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*Impact Investing in Social Property:  
A Case Study of Cheyne Capital*

Serena Lehua Jarvis, B.A., MSc.



A thesis submitted  
for the degree of  
Doctor of Philosophy  
in the subject of  
Housing and Urbanism

The Architectural Association School of Architecture  
London, United Kingdom

January 2020



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*To my grandmother Lucy Jarvis who achieved what was thought to be impossible and taught that there is nothing we cannot do when we set our hearts and minds upon it.*

*For all those who hope to create housing that offers a promise out of poverty.*

# Abstract

This thesis offers a solution to one of the most enduring housing challenges: how to come up with the capital, which is affordable for housing, built for social purposes? To achieve this, it presents the first in-depth academic study on impact investing in social property or impact real estate, specifically focusing on the case of Cheyne Capital, the London-based alternative investment manager, and its role in developing housing for disadvantaged groups. Looking at one of the earliest examples of impact investing – an emergent market that has not been institutionalised as of yet – this research examines the mechanisms developed to create Big Society Capital (BSC), the world’s first social investment wholesale bank, and introduce Social Investment Finance Intermediaries (SIFIs), like Cheyne Capital, to help build the modern social finance market to fund social and environmental initiatives. It further examines the challenges that Cheyne Capital faced as a new social landlord, particularly those relating to inefficiencies in building procurement, its need to develop a viable real estate scheme and its pledge to demonstrate a measurable social impact, alongside a financial return, for each investment. Here this real-world case analysis reveals that it is possible to achieve *a sweet spot model* where the business model and the impact model are the same. The outcome is that Cheyne Capital has invested around £900 million to help tackle the shortage of affordable housing solutions and deliver key worker housing, supported living, elderly extra-care housing, and housing for the homeless for local councils, housing associations, and charities. This thesis also introduces design principles and a proto-typical housing module for housing without a site, which can be replicated and scaled and includes an exploratory framework for social impact measurement for housing. These findings offer insight into the opportunities, risks and challenges of using this new model to deliver quality and affordable urban housing at a large scale and its policy implications.

**Keywords:** impact investing; impact real estate; social housing; social property; architecture; hedge funds; building procurement; public-private partnerships; social impact measurement; Social Investment Finance Intermediaries (SIFIs).

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A tribute is due to Mark Cousins, the late Director Emeritus of History and Theory Studies at the AA. As the Director of Studies of my doctoral research, Cousins encouraged me to examine this emerging field and tirelessly read and discussed this thesis in its many incarnations. Cousins' intuition and ongoing feedback of this research helped me develop the central argument and show the value that Cheyne Capital could offer as an agent of procurement reform on behalf of its public and non-profit sector clients. While it is challenging to sum up what Mark Cousins meant to me in a few words, I am enormously grateful for our time together, and I attribute much of my success to his loving and powerful influence.

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Serena Lehua Jarvis

*The Architectural Association School of Architecture*

## Preface

My introduction to impact investing came partially through early industry reports and symposia, but more so through working as the Architectural Consultant for the Social Property Impact Fund ('the Fund') of Cheyne Capital. My involvement in this emerging market can be traced back to an initial meeting with a member of Cheyne Capital's management in May 2014, during which I learned of the hedge fund's intention to launch the Fund in November 2014. This was followed by a six-month period of examining existing research on the topic in preparation for field experience as a member of its staff, from February until May 2015. In order to provide evidence on this under-institutionalised field, I am offering an account of my role as an actor in practice. The arguments appearing in this thesis are not only those I developed as a member of the Fund, but also emerged out of my academic research into how issues arising in practice are rooted in current scholarly debates. Thus, the evidence presented in this thesis was developed through a combination of both field work and subsequent academic study.

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# Chapter 1: Housing and the development of new financial architectures

## Introduction

We are currently facing a chronic and severe shortage of affordable housing<sup>1</sup> solutions for people on low incomes and disadvantaged groups across the UK.<sup>2</sup> This is illustrated by the present backlog of 3.91 million families in Great Britain with housing needs (Bramley, 2019, p. 10). Moreover, homelessness in England is 165 per cent higher than in 2010 (Fitzpatrick et al., 2019, p. xiii).

In response to this problem, this thesis will investigate the following central research question: How can we use impact investing in providing quality and affordable housing for disadvantaged groups at scale,<sup>3</sup> with little to no reliance on government funding?

In order to answer this question and document this new phenomenon of impact investing in social property<sup>4</sup> or impact real estate, this thesis proceeds

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<sup>1</sup> The term ‘affordable housing’ is understood as an umbrella category which encompasses all forms of rental accommodation that has been available through administrative allocation systems at sub-market prices (Pawson and Milligan, 2013, p. 337).

<sup>2</sup> In an effort to demonstrate the severity of this housing problem, this research has relied upon official statistics and the terms that statistics reference. Within the context of this thesis, the term ‘housing needs’ refers to a broad range of factors that are associated to a significant degree with affordability issues, which include: concealed families, overcrowding, serious problems of affordability, and self-reported problems, with housing conditions that are unfit for families (Bramley, 2019, pp. 47–48). A more conservative estimate might define housing needs as the number of households on local authorities’ housing waiting lists, which is estimated at 1.1 million households in England alone (DCLG, 2018). The term ‘homelessness’ or ‘people sleeping rough’ refers to people sleeping or bedding down in the open air, or in buildings or other areas that are not intended for habitation (MHCLG, 2018). Even though these official statistics may not fully document the real conditions, because the categories themselves are unequivocal, they offer a platform for evaluating how we might respond to this shortage over a specific time horizon. For a comprehensive assessment of the housing supply requirements for low-income families and homeless people across Great Britain, also see: (Bramley, 2019; Fitzpatrick et al., 2019).

<sup>3</sup> Within the context of this thesis, the term ‘at scale’ means *at an institutional scale*, where housing is being delivered through private institutional investment from, for example, hedge funds, pension funds, and insurance companies that invest capital into the sector at an institutional scale.

<sup>4</sup> Within the context of this thesis, the term ‘social property’ refers to three broad categories of housing for public and third sector housing providers serving disadvantaged groups. These include: one, specialised housing solutions (e.g. housing for the homeless, supported living for people with physical and/or learning disabilities in a community setting, and other forms of adult social care); two, general needs housing that ranges from affordable housing to discounted market rents (e.g. key worker rental properties, ‘ethically rented homes,’ or homes with longer leases and capped rents, and tenure-blind development, a mixed-tenure

as follows. With respect to this research question, the first chapter offers an introduction to the thesis by presenting this key problem of a shortage of affordable urban housing and how this nascent field of impact investing presents one opportunity for how we might begin addressing this issue in a period when there are limits on public and third sector funding. Then the second chapter examines the implications of impact investing on procurement reform, focusing on building procurement in social housing. The third chapter examines what mechanisms were instituted by Big Society Capital (BSC) for Cheyne Capital to operate as a new social landlord. This chapter aims to explain the market building phase that has made it possible to institute this novel form of partnering between Cheyne Capital and social sector organisations (SSOs)<sup>5</sup> to deliver a range of public and non-profit sector housing through hedge fund investment. The fourth chapter examines what Cheyne Capital has achieved to date, as a new social landlord, highlighting the challenges it faced in employing this new model of housing delivery based on repayable finance. The fifth chapter presents the Integral Housing Strategy, as a response to the design<sup>6</sup> of Cheyne Capital's first project, which includes the Design Principles and Design Module. The conclusion chapter offers a synthesis of what we now know as a result of the first in-depth academic study on a hedge fund's role as a new social landlord. The thesis ends by answering the research questions, examining the theoretical and policy implications of the research, and identifying critical areas for future work in practice and academic research.

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housing scheme where the flats offered at sub-market rents are indistinguishable from the rest of the development and offer a socially inclusive housing solution); and three, elderly extra-care housing (e.g. properties that aim to make a measurable difference for the provision of care beds for the public sector by offering public and private beds at the same standard) (Cheyne Capital, 2014).

<sup>5</sup> The term 'social sector organisations (SSOs)' refers local authorities, housing associations, charities, and social care commissioners. SSOs are defined by the Dormant Bank and Building Society Accounts Act 2008 as those that 'exist wholly or mainly to provide benefits to society or the environment.' BSC has interpreted this to include regulated organisations such as charities (HM Government, 2008).

<sup>6</sup> Within the context of this thesis, the term 'design' refers broadly to architectural design, urban design, landscape architecture, and engineering relating to the design of the built environment.

### *1.1.1 Examining the problem: How did we get here?*

When we look at the shortage of affordable housing, we can see that it is in part due to a rapid decline in social housing<sup>7</sup> since the 1980s, which can largely be attributed to two major factors. First, there was a massive shift in properties owned by local authorities as a result of the Right to Buy policy, implemented through the Housing Act 1980. This Act gave the more well-off tenants of public sector landlords the right to purchase their homes at heavily discounted rates (Murie, 2016, pp. 1–2) and resulted in the sale of approximately two million dwellings in the UK between 1980 and 2018 (Stephens et al., 2018). Second, the recent decades have seen a steep decline in the construction of new social housing due to large cuts in government grant funding. Further, local authorities were not encouraged to use capital receipts arising from Right to Buy sales to reinvest in building new homes, and no measures were put into place to address this until 1997 (Murie, 2016, pp. 1–2). Also, the wider policies instituted alongside Right to Buy failed to maintain the levels of new building, which caused the output of homes to fall far short of what was needed to respond to the demographic change (Murie, 2016, p. 5).

Equally, the Global Financial Crisis (GFC) of 2007–2008 had a profound effect on the housing market, shifting the political and economic landscape and undermining the dominant theory that deregulated markets produce the most favourable outcomes (Malpass and Rowlands, 2010a). Initially, the crisis raised the profile of housing by implicating and reducing mortgage lending, which in turn significantly lowered the output of much needed new housing stock and raised concerns about the government’s ability to meet housing production targets (Malpass and Rowlands, 2010a, p. 1). Moreover, this concern was validated when the Affordable Homes Programme for 2011–2015 further reduced capital invested from £8.4 billion to £4.5 billion, while production targets remained at comparable levels, meaning that local

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<sup>7</sup> The term ‘social housing’ refers to rented housing that is provided for by local authorities, housing associations, or social sector organisations, generally at sub-market rents. Local-authority housing is typically referred to as ‘council housing’ or ‘state housing.’ ‘Social housing’ is conventionally distinguished from ‘affordable housing’ or ‘market rental housing’ because it is aimed at the very low income segment of the population and involves large subsidies to offer rents well below market levels (Pawson and Milligan, 2013, p. 337).

authorities were attempting to build a similar number of homes with significantly less capital. What followed was a decrease in the relative share of households owning their own home and an increase in private renting, leading to a growing number of long-term renters (Crook, 2014; Kemp, 2015) and contributing to the phenomenon of ‘generation rent’<sup>8</sup> (Halifax, 2015; Hoolachan et al., 2017; Mckee et al., 2017). Therefore, following the GFC we are experiencing a re-growth of private renting alongside a shortage of affordable housing.

The classic problem housing policies attempt to solve is: *how to ensure the delivery of housing built for social purposes at a standard that is regarded as decent?*<sup>9</sup> On the one hand, the left has attempted to address this issue through a model of public sector finance where social housing, or subsidised municipal housing, in Britain has traditionally been provided for by local authorities, backed by government funding. The downside of this approach is that it lacks political attractiveness and requires an increase in taxation. On the other hand, the right has largely placed its reliance upon the free operation of the market to deliver housing based on private enterprise, and has displayed a general distrust of policies involving increased levels of public sector expenditure. However, particularly in recent decades, the private market has not delivered adequate quantities of affordable housing, at acceptable standards, for people on low incomes. Furthermore, the risk inherent in this model could result in chaotic outcomes, as demonstrated by the GFC (Paris, 2010). Moreover, from a historical perspective, neither the public nor the private model has engaged with the poorest or most disadvantaged groups and, as a result, have not fully addressed the bottom end of the market.<sup>10</sup>

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<sup>8</sup> The term ‘generation rent’ refers to the increasing number of young people who are living in the private rented sector because they cannot access homeownership or social housing. While this phenomenon emerged in the early 2000s, the global financial crisis has further excluded young individuals from the traditional route of home purchase or access to social housing.

<sup>9</sup> The argument developed in this segment of the text could not have emerged without inspiration from private conversations with Professor Nicholas Bullock from the Department of Architecture at Kings College at the University of Cambridge in 2017.

<sup>10</sup> Even though the large charitable trusts and the post-war reconstruction offered housing for the poor it was not directed at the poorest and most disadvantaged groups. The significance of these efforts is to be discussed in section 1.2.4 and section 1.3.

Over the past few decades, government policy has focused on developing the third sector, or non-profit sector, where housing associations<sup>11</sup> have attained a position of strategic significance (Malpass, 2010). During this period, the remaining stock of social housing gradually moved from municipal ownership by local authorities towards the non-profit sector, and housing associations emerged as majority providers (Malpass, 2010; Malpass and Rowlands, 2010b). However, this role can be particularly challenging because, as part of the third sector, housing associations are essentially a third party in a two-party system (public versus private) and are often pulled in different directions, where at times the public service ethos leads the way and at other times the business model dominates (Malpass, 2010, p. 112). Moreover, in the last several years, these third sector bodies have found it increasingly difficult to secure public funding and have experienced an increased marketisation – attempting to rely on market mechanisms to deliver social housing. Also, this emphasis on marketisation is not without its limitations and risks, and housing associations have found it increasingly difficult to secure bank loans following the GFC, making it increasingly challenging to meet housing targets.

Alongside the increasing tendency towards marketisation, a number of other important developments have also taken place. These have included the emergence of hybridity between the public, private, and non-profit sectors and the emergence of social enterprise<sup>12</sup> in housing organisations. These innovative concepts hold the promise of a more diversified funding model, which employs market principles to solve social issues. This model will be discussed further in chapter 3 (see section 3.1). Moreover, given the improbability of a return to the previous model of large-scale investment by local authorities for building new

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<sup>11</sup> Housing associations are not-for-profit bodies or ‘third sector’ social housing providers. They are designed as private sector institutions, but also receive significant government subsidies for the cost of new homes. As of 2012, the terms ‘registered social landlord’ and ‘private registered providers of social housing’ are both used as alternative names for housing associations (see e.g. Pawson and Sosenko, 2012).

<sup>12</sup> This thesis uses the definition of ‘social enterprise’ given by Alter (2007): ‘any business venture created for a social purpose – mitigating/reducing a social problem or a market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business’ (p. 12). Further, it may be helpful to think of ‘social enterprise’ as the organisation created by individual ‘social entrepreneurs’ (Alter, 2007, p. 12). Therefore, in the context of social housing, social enterprise in housing organisations refers to the employment of business ventures for social goals.

social housing, or dependence on bank loans for financing new stock through private enterprise, it is likely that future solutions will rely significantly on aspects of the established role of housing associations and a combination of funding from the public, private, and non-profit sectors. Also, due to the increasing reliance on new forms of private funding, housing associations may evolve into a more administrative and potentially less dominate financial role.

Additionally, considerable efforts have been made to rebuild the relationship between philanthropy and social housing (Malpass, 2013; Malpass et al., 2013), although philanthropists, trusts, and foundations remain largely unwilling to fund social housing. Many are wary of being cast as a substitute welfare net, which would then be relied upon, in times such as these, to fill the gaps when state funding is withdrawn; others see social housing as requiring investments too large in scale to tackle (Malpass et al., 2013, p. 12). Therefore, even though it would be enormously positive to see more funding from the charitable sector to meet the acute housing needs of disadvantaged groups, the probability of this happening at a scale that could meet such housing needs is unlikely in the coming decades<sup>13</sup> (Malpass, 2013, p. 80).

We have reached a point where there is relative political consensus that we need to build new affordable housing at a scale that could meet housing needs (Bramley, 2019, p. 13). If we were to project building needs over a 15-year time horizon, the total level of newly built housing required *per year* is currently estimated at approximately 340,000 homes in England alone, and 380,000 in Great Britain (Bramley, 2019, p. 10). Moreover, the total number of new social housing required *per year* is estimated at 90,000 in England, and 100,000 *per year* in Great Britain (Bramley, 2019, p. 10). Also, house building will need to be directed at regions where the pressures are greatest, which is

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<sup>13</sup> While the lack of funding for social housing from the charitable sector remains a significant challenge, it is worth noting the distinct contribution of endowment investments such as Esmée Fairbairn Foundation, one of the largest grant-makers in the UK which offers grants and social investments to organisations working to create social impact (see: <https://esmefairbairn.org.uk/about-us>). Importantly, this foundation has supported the Community Land Trust Network (CLT) and has offered a loan package of £1 million to help establish the CLT Fund in 2008 and are continuing to support CLTs with additional grants through 2020. These loans have enabled detailed development planning and housing construction. See further: <https://esmefairbairn.org.uk/national-community-land-trust-network>.

currently London and the South. At the same time, much of Northern England faces rising pressures stemming from poverty and homelessness (Bramley, 2019, pp. 10, 132–133). However, what is lacking is an appropriate, UK-wide strategy for achieving these targets.

### *1.1.2 Addressing the problem*

In order to begin addressing the scale of this problem, we need a new model of housing that is based on a future in which the market would prioritise housing for disadvantaged groups while also offering a range of housing solutions that are affordable for people on low incomes. Historically, market forces have not been able to deliver quality housing for disadvantaged groups or people living in poverty, although this may be changing with the introduction of new financial instruments and significant institutional changes surrounding the objectives of finance. Furthermore, if we are to effectively propose a market-based solution to financing housing for the public and non-profit sector, it would require the development of new financial architectures with a sufficient level of accounting and reporting to ensure housing needs have been met at quality standards; otherwise, it could result in the further exploitation of households at the bottom end of the market.

Recent years have seen the emergence of a new source of financing for housing for disadvantaged groups, with the introduction of impact investing, which is essentially based on using private investment to generate an intentional and measurable *social impact*<sup>14</sup> alongside a financial return. Because impact investing is still developing as a new market and has not been fully institutionalised, there is some variation in the language and terminology used in relation to it<sup>15</sup> (Nicholls and Dagers, 2016a). This thesis uses one of the generally accepted definitions established by O’Donohoe et al. (2010):

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<sup>14</sup> It is important to note that the term ‘social impact’ refers to a social and environmental impact and is based on the concept that the social impact cannot be separated from the environmental impact, and there is equal consideration of both.

<sup>15</sup> Throughout this thesis, the terms ‘impact investing’ and ‘impact investment’ are used interchangeably and are understood to mean the same thing, which is also widely reflected in the industry research.

Impact investments are investments intended to create positive impact beyond financial return. Impact investors provide capital, expecting financial returns, to businesses (fund managers or companies) designed with the intent to generate positive social and/or environmental impact (p. 7).<sup>16</sup>

Impact investing offers the UK housing sector an opportunity to bypass the public-versus-private debate and finance housing for public and third sector social housing providers at scale,<sup>17</sup> at a time when government grants have largely been withdrawn. Also, the introduction of impact investing to the sector could potentially bring a new level of transparency and accountability because it is based on achieving a *measurable* social and environmental impact, in addition to a financial return, and reporting performance in terms of both (e.g. OECD, 2019).

The concept of social impact measurement, however, is not yet fully formed. Even though the general issue of evaluating whether an intended social objective has been met in a given project has been examined to some degree in various disciplines, including development policy, non-governmental organisations, non-profit sector studies, and performance measurement (see e.g. Ebrahim and Rangan, 2010; Mulgan, 2010; Nicholls et al., 2015b, p. 254; Sawhill and Williamson, 2001), it has not been developed in the context of this emergent market. It is still a fluid and interpretive practice, with no widely

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<sup>16</sup> Alternatively, the Social Impact Investment Taskforce (SIITF), established at the G8 Social Impact Investing Forum, uses the following definition: ‘social impact investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both’ (SIITF, 2014, p. 1). Even though I highlight the major importance of investing in measurable social outcomes throughout this thesis, an aspect that is not included in the above definition from O’Donohoe et al. (2010), I have chosen to use the definition from O’Donohoe et al. (2001) rather than the SIITF (2014) one, in order to ensure the coherence of the term ‘impact investing’ – as opposed to ‘social impact investing’ – throughout this thesis. Furthermore, as indicated by Nicholls and Dagers (2016), ‘social impact investing’ is a hybrid term that brings together two separate areas of research: social investment and impact investing (p. 6). The definitional boundaries between the above terms will be discussed further in this chapter.

<sup>17</sup> As previous indicated (see chapter 1, introduction), within the context of this thesis, the term *at scale* means *at an institutional scale*, where housing is being delivered through investment from private, institutional investors, such as hedge funds, pension funds, and insurance companies, and therefore could potentially invest capital into the sector at an institutional scale.



accepted, global or national standards on data collection or social impact measurement.<sup>18</sup> Also, academic research on this issue is limited and still in its infancy (see e.g. Krlev, 2017; Mitchell, 2017; Nicholls et al., 2015). Moreover, social impact measurement remains is one of the toughest challenges to date for this emerging market, and is therefore a topic that merits considerable study.

This thesis will present, through field observations, a set of recommendations for how new private actors, such as Cheyne Capital, could approach social impact measurement in the context of housing. Equally, these recommendations could be used by government and industry to measure the social impact of a new actor, such as Cheyne Capital, as a new social landlord for disadvantaged groups.

### *1.1.3 Academic research into the problem*

Academic research into the problem of providing affordable housing over the past 30 to 40 years has tended to focus more on ‘a discourse of decline’ (Malpass and Victory, 2010, p. 4), i.e. on how the sector has significantly contracted and increasingly become more focused on housing for the least well off populations, rather than examining novel approaches to address this challenge. These theoretical discussions have examined a number of key topics, such as residualisation<sup>19</sup> (Fitzpatrick and Watts, 2017; Forrest and Murie, 1983, 1988a; Malpass, 1990; Pearce and Vine, 2014), privatisation (Forrest and Murie,

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<sup>18</sup> While institutionalising social impact measurement remains a major and ongoing challenge, it is important to note that there are significant efforts to build a global consensus on how to measure, manage and report social and environmental impact, alongside economic performance. One example includes Impact Management Project (IMP), a forum of over 2000 organisations that aims to find consensus and share best practices (see <https://impactmanagementproject.com>). Another method for capturing social impact includes Social Return on Investment (SROI), a measurement and accounting framework. See further Nicholls (2004).

<sup>19</sup> The term residualisation refers to a complex phenomenon that explains the direction of the development in social housing. It has been defined by Malpass and Murie (1982) as: ‘...the process whereby public housing [and other social housing] moves towards a position in which it provides only a ‘safety net’ for those who for reasons of poverty, age or infirmity cannot obtain suitable accommodation in the private sector’ (p. 174). Also, Forrest and Murie (1988a) have indicated that residualisation can relate to five key elements: one, the size of the public sector, where a decline is an indicator; two, the quality of the stock, in terms of social or physical obsolescence; three, the characteristics of the tenants, such as the degree of social mix and the extent of their marginalisation in the labour market; four, the nature of policy, in terms of residual policies that result in a reduction in investment and lack of services; five, means testing, in terms of the methods of payments of services (pp. 74–76).

1988b, 1983; Ginsburg, 2005), marketisation (Rhodes and Mullins, 2009), restructuring (Pawson, 2006), transformation (Hickman and Robinson, 2006), modernisation<sup>20</sup> (Malpass and Victory, 2010; Pawson and Sosenko, 2012) and welfarisation<sup>21</sup> (Fitzpatrick and Watts, 2017).

Whilst the study of each of these topics has contributed to a more nuanced understanding of the context, drivers, and dynamic processes of change within the sector, which have helped advance knowledge on housing studies, there is a relative lack of academic research which looks at the broadening and diversification of finance to help solve the shortage of quality and affordable housing in urban centres. There has also been a relative lack of research into how innovative market-based solutions might offer new ways to address the scale of this challenge while also creating more transparency through a measurable social impact. In many ways, we are no closer to a resolution.

In recent years, a limited body of academic research has examined the rise of private institutional investment<sup>22</sup> in the UK rental housing sector (Haffner et al., 2016; Pawson and Milligan, 2013; Tang et al., 2017; Williams et al., 2011), which reflects a renewed UK government and policy-maker interest in the drivers for and benefits of encouraging private institutional investment in affordable housing stock (see e.g. Alakeson, 2012; Alakeson et al., 2013; Daly, 2008; Home and Communities Agency (HCA), 2010; Montague, 2012). This early study from the Cambridge Centre for Housing and

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<sup>20</sup> The term ‘modernisation’ in this context refers to the general sense of bringing things up to date with current ways of doing things, and has no reference to theoretical debates. Also, it does not relate to any links between the modernisation of social housing and government claims for improvement.

<sup>21</sup> The term ‘welfarisation’ builds on the concept of residualisation, and was defined by Fitzpatrick and Watts (2017) as a shift in the conception of English social housing, where this is ‘... being recast as a temporary ‘ambulance service’ rather than a stable ‘safety net’ (Fitzpatrick and Watts, 2017, p. 1035). Furthermore, Fitzpatrick and Watts (2017) have indicated that we might conceive of this welfarist destination as the logical end-point of a long process of residualisation that has been taking place over the past several decades.

<sup>22</sup> The term ‘private institutional investment’ refers to housing capital finance provided at scale by a commercial company or a corporate entity, such as a hedge fund, for rental housing, and is regarded as an antonym to small-scale landlordism (Pawson and Milligan, 2013, p. 338). When used more broadly, the term ‘institutional investment in rental housing’ can also refer to the UK affordable housing development where housing associations have increasingly relied upon debt finance from capital markets in the form of bonds or other instruments, rather than equity finance (Pawson and Milligan, 2013, p. 338). However, within the context of this case, it refers to equity finance. For a comprehensive discussion of the definition of institutional investment in the rental housing context, see further: (Pawson and Milligan, 2013).

Planning Research by Williams et al. (2011) accounts for the market context of where institutional investment is already taking place, the potential for further investment and recommendations for key steps to give added momentum, highlighting a clear synergy between the needs of this sector and institutional investment.

Research by Pawson and Milligan (2013) examined the arguments for institutional investment, including the scale and efficiency gains from economies of scale. Notably, this research (Pawson and Milligan, 2013) considered the critical barriers, including rates of return, novelty, and scale, and argued that while these impediments are substantial, should large scale institutional funding take off, it could significantly affect the structure and quality of affordable housing provision. It is also interesting to note that Pawson and Milligan (2013) presented the sale and leaseback agreement as a new financial instrument in the UK and asserted that it could prove pivotal in structuring institutional equity financing for affordable rental housing provision (pp. 338- 339).

More recently, research by Tang et al. (2017) at the University of Cambridge examined the implications of institutional investment to help meet the social and economic goals of housing associations (HAs) in Britain. It reviewed the policy and crisis context due to reduced government grant and bank debt available to fund HAs, which has led HAs to increasingly rely upon capital market bond financing. This study (Tang et al. 2017) revealed how institutional investment has helped facilitate HAs as hybrid organisations that combine social benefit with profitability to deliver public services. This study (Tang et al. 2017) also examined notable government attempts to stimulate investment, such as Real Estate Investment Trusts (REITs) (p. 415) and made a strong case for continuing research on this topic (p. 422). This concept of hybridity between the public, private, and non-profit sectors is further examined in chapter 3.

Alongside these early academic discussions on private institutional investment, there are well-founded fears that inviting private equity firms and institutional investors to enter distressed housing markets, such as London in

particular (Beswick et al., 2016; Watt and Minton, 2016), could recommodify and financialise housing. This issue is further discussed in chapter 3. Therefore, this is a timely moment to examine these early developments in the impact investing market. It is equally important to establish a clear demarcation between a new generation of private actors supported by Big Society Capital (BSC) – the world’s first social investment wholesale bank – and abiding by strict social covenants, and private institutional investors operating within the open markets.

#### *1.1.4 Identifying a gap in academic research and presenting a novel solution*

This thesis is situated within a broader context of initial observations in the literature on this emergent market, which have not yet developed into fully formed academic debates or theories on impact investing. In order to offer evidence on this under-institutionalised field, this thesis presents a real-world case analysis of a potential new solution for addressing the shortage of quality and affordable urban housing.

While academic research on private institutional investment in the affordable rental sector in Britain embodies aspects of the solution proposed in this case, these studies do not account for the broader development of the modern social finance market or acknowledge the emergence of impact investing. This research seeks to advance knowledge by offering crucial evidence on the opportunities and risks of this new model and how it could deliver a more ethical approach to social housing procurement. It also aims to situate this case within a broader global effort to build a new market to fund social and environmental initiatives. It further seeks to highlight the significance of social impact measurement as one new opportunity to regulate private investment through social impact accounting.

No existing research to date has looked at the emergence of impact investing as one new opportunity to provide housing for public and third sector organisations serving disadvantaged groups, and the majority of research that has been done tends to be theoretical. There is also a focus in the literature on examining the existing problems in housing rather than striving to develop

innovative market-based solutions. Furthermore, no existing research has examined how private institutional investment in the rental housing sector could help meet the need for social and affordable housing that is environmentally sustainable and socially inclusive.

This thesis examines one of the earliest documented examples of impact investing in social property or impact real estate<sup>23</sup> by presenting a real-world case analysis of Cheyne Capital – the London-based alternative investment manager – and examining its role as a new social landlord. It aims to provide a foundational framework that will enable us to analyse the application of impact investing in the sector. To achieve this, it will attempt to answer a number of key questions, which are outlined in section 1.6 of this chapter. By doing so, it aims to show how we can provide affordable housing and a range of other forms of social property through private institutional investment, affordably at quality standards, with efficiency<sup>24</sup> and at scale, based on a measurable social impact.

This case analysis will present a solution to one of the most challenging housing problems, which is: *how to come up with the capital, which is affordable for housing, built for social purposes, with minimal to no reliance upon government funding?* To do so, it will present evidence for how we could introduce new private players, instituted by BSC, operating as Social Investment Finance Intermediaries (SIFIs) to finance housing for social sector organisations (SSOs), such as local authorities, housing associations, charities, and social care commissioners. It will explain what has been achieved through this new model employed by Cheyne Capital to develop joint partnerships with (SSOs). Furthermore, this case demonstrates how we might begin to address the above housing target of approximately 90,000 new social housing required per year in England (Bramley, 2019, p. 10), with limited to no reliance on

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<sup>23</sup> Throughout this thesis, the terms ‘impact investing in social property’ and ‘impact real estate’ are used interchangeably and are understood to mean the same thing, which is also reflected in early discussions in practice. It is also interesting to note that Cheyne Capital also uses the terms ‘impact real estate’ and its ‘social property impact strategy’ interchangeably, but for the purpose of simplicity, this thesis will not include the term ‘social property impact strategy’ as a way to describe this new phenomenon.

<sup>24</sup> Within the context of this thesis, the term ‘efficiency’ as it relates to housing refers to the most volume, for the lowest cost, in the shortest amount of time.

government grants or bank loans.<sup>25</sup> Even though the focus on this case presents an impact real estate model intended specifically for disadvantaged groups, it also offers evidence for how this model has been expanded to address a broad range of housing solutions for people on low incomes, within the context of a more socially inclusive approach to development. This will be discussed in chapter 4.

While this innovative model of housing delivery represents a potentially transformative approach, given the scale of institutional investment, it is somewhat unclear how it will develop in the coming years. This thesis highlights the main challenges that have arisen in this case, which need to be further examined if this novel approach to housing delivery is to continue to develop in the future. These challenges include a level of trepidation from the public and non-profit sector to enter into a partnership with a hedge fund, a general lack of investment readiness from SSOs to engage in the sale and leaseback agreement, and perhaps most significantly, major inefficiencies in UK building procurement procedures, which have led to tensions between the timescales of the hedge fund and the other actors involved.

Here this case aims to advance the existing scholarly discussion on the sale and leaseback agreement by offering evidence on the opportunities and risks of this new instrument and key areas for future policy work and academic research. This instrument will be examined in chapters 4 and 6. It also seeks to contribute to existing scholarly debates on building procurement by showing how this novel form of partnering between Cheyne Capital and SSOs could help reform aspects of the sector, such as time and cost inefficiencies, most in need of change.

If this segment of the market is to develop further, legislation is needed because, without the appropriate policy support, there is a risk that it could become just another way to encourage private investment. As a result of this

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<sup>25</sup> Even though Cheyne Capital does not rely on government grants to level up its investment, it is worth noting that the source of BSC's capital is quasi-governmental. The co-investment BSC made to launch the Fund was partially sourced through governmental funding. However, this sum is nominal in comparison to the private institutional capital leveraged by Cheyne Capital. The significance of Cheyne Capital's ability to leverage private investment at an institutional scale is to be discussed in chapter 4 (see introduction).

research, we now know that this new market is developing rapidly on a global scale, which could potentially change the way we finance housing for disadvantaged groups. However, in order for it to work, we will likely need to reform and reconfigure several aspects of the sector, which will be outlined in chapters 2, 3, and 4.

This chapter offers an introduction to the thesis and is divided into five main sections. Following this introduction, the first section, ‘Types of affordable housing schemes without public funding’, presents what could be regarded as an early precedent of impact investing in social property by looking at model dwellings schemes from the mid to late nineteenth century. The second section, on ‘Impact Investing...’, introduces this emergent market, and includes subsections that cover the following: ‘what is social impact?; definitional boundaries; overview; academic research on impact investing; market scale; and impact investing in social property.’ The third section, ‘Who is Cheyne Capital?’, introduces this alternative investment manager as a new social landlord in this emergent market, based on a novel partnership with SSOs. Following this, the fourth section presents the research questions of the thesis, divided into a primary question and secondary questions. The final section, ‘Contribution’, explains what contribution this thesis aims to make as the first academic study on impact investing in social property.

## **1.2 Types of affordable housing schemes without public funding**

Given the policy emphasis on austerity in recent decades, public funding available for housing people living in poverty and disadvantaged groups is highly limited. Even if austerity may be over, addressing such a long-term problem will likely require a mix of public and private funding, particularly for areas of the sector that are most starved of finance. Therefore, if we are to address the massive shortfall in social housing and housing for disadvantaged groups, it may ultimately depend on developing schemes that rely on mechanisms for unlocking new sources of private capital.

Attempts to solve this problem and provide housing at decent standards, built for social purposes, and without reliance on public funding are

not new. Indeed, there is an extensive history of reformers and philanthropists in Britain (see e.g. Baigent and Cowell, 2016; Garside, 2000; Hill, 1998, 1875, 1956; Malpass, 1999; Morris, 2001; Steffel, 1973; Tarn, 1968, 1974, 1966; White, 2011) who attempted to develop housing schemes that relied upon private enterprise, charity, or a combination of the two; these go back well over a century. Furthermore, the development of model dwellings companies<sup>26</sup> exemplifies a number of characteristics also present in this emergent market of impact investing.

In order to understand what has worked in these model dwelling schemes and what has not, we need to look at their history. The following sections will briefly examine the emergence of the problem and early Victorian attempts to provide working-class housing in urban areas in Britain between the years 1840 and 1914 (Tarn, 1974).<sup>27</sup> Moreover, the aim of examining what might be considered precedents for impact investing in social property or impact real estate is not to provide a potted history, but to highlight those elements, whether that be the root of the problem or a similar solution that are relevant to this case.

### *1.2.1 Private enterprise and the emergence of housing reforms*

From the mid-nineteenth century onwards, the majority of housing in Britain was provided as a commodity by private enterprise. This period was characterised by a strong sentiment of *laissez-faire*, or the idea that problems would resolve on their own; interference of any kind by government was generally rejected and thought to be unnecessary (Tarn, 1974, p. 1). There was no regulation of the private rental market, and the poor generally lived in

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<sup>26</sup> Model dwellings companies were also known as ‘philanthropy and five-per-cent’, based on a recognition of investors’ willingness to accept lower-than-market-rate returns on their investments in model urban housing for the working poor (Tarn, 1974, pp. 43, 46). See also: (Tarn, 1974, 1968a, 1968b).

<sup>27</sup> I have largely relied on original research by J. N. Tarn (1974, 1971, 1968b, 1968a, 1966) to examine previous attempts to provide housing built for social purposes without state involvement, focusing on the development of the model dwellings companies in Victorian Britain. Even though there is an inherent bias in relying significantly on only one reference in this section of the thesis, J. N. Tarn represents the leading resource on the topic, particularly with regard to the architecture. Other significant references that examine the topic more generally might include, e.g., Chapman (1971) or Wohl (1971).



overcrowded tenements as lodgers or subtenants (Malpass, 2005a, p. 33). Rapid industrialisation encouraged migration to towns and cities, which led to a significant increase in urban populations. However, the novelty and promise of urbanisation quickly resulted in the growth of poor housing, where running water, sanitation, and basic services were lacking. These areas became hotbeds of crime and disease (Chapman, 1971; Tarn, 1974, pp. 1–3; Wohl, 1971).

The development of these industrialised ghettos contributed to widespread fears of disease that surged throughout the country. This led to a growing public concern and a newfound ‘benevolent paternalism,’ which laid the foundation for the model dwellings movement, or the Victorian movement to provide working-class housing from 1840 to 1914 (Tarn, 1974, p. 3). Additionally, during this time, Edwin Chadwick and the movement for reform led to the *Report on the Sanitary Condition of the Labouring Population and the Means of its Improvement* (Finer, 1952; Lewis, 1952) in 1842, which highlighted the virtue of model house building for both social and health purposes, achieved through either commercial pursuits or philanthropic efforts (Tarn, 1974, pp. 1–2).

### *1.2.2 Early housing societies*

Early attempts to address poor living conditions and finance new housing for the working class led to the development of the first housing societies in the early 1840s, which included two principal organisations: the Metropolitan Association for Improving the Dwellings of the Industrious Classes (the Metropolitan Association) and the Society for Improving the Condition of the Labouring Classes (S.I.C.L.C. or the Society).

The Metropolitan Association, established in 1841, was a public company developed with the aim of investing, with a limited profit, in housing in order to build on a large scale and help to solve the housing shortage (Tarn, 1974, pp. 22–23). This association effectively raised £20,000 in investment over four years, and in 1845 obtained a royal charter, which limited the liability of shareholders, as well as ensuring that the maximum rate of interest was 5 per

cent and that any surplus would go towards a guarantee fund and towards furthering its objectives (Tarn, 1974, pp. 22–23).

The S.I.C.L.C., established in 1844, operated as an exemplary society that aimed to demonstrate alternative housing systems or ‘model’ dwellings in order to establish a precedent for others to follow<sup>28</sup> (Briggs, 1959, p. 295; Tarn, 1974, pp. 15–16). Similar to the Association, this organisation is an early hybrid between charity and private enterprise, where its Charter, secured in 1850, limited the returns each year to 4 per cent (Tarn, 1974, pp. 15–16). Additionally, this society represents the first documented attempt in the city to provide working class households with newly constructed and appropriate housing, built for this intended purpose, and the first time that an architect became involved in this type of housing effort (Tarn, 1974, p. 16). Importantly, Tarn (1974) indicates that Chadwick attempted to influence the Society’s approach to finance by urging them from the onset to remove the limitations on generating a profit, in order ‘to place the proceedings on a commercial principle simply, as being really the most benevolent in its ultimate operation to the working classes’. He considered its failing to do so as the most significant factor limiting the work of the Society (pp. 15–16).

The S.I.C.L.C. faced significant design challenges in its early attempts, such as how to provide as many separate homes as possible on a limited site, with minimal capital, which led it to diverge from an ideal solution and overbuild at minimum standards (Tarn, 1974, p. 16). However, in spite of this, these schemes were able to achieve a higher level of standards, initially with regard to sanitation and ventilation. Over time, this housing society was able to produce schemes which helped to advance contemporary practice and which included, for example, the ‘Model Housing for Families’ in Streatham Street, a tenement block in London<sup>29</sup> (Tarn, 1974, pp. 18–19). This tenement block

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<sup>28</sup> It is interesting to note that these early discussions that led to the creation of the Society, which concerned the improvement of housing for the poor, also included consideration of the Allotment System, along with housing in urban areas (Tarn, 1974, pp. 15–16).

<sup>29</sup> For a comprehensive account of the collaboration between the Society and Henry Roberts, the architect, see further: (Roberts, 1851; Tarn, 1974, pp. 15–27). Additionally, it is worth noting that Roberts emerged as one of the few architects who dedicated his efforts to working-class housing and was perhaps the most significant authority on the planning and construction of model dwellings during this period (Tarn, 1974, pp. 43–44).

reflected their social policy, which aimed to provide the best possible accommodation at the lowest rent, which was compatible with its desire to earn a limited profit. However, the rents were still relatively high in comparison with slum tenements, restricting the use of this building to skilled artisans or the working poor, rather than the very poor. Perhaps most notably, the model cottages showcased at the Great Exhibition of 1851 provided a basis for future work with the Improved Industrial Dwellings Company, which will be discussed in section 1.2.6 (Tarn, 1974, p. 20).

The Metropolitan Association initially concentrated its efforts on large tenement blocks in London, including an ambitious project for a communal accommodation in Spitalfields, the ground floor of which contained a kitchen, library, coffee room, reading room, and other shared spaces such as various offices (Tarn, 1974, p. 22). Additionally, the Association acquired existing properties to be repaired and converted. By the early 1850s, both the Association and the S.I.C.L.C. concentrated their housing efforts on family dwellings rather than lodgings because they demonstrated stronger financial returns and proved to be the most profitable type of building (Tarn, 1974, pp. 26, 43). One significant advantage of the Association compared to the S.I.C.L.C. is that it was better organised for expansion, which allowed for the development of branches in various areas across the country, and that it focused largely on block dwellings and to some degree on cottage dwellings (Tarn, 1974, pp. 26–27).

Even though the scale of the impact of these two early organisations is perhaps negligible in comparison to later efforts, they were the first to pioneer a new approach to housing, which helped to generate further interest in addressing the housing problems of the urban poor (Tarn, 1974, p. 15). However, both failed to achieve a level of investment that could have potentially led to more large-scale developments. The S.I.C.L.C. greatly underestimated the financial returns necessary to attract sufficient investment, and the limitation on profits, in turn, limited the work of this society (Tarn, 1974, pp. 15–16). Additionally, the S.I.C.L.C. proved unsustainable, and this initiative shifted from being an organisation dedicated to social philanthropy to one aimed solely

at financial profit. Finally, neither organisation was able to offer housing to the very poor, highlighting the fact that both struggled to reconcile the trade-off between achieving a limited financial return and delivering housing at affordable rates for the working poor. Following the collapse of these two principal organisations, there was a second wave of model dwellings companies operating on a much larger scale.

### *1.2.3 Great housing organisations*

In the 1860s, ‘great housing organisations,’ or what we could also refer to as model dwellings companies, emerged more prominently and began delivering schemes on a much larger scale. These privately owned companies, dependent on capital from investors who accepted limited returns, were largely developed by top-down philanthropists with the intention of solving the housing problem without state involvement (see e.g. Malpass, 2005a; Tarn, 1974, 1966; Wohl, 1977). They were developed for the purpose of providing a decent standard of accommodation for the labouring classes, while at the same time earning a profit. They essentially operated as joint-stock companies, where patrons were invited to invest, in return for a dividend (Morris, 2002, p. 191). Moreover, their intention was to show that, if investors limited their pursuit of profit to a modest return of five per cent, then the housing problem could potentially be addressed by private enterprise and charity (Malpass, 2005b, p. 35), therefore earning the term ‘five per cent philanthropy’ (Gutchen, 1976; Tarn, 1974).

This concept of ‘five per cent philanthropy’ is well exemplified by the Improved Industrial Dwellings Company (Tarn, 1974, 1968a), one of the largest schemes of the era, founded in 1863 by Sir Sydney Waterlow, an enlightened entrepreneur and philanthropist (Smalley, 1909). This company aimed to show that the economic problems faced by the housing movement in the previous decade could be overcome through a radical re-appraisal of the planning and construction of housing (Tarn, 1974, pp. 50–51). To achieve this aim, its first project was the development of a model housing unit that could be easily built and would be suitable for the working classes. Waterlow worked in partnership with a builder to create the first scheme based on Roberts’ model cottages from

the 1851 Exhibition, which represented a prototype that could be extended laterally or vertically (Tarn, 1974, p. 51). Waterlow's housing units had up to five floors and employed a central staircase in order to make it possible for each floor to have access to an open balcony (Tarn, 1974, pp. 50–51). This inaugural project attracted significant interest and effectively raised funds for the development of a series of buildings in the following years, modelled after its first project on Mark Street in London.

What followed from this initial investment was a steady and increasing number of developments, predominately in London, which provided building block dwellings for the labouring classes, housing approximately 30,000 individuals at its peak (Tarn, 1968a; Wohl, 1977). Additionally, the Company achieved a five per cent dividend, paid to shareholders over several years. Even after the Labouring Classes Lodging Houses Act of 1885 was passed, which made it possible for these privately owned companies to obtain government loans at low interest rates, the Company continued to raise capital through investment, and the small but stable dividend seemed highly effective in attracting investments whenever it needed more funding (Tarn, 1974, pp. 52–53). However, similar to the criticism levelled at earlier schemes during the 1840s, the Company was faulted for being unable to provide housing for the poorest classes. In response to the criticism, the Company claimed that its intention was to deliver housing for the top tier of the labouring class, providing suitable dwellings over the long-term, which may inspire self-improvement in the lower classes (Tarn, 1974, p. 53).

#### *1.2.4 Large charitable trusts*

In addition to the above organisation, there were also large charitable trusts, notably the Peabody Trust, established in 1862 through the endowment of George Peabody, an American financier and philanthropist (Tarn, 1966, 1974). The concept for this housing trust originated out of discussions of the idea that the poor must be housed by private enterprise and the need for responsible organisations that would build quality dwellings without engaging in malpractice or cheap speculation (Tarn, 1974, p. 44). It was developed as an

attempt to provide decent housing in London, with lower than normal rental costs.

Because of the size of the endowment, the Trust was able to purchase large sites and develop them as separate housing estates (Tarn, 1974, p. 53). The Trust also developed a Peabody ‘concept,’ where each estate was designed as an open square surrounded by a building (Tarn, 1974, p. 53). The Peabody estates were much larger than previous schemes, and they set a high standard for accommodation (Tarn, 1974, p. 47). Even though the endowment was specifically aimed at aiding the poor, as with other schemes of this period, it generally housed those who were regularly employed, such as clerks and artisans, therefore excluding the very poor from housing assistance (Malpass and Murie, 1999, p. 30; Wohl, 1977, p. 156). Additionally, the Trustees of Peabody believed that their strongest and most effective contributions would be made by addressing by the skilled artisan, not the very poor (Tarn, 1974, p. 48).

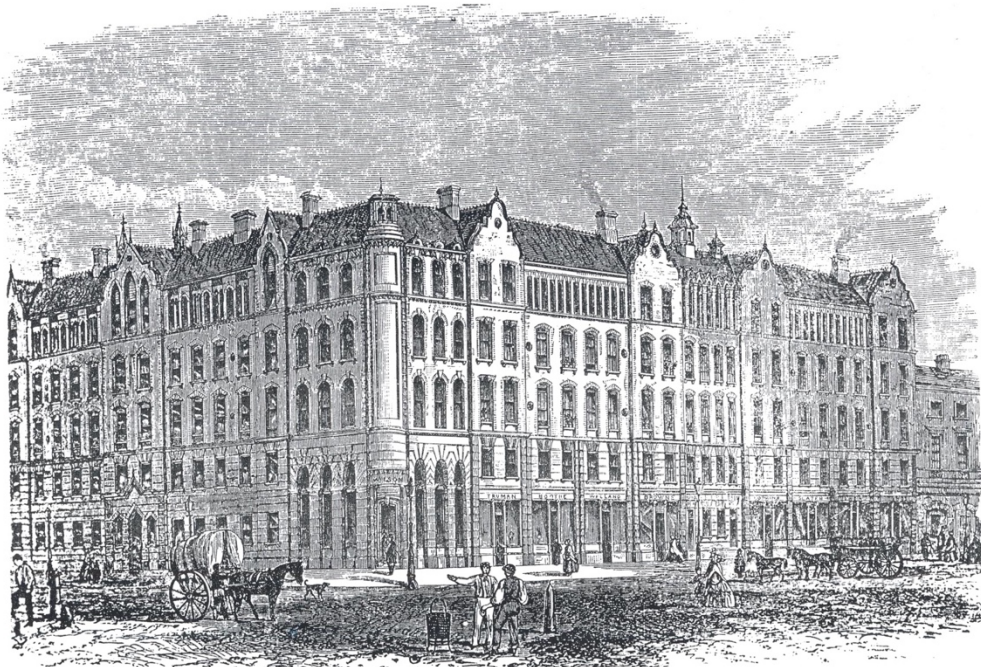


Figure 1-1 ‘Peabody Buildings, Commercial Road; the first estate of the Trust, Spitalfields, London, 1864. Henry Darbishire, architect; this was an experimental housing design’ (Tarn, 1974, p. 45). A wood engraving published in the *Illustrated London News* (just before the building opened), 18 July 1863. p. 73, Architect: Henry Darbishire. Engraver unknown. (Image from Wikipedia, Public Domain).

The model dwellings companies, including the great housing organisations and large charitable trusts, grew in scale for a period of approximately 50 to 60 years, representing a Victorian movement in housing that intended to provide a market-based solution to social welfare. However, they struggled to resolve the intrinsic challenge of providing decent accommodation at rates that were affordable for the working poor, in areas where land values and building costs were high (Malpass, 2005a, pp. 35–36). Towards the turn of the century, the movement began to dwindle. The consensus in the literature is that they could not keep rents low enough for the poor and, as a result, ultimately deviated from their original intention<sup>30</sup> (Tarn, 1974, pp. 102–103; Wohl, 1977, p. 150).

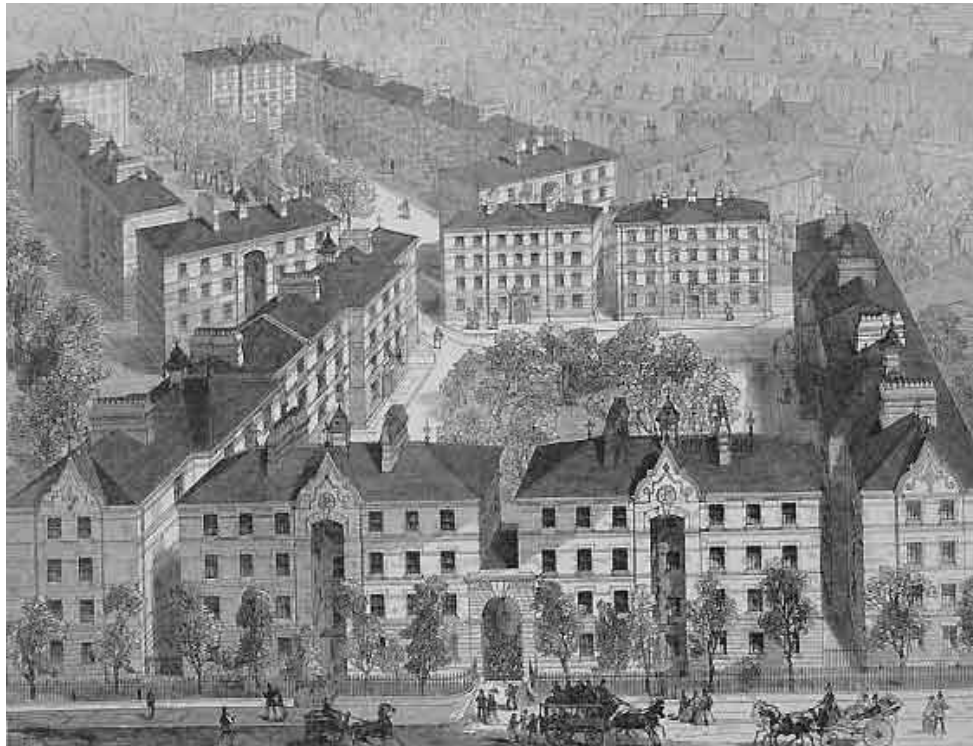


Figure 1-2 ‘Peabody Square, Blackfriars, 1871, an estate built on cheaper land in south London, allowing a more open layout of a new block type’ (Tarn, 1974, p. 48). Published in the *Illustrated London News*. (Image from Wikipedia, Public Domain).

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<sup>30</sup> Initially, it was argued that the failings of these model dwelling companies helped to make the claim for council housing (Gauldie, 1974, p. 235; Merrett, 1979, p. 30). However, this position has since been discredited (Daunton, 1983, p. 1; Englander, 1983, p. 102) and more consideration is now given to the ongoing political struggle over how to define the housing role of local authorities and the nature of any subsidy (Malpass, 2005a, p. 37). Moreover, the existence of this ongoing debate highlights the length of time during which we have been discussing housing subsidies without a complete resolution, suggesting that this is a timely moment for implementing a new mechanism to unlock a more sustainable form of capital for housing for the bottom end of the market.

Even so, the model dwellings companies represent the most extensive attempt to reconcile the operation of the market with social objectives, with regard to the quality and quantity of housing for the working classes, prior to the development of public housing provision (Morris, 2002, 2001, 1998, p. 189). Despite this, their role in providing working-class housing without state involvement is largely unaccounted for in the current literature on the development of the welfare state (Morris, 2001). While this thesis has acknowledged the relationship between the model dwellings companies and impact investing, if this emergent market is institutionalised as a new field, it may be interesting to further examine the lineage between these two approaches to housing delivery without state funding, because many of these early challenges remain unresolved.

#### *1.2.5 Model industrial villages*

In the late nineteenth century, town planning and the suburban ideal emerged as a response to the ailments of the Industrial Revolution, seeking to reconcile the impulses of the industrial metropolis with the social and cultural conditions of model villages. Two significant examples of this industrial village tradition are Port Sunlight and Bournville<sup>31</sup> (Burnett, 1990, pp. 181–183; Tarn, 1974, pp. 157–160). These model settlements were developed as private ventures by factory and mill employers who sought to elevate the living environment of labourers. Port Sunlight was created through the philanthropic efforts of the first Viscount Leverhulme, based on the ‘enlightened self-interest’ that it was his social duty to provide his workforce with quality homes regardless of the cost (Tarn, 1974, p. 156); Bournville was founded by George Cadbury as a housing

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<sup>31</sup> It is interesting to add that both Port Sunlight and Bournville were already being developed when social utopian Ebenezer Howard published his book on Garden Cities. Thus, these model villages are early precedents for the emerging town and country planning movement and for the shift towards a cultural embrace of ‘garden suburbs’ (Ravetz, 1974). On the Garden City movement, see further: (Birchall, 1995; Howard, 1902; Ravetz, 1974; Skilleter, 1993).



experiment aiming to provide accommodation for factory workers with a small financial profit<sup>32</sup> (Tarn, 1974, pp. 158–159).

Even though both model villages were based on building low-density housing for the working classes within an integrated village setting, the significance of Port Sunlight lay more in its contribution to architecture and planning, rather than as an innovative housing experiment. In fact, Tarn (1974) indicated that Leverhulme did somewhat a disservice to this concept by making this village a purely a philanthropic venture because this removed it from the realms of practical consideration (p. 158). This decision limited any possibility of advancing knowledge on how to provide a model garden suburb that also earns a financial return (Tarn, 1974, p. 158). Bournville differed from Port Sunlight in this respect because it was developed with the aim of providing housing that effectively achieved a 4 per cent return on investment. This was intended to serve as a model for local authorities to follow (Tarn, 1974, pp. 159–160). Also, Bournville was distinct in that it was developed to encourage a more integrated mix of social classes, whereas Port Sunlight was developed strictly for Leverhulme's workforce. Although these model villages were a serious attempt to improve the housing conditions of key workers, they might also be interpreted as part of a wider ambition to optimise the workforce (Burnett, 1990, p. 181). Furthermore, these attempts to provide housing for the working classes at a larger scale in a suburban setting faced many of the same problems as the previous model dwellings schemes, ultimately being unsustainable.

#### *1.2.6 Design and social impact*

One of the central questions that arose at the onset of this housing movement and remained a major challenge in each of these different model dwelling schemes was: *how to design housing of a higher standard, affordably and at a large scale, in areas with relatively high land values?* Research into this problem by the S.I.C.L.C., the first housing society, resulted in an architectural design solution developed by its architect Henry Roberts for 'Model Houses for

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<sup>32</sup> While there was no formal link between the Cadbury organisation and Bournville village, approximately 40 per cent of its dwellings at any time were occupied by the organisation's employees (Tarn, 1974, p. 161).

Families,' erected at the Great Exhibition of 1851, as indicated in section 1.2.2. This model was then used by Walthow's company over a decade later to help resolve its fundamental challenge of how to build quality dwellings efficiently and at a large scale, as indicated in section 1.2.3. What resulted from this original architectural design was a prototype developed jointly by Walthow (the investor) and Allen (the builder), which could be scaled laterally and vertically, as indicated in section 1.2.3. This prototype would go on to effectively serve as a kind of design template used to deliver a significant number of Walthow's schemes, as one of the largest model dwellings companies (Tarn, 1974, p. 56). While this innovative design model produced simple dwellings, it was fundamental to delivering better-quality, affordable housing at a large scale.

Importantly, the model dwelling schemes helped to demonstrate that our ability to deliver higher quality housing at affordable rates is largely an architectural design question and, at the same time, that design plays a fundamental role in achieving superior value in housing, which can be both social and economic. However, the above question remains one of the largest challenges for the delivery of quality social and affordable housing today. The relationship between design and social impact in the context of this emergent market will be examined in chapter 5.

### **1.3 Public sector housing output in the twentieth century**

While the proceeding sections have focused on a historical account of the model dwellings schemes which highlighted the role of private enterprise to address housing needs of the urban poor, of course the public sector has played a major role in housing output. During the interwar period between 1919-1939 over 4 million new houses were built in Britain through a mix of funding with the largest number of houses constructed by private enterprise, followed by local authorities and then charities (Malpass, 2005a, p. 49). By 1939 the proportion of social housing stock grew to ten per cent with local authorities building over 1 million houses<sup>33</sup> (Malpass, 2005b, p. 40). Furthermore, the period following

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<sup>33</sup> For a comprehensive discussion on the development of the welfare state and housing policy in Britain during this time see: (Malpass, 2005b; Malpass and Murie, 1982).

World War II was an era of massive housing construction, with waves of investment that was heavily government driven. From 1945-1965 local authorities built approximately 3 million houses, approximately 1 million more than the private sector<sup>34</sup> (Malpass, 2005b, pp. 68, 73, 84).

Consequently, these housing initiatives which followed the model dwellings schemes highlight the role of government in creating a significant housing output.<sup>35</sup> However, the rate of public housing output started to decline in the late 1960s to the point in the late twentieth century that local authorities were only building a nominal amount of new houses. This was in stark contrast to the private sector that were building the largest number of new houses, followed by housing associations (see further Malpass, 2005, pp. 94–95, 139). This gap left by the decline in government funding and massive reduction in public sector housing output is an area of the sector that impact investing could potentially fill, as described in section 1.1.2.

#### **1.4 Impact investing: An emergent market**

What is fascinating and novel about this emergent market is that impact investing encompasses a vast spectrum of capital, which ranges from 100 per cent giveaway in philanthropy to competitive market returns in alternative investment management. This immediately opens up an entirely different worldview on what money does and how money works, which allows us to discuss and examine mechanisms of financing social and environmental ventures in a potentially much more sophisticated way. This market represents what initially started as an aspiration of a small group of dedicated individuals, chiefly Sir Ronald Cohen<sup>36</sup> and other leading social finance advocates, and has

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<sup>34</sup> For an in-depth study on modern architecture and reconstruction in Britain following the Second World War see: (Bullock, 2002).

<sup>35</sup> Furthermore, it is important to note that in terms of the cost of capital, state provision is also more cost efficient than private enterprise.

<sup>36</sup> Sir Ronald Cohen is the Chairman of the Global Steering Group (GSG) for Impact Investing and the Portland Trust, and previously the Chairman of Apax Partners, the private equity firm. Cohen is widely regarded as the de facto founding father of the venture capital industry in the UK (see e.g. Cohen, 2008). On Cohen's contribution to institutionalising impact investing, see, e.g.: Brown (2017); Cohen (2017, 2014, 2016); R. Cohen (April 9th); S. R. Cohen (April 9th); Cohen and Barton (2017); Cohen and Sahlman (2013); Ebrahimi (2017); Sahlman and Cohen (2013); SIITF (2014); Stanford Graduate School of Business (2019); The Global Impact Investing Network (2012).

now developed into a global movement, based on a new model on what money *can* do for the public and third sector.<sup>37</sup>

Indeed, the subplot in the development of impact investing is a story of institutionalisation and of Cohen's efforts to champion this new market. It could be argued that Cohen is an example of how one man's influence has transformed what appeared to be a cluster of disorganised activities into a bank (Big Society Capital, the world's first social investment wholesale bank), a social movement, and a market emerging across the globe. The following sections aim to provide a framework for analysing this dynamic market, including the definitional boundaries between key terms and the context in which this market originated.

#### *1.4.1 What is social impact?*

Social impact is generally understood as a broad range of benefits, driven by all manner of social finance investments, from those that aim to do no harm to those that seek to meet specific, measurable social and environmental objectives. Nicholls et al. (2015b) define social impact as it relates to this emergent market as:

Significant changes in the wellbeing of key populations, whether intended or unintended, brought about by the allocation of social investment capital, going beyond what would otherwise been expected to occur (p. 256).

