

# 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 3<sup>rd</sup> 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:

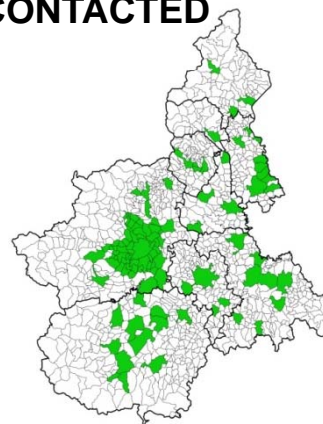
## FASP

## Fondo Abitare Sostenibile in Piemonte

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

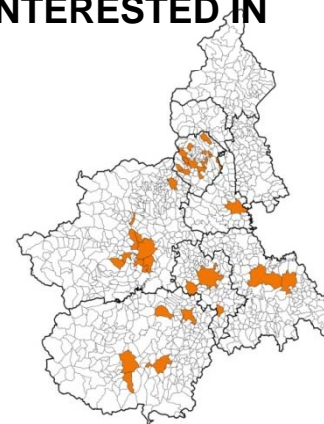


**105 MUNICIPALITIES  
CONTACTED**



**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)



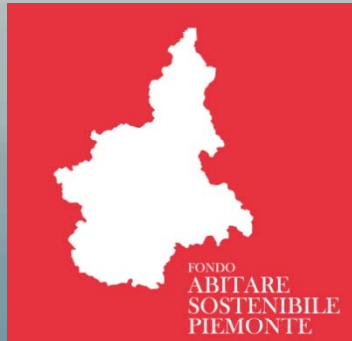
# FASP

## *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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