UK affordable housing – a panacea for pension fund investors?

The affordable housing sector suffers an acute supply demand imbalance and there is a huge need for private sector capital. The sector offers attractive yields at a discount to open market capital values and generates stable inflation linked returns, plus an opportunity for investors to deliver measurable Social Impact at scale.

The investment case

It remains the case that the UK affordable housing sector is subject to a significant supply demand imbalance. There are currently in excess of 1,150,000 households on UK local authority waiting lists[1]. Local Authority pension funds are already acutely aware of this need, guided by clear local evidence.

As a result the sector benefits from cross party political support, and with that comes Government investment in the form of grant subsidy. This support helps create investment opportunities, at attractive pricing with long dated lease structures, primarily index linked with annual reviews and an underlying rental business model that is itself largely government backed in the form of Local Authority housing benefit.

Beyond this apparent need for General Needs housing, older persons' affordable housing is becoming of increased interest. There is considerable demand for retirement housing provision, with the number of people aged over 65 in the UK expected to increase over the next 20 years by 41% to 18 million[2], bringing with it a sharp increase in so-called pensioner poverty. The UK housing association sector is struggling to meet this need without substantial private sector support.

The need for private sector capital

As a result of the long-running public inquiry into the 2017 Grenfell Tower fire the housing secretary, Michael Gove, has been engaging with developers and housebuilders, including the major housing associations, to discuss remediation costs for dangerous cladding in taller buildings. In mid-April, the government revealed an agreement with the industry that will see them contribute £5 billion to address building safety. This includes more than £2bn committed by over 35 developers, such as Barratt, Persimmon, Taylor Wimpey and Berkeley, as well as an expected £3bn from an extension to the Building Safety Levy[3]. This will trigger significant contributions by housing association and significant expenditure to deliver the required remediation works to their existing stock, particularly where they acted as developer. It is clear that future development will also need to meet higher fire and building safety standards. This will inevitably increase build costs.

The target of achieving Net Zero Carbon by 2050 has led the Government to identify the housing association sector as a test-bed to demonstrate the practicality of upgrading homes, particularly for older properties. It is estimated that housing associations will need to invest more than £100bn over the next 25 years to deliver the 2050 target[4].

This drive for improved standards, increased fire safety and a push to Net Zero Carbon, will force housing associations to invest capital in their existing portfolios while also applying significant upward pressure on build costs. This creates a substantial opportunity for the private sector to invest in, and help deliver, new affordable housing, injecting much needed capital to help alleviate the sector's already chronic supply demand imbalance.

Invest in Affordable Housing, "your country needs you"!

[1] Ministry of Housing, Communities & Local Government is now called Department for Levelling Up, Housing and Communities
[2] CSFI - Centre for the Study of Financial Innovation
[3] Agreement with major developers to fund building safety repairs - GOV.UK (www.gov.uk)
[4] Inside Housing - Insight - The cost of net zero: social landlords' decarbonisation plans revealed

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