Because this concept has not been fully developed in the context of this new market, it is often used interchangeably with the term *output(s)*, where social impact is actually being defined as an output(s). This issue is important to consider in this case because, as one of the earliest examples of impact investing in social property, social impact is to some degree defined by Cheyne Capital as an output, i.e. the amount of housing produced as a result of an investment

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<sup>37</sup> The ideas in this segment of the text can be traced back to a private conversation with Professor Alex Nicholls at Saïd Business School at the University of Oxford in 2019.

provided to a given social sector organisation (SSO), rather than in terms of significant changes in the wellbeing of tenants of social property. Also, significant changes in wellbeing would likely need to be assessed and measured over the medium-to-long-term, whereas housing output(s) are assessed over the short term. This poses a significant challenge when it comes to developing an effective social impact measurement system because there is a lack of cohesion in the language and terminology used by impact investors and SSOs to define social impact measurement in practice. Therefore, the nature of the impact and what we mean by social impact is an important strand of research, which must be examined if this market develops further.

#### *1.4.2 Definitional boundaries*

One of the major challenges facing this incipient market is a lack of uniformity and coherence in the language and terminology used to describe it. This is a persistent issue arising both in practice and academic research, which stifles the development of this market. In order to help address this problem, this thesis aims to establish clear definitional boundaries between the following three key terms: social finance, impact investing, and social investment. To achieve this, this research has relied upon existing scholarly work from Nicholls and Dagers (2016a), which defines these terms as follows:

*Social finance* encompasses the use of a range of private financial resources to support the creation of public social and environmental value or impact. It represents a broad spectrum of capital from grants and engaged ('venture') philanthropy to social impact capital preservation, and sub-market, market, and even above-market returns. As such, social finance encompasses a range of models and research topics including: Islamic finance; mutual finance; crowd-funding; community finance; targeted socially responsible investment; and social enterprise financing. Social finance does not necessarily entail the repayment of capital by 'investee' – or grantee – organisations (p. 6).

*Impact investing* concerns the use of (repayable) capital to create specified social or environmental impact, whether it is through direct allocation capital, investment in funds, or contractual agreements such as (Social Impact Bonds or) SIBs.<sup>38</sup> The focus is therefore mainly on *investor behaviour and motivations* (p. 6).<sup>39</sup>

*Social investment* concerns providing *access to repayable capital* for social sector organisations (SSOs), where the providers of capital are motivated to create social or environmental impact. As a result, there is more of a focus on the *investee* (p. 6).<sup>40</sup>

Therefore, social finance encompasses a broad spectrum of sub-markets and research topics that include impact investing and social investment. It emerged in recent years as a response to an increasing number of investors focused on the intentional creation of a social or environmental impact (Nicholls and Emerson, 2015, p. 1), and these drivers are to be discussed in the next section. Social finance is distinct from conventional finance because it represents a growing consensus that the previous era of profit maximising without accounting for the negative externalities or the social and environmental damages associated with a financial return is ending. The social finance market has developed relatively quickly in the UK due to an ongoing and proactive policy environment, and the significance of this context is further examined in chapter 3.

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<sup>38</sup> Social Impact Bonds or SIBs are a type of payment-by-results contract where the public sector commissioner pays for a significant improvement in a pre-agreed upon social outcomes (Nicholls and Tomkinson, 2015, p. 339).

<sup>39</sup> Nicholls and Dagers (2016a, 2016b) also indicated in a footnote with this definition that industry reports such as (Saltuk et al., 2011) highlight the explicit focus on investor perspectives. Additionally, Nicholls and Dagers (2016b) use a slightly different definition of impact investing in Lehner (2016) which states: ‘Impact Investing concerns the allocation of repayable capital to organisations that have the intention to create specified social or environmental impact. The focus is, mainly on the investor’ (p. 69), which is why ‘(repayable)’ is included in the definition of impact investing above in section 1.4.2.

<sup>40</sup> Nicholls and Dagers (2016a, 2016b) also added a footnote with this definition to explain that access to finance is a major concern of the material produced by the Cabinet Office and Big Society Capital (BSC), both of which aim to help the third sector in the UK to be better equipped to take on repayable finance. See, e.g. Alternative Commission on Social Investment (2015).

Impact investing has been regarded as perhaps the highest profile of the various sub-markets within the social finance market (Nicholls et al., 2015, p. 207), and it presents a new solution for how private capital can be used to finance social and environmental initiatives within the public and third sector. It is distinct from the wider social finance market because it requires the measurement of a social impact alongside a financial return. It offers repayable capital to organisations that seek to create a positive social or environmental impact beyond a financial return, and it has led to the development of Social Impact Bonds or SIBs, a type of outcomes-based contract or a payment-by-results contract that has emerged in recent years as a new mechanism for financing welfare and other social services (Nicholls and Tomkinson, 2013, pp. 335–336). It has also resulted in the use of repayable capital through a sale and leaseback instrument from an impact property fund like Cheyne Capital and an SSO such as a local council, and this is to be discussed further in sections 4.4.3 and 6.1. Hence, the existing research on impact investing tends to focus on investor perspectives.

Social investment, by contrast, focuses on building the capacity for SSOs to take on repayable finance from impact investors (Nicholls and Dagers, 2016b, p. 69). To achieve this, it has relied on existing networks of social enterprises and charities (Nicholls and Dagers, 2016b, p. 69). This body of research considers what can be done for SSOs to be better equipped to receive this new form of repayable capital on terms that are best suited for them. Therefore, the primary concern of social investment is on investee perspectives.

Similar to the analysis presented by Nicholls and Dagers (2016b, 2016a),<sup>41</sup> this thesis aims to show that establishing a common usage of terminology to describe this market is essential if we are to create a strong foundation for future research. Throughout this text, the above terms will be used in the way indicated above, except for when quoting sources where for example, social investment has been used in the place of social finance. These instances will be highlighted in footnotes throughout the text.

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<sup>41</sup> For a comprehensive discussion on differences between the terms ‘impact investing’ and ‘social investment’ see, Nicholls and Dagers (2016b, 2016a).

### *1.4.3 Drivers and trends*

The emergence of this market has come about as a result of powerful drivers (Cohen, 2016). In the past fifty years, the global population has more than doubled. This population growth, along with the accelerated rate of industrialisation has increased the demand for housing and welfare across cities in both the developed and developing context. Following the Global Financial Crisis (GFC), government aid has plateaued. We are finding that, particularly in times of austerity, the resources available from government and philanthropy are simply not adequate. As of 2019, the global population has risen to well over 7 billion and governments across the world simply cannot cope with the scale of unmet social needs (United Nations et al., 2019). Also, the conventional model of aid that is driven by government and philanthropy is limited and cannot offer the necessary resources. Moreover, the scale of economic poverty and the shortage of social services, including the provision of affordable housing, is a trend that is likely to continue to grow globally.

In recent decades, we have seen a global movement of social entrepreneurs who have set out to solve complex social and environmental problems. This growth of social entrepreneurship and this generational shift reflect Cohen's aspiration to build a new market that would finance social and environmental initiatives of vital importance, and it has led to the creation of business solutions that aim to address society's most intractable issues. These include profit-with-purpose business models (Prior et al., 2014) and new instruments for repayable finance (Nicholls and Tomkinson, 2015), which have directly and indirectly affected the provision of goods and services in the public and third sector. These developments are challenging traditional views of philanthropy.

Alongside this, there is an increasing awareness among leading actors in the financial sector, government, and philanthropy that there is no longer any guarantee that the health of the financial system relates to the health of the real economy. In response to this, a growing number of investors and entrepreneurs have focused on the intentional creation of social or environmental impact, based on an awareness that this requires a new source of social financing, which



conventional finance simply cannot offer. Meeting the needs of this emerging market through new types of investment activities that are linked with social or environmental impact requires a level of innovation, in order to develop bespoke capital that is managed according to the various stages of development (Nicholls and Emerson, 2015, p. 1).

Over the past two decades, we have witnessed an emergence of new organisations, institutions, and types of financial instruments, as a response to major institutional changes in the context and objectives of finance. These changes are aimed at supplying various types of capital to address the shortfall of funding for social issues. Nicholls and Emerson (2015a) define these new flows of capital as a new *social finance* market (p. 1). Furthermore, we can situate impact investing as part of this wider umbrella of social finance. In order to support this role, there have been various initiatives aimed at facilitating a stronger integration between the state and the impact investing market, with the UK leading this global effort.

#### *1.4.4 Overview*

As a response to the aforementioned drivers, impact investing<sup>42</sup> aims to help fill the gap outlined above (Nicholls et al., 2015a, p. 207). To achieve this, this new market is developing mechanisms through which investors can fund and participate in innovative and solution-oriented social and environmental initiatives (Nicholls et al., 2015a, p. 207). Impact investing is an advocate of business and markets solving social issues and is based on an evolution of the idea that the financial sector needs to do more than simply create wealth (Cohen, 2016).

The practice of impact investing can generally be understood as the allocation (which involves a process of unlocking or attracting investment) and placement of capital to finance for-profit, social, or environmental projects while at the same time generating a financial return for investors (Nicholls et al., 2015a, p. 207). Therefore, impact investing aims to expand the pool of

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<sup>42</sup> For a comprehensive account of impact investing, including key characteristics, geography, environmental investment, financial instruments, return expectations, market infrastructure, and future challenges, see, e.g., Nicholls et al. (2015a).

capital available for funding the creation of projects with social and environmental value. At the same time, it develops new mechanisms structured for the purpose of achieving *both* financial return and measurable social impact, as opposed to simply generating social externalities incidentally or as a secondary product of earning a financial profit (Nicholls et al., 2015a, p. 207).

As an emergent market, impact investing sits between philanthropy on the right-hand side and what we might call socially responsible investment (SRI)<sup>43</sup> on the left-hand side. It differs from grant funding because, as indicated above, impact investments are made with the expectation of a financial return (Rodin, 2014, p. 7). One of the promises of impact investing is that it could help to bridge the gaps – not only in funding, but also in practice – between the current approaches of the public sector, the capital markets, and philanthropy.

The creation of this new market requires a paradigm shift in capital market thinking, from two dimensions that are based on risk and return, to include a third dimension, *impact* (SIITF, 2014, p. 1). Additionally, this emergent market suggests that the old model of funding social and environmental issues by relying mainly on taxation or philanthropic giving may not be the most effective way to help disadvantaged groups or finance environmental initiatives sustainably in the long term. The creation of impact investing also tells us that, in some instances, the business model and the impact model are the same, meaning that there is no trade-off between financial return and social impact (SIITF, 2014, p. 1).

The concept of mobilising private capital for social and environmental good is not new. Nicholls et al. (2015a) have helped to contextualise impact investing in relation to early precedents that have contributed to this market, which are highlighted in this section of the text. There have been significant efforts over at least the past 70 years to invest in businesses that provide solutions to social issues. The Commonwealth Development Corporation

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<sup>43</sup> The term socially responsible investing (SRI) refers to investment in sustainable businesses that aim to implement best practices in environmental, social, and governmental matters (ESG) or practice corporate social responsibility (CSF) (SIITF, 2014, p. 19). SRI differs from impact investing because it has tended to focus on the intentions of companies rather than setting specific and measurable social and financial impact goals and measuring and reporting the achievement of both (SIITF, 2014, p. 19).

(CDC), established in the UK in 1948, and the International Finance Corporation (IFC), developed in 1956 in the USA, are early precedents which exemplify some aspects of the modern impact investing market. Both the CDC and IFC have been investing in businesses in impoverished countries for decades, and the investments made have a clear indication of both social and financial returns and attract co-investments from other actors (Nicholls et al., 2015a, p. 208). Moreover, the Community Reinvestment Act enacted in 1977 in the USA is an early example of how private capital has been used to effectively finance affordable housing at a large scale. It led to the development of community development financial institutions, which made it possible to allocate millions of dollars of private capital to investing in affordable housing and supporting ventures for economic development (Nicholls et al., 2015a, p. 208).

There are also early discussions of financial approaches in the academic literature that consider social and financial factors. For example, Jed Emerson (2003) identified capital management approaches that included the integration of social and financial considerations, or what he termed a ‘blended value proposition’ (p. 35). Emerson (2003) argued that value could not be separated into economic, social, and cultural components, and this research represents one of the earliest discussions on the value of social entrepreneurship. The early innovations in business, government policy, and academic research mentioned above in this section helped lay the foundation for impact investing emerging as a robust and potentially transformative new market.

Even though we can identify some impact investing practices that have existed for decades, the specific term ‘impact investing’ is relatively new (Kramer and Cooch, 2006; Nicholls et al., 2015a, p. 207). The origins of this term can be traced back to two significant meetings held in Bellagio, Italy in 2007 and 2008, under the leadership of the Rockefeller Foundation (Harji and Jackson, 2012; Jackson et al., 2012). The purpose of the meetings was to encourage private investment in supporting the growth of social enterprises emerging in developed and developing countries around the world. The meetings gathered together a number of prominent industry practitioners and

thought leaders to discuss building a new worldwide industry for social and environmental impact. Moreover, the Bellagio meetings helped to facilitate a series of events aimed at building what was then understood as a new ‘asset’ class of impact investing (Nicholls et al., 2015a, p. 208). What followed from these meetings is a new generation of investors who have begun to participate in this emerging investment practice. These new actors range from development finance institutions and foundations to private wealth managers, pension funds, commercial banks and, more recently, hedge funds. The existing industry research on this market is to be further discussed in chapter 3 (see section 3.2).

Cohen has suggested in early industry research and symposia (Cohen, 2014, 2016; SIITF, 2014) that perhaps the most compelling promise of this new market is that it has discovered a way to enable entrepreneurs who can innovate and scale the finance needed to further their social initiatives. As long as the entrepreneur effectively meets the intended performance objectives, investors will achieve their financial returns and support the social project through to completion (Cohen, 2014). This could take the form of a profit-with-purpose business model, an outcomes-based contract for repayable finance, such as this case of impact investing in social property, or a higher risk social enterprise. Lastly, Cohen and the Social Impact Investment Taskforce (SIITF) (2014) have indicated that, if impact investing can meet its intended objectives at a global scale, in the future ‘the invisible heart of markets will guide the invisible hand to improve the lives of those who would otherwise be left behind’ (p. 42).

#### *1.4.5 Current academic research on impact investing*

The intellectual contributions, at a scholarly level, to impact investing are broader in scope and perhaps less obvious than historical precedents in practice, and could include the following four bodies of existing academic research: microfinance, corporate social responsibility, development finance, and the nature of markets.<sup>44</sup> Looking at the substantial body of literature on microfinance, emerging literature on corporate social responsibility, research

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<sup>44</sup> Identifying the existing scholarly contributions to impact investing can be traced back to a private conversation in March 2019 with Professor Alex Nicholls, Saïd Business School, University of Oxford.

into development finance institutions, and academic discussions on the nature of markets between sociologists and economists will help to illuminate how the core concepts of impact investing are rooted in existing academic debates. If impact investing is institutionalised as a new field, which is likely to occur in the coming years, it could be particularly interesting to further examine how the triangulation between the above bodies of existing academic research has in many ways initiated academic discussions on this newly forming, but under-institutionalised field.

Even though impact investing is a distinct global phenomenon, there has been very little scholarly research that specifically looks at this newly forming field. To date, the first comprehensive review of the academic research on social investment and impact investing (Nicholls and Dagers, 2016a, 2016b) indicated that academic research is significantly lagging behind practice and does not reflect the rapid developments taking place with regard to new financial instruments and initiatives.<sup>45</sup> Also, research is being conducted in isolation and connections between academics are not fully formed (Nicholls and Dagers, 2016a, p. 8), as is also true in the case of this thesis. Importantly, and as previously indicated, Alex Nicholls has developed the most comprehensive attempt, to date, to theorise this new field of inquiry (Nicholls, 2010a, 2010b; Nicholls and Emerson, 2015, p. 6). Other existing academic research on impact investing to date includes a more current review of the literature (Agrawal and Hockerts, 2019) as well as other work (Evans, 2013; Hebb, 2013; Jackson, 2013a; Lehner and Nicholls, 2014; Mendell and Barbosa, 2013; Wood et al., 2013). There is significantly less research on social impact measurement, including an early analysis on the overview of principles (Reeder et al., 2015) and the development of a general theory of social impact accounting<sup>46</sup> (Nicholls, 2018).

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<sup>45</sup> For a comprehensive account of the 73 academic papers evaluated as part of the first in-depth review of the literature on social investment and impact investing, see Nicholls and Dagers (2016a, 2016b).

<sup>46</sup> There is, however, existing social enterprise literature that examines 'blended value accounting' (Nicholls, 2009), impact reporting (Nicholls, 2010c), and the functions of performance measurement (Nicholls, 2010d) that will likely make a significant intellectual contribution to how social impact measurement is dealt with and discussed in future academic research on impact investing.

#### *1.4.6 Market scale*

While it is difficult to determine the exact size of this market, there have been early attempts at speculation. In 2008, research from the Monitor Institute projected that the industry could grow to \$500 billion within five to ten years, which would represent an estimated 1 per cent of global assets under management at that time (Freireich and Fulton, 2009; Nicholls et al., 2015a, p. 209). In 2010, J.P. Morgan and the Rockefeller Foundation published a survey indicating that the industry's invested capital would range from \$400 billion to approximately \$1 trillion in the coming decade (O'Donohoe et al., 2010). Another survey in 2013 estimated that the assets under management were worth approximately 8–10 billion (Jackson and Harji, 2014). This lower estimate was challenged by a later report that focused exclusively on twelve impact investing funds totalling \$1.3 billion of assets under management (Clark et al., 2013). In June 2018, the Annual Impact Investor Survey by the Global Impact Investing Network (GIIN) indicated that there are \$228 billion assets under management in the market (Mudaliar et al., 2018). Furthermore, in 2019, the Global Impact Investing Network (GIIN) produced the most current survey to date, which estimated that at the end of 2018 the overall industry was approximately \$502 billion (Mudaliar and Dithrich, 2019). Despite some variation, these analyses indicate that we are clearly experiencing considerable changes in the financial market structure, and there is likely to be an increasing global trend in impact investing in the future.

#### *1.4.7 Impact investing in affordable urban housing*

Affordable urban housing is predicted to be one of the most significant areas of growth in this emerging market. This J.P. Morgan report (O'Donohoe et al., 2010) estimated that the potential size of investment in the next decade for affordable urban housing globally would be in the range of \$214–\$786 billion, which could potentially result in an estimated profit opportunity in the range of \$177–\$648 billion (p. 44). Within the context of the UK market, this report (HM Government, 2014) indicated that Big Society Capital (BSC) will aim to focus investments on capital-intensive areas, such as affordable housing, because

growing this segment of the market could offer the most obvious way to leverage its assets to the greatest effect.

As demonstrated by this case, social property, including social and affordable housing and the provision of specialised housing facilities, such as residential care, is particularly attractive for private institutional investors like Cheyne Capital because it represents an opportunity to invest in a tangible asset at an institutional scale and earn a stable return. Investing in social property also offers a way to help meet the growing need from private institutional investors to demonstrate social covenants and imbed social impact in their investments. Therefore, it is likely that we will continue to experience a rising trend in private institutional investment in the social rental housing sector from Social Investment Finance Intermediaries (SIFIs) instituted by BSC and other institutional investors due to developments in impact investing in social property or impact real estate.

### **1.5 Who is Cheyne Capital?**

Launched in 2000 by Jonathan Lourie (Founder, Chief Executive Officer, and Chief Investment Officer) and Stuart Fiertz (Co-Founder, President, Head of Responsible Investment, and Director of Research), Cheyne Capital (UK) LLP is one of Europe's leading alternative investment managers, with approximately £4 billion (\$6 billion) of assets under management, at the time of the launch of the Social Property Impact Fund ('the Fund') in 2014<sup>47</sup> (Cheyne Capital, 2014). Its main areas of expertise include: real estate debt, social property impact, investment grade corporate credit, stressed/distressed credit and equity-linked investment. The firm is authorised and regulated in the United Kingdom by the Financial Conduct Authority and is registered as an Investment Adviser in the US by the Securities and Exchange Commission (Cheyne Capital, 2014).

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<sup>47</sup> The concept of the Fund originated as a response to the growing awareness of the negative externalities generated by the traditional banking sector and increasing interest in impact investing following the GFC (Alibhai, 2015). It was created as a result of Shamez Alibhai, a then Partner of Cheyne Capital, presenting the idea of developing an impact fund for social housing to management in the spring of 2014. While Alibhai played a central role in the development of the Fund, Sir Ronald Cohen also encouraged Cheyne Capital to enter this new market and develop a fund specifically allocated to social finance.

Cheyne Capital is representative of an early generation of hedge funds in the UK. From the moment of its inception, its vision was to reach an institutional scale and build major infrastructure. It has continued to scale and diversify for nearly two decades. Since 2009, it has been offering financing solutions in real estate, and as of 2018 it managed approximately £2.5 billion in assets across direct real estate lending, securitised European real estate debt and selective specialised situations (Cheyne Capital, 2018a). In recent years, it has demonstrated an increasing strength in capitalising on dislocations in the market in an opportunistic way (Hedge Fund Intelligence, 2017).<sup>48</sup>

Its decision to invest in housing was both a response to a gap in the market created by the shortage of affordable housing (Flanagan, 2014), as well as the development of the impact investing market in the UK. Cheyne Capital recognised this shortage as an opportunity that it could capitalise upon rather than a problem due to its ability to fund a range of housing solutions for public and third sector housing providers in a period of austerity (see further Flanagan (2014)).<sup>49</sup> Furthermore, its new role as a new social landlord and an institutional investor that has developed a non-traditional part of the market has generated an interest from other institutional investors that had not previously engaged in the market (see further: Bridges Ventures and Cheyne Capital Management, 2015). Thus, it has played a significant role in the market-building phase of impact investing in social property or impact real estate.

What is particularly interesting about this case of impact investing is that Cheyne Capital is prioritising financing for housing based on the unmet needs of social sector organisations (SSOs) rather than the attractiveness of the investment, or an investment based on a higher return model. While Cheyne

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<sup>48</sup> This industry media organisation (Hedge Fund Intelligence, 2017) reported that Jonathan Lourie (Founder, Chief Executive Officer, and Chief Investment Officer) of Cheyne Capital stated in a keynote speech that ‘...hedge funds can make a positive social contribution without sacrificing returns, a dimension (of the market) he believes will become ever more important.’

<sup>49</sup> When Hedge Fund Intelligence (Flanagan, 2014) interviewed Stuart Fiertz (Co-Founder, President, Head of Responsible Investment, and Director of Research) of Cheyne Capital, prior to its move into the social housing sector, it reported that, ‘In the UK there are 1.85 million families waiting to go into social housing according to Fiertz’ and quoted Fiertz who said: ‘At a cost of £100,000 per unit, there is a shortfall of £185bn of property...’ (Flanagan, 2014).



Capital's investments in public and third sector housing providers need to be based on a viable real estate scheme that is sustainable in the long-term, using a novel form of partnering with a given SSO, the model it has employed challenges the logics of conventional investing. A rational investor will choose a higher return model, leaving the others unfunded; these are areas of the market that we can understand as the bottom end, typified by housing in low-income areas for disadvantaged groups. However, what Cheyne Capital has aimed to do was capitalise on this dislocation in the market by offering finance to an area of the sector that has not been traditionally regarded as attractive for investment.

Cheyne Capital also does not maximise earnings. The return target has been set lower, in order to include the integration of social impact alongside financial return, although it has still been effective in generating competitive market returns in its investment in housing. The details of the housing delivery model that Cheyne Capital has employed in various contexts throughout England is to be discussed in chapter 4.

## **1.6 The aims and objectives of this thesis are framed by the following research questions:**

### *1.6.1 Primary question:*

How can we use impact investing in providing quality and affordable housing for disadvantaged groups at scale, with little to no reliance on government funding?

### *1.6.2 Secondary questions:*

The following key research questions offer insight into the fundamental challenges and opportunities Cheyne Capital faced as a new social landlord. Also, these research questions address some of the threats or risks involved in allowing private institutional investors to invest in housing for public and third sector organisations. Each subsequent research question supports the primary research question by examining the main processes necessary for delivering quality and affordable housing in the context of this emergent market.

Importantly, the research questions dealt with in chapter 5 highlight the central role of design in achieving a measurable social impact in housing.

Building procurement questions (to be addressed in chapter 2):

How can impact investing be used to reform building procurement in social housing?

- a. How can impact investing be used to reform public procurement procedures in general?

Market building questions (to be addressed in chapter 3):

How can a for-profit organisation such as a hedge fund ethically invest in housing for public and third sector organisations in the UK?

- a. What are the objections?
- b. What are the restrictions both practically and through legislation and how have these been approached?
- c. How do we do we mitigate risk?
- d. How is Cheyne Capital responding to the need for a financial return while achieving a measurable social impact?

Housing questions (to be address in chapter 4):

How is Cheyne Capital responding to the need for a financial return while providing social property?

- a. What projects is Cheyne Capital investing in?
- b. What challenges has Cheyne Capital faced in implementation and how has it dealt with them?

Design and social impact questions (to be addressed in chapter 5):

How can we use design to achieve a greater social impact in housing?

- a. Are there principles that we can identify from existing architectural projects which can be applied universally to meet housing needs?

- b. How can design be used to help achieve the goal of affordable housing which can be scaled, while also demonstrate a social impact?
- c. How can design be incorporated into this process?

## **1.7 Contribution**

As the first empirical study of impact investing in social property or what is also referred to as impact real estate, this thesis contributes to new knowledge in three main areas. First, it presents impact investing as a novel solution to the enduring problem of delivering quality and affordable housing for disadvantaged groups, at scale, located in or near city centres, as previously indicated in section 1.1.2 and is to be examined in chapter 4. Second, it explains how the emergence of impact investing in social property could help reform building procurement through a novel form of partnering between SIFIs and SSOs. It presents this as a solution in chapter 2 (see section 2.8) and is further examined in chapters 3 and 4 (see section 3.5.4, 3.5.5, 3.5.6, and 4.4.5). Third, it examines an exploratory approach to social impact measurement for impact real estate, which includes a common framework that could be applied in future work, and this will be examined in chapters 4 and 5 (see section 4.4.6 and 5.5).

Given that impact investing is a nascent but under-institutionalised field, we cannot root it in existing scholarly debates on impact investing. In response, this thesis has dealt with the challenge of documenting this newly forming field by rooting it in existing scholarly debates on building procurement. It identifies the key arguments in the literature, which examine how we might address this central challenge of time and cost inefficiencies in building procurement, and it seeks to make a novel contribution to existing debates on partnering. This thesis aims to address a broad audience across a range of stakeholder groups, including experts in housing and housing policy, social sector organisations including housing associations, local councils, and charities, architects, engineers, and planners, private institutional investors operating in the impact investing market, social entrepreneurs, and social finance advocates.

This thesis will show how the emergence of impact investing is transforming the way we procure social property in the context of the modern social finance market, as previously indicated in section 1.1.2 and will be discussed in chapters 3 and 4. It will explain that by introducing SIFIs instituted by BSC, we can provide quality and affordable housing for people on low incomes and disadvantaged groups without relying on government grant funding. Given that impact investing in affordable urban housing is projected to be one of the largest areas of growth in this market in the coming decade, as indicated in section 1.4.7, this research is timely. Because it is the only in-depth academic study on a hedge fund's role in developing housing for disadvantaged groups, it can help to provide insights on future developments in this emergent market.

This thesis will identify the main challenges Cheyne Capital faced in building procurement, and this is to be examined in chapter 4 (see section 4.4.5). It will explain how we will need to change building procurement procedures in social housing and other forms of social property to align with the investment restrictions, constraints, and social covenants of this emergent market. Also, it will examine the risks and challenges of this new model of housing delivery based on joint partnerships between SIFIs and SSOs (see section 4.4.3). By focusing on what Cheyne Capital has identified as some of the most significant challenges to date (see section 4.4), this thesis aims to highlight what are perhaps the most critical areas for future policy research if this market is to continue developing in housing (see section 6.4).

This thesis will include the first academic discussion on social impact measurement for impact investing in housing. When this thesis examines how we could approach social impact measurement, it uses a multi-level model that has two iterations. The first approach, discussed in chapter 4 (see section 4.4.6), presents some observations of this case. It examines how we might measure the savings created through a novel form of partnering between a SIFI such as Cheyne Capital and SSOs and highlights the savings a SIFI could offer by reforming building procurement (see section 3.5.5 and 3.5.6). The second iteration, discussed in chapter 5 (see section 5.5), examines broader

observations about design. It investigates how design can contribute to added value in housing.

The Integral Housing Strategy (IHS) presented in chapter 5 will include a three-part study on how SIFIs can use innovative architectural design to demonstrate a multi-level social impact. The first part (see section 5.3) will show how SIFIs can identify design principles in existing housing projects that can be applied universally to increase the social impact. The second part (see section 5.5) will present a design exercise for a flexible housing programme for housing without a site to deliver scalable and affordable housing that demonstrates a measurable social impact through greater flexibility and, therefore, more efficient and less wasteful. The final part (see section 5.5) will present different approaches to measuring social impact and show how we could bring these approaches together by measuring each stage involved in the delivery of housing (see section 5.5).

To date, this exploratory framework for social impact measurement has yet to be applied in practice. However, it tells us that we could potentially create a well-defined, standardised approach for SIFIs to measure, manage, and report the social impact of their investments, without burdensome checklists or time-intensive processes.

## Chapter 2: Building procurement and impact investing in social property

### Introduction

In order for Cheyne Capital to procure social housing and other forms of social property efficiently and at scale,<sup>50</sup> it needs to first understand the UK building system.<sup>51</sup> What are the mechanisms that constitute the system for procuring social housing? On the one side, which could be understood as the planning side, there are architects and contract surveyors. On the other side, which is the delivery side, there are engineers, contractors and the supply chain.<sup>52</sup> It is within these systems that a given project for social property is procured. When we look at systemic problems, we can understand that the more mechanisms we find that are not joined up, the more inefficiencies are created in terms of the delivery time. Time inefficiencies vary from project to project and from geography to geography, although this is fundamentally not a new challenge for the construction industry<sup>53</sup> (Kara, 2015).

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<sup>50</sup> The term ‘at scale’ refers to at an institutional scale, as indicated in section 1.1.2.

<sup>51</sup> In everyday parlance, the practice of purchasing goods and services is generally understood as ‘buying,’ although for building it is termed procurement (Greenhalgh and Squires, 2011, p. 2).

<sup>52</sup> While it could be argued that the engineers could be on the planning side rather than the delivery side, this description of building procurement is based on the opinion of Hanif Kara and his specific recommendation for how the Fund might achieve greater efficiency in building procurement (Kara, 2015).

<sup>53</sup> The origins of my academic research on the implications of impact investing on building procurement can be traced back to two private meetings in May 2015, during my time in the field at Cheyne Capital. The first meeting, between Brett Steele, the then Director of the Architectural Association, Shamez Alibhai, the then Portfolio Manager of Cheyne Capital, and me, discussed the major challenge of balancing the timescales between the hedge fund and current procedures for building procurement (Steele and Alibhai, 2015). The consensus of this meeting was that the introduction of this asset manager to the social housing sector would need to fundamentally transform the timescales and address the inefficiencies. The second meeting, which included Hanif Kara, Co-Founder and Design Director of AKT II, the London-based structural engineering firm, Alibhai, and me, built on the discussion regarding industry challenges (Kara, 2015). During this meeting, I directed the conversation towards the following question (which I addressed to Kara and Alibhai): *how do we get these systems to align?* By this, I meant how do we get the difference in timescales between this asset manager and the construction industry to align so that they are operating on the same financial timetable. My attempt to understand this key question led me to examine it within scholarly debates in building procurement literature.

Building procurement is at the centre of the development process for social housing and other forms of social property, and is understood as the means by which a client, such as a housing association, or in this case Cheyne Capital, obtains construction work and services from a contractor. Procurement is a key aspect of implementing any publicly funded housing programme in the UK, although it has proved to be a system that operates with excessive inefficiencies.

It is well accepted that procurement procedures in the construction industry are notoriously inefficient. The UK is third from the bottom for the longest public procurement procedure in the EU, due to time and cost inefficiencies, which takes almost 50 per cent longer than the EU average (Royal Institute of British Architects (RIBA), 2012, p. 10; Strand et al., 2011, p. 105). Furthermore, public procurement in the UK is 20 per cent more expensive than in comparable EU countries (Royal Institute of British Architects (RIBA), 2012, p. 9; Strand et al., 2011, p. 88). This is a significant issue because building procurement can account for approximately 8–10 per cent of gross domestic product (GDP) in a typical year. These inefficiencies ultimately result in major expenditures and a waste of critical resources.

Inefficiencies that are endemic to building procurement are exacerbated in the context of social housing. Public-sector projects<sup>54</sup> are widely criticised for their bureaucratic regulations, which often lead to even longer construction times and increased costs (Greenhalgh and Squires, 2011, pp. 191–192). An effective procurement for social housing and other forms of social property, such as elderly extra care, is crucial to ensuring that projects delivering vital social services advance and are fully realised. This may seem obvious, although the implementation of an efficient, non-discriminatory selection process that achieves quality design, value for money and accountability remains one of the most enduring challenges for building procurement. Therefore, instead of achieving the most volume, for the lowest amount of cost and in the shortest

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<sup>54</sup> Public sector projects, of which publicly procured social housing is defined as any project that is under the ownership of central and local government (Greenhalgh and Squires, 2011, p. 191).

time, these inefficiencies are wasting critical resources in areas of the sector that faces the most severe limits on funding.

In the past thirty years, the housing industry has experienced a sharp decline in building standards, which is particularly apparent in social housing. The emphasis on lowering costs has often led to poor workmanship and building quality. Moreover, the gaps in minimum standards leave room for cutting corners or exclude factors that could have a significant impact on building outcomes. The Grenfell Tower fire that took place in a council-owned high-rise housing block in the London Borough of Kensington and Chelsea in June 2017 is utterly symptomatic of this issue (Apps, 2017; ASH, 2017; MacLeod, 2018). While there are many factors that may have contributed to this catastrophe, the issue of building standards and accountability in procurement procedures is an area of research that merits further scrutiny.

Given that we have been in a period of austerity, housing associations and charities are increasingly relying on private investment to meet their housing objectives. As a result, there is a rise of private investment in the sector, which creates an increased risk of private investors who seek to exploit these dislocations in the market for personal gain. Therefore, we need to develop more effective financial instruments and mechanisms to ensure that building standards and design outcomes are appropriately monitored and evaluated in housing projects for disadvantaged groups.

The longstanding challenge of ensuring design quality is compounded by rising concerns over inefficient energy consumption in the construction industry and the need to embed sustainability imperatives in all stages of building procurement (see e.g. Tang et al., 2019). A procurement approach that could lead to more environmentally responsive, energy-efficient housing would ultimately reduce costs for the lifetime of the building and energy costs for the tenants. These rising pressures to maximise building performance and reduce energy consumption require the development of a procurement procedure that is based on the lifetime of the building, and yet this is not widely accounted for in current practice.



Inefficiency in building procurement is a longstanding, well-documented issue. Various official and unofficial reports produced in the mid to late 1970s highlight the unflattering difference between the UK construction industry and various overseas construction firms<sup>55</sup> (see e.g. Slough Estates, 1979, 1976). The reports that emerged at this time mark the start of an ongoing trend, where the client repeatedly voiced a strong dissatisfaction with the inefficiencies of the construction industry. What followed were a number of reports and initiatives from government and industry that have aimed to revolutionise and reconfigure the construction industry with regard to building procurement (British Property Federation (BPF), 1983; Construction Productivity Network, 1988; Latham, 1994; National Economic Development Office (NEDO), 1988, 1983, 1978; The Department of Trade and Industry, 1998, 1998). Studies by housing associations and charities also attempted to resolve issues in procurement (Audit Commission, 1994; Bell, 1996; Goodchild et al., 1996; Graham, 1996). Of course, some major changes have resulted from these ongoing attempts to improve efficiency in building procurement. Within contemporary practice, the development of mechanisms for procuring goods and services in building is a significant area of work and encompasses a large number of systems of procurement. Attempts at procurement reform have regarded the inefficient, fragmented nature of the construction industry as a management problem that could simply be resolved through different procurement methods (Greenhalgh and Squires, 2011, p. 157). However, little improvement has followed, and we are still faced with massive problems of budget overspends and time-overruns.

One of the difficulties in pursuing design innovation could be attributed to public procurement procedures, which do not facilitate a market that offers equal access and competition because it excludes SMEs or micro-businesses due to their size. This unequal access is particularly unfavourable for the commissioning of the architectural work because the majority of UK architectural practices are defined as SMEs, which makes them too small to

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<sup>55</sup> Reports by Slough Estates in 1976 and 1979 represent two particularly critical case studies which found that the UK industry was costlier and less time efficient than the other countries surveyed.

tender or bid on a project. As a result, competitive and pioneering design practices could be excluded from the market based on their size (Royal Institute of British Architects (RIBA), 2012, p. 4).

Micro-enterprises could play a fundamental role in challenging conventional approaches to housing design and embedding new mechanisms to ensure that improved design outcomes are met in housing for disadvantaged groups. Equally, they could play an instrumental role in generating a new level of growth for local economies. The exclusion of the majority of UK design practices due to their size overlooks what could be massive resources for advancing the sector. There is a need to increase access and allow the public sector the advantage of a wider pool of UK design talent.

Another significant barrier to innovation is that the culture of the UK building industry does not fully acknowledge the urgent need for change (Greenhalgh and Squires, 2011, p. 3). Because the UK building industry is geographically separated from the European continent, it has not experienced the full advantage of cross-border competition. The absence of a strong overseas competition has likely affected building standards. One indicator of this issue regarding standards might be reflected in the difference between best practice and industry average, which is regarded by some as too great (Department of Trade and Industry, 1998; Greenhalgh and Squires, 2011, p. 3).

Even if there were a strong recognition that building procurement needs to change, several factors in traditional procurement procedures could make reform particularly challenging. On the one hand, there is a level of uncertainty at the onset of a construction project (see, e.g. Love et al. (2008). We usually do not know the true cost of a given building, the duration of time it will take to complete it, or the quality produced, due to the variables involved and the uniqueness of construction as a product. From the perspective of the client, this can make the investment difficult to predict, as the unknown variables relating to time, cost and quality can pose major challenges, particularly in the context of the public sector, where funding is limited. On the other hand, in order for a project to advance from planning to completion, each stage requires input from a range of contributors and stakeholders. These

stakeholders might include financial investors, government agencies, insurance companies, social sector organisations, developers and other indirect organisations that have an interest in the project. Moreover, the range of actors involved often have adversarial and opposing viewpoints, which in itself can pose significant barriers to ensuring that a given project reflects the best interests of the client. Lastly, upon completion of a given project, traditional procurement procedures can make it difficult to assess quality.

The issue of inefficiency in building procurement has also been subject to varied discussions within the academic literature. While there is a general consensus that the issue exists, there is a broad range of views on how best to address it. Some believe that there are certain advantages or disadvantages inherent to different procurement methods, especially in terms of their value for money or promotion of innovation (Goodchild and Chamberlain, 1999; Naoum and Egbu, 2015). The reforms of funding through the Housing Act 2004 made it possible for private sector firms to be eligible for grant funds to build new social housing and manage housing for social purposes (Mullins and Walker, 2009, p. 204). Even though this Act represents another attempt to increase efficiency and competition in social housing provision, it remains a topic of contentious debate as to whether the private sector should be able to compete with the public sector for grant finance (Mullins and Walker, 2009). Despite these varied attempts to research how different procurement procedures might increase efficiency in the construction industry, the academic literature to date is limited and remains somewhat inconclusive. In recent decades, there has been an increasing interest in the emergence of collaborative arrangements in the construction industry as a promising strategy for reducing inefficiencies (Barlow et al., 1997; Bennett and Jayes, 1998; Bresnen, 2009; Bresnen and Marshall, 2000a; Bygballe et al., 2010; Eriksson, 2010; Gadde and Dubois, 2010; Hartmann and Bresnen, 2011; Hellard, 1995; Naoum, 2003; National Economic Development Office (NEDO), 1991; Venselaar and Wamelink, 2017). Such activity in building procurement is termed *partnering*, and will be discussed further in section 2.1.

When we introduce impact investing to the procurement of social housing, we face an additional challenge of demonstrating a measurable social impact alongside a financial return. Because impact investing is predicated on the intention of achieving a social impact as well as a financial return, and measuring the achievements of both, social impact measurement is critical. However, there is currently no standardised approach to measuring the impact of social property. Further, social impact measurement has not yet been institutionalised: it lacks any clear regulatory framework and current practices seem to fall short when it comes to providing well-founded evidence<sup>56</sup> (Nicholls et al., 2015b, pp. 253–254, 278). This is particularly problematic for impact investing in social property because there is a lack of research on social impact measurement for housing. If this market continues to advance, what this may imply is that we could embed social impact measurement within building procurement procedures.

For the first generation of impact investors in social property or impact real estate investors, the challenge of procurement reform is immense. An asset manager, such as Cheyne Capital, which has recently entered this new market, is tasked with delivering social property for a range of public and third sector housing providers at an institutional scale. In addition, it aims to increase the efficiency of building procurement and elevate the design quality to demonstrate a social impact. Cheyne has also implemented an early interpretation of what social impact measurement in social property might look like. Although it falls short when it comes to providing evidence of impact, it remains an important feature for critical analysis.<sup>57</sup> As this research has indicated, the implication of this is that this is an opportune moment to

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<sup>56</sup> Even though institutionalising social impact measurement remains an ongoing challenge, there are significant efforts to achieve this including Impact Management Project (IMP), a forum that aims to find consensus and share best practices and Social Return on Investment (SROI), a measurement and accounting framework, as indicated in chapter 1 (see section 1.1.2, footnote 18). Importantly, SROI has also been applied to capturing the social value of the built environment (Watson et al., 2016; Watson and Whitley, 2017). Therefore, if we are to develop a standardised approach to social impact measurement in housing in the context of this market, it will be interesting to examine how SROI could inform future work.

<sup>57</sup> The body of work that Cheyne Capital initially used to examine social impact measurement in the UK social housing sector was developed as a joint initiative between Daniel Fujiwara and HACT housing charity (Fujiwara, 2013; Trotter et al., 2014).

intervene. If we do not do so, this potentially transformative market, which has been characterised by significant innovation, could become just another means of encouraging privatisation. The case of Cheyne Capital gives us the opportunity to better understand how we might incentivise procurement reform and legislate new processes to enforce reforms while at the same time fostering the development of impact investing.

To date, no existing academic research has examined how impact investing in social property might inform procurement reform.<sup>58</sup> This thesis seeks to respond to this gap in the literature and examine how impact investing in social property might contribute to and help to advance current discussions on building procurement reform in particular. The aim of this chapter is, first, to examine the current scholarly debates in building procurement and partnering, as well as identify the current gaps in these debates. Then, it aims to show what can we could learn from this specific case of Cheyne Capital, and more generally what this emergent market of impact investing might teach us about procurement reform. To achieve this, the following chapter will review the literature on scholarly debates that examine the concept of partnering as a means to increase efficiency in building procurement. The chapter will also include a limited amount of literature on impact investing and procurement, which to date consists of very little research and includes four industry reports (Giddens et al., 2018; Social Finance, 2014; Wood et al., 2012, 2011) and one scholarly article (Wood et al., 2013). This literature review will serve as a foundation in later chapters, which use the case of Cheyne Capital to examine how impact investing can influence procurement reform.

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<sup>58</sup> However, the implications of impact investing on procurement reform, in general, have been examined in existing academic research on the emergence of Social Impact Bonds (SIBs), a new mechanism for financing welfare and other social services which are a type of outcomes-based contract or a type of payment-by-results contract (Nicholls and Tomkinson, 2013, pp. 335–336), as described in section 1.4.2. For example, Nicholls and Tomkinson (2015) have examined how a SIB contract between the government and the service provider is transforming how we commission welfare services because it allows us to invest in a measurable outcome change rather than inputs or outputs (p. 338). Also, it involves a contract that is typically longer in duration than government contracts (Nicholls and Tomkinson, 2013, p. 338). Even though impact investing in social property differs from a SIB contract, the relationship between these two innovative mechanisms for financing social services is an essential area for future research, and SIBs will be briefly discussed in chapter 3 (see section 3.5.1, footnote 98).

This chapter is divided into ten main sections, including the introduction and conclusion, and will be organised as follows. After the introduction, the first section ('What is partnering?') introduces the concept of partnering, which, it is argued, can increase efficiency in building procurement. The second section ('What are the benefits of partnering?') explains how partnering was introduced as a means to overcome the issues of traditional procurement procedures, and highlights the advantages it aims to achieve. The third section ('When to use partnering...') discusses the types of projects where this approach could be most effective and how it could be implemented. The fourth section ('The development of partnering in UK building procurement') looks at the historical context in which this approach gained popularity, highlighting four key industry reports. The fifth section ('Partnering in UK social housing') describes two main research projects, which examine two major initiatives that attempted to implement partnering in the context of this sector; it also identifies a lack of further research into this topic. The sixth section ('Current scholarly debates on partnering') identifies a lack of consensus on the concept of partnering and examines how this concept might evolve in the future. The seventh section ('Partnering, financial literacy and procurement reform') identifies a gap in the scholarly literature on the topic of financial literacy as a key criterion for agents of procurement reform, and explains how this thesis aims to add to current knowledge regarding a novel form of partnering between an institutional investor operating as a new social landlord and its joint partnerships with social sector organisations (SSOs). The eighth section ('Procurement and impact investing') identifies a number of early reports on impact investing and procurement in general and only one UK report, highlighting a crucial gap in current research on this topic. The final section identifies a number of key research questions on building procurement, highlighting the potential role this emergent market could play in helping to solve some of these ongoing issues.

## 2.1 What is partnering?

One relatively new approach, which has been emerging over the last few decades is the concept of partnering (Bresnen, 2009; Bresnen and Marshall, 2000a; Eriksson, 2010; Hartmann and Bresnen, 2011; Naoum, 2003). It is argued to be an effective method for improving efficiency and quality, and has grown out of the development of strategic alliances among key construction clients with the goal of efficiently managing the supply chain. It is both a concept and a philosophy that is based on the intention to establish a framework for mutual objectives among all members of the building team, and the attempt to reach a dispute resolution procedure (Naoum, 2003, p. 71). As such, partnering encourages the principle of continuous improvement. Also, it stresses the importance of the critical engagement of all parties as a necessary means to create incremental change for the good of the project (Naoum, 2003, p. 71).

In the pursuit of a more efficient procurement procedure for social housing, there are few pathways left in terms of how we can innovate. Making projects more efficient is essentially about establishing the right relationships – finding the right partners and joining them up.<sup>59</sup> Indeed, there is a significant body of literature that stresses the concept and necessity of partnering (Barlow et al., 1997; Bennett and Jayes, 1998; Bygballe et al., 2010; Gadde and Dubois, 2010; Hellard, 1995; Venselaar and Wamelink, 2017), as if partnering is a prerequisite for more coherent building procurement and a consistent rationality. However, before further examining this issue, it is clear that this proposal is based on the needs of a relatively chaotic field, given the number of agencies involved in the area of building procurement. This is obviously a historical phenomenon, but it is also an economic problem. The plurality of agents involved in any large, public sector housing project can contribute to a permanent drag on efficiency. Anecdotally, participants in such projects provide countless stories of situations where large problems were caused by architects not speaking to contractors. This breakdown in communication between

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<sup>59</sup> The argument presented in this segment of the text can be traced back to a private conversation with Hanif Kara in May 2015 at AKT II in London.

architects and contractors in the UK is endemic and has been an issue for approximately the past seventy to eighty years (Kara, 2015).

Before we turn to the detailed arguments in favour of partnering, it is perhaps worth noting that even though various issues are discussed under the term ‘partnering,’ it is perhaps not as clear as it might be. After all, the term ‘partner’ in business and economic analysis means several different things. On the one hand, it refers to the more legal conditions of the operation of capital which seeks to take on shareholders in the form of what in the 19<sup>th</sup> century was known as a joint stock company. At the same time, the term partner is really also part of any account of the division of labour in approaching a task that will be broken down into a number of subordinate tasks carried out by various workers. It also refers simply to a good relationship, characterised by cooperation and a sharing of joint objectives, which is made apparent by the intention of one firm to partner with another. Therefore, the term partnering could have powerful implications, but it is also vague and needs further clarification in the context of building procurement.

Partnering largely developed as a response to the failure of traditional procurement methods to meet client needs and project objectives. The UK building industry is governed, for the most part, by a culture of competition, which has been the basis of client criticism (Naoum, 2003, p. 72). This issue is heightened in the context of UK social housing because the public sector was previously restricted by the rules of compulsory competitive tendering (CCT) (Greenhalgh and Squires, 2011, p. 156). The introduction of CCT in the UK essentially forced local authorities to open up to private competition, in an attempt to reduce costs and achieve greater value for money (Centre for Public Services (CPS), 1994; Pinch and Patterson, 2000). The public sector, which is still the single largest client of the construction industry, has relied mainly on a traditional approach of selecting construction firms based on a price-based competitive tendering system (Naoum, 2003, p. 72).<sup>60</sup> Under this common

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<sup>60</sup> A price-based competitive tendering system involves a process where a number of bidders are given a clear description of the work to be completed for a given project and must submit a price for their proposal. Because those tendering for a contract are often competing with others and the contract is almost always awarded to the lowest bid, they are financially incentivised to submit the most competitive offer.



method of procurement, the contract is almost invariably awarded to the lowest bidder (Naoum, 2003, p. 72).

The traditional procurement approach, which is based on price-based competitive tendering, has a number of major disadvantages (Naoum, 2003, p. 72). The effort to win tenders has led contractors to exclude profits or overheads, which results in poor measurements of cost and price. On the part of the client, the emphasis on cost has also excluded major factors from consideration, such as the calibre of resources to be employed, the methods used to deliver a certain quality, which can affect building operating costs, safety issues and environmental impacts (Naoum, 2003, p. 72). As a result, competitive tendering is widely viewed as a race to the bottom, and can lead to later disputes between the contractor and the client over costs or have even more dire consequences, such as unsafe living conditions for tenants of social housing. Whilst we cannot attribute the failings of the UK building industry to the process of lowest cost tendering, it has proved to be a major barrier to achieving greater efficiency in the procurement of social housing (Naoum, 2003, p. 72).

## **2.2 What are the benefits of partnering?**

Partnering was introduced with the aim of overcoming the inefficiencies of traditional, adversarial procurement procedures and it is widely agreed to have a number of benefits. These benefits could potentially include lower risk of cost and time overruns, potential time and cost reduction, efficient resolution of problems, lower administration costs, increased opportunities for innovation for the project owner, better productivity, expedited client/design decisions, better overall control over time and cost, lower overhead costs, and enhanced repeat business for the project contractor (Hellard, 1995, p. 42). Also, the benefits for the architect or design consultants could include: reduced exposure to document deficiencies through early identification of problems and solutions, enhanced role in decision-making and problem resolution, reduced administrative costs and greater opportunity of making a profit through equity involvement as a stakeholder (Hellard, 1995, p. 42). Moreover, the mutual benefits for all

stakeholders could include reduced exposure to litigation and greater profit potential.

As such, partnering is intended to benefit all stakeholders and contributors involved, including the project owner, the design consultants including the project architect/engineer and consultants, the project contractor and the sub-contractor. By engaging all stakeholders and contributors, partnering aims to ensure that all of the parties are invested in the outcome, as a means of ensuring the most efficient approach to building procurement.

It has been described as a high-leverage effort, which may invariably increase staff and management upfront, but which ensures the benefits accrue in a more collaborative, less confrontational process and which results, upon completion, in a successful project without the risk of litigation and claims<sup>61</sup> (Hellard, 1995, pp. 40–41).

### **2.3 When to use partnering and how should it be implemented?**

Partnering is not intended for all types of projects (Thompson and Sanders, 1998) and oftentimes, in small one-off projects, the costs of setting up the partnership does not justify such an extensive collaborative approach (Bresnen and Marshall, 2000b). According to Eriksson (2010), transaction cost economics (TCE) and other related literature on pure market relations suggests that facilitating competition is best suited for simple, occasional transactions, whereas relational contracting that is intended for cooperation is best suited in more complex, reoccurring transactions that require customisation (Williamson, 1985). Based on this logic, various researchers generally agree that increased cooperation or partnering is called for in construction projects that are complex, require customisation, have higher levels of uncertainty, are long in duration or are under strict time constraints (Eriksson et al., 2008; Lu and Yan, 2007; Palaneeswaran et al., 2003).

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<sup>61</sup> In order to align incentives, commitment to partnering would need to come from top management (Hellard, 1995, p. 37). While contracts could help to align interests, it also requires significant commitment from both firms, based on shared objectives, the development of a joint evaluation process and issue resolution process (Hellard, 1995, pp. 37–39). Also, aligning these incentives could involve a significant cultural change within the internal organisation of each firm.

Partnering for a given project often reduces the number of agencies because it is generally based on decreasing the number of separate firms in a project. One potential problem with partnering for firms, companies, or even the third, or non-profit sector is that an effective partnership diminishes the absolute control of one entity over another. It expands a kind of horizontal relationship with middle management. Hence, it could be significantly difficult to implement because it contradicts and challenges normative perceptions of work culture that are deeply embedded in the operations and functions of companies, particularly within the housing sector. Moreover, it could be rejected altogether by both parties, because neither would want to abdicate any level of control in pursuit of a long-term, common goal.

Selecting a suitable extent of cooperation has emerged as a significant problem, which has been evaluated in a number of ways. The extent to which parties collaborate in cooperative relationships has been described as a continuum (Thompson and Sanders, 1998). Based on the logic of TCE, Eriksson (2008a, 2008b) has developed a competition continuum, in an attempt to propose a suitable balance between cooperation and competition in consumer-supplier relations for various projects (Eriksson, 2010, p. 907). Eriksson (2010) further argues that, as the level of complexity, customisation, uncertainty, duration, project size, and time pressure increase, the governance structure should focus more on cooperation rather than competition (Eriksson, 2010, p. 907). Therefore, the client would need to assess the project characteristics in order to determine the optimal balance of cooperation and competition.

Eriksson (2010) claims that partnering with a high level of cooperation can be facilitated through the following: early involvement of contractors in joint specification, direct negotiation with one bidder, where the bid evaluation is based on soft parameters (e.g. technical and managerial competence, earlier experience of the supplier and shared values) as opposed to the lowest tendering price, incentive-based compensation, joint subcontractor selection, collaborative tools and activities (e.g. joint objectives, team-building events, partnering questionnaire, joint IT tools, project office and risk

management, and conflict resolution techniques), which aim to encourage socialisation among partners and self-regulation of the supplier (p. 908).

Achieving the advantages of both cooperation and competition might involve a greater level of complexity because various procurement alternatives must be appropriately selected and combined, and not all combinations work together (Eriksson, 2010, 2008b). Thus, a greater understanding is needed of the ways in which different procurement procedures could be combined and implemented. Eriksson (2010) indicates that detailed case studies could offer further insight and suggests the following examples of efforts to date: early involvement of contractors in joint specification (Brown et al., 2001); bid evaluations based on soft parameters (Kumaraswamy and Anvuur, 2008); subcontractor involvement (Briscoe et al., 2004) and partnering questionnaire (Cheung et al., 2003) could offer insight into the best means of implementing specific procedures (pp. 908–909). In order to implement a full range of procedures, Eriksson (2010) recommends several studies (Bresnen and Marshall, 2002; Cheung et al., 2003; Eriksson et al., 2008), which might also prove useful when it comes to better understanding the relationships between various procedures (p. 909).

#### **2.4 The development of partnering in UK building procurement**

The concept of partnering gained popularity in the UK in the early 1990s against somewhat of a volatile background. The problems of a severe economic recession and the consequent withdrawal of industrialists from the capital development markets resulted in a sustained period of depressed housing market activity (Greenhalgh and Squires, 2011, pp. 43–44; Hellard, 1995, p. 3). Many of the largest contractors and design firms experienced significant losses and a massive number of firms became insolvent. At the same time, private and public sector clients raised ongoing concerns that the construction industry needs to reflect the best practices of the manufacturing industry and deliver a satisfactory product. Commentators also indicated that there was a need to change the fundamental culture of the construction team (Naoum, 2003, p. 72). An early report on partnering that emerged at this time in the UK included

*Partnering: Contracting without Conflict*, published by the National Economic Development Office (NEDO) in 1991, which reviewed the practice of partnering and was comprised of two studies of established partnerships.

The Latham Report *Constructing the team*, produced by Sir Michael Latham in 1994, represents perhaps the most significant milestone for the concept of partnering (Latham, 1994; Naoum, 2003, p. 72). This report, which emerged in the post-modern era, indicated for the first time that the public sector should change procurement procedures and approaches to include the concept of ‘partnering,’ which had proved to be highly effective in the USA, Australia and Japan (Latham, 1994; Naoum, 2003). The USA and Australia are used as the main references because they had initiated effective procedures for the selection of subcontractors in public sector contracts<sup>62</sup> (Latham, 1994; Naoum, 2003, p. 72; Skeggs, 2004). This report, which was jointly commissioned by government and industry, explored ways of improving productivity by encouraging greater partnering, as a way to prevent the wastage seen in more traditional, adversarial approaches. Latham concluded that enhanced performance could only be achieved through teamwork, in an atmosphere of fairness to all participants, based on seeking ‘win-win’ solutions (p. v).

The recommendations of the Latham Report led to the development of the Construction Industry Board (CIB) in 1995, established for the purpose of implementing, monitoring and reviewing the recommendations made in the report (see, e.g. Construction Industry Board (CIB), 1997). Even though the CIB helped to encourage the concept of partnering by promoting a culture of teamwork, cooperation and continuous improvement within the industry, the implementation of these recommendations proved to be significantly more difficult. Another consequence of the Latham Report was the Housing Grants, Construction and Regeneration Act 1996, also known as the Construction Act, which attempted to legislate some recommendations from the report. The Act aimed to resolve issues in the construction industry relating to delayed payments

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<sup>62</sup> In the USA, the concept of ‘partnering’ was developed by the US Army Corps of Engineers in the Portland, Oregon district, where it proved to be highly effective and where it was used in both the public and private sector (Construction, 1995; Naoum, 2003, p. 72).

and disputes, as well as encourage good relations between different actors and improve project performance (Greenhalgh and Squires, 2011, pp. 45, 103).

The recommendations of the Latham Report (1994) were clearly influenced by early reports on the topic (see, e.g. Construction Industry Institute (CII), 1991; HMSO, 1994a, 1994b; National Economic Development Office (NEDO), 1991) and included the following:

Specific advice should be given to public authorities so that they can experiment with partnering arrangements where appropriate long-term relationships can be built up. But the partner must initially be sought through a competitive tendering process, and for a specific period of time. Any partnering arrangement should include mutually agreed and measurable targets for productivity improvements (p. 50).

Even though the Latham Report identified major problems in the construction industry and made a large number of recommendations, which resulted in some new developments, there remained a critical mass of private sector clients that were doubtful whether yet another report criticising the inefficiencies of building procurement would result in any significant change (Naoum, 2003, p. 72). This concern resulted in the new Labour Government of 1997 partnering with the private sector to publish *Rethinking Construction*, known as 'The Egan Report' in 1998 by Sir John Egan (Department of Trade and Industry).

The Egan Report provided further impetus for partnering. Egan suggested that the UK building industry suffered from the same unfavourable conditions as the 1960s UK automotive industry and made a series of recommendations to promote mutually beneficial partnerships. The report also presented the idea that the lowest price should not be the only criterion for selection and that other factors are important to consider. Further, it identified methods for improving efficiency, such as a wider integration of design and construction processes, and increased standardisation (Department of Trade and Industry, 1998, p. 9).

Both the Latham and the Egan Report, which were at least partially commissioned by government, echoed ongoing concerns over efficiency issues and presented the concept of partnering as one potential solution. However, the Egan Report also called for more fundamental changes in the building industry, as indicated by the following:

To summarise, the Task Force wishes to emphasise that we are not inviting UK construction to look at what it does already and do it better: we are asking the industry and Government to join with major clients to do it entirely differently. What we are proposing is a radical change in the way we build. We wish to see, within five years, the construction industry deliver its products to its customers in the same way as the best consumer-led manufacturing and service industries. To achieve the dramatic increases in efficiency and quality that are both possible and necessary we must all rethink construction (p. 37).

In the past, when competitiveness and bidding were discussed, the general assumption was that the lowest tender would win. Economists have long rejected this position on the basis that the decision of whether to offer a contract must depend on a wider array of considerations, which include more than just the price. We all know that opting for the cheapest buy is no guide to maximising value. However, the issue of selecting the lowest tender almost always has further implications. The questionable value of the lowest tender is emphasised by the fact that, in building procurement, construction work is characterised by massive overruns. Therefore, choosing the lowest tender becomes even less rational because it almost invariably does not equal the highest profit margins, and any attempts to include time constraints as part of the contract has proved to do little to enforce efficiency.

One of the key features of the Egan Report was its recommendation to the industry to replace competitive tendering with long-term relationships, based on a clear measurement of performance and continued improvements in efficiency and quality (p. 5). Egan argued that long-term partnerships where

both parties share the benefits and risks, and adopt a win-win approach over a number of projects, was key for elevating the quality of the UK construction industry. He further recommended that clients and the construction industry are moving away from competitive price-based tendering and formal construction contracts, and towards a 'supply chain' system of construction production that is more common in the manufacturing industry (p. 4). This, the Egan Report suggested, could improve productivity and therefore profits (p. 4).

