

AFFORDABLE HOUSING IMPACT REPORT

2023





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AFFORDABLE HOUSING IMPACT REPORT

31 MARCH 2023

PURPOSE

This report aims to inform stakeholders about **Wiltshire Pension Fund's Impact Affordable Housing portfolio**. It provides **key facts** and highlights the potential for stable, secured inflation-linked investment returns whilst benefiting residents, local communities within the UK, and the wider economy.

WHAT IS IMPACT INVESTMENT?

"These are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

As defined by the [Global Impact Investment Network \(GIIN\)](#)

WHAT IS AFFORDABLE HOUSING?

There is no one universal definition for affordable housing, but in broad terms it refers to housing where the rent or cost is **at least 20% lower than market rate**.




The case for affordable housing in the UK is well-known, with **demand far greater than supply**, and thousands of families on local authority waiting lists. Inflation-linked income with the potential for long term capital appreciation and low volatility **meet the strategic investment needs** of Wiltshire Pension Fund, but affordable housing also provides **very positive benefits** to those on lower or median incomes, priced out of home ownership in the less secure private rental sector.



Homes held within the Fund's portfolio, both located in East Sussex, in varying stages of development

HOW IS WILTSHIRE PENSION FUND INVESTING WITH IMPACT?

In April 2022 **the Fund committed £120m to affordable housing** and is expected to add to this portfolio in 2023. We implement our portfolio by allocating money to three investment managers, each of which specialises in different areas. Our money is pooled with other investors, and then the managers select investments. This approach ensures we are well diversified and not overly exposed to any particular investment or manager.

MANAGERS	AMOUNT WPF HAS COMMITTED	STRATEGY	TARGET RETURN
	£40m	Diversified (Affordable rent, shared ownership and some supported housing)	6%
	£50m	Shared ownership	6%
	£30m	Diversified (All types, including mixture tenure)	8-10%

SHARED OWNERSHIP

An arrangement which allows residents to buy a share of a property with a mortgage and pay a discounted rent on the remainder.

AFFORDABLE RENT

For those in receipt of housing benefit, and those on low to median incomes, priced out of market rents in areas where they work and live

SUPPORTED HOUSING

For those with specialist housing needs, temporary accommodation for the vulnerable, for example.

MIXED TENURE

A development with multiple types of housing, including market rate. This promotes social cohesion.

The Wiltshire Pension Fund portfolio is **diversified** across types of affordable housing and this continues across geographical locations and situation; there is no concentration in areas of highest relative unaffordability (i.e. South East England) nor to urban areas (projects include a mix of developments in rural villages, town and fringe as well as those in cities and conurbations).

WHAT METRICS DO WE MEASURE AND WHY?

We need to make sure that the managers are investing in line with their strategies, and the best way to do this is to monitor both the financial returns and also the positive impacts they are generating. We collect the following impact metrics and combine them across the three managers for our entire portfolio¹:



At 31 March 2023, there were 4,591 homes in the portfolio, Wiltshire's share of this is 11%².

This has meant more affordable property has (or will) become available. The portfolio is predominantly made up of housing developments that are under construction, but some units are complete, or have been purchased already occupied by tenants.



The social benefit from investing in these types of homes is completely integral to the investment case.



The homes in our portfolio are located in areas with a weighted average affordability ratio of 10.5, 27% higher than the national average of 8.3³.

This means that homes in our portfolio are generally being created in areas where affordability is most challenging for local residents.

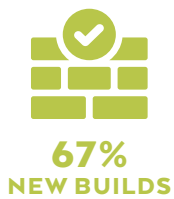


[Click here](#)
to visit our interactive map!



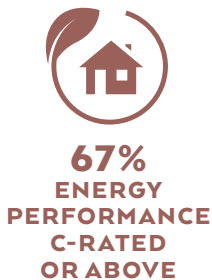
A total of 98% of homes in the portfolio are affordable.

The reason for some homes in the portfolio being open market rate is that these are a minority component of mixed tenure developments. The inclusion of open market rate homes delivers the positive impact of promoting social cohesion.



