THE GOOD ECONOMY

Columbia Threadneedle UK Residential Real Estate FCP-RAIF

Pilot Impact Report

August 2023

This report has been commissioned by Columbia Threadneedle Investment Real Estate Partners (hereafter CT REP) as advisors to the CT UK Residential Real Estate FCP-RAIF (hereafter the Fund) and has been prepared by The Good Economy Partnership Limited (The Good Economy or TGE), a specialist impact advisory firm with expertise in impact measurement, management, and reporting.

This Pilot Impact Report is based on analysis of quantitative data and evidence, as well as in-depth interviews with management and staff of Columbia Threadneedle and representatives of properties, including property managers, developers, and residents.

The findings and opinions conveyed via this report are based on information obtained from a variety of sources, as detailed within the report. The information reviewed should not be considered exhaustive and has been accepted in good faith as providing true and representative data pertaining to the properties. Therefore, TGE cannot and does not guarantee the authenticity or reliability of the third-party information it has relied upon. TGE reserves the right to alter the conclusions and recommendations presented in this report in light of any further information that may become available.

This report has been prepared solely for the benefit of Columbia Threadneedle REP and no other person may rely upon this report. Accordingly, TGE accepts no duty of care, responsibility, liability (whether in contract or tort including negligence) or otherwise to any person other than the Fund for any loss, costs, claims or expenses howsoever arising from any use or reliance on this report.

COLUMBIA THREADNEEDLE INVESTMENTS

About the client/fund

The CT UK Residential Real Estate FCP-RAIF is a real estate investment fund that was established in 2019 and is operated as a separate fund by Columbia Threadneedle REP, which forms part of a larger investment organisation, Columbia Threadneedle, with a total investment portfolio of US$584 billion across mainstream and alternative asset classes.

The Fund has been designed to meet rental housing demand across the UK through the development and operation of purpose-built, rental housing. The strategy targets a core return profile with the predominant drive of return being long term, inflation-aligned income, underpinned by the delivery of housing to low-to-middle income households.

The Fund's investment strategy is supported by key principles that focus on delivering high-quality, operationally efficient properties in partnership with key stakeholders and integrating buildings into the community.

Columbia Threadneedle REP aim to provide additionality into the UK housing sector by introducing 'FlexRent'. This approach aims to increase the provision of Discounted Market Rent (DMR) homes within a scheme, over time – this is paid for by the rental uplifts (over and above inflation) on the remaining market rate units.

THE GOOD ECONOMY

About The Good Economy

The Good Economy is an impact advisory firm focused on enhancing the role of business and finance in building an inclusive and sustainable economy. TGE provides research, strategy consultancy and impact measurement and management services to investors, businesses, government, and social purpose organisations.

Contents

Headline Results

As of April 2023

£75m of capital raised as of April 2023

Seed capital fully drawn and all investors now being drawn in the initial £60m of committed capital

Two developments

one in Harrogate

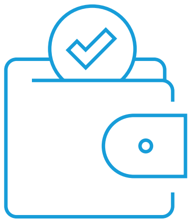
one in Liverpool

100% of homes acquired meet National Space Standards

Potential to house **669** people

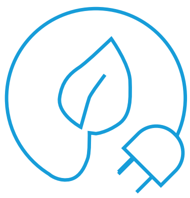
Once Liverpool scheme is operational

319 new homes
to be created



66% of operational homes are affordable in relation to the 35% burden rate of the local authority which they are situated in[1]

100% are new homes, adding to the overall housing supply



100% of homes will be EPC B for units in Harrogate and Liverpool

1. Burden rate refers to a rental tone at or below 35% of local median household incomes.

Executive Summary

The Fund was launched in December 2019 as a real estate investment fund specialising in supplying good quality, sustainable homes that are affordable to middle-income households in the UK. As of April 2023, the Fund had raised £75m from institutional investors with an additional £100m undergoing due diligence. The Fund has committed over £60m of the capital in two schemes: a forward commitment in Harrogate (Watling Grange) and a forward funding in Liverpool (London Road).

This report has been produced for the Fund by The Good Economy (TGE). It is a pilot impact report and covers the period from launch to April 2023.

2022 was the Fund's first year of having operational assets with the acquisition of Harrogate. The Liverpool asset was also legally acquired in 2022 following completion of Golden Brick. This TGE impact assessment is based on these two schemes and the operations of the Fund. As assets are added to the portfolio, they will be included in future reports.

Impact assessment

This report provides an assessment of the Fund's performance against its stated Impact Objectives and Criteria (as outlined below), as well as the subsequent outcomes that occur on people and planet.

Impact framework

The Fund's impact framework is composed of a number of elements, including:

- A Theory of Change
- A set of Impact Objectives and Criteria
- A supporting set of Impact Metrics and indicators.

Overall the impact framework developed and adopted by the Fund provides a solid foundation which, with some amendments, could be at the leading edge of industry practice.

Impact objectives

The Fund has set itself three **Impact Objectives**:

1 **Enhance supply of affordable housing** in areas where there is under-provision

2 **Provide sustainable homes** that are efficient in their operation, possess intrinsic longevity, and adhere to principles of the circular economy and climate sensitivity

3 **Foster satisfaction** among resident communities and all other relevant stakeholders

Progress towards achieving these Objectives is assessed using a set of six **Impact Criteria**:

Affordability and provision

Provision of long-term, rental homes targeting the mass market

Societal change

Development supports a community and delivers opportunities to improve the wellbeing of people in that community and the wider supply chain

Quality of property management and governance

Scheme management supports the social objectives of the Fund

Environmental impact – consumption / production

Build and manage homes that are environmentally friendly and optimally efficient

Environmental impact – surroundings

Build and manage homes that are mindful of local ecology and biodiversity

Resilience

Build and manage homes that are functional now and in the future

Assessment against impact criteria

Affordability and provision

With its first two investments, the Fund will deliver 319 homes. The Fund seeks to provide greater additionality by making some of these homes more affordable to those on lower income in the long term through the implementation of 'FlexRent',[2] a concept created by CT REP and their partners at Home Group. FlexRent aims to provide 'over and above' provision of DMR units by reinvesting some of the proceeds of rental growth above inflation to deliver discounted rent on some homes aimed at households on lower incomes, working in conjunction with the relevant local authorities.

