

Seeking better capital

Better Society Capital has become a leading impact investor with commitments to 62 UK funds, 19 of which have social and affordable housing strategies. Gemma Bourne, head of property investment strategy, discusses its approach

BY ROBIN MARRIOTT

Better Society Capital, the UK investor, was set up in 2012. Though launched under a Conservative government, the previous Labour administration came up with the idea of an investment firm to help overcome societal challenges such as the chronic lack of quality affordable housing. Up until a rebrand in May this year, it was known as Big Society Capital. So far, the organisation has committed almost £1 bn (€1.18 bn) to social property, impact ventures, and social lending funds.

More precisely, its commitments as a limited partner to funds total £951 mln, some £253 mln of which has been committed to 19 property funds all designed to increase the supply of good quality social and affordable housing in the UK.

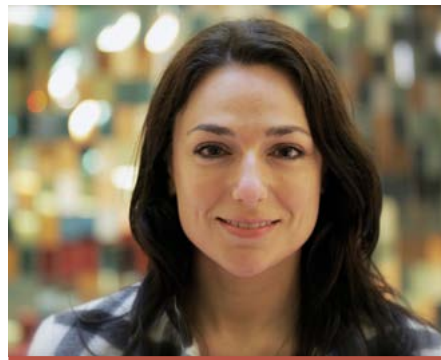
The recent name change is intended to make Better Society Capital even more attractive to potential co-investors and partners.

A lot of the firm's investment capital comes from an interesting source – dormant bank and building society accounts in the UK. Reclaiming such money and diverting it to this organisation was enabled under an Act of Parliament of 2008. In addition to money in dormant accounts, it is funded by four main banks - Barclays, HSBC, Lloyds Banking Group, and Natwest Group - to the tune of £200 mln.

In an interview, managing director Gemma Bourne, who leads social property investment strategy, discusses the investor's screening process for managers, and how its strategy has slightly shifted over its 12 years of operation.

OPEN-ENDED TRANSITION

Two recent investments highlight this transition. In April this year Better Society Capital



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made a £10 mln commitment to Savills Investment Management's open-ended Simply Affordable Homes Fund, which reached first close on £123 mln. Five founding investors also included London CIV, which manages the London Local Government Pension Scheme (LGPS), Samsung Life Insurance, Schroder BSC Social Impact Trust plc, and Savills plc. The strategy is to provide affordable and social-rent homes as well as shared ownership.

A few months earlier, in December 2023, it committed £10 mln to Octopus Investment's £62.5 mln open-ended Affordable Housing Fund. London CIV is also a co-investor.

Bourne, who joined the company in April

2019 from Lend Lease, says Better Society Capital traditionally invested in closed-ended funds. But it has recently 'transitioned' more to open-ended vehicles such as Savills' and Octopus' to coincide with a shift in the market for more liquidity options. But it also gives greater opportunity for impact to happen 'in perpetuity' as there is no cliff edge at the end of a fixed fund life. That's a good thing as it has the potential advantage of encouraging tenants to stay longer in the housing created by the fund managers it invests with, says Bourne.

Another way it has evolved is in the type of manager it invests with. Better Society Capital started out by investing with the funds of boutique fund managers. But the market for social housing has grown to an estimated £5.1 bn since 2012, and this has brought larger managers in. Says Bourne: 'We are seeing more traditional real estate houses pivot their expertise towards impact strategies, which is why we see the likes of CBRE IM responding to the challenge. This is one of the big wins – the growth of the market and institutional investors coming in.'

Some of the property funds it has invested in include Patron Capital and Resonance Ltd's Women in Safe Homes, CBRE IM's UK Affordable Housing Fund, and Bank of Montreal Global Asset Management's (BMO) UK Housing Fund. [BMO's EMEA business was taken over by Columbia Threadneedle in 2021].

Besides the momentum of large institutional players entering the social impact housing sector, Bourne says the other 'wins' are genuinely new projects getting completed. Examples include Campbell Wharf in Milton Keynes by a fund managed by Man Group. In 2022, Man Group signed a 10-year lease agreement with Grand Union Housing Group for a canal-side project in-



Campbell Wharf in Milton Keynes, completed by a fund managed by Man Group

volving a 111-berth marina, shops, cafes and green spaces for those living in 1, 2 and 3-bed homes offered specifically to key workers at a discounted rent equivalent to 80% of the prevailing market rate.

In total, Better Society Capital has around 6,000 units being delivered via the funds it invests in. So far 4,900 homes have been supplied, 74% of which are in areas of constrained affordability.

Its data suggests 70% of its housing investments have gone directly towards remedying the national housing shortage by building new homes. But the challenge remains massive. An estimated £16 bn annually is needed to create enough stock to house people in good quality social and affordable housing. But there is a precedent for large-scale residential building in the UK, which is the rebuild that took place following the Second World War.

Says Bourne: 'We are reaching this inflection point where institutional capital has recognised the opportunity, but the job is definitely not done yet.'

This year, the organisation is looking to step up its collaboration with a future government. 'Firstly, through emphasising the role that a government grant can play in driving the success of these initiatives,' explains Bourne. For example, reallocation of exist-

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ing housing investment by the Department of Levelling Up, Housing and Communities (DLUHC) in 2021 and 2022 into the homelessness property funds leveraged significant additional funding from investors, multiplying the impact of government expenditure. Other areas of attention for future policymakers according to Better Society Capital include stable rent setting for social housing, as well as implementing policies that might increase transparency between investors, fund managers and housing partners.

SCREENING FUNDS

Better Society Capital is open to investing in more funds.

Its initial screening criteria crucially examines whether a proposed fund helps solve a societal problem. In property, that means creating additional social and affordable housing of sufficient quality. Then, the question is if the fund helps meet Better Society Capital's particular mandate towards helping the more vulnerable end-users in society. It does not invest in many shared ownership fund strategies. Rather, it is more focused on social rentals, homelessness support, and key workers. Next, the screening process involves an inspection of the fund manager's team – the experience they possess and how much they understand of how to provide a solution to helping vulnerable people without introducing unintended consequences. After that a more detailed screening process will follow.

Sometimes the investor will wish to meet another investor in a fund, especially if that third party is another 'cornerstone' partner or has significant voting rights and a large share of the overall fund size.

Bourne explains the latest part of its strategy is to scale up what has worked already. So, a new fund offered to the investor needs to be scalable.

INTERNATIONAL FUND MANAGERS

She says new investments do not have to be made to UK fund managers only. If an overseas fund manager has the relevant experience in another market and can pass its screening process there is no reason why Better Society Capital could not invest. This means it could be a manager that has created something in another country but now wants to establish a fund for the UK. 'We would look at who they are working with and what advisory board they plan to bring into place to help them adapt their strategy for a new market. But we would not restrict them because they're not a UK investment house. But we would want to see them investing in the UK.'

Finally, Bourne has a tip for those planning on a pitch involving a lot of data.

'My advice to the managers seeking capital from us is, when there is a lot of impact data available, really focus on the data that is most meaningful for the strategy and how this is driving your investment thesis.' ■