Social real estate: delivering local and national impact

Aligning social impact with financial objectives

Social real estate investments are well-suited to long-term investors, including private and public pension schemes. Comprising housing, healthcare and education, the sector encompasses a diverse range of assets reflecting the diverse needs of the communities they serve.

But whilst diverse, they share attractive financial characteristics, offering long-term leases (20-30 years or more) and delivering predictable inflation-linked rents with a significant pickup (c.600bps) over gilts[1]. Importantly, these investments can deliver positive, quantifiable social impacts in addition to attractive financial returns, not at the expense of them – whilst delivering on ESG ambitions, which are increasingly in focus for investors.

In this paper we highlight how investing in social real estate can work particularly well for pension funds looking to allocate capital whilst seeking to deliver a positive impact and how this can be achieved nationally or on a more targeted basis, such as within a defined geography. To do this, we describe an approach developed in conjunction with a long-standing LGPS Fund client, which combines the scale benefits and portfolio diversification provided through an allocation to a national, pooled fund and a bespoke segregated mandate that delivers place-based impacts in the scheme's local area.

Place based investing – targeting social benefits in local communities

Investing in social real estate lends itself naturally to placed-based impact investing. This is because:

- It delivers the vital infrastructure that communities rely upon, improving capacity and quality as well as enhancing the environmental sustainability of the built environment;
- Investments can be made with local priorities and needs in mind; and
- Investors can work with local stakeholders to align interests, creating a shared impact for the benefit of local people and places[2].

A distinct and added dimension to place-based investing for LGPS funds is that underlying scheme members can observe – and potentially benefit from – the tangible impact that the investments can deliver. Indeed, this approach has come increasingly into focus – in a recent report[3], the Impact Investment Institute observed that if only 5% of LGPS funds' combined assets (£326 billion as at March 2020) were allocated to local investment, this would unlock £16 billion for investment – more than matching the £4.8 billion Levelling Up Fund and other similar government initiatives.

1 Based on market conditions as at Q3 2021
2 Scaling Up Institutional Investment For Place Based Impact, Impact Investment Institute White Paper (May 2021)
3 *Ibid*

Case Study – Alpha managed segregated mandate for LGPS Fund

For this mandate, run on behalf of a large LGPS Fund, we combine a bespoke local portfolio run under a segregate mandate with our national open-ended pooled fund.

The Local Portfolio

Within this portfolio, investments are originated within the same investment guidelines as used for the national approach, but are targeted locally within the Fund's own region, ensuring that they provide direct social benefits to the Fund's local communities. To date, the portfolio includes a modern, purpose-built GP surgery that was developed to support up to 13,500 patients (replacing three older, less efficient and increasingly obsolete surgery properties), along with two specialised supported living schemes providing homes for 37 vulnerable adults.

Two further opportunities, a purpose-built 109 setting day nursery and a further GP surgery for 13,000 patients are also under offer. With all assets delivered through forward funding arrangements, there is true additionality and the assets are modern and fit-for-purpose, being efficient to occupy on both an environmental and a sustainability basis.

Such investments clearly benefit local communities and residents, some of which may be members of the Fund. There is therefore a shared and aligned impact, with scheme members who have worked in local areas benefiting from the scheme's investments. This approach has resonated well with the Fund and its stakeholders, enabling it to work with local stakeholders to address immediate needs and build local relationships to support the origination of further investment opportunities.

Figure 1: Purpose-built primary care (GP) surgery developed for an LGPS Fund within a segregated mandate

