

HOUSING FINANCE

NEWS & VIEWS

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LIBOR set to end in 2021

In July 2017, FCA chief executive Andrew Bailey delivered a speech on the future of LIBOR noting that the sustainability of LIBOR is limited due to the lack of underlying transactions in unsecured wholesale markets on which the benchmarks are based. The FCA have agreed with banks to voluntarily sustain LIBOR until 2021 but beyond that the FCA will not compel banks to make LIBOR submissions meaning it is likely to cease to be available.

The replacement for LIBOR at this stage is unclear. Any new benchmark in the UK debt market will need to be considered in conjunction with the derivatives market given the close link. A Bank of England working group has recommended the Sterling Over-Night Index Average (SONIA) as an alternative. This is the effective reference overnight rate for unsecured transactions in the Sterling market. Whilst LIBOR is forward looking and based on judgement from panel banks, SONIA is based on past transactions. Whether or not SONIA is an appropriate replacement for LIBOR however is still subject to debate along with other possibilities.

Where RPs have existing funding arrangements based on LIBOR, nothing is likely to change in the short term. However, for new funding arrangements or amendments of existing funding arrangements it would be prudent to consider an adequate mechanism for the interest rate provisions to be amended following any discontinuance of LIBOR rather than relying on the fall back provisions in existing documentation which could lead to uncertainty and affect the cost of borrowing for RPs.

Modular Construction

Is modular construction the answer to the housing crisis, where last year 1.2 million were chasing 66,600 affordable units that were built, with only one fifth for social rent? Used extensively in other sectors (e.g. schools, prisons, hospitals and student accommodation) is this an opportunity for RPs to reach targets?

Whilst quasi-government entities fund modular units, (e.g. HCA through its £1.7bn accelerated fund), primarily what is holding RPs back is lack of funding from the private sector. The traditional cycle of development, funded by charging rent-producing new-builds, is broken if a funder will not charge modular new-builds. Our discussions with a range of funders reveal their concerns regarding their security package. Essentially, the lifespan and maintenance required is believed onerous, not assisted by the lack of any reliance on recognised industry warranties.

However, the market is responding to consumer demand and there are now accreditation schemes such as the Build Off-site Property Assurance Scheme, Legal and General are providing collateral warranties for their factory products, and others are investing £2.75bn for manufacturing modular units. The quality of the product has vastly improved, new factories exist producing units with lifespans capable of extending well beyond the standard 60 years. Some funders are considering bespoke lending criteria with specific maintenance covenants and are willing to accept a small number of modular units within a borrower's portfolio, typically no more than 10%, and others are happy to leave the decision to investors subject to disclosures. Will this mark a beginning of quicker, cheaper construction, and the answer to our housing crisis?

Upcoming seminars

The following seminars take place in our offices near London Bridge and are free to attend. For more information and to register to attend please visit www.wslaw.co.uk/events

Financing generation rent
Covenants and documentation risks post de-regulation
Charging update

Tue 21 Nov 2017
Thu 25 Jan 2018
Tue 27 Feb 2018

To find out more contact Louise Leaver, Partner at Winckworth Sherwood on 020 7593 5050 or lleaver@wslaw.co.uk



SOME OF OUR RECENT WORK INCLUDES:

Charity Retail Bond

Acting for Hightown Housing Association on the launch of its £38m retail charity bond including a £31.5m initial issue and £6.5m retained bonds. We advised on all documentation including the bond prospectus and all related verification work.

Merger

Advising Longhurst Group on its merger with Axiom Housing Association, negotiating and securing consents from a diverse range of lenders (including a local authority lender) within a tight timescale.

Private placement

Advising BAE Systems Pension Funds Investment Management Limited on the structuring and documentation of a recent £15m private placement.

S133 Revaluation

Acting for bondholders and trustees on post S133 deregulation where c3,500 units were revalued on a MV-ST basis unlocking over £35 million of security.

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