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Q&A with Fiera Capital

From Undersupply to Opportunity: How LGPS Capital is Shaping Single-Family Housing

Room151 sits down with Jonathon Ivory, Chief Investment Officer at Packaged Living, to discuss the increasing popularity of single-family housing ("SFH") as an investment strategy and the role it will play for investor asset allocation and addressing the UK housing undersupply.

Fiera is in partnership with Packaged Living through the Fiera Single-Family Housing Strategy.

This is a marketing communication

We are seeing strong interest from LGPS capital in the SFH sector. What explains this?

Investors seeking ways to diversify their returns and hedge their exposure to inflation are increasingly allocating capital to real estate sectors where income is index linked and broadly uncorrelated to public market performance. For LGPS, priority is given to market opportunities where income meets capital appreciation but also where the sustainability and impact stories are strong. It allows them to deliver on their fiduciary duty to their members, while making a positive contribution to the communities they serve.

This backdrop helps to understand SFH has enduring interest to LGPS. As well as meeting LGPS investment preferences, an

allocation – direct or indirect – addresses the undersupply of housing of different types and tenures across the UK. The sheer weight of investment coming into SFH is an indication that LPGS investors are becoming increasingly comfortable with emerging sectors in UK real estate. In part due to the sluggish growth of traditional sectors such as retail and office, but also because many of the opportunities to outperform and achieve scale are tapped in market segments like SFH where an early-mover advantage is still available.

What role do you see it playing in wider portfolio construction and asset allocation from LGPS investors?

SFH investment plays several roles dependent on how it is integrated into a balanced portfolio. For the many schemes that already have real estate or wider real assets exposure, SFH is a returns enhancer with the characteristics of a solid portfolio fit when considering risk-return thresholds. It is also a diversifier that has the potential to generate consistent distributions with a higher Sharpe ratio than comparative risk profiles in real estate, which is important in the context of increasing volatility in the global equity and bond markets.

For these reasons, larger positions are being taken in the residential sector and there is fresh interest in GPs that can open the door to new opportunities that match their risk preferences. The low stock of SFH relative to other developed markets is, specifically, attracting capital from investors wanting to move further up the risk curve and capture value-add returns that can be accessed through specialist investment managers that integrate experience in investment, development, planning and asset management.

> “The shift towards single-family housing reflects a broader LGPS commitment: aligning fiduciary duty with social value and sustainable growth.”

Can you talk to us about its role in addressing housing undersupply?

At its most fundamental, the delivery of single-family homes enhances access to secure, high-quality housing in a period when the UK housing crisis is deepening. Supply won’t be built overnight at a sufficient scale needed to address latent demand, and so private capital has a huge role to play in meeting the 300,000-home per year target set by Government.

Beyond the countrywide supply-demand picture, market sophistication means SFH has emerged as a new category of build-to-rent housing. Multi-family in particular has seen a huge volume of institutional capital enter the sector and this addresses intra-sector supply constraints for housing of different types and tenures. The patient-mind set of pension funds, endowments and plans is naturally accretive to new rental housing delivery, where long-term development pipelines are common and income is never immediate.

Partnerships between pension capital and housebuilders are also key to unlocking further delivery in the local area and putting downward pressure on prices. This is because pension funding will often release a ‘stuck’ parcel on site or provide an exit opportunity to a housebuilder which can begin work on another nearby development. This positive impact on local supply-demand dynamics will benefit prices.

What do you mean when you talk about additionality?

Additionality is in essence about maximising the sources of tenure, supply and capital in the housing market. Undersupply isn't just a question of building more houses for sale; it's about creating variety through additionality, recognising that we have a population with a vast array of ages, salary brackets and life-stages, and our housing stock needs to reflect. SFH is an important new addition in that respect, signalling a new era in which families can rent housing that is of a high-quality, professionally managed and delivered by institutional capital.

There appears be a range of products, strategies and entry points in the SFH sector. Can you talk to us about Fiera and Packaged Living's strategy?

Broadly speaking, investment into SFH is split between new-build development strategies and 'legacy stock' strategies which, in simple terms, refer to the acquisition of individual houses that are acquired on a granular basis to create an aggregated portfolio.

Fiera and Packaged Living is exclusively focussed on new-build development in the suburbs of leading UK economies. We are the investor (read funder) and operator of the assets, with established housebuilders being the delivery partner.

Collectively, we have over a 10-year proven track record in the residential sector, having successfully delivered and secured planning for over 10,400 units across high-quality residential schemes across key markets.

We do this by entering into forward-funding or forward-commit transactions on a single or multi-site basis. We believe this model is compelling, due to the opportunity of providing investors with potential above market returns through ownership of best-in-class, modern and highly sustainable new-build housing without assuming the construction risk. The upside potential while limiting downside risk, if you will.

New build development helps investors future-proof their portfolio against a changing regulatory agenda, with data also showing that more sustainable housing also translating into higher rents. Having large developments or clusters of new build housing, rather than them being 'pepper-potted', also creates efficiencies in operational strategies and by extension, improves net operational income.

Jonathon Ivory
Chief Investment Officer,
Packaged Living,
Operating Partner of Fiera

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