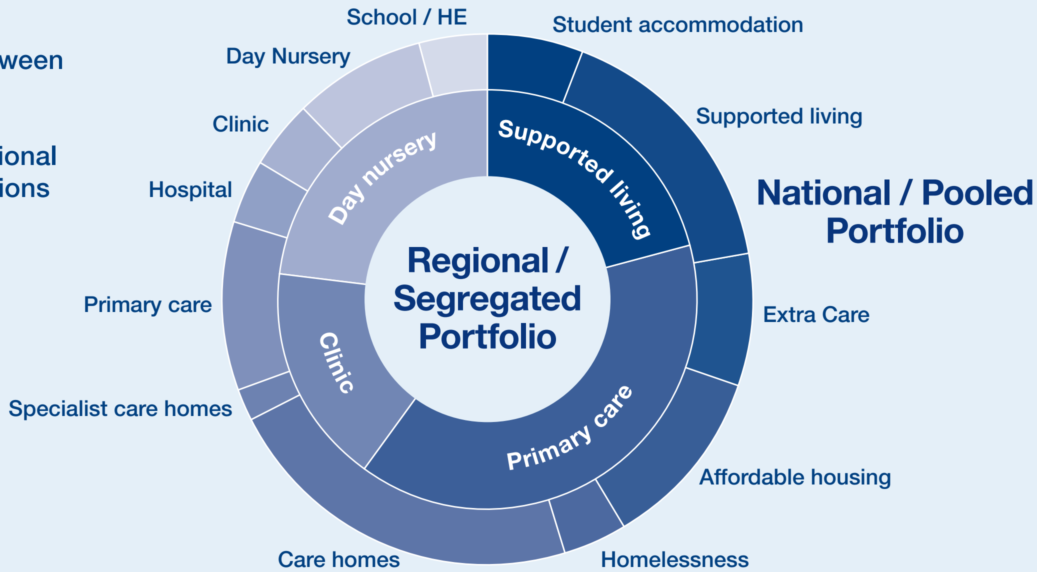
Benefits of a combined portfolio

Whilst a targeted, geographically constrained approach can deliver on local needs, by adopting a combined approach – including an allocation to a national, pooled vehicle – investors can also access the benefits that a larger portfolio can deliver including;

- Enhanced diversification (by both sector and geography);
- Swifter deployment (a broader target asset pool with potentially larger assets); and
- Greater liquidity with the creation of investible sub-portfolios (if secondary sales are required).

The chart below illustrates the sector breakdown, enabling a comparison of the diversification that can be achieved within a national pooled fund (outer ring) and a local portfolio (inner ring and a segregated mandate).

Figure 2: Diversification comparison between national/pooled portfolio and segregated/regional portfolio allocations



The national/pooled portfolio is based on SLIF[4], Alpha's open-ended pooled fund, but includes a number of pipeline opportunities for the deployment of future capital commitments. The fully deployed portfolio illustrated is invested across 12 sub-sectors of the social real estate spectrum and, with £500 million deployed, would comprise over 60 assets with lot sizes ranging from £3-25 million+.

In comparison, the local portfolio (loosely based on the LGPS Fund segregated mandate mentioned earlier), despite its smaller size and geographical focus, still achieves a good degree of sector and counterparty diversification across a smaller number of assets.

When viewed in conjunction, the combined portfolio can be constructed to target delivery of societal benefits in the local area, which may occur within the national portfolio but cannot be guaranteed due to the location agnostic, broader focus of that strategy. As a result, by investing on both a national and local basis the LGPS Fund is able to access the benefits of both approaches (including more immediate deployment through the unitised pooled fund), as summarised in the comparison chart below.

Figure 3: Comparison of national/pooled and regional/segregated approaches

	National / pooled	Combined	Regional / segregated	
Social benefit	✔✔✔	✔✔✔	✔✔✔	Strong social characteristics irrespective of scale
Diversification	✔✔✔	✔✔✔	✔	Pooled vehicle provides broader sector exposure
Deployment speed	✔✔✔	✔✔	✔	National remit broadens investible opportunity pool
Deployment capacity	✔✔✔	✔✔	✔	Larger portfolio can secure larger assets
Liquidity	✔✔✔	✔✔✔	✔✔	Sub-portfolios enhance potential liquidity
Bespoke structuring	✔	✔✔	✔✔✔	Segregated approach permits greater flexibility
Targeted opportunities	✔	✔✔	✔✔✔	Regional focus can target under-provision
Local impact	✔	✔✔	✔✔✔	Regional mandate focuses benefits

4 Social Long Income Fund, model portfolio.

Evidencing the benefit

For investors participating in the social real estate sector, in addition to resilient and attractive risk-adjusted financial returns, social real estate assets also deliver tangible and quantifiable social benefits. At its simplest, these benefits can be summarised numerically, such as the number of additional bedspaces provided, patient capacity increases or educational settings added. But it is possible to look beyond the physical units to the social benefit they deliver and even to quantify this benefit in financial terms.

Working with the Social Profit Calculator ('SPC', now part of 'Loop'[5]), Alpha has assessed its pooled, national portfolio. Based on SPC calculations, which include social, economic and environmental impact and value using two key analysis frameworks; Social Return on Investment ('SROI') and Economic Impact (Gross Value Add, 'GVA'). Total impact is calculated by combining both values.

