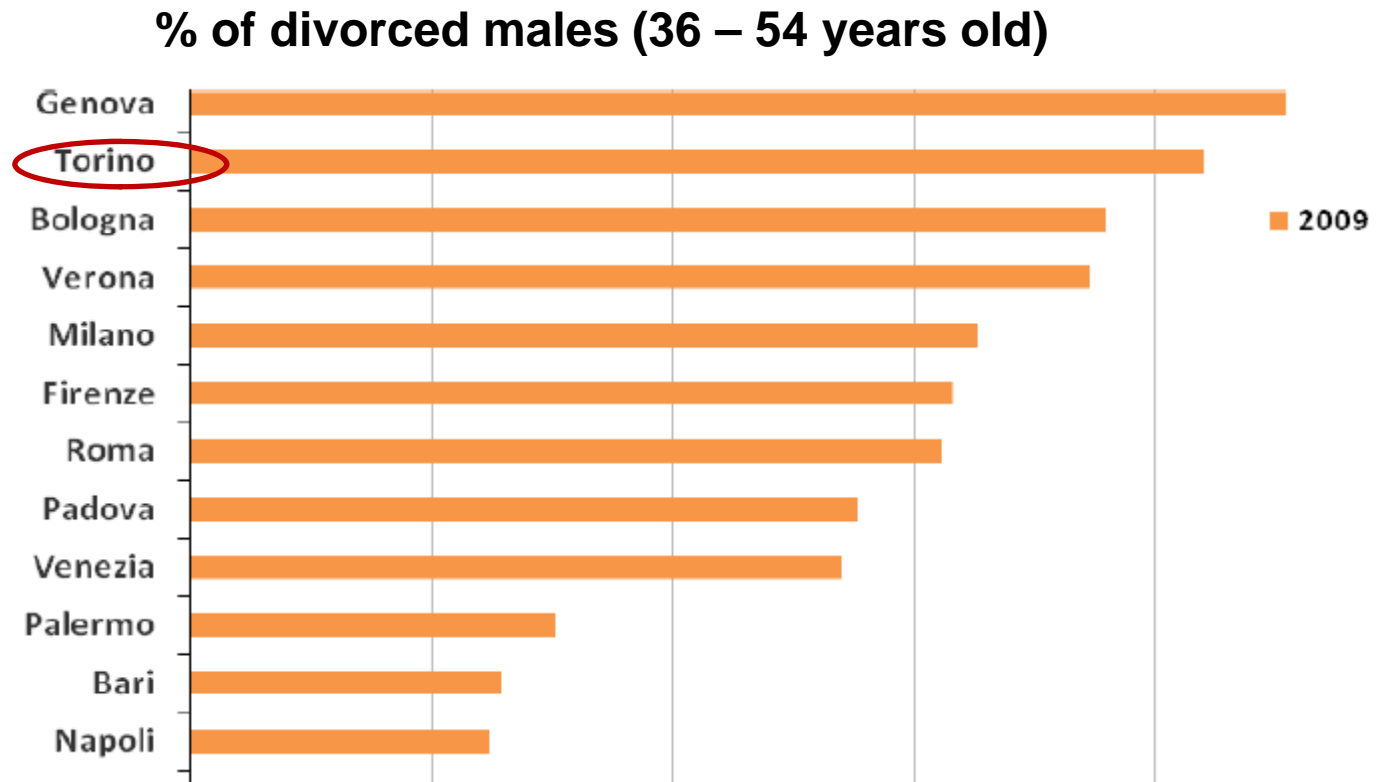
Which social groups are suffering from housing stress?

