



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	21 October 2021
Classification:	General Release, Appendix Not for Publication
Title:	Affordable Housing Manager Shortlist
Wards Affected:	All
Policy Context:	Effective control over council activities
Financial Summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
Report of:	Phil Triggs <i>Tri-Borough Director of Treasury and Pensions</i> ptriggs@westminster.gov.uk 020 7641 4136

1. EXECUTIVE SUMMARY

- 1.1 This paper summarises the investment manager shortlist for a proposed new affordable housing mandate, as agreed at the Pension Fund Committee meeting on 24 June 2021.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

- consider the three managers shortlisted for the proposed allocation to affordable housing, with Deloitte to prepare a manager selection report if approved.

3. BACKGROUND

- 3.1 At the 24 June 2021 meeting of the Pension Fund Committee, the investment advisor, Deloitte, presented the Committee with a report on the residential property asset class, with the aim of exploring a suitable inflation protection mandate. The Committee decided to proceed with a manager shortlist and selection process for an affordable housing investment manager, with circa 5% asset allocation to be ascribed to the asset class, and to be funded from the allocation to equities. The affordable housing definition has also been widened to include socially supported housing.
- 3.2 Affordable Housing (AH) is aimed at low-income workers who are not in the financial position to buy their own properties. Median house prices have increased by over 200% in the last 20 years, compared with salary increases of 60%, leading to a substantial reduction in the supply of affordable housing. AH is covered by Section 106 agreements, with developers needing to allocate a proportion of housing developments as affordable.
- 3.3 These properties are typically let to local authorities, housing associations or directly to tenants, with additional security in that most of the lease agreements are government backed. It is estimated that 60% of returns within AH is generated from rental income, with the remaining 40% attributed to capital appreciation.

4. MANAGER SHORTLIST PROCESS

- 4.1 The Fund's investment advisor, Deloitte, has prepared a report on the manager shortlist selection process, attached in Appendix 1. The purpose of this report is to provide a summary of the managers and strategies considered as part of the selection exercise.
- 4.2 Deloitte has researched a longlist of managers currently providing affordable housing strategies in the market, focusing on UK-wide exposure. From this list, Deloitte has proposed a shortlist of managers and assessed against a set of key criteria, for the Pension Fund, as follows:
 - Investment managers targeting social supported housing and affordable housing.
 - Strategies that are currently capital raising.
 - Liquidity of the mandates.
 - Strategies with strong expected cash yields and to be distributed relatively quickly.
 - Strategies that utilise low levels of leverage.
 - Credit security of the proposed providers.

4.3 The credit security of the proposed strategy reflects the security of the underlying providers, where strategies operate a leasehold model. These providers are typically Housing Associations, who manage the properties, liaise with tenants, collect rent and are responsible for property maintenance.

5. RECOMMEDATIONS AND NEXT STEPS

5.1 The Committee is recommended to consider the three investment managers highlighted within Deloitte's report, with the intention of commencing a manager selection process. The proposed strategies are the most suitable providers to meet the Fund's key investment criteria, investing predominately within affordable housing and social supported living and all are currently open for investment.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS:

None

APPENDIX:

Appendix 1: Manager Shortlist – Affordable Housing (exempt)