The SROI calculation includes fiscal savings to the UK Government and taxpayers (resulting from reduced welfare and benefit costs, health services, education, housing and social care), economic benefits and wellbeing improvements (including employment, qualifications, education support and community engagement), amongst others. The Economic Impact calculation includes a local multiplier impact (relating to local economies through spending on supply chains and employment) and a GVA measurement (of how assets and their employed staff contribute to the economic productivity and uplift of an area including the indirect and induced effects of direct employment). A series of impact metrics are applied to the calculations to ensure the overall impact is not over claimed, in line with the HM Treasury Green Book.

These calculated outputs can be distilled down to a ratio, reflecting the benefits achieved per unit of financial investment. On that basis, Alpha's national pooled portfolio (based on existing assets and the current pipeline) will deliver almost £5 of social value for every £1 invested. On a similar calculation basis, the LGPS Fund segregated mandate mentioned earlier will deliver over £7 for every £1 invested[6]. The clear multiplier effect that these investments can achieve is an attractive characteristic, letting investors quantify and demonstrate their ambitions and actions in delivering on the S in ESG.

In addition, these investments can also be aligned with the United Nations Sustainable Development Goals – a fully diversified portfolio of social real estate assets could contribute to 12 of the 17 goals outlined by the UN, a broader benefit to society than narrower single-sector strategies, better meeting the diverse needs of communities.

Figure 4: Comparison of social benefits derived from model national and regional portfolios

<table>
<tr><th></th><th>National / Pooled</th><th>Regional / Segregated</th></tr>
<tr><td>UN SDG alignment</td><td>
</td><td>
</td></tr>
<tr><td>Social value generated</td><td>£2.4 billion</td><td>£300 million</td></tr>
<tr><td>Social value ratio</td><td>£1 : £4.75</td><td>£1 : £7.83</td></tr>
<tr><td>Social infrastructure</td><td>• 84k patients
• 800 homes
• 585 beds
• 960 nursery places</td><td>• 28k patients
• 40 homes
• 240 nursery places</td></tr>
</table>

5 Loop.org.uk
6 Note: reflects the fully deployed mandate of five assets, two of which are under offer and in solicitors' hands.

Unique opportunity, robust pipeline

Underpinning the opportunity to invest in these assets is the current ‘perfect storm’ facing the UK’s social sectors – a growing and ageing population that is placing increasing pressure on existing social infrastructure which is, in many instances, inadequate and insufficient, due to obsolescence and being in short supply respectively.

Accessing the social real estate opportunities and contributing to solutions in this sector necessarily comprises participating in the origination of new assets, either through securing development opportunities (by way of forward funding or commitment) or by working to undertake sale and leasebacks.

Active origination – complemented by some secondary market trades – maximises the investible universe, and enables investors to be opportunity makers, participating in shaping investment characteristics (physical and financial) to suit their (and tenants’) long-term ambitions. This origination process can be focused broadly, at a national level, or on a more targeted basis, if required (as per the segregated mandate we outlined previously).

Whilst market activity was undoubtedly impacted by Covid-19, during 2020 Alpha recorded over £750 million of opportunities in the medical, care and education sectors alone, with a total of £4.6 billion of deals introduced across all sectors that Alpha covers. 2021 volumes have been similarly robust to date, and whilst a regional, geographically focused segregated mandate would necessarily limit the volume and variety of opportunities that could be considered for investment, there is also the potential to proactively target developers active in the area, or work with tenant counterparties to identify opportunities.

Investments in social real estate provides a unique opportunity for investors looking to meet their financial objectives, whilst making a social impact. The approach can be targeted, or spread broadly at a national level and whilst both approaches deliver financial benefits and social impacts, there is a growing appetite for place-based impacts that a hybrid national and regional approach may be suited to deliver.

A new purpose-built primary care facility for 13,500 patients, providing high-quality facilities for patient treatment, increasing access to services and delivering societal health benefits. Delivered within an LGPS Fund’s segregated mandate, run by Alpha and developed in conjunction with the local primary care trust.

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Please get in touch with your usual Alpha Real Capital representative or contact:

Client Solutions

clientsolutions@alpharealcapital.com

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03 4840 1221