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REAL ESTATE

UK social housing: Impact firmly on investors' agenda

BY MAHA KHAN PHILLIPS | JANUARY / FEBRUARY 2021 (MAGAZINE)



The COVID-19 pandemic has accelerated the trend for impact investing in real estate in the UK, writes Maha Khan Phillips



Could COVID-19 be an opportunity to tackle homelessness in the UK?

Since the start of the COVID-19 pandemic, 70,000 households have been made homeless in the UK, according to the Observer newspaper. And yet, data from the Ministry of Housing, Communities and Local Government show that affordable housebuilding barely increased last year.

The virus has exacerbated a problem that was already a significant challenge, say industry experts. There is an estimated annual need for approximately 145,000 affordable and social homes a year in the country, according to the National Housing Federation. Between March 2019 and April 2020, just 6,566 new social-rent homes were built.

As people struggle with the economic fallout of the virus around the world, institutional investors have recognised there is an opportunity to make impactful allocations. “The COVID-19 pandemic is refocusing decision-making on the sustainability of investment opportunities, and on building more resilient portfolios to guard against future crises,” says Philip Hirst, director of Upstream Sustainability Services at JLL.

“Major institutional investors remain focused on both the social and environmental impact of their strategies, and affordable housing remains an important focus for impact investing. It’s often a geographical strategy, with funds targeting areas where there is a greater need and more potential for impact. A deprived area can offer the opportunity to make a real difference and generate strong return.”

Hirst points out that funds dedicated to impact investing currently account for less than 1% of global investment, but he argues that momentum is building as real estate “provides an opportunity to deliver real impact through improving the physical environment and providing the space society needs to thrive”.

In the past, investors were concerned about the maturity and depth of the market, but things are changing. “Institutional investors need products that are of big enough scale that it makes sense for them from a transaction-cost perspective,” says Amit Bouri, CEO of the Global Impact Investing Network (GIIN), the association raising awareness of impact investing within the institutional investment industry. “They also want to see a track record of performance from a manager, and to see discipline around how a fund or product is thinking about impact, starting with the upfront strategy all the way down to the tangible metrics that they can use to assess performance.”

According to a January 2021 report from GIIN, Impact Investing Decision-Making: Insights On Financial Performance, 70% of impact investors report that impact investments are financially attractive relative to other investment opportunities, while nearly nine in 10 find that their portfolios are either meeting or exceeding their financial expectations. Investors are also approaching performance and capital allocation with increasing sophistication.

And according to Alpha Real Capital, a specialist manager of secure income real assets, 80% of professional investors now have social real estate firmly on their radar as an investment opportunity. Over the next two years, about 30% of professional investors expect pension funds and other institutional investors to increase their real estate allocation to funds offering a social benefit.

Asset managers, meanwhile, are helping to expand the market. In 2018, [PGIM Real Estate](#) was awarded up to £50m (€57m) within a broader UK real estate mandate, to invest in social and affordable housing, by the Co-op's pension scheme. Charles Crowe, head of UK investment at PGIM Real Estate, says that the limited housing stock available in the UK means investors have to take on some building risk, as building houses is essential.

"To get the right quality, you have to be prepared to build it," he says. "People have had to become comfortable with the fact that you are having to take building risk. There are quite a lot of suppliers of housing, in terms of the listed and smaller regional development companies. They can build it; you just need to fund their construction throughout. It takes one to two years, and then you deliver a number of empty housing units which you have to take the leasing risk on. It's taken a while to convince the institutional market that we can mitigate that leasing risk."

Crowe also points out that investors need time to become familiar. "It has taken a while for institutional investors to get comfortable with the sector," he says. "That may be because of reputational risk, and the fact that they are dealing with several thousand members of the public. It's a very personal connection, and you have to make sure you deliver a high level of service."

While some of the scale and track record required by institutional investors was not available in the past, the slate of new initiatives launched in the past two years shows just how much appetite there is.

In December, social impact fund manager Resonance launched its second homelessness property fund, National Homelessness Property fund 2 (NHPF2), with an initial investment of £20m and a target fund size of £50m to £100m. The Greater Manchester Pension Fund has allocated £10m, while the Greater Manchester Combined Authority and Big Society Capital, the social impact investor, are also allocating. The fund will initially focus on purchasing affordable homes in the Greater Manchester area.



"COVID has clearly had an impact on homelessness but, in some ways, it has also created an opportunity," says Simon Chisholm, chief investment officer at Resonance. "People who had been on the streets homeless during the first lockdown were moved into hotels and off the streets. There is a historic opportunity to provide a way forward, rather than simply saying lockdown is over and everyone go back to street living."

Rob Martin: “there is still a lot of debate about how exactly impact is going to work for many institutional clients”

Last year, the firm also launched its Women in Safe Homes (WISH) fund in conjunction with Patron Capital and Big Society Capital, believed to be the world’s first ‘gender lens’ property fund. The fund aims to address the need for affordable, safe and secure homes for women who: are experiencing homelessness; have been involved with the criminal justice system; are survivors of domestic abuse; or have other complex needs.