The homes held in Wiltshire's portfolio are 67% new builds.

This shows that the money we have committed to this portfolio is directly contributing to new homes being built, and increasing the supply of housing in the UK.



Two thirds of homes in our portfolio are C-rated, or above.

Energy Performance Certificates (EPCs) tell you how energy efficient a building is and give it a rating from A (very efficient) to G (inefficient). They provide an indication of how much it is likely to cost to heat and light, and what its carbon dioxide emissions are likely to be.

¹ The managers themselves collect a full range of data for the homes in their portfolios, and report on a range of metrics. These are bespoke to their individual strategies, so whilst we monitor these and hold the managers to account, we cannot combine all of these metrics for the whole portfolio.

² Based on our share of the overall valuation of the combined portfolios as at 31 Dec 2022

³ Calculated as the ratio of median house price to median earnings in the local area.
[Housing affordability in England and Wales – Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/housingaffordabilityinenglandandwales)



CASE STUDY: FUGGLESTONE DEVELOPMENT IN SALISBURY

We recently visited one of the sites in our portfolio, a development which also happens to be in our own backyard, in Salisbury. We were able to view the construction taking place, and visit a recently completed house. The home we visited had been sold, but was yet to be occupied, and we were pleased to find it was incredibly warm and cosy. We learned that **the EPC (Energy Performance Certificate) of the homes in this development is a B rating**, which is significantly better than those generally found in the private rental sector. Privately rented homes are currently only required to have an E rating, although there are plans to raise this to a C rating in a few years' time.

The site at Fugglestone is a large development, which is adding 185 new affordable homes to Salisbury. This is an area where **access to homes and affordability is a challenge to local residents**. The average house price to earnings ratio in the local area was reported to be 9.57 in 2022 by the Office for National Statistics, above the national average, and there are thousands of families on the local authority waiting list. We met the site manager for the whole development, who told us that a recently available flat had received hundreds of applicants.

The site is a mixture of affordable rented properties, shared ownership units, and open-market homes, all in a mix of sizes from 1-4 bed properties. This mix delivers a real positive impact by **promoting social cohesion**, as well as broadening the market of potential occupants for the homes. The Fund's investment in this development is returning around 6% on an annualised basis, primarily driven by rental income, with inflation-linked uplifts. A lot of the positive impacts we were seeing helped to boost this – for example, energy efficient homes are more attractive to buyers, and this can help get homes sold quicker.

This investment clearly demonstrates that **we can earn a competitive return through investing in assets which deliver a positive impact, and that those positive impacts themselves form part of the investment case.**

Our affordable housing portfolio is invested across the UK, and having the opportunity to learn more from visiting a local site was a valuable experience.

Our visit to Fugglestone was featured in our short film – part of the Pensions Management Institute's Purposeful Pensions project!

[Click here to watch the film](#)





The Coombe Farm development at Saltdean in East Sussex will include net zero homes for key workers, helping residents to manage the cost of living crisis by reducing energy bills

COST OF LIVING

The cost-of-living crisis and rising inflation led to the concern that managers for this portfolio might fail to **balance the objective of earning inflation-linked returns against the potential negative social impacts (and associated reputational damage) from pricing tenants out of the market.**

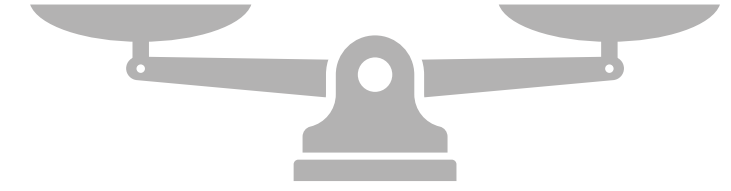
We worked with the managers to understand the situation. The managers all take a long-term view, using thorough sensitivity analysis which ensures **affordability for tenants in a range of economic outcomes.** We asked about levels of default and were reassured that these continued to be low. Levels of demand for properties continued to be very high.