Environmental impacts (consumption/production)

To attain its environmental impact objective regarding consumption and production, the Fund has committed to attaining an Energy Performance Certificate (EPC) rating of B and a minimum Home Quality Mark (HQM) rating of 4 stars. These indicators reflect energy efficiency and sustainability credentials respectively. However, despite a HQM pre-assessment being undertaken by the Fund on the Harrogate acquisition (4 star pre-assessment provided) it was not considered appropriate to proceed with a full assessment due to the advanced stage of the development the time of acquisition, limiting opportunities to materially influence design and hence performance.

Evidence has been provided to show that on pipeline assets in Leeds and Hull the Investment Team is engaged at an earlier stage of the design and procurement process, allowing HQM to be part of the requirement and additionally to work with the developers to ensure significant interventions occur to achieve the ambitions set out in the Fund's Sustainable Development Framework (SDF).

Societal change

The Fund's objective of driving societal change is being pursued through various measures, such as promoting community engagement via a dedicated community group, ensuring all staff members receive the UK Real Living Wage and surpassing the mandatory number of apprenticeships for unskilled positions.

Environmental impacts (Surroundings)

The Fund aims to enhance and protect the ecology of the development sites through mitigating any negative impacts on local ecology and in some cases undergoing thorough Biodiversity Mitigation and Enhancement plans which include ecologist recommendations, as evidenced at the Harrogate scheme. Follow on from these recommendations, the Fund is planning to improve the environmental impacts on surroundings for both the Liverpool and Harrogate schemes.

Quality of management

The Fund is committed to achieving its impact objective of 'Quality of management' by selecting reputable property management partners who share the goal of delivering social objectives. Allsop are an example of a partnership the Fund has, who are proving to be effective property managers thus far.

Resilience

The Fund aims to build and manage homes which will be resilient to shocks and remain functional in the future. Due to how young the Fund is, the evidence for this remains minimal outside of undertaking appropriate climate and flood risk assessments.

2. See Appendix 2 for explanation of the FlexRent concept.

Impact objectives

Enhance supply of affordable housing

In Liverpool, the Fund contributes directly to the delivery of additional units in an area of no Build-to-Rent (BTR) housing. These homes would not have otherwise been delivered, according to the developer – UKLP (see page 19 for more detail). Additionally, the Fund is seeking to initially deliver 10% of the units at a 23% discount-to-market rent. This provides additionality over and above the planning requirements of the site, which has no affordable housing requirement.

The Harrogate scheme was at a more advanced stage when the Fund got involved, so additionality there is limited. That said, the Fund's positioning in the BTR space rather than the private for-sale market arguably makes it accessible to groups who might not otherwise have been able to do so and provides choice to the local community. Additionally, dialogue between Home Group and Harrogate Council has resulted in them being more receptive to BTR. The relative affordability of the market rented homes which make up the majority of the portfolio is more a function of local market conditions than the work of the Fund. The FlexRent product, once successfully implemented, would be a genuinely innovative contribution – making some of the homes affordable to a wider range of households.

Provide sustainable homes

For its first two investments, the Fund only got involved in the development process at a relatively late stage, which inevitably limits its ability to influence building design to maximise sustainability. Notwithstanding this, the Fund has had some success, assisted by its Sustainable Development Framework (SDF), in demonstrably improving the environmental performance of a number of the homes it has acquired: including plans to achieve EPC rating B for all homes across the Harrogate and Liverpool schemes.

On its pipeline schemes in Leeds and Hull, the Fund is applying its SDF earlier in the process, and so has greater potential to influence the design, and therefore environmental sustainability of the homes.

Foster satisfaction among resident communities and all other relevant stakeholders

As there were only approximately 27 homes occupied at the time of reporting within the Fund it is too early to assess progress against this outcome. Early anecdotal evidence from Watling Grange suggests that existing tenants are broadly satisfied with the product, but more data (in particular from tenant satisfaction surveys) is needed to validate this.

Strengths

The FlexRent offer is attempting to introduce genuine innovation to the housing market	The ambition to offer a product that converts above-inflation rental growth into additional DMR homes aimed at those who need them most is a potentially novel way of increasing provision of housing that is affordable to certain underserved groups.
The Fund has made a difference to the schemes it has invested in to-date on environmental performance	For example, some homes that were originally planned to be rated EPC C have been upgraded to EPC B as a direct result of the Fund's intervention. We expect the Fund to be able to influence the pipeline schemes to a greater extent.
The Fund has a robust impact screening process	This process ensures schemes must meet the impact expectations of the Fund before they can be approved by the investment committee. In addition, more work is being done to ensure that there is a comprehensive method to measure overall impact.

Potential weaknesses and mitigating actions

There is no attempt to ensure that the product is accessible to particular cohorts who might benefit from it most	Whilst the impact framework places great emphasis on overall affordability of a scheme, it does not in any way attempt to ensure that the market rented element of the offer (as opposed to the DMR/FlexRent units) is available to those who would benefit most from it. As a first step in mitigating this issue, it would be useful to start collecting demographic data on tenants. It would also be worthwhile to consider introducing some form of priority access for certain groups (e.g. key workers).
The full benefits of FlexRent will not be felt for a few years	Whilst the FlexRent offer has been tested with the relevant local authorities on all schemes considered to date, and we understand there are some promising conversations ongoing in relation to both live and pipeline opportunities, it has yet to be implemented anywhere. This is because the schemes are new and FlexRent can only be delivered once homes have experienced rental increases – typically after 12 months. In parallel to pursuing FlexRent, it would also be prudent to focus on the affordability of (and access to) the core market rented offer, as outlined above.

1 / Introduction

Context/social need

The UK housing market has been notoriously unaffordable for median earners for many years. According to recent statistics, the average house price in the UK is now over £290,000,[3] more than eight times the median salary of £34,000 per year.[4]

Many median earners have been priced out of the housing market. As such, many struggle to afford rental payments and are unable to purchase their own homes. As a result, renting has become a more popular option, with the number of households in the private rental sector increasing from 3.1 million in 2008-09 to 4.4 million in 2020-21.[5] Despite government initiatives to increase the supply of affordable housing, progress has been slow, and the demand for housing continues to outstrip supply. This has resulted in an increasingly competitive market, with many potential buyers struggling to find affordable properties.