Again, COVID has exacerbated the problem. EU member states reported a 60% rise in emergency calls about domestic violence in the year to April 2020, according to the British Medical Journal and the World Health Organisation. Online enquiries into violence-prevention support hotlines had also increased as much as fivefold, as many EU countries underwent their first lockdowns.

“Lockdown has unfortunately exacerbated issues like domestic abuse,” says Chisholm. “It has brought them more to light and more to the public consciousness. There is no doubt that both the problem of domestic abuse, but also the growing consciousness of it, has made the initiative feel very urgent.”

Keith Breslauer, managing director of Patron Capital, is keen to highlight that such initiative should not be seen as altruism. “I think the biggest challenge in this space is fundamentally trying to make sure this is not a charity,” he says. “We can measure the impact and the difference that we are making, but it’s also about measuring the return and making sure it is a good return on a risk-adjusted basis.”



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Other recent initiatives include the completion of £58m of fundraising by the Social and Sustainable Housing (SASH) fund, set up to put ownership of social housing in the hands of front-line charities working to solve the homelessness crisis. Another is LGIM Real Assets debt financing of HeatRHight, a renewables funding scheme that supports the delivery of air source heat pump technology to the social housing sector, on behalf of institutional clients.

Rob Martin, director of strategy and ESG at LGIM Real Assets, says he believes investors are increasingly engaging with impact and understanding it more. “There is still a lot of debate about how exactly impact is going to work for many institutional clients,” he says. “Certainly, as you get more proactive in this space, you start to think more about solutions and outcomes. In my view, the evidence is building that ESG outcomes are not contradictory to investment outcomes, particularly over the long term. When it comes to the environment in particular, it’s entirely clear that the risks of climate change and the impact financially to assets are so severe, that we must invest [to mitigate that].”

For investors, climate change has been a key concern. “One trend to keep in mind is the Paris climate agreement that is in place,” says Paul Oremus, fund manager of the European Residential Impact Fund at [CBRE Global Investors](#). “We see more and more European governments taking steps to meet their obligations. Governments would like to bring down carbon emission in the year 2030 by 55%. So we expect that the price of energy in general will increase over time. So looking at a residential portfolio, the cost of living is not only the rent, it is the cost of energy, and this has to be taken into account. We think affordability is not just about having low rent, it’s also about having low energy consumption in your portfolio.”

Karen Shackleton, director at Pensions for Purpose, says that most pensions funds that the impact advisory group has had discussions with, have made climate change a key priority in the impact space. Pensions for Purpose offers workshops to trustees, helping them articulate a set of ESG investment beliefs, using the UN Sustainable Development Goals as a framework. “We ask pension funds to prioritise which Sustainable Development Goals will have the biggest investment impact. It’s quite interesting what they end up choosing,” she says. “Every pension fund we did this with in 2020 selected climate action and clean energy, as their top priorities.”



Anna Shiel: “you cannot separate impact from risk and return, when you are looking at investment”

But since impact can cover so many different things, and affect so many different people, benchmarking and measurement is essential. That can be easier said than done.

“The challenge is to bring common metrics that are meaningful,” says Anna Shiel, head of origination at Big Society Capital. “Of course, you can measure the amount of people and houses, but housing is complex. People are different and their needs are different. The issues for a key worker are different to someone who is trying to escape domestic violence, for instance. So, coming up with something that is meaningful, that allows for comparison and aggregation, is challenging.”

She says the firm’s approach has been to look at four different impact strategies – housing and affordability, homelessness, health and well-being, and climate. “We structure our impact frameworks around them. Of course, we don’t expect that every investor will aim for all of these,

but this is a way to approach it.”

Shiel also points out that any measurement approach needs to be holistic. “We believe you cannot separate impact from risk and return when you are looking at investment. You can’t look in isolation at a positive impact that is being created, unless you understand how that return is being distributed, and how that risk is being allocated.”

Initiatives like the Impact Management Project, which aims to provide a forum for building global consensus on how to measure, manage and report impacts on sustainability, and the Sustainability Reporting Standard for Social Housing, set up by the ESG Social Housing Work Group, are both steps in the right direction.

Bouri believes that as the market continues to evolve, there will be a maturation not only of products, but also track records and opportunities. “If we want a sustainable and just world, we have to change the way the world invests,” he says.

“What we are seeing is that many institutional investors are, in part, increasingly interested in impact investing as a result of the COVID crisis. As we shift towards COVID recovery, there will be a lot of interest in how we can drive inclusive and green recovery. The COVID crisis has put a spotlight on many of the inequalities that exist in our global society. There is much deeper recognition of inequality, and the vulnerability that so many people [are facing].”