Another significant report that emerged during this same period came from Bennet and Jayes, who published *Trusting the Team: The Best Practice Guide to Partnering in Construction* (1995) based on their research on Japanese construction and case studies of partnering in the US construction industry. This early work described the principles underpinning the partnering ethos and advocated for partnering as an innovative procurement procedure to maximise productivity, increase mutual cooperation and achieve greater environmental sustainability. Also, it discussed how partnering could be practically implemented within the UK construction industry, including legal and contractual issues and would serve as a standard reference for establishing partnering in the UK construction industry.

## **2.5 Partnering in UK social housing**

The Egan Report identified the UK social housing sector as one of the initial and significant opportunities where change could be achieved, and it challenged the sector to organise housing based on its recommendations (p. 5). At the same time, housing associations faced increasing pressures to adopt partnering and transform their approach to procurement in order to increase the value for their tenants and generate mutually beneficial advantages for their supply chain. In 1999, the Best Practice in Partnering Group (BPiPG) formed to help establish good practice in partnering in social housing, in the South and West of England (Jones and O'Brien, 2003, p. 1). The formation of BPiPG marked the beginning of a four-year research project which aimed to assist registered social landlords in developing new supply chain relationships and developing and managing sustainable partnerships (Jones and O'Brien, 2003, p. 1). Further, the BPiPG



represented the first major initiative in the UK that aimed to increase awareness of partnering and promoted its adoption in the social housing sector.

During this same period, another similar but unrelated initiative began: a select group of housing associations reviewed their approach to procuring housing and determined that their new building stock was too expensive to build and maintain, and did not use a sustainable approach to building (Kaluarachchi and Jones, 2007, p. 1054). This group then concluded that they would need to change their procurement methods if they were to improve the cost, efficiency and quality of their new build programmes (Jones and Palmer, 2000). What followed from this was the formation of the Amphion Consortium, an initiative to implement the Egan agenda (Kaluarachchi and Jones, 2007) that counted on the membership of a number of registered social landlords. This consortium aimed to champion long-term successful partnering, with an initial goal to procure 1,000 prefabricated homes over a three-year period. The group grew from 15 to 25 housing associations, which then agreed to procure approximately 2,000 homes over a four-year period (Kaluarachchi and Jones, 2007, p. 1055).

The consortium envisioned changing its procurement procedure through the following: a long-term partnering agreement with a selected house builder; a factory-based house production facility; key performance indicators to monitor change; and the set-up and management of the whole house building supply chain (Kaluarachchi and Jones, 2007, p. 1055). The Amphion programme aimed to elevate procurement procedures by monitoring key performance indicators and associated benchmarks, to ensure they are over the national and industry averages. Following this, the group selected, through a competitive tender, a contractor for the duration of programme who had won awards for the innovative Tee-U-Tec timber frame housing system – it had also previously demonstrated its ability to erect one house in approximately six hours (Kaluarachchi and Jones, 2007, p. 1055). The main benefit of the Amphion project was to be achieved by identifying best practice guidance and developing robust management information tools that would provide all registered social landlords with the means to improve the procurement of their new housing stock (Jones and Palmer, 2000).

Initially, this strategic partnership worked well, although the outcome of the Amphion programme tells a very different story than what was originally envisaged. Offsite manufacturing targets proved difficult and the intention to prefabricate 80 per cent of each house was never realised due to lack of resources and skills. The highest achieved factory production was only 52 per cent, with 43 per cent as the average (Kaluarachchi and Jones, 2007, p. 1058). Also, the quality of the house unit caused significant problems because of the number and severity of defects. This resulted in the client's loss of confidence when it came to the housing unit meeting its performance targets, the consultants supplying their services and the contractor delivering the housing on time (Kaluarachchi and Jones, 2007, p. 1057). By the end of the project, only 713 out of 2,050 homes were delivered (Kaluarachchi and Jones, 2007, p. 1058).

Whilst there are clearly a number of factors that could have influenced the outcome of the Amphion Consortium, Kaluarachchi and Jones (2007) indicate that the contractor experienced a number of hostile takeovers during the project, which significantly altered the development of the consortium (p. 1059). As a result, the partnering agreement was re-drafted and re-signed, and the new company did not have the experience necessary to meet the needs of the consortium. In addition, there were problems of poor site management practices, and the project teams seemed to have an insufficient understanding of the Tee-U-Tec system, which may have resulted in the inability to take advantage of fast construction methods (Jones and Kaluarachchi, 2007, p. 340). Despite the unanimous acceptance of the Egan principles, a large number of the registered social landlords were also not prepared to deal with the implementation of new initiatives, such as partnering, modern methods of construction or key performance indicators (Kaluarachchi and Jones, 2007, p. 1059). As such, 'training' was identified as one of the key lessons and areas for future work.

Even though the Amphion programme failed to meet its projected procurement goals, it represented a significant milestone in the monitoring and evaluation of the performance of an innovative partnering agreement. To date, the literature on a long-term study of a strategic partnership in UK social

housing is highly limited and very few studies have addressed this issue. Some research studies (Jones and Kaluarachchi, 2008, 2007; Jones and Palmer, 2000; Kaluarachchi and Jones, 2007) have attempted to fill this gap in the literature. Even though it may be difficult to draw general conclusions from this innovative experiment with what was at the time a new procurement process, there are some findings that may be particularly relevant to current and future work. First, strategic partnering is a dynamic activity that requires constant work and evolution; failure to accept this could result in a breakdown of trust among key team players (Kaluarachchi and Jones, 2007, p. 1060). Second, a major criticism of the consortium from all parties was that there was a lack of understanding of the initiative on behalf of those who were delivering the Amphion projects. Thus, training was identified as essential to the process (Kaluarachchi and Jones, 2007, p. 1060). Third, the lack of supply chain partnering was perceived as a significant drawback in terms of the sustainability of the project. Moreover, the findings on the network of relationships within this initiative, which aimed to achieve sustainability goals yet still meet its targets for cost and time, while challenging traditional practices and engrained attitudes in the housing industry, merits further analysis (Kaluarachchi and Jones, 2007, p. 1061).

Despite the ongoing interest in partnering schemes since the two main research projects (Jones and O'Brien, 2003; Kaluarachchi and Jones, 2007) and one smaller study of partnering practice in building projects for UK housing associations (Fortune and Setiawan, 2005), there has been very little research on partnering schemes in UK social housing. Only one significant study has followed (Bowles and Morgan, 2016), which provides an evaluation of a large-scale collaborative procurement initiative. This research project, completed on behalf of the Scottish government, offers further evidence of the difficulty of achieving performance targets in innovative procurement processes. There is, however, some literature which has focused on how partnering has been received by UK housing associations and have concluded that strategic, as opposed to project partnering<sup>63</sup> is their preferred approach because it offers

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<sup>63</sup> Project partnering refers to a specific project and focuses on short-term benefits, while strategic partnering refers to a long-term commitment between partners across numerous projects (Winch, 2000).

long-term benefits through the continuity of relationships (Liguori et al., 2012). While others (Muir and Mullins, 2015) have examined more recent mandated partnerships for social housing procurement in Northern Ireland.

## **2.6 Current scholarly debates on partnering**

While there is a general consensus that there is no unified understanding of the concept of partnering (see e.g. Li et al., 2000; Nyström, 2005), one of the foundational definitions, which much of the literature refers to, was provided by the Construction Industry Institute (CII) in the USA (1991) and reads as follows:

A long-term commitment between two or more organisations for the purpose of achieving specific business objectives by maximising the effectiveness of each participant's resources. This requires changing traditional relationships to a shared culture without regard to organisation boundaries. The relationship is based on trust, dedication to common goals, and an understanding of each other's individual expectations and values. Expectations include improved efficiency and cost-effectiveness, increased opportunity for innovation, and the continuous improvement of quality products and services (p. i).

This definition served as the basis for the Latham report (1994), which delves deeper into the matter by exploring how we might initiate a partnering agreement. Latham explains that an effectively structured partnering agreement, particularly in the public sector, will almost certainly begin with a selective competition on the part of the client to find one or more parties (p. 50). This was echoed by Hellard (1995) who claimed that partnering can be most easily developed via term contracts between a contractor and a client with a continuing need for a construction contractor's service, where the client's team and the contractor's team can develop time-saving procedures from task to task and time to time (p. 35). Hellard (1995) further explains who partners with whom and explains that the stakeholders involved would include: the client or building

owner (including the financiers of the project), design team, main contractors, specialist contractors, sub-(sub-)contractors and major suppliers (p. 35).

However, there is some evidence that the dominant views and practices actually contradict the original intention of the above CII definition of partnering. This is indicated by the fact that the efforts to implement partnering have been significantly less effective in the construction industry than in other industrial contexts (A. P. C. Chan et al., 2003; Winch, 2000). The underperformance or ineffectiveness of partnering, or inability to properly implement it, has been explained by some as an over-focus on the dyadic relationships between the client and the main contractor, while overlooking the importance of involving the design team, sub-contractors and suppliers (Dainty et al., 2001; Miller et al., 2002). Also, there is an emphasis on formal tools and prescriptive techniques for developing relationships, which may fail to acknowledge the equally important social aspects or relational dynamics of partnering (Bresnen and Marshall, 2002).

One of the key aspects of the above CII definition is the relationship dimension of the concept of partnering. This has been the subject of significant interest in scholarly research (Anvuur and Kumaraswamy, 2007; Rahman and Kumaraswamy, 2004). According to the CII definition, there are three dimensions of partnering relations: first, the relationship duration (strategic, project, both or not specified); second, the parties involved (who/how many are involved); and third, the content in terms of how the relationship develops (engineered, evolutionary, both or not specified). Others have examined the relationship dimension from a more theoretical perspective and have argued that the concept is still unclear and merits further analysis (Bresnen and Marshall, 2002; Cox and Thompson, 1997; Kadefors, 2004). The perspective of the contractor in a partnering relationship has also been explored (Akintoye and Main, 2007; Mason, 2007). However, despite these efforts, we have not yet established a clear and unified view as to what partnering relationships are in the context of building procurement.

Even after over two decades of research, the literature on partnering is fruitless in the sense that there is a lack of clearly identifiable effects on project

performance (Naoum, 2003; Nyström, 2005) and contradictory perceptions on partnering prevail (Bennett and Jayes, 1998, 1995; Bresnen and Marshall, 2002, 2000a; Construction Industry Institute (CII), 1996, 1991). Also, it is unclear how we might effectively implement partnering in an industry that is, for the most part, characterised by organisational and professional fragmentation, demonstrating little experience with integrated and collaborative methods of working (Hartmann and Bresnen, 2011). Others have gone even further than that and also questioned whether an environment that is based on short-term gains is capable of trusting relations (Beach et al., 2005).

One perspective argues that the difficulties in both understanding and implementing partnering have to do with the attempt to formally operationalise partnering, while failing to account for the localised circumstances and underlying mechanisms involved in facilitating cooperative relationships<sup>64</sup> (Bresnen and Marshall, 2002). According to this view, there is a lack of multiple perspectives on partnering that relate to the specificity of economic, social, organisational and institutional contexts (Hartmann and Bresnen, 2011). It may be more appropriate to approach partnering from the perspective of a transient, highly contextual and localised practice (Bresnen, 2009). This view aims to redirect research on partnering away from a generalised conceptualisation of the term that results in a kind of catchword, and reorient it as a study of informal and collaborative working relationships (Hartmann and Bresnen, 2011).

Given the fluidity of partnering, it might be helpful to investigate further to what extent we could institutionalise the concept of partnering in building procurement, while maintaining flexibility in order to account for local variations (see e.g. Bresnen and Marshall, 2010; Hartmann and Bresnen, 2011). The long-established routines and practices prevent team members of a given building project from effectively resolving conflicts that often manifest due to changes in activity (Hartmann and Bresnen, 2011). Existing research on partnering from an activity theory<sup>65</sup> perspective (Hartmann and Bresnen, 2011)

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<sup>64</sup> Another equally important issue relates to metrics because it is challenging to standardise context-specific impacts. Therefore, if we are to implement partnering effectively, it may require participatory methods.

<sup>65</sup> Activity theory originated in Russian psychology (Leontiev, 1978; Vygotsky, 1978), at least 70 years ago and is based on the concept that any action of an individual or a group is

suggests that it could be advantageous for further research to examine partnering from this theoretical perspective.

Some scholars have argued that there is an insufficient understanding of the relationship dimension due to the ongoing focus on project partnering between clients and contractors (Bresnen and Marshall, 2000a; Fortune and Setiawan, 2005; Larson, 1997, 1995; Li et al., 2000), while considerable attention is paid to how relationships can be developed through formal tools, such as selection procedures, workshops and total quality management (Bayliss et al., 2004; Ellison and Miller, 1995; Jacobson and Choi, 2008). In order to develop a more in-depth understanding of the substance and functioning of partnering, another view claims that it may be useful to examine theoretical perspectives that are more in alignment with the CII definition (Bygballe et al., 2010). One emerging approach (Bygballe et al., 2010) is to look at the concept of partnering through three lenses: the relationship duration, the parties involved and the content. It advocates examining the perspectives of supply chain management (SCM)<sup>66</sup> and industrial network approach (INA),<sup>67</sup> both of which focus on long-term relationships between the actors in building procurement that extend the dyad. Proponents of this view claim that these two perspectives illustrate how the three dimensions derived from the CII definition relate to one another and should be developed in combination. As such, these two perspectives of SCM and INA may help to clarify the concept of partnering by providing guiding theories, as indicated by previous research (Kadefors, 2004).

A long-term orientation of the actors beyond the dyad, as proposed by SCM and INA, and a greater focus on the social and informal evolution of the relationships in INA could provide an important basis for further development

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embedded in, and stems from, a socially constructed and historically evolved collective practice. Furthermore, any action leads to the continuous reshaping of the context (Kaptelinin et al., 1995). The focus on activity theory in partnering, cited in Hartmann and Bresnen (2011), attempts to offer a view of partnering as a contextually embedded practice.

<sup>66</sup> The goal of supply chain management (SCM) is to improve performance by establishing close relationships with both upstream and downstream actors, and by integrating their respectful activities and systems (Power, 2005).

<sup>67</sup> The industrial network approach (INA) presents a framework for understanding how companies relate to one another, how this integration develops over time, resulting in long-term relationships between two actors, and how these relationships are influenced by other actors within the wider network (Håkansson and Snehota, 1995).

of the partnering concept (Bygballe et al., 2010, p. 246). In order to achieve this, the appropriate research tools would need to be developed. This would require longitudinal studies, or repeated observations of action patterns, sequences of events and critical changes to understand dynamic, multi-party partnering agreements in construction over time (Bygballe et al., 2010, p. 246). To date, very little research on partnering has examined studies of relationships in any depth, although insights from INA research could be helpful in this respect (see, e.g. Håkansson and Snehota, 1995; Håkansson and Waluszewski, 2003). Further, both SCM and INA argue for the inclusion of multiple actors and long-term relationships that could strengthen the concept of partnering (Bygballe et al., 2010, p. 245).

Even though the jury is still out as to whether partnering can substantiate its claim for greater efficiency, in terms of absolute performance, it is a procurement procedure that is likely to be used well into the future. However, given the dynamic nature of partnering, it remains unclear whether it will develop in the direction of the automotive industry where long-term orientation and multi-actor teams have been applied, or if the specificity of the construction industry will require a more flexible direction. It could be insightful to examine partnering within different institutional settings and geographical contexts, in order to clarify if what needs to be changed is the way that partnering is approached in scholarly debates or in practice, or if the definition itself needs to be revised (Bygballe et al., 2010, p. 246).

## **2.7 Partnering, financial literacy and procurement reform**

One of the advantages of partnering is that it can bring together different stakeholders and contributors with different core expertise. Achieving a level of procurement reform involves a number of difficulties due to the complexity of the process. Primarily, it requires a level of financial literacy. We need to appreciate the nature of the transactions that underpin each new order for a constructed product in the built environment (Greenhalgh and Squires, 2011, p. 2). The challenge of this is that there are not only a large number of business transactions that need to be organised for just one project, but each financial



transaction relies on the purchase of multiple goods and services (Greenhalgh and Squires, 2011, p. 2). As such, the relationship between the agents of reform in building procurement procedures and financial literacy is a critical area of research. It could present a significant opportunity to achieve greater efficiency in the construction industry.

There is a significant body of research that has attempted to understand the economics of the building industry (see, e.g. Gruneberg and Ive, 2000; Gruneberg, 1997; Ive and Gruneberg, 2000). The operation of construction firms and economics has helped to clarify that the level of complexity in building procurement can be attributed to the number economic transactions involved (Greenhalgh and Squires, 2011). Despite these efforts to understand the economic landscape of procurement procedures, inefficiency remains an issue that has yet to be fully addressed. Even though there is a longstanding body of literature within which there is a general consensus about a) the need to reform the inefficiencies of building procurement and b) the ways in which the concept of partnering could address these, there are no published works that have examined the argument that financial literacy – or a strong understanding of budgets, along with the development of new financial instruments and mechanisms, such as the ability to take on repayable finance – is a necessary condition for achieving greater efficiency in building procurement. This is a topic that merits considerable research.

Whilst there is an abundance of scholarly literature on the topic of partnering in building procurement, no one has considered how the emergence of a private institutional investor, such as Cheyne Capital, as a new social landlord might influence academic research into building procurement reform. This thesis aims to add to existing scholarly debates on this topic by presenting a novel partnership between an institutional investor operating in the emergent impact investing market and social sector organisations in the housing sector. This new ensemble aims to demonstrate one new approach for achieving greater efficiency through partnering in UK building procurement. The significance of Cheyne Capital's role as an agent of reform through its public and third sector partnerships will be discussed in chapter 3 (see section 3.5.5 and 3.5.6).

## **2.8 Procurement and impact investing**

Given that impact investing is a currently evolving market, very little has been discussed on the relationship between procurement and impact investing. Two early reports (Wood et al., 2012, 2011) conducted as part of the Global Impact Investing Policy Project – a partnership between InSight at Pacific Community Ventures, a US Community Development Finance Institution (CDFI), and the Initiative for Responsible Investment (IRI) at Harvard University – introduced a policy framework for institutional impact investing and led to one of the earliest known scholarly works in this emergent field (Wood et al., 2013). This preliminary body of research on impact investing outlined how government plays a key role as co-investor, regulator, procurer of goods and services, and provider of subsidies and technical assistance, which enables intentional investment aimed at bringing social and environmental benefits by asset managers (Wood et al., 2013). In order to scale the institutional role in impact investing, careful coordination between policy makers and institutional investors will be necessary, so as to develop private investment markets that deliver social impact.

This seminal research on impact investing and public policy (Wood et al., 2013, 2012, 2011) made a number of recommendations for shaping procurement. Incorporating social impact standards into procurement policies is one approach that uses government funds to favour products and services that create a positive social impact (Wood et al., 2012, p. 21). The implementation of preferential purchasing, or procurement policies to support minority-owned enterprises, have been used for decades in the US. Incorporating social impact into public investment and purchasing strategies could mean integrating labour or environmental standards into public procurement policies and encouraging public-private partnerships (Wood et al., 2012, p. 29). Another approach might include policies to promote green purchasing in areas such as real estate, energy efficiency and waste (Wood et al., 2012, p. 21). An additional approach could take the form of policies that encourage direct capital to SMEs through tax incentives, direct purchasing and procurement provisions that favour small business (Wood et al., 2011, p. 24). Further recommendations could include the

following: integrating performance standards in procurement policies, suggesting policies that subsidise specific outcomes, employing government procurement to help shape the market (Wood et al., 2012, pp. 15, 18), and using policies to mandate transparency and reporting requirements within the impact investing market (Wood et al., 2012, p. 8).

Additionally, this early UK report (Social Finance, 2014) has investigated the issue of public sector procurement and its impact on social investment. This report, prepared by the UK National Advisory Board for the G8 Social Impact Investment Taskforce, highlighted public procurement procedures as a key issue that could inhibit the development of social investment. The report focused on the following two areas of concern: a) that social enterprises may not be able to compete effectively with traditional procurement practices and b) that the procurement of innovative services may require new service models because of the distance between the traditional procuring entity and the service provider, which is viewed as counterproductive. In an attempt to overcome the limitations of traditional procurement models, this report made the recommendation for G8 governments to work with social investors and service deliverers to develop new ways to invest in social innovation and preventative activity. In addition, the report argued that it may be advantageous for public procurement to shift its perspective, moving from procuring social services to investing in social outcomes.

Also, there is a growing body of research which focuses on outcomes-based commissioning, payment-by-results contracts such as a SIB contract, placed-based approaches, and developing collaboration across sectors to deliver public services, as indicated in the introduction of this chapter (see footnote 58). The Government Outcomes Lab (the GO Lab), a partnership between the UK Department for Digital, Culture, Media and Sport (DCMS) and the Blavatnik School of Government at the University of Oxford exemplifies this new focus (see further: <https://golab.bsg.ox.ac.uk>). The GO Lab aims to help governments and public services deliver more effective, lasting outcomes and value. Furthermore, it researches what makes outcomes-based contracts work well (see Carter et al., 2018).

More recently, the Working Group Report from the Global Steering Group (GSG) for Impact Investment<sup>68</sup> (Giddens et al., 2018) made a number of recommendations for developing the social impact investing market infrastructure through policy tools that examined the role of procurement. These recommendations included efforts to incorporate impact into procurement by means of the following: first, embedding social value<sup>69</sup> in procurement decisions by procuring from impact businesses or integrating social and environmental metrics into procurement processes; and, second, procuring payment-by-results contracts and developing a government outcomes fund to streamline the payments-by-results procurement process<sup>70</sup> (Giddens et al., 2018, p. 13). Additionally, it encouraged governments to develop the impact investing market by acting as market facilitator and market participant. Lastly, it recommended that governments carefully examine how they structure spending and identify strategies for investing in long-term outcomes.

Procurement policies could be significantly difficult to reform due to the fact that they involve complex operational processes, deeply embedded supplier relationships and interests, and a purchasing culture that has historically favoured short-term interests and cost-competitiveness over long-term benefits (Wood et al., 2012, p. 21). However, the design and implementation of procurement policies that enable impact investing are

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<sup>68</sup> The Global Steering Group (GSG) for Impact Investment was established in 2015 as the successor to the Social Impact Investment Taskforce under the UK presidency of the G8. The GSG, chaired by Sir Ronald Cohen, brings together leaders from government, finance and philanthropy to ensure that measurable impact is considered for each investment and business decision. As of 2018, it had National Advisory boards in 18 countries, plus the EU as members (see further Giddens et al., 2018).

<sup>69</sup> The term ‘social value’ is generally defined in social entrepreneurship literature as the value created by the non-profit world, including social entrepreneurs, for intended beneficiaries whose needs are not being met by other means. The concept of social value offers a way to evaluate the contributions of non-profits and social entrepreneurs. For a comprehensive discussion on social value, including its key features, framework, and relationship to social innovation and systemic change, see Young (2006).

<sup>70</sup> These recommendations are supported by the Public Services (Social Value) Act instituted in 2012 which requires that those who commission public services consider how to also secure wider social, economic and environmental benefits. This Act is intended to help commissioners get more value for money out of procurement while also developing new innovative solutions (see: <https://www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources>). However, this Act is limited because it did not specify criteria that needed to be taken into account. As a result, it did not establish a clear demarcation between, for example, contractors who are operating under strict social objectives and those who are not. Also see: (HM Government, 2014).

necessary if this emergent market is to become a more normative approach to financing public and third sector organisations. Moreover, public policy is instrumental in shaping how the introduction of impact investing influences procurement, particularly within the context of housing for disadvantaged groups.

The influence of impact investing on building procurement merits further research, particularly because the concept of investing in processes which lead to better built outcomes could contribute to current debates on procurement reform through the following key questions: First, could financing processes, such as the time it takes to complete a project and the level of energy and resource efficiency involved in the construction, help to enforce efficiency? Second, could integrating social and environmental metrics into procurement processes lead to more accurate measurement of building performance during construction and over the lifetime of the building? The procurement stage in the building process is fundamental to achieving better outcomes in the design of social housing, and the emergence of impact investing could help to achieve this. Although this would require legislation to institute reforms with regard to design quality and building standards in social housing. Moreover, instituting policies based on the above suggestions of the GSG for Impact Investment and the UK National Advisory Board to the G8 Social Impact Investment Taskforce will be instrumental in developing a new framework for building procurement in the context of impact investing in social property.

## **Conclusion**

This chapter has shown that, despite the significant body of research on UK building procurement, there remains a number of key questions to be answered. First, what is the most effective approach for tackling the overruns in time and cost in the UK building industry? Second, is the concept of partnering the most effective approach for procurement reform? Third, how can the emergence of impact investing in social property lead to a more efficient delivery of housing for disadvantaged groups at an institutional scale? Lastly, what public policies need to be instituted as this new market develops, to establish a new approach

to procurement that is based on investing in a measurable social impact? Hopefully, by answering these above questions, we can then use this research to shed light on how the development of this emergent market might lead to changes in practice in the context of UK building procurement of housing for disadvantaged groups. If we look for solutions to some of these debates, it may help us to advance discussions or perhaps even solve some of the serious problems relating to the inefficiencies in building procurement in general, and these issues relating to social housing in particular, such as poor value for money, design quality, building performance, and accountability.

Given that impact investing is still an emerging market, and the projected investment in affordable urban housing is likely to rise significantly in the coming years, it is interesting to consider how this new market could help to reform building procurement in social housing, to become the most efficient part of the sector. Within the context of social housing, it may also be helpful to think of the procurement of architectural services for social housing in terms of a much broader aim than simply the built outcome, in order to encompass the commissioning of measurable social outcomes. The significance of investing in measurable social outcomes is to be examined further in chapter 5 (see section 5.5.2).

Strategies developed for the use of public procurement are intended to help achieve indirect outcomes, or what is known as horizontal policies (Arrowsmith and Kunzlik, 2009). These policies are an attempt to meet social and environmental objectives, such as tackling corruption and promoting environmental sustainability within procurement procedures (Garvey, 2015, p. 4). Horizontal policies might also be used effectively to promote a new set of social outcomes for social housing beneficiaries. Thus, an effective building procurement system is essential for addressing the housing needs of disadvantaged groups. If impact investing is to emerge as one new approach to procuring social property at scale,<sup>71</sup> based on financing from private institutional investors and the commissioning of a measurable social impact

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<sup>71</sup> Within the context of this case, as introduced in chapter 1 (see section 1.1.2), the term ‘housing at scale’ means ‘at an institutional scale.’

(which could include a specified social outcome), procurement reform is critical.

## Chapter 3: What mechanisms were instituted by Big Society Capital (BSC) for Cheyne Capital to operate as a new social landlord for disadvantaged groups?

### Introduction

To most people, suggesting that a hedge fund<sup>72</sup> might act as an agent of housing for disadvantaged groups is somewhat absurd. It goes against all popular representations of the spheres of banking. In the UK, it is popularly understood that there is the private sector, the public sector and the non-profit sector, where the private sector is based on banking, the public sector on taxation, and the non-profit sector on charity. It would be admitted across a range of political and economic positions that these representations are crude, outdated and obstacles to innovation. However, that does not diminish their force.

In this emerging market, we should accept that innovators often need to translate what they are doing into more traditional terms in order to avoid unnecessary opposition. Nonetheless, even with this precaution, it still remains a question that this chapter will attempt to answer. The objection to a hedge fund as a new social landlord does not just relate to the divide between public and private sectors; social housing, like a range of other sectors, relies on a mix of public and private funding. Housing associations, for example, the major providers of housing for the social rental sector, are recipients of public funding and have in recent years increasingly relied on private financing. The reason for

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<sup>72</sup> There is no generally accepted definition for the term ‘hedge fund.’ Many researchers make this observation at the onset of their research and suggest a working definition (Coffee and Palia, 2016, pp. 2–3; Thomsen et al., 2008, pp. 541, 543). The following four characteristics are usually identified as a hedge fund: one, they are pooled, privately organised investment vehicles; two, they are administered by professional investment managers with performance-based compensation and significant investments in the fund; three, they cater to a small number of sophisticated investors and are not generally readily available to the retail-investment market; and four, they mostly operate outside of securities regulation and registration requirements. Because hedge funds are largely unregulated, they are not subject to the diversification requirements applicable to pension funds and most mutual funds (Thomsen et al., 2008, pp. 541, 543). In the context of this thesis, the term ‘hedge fund’ is synonymous with alternate asset management or alternative investment management and is understood as any difficult asset class of investment that achieves inordinately high returns (see, e.g. Cohen, 2008, p. 101). See further on this topic, e.g.: (Agarwal and Naik, 2000; Brav et al., 2008; Brown and Goetzmann, 2001; Partnoy and Thomas, 2007; Thomsen et al., 2008).



such opposition to a hedge fund investing in social property and operating as a new social landlord can be attributed to the link between private finance and the exploitation of the poor for financial gain, which is one of the most enduring issues in housing, as indicated in the previous two chapters (see sections 1.2.1 and 2.1).

The shortage of affordable housing is what we might call a ‘wicked problem,’<sup>73</sup> a problem so enduring that it seems not to have a solution. It is a problem that is systemic, constantly changing and open-ended. A systemic issue is ubiquitous to the system and it can cut across multiple sectors. One of the reasons that the shortage of affordable housing could be defined as a ‘wicked problem’ is because it involves a range of stakeholders with varying perspectives, values and motivations. Also, traditional processes may not be equipped to resolve it. Moreover, conventional approaches to the problem might, in many instances, diminish the success of housing outcomes for disadvantaged groups, that is, the solution may create an outcome that lead to a worsening of the initial problem.

This thesis acknowledges the complexity of the UK housing shortage. In the face of such a long-term issue, it is formulating an argument that challenges this specific notion of conventional practice by suggesting we involve new actors with different fields of expertise in public and third sector housing. However, this suggestion requires close examination, because it could also lead to further exploitation of the poor. The innovation that this research is proposing is that in this period previously characterised by austerity, when there are limits on public spending and charitable giving, and we do not seem to have a clear strategy for delivering affordable housing efficiently and at scale – or as

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<sup>73</sup> Within the context of this thesis, the term ‘wicked problem’ refers to Termeer et al. (2019), who state that the earliest published definition of wicked problems can be found in a 1967 guest editorial by C. West Churchman in *Management Science*, where the following definition, attributed to Horst Rittel, is found: ‘a class of social system problems which are ill-formulated, where the information is confusing, where there are many clients and decision makers with conflicting values, and where the ramifications in the whole system are thoroughly confusing’ (Churchman, 1967, p. B-141). Further, Termeer et al. (2019) explain that the adjective ‘wicked’ was initially aimed to describe ‘the mischievous and even evil quality of these problems, where proposed ‘solutions’ often turn out to be worse than the symptom’ (Churchman, 1967, p. B-141). (On wicked problems see further, e.g. Ansell et al., 2016; Camillus, 2008; Head and Alford, 2015; Skaburskis, 2008).

previously indicated, at an institutional scale – one new opportunity is the emergence of this new market, which relies on the introduction of new private players from the capital markets.

We are likely entering an era with limited grant funding, and moving towards a new hybrid model of public-private partnerships. This may involve layering different sources of capital from the public, private, and non-profit sector, in order to provide social housing and a range of other housing schemes for disadvantaged groups to address issues such as homelessness and housing with extra care for the elderly. Therefore, we need to change the prevalent ideologies around the provision of housing for the public and third sector, and how it is procured.

As indicated in chapter 1, the concept of using a private investment to finance affordable urban housing for the poor is not new. In some ways, we might interpret the model dwellings companies of the 19<sup>th</sup> century, or what was referred to as ‘five per cent philanthropy,’ as an early predecessor of what is now being termed impact investing in social property or impact real estate (see section 1.2.3 and 1.2.4).<sup>74</sup> The model dwelling companies are an example of a market solution to social welfare (see e.g. Morris, 2002, 2001). They have been described as the 19<sup>th</sup> century equivalent of ‘ethical investment’ (Morris, 2002, p. 194). Also, they have been referred to by Morris (2002) as ‘hybrid organisations’ (p. 203) and ‘innovative organisational forms’ (p. 195). The major difference between the 19<sup>th</sup> century model dwellings companies and what impact investing in social property is proposing is that impact investing is based on creating a new market to finance social and environmental initiatives, which aims to fundamentally transform the role of what money does for areas that have traditionally been left behind.

Impact investing in social property is novel because it is based on selecting fund managers from the capital markets to enter the social finance market and invest in a measurable social impact, in housing for social sector organisations (SSOs), such as a local council, charity, or housing association.

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<sup>74</sup> The relationship between impact investing and the model dwelling companies was introduced in a conference by (Rutterford, 2016), which was documented in (Lohin, 2017).

Cheyne Capital is the first private sector investor to both buy and build social housing and other forms of social property for SSOs in the UK. Aside from this case, and possibly a few largely undocumented early institutional investors operating in the impact investing market, there is no existing examination of this topic.<sup>75</sup> Also, this case is distinct because, unlike the model dwellings companies and other examples of philanthropic investment in affordable urban housing, it is not based on accepting below competitive market returns. Therefore, if successful, it is a model that is likely to be replicated, and it has already been copied by several new actors entering the sector.<sup>76</sup> As indicated in section 1.4.7 of chapter 1, impact investing in social property or impact real estate is projected to be one of the largest areas of investment and is an area where there is the potential for innovation and risk.

Cheyne's entry into the market as a new social landlord relies upon impact investing. Without the development of this nascent market, this would not be a possibility. The introduction of impact investing presents one new opportunity for how we might finance a range of affordable housing solutions for local councils, charities, and housing associations, at scale in the current conditions. What makes this a sufficient condition for this thesis is that impact investing in social property or impact real estate establishes the possibility of the hedge fund operating as an agent of reform<sup>77</sup> in the sector in which the

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<sup>75</sup> Other early examples of impact investors in UK social property or impact real estate investors might include Bridges Ventures (see e.g. <https://www.bridgesfundmanagement.com/portfolio/ethical-housing-company/>) and Legal & General (see, e.g. <https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-launches-first-social-value-charter-as-it-builds-new-housing-community-in-crowthorne/>).

<sup>76</sup> At the time of writing this thesis, BSC disclosed that it made co-investments into the following other UK housing funds: Resonance, Affordable Homes Rental Fund, Real Lettings Property Fund LP and the National Homelessness Property Fund LP; BMO UK Housing Fund; Funding Affordable Homes; Social and Sustainable Capital, Social and Sustainable Housing LP (see: <https://bigsocietycapital.com/how-we-work/focus-areas/homes/>). More recently, the following two additional UK affordable housing funds launched: CBRE Global Investors (launched in 2019; see: <https://hub.ipe.com/asset-manager/cbre-global-investors-real-estate-homepage/415575.supplier>) and BMO Real Estate Partners (REP) (launched in 2020; see: <https://hub.ipe.com/asset-manager/bmo-real-estate-partners/415418.supplier>). While it remains unclear if these funds represent the exact model employed by Cheyne Capital or offer competitive market returns, it indicates that this model has been replicated to some degree and impact real estate funds are increasing in the UK (see further Lowe, 2020).

<sup>77</sup> Within this context the term 'agent of reform' refers to Cheyne Capital's aim to deliver quality and affordable housing within a radically formulated timetable by addressing the inefficiencies in UK building procurement and demonstrating a measurable social impact. The

investment will be made. Further, it introduces the concept of investing in *measurable social outcomes*, rather than procuring social services in public and third sector housing. This issue of the hedge fund as an agent of reform is to be further discussed in section 3.5.6.

Cheyne Capital did not simply enter this sector. There were highly specific circumstances that led to its assumption of this new role. Accounting for the particularity of these circumstances helps clarify how the hedge fund can operate as a new social landlord for disadvantaged groups. In order to answer this question, this chapter is organised into six main sections, including the introduction and conclusion. After the introduction, the first section ('Hybridity...') examines the emergence of a hybridity between public, private and non-profit sectors and discusses the concept of social enterprise and hybridity. The second section ('The counterargument') identifies a number of key reasons as to why we might oppose a hedge fund's role as a new social landlord, and identifies a gap in the literature. The third section ('Context') describes the emergence of social finance in the UK, including key events that pre-dated Cheyne Capital's entry into the market as a new social landlord. The fourth section ('Big Society Capital (BSC)') focuses on the development of the world's first social investment wholesale bank, including its complex set of investment restrictions and social investment objectives. The fifth section ('Why are intermediaries important?') examines the significance of intermediaries within this market-building phase in the evolution of the industry, and looks at the reasons for this significance. This section also examines the types of intermediaries, focusing on Social Investment Finance Intermediaries (SIFIs), identifying an important gap in academic literature into this topic. In addition, it looks at the significance of Cheyne Capital's role as a SIFI as this relates to market development, and examines the constraints it has faced. The final section assesses the current stage of this emergent market and identifies the major challenges that Cheyne Capital faces as one of the first cases of impact investing in social property.

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significance of Cheyne Capital role as an agent of reform is to be further discussed in section 3.5.6.

### **3.1 Hybridity between the public, private and non-profit sectors**

For most of the twentieth century, commercial businesses, public organisations and charity have occupied distinct domains associated with the public, private, and non-profit sectors (Battilana and Lee, 2014). Over the past three decades, however, we have seen a global trend of marketisation and rationalisation in the third sector (Ebrahim et al., 2014; Eikenberry and Kluver, 2004; Mair and Hehenberger, 2013; Ridley-Duff and Bull, 2015; Smith and Lipsky, 2009). Following the Global Financial Crisis (GFC) of 2007–2008, there has been a growing interest in organisations that combine enterprise, or the pursuit of profit, with an embedded social mission (Doherty et al., 2014; Kerlin, 2009). Moreover, specifically with regard to housing, reductions in state funding have led housing associations throughout Europe and the UK to develop new financing and governance structures (Morrison, 2016) or develop ‘enterprising’ strategies of maintaining income (Rolfe et al., 2019).

In order to understand this breakdown in the barriers between the private, public and non-profit sectors, and the increasingly diversified financing structures, we can look at the literature on social enterprise, which has been broadly defined as the use of market mechanisms to address social issues (Kerlin, 2009; Mair and Martí, 2006; McKay et al., 2015; Santos, 2012). The phenomenon of social enterprise is widely discussed in academic literature and is a fluid, contested concept involving a range of actors promoting different discourses (Teasdale, 2012a). Following a critical review of the literature, Doherty et al. (2014) identified hybridity or ‘the pursuit of the dual mission of financial sustainability and social purpose’ (p. 417) as the central characteristic of social enterprises and the explanatory concept that captures the complexity of social enterprise management processes.

Whilst social enterprises have been regarded as promising vehicles for generating both social and financial value (Sabeti, 2011), these hybrid organisational forms face significant governance challenges in terms of balancing social and financial objectives (Ebrahim et al., 2014). Furthermore, Ebrahim et al. (2014) identified two main governance challenges that they face: accountability for both a social mission and for making profits; and

accountability to multiple ‘principal’ stakeholders, with often diverging interests between the investors and the beneficiaries targeted by the social mission (pp. 82–83). Moreover, the innovativeness of hybrid organisational forms also poses a threat to their sustainability because, with the combination of multiple forms, each deviates from its underlying nature, resulting in internal and external tensions (Battilana and Lee, 2014; Greenwood et al., 2011; Kraatz and Block, 2008; Weber, 2005).<sup>78</sup>

The concepts of social enterprise and hybridity have been discussed to some degree in the literature on contemporary housing research in the UK and Europe (see e.g. Blessing, 2012; Heino et al., 2007; Morrison, 2016; Rolfe et al., 2019; Sacranie, 2012). An early review by Heino et al. (2007) suggested that a ‘common thread’ linking a range of new organisations with similar values and management practices is emerging in housing, which can be classified under the general term of ‘social enterprise’ (see further Czischke et al., 2012, pp. 418–419). These concepts have also been examined from a wider policy perspective in an international context (Mullins et al., 2012). Another strand of scholarly research has examined the range of new actors and increasing marketisation of the social rented housing sector (see e.g. Gibb et al., 2013; Pawson and Mullins, 2010; Rhodes and Mullins, 2009; Smith and Oxley, 2007, 1997). Additionally, social enterprise has been identified as a potential policy solution to homelessness (Teasdale, 2012b, 2010).

Despite this growing body of literature in the field of social entrepreneurship, aside from a limited number of articles, this concept has not yet been clearly defined in contemporary housing studies (Czischke et al., 2012). This is a critical area of research because the concept of social enterprise and hybridity in housing could suggest a wider shift, which does not only relate to the diversification of funding mechanisms and the blend between social and market objectives, but perhaps also requires a change in the actual formation of housing. For example, it may necessitate a move away from the provision of mass single-use social housing to a stronger emphasis on enterprising

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<sup>78</sup> On hybridity, see also: Galaskiewicz and Barringer (2012) Jäger and Schröer (2014); and Mair et al. (2015).

developments based on mixed-tenure and mixed-use. If we are to effectively navigate the organisational challenges of hybrid organisational forms within social property, further research is needed, particularly with regard to new partnerships and new institutional forms that are taking place as a result of the emergence of the impact investing market.

### **3.2 The counter-argument**

The relationship between hedge funds and the poor is a contentious one. Hedge funds are opportunistic; they are generally not known to be concerned with adding long-term value and, typically, enter and exit investments quickly. They normally operate on terms that allow their investors to avoid being locked in for the term of a given fund and can generally redeem their holdings on relatively short notice. As a result, hedge funds have a high liquidity, where their holdings can easily be converted to cash. Hedge funds are also not limited in terms of where they invest and can usually invest in anything that interests them.

The idea of a hedge fund operating as a new social landlord for local councils, charities, and housing associations is counter-intuitive because of the distinctions between public and private service provision and the negative stigma of using private finance for the public and third sector (see e.g. Beswick et al., 2016; Watt and Minton, 2016). Hedge funds are undoubtedly viewed by many as the most aggressive and unfettered form of private investment (see e.g. Coffee and Palia, 2016). As institutional investors, they operate on the largest scale and influence global markets. Moreover, their pursuit of financial profit has not been linked with patient capital, or what might be regarded as an appropriate type of financing for social sector organisations. Housing research has been inhibited by this barrier between public versus private finance and the general objection to hedge funds. Although the study of housing-as-policy has led to a growing field of housing studies, and housing-as-a-market relates to a body of work on housing finance that is largely confined to economics, there is a lack of academic discussions on affordable urban housing and rise of new financial instruments that could offer potential housing solutions. We might think universities would be open to a public discussion of a hedge fund as a

novel provider of housing for disadvantaged groups; however, this is not the case. There is little or no discussion in the academy of the growing interest from private institutional investors who are developing this new path of impact investing in social property or impact real estate.

The general topic of this thesis suffers from a lack of literature, which reflects, in a sense, the continuing distance between academic researchers and the financial sector. When a group of bankers are introduced to the concept of impact investing, they start considering how they would use it in a particular segment of work. For the banker, it is a practical issue, and they are not concerned with how to present this subject to a scholarly audience. It is a practical issue based on conducting financial transactions. Because it is limited to practice, however, not a lot of discussion takes place that could influence academic work. What has emerged from this hedge funds' move into social property is a new model of financing housing for local councils, charities, and housing associations, which is driving innovation at the practitioner level. Unfortunately, to date, the concept of hedge funds as a potential solution to the shortage of affordable housing has not been widely regarded as a topic worthy of academic inquiry.

The topic of hedge funds and affordable housing has been explored against a backdrop that includes the emergence of property as a new asset class (Fields, 2018; Loon and Aalbers, 2017), the financialisation of the housing market (Wijburg and Aalbers, 2017) and rising concerns about the ways in which the financialisation of urban space affects affordable housing (Fields, 2015). Specifically, the integration of housing and the financial markets has been approached (Fields, 2015) through 'predatory equity,' a wave of aggressive private equity investments in the context of New York City's affordable rental market.

Whilst the existing academic research does examine the more adversarial aspects of the relationship between hedge funds and affordable housing, it does not reflect the emergence of impact investing as a new market, or explore how hedge funds might be made more socially useful as financial intermediaries within this new market.



Other researchers have more specifically examined the rise of global corporate landlords (GCLs) and looked at how these institutional investors have exploited distressed housing markets in the years following the Global Financial Crisis (GFC) of 2007–2008 (Beswick et al., 2016). This recent research on GCLs (Beswick et al., 2016) has argued that, while GCLs do not yet have a strong presence in London’s residential property market, they are beginning to position themselves to enter the market and they are a new privatisation threat to social rented housing. The topic of GCLs and London’s housing crisis was further examined by researchers (Watt and Minton, 2016) who echoed similar concerns. Others have argued that this rapid increase in the corporatisation of housing represents the biggest threat to London’s remaining social housing (Gonzalez and Dawson, 2015; Minton, 2012), which could be accelerated by GCLs (Watt and Minton, 2016).

However, this existing research does not take into account the emergence of the modern social finance market and how institutional investors might be influenced by this development. Social finance, as indicated in chapter 1 (see section 1.4.2), encompasses the use of a wide range of private financial resources to support the creation of public value and social impact (Nicholls and Daggars, 2016a, p. 6). The aim of the social finance market is to develop a new source of resources for social enterprises and third sector organisations (see further: Nicholls et al., 2015b; Nicholls and Emerson, 2015). This new market represents a different approach, which is not the same as aggressive private equity investment or GCLs, who seek to take advantage of dislocations in the market, because it aims not to be exploitative.

Additionally, this new market could provide one way to counteract ‘predatory equity’ and the issues related to using private finance to fund social sector organisations. Many observers are hoping that this new model and its funding mechanisms could help to solve some of society’s most intractable or ‘wicked problems’ (Nicholls and Daggars, 2016a, p. 6). However, significant challenges remain particularly relating to the risk of private investors using the label of ‘impact investor’ without being committed to social impact and this is to be discussed further in chapter 6 (see section 6.2.2.3).

The literature regarding new financial instruments and initiatives that make up the modern social finance market is reflected in the significant practitioner literature on the topic of social finance in general, and particularly on the subset of impact investing (Nicholls and Emerson, 2015, p. 5). This body of work tends to come from industry bodies and government reports. As described by Nicholls and Emerson (2015a), it is prolific and, for the most part, has concentrated on the demand for and scope of capital available (Bank of England, 2003; Bolton and Kingston, 2006; Cabinet Office, 2010; Freireich and Fulton, 2009; Harji and Jackson, 2012; HM Government, 2012a, 2012b; Joy et al., 2011; Mudaliar et al., 2018; OTS (Office of the Third Sector), 2008, 2006; Saltuk et al., 2013, 2011; UK National Advisory Board to Social Investment Taskforce (UKNAB), 2014; Wood, 2009; World Economic Forum, 2017, 2013). Moreover, the focus of industry-based literature on impact investing is likely due to the fact that it is concerned with investor behaviour and motivations.

Academic research on the topic, on the other hand, is in the very early stages of developing as a new field of study. As indicated in chapter 1 (see section 1.4.5), there is not a lot of existing academic studies into the subject matter, which demonstrates that this new field is distinct and merits further study. The relative scarcity of work being done on a scholarly level may suggest that the wider topic of social finance has yet to be recognised as a legitimate field of study by mainstream scholarship (Nicholls and Emerson, 2015, p. 6).<sup>79</sup> Given that impact investing has emerged through innovation in practice and it is only just developing, it has yet to form clearly defined institutional structures. It is still in the market-building phase and lacks a general acceptance with which to build its legitimacy as a new field of study.

Additionally, as Nicholls and Emerson (2015) have highlighted, financial economists have proposed that there is no such thing as ‘social’ investment and that investment is characterised by different investor appetites for risk-return options and these risk-return options do not, and perhaps should

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<sup>79</sup> To date, the work of Alex Nicholls, Professor of Social Entrepreneurship at Saïd Business School at the University of Oxford, represents the most comprehensive attempt to theorise this emerging field (Nicholls and Emerson, 2015, p. 6). See (Nicholls, 2010e, 2010b).

not, factor in social or environmental externalities or objectives (see, e.g. Friedman, 1962; Glyn, 2006; Harvey, 1622; Hayek, 1944). Further, existing research on the third sector or civil society has traditionally viewed capital flows that lead to the creation of public goods in charitable terms such as grant funding, rather than as an investment (Clotfelter, 1992; Nicholls and Emerson, 2015, p. 6).

### 3.3 Context

The UK has one of the most proactive policy environments, which has helped to facilitate the growth of this new market over the past two decades (see further Spear et al., 2015, pp. 463–472; Westall, 2010). Since 1997, the UK government has pursued a range of initiatives to facilitate and promote what is now termed ‘social finance’ within a policy environment characterised by intense, consecutive activities and programmes (Spear et al., 2015, p. 463). The development of BSC as an institution also tells the story of how social investment<sup>80</sup> developed as a new capital model based on providing access to repayable capital, which has increasingly gained momentum over the past fifteen years (Daggers and Nicholls, 2016, p. 4).

#### 3.3.1 *The emergence of social finance*

One key initiative for the development of the modern UK social finance market was the Social Investment Task Force (SITF), established in 2000 as an independent body launched by HM Treasury. Its aim was to develop this new market and encourage more innovative partnerships between government, business and the social or voluntary sector. It was chaired by Sir Ronald Cohen, who has had a fundamental influence in the development of this new market and is almost single-handedly responsible for the emergence of impact investing as a global movement (see chapter 1, section 1.4).

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<sup>80</sup> As indicated in Chapter 1 (see section 1.4.2), I draw a definitional boundary between social finance, which encompasses a range of private finance resources to support social or environmental impact, and social investment, which provides access to *repayable* capital for social sector organisations and is more focused on the *investee*. See further Nicholls and Daggers (2016a).

The SITF was established largely in response to a re-assessment of the role of finance and economics in community development. The final years of the Labour Government were particularly important for advocating for social investment (Daggers and Nicholls, 2016, p. 9). The call for this was put forward by the then Labour Chancellor of the Exchequer, Gordon Brown (Daggers and Nicholls, 2016, p. 4). Specifically, the SITF (2000) was set up to undertake:

An urgent but considered assessment of the ways in which the UK can achieve a radical improvement in its capacity to create wealth, economic growth, employment and an improved social fabric in its most under-invested, that is to say its poorest communities (p. 2).<sup>81</sup>

During this period, the activities of the SITF focused on promoting ‘Community Development Finance Institutions’ (CDFIs), a group of organisations licensed by central government as an attempt to invest new capital into poor neighbourhoods (Daggers and Nicholls, 2016, p. 4). The focus was on promoting entrepreneurialism and introducing loans to boost local jobs and economic activity (Daggers and Nicholls, 2016, p. 4). These first few years of work reflected a strong policy emphasis on social finance as community investment (Spear et al., 2015, p. 463). Moreover, these early changes, which attempted to facilitate the development of social finance in the UK, reflected changes within the government that would help to create the necessary reforms within banking, to make it more socially useful.

The SITF produced a number of proposals for the Chancellor of the Exchequer in an early report (Social Investment Task Force and UK Social Investment Forum, 2000) which aimed to increase investment and wealth creation in the UK’s poorest areas and stated that ‘wholesale intermediaries’ that specifically focused on the community development finance market could play a powerful role in stimulating the third sector (i.e. frontline charities,

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<sup>81</sup> While this aim will have seemed to be a virtuous undertaking, in its stated form, it is also somewhat vague. I would speculate that Sir Ronald Cohen’s efforts as Chairman of the SITF also involved turning aspirations into practical propositions and precise mechanisms, without which Gordon Brown’s declaration would continue to be a virtuous gesture but without definitive policy commitments.

voluntary organisations, and social enterprises) (Schwab Foundation for Social Entrepreneurship, 2013, p. 25; Social Investment Task Force (SITF), 2000, p. 13). These ongoing recommendations prompted the government to implement a number of policies that are described in detail in the case study by Dagers and Nicholls (2016a), which examines the relevant initiatives and strategies leading to the creation of Big Society Capital (BSC) (see further: Grint and Holt, 2013; Lister, 2015; Rodger, 2013).

### **3.4 Big Society Capital (BSC)**

BSC was established by the Cabinet Office and launched as an independent organisation in 2012. As the world's first social investment wholesale bank, BSC's overarching purpose is to help social sector organisations (SSOs)<sup>82</sup> increase their social impact<sup>83</sup> by giving them access to the appropriate finance (Big Society Capital (BSC), 2013, p. 4). In order to achieve this, BSC concentrates its efforts on two primary objectives. Firstly, it aspires to be a significant force in transforming the social impact investment market, by stimulating the development of Social Investment Finance Intermediaries (SIFIs)<sup>84</sup> (Big Society Capital (BSC), 2012, p. 4). Secondly, its aim is to build a robust market for social investment in the UK and advance its global leadership as a champion of this new marketplace (Big Society Capital (BSC), 2012; Nicholls et al., 2015d, pp. 490–491).

In order to develop a new stream of financing for social sector organisations, BSC was established by law as a 'social investment wholesaler,'

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<sup>82</sup> The term social sector organisation (SSO) is defined by BSC as a regulated body such as a charity, voluntary organisation, community interest company (CIC), or community benefit company, or a business that exists primarily to provide benefits for society. The BSC Governance Agreement sets out the criteria used to determine whether or not a business exists primarily to provide benefits for society. See further: [http://bigsocietycapitalblog.files.wordpress.com/2012/09/governance\\_agreement1.pdf](http://bigsocietycapitalblog.files.wordpress.com/2012/09/governance_agreement1.pdf).

<sup>83</sup> The term 'social impact' is defined by BSC as improved social outcomes, such as improved educational attainment or health status, achieved for defined beneficiary groups, which include vulnerable children or deprived communities (Big Society Capital (BSC), 2013, p. 4). The outcomes and beneficiaries are further defined in BSC's Outcomes Matrix. See: <https://www.bigsocietycapital.com/what-we-do/champion/impact-tools>

<sup>84</sup> A Social Investment Finance Intermediary (SIFI) is defined by BSC (2015b) as: an organisation that provides, facilitates or structures financial investments for social sector organisations and/or provides investment-focussed business support to social sector organisations. See further: <https://www.bigsocietycapital.com/glossary>

that is, it makes capital investments into SIFIs (Big Society Capital, 2015a). As a wholesale institution, BSC does not invest directly into SSOs, but focuses on providing seed capital for impact investing funds, such as fund managers or specialist banks, which go on to fund frontline SSOs (Daggers and Nicholls, 2016, p. 3; Nicholls et al., 2015d, p. 490). Therefore, decisions taken at the SIFI level could significantly influence the social impact generated by frontline SSOs (Big Society Capital (BSC), 2013, p. 4). This places a significant responsibility on SIFIs to work effectively with the public and third sector and develop an appropriate approach to social impact measurement and evaluation for each given project. This issue will be discussed further in section 3.4.5 of this chapter.

Even though BSC was established by the coalition government, it was originally conceived by the previous Labour government (as indicated in section 3.3.1 of this chapter), and therefore represents a unique institution with bipartisan support. Nicholls and Schwartz (2014) suggested that BSC may be one of the most significant steps in facilitating the acceleration and development of the modern social investment marketplace. To this day, it represents the most ambitious effort undertaken by any nation in this respect, and constitutes a model that other countries have shown an interest in adopting (Daggers and Nicholls, 2016, p. 3).<sup>85</sup> Moreover, the development of BSC involved more than a decade of work from key social finance advocates operating both inside and outside of government, and had support at the highest levels of British politics (Daggers and Nicholls, 2016, p. 3). While there were a number of factors that contributed to the success of BSC, the continued efforts of Sir Ronald Cohen and Nick O'Donohoe<sup>86</sup>, in particular, were pivotal to developing new strategies

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<sup>85</sup> The model that BSC pioneered has attracted the interest of the Japanese and French governments, both of which considered instituting a similar legislation as of 2014. The strength of this model is that it can be extended to include dormant life assurance policies and pension funds, as well as unclaimed assets in dormant bank accounts (Nicholls and Emerson, 2015, p. 17).

<sup>86</sup> Nick O'Donohoe was the former head of global research for the J.P. Morgan investment bank who helped to develop a key piece of research on impact investing in collaboration with the Rockefeller Foundation and the Global Impact Investing Network (GIIN). This early report (O'Donohoe et al., 2010) helped to formulate the generally accepted definition of impact investing. O'Donohoe worked collaboratively with Sir Ronald Cohen to establish BSC. See, e.g. Daggers and Nicholls (2016, pp. 11, 26).

and encouraging government policies to support the creation of this new financial institution.

In order to fulfil BSC's aim of directing capital to the public and third sector during a period of austerity, the creators of this institution needed to develop a way of unlocking a new source of capital (see, e.g. The Commission of Unclaimed Assets, 2007; The Commission on Unclaimed Assets, 2006). One novelty of their approach is that the creation of BSC relied on leveraging conventional finance into social finance. The equity capital for BSC was funded with £400 million from unclaimed bank accounts, which was made possible through the *Dormant Bank Accounts Act 2008* (HM Government, 2008; HM Treasury, UK Government, 2014), along with £200 million in loans from the Merlin Banks which included the four leading high-street banks<sup>87</sup> in the UK. It was estimated that BSC has access to up to £600 million in total investible capital, although this amount is expected to grow in the coming years.<sup>88</sup> Also, this capital was, essentially, a zero cost for BSC because it did not have to be repaid and thus did not incur any interest (Daggers and Nicholls, 2016, p. 15).

The *Dormant Bank Accounts Act* established what constitutes the legitimate uses of this capital by defining a social investment wholesaler as a body that '...exists to enable other bodies to give financial or other support to third sector organisations,' and further clarified that a third sector organisation means an organisation 'that exists wholly or mainly to provide benefits for society or the environment' (see further: Cabinet Office, 2008, p. 10; Daggers and Nicholls, 2016, pp. 8–9). As indicated in section 3.4, BSC's definition of a third sector organisation or a social sector organisation includes for-profit companies that meet the terms of its Governance Agreement.<sup>89</sup> Also, BSC interprets 'other bodies' in the above definition to be understood as SIFIs that, for example, structure financial investments and/or provide investment-focused business support for SSOs (for a detailed account of SIFI operations, see: Big

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<sup>87</sup> The four high street banks are Barclays, HSBC, Lloyds Banking Group and RBS.

<sup>88</sup> Importantly, the money from the Dormant Bank Account Act will serve as a capital stream that will be continuously replenished as new accounts cross the 15-year threshold (Daggers and Nicholls, 2016, p. 15).

<sup>89</sup> See further BSC's Governance Agreement:  
[http://bigsocietycapitalblog.files.wordpress.com/2012/09/governance\\_agreement1.pdf](http://bigsocietycapitalblog.files.wordpress.com/2012/09/governance_agreement1.pdf)

Society Capital (BSC), 2013, p. 12). Therefore, the Act established the definitions and initial framework for determining investment eligibility.

#### *3.4.1 External investment restrictions*

When BSC effectively solved its funding problem through the equity investment from the *Dormant Bank and Building Society Accounts Act 2008* and the Merlin Banks, a number of unusual restrictions were placed upon it. In order to receive public funds from the *Dormant Bank Accounts Act*, in a competitive market, BSC needed to first secure a European State Aid exemption that would essentially allow the institution to be excluded from the European Commissioners' (EC) rules, so that it could receive support from the UK national government and operate as a bespoke social investor. In order to receive State Aid exemption, BSC had to only operate in areas where there is a market failure<sup>90</sup> (see further Dagers and Nicholls, 2016; Lyon, 2016).

Because BSC is using publicly directed money to address a market failure, its capital injection from dormant account money is considered State Aid and is subject to State Aid clearance by the EC.<sup>91</sup> This clearance by the EC is based on two levels: first, BSC's investment into SIFIs; and second, the investment of SIFIs in frontline SSOs (Big Society Capital (BSC), 2013, p. 14). At the SIFI level, BSC will require evidence from SIFIs that they are unable to access the finance that they are requesting from elsewhere and, at the level of the SIFIs' investment in frontline SSOs, BSC aims to work with the SIFIs to ensure that they have a clear understanding of their State Aid requirements and have developed adequate procedures to deal with them (Big Society Capital (BSC), 2013, p. 13).

In addition to the conditions for government and State Aid clearance by the EC, there were a number of additional investment restrictions placed on BSC. On the one hand, the *Dormant Bank Accounts Act* placed restrictions on where the funds would be going, which prevented BSC from making 'place-

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<sup>90</sup> BSC describes the term 'market failure' as the inability of social sector organisations (SSOs) to access capital on comparable terms to similar commercial organisations (Big Society Capital (BSC), 2013, p. 14).

<sup>91</sup> See further: European Commission State Aid clearance notification: [http://ec.europa.eu/eu\\_law/state\\_aids/comp-2011/sa33683-2011n.pdf](http://ec.europa.eu/eu_law/state_aids/comp-2011/sa33683-2011n.pdf)



based' investing (Daggers and Nicholls, 2016, p. 21). Also, investments were to be made into SSOs,<sup>92</sup> rather than individuals. On the other hand, the Merlin Banks placed restrictions in terms of the expected return profile<sup>93</sup> (Daggers and Nicholls, 2016, p. 21). Moreover, each source becomes part of an investment pool, and therefore all investments are bound by all restrictions (Daggers and Nicholls, 2016, p. 21).

Importantly, the Act imposed no restrictions regarding the form of intermediary bodies, that is, towards whom investments could flow (Daggers and Nicholls, 2016, p. 20). Therefore, essentially, any type of organisation could act as an intermediary as long as it was investing in SSOs. As a result, this has made it possible for new actors such as Cheyne Capital, an asset manager, to enter the social investment marketplace as an *intermediary body*. We could speculate that this lack of restriction regarding intermediaries was a direct response to BSC's principal objective to become a powerful force in transforming the growth of SIFIs, as indicated in section 3.4 of this chapter.