BTR properties have the potential to offer a solution to this affordable housing crisis faced by median earners in the UK. The wider private rented sector can often be characterised by poor quality of accommodation and poor management. BTR properties can offer a 'low-hassle' alternative, with professional management standards and operationally efficient designs.[6] This makes them more attractive to tenants and therefore more attractive to investors.

This report

This report acts as a pilot impact report for the CT UK Residential Real Estate FCP-RAIF ('the Fund'). It evaluates the progress the Fund is making in delivering on its theory of change and having a positive impact on its target residents.

In the report TGE have used the following data sources: standard output data collected by the Fund, interviews with key stakeholders and a site visit to the Watling Grange scheme in Harrogate.

Each TGE impact report assesses impact performance along two dimensions. First, whether impact objectives – the intention to attain a change in outcomes by carrying out a series of investment activities – are taking place as planned. Second, whether any measurable changes are taking place in actual outcomes being experienced by people and planet.

3. UK House Price Index: January 2023.
4. Average household income, UK: financial year ending 2022.
5. English Private Landlord Survey 2021: main report.
6. Housing conditions in the private rented sector (England): 2022.

2 / Investment and Impact Thesis

Per the Fund's website –

"The Columbia Threadneedle UK Affordable Build to Rent Strategy has been designed to meet rental housing demand across the UK through the development and operation of purpose-built, affordable rental housing. The strategy targets a core return profile with the predominant driver of return being long term, inflation-aligned income, underpinned by the delivery of housing to one of the deepest occupier markets – low to middle income households."

Columbia Threadneedle REP, as advisors to the Fund, have created a framework which provides guidance on how the Fund should seek to deliver against its commercial and ESG objectives. This framework includes a number of key documents, such as a Theory of Change, an ESG Impact: Measurement and Implementation policy and Terms of Reference for the UK Residential Investment Committee.

According to the Fund's Offering Memorandum, the **Fund's Mission** is to:

- Impact the UK housing shortfall by attracting long-term institutional investment through the provision of flexible PRS stock nationwide
- Address the fundamental issue of providing investment opportunities in PRS across the UK, and in doing so create homes for people that offer flexibility for their ongoing requirements
- Provide a sustainable inflation-linked income stream to our investors underpinned by an enhanced ESG Impact policy.

The **Fund's Objectives** are to:

- Facilitate institutional investment in new purpose-built private rented housing
- Accelerate delivery of housing by actively incorporating Affordable Private Rents
- Innovate and improve the private rented sector through the pioneering of the Flexible Rent leasing model.

TGE sees impact measurement and management (IMM) as a means toward an end, not an end in itself. The ultimate goal is to drive learning and improved impact. As such, we approach IMM as an issue of strategy, organisation and culture – rather than just a technocratic task concerning tools, metrics and data reporting. Whilst the Fund's ESG aspirations are relatively high in the sector, and there is a clear intention to contribute to solutions (principally through the FlexRent model), there is no desire to compromise on delivering competitive risk-adjusted financial returns.

Theory of change

A robust Theory of Change (ToC) is an important foundational element of any impact framework. The ToC describes how the activities undertaken by the Fund lead to social outcomes – that is, changes that are experienced by people and/or the planet as a result of actions being carried out by the Fund and its key partners.[7] Impact is the change in these outcomes caused by the Fund, either partially or wholly.[8] A ToC highlights the key steps that must take place, and the assumptions that must hold true, for positive outcomes to be experienced.

The figure below shows the ToC that sits behind the Fund's impact framework.

The Theory of Change model shows how the Fund's activities lead to social outcomes. By raising capital to invest into affordable housing, the Fund makes accommodation available to those who may otherwise be excluded by open market mechanisms.

ENABLING CONDITIONS
Pre-requistite factors

The Fund raises capital from investors with aligned interests

Inputs What the Fund does	**Outputs** What the Fund provides	**Outcomes** What the Fund aims to deliver	**Goal** What the Fund is looking to achieve
The Fund finances the development of new purpose built affordable housing or acquires existing stock for repurposing to match requirements. The Fund places ESG factors at the front and centre of its investment rationale to help drive sustainable development. The Fund builds relationships with development partners, local authorities, and other stakeholders to reinforce alignment and commitment to Fund mission	The Funds proposition makes high quality affordable rental stock available to the mass market in areas of under provision. The Fund's ESG criteria allows homes to be sensitive to the current and future needs of the individual and society. The Fund's activities support the formation of strong partnerships that underpin the quality of accommodation and associate services	Improved supply in the number and quality of affordable housing for the mass market in areas of under provision. Sustainable homes that are efficient in operation, have intrinsic longevity and are respectful of climate and circular economy drivers and principles. Satisfaction amongst resident communities and satisfaction by association of all connected stakeholders	Proof of concept and a scalable model to generate further floor areas of under provision. Improve the lives and outlooks of residents. Establish the Fund's credentials and become a reputable landlord within the sector

IMPACT
The difference the Fund will make

Ease the UK housing shortfall, improve occupier satisfaction and wellbeing and create thriving communities

7. Impact Management Platform and TCFD.
8. Adapted from IFC and CFA.

Impact objectives and criteria

> Impact objectives are the specific aims for the Fund, and are used to describe how the investor will make a difference to outcomes being experienced by people and planet.

In other words, impact objectives describe the intended contribution to benefiting people and planet. Impact reports assess whether the Fund is on track to meet these objectives. This enables investors to hold the Fund to account against the Objectives, which are factors it can directly control and influence, in order to contribute to improved societal outcomes.

The Fund has identified three impact objectives:

1. Enhance supply of affordable housing in areas where there is under-provision
2. Provide sustainable homes that are efficient in their operation, possess intrinsic longevity, and adhere to principles of the circular economy and climate sensitivity
3. Foster satisfaction among resident communities and all other relevant stakeholders.

