

FALKIRK COUNCIL

Subject: INVESTMENT IN SOCIAL/AFFORDABLE HOUSING
Meeting: PENSIONS COMMITTEE
Date: 5 JUNE 2014
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 This report updates the Pensions Committee with further information following its decision to invest in Social and Affordable Housing.

2. INVESTMENT DECISION

- 2.1 At the Special Meeting of the Pensions Committee on 17 March 2014, it was agreed that:
- Hearthstone plc be appointed to manage a £30m investment in Social and Affordable Housing; and that
 - £15m of the £30m would be invested in Social Housing with the remaining £15m to be invested in Affordable Housing.
- 2.2 The £30m investment is estimated in broad terms to deliver around 300 property units on the basis that each housing unit will cost around £100,000.
- 2.3 The target return from the investment is RPI plus 2% net of fees and costs. The manager fee is 0.5% of the Fund per annum.
- 2.4 Formal announcement of the investment has given rise to a modest amount of press coverage – mainly from specialist pension journals. Two other Scottish LGPS Funds as well as the Scottish Government Innovative Financing Unit have asked for details of the investment model. A copy of the Hearthstone press release is attached as an appendix to this report.

3. INVESTMENT PROCESS

- 3.1 The process involves the £30m being invested in Hearthstone's soon to be launched "Housing Fund for Scotland" and made available to Castle Rock Edinvar (CRE). CRE are an Edinburgh based Housing Association and are Hearthstone's strategic partner in this enterprise.
- 3.2 The legal structure of the Hearthstone Fund will be an EPUT (an Exempt Property Unit Trust). This is an onshore tax efficient vehicle which will allow the Fund to avoid stamp duties. Falkirk already has exposure to EPUTs through the existing property mandate with Schroders.

- 3.3 The investment in **Social Housing** is to be delivered through Hearthstone making a 10 year loan to CRE at a fixed interest rate of 4.5% p.a. It is envisaged that this loan will be made (and Falkirk start to earn its 4.5% return) immediately after the legal formalities between Hearthstone and Falkirk have been completed. CRE intend to use the loan primarily to develop Social Housing within the Falkirk Fund area. The speed of deployment of capital will depend on suitable sites being identified and agreed with underlying Councils.
- 3.4 The investment in **Affordable Housing** will be delivered through Hearthstone/CRE purchasing newly built properties and renting these out under mid-market rental projects. This may be in areas such as Edinburgh and Aberdeen where rents are highest. To avoid an over concentration of risk in one location, Hearthstone envisage the affordable investment being spread across 4 to 5 different sites. Depending on the growth in the capital value of these properties, some units may be eventually sold to maintain an appropriate level of return for the Hearthstone Fund and its investors.

4. LATEST DEVELOPMENTS

- 4.1 The Chief Finance Officer has written to the Chief Executives of both Clackmannanshire and Stirling Councils to make them aware of the Fund's property investment. A first meeting has recently taken place between CRE and the housing leads of the three Councils.
- 4.2 Lawyers for Hearthstone are in the process of drafting the legal documentation for the establishment of the Hearthstone Fund.
- 4.3 Representatives from Hearthstone and CRE have been asked to attend the Pensions Committee in September to provide an update.

5. CONCLUSION

- 5.1 Following the decision to invest in Social and Affordable Housing, discussions are ongoing between the various parties to finalise the investment agreement and to consider the options for the Social Housing development.
- 5.2 Subject to legal formalities being completed, it is expected that the Hearthstone Fund will be launched towards the beginning of July, 2014.

6. RECOMMENDATION

- 6.1 The Committee is asked to note the actions that have been taken in relation to the agreed investment in Social and Affordable Housing.

Chief Finance Officer

Date: 23 May 2014

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL

HEARTHSTONE ANNOUNCES HOUSING FUND FOR SCOTLAND WITH FALKIRK COUNCIL PENSION FUND AS CORNERSTONE £30M INVESTOR

LONDON 14th April 2014

Hearthstone Investments, the specialist residential property fund manager, has won a £30m investment mandate from Falkirk Council Pension Fund to invest into social and affordable housing within Scotland. The investment will form the first stage of a new Housing Fund for Scotland, managed by Hearthstone.

The fund is the first of its kind and allows pension funds to invest in local housing infrastructure, adding to the supply of new homes and supporting local economies. Investors in the fund will benefit from stable, long-term returns associated with residential property, matching the typical investment objectives of many pension funds.