#### 3.4.2 Social mission objectives and accountability

In order to ensure that BSC would remain accountable to its stated social mission objectives and would indeed only make 'social investments,' a number of mechanisms were put into place. BSC functions as an operating company that is overseen by Big Society Trust, which is a separate entity that contains the majority of the equity (Daggers and Nicholls, 2016, p. 16). The primary purpose of Big Society Trust is to ensure that BSC remains committed to its social mission.<sup>94</sup> The Board of BSC are accountable to the Board of the Trust,

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<sup>92</sup> Social sector organisations (SSOs) are defined by the Dormant Bank and Building Society Accounts Act 2008 as those that 'exist wholly or mainly to provide benefits to society or the environment.' BSC has interpreted this to include regulated organisations such as charities (HM Government, 2008), as indicated in chapter 1 (see introduction).

<sup>93</sup> The Merlin Banks agreed for BSC to achieve a minimum rate of return set at a low-to mid-single digits return of around 4 per cent. Even though BSC did not meet its target level of return in the early years following the launch, the Merlin banks did not enforce these restrictions. Currently, BSC reports having a 4–6 per cent return target across its portfolio. See: <https://www.bigsocietycapital.com/what-we-do/assessment-and-co-development>.

<sup>94</sup> For further details on Big Society Trust, see Daggers and Nicholls (2016, pp. 15–17) and the Big Society Capital (BSC) website: <https://www.bigsocietycapital.com/about-us/governance/big-society-trust>).

who have oversight of BSC's activities and could challenge its activities or refuse to agree to a proposed strategy, including investment strategies.

#### *3.4.3 Internal investment restrictions*

BSC imposed a number of absolute restrictions on each investment decision, based on its mission of building a sustainable social investment market. First, all BSC investments are required to conform to the *Dormant Bank Accounts Act*. Also, SIFIs must articulate, measure and report their social impact; they must have, for example, a stated commitment to a particular social outcome, report social metrics and be open to an independent social audit (Big Society Capital (BSC), 2013, p. 12). Second, the Act helped to establish intermediary standards such as, for example, that SIFIs must always be comprised of two entities: a management company and a legal 'vehicle' that holds the investment, such as a fund (see further Big Society Capital (BSC), 2013, pp. 12–13). Also, a number of more detailed restrictions were put into place for the legal vehicle or fund receiving the capital. These included, for example: does it have a social mission and governance structure that protects BSC's mission, and does it ensure the transparency of all fees and expenses charged to the investors in the vehicle (Big Society Capital (BSC), 2013, p. 13)? Third, BSC's investments in intermediaries are based on matching funding on a 1:1 basis, with the long-term goal of a leveraging additional capital into the sector based on a 4:1 match (Big Society Capital (BSC), 2013, p. 13).

#### *3.4.4 Social investment objectives and market development*

In an effort to achieve its social mission of shaping and developing a sustainable social investment market in the UK, BSC uses a due-diligence and screening process based on a combination of three objectives: 'maximum social impact, a contribution to developing the social investment market, and a financial return' (Big Society Capital (BSC), 2013, p. 3). According to BSC, the best investments make a strong contribution to all three objectives, although in most cases there will be a tension between them.

Within these three main categories, there is a more complex framework of assessment for each potential investment. For example, in terms of social impact, BSC assesses each investment based on the strength of the social mission, governance and mission lock, business model and activities, impact performance and reporting, both at the SIFI level and looking at the way in which the SIFI manages its investments in SSOs (Big Society Capital (BSC), 2013, p. 5). This relates to a number of key questions. For example, is the social mission clearly defined and embedded in the investment strategy (Big Society Capital (BSC), 2013, p. 5)? To what extent does the SIFI understand the social issue and policy landscape targeted in its mission? Has the governance been instituted to ensure a mission lock, is there a clear policy that indicates how social value is preserved beyond the term of the investment and is the proposed exit plan likely to happen (Big Society Capital (BSC), 2013, p. 5)? With regard to assessing social impact measurement, BSC looks at whether the SIFI has a well-designed social impact measurement protocol and best practice for screening, selecting, assessing and investing in SSOs (Big Society Capital (BSC), 2013, pp. 5–6). Finally, has the SIFI developed a strong system for monitoring and reporting the social impact of its portfolio and arranged for a third-party monitor to perform independent auditing (Big Society Capital (BSC), 2013, p. 6)?

With regard to the second of the three main criteria, BSC is particularly concerned with ensuring that each investment made contributes to the development of the UK social investment market, as this represents an opportunity to attract a new scale of capital and strengthen the role of intermediation within this market-building phase. BSC evaluates market development based on the extent to which the investment will contribute to the supply of social investment capital, the level of intermediary engagement in the market and the demand for capital (Big Society Capital (BSC), 2013, p. 6). Further, BSC is particularly interested in the extent to which a proposed investment could attract new types of investors or help to build a new investor class. BSC is motivated by proposals that offer new types of intermediation and have the potential to develop an absent but critical piece of the market

infrastructure, by helping to link supply and demand (Big Society Capital (BSC), 2013, p. 7). This issue will be further discussed in section 3.5.3.

Finally, BSC is concerned with achieving long-term financial returns because, as a new financial institution, it needs to ensure that it preserves its capital and is sustainable as an organisation. Because the nature of BSC's investment activity is high-risk and is not currently undertaken by mainstream financial markets, BSC focuses on positioning SIFIs to develop this new path of investment (Big Society Capital (BSC), 2013, p. 7). BSC is particularly motivated by proposals that demonstrate the extent to which a SIFI has significant assets under management and a detailed financial model (Big Society Capital (BSC), 2013, p. 8). Additionally, BSC is also interested in how its capital might be protected in the event that the investee organisation experiences financial challenges, and with determining how reliant the proposal is on government policy or grant funding (Big Society Capital (BSC), 2013, p. 9). Moreover, the above factors are motivated by BSC's aims to attract further investment from the capital markets (Big Society Capital (BSC), 2013, p. 7).

#### *3.4.5 Social impact measurement*

Clearly, the issue of generating social impact cannot be separated from the issue of social impact measurement. As indicated by Daggars and Nicholls (2016) in their case study of BSC, the imperative to develop an effective impact measurement approach without reliance on burdensome datasets remains one of the most difficult challenges of this emerging market (p. 22). BSC has developed a methodology for measuring its social impact through a best practice approach known as the Outcomes Matrix,<sup>95</sup> which offers a range of social impact measurement tools to suit various types of interventions (such as mental, health, employment and housing). However, it is still unclear how BSC uses this instrument to govern its own investment decision-making and assessment or, as Daggars and Nicholls (2016) argued, how the Outcomes Matrix is used to measure impact. It may also be that BSC has a detailed evaluation process

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<sup>95</sup> At the completion of writing this thesis, BSC had indicated that it no longer uses the Outcomes Matrix and now relies on Impact Management Project (IMP), the social impact measurement approach previously introduced in chapter 2 (see introduction, footnote 56).

that governs its investment decision-making and assessment, but is lacking a fundamental understanding of social impact measurement.

One consequence of the lack of clarity or resolution around this issue of social impact measurement on the part of BSC, is that there are no clear lines of accountability established between BSC, Social Investment Finance Intermediaries (SIFIs) and social sector organisations (SSOs). The roles and responsibilities of each of these three entities with regard to impact measurement have not yet been clearly defined. As a result, SIFIs entering the market are tasked with the responsibility of establishing an approach to impact measurement where no clear precedent has been set. Therefore, the topic of impact measurement accountability and the relationship between BSC, SIFIs and SSOs is an area of this emergent market that merits further discussion and analysis.

### **3.5 Why are intermediaries important?**

The development of for-profit capital markets is based on a long history of innovations that have established a framework that effectively connects investors with investees (Bishop and Green, 2010). Effective intermediaries can help to create liquidity, reduce risks, lower transaction costs and provide a payment mechanism (World Economic Forum Industries, 2013, p. 16). Also, they play a pivotal role by creating products, investment structures and vehicles to meet the needs of mainstream investors, and usually include commercial banks, investment banks, brokers and advisors (World Economic Forum Industries, 2013, p. 16). Moreover, these firms are designed to be the infrastructure that makes it possible for capital allocation to operate as efficiently as possible (Bishop and Green, 2010; Nicholls et al., 2015d, p. 490). Therefore, financial intermediaries in the for-profit world play a fundamental role in negotiating supply and demand. Consequently, socially motivated intermediaries or ‘virtue’s intermediaries’ are equally important for the development of a robust social finance market (Bishop and Green, 2010).

Nicholls and Emerson (2015) have indicated that within the social finance market, among all of the various types of actors, intermediaries have

experienced the most significant development in terms of overall market structure (see Nicholls et al., 2015b). However, this aspect of the market is still developing and, as of yet, it is far from being fully institutionalised (Nicholls and Emerson, 2015, p. 18). Despite this rapid growth, the lack of intermediation capacity remains one of the most significant challenges, hindering the ability of investors to find capital and allocate it to opportunities for impact investments (Freireich and Fulton, 2009; Nicholls et al., 2015a, p. 240).

The introduction of intermediaries aims to address fundamental gaps in the development of the modern social finance market. Despite the huge need for funding in the public and third sector, as well as among profit-with-purpose businesses and other hybrid organisations, there appears to be an excess supply of capital and scarcity of demand due to the lack of investment readiness<sup>96</sup> (Nicholls and Emerson, 2015, p. 18). Also, the majority of SSOs can only receive small-scale investments due to their size and operating capacity (Nicholls and Emerson, 2015, p. 18). Moreover, the task of connecting those seeking capital with those with resources may entail rigorous capacity building around the issue of financial literacy among public and third sector organisations to ensure that potential investees understand which forms of investment might best suit their structure and mission objectives (Nicholls and Emerson, 2015, p. 18). Therefore, intermediaries have been introduced as one attempt to circumvent the limits on financing in the public and third sector.

While various roles of intermediaries have been identified (Shanmugalingam et al., 2011), perhaps their most significant task is to connect the providers of capital with those seeking resources in this new market (OECD, 2013). They play a pivotal role by facilitating the exchange of impact capital between the demand and supply side (OECD, 2015). Attention to this aspect of the market is important because intermediaries are crucial for establishing a robust pipeline of investment-ready organisations<sup>97</sup> (Addis, 2015, p. 439).

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<sup>96</sup> The term ‘investment readiness’ refers to an investee perceived to possess the attributes to make it a financially viable proposition by an investor able to provide the finance sought by the investee (see further Gregory et al., 2012, p. 6).

<sup>97</sup> See, e.g. the UK government Investment and Contract Readiness Fund (ICRF), one initiative which helps social enterprises and charities develop skills for raising investment and competing for public-sector contracts. See further:

Moreover, their significance extends beyond developing the deal pipeline to establishing connections that promote market development. At the market level, intermediaries may also be able to improve the effectiveness with which capital can be used, by helping to develop knowledge, skills and networks (Mulgan, 2015, p. 47). Further, Bishop and Green (2010) claimed that ‘virtue’s intermediaries’ may actually ensure that social programmes deliver a far higher social return on investment (p. 31).

The role of intermediaries and the process of intermediation is particularly important for impact investors because traditional channels of investment often do not meet their needs (Nicholls et al., 2015a, pp. 240–241). Also, intermediation could make some of the more technical aspects of impact investing less challenging by establishing new ways of structuring deals that layer various types of capital and involve a range of stakeholders and investors. Importantly, specialised intermediation makes it possible for impact investors to locate opportunities to invest at scale (Nicholls et al., 2015a, p. 240). For example, institutional investors can only consider investments of a certain size, and, thus, require specialised intermediation to invest at scale within the impact investing market (Nicholls et al., 2015a, p. 241).

The World Economic Forum (WEF) (2013) has indicated that the current landscape of intermediaries in the impact investment space is, for the most part, comprised of small, niche and specialised players (p. 23). In response to this, the WEF (2013) has highlighted the importance of intermediaries and stressed that they need to grow in number and scale if the market is to reach maturity (p. 23). One potential way to address this gap in the market is through engaging institutional investors, due to their scale and ongoing demand for investment. However, to date, most institutional investors have been hesitant to move into the market, and the growth of mainstream intermediaries in the impact investing ecosystem has been slow to develop.

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<https://www.gov.uk/government/news/investment-and-contract-readiness-fund-helps-social-ventures-win-business-worth-117-million>

### 3.5.1 Types of intermediaries

Intermediaries linking supply and demand in the social finance market could include, for example: private funds, such as pension and venture philanthropy funds; credit unions or Community Development Finance Institutions (CDFIs); mainstream players, such as investment banks and asset managers; specialist banks; and wholesale institutions (Nicholls and Emerson, 2015, p. 17). Alongside these, there are also emerging specialists professional service organisations that are being developed to support the growth of social finance; these include, for example, legal firms, consultancies and capacity-building organisations (Nicholls and Emerson, 2015, p. 17). At the same time, there is a new generation of specialist social finance organisations developing, which have been increasingly influential in recent years. They include, for example, Social Finance, launched in the UK in 2007, which created the first Social Impact Bond<sup>98</sup> structure in the world (Nicholls et al., 2015a, p. 241; Nicholls and Emerson, 2015, p. 17).

Even though the growth of the impact investing market has led to an increasing number of impact funds and a surge of new capital in the market, Nicholls et al. (2015a) have asserted that, perhaps counter-intuitively, investing capital in deals has proved to be significantly more difficult than raising capital (p. 214). As a response to this issue, a number of intermediaries specialising in deal origination, structuring and portfolio management have emerged in the market (Nicholls et al., 2015a, p. 214). BSC is a prominent example of both an

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<sup>98</sup> Social Impact Bonds (SIBs) are a type of payment-by-results contract where the public sector commissioner pays for a significant improvement in a pre-agreed upon social outcomes (Nicholls and Tomkinson, 2015, p. 339), as introduced in chapter 1 (see section 1.4.2) and discussed in chapter 2 (see introduction). Following the success of the first pilot SIB to reduce prisoner reoffending in Peterborough in the UK (Anders and Dorsett, 2017a, 2017b; Cave et al., 2012; Nicholls and Tomkinson, 2013; Nicholls and Tomkinson, 2015), there has been significant interest worldwide, and there is a growing body of academic research which examine the role of SIBs in financing public services (Broccardo and Mazzuca, 2019; Dowling, 2017; Eames et al., 2014; Jackson, 2013; Morley, 2019; Nicholls and Edmiston, 2018; Warner, 2013). There are currently 138 in operation and approximately another 69 in development globally (Social Finance, 2020). Furthermore, SIBs have emerged as one of the most widely discussed topics within this emergent market (see, e.g. Edmiston and Nicholls, 2018; Jackson, 2013; Kevin et al., 2018; Morley, 2019; Nicholls and Edmiston, 2018; Reeder et al., 2012; Warner, 2013; Williams, 2018). Nevertheless, the introduction of these new financial instruments in the UK is somewhat of a contested topic that is not without its critics (Dowling, 2017; McHugh et al., 2013). For example, the application of SIBs to address homelessness in the UK has been regarded as a neoliberal approach to securitise the homeless into a potential cashflow of investors (see Cooper et al., 2016).



intermediary institution and a wholesaler. In order to deploy capital into the public and third sector, BSC operates as a go-between for the conventional banking sector, socially motivated investors and social sector organisations (Nicholls et al., 2015a, p. 214). Further, BSC's role in building a new market to finance the public and third sector has taken many forms. For example, BSC works on the supply side to help organisations to raise capital, and on the demand side to support incubators to develop new solutions to innovate in the third sector.

However, perhaps most important for this case are the Social Investment Finance Intermediaries (SIFIs), which have been introduced to the market to address the current limits on funding and the lack of financial literacy. BSC (2015b) has defined a SIFI as: 'an organisation that provides, facilitates or structures financial investments for social sector organisations and/or provides investment-focussed business support to social sector organisations.'<sup>99</sup> SIFIs are particularly crucial for the market-building phase of impact investing in the UK because they represent an opportunity to unlock significantly more capital and direct it to financing frontline SSOs. However, the development of SIFIs is significantly more complex due to the difficulty of measuring a social impact on an investment.

We could speculate that, when Sir Ronald Cohen and other leading social finance advocates established BSC, they were well aware that if we are to effectively create a new market to finance the third sector, then we would not only need to leverage capital from the capital markets – through, for example, the *Dormant Bank and Building Society Accounts Act* – but would also need to build a new infrastructure to attract and generate further investment through the introduction of new players, such as asset managers. In order to achieve this, BSC developed a set of internal investment restrictions (see section 3.4.3) and social investment objectives (see section 3.4.4), in order to invest in SIFIs with significant assets under management, and which could also help strengthen the role of intermediation.

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<sup>99</sup> Within the context of this thesis, the term 'Social Investment Finance Intermediary' (SIFI) refers to the definition indicated in BSC's Glossary: <https://www.bigsocietycapital.com/glossary>

Therefore, in order to create a stream of capital from the capital markets that is directed to financing major social issues, BSC resolved not to follow the path of traditional philanthropy in providing funding to a social cause, but to introduce a new strategy by choosing to invest directly into SIFIs that are largely selected based on their capacity for market development. The purpose of this new model is to develop the variety and capacity of SIFIs, which could ultimately unlock capital from the capital markets and increase the supply of capital to the public and third sector. Moreover, BSC developed this strategy because investing in SIFIs rather than directly financing SSOs could offer the potential to develop a more sustainable finance investment market that is capable of financing the sector over the long-term.

BSC encourages market development through the following new mechanisms for financing the public and third sector. First, BSC invests seed capital into a given SIFI, which has been selected based on the criteria outlined in sections 3.4.3 and 3.4.4. Then, the SIFI is tasked with attracting further investment and, as indicated in section 3.4.3, must at least commit to match funding on a 1:1 basis, although BSC is ideally looking to invest in SIFIs that attract third-party capital at scale. Finally, the SIFI invests in frontline SSOs, the driving purpose of which is to generate a measurable social impact. These SSOs tackle a broad spectrum of critical social issues, which include, for example, homelessness or elderly extra care. Therefore, BSC invests seed capital into SIFIs that have been selected to enter the market based largely on their promise of market development.

### *3.5.2 Existing literature on SIFIs*

Whilst the role of intermediaries has been discussed in a range of practitioner research and government reports on social finance and impact investing (see, e.g. Brown and Norman, 2011; Burkett, 2013; HM Government, 2012b, 2011; Nicholls, 2013; Nicholls et al., 2015b; O'Donohoe et al., 2010; OECD, 2013; Unwin, 2006; Wood et al., 2012; World Economic Forum Industries, 2013) and to some degree in the academic literature (see e.g. Calderini et al., 2018a, 2018b; McHugh et al., 2013; Moore et al., 2012). However, much less research has

focused specifically on SIFIs. The research that exists on intermediaries has tended to focus the importance of intermediation, as a mechanism to bring social finance to entrepreneurs (Bishop and Green, 2010; Keohane, 2013; Meehan and Jonker, 2012; The Rockefeller Foundation, 2012). Also, it has looked at the crucial roles of intermediaries in helping to develop the social finance market (Shanmugalingam et al., 2011). For the most part, these research efforts have not looked at the topic of intermediaries in isolation, but rather as part of a wider discussion on the growth of this new market.

The topic of SIFIs has been examined in early practitioner research (Brown and Norman, 2011), followed by joint studies between government and industry (ICF GHK in association with BMG Research, 2013; Leather et al., 2016). Also, it has partially been examined in practitioner research on impact measurement (Rotheroe and Joy, 2014; Saltuk and Idrissi, 2015). Initial research by Brown and Norman (2011) aimed to provide the first comprehensive survey of social investment in England, which identified just over 30 organisations operating as SIFIs and a total social investment of £165 million within the year 2011/2012 (p. 8). The market was found to be highly concentrated, with approximately 90 per cent of the social investments made by just six SIFIs in 2011/2012 (Brown and Norman, 2011, pp. 8–9). Specifically, it was dominated by four social investment banks,<sup>100</sup> which collectively accounted for approximately 82 per cent of investment activity within this same year (Brown and Norman, 2011, p. 9; Leather et al., 2016, p. 45). Also, the majority of investments made were secured lending, with only 5 per cent categorised as equity or quasi-equity (Brown and Norman, 2011, p. 3), which suggested that significantly more high-risk capital is needed in the market, in order stimulate social enterprise growth and finance areas of the sector that are not addressed by mainstream markets.

Further research by ICF GHK in association with BMG Research (2013) aimed to address the lack of data in the market by providing the first detailed analysis of the size and impact of the UK social investment market, at

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<sup>100</sup> The four social banks included Charity Bank, Ecology Building Society, Triodos UK and Unity Trust Bank.

a national and regional level. To date, social investment has largely been provided by government, social banks and SIFIs, and most significantly in the form of lending (ICF GHK in association with BMG Research, 2013). This research explored the emergent base of SIFIs<sup>101</sup> that developed in the past decade to fill the shortage of finance available for charities and social enterprises. It calculated the economic impact (gross and net) of UK social investment by measuring SIFI lending activity during the year 2011–2012 (ICF GHK in association with BMG Research, 2013). The findings of ICF GHK (2013) indicated that a total of 765 social investments were made by SIFIs and that the UK social investment market grew by almost a quarter during this period (pp. 2, 19). Furthermore, the value and volume of deals revealed that the market was concentrated, with a relatively small number of SIFIs: nine large SIFIs accounted for 56 per cent of total investments and had an average investment size of approximately £71,000 (ICF GHK in association with BMG Research, 2013, p. 19). Also, it concluded that almost all SIFIs reported plans to grow investment (ICF GHK in association with BMG Research, 2013).

An update study by Leather et al. (2016) assessed the size and dynamics of the social investment flowing through UK SIFIs by examining the developments in the UK social investment market in 2012/2013 and 2013/2014 in comparison to the data on SIFIs in the 2011/2012 study by ICF GHK (2013). The findings indicated that the volume of investment had grown steadily and increased from 765 investments in 2011/2012 to 1,204 in 2013/2014, with a predicted rise to 2,583 investments in 2014/2015 (Leather et al., 2016, p. 11). Although it revealed that the value of UK social investments made by SIFIs in 2013/2014 totalled £168.4 million, which was a decrease from £202.2 million

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<sup>101</sup> Within the context of the study by ICF GHK (2013), the term ‘Social Investment Finance Intermediaries (SIFIs)’ was defined to mean those who ‘...predominantly attract money from social investors and use it to make direct investments into front-line social ventures. Many SIFIs also offer a range of other business support services. A major type of SIFI are social banks – defined as an organisation that takes deposits and invests these for financial and social returns’ (p. 7). Also, the term ‘front-line social ventures’ was described as those who, ‘...operate based on business models that create both social and financial returns (p. 7). This study also included social banks, Community Development Finance Institutions (CDFIs) and social investors as types of SIFIs. Whilst there is a lack of research focusing on SIFIs, it may be interesting to also consider existing research on the role of CDFIs in the growth of the social finance market in the UK; these may not be defined as SIFIs but are operating under similar principles.

in 2011/2012, it indicated that social investment is expected to rise to £212 million in 2014/2015 (Leather et al., 2016, p. 11).

One indication for the reduction in investment is that social banks, who were previously the dominant players in the market significantly reduced lending (Leather et al., 2016, p. 12). At the same time, investment by large SIFIs, or those which make at least £1 million of social investments in a year, increased from £30 million in 2011/2012 to £55 million in 2013/14. Moreover, investment by large SIFIs was predicted to further increase to £119.1 million in 2014/2015, and to equal 56 per cent of the market (up from 15 per cent in 2011/2012) (Leather et al., 2016, p. 12).<sup>102</sup> Even though these dates have passed several years ago, there are no updated figures to test what is actually happening. This demonstrates that, despite the significant interest at the practitioner level, there is not enough research carried out to track the rapid developments that are taking place in the market. The significance of this case, in relation to the above findings, is to be further discussed in chapter 4.

Importantly, Leather et al. (2016) helped to establish an early but growing trend of ‘a new breed’ of large SIFIs entering the social investment market, which is particularly relevant to this case. The growth of new categories of investor types and investment motivations prevalent in SIFIs is also found in the report *New Specialist Sources of Capital for the Social Investment Market, A Report for the Social Investment Research Council* from 2014. This early research indicated that institutional investors would become a key source of risk capital and long-term finance as the market continues to grow. Furthermore, it identified two sets of opportunities for previously under-researched UK institutional investor groups, which arise at different ends of the social finance market. For example, on the one hand, demand for risk capital was estimated at around £500 million to support early stage SSOs and, on the other, investment capital was estimated at over £5 billion to expand more established mainstream

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<sup>102</sup> The study by Leather et al. (2016) also indicated that debt finance made up the majority (by value) of the investment made by SIFIs, and the remainder was made up of equity, quasi-equity and social impact bonds. The average expected return by investment type was similar across various products, ranging from 6 per cent for a secured loan to between 8–9 per cent for the averaged expected investment rate of return (IRR) for equity, quasi-equity and social impact bonds (p. 12).

social finance industries (see further: Social Investment Consultancy in association with London Economics, 2014; Social Investment Research Council, 2014).

Specifically, this early report of the Social Investment Consultancy in association with London Economics (2014) identified charities, corporations, housing associations and family offices as the most likely prime providers of the next £500 million required in risk capital, due to their support of the market. The more established segment of the UK market, on the other hand, is likely to be supported by a group of local pension funds, which require substantial investment sizes and which have created dedicated allocations to support social investment. It concluded by listing a range of investment opportunities, related to various investor intentions, and made a number of recommendations for how we might secure investment from institutional investors, which included, for example, increasing awareness of mainstream investment opportunities and establishing a single place for tracking fund performance (see further: Social Investment Consultancy in association with London Economics, 2014; Social Investment Research Council, 2014).

The practitioner research on the emergence of SIFIs in the UK social investment market has led to a new understanding of the ways in which SIFIs contribute to the growth and size of this market, as well as shedding light on potential new methods of attracting further investment from institutional investors. In the past few years, we have begun to see examples of the investor groups mentioned in the report of the Social Investment Consultancy in association with London Economics (2014) entering the market. Notably, for this case, Leather et al. (2016) cited the Cheyne Social Property Impact Fund as an example of a new type of investor. Leather et al. (2016) explained this fund was launched in 2014 by investment manager Cheyne Capital to help tackle the shortage of housing solutions for disadvantaged groups in the UK (p. 41). Another example of a new type of investor cited by them (Leather et al., 2016, p. 41) was the rapidly growing Big Issue Invest, a SIFI that invests in listed bonds to support socially beneficial activities and economic development, which was launched with seed capital from BSC. Leather et al. (2016) also

indicated that 68 per cent of the SIFIs included in their survey were prepared to invest in housing (p. 35).

At present, academic research is lagging behind the rapid pace of development seen in practice. To date, the academic research on SIFIs consists of just one scholarly article (Hazenberg et al., 2015) and one report (Salway, 2017); it has only started to explore this aspect of the market. Early research by Hazenberg et al. (2015) highlighted that government efforts have been directed to building up the supply side of the market, often through the financing of SIFIs, but have overlooked problems on the demand side of the market, such as a lack of investment readiness. Their research sought to address this gap in the literature by exploring SIFI perceptions of what constituted investment readiness and how this assessment was made. The research was conducted through semi-structured interviews with fund managers at 15 SIFIs, and showed that the concept of investor readiness in the social investment market is similar to that of mainstream financial markets. Whilst the report by Salway (2017) identified SIFIs as a vital and growing aspect of the social investment ecosystem, it also reported some concerns. These included an insufficient level of knowledge on the part of SIFIs about the third sector and a potential conflict of interest created by SIFIs providing advice and finding investments for SSOs. The report also identified a lack of understanding of the role of SIFIs on the part of charities. Furthermore, it made a number of recommendations, which included, for example, the need for education and training on the role that SIFIs play in the market and the need to establish a clearer divide between SIFIs finding funds and offering advice.

The development of SIFIs is perhaps one of the most innovative and vital developments in the emergence of this new market because it presents us with an opportunity to unlock private capital from the mainstream markets and introduce new ways of delivering goods and services to the public and third sector. Also, it could provide us with the opportunity to embed impact measurement and invest in social outcomes within the public and third sector. This, however, is also a topic that merits further scrutiny and analysis because the introduction of mainstream financial players, such as hedge funds and other

asset managers, into the public and third sector as investors is novel and involves a level of risk that has not yet been explored. Moreover, if this role of SIFIs is to be fully realised, in terms of their responsibility to influence the social impact generated by SSOs, further research and discussion is needed, particularly around the topics of investor readiness and impact measurement during this market-building period.

### *3.5.3 Cheyne Capital's role in market development as a SIFI*

Cheyne Capital was selected by BSC to operate as a SIFI largely due to its scale as an institutional investor. As one of Europe's leading alternative asset managers, Cheyne Capital is perhaps the largest SIFI in existence today (see section 1.5). As indicated in section 3.4.4, BSC is particularly interested in investments that help to build a new investor class or develop a crucial, but missing piece of the market infrastructure. As part of a new breed of large SIFIs or mainstream intermediaries entering the social finance market, we can speculate that BSC recognised Cheyne Capital could play a significant role in unlocking new, untapped sources of capital from institutional investors, such as local pension funds who have demonstrated an interest in the market (see section 3.5.2) and direct it to invest in housing for disadvantaged groups.

Furthermore, Cheyne Capital's role as a SIFI indicates that the asset manager might offer new ways to reform the funding mechanisms for housing for disadvantaged groups, based on a new model of public-private partnerships. As indicated in section 1.5, the alternative asset manager has been offering financing solutions in real estate since 2009, and currently manages approximately £2.5 billion of assets across direct real estate lending, securitised European real estate debt and selective specialised situations (Cheyne Capital, 2018a). As such, Cheyne Capital could play a major role in the market-building phase of this new industry. However, because BSC works directly with a SIFI like Cheyne Capital rather than with SSOs, Cheyne Capital – like all other large SIFIs – has a significant responsibility to ensure that social impact is appropriately met, measured and managed.



#### *3.5.4 Cheyne Capital's constraints as a SIFI operating through joint partnerships with SSOs*

In addition to the external restrictions that BSC places on intermediaries, instituted through the *Dormant Bank Accounts Act* (see section 3.4.1), and the internal restrictions established by BSC (see section 3.4.3), Cheyne Capital was under specific constraints with regard to its investments in social property. As a SIFI, Cheyne Capital must operate as a 'social landlord' that works exclusively with and invests in non-profit SSOs engaged in providing housing for disadvantaged groups. These investments must be made through *joint partnerships* with 'high-impact social sector organisations,' which include charities, housing associations, local councils and other social service providers, where housing is at the centre of offering support for their beneficiaries (Cheyne Capital, 2014). Due to the diversity of these partnerships, Cheyne's investments in the sector needed to offer a range of housing solutions for disadvantaged groups, including social or affordable housing, as well as more specialised housing such as supported living, elderly extra-care housing, housing for the homeless, adult social care and supported living for people with physical and/or learning disabilities (Cheyne Capital, 2014).

Following the general restrictions placed on all SIFIs receiving funding from the *Dormant Bank Accounts Act* (as indicated in section 3.4.3), Cheyne Capital first had to set up a legal 'vehicle' to hold the investment. This came in the form of the Social Property Impact Fund ('the Fund'), which was established as a joint effort between BSC and Cheyne Capital (Cheyne Capital, 2014). The creation of the Fund made it possible to establish a clear demarcation between the general operations of Cheyne Capital Management as an alternative asset manager and the investments it made as an impact fund. It also enabled BSC to impose a specific set of constraints upon the Fund. Cheyne Capital responded to these constraints by embedding social covenants in its internal operations, governance and investments of the Fund.

In order ensure that investments made by the Fund are socially responsible, Cheyne Capital needed to appoint a third-party social auditor to review all investments (Big Society Capital, 2016). Cheyne selected New

Philanthropy Capital (NPC), a London-based charity think tank, to act as the Social Impact Member and member of the Investment Committee of the Fund (New Philanthropy Capital (NPC), 2015; Shiel, 2015). In order to embed impact measurement and screening from the onset, Cheyne Capital worked together with NPC to develop processes of social due diligence, impact assessment, monitoring and measurement prior to entering the sector (Joy, 2014). NPC sits on every investment committee as the Social Impact Member, and helps Cheyne Capital to evaluate each investment based on clearly defined social impact goals, with on-going monitoring and social covenants to help ensure the objectives are reached (Alibhai, 2017). Both Cheyne and NPC seek to ensure that those in the greatest need are prioritised and gain access to housing first, although, to date, this criterion has not been instituted at a policy level and represents an area for further research.

Additionally, Cheyne Capital's investments in the housing sector need to demonstrate a balance of social and financial return (Cheyne Capital, 2014). Therefore, the hedge fund does not capitalise on development profits, and instead needs to reinvest the capital in order to improve the quality of provision, as well as reduce social service costs and rents. Moreover, these investments are intended to help strengthen the social impact of SSOs with growing property needs working with underserved demographics. The Fund will then undertake annual social audits and submit these findings to its investors. Nonetheless, as has already been noted, there is no standardised way of measuring social impact,<sup>103</sup> and such attempts at measurement are still in the infantile stage in the context of impact investing in social property. These audits will include metrics that cover information such as who has been helped, whether rents are affordable, the quality of the design of housing and how properties are maintained over time (Shiel, 2015). The details of the Fund and what has been achieved through Cheyne's entry into the housing sector is to be discussed further in chapter 4.

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<sup>103</sup> See further on the growth of this emergent market despite a lack of appropriate metrics: (Geobey et al., 2012; Lehner and Nicholls, 2014; Manetti, 2014; Nicholls, 2009).

*3.5.5 How could Cheyne Capital make impact investing in social property financially viable through joint partnerships with SSOs while also achieving a measurable social impact?*

Within the context of investing in social property, as opposed to its other investments, Cheyne Capital is faced with the issue of a lack of investment readiness. As indicated in section 3.5, the lack of investment readiness is not just an issue for Cheyne Capital; it is one of the most significant barriers preventing future growth within the modern social finance market. Also, as indicated in section 3.5.2, it has been identified as a gap in the literature by the only scholarly research on SIFIs to date (Hazenberget al., 2015). Given that Cheyne Capital presents one of the earliest cases of a large SIFI operating within this emergent market, looking at this case helps us to identify and understand what kind of issues are arising in practice and where are areas for future work.

As a SIFI, Cheyne Capital effectively needs to use the seed capital from BSC to attract further investment from socially motivated investors<sup>104</sup> that are committed to investing in housing. Cheyne Capital was successful in raising significant capital through investments from institutional investors, the details of which are to be discussed in chapter 4. In order to begin earning a return for its investors in the Fund and make its investments in social property financially viable, Cheyne Capital needed to deploy institutional-scale capital in the housing sector, as efficiently as possible. To achieve this, the hedge fund first needed to develop a robust pipeline or deal flow of investments in housing for disadvantaged groups. Therefore, Cheyne Capital's ability to earn a profit, as an impact investor in social property, is directly proportional to its deal flow or the time it takes to receive a business or investment proposal.

Developing Cheyne Capital's deal flow is the first major barrier that Cheyne Capital identified to receiving a financial return. This is particularly difficult due to the novelty of its role as a new agent of housing for disadvantaged groups. As indicated in the previous section, each investment must be made through a joint partnership with an SSO, such as a housing

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<sup>104</sup> Within the context of this case, the investors in the Fund invest what Cheyne Capital has termed 'responsible private capital,' because they are willing to offer patient capital which generates a measurable social impact (see further Cheyne Capital, 2017).

association, local council or charity, and must abide by the social covenants imposed on the Fund by BSC and *the Dormant Bank Accounts Act* to ensure a measurable social impact is achieved with each investment. Additionally, in order to enter into a joint partnership with an SSO and offer repayable finance as a new social landlord, Cheyne Capital generally needs to purchase the necessary assets, which could include land or existing housing stock, for disadvantaged groups. Therefore, Cheyne needs to secure a partnership with a local council, a housing association, or charity, which involves purchasing the necessary assets to begin investing capital from the Fund into housing for disadvantaged groups.

The challenge of developing Cheyne Capital's deal flow is related to three significant factors. Firstly, as a novel case, the hedge fund faces a level of distrust from social sector organisations due to the counter-argument outlined in section 3.2, which could inhibit progress. Additionally, housing associations that accept investment from institutional investors tend to favour capital market bond financing for long-term investments (see further Tang et al., 2017), rather than what Cheyne Capital is offering, i.e. a sale-and-leaseback deal that uses equity finance. Secondly, there is a lack of financial literacy in the sector, and SSOs are simply not equipped to receive investment at scale. Additionally, the lack of investment readiness in the public and third sector is highlighted in the context of this case because Cheyne Capital needs to invest capital from institutional investors efficiently and at scale. Thirdly, and equally significant, land is to a large extent not priced for its intended use for housing for disadvantaged groups – an issue that Cheyne Capital, as a new social landlord, has identified as a major challenge in this area (London Assembly (Plenary), GLA, 2016, pp. 1–2).

The second major barrier detected by Cheyne Capital when it comes to receiving a financial return on its investment relates to inefficiencies in building procurement. As indicated in the introduction of chapter 2, the UK has one of the longest public procurement procedures in the EU (Royal Institute of British Architects (RIBA), 2012, p. 10; Strand et al., 2011, p. 105). Also, the issue of inefficiency is exacerbated in the context of UK social housing, where

time overruns and budget overruns are commonplace (see chapter 2, introduction). In order to deliver on an early promise made to investors, Cheyne Capital must adhere to a number of self-imposed constraints with regard to the time it takes to complete a given project. For example, within the context of a new social housing development, Cheyne indicated, at the time of the launch of the Fund, that building procurement needed to be completed within 18 months in order to adhere to its financial timetable, although a more effective construction time was within 12 months. What is perhaps most interesting here is that, if Cheyne Capital manages to massively reduce the construction time to, for example, under six months, the hedge fund has indicated that they could offer a lower rent for disadvantaged groups (London Assembly (Plenary), GLA, 2016, pp. 32–33).

Another factor that can affect Cheyne Capital's ability to earn a profit is the investment risk at the onset of a given project, which is related to the level of uncertainty in cost and time (see chapter 2, introduction). As a SIFI, Cheyne Capital undertakes the developments and deals itself and takes on 100 per cent of the risk in terms of the development, construction, and financing required. In order to reduce risk and uncertainty, the hedge fund needs to institute a staged delivery for building procurement. Specifically, this would require that each housing project is delivered effectively in phases, based on a pre-agreed upon timetable that Cheyne Capital can plan for and project in advance. However, this is particularly challenging in the context of this case because, as indicated in the introduction of chapter 2, instituting reforms in UK building procurement that could lead to a more rational calculation and a fixed timetable is a complex issue that has yet to be fully resolved.

In order to make its investments financially viable over the long-term, the Fund needs to invest in housing for public or third sector organisations that either holds its value or appreciates in value over an extended time horizon. Moreover, the length of this investment is based on a joint partnership with an SSO. This means that this case of impact investing in social property is based on developing a viable real estate scheme based on a partnership with an SSO, which makes a generational investment rather than resulting in a short-term

gain. Moreover, what is perhaps most compelling about this case is that Cheyne Capital has aimed to achieve what we might call *a sweet spot model*, where the business model and the impact model are the same.<sup>105</sup> We can identify the Fund as a sweet spot model because the investor, in this case Cheyne Capital, can maximise its financial return by maximising its impact and it is the sum degree, or what we can understand as the total value creation.<sup>106</sup> The challenge of developing a sweet spot model and its relationship to achieving a measurable social outcome is to be further discussed in chapter 4.

It is safe to assert that time is money for Cheyne Capital, in perhaps a different way than for other actors in the sector. The financial success of the Fund is ultimately dependent upon its long-term performance, and at the same time, Cheyne Capital's profit is directly related to the timely delivery of an early promise made to its institutional investors. Any amount of time that its capital is not invested in the sector, this capital is not earning a return for its investors and is costly for the Fund. To deliver on its promise and begin earning a financial return, Cheyne needs to massively reduce the inefficiencies in building procurement because it needs to minimise the time during which the Fund is not earning a profit. Therefore, any reduction in building procurement time could increase the speed of its pipeline and, in turn, could create an increase in the time during which the Fund generates profits. Therefore, in order to improve

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<sup>105</sup> A series of original ideas in this segment of the text relating to the concept of a 'sweet spot model' can be traced back to a private conversation with Professor Alex Nicholls (2019) at Saïd Business School, University of Oxford. This conversation with Nicholls (2019) established that within this emergent impact investing market there are three types of social enterprise models: a business model, an impact model, and a sweet spot model. Generally, a business model offers lower risk, competitive returns with a trade-off in social impact, whereas an impact model offers a higher social impact with less competitive financial returns and a higher risk profile, and a sweet spot model offers little to no trade-off between impact and financial return. To date, these three types of social enterprise models have not yet been discussed in academic literature on impact investing, although they have been examined in social enterprise literature on 'typology.' For a comprehensive discussion on this see, e.g. Alter (2007, 2006).

<sup>106</sup> The concept of 'total value creation' was informed by social enterprise literature, which discusses typology in terms of a spectrum, rather than a bifurcated landscape, where increasingly in recent years the emergence of social enterprise as a new field has connected the for-profit world, the purpose of which is to create economic value, and the non-profit world, the purpose of which is to create social value (Alter, 2007, p. 1). Specifically, Kim Adler's working paper Social Enterprise Typology (2007) states: 'In practice, these dichotomies are increasingly coming together through the application of methods that marry market mechanisms to affect both social and economic value, resulting in total value creation' (Alter, 2007, p. 1). On the spectrum of social enterprise typology see Dees et al. (2002).

deal flow, Cheyne Capital will need to confront these two major barriers to earning a financial return: the lack of investment readiness from social sector organisations (SSOs) and the inefficiency of UK building procurement. To this day, both of these issues remain major challenges for the Fund which are hindering the speed of its pipeline and the growth of this emergent market.

### *3.5.6 Cheyne Capital as an agent of building procurement reform for local councils, charities, and housing associations*

This chapter is concerned with the question: How can a for-profit organisation such as a hedge fund ethically invest in housing for social sector organisations (SSOs), such as a local council, charity, or housing association? At the heart of this question, there is the further question: could the hedge fund, operating as a SIFI in this emergent market, deliver housing for (SSOs) at a cost that is competitive with the standard cost of procuring housing through a combination of seed capital from BSC and private institutional investment? Popular opinion would probably hold that hedge funds are committed to being costly and may be the least likely candidate for being a public and third sector housing provider. However, as indicated above, in order to make its profit, Cheyne Capital needs to radically reform the procedures of building procurement to make them significantly more time efficient, and thus less costly.

Impact investing in social property has the potential to be far more efficient than housing delivered in the charitable sense. If this is the case, Cheyne Capital's entry into the housing market as a new social landlord will almost inevitably result in procurement reform because it has identified a financial solution to the shortage of quality and affordable housing, instead of seeing its complexity. Also, its pursuit of a financial return is dependent on the timely delivery of housing for SSOs, at scale. Moreover, Cheyne Capital's wish for profit should not necessarily be viewed negatively, as it might lend a much-needed rigour and discipline to the housing sector.

What is important about this case is that it is not only about the new source of finance that Cheyne Capital is offering, through its relationship to BSC and its role as a SIFI operating through joint partnerships with SSOs. It is

equally about the discipline it could bring to UK building procurement and the reforms it would be prepared to sponsor on behalf of its public and third sector clients. The significance of this concept of the hedge fund as an agent of procurement reform and how it could inform social impact measurement is to be further discussed in chapter 4.

## **Conclusion**

What the modern social finance market has achieved so far is to begin to develop a new market that bypasses the traditional divide between public versus private funding. We have now reached an intermediary stage in this market-building phase of industry evolution. The establishment of BSC, the Fund, and the appointment of Cheyne Capital as a large SIFI in this emergent market in the UK is a major milestone for the field. It represents the first time that a social investment wholesale bank has been established to finance social and environmental initiatives and that mainstream intermediaries, such as asset managers, have been introduced as SIFIs to play a fundamental role in market development. If this model is effective, it has the potential to unlock institutional scale capital to finance frontline SSOs and create a robust funding environment over the long-term. However, its success is largely dependent upon BSC continuing to offer seed investment to large SIFIs to finance SSOs and operate as new social landlords. Clearly, these developments are to be recognised as significant steps forward in helping to solve the shortfall in the funding available for local councils, housing associations, and charities. However, when it comes to the transformation of social property in general and social housing in particular, this is only the start, and many challenges remain.

The main challenge that the hedge fund faces is how to effectively turn this investment into houses, given the novelty of its role, the lack of investment readiness in SSOs and the massive inefficiencies and long timescales in UK building procurement. The following chapter will examine what Cheyne Capital has achieved so far as a new agent of housing for disadvantaged groups.



## Chapter 4: What has Cheyne Capital achieved to date as a new social landlord working in joint partnerships with SSOs?

### Introduction

At the time of the launch of the Social Property Impact Fund ('the Fund'),<sup>107</sup> in November 2014, Cheyne Capital was one of a limited number of SIFIs who could accept a capital injection from BSC, due to its scale and performance characteristics (see sections 3.5.2 and 3.5.3). In order to support its entry into the market, BSC made a co-investment of £12 million into the Fund,<sup>108</sup> which Cheyne Capital then used to raise £240 million of investment into the sector (Cheyne Capital, 2014; Shiel, 2015). Furthermore, Cheyne Capital used debt to increase its investment up to approximately £900 million, at a rate of approximately £200 million a year (Alibhai, 2015).<sup>109</sup> In 2015, Cheyne pledged to invest this capital in full, in the coming three to four years (Alibhai, 2015). Thus, Cheyne Capital demonstrated to BSC that as a SIFI it could, as predicted,

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<sup>107</sup> As indicated in the Preface, a large portion of the evidence for this thesis and this chapter in particular was gathered through my role as an actor in this emergent market. My involvement first began with meetings with a member of the management of Cheyne Capital, before the launch of the Fund (in May 2014), which influenced the development of my doctoral research. This was followed by field experience as a full-time member of its staff, as Architectural Consultant for the Social Property Impact Fund, from February 2015 to May 2015. I worked alongside Shamez Alibhai, the then Partner and Portfolio Manager of the Fund, and in counsel with Jonathan Lourie (Founder, Chief Executive Officer, and Chief Investment Officer) and Stuart Fiertz (Co-Founder, President, Head of Responsible Investment, and Director of Research). Following this period, I had a number of subsequent meetings and discussions with Alibhai at Cheyne Capital in the years to follow (see further Alibhai, 2017, 2016, 2015). Also, it is important to note that Alibhai has been particularly active in the emergent impact investing market and is a member of the Practitioners' Council of UK National Advisory Board on Impact Investing (UKNAB). See further: <http://uknabimpactinvesting.org/shamez-alibhai/>.

<sup>108</sup> BSC's co-investment of £12 million was made into a UK Real Estate Investment Trust ('REIT'), and any returns that BSC earns from the Fund are reinvested in social initiatives (Shiel, 2015). UK REITs are a property investment vehicle and represent a significant market at the European and global REIT level (see further Newell and Marzuki, 2016). On the structure and performance of REITs see, e.g.: (Brounen and de Koning, 2013; S. H. Chan et al., 2003).

<sup>109</sup> In order to supplement my field experience and subsequent meetings at Cheyne Capital, I have relied on some media sources which, for example, reacted to its entry into the sector (Agnew, 2014; Apps, 2015a, 2015b; Evans, 2018; Flanagan, 2014; Fortado, 2016; Private Banker International (PBI), 2014; Williams, 2017) and describe details of the Fund such as the source of investment and returns (Investor Strategy News, IO&C, 2015).

leverage significant capital to help finance housing for social sector organisations (SSOs).

Cheyne Capital has been able to achieve this in part by attracting support from private institutional investors, which included a French penchant fund and a UK pension fund. Institutional investors have an enduring demand for a secure place to invest their capital, which offers stable and long-term returns. For institutional investors, investment in UK housing infrastructure has been regarded as a profit-oriented business and a corporate social activity; it supports local communities while offering low risk returns on their investments (Haffner et al., 2016). Furthermore, institutional investors in the Fund are interested in patient capital, which offers long-term stability and transparency through a socially responsible mandate (London Assembly (Plenary), GLA, 2016). As a SIFI, Cheyne Capital has effectively capitalised on this demand on the part of institutional investors and has operated as a go-between that has aimed to direct investment into SSOs working with disadvantaged groups. Moreover, it indicates, as a SIFI, Cheyne Capital can unlock private institutional capital for SSOs, an area of the capital markets that public and third sector housing providers cannot normally access.

The Fund also gained support from high-net-worth individuals, including a European family office. We are experiencing a new generation of family offices who see social and affordable housing as a worthy investment<sup>110</sup> (Apps, 2015a). Even though Cheyne Capital is operating as a SIFI instituted by BSC, the hedge fund has effectively reframed housing as an investment vehicle. By doing so, Cheyne Capital has attracted a broad base of support for social property from institutional, third-party capital. This is one of its advantages as a new social landlord. Moreover, as the government withdraws from publicly funding affordable housing and increases support for private house builders, traditional models of housing provision are likely to be replaced by diversified

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<sup>110</sup> Alongside this growing interest from family offices investing in social property infrastructure, it is also interesting to add that there is a new development in the social finance market known as ‘philanthrocapitalism,’ an emerging movement of giving based on blending business practice with philanthropy (Bishop and Green, 2015). See further Bishop and Green (2009, 2008). This segment of the social finance market could potentially offer another source of capital for social housing and other forms of social property.

funding models and new hybrid organisational forms (see section 3.1) to deliver housing. However, the viability of its role as a new social landlord is conditional upon an efficient speed of delivery that adheres to its financial timetable and delivers competitive returns for its investors (see section 3.5.5).

In order to deliver on its promises to investors and public and third sector clients, Cheyne Capital has employed two main strategies with regard to building procurement: ‘turnkey development’<sup>111</sup> and ‘asset acquisition.’ Under a contract for ‘turnkey development’ Cheyne Capital takes 100 per cent of the risk in terms of the building procurement and financing required, and thus delivers ‘turnkey assets,’ or properties that are immediately ready to be occupied for their intended purpose (Alibhai, 2015). As part of ‘asset acquisition’ the Fund has acquired completed assets through a range of procurement strategies which include for example, simple asset transactions backed by a forward commitment (Alibhai, 2015). Additionally, as indicated in chapter 3 (see section 3.5.5), Cheyne Capital has been responsible for any budget overspends or time overruns on a given project.

Cheyne Capital has operated as ‘a socially responsible landlord’ or social landlord by acquiring or building properties and then leasing these properties to SSOs at mutually agreed upon, affordable rates (see e.g. Cheyne Capital, 2018, 2015). This kind of sale-and-leaseback partnership is one of the most significant mechanisms that Cheyne Capital has employed, as will be seen in the later projects. It is structured so that the Fund would own the properties, which would be leased to public or third sector clients. This would include for example a 21-year ‘full repairing and insuring (FRI) lease’ where the SSO would take full responsibility for the management and maintenance of the

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<sup>111</sup> The term ‘turnkey’ contract is defined in academic literature as an extreme approach to contractor-led procurement where, similar to this case, the construction company assumes complete responsibility for all stages of a given project or the development programme (Goodchild and Chamberlain, 1999, p. 864). The term ‘contractor-led procurement,’ also known as ‘developer-led procurement’ (Audit Commission, 1994, pp. 41–42) or an ‘integrated procurement system,’ (Masterman, 1992, p. 3) describes an approach where the building process is under the control of a single organisation from start to finish. Within this context an external architect could be used, although the contractor assumes legal responsibility for the design work (Goodchild and Chamberlain, 1999, pp. 862–863). With regard to social property, the term ‘turnkey contract’ could include off-the-shelf schemes or a similar exercise where, for example, the housing association agrees to purchase a property that has been developed independently by a contractor (Goodchild and Chamberlain, 1999, p. 864).

property for the duration, or a 35/40-year ‘finance lease’ where the assets revert to the SSO for a nominal repurchase fee of £1 at the end of the lease, therefore remaining in the public sector or third sector (Alibhai, 2015). Cheyne Capital has also indicated that, at the end of the lease, the public or third sector client would have three choices: one, allow the lease to end; two, acquire some or all of the properties; or three, roll the lease for another period (Alibhai, 2015). Further, the Fund would receive an income through an indexed linked return and the lease would include social covenants that are reviewed annually (Alibhai, 2015). However, the details of this arrangement and potential risks for SSOs have not been disclosed.

As indicated in chapter 3 (see section 3.5.4), the Fund has aimed to balance social return with financial return and seeks to generate stable, long-term, inflation-linked returns for its investors, while creating positive social outcomes (Big Society Capital, 2016; Cheyne Capital, 2014). Also, it is offering ‘patient capital’ which comes at a lower cost than traditional development because the investors in the Fund are willing to trade off some financial return for social impact, and at the same time Cheyne has still aimed to deliver competitive market returns on its investment<sup>112</sup> (Alibhai, 2015; Investor Strategy News, IO&C, 2015). The challenges Cheyne Capital faced while employing this approach to repayable finance through a sale-and-leaseback arrangement will be further discussed in section 4.4 of this chapter.

The purpose of the Fund is ‘to help tackle the chronic shortage of housing solutions for disadvantaged groups in the UK’ (Cheyne Capital, 2014). As a new social landlord, Cheyne Capital also represents a largely autonomous, partially self-governing model of housing finance and procurement (see section 3.5.4). The Fund has developed an innovative model that aims to not be reliant on any form of government grant aid or subsidies, which may not be the case of other impact real estate investors entering the market, which are potentially reliant on grants to level up their investment in housing.

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<sup>112</sup> The reason Cheyne Capital can achieve competitive market returns in the Fund is that Cheyne Capital typically offers a financial return that is much higher than what the Fund is offering. Therefore, even though the investors in the Fund are willing to trade-off some financial return they are still earning a competitive market return (Alibhai, 2015).

Importantly, the Fund was not regulated by the Homes and Community Agency (HCA),<sup>113</sup> or what is currently known as Homes England,<sup>114</sup> and therefore the properties are not subject to right-to-buy or rent regulations. If the Fund is not regulated by Homes England, this could have a significant impact on its operations as a new social landlord because it removes from the equation levels of control over a given project, including monitoring. For example, Cheyne Capital may not need to obtain a planning permission, which could potentially help the Fund to achieve a more efficient speed of housing delivery as a new social landlord. However, at this stage, there is not sufficient data available to evaluate the implications of its role, although this is an area of the market that merits further examination because there are potential risks associated with this level of independence and the potential for innovation. Therefore, if this market is to continue developing, it would be crucial to examine both the downsides and advantages of this lack of regulation.

Since entering the sector as a new social landlord, Cheyne Capital has delivered a diverse range of housing projects for public and third sector organisations. This has been particularly challenging because, as perhaps the only global equity investor operating as a SIFI, Cheyne has been met with some reluctance on the part of local councils, housing associations, and charities to enter into a joint partnership with it. Some public sector bodies are not yet familiar with the emergence of this new market and do not understand why a private sector housing provider would adhere to socially responsible practices. Also, it is learning about the social housing sector as it goes along while having to abide by the internal and external constraints established in chapter 3 (see sections 3.5.4 and 3.5.5). Furthermore, the land Cheyne Capital purchases needs to reflect the use of its properties for disadvantaged groups, rather than market

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<sup>113</sup> The Homes and Community Agency (HCA) was an executive non-departmental public body, sponsored by the Department for Communities and Local Government (DCLG), which had previously been established by Housing and Regeneration Act 2008. It was responsible for regulating social housing providers. See further: <https://www.gov.uk/government/organisations/homes-and-communities-agency>

<sup>114</sup> In January 2018, Homes England replaced the HCA and currently operates as the non-departmental public body responsible for releasing land for housing developers. It is sponsored by the Ministry of Housing, Communities & Local Government (MHCLG). See further: <https://www.gov.uk/government/organisations/homes-and-communities-agency>

values, which proved to be a major challenge (see further London Assembly (Plenary), GLA, 2016, p. 1). Moreover, the inefficiencies present in UK building procurement likely remain the most significant barrier for Cheyne Capital to meet its financial timetable as an impact investor.

If impact investing in affordable housing is to become one of the largest areas of growth in this emergent market (see section 1.4.7) further examination is needed on the introduction of mainstream intermediaries as new social landlords. The purpose of this chapter is to assess what Cheyne Capital has accomplished so far as a SIFI, instituted by BSC, operating as a new social landlord for disadvantaged groups. In order to answer the question ‘*What has Cheyne Capital achieved to date as a new social landlord working in joint partnerships with SSOs?*’ this chapter will use six of the main projects and three of the proposed projects, from the time of the launch of the Fund in November 2014 through to January 2019, as the frame of analysis. This chapter will also examine a number of challenges, such as the reaction of SSOs to Cheyne Capital acting in this new capacity and the ways in which it has dealt with the demand from SSOs for urgent and specialised housing. Further, it examines what Cheyne Capital has offered as a new social landlord and highlights the potential risks and areas for future research.

This chapter is organised into five main sections, including the introduction and conclusion. Following this introduction, the first section (‘Advisory Board’) describes my role in helping Cheyne Capital to set up an advisory board to help the Fund achieve its objectives, while innovating in the design of housing for disadvantaged groups. The second section (‘Ongoing and completed works’) describes the six main projects that Cheyne Capital has delivered, and shows the unmet housing needs that it has addressed through its novel approach to partnering with SSOs. The third section on ‘Proposed projects’ describes three projects where the outcome is less clear. Also, these proposed projects help to highlight potential risks and barriers for the further development of this new market. The fourth section (‘Challenges’) identifies six key challenges that Cheyne Capital faced due to the novelty of its impact real estate model, based on joint partnerships with SSOs. These challenges are

examined in six individual subsections. Importantly, the chapter also includes the subsection ‘A sweet spot model,’ which identifies Cheyne Capital as an example of a sweet spot model that is distinct and significant in the context of this emergent market. It further proposes, in the subsection ‘Social impact measurement and reporting,’ a framework for how we might measure the social impact in cases such as Cheyne Capital, based on assessing three scales. The fifth section (‘A personal reflection...’) presents a personal reflection of Cheyne Capital’s investment proposal and includes two subsections (‘Challenges and achievements’) and (‘Future opportunities for design innovation’). The final section offers a brief conclusion, which explains what this early case demonstrates in the context of this emergent market and makes recommendations for future research.

#### **4.1 Advisory Board**

As a new actor that is largely unknown in the sector, Cheyne Capital faced the initial challenge of how to become part of the conversation on a wide range of projects, including large-scale urban regeneration and specialised housing in London. Cheyne also experienced difficulty in understanding how to meet planning regulations and work with practitioners who could help meet its pledge to deliver housing significantly more efficiently (e.g. within 12 months; see section 3.5.5). Moreover, Cheyne was largely dissatisfied with the normative approach for public sector housing design. As a new social landlord, the Fund aimed to deliver housing that included social covenants and, for example, would innovate in the construction and building materials to improve energy efficiency over the building lifetime. To address some of these challenges, it was important for Cheyne Capital to partner with outside experts in the form of an Advisory Board.

When I started fieldwork as the Architectural Consultant for the Social Property Impact Fund (‘the Fund’), my first initiative was to help establish this Advisory Board. The aim was to select a group of people, each with a different expertise, who could help the Fund achieve its objectives, while innovating in the design of housing for disadvantaged groups. To achieve this, I focused on

forging a relationship between the Fund and my academic institution, the Architectural Association (the AA), which led to a number of discussions with leading practitioners in architecture, engineering and master-planning.<sup>115</sup> These early conversations focused on finding ways for the Fund to develop a new set of partnerships. In order to develop a new model of housing delivery that could be tested and replicated across the UK, Cheyne was specifically advised to partner with planners. Additionally, Cheyne was guided to work with architectural and engineering firms that could challenge the building structure in terms of materials. Also, Cheyne was directed to use contractors who might not only examine construction in terms of development and planning, but who might focus on the integration of building systems as a means to greater efficiency. Moreover, these early conversations with design practitioners have likely influenced the outcome of future projects, as will be discussed in section 4.2.

During the period of this doctoral research, the Advisory Board had not yet been finalised.<sup>116</sup> However, going forward, even though it is not currently a requirement from BSC, this is an important feature to be instituted for future SIFIs entering this emergent market as new social landlords. The relationship between design and impact investing in social property is perhaps one of the most significant but largely unexplored areas for future research, as will be discussed in chapter 5.

#### **4.2 Ongoing and completed works through joint partnerships with SSOs**

The following sections describe each of the major projects that Cheyne Capital has undertaken to date in response to the different challenges faced by organisations working with disadvantaged groups, as well as the responses to those projects. The Fund's work has focused significantly on the delivery of

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<sup>115</sup> This included meetings between the Fund and the following design practitioners: Jonathan Rose, Principal, Design and Planning, AECOM; Brett Steele, Director Emeritus of the AA; Hanif Kara, Design Director, AKT II; Simon Allford, Founding Director, Allford Hall Monaghan Morris (AHMM); Sadie Morgan, Director, dRMM; Christopher Lee, Principal, Serie Architects.

