findings

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Financing black and minority ethnic housing associations

Many black and minority ethnic housing associations have been able to obtain private finance and grow rapidly, mainly because of the Housing Corporation's policy of positive action, according to a new study. Research undertaken by Caroline Royce and others at the Property Research Unit, Department of Land Economy, University of Cambridge and the Federation of Black Housing Organisations, found that:

- **There are far more active black and minority ethnic organisations than most people think - over a hundred associations and co-operatives based mainly in London and the major conurbations.**
- **Black and minority ethnic associations are, on the whole, quite young, almost half having been established since the 1988 Housing Act. Most are very small although the three largest now own more than 5,000 homes between them.**
- **The majority are management-only associations, but among these most want to register with the Housing Corporation and develop their own stock.**
- **For successful developing associations, raising private finance has proved less difficult than the associations themselves expected. Asset base, cash flow and management capacity determine terms and conditions, not being a minority association.**
- **Even so, many lenders prefer not to lend to small associations or make small loans. Black and minority ethnic associations pay more than many larger mainstream associations because of their size and rapid rate of expansion.**
- **Whether or not arrangements with other associations work well depends on the specifics of the arrangements and the associations involved - there is no blueprint for success. Few associations are keen to merge, preferring to retain their identity and control.**
- **The Housing Corporation's strategies for black and minority ethnic associations have been vital in enabling them to succeed. There are very few, if any, examples of white-led associations starting up and developing as effectively in the last decade.**
- **Although they have been successful in the current market, black and minority ethnic associations' very success makes them vulnerable to changes in the economic and subsidy environment.**

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Introduction

Black and minority ethnic (black) housing associations are relatively small but have grown quickly and have a high proportion of 'mixed funded' stock - the sorts of association that, previous research has suggested, potentially face problems in raising private finance. The Housing Corporation has provided additional support to black associations in the form of two five-year strategies, *The Five Year Programme* from 1986 to 1991 and *An Independent Future* from 1991 to March 1996.

The study found almost 140 black housing organisations active in Britain today, far more than expected. Of these, more than 100 are associations or co-operatives, of which 59 are registered with the Housing Corporation allowing them to bid for grant.

Characteristics of black associations

Table 1 details the number of black associations based in each Corporation region by stock size.

Black associations are small - almost 80 per cent own or manage fewer than 250 homes and half fewer than 100 homes.

Just over half are located in the London region, including all those with over 1,000 homes. The remainder are based mainly in the West and East Midlands, Yorkshire and Humberside and the North West.

Black associations are young and may not have been in existence long enough to have built up an asset base and cash reserves. Only 6 per cent were established and 4 per cent registered before 1980. Forty-four per cent have been established and 28 per cent registered since 1989. Approximately 40 per cent remain unregistered. Despite this, black associations have grown rapidly. Among developing associations, half have built more than 75 per cent of their stock since 1988, when new financial regulations required funding for new developments to come from both public and private sources ('mixed funding') rather than solely from government subsidy.

Tenancy profiles and rent levels

Almost 60 per cent of lettings by black associations are made to black households, compared to only 10 per cent of lettings among white-led associations. Black associations also house proportionately more families and have a relatively high proportion of homes with three or more bedrooms.

Analysis of CORE data from the National Federation of Housing Associations for 1994/95 shows that rents among black associations are higher than average for all types of property and particularly for two-bedroom flats and houses with three or more bedrooms. Because of the high proportion of stock built under the new financing arrangements after 1988, these associations cannot cross-subsidise rents from older stock.

Management-only associations

No management-only associations in the sample manage more than 200 homes. The average stock size is 62 homes. Just under 20 per cent provide only hostel accommodation. Almost two-thirds have been set up since 1989.

Only 10 per cent are registered with the Housing Corporation; a further 15 per cent have tried to register without success, mostly because they are too small and/or too young. Of the remainder, 65 per cent aim to register in the future - 20 per cent hope to do so within the next three years. Only 10 per cent have no intention to seek registration. This is despite a stated Corporation policy that few, if any, new black associations will be registered in the foreseeable future.

Table 1: Black associations active in Britain

Region	Stock size - number of homes owned/managed				
	1000 or more	250 to 999	100 to 249	Less than 100	Total
East Midlands	0	3	1	3	7
London	3	4	11	28	46
Merseyside	0	0	2	0	2
North West	0	2	3	3	8
South East	0	0	0	3	3
South West	0	1	0	1	2
West Midlands	0	4	1	9	14
Yorks and Humber	0	3	2	4	9
Total	3	17	20	51	91

Developing associations and private finance

Most developing associations have a clear idea of their aims and objectives: to provide housing for a particular ethnic community. This remit has gone largely unchanged, despite pressures on rent levels and building standards. Initially, borrowing was largely based on what could easily be obtained, but more sophisticated strategies are emerging which help to achieve a balance of lenders and loans.

Associations have experienced fewer problems than they expected in raising private finance. Where difficulties arise, these tend to be specific issues such as asset cover or complicated loan documentation rather than a fundamental difficulty with securing loans. Larger associations see more problems than smaller ones - possibly because they have more experience and are therefore more aware of the opportunities and pitfalls or because they have grown to a size where they begin to lose some of the benefits of being small and focused.

There is no real evidence of lenders directly discriminating against either black associations or small associations in general. Decisions are made on the same basis as for any other business proposition - they must be a good risk and make the lender money.

Some lenders, usually banks, place specific limits on the size of association to which they will lend. Some feel that smaller associations are riskier and do not yet have sufficient surpluses, management experience, etc. More often, lenders are reluctant to make small *loans* - the same effort goes into arranging a small loan as a large one but larger loans generate higher income. Lenders therefore will look for higher margins and fees on smaller loans. This is compounded for small associations by their relatively poor bargaining position.

Apart from margins and fees, lenders confirmed that terms are fairly standardised - only the very largest mainstream associations have enough bargaining power to make a real difference. Loans are usually for 25, 30 or 35 years. There is a slight preference for fixed rate loans because of current favourable rates and because some associations (and lenders) like the certainty. Differences in margins relate mainly to the date when the loan was taken out, reflecting changing market conditions, but some of the smaller black associations secure as good or better rates than the larger ones.

Lending criteria vary considerably but are usually a synthesis of quantitative and qualitative measures. There is rarely one particular criterion which is paramount, beyond the need for the association to be financially viable. Common quantitative criteria are gearing, asset cover, interest cover and the level of surpluses - the levels of cover and the method of calculation vary. Covenants in the loan document vary significantly from one lender to another, both in terms of the financial ratios used and the method of calculation. This causes particular problems for small associations with limited resources.

Management strength and experience are seen as particularly important by both lenders and associations. Here, small and black associations can either excel or fail.

Black associations can be very focused. Their small size and community base can be a positive advantage: they can react quickly to changing needs. The downside is that they can lack expertise and be reluctant to look outside their community for help. Inexperience can also mean over-ambition. Assessing management quality by the lender is a combination of analysing the association's track record, experience, expertise, etc. and the lender's 'gut feeling'; professionalism and presentation, for example of the business plan, are very important.

Arrangements with other associations

Development arrangements with other, usually large white-led, associations are commonplace. Even once the immediate need for a development agent has gone, many black associations continue to use them.

The form of the arrangements is fairly standardised - the agent funds and develops the houses on behalf of the black association, which then raises a loan to buy them. The success or otherwise of this set-up depends more on the individual associations concerned than on the precise details of the arrangement.

The relative strength of the two associations involved is important. A black association may feel swamped by a much larger association or one with a political agenda beyond that of helping the black association to grow. The more successful arrangements are those where there is a genuine feeling of mutual benefit. Lease agreements, whereby the black association has an option rather than a commitment to buy, provide more flexibility.

Experiences of stock transfers are mixed. Some black associations have very good relationships while others find white-led associations reluctant to make the transfers.

Few associations are keen to merge, particularly with a white-led association. Although they recognise the possible advantages of a merger, they want to retain their identity and control. However, some acknowledge that they will have to consider merging in the future.

The Housing Corporation

The support of the Housing Corporation is seen by both associations and lenders as vital - very few lenders lend to unregistered associations. Lenders do not view the Corporation's support as a guarantee but its regulatory and monitoring roles are, in the words of one, "a great comfort".

Associations regard the Corporation's black and minority ethnic strategies as invaluable, even though lenders are often unaware of these policies. Few, if any, white-led associations of a similar size have been able to establish themselves and develop at anywhere near the same rate. There is thus understandable concern among black associations that these benefits might be lost - although most larger developing associations can now stand alone, there are many more who have not yet reached viability. There is concern that these black associations have been set up to fail.

The future

Black associations' very growth puts them in a relatively vulnerable position at the present time. Even the successful black associations are still at the margin of the mainstream system with many having to charge high rents and borrowing a high proportion of relatively expensive private finance. However, development is still seen by both developing and management-only associations as the way forward.

Moreover, the emphasis of the current consultation paper *Black and minority ethnic housing needs: an enabling framework* has switched from supporting black housing *associations* to supporting black housing *needs* and no longer offers associations either additional financial help or guaranteed allocations. Successful black associations will be able to build on past successes but younger, smaller associations still need help. Changes in policy and in the wider economic environment could make the future for black housing associations much more difficult.

About the study

The research consisted of a survey of 91 black associations together with secondary data to establish a database; a further survey of management-only and developing black associations; case studies of some of these developing associations; interviews with lenders; and a study of comparable white-led associations.

Further information

The full results are available in Caroline Royce *et al.*, Financing Black and Minority Ethnic Housing Associations, to be published in July by York Publishing Services Ltd, 64 Hallfield Road, Layerthorpe, York YO3 7XQ. The Federation of Black Housing Organisations has also published Black Housing Associations and Private Finance: a Good Practice Guide. This is available from the FBHO, 374 Gray's Inn Road, London WC1X 8BB, price £5.95 including post and packing.

Related *Findings*

The following *Findings* look at related issues:

145 Housing associations' use of minority ethnic building contractors and services (Jun 95)

154 Housing associations, private finance and market rents (Sept 95)

For further information on these and other *Findings*, contact Sally Corrie, Publications Officer, on 01904 629241.

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