Future Funding for the not for profit care sector

Institutional Debt market

In the third in a series of short articles on funding for care home charities, Henrietta Podd, Director of Allia C&C, looks at institutional lending.

In our last article, we noted that bank loans when available, often had relatively short tenors. This is not ideal for funding care homes which are long term assets.

A better suited market is the institutional debt market where lenders are insurance companies, pension funds and other asset managers. These investors have long term liabilities. The debt comes in the form of relatively passive products – Bonds and Private Placements ("PPs"), which pay a fixed coupon over the term of the debt. Thus they provide long term, stable cashflows to match the investor's liabilities.

Over the last 30 years, institutions have deployed their immense resources to buy bonds and PPs to fund large amounts of social and economic infrastructure such as social housing, PFI hospitals and schools as well as utilities, communications and transport.

However, residential care has been overlooked area even though care requires long terms assets just as education or acute health provision requires them.

There are several factors behind this: i) institutions lost money on bonds issued by highly leveraged care operators; ii) reputational risk including bad publicity that could come from enforcing security against a care business, especially a charity; and iii) there is an alternative channel for investment – either through REITs or by directly funding assets and leasing them to operators - It is ironic that they are happy to invest in a product which materially increases operational leverage, while they are unwilling to lend to them directly even when security is offered.

This needs to be addressed and the demand from institutional investors opened up. Fundamentally, care should be an attractive sector to them – asset backed and delivering high social impact.

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