

Focusing on the 'S' in ESG Is it time to consider Social Real Estate?

In recent years, investors have been adding exposure to alternative real estate sectors. This is because of the long-term, inflation-linked nature of leases, the income security offered and the attractive risk adjusted returns available.

Covid-19 has accelerated this shift as it has brought into question the prospects for traditional sectors such as office and retail. Investors therefore continue to diversify into real estate alternatives, especially those that have demonstrated relative resilience through the pandemic.

This shift by investors has also been supported by growing regulatory pressure and stakeholders' increasing focusing on ESG (Environmental, Social and Governance) considerations.

Social Real Estate – investments in real estate assets including housing, healthcare and education facilities – can deliver for investors on all of these fronts. We briefly discuss some of the sector's key characteristics that support this assertion.

Scale opportunity for ongoing deployment

Analysis of the sectors highlights a capacity shortfall and a lack of modern, efficient, purpose-built stock. By way of example, the replacement of smaller care homes or those with non-market standard facilities (shared bathrooms, for example) could alone require £6 billion of funding. Equally, the primary care investment requirement to replace existing GP practices considered not fit for purpose is estimated at £17 billion or more before population growth is factored in. Homelessness and temporary accommodation solutions could require more than £10 billion whilst a day nursery shortfall may be of a similar magnitude.

Even based on conservative assumptions, this represents a £50 billion+ opportunity across all of these sectors.

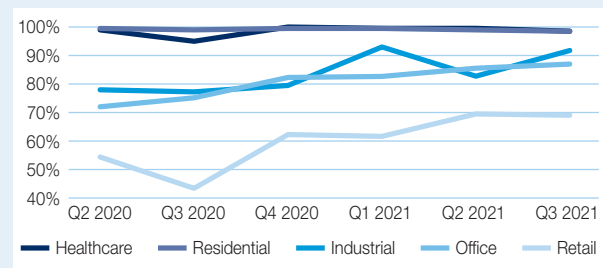
Whilst a number of specialist REITs and responsible or impact funds have already deployed capital into Social Real Estate, the scale of the investment opportunity is large and significantly untapped. Institutional investors seeking to deploy significant capital over the medium to long-term can therefore be confident of the opportunity to do so. The wide-ranging needs means investors will achieve sectoral and overall portfolio diversification, securing assets that have shown remarkably resilient performance.



Durable demand, resilient income

A distinctive feature of Social Real Estate sectors is that demand is driven by demographic shifts in society – these are structural and long-term in nature, as opposed to being cyclical and economically-influenced (as in say, the retail sector). One well observed demographic shift is that the UK's population is growing and ageing. This increases demand for public services and the assets they are delivered in. In addition, as these services tend to be essential and not optional, the demand is underpinned by public sector funding. Such funding certainty was evident during the Covid-19 pandemic¹, as it ensured tenants were able to continue to pay rents in full and on time across Alpha's Social Long Income Fund, with similar patterns observed across the market. This was not the case in all sectors as chart below shows.

UK REIT rent collection rates



Source: Goodbody Real Estate, Alpha Real Capital

Note: 27 REIT and propcos, reported rent collection rates at 30 June 2021

¹ 100% collection for Alpha's 'Social Long Income Fund' since the onset of the Covid-19 pandemic in Q1 2020

Double bottom line returns – Social and Financial

Investments in social real estate can deliver financial returns. Importantly, they can also produce quantifiable societal benefits, satisfying investors' social targets as part of ESG strategies.

Stakeholders' expectations continue to evolve along these lines. For example, over 70% of UK pension scheme beneficiaries say they not only want their investments to avoid causing harm but also to achieve good for people and the planet². The quest is therefore to find assets that not only meet return objectives but also align with social and responsible investment aspirations.

By engaging with third-party social value specialists, the Social Profit Calculator, Alpha have been able to quantify the impact of its social fund. The fully-diversified target portfolio will deliver £4.88 of social value for every £1 invested, highlighting the multiplier effect that allocations to social real estate can achieve – in addition to financial returns, not at the expense of them.

Allocations can also align with United Nations Sustainable Development Goals, contributing to alleviating a wide range of societal challenges, particularly when investing through a diverse strategy. Alpha's fully diverse social real estate portfolio could contribute to 12 of the 17 SDGs.



Social Real Estate provides long-term, inflation-linked income streams, which have proven to be resilient in the recent challenging period. The social benefits of investing in housing, healthcare and education are achieved in addition to financial returns, not at the expense of them – underpinning a strong case for them to be a cornerstone of investor allocations.

2 HM Government – Investing in a Better World, 2019

Contact Alpha Real Capital

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

Client Solutions

+44 (0)207 391 4780

clientsolutions@alpharealcapital.com

Alpha Real Capital

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