

Associations eager to seize investment opportunity

By Keith Cooper 11 January 2007 at 00:00 GMT

The first social housing real estate investment trust could be up and running as soon as May with an initial property portfolio of £250 million.

The first social housing real estate investment trust could be up and running as soon as May with an initial property portfolio of £250 million.

A consortium of housing associations is to interview a major investment bank later this month which has indicated it is willing to help shoulder the start-up costs of the REIT.

Peabody Trust, Affinity Sutton, Genesis and Harvest housing groups are among the 22 housing associations that have committed a quarter of a billion pounds to the property investment vehicle.

Derek Joseph, director of Tribal Treasury Services, which is advising the consortium, said the initial set-up costs of the REIT could run into millions of pounds. Bringing in an investment bank would help spread the risk, he added. 'The preferred banker is now confirmed and will be presenting to the consortium later this month.'

The consortium was also holding talks with Treasury officials in the run up to the May launch date to ensure that shared ownership homes sold into the REIT would be covered by the tax breaks it offers, Mr Joseph added.

Although the consortium has initially pledged £250 million worth of properties to the REIT the consortium expects to increase its value once it is up and running.

Housing associations outside the start-up group would also be able to sell properties into the tax transparent investment vehicle.

'The consortium owns it but there is nothing to stop other [registered social landlords] selling properties and managing properties for the REIT,' Mr Joseph said. 'They can sell their property to the REIT so they will make a capital gain and they can still maintain management of the property.'

Simon Randall, a partner at Lawrence Graham, the legal firm advising the consortium, said there was 'no limit' to the size of the REIT's potential property portfolio.

'The REIT could come to be a very large vehicle. It would be able to borrow funds, buy more property and attract more investment for potential shareholders,' he said. 'Other associations might like to put in some of their own property. It could be used as a refinancing vehicle. One could get quite good rates in terms of borrowings.'

Lawrence Graham was also looking at developing the REIT into an alternative to the housing private finance initiative model. 'REITs as a whole are quite intriguing, I think they will have a much wider use,' Mr Randall said. 'It could be for both the refurbishment and new build.'

A burgeoning interest in the investment potential of the UK property market made it a good time for investing in REITs, Mr Randall added.

'I am aware there is huge interest in property worldwide. The US is now seen as less attractive. People with interests in property are looking at increasing their weighting in [places] other than the US.'

The REIT model went live on 1 January, with a number of commercial firms converting to trusts. The economist Kate Barker recommended their use as a way of encouraging wider investment in the affordable housing market.