<sup>116</sup> It should be noted that, even though the AA assisted the Fund in the creation of an Advisory Board, there was no further collaboration between these two actors.



mixed-tenure housing at scale. Also, it has provided housing at various points of need demands, which include for example, discounted sales for SSOs needing a particular housing product and key worker housing. This has included housing at discounted or submarket rent, affordable rent, sub-affordable rent, Local Housing Allowance (LHA) rent and sub-LHA rent. Additionally, Cheyne Capital has been effective, for the most part, in employing and replicating the sale-and-leaseback model, of repayable finance nationally. Therefore, Cheyne's joint partnerships with SSOs have aimed to address a diverse range unmet housing needs within community settings.

#### *4.2.1 Luton Borough Council: Affordable housing development*

Luton Borough Council, situated 80 km north of London, has been experiencing an ongoing shortage of affordable housing, as well as high levels of homelessness (Shaw, 2015). As lower-income families are priced out of London, housing prices in Luton are rising and rent values are increasing at a higher rate than salaries (Fortado, 2016). Cheyne Capital responded to this shortage in the market by developing its first joint partnership, in May 2015, with Luton Borough Council, to develop 80 units of affordable housing, and provided a funding mix of equity and debt to finance the £8.5 million scheme (Alibhai, 2017; Cheyne Capital, 2015b; Fortado, 2016).<sup>117</sup> At the onset of the project, there were over 6,600 households on the Borough Council's housing list, with approximately 1,200 families in temporary accommodation (Cheyne Capital, 2015b).

In order to overcome the lack of funding on the part of Luton Borough Council, Cheyne agreed to purchase and develop a brownfield site on Old Bedford Road in High Town, a regeneration area in Luton (Lindum Group, 2016). The development was built on a site where the Old Drill Hall was previously situated, and it is in close proximity to transport infrastructure and the town centre. Cheyne took on full development risk and purchased the site from the local council after having secured planning permission for building

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<sup>117</sup> My review of Cheyne Capital's investments in the sector and its work as a new social landlord has relied heavily on its press releases, and I acknowledge that there is an inherent bias in these.

three apartment blocks containing a total of 80 units, including 32 one-bedroom and 48 two-bedroom flats (Cheyne Capital, 2015b). The land was valued by a third-party valuation agent and Cheyne paid that valuation to Luton Council. In order to ensure an efficient delivery, Cheyne used a diversified funding approach. The project was effectively completed as per its contract in September 2016, spanning approximately 16 months. Moreover, this development represents one of the first instances that ‘responsible private capital’ has been used to lever additional capital and replace funding for social housing that was previously supplied by government grants or subsidies (Cheyne Capital, 2015b, 2014).

This joint partnership between Cheyne Capital and Luton Borough Council involved a sale-and-leaseback agreement, which ensured that the Council will have nomination rights over the units during a 21-year period lease (Cheyne Capital, 2015b; Cross, 2015). Specifically, this partnership is structured as an operating lease: Cheyne receives an index-linked return, which is indexed annually at Consumer Price Index (CPI) plus 1 per cent (Alibhai, 2015). Also, the Council creates an operating surplus from its management and maintenance activities. Moreover, as social landlord, the Fund will receive approximately £500,000 annually, to begin with for 21 years in guaranteed rent, from Luton Borough Council (Alibhai, 2017; Fortado, 2016). The potential risks of this innovative model involving repayable finance are to be further discussed in section 4.4.3 of this chapter.

To guarantee the delivery of affordable housing, the rents on 100 per cent of the properties for this development have been set below the Local Housing Allowance (LHA) levels. Furthermore, to ensure that all of the units remain fixed at the above rates, the planning permission across the scheme was set at 100 per cent affordable housing and it has been zoned as affordable housing in perpetuity (Cheyne Capital, 2015b; London Assembly (Plenary), GLA, 2016, pp. 9–10). Additionally, in an effort to further safeguard these properties from transitioning from affordable to profit-maximising in the future, the site has been implemented into Section 106 (S106) of the English 1990 Town and Country Act (see further London Assembly (Plenary), GLA, 2016,

pp. 9–10).<sup>118</sup> For the duration of the lease, Luton Council is responsible for managing and maintaining the buildings, on an ongoing basis, on the land in which it owns.

The Luton project is the first major investment in affordable housing in England from a global equity investor. In response to this, the project has attracted some national (Apps, 2015b; Cross, 2015; Evans, 2017) and international (Fortado, 2016) media attention. This article from the *Financial Times* (Fortado, 2016) described the elevated design standards, which included, for example, ‘hardwood floors and big windows.’ The newspaper quoted Patrick Odling-Smee, the interim director of housing at Luton council, who said he was initially ‘quite cynical’ about working with a hedge fund but revealed that the Cheyne situation was good value for them because: ‘We get access to 80 units we wouldn’t otherwise have.’ *Social Housing*, too, reported that Councillor Tom Shaw, portfolio holder for housing at Luton Borough Council, responded positively to the project, saying: ‘This site has been unused since it closed as a recreation centre, so I would like to thank both Cheyne Capital and Lindum Group for not only helping us to increase our housing supply, but also for regenerating an area which was becoming a decaying eyesore on a key route into the town centre’ (Cross, 2015).

#### 4.2.2 P3 Charity: Housing for homeless youth

P3, a specialist housing charity and social enterprise operating throughout the UK, obtained a government contract issued through the Fair Chance Fund (FCF), a three-year programme designed to improve accommodation and employment outcomes for homeless youth, funded through the Department of Communities and Local Government (DCLG) and the Cabinet Office on a 100% payment by results (PbR) basis, where each project is backed by a Social Impact Bond (SIB) (see further: Ministry of Housing, Communities and Local Government (MHCLG) and IFC Consulting Services, 2017a, 2017b; Ministry

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<sup>118</sup> Section 106 (S106) of the English 1990 Town and Country Act gave local planning authorities the power to require developers to contribute to affordable housing provision (Morrison and Burgess, 2014). On the topic of S106 and the issues that surround it, see, e.g.: Burgess et al. (2011, 2007), Monk (2010), Monk et al. (2006) and Morrison and Burgess (2014).

of Housing, Communities and Local Government (MHCLG) and IFC Consulting Services, 2019). In order to assist P3 in delivering this contract, Cheyne Capital entered into a joint venture with the charity in June 2015, to purchase 159 homes, to the value of £14 million, in Derbyshire and Gloucestershire (Cheyne Capital, 2015c).

Given that P3 uses the Housing First model, a non-linear approach to tackling homelessness which places recipients into independent tenancies (see further: Atherton and Nicholls, 2008; Johnsen and Teixeira, 2012), as opposed to temporary sheltered accommodation or hostels, the charity needed a timely housing solution. In response to this need, Cheyne Capital purchased existing housing stock consisting of one- or two-bed properties that met P3's objectives and were located in established neighbourhoods (Cheyne Capital, 2015c). As a sale-and-leaseback arrangement, the contract dictated that once the properties were acquired, they were leased to P3, who then had the right to sub-let the homes back to its housing beneficiaries. In this way, the partnership between Cheyne Capital and P3 helped to increase the charity's ability to provide affordable and timely accommodation for homeless young people while, at the same time, allowing P3 to concentrate its efforts on service delivery, rather than fundraising for capital or sourcing properties (Cheyne Capital, 2015c). Additionally, this joint partnership demonstrates how the emergence of SIBs has helped to deliver housing for disadvantaged groups.

#### *4.2.3 Thera Group: Supported living for acute learning disabilities*

Thera Group, a social enterprise and charitable group comprised of sixteen companies specialising in housing support for adults with acute learning disabilities,<sup>119</sup> has faced ongoing challenges within the current housing climate and has struggled to identify appropriate solutions for this population. Thera has found it particularly difficult to secure housing for its beneficiaries because private landlords are largely unwilling to provide long-term leases. If lease renewals are not available, this creates a disruption for these tenants. As a result,

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<sup>119</sup> Thera Group is operated by a parent charitable company, Thera Trust, governed by a Board of Directors who are trustees for the purposes of charity law (Thera Trust, 2018, p. 43). See further: <https://www.thera.co.uk/about/trust/about/>

this issue has limited the charity group's ability to meet the needs of its beneficiaries. In response to this gap in the market, Cheyne Capital entered into a third joint partnership, in July 2015, and agreed to purchase up to £15 million of property across the UK over a 24 month period, to increase Thera's delivery of housing care and support (Cheyne Capital, 2015a). Similar to previous projects, this partnership was based on a sale-and-leaseback agreement.

In order to achieve Thera's objective to provide an independent living strategy and bespoke housing within a secure, community setting, Cheyne Capital collaborated with the charity group to develop a novel approach. First, this involved selecting an appropriate property that was suitable and affordable for the perspective tenant. To identify the type and location of property required to meet the beneficiaries' needs, Thera Trust's Development Team worked with the beneficiaries, their families, and alongside local council commissioners (Thera Trust, 2018, p. 29). Following this process, Cheyne Capital purchased the properties in question. Once acquired, the properties were leased to Forward Housing, a Thera Company, which then had the right to sublet them to a Registered Housing Provider (RHP) (Cheyne Capital, 2015a; Thera Trust, 2018, p. 43). This housing solution also handled the retrofitting of the acquired property to meet the specific needs of each perspective tenant; Thera arranged and managed any necessary changes and Cheyne Capital paid for all property adaptations. Lastly, to safeguard the beneficiaries from any disruptions in tenancy, all properties come with the security of an Assured Tenancy from Empower Housing Association, a specialist housing provider (Thera Trust, 2018, p. 28).

The outcome of this joint partnership has largely been successful, helping to achieve Thera's initial aims. Specifically, the capital injection of approximately £15 million in repayable finance by way of leased properties resulted in a period of substantial growth, which made it possible for Forward Housing to develop bespoke housing solutions and brokerage for 94 tenants with learning disabilities in the three years leading up to March 2018 (Thera Trust, 2018, p. 28). The delivery of this accommodation and completion of projects, to date, has fully committed the £15 million (Thera Trust, 2018, p. 28).

Furthermore, this partnership made it possible for Thera to focus more of its attention on its wider vision for its beneficiaries to take on leadership roles,<sup>120</sup> while at the same time helping to increase its social reach in terms of care and support (Thera Trust, 2018, p. 42). Cheyne Capital has indicated that local council commissioners have preferred this model because it has offered them a level of confidence that Thera can provide the care and housing support for referrals (Carter, 2016).

Following these positive outcomes, Cheyne entered into a second agreement with Thera in 2018 to provide an additional £12.5 million of repayable finance for the same purpose (Thera Trust, 2018, p. 44). Thera's Social Impact Report for 2017–2018 indicated that the combined investment of £27.5 million through long-term leases from Cheyne is being used to provide additional services that could not have been delivered without 'social investment finance,' and that its beneficiaries have benefited from improved and expanded services through this joint partnership (Thera Trust, 2018, p. 45). Moreover, Thera reported that its relationship with Cheyne had produced, in the previous year, an increase in rental income amounting to £397,000 for the Thera Group, and also led to a full-year increase in revenue in excess of £1.0 million from care and support contracts (Thera Trust, 2018, p. 43).

One potential explanation for why Cheyne Capital has achieved what we might evaluate as an effective joint partnership with Thera could be because this social enterprise and charity group has been significantly active in the emergent social investment market. Thera has established an approach to impact measurement, which helps to show that it has a low impact risk, or the probability that the impact will be different or lower than expected is low (Thera Trust, 2018, p. 4). Also, Thera's approach to impact measurement may likely have helped this charity group to increase its investor readiness and ability to benefit from new sources of repayable finance, such as what Cheyne has offered as a sale-and-leaseback agreement (Thera Trust, 2018, pp. 5, 7). In addition to

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<sup>120</sup> In addition to Thera Group's charity work, the people who are already supported by Thera have the opportunity to become company members and influence the operations of running the company. As such, Thera's structure and leadership includes people with learning disabilities (Cheyne Capital, 2015a; Thera Trust, 2018, p. 23).

the £27.5 million from the Cheyne Capital Social Investment Facility, Thera also received £8 million in Bond Social Investment (Thera Trust, 2018, p. 43). Thera is, therefore, another example of how new forms of repayable finance, including a sale-and-leaseback model and social impact bonds (SIBs), have been used to supplement traditional forms of housing finance for disadvantaged groups.

#### *4.2.4 South Yorkshire Housing Association (SYHA): Tenure-blind development with discounted rent*

Similar to Luton, the Sheffield City Region has been experiencing a chronic undersupply of affordable housing and rising concerns over homelessness in recent years. Tony Stacey, Chief Executive of South Yorkshire Housing Association (SYHA)<sup>121</sup> indicated in a local report (Stacey, 2017) that, in the past decade, the Sheffield City Region (SCR) built approximately half of the housing stock that was needed. Also, in the three years leading up to 2017, Sheffield needed to build 10,000 homes each year and only delivered approximately 3,000 annually (Stacey, 2017). Furthermore, sub-market housing accounted for just 18 per cent locally, in comparison to the 40 per cent supply nationally (Stacey, 2017). Additionally, the SCR has been facing issues of contaminated sites in need for regeneration. These ongoing concerns led SYHA and other local housing authorities to collectively examine new delivery models and innovative sources of funding. Cheyne Capital responded to this need and developed a solution that aligned with the housing association's objectives. This involved purchasing a 1.06-acre property in April 2016 and preparing a brief for a mixed-tenure scheme that maximised the amount of affordable housing on site.

In June 2016, Cheyne Capital and SYHA entered into a landmark sale-and-leaseback agreement for a £25 million development, which includes the construction of 225 flats for rent at the Steelworks site in Kelham Island,

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<sup>121</sup> South Yorkshire Housing Association (SYHA) provide nearly 6,000 homes across South, West and North Yorkshire, Derbyshire and Nottinghamshire and focus 60 per cent of its work on providing care and support to help its beneficiaries maintain independence. See further: <https://www.syha.co.uk/who-we-are/history/>

Sheffield (Cheyne Capital, 2018b; South Yorkshire Housing Association (SYHA), 2016a). Similar to Luton, the Sheffield development was built on a regeneration site that is also in close proximity to the city centre. Cheyne worked with the development team, including Whittam Cox Architects and contractors, ENGIE, to design a tenure-blind development, where the flats offered at sub-market rents are to be indistinguishable from the rest of the development, and will include a mixture of studio, one-bedroom and two-bedroom homes, as well as commercial space on the ground floor (Cheyne Capital, 2018b). This partnership made it possible for SYHA to provide 35 per cent of its units at a discounted market rent, without any reliance on government subsidies. Moreover, in order to help address the shortage of affordable, key worker housing in the area, the homes at sub-market rents will be targeted for people earning less than £25,000 a year (Cooper, 2018; South Yorkshire Housing Association (SYHA), 2016b). This development represents a mutual objective of Cheyne and SYHA: to provide as many affordable homes as possible, while also integrating sub-market rental properties alongside at-market properties, to achieve a more inclusive approach.

This joint partnership has been cited as one of SYHA's largest deals (South Yorkshire Housing Association (SYHA), 2016a) and represents the first time that this model of using private impact capital, by way of a sale-and-leaseback agreement, has been employed between an institutional investor and a housing association (Cheyne Capital, 2018b). Given the novelty of this delivery model, it has attracted some media attention. A local reporter (Cooper, 2018) quoted Miranda Plowden, business development director at SYHA, who said: 'Working with Cheyne has helped us to play a part in building the new homes we desperately need in the area. We hope this is the start of a long partnership with them.' Additional local media (The Star, 2018) reported that the first-phase homes would be available by October 2018 and the full eight blocks were expected by early 2019, and included 'a mix of red brick and pitched roofs' along with 'four commercial units, each covering around 1,000 sq. ft., on the ground floor.' Furthermore, the same reporter (The Star, 2018) interviewed Nick Riley, board director of Whittam Cox, who said: 'The fact this



is a blueprint – not just for Sheffield, but for the UK – is really significant.’ Additionally, the reporter (The Star, 2018) noted that Sir Edward Lister, chairman of government agency Homes England, visited the site and ‘said it demonstrated low-cost properties could be provided without taxpayers footing the bill.’ Sir Edward pointed out the ‘blind tenure’ or tenure-blind development and said: ‘Others should follow this example’ (The Star, 2018).

*4.2.5 A joint venture with Bristol & Bath Regional Capital (BBRC), Bristol City Council, HAB Housing, United Communities: A large multi-tenure development, including rent-to-buy, Elderberry Walk, Southmead, Bristol*

The West of England Joint Spatial Plan (JPS)<sup>122</sup> established a framework for the delivery of new homes in the region, which projected that Bristol needs to deliver approximately 33,000 homes, and 18,800 affordable homes between 2016 and 2036 (Bristol City Council, 2016, p. 1). However, Bristol City Council indicated that in the last five years, there has been an average of just 1,381 new homes built per year, with approximately only 169 new affordable homes per year through Section 106 (S106) agreements (Bristol City Council, 2016, p. 3). Therefore, in order to meet the above housing targets in a period when there have been limits on the funding available to build affordable housing, a new model was needed.

Bristol City Council has been facing urgent and significant demands for new housing due to the high cost of homes and rents, along with a considerable decrease in affordable development (Bristol City Council, 2016, p. 1). Furthermore, there are substantial problems of deprivation with insufficient housing of suitable tenure (Bristol City Council, 2016, p. 1). Compounding the problem, lower- and middle-income households have found housing increasingly less affordable due to rising private sector rents, credit restrictions for first-time homeowners and a widening ratio of house prices relative to income (Bristol City Council, 2016, p. 1). There is also a shortage of small dwelling types to accommodate demands from younger demographics.

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<sup>122</sup> On the West of England Joint Spatial Plan (JPS) see further: (Bath & North East Somerset Council, Bristol City Council, North Somerset Council, South Gloucestershire Council, 2017).

These factors have made it particularly difficult for key workers to find suitable housing solutions and has led to many of them being priced out of home ownership. Thus, a broad range of housing types is needed in the area.

In response to these housing challenges, the Mayor of Bristol, Marvin Rees, has made a commitment to build 2,000 new homes, including 800 affordable ones, per year by 2020 (Bristol City Council, 2016, p. 1). This, however, is particularly challenging because of a lack of suitable sites, changes in financial arrangements that have led to a shortage in grant funding, and caps on rents that have resulted in a reduced revenue for Registered Housing Providers (RHPs). Because Bristol City Council owns approximately half of the land, it has a potentially significant role to play, but in order to deliver housing, the council would need to work in partnership with other organisations (Bristol City Council, 2016, p. 2). Cheyne Capital responded to this gap in the market and, in March 2018, the asset manager announced a new funding partnership that would deliver a £26 million, 161-unit mixed-tenure housing development in Bristol (Cheyne Capital, 2018c).

Similar to Cheyne's earlier projects, this housing scheme represents a new type of partnership between the private, public and non-profit sector. Specifically, it involves a joint venture between the hedge fund, Bristol City Council, Bristol & Bath Regional Capital (BBRC), a public benefit investment company, HAB Housing, a local development company recognised for its work in sustainability, and United Communities, a community-based housing association. Cheyne reported (2018b) that the partnership is the first development where a housing association, community investment company and private investor have come together to create an inclusive housing scheme. Furthermore, the partnership is structured so that United Communities and Cheyne Capital provide the funding.

This diversified funding model has made it possible to offer 161 houses and apartments with six different tenure types and nearly 70 per cent of the homes at submarket rents (Cheyne Capital, 2018c). Specifically, Cheyne and BBRC will offer 61 homes, which include key worker rental properties and what it has termed 'ethically rented homes,' or homes with longer leases and

capped rents (Cheyne Capital, 2018c). Cheyne has reported (2018b) that this project marks the introduction of the UK's first private sector rent-to-buy model.<sup>123</sup> It was developed specifically to assist key workers and families living and working in Bristol, and intends to tackle the problem of home purchase no longer being an option for a significant portion of the market (Cheyne Capital, 2017). Additionally, United Communities will offer 77 homes for shared ownership and affordable rented housing, while the Cheyne Fund will provide an additional 23 homes for sale (Cheyne Capital, 2018c). Lastly, BBRC and United Communities have committed to ensuring that existing residents and key workers are offered first refusal to rent or purchase properties from the development (Cheyne Capital, 2018c).

The development is located in Southmead, a focus of regeneration for Bristol City Council, and the site for the new homes is on council-owned land that was former the Dunmail Primary School (Cheyne Capital, 2018c; Jessel, 2018). Similar with Cheyne's previous projects, the site is in close proximity to social infrastructure, such as a primary school, local businesses and transport infrastructure. This industry report by *Architects' Journal* (Waite, 2017) indicated that Allford Hall Monaghan Morris (AHMM)<sup>124</sup> was selected as the architecture firm and the design team also included Arup, which would be responsible for the engineering, and Clifton Emery Design and Churchman

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<sup>123</sup> The term 'rent-to-buy' refers to the rental of a property that leads to home purchase. It is generally intended for disadvantaged groups, for whom the purchase of a relatively inexpensive home is not an option. The rent-to-buy scheme, implemented by the UK government, is essentially intended to create home ownership for council tenants. Under this scheme, registered house providers bid for public funding for building new homes, with the aim of providing more flexible housing options for households that need to rent affordably while saving for a deposit, and then either purchase their rented home or a different home at a later date (Home and Communities Agency (HCA), 2014; Ministry of Housing, Communities & Local Government (MHCLG), 2014). Cheyne Capital has used private institutional investment to deliver the first private sector rent-to-buy scheme in the UK.

<sup>124</sup> It is interesting to note that the collaboration between AHMM and the Cheyne Social Property Impact Fund likely came about as a result of Cheyne's aspiration to develop an 'Advisory Board' for the Fund, as indicated in section 4.1 of this chapter. Additionally, we cannot discount the contribution of Brett Steele, Director Emeritus of the Architectural Association, for his role in advising Cheyne Capital in May 2015 to seek council from AHMM and encourage a partnership between the Fund and this architectural practice (see further Steele and Alibhai, 2015). One apparent reason for encouraging this partnership is that AHMM has been awarded the RIBA Stirling Prize for its transformation of Burntwood School in South London. Also, Steele advised that AHMM might be particularly helpful in assisting Cheyne to meet its housing objectives, while developing a novel delivery approach, due to AHMM's experience with the UK planning system.

Landscape Architects, responsible for the landscape architecture (see further: Cheyne Capital, 2018b; Maguire and Rahman, 2018, p. 9).

Due to the complexity of this project and number of stakeholders involved, it has experienced some delays, as reported in *Architects' Journal* (Jessel, 2018). Nevertheless, in some ways, this may have been advantageous because it allowed time for further involvement of the community in the design process, which might not have otherwise happened. United Communities led a comprehensive programme for community involvement, which included, for example, regular meetings with local organisations and residents' associations and community engagement through questionnaires, as well as an on-site event (Allford Hall Monaghan Morris (AHMM), 2018; United Communities, 2015, n.d.). Cheyne Capital reported (2017) that 'the sustainable scheme' was developed as a response to requests put forward by the Southmead Community Plan,<sup>125</sup> which included, for example, an 'environmentally-friendly design which significantly lowers day-to-day running costs as well as ample green spaces.' The ongoing activities to develop the Southmead Community Plan, in combination with the efforts of United Communities, have likely contributed to a more integrated design approach.

This multi-sector partnership resulted in 'Elderberry Walk,' a 11,965-metre master plan development for tenure-blind housing<sup>126</sup> with a strong emphasis on 'ecological aspirations'<sup>127</sup> (Allford Hall Monaghan Morris (AHMM), 2018). In response to the community's needs, 75 per cent of the homes were designed as one- or two-bedroom properties, but three- or four-bedroom houses were also built (Allford Hall Monaghan Morris (AHMM), 2018). Moreover, the detailed project description by AHMM indicated that the

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<sup>125</sup> The Southmead Community Plan, developed by surveying approximately 600 Southmead residents by the Southmead Development Trust, was created to develop a plan for the area that would aim to achieve the following: increase the likelihood of Southmead receiving financial support; support community groups and residents to work together; influence decisions that have an impact on Southmead. Also, this community engagement process included: the Southmead Survey, Community Planning Day, Ongoing Consultation and Launch Event. See further: <http://southmeadcommunityplan.co.uk/about-southmead-community-plan/>

<sup>126</sup> As previously indicated, tenure-blind housing or tenure-blind development refers to a mixed-tenure housing scheme where the flats offered at sub-market rents are to be indistinguishable from the rest of the development.

<sup>127</sup> On Elderberry Walk see further: <https://elderberrywalk.co.uk/>; <https://www.habhousing.co.uk/development/elderberry-walk-southmead>.

buildings were designed to include ‘integrated solar roof tiles’ and ‘a fabric approach to energy conservation’ which aims at maximising the performance of the building fabric (see further Allford Hall Monaghan Morris (AHMM), 2018). The landscape is a central aspect of the design, and a 20 metre-wide ‘Green Lane’ bi-sects the site and integrates the local green space along Elderberry Walk with the surrounding area of Southmead (Allford Hall Monaghan Morris (AHMM), 2018). This landscape infrastructure includes ‘wildlife swales’ to help manage stormwater runoff, while providing green space for ‘informal children’s play’ as well as preserving a ‘semi-wild woodland glade’ (Allford Hall Monaghan Morris (AHMM), 2018). Also, this local reporting from United Communities (2015) indicated that the development includes spaces for ‘sustainable food production’ and ‘new cycle routes.’

The Elderberry Walk won the National Housing Award for ‘Best Large Scheme in Planning’ at the National Housing Federation Awards 2018 (Bristol & Bath Regional Capital (BBRC), 2018; Cheyne Capital, 2018d; National Housing Federation, 2018). The development has been recognised as an exemplary housing scheme for including key criteria such as ‘excellent consultation with the local community,’ ‘meeting needs of the local market’ and ‘a strong commitment to environmental sustainability whilst remaining affordable to future residents’ (Bristol & Bath Regional Capital (BBRC), 2018). This local news article (Cork, 2018) quoted Mayor of Bristol, Marvin Rees who said:

‘This is positive news for Bristol and Southmead. My administration is already working hard to tackle the housing crisis, and this new sustainable housing scheme will play a vital role in this. Built with the local community and environment at its heart, this new development will also help create quality new jobs in the local economy.’

However, the same article (Cork, 2018) also reported that this complicated project ‘... which required a funding partnership not seen before in Britain, has been a tortuous process, and seen months of delays since the physical houses

got planning permission last year.’ It was last reported that work on the site had commenced in summer 2018, and the first units are planned to be delivered in 2019, with the final completion scheduled for 2020 (Cheyne Capital, 2018d; Engie, 2018).

#### *4.2.6 Stoke-on-Trent City Council: Regeneration programme*

In recent years, Stoke-on-Trent City Council, a West Midlands city region, has been experiencing an ongoing challenge to regenerate outdated housing schemes to maintain key workers and meet the needs of an aging population, as well as reclaim brownfield sites to allow for new development<sup>128</sup> (Stoke-on-Trent City Council, 2016). In an attempt to develop new solutions to funding shortages, this local authority has developed its housing policy to focus on maximising the use of the Housing Revenue Account (HRA),<sup>129</sup> with the aim of leveraging matching support from government, the third sector, and private developers (Local Government Association (LGA), 2018). Stoke-on-Trent City prepared its own development and regeneration plan (Stoke-on-Trent City Council, 2018a, 2018b, 2016), which included identifying a number of housing zones on brownfield sites throughout the city (Evans, 2012; Stoke-on-Trent City Council, 2016). Despite these efforts, the restrictions on HRA have made it increasingly difficult for Stoke-on-Trent City Council to meet its housing objectives (Barker, 2018; Local Government Association (LGA), 2018).

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<sup>128</sup> In addition, it is important to acknowledge that the housing challenges in this region sit within a broader context, which relates to the industrial decline seen since the 1990s. These issues are further compounded by the government’s funding of the Housing Market Renewal (HMR) programme – a regeneration effort established in 2002 to reduce vacancies, improve housing stock and address deprivation – was prematurely terminated in 2011, just nine years into a fifteen year investment strategy (for an extensive review of the development and impact of the HMR programme, see, e.g. Leather et al. (2012)).

<sup>129</sup> The Housing Revenue Account (HRA), is ‘a landlord account’ intended to record expenditure and income arising from the provision of housing accommodation by local housing authorities (a responsibility placed upon them as Part II of the Housing Act 1985) (HM Government, 2019). Also, the HRA is not a separate fund but a ring-fenced account within the General Fund, which mainly generates its income through receiving rents from tenants and service charges, and uses this income to finance items such as maintenance costs, major repairs, loan charges, and depreciation costs (HM Government, 2019). Councils are able to borrow money within their HRAs in order to build more homes or even regenerate existing stock. However, each council has a limit on how much it can borrow, which is significantly lower than the value of its assets, or housing stock (HM Government, 2019).

Cheyne Capital reacted to this gap in the market and, in January 2019, announced a joint partnership with Stoke-on-Trent City Council and government agency Homes England to deliver a £40 million regeneration programme focused on two sites and including 379 new affordable homes (Cheyne Capital, 2019). In order to overcome the shortage of funding, the industry publication *Social Housing* (Williams, 2019) indicated that Homes England will provide £15 million in grant funding and Cheyne Capital will provide the remaining £25 million in equity investment. Cheyne has indicated that the diversified mix of grant and equity funding balanced the economics for the Fund. In order for Stoke-on-Trent City Council to access this grant funding from Homes England, the council will first need to establish its own company to become a Registered Housing Provider (RHP) of affordable housing (Cheyne Capital, 2019; Stoke-on-Trent City Council, 2018c).

As with Cheyne's previous works, the asset manager has agreed to assume full development risk, which involves purchasing the land, funding the development and handling all procedures related to the building procurement for the two sites on behalf of the local council (Cheyne Capital, 2019). The regeneration of the first site, located on Bucknall New Road in the Hanley area of the city, involves clearing a total of 155 low rise flats and maisonettes built as part of a 1960s housing estate, over half of which are already vacant, and replacing them with 226 new apartments (Cheyne Capital, 2019). In order to develop a regeneration scheme that responds to the requests of the community, Cheyne Capital reported (2019) that the council has been working with the existing residents of Bucknall New Road for over a year and their feedback has been incorporated in the development. These requests included for example, increased one-bedroom properties suited for older adults and family housing, which were fully actualised as part of the built scheme (see further Stoke-on-Trent City Council, 2018c). The second site, located on cleared brownfield land in Pyenest Street, Shelton, which had been vacant for several years, will contain 51 apartments and 62 houses. The development of both sites aims to create a net gain of 224 new affordable homes (Cheyne Capital, 2019).

Similar to previous works, this joint partnership between Cheyne Capital and Stoke-on-Trent City Council involves a sale-and-leaseback agreement, which ensures that the council will have full nomination rights over the units, during a 40-year lease (Cheyne Capital, 2019; Stoke-on-Trent City Council, 2018c). The agreement is structured so that, once the housing development is complete, the 379 units, in their totality, will be transferred to the council's RHP and the council will then lease the units back from Cheyne, through a Consumer Price Index (CPI) linked lease where the Fund receives an annual index-linked return. As part of the agreement, Stoke will return the rents it receives to Cheyne, minus a management fee that it will retain (Williams, 2019). Also, for the duration of the lease, the council's management company, Unitas, will be responsible for the maintenance and repairs of the properties. At the end of the lease, the council will have the opportunity to purchase the properties for a nominal fee of £1 (Cheyne Capital, 2019; Williams, 2019). Lastly, the properties will be eligible for Homes England funding, to help ensure they will be available at affordable rents (Cheyne Capital, 2019).

Cheyne Capital has indicated that, as a social landlord, it intends to keep the housing assets for the long-term and has no interest in exiting the investment before the 40 years are up.<sup>130</sup> Industry media (Williams, 2019) reported that Carl Brazier, director of housing and customer services at Stoke-on-Trent City Council, has responded positively to the exit strategy. The same article (Williams, 2019) indicated that, because the £40 million cost of the scheme includes the purchase of the land and for this project the valuation of residual land has been deemed to have a 'zero value,' as described by Brazier, '...when Stoke acquires the stock for £1 at the end of the 40-year term, it will have an estimated value of circa £150m.' Brazier is reported to have concluded that 'it's a tremendous win-win.'

This joint partnership has been described as 'the first public-private collaboration of its kind' in this West Midland city (Cheyne Capital, 2019;

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<sup>130</sup> The reason for this is that Cheyne Capital needs to keep its funds invested in the social property to earn a return for its institutional investors. Therefore, an early exit in the partnership agreement between Cheyne and Stoke-on-Trent could create an interruption in investment for the investors in the Fund, and in turn, could create a risk of Cheyne not earning a profit as a social property impact fund.



Stoke-on-Trent City Council, 2018c). In response, this industry reporting (Greenland, 2019) quoted Councillor Randy Conteh, cabinet member for housing, communities and safer city who said:

‘We have worked in a completely new and innovative way to put forward a programme of work that will deliver the multi-million-pound regeneration of two areas of the city in need of attention. It is a project that we do not have the public funds available to lead alone, but by working collaboratively with the private sector we can raise the quality of accommodation and life of hundreds of families and rejuvenate communities.’

Under this proposal, the Pyenest Street site is planned to be developed first, with homes expected to be available in spring 2022, while work on the Bucknall New Road site is planned to begin in summer 2022, with an expected completion in summer 2026 (Stoke-on-Trent City Council, 2018c). Furthermore, an industry write-up (Williams, 2019) indicated ‘that the new properties will be offered under assured shorthold tenancies, which could be regularly renewed’ and last over the long-term.

Since the partnership between Cheyne Capital and Stoke-on-Trent was negotiated, the HRA borrowing cap has been abolished by Government as of October 2018<sup>131</sup> (HM Government, 2018a, 2018b). This change in policy was received positively by the Council, who had campaigned for it to be removed (see further Barker, 2018), and views it as an advantage of its partnership with Cheyne. Furthermore, the same industry publication (Williams, 2019) indicated that Stoke-on-Trent sees ‘the continued benefit in this kind of partnership now that the restriction on borrowing headroom has been removed.’ Moreover, the removal of the HRA cap may increase home building for local authorities, such as Stoke-on-Trent, with an HRA, and Cheyne Capital has indicated that it could

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<sup>131</sup> Following the removal of the HRA borrowing cap, local authorities with an HRA are no longer constrained by government controls for borrowing for house-building and are able to borrow against their expected income (see further: HM Government, 2018a, 2018b).

potentially allow for the Council to create a buffer against financial pressures on the site.

### **4.3 Proposed projects and a novel partnership for a mixed-tenure building model**

In spite of the success of these early projects, there were other projects which were undertaken where the outcome is less clear. Given the novelty of Cheyne Capital's involvement in the sector and its aim to invest around £900 million into housing for disadvantaged groups over a three- to four-year timeline, the hedge fund attempted a number of joint partnerships, which faced barriers along the way; their outcomes remain difficult to evaluate. These include a second project with Luton Borough Council, a New Communities Partnership, and a collaborative project with Croydon Council. Moreover, even though the outcomes of these projects remain unclear, they are partially documented and the number of partially realised, undocumented projects of the Fund is likely to be much greater in number. Further, the above three projects offer insight into the challenges of this new model of housing which will be examined further in section 4.4.

#### *4.3.1 Luton Borough Council: Mixed-tenure development*

Luton Borough Council received a large-scale development proposal with limited options for affordable and key worker housing on a 6.67 acre site close to Newlands Road, between the M1 motorway and Stockwood Park (Carter, 2016). In response to the lack of affordable units, the Council developed a new housing brief for mixed-tenure development, which maximised the amount of discounted rent and discounted sale housing on the site (Carter, 2016). Following the first partnership between Cheyne Capital and the Council, local media (Parris-Long, 2016) reported, in March 2016, that the hedge fund planned to build a development of around 400 new homes for Luton Borough Council on the above site, 20 per cent of which would be available at affordable rents and the remainder of which would be set at rents linked to Local Housing Allowance (LHA) levels.

Similar to its first sale-and-leaseback agreement with Luton, upon completion of the project, the Council would enter into a 21-year lease with Cheyne Capital, where the local authority would have full nomination rights and would be responsible for managing the properties for the duration of the lease. Also, as with Cheyne Capital's previous projects, the hedge fund indicated that the Council will generate a surplus from its management and maintenance activities (Carter, 2016). This local report (Parris-Long, 2016) interviewed Luton Borough Council's housing portfolio holder, Councillor Tom Shaw, who said that 'the scheme will cut the amount of people on the council's mammoth waiting list for housing.' Councillor Shaw also added that the 'terms of the deal will allow the council to circumvent the government's Right to Buy scheme' (Parris-Long, 2016). Additionally, the publication (Parris-Long, 2016) quoted Councillor Shaw as saying: 'full application should be going to the planning committee in July, the target is to get started on work on the site in August.' To date, however, the outcome remains unclear and no further media reporting has indicated whether the joint partnership between Cheyne Capital and Luton Borough Council has been formalised.

#### *4.3.2 The New Communities Partnership: A socially inclusive, mixed-tenure building model for the UK*

One of the significant challenges local authorities face is that they have an excess of publicly owned land but often cannot raise enough funding to respond to local housing needs and build on their land (as indicated in the example of Bristol; see section 4.3.2). At the same time, traditional development has generally not delivered an adequate ratio of affordable housing. Furthermore, new-build developments largely do not offer a range of housing solutions to accommodate various housing needs through a more diversified mixed-tenure model.

To address these needs, the New Communities Partnership ('the Partnership') launched a £1 billion housing fund in May 2016, with the purpose of accelerating the delivery of housing built on publicly owned land across the UK. It was established through a joint partnership between Cheyne Capital, Kier

Living, a residential development company, and the Housing Growth Partnership (HGP),<sup>132</sup> a joint venture between the Government's Homes and Community Agency (HCA), which, as previously indicated, is now Homes England and the Lloyds Banking Group. This new public-private partnership was developed with a view to helping the public sector efficiently build approximately 10,000 new homes in the coming years (Cheyne Capital, 2016). Cheyne Capital (2016) has claimed that the Partnership aims to provide public sector clients, such as local authorities and housing associations, with an innovative delivery model for mixed-tenure homes on their publicly owned land, without reliance on government grants. However, even though the Partnership was created with the support of the HCA, it would operate as a private entity and thus would not be subject to any regulations issued by this public sector body (Carter, 2016).

In order to meet housing needs for specific demographics, Cheyne Capital (2016) indicated the Partnership was structured so that public sector organisations would be able to determine the appropriate mix of tenure to include rental homes and/or homes for sale, within a scope of up to 50 per cent affordable housing development on each site. The Partnership has aimed to focus on a range of housing solutions for rent, which included general-needs accommodation for affordable housing, sub-market rent for key workers, supported accommodation for socially excluded groups, and care services, such as affordable residential care, NHS support, and affordable extra care with dementia provision, for both new-build and regeneration sites (Carter, 2016; Cheyne Capital, 2016). Furthermore, to help make home purchase more accessible for first-time buyers or for those for whom home purchase is no longer an option, the Partnership has aimed to concentrate on solutions such as

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<sup>132</sup> The Housing Growth Partnership (HGP), established in 2015, is a social impact investor, backed by Lloyds Bank and Homes England, previously the Homes and Community Agency (HCA), where each committed an initial £50 million of equity to be invested in residential developments through partnerships with house builders, with the goal of increasing the number of new homes across the UK. See further: <https://www.housinggrowth.com/>

rent-to-buy,<sup>133</sup> shared ownership and private sale, including ‘starter homes’ (Carter, 2016).

In an effort to achieve a more efficient building procurement for the public sector, the Partnership has offered an ‘end-to-end’ development solution, where the collective expertise of each joint partnership will span the lifecycle of home building (Cheyne Capital, 2016). Under this partnership agreement, the sale of the land and entering into leases are outside of procurement rules and, as with Cheyne Capital’s other projects, after the land use has been established through planning approval, an independent valuer would be appointed to evaluate the land, based on its intended use. Following this, the Partnership would seek to pay this valuation amount for the land to ensure that ‘value for money’ had been received (Carter, 2016), thus avoiding State Aid concerns (as discussed in chapter 3, section 3.4.1). Also, to ensure that building procurement rules are not breached, the public sector client would not have the ability to directly influence the design or specificity of the units (Carter, 2016). Nevertheless, Cheyne Capital has indicated that the Partnership would work closely with the public sector client throughout the process, to ensure that a mutually agreed outcome is achieved and the sale-and-leaseback agreement is formalised upon build completion (Carter, 2016).

The Partnership has been structured to assume full development risk by acquiring land from either public sector organisations or the private sector, and progressing this land through planning, development, building construction, and therefore providing a turnkey asset, or housing solution, that is available for immediate use (Carter, 2016; Cheyne Capital, 2016). Specifically, Kier Living would purchase and manage the sales risk for open market sale properties, whilst Cheyne Capital would own the properties and operate as a social landlord (Carter, 2016), by entering into joint partnerships with each SSO, as described in previous works. Therefore, even though this proposal involves a larger number of stakeholders, Cheyne Capital would be operating in a similar capacity by offering a sale-and-leaseback agreement. Cheyne has indicated that

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<sup>133</sup> The first private rent-to-buy model that Cheyne Capital pioneered in the scheme for Bristol, as previously introduced in section 4.2.5, was likely the result of ideas generated in Cheyne’s initial experience with the Partnership.

the public sector client could potentially create an operating surplus from its management and maintenance activities, although the details of how this revenue would be achieved remain somewhat unclear.

In addition to the above advantages, Cheyne Capital (2016) has stated that the Partnership would aim to give public sector clients the ability to develop ‘in a socially responsible way’ which would include ‘local apprenticeships’ and ‘wider employment’ as part of the development scheme. The Partnership has claimed to offer a number of further benefits for its potential public sector clients based on key principles, including the ‘responsibility’ to invest a portion of the profit into associated initiatives such as ‘youth, architecture, innovation, and the environment’ and ‘expertise,’ which capitalises on ‘market leading construction’ (Cheyne Capital, 2016).

Unlike the majority of Cheyne Capital’s other projects, very little has been said regarding the outcome of the Partnership in the media. *The Telegraph* (Curry, 2016) and *Architects’ Journal* (Wilson, 2016) have described the proposed objectives in detail but do not comment on any further developments. Thus, even though the Partnership was formalised between Cheyne Capital, Kier Living, and the Housing Growth Partnership (HGP), to date there has been no further reporting on how the ambitions of this consortium are being realised.

#### *4.3.3 Croydon Council: Temporary housing for homeless families*

Croydon Council, a local authority in South London, has experienced a rise in homelessness since 2010, and in 2016 more than 3,000 households in the borough were homeless and living in temporary accommodation (Croydon Council, 2016, p. 30). Due to the Council’s statutory duty to provide a secure accommodation for eligible homeless families, as the number of homeless household has increased since 2010, the Council reported that expenditure on temporary accommodation had more than doubled (Croydon Council, 2016, p. 30). In response, Croydon’s Community Strategy 2016–2021 aimed to reduce reliance on costly emergency accommodation, such as bed and breakfasts, and develop more viable long-term solutions to tackle homelessness (Croydon Council, 2017, 2016). Cheyne Capital responded to this demand in the market

and, in December 2016, the asset manager purchased a 338-unit portfolio of residential units, comprised of three building blocks and a mix of studio, one-, two-, and three-bedroom flats, with an estimated worth of £51.8 million (Cross, 2017; Croydon Council, 2017; Johnstone, 2017).<sup>134</sup> These residential assets had been converted from office buildings and could provide an immediate, sustained housing solution for the Council.

In order to overcome the shortage of housing for homeless households, Cheyne Capital suggested a sale-and-leaseback agreement with Croydon Council for the use of these acquired residential assets. The publication *Social Housing* (Cross, 2017) reported a council spokesperson as saying:

‘The council welcomes Cheyne Capital as the new landlord of three buildings we lease to provide much-needed temporary accommodation for homeless families. We are now negotiating with Cheyne to get a new longer-term lease that gives a better deal for both the council and our taxpayers.’

Specifically, Cheyne proposed two potential new lease agreements, which included a 21-year full repairing and insurance (FRI) lease and a 40-year finance lease, which would ultimately transfer the assets to the Council (see further Croydon Council, 2017). Under both agreements, it would offer a lower annual lease price for the Council, but similar to Cheyne’s other projects, it would also transfer responsibilities to the Council regarding property management and maintenance.

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<sup>134</sup> This research has relied on industry reporting (Cross, 2017; Johnstone, 2017), which includes comments from Cheyne Capital regarding its intention to purchase the existing residential assets in Croydon, although neither Cheyne Capital nor Croydon Council have issued a press release describing the terms of a joint partnership. Therefore, it remains somewhat unclear whether this proposed partnership has been formalised in a sale-and-leaseback agreement. Industry media (Cross, 2019a) reported that: ‘In 2017, Croydon Council struck a revised lease deal with Cheyne Capital on three blocks of flats which it is using to house people in temporary accommodation.’ To date, this government documentation (Croydon Council, 2017) is the only material that describes the terms of leaseback agreement and outlines information such as the potential savings to be achieved through this agreement with Cheyne Capital.

In response, Croydon Council proposed a counter-offer of a 40-year lease for two of the properties (where these two assets would fully transfer to the Council at the end of the lease) and a 21-year lease for one property (where this asset would transfer back to Cheyne at the end of the lease) because this was the most financially viable solution for them (Croydon Council, 2017, p. 9). Specifically, the Council disclosed that, in comparison to its existing lease agreement, ‘this proposal is estimated to deliver an overall cost reduction of £4.23-5.10m over the eight-year period’ (Croydon Council, 2017, p. 8). The Council also indicated that this option is relatively low risk because ‘the LHA rates are frozen to 2020’ (see further Croydon Council, 2017, p. 8). Even though this report (Croydon Council, 2017) favoured the ‘40-40-21 year leases,’ at the time of writing of this thesis, it is not yet clear which of these proposals went forward.

#### **4.4 Challenges of this new model of housing based on joint partnerships between a SIFI and SSOs**

Cheyne Capital has faced several challenges due to the novelty of its impact real estate model, which was based on securing joint partnerships with SSOs, and the self-imposed constraints of its investment profile, which help to highlight the potential risks of this collaboration between a SIFI and SSOs in need of housing. Despite the growth of the modern social finance market, the introduction of a hedge fund as a new social landlord in partnership with a SSO – in deprived areas of England – remains somewhat controversial. The Fund was often perceived as a wolf in sheep’s clothing. At the same time, the barriers that Cheyne Capital faced as one of the earliest cases of impact investing in social property shows that the challenges arising do not simply relate to a shortage of funding, but connect to a wider, more complex set of issues permeating the social housing sector, such as property neglect and the divisive topic of ‘sink estates.’<sup>135</sup> Moreover, Cheyne’s pledge to invest approximately

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<sup>135</sup> The term ‘sink estate’ refers to a category of council housing estates in the UK characterised by extreme social and economic deprivation, which have been critiqued for creating antisocial behaviour, welfare dependency, crime and family breakdown (Slater, 2018). The topic ‘sink estates’ has been debated in the media (Devlin, 2016; Kelly, 2014; Knight, 2014; Sherman, 2014) and in academic research (Lees, 2014), which for example, has examined the



£900 million in the sector in the three to four years following the launch of the Fund has been immensely difficult to honour due to the lack of investment readiness and inefficient building procurement. The following subsections examine the six main challenges Cheyne Capital faced, as well as the difference between what the hedge fund has achieved to date versus what it aimed to achieve.

#### *4.4.1 A sweet spot model*

Usually there is some trade-off between social impact<sup>136</sup> and financial return. One of the most challenging aspects of this early case of impact investing in social property is that Cheyne Capital has aimed to maximise social impact by maximising financial return.<sup>137</sup> To achieve this, Cheyne Capital has developed a model where it is impossible to earn a financial return for institutional investors in the Fund and therefore a profit as a social property impact fund, *unless* it achieves its intended social impact,<sup>138</sup> through a joint partnership with a SSO. What this means in practice is that Cheyne Capital cannot begin earning a financial return for its investors in the Fund unless it has delivered quality and affordable housing for a public or third sector housing provider, based on a sale and leaseback agreement.

Cheyne Capital has made its financial return dependent on social impact because, as indicated in chapter 3 (see section 3.5.5), if it can massively reduce the time it takes to deliver housing, which is how it invests capital from

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state-led gentrification at Aylesbury estate. Critics of the term (Slater, 2018) argue that it is ‘an ideological assault on social housing’ that has been invented to deflect attention away from the crisis of affordability.

<sup>136</sup> Whilst there is some variation in the language and terminology used in practice, Cheyne Capital has defined its intended ‘social impact’ to mean the efficient delivery of housing for disadvantaged groups on behalf of a public or third sector client (e.g. local council, housing association, charity, or social care commissioner) where housing is at the centre of achieving its social mission.

<sup>137</sup> It should be noted that, while this research has highlighted this case as an example of a sweet spot model, because the impact model and the business model are the same, as previously introduced in chapter 3 (see section 3.5.5), this concept did not come from Cheyne Capital, but was developed through my subsequent analysis.

<sup>138</sup> This process of delivering its intended social impact involved the following: Cheyne Capital first needed to develop a viable real estate scheme, based on a joint partnership with a SSO, then deliver this scheme with a significantly more efficient build time (e.g. within 12 months), and also ensure that this housing scheme maintains or appreciates in value for at least the duration of the partnership with the SSO (based on the terms of a sale-and-leaseback agreement).

institutional investors in the Fund, Cheyne has claimed that it can also lower the rent of housing for disadvantaged groups, where the investment is being made (Alibhai, 2016). If we were to expand this model of investment over time, it would potentially demonstrate that shortening construction time reduces construction costs and lowers rent costs for disadvantaged groups, and therefore leads to a significant reduction in UK government expenditures in social housing.<sup>139</sup>

The concept of a sweet spot model is particularly important to highlight because it represents an investment profile that has a strong potential to be replicated and reach scale. Equally, a sweet spot model could offer insight for how a SIFI, such as Cheyne Capital, might approach social impact measurement. Furthermore, the application of a sweet spot model could demonstrate that measuring financial return directly coincides with measuring social impact. An approach to impact measurement that does not require burdensome checklists and extensive time and resources on the part of the asset manager or the social sector organisation would be a significant advantage in achieving greater efficiency and transparency in this emergent market. Moreover, a sweet spot model could offer the opportunity to embed social impact measurement into the investment profile. The significance of the relationship between a sweet spot model and social impact measurement in social property will be further examined in section 4.4.6.

#### *4.4.2 Housing that appreciates in value*

In contrast to the normative approach of social and affordable housing provision, Cheyne Capital, as indicated in chapter 3 (see section 3.5.5), aims to invest in housing which holds its value or appreciates in value for the duration of its joint partnerships with SSOs. Therefore, the investment in housing would likely need to maintain or increase this value for a minimum of 21 years, based on the duration of the leaseback agreement, although this ideally would be based

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<sup>139</sup> As indicated in the introduction of chapter 2, building procurement can account for 8–10 per cent of GDP in a typical year, and therefore, massively shortening build time could create significant savings, and potentially achieve greater value for money. Moreover, these savings could be reinvested back into the sector in order to for example, further the reach of SSOs working to house disadvantaged groups and support property maintenance.

on a longer operating lease such as 40 or 50 years, given that Cheyne has aimed to invest in the sector over the long-term. This has been particularly challenging for the hedge fund because housing for disadvantaged groups is not usually located in areas that are attractive for investment. Also, Cheyne Capital has been concerned with ensuring property care because the Fund must rely on the SSO to maintain the property, based on mutually agreed upon terms, for the duration of the lease.

In an effort to invest in areas with a strong likelihood to maintain or appreciate in value, Cheyne Capital has focused on surveying the housing market and investing in sites located in areas that enable it to utilise the opportunities that cities centres provide, including transport infrastructure. Also, as indicated in the case of Luton Borough Council and Stoke-on-Trent City Council, these sites were often located on brownfield land that needed to be reclaimed. Once a site was selected, Cheyne Capital then collaborated with public sector clients, such as a local council and the community, to evaluate if an investment was made and, were it to build on a specific site, whether that asset would maintain its value over the time horizon of the potential sale-and-leaseback agreement.

One strategy used by Cheyne Capital to safeguard its investment was to focus on developing a new model for housing based on mixed-tenure development, as exemplified by its attempt to create the New Communities Partnership and what was later achieved in the multi-sector partnership for Elderberry Walk in Bristol. One significant reason for why mixed, tenure-blind development is financially attractive for Cheyne Capital is that the sale-and-leaseback model, which it has aimed to replicate throughout the UK, has the potential to create a revenue stream for public sector clients in projects where there is a blend of various types of tenure, ranging from open market to sub-Local Housing Allowance (LHA) rent. Specifically, if open market rents go up annually, it could generate a revenue surplus, and in the event of a recession this surplus could also be used as a buffer to lower rents (Alibhai, 2015; London Assembly (Plenary), GLA, 2016). Additionally, mixed-tenure development through sale-and-leaseback agreements could help public sector clients to

become less dependent on government subsidies by generating their own revenue stream for property management.

#### *4.4.3 The sale-and-leaseback agreement*

The sale-and-leaseback agreement is not without its risks. For example, in the case of Cheyne's first project, Luton Borough Council agreed to pay Cheyne Capital approximately £500,000 a year in guaranteed rent, which will go up due to inflation over the duration of the 21-year full repairing and insuring (FRI) lease (Alibhai, 2015). One obvious risk is that Local Housing Allowance (LHA) rates, which determine how much the Council receives for rent for affordable housing, may be capped or lowered. Furthermore, any significant changes in LHA rates could mean that the Council would not have the adequate funds in its Housing Revenue Account (HRA) to pay Cheyne Capital the rate of annual rent. Moreover, the limited number of joint partnerships that Cheyne Capital has achieved to date suggests that equity finance through a sale-and-leaseback agreement may not be a viable option for a significant number of SSOs, as their income stream may be less stable in the current housing climate.

Another potential risk of the sale-and-leaseback agreement is that it transfers a significant level of responsibility to the SSO in terms of the ongoing management and maintenance of the property, including the physical fabric of the building. In the example of Croydon Council, this was potentially higher in risk because it dealt with existing housing stock that had been retrofitted, rather than newly built (see further Croydon Council, 2017, p. 9). Even though a number of detailed surveys were undertaken in the case of Croydon, it was agreed that any unanticipated major works to the structure would be borne by the Council for the duration the lease. In response, the Council included an annual contribution of £831,000 into the cost calculations, but expressed some concern that this provision may not be sufficient (Croydon Council, 2017, p. 9). Moreover, when considering the sharp decline in building standards in the past few decades, as indicated in the introduction to chapter 2, the risks pertaining to existing housing stock for public sector clients could potentially be too significant to bear. Therefore, this model may be more effective in cases of new-

build housing, where Cheyne Capital assumes responsibility for delivering a turnkey asset.

In addition to the unforeseen costs of building maintenance, the number of variables at the onset could make a long-term commitment too high of a risk. For example, in the case of Croydon Council, extending the leases on two of the properties for a 40-year ‘finance lease’ and on one property for a 21-year ‘FRI lease’ assumes the demand for temporary accommodation for the duration of the lease terms (Croydon Council, 2017, p. 9). Changes in legislation could alter the level of local demands for temporary accommodation or the mix of temporary accommodation required (Croydon Council, 2017, p. 9). While it is unlikely that the need for temporary accommodation will decrease in the coming decades in Croydon given the demand in recent years, the Council has indicated one key mitigation strategy would be to ensure that the use of these three residential assets is flexible enough to allow usage to be switched to an alternative form of housing provision intended to meet other statutory duties or community needs, such as student or private rented sector accommodation (Croydon Council, 2017, pp. 9–10). However, it is difficult to evaluate whether this request was accepted.

Cheyne Capital has responded to the risks of sale-and-leaseback agreements by examining how mixed-tenure development, as indicated in the prior section, could potentially help local authorities develop a level of financial independence through the revenue stream created by the mix of at market rent with discounted rent. In addition, Cheyne has focused on this model because it could potentially mitigate the risks of the public sector client not having an adequate income to pay its annual rent or maintain the property for the terms of the lease, whilst also limiting its own risks. As a social property impact fund, Cheyne Capital is also sensitive to risk because it needs to demonstrate that the investment is sustainable and will generate uninterrupted returns, over the long-term, for the investors in the Fund.

Given the novelty of this case, there is limited data available on the risks of the sale-and-leaseback agreement, making it difficult to determine why this partnership was financially viable for some public sector clients but not for

others. The examples of Luton Borough Council and Croydon Council are the only two examples to date to offer any kind of indicator of how these risks might manifest in other joint partnerships. While it may be possible to develop detailed financial modelling that could assess the level of risk for SSOs within a limited timeframe, potential changes in legislation that could affect Local Housing Allowance (LHA) levels limit the accuracy of this strategy. Thus, the long-term implications of equity finance through a sale-and-leaseback agreement have not been adequately examined and remain an area of this emerging market which merits further examination, particularly with regard to how policy might help to mitigate the risks involved.

#### *4.4.4 The intended use value of land*

In order to develop a model of housing which aims to not rely on any government grant, the land Cheyne Capital has purchased on behalf of public sector clients needs to reflect its intended use for properties for disadvantaged groups. This has been massively challenging for this hedge fund because public sector bodies have wanted to maximise profits stemming from the sale of public land, while also maximising the number of affordable housing units (London Assembly (Plenary), GLA, 2016, pp. 1–2). Cheyne Capital has responded to this issue by developing ‘a fair market approach’ that aims to value public land based on its *use value*, rather than its market value (London Assembly (Plenary), GLA, 2016, p. 2). Specifically, Cheyne has indicated that, if a public sector client wants, for example, ‘20% discounted sales, 30% key worker houses and 20% LHA or sub-LHA, the land has to reflect that use’ (London Assembly (Plenary), GLA, 2016, p. 2). Furthermore, as described in Cheyne’s first project in Luton, the hedge fund has aimed to protect the use of these properties on public lands in perpetuity by instituting the site into Section 106 (S106) (London Assembly (Plenary), GLA, 2016, p. 2).

Even though Cheyne Capital has made some progress with regard to employing this ‘fair market approach,’ the pressure to maximise land value and the difficulty of allocating land for disadvantaged groups in the UK is an endemic issue, which has yet to be resolved. Moreover, this issue is acerbated

in the context of London. In order to meet investors' need to invest approximately £900 million, Cheyne had hoped to focus some of its investment in areas where public land values are highest, such as London; however, to date, it has experienced little success. Instead of attempting to compete for fair access to public land, Shamez Alibhai, then Partner of Cheyne Capital,<sup>140</sup> suggested that we must further examine the list of land owned by public sector bodies, such as the NHS and local councils, in order to evaluate strategically what public land could be utilised to fulfil unmet housing needs (London Assembly (Plenary), GLA, 2016, p. 20). Alibhai proposed the following:

‘Once we know what we want from that (public) land we can price that (public) land accordingly and that would then allow private sector investors – the three of us – and social investors, councils, and so on, to build what we need. If we are only looking for maximisation of land receipts, it will be very difficult for us to compete in London’ (London Assembly (Plenary), GLA, 2016, p. 20).

Therefore, if a social property impact fund such as Cheyne Capital is to effectively deliver housing for disadvantaged groups through a new model that relies on the purchasing of public land based on its intended use value, rather than on government grants within city centres, where there are high pressures for private development, it will likely need legislative support to ensure fair access. Indeed, this was the situation at the end of this research. However, there were indications on the horizon of an increasing interest in re-evaluating the use value of land. It would be interesting to see how this model develops over time. Moreover, if we are to deliver housing for disadvantaged groups in the current climate, this is a potential area for future work. However, this strategy is somewhat limited because it only works for public land.

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<sup>140</sup> At the time of writing this thesis, Shamez Alibhai resigned from his position as Partner and Portfolio Manager of the Social Property Impact Fund at Cheyne Capital.

#### *4.4.5 Building procurement*

During my field experience with the Fund, Cheyne Capital dealt with the issue of building procurement by using a design-and-build approach,<sup>141</sup> which allowed it to pass on the risk to a contractor who was responsible for delivering a turnkey development.<sup>142</sup> While it is somewhat unclear whether Cheyne changed its approach to procurement since my time in the field, it has faced ongoing and unresolved concerns with regard to building procurement, which could pose significant risks to the long-term financial viability of its investments. Even though the Fund was successful in achieving its main objectives in at least six formalised joint partnerships, there was still a significant time lag for most projects, where it was not earning a profit for its investors. Further, as indicated in chapter 3 (see section 3.5.5), Cheyne had aimed to increase the speed of delivery, for new-build construction to be under six months, which, to date, has not yet been achieved.

Additionally, Cheyne Capital faced a further issue because, on the one hand, large-scale, mixed-tenure development was financially attractive for the Fund, although complex projects with a number of stakeholders, like the case of Elderberry Walk in Bristol (see section 4.2.5), can be more challenging to ensure an efficient delivery. Therefore, Cheyne Capital faced a trade-off where it likely had to accept a loss in initial profits for its investors in the Fund, in order to develop a financially viable real estate asset that could deliver stable, long-term returns. Coordinating the difference in timescales between UK building procurement procedures and its pledge to deliver housing within a massively shorter timescale than the normative approach remains an ongoing issue.

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<sup>141</sup> The term ‘design and build,’ also known as ‘design–build,’ refers to an approach to building procurement where the main contractor is responsible for undertaking the design and construction of the development, compared to a traditional design-bid-build procedure where the client appoints a consultant to design the development and then appoints a contractor to build the design (see e.g. Ndekugri and Turner, 1994; Songer and Molenaar, 1996; Tenah, 2000). The effectiveness of this approach, in terms of increasing value for money or efficiency, has been evaluated in a number of academic discussions (see e.g. Chan et al., 2002; El Wardani Marwa A. et al., 2006; Lam et al., 2004).