This exercise allowed us to conclude that long-term returns would be maintained without compromising on affordability for tenants. In addition, the houses held in this portfolio are more energy efficient than the average property in the private-rented sector, which meant that residents also benefitted from a reduced impact from rising energy bills.

INFLATION PROTECTION FOR WILTSHIRE PENSION FUND



AFFORDABILITY FOR RESIDENTS



CLIMATE – WHY DOES THIS MATTER?

As a Fund, we have set a target of net zero by 2050 for all our investment portfolios, but why does this matter for affordable housing? Simply put, the world is changing, and our investments need to be ready to keep up, or we will lose out financially.

Modern methods of construction are more efficient, as well as being environmentally beneficial. And **developments which are sensitive to the climate are also more desirable for residents** – for example an energy efficient home is less costly to run, and homes which have access to amenities such as electric vehicle charging are likely to be more attractive, a fact which in turn **boosts the returns we earn as investors**. Although this portfolio focusses on positive social impacts, we are also seeing significant environmental progress by the managers, and we will continue to hold them to account on matters related to climate risk.



The world is changing, and our investments need to be ready to keep up, or we will lose out financially

CASE STUDY: MODULAR BUILDING

Achieving net zero by 2050 can only be done through innovation and by holding our managers accountable. Within the development and construction chain, there are examples of activity that maps to SDG 9 [Industry, Innovation and Infrastructure]. Top Hat manufacture, deliver and install houses to prepared sites, such as Old Mallings Farm in Lewes, held within our portfolio, using 'Modern Methods of Construction' (MMC). This produces less waste, reduces transport emissions, and contributes towards a more efficient end product. Modular design allows for greater economy of scale, tighter tolerances than traditional construction methods, and speed of delivery.



SUSTAINABLE DEVELOPMENT GOALS

WPF has set some of the UN SDGs as priority goals, where we see that there is a strong opportunity for investment.

Illustrative home at Old Mallings Farm, Lewes



FINANCIAL PERFORMANCE

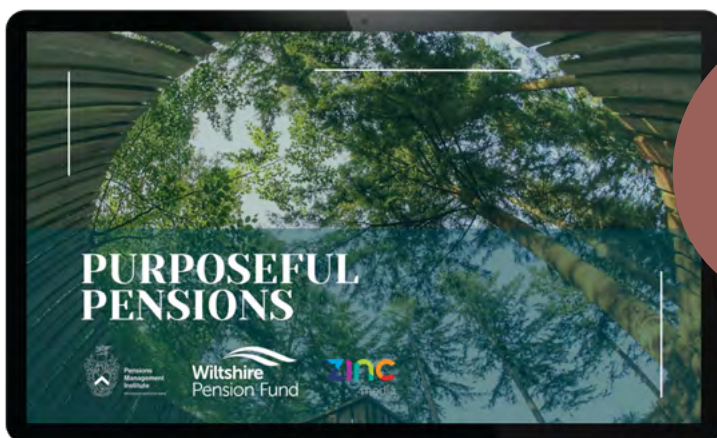
This portfolio has a dual mandate, to achieve returns and to deliver positive impact. This report focusses on the impact delivered by the investment, and financial performance is separately assessed alongside our other investment portfolios and for the Fund's assets as a whole. The performance target for this portfolio is to deliver returns in excess of CPI by 2-4% p.a. over a rolling 3-5 year period. Our portfolio has currently only been set up for a year, and is still in the phase of being built up, as money is invested up to our committed amount. It is therefore too early at this stage to make a meaningful assessment of investment performance.

CONCLUSION

Our UK affordable housing portfolio is **delivering against its objectives**, and we can see that our managers are delivering positive impacts for both people and the planet. We will continue to monitor and report on our progress in this area.



The WPF team visiting the Fugglestone site in Salisbury, a valuable experience where we were able to question the investment manager for this site in person, and learn more about this local investment



[Learn more about our overall approach in our Purposeful Pensions Film](#)