The Housing Fund for Scotland will invest into social housing via fixed rate corporate bonds issued to registered social landlords of appropriate credit standing. Affordable housing will be delivered via the purchase of properties from major developers seeking to meet section 75 planning obligations. These properties will then be let to a Housing Association on an operating lease for an initial period of ten years. The mixture of investment between social and affordable housing will flex to ensure that overall returns from the fund stay within a pre-defined range.

Christopher Down, founder and Chief Executive of Hearthstone, commented:

"We are extremely pleased to have been awarded this mandate, which clearly illustrates the advantage of our specialist team and investor-led approach. With over £180billion of capital in Local Government Pension Funds, there is now an opportunity to expand the supply of UK housing while providing a genuine alternative to commercial property holdings."

Places for People, a UK-wide property management, development and regeneration company which owns or manages over 143,000 homes, will be delivering the first stage of the fund's investments via a Scottish subsidiary, Castle Rock Edinvar. The fund is anticipated to launch in the second half of 2014 and the first phase of investment from Falkirk will provide funding for around 300 new social and affordable homes.

David Cowans, Chief Executive of Places for People, commented:

"We are delighted to be involved in delivering the first stage of the Housing Fund for Scotland. Places for People have a long history in developing and managing cost-effective homes across all tenure types, and it is encouraging to see the growing trend toward institutional investment in the sector continue."

Hearthstone was selected by Falkirk following a competitive tender process run by Hymans Robertson LLP, who are advisors to the Falkirk Pension Fund. A large number of UK real-estate managers were involved, highlighting the current interest in the sector. The win means that Falkirk is the second Local Government Pension Fund to invest with Hearthstone, following a £20m investment by Islington Borough Council's pension fund in January 2013.

John Patrick, the convenor of the Council's Pensions Committee, commented:

"We were very pleased at the volume of responses to our mandate for social and affordable housing, and look forward to working with Hearthstone as the winning bidder. This is an investment that will deliver solid returns for our Fund and social good for

communities. Social benefit and financial returns are both important to funds like Falkirk and we feel confident this residential property solution will meet our objectives."

-Ends-

Notes for Editors

For further information please contact:

David Masters

davidm@lanson.com

Tel: +44 (0)20 7294 3687

Meglana Petkova

Meglenap@lanson.com

Tel: +44 (0)20 7294 3619

About Hearthstone Investments

Hearthstone Investments plc is a specialist residential property fund manager which was founded in 2010. The Hearthstone team is behind the UK's first residential PAIF*, which gained FSA approval in May 2012 and opened for investment in late July 2012.

The TM Hearthstone UK Residential Property Fund aims to give retail and institutional investors exposure to residential bricks and mortar without the risks and hassle of direct ownership. It targets UK house price inflation (HPI) plus a net rental return of around three to four per cent from lettings. It has proved popular for investors wishing to diversify existing investment portfolios and individuals considering buy-to-let or who want to invest in residential property via a SIPP. Families have also used the fund to make regular long term investments into property on behalf of their children or grandchildren using tax efficient wrappers such as Junior ISAs.

The TM Hearthstone UK Residential Property Fund is operated by Thesis Unit Trust Management Limited (Tutman), with Eversheds acting as legal advisors. Northern Trust supply administration and custody services with NatWest Trustee and Depositary Services acting as depositary.

The fund is authorised and regulated by the UK Financial Conduct Authority, and can be held as a direct investment, online fund platforms and via ISA, Junior ISA, Pension/SIPP, Trusts and Offshore Investment Bonds.

*PAIF: Property Authorised Investment Fund.

www.hearthstone.co.uk

About Places for People

Places for People is one of the largest residential property development, management and regeneration companies operating across the UK in areas from strategic land, master planning, development and property management. The Group owns and manages 143,000 homes and provides housing including homes for sale, market and

affordable rent. Uniquely the Group manages residential properties in all tenures and is one of the UK's largest managers of private rented homes and leasehold properties.

As one of the leading registered provider groups in the UK, Places for People works in 205 Local Authority areas and is a not-for-dividend organisation, which means that the profits it makes are reinvested back into its core business of creating and maintaining sustainable places.

Castle Rock Edinvar is one of Scotland's leading housing associations and a Scottish Charity. Part of Places for People, Castle Rock Edinvar owns or manages over 6,000 homes and works with over 8,000 customers across 8 local authority areas in Scotland.