<sup>142</sup> Because Cheyne Capital takes on 100 per cent of the development risk through the sale-and-leaseback agreement, its strategy to employ a design and build approach to procurement aimed to offset some of the risk.



Even though Cheyne Capital was particularly interested in finding ways to accelerate the design and construction while reducing cost and time, it was equally risk adverse. Cheyne balanced its novel approach of investing institutional scale capital in deprived areas of England by working with public sector clients, to use a local contractor. As a result, it was concerned that innovative approaches to construction might rely on a sophisticated supply chain, which was not locally feasible in these deprived areas. Also, it was hesitant to employ strategies such as offsite construction, or alternative materials such as ultralight concrete, which might shorten build time but could potentially be higher in risk in the UK due to the lack of skills development in this area of the sector (as indicated in the introduction of chapter 2).

The answer to the question of how we might increase the speed of delivery is somewhat inconclusive and, to date, is one of its main unresolved barriers for investing at scale in the sector. In order to tackle this challenge, it may be interesting to consider how institutional investors, such as Cheyne Capital, could develop its own in-house approach to building procurement, which might offer new ways to mitigate risks and ensure a more efficient speed of delivery. Also, an in-house approach to building procurement could help to ensure quality of construction, while delivering housing with less expenditure in maintenance. Additionally, the employment of offsite construction is a largely unexplored but potential solution in the context of this case, and an area for future research. However, it is not without its risks because it could result in the delivery of low-quality housing. Therefore, it is important to disassociate the relationship between faster procedures, which may affect the speed of delivery, and efforts to achieve greater efficiency, which may shorten actual build time but could compromise safety and quality in building construction.

Importantly, as discussed in chapter 2 (see section 2.8), if this market continues to develop, it may be valuable to explore how impact investing could inform procurement reform. This could also include expanding the concept of investing in social outcomes to encompass investment in *built outcomes* in housing for disadvantaged groups. Moreover, promoting investments in *built outcomes* could take the form of instituting partnerships between a social

property impact fund like Cheyne Capital and a set of ‘impact’ building contractors that adhere to strict social covenants that will ensure the quality, speed of delivery and integrity of the supply chain.

#### *4.4.6 Social impact measurement and reporting*

In addition to Cheyne Capital’s constraints as a SIFI, as introduced in chapter 3 (see section 3.5.4), investors in the Fund have a socially responsible mandate and need for transparency and reporting on all investments made. Cheyne Capital has responded to this by reporting the total investment made in a given project and the degree to which the investments made by the Fund have helped to strengthen the social reach, or the number of individuals and/or households whose needs have been met through its joint partnership with a given public or third sector client (e.g. local council, housing association, or charity). While other details of how Cheyne Capital might be measuring and reporting its social impact to investors in the Fund remain confidential, this case presents an opportunity to examine how we might approach social impact measurement in future work.

As indicated in section 1.7, we could approach social impact measurement in impact investing in social property by using a multi-level model that has two iterations. The first iteration, discussed in this section, presents some observations of this case. It aims to highlight that the sale and leaseback agreement between a SIFI and SSOs could demonstrate a measurable social impact. Furthermore, by reforming building procurement to be significantly more efficient, a SIFI like Cheyne Capital could create a number of benefits that we can measure as social impact. Also, it explores how we could approach social impact measurement in cases like Cheyne Capital, who has achieved a sweet spot model.

There are three general levels that could be used to measure the social impact based on a novel form of partnering between a SIFI and SSOs. First, on a macro scale, by measuring the impact for the UK government,<sup>143</sup> as a result

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<sup>143</sup> It is important to note that government savings are generally problematic to capture, seldom happen, and there is a lack of incentives to do so, as demonstrated by the innovation of Social Impact Bonds (SIBs) (see section 3.5.1). Therefore, it could be challenging to quantify

of the savings achieved through greater efficiency in building procurement and a shorter delivery time in housing for disadvantaged groups, at scale.<sup>144</sup> Second, on a meso scale, by measuring the impact for public and third sector clients achieved as a result of a joint partnership with a SIFI like Cheyne Capital. For example, in addition to measuring the number of individuals and/or households whose housing needs have been met through investments made by the Fund, this could also include the additional savings achieved as a result of the sale-and-leaseback agreement, as indicated in the example of Croydon Council (see section 4.3.3). Third, on a micro scale, by measuring the impact of a more efficient speed of delivery for disadvantaged individuals or households who have been recipients of housing as a result of an investment from a SIFI like Cheyne Capital. For example, this could relate to the impact of the efficient delivery of a specialised housing programme for people with disabilities, such as the case of Thera Group (see section 4.2.3).

In addition to the above, given that Cheyne Capital is an example of a sweet spot model, one unique approach to social impact measurement in the context of this case and other cases of sweet spot models is to use proxy measurements,<sup>145</sup> which are tied to measurable financial figures (generated by Cheyne Capital's investment model). These figures could relate to a number of criteria for a given project, such as: the time/cost saved through a more efficient building procurement, the increase in the number of units for disadvantaged groups, the reduction in rental costs, the increase in revenue stream for the public sector client and the degree to which an investment appreciates in value per annum. If all of these values are either appreciating or depreciating based on pre-agreed upon social objectives, whether that be shortening the timescale through a more efficient speed of delivery or increasing the number of units for

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these savings in the short term, and there is no actual evidence that we can capture these government savings at this time. However, if we do reform building procurement to be significantly more efficient, it creates several added benefits at a macro scale. For example, it would reduce the likelihood of land values going up during this process which could lead to more funding for better quality building materials or more housing units.

<sup>144</sup> Also, this could relate to the added benefits of reducing negative externalities of people on social housing waiting lists.

<sup>145</sup> The previous three examples of social impact measurement on the macro, meso, and micro scales could also be considered proxy measurements.

disadvantaged groups in a given project, it is an indication for how we could evaluate investment performance and the degree to which social objectives have been met.

This research acknowledges, however, that employing proxy measurements to evaluate the impact of the investment made is not equal to assessing the social impact for a given housing beneficiary over a specific timeframe, as a result of the housing programme. However, proxy measurements provide an initial framework that can be used to begin expanding the current definition of ‘social impact’ to include a larger range of factors than simply the output of housing and the impact of housing on the beneficiary. Moreover, this early approach to social impact measurement can become a way to evaluate progress on multiple levels while assessing the areas highest in risk or that may be in need of policy support.

Even though the concept of social housing that appreciates is not a direct measure of social impact, it is in contrast to the normative provision of public sector housing, which, as previously indicated, generally depreciates in value and often falls into disrepair. Also, it could be a precise measure that the SSO has adequate funds to manage and maintain the property for the duration of the lease. While this concept of social housing that appreciates is most significant for the owners of the asset, in the case of a ‘finance lease’ the assets revert to the SSO for a nominal fee of £1 at the end of the lease, as indicated in this chapter (see the introduction and section 4.2.6).

Also, it is important to indicate that the above recommendations for how we might approach social impact measurement within the context of this case are based on a scenario where Cheyne Capital has been effective in radically reformulating the speed of delivery, which would involve overcoming two main barriers: valuing land based on its intended use and achieving greater efficiency in building procurement.

One of the ways in which we can ensure that housing retains or appreciates is through intelligent use of design. This relationship between design and social and economic value is to be dealt with in chapter 5. Alongside this, chapter 5 revisits these issues of social impact measurement presented in

this section but focused on the design implications. By looking at how we can use design as a tool to increase the social value, social impact, and thus measure that social impact, this second iteration on social impact measurement aims to highlight the central role that design plays in advancing the impact real estate market.

#### **4.5 A personal reflection on Cheyne Capital's investment proposal**

In the previous sections of this chapter, I've presented my findings of this case analysis, based on topics I've studied formally through academic research. There are also significant aspects of this thesis that I've developed through personal observations during my fieldwork and subsequent analysis. Due to the lack of research-based evidence, these are not aspects that I have deeply technically analysed. However, given the projected scale of investment in affordable urban housing, as described in chapter 1 (section 1.4.7) and the increasing number of imitators of the Fund that have helped to validate this model, as described in the introduction of chapter 3 (see footnote 75), these personal observations of Cheyne Capital's investment proposal may likely become crucial areas of research in the coming years.

In the following sections, I offer a personal reflection on Cheyne Capital's investment proposal. In the first section, I reflect on its challenges and achievements. Here I consider what Cheyne has had to overcome upon entering this new market and what will likely need to happen if it continues to develop over the long term. In the second section, I consider how its investment proposal and other imitations of the Fund could offer a range of opportunities for design innovation in the coming years and finally, I consider how this case has influenced my position as a researcher.

##### *4.5.1 Challenges and achievements*

At the onset of researching this topic five years ago, I had the instinct that the model that the Cheyne Social Property Impact Fund was developing could be a catalyst for some of the most significant and transformative changes in housing in the coming years. This instinct was partially based on Cheyne's financial

expertise as a leading alternative investment manager and its intrepid investment proposal to be the first hedge fund to invest private institutional capital into housing for disadvantaged groups. It was also informed by Cheyne's pledge to deliver competitive market returns alongside a measurable social impact, and I was fascinated to see how it could deliver on this early promise.

Additionally, Sir Ronald Cohen's vision and tireless efforts to create Big Society Capital (BSC) and institute mainstream intermediaries like Cheyne Capital to revolutionise how we tackle complex and endemic social challenges like the shortage of affordable housing solutions led me to consider the strength of this investment proposal and examine this case for my doctoral research.

As I began gathering evidence of the Fund's early projects accounted for in this chapter, the progress was slower than I hoped, and its ambition to develop a robust pipeline of projects for disadvantaged groups seemed somewhat beyond its grasp. In addition to a level of trepidation from public and third sector housing providers to enter into a partnership with a hedge fund, as indicated in chapter 1 (see section 1.1.4), there appeared to be significant opposition to Cheyne's investment proposal, particularly in London. As a new actor, Cheyne was not fully included in the discussions with planners and private developers, and it seemed that there was a lack of interest and cooperation from these other actors for Cheyne to have a voice in these broader conversations on urban development and regeneration. It was also not offered equal access to purchasing public property for its public clients based on its intended use (as indicated in section 4.4.4), and I questioned whether it could achieve what it set out to do.

Throughout the experience of researching this case, I've suspected that if Cheyne Capital cannot gain access to delivering large scale urban housing schemes where land values are highest, it may struggle to accelerate its deal flow, and it could face significant delays in deploying its supply of private institutional investment into the housing sector. This challenge poses the risk that Cheyne's investors in the Fund could face financial losses or lose interest in its proposal and move their investment elsewhere. Moreover, if Cheyne's investment proposal is not successful, BSC's efforts to co-invest in the Fund

and institute mainstream intermediaries into the market would likely be regarded as fruitless. Therefore, there is much at stake for each of the actors involved, and the opportunities, risks, and challenges of this new model are further explored in chapter 6.

In the face of these obstacles, Cheyne Capital has demonstrated an ongoing motivation to help solve this major problem preventing more affordable urban housing in London. This motivation includes wanting to reform aspects of the planning system that are being gamed by traditional private developers who drive down the obligation to deliver adequate social and affordable housing (Fiertz, 2021). Cheyne has also voiced a strong desire to build greater trust between its role as a new social landlord, the private sector, government and the political side, and public and third sector housing providers (Fiertz, 2021). However, Cheyne's entry into the sector and desire to improve the quality and quantity of housing for disadvantaged groups in areas where land values are highest highlights a complex set of tensions across various actor groups with conflicting interests. If an investor like Cheyne is to meet its objective of continuing to bring capital into the sector at a price that is affordable over the long term it will require further government support, particularly with regards to pricing land for its intended use, reforming procurement procedures, and confronting aspects of the planning system that may be preventing an adequate supply of affordable urban housing.

In response to this problem over how land is valued, Cheyne has recommended that we take a longer-term view of the use of public lands beyond financial value to include the social value that a buyer could help bring to a given property over the long term (Fiertz, 2021). If we can effectively redefine property beyond financial value to include the social value that a buyer could bring, Cheyne has further recommended it will be key to unlock the land that local government and other institutions such as the National Health Service (NHS) or the Ministry of Defence own to provide quality and affordable urban housing (Fiertz, 2021). While these proposed changes may be fundamental to the long term success of Cheyne's investment profile and this new model of

housing, it will require significant government support and a new level of collaboration between the public, private, and third sectors.

In considering the challenges that Cheyne faced as a new social landlord, I presume that the conflict over how land is valued in urban centres like London, where land values are highest, is a ‘wicked’ problem that will require considerable efforts to tackle. Cheyne’s entry into the sector has also revealed that the shortage of quality and affordable urban housing cannot be solved by financing alone. Therefore, confronting this issue of how land is valued will be key if we are to overcome one of the major barriers preventing the adequate supply affordable urban housing.

Alongside the challenges outlined in this chapter (see section 4.4), I faced significant criticism from housing experts and design practitioners within the academy, and at times, defending Cheyne Capital’s investment proposal felt as though I was rooting for a sports team, faced with an impossible win. However, over the course of the past five years, I have observed Cheyne Capital's genuine commitment and desire to deliver on its early promise and help develop the impact investing market as Sir Ronald Cohen envisaged.

Despite what could be perceived initially as slow progress, I am delighted that the six main projects presented in this chapter offer evidence of the strength of Cheyne’s investment proposal and its achievements to date. These projects show that it is possible to generate market returns while demonstrating a measurable social impact, whether that is measured in terms of the number of households served or measured in terms of significant changes in wellbeing as a result of the housing programme, as described in the case of Thera Group (see section 4.2.3). I suspect that as the market leading impact real estate fund, Cheyne's investment proposal will likely initiate a widespread shift in perspective that it is possible to generate market returns while delivering a tangible social impact to the sector.

#### *4.5.2 Future opportunities for design innovation*

As part of Cheyne Capital’s investment proposal, it aims to deliver a new standard of affordable housing for disadvantaged groups. However, its early



projects did not demonstrate the level of design innovation I hoped to see, and the significance of this challenge will be dealt with in the next chapter. It was not until Cheyne Capital delivered the award-winning housing scheme designed by architecture practice AHMM for Elderberry Walk in the Southmead area of Bristol described in section 4.2.5 that I understood how its investment proposal might help to transform the quality of housing for disadvantaged groups.

Here we see how Cheyne Capital has delivered a new model of housing that could have a lasting and measurable social and environmental impact on the community. It represents a tenure-blind development that is committed to social inclusivity and environmental sustainability and includes exemplary design features such as spaces for sustainable food production, wildlife swales to help manage stormwater runoff, and integrated solar roof tiles that aim to maximise the performance of the building fabric, as described in section 4.2.5. These design features begin to show how housing could be better integrated with food production, water management, and renewable energy to achieve a more sustainable and resilient approach to development for people and the planet. The central landscape that includes spaces for cycling and an informal area for children to play, as described in section 4.2.5, also shows how this development could help create healthier outcomes for its inhabitants than those housed in high-rise housing blocks without an integrated landscape feature.

Additionally, these design features could help develop an exploratory framework for measuring social and environmental impact in future projects and the significance of this relationship between design and social impact measurement is examined in the next chapter.

As the market leading social property impact fund, Cheyne Capital has delivered a significant precedent for how ‘social property’ could be defined in this new industry and what other impact real estate funds could aspire to replicate. This achievement could become a massive area for growth on the investment side and a significant opportunity to accelerate design innovation in the sector. Likewise, if impact real estate investors like Cheyne Capital can continue developing this new model of socially inclusive tenure-blind development based on partnering with leading design practices and an excellent

consultation with the community, they could play a lasting role in improving the quality of housing for disadvantaged groups and people on low incomes now and in the coming decades.

Analysing Cheyne's investment proposal and considering its future opportunities for design innovation has strengthened my belief that a solution to this endemic shortage of quality and affordable housing solutions may be within our reach. It has also shown how Cheyne's ambition to create lasting value through a generational investment rather than short-term profits could indicate its long-term relevance in the sector. These discoveries have given me hope that the institutional changes to develop new financial architectures, as described in chapters 1 and 3, have moved us closer to creating a more equitable and just housing system for a portion of the population that the market has traditionally left behind. In the coming years, I would be delighted to see Cheyne Capital use its investment proposal to help reform aspects of the sector that are most in need of change and lead the way to deliver low carbon housing that is socially inclusive and environmentally sustainable.

## **Conclusion**

The findings presented in this chapter demonstrate that, in perhaps the earliest case of impact investing in social property, Cheyne Capital met its objective of achieving a measurable social impact without concessionary returns while helping to address one of the UK's most urgent social needs. Cheyne Capital has shown that generating competitive market returns for its private institutional investors and providing quality and affordable housing for disadvantaged groups are not contradictory.

Also, in certain circumstances, a sweet spot can be achieved where there is no trade-off between financial return and social impact but where, in fact, the pursuit of a financial return can in fact increase the social impact. In the case of the Cheyne Social Property Impact Fund, for example, it cannot make an adequate profit without first achieving an efficient delivery of housing for disadvantaged groups at scale. This discovery responds to a lot of the criticism directed at the idea of a hedge fund as a new social landlord. It is

equally significant because this finding reveals why Cheyne could successfully develop a robust pipeline of projects over the long term. However, the long-term implications of this new model and Cheyne's aim to create an inseparable relationship between social impact and financial return are as yet unclear.

If impact investing in social property continues to increase in scale in the UK, as anticipated, the challenges highlighted in this case and opportunities discussed in the previous section will likely need to become significant areas of research. Therefore, it might be interesting to explore how we could bring education into the next phase of the development of this emerging market in terms of scholarly research and academic programmes. This possibility raises several key research questions, including how could academic institutions contribute to resolving the issues arising in practice in this nascent field, such as how to deliver up to £1 billion of investment for quality and affordable urban housing for disadvantaged groups within a massively shortened timescale? Also, could academic research help us to understand hybrid organisational forms and experimental models of housing delivery based on the social covenants and financial constraints of institutional investors instituted by BSC like Cheyne Capital? Furthermore, if impact investing is institutionalised as a new field, how might architectural curricula respond to the demand for new models for delivering quality and affordable housing based on a radically reformulated design brief?

Given that Cheyne Capital has managed to invest approximately £900 million in social property since the launch of the Fund in 2014, by capitalising on demands from private institutional investors and effectively turning this investment into housing for public and third sector housing providers, while also achieving competitive market returns for investors in the Fund, it has largely been successful in meeting its objectives. Thus, it is likely that Cheyne Capital will continue to develop this portion of the market. An article written by Fortado (2016) and appearing in the *Financial Times* indicated that the current fund matures in 2019 and 'the intention is to convert it into a real estate

investment trust, the first publicly traded social housing Reit in the UK.<sup>146</sup> Cheyne Capital also revealed to *Social Housing* that the capital is now close to being fully allocated<sup>147</sup> and that, given the demand from institutional investors, it is potentially looking to launch a second iteration of the Fund (Cross, 2019b; Williams, 2019). However, as noted in this chapter, a lot of challenges still remain.

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<sup>146</sup> As previously indicated, BSC's co-investment in the Fund was made into a UK-Real Estate Investment Trust ('REIT'), a property investment vehicle. Traditionally, REITs were defined as closed-end funds created for holding real properties, mortgage-related assets or both, but increasingly in recent years they are also viewed as operating companies that manage their own properties and provide services to tenants (S. H. Chan et al., 2003, p. 3). The past decade has seen a global increase in REITs (Jones, 2007; Joseph et al., 2006; Newell and Marzuki, 2016) and they have been examined as a potential solution to the UK housing shortage (Morrison, 2006). The establishment of residential REITs has been examined to some degree in academic literature (see, e.g. Jones, 2007), which outlined the challenges involved and the policy questions with regard to blurring the boundaries between private and social landlords in the UK.

<sup>147</sup> However, at the time of writing this thesis, it remains somewhat unclear whether "fully allocated" means that Cheyne invested its initial pledge of around £900 million into housing for disadvantaged groups (Apps, 2015a, 2015b; Alibhai, 2015) or if this was not achievable, and it needed to decrease its investment (see, further Cross, 2017).

## Chapter 5: The Integral Housing Strategy

### **Introduction**

In order for the Cheyne Social Property Impact Fund ('the Fund') to achieve its primary objective of investing approximately £900 million over a three- to four-year timeline, to deliver quality and affordable housing for social sector organisations (SSOs), it faced a fundamental design challenge. Typically, social housing schemes have a number of issues, such as poor design quality and building materials, which can reduce efficiency and contribute to maintenance costs over the building's lifetime. In order to avoid this problem, we would need to innovate in its design; however, this innovation has generally not taken place due to a lack of investment in the sector, which in turn has reduced the level of interest in improving the design. As a result, the design of social housing is largely based on recipes that offer a formulaic approach, with very few schemes deviating from this norm.

Cheyne Capital's first social housing project demonstrated some improvements in the design and materials, such as large windows and hardwood floors, but it still had problems, including a lack of flexibility and a closed building façade, which will be examined further in section 5.1. Even though Cheyne Capital aimed to address these issues and innovate when it comes to design, it was somewhat unclear on how to go about this because it lacked the architectural expertise (Alibhai, 2015; Steele and Alibhai, 2015). Moreover, the idea of design innovation was particularly attractive to Cheyne because, as a social property impact fund, it aimed to achieve the greatest efficiency in housing, which as indicated in the introduction of chapter 1, relates to the most volume, at the lowest cost, in the shortest amount of time, while at the same time demonstrating a measurable social impact.

Alongside this issue, Cheyne Capital was also sensitive to the potential risk of creating 'welfare ghettos' (Hancock and Mooney, 2013) or 'sink estates' (Slater, 2018), as described in section 4.4. Thus, Cheyne wanted to better

understand how poor design leads to the erosion of value,<sup>148</sup> which contributes to a reduction in both social value<sup>149</sup> and property value over time. Furthermore, in order to achieve its ambition to deliver housing that maintains or ideally appreciates in value, as indicated in section 4.4.2, Cheyne Capital was interested in investigating how a greater consideration of design could create *added value* in a given project. Therefore, in order to produce housing which could challenge the status quo and produce a viable real estate scheme over the long-term, it aimed to re-examine the role of design.

One element that contributes to the existence of ‘sink estates,’ or what we might think of as failed housing projects, is that market factors have largely determined the shape and position of housing. Social housing in the UK has a long history of being configured as single-use residential spaces, which are generally removed from the network of opportunities that city centres provide. As a result, social housing schemes are not conceptualised as part of an integrated urban fabric, which includes access to communal facilities, commercial spaces, schools, and recreational space. Moreover, this disconnection between social housing and social infrastructure poses a significant challenge because, if a SIFI operating as a new social landlord aims to substantially increase the social value and, in turn, the social impact of housing, it will first need to reconfigure housing in terms of community needs, which extend beyond the basic provision of a house to include a wider social programme.

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<sup>148</sup> Within the context of this thesis the erosion of value is understood in terms of a decrease in total value, which includes a loss in social value – which could manifest in the inability of social sector organisations (SSOs) to meet their intended aims and objectives – and financial value, i.e. a loss in property value. Also, a loss in social value could directly and indirectly affect housing beneficiaries over the short, medium, and long-term.

<sup>149</sup> In academic discussions on social entrepreneurship, social value, as indicated in chapter 2 (see section 2.8), is created through the aims of non-profits and social entrepreneurs. However, within the context of this case, social value refers more specifically to the added value created through the efforts of social sector organisations (SSOs), with whom Cheyne Capital has partnered. Furthermore, in this case, social value plays an important role in increasing social impact because social value helps to increase the social reach of Cheyne Capital’s public and third sector clients, thereby bolstering support for housing beneficiaries. If this market continues to develop and we start seeing more of a blend between social objectives and financial profit, it may be worth examining how SIFIs instituted by BSC, like Cheyne Capital, are helping to generate social value, as opposed to viewing only non-profits and social entrepreneurs as social value creators.

The significance of the model dwellings schemes of the mid to late nineteenth century, for this case, is that they were able to achieve a level of innovation in their design and configuration, which included commercial spaces and communal facilities, within city centres with high land values such as London, as described in chapter 1 (see section 1.2). Despite these early innovations in housing, the provision of affordable housing with communal space has been a long-time ambition of housing reform (Bullock, 2017), where little or no advancements have been made. Furthermore, there is no public funding available for building communal facilities as part of social housing. Therefore, one potential area for innovation that a social property impact fund like Cheyne Capital could explore is the reintroduction of mixed-use communal space<sup>150</sup> in housing, as part of its joint partnerships with SSOs. This could help with the implementation of social programmes, alongside housing, as a means to demonstrate a measurable social impact for housing beneficiaries.

At the same time, Cheyne Capital faced an immense challenge because it did not have prior knowledge of architectural design. Therefore, on the one hand, Cheyne Capital found the traditional approach of designing social housing for the public sector lacking in innovation and did not want to perpetuate this conventional approach. Also, it found that architectural firms with a history of residential work were generally lacking in knowledge when it came to cost plans or how different designs and/or materials might influence the budget for a given project (Alibhai, 2015; Kara, 2015; Steele and Alibhai, 2015). On the other hand, Cheyne Capital did not have experience in the sector to understand the range of design possibilities that it might explore in social housing or other forms of social property. Cheyne also did not fully know how it could approach the design procedure differently as a social property impact fund at the time of the launch of the Fund.

One further challenge Cheyne Capital faced as a SIFI is that it hoped to use design as a mechanism to increase its social impact and potentially its

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<sup>150</sup> The term ‘mixed-use communal space’ refers to onsite communal space in housing, which can accommodate multiple social programmes in the same shared area. These social programmes could include social enterprises that are somewhat business-driven or purely socially-driven.

financial returns. Not only that, but it was further interested in developing a body of research on how design could contribute to social impact, which would thereby help to inform its approach to social impact measurement. However, because it was operating as one of the first impact real estate investors, and because the science of social impact measurement was and is still in its infancy, Cheyne Capital aimed to develop its own customised approach to measuring the social impact of its housing schemes, based on a strong consideration of the design.

In order to begin tackling these issues, Cheyne Capital brought me into the Fund as an Architectural Consultant, to help re-think its approach to the design of its housing projects. At the onset of my field experience, I was given the architectural plans for its first project and was presented with the opportunity to re-configure the schemes used. Additionally, Cheyne Capital wanted to better understand the feedback loop between design, social value, and social impact, thus aiming to use design to increase the social impact of its schemes.

In response to this challenge, I presented Cheyne Capital with three key areas of research where I intended to contribute new knowledge. First, I would develop a set of key Design Principles, which could be embedded in each of the Fund's social property schemes. These Principles would reference significant individual projects, which could serve as a foundation for developing Cheyne's approach to designing social property. Second, I would work collaboratively to develop the Design Module<sup>151</sup> which would explore the following question: *how can the Fund achieve greater efficiency, while at the same time elevating the quality of the design, which can be evaluated in terms of the level of innovation in the housing scheme?* Third, I would examine how we might use design as a tool to increase and measure social impact.

Within the context of this case, innovation refers to three main aspects of the design. First, innovation in the procedure relates to a pre-architectural phase where the development of key Design Principles becomes integral to creating social property proposals. Second, it relates to elevating the

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<sup>151</sup> The Design Module was developed as a result of a partnership between architect Gustav Düsing (AA Dipl. RIBA II) and me, as indicated in the Acknowledgements. The details of this partnership are further explained in section 5.2.



architecture in terms of the quality of the design and materials, which has generally not been possible for public sector housing. One way to do this is, e.g. through the provision of onsite mixed-use communal facilities. Third, it refers to a level of flexibility in the design, which allows for the scheme to be replicated and scaled to meet the needs of various demographics, while at the same time allowing for a degree of responsiveness so that a given scheme could be adapted to changing uses over time. Through examining these three features, we can show how Cheyne Capital's strict timetable and need to demonstrate a measurable social impact over the medium- to long-term could be a catalyst for design innovation in its social property schemes.

Due to Cheyne Capital's financial constraints, it was looking to employ an approach to designing social housing and other forms of social property that could respond to the diverse range of housing needs of a given SSO, without undertaking the time-intensive process of involving the community in the design process. Therefore, even though there is an existing body of housing research on participatory design (Aravena and Lacobelli, 2012; Jenkins and Forsyth, 2009; Lee, 2008; Lee et al., 2004; Petrescu and Till, 2005; Turner, 1972), which includes community-led design charrettes or collective space workshops that have been known to be highly effective (see e.g. Aravena and Lacobelli, 2012), Cheyne Capital rejected these approaches because they tend to be time-consuming, and therefore costly. In order to respond to this challenge, I developed the Design Principles, as a pre-architectural phase aiming to help Cheyne Capital re-think its approach to designing social property. I also aimed to show Cheyne Capital how the design of flexible housing<sup>152</sup> could contribute to an increased social impact.

This chapter is organised into eight main sections, in addition to the introduction and conclusion, and will proceed as follows. The first section ('The

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<sup>152</sup> This thesis adopts the definition of 'flexible housing' provided by Schneider and Till (2005a) as 'housing that is designed for choice at the design stage, both in terms of social use and construction, or designed for change over its lifetime' (p. 157). Schneider and Till (2005a) further establish that the degree of flexibility is determined in two ways: first, as the in-built opportunity for adaptability, meaning that it is capable of having different social uses, and second, the opportunity for flexibility, meaning that it is capable of having different physical arrangements (p.157).

pre-existing design...') identifies a number of key issues in the design scheme of Cheyne Capital's first social housing project, as indicated in section 4.2.1. The second section ('The Integral Housing Strategy') introduces the Integral Housing Strategy, highlighting how it aims to respond to a number of the issues identified in the pre-existing scheme and innovate in the design. The third section ('The Design Principles') presents the Design Principles, which were created by drawing inspiration from significant individual housing projects. Further, the Principles aim to show how design could be used as an instrument for strengthening social impact. The fourth section ('Reflecting on the selection...') considers the selection of the two main housing precedents and the context in which they were commissioned and implemented. The fifth section ('The Design Module...') describes the Design Module and shows how it was informed by the Principles. The sixth section ('A personal evaluation of the Integral Housing Strategy...') presents a critique of the Design Principles and Design Module. The seventh section ('Social property design...') examines the relationship between design and social impact measurement. The eighth section ('How can these ideas...') looks at how these ideas could be put into practice in the context of this emergent market. The final section ('Conclusion') provides a brief synthesis of the chapter and recommendations for future research.

### **5.1 The pre-existing design scheme**

The starting point for the development of the Integral Housing Strategy (IHS) was a pre-existing scheme for Cheyne Capital's first social housing project, located in Luton for Luton Borough Council. Essentially, the Fund inherited the design, which it agreed to build. This scheme, designed by PRP Architects, a British firm with a long-established history in residential work, included three apartment blocks, with 32 one-bedroom and 48 two-bedroom flats, containing a total of 80 units, as indicated in chapter 4, in section 4.2.1. The design also included three car parking lots, including one lot with 20 spaces, one lot with 15 spaces, a third lot with 13 spaces, as well as three spaces for visitor parking, and limited bike storage and green space.

While this scheme may have helped to respond to the demands for social housing in Luton at the time of its completion, if we were to evaluate this design based on Cheyne’s wider objectives as a new social landlord, three main limitations emerge. First, this housing design lacks flexibility, which could become problematic at both the building and unit scale. This site-specific design cannot easily be replicated and implemented at a diverse range of sites with different densities. Also, the unit configuration does not have the adaptability that would allow it to respond to the housing demands of various demographics over time. Second, each building block has a closed façade, with no outdoor space for the individual dwellings, which could significantly limit the possibility of social interaction between neighbours. Third, the design does not include onsite communal mixed-use space, making it more difficult for this public sector client to address various community needs at the site. Furthermore, this lack of onsite space represents a lost opportunity to increase the social reach



Figure 5-1 The Social Property Impact Fund’s first housing scheme, existing site plan, PRP Architects, Old Bedford Road, Luton Borough Council, Luton.

of this public sector client and, in turn, enhance social impact for beneficiaries of the scheme.

Given the above limitations, our evaluation of Cheyne Capital's first scheme suggests that it would not result in a design outcome that would maximise flexibility, and thus would not maximise efficiency. This lack of efficiency may reduce the social impact because it could potentially reduce the number of housing beneficiaries of this public sector client. Also, inflexibility in the design could be directly linked with a reduction in social impact, because it could potentially increase the building maintenance costs for this public sector client. Furthermore, any changes in the demographics of the inhabitants over the term of its joint partnership with Cheyne Capital would be borne by this public sector client; therefore a flexible design, which could accommodate a range of housing needs over time, is particularly important in the context of this case.

Moreover, if we are to deliver social property that can accommodate the widest range of community needs while limiting building maintenance costs for public and third sector housing providers, flexible design that maximises efficiency could become increasingly important for private institutional investors like Cheyne Capital. As such, this study indicated that this scheme would result in a design outcome that would be only somewhat better than the status quo, rather than radically reformulating how social property is designed.

## **5.2 The Integral Housing Strategy**

The Integral Housing Strategy (IHS), including the Design Principles and Design Module, was a design exercise that I created through collaboration<sup>153</sup> during my fieldwork to help the Social Property Impact Fund learn more about

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<sup>153</sup> In order to develop the Integral Housing Strategy (IHS), I worked in partnership with architect Gustav Düsing (AA Dipl. RIBA II), a graduate of the Architectural Association School of Architecture (the AA). We worked collaboratively for six weeks to develop the (IHS) where I researched and developed the Design Principles, and Düsing created the architectural designs and drawings for the Design Module. At the culmination of my field experience, Düsing and I presented our research to Jonathan Lurie (Founder, Chief Executive Officer, and Chief Investment Officer), Stuart Fiertz (Co-Founder, President, Head of Responsible Investment, and Director of Research), and Shamez Alibhai (then Portfolio Manager), among other members of the Fund at Cheyne Capital.

architectural design and engage in the practice of designing housing.<sup>154</sup> It was based on a two-part process of developing a set of Design Principles for the Fund and then using them to create a Design Module. It endeavoured to show Cheyne how the Principles could inform the form and formation of the design of its future housing schemes.

The significance of this exercise is that it aimed to help Cheyne Capital establish intentionality at the onset, which could become part of its approach to social impact measurement and how it might evaluate the success of its projects over time. It was also created to help Cheyne develop a more critical analysis of the existing approach of designing social housing, engage more fully in discussions with design practitioners, and consider how it could differentiate itself as an innovator.

The purpose of the IHS was to show Cheyne Capital that the story of the Fund wants to be about design,<sup>155</sup> where design is not an add on, but one of the capital calculations. It was created with the intention of examining the central role that design could play in achieving a superior value offering (VO),<sup>156</sup> which could only be achieved through greater consideration of design. Furthermore, this VO created could offer a measurable social impact at multiple levels, including social and economic benefits for housing beneficiaries, savings for SSOs, and an increase in property value. It also aimed to show how this VO could create shared benefits for Cheyne Capital and the SSO with whom it partners.

The sub-goal of the IHS was to show Cheyne Capital that, as a pioneer in the impact investing market, housing sits in a context of work that is largely

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<sup>154</sup> Even though the IHS was developed explicitly for Cheyne Capital, the Design Principles and Design Module aim to serve as a foundational design exercise that could be used in practice by other SIFIs and impact real estate investors operating in this emerging market.

<sup>155</sup> As defined in section 1.1.1, the term ‘design’ in the context of this thesis refers broadly to architectural design, urban design, landscape architecture, and engineering relating to the design of the built environment. However, in the context of the IHS, it refers more specifically to housing design.

<sup>156</sup> The term ‘value offering (VO)’ refers to the benefits created by improving the quality of the design. It was developed during my field experience in the Fund and aims to explore how changes in the design can potentially increase the social value, social impact and property value of housing in the context of this market.

its to define.<sup>157</sup> At the building scale, the IHS aimed to show that, as a UK social property impact fund, housing could relate to a range of non-residential uses, such as social enterprises for local economic growth, workshops for various onsite services, communal space for social services and care through partnering with SSOs, and public parks for recreation and cultural activities, which could potentially strengthen the social impact of its projects. Also, these spaces for non-residential uses could allow for greater onsite involvement from a local council or housing association in social programmes for housing beneficiaries.

This deliberate aim to reintegrate social programmes in housing is fundamental to increasing the social reach of SSOs and, in turn, the social impact for housing beneficiaries over the medium- to long-term. However, it would be a mistake to think of housing in terms of the building alone. We also need to think of housing at the urban scale. In response to this, the IHS aimed to show Cheyne Capital how it might reframe housing in terms of urbanism, or the building of productive cities and satellite towns where housing that appreciates in value plays a wider role in urban regeneration.

This concept of housing that appreciates is particularly attractive to Cheyne Capital because it aims to create a viable real estate asset over the long term (see section 4.4.2). If Cheyne Capital can ensure that the sale and leaseback agreement with SSOs is based on a viable real estate scheme over the term of the lease, it will help to safeguard stable, long term returns for its investors. Moreover, Cheyne Capital has indicated that investing in urban regeneration is useful because it wants to demonstrate that as a UK social property impact fund, it can influence socially inclusive development at a large scale. If it can do so, it may help to ensure further involvement in urban scale projects for both the public and third sector, thereby creating a robust pipeline of larger sized investments in housing for SSOs.

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<sup>157</sup> A series of original ideas in this section could not have been borne without inspiration from private conversations with Brett Steele, Director Emeritus of the Architectural Association, School of Architecture (the AA) in London in 2015.

### 5.3 The Design Principles

The Design Principles were specifically developed to give Cheyne Capital a guiding framework for its design approach, in order to help the Fund make stronger, more informed design decisions and help it determine exactly what it is intending to achieve in housing. Also, the Principles seek to show how Cheyne Capital might take inspiration from significant individual projects in housing, to guide the design and develop a starting point on which it can build upon once it has entered into a joint partnership with a public or third sector client. They further aim to help Cheyne make design decisions based on criteria that could potentially increase the social value and, therefore, the social impact of its projects.

The Principles not only help Cheyne Capital understand key elements of design and make more valuable design decisions to achieve its goals, but they also help Cheyne in the pitching process of securing joint partnerships with SSOs. This process of pitching strong design schemes to SSOs is a key part of ensuring the speed of its pipeline as a social property impact fund: if it cannot secure joint partnerships with SSOs, it cannot begin investing in the sector, as indicated in section 3.5.4. Thus, I created the Principles with the aim that they would become an integral component of Cheyne Capital's procedures for putting together social property proposals. They represent one potential solution

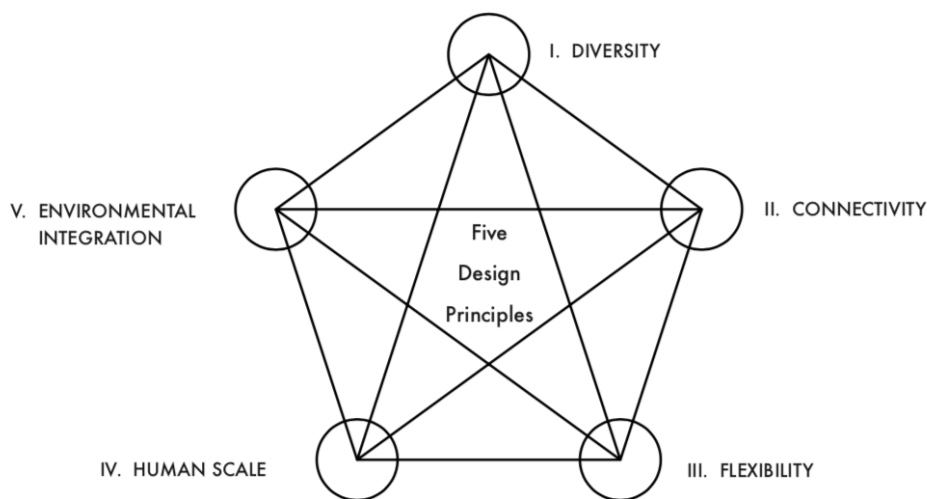


Figure 5-2 The five Design Principles for the Integral Housing Strategy (IHS) of the Social Property Impact Fund, Cheyne Capital.

for how Cheyne Capital might effectively develop proposals for public and third sector housing providers based on an understanding of community needs, without having to undergo the time-intensive process of involving the existing community in the design.

The Principles were developed during my field experience working with Cheyne Capital. They were derived from a broad analysis of looking at the design features of about thirty significant individual housing projects<sup>158</sup> and synthesising these features into five key principles. These housing projects were selected based mainly on the knowledge that they were designed under similar constraints: they had to deliver quality and affordable housing with easy access to the city centre, at a large scale, and also maintained value over the long-term. The process of developing the Principles aimed to show Cheyne Capital that if it is going to redefine social housing and other forms of social property based on increasing the social impact, it can look to exemplary and successful existing housing projects. By looking at these pre-existing projects, the Principles seek to inform Cheyne how not to recreate some of the design features of failed public housing projects, such as over fortification or a closed building facade.

These significant housing projects include, for example, the Jeanne Hachette Complex in Ivry-sur-Seine in Paris (1970–1975) by architect Jean Renaudie and Alexandra Road Estate in the London Borough of Camden (1968–1979) by architect Neave Brown. The architectural features of these projects will be discussed further in section 5.3.1 to section 5.3.5. Drawing inspiration from the above projects, the Principles are intended to be embedded, to varying degrees, in each of the projects of the Fund, thereby seeking to increase the value and the social impact the schemes. For example, they will be used to inform specific design features that could help to create human scale housing. These features include the development of an open building façade, which can help to increase the social value through encouraging spaces for gathering, fostering social cohesion, and creating natural surveillance. The

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<sup>158</sup> These individual projects are noted as ('References') and also included some significant but unbuilt housing proposals, see section: (5.3.1.5, 5.3.2.5, 5.3.3.4, 5.3.4.4, 5.3.5.3).



significance of human scale housing and the advantages of an open building façade is to be discussed in section 5.3.4.

At the same time, the Principles were created to allow for a level of openness in the design procedure by not making specific recommendations, but instead leaving room for a level of innovation to take place between Cheyne Capital, the public or third sector client, the design team, including the architects, engineers, landscape architects, and the building contractor. Moreover, the Principles serve as the foundation for how Cheyne Capital, as a pioneer social property impact fund might develop a new approach to allocating communal mixed-use spaces for community building to take place in housing, while at the same time contributing to the long-term value of the housing scheme.

In addition to the above aims, the Principles represent one strategy that Cheyne Capital could employ to communicate the ethos of the Fund. Specifically, Cheyne Capital could use the Principles to highlight what differentiates the Fund from other private investors or social landlords, focusing on the relationship between design, social impact and impact measurement, as a SIFI instituted by BSC. Therefore, these Principles could be used to communicate its aims – as a social property impact fund – to potential investors,

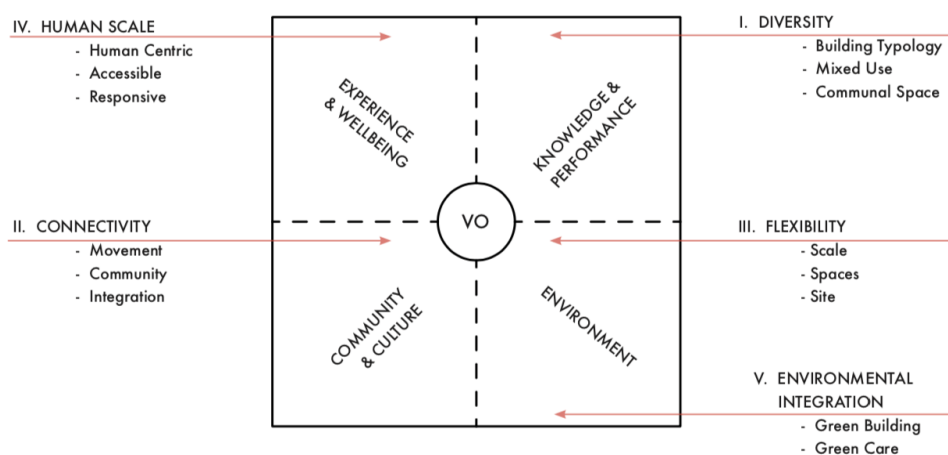


Figure 5-3 Each of the five Design Principles explores specific design criteria to achieve a superior value offering (VO) in the projects of the Fund. They seek to show how we could use design as a tool to help to achieve a multi-level social impact (social, economic, property value) in housing in the context of this market.

public or third sector clients, and other actors in the sector, such as the design team or building contractor. The following sections examine how each of these five Design Principles could guide the design process in order to achieve a set of objectives that aim to create a total value offering (VO). Additionally, they seek to show how changes in design can potentially increase the social impact of housing.

Even though the Principles differ in their levels of action and analysis, they are connected through the common aim of creating a superior value offering, as shown in Figure 5-3. The Principles highlight the role of design in increasing the social and financial value and are linked through the shared objective to create a social impact at multiple levels that can we can evaluate in terms of social value and social impact, economic value, and property value.

### *5.3.1 Diversity*

One of the most significant problems in social housing schemes is a lack of urban intensity, or vitality. This can result in sterile spaces, social isolation, disrepair, lack of maintenance and loss of interest in investment in the area over time. While there are a number of design factors that can contribute to a lack of liveliness or attraction to a site, one significant issue is that social housing is generally configured for single use, which does not create a balanced ratio between dwelling density and mixed-use development. Furthermore, social housing is often segregated from housing that is let at market rent. In order to respond to this challenge, the principle of diversity aims to show how design could increase the hybridity between various functions in housing, while allowing for variation in the building and unit configuration. Also, this principle aims to encourage mixed-tenure or tenure-blind housing.

The concept of diversity in housing is not new, and it has been discussed in architectural research as a key feature that informs contemporary housing practice (see e.g. Fernández Per and Mozas, 2013b; Renaudie, 1968; Rowe and Kan, 2014). It has also been examined in research on urban design (see, e.g. Hester, 2006; Rogers, 2017; Rowe and Kan, 2014). Further, it has been studied as a central condition of urban planning, notably by urbanist Jane Jacobs

(1916–2006) in *The Death and Life of Great American Cities* (2011, 1961), who argued that diversity was necessary for city life to work constructively and advocated for dense mixed-use development.

#### 5.3.1.1 *The Jeanne Hachette Complex, Jean Renaudie, Ivry-sur-Seine, Paris*

In order to address the lack of diversity in housing, here this research will highlight the design features of the Jeanne Hachette Complex by architect Jean Renaudie (1925–1981) in Ivry-sur-Seine in Paris, France (1970–1975) (Fernández Per and Mozas, 2013b; Scalbert, 2004). This hybrid model represents diversity in the design on multiple scales, indicated through the mixed-use development, complex building structure, and individualised unit layouts. Renaudie’s work emerged as a response to the first municipal collective housing in the area that were modelled after the compact Soviet collective blocks, notably Maurice Thorez’s work (1952–1953), which was designed as a stepped T-shaped building between nine and fourteen stories high, along with other multi-story towers that emerged in the 1960s (Fernández Per and Mozas, 2013b, pp. 428–429). (Scalbert, 2004, p. 40).

Renaudie refuted architectural standardisation and the repetitive monotony of the *grands ensembles*, or mass-produced, modern building



Figure 5-4 The Jeanne Hachette Complex, Jean Renaudie, Ivry-sur-Seine, Paris (1970–1975); 40 dwellings, cinemas, retail, office, and parking. Photograph by Valette (2013).

blocks<sup>159</sup> (Fernández Per and Mozas, 2013b, p. 424). He argued that the segregation of functions (living, working, recreation, circulation) led to a loss of urban intensity, or vitality, and this division of functions made it impossible to maintain real social contact, which he viewed as the *raison d'être* of a city<sup>160</sup> (Fernández Per and Mozas, 2013b, p. 437). Renaudie spoke out on the importance of unifying the disciplines of architecture, urban planning, and the social sciences, in order to develop a successful mix of materials and techniques that would respond to citizens' needs, hopes and dreams with regard to housing (Fernández Per and Mozas, 2013b, p. 437).

As a municipal architect, one of Renaudie's main objectives was to improve people's lives through architecture and to build dignified collective housing for all (Fernández Per and Mozas, 2013b, p. 424; Schuch et al., 2004).



Figure 5-5 Diversity in building form, Jean Renaudie, La Cité des Étoiles, Givors, France (1974–1981), 270 dwellings, shops, library, theatre, and police station. Photograph by Louiseau (2013).

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<sup>159</sup> The *grands ensembles*, inspired by the work of Swiss-French architect Le Corbusier (Monnier, 2002), housed approximately 60 per cent of the French population in the 1950s and 1960s. On the *grands ensembles*, see further: (Bertho, 2014; Newsome, 2004).

<sup>160</sup> See further Renaudie's article on zoning entitled "*L'urbanisme est architecture: trois architectes répondent*" (1968).

In an effort to achieve this aim, the Jeanne Hachette scheme was designed as a nine-story complex that included 40 dwellings, commercial spaces, cinemas, retail, offices, and areas for car parking, that was divided into two separate parts in the centre of Ivry-sur-Seine (Fernández Per and Mozas, 2013b, p. 433). The design of the building floor plan was inspired by the complex organisation of living beings, and was conceived as a continuous fabric that extended organically into the public space and neighbouring buildings (Fernández Per and Mozas, 2013b, p. 433). Furthermore, because Renaudie believed that no two households were the same, each dwelling was conceived as a unique space. While some standardisation was necessary, at the same time, the complex offered a wide range of dwellings of different sizes, layouts, and orientations (Fernández Per and Mozas, 2013b, p. 463). This allowed for the possibility of some appropriation by the residents of the building to take place.

Importantly, this complex was situated as part of a wider urban planning programme of multiple housing complexes occupying 37 acres in downtown Ivry-sur-Seine, including 1,700 dwellings, two-thirds of which were social housing, and a diverse range of mixed-use facilities and public services, designed as a collaboration between chief architect, Renée Gailhoustet and Jean Renaudie (Fernández Per and Mozas, 2013b, pp. 424, 429). Moreover, this important individual project and its relationship to a wider process of urban transformation demonstrates how diversity can inform a range of design decisions, from the urban scale down to the unit configuration. As a result of Renaudie's work in Ivry, the entire town centre was transformed according to his principles of complexity and difference (Schuch et al., 2004).

Lastly, even though this section has focused on the Jeanne Hachette Complex, Jean Renaudie's later project, La Cité des Étoiles, in the town centre in Givors, France (1974–1981), shown in Figure 5-5, equally represents diversity in affordable housing (Schuch et al., 2004). In addition to its complex floor plan and individualised units, this project also included 270 houses, shops, a library, theatre, and police station. Therefore, if we aim to increase diversity in the design of housing in the context of this emergent market, it is useful to look more closely at these two exemplary projects, as they encapsulate both care

for the living conditions of families by offering well-resolved dwelling layouts, and care for the social life of the inhabitants, by the inclusion of communal spaces in the schemes.

Also, these projects show us that we can achieve high-density social housing based on a dense configuration of organic structures in urban centres rather than relying on typical anonymous high rise building blocks (Mostafavi, 2015, p. 44). Moreover, we can create housing that is cost-effective in terms of population density and also contributes to quality, individualised urban dwellings.

#### *5.3.1.2 Building/unit form*

In order to incorporate diversity in the spaces, we drew inspiration from the core aspects of Renaudie's approach. This aim refers to two scales. First, we mean diversity in terms of differentiation in the building form, which allows for a range of different uses, accommodating various day-to-day, occasional, and life-cycle aspects of occupation and use. It may also be interesting to explore how multi-functional spaces could be incorporated in a site plan to accommodate dual-use residential architecture or live/work spaces in housing, depending upon the demographic. Second, we also aimed for diversity in terms of variation in the unit size, orientation, and configuration, which can accommodate a range of household needs. Moreover, Cheyne Capital's pursuit of efficiency could help to inform a more diverse range of unit configurations because it could allow for housing with the widest range of uses.

#### *5.3.1.3 Mixed-use*

In order to overcome the issue of single-use housing which cannot respond to the range of community needs, a second key aim refers to mixed-use. This includes, alongside housing, spaces that integrate various functions and that can be suitable for commercial, cultural or recreational use. Housing schemes that include the appropriate ratio between dwelling density and mixed-use development creates the opportunity for community development to take place as part of an integrated community. Moreover, this ratio between dwelling

density and mixed-use space is particularly important in the context of housing for disadvantaged groups because it offers the possibility for growing local businesses, and including social enterprises alongside housing. Also, mixed-use space in housing supports local spend, encourages social cohesion and could create social and economic vitality.

From an environmental perspective, housing that includes mixed-use space could encourage pedestrian movement or cycling, which could lower car dependence. Moreover, this blend of housing and mixed-use spaces could help to decrease the ecological footprint of cities and support sustainable urban forms by promoting compact development based on high densities and short distances between housing, public services, and social infrastructure (see further Holden, 2004). As such, mixed-use space could create an added value for housing that extends beyond the building/unit form, particularly in housing schemes that are part of wider efforts of regeneration.

#### *5.3.1.4 Communal space*

A third objective for achieving diversity refers to onsite communal space, which has the potential to increase the social impact of a given project. The provision of onsite communal space encourages the development of a social network of support among residents and can help to strengthen the social reach of the SSOs with whom Cheyne Capital has partnered. Depending on the objectives of the SSO, this communal space could facilitate the development of onsite programmes to meet resident needs. Moreover, this communal space could promote civic engagement, local leadership, which may contribute to a culture of caretaking on the property, and social empowerment of the residents.

Even though the provision of mixed-use communal space in social housing is currently outside of the scope of public funding flows because it is not considered a necessary social housing requirement, it would be interesting to examine how a social property impact fund like Cheyne Capital could play a significant role in developing new ways to fund communal facilities by layering different forms of capital, including public, private, non-profit and impact investment, to achieve different built outcomes in social housing. For example,

if a SIFI like Cheyne Capital offered the upfront capital for the costs of the housing development, but partnered with another impact property fund, development company, or SSO who financed the communal space we may be able to achieve a more socially valuable built outcome. Also, this strategy of layering different forms of capital could help to fund specific equipment in housing for the elderly or those with physical and/or learning disabilities. However, this has yet to be tested in practice and remains an area for further research.

### *5.3.1.5 References*

It is perhaps safe to say that no other built social housing projects at an urban scale rival Renaudie's understanding of diversity as a central feature in the design of housing. Importantly Renaudie's approach to diversity in housing informed design decisions at a spectrum of scales ranging from the urban scale to the building floorplan to the individualised dwellings, where the dwellings related to a broader cohesive, organic urban development, blending uses and programmes. While this degree of diversity has not been repeated at a similar scale or degree, we can draw inspiration from other significant, pre-existing housing projects which showcase some design elements of the principle of diversity.

The Barbican designed by architect Peter Chamberlin, architect Geoffrey Powell, and architect Christof Bon as part of Arup in London, (1956-1976) in the City of London highlights the significance of affordable urban housing at a large scale that includes the design principles of diversity in terms of different mixed-use spaces<sup>161</sup> (Fernández Per and Mozas, 2013c; Orazi, 2015; Orazi and Rudquist, 2018). This large urban housing complex mixed

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<sup>161</sup> In addition, inspiration regarding the principle of diversity was drawn from the following key projects and design proposals: An Imaginary Irregular Town, Raymond Unwin (1919) (Unwin, 1919); Dom-Kommuna, Soviet Union, STOIKOM (Building Committee of the Russian Soviet Federative Socialist Republic), theoretical Proposal (1928–1930), (Fernández Per and Mozas, 2013a, pp. 66, 98); The Vertical City, Ludwid Hilbersheimer (design proposal) (1927-1931-1935) (Köhler, 2016); The Spatial City by Yona Friedman, unbuilt project (1959-1960) (Cline et al., 2002, p. 40); Habitat '67 by Moshe Safdie, Montreal, (1964-1967); Alexandra Road Estate by Neave Brown in the London Borough of Camden (1968-1979); The Town Wall, Civilia by Hubert de Cronin Hastings (1971) (Wolfe, 1971).



education and culture-centred buildings into the residential programme, highlighting how affordable housing can create attraction to the site through layering housing with cultural programmes. Furthermore, this complex included different mixes in the layout such as the mix of private, semi-public, and public open spaces with water features as part of housing (Fernández Per and Mozas, 2013c, p. 216).

### *5.3.2 Connectivity*

Along with the lack of urban intensity, over fortification is an interrelated and significant issue in the design of social housing schemes. This emphasis on fortification can manifest on multiple scales resulting in harsh borders. The reason for this is that social housing is generally developed in areas where land values are lowest and are separated from city centres. Alongside this, social housing schemes typically have a negative stigma that the residents are not safe without significant fortification. However, this attempt to secure the residents can also differentiate it as an unsafe space, thereby isolating the site from the surrounding neighbourhood. As a result, even if a social housing scheme is located as part of a wider community, it can remain largely separate.

At the urban scale, this can lead to segregated, polarised communities, where there is often poor frontage at the street level of the building and disconnection in pedestrian movement between the site and streetscape. On the building scale, this can result in walled-off spaces and severe transitions between the exterior and interior, including enclosed walkways, long and often narrow internal corridors, and barred windows, thus limiting movement throughout the space. Also, the combination of long internal corridors and multiple access routes can lead to security issues (Levitt and Bernstein, 2009, pp. 72–73).

Although it would be a major oversimplification to claim that poor design is the driver in the phenomenon of crime and anti-social behaviour in social housing estates (Levitt and Bernstein, 2009, pp. 126–127), it is likely an

amplifier of these problems.<sup>162</sup> Moreover, over-fortification has the most severe negative impact on the residents themselves. In order to address this, the principle of *connectivity*, in terms of *movement, community, and integration*, seeks to highlight how design can be used as a tool for establishing a natural surveillance and safety. This principle also aims to foster community and integration between the housing site and the city centre.

The significance of connectivity as a way to establish safety without fortification is not new. It has been discussed in research in sociology,<sup>163</sup> urban studies, and political science for at least the past 50 to 60 years. Similar to the principle of diversity, Jane Jacobs' work *The Death and Life (1961)* helped to generate significant public interest in the role of an active streetscape. Further, Jacobs argued against modernist planning approaches, such as the early work of Le Corbusier and master builder Robert Moses (Ballon and Jackson, 2007; Flint, 2011). As a reaction to this, Jacobs introduced a new set of principles for city planning and practices of rebuilding, which highlighted the importance of pedestrian movement and sidewalks as a crucial space for establishing connectivity and maintaining the vitality of urban life, thereby creating safer public spaces. Similarly, Oscar Newman, architect and city planner (1935–

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<sup>162</sup> The Heygate Estate in Elephant and Castle (Montgomery, 2011; Moss, 2011; Sebregondi, 2012; Steadman, 2013), southeast London, typified this issue of over-fortification in a “sink estate” as indicated in the introduction to this chapter. The derelict, closed building façade and heavily enclosed walkways in metal lattice work represents a ruined image of council housing. Coleman et al. (1985) indicated that, at one stage, it was believed that the Heygate, Aylesbury, and North Peckham estates were connected by an elevated walkway regarded as a ‘street in the sky’ spanning approximately a three-metre territory (p. 150). This type of connection between overly fortified, segregated estates suggests how the design could contribute to crime on a site. Further, the principle of connectivity highlights the importance of establishing connectivity in terms of access to the city's goods and services rather than to networks of crime.

<sup>163</sup> Notably, American sociologist Robert D. Putnam developed the concept of social capital, which refers to the connections among individuals (see, e.g., Putnam, 2004, 2000b, 2000a). Putnam's view was based on social capital theory, or that social networks have value and can affect the productivity of individuals and groups (Putnam, 2000a, p. 19). Putnam's work, *Bowling Alone: The Collapse and Revival of American Community (2000a)*, argued that the United States had undergone an unprecedented collapse of social capital. In response to this, he examined the ancillary benefits of civic engagement and social connections (Putnam, 2000a, p. 205). Moreover, Putnam highlighted that these softer, intangible benefits created by social connectedness produce lower crime rates, improved mental health, better schools, more efficient government, and faster economic development (Putnam, 2000b, p. 224, 2000a, p. 205).

2004), examined this issue in *Defensible Space* (1972), which presented a theory on human territoriality as a means to natural surveillance.<sup>164</sup>

#### 5.3.2.1 *Alexandra Road Estate, Neave Brown, Camden (1968–1979)*

The work of Neave Brown, the British-American architect (1929–2018), for Alexandra Road Estate in the London Borough of Camden constitutes a strong example of the principle of connectivity in housing design. This design scheme for low-rise, high-density housing was a redevelopment to replace an existing scheme.<sup>165</sup> Importantly, this scheme ensures connectivity through a single, continuous architecture that integrates a range of uses along the length of the site, for housing, community buildings, and infrastructure, while at the same time connecting the project with the surrounding city (Swenarton, 2017a, p. 59).



Figure 5-6 Linear pedestrian street, with spaces for gathering, with block A, *left*, and block B, *right*, view from high level walkway; Neave Brown, Alexandra Road (1968–1979), Camden Council, London Borough of Camden.

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<sup>164</sup> For more recent research on defensible space theory, which examines the concept of ‘secured by design’ (SBD), or urban design strategies for crime prevention in housing see, e.g.: (Cozens et al., 2001; Mawby, 1977; Steventon, 1996). Alongside this, there is a similar strand of research that looks at socially responsible design; see, e.g.: (Thorpe and Gamman, 2011).

<sup>165</sup> One of the main arguments for demolishing the existing houses and redeveloping the site is that it could increase the density from the existing population of 735 to 2,217 people, if maximum density were achieved (Swenarton, 2017a, p. 59).

