Summary
- Affordable housing offers pension schemes long-term, inflation-linked income alongside tangible social impact, with LGPS funds already making significant allocations.
- Investor appetite is not the main constraint, with planning delays, grant funding, development viability and a limited pipeline of investable projects restricting further deployment.
- Greater pooling and policy certainty could unlock more pension capital, but institutional investment cannot replace the public subsidy required to deliver social housing at scale.

Building returns

As Prime Minister, Andy Burnham, pledges Britain's biggest social housebuilding programme since the Second World War, Callum Conway examines whether pension capital can help close the country's affordable housing gap, or whether practical and regulatory barriers still pose a problem

Britain's housing shortage is not a new problem.

More than 1.3 million households are on social housing waiting lists in England, while around 134,000 households are living in temporary accommodation.

Prime Minister, Andy Burnham, has pledged to put affordable housing at the heart of his government's agenda, building on the £39 billion Social and Affordable Homes Programme (SAHP), which aims to deliver around 300,000 social and affordable homes over 10 years.

Against this backdrop, pension schemes are increasingly seen as another source of long-term capital for affordable housing.

Yet the question is not whether Britain needs more homes, or even whether pension schemes want to invest in them – the answer to both is yes.

It is a question of whether enough projects can offer the risk-adjusted returns, governance, scale, and liquidity characteristics that trustees and investment committees require.

A natural match?

Affordable housing's appeal rests on a relatively simple proposition: long-term, inflation-linked income, underpinned by demand that a structural housing shortage keeps resilient through economic cycles, alongside clear social benefits.

L&G head of affordable housing and single-family rental funds, Ali Farrell, says affordable housing is "a natural fit for pension schemes" for exactly this reason.

"For UK pension schemes, affordable housing is one of the clearest examples of capital being able to deliver both financial and social value," she argues.

"Members receive retirement outcomes from an asset they can see making a tangible difference in communities across the country."

Border to Coast UK real estate portfolio manager, Nick Moore, notes that housing is especially well-suited to the long-term time horizons of Local Government Pension Scheme (LGPS) investors.

"It can provide stable, inflation-linked income streams, and has strong underlying demand and the potential for capital appreciation," he says.

Different models, different economics

Despite its inherent appeal as an investment, 'affordable housing' covers several very different propositions.

Social rent sits at the deepest end of affordability, while affordable rent, shared ownership, discounted market rent and essential-worker housing operate under different economic models.

That distinction matters because the homes with the greatest social need are not always the easiest to make commercially investable.

Farrell warns that social rent, which offers the deepest discount to market rents, requires greater public subsidy to stack up financially, although this should not be interpreted as a lack of investor appetite.

"We don't believe social rent is inherently less investable," she stresses.

"In fact, social rent provides some of the strongest social outcomes and benefits from exceptionally high levels of demand. The key consideration is that the lower rent levels require greater public subsidy to make schemes financially viable."

Thriving Investments CEO, Cath Webster, agrees: "While institutional investors can, and do invest in social rent, particularly through partnerships with experienced RPs, public subsidy remains critical because rental income alone cannot cover development and operating costs whilst delivering an acceptable return."

Man Group managing director and head of community housing, Shamez Alibhai, reveals that his firm invests across tenures, with an expected medium-term mix of around 60 per cent social rent, 20 per cent affordable rent and 20 per cent shared ownership.

"This mixed portfolio approach allows us to create a blended investment return and inflation-linked income, while creating affordable and inclusive communities," he explains.

The additionality test

There is also a more fundamental question for schemes claiming social impact: Does the investment actually create more homes?

Buying an existing portfolio may produce a stable return and preserve homes within the affordable sector, but it does not necessarily increase supply.

However, recent evidence suggests institutional investment is increasingly funding actual additional homes.

Research from Better Society Capital and The Good Economy, covering 14,739 homes across six investment managers, found that 60 per cent of financed properties were new builds.

Of the remaining acquired stock, around two-thirds was converted from non-affordable uses into affordable housing.

For Man Group, Alibhai says this distinction is central, stating: "Our strategy mandate is to create additionality of genuinely affordable housing supply."

Its strategy does not, for example, bid for standalone Section 106 portfolios, in which developers are already legally required, through the planning process, to provide a set proportion of affordable housing.

Instead, Man Group will pursue these opportunities only where its involvement can increase the number of genuinely affordable homes, such as by converting additional properties into social housing.

This focus on additionality is increasingly important as trustees seek to demonstrate that impact allocations deliver outcomes beyond what would have occurred anyway.

"There is a source of patient capital in the LGPS surplus as well as other DB schemes – how can we best match the two up and close the loop?"

LGPS capital

The combination of acute housing need and growing pension fund appetite has already led to notable commitments from pension funds.

Man Group's third community housing strategy, the Man RI Community Housing Fund 3 (CoHo 3), has raised more than £362 million, exceeding its initial £300 million target, with Oxfordshire and Wiltshire pension funds among its backers.

Oxfordshire Pension Fund committed £55 million after assessing a range of strategies against expected returns, reputational risk, additionality, tenure mix, environmental standards and local exposure.

