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Affordable housing: Where there's need, there's opportunity

The UK's need for an increased supply of affordable housing also creates an opportunity for institutional investors seeking to produce tangible real-world social outcomes.



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If you've read anything about housing over the past few years you probably know that we don't have enough of it in the UK.

To paint a stark picture, there are roughly 1.3 million households on UK social housing waiting lists today¹. Approximately 159,000 children are without a home².

To match the demand, there needs to be a significant bump in the level of affordable housing being built. It's estimated England alone will need about 145,000 affordable homes built each year between now and 2031 to clear backlogs. Today, about 40,000-50,000 are being constructed on an annual basis.

The UK's Labour government has been vocal about its ambition to super-charge homebuilding. Its target of 375,000 new homes a year (equating to more than 1.5 million over five years) is ambitious – the UK hasn't seen such construction activity in almost 60 years during a time when the public sector accounted for roughly 50% of housing delivery⁴. Such a dynamic is unlikely to reoccur today, in our view.

And now for the good news...

The picture painted above may be a bleak one, but it's accompanied by some positive news. Against a backdrop of pressing need, institutional investors are seeing an opportunity to deploy patient, long-term capital in an area that, in our view, will have a real-world impact.

Historically, not-for-profit housing associations have taken on the burden of supporting affordable housing in the UK. The last decade, however, has seen these institutions under strain – not least in recent years as high interest rates have had an impact on their finances. Fire safety regulations and net-zero targets have also created additional costs.

The willingness of private institutional investors to support the affordable sector is therefore very timely. We estimate that over a third of investment over the past few years has come from these sources. In our view, there is a continued opportunity for private capital to be deployed.

¹ Social housing lettings in England, tenants: April 2022 to March 2023 – GOV.UK
² 159,000 children homeless – Shelter England – Shelter England

Key Risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. Past performance is not a guide to future performance. Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

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Today's case for affordable

Why are long-term investors looking towards the affordable sector today?

Affordable housing can act as an inflation hedge, with rents linked to the Consumer Price Index (CPI). This provides certainty for institutional investors and incentivises the deployment of private capital, in our view. We believe investors are showing confidence that this asset class can deliver stable income over the long term.

The nature of affordable housing as a sector may also, in our view, instil investor confidence. Suppliers of affordable housing in the UK must be regulated, meaning they need to adhere to defined governance principles and demonstrate a level of financial viability.

Considering its inflation linkage, we see the affordable sector delivering returns comparable to other residential real estate sectors, namely build-to-rent and student housing. We believe it will deliver higher returns than the long-term average for commercial property given its needs-based demand fundamentals and its ability to generate stable inflation-linked income.

A social angle

Of course, many will allude to the real-world social impact that an investment in affordable housing can generate. We believe capital deployed to support more affordable homes can do more than just meet

a need for housing – it can help support and foster growing communities, ensuring these can thrive.

When schools and hospitals are constructed, these facilities' staff need homes within a certain catchment area. Without adequate housing supply, building thriving communities becomes increasingly difficult.

We're also adamant believers that homes must be affordable to run, not just to purchase. That means ensuring they are constructed to be energy efficient and cost-effective to heat. In our view, there is an opportunity to private capital to be put to work to ensure more such homes are on the market.

A growing opportunity

To sum up, the UK has grand and ambitious housebuilding plans. With public finances strained, it's unlikely this goal will be met without the involvement of private institutional investors. The sector is appealing, not just for its potential to generate inflation-linked income but also because it represents a way to support real-world social outcomes. In our view, it represents a strong foundation for investors to build on.