This focus on low-rise schemes, which emerged in the early to mid-1960s was a reaction against the predominant form of housing produced by British local authorities following the Second World War, known as ‘mixed development,’ where high-rise towers were combined with low-rise blocks and often consisted of stacked rows of maisonettes or duplexes (Swenarton, 2017a, p. 16). Alongside this, there was a growing awareness that building height has only a marginal impact on increasing overall density<sup>166</sup> (Swenarton, 2017a, p. 16). Further, Neave Brown’s interest in this low-rise housing typology<sup>167</sup> could be significantly attributed to his education at the Architectural Association (the AA), where the culture at the school during this time was dominated by a strong



Figure 5-7 Connectivity between block A, *right*, and block B, *left*, through linear pedestrian street; Neave Brown, Alexandra Road (1968-1979), 518 dwellings, public park, special school, shops, youth club, play centre, community centre, Camden Council, London Borough of Camden.

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<sup>166</sup> Importantly, Peter Stone’s research at the Building Research Station on building height, density, and economics, challenged the conventional view that increases in building height significantly increase density (see further Stone, 1960, 1959). Stone proved that due to the ratio of non-residential to residential land in any urban development, increasing the building height could only have a marginal effect on dwelling density (Swenarton, 2017a, p. 16). Also, Stone demonstrated that running costs were higher for dwellings in high rise building blocks (Stone, 1959).

<sup>167</sup> One exemplary design scheme of “high density without high rise” might include the work of Patrick Hodgkinson in the early 1950s and 1960s (Swenarton, 2017a, pp. 20–21). Importantly, Hodgkinson was a peer of Brown at the AA, and the two worked collaboratively in the early 1960s. Other influences on Brown’s early work might also include Bill Howell from the AA and Colin Rowe at Cornell University (Swenarton, 2017a, p. 35).

rejection of the ideas of the modern movement,<sup>168</sup> such as Le Corbusier's *Ville Radieuse* (1935) and the Charter of Athens (1933) (Swenarton, 2017a, pp. 17, 20).

Additionally, there is a level of complexity in Brown's attitude towards the modernist legacy, which informed his approach to the design of Alexandra Road Estate. On the one hand, Brown believed in modernism and his development at the AA was largely nurtured through the work of modernist masters such as Alvar Aalto or Le Corbusier,<sup>169</sup> while on the other he rejected Le Corbusier's *Ville Radieuse* on the basis of its destruction of the street (Swenarton and Weaver, 2013, p. 75). In response to this, one of Brown's central aims as an architect was to reintroduce the street as an integral part of housing, thereby strengthening the connection between the street and the city (Swenarton and Weaver, 2013; The Architectural Association (the AA), 2013).

The defining feature of the Alexandra Road scheme was two linear blocks (block A and B) with a linear pedestrian street in between them, and an adjacent block C, which established a system of connectivity throughout the site of 9.16 acre site, as pictured in Figure 5-6 and Figure 5-7 (Swenarton, 2017a, pp. 65–66, 2017b). The scheme was designed to accommodate 518 dwellings, where block A, situated over six and a half storeys, consisted of 72 two-bedroom maisonettes on the top floors, 232 one-bedroom flats on the intermediate floors, and 42 three-bedroom maisonettes on the bottom floors (Swenarton, 2017a, p. 74). Block B, just four storeys high, consisted of 66 two-bedroom maisonettes above and 66 three-bedroom maisonettes below, and block C consisted of 40 four-bedroom houses (Swenarton, 2017a, p. 74). Furthermore, the outcome in terms of dwelling density is that it accommodated

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<sup>168</sup> See for example, the work of Alison and Peter Smithson (1967) and the other members of Team 10, a group of architects who assembled in 1953 following the *Congrès internationaux d'architecture moderne* (CIAM) (see also Smithson, 1968). Importantly, the CIAM, previously founded in 1928, brought together leading architects with the aim of promoting the principles of the Modern Movement, which featured a strong emphasis on the Garden City idea (see further Mumford, 2002). For a comprehensive discussion on the garden city idea as part of the CIAM discourse see, e.g.: (Domhardt, 2012).

<sup>169</sup> Le Corbusier's (unbuilt) designs in the late 1940s for a model of low-rise housing such as the *Cité permanente* of La Sainte-Baume and the villas 'Roq' and 'Rob' (Corbusier and Jeanneret, 1953) were a source of significant inspiration for AA students at this time (Swenarton, 2017a, p. 17).

1,682 persons, at an average of 3.23 persons per dwelling, at a density of 184 persons per acre, and at an equivalent higher density of 214 persons per acre (Swenarton, 2017a, p. 79).

Because Neave Brown wanted to use the flow of people to bring vitality and life to the pedestrian street, the design needed to allow for direct access from the top-floor units to the street (Swenarton, 2017a, p. 70). To achieve this, Brown adopted a system developed from a previous design for Lillington Street in Pimlico, where the upper units were reached by a direct staircase from the street, creating a relationship between each front door and the street (Swenarton, 2017a, p. 70). The design for Alexandra Road was an elaborate system of staircases, which established connectivity between the pedestrian street, exposed walkways and individual dwellings. The system of staircases for block B is pictured in Figure 5-8. Also, the open walkway on the top level, as pictured in Figure 5-9, connects staircases to the front door of each top-storey dwellings, while establishing a natural surveillance of the site. The outcome was 29 staircases on block A, 36 large staircases and 66 small staircases on block B, with only five lifts for over 500 dwellings (Swenarton,



Figure 5-8 Block B, system of staircases that connect the pedestrian street to the front door of the upper level units, seen from high-level walkway on block A; Neave Brown, Alexandra Road, Camden Council, London Borough of Camden. Photo by ACME London (2019).

2017a, p. 74). Furthermore, the economy in lifts helped to reduce costs, where essentially the staircases paid for the building (Swenarton, 2017a, pp. 59–60, 74).

Similar to the Jeanne Hachette Complex, the housing scheme for Alexandra Road was situated as part of a significant urban redevelopment plan for Camden Council, executed by the council architect, Sydney Cook (1910–1979). Notably, Brown and the team of other architects assembled by Cook pioneered a new model of street-based, low-rise housing for the Borough of Camden. Along with Alexandra Road, other key projects included Neave Brown’s design of Fleet Road, Peter Tabori scheme at Highgate New Town, Gordon Benson and Alan Forsyth schemes at Branch Hill, Mansfield Road and Lamble Street, and Maiden Lane.<sup>170</sup>

Importantly, the planning brief for Alexandra Road Estate set out a range of additional criteria alongside those strictly pertaining to housing. As a result, this scheme was designed to include non-residential uses such as a public



Figure 5-9 View from the high-level walkway on block A, *right*, overlooking block B, *left*, with the tower of Hampstead’s Abbey estate in the background; Neave Brown, Alexandra Road, Camden Council, London Borough of Camden. Photo by ACME London (2019).

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<sup>170</sup> For a comprehensive examination of each of these projects see Mark Swenarton’s work, *Cook’s Camden: The Making of Modern Housing*, (2017).

park, a special school for children with learning disabilities,<sup>171</sup> shops, a youth club, a play centre, a community centre, within an integrated community setting, in the existing London Council Estate (Swenarton, 2017a, p. 59). However, to deliver social housing, which included an extensive social programme, this exemplary project required the support of government legislation and policy. Without these conditions, it is unlikely that this type of housing programme would have been created (Swenarton, 2017b; The Architectural Association (the AA), 2013).

Despite the success of this project, it was not repeated, and Brown did not achieve any other significant housing projects in the UK. Furthermore, Alexandra Road has been regarded as ‘the last great social housing project’ (Freer, 1995). Therefore, the success of this project was dependent on contextual factors, including a particular moment in procurement history. If new social landlords like Cheyne Capital aim to design housing that could achieve a higher social impact over the long-term, an important consideration is how policy would need to change to reframe social housing as part of a wider social programme.

#### *5.3.2.2 Movement*

The principle of connectivity has two major meanings as it relates to movement. First, at the urban scale, the scheme is situated in a network of opportunities that city centres provide, including access to good transport and social infrastructure. Second, at the building scale, there is an ease of movement throughout the site, where the circulation promotes an active pedestrian streetscape. An example of this is shown in Figure 5-6 and Figure 5-7. The open walkways, too, represent an attempt to establish connectivity across the building façade, which can be illustrated in Figure 5-9, thereby avoiding the design of enclosed, dark corridors common in social housing schemes, described in section 5.3.2. This principle highlights the importance of an open and gradual

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<sup>171</sup> Following the Mental Health Act of 1959, local authorities were given responsibility to provide care and training for children whose needs extended beyond receiving a normal education in school, as provided under the 1944 Education Act. For more information on this particularly school see: Historic England (2012, p. 4).



transition from public to private as it relates to the pedestrian streetscape, building façade, and dwelling exterior and interior, which is perhaps one of the most important aspects of the design and is to be further examined in section 5.3.4.

In order to achieve the above aims, the site has been selected based on an assessment of its ability to maintain or appreciate in value, over the medium to long-term, due to its close proximity to the city centre. This concept of social housing that appreciates in value is crucial in the context of this market because it helps to create a viable real estate scheme over the long-term and thus mitigates the risks of the sale and leaseback agreement for SIFIs and SSOs. Also, social housing that is directly connected to the city centre could potentially result in lower transport costs for the housing beneficiaries. Finally, this principle seeks to show how access and integration between the site, the surrounding community, and the city centre could help to strengthen the social value and in turn the social impact of the scheme.

#### *5.3.2.3 Community*

In order to overcome this issue of lack of community space in social housing, a second key aim refers to community. This may include community facilities such as schools, social or health services, and public space amenities. Onsite community space could help to promote a value set based on social cohesion and caretaking of the property. Even further, it could encourage a level of civic engagement, local leadership, and positive culture among residents. Also, the sharing of knowledge or resources between residents of various generations and cultures within the community could increase social cohesion. For example, this could include intergenerational exchanges for skill building and mentoring between youth and older adults.<sup>172</sup>

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<sup>172</sup> One example of social innovation in housing might include the Intergenerational Housing and Community Services scheme in Alicante, Spain, honoured as a Finalist World Habitat Awards 2012. This exemplary project included 244 affordable housing units, where approximately 78 per cent of the residents were over 65 years old and 22 per cent of the residents were under 35 years old. This scheme was developed through a mix of public and private funding, for the purpose of simultaneously addressing the need for affordable housing and elderly care and resulted in a range of benefits for the housing beneficiaries (World Habitat, 2012).

#### 5.3.2.4 *Integration*

The third objective of this principle is integration, which means that the scheme is well assimilated within the surrounding community and city centre. In order to establish mutually beneficial relations between the site and surrounding territory, it is important that there is spatial integration in terms of connectivity, which involves ease of movement and access to transport, social integration that relates to community building and social services, and economic integration that relates to social enterprise, mixed-use development, and access to the city centre.

Importantly the development of new approaches to partnering between a SIFI like Cheyne Capital and SSOs could potentially help to connect social housing beneficiaries with community services and a network of support and care, as shown in the case of Thera Group in section 4.2.3. By partnering with Cheyne Capital, Thera Group was able to strengthen its social reach and thus extend care to more people living with acute learning disabilities rather than using its limited resources for resolving its housing issues. Also, Cheyne Capital provided a solution for Thera's housing beneficiaries, which offered them their preferred housing solution of living a stable community setting, rather than an institutional environment.

Despite these advantages for both Cheyne and Thera Group, this is a singular example, and we need to study the role of partnerships between SIFIs and SSOs as a means of ensuring that housing beneficiaries have access to support and care in a range of other examples. Moreover, it is an area of the market that has not yet fully developed and does not have adequate regulatory or policy support.

#### 5.3.2.5 *References*

The principle of connectivity was also strongly featured in the Jeanne Hachette Complex.<sup>173</sup> Similar to Alexandra Road, Renaudie established a strong

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<sup>173</sup> Also, inspiration for the principle of connectivity was drawn the following key projects and design proposals: Justus Van Effen Complex, Michiel Brinkman, Spangen, Rotterdam, the Netherlands (1919-1922) (Emstede, 2012; Fernández Per and Mozas, 2013a, pp. 12–65); The Park Hill Scheme, Sheffield (1961) (Gold, 2007, pp. 215–217); Lillington Street in Pimlico (1963–1965), Winscombe Street in Dartmouth Park (1965), Dunboyne Road Estate

relationship between an active streetscape and individual units, which were connected through a vertical circulation system made up of a complex system of stairways that traversed the open and extended building façade. Also, the interior walkways in the Jeanne Hachette Complex were designed as wide, open corridors, which connected the mixed-use commercial space below with the areas intended for residential use above.

### *5.3.3 Flexibility*

In addition to the lack of diversity and connectivity, perhaps one of the most significant problems in contemporary housing in the UK is that it is largely being designed and built for inflexibility and thus obsolescence (Schneider and Till, 2005, p. 163). It is based on the idea that the residents would simply move to a new property when their needs change. The main issue with this approach is that it is predicated upon the notion that housing is perhaps still widely regarded as a disposable commodity<sup>174</sup> (Schneider and Till, 2005, p. 163). Moreover, this issue of inflexibility is particularly problematic for the social rental sector because these schemes need to accommodate changing needs at the level of both SSOs and beneficiaries, over the long term. However, the opportunity to change the use or configuration of the spaces is almost non-existent in this sector.

At the same time, the tendency to design housing based on recipes that only correspond with a specific household type, at a specific point in time, could create a major challenge for Cheyne Capital and other SIFIs because the business model is based on short-term economics. If Cheyne Capital and other SIFIs are to develop viable real estate schemes based on novel partnerships with SSOs, over the medium to long term, we need to accept the need for longer term

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(1977), Neave Brown; The Jeanne Hachette Complex (1970–1975); Holly Street, Levitt Bernstein Associates, Hackney, London (Levitt and Bernstein, 2009, pp. 132–133).

<sup>174</sup> It is worth noting that this claim is based on the idea that social housing, in particular, is generally still designed based on short-term economics rather than long-term outcomes over the building lifetime. Furthermore, this concept of housing as a disposable commodity is contrary to the fact that homes are one of the country's most valuable assets, as established by the Parker Morris report (Ministry for Housing and Local Government, 1961, p. 6). However, contemporary design and building does not always reflect this.

thinking at the design stage. Additionally, life cycle costing<sup>175</sup> could become increasingly important at the design stage, if a SIFI like Cheyne Capital is to secure sale-and-leaseback agreements with SSOs over the long term. The reason for this is that it could help to improve the risk/return profile. For example, if Cheyne Capital can demonstrate to the SSO that the Fund is designing social housing, which optimises value for money over the building lifetime, it could effectively help to reduce building maintenance costs and thus mitigate the risks of the sale and leaseback agreement.

Designing for life cycle costing could also become a key criterion for social impact measurement where a SIFI like Cheyne Capital could assess how it is optimising value for money during the operational lifetime of the asset and comparing those differences with the conventional approach in the public sector. Cheyne Capital could also offer any savings to the SSO to help create a budget to manage the asset over its operational lifetime, further demonstrating a social impact and filling a crucial gap in the market. However, we have not yet applied these concepts in practice. If we are to do so, we need to conduct further research on the relationship between life cycle costing, the risk/return profile for SIFIs and SSOs, and social impact measurement.

Given that Cheyne Capital's joint partnerships with SSOs are based on a minimum of a 21 to 40-year sale-and-leaseback agreement, but ideally would be extended for much longer, as indicated in section 4.4.3, and at the same time it aims to invest in housing that maintains or appreciates in value, as indicated in section 4.4.2, the design ideally needs to reflect these objectives. On the one hand, this requires a flexible design approach that considers the uncertainty of future housing demands and occupation. This level of flexibility would help to ensure that SSOs are better equipped to make adaptations to their existing housing stock so that it can meet current and future needs. On the other hand, it

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<sup>175</sup> The term 'life cycle costing' refers to optimising value for money in the ownership of physical assets (including housing) by considering all of the cost factors of the asset during its operational lifetime (Woodward, 1997). There is a longstanding body of research on life cycle costing (see e.g.: Birgisdottir and Rasmussen, 2019; Bull, 2003; Collin et al., 2019; Olubodun et al., 2010; Smith et al., 1997), although it is not yet fully taken into consideration in practice. Furthermore, the hurdle of inadequate funding and a lack of accounting for the building life cycle is an endemic issue in the social housing sector.

would need to show how the design adds value to the property, where it ideally contributes to the property appreciating over time.

#### *5.3.3.1 Scale*

The first objective of achieving greater flexibility relates to scale. In order for the housing scheme to be applied in various contexts and at different densities, it needs to accommodate various dwelling densities. This means that the structure can be scaled up to achieve a higher dwelling density or scaled down to allow for a lower dwelling density, which could be integrated with a range of non-residential uses at the urban scale. With regards to the architecture, flexibility could relate to a universal form, such as a cube, which allows for scalability of the housing strategy. The significance of this design approach as a means to achieving greater flexibility, and in turn efficiency, is to be further explored in the Design Module in section 5.5.

#### *5.3.3.2 Spaces*

In order for social housing to adapt to changing needs when it comes to the use of the space over the building lifetime, we developed a second major aim in connection with spaces. At the building scale, the design is organised so that there are spaces within the building interior, as well as a circulation system and building façade that allow for a range of social activities. This includes formal and informal social interactions for meetings, gatherings and play, and spaces for solitude and quiet. Flexible communal spaces on the ground floor and/or top floor could also easily be modified to change the users' experience. For example, they could allow for overlapping social programmes so that residents can experience different activities in the same space, with a shifting daily, periodic and occasional use.

At the unit scale, flexibility in the spaces relates to a responsive design, which can accommodate a range of dwelling sizes and forms for maximum flexibility in configuration. This could allow for poly-functional spaces, which might include live-work spaces, depending on the demographic.

### 5.3.3.3 *Site*

In order to apply a housing scheme to meet the needs of various demographics, we developed a third major aim referring to the site. Through greater flexibility in the design, which could be applied on a diverse range of sites in need of housing, social property impact funds like Cheyne Capital could potentially deliver housing within a shorter timescale while achieving a similar built outcome on multiple sites.

### 5.3.3.4 *References*

The principle of flexibility is perhaps most commonly featured in the London terraced house, particularly in the late eighteenth to the early nineteenth century<sup>176</sup> (Muthesius, 1984; Till and Schneider, 2005, p. 287). These homes were typically three to four stories, including a basement, which allowed them to be expanded both horizontally, at the back of the structure, and vertically, as seen in the prevalent loft extension (Thompson, 2017; Till and Schneider, 2005, p. 287). Moreover, the example of the London terraced house illustrates how these period homes can far exceed their original value (Thompson, 2017), due to their ability to adapt to changing needs of the occupants over several generations.

The concept of housing that can accommodate change over time has also been the topic of numerous research projects (French, 2002; Schneider and Till, 2005; Till and Schneider, 2007, 2005), government reports (Department of Trade and Industry, 1998; Ministry for Housing and Local Government, 1961) and architectural competitions<sup>177</sup> throughout the twentieth century (Schneider and Till, 2005, pp. 157–158). Additionally, this need for greater flexibility has

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<sup>176</sup> Additionally, inspiration for the principle of flexibility was drawn the following key projects and design proposals: The Britz Project, Berlin (125-1931) by Taut and Wagner; the Weißenhofsiedlung estate, Stuttgart (1927) by Mies van der Rohe and Schweizer Werkbundkollektiv; Walter F. Bogner's proposal (1942) as part of Architecture Forum's competition titled 'The New House 194X', USA; the Fun Palace for Joan Littlewood Project, Stratford East, London, England (design proposal for unrealised project), Cedric Price, (1959-1961); Hellmutstrasse Zurich (1991), ADP Architektur and Planung.

<sup>177</sup> These architectural competitions might include: 'Das wachsende Haus, competition, Germany (1932) (Till and Schneider, 2007); 'The new house 194X', Architectural Forum, USA (1942); 'Flexibler Wohnungsgrundriß' competition, Germany (1971); 'Wohnen Morgen' competition, Austria (1971); 'Fleksible boliger' competition, Denmark (1986,1990/91); 'Accommodating Change' competition, UK (2002).

been examined in housing research on participatory design (Aravena, 2016; Aravena and Lacobelli, 2012; Petrescu and Till, 2005), which highlights participation in the design as a means to social empowerment. However, the benefits of flexible housing are often ignored (Schneider and Till, 2005), and many barriers to implementation remain.

Also, the financial aspect of flexible housing is an area where, to date, not a lot of research has taken place. There is still a general assumption that developing more adaptable buildings would be more costly.<sup>178</sup> Therefore, if we are to better understand the relationship between flexible housing and a measurable social impact that is both social and financial, this remains a crucial area for future research.

#### 5.3.4 Human scale

Another key design issue we identified in either in the large Corbusian slab blocks, or similarly in mixed development in Britain, was a closed building



Figure 5-10 View from pedestrian street with block A, *right* and block B, *left*. Neave Brown, Alexandra Road, Camden Council, London Borough of Camden. Photo by ACME London (2019).

<sup>178</sup> For a comprehensive study of stakeholders' views on developing more adaptable buildings in the UK, see Pinder et al. (2013). Also, for an extensive study on flexible housing, including existing cases, see Till and Schneider (2007).

façade, which creates a harsh transition between the public realm and individual dwellings. A closed façade in social housing can lead to social isolation due to a lack of interaction between residents. As a response to this issue, the principle of human scale aims to highlight the significance of this transitional space between the following three domains: the public realm in the surrounding landscape, the building façade, and private realm in the dwelling interior and/or exteriors. If we are to increase the social impact of housing, the design of the building façade could play a significant role; this is to be further discussed in section 5.5.3.1.

Neave Brown dealt with this issue in Alexandra Road by designing a terraced building façade on each block. The linear pedestrian street framed by block A and block B allowed for the dwellings in each of these blocks to face each other, where each block was designed with a system of communal stairways throughout the façade, directly connecting the pedestrian street with the dwelling units, as described in section 5.3.2.1. This relationship between the semi-public realm on the pedestrian street and the communal space on the walkways and staircases allowed for a range of possibilities for social



Figure 5-11 Private terraces on upper dwellings, block B, view from upper walkway on block A, Neave Brown, Alexandra Road (1968-1979), Camden Council, London Borough of Camden. Photo by ACME London (2019).



interaction to take place. The pedestrian street, pictured in Figure 5-10, highlights how the design aimed to address human scale needs, which include gathering. At the same time, the individual units in block A and B were each designed with a private balcony, as pictured in Figure 5-11, which enabled a level of contact, while establishing a separation between the private and communal space.

One significant advantage of this open building façade is that it helped to establish a natural surveillance on the site by ensuring there is visibility between block A and block B. Furthermore, the extended transition between the private terraces, communal walkways, and the semi-public pedestrian street has likely contributed to the sense of safety and security, based on social interaction and exposure throughout the façade. Also, the transitional space adjoining block A and B with block C included a distinct gathering space which offered seating, a sunken courtyard and wide connecting staircases, as well as accommodated spaces for quiet or play, as shown in Figure 5-12. In the case of Alexandra Road, this housing form, featuring an active pedestrian street, an open building façade,



Figure 5-12 Distinct and intimate space for gathering or solitude, which adjoins block A and B with block C; Neave Brown, Alexandra Road (1968-1979), Camden Council, London Borough of Camden.

and distinct spaces for socialising, has contributed to social cohesion, identification with the space, and a culture of caretaking among residents.

Similarly, the Jeanne Hachette Complex, which was a response to the rigid building exteriors of the *grands ensembles*, addressed a range of human scale needs through its complex floor plan and open building façade. Importantly, the floor plan, with its irregular and organic forms, created a complex system over the nine-storey structure, where each individual unit was designed with a private terrace, connected through a continuous green exterior that is part of the building facade. For Renaudie, the individual private terraces created a sense of intimacy for the residents of each dwelling (Fernández Per and Mozas, 2013a, p. 473; Renaudie, 1976). Also, similar to the Alexandra Road Estate, the dwellings on the upper storeys were directly connected with the street level through a long staircase.

Importantly, for Renaudie, urban life could not be activated unilaterally by urban planning unless appropriation from the citizen took place (Fernández Per and Mozas, 2013a, p. 445). Irénée Scalbert's work *A Right to Difference: The Architecture of Jean Renaudie* (2004) has quoted Renaudie, who stated that:

‘...the important thing, for me, is to give everyone the possibility to express that which is not determined, but which remains latent vis-à-vis the use of space’ (p. 40).

To address this objective, Renaudie created the Jeanne Hachette Complex so that the design of each dwelling would also affect the adjoining units in terms of privacy and access. This balance between enclosure and exposure allowed each household to appropriate their unit and terrace, while being situated as part of a wider housing collective within the city centre. A similar approach was used by Renaudie in La Cité des Étoiles, where each individual dwelling, designed with a private terrace, enabled the residents to appropriate the space. An image illustrating this concept of appropriation of the dwellings in

Renaudie's work will be included in section 5.3.5, as it is also an example of the principle of environmental integration.

#### *5.3.4.1 Human centrality*

The first key objective of human scale refers to human centrality, which in the context of this thesis refers to the building form and its ability to respond to human scale needs in terms of size, usability, wishes, and experience. At the site scale, the design of the building façade and surrounding landscape encourages pedestrian movement and the exposed but intimate spaces can be used for gathering or solitude. Furthermore, the design of the collective space in the surrounding landscape features distinct spaces for gathering, which could include a pedestrian street for children to play on. An example of this is shown in Figure 5-10. Moreover, at the unit scale, each dwelling has access to the sky and/or the ground, which could mean a private terrace, as shown in Figure 5-11.

#### *5.3.4.2 Accessibility*

The second key objective of human scale is accessibility in the design, which refers to the interface between the building façade and the public or semi-public space, on a physical and experiential level. This transitional space from the public to private realm is connected through a circulation system that includes stairways and paths that are accessible to the residents, as shown in Figure 5-8. Moreover, the openness of the façade allows for a gradient between the semi-public, communal space and the private dwelling space. Through this gradient from public to private, the scheme offers various possibilities for exposure and interaction between residents, creating a collective space, as shown in Figure 5-6 and Figure 5-7. This transitional space between the building and the surrounding landscape facilitates civic engagement and gathering. Additionally, the ground floor can also be used as a communal mixed-use space, depending on the demographic. This could take the form of an open extended building façade, which reflects the design of the English terraced house, and a pedestrian street to promote social cohesion.

#### *5.3.4.3 Responsiveness*

A third key objective of this principle is responsiveness, which refers to the responsiveness of the architecture to its environment and residents over time, allowing for longevity of use, which is directly related to the principle of flexibility. The building design is understood as a dynamic, integrated system that is constantly evolving based on the participation of residents, their changing needs and changes in the environment. At the unit scale, the dwelling – meaning both interior and exterior spaces – can be appropriated by the residents to meet their needs.

#### *5.3.4.4 References*

The principle of human scale was also strongly featured in the Jeanne Hachette Complex in Paris. Also, the English terraced houses, particularly those built in the late eighteenth to early nineteenth century, as indicated in section 5.3.3.4, are an important reference for human scale housing. Another significant example is the extensive work of design practice Elemental in Chile, facilitated by architect Alejandro Aravena, which shares some similarities with the English terraced house because both can be extended vertically and horizontally (Aravena and Lacobelli, 2012). Further, Elemental developed a participatory design manual based on extensive workshops with local communities, to ensure that the design of the housing would reflect their needs. As such, this approach would allow for ‘harmonious growth over time’ (Aravena and Lacobelli, 2012, pp. 492–493).

### 5.3.5 Environmental integration

The aim to integrate housing with vegetation has been a long-time ambition of housing reformers. Following the creation of model industrial villages, described in chapter 1 (see section 1.2.5), the Garden City movement emerged in the early 20<sup>th</sup> century as a rejection of the congestion, squalor and lack of planning seen in Victorian cities. This movement marked a significant moment in spatial planning, signifying a move towards a cultural embrace of ‘garden suburbs’ (Ravetz, 1974). Social utopian Ebenezer Howard envisaged the idea of creating satellite towns of no more than 32,000 citizens around a ‘Central City’ (Howard, 1902). It was an attempt to design cities and satellite towns with a clear demarcation between town and country (Birchall, 1995; Howard, 1902; Skilleter, 1993). In Howard’s proposal, each ‘Garden City’ or circular town would be surrounded by a greenbelt of agricultural land, emphasising the values of self-sufficiency and community driven by enterprise, as pictured in Figure 5-13.

While there are significant ideological differences between Howard and Renaudie, which includes, for example, the Garden City represents a

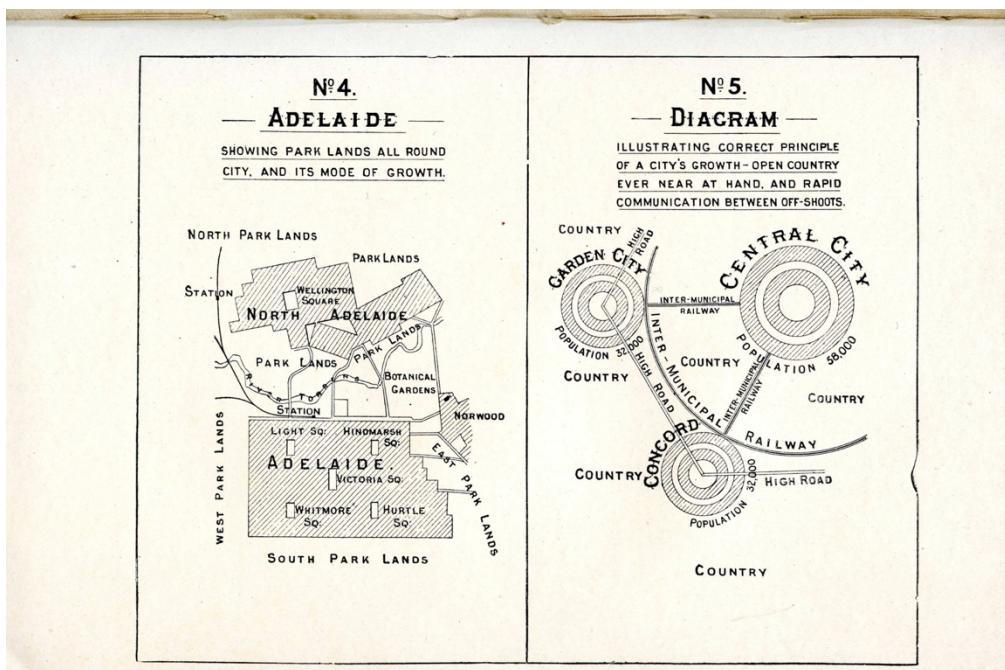


Figure 5-13 ‘No. 4 Adelaide showing park lands all around the city and its mode of growth.’ ‘No. 5 Diagram illustrating correct principle of a city’s growth – open country ever near at hand and rapid communication between off shoots.’ Ebenezer Howard’s *Garden Cities of Tomorrow*, (1922).

planning proposal of agrarian urbanism, which aimed to show how we can design housing to correspond with areas of food cultivation. As such, Howard is perhaps more closely aligned with design proposals that explore agricultural production as a formative element of city structure. These could include, for example, Frank Lloyd Wright's "Broadacre City" (1934-1935), Ludwig Hillbersheimer's "New Regional Pattern" (1945-1949), and Andrea Branzi's "Agronica" (1993-1994).<sup>179</sup> Whereas, the Jeanne Hachette Complex and Renaudie's other work represents a more general aspiration to integrate affordable urban housing with vegetation. However, they both share the common aim to resolve this fundamental issue that the development of urban housing has resulted in a separation between city life and the natural environment.

Importantly, Jean Renaudie believed that vegetation was a necessary condition for a liveable housing environment. In Renaudie's view, the right to nature was as important as the right to difference (see further Scalbert, 2004). In response to this, each dwelling in the Jeanne Hachette Complex was designed with a private terrace where trees could grow (Fernández Per and Mozas, 2013a, p. 422). The size of each private terrace was large enough to make it possible for the resident to have a perspective of the dwelling from the outside, while occupying an intimate space where the resident could have contact with nature (Fernández Per and Mozas, 2013a, p. 422). Because most of the dwellings in the Jeanne Hachette Complex were maisonettes, they had terraces with vegetation on both floors. Also, at the building scale the complex floor plan allowed for a continuous green corridor with trees and vegetation, as established in section 5.3.4, which made it possible for the residents to move along the façade while maintaining a relationship to the natural environment. This allowed for the concrete façade to be transformed into a green façade, where the vegetation would change colours with the seasons (Scalbert, 2004, p. 145).

Jean Renaudie's later project, La Cité des Étoiles, echoed this approach where each dwelling had its own private terrace which included a natural space, as pictured in Figure 5-14. Importantly, this project included a green roof: i.e.,

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<sup>179</sup> On agricultural urbanism see further Waldheim (2015).

the top of the structure was planted with vegetation, as shown in Figure 5-15. Even after over four decades since completion, both the Jeanne Hachette Complex and the Cité des Étoiles are still covered in vegetation and it remains difficult to distinguish between the natural environment and the built environment (Fernández Per and Mozas, 2013a, p. 442). We could attribute the value of these two works of Renaudie to their inclusion of vegetation, which enhanced the living environment. However, despite the clear advantages of integrating housing design with vegetation, as highlighted by Renaudie, this remains a largely unrealised ambition in contemporary urban housing.

We can substantiate evidence of the value of green roofs through an existing body of academic research (see e.g. Clark et al., 2008; Jaffal et al., 2012; Wong et al., 2003) which examines their stormwater, air pollution, and energy benefits. Moreover, this state-of-the-art-analysis of the environmental benefits of green roofs also indicated their economic feasibility (see further Berardi et al., 2014). Indeed, there is a growing body of research that examines the importance of environmental integration in cities, including the seminal



Figure 5-14 View of private terrace, Jean Renaudie, La Cité des Étoiles, Givors. Photograph by Louseau (2013).



work *Ecological Urbanism* edited by Mostafavi and Doherty (2015), the value of urban agriculture as a means to food security (see, e.g. Kortright and Wakefield, 2011), and rooftop green house agriculture as a means to improving the food supply chain (Rufi-Salís et al., 2020). However, social housing schemes generally do not tend to include these aspects.

If building for climate change and planetary health is to become a key requisite for social housing and a range of other social property in the impact investing market, we need to develop new ways to communicate the value of environmental integration. One possible way to communicate this value and show how it can increase the social and environmental impact of a given property is to institute long-term partnerships between landscape architects, urban planners, architects and engineers, and a SIFI such as Cheyne Capital. These partnerships could allow each specialist team to work collectively as a part of an ongoing, more extensive partnership to develop a range of new housing solutions in the impact investing market.



Figure 5-15 Green roof, Jean Renaudie, La Cité des Étoiles, Givors. Photograph by Louseau (2013).



Additionally, if we are to create social property that demonstrates a measurable social impact – which includes a clear measurement of environmental factors – it may be interesting to consider how policy can help to incentivise development that is committed to environmental sustainability. It may be equally interesting to consider the role of policy in incentivising investor interest and commitment to environmentally sustainable development and ensuring it is a design feature for all social property development in the impact investing market.

This approach to designing environmentally responsive social housing and other forms of social property could include green roofs that can aid in passive cooling and thus create energy benefits. Equally, it could encompass a wide range of contemporary landscape strategies alongside housing, such as programmes for urban agriculture for food security and water-sensitive urban design for sustainable drainage and mitigating flood risk. It could also relate to contemporary landscape strategies at the urban scale, such as large parks, green corridors and pocket parks, to ensure a balanced ratio between dwelling density and well programmed recreational green space for health and wellbeing.<sup>180</sup>

#### *5.3.5.1 Green care*

The first key aim of this principle refers to the physical, mental, and social benefits of green space as it relates health, recreation, urban agriculture, community parks, biodiverse landscapes, and/or therapeutic horticulture. The social impact could potentially be increased by including programmes for urban agriculture to create food security for the residents. Alternatively, it could have therapeutic gardens for older adults or landscape features for increasing biodiversity for children to play, depending on the social demographic of the residents and/or the objectives of a given SSO. Moreover, social impact could be determined by measuring quantifiable objectives such as the level of onsite food production or improvements in biodiversity outcomes. Impact could also

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<sup>180</sup> However, it is important to note that green space that does not include social programmes to draw activity to the site or is isolated from urban centres can sometimes lead to crime. This was a significant concern for Cheyne Capital when working in low density urban areas.

be measured through an ongoing assessment of changes in human health and/or behaviour following the introduction of a specific social or environmental programme.

#### *5.3.5.2 Green building*

The second key aim relates to green building or sustainable building that features a well-designed and environmentally integrated housing approach. This relates to optimising the performance of the built environment in terms of its energy use and minimising its environmental footprint. It also includes landscape strategies such as green building facades, green roofs, and pervious pavement. Landscape strategies can improve building performance and energy and resource efficiency, while supporting biodiversity, reducing storm water runoff and helping to balance water cycles. Also, green roofs and/or green building facades could improve the value for money over time through passive heating and cooling, which in turn reduces bill and maintenance costs for the residents and SSOs. An example of a green roof is illustrated in Jean Renaudie's design for La Cité des Étoiles, as pictured in Figure 5-15.

#### *5.3.5.3 References*

Alexandra Road Estate also highlighted the principle of environmental integration.<sup>181</sup> While this project did not include a green roof or a green building façade like the Jean Hachette Complex or La Cité des Étoiles, the open building façade enabled each household to plant large shrubs on their terrace, mimicking to some degree the effect of a green façade. Over time, this has resulted in urban dwellings with overflowing vegetation, including mature fruit trees. The onsite public park was also conceived of as “the heart” of the project, and the outcome was a series of distinct "episodes" situated as part of a linear sequence made up of three playgrounds, including a five-a-side pitch, an enclosed meadow, and a woodland walk (Swenarton, 2017, p. 79).

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<sup>181</sup> Additionally, inspiration for the principle of environmental integration was drawn from the following projects: EcoCity Augustenborg in Malmö, Sweden (1998-2001); Municipal Project for Intergenerational Housing & Community Services in Alicante, Spain (2012); Vertical Forest (2007-2013) by Stefano Boeri in Milan, Italy.

#### **5.4 Reflecting on the selection of the Jeanne Hachette Complex and Alexandra Road Estate as precedents**

The Jeanne Hachette Complex and Alexandra Road Estate were both developed in a distinct period from 1945-1975 that was regarded as the golden age of the welfare state or what French economist Jean Fourastié called the *Trente glorieuses* ('the glorious 30') where social goals were understood as the drivers of public policy (Fourastié, 1979; Swenarton, 2017, p. 14). These two projects emerged as a response to the 1960s, which was characterised by a period of general optimism and ambition in the western world to take on immensely challenging projects and design housing at an enormous scale. While this effort was part of a wider phenomenon across the European post-war welfare state, it was also specific to certain urban areas including the London Borough of Camden and Ivry-sur-Seine in Paris, which had access to significant funding and aimed to lead the front on housing and urban development (Fernández Per and Mozas, 2013, p. 429; Scalbert, 2004; Swenarton, 2017, p. 15).

These two projects challenged the normative view of residential architecture and have had a lasting effect in helping to re-think how housing can be designed differently. The design that architect Jean Renaudie came up with for the Jeanne Hachette Complex and the design that architect Neave Brown developed for Alexandra Road Estate emerged out of scrutiny for mass-produced, modern building blocks of the early post-war era, where each departed from convention by offering a new solution for high-density housing without high-rise towers, as indicated in section 5.3.2.1.

These two projects were also each commissioned and implemented within a wider effort of urban development and effectively have shown how individual dwellings can relate to processes of urban transformation, as indicated in sections 5.3.2.1 and 5.3.1.1. Additionally, these two schemes were the product of a specific moment in procurement history, facilitating the development of largescale municipal housing projects in London and Paris.

As seen in the preceding sections, the Jeanne Hachette Complex and Alexandra Road Estate were selected as the main precedents for the Design Principles because they were designed under similar constraints: they had to

deliver quality and affordable housing at a large scale, with direct access to the city centre, and both maintained value over time, as described in 5.3. Moreover, very few existing schemes have demonstrated the lasting value exemplified by these two projects, and Alexandra Road has been regarded as ‘the last great social housing project’ (Freer, 1995), as noted in section 5.3.2.1.

In addition, these two projects were selected as precedents because they exemplify each of the five principles in varying degrees. The Jeanne Hachette Complex highlights the significance of diversity and individualism through the relationship between the individual dwellings and the wider collective, as described in section 5.3.1.1. Similarly, Alexandra Road Estate shows how we could humanise a housing project of this scale and density through a central pedestrian street, creating a variety of spaces that could stimulate a social exchange between the residents, as described in section 5.3.2.1.

Furthermore, these two projects show how we can look to successful existing schemes to demonstrate to an impact real estate fund how residential architecture can act as a powerful agent of change by improving people’s lives through housing that is connected with vegetation and biodiversity and is situated as part of a comprehensive social programme to strengthen and revitalise the community. This radical break from tradition is also a significant reference because it presents the possibility for an investor to abandon the cookie-cutter method and take a visionary approach to housing.

## 5.5 The Design Module: Housing without a site

The Design Module is a three-dimensional articulation of the Design Principles, and it was created purely as a design exercise to help Cheyne develop its approach to the design. It was developed through an analysis and understanding of Cheyne's priorities and constraints as a social property impact fund. In response to its primary objective to invest around £900 million, according to a radically reformulated timetable, based on joint partnerships with SSOs with a diverse range of housing needs, we came up with a module that in its primary structure is as flexible as possible. The Module is not intended to be a precise blueprint, but rather the first step in a strategy for developing a flexible housing programme in the context of this emergent market.

In order to articulate the Design Principles, we developed a prototypical housing module, which is intended to be flexible and highly transferable. To make this housing scheme as flexible as possible we came up with the idea of designing housing without a specific site so that it could be applied in multiple contexts, including urban and suburban areas. Also, we wanted to ensure that the flexibility of this structure would allow for changes to be made in a given project, now and into the future. In addition, we aimed to show how Cheyne Capital could increase the dwelling density beyond the existing scheme of 80 units, as introduced in section 5.1 of this chapter.

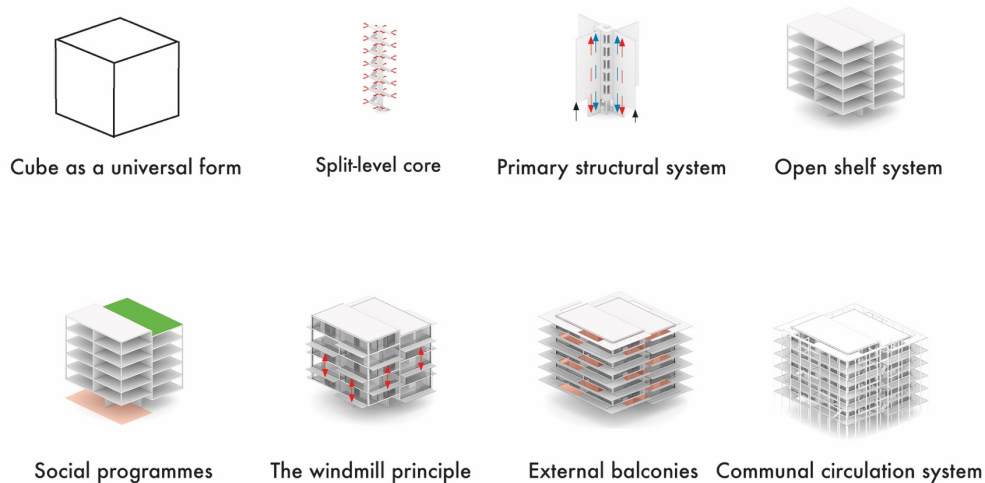


Figure 5-16 Overview of the Design Module. Design and drawings by architect Gustav Dusing.

In order to show Cheyne Capital how it could employ design to achieve maximum flexibility at the site and building scale, we created a housing module that could be used on any free-standing plot and that would work effectively anywhere. This concept was based on developing an architectural form that does not have a spatial hierarchy and has no front or back side, but could include a façade system, as shown in Figure 5-17. At the site scale, we aimed to show how this form could be increased in number to achieve higher density on larger sites, as shown in the dwelling density studies in Figure 5-19. Also, this form could be used for new builds or added to an existing scheme. At the building scale, this form could allow for a range of different unit configurations on each storey.

The task of designing the Module did not require an extensive form-finding process because it was not based on site conditions, but rather the unique set of constraints established by the Principles and the overall objective for maximum flexibility. To achieve this, we developed a precisely designed



Figure 5-17 Edge conditions allow for façades on more than one side of the Module. Shown here on the existing site for Cheyne Capital’s first social housing project with Luton Borough Council on Old Bedford Road in Luton. Design and drawing by architect Gustav Düsing.

system that could be applied to the most adaptable and universal form: *the cube*. Further, the cube allowed for us to design housing from the inside out, meaning that this design was based on establishing a system to maximise the total rentable area in terms of dwelling density and unit floor plan space, while allowing for flexibility in the unit configuration.

Additionally, this concept of designing from the inside out could lead to a more efficient design process over time, because it could be easily modified and replicated at scale. The reason for this is that by designing from the inside out, the Module is not based on site conditions, and therefore, it can be applied to a range of different sites with modules of different dwelling densities. Also, this approach would allow us to make simple modifications, rather than structural changes, to accommodate the needs of the SSO and beneficiaries in different projects over time.

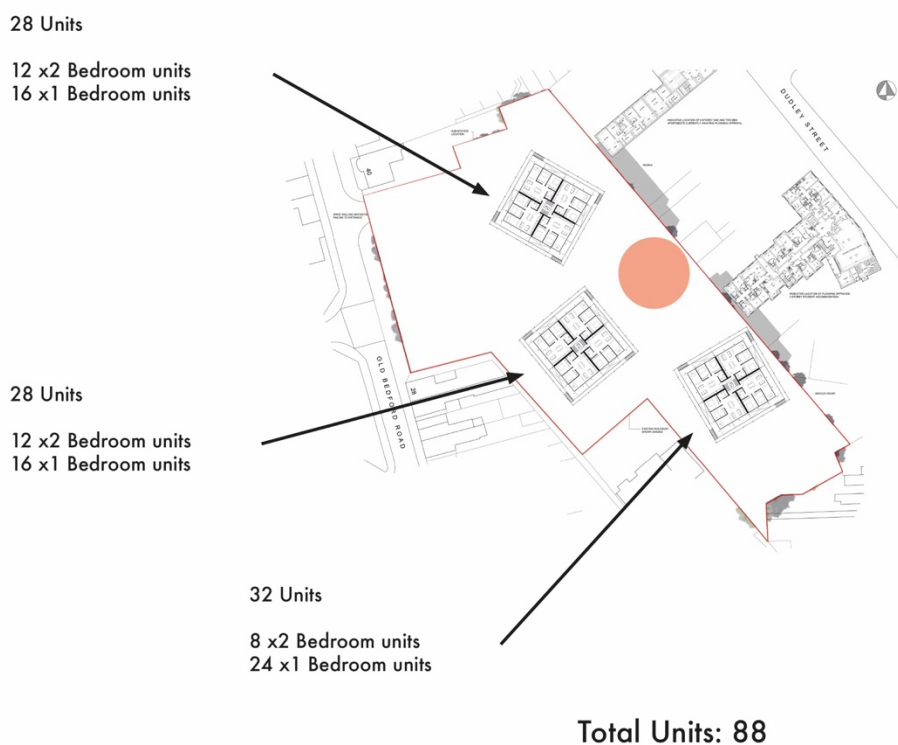


Figure 5-18 Dwelling density study A. Shown here on the existing site for Luton Borough Council, which could reach a maximum dwelling density of 88 units. Design and drawing by Gustav Düsing.

Another key requirement was to demonstrate to Cheyne Capital how we could achieve higher dwelling density while also introducing a communal mixed-use space on the ground floor and top level of each building. We wanted to show Cheyne that if this emergent market is based on developing housing that demonstrates a measurable social impact, we would need to introduce spaces for social programmes to be integrated alongside housing. Furthermore, if we are to increase the social impact of housing for disadvantaged groups, this would likely begin by increasing the social value and social reach of a SIFI like Cheyne's public and third sector clients. As such, the Module aimed to show that the introduction of onsite communal space in a social housing scheme is possible without compromising dwelling density.

Additionally, the Module aimed to show that onsite communal space is perhaps even essential if we are aiming to measure the social impact in terms of changes in wellbeing of the housing beneficiaries of a given project, over the medium to long-term. If we are to develop a practical approach to social impact measurement, this would likely involve the civic engagement of beneficiaries from the onset of a given social programme through to completion. Therefore, the provision of onsite communal space could allow for the process of social



Figure 5-19 Dwelling density study B. Shown here on a potential site for Cheyne Capital's second major project with P3, a specialist housing charity, as indicated in chapter 4 (see section 4.2.2). Further, this drawing shows how nine modules could be used for this potential housing site in Doncaster, which could reach a maximum dwelling density of 288 units. Design and drawing by architect Gustav Düsing.



impact measurement and management to take place as part of the housing scheme.

Because Cheyne Capital dealt with building procurement by working with local contractors and were concerned that innovative designs could rely on a sophisticated supply chain, which are not available in deprived areas in England, as indicated in chapter 4 (see section 4.4.5), another further requirement was to show that the Module would be based on simple construction techniques. Thus, the components of the Module would be constructed using prefabrication, which involved some offsite construction and a simple assembly onsite.<sup>182</sup> The details of this are to be further discussed in section 5.5.5.

#### *5.5.1 The building structure*

We started with an eighteen metre cube. We then introduced a concrete core for structural purposes. In order to minimise the number of loadbearing walls or solid partitions in the internal space, the cubic building volume was then divided into four equal parts, creating loadbearing walls for risers, as shown in Figure 5-20. This primary structural system ensures maximum flexibility in the unit configuration, while accommodating changing needs over time, because it allows for changes to be made at a future date. Also, in order to ensure that we would not need to have a secondary structure between each storey, the dimensions of the whole cube would not extend beyond a certain size.

At the same time, this structure was organised as an open shelf system, with cross-oriented load-bearing walls, where this open shelf system laterally divided the cube into five storeys, as shown in image A, Figure 5-21. This open shelf system would allow for a flexible arrangement of non-loadbearing walls, which would permit simple modifications where, for example, different options could be filled in as needed, as shown in image B, as in Figure 5-21. Through this open shelf system, the Module could accommodate either a total of 28 units,

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<sup>182</sup> Whilst the idea of prefabricated housing is not new – indeed there is a long history of prefabrication in high rise collective housing in Europe that can be traced back to the Cité de la Muette in Drancy, Paris, France (1931-1934), which has been considered the first *grand ensemble* (Fernández Per and Mozas, 2013a, p. 123) – what is new is this concept of using prefabrication in social housing in the context of this emergent market in the UK.

including twelve, two-bedroom units and sixteen, one-bedroom units or a total of 32 units, including eight, two-bedroom units and 24 one-bedroom units, as shown in Figure 5-18. The details of the three different unit types, the unit configuration and floor plan area of each unit is to be further discussed in section 5.5.6.

We wanted to show Cheyne Capital that this design offers a certain level of flexibility in the layout, which could respond to the specific housing needs of a given public or third sector client. For example, if the project was based on a joint partnership with a SSO where the housing beneficiaries were all single people, Cheyne could arrange for the full building block to consist of eight, one-bedroom units on each of the five storeys. Alternatively, if it was intended for an SSO with larger families, Cheyne could design the building to have four two-bedroom units on each storey. If the project was intended for a mixed community, each storey could include three two-bedroom units and two one-bedroom units, a configuration that will be further discussed in section 5.4.7 and that is shown in Figure 5-33.



Figure 5-20 Image A, *left*, building structure with loadbearing walls for risers to allow for flexibility. Image B, *right*, structural adjustment to allow for a change of use on the ground floor. Also, both drawings show the concrete core for structural purposes. Design and drawing by architect Gustav Düsing.

Fundamentally, the Module is based on simplifying construction techniques in order to allow for maximum flexibility. It aims to address several issues in standard construction in the UK, based on a specialist or multi-headed approach where making a simple adaptation such as wiring could involve an electrician, along with a carpenter to lift the floors and a plasterer to patch up the ceiling (see further Till and Schneider, 2005, p. 288). To overcome this issue, the primary structure of loadbearing walls, which functions as the building frame, allows for simple modifications. Therefore, any further subdivisions for light structure, dry wall, and other building needs could be easily adjusted. Also, these adaptations could be made to the space without specialised construction skills.<sup>183</sup>

#### *5.5.2 The split-level open shelf system*

Because the Module is designed specifically for the social rental sector, we wanted to maximise dwelling density and the floor plan area in each unit. To achieve this, the open shelf system was designed as a split-level, which aimed to minimise traffic areas and achieve greater efficiency in the structure at multiple scales. At the same time, this split-level also helped us to meet our objective to reserve the ground floor and top level for non-residential purposes.

In order to minimise traffic area at the building scale, we developed the concept of a split-level staircase, which would allow for exits on each landing, as shown in image A, Figure 5-22. This split-level staircase minimised the space available for walkways and staircases in the building interior. We then introduced a central lift which would stop on each floor, as shown in image B, Figure 5-22, to ensure ease of movement. Further, this split-level staircase and central lift created the most direct route from the ground floor to the front door of each unit. The solid risers are shown in Figure 5-20.

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<sup>183</sup> Even though simplifying construction techniques in order to allow for maximum flexibility and easy adaptations represent an elegant and useful way of designing social housing, this is unfortunately not common practice and thus highlights an area in UK building procurement in need of reform.

Similarly, this logic applies to the unit scale. In order to maximise the floor plan area, we designed the units so that, if the residents took the lift, they would enter their unit directly from the staircase, which minimised space for staircases and eliminated the need for hallways. Also, in both the two-bedroom and the larger one-bedroom units, the residents could enter the internal communal space directly from the staircase, as shown in Figure 5-30 and Figure 5-31; this will be discussed further in section 5.4.7. Furthermore, in the two-bedroom units, the communal area would be the largest space, where each household would likely spend the majority of their time, and the bedrooms would be significantly smaller and positioned towards the back of the unit, which is shown in Figure 5-30.

Additionally, the open shelf system created a differentiated space on the ground floor and roof level. This allowed for half of the ground floor to have a ceiling height measuring 4.5 meters high, which is half a storey taller than the rest of the structure, as shown in Figure 5-23. This change in ceiling height would indicate a change in programme, where the ground floor of each building block would be intended for a range of non-residential purposes, to accommodate the introduction of social programmes. At the same time, this split-level structure would create a differentiated, open-air space on the top level, which could accommodate additional social programmes. Furthermore,

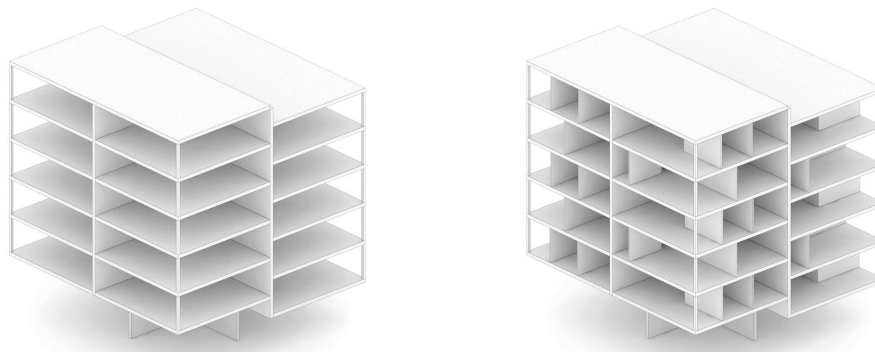


Figure 5-21 Image A, *left*, illustrates how the open shelf system of the Module laterally divides the cube into five storeys. Image B, *right*, illustrates how the open shelf system allows for a flexible arrangement of non-loadbearing walls. Design and drawings by architect Gustav Düsing.

this split-level would allow for the roof to be subdivided into two levels, with a stairway that connects the two spaces, as also shown in Figure 5-23.

We intentionally left the ground floor and top level as a raw space that could be divided or left open. This communal space was intended to be used for various functions depending on the context, objectives of a given SSO and needs of the community. Also, the ground floor was envisaged as a semi-public space that connects the building block with the surrounding area. As such, this split-level would allow for social housing or a range of other social property such as homes for the elderly or supported living for people with disabilities to be designed in conjunction with social programmes on both the ground floor and top level.



Figure 5-22 Image A, *left*, illustrates the split-level staircase with exits on each landing in order to minimise traffic area. Image B, *right*, illustrates the introduction of a central lift, with a concrete core for structural purposes. Design and drawings by architect Gustav Düsing.

### 5.5.3 Communal space, social enterprise and social impact

In order to show how the provision of communal mixed-use space could relate to social impact in housing, we used the example of a bike workshop operating as a social enterprise, in our presentation to Cheyne Capital. As described in the introduction chapter 1, social enterprise in housing organisations refers to the employment of business ventures for social goals, which could be understood as organisations created by social entrepreneurs. Thus, this bike workshop could represent a space which provides onsite goods and services and is based on local employment, where some of the individual units could also accommodate live/work spaces. This concept is to be shown in section 5.4.8, in Figure 5-40.

Additionally, this example aims to show how a single communal space can help to solve multiple objectives outlined in the Principles. For example, this bike workshop could increase the street level activity, drawing life to the site and potentially increasing connectivity with the surrounding neighbourhood. At the same time, it shows how this scheme aims to accommodate pedestrian movement and cycling, ensure the units are well



Figure 5-23 The open shelf system with cross-oriented loadbearing walls for risers allow for a differentiated space on the ground floor and roof level, to accommodate social programmes and a roof garden. Also, the split-level open shelf system on the ground floor makes it possible for half of the ground floor to be half a storey taller, indicating a change in programme and use. Drawings and design by architect Gustav Düsing.

connected with transport infrastructure, and establish a direct link between the site and the city centre. This is in contrast to the pre-existing design scheme, which is based on car-dependent housing, as indicated in section 5.1.

In order to utilise this roof level space, we proposed to Cheyne Capital that it could be used as a social programme for urban agriculture,<sup>184</sup> as shown in Figure 5-23. To reflect the principle of environmental integration, the upper portion could be designed as a green roof and the lower portion could be converted into a rooftop greenhouse.<sup>185</sup> Also, this differentiated space between the split-levels would allow for different usage at various times, thus reiterating the range of possibilities for including social programmes as part of social housing.<sup>186</sup> Through this example we aimed to show how the provision of communal space for a rooftop greenhouse is not simply about growing food, but about bringing people together through a community activity that promotes caretaking.

We understand this semi-public communal space as a social enterprise for catalytic interventions, which offers the possibility for increasing the social value – and, in turn, the social impact – of a given project,<sup>187</sup> while at the same time encouraging civic engagement, participation and caretaking on the site. It

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<sup>184</sup> One example of social innovation in housing where urban agriculture was at the centre of meeting the social objectives is the Intergenerational Housing and Community Services project, noted in a footnote in section 5.3.2.4. This project included a key social programme ‘Back to Earth,’ which provided onsite urban agriculture and community gardens based on youth skill building and training in agriculture and social service for older adults. Furthermore, its post occupancy satisfaction surveys indicated that residents identified this project as an ‘ideal living situation’ and the quarterly assessments from its Coordination and Participation Committee indicated that social cohesion created through the urban agriculture programme increased the residents’ well-being (World Habitat, 2012).

<sup>185</sup> On the role of rooftop greenhouses as a means to improve the food supply chain in cities, by producing year-round food in unused urban spaces, see Ruffi-Salís et al. (2020).

<sup>186</sup> It is important to note that rooftop greenhouses and green roofs require upfront capital and maintenance costs that are currently outside public budgets for social housing. Also, during my field experience, it was unclear whether Cheyne Capital would be willing to pay for these additional costs. However, if Cheyne Capital can purchase public lands based on its intended use value, it could potentially use the savings on land to reinvest back into projects to create innovative design solutions, including green roofs and programmes for urban agriculture. Also, it may be possible to layer different forms of capital to include communal space as part of social housing, as indicated in section 5.3.1.4. However, significant challenges remain, and if the principle of environmental integration is to be instituted as standard practice in housing, further research and policy support is needed.

<sup>187</sup> Social value could have a direct connection with social impact. For example, if we use this communal space to help increase the social value, in terms of the value created by a given SSO for the intended beneficiaries, this could potentially help to increase social impact, in terms of significant changes in the wellbeing of key populations over time.

is intended to be used to bring life to the site and offer services that strengthen the local identity and social cohesion of the community. Also, it aims to strengthen the social reach or social objectives of a given SSO with whom Cheyne Capital has partnered. Further examples of how this space might be used for purely social purposes could include a library or communal kitchen. Finally, it could also be used by a given SSO for childcare, education, or trainings.

