

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Update on affordable housing options		
KEY DECISION	No	Item No:	5
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources & Regeneration		
CLASS	Part 1	Date:	12 June 2013

1. PURPOSE

- 1.1 This paper provides Members with an update on the options for an affordable / social housing investment options for the Lewisham Pension Fund. It focuses on the further developments taking place at Schroders which currently manages the property mandate for the Lewisham Pension Fund. Representatives from Schroders attended this Committee in February 2013 and presented options for social housing investment opportunities.

2. RECOMMENDATIONS

It is recommended that:

- 2.1 Members note the contents of this report.
- 2.2 The previously agreed decision to use up to 1% of the Pension Fund to acquire an appropriate affordable housing investment solution should be maintained. However, given the lack of a meaningful investment opportunity at this stage, officers look again in a year's time at what options exist then, subject to any decisions taken at this meeting.

3. BACKGROUND

- 3.1 There is a critical shortage of social housing in UK and increasing political pressure in increase housing supply. Over the course of the last 18 months, Members of Pensions Investment Committee have considered various options for investing in an affordable housing scheme.
- 3.2 As with any investment idea considered by the Committee, an allocation to social housing would need to be made principally on the basis that the return expectations are attractive in the context of the risk of the investment and the overall objectives of the Fund. It is valid for the Committee to also consider Environmental, Social and Governance ("ESG") issues in making investment decisions, but the investment rationale must remain paramount.

3.3 It was notable that the member 'training' event which took place for back in November 2011 did not showcase any viable options for which the Pension Fund could invest in at that stage. Since this time, officers have looked at a numbers of other schemes and developments taking place in London and the South East and nationally, such as the Manchester City consortium to build affordable homes in the city and the community interest company proposal presented by the group Catalyst for Homes.

3.4 Given that they manage the property mandate for the Lewisham pension fund, Schroders attended this committee in February 2013 and presented a number of options for investing in affordable housing. An update on developments since they attended the committee has been set out in the following paragraphs.

3.5 Update on Schroders Property

3.5.1 Schroders have continued to investigate investment into the social / affordable housing sector over the part few months following the last meeting of this committee. In their view, there is still not a proposition which at present fits with the scheme's property investment objectives. Members should note that some progress has been made and is summarised as follows:

- Schroders have met with representatives of L&Q, one of the largest registered providers and incidentally based in Lewisham. They are certainly active in the affordable housing sector, but are only really interested in partnering with institutions who would effectively provide debt finance at rates comparable with those they have already achieved in the bond markets – circa 4% - 4.5%. This is below the portfolio's return requirements and so is not something Schroders are likely to pursue.
- Schroders have met with representatives of Hillcrest, the largest registered provider in Scotland. As a smaller corporation they have less access to capital markets and are therefore more willing to adopt a land-led joint venture model of the kind described by Schroders as one of their favoured models when we presented to the PIC at the last meeting. However, these investments would be targeted in Scotland. There are no firm proposals confirmed at this stage, therefore Schroders will await a proposal from Hillcrest.
- The most recent development has been the HCA's extension of Build to Rent funding to £1bn. This funding essentially offers finance at relatively inexpensive terms (circa 2.5%) to residential developers. Developers have been invited to apply for this funding to develop some of their land holdings which they have hitherto held as land as starting development has not been economic. The real estate here is typically private rented residential, rather than social housing. However, as well as cheap funding from the HCA, the developer (and ultimately the HCA) would also require an institution to acquire the developments once they have been built. As a result, Schroders met with representatives of the HCA last month as well as a number of developers to explore what kind of investment model might be adopted and how Schroder clients might take a role by potentially acquiring the developments at completion. Again, there are a number of moving parts which are yet to be agreed between all parties, and there is a risk that the model will ultimately not be suitable for the Lewisham Pension scheme.

3.5.2 In December 2012, Schroders produced a briefing note on affordable housing which sets out and assess the options available for pensions funds looking to allocation a proportion of their property portfolios to the sector. For information, this has been attached at Appendix 1. The current position remains as it was back in December 2012, in that there does not appear to be a viable option for the pension fund to invest in at this moment in time.

3.6 Updates from other organisations

3.6.1 Officers met with Catalyst for Homes (C4H) towards the end of April this year. It describes its aim is to create an attractive pension fund investment, with secure low risk returns and delivery continuity regardless of prevailing market conditions, whilst achieving unmatched ethical and social objectives.

3.6.2 Hearthstone Investment plc is specialist residential property fund manager, providing access to residential property for both private investors and institutional pension schemes. This group has successfully managed to secure the investment of £20m from the London Borough of Islington into what is a pooled residential housing scheme. There is a presentation from Hearthstone elsewhere on this agenda.

4. FINANCIAL IMPLICATIONS

4.1 There are no financial implications directly arising from this report. However, Members should note that any investment into an affordable / social housing scheme would need to make economic sense for the pension scheme and be able to achieve the performance objective and investment restrictions.

5. LEGAL IMPLICATIONS

5.1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013 increased the percentage of the pension fund that can be invested in partnerships from 15% to 30% from 1 April 2013, after consultation. The consultation leading to this change had proposed a new asset class of "infrastructure", but this was considered by respondents to the consultation too difficult to define so instead this new increase in limit will apply to infrastructure funds which are structured as limited partnerships.

5.2 The Committee has to take proper advice and a risk assessment before investing in such partnerships.

6. CRIME AND DISORDER IMPLICATIONS

6.1 There are no crime and disorder implications directly arising from this report.

7. EQUALITIES IMPLICATIONS

7.1 There are no equalities implications directly arising from this report.

8. ENVIRONMENTAL IMPLICATIONS

8.1 There are no environmental implications directly arising from this report.

APPENDIX 1

Schroders – Affordable Housing Briefing Note

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact either:

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