Immigrants and Elderly People



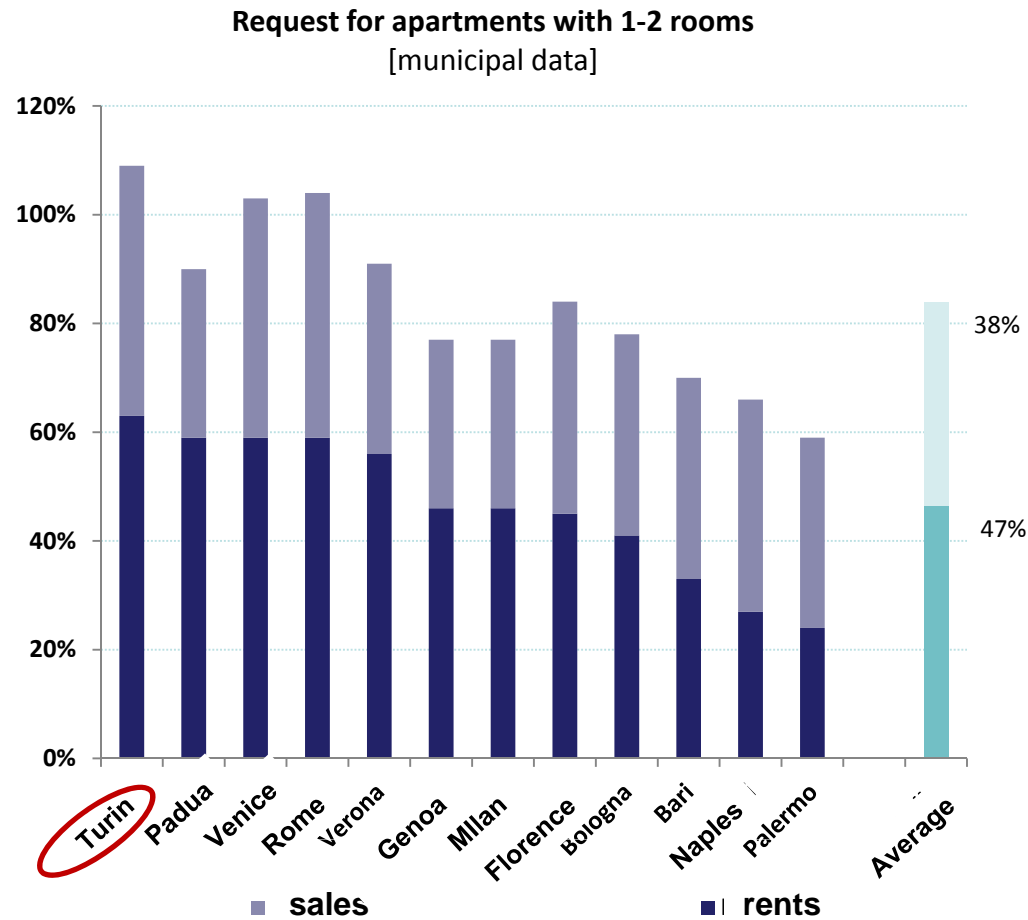
Source: Ismu elaborations on Istat data, 2010

Which social groups are suffering from housing stress?



Source: Ismu elaborations on Istat data, 2010

Which social groups are suffering from housing stress?



Source: SiTI elaborations on Fiaip data, 2010

The new Italian Housing Plan: a resourceful tool fitting the operators' expectations

- In 2008, the Italian Legislative Decree n. 122 “Piano Nazionale per l’Edilizia Abitativa” introduced new flexible tools for public and private investors to support an improvement of the existing housing stress conditions.
- The program aims to increase the provision of residential units, introduce higher energy standards in housing, and promote public and private partnerships. With particular regards to the latter, article 1 “**Six lines of intervention**” entails:
 1. The creation of an integrated **national system of real estate funds aimed at increasing and valorizing the rental sector**, promoting the creation of private-public delivering partnerships;
 2. The expansion of public housing stock, through central and local resources;
 3. The promotion of private developers' involvement;
 4. Funding opportunities for real estate cooperatives;
 5. The promotion of social housing interventions, so-called *Programmi di promozione di edilizia residenziale sociale*; and
 6. The development and completion of the interventions included in previous housing plans.



Regulatory Authority	Main Institutions (investors)	Implementation Vehicle	Assets strategy	Other Operative Subjects	Main Fiscal Incentives	Financial incentives	Expected profitability level	Average discount on free market rents
Banca d'Italia (Italian Central Bank)	CDPI & Public -Private Subjects	National Fund & Local Ethical Funds	Private and Public resources + other resources (land and buildings at a fair price)	Local Public Subjects	Tax reductions & exemptions	Up to 40% equity invested by CDPI	2%-5%	20%-50%



Central Regulation	Integrated governance & competence	Multi-dimensional implementation	Resource mix	Governance support at a local scale	Coordination with the national Jurisdiction	Coordination with a trusting national	Ethical and low risk profile	Vulnerable groups targeted
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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

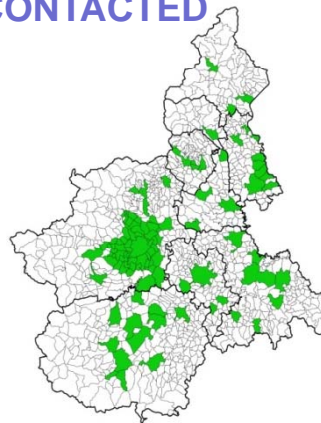
The first Regional Fund in Piedmont: **FASP**

Fondo Abitare Sostenibile in Piemonte

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

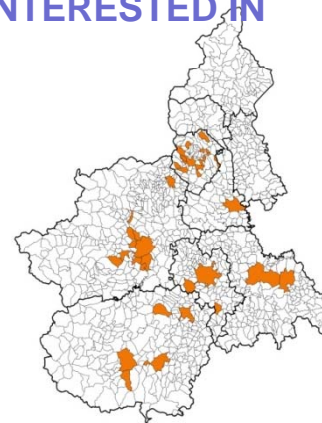


105 MUNICIPALITIES
CONTACTED



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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