#### *5.5.3.1 The deep façade*

The deep façade represents the heart of the project. As a single design strategy, it offered a range of solutions to our objectives, while exemplifying what we meant by a three-dimensional articulation of the Principles. Based on the Principles, we aimed to show how the Module could respond specifically to the human need for appropriation, as indicated in section 5.3.4, which could increase the residents' identification and care for the structure. Here, we drew inspiration from the Victorian terraced house, where the front garden allowed

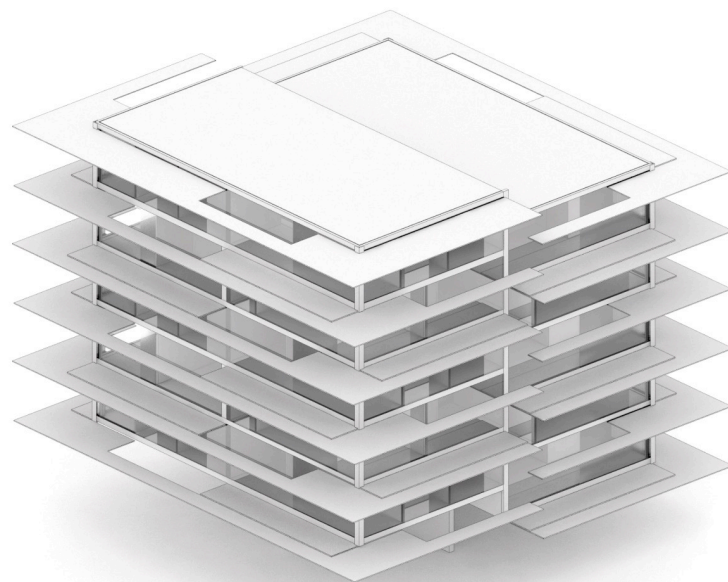


Figure 5-24 Introduction of a semi-public outdoor space through the deep façade with a depth of 2.50 metres. External balconies aim to enrich quality of life, social cohesion, and identification with the structure. Design and drawing by architect Gustav Düsing.



the inhabitants to express their identity and way of life to the outside world (see further Muthesius, 1984).

We believe this concept of appropriation and identification with the space has to work through the architecture. The residents have to be able to express themselves in the structure and customise some elements according to their own preferences and tastes, allowing the space to become a reflection of their identity. At the same time, this would ensure flexibility in the design, so that the structure could be adapted to some degree to the specific needs of a given household over time. In order to accommodate this need, the idea was to come up with a façade system that projects this concept of a front garden vertically onto the building façade, within the context of a high-density housing module. This would allow each resident to have a semi-private space, as shown in Figure 5-24.

At the same time, we aimed to avoid one common issue in multi-storey buildings blocks with a lift: the fact that the residents rarely cross paths with their neighbours. Even though the circulation system of the split-level staircase

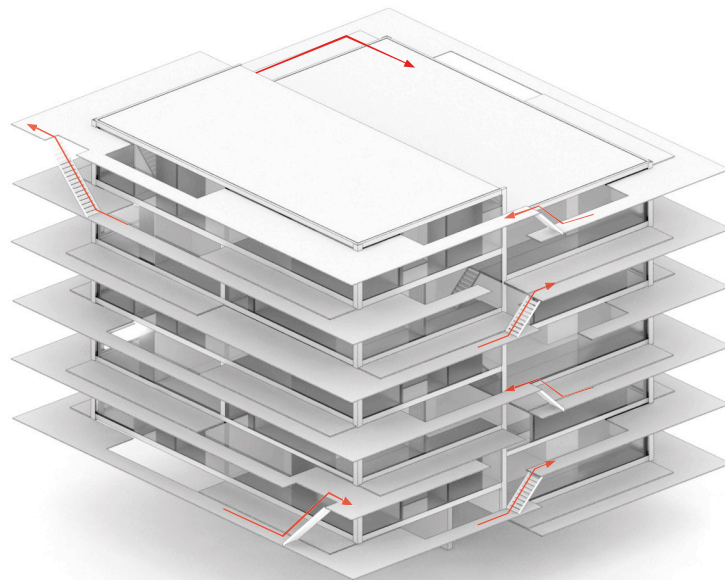


Figure 5-25 The secondary circulation system across the perimeter of the deep façade offers a shared space connecting the ground floor to the roof level. Also, the deep façade creates spaces for exploration and play. Design and drawing by architect Gustav Düsing.

and lift created the most efficient use of the internal space, it would be easy to anticipate that the residents could enter the building, take the lift and then perhaps only see their neighbours from the window of their flat. In response to this, we aimed to design a structure where social interaction was used as a primary tool for fostering community and could, at the same time, make the residents feel at home in their structure because they would value it and identify with it. To achieve this, we developed a secondary circulation system, which employed a similar approach to the Jeanne Hachette Complex and Alexandra Road Estate, where a system of staircases and pathways allowed movement along the building façade, as shown in Figure 5-25. This circulation system established along the perimeter of the building façade connects each storey, ultimately connecting the ground floor with the roof level, as illustrated in Figure 5-25.

In order to create a module that includes an outdoor space reminiscent of the front garden of the English terraced house, while also establishing connectivity between each of the units, we developed the concept of a deep façade. The idea was to add a light steel structure in front of the concrete

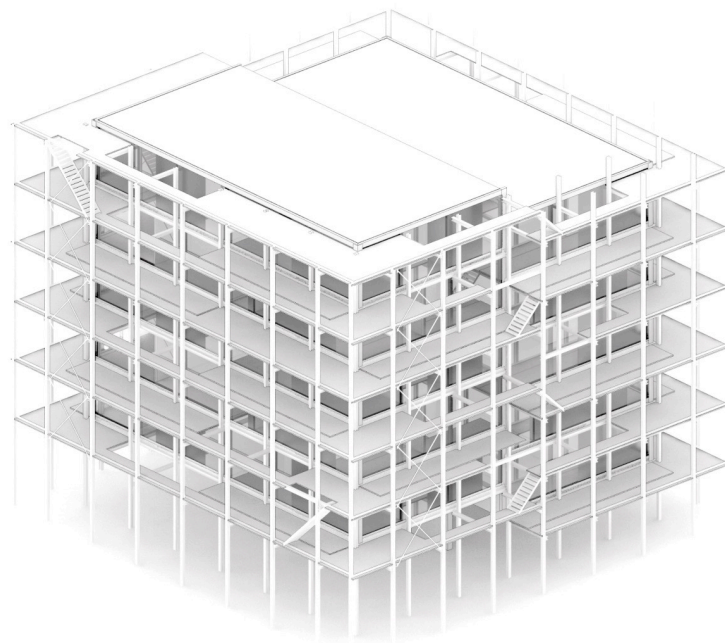


Figure 5-26 The autonomous structure enables flexibility and prevents heat-bridges. Design and drawing by architect Gustav Düsing.

structure that creates a façade, measuring 2.50 metres in depth, as shown in Figure 5-24. Importantly, this façade would help to achieve two main objectives. First, it would make it possible for each household to have a semi-private outdoor space in front of their unit. Second, the deep façade would establish a semi-public circulation system along the perimeter of the structure, meaning all residents could use it. Further, this circulation system would create a network of pathways which would spiral up or down the façade, allowing for multiple interactions and facilitating socialising between residents.

We dealt with this need for flexibility, which allows for choice at the design stage and enables appropriation of the space over time, by having the possibility of adding this semi-private outdoor space in front each unit – a space awaiting the ‘imprint’ of an identity<sup>188</sup> of the resident. Thus, for example, this space could be a private enclosed balcony, as shown in Figure 5-42, or it could be an open but semi-private outdoor space, as shown in Figure 5-39, and will be displayed in section 5.4.8. Alternatively, the residents could choose to extend their unit into the façade by putting in light glass panels so that the balcony becomes an interior space. Depending on the materials used, this enclosed space could also be a completely interior space used to accommodate, for example, bike storage, as shown in Figure 5-40. Moreover, the flexibility of this structural approach allows the residents to project into the façade, thus imprinting the space based on their wishes, cultural identity, or needs. Whilst we have indicated these four options, this space is intended to allow for flexibility, and the concept of ‘imprinting’ on the space could take on a myriad of forms.

We envisioned that this circulation system through the deep façade could help to strengthen the relationship between the social programmes in the communal areas and the needs of the residents in the private dwellings. For example, if the ground level was used for a community centre, it could encourage caretaking among residents, where the residents may start looking after each other’s children together or being more mindful of elderly needs in

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<sup>188</sup> This concept was adapted from Johnathan Raban’s work *Soft City* (1974) where 'the city goes soft; it awaits the imprint of an identity. For better or worse, it invites you to remake it, to consolidate it into a shape you can live in' (p. 11). Also, this concept was referenced in Till and Schneider's work *Flexible housing: the means to the end* (2005) (pp. 287, 295).

the building. Further, we believe that this housing strategy of maximum flexibility favours the emergence of new usages, behaviour patterns and new visions, based on the introduction of social programmes as part of housing.

The deep façade system of the Module has the potential to create a total impact, over the long-term, through social cohesion and identification with the structure. Moreover, this façade is so deep that it projects street level activity onto the structure through a vertical organisation, as shown in Figure 5-37 and Figure 5-38. Finally, this idea of shared communal space as a vertical façade system enables the structure to allow for neighbourhood activity and is intended to strengthen the community, prevent social erosion, erosion of the structure and, ultimately, the erosion of capital.

#### *5.5.4 The windmill principle*

One of the issues created by the deep façade is that this structure could limit sunlight in the building interior. In order to address this issue, we employed a windmill principle, which could allow for a checker arrangement of the balconies, as shown in Figure 5-27, and cut-outs in the deep façade, as shown

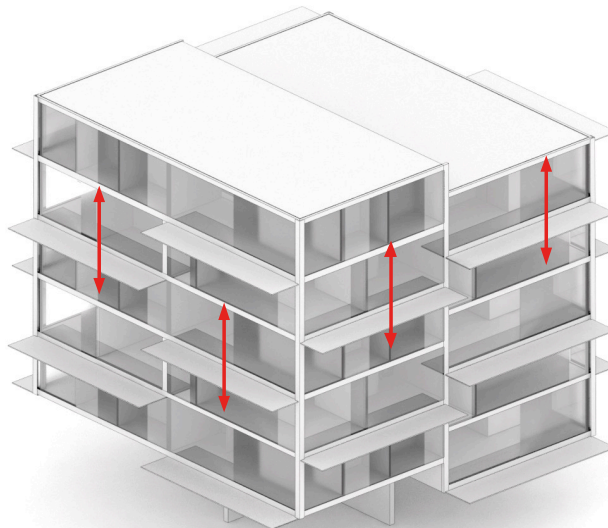


Figure 5-27 The checker arrangement of balconies, which is mirrored from floor to floor, ensures maximum sunlight in the dwelling below. External balconies aim to enrich quality of life, social cohesion, and identification with the structure. Design and drawing by architect Gustav Düsing.

in Figure 5-28, to allow daylight distribution. This logic of the windmill principle would operate as follows: the second panel in the horizontal layer of the deep façade would be cut out, moving clockwise, as shown in Figure 5-28; this cut-out would let light into the flat below; then, each first panel would become a balcony, as shown in Figure 5-28. The windmill principle creates a win-win situation in two scenarios. First, the checker-like arrangement of the balconies ensures that maximum daylight penetrates the structure, as it makes it possible for light to reach the dwelling below. Second, we achieve a certain distance between the walkway, which is semi-public, and the private dwelling itself.

Additionally, when this windmill principle is applied at the dwelling scale, the bedroom area, which is the private space, would be located next to the cut-out, which prevents anyone from walking near the bedroom window. This approach establishes a sense of privacy and a short distance between the semi-public walkway that circulates the façade and the private space in the bedroom interior. Therefore, this windmill principle has aimed to fulfil two main objectives: increase daylight penetration in the building interior and ensure a

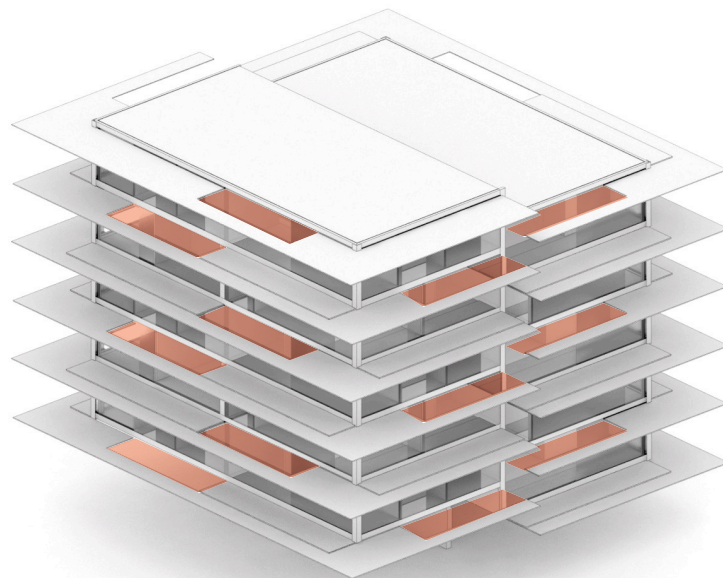


Figure 5-28 The cut-outs in deep façade allow daylight distribution to the dwelling below, while creating privacy and distance between the private interior bedroom space and the semi-public circulation system across the deep facade. Design and drawing by architect Gustav Düsing.

level of privacy between the dwelling interiors and semi-public communal space in the deep façade.<sup>189</sup>

#### *5.5.5 Building construction and assembly*

The building structure is comprised of a concrete form, which could be built through a combination of prefabrication and simple construction. The main concrete structure could be built either through prefabrication or it could be cast onsite. The components of the steel structure that make up the deep facade would need to be done offsite in prefabrication and then assembled onsite. Because the main structure is autonomous, the exterior steel structure of the façade rests on the interior, concrete structure. Also, the balconies are not cantilevering, which could be costlier and more complicated to build. Thus, the deep façade is potentially the most uncomplicated technique to deliver a balcony on a solid concrete structure when assembling the building.

Therefore, the Module is a mix of mass production with onsite assembly and simple construction techniques, which abide by Cheyne's building procurement constraints, as described in chapter 4 (see section 4.4.5). It is put together like a system that is somewhat flexible and adaptable to changing needs. Also, this combination of prefabrication and simple construction techniques shows how it may be possible to achieve a swifter delivery time, while at the same time allowing for modifications at a future date.

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<sup>189</sup> Whilst this issue of daylight in the interior remains somewhat unresolved, we think it can be resolved materially, through a grid structure that lets light in. If we did not employ this concept of a deep façade, we would need to develop a sun shading device for the structure. Therefore, the concept of a deep façade offered a cost-effective solution that helped to address the need for a sun-shading device while also meeting our above-stated objectives.

### 5.5.6 Flexible floor plan configurations

The floor plans can be configured as four, two-bedroom apartments, eight, studio apartments, or eight, one-bedroom apartments on each floor, as shown in Figure 5-30, Figure 5-31, Figure 5-31 and Figure 5-32. Alternatively, the floor plans can be configured for a mix of large and small households to include three, two-bedroom apartments, and two smaller apartments including one, one-bedroom and one, studio on each floor, as indicated in Figure 5-33.

This means that we have flexibility at the design stage and flexibility to allow for adaptations to be made across the lifetime of the building. Moreover, these flexible floor plans would allow an SSO to make easy adaptations that could effectively respond to changing housing needs. The semi-private space in the façade is intended to be adapted to the unique identity and changing needs of the household and the cut-out in the façade creates privacy next to each bedroom, as shown in Figure 5-34 and Figure 5-35. Also, the primary circulation system in the building centre and secondary circulation system of the stairways on each side of the building allows for ease of movement in the interior and façade, as shown below in Figure 5-29.

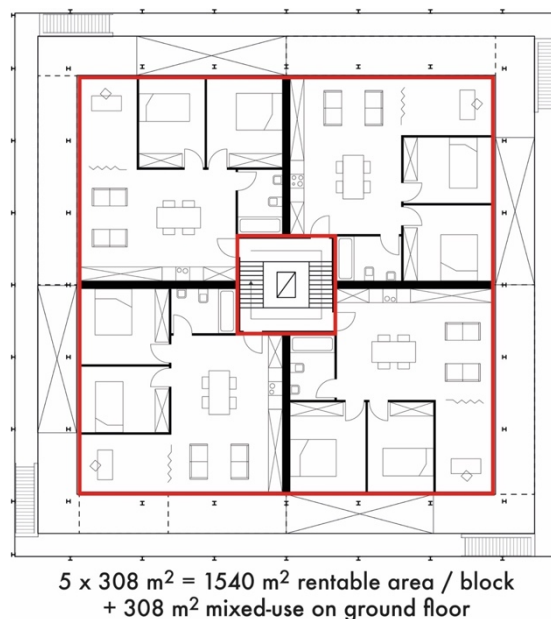


Figure 5-29 Total rentable area and mixed-use space per block. Design and drawing by architect Gustav Düsing.



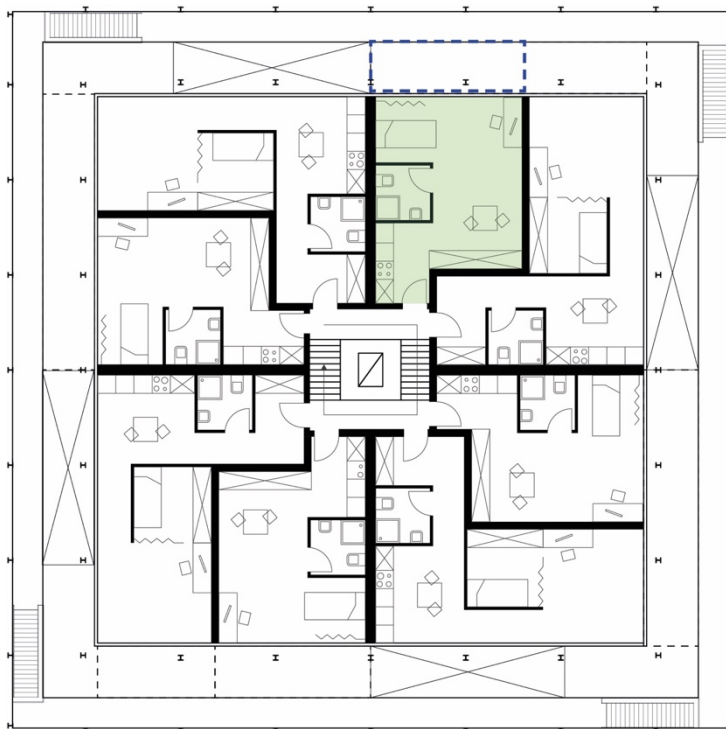


Unit A: 73.5m<sup>2</sup>

Livingroom: 44m<sup>2</sup>  
 Bedroom 1: 13m<sup>2</sup>  
 Bedroom 2: 11m<sup>2</sup>  
 Bathroom: 5.5m<sup>2</sup>  
 Balcony: 15.5m<sup>2</sup>

4 x 2 Bedroom Apartments

Figure 5-30 Unit A: Two-bedroom, two-bath with four units on each floor. Design and drawing by architect Gustav Düsing.



Unit B: 28,5m<sup>2</sup>

Livingroom: 25m<sup>2</sup>  
 Bathroom: 3.5m<sup>2</sup>  
 Balcony: 9,0m<sup>2</sup>

8 x Studio Apartments

Figure 5-31 Unit B: Studio apartment, with eight units on each floor. Design and drawing by architect Gustav Düsing.



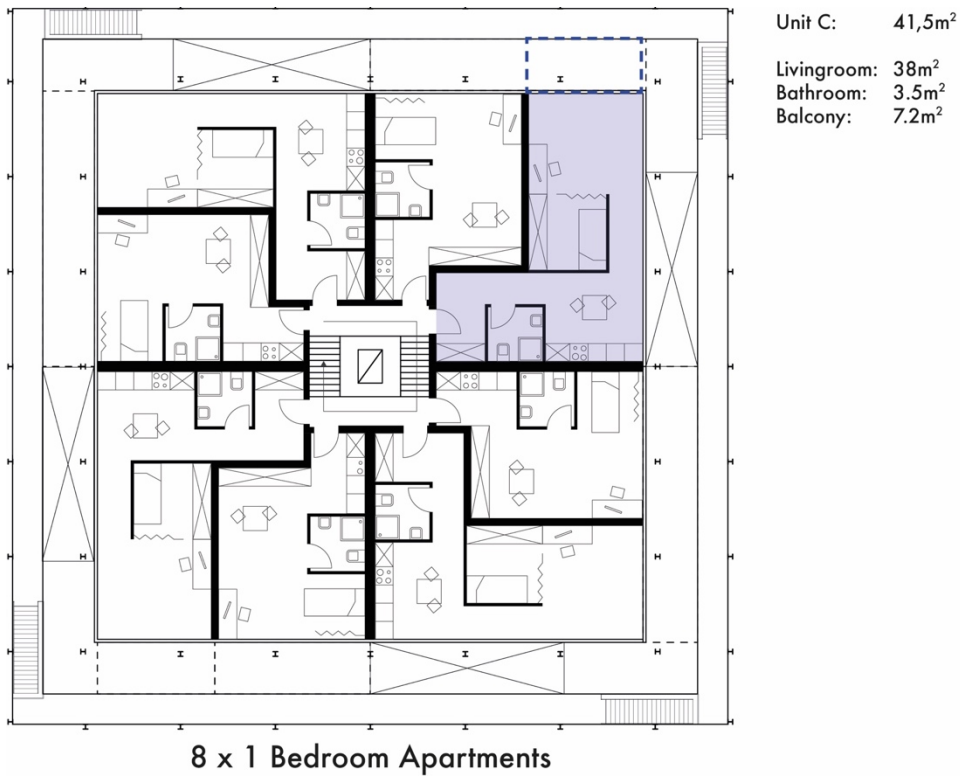


Figure 5-32 Unit C: One-bedroom, one bath apartment with eight units per floor. Design and drawing by architect Gustav Düsing.



Figure 5-33 Mixed unit configuration for combination of units for between large and small households. Design and drawing by architect Gustav Düsing.



Figure 5-34 Unit A, showing the private orientation. The blue dotted line shows the cut-out for privacy next to the bedroom, which also lets light to the flat below and the red arrows show the semi-public outdoor space. Design and drawing by architect Gustav Düsing.

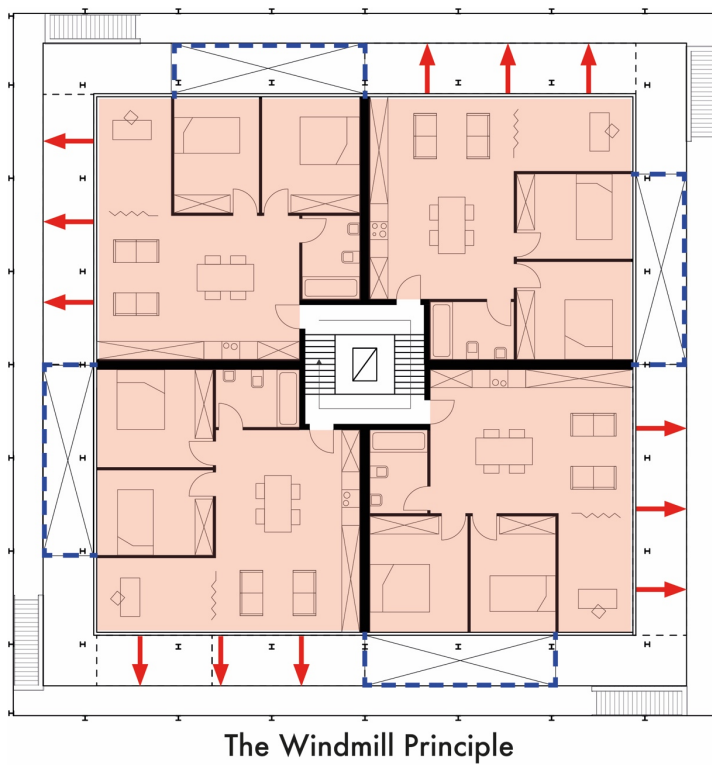


Figure 5-35 The windmill principle is showing the private orientation and semi-public outdoor space for each unit. Design and drawing by architect Gustav Düsing.

### 5.5.7 Renderings of the Design Module

The objective of this Design Module is to be understood as a diagram<sup>190</sup> and a kind of mechanism, which begins to express how we might implement a flexible housing programme within the context of this market. These renderings represent our interpretation for how Cheyne Capital's first project of social housing could look based on the Design Principles and Design Module. However, these renderings were created solely as a design exercise to generate a discussion with Cheyne on how it might innovate in housing.



Figure 5-36 Design proposal for Cheyne Capital's first project. Elevation view of three building blocks. Design and drawing by architect Gustav Düsing.

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<sup>190</sup> The term 'diagram' in the context of this thesis refers to Stan Allen's definition from *Diagrams Matter* (1998) which indicates that, 'although diagrams can serve an explanatory function, clarifying form, structure, or programme to the designer and to others, and notations map programme in time and space, the primary utility of the diagram is an abstract means of thinking about organisation' (p. 16). Further, Allen (1998) references *Deleuze and Guattari's, A Thousand Plateaus: Capitalism and Schizophrenia* (1988) which establishes a link between this concept of a machine as diagrammatic (see pp. 141-142).





Figure 5-37 Front view of Design Module, showing communal space on ground floor. Design and drawing by architect Gustav Düsing.



Figure 5-38 Deep façade rendering showing semi-public vertical space. Design and drawing by architect Gustav Düsing.



Figure 5-39 Section of deep façade with semi-private outdoor space. Design and drawing by architect Gustav Düsing.



Figure 5-40 Section of deep façade with enclosed space for a live/work unit or bike storage. Design and drawing by architect Gustav Düsing.





Figure 5-41 Section of deep façade showing the cut-out next to bedroom. Design and drawing by architect Gustav Düsing.



Figure 5-42 Section of deep façade with enclosed private balcony. Design and drawing by architect Gustav Düsing.

## 5.6 A personal evaluation of the Integral Housing Strategy

The Integral Housing Strategy (IHS) served as a foundational design exercise that helped initiate a discussion with Cheyne Capital on how it might innovate in the design and differentiate itself as an impact real estate investor. It captured a specific moment in 2015 when the Fund was developing. At this time, Cheyne Capital was primarily concerned with the lack of design innovation in public housing, how design could help to ensure long term social and financial value in its schemes, and how it could maximise efficiency and develop a flexible housing programme that adheres to a strict timetable, as described in the introduction of this chapter. However, in the past five years, Cheyne's design objectives and ambitions as a new social landlord have changed somewhat to reflect current conditions.

One significant development that I did not anticipate was Cheyne's increasing interest and involvement in delivering housing that is committed to sustainable development. This change is evident in its multi-tenure development for Elderberry Walk, described in sections 4.2.5 and 4.5.2, which demonstrated strong ecological aspirations and a commitment to low carbon housing. In the subsequent sections, I provide a personal evaluation of my design proposition. In the first section, I present a critique of the Design Principles and discuss climate change, participatory design, and placemaking. In the second section, I critique the Design Module and reflect on three key considerations not accounted for in the IHS.

### 5.6.1 *A critique of the Design Principles*

One potential critique of the Design Principles is that they did not focus on sustainable development or account for climate change. In response to this criticism, it might be interesting to consider how we could develop a new set of Design Principles in the future that endeavour to meet the UN Sustainable Development Goals (the SDGs) (United Nations, 2015).<sup>191</sup> One way we could improve this would be to consider how housing can help address the food-water-energy nexus and include principles such as sustainable food security,

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<sup>191</sup> For further research into the UN SDGs, see also Idowu et al. (2020).

sustainable water security, universal clean energy, and healthy and productive ecosystems (Griggs et al., 2013). We could also build upon existing efforts of the Royal Institute for British Architects (RIBA) by focusing on the architectural and urban aspects of the UN SDGs (see further Royal Institute of British Architects (RIBA), 2020, 2019, 2017).

Future iterations of the Design Principles would also need to consider the role of participatory design at the onset by engaging with all stakeholders and developing community-led design charettes to help ensure that the development reflects the community's specific needs, as described in the introduction of this chapter. Even though Cheyne Capital initially rejected this idea because participatory design could be time-intensive and costly, the development for Elderberry Walk has shown that participatory design has an essential role to play, and this scheme was recognised as an exemplary housing development due to its excellent consultation and engagement with the community, as described in section 4.2.5. Therefore, accounting for participatory design in the Design Principles is a crucial area for future work and a key consideration for investors like Cheyne Capital if they are to continue delivering exemplary housing schemes.

Additionally, the Design Principles would need to consider placemaking in helping to achieve cumulative social and environmental impacts by engaging with various stakeholders, including design partitioners and the local community, in an ongoing process of developing housing that creates long term social value. These next steps may involve organising meetings and symposia, which examine the relationship between placemaking, community engagement, appreciation in value, and social impact measurement, and this is an excellent area for future research.

### *5.6.2 A critique of the Design Module*

As reflected in the Design Principles, the Design Module did not consider climate change. In the future, we could need to consider how the Design Module could be used as an exercise to explore how SIFIs could deliver low carbon housing programmes that maximise building performance. As with the Design



Principles, we could expand upon this by using the existing framework from the Royal Institute for British Architects (RIBA) 2030 Climate Challenge (Royal Institute of British Architects (RIBA), 2019). We can also look to the exemplary multi-tenure development for Elderberry Walk as a significant precedent for developing housing that is designed with solar roof tiles and a building fabric to maximise performance, as described in sections 4.2.5 and 4.5.2. In addition to considering building performance, future iterations of the Design Module will also need to incorporate contemporary landscape strategies such as urban forestry to aid in microclimate moderation, carbon dioxide reduction, stormwater runoff reduction, and air quality improvement in affordable urban housing schemes.

In addition to the criticism mentioned above, one of the main arguments against social housing that includes mixed-use communal space is that this well-intentioned space might be poorly used or not used at all. There are significant precedents for this concern, as exemplified by the 'sink estates' described in the introduction of this chapter. One way we might be able to tackle this challenge is to introduce an element of selection by having public or third sector organisations choose the residents and build communities that include specific social programmes and objectives.

We can look to existing successful projects like the Intergenerational Housing and Community Services scheme in Alicante, Spain. This exemplary scheme developed to address the specific housing needs of lower-income older adults and young people included a range of communal spaces for social programmes such as urban agriculture, trainings, and dance classes. It accommodated 244 affordable housing units, where approximately 78 per cent of the residents were over 65 years old, and 22 per cent of the residents were under 35 years old, as described in section 5.3.2.4 (see footnote 172) of this chapter. In the context of this exemplary project, the younger residents applied to be part of the programme and were selected based on their commitment to care for the older adults and help to create a supportive intergeneration housing community. The residents also engaged in an annual evaluation of the housing programme. While this application and selection process is based on the

assumption that people who want to be part of social change are more likely to lead to successful outcomes, it also raises the complex question of where are people housed who are not selected?

Although the Design Module presented a flexible housing programme for housing without a site that aimed to offer significant advantages, this concept could be regarded as ahead of its time and challenging to implement. This criticism is due to specific problems such as a lack of skills for developing prefabricated housing in the UK construction industry, particularly in deprived areas. It could also create added risks for an investor like Cheyne Capital because it dealt with building procurement by working with local contractors that may not be equipped to manage a sophisticated supply chain, as indicated in chapter 4 (see section 4.4.5).

In addition, this concept of scalable siteless housing design may be in conflict with creating housing schemes that demonstrate long term social value through unique design features and the role of placemaking, as exemplified by the Jeanne Hachette Complex by architect Jean Renaudie described in section 5.3.1.1. Therefore, it will be important to examine how this aim for greater efficiency through scalable siteless design can also consider place and placemaking. This conflict between different goals of greater efficiency leading to scalable siteless design and placemaking leading to long term social value has been seen in the changes of Cheyne Capital's investment approach. Initially, one of its primary goals was to maximise efficiency, leading to this concept of a super flexible housing programme in the Design Module. However, in the past five years, Cheyne Capital has shifted more towards striving to deliver long term social value through tenure-blind development and consideration of the UN SDG's.<sup>192</sup>

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<sup>192</sup> It is interesting to note that at the time of completing this thesis, Cheyne Capital launched its second impact real estate fund, the Cheyne Impact Real Estate Trust, which seeks to address at least three of the UN SDGs: Good Health & Wellbeing, Reduced Inequalities and Sustainable Cities & Communities, in its future housing schemes (Property Funds World, 2020).

## **5.7 Social property design and social impact measurement**

This research has provided a multi-level model for social impact measurement in cases of impact investing in social property with two iterations, as indicated in chapter 1 (see section 1.7). In chapter 4 (see section 4.4.6), the thesis presented the first iteration by exploring some observations of this case. It examined how we could approach social impact measurement by measuring the benefits achieved through a novel form of partnering between SIFIs and SSOs. In this section, the research will present the second iteration of social impact measurement, which examines some broader observations about architectural design and the significance of design as a powerful instrument to increase the social impact.

This section will proceed as follows. First, it will offer recommendations for social impact measurement that relates to the broad definition of social impact. Second, it will offer recommendations for social impact measurement that relate to the narrower definition of social impact, and third, it will examine the implications of employing the theory of change.

### *5.7.1 Maximising building performance and investing in built outcomes*

A broad definition of social impact is understood as the range of benefits of social finance investments, from those that aim to do no harm to those that seek to meet specific, measurable social and environmental objectives, as exemplified by impact investing, as described in chapter 1 (see section 1.4.1). These objectives could refer to a broad range of new outcomes in the design of housing for disadvantaged groups, such as maximising the performance of the building fabric and improving the architecture in terms of the design quality and materials, as shown in the tenure-blind development committed to environmental sustainability in Bristol, described in chapter 4 (see section 4.2.5).

Similar to the first iteration of social impact measurement presented in chapter 4 (see section 4.4.6), there are three general levels we could use to

measure the social impact of maximising building performance.<sup>193</sup> First, on a macro scale, it can be done by measuring the impact for the UK government as a result of the savings achieved through increased building performance, improved energy efficiency and reduced fuel costs in housing for disadvantaged groups, at scale.<sup>194</sup> Second, on a meso scale, it can be achieved by measuring the impact of increased building performance for public and third sector clients, as a result of a joint partnership with a SIFI like Cheyne Capital. For example, this could include the reduction of running costs or life cycle costing of the building, which can help reduce bill costs.<sup>195</sup> Third, on a micro scale, we can assess it by measuring the impact in terms of the reduction in bill costs for disadvantaged individuals or households who have been recipients of housing.

Importantly, maximising building performance and delivering low carbon architecture could offer a precise measure of social impact because it could significantly reduce the energy used in the operation of buildings in a given project and thus lower bill costs for the SSO and housing beneficiaries. We could also compare these figures with energy consumption and bill costs in conventional approaches to building procurement in social housing, which has not maximised building performance.

In order to include design criteria which extend beyond just maximising building performance, social impact could also refer to investing in

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<sup>193</sup> Maximising building performance refers to reducing the energy used in the operations of buildings through a range of design strategies that include the architecture, engineering and landscape architecture. Further, it could relate to green building with green roofs, as indicated in section 5.3.5. Reducing the energy used in the operation of buildings has the added benefit of reducing carbon emissions, which is a key factor if we are to achieve the ambitions of the Paris Climate Agreement based on limiting global warming to 1.5°C (see e.g. IPCC, 2018, 2019; UK Green Building Council (UKGBC), 2019).

<sup>194</sup> As indicated in section 4.4.6, government savings are generally problematic to capture, rarely happen, and there is a lack of incentives to do so, as demonstrated by the innovation of Social Impact Bonds (SIBs) (see section 3.5.1). However, if SIFIs create savings on behalf of public and third sector clients through maximising building performance and reducing energy costs, these savings could potentially be reinvested back into a given project by, for example, helping to cover building maintenance costs.

<sup>195</sup> Given that social housing has been reframed as an investment vehicle in the context of this market, SIFIs could help plan and monitor housing assets for their entire life cycle, from design and building procurement through to the eventual disposal of the asset, where decisions made at the design stage are intended to reduce building maintenance costs and ensure that each scheme has the appropriate funding throughout the building lifetime. One way this issue could be resolved is to include additional criteria in the sale-and-leaseback agreement, as described in section 4.4.3, although this would need the appropriate legislation and regulations to support these changes.

specific built outcomes, as indicated in chapter 4 (see section 4.4.5). This offers one possibility for how we might enforce a new set of design outcomes and housing space standards in the context of this market.<sup>196</sup> One way of enforcing this would be to institute it as part of the criteria of the sale and leaseback agreement between SIFIs and SSOs.<sup>197</sup> Furthermore, it aims to show that, if we are to increase the social impact of housing for disadvantaged groups, then we first need to address the longstanding issues of inefficiency arising at the building procurement stage, described in the introduction of chapter 2, as well as the poor design quality and the abandonment of social programmes in housing,<sup>198</sup> outlined in the Principles in sections 5.3.1 to 5.3.5 of this chapter.

Investing in specific built outcomes could help to mitigate the risk of introducing private institutional players into the social housing sector because it could offer a level of accountability between investors, the design/build team, and SSOs. However, it would depend on the specificity and reporting of each actor involved. Also, it would be useful to implement this approach of investing in built outcomes as part of a wider regulatory framework for social impact measurement in housing and monitor its performance in pilot projects. This, however, could be significantly challenging because deregulation is more popular than regulation, and therefore, implementing a regulatory framework remains an unresolved issue that needs to be further examined if we are to implement a common framework of social impact measurement in housing.

This research has put together an exploratory framework for social impact measurement that we would need to test in practice. Any further framework should also account for investing in a range of new built outcomes

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<sup>196</sup> Whilst the influential Parker Morris report (1961) offers a comprehensive review of housing space standards, highlighting the importance of homes that maintain their value over time, contemporary housing the UK does not fully reflect these standards. Also, there are areas of space standards in social housing that are in need of reform, such as low ceiling heights or the absence of communal space, which impact investing could potentially address, if we were to institute the appropriate legislation for investing in a new set of built outcomes. On the Parker Morris report, see also: Goodchild and Furbey (1986).

<sup>197</sup> While this research has offered one brief recommendation for how we might enforce a new set of built outcomes in the context of this market, this remains a significant issue that has not yet been resolved and merits closer examination.

<sup>198</sup> It is unclear at this early stage in market development if we can link poor housing design or the abandonment of social programmes with a set of metrics. However, if this emergent market is based on investing in a measurable social impact in social housing, we need to first address the areas of the sector which are most in need of improvement.

that can help to address the areas of the sector most in need of improvement, such as the exclusion of mixed-use communal space. However, at the current time, the concept of investing in built outcomes is not easy to quantify in terms of a measurable social impact.

### *5.7.2 Significant changes in the wellbeing of key populations*

If we accept that social impact refers to the narrower, but perhaps more instrumental definition established by Nicholls et al. (2015) as indicated in chapter 1 (see section 1.2.1) this would refer to:

Significant changes in the wellbeing of key populations, whether intended or unintended, brought about by the allocation of social investment capital, going beyond what would otherwise been expected to occur (p. 256).

This definition of social impact, expecting significant changes in wellbeing, could fundamentally challenge the notion of what social housing aims to achieve because social housing has not generally been linked to a significant and measurable improvement in the wellbeing of its beneficiaries. At this early stage, however, we have not yet defined what ‘these significant changes’ could be or how we aim to achieve them. While this process will likely involve the civic engagement and participation of the housing beneficiaries, it also needs to take place as part of the wider discussion at the local and national level. Also, it may be useful to revise the above definition of social impact so that it only refers to the *intended* changes in the wellbeing of key populations, which could help to ensure accountability and establish a more transparent approach to social impact measurement in housing.

Additionally, it may be fruitful to consider how impact investing in social property is investing in the country’s future through achieving significant changes in the wellbeing of key populations, such as its youth. However, this could be incredibly challenging because it would require systemic change, and it is unclear how we could incentivise the government to do so.

At this early stage in social impact measurement, it is crucial to define what outcomes we aim for housing beneficiaries to achieve, rather than just reporting the input or output in terms of the scale of investment and number of homes and/or beneficiaries served. One possible way to approach this is to focus on significant changes in wellbeing that will directly reduce government expenditures in more than one sector. By focusing on social impact in terms of significant changes in the wellbeing of beneficiaries over the medium to long-term, this has the potential to achieve a much wider range of objectives, such as increased levels of education and employment, or reduced levels in crime rates, healthcare costs, and dependence on welfare benefits. Also, it is important to consider how the design of housing could contribute to these significant changes in wellbeing.<sup>199</sup> Moreover, the long term nature of housing investment and tenancy could make this study between design and significant changes in the wellbeing of housing beneficiaries an easier process.

This approach to social impact measurement, focusing on the intended outcomes for key populations, is not only significant but strategic, because it could potentially offer savings and benefits for multiple stakeholders which extend well beyond the housing sector. For example, significant improvements in health in the elderly could also reduce incidence of ambulatory care visits, duration of hospital care and insurance costs.<sup>200</sup> However, we obviously need to develop pilot projects to test this out and monitor this approach to social impact measurement with the appropriate social programmes over the medium to long term.

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<sup>199</sup> There is a longstanding body of research that examines the relationship between architectural design and health and well-being (see e.g. Beauchemin and Hays, 1996; Day, 2003; Lawson, 2010; Zhang et al., 2019), notably the Maggie Centres, which provide psychosocial cancer support and have adopted the concept of ‘healing design’ (Linden et al., 2016). Also, see e.g. this comprehensive study on the relationship between health, architecture, and sunlight (Hobday, 2006). However, these design concepts have not yet been fully explored in the social housing sector and, if we are going to create significant changes in wellbeing for housing beneficiaries, this remains an important area for future research.

<sup>200</sup> This logic is demonstrated by Social Impact Bonds (SIBs), as indicated in chapter 3 (see section 3.5.1). However, this has not yet been applied in the context of impact investing in social property and thus remains an important strand for future research.

### *5.7.3 The theory of change*

In addition to the above recommendations, we could employ the theory of change (Funnell and Rogers, 2011; Morra-Imas et al., 2009; Rogers, 2008) or ‘program theory’ (Funnell and Rogers, 2011) to develop a more comprehensive approach to social impact measurement in housing. The theory of change is a linear concept comprised of four phases: inputs, processes, outputs, and outcomes. Notably, it could help us define what needs to occur in each of these phases in order to achieve an intended outcome. Within the context of impact investing in social property, inputs could refer to the investment made, processes to the design and building procurement phase, outputs to the number of houses/units delivered as a result of the investment and outcomes to significant changes in the wellbeing of housing beneficiaries within a given project.

This research has focused on the processes phase of the theory of change in order to highlight the importance of reforming the inefficiencies in building procurement because these changes play a key role in the speed of delivery, which, in turn, could offer additional benefits for housing beneficiaries such as lower rental rates, as described in section 3.5.5. Moreover, this research has highlighted the role of design as a means of maximising building performance, because reducing the energy used in the operations of buildings could offer a range of benefits at multiple scales, both human and environmental.

Even though the theory of change has already been incorporated in practice at a number of levels in the impact investing market, it has not yet been instituted as part of Cheyne Capital’s approach to performance evaluation practices and it is also not well developed in the context of BSC. However, if this market is to continue to develop, the theory of change offers an important framework for future research. It may also be interesting to consider how we can use the theory of change to measure each of these four phases individually and collectively.



## **5.8 How can these ideas be applied in practice?**

As a new actor in the housing sector, Cheyne Capital has extended a new invitation to design practitioners to explore how we might innovate in housing while adhering to a radically reformulated timetable. It remains to be seen if architects and other design practitioners will respond to this call to action. Largely this barrier relates to a lack of knowledge of this emergent market. Also, it could relate to a lack of real incentives from government support and wholesale institutions such as BSC. If we are to effectively connect more design practices, whether that be architecture, engineering, landscape architecture or master planning with impact capital from a SIFI like Cheyne Capital, this will require creating stronger links between impact investing and housing design.

In addition to this, we can develop a design brief that design practitioners and SIFIs can work with. On the one hand, this brief could help SIFIs develop a body of knowledge on how we can use design to strengthen the social impact, while adhering to the constraints and demands of this market. This may require considering a new set of objectives over the medium- and long-term, such as designing for life cycle costing, rather than commissioning the architecture based on short term economics. On the other hand, it would offer design practitioners the opportunity to develop new ways to communicate the value of design, that aims to achieve particular social or environmental objectives, to SIFIs, exploring a range of solutions which could in turn influence the form of housing in the context of this market.

Also, there are advantages to instituting ongoing partnerships between SIFIs and design practices. For example, if the development of this design brief was based on long-term partnerships, it could help to ensure that the aim to increase the speed of delivery on the part of a SIFI would not compromise the quality of the design. Moreover, this could offer a way to develop a set of key design objectives and measure performance over time, as opposed to commissioning the architecture based on one-off projects.

Furthermore, if we are to effectively innovate in housing based on a new design brief for impact investing in social property, we would also need to bring together world experts across multiple sectors ranging from architecture,

engineering, finance, housing, social policy, energy, government, social entrepreneurship, real estate, and other stakeholders, by means of conferences and symposia. This is an important step because it may involve reforming some aspects of contemporary housing across multiple sectors, so that it is better aligned with the objectives of this emergent market, particularly with regards to design quality, efficiency, speed of delivery, and demonstrating a measurable social impact.

In addition to the above recommendations for implementing these ideas in practice, the academy has an important role to play. One potential way to address this gap in the research would be to study a set of ongoing partnerships between SIFIs and design practices. Additionally, this may involve developing a comprehensive body of research on state-of-the-art housing worldwide, addressing the question of how we can effectively approach social impact measurement in housing and develop a set of design objectives to achieve measurable social and environmental outcomes. Moreover, there needs to be feedback between what is taking place in practice and academic research on these new partnerships.

Lastly, in order to address this risk of SIFIs sacrificing design quality in the pursuit of increasing the speed of delivery to increase financial return, we need to institute additional legislation and constraints. One of the reasons that the Principles are important is that what is needed in the housing market is not merely to attract institutional investment; we need to re-think housing objectives in the context of this market and develop ways to innovate in the design to deliver quality, affordable and inclusive housing that is also committed to environmental sustainability.

## **Conclusion**

This chapter has shown that we can use the Design Principles as an instrument to embed social value and potentially increase the social impact in housing. It has explained that there are specific design strategies such as an open building façade, that provide various benefits such as natural surveillance, community cohesion and access to the sky and ground. These could contribute to significant

changes in the wellbeing of housing beneficiaries. Certain Principles, such as flexibility, may be easier to quantify and could help to increase building performance and longevity. Additionally, the Design Module has offered an early response for how we might develop a more flexible approach to housing, which can be replicated and scaled in this market. Design can also be used to develop new ways to provide onsite mixed-use communal space to integrate social programmes as part of each scheme.

However, for any of this to work, a SIFI like Cheyne Capital needs to consider the central role of design and partner with design practices that are ready and willing to innovate in housing and adhere to the financial objectives and constraints described in chapter 3 (see sections 3.5.4 and 3.5.5). Importantly, SIFIs could help to pursue design innovation because they operate outside of public procurement rules. Thus, they are able to commission the architecture from SMEs or microbusinesses, which currently make up the majority of design practices in the UK, but are too small to bid for public housing projects, as described in the introduction of chapter 2. Therefore, SIFIs offer one solution for how we could unlock design talent and overcome the current barriers of working with innovative design practices that are currently excluded from the market.

While this research has presented an exploratory framework for how we could approach social impact measurement in housing, we still measure social impact in practice in terms of output(s), or the investments made, the number of houses delivered, and/or beneficiaries served. Defining social impact in terms of outputs is problematic because it could hinder industry integrity and progress.

Given that affordable urban housing is predicted to be one of the largest areas of growth, as described in chapter 1 (see section 1.4.7), social impact measurement is potentially one of the most crucial areas for future research if this market continues to develop. Moreover, if we are to see a significant increase in institutional investment into the housing sector, it may be interesting to consider how the growth of this new market and the development of social impact measurement practices could be used as a strategic tool to

reduce the carbon emissions associated with the housing sector and deliver low carbon architecture. This last point is to be discussed further in the conclusion chapter.

## Chapter 6: Research implications and future work

### **Introduction**

What this thesis has done through case analysis and theory is to put together five vital issues that relate to the novel solution of using impact investing to deliver quality and affordable housing for disadvantaged groups without reliance on government grant funding. These include the following: one, building procurement efficiency and partnering; two, the role of wholesale investors and SIFIs; three, regulatory issues and risk, or how we protect the investment; four, moral hazard, or how we protect social impact; and five, housing design and social impact measurement. Because of the shortage of affordable housing is a systemic problem, these five issues need to be examined and addressed collectively. Moreover, they bring together a range of opportunities, threats, and challenges that manifest at a macro, meso, and micro scale.

The emergence of impact investing creates a set of key opportunities that could transform what money can do for public and third sector housing providers and their beneficiaries. These include: a) employing private institutional investment to deliver social property at scale (see chapter 4, introduction, section 4.3); b) using joint partnerships between a SIFI and SSOs to reform building procurement to be significantly more efficient (see section 3.5.5) while achieving design innovation (see chapter 5, introduction); c) investing in housing schemes which demonstrate significant changes in the wellbeing of key populations, brought about from the investment (see section 5.5). Therefore, if impact investing in social property is used as it is intended, it could help reform some of the areas of the sector most in need of change.

Importantly, developing this market in housing offers the key opportunity to improve the housing outcomes for people in need of social care such as those on low incomes or those in need of supported living, while also capitalising on a new form of private institutional investment. It could potentially enable us to use impact investing as an instrument to finance new

housing outcomes that relate to significant changes in the wellbeing of key populations (see section 5.5.2). These changes in the wellbeing of housing beneficiaries could create savings and benefits for multiple stakeholders beyond the housing sector (see section 5.5.2).

These opportunities, however, have also created a new range of threats, which could increase the risks associated with this emergent market, particularly given the scale of investment. These threats include the rise of global corporate landlords (GCLs) who may use the emergence of this market to take advantage of distressed housing markets and exploit them for personal gain (see section 3.2). Also, as impact investing grows in popularity, private investors may likely use impact investing as a label without being committed to social impact, and this risk is to be discussed in section 6.2.2.3. Because impact investing is based on private institutional investment, if unregulated, it could lead to poor housing outcomes at a large scale.

Collectively these threats pose the risk that this market may not continue developing or may not realise its intended purpose. As a result, we may lose the current opportunity of addressing the need for social property with private institutional investment from a SIFI like Cheyne, who has been instituted by BSC and is committed to social impact. Therefore, the opportunities, threats and challenges are amplified in the context of this market.

In order to mitigate these threats, we need policy support to create a clear demarcation between private institutional investors committed to social impact and the moral hazard of allowing private investors into the sector who are not. Also, we need to reform procurement policies which will be significantly challenging (see section 2.8). However, these reforms of public procurement procedures in general and building procurement in social housing, in particular, are necessary if this market is to continue developing. Furthermore, we need to address the challenge of skills development in the sector if it is to operate more efficiently, and this will need additional policy support and incentives to ensure the integrity of the supply chain and the delivery of quality housing based on a reformed timetable.

Because we have this opportunity to transform the housing market, and yet we must also deal with these threats and risks, it also brings with it significant challenges. In order to achieve the intended outcome of using impact investing to deliver quality and affordable housing that demonstrates a measurable social impact, each of the previous five chapters has explored key challenges which relate to the central research question. Chapter 1 examined the history of the problem of the shortage of affordable housing and presented impact investing as one opportunity for how we might begin addressing this issue without reliance on government grant funding. Chapter 2 looked at the challenges associated with the inefficiencies in building procurement in social housing and presented partnering as a potential solution. Chapter 3 examined the challenges of building a new market to finance social and environmental initiatives, examined why intermediaries are important, and presented Cheyne Capital as an agent of reform on behalf of its public and third sector partners. Chapter 4 presented the key challenges Cheyne Capital faced as a new social landlord operating in joint partnerships with SSOs and examined how it dealt with them. Chapter 5 focused explicitly on the challenges Cheyne faced in innovating in the design of social housing and presented the Integral Housing Strategy as one novel solution.

The recommendations as a result of this research can broadly be categorised into the following five key areas. These include building procurement reform, policy support, skills development, innovation in housing design, and social impact measurement. The following chapter will provide specific recommendations relating to each of these five categories.

The purpose of this concluding chapter is to offer a synthesis of the key findings of the research, and it will proceed as follows. The first section ('Primary research question') answers the central research question. The second section ('Secondary research questions') answers the sub-questions that relate to each chapter. The third section ('Theoretical implications') provides implications of the research and how it challenges the normative view of hedge funds and social housing providers. The fourth section ('Policy implications') identifies six key areas for future policy research for impact investing in social

property. Also, this section highlights the importance of implementing policy to mitigate the risks of the sale and leaseback agreement and reform building procurement. The fifth section (‘Recommendations for future work’) identifies critical areas for future work in both practice and academic research. It includes a call to action for more design practitioners in impact investing in social property. Following this, it looks at two significant areas for future academic research if this market continues developing. Also, it includes a subsection that examines the feedback between academic research and practice. The final section (‘Conclusion’) offers a summary of the thesis, relating back to the targets for new build social housing over the next 15-year time horizon, as described in chapter 1 (see section 1.1.1).

## **6.1 Primary research question**

This thesis set out to examine the central research question: How can we use impact investing in providing quality and affordable housing for disadvantaged groups at scale with little to no reliance on government funding? To answer this, we can use SIFIs instituted by BSC to attract private institutional investment from pension funds, insurance companies, and private family offices in order to offer a range of affordable housing solutions for disadvantaged groups and people on low incomes. The case of Cheyne Capital has shown that a hedge fund, operating as a SIFI, can play a fundamental role of intermediation between private institutional investors who may have dedicated allocations to support social investment and want to invest in social property, and SSOs in need of funding. Also, Cheyne Capital has demonstrated that, as a SIFI, it has played a significant role in market development — it has effectively increased its seed funding from BSC from £12 million to around £900 million by leveraging additional private investment.

In order to deploy this scale of investment within the sector and effectively turn it into housing, we need first to establish a robust pipeline of projects, based on joint partnerships between a SIFI and SSOs through a sale-and-leaseback agreement (see section 4.4.3). However, on the one hand, this sale-and-leaseback agreement, based on a new form of repayable finance, is not



well tested and may not be a viable option for a large number of SSOs because it also carries with it several risks. For example, if Local Housing Allowance (LHA) rates, which determine how much a council receives in rent, are capped or lowered, this could mean that this council does not have adequate funds in its Housing Revenue Account (HRA) to pay a SIFI, like Cheyne Capital, its annual rate of rent, as described in chapter 4 (see section 4.4.3). On the other hand, Cheyne Capital needs to invest in a viable real estate scheme to ensure stable, long-term returns for its investors. Therefore, in order to use impact investing as a means to provide quality and affordable housing for disadvantaged groups in the current conditions, we need to mitigate the risks of the sale-and-leaseback agreement for both SIFIs and SSOs.

One possible way of ensuring the sale-and-leaseback agreement is a viable option would involve a process of financial modelling for each SSO in need of housing in order to assess its level of investment readiness. This process of conducting financial modelling could help to ensure that SSOs are better prepared to take on this new form of repayable finance and can demonstrate the adequate funds to enter a sale-and-leaseback agreement over the medium- to long-term. At the same time, SSOs will need additional policy support to ensure that the rates they receive from the LHA will not go up for the duration of the partnership. These potential fluctuations in the rates SSOs receive from the LHA is a serious concern because we cannot currently predict LHA rates beyond a few years into the future, let alone for the length of the sale-and-leaseback agreement. Therefore, if we are to undertake financial modelling effectively, there needs to be a long-term policy in place.

Additionally, it may be necessary to examine further how SSOs could generate a revenue stream and achieve an operating surplus from their management activities, so they are less vulnerable to changes in LHA rates. Cheyne Capital has indicated that one way for SSOs to achieve this revenue surplus is through entering into a sale-and-leaseback agreement for mixed, tenure-blind development, which could range from open market to sub-LHA rent, as described in chapter 4 (see section 4.4.2). If open-market rents go up annually, it could create a revenue surplus for the SSO. In the event of a

recession, we could use this surplus as a buffer for lower rents. Therefore, the sale-and-leaseback model for blind, mixed-tenure housing could help to achieve a more sustainable model of development over the long-term. However, this needs to be further investigated and remains a major challenge that we have yet to resolve.

While this thesis has provided a modest recommendation for how we could begin to mitigate the risks of the sale-and-leaseback agreement, this remains one of the most significant areas for further research. If this market is to continue developing, one key research question to examine is: How can the government structure public sector budgets over the long-term so that SSOs are better equipped to take on repayable finance from SIFIs? This question may help to understand how we can overcome the current barrier that government financing does not run over the long-term. Moreover, if we are to transform the provision of housing for disadvantaged groups beyond short-term economics, we will need the support of public sector budgets, based on investing in long-term outcomes.

One useful strand of future research for helping to solve this issue is to examine government budgets for infrastructure because they are based over the long term.<sup>201</sup> These infrastructure budgets could provide a strong foundation for the argument that social housing could be redefined in terms of long term financial modelling and budgets. By doing so, we could create several added benefits, such as helping to mitigate the risks of the sale and leaseback agreement.

In order to use impact investing in providing social housing that is not reliant on any government grant, SIFIs will need to be able to purchase public lands on behalf of public sector clients, that are priced for their intended use value rather than market value (see section 4.4.4). However, the pressures to maximise land values and the difficulty in allocating the appropriate land in city centres to disadvantaged groups remains an unresolved issue in need of considerable thought and action. If we are to use impact capital to provide social

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<sup>201</sup> This section in the text can be traced back to a private conversation with Professor Alex Nicholls in 2019 at Saïd Business School at the University of Oxford.

housing in areas such as London where land values are highest, we will need legislative support to ensure fair access for SIFIs. Also, overcoming this issue will likely require examining the land plots owned by public sector bodies and determining which of the existing public lands we could use for social and affordable housing.

If we are to effectively capitalise on the growth of impact investing in areas like London, we may need to undertake a comprehensive assessment of housing needs, and then identify existing public lands and price that land accordingly, based on mixed-tenure development. However, this would require cross-sector collaboration between private investors, impact investors, local councils and government, to think up new ways of development that are based on the use-value of land rather than maximising land receipts. Also, because a SIFI like Cheyne Capital favour mixed-tenure development and aim to protect the intended use of these properties in perpetuity, impact investing could help to ensure a more socially inclusive form of urban housing development.

Additionally, it will be crucial to consider objections surrounding the sale of public sector lands to large institutional investors such as Cheyne Capital. If mainstream SIFIs are to become fundamental players in this market-building phase of the evolution of the industry and are to emerge as a viable alternative to providing housing for disadvantaged groups over the long term, this is a crucial strand of research that we need to examine more closely.

## **6.2 Secondary research questions**

*6.2.1 Building procurement questions (addressed in chapter 2): How can impact investing be used to reform building procurement?*

This case has shown that impact investing is based on investing private institutional capital into social and affordable housing and a range of other types of social property. At the same time, this emergent market requires that we maximise building procurement efficiency and deliver housing within a radically reformulated timetable because an investor like Cheyne Capital needs to minimise the time it is not earning a financial return. This poses a major

challenge due to the time and cost inefficiencies in building procurement (see chapter 2, introduction).

Public and third sector housing providers are also not accustomed to receiving investments of this scale and, despite the need for housing, the lack of investment readiness on the demand side remains a major issue, as discussed in chapter 3 (see sections 3.5, 3.5.2, 3.5.5). Therefore, to effectively deliver housing in the context of this market, we will need to reform procurement procedures to ensure that public and third sector housing providers are able to receive private institutional investment. We will also need for the public, private, and the third sector to work effectively in partnership with a new actor like Cheyne Capital to deliver housing at a larger scale while at the same time massively reducing the inefficiencies in building procurement procedures.

One key way of leveraging private institutional capital is through the use of novel partnerships between SIFIs and SSOs, where the SIFI is tasked with investing private institutional capital to address the housing needs of a given SSO. One major advantage of these partnerships is that a SIFI like Cheyne Capital brings a level of financial literacy or strong understanding of budgets to the sector, which can help manage the number of business transactions that need to be organised for a given project. A SIFI like Cheyne may also help reform inefficiencies in the supply chain because it needs to increase the speed of delivery to earn a financial return (see section 3.5.5). However, if we are to rely on SIFIs to help reform building procurement procedures, further research is needed. One key area of future study would be to examine the relationship between agents of reform in building procurement procedures and financial literacy because it could present a significant opportunity to achieve greater efficiency in the construction industry (see section 2.7).

Apart from utilising SIFIs to reform procurement procedures and increasing the speed of delivery, impact investing is predicated on demonstrating a measurable social impact, in addition to a financial return, and measuring the achievements in terms of both, as described in chapter 1 (see section 1.1.2) and chapter 2 (see introduction). If we were to incorporate this concept into building procurement, we would need to embed social impact

measurement into procurement procedures (see section 2.8). This would likely require developing a social impact measurement approach that ensures transparency and accountability at each stage of the supply chain so that all major actors involved are held responsible for achieving the intended social impact and financial return.

While this case has shown how impact investing could help to develop a more efficient, non-discriminatory selection process with quality design, value for money, accountability and transparency in social housing and other forms of social property, procurement policies could be massively challenging to reform due to complex operational processes, and the purchasing culture that has historically favoured short-term interests, and short-term outcomes, as indicated in the introduction of this chapter (see further section 2.8). Therefore, we will need significant government support to implement procurement policies that enable impact investing and embed social impact measurement in procurement procedures. Also, we will need further research to determine how the concept of investing in outcomes, such as the time it takes to complete a project or level of building performance, could help to reform building procurement.

#### *6.2.1.1 How can impact investing be used to reform public procurement procedures in general?*

While this thesis is the first to demonstrate this new process of using impact investing to procure social housing, its findings are in line with the recommendations made by Wood et al. (2013) in their seminal article *Institutional impact investing: practice and policy*, which discusses how impact investing could shape public procurement in general (see section 2.8). These recommendations could be summarised in the following five key points: First, we can incorporate social impact standards into public investment and purchasing strategies, