

## Introducing Impact in the Private Rented Sector

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In our previous article [UK Housing – What’s the problem?](#) we looked at the very real supply shortage in UK housing and why focusing rental accommodation at households on low to middle incomes can – in our view – have the greatest impact. In this article, we will consider how such a strategy can have impact and can bring about positive outcomes for residents, local communities and investors alike.

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### What is Impact anyway?

Impact investments target a financial, environmental and/or social return. In our view, impact is delivered when the outcome is better than that provided by the market currently. To achieve this, it requires a focus on 'additionality' or what the provision of investment capital can achieve beyond a financial return to investors.

Issues of affordability in UK housing are well known. We also know that providing housing impacts people's lives in more ways than one. Any kind of building will influence its environment and the communities that surround it. By extension we believe the provision of long-term capital to build and operate homes under an institutional governance framework can therefore create a 'platform' to facilitate positive impact beyond the provision of accommodation.

Building new homes for the private rented sector and owning these indefinitely enables the Institutional landlord to take decisions with longer-term horizon from the point of design and build through to ongoing operation.

### What can Impact look like?

Taking the BMO UK Housing Strategy as an example, the strategy has committed to additionality beyond its core objective and to incorporate a progressive Environmental, Social and Governance approach into our investment decision making process for the lifetime of each property.



From an environmental standpoint, new housing can be built to higher performance standards with a focus on resource efficiency (energy and water), waste reduction and net zero emissions targets. Carbon embedded in the construction phase can be mapped and operational carbon reduced. When coupled with onsite energy generation it becomes possible to deliver net positive buildings. This requires owners who are focused on creating resilient properties, who are committed to tackling climate change and improving their customer's wellbeing.

Providing additional new housing is not the only consideration when addressing the social impact. The construction of housing through traditional means and modern methods of construction can rejuvenate local economies through employment and upskilling employees paid the real living wage.

Social mobility is another factor that should be considered. Those households that do not qualify for social housing but cannot access home ownership are increasingly squeezed and negatively impacted by expensive rents, poor quality housing and access to employment. Communities need a functioning housing market that supports a wide range of workers from across the income spectrum.

Finally, it is worth remembering that those experiencing the worst of private rented sector will benefit from living in a safe, secure home which in turn can improve mental wellbeing and allow that person to focus on their career or family life.

The private rented sector forms a growing proportion of the UK housing market but is mostly owned and operated by small buy-to-let or accidental landlords (96.7% of the private rented sector is not institutionally owned).

Success in property investment includes maximising occupation rates. Institutional ownership and governance can improve this further through the removal of practices such as the unfair and unregulated application of section 21 notices (eviction without cause). Shelter have widely publicised the fact that a large proportion of the calls made to them are as a result of households unfairly being failed by the private rented sector in such a way.

Governance is taken further by concentrating on embedding new developments into the local communities by identifying where the new investment can align to local housing need or help with community integration. For example, community spaces can be provided in large scale developments and be operated as social enterprises.

## So, the upshot is...?

Accelerating housing delivery, providing better quality homes, operating these homes professionally with long term outlook and with these homes focused on low to middle income households and local key workers, can deliver positive outcomes for multiple stakeholders: residents, the local community, the Local Authority, delivery partners and investors.

In our next article, we'll consider the question of reputational risk when providing housing and ways to mitigate reputational damage though building trust with residents and local communities.



### Key risks

Capital at risk and investors may not get back the original amount invested.

The value of directly held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment.

## BMO Real Estate Partners

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