Oxfordshire Pension Fund responsible investment officer, Josh Brewer, says Man Group stood out for its strong Oxfordshire pipeline, affordability mix and approach to place-making.

Oxfordshire has also signed a side letter under which £37.5 million of its allocation is expected to be invested in affordable housing within the county.

For Wiltshire Pension Fund, another attraction was the strategy's focus on energy efficiency.

Its senior investment analyst, Thobeka Kellett, says affordability should not simply be measured by the cost of accessing a property.

"We know that affordable housing doesn't just mean affordable to access, but affordable to live in," she notes.

"Inefficient homes are substantially more expensive to run, resulting in more families having to choose between heating their homes and other essentials."

Wiltshire now holds a 7 per cent allocation to affordable housing overall and, according to Kellett, has faced relatively few governance hurdles, although it has at times struggled to find a pooling partner capable of supporting the strategy.

Elsewhere, Northern LGPS and Local Pensions Partnership Investments have launched Four Corners to manage a joint portfolio of 5,478 rental homes, with plans to invest a further £1 billion and add 15,000 homes over the next decade.

Oxfordshire has also backed Resonance's Housing Pathways Fund, which targets £700 million to provide housing for people experiencing or at risk of homelessness.

The pipeline problem

Despite this momentum, the biggest obstacles for investors remain practical and regulatory issues.

Nest Insight research found that pension investment in affordable housing was being constrained primarily by practical barriers rather than by a shortage of capital or willingness to invest, including competing funding pressures, misaligned objectives between investors and providers, operational constraints, and policy uncertainty.

Recent delivery figures illustrate

the challenge, with affordable housing starts remaining well below the levels recorded before higher interest rates and construction inflation weakened development viability.

However, Webster stresses that there is not a lack of investor appetite in the UK.

Instead, she argues, the challenge is to create a sufficiently large pipeline of investable housing through policy certainty, planning reform, and a stable funding framework.

Isio director of pensions actuarial and consulting, Katy Taylor, and Isio director of investment, Andrew Singh, similarly highlight the availability of suitable projects as a major constraint after several years of challenging development economics.

There is a source of patient capital in the LGPS surplus as well as other DB schemes, they say, asking how to best match the two up and close the loop.

Reiterating these concerns, Alibhai also identifies regulatory uncertainty and competition for capital from profit-maximising single-family rental providers as another constraint, while Webster points to grant availability, planning delays, land values, construction inflation, and financing costs as factors that affect whether schemes can be delivered at scale.

Scaling up

Pooling could help address some of the governance and scale barriers to affordable housing investment, particularly for smaller LGPS funds that may lack the internal resources to source and assess specialist property strategies independently.

"The power of the pool lies in collective scale," Border to Coast UK real estate portfolio manager, Nick Moore, says.

He argues that pooling can provide partner funds with greater access to investment opportunities and strategic relationships while helping construct diversified portfolios more cost-effectively.

That scale could be especially useful in affordable housing, where individual developments may be too small to justify extensive due diligence on their own.

The latest LGPS reforms could make that role more significant.

Regulations that took effect in 2026 strengthen the role of pools in implementing investment strategy, while administering authorities are also required to work with strategic authorities to identify appropriate local investment opportunities.

For housing, this could turn smaller projects into opportunities that attract institutional capital, particularly when pools can combine several investments into a larger strategy.

Giving investors certainty

Beyond pooling, investors are strikingly consistent on what would release additional capital: certainty.

"Pension schemes are long-term investors by nature, so stability and predictability matter," Farrell stresses.

"Clearer frameworks around planning, grant funding and affordable housing delivery would make it easier for investors to commit capital over the decades-long time horizons these projects require."

With this in mind, Oxfordshire Pension Fund head of pensions, Mark Smith, calls for Local Housing Allowance rates to be reviewed regularly and increased at least in line with CPI, alongside an accelerated planning pathway for developments containing a higher proportion of affordable and social housing.

He describes the current system as containing "some grit" that prevents otherwise viable schemes from progressing.

Webster also calls for greater certainty around rents, grant funding and planning.

"Institutional investors value certainty," she says.

"A long-term affordable housing strategy, a consistent grant programme and greater confidence in the planning system would significantly improve the attractiveness of the sector for pension capital."

The current policy direction suggests the government recognises at least some of these constraints.

But whether those reforms go far enough to turn housing need into an investable pipeline at the scale pension schemes require remains to be seen.

The limits of pension capital

Pension capital is already flowing into affordable and social housing at a scale that would have seemed ambitious only a few years ago, and the schemes and managers involved argue that returns and impact need not be traded off.

But almost every contributor points to the same constraint: An investable pipeline of additional housing that remains too small, too uncertain and too dependent on subsidy that is itself exposed to political risk.

The bottleneck, therefore, is increasingly not the availability of capital, but the conversion of enormous housing need into projects that pension schemes can actually invest in.

Narrowing that gap – rather than persuading schemes of the investment case – is now the key task for both the industry and government.

Written by Callum Conway