

## It's time to focus on the health sector

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The availability of suitable affordable housing is essential for a functioning society. It is therefore understandable that the housing sector is often the first place investors look when allocating to social impact investment.

Yet interestingly, new AlphaReal commissioned research<sup>(1)</sup> with UK Local Government Pension Scheme (LGPS) fund professionals reveals that three quarters of respondents cite the health sector as suitable for a social impact infrastructure allocation.

This insight looks at

- Why the health sector is a multi-billion-pound opportunity for institutional investors.
- How investors can achieve real returns and real impact through combining health and education alongside housing as part of their social impact infrastructure allocations.

## A multi-billion pound market opportunity

At AlphaReal, we believe the health sector is a multi-billion-pound market opportunity for institutional investors.

This opportunity is driven by:



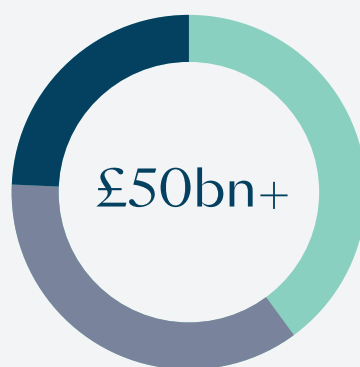
**Long-term structural demand** due to an expanding and ageing population



**Declining & inadequate supply** across essential public services



**Significant funding shortage** due to constrained public finances



We see investment opportunities in health from the growth in elective procedures and diagnostic provision, in-community facilities such as renal dialysis freeing up capacity in NHS hospitals, to mental health admissions alongside those more traditional segments such as elderly care. Importantly, investment in these areas can achieve real impact for the underserved in our communities alongside attractive long-term returns for investors.

- £12bn Education
- £20bn Health
- £18bn Housing

**“Investment in health represents a £20bn+ market opportunity.”**

Source: AlphaReal 2023

## Social infrastructure delivering real returns with real impact

98% of LGPS fund professionals agree that investing in social infrastructure is a route to providing positive social impact whilst still generating attractive returns.

87% said investment generating positive social impact will become more important over the next twelve months.

However, survey respondents said that knowledge of the investment and impact characteristics is the biggest barrier to investing in social impact infrastructure.

# Framing investment and impact characteristics

At the underwriting stage for each asset whether it is health, housing or education, AlphaReal focuses on four key features which when combined, define impact.<sup>(2)</sup>



## Market return



Creating and investing in long leases of 20+ years which are 100% secured on FRI terms, predominately with rent reviews linked to RPI/CPI. This creates a predictable and robust cash flow providing inflation-linked long income. Sustainability of rents is key and hence leases provide caps on rental increases of typically 3-4% with collars of 1% which support the delivery of income growth for investors.

## Intentionality



Deliberately screening physical assets to focus solely on those which support the long-term delivery of essential services in health, housing and education. Our focus in identifying health alongside housing and education is that these offer positive societal outcomes and are complimentary to one another. Within health, our target sectors span primary and secondary care, treatment clinics, specialist care and elderly care. However, there is natural cross-over with education and housing. Investment, for example, in a special educational needs school will primarily deliver tailored person-centred education. Likewise, investment in specialist supported housing will primarily deliver appropriate housing yet both will also provide care services to support vulnerable individuals.

## Contribution



This refers to asset level quantitative and qualitative analysis of the benefit to those receiving the service, those delivering the service and to wider society. Additionally, we focus on ongoing tenant engagement to continually look to improve the environmental, social and governance (ESG) contribution.

Within health contributions, it may include additionality – the creation of new additional capacity, from patients within primary care through to residents within specialist or elderly care. Key contributors for those receiving the service may be improved mental and physical health outcomes, reduced isolation/loneliness, illness prevention, detection, or management. For those providing the service or care the focus includes provision of living wages, regularised hours, training programmes and career progression. For wider society the combined benefit is more suitable, accessible, and affordable health provision.

Beyond social outcomes, contributions may include raising governance standards through investing where there is robust regulation such as the Care Quality Commission for Health in England. There are also benefits such as reducing the cost in use for tenants and lessening environmental damage through installation of solar PV panels, EV charging points, new or upgrades to heating and water systems and low energy lighting. We also look at re-purposing existing buildings for new use which reduces the environmental impact of real estate activity and provides a future-fit building for the next 35/40 years.

## Measurement

This involves third-party assessment of the value of the social, environmental and governance contributions made. We engage with those providing the assessment to positively challenge the assessment tools and methodologies used so that over time, together, we can better articulate the benefits and their value to wider society.



Real social impact alongside real returns



## Key takeaways

- Investment in physical real estate within the health sector represents a multi-billion-pound opportunity for institutional investors.
- A portfolio approach delivering assets in health and education alongside housing is the natural progression to support investors in achieving income predictability, longevity of cash flow, and inflation hedging alongside impact.
- Alignment of institutional capital and public funding to target issues of long-term nationwide capacity constraints across health, housing and education.

## About us

AlphaReal is a specialist real assets investment manager. We focus on ESG-aligned secure income strategies that deliver predictable, inflation-linked cashflows to support our clients in meeting their investment objectives. We provide market leading and innovative real asset solutions across the UK and Europe, specialising in commercial ground rents, social infrastructure, and renewable infrastructure.



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(1) AlphaReal commissioned the market research company Pure Profile to survey 100 LGPS fund professionals. Interviews were conducted online in January 2023.

(2) Global Impact Investment Network (GIIN) defines impact investing as 'investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return'.