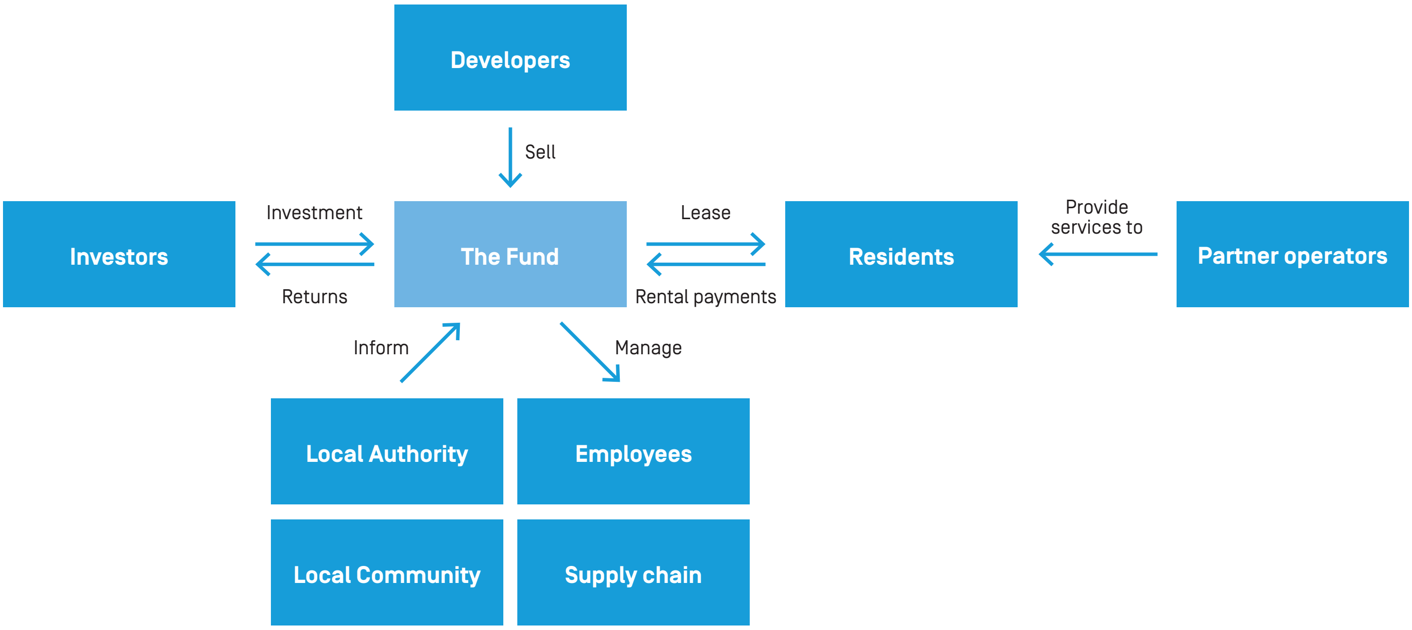
These three objectives are underpinned by six impact criteria as follows:[9]

Criterion	Link to impact objectives[10]
Affordability and provision: Provision of long-term, rental homes targeting the mass market	Supports objective 1
Societal change: Development supports a community and delivers opportunities to improve the well-being of people in that community and the wider supply chain	Supports objective 3
Quality of property management and governance: Scheme management supports the social objectives of the Fund	Supports objective 3
Environmental impact – consumption/production: Build and manage homes that are environmentally friendly and optimally efficient	Directly supports objective 2; Indirectly supports objective 1 (through reduced energy bills)
Environmental impact – surroundings: Build and manage homes that are mindful of local ecology and biodiversity	Not directly linked to any objective
Resilience: Build and manage homes that are functional now and in the future	Indirectly supports objectives 1 and 2

9. We note that it is relatively unusual to see impact criteria/metrics that do not map directly onto objectives.
10. Source: Impact Measurement policy.

Stakeholders

The Fund works with a range of partners to deliver housing:



Key partner – Home Group

The relationship between the Fund and Home Group has been fundamental to the inception and operation of the Fund to date. Home Group acts as a sourcing and development partner to the Fund. The relationship involves Home Group providing the Fund with the opportunity to purchase BTR opportunities from their portfolio of developments, working on speculative development schemes, and actively sourcing assets which meet the Fund's investment requirements. Most notably, Home Group provided the Fund with the concept of FlexRent and drafted the Section 106 agreement for the Carlton Gate property in Leeds which wasn't proceeded with.

> Most notably, Home Group provided the Fund with the concept of FlexRent.

The Fund recognises the need to expand the number of development partners it is working with and has more recently developed additional contacts as the BTR market has developed to be a more mainstream asset class.

This will provide the Fund with additional scalability and investment options, but importantly Home Group will still be actively involved in the coordination, operational oversight and auditing of the FlexRent model where third-party developers complete schemes.

The dual role of Home Group acting as developer, especially bringing their competitive advantage of working with Local Authorities and on regeneration schemes, and as provider of oversight to ensure the correct operation of FlexRent, is a natural development for the product.

Key partner – Allsop

Allsop serves as an operational consultant for the Fund, responsible for the day-to-day management of the operational properties in Watling Grange, Harrogate and is set to assume the same role for the upcoming Liverpool scheme. When discussing the relationship between Allsop and the Fund, CT expressed satisfaction with Allsop's performance and the partnership, particularly highlighting their ambition to develop an integrated community within the scheme through social events and through their proactive approach to addressing the needs of tenants. Through serving as residential operational managers, Allsop has been able to foster personal relationships with the residents, which the Fund sees as having been effective to date, although formal customer satisfaction monitoring is yet to be enacted.

The Service Agreement with Allsop includes a set of KPIs, a number of which relate to ESG targets. Of these, most of the material KPIs only require reporting on an annual basis, and since the Agreement was signed in June 2022 these have not yet been provided. It would be worth considering adding an incentive mechanism to the Allsop agreement (and similar future agreements) to identify energy saving and environmental opportunities based on their experience on the ground – similar such arrangements have been applied elsewhere.

When discussing the relationship between Allsop and the Fund, CT expressed satisfaction with Allsop's performance and the partnership, particularly highlighting their ambition to develop an integrated community within the scheme through social events and through their proactive approach to addressing the needs of tenants.

3 / Performance Against Impact Criteria

Since the inception of the Fund in December 2019, the Fund has raised capital of £75 million which has thus far been invested into two schemes, one in Harrogate and another in Liverpool.

Impact criterion 1 – Affordability and provision

To what extent will the delivery of homes be affordable with respect to the local market of that development?

IMPACT CRITERION	IMPACT METRICS	ASSESSMENT
Affordability and provision	Scheme average rents ≤ local comparable BTR peer group rents	Both schemes are on track to meet this condition
	Scheme implements FlexRent	FlexRent not yet implemented at either scheme but planned for Hughes House and potential for future adoption at Watling Grange
	Scheme is new-build, so housing provision increased in local area	Both schemes are new build Harrogate is an HE priority location; Liverpool is not
	Scheme is within a Homes England priority location (England only, excluding London)	

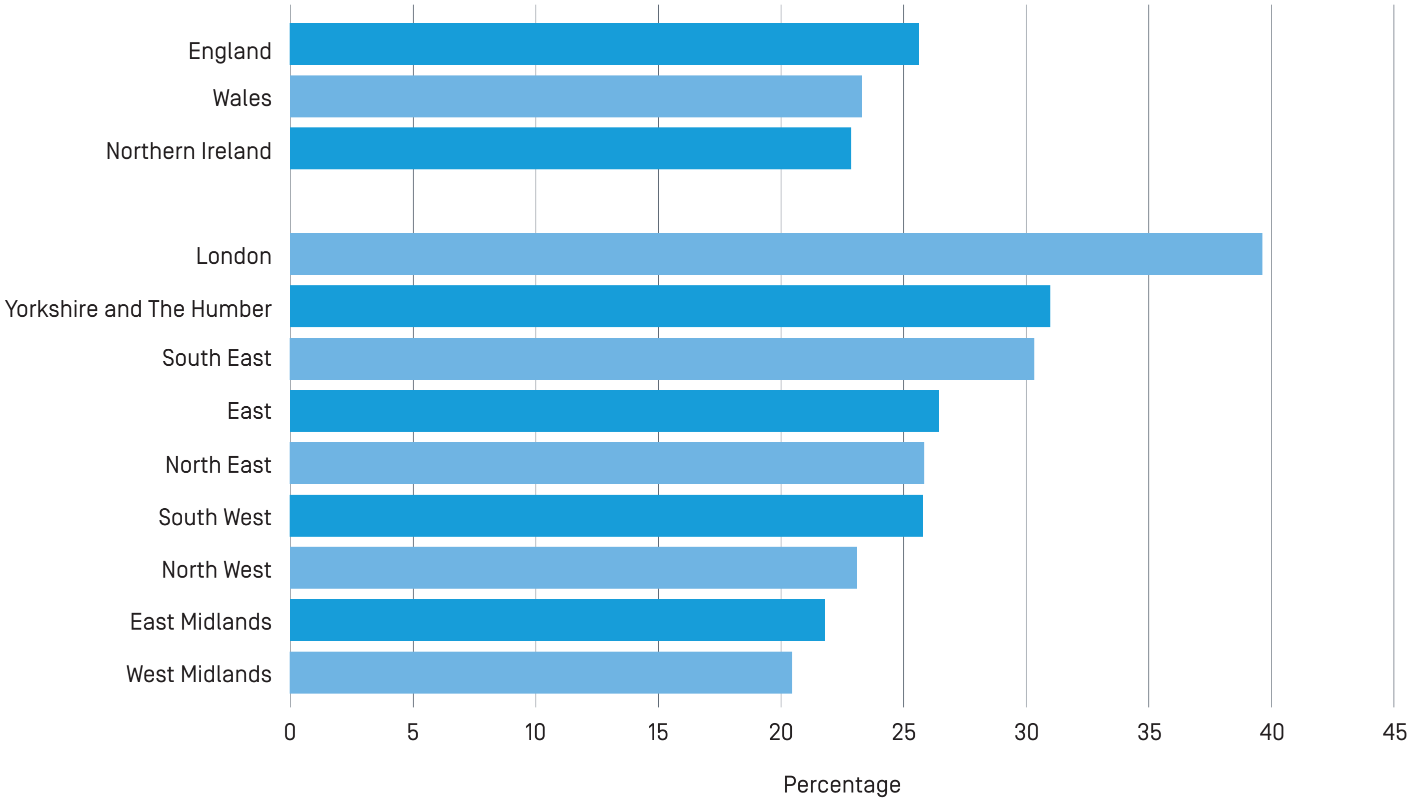
Overall results

The Fund has succeeded in increasing the provision of BTR homes. Both current schemes have average rents which are ≤35% burden rate of local area. However, the Liverpool scheme will implement FlexRent on completion whilst currently the Harrogate scheme will only implement it post the annual review of income in accordance with the FlexRent policy and mechanism. It is noted that only 50% of the units at Harrogate have been handed over.

11. 'Burden rate' is calculated based on market rent as a percentage of median gross annual pay.

Per the chart below, ONS analysis[12] for FY ending 2021 (the most recent available) shows that Yorkshire and the Humber (which includes Harrogate) was the second most challenging region for rent affordability after London. Conversely, the North West (which includes Liverpool) was the most affordable region (although more granular analysis might show Liverpool performing differently than the region as a whole). However the graph does highlight that in both the North West and Yorkshire and the Humber a median rent is less than 35% of median households income.

Percentage of a median income of private renting households that a median rent is equivalent to
By country and region, financial year ending 2021



12. ONS Analysis on Private rental affordability, England, Wales and Northern Ireland: 2021.

Case study – Watling Grange

Watling Grange is the only scheme in the Fund to have sitting tenants at this time. In the wider scheme of 195 homes, 61 are owned by the Fund as market rental properties (of which 37 were let when the TGE team visited), with the remainder split between private homes for sale and affordable rent properties managed by Home Group. The scheme is distinctive in that all these tenures are 'pepper-potted' around the site and are externally indistinguishable from one another.

According to affordability analyses carried out by the Fund, 51% of tenants are within the target demographic, households earning less than £60,000, and this is expected to increase over time as FlexRent units are created. The remaining 49% of tenants are potentially earning more than £60,000. This is supported by conversations with Allsop and one recently moved-in couple, which indicated that many of the residents are company directors, business owners, or professionals such as doctors.

The average burden rate across the scheme is 28%, and 36% for households earning below the average income of the area.

The figures suggest that the Fund is meeting a local need with approximately half of tenants being within the target demographic. Currently households that are below median earners will struggle to live here without being overburdened by rent. However, this will change if FlexRent homes are introduced over the coming years.

> The scheme is distinctive in that all these tenures are 'pepper-potted' around the site and are externally indistinguishable from one another.

Case study – Hughes House

The Fund has recently acquired Hughes House, a set of assets in Liverpool, with the aim of providing high quality, affordable housing to median-to-low earners. 10% of the units will be rented at a 23% discount to market providing additionality over and above the planning requirements of this site, which had no affordable housing requirement.

The Fund will be implementing FlexRent over the coming years, which will aim to prevent the scheme as a whole from becoming 'unaffordable' over the long run.

Hughes House is being forward funded by the Fund in an area that is undergoing regeneration, and currently has no BTR supply. The joint developer – UKLP – advised that the site would not have been developed, without having had the opportunity to bring in "Home Group backed by a leading blue-chip organisation". The scheme will bring confidence to others, including the City Council, to invest in the area. Recognising the needs of median-to-low earners in Liverpool, Columbia Threadneedle has committed to upgrading all properties in Hughes House to an EPC rating of B. This upgrade will not only reduce energy consumption in line with the Fund's impact objective of mitigating environmental impacts but will also result in lowered resident energy bills.

> Hughes House is being forward funded by the Fund in an area that is undergoing regeneration, and currently has no BTR supply.

This commitment to affordability, coupled with upgrading the property, will ensure lower relative rents and decreased energy costs, allowing for the supply of high-quality, relatively affordable properties in Hughes House.

FlexRent was not agreed formally with the local authority in Liverpool, but is due to be implemented voluntarily in Liverpool as a proof of concept.

Impact criterion 2 – Societal change

To what extent will the development achieve further positive social impact?

IMPACT CRITERION	IMPACT METRICS	ASSESSMENT
Societal change	All staff directly employed or contracted by the scheme, from construction through to operation are paid the UK Real Living Wage, as accredited by the Living Wage Foundation	Covered in Allsop Service Agreement. Evidence of delivery not seen
	Scheme has a resilient and/or community group to foster opportunities for community interaction and collaboration to bring a sense of belonging to the scheme	Not yet appropriate to assess
	Scheme incorporates space (indoor or outdoor) for community use that will facilitate opportunities for community interaction	No indoor community space or outdoor seating provided at Watling Grange Hughes House scheme provides for such space but not yet delivered
	Scheme ensures a higher number of unskilled workers, e.g. apprentices, than the nationally accepted average, are given training towards a qualification	Data not available to assess
	Scheme incorporates biophilic features, e.g. green roof/walls	None evident at Watling Grange
	Scheme funds or supports local initiatives that will encourage a healthy lifestyle for residents and/or members of the community	Roof garden planned at Hughes House

Overall results

Most of the Fund's home are still under construction, therefore there have been limited opportunities to deliver these further social benefits. As the Fund matures TGE will continue to assess performance against this objective.

The UK RIC reports for both schemes suggest that payment of the UK Real Living Wage to staff in the supply chain is expected to happen, which has been confirmed in a note by the Fund's suppliers. However, they have not been accredited with the Real Living Wage Foundation, which would provide stronger evidence that the Fund is furthering positive social impact.

The Service Agreement with Allsop at Watling Grance includes the following clause:

"The Manager is to implement a robust and systematic approach to procuring Services that delivers on the key requirements of meeting ESG standards and requirements, complies with the residents charter on ESG, and offers efficiency and ESG stewardship by, for instance, obtaining a cost-effective green energy tariff promoted to customers, paying a real living wage to providers of Services, controlling and verifying the carbon footprint for the provision of Services with employment and suppliers/distribution on a localised basis."

The Fund also engages with Allsop on a monthly basis to discuss any issues that have arisen in the schemes, ranging from local contractors to community engagement, as well as sensitivities over rent setting.

Watling Grange

The Watling Grange scheme is characterised by a high quality, uniform build specification across the site. However, there are no indoor community facilities or amenities provided or planned as the Fund has not yet been able to co-ordinate with the Home Group management team. Since the delivery of units is ongoing, evidence of residents connecting with each other will be evaluated in the future.

Hughes House

As the site is currently in the development stage, the potential impact of the scheme is still in the expected phase. However, it is anticipated that the scheme will uphold the Real Living Wage standards, thereby ensuring that all staff members are paid a fair wage. Additionally, the scheme aims to establish a community group that will foster opportunities for community engagement and interaction within the development. Furthermore, the scheme intends to incorporate spaces that are available for community use, with the aim of promoting community interaction and facilitating social cohesion.

Impact criterion 3 – Quality of management

To what extent will the management of the property and governance structure be in keeping with the social objectives of the Fund?

IMPACT CRITERION	IMPACT METRICS	ASSESSMENT
Quality of management	Occupier satisfaction achieves top decile scores based on a response rate of >50%	Too early to assess; included in Service Agreement
	The property manager demonstrates a clear intention to implement agreed quality management practices with evidence in the form of a local charter, plans and policies. These will include for the review of annual satisfaction surveys	Too early to assess; included in Service Agreement

Overall results

Due to the early stage in the Fund's life, no occupier satisfaction surveys have yet taken place. The Allsop Service Agreement for Watling Grange suggests an 85% target. The requirement to 'Take steps to and establish and maintain a "Scheme Engagement Committee"' is included as a KPI in the same document, but as an annual measure this has not yet been assessed either. On our visit to Watling Grange, we saw anecdotal evidence of good communication between tenants and the site manager (Allsop) on property-specific matters.

The resident couple we met expressed satisfaction with the service and responsiveness provided by Allsop. Whilst there had been some snagging issues, they did not consider these to be excessive for a new build home. They also mentioned a new online tool Allsop had introduced for reporting issues which they said was working well.

Impact criterion 4 – Environmental impacts (consumption/production)

To what extent will the development achieve further positive environmental impact in relation to a net zero carbon agenda, environmental efficiencies and quality of building fabric/fittings?

IMPACT CRITERION	IMPACT METRICS	ASSESSMENT
Environmental impacts (consumption/ production)	HQM Accreditation, minimum standard 4 star, ideal 4.5 star	Planned for Hughes House; not planned at Watling Grange
	BREEAM Accreditation In-Use at "very good" level or equivalent certification	No data to assess
	Minimum EPC B rating across all units	Achieved or planned for all homes

Overall results

All units are planned to be modified to meet an EPC of B. Hughes House meets a 4 star HQM standard but is expected to achieve a 4.5 HQM level through further interventions. Watling Grange is currently not on track to meet a 4 star HQM accreditation. From a wider sustainability perspective, the location of the Watling Grange site means it is very car-dependent.

Watling Grange

As noted above, the Fund only became involved at Watling Grange when the scheme was under construction, limiting the potential to drive environmental performance through the design process. Nonetheless, a number of homes originally designed for EPC C were upgraded to EPC B at the behest of the Fund. There are ongoing discussions with Home Group to deliver target net zero carbon-ready homes at the final two units to be handed over, with PV panels, air source heat pumps and heating design optimised. The HQM standard was not applied at Watling Grange.

The residents we spoke to (who had been living there since October 2022, and often worked from home) said that their home was very energy efficient, requiring only two hours of heating per day during the winter.

Hughes House

A third-party review was instructed (Cundall) to determine the approach to Net Zero Carbon for the building. Given the Fund's involvement with the scheme started post-design phase, wholesale interventions were challenging. However, a number of improvements to the original design were made as detailed below. Cundall also confirmed the scheme design is in accordance with industry standard and current design practices.

- **EPC ratings** – In the originally designed scheme almost 25% of the units were only achieving a C rated EPC. The Fund has a target not to accept anything lower than a B rating; this was therefore subsequently agreed and is a requirement under the Development Agreement, at an additional cost of £185,000. This mitigates any future MEES risk, and brings the scheme in line with internal ESG objectives.
- **Ventilation** – The scheme is to be designed to meet the requirements of building regulations or to overcome overheating, whichever is the more onerous and calculations to be undertaken to the requirements of TM52 and TM59.
- **Air tightness** – Original design target from SAP calculation is 4.80 $m^3/hr/m^2$ at 50pa; Development Agreement amended to target 3.0 $m^3/hr/m^2$ at 50 pa.
- **Gas** – Designed out of the scheme.
- **PV installation** – 60 KWP system to be installed. Primary use will be to utilise all of the energy generated to serve the landlord's common parts.
- **Green Power Purchase** – Internal discussions with the sustainability team nearer to PC to provide 100% renewable energy to the building from supplier or using power purchase agreement (PPA).

The HQM standard is being pursued outside the development contract, working with an advisor. We understand this exercise is ongoing.

Impact criterion 5 – Environmental impacts (surroundings)

In relation to ecology and nature conservation, to what extent will the development avoid, reduce or compensate for negative impacts according to an independent professional in the field?

IMPACT CRITERION	IMPACT METRICS	ASSESSMENT
Environmental impacts (surroundings)	Any material negative impacts on local ecology and nature from the development have been mitigated	Insufficient data to assess [see below]

Overall results

The Harrogate scheme has undergone a thorough Biodiversity Mitigation and Enhancement plan, including ecologists' recommendations for minimising harm and enhancing biodiversity. Having said this, from our visit to Watling Grange we noted that the planting in the public realm did not show a high degree of biodiversity. The Investment Committee report from November 2021 noted that "at this time we only know that planning conditions were adhered to so we need to understand the extent of this and whether anything additional was implemented to enable scoring." This will be reviewed by the developer and reported to the Fund closer to completion of the scheme.

According to the Fund, the Liverpool scheme is not expected to cause harm to the existing ecology during development (as a fully built-up site), and potential ecological enhancements are anticipated. The Investment Committee report noted that "however this, together with the potential enhancement of the biodiversity of the site as a result of the proposed resident's roof garden and the landscaped public green space at ground level needs to be independently verified to realise the opportunity for 3 star standard." Verification can only occur once the scheme has been designed and implemented, which is currently being progressed by the contractor for client sign off. As such, this will be assessed in the future.

Impact criterion 6 – Resilience

To what extent is the development built to be resilient against social and environmental shocks and stressors?

IMPACT CRITERION	IMPACT METRICS	ASSESSMENT
Resilience	The property is built using longer life components and materials and is built to be durable against near-term foreseeable environmental shocks and stressors	Limited ability to influence this on existing schemes. The Fund can require this of developers on its pipeline schemes
	The property is built to be durable against long-term (7-40 years) foreseeable environmental shocks and stressors	Flood risk addressed at Watling Grange through SUDS and independently assessed by the Waterman Group

Watling Grange

The houses built at Watling Grange appear to be of high quality both externally and internally. The higher quality finish in the homes and larger space allowance should also support durability and flexibility.

During and after the pandemic, the shift towards greater working from home has led many people to use their homes differently from how they had previously. One of the residents we spoke to at the Watling Grange site mentioned that the layout of power sockets in the bedrooms was somewhat inflexible in supporting different ways of using the space: for example, moving between double and twin bed configurations, or using the space as a home office. It would be worth considering whether such items could be specified in a design brief for flexible homes.

In addition, the Investment team, in partnership with Home Group, are seeking to trial the retrofit of two houses at Harrogate to provide real time and comparable data to prove concept in terms of decarbonising properties to justify wider retrofitting works. The Team fully acknowledged the challenges to influence the design without being involved in the earlier stage of a scheme and the ability to maximise the use of the SDF. Learnings from this experience are being taken forward on the pipeline assets of Leeds and Hull, where the team are engaged at an earlier stage of design and procurement. This is facilitating both HQM being part of the requirement and ensuring significant interventions occur at the design and planning stage to achieve the ambitions of the SDF. We understand that the Fund is also in discussions with a developer about a potential scheme at an earlier stage, using the SDF to influence its design in a more holistic way.

Hughes House

Per the Investment Committee paper, "The scheme is expected to withstand short term physical stressors but there is no evidence to suggest that the scheme has considered future adaptability characteristics or undertaken any specific climate change related physical or transitional risk assessments and associated modelling."

The Fund has noted that the site is not in an area susceptible to flooding from rivers and sea without defenses and a drainage strategy report is awaiting approval by the local planning authority. While this evidence indicates that resilience has been considered in the planning and design of the scheme, this is an ongoing concern that needs to be continually monitored and evaluated.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4 / Contribution to Outcomes

The impact objectives play an important role within an impact assessment since these are the activities over which the Fund has direct control. However, this is not sufficient to wholly capture the impact the Fund is delivering, since the impact objectives do not account for outcomes experienced by end-users.

This section therefore aims to assess the change in outcomes experienced by the people living in Fund-owned homes. These outcomes are influenced by many factors, and so the investment activities of the Fund are only partially contributing to them. However, it is important to assess these outcomes since they provide insight into the Fund's ultimate impact on residents.

Columbia Threadneedle REP have identified the main target outcomes which the Fund aims to contribute towards:

- Firstly, to enhance the supply of affordable housing in areas where there is under-provision by improving both the quantity and quality of available housing.
- Secondly, to provide sustainable homes that are efficient in their operation, possess intrinsic longevity, and adhere to principles of the circular economy and climate sensitivity.
- Finally, the Fund endeavours to foster satisfaction among resident communities and all other relevant stakeholders associated with the project.

As noted earlier, the way these outcomes are currently articulated doesn't fully express the intended outcomes as experienced by the beneficiaries. For example, the beneficiary outcomes associated with increased provision of high quality affordable housing might include higher disposable income after housing costs, and improved wellbeing for those living in the homes. For current purposes, we have provided an illustrative assessment of how the Fund's performance could be judged against the outcomes as expressed in the documents provided.

The table below categorises these outcomes using the Impact Management Project (IMP) dimensions of impact. This is a standardised approach to impact measurement as agreed by a network of more than 2,000 organisations, practitioners and investors.

IMP DIMENSION		OUTCOME 1: SUPPLY OF AFFORDABLE HOUSING	OUTCOME 2: PROVIDE SUSTAINABLE HOMES	OUTCOME 3: FOSTER SATISFACTION AMONG RESIDENT COMMUNITIES
WHAT impact is the Fund having?		To enhance the supply of affordable housing in areas where there is under-provision by improving both the quantity and quality of available housing	To provide sustainable homes that are efficient in their operation, possess intrinsic longevity, and adhere to principles of the circular economy and climate sensitivity	Too soon to assess
WHO is experiencing the impact?		Tenants (of indeterminate income profile)	Tenants (of indeterminate income profile) and the planet	
HOW MUCH impact is the Fund creating?	**Scale**	Small (so far) – potentially significant if the FlexRent model is proven and adopted more widely	Small (so far)	
	Depth	Relatively marginal (based on rent differential to market average)	Potentially significant through professional management	
	Duration	Long-term	Long-term	
What is the Fund's CONTRIBUTION to what would likely happen anyway?		The Fund contributes to this outcome through acquiring developments and letting the properties out at a rate at or below 35% of the burden rate of the local authority. Also by pursuing the FlexRent concept with local authorities All properties acquired thus far have been new-build developments increasing the quantity of housing	The Fund contributes to the outcomes by ensuring the energy efficiency of homes reach an EPC B and that all homes will reach a 4-star HQM	
What is the RISK of the impact not happening?		**Monitoring tenants' risk** – If the Fund doesn't monitor which tenants occupy their properties they may not have the desired outcome of providing affordable high-quality housing to low-median income earners **Execution risk** – Affordability and other desired outcomes are reliant on robust implementation of its policies by property managers	**Evidence risk** – Risk that the Fund does not collect sufficient data to know what impact is occurring **Operational risk** – Sustainable homes require ongoing maintenance and monitoring to ensure that they continue to operate efficiently and sustainably over time **Regulatory risk** – Changes in regulation or laws related to sustainability, energy efficiency, and environmental protection can significantly impact the cost and feasibility of sustainable housing projects	

5 / Conclusions and Next Steps

2022 was the Fund's first full year of operation. This saw the acquisition of two assets – one in Harrogate and another in Liverpool. This TGE impact assessment is based on these two schemes and the operations of the Fund.

Strengths

The FlexRent offer is attempting to introduce genuine innovation to the housing market	The ambition to offer a product that converts above-inflation rental growth into additional Discounted Market Rent homes aimed at those who need them most is a potentially novel way of increasing provision of housing that is affordable to certain underserved groups.
The Fund has made a difference to the schemes it has invested in to-date on environmental performance	For example, some homes that were originally planned to be rated EPC C have been upgraded to EPC B as a direct result of the Fund's intervention. We expect the Fund to be able to influence the pipeline schemes to a greater extent.
The Fund has a robust impact screening process	This process ensures schemes must meet the impact expectations of the Fund before they can be approved by the investment committee. In addition, more work is being done to ensure that there is a comprehensive method to measure overall impact.

Potential weaknesses and mitigating actions

There is no attempt to ensure that the product is accessible to particular cohorts who might benefit from it most	Whilst the impact framework places great emphasis on overall affordability of a scheme, it does not in any way attempt to ensure that the market rented element of the offer (as opposed to the DMR/FlexRent units) is available to those who would benefit most from it. As a first step in mitigating this issue, it would be useful to start collecting demographic data on tenants. It would also be worthwhile to consider introducing some form of priority access for certain groups (e.g. key workers).
The full benefits of FlexRent will not be felt for a few years	Whilst the FlexRent offer has been tested with the relevant local authorities on all schemes considered to date, and we understand there are some promising conversations ongoing in relation to both live and pipeline opportunities, it has yet to be implemented anywhere. This is because the schemes are new and FlexRent can only be delivered once homes have experienced rental increases – typically after 12 months. In parallel to pursuing FlexRent, it would also be prudent to focus on the affordability of (and access to) the core market rented offer, as outlined above.

Appendix

Appendix 1 – Explanation of FlexRent mechanism (extract from the Fund's Investment and Risk Policy)

FlexRent is a leasing model that allows the rent charged per unit to be adjusted subject to market conditions. The volume of units provided within a scheme is split into Market Rent (MR) units and Discounted Market Rent (DMR) units. A blended overall discount level for the DMR units is agreed. From this a day one rental position is defined (Defined Income), split between the Market Rent (MR) and Discounted Market Rent (DMR) units with the income thereafter designed to track a pre-defined index (namely CPI). The allocation of discount by amount of discount or volume of units can be adjusted relative to performance against the business plan which in turn is impacted by market conditions.

The adjustment of units between the two classifications via the management of tenancies allows the landlord to protect the defined income of the asset. While a degree of 'top slice' is effectively sacrificed in high market growth environments, the baseline income can be better protected and volatility reduced.

The number of units converted into a particular tenure would depend on i) how much the gross rental income over/under achieves the index in the previous year and ii) the rental variation between an average unit of each tenure.

As per the investment restrictions, the Manager sees the benefit of offering discounted rents within the residential schemes and providing the number of units above the local requirement. Such types of tenancy are being encouraged by both central and local government and represent an opportunity to reduce both letting risk and income volatility within the forecast cashflow. Furthermore, actively incorporating discounted rent should bring planning benefit as the proposal will be in line with or ahead of local authority aspirations aligning us to their mission to provide homes affordable to local people.

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