

In choppy market bLEND prices inflation-busting loans to two new borrowers

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bLEND has today come to market with a £55m tap of its 2054 bond for two new borrowers.

£45m of the tap will be on-lent on a 12-month deferred drawdown basis, with the remaining £10m on-lent on a spot basis. Proceeds will go to B3 Living (£35m) and Orwell Housing Association (£20m), both new borrowers in bLEND. The transaction will take bLEND's overall outstanding loans over £1.2Bn and the number of active borrowers to 23.

The tap transaction was priced at +113bps over Gilts, implying a new issue premium of 4bps, much tighter than that seen in other recent housing association (HA) issuance. The deferral premium is expected to be lower than 12bps, leading to all in costs of 2.52% for the spot component and less than 2.64% for the deferred.

The market has seen increased volatility of late, with Gilt yields rising as the market prices in the Bank of England's messaging on the likelihood of a Base Rate rise as early as November this year. Despite this, spreads remain tight reflecting the stability of investor interest in the HA market, and particularly in strong credits like bLEND (A2 Moody's). Today's transaction was more than four times oversubscribed, including two sovereign funds augmenting more typical long term Sterling investors.

The recent announcement of September CPI at 3.1% is the basis of the settlement of HA rents from next March. This implies that next year's rent settlement could land at 4.1% (albeit many HAs will offer hardship funds for those most in need). However, bLEND's ability to provide thirty-three year funding at a fixed rate of 2.52% offers real value to borrowers looking to mitigate interest rate risk and build in resilience to their business plans at a time when other significant costs (especially around development and care and support) are rising at well above CPI.

The recent significant shift in the markets does however signal the end of a period of unusually low borrowing costs for housing associations. In the last eighteen months bLEND has lent over £800m at under 2.5%. As Gilt yields rise, access to strong credit and issuing experience will become more important for associations looking for the lowest cost of funds.

bLEND's CEO, Piers Williamson, said "While the pandemic is far from behind us, it is apparent that we are entering the next stage of recovery and that the market is adjusting to this. Against this uncertainty bLEND is well placed as an experienced issuer to continue to secure competitively priced funding for our borrowers.

"Today's transaction demonstrates the appetite in the sector for deferred drawdown products, and bLEND's ability to innovate. To provide this even in a volatile market goes some way to explaining why even after eighteen months of steady issuance our deal pipeline shows no sign of drying up."

B3 Living was established in 2006 to manage a Large-Scale Voluntary Transfer of stock from Broxbourne Borough Council. Today it has over 4,800 units, with average rent levels substantially lower than market rents. Proceeds will go to support its future development programme, which aims to build 500 new affordable homes over the next three years. B3 Living published ESG reporting in its 2021 annual accounts in line with the sector's Sustainability Reporting Standard.

Orwell Housing Association manages 4,000 homes across East Anglia, with a particular focus on providing high quality general needs housing, providing affordable homes for a wide range of people in housing need and supported housing, where a home, care and/or support service are provided

primarily to young people, older persons, people with learning difficulties and women fleeing domestic abuse. As an experienced developing association Orwell also leads the e² consortium of local associations and councils, providing development services. Orwell has previously borrowed from THFC's subsidiary Affordable Housing Finance, through which it ran the Government's first Affordable Homes Guarantee Scheme.

Alex Shelock, B3Living's Executive Director (Finance), added: "We're very pleased, as we know the difference this funding will make in our local area. Our community is under unique pressure for housing: we see high outmigration from London but historically there have been very low levels of development. As part of our Better Futures strategy, B3Living is gearing up to deliver our largest project to date, Cheshunt Lakeside, and build over 500 properties across the next three years. This means we'll be building more new homes in three years than have over the previous 30 years combined, and this loan will make that possible."

Chris Wyr, Orwell's Director of Resources and Growth, said "Today's funding exercise is a key element of our strategy to continue developing quality homes and services for our communities across Essex, Norfolk and Suffolk. Through bLEND we have been able to structure our loan to include spot and deferred elements which has allowed us to mitigate against inflation risk and build certainty into our development strategy. To lock in this rate for thirty years through bLEND is a fantastic outcome for us and our tenants."

Note to editors:

About THFC: The Housing Finance Corporation (THFC) is the UK's leading affordable housing aggregator, with £8bn of lending to around 160 housing associations in England, Wales, Northern Ireland and Scotland. THFC was set up in 1987 in partnership with the National Housing Federation and what was the Housing Corporation. It now also operates through its subsidiary company, bLEND, which was established in 2018. As a not-for-profit, the group's surpluses are retained and reinvested to ensure THFC can continue to provide competitively priced funding for HAs long into the future. THFC's track record of innovation includes some of the earliest green finance products for retrofit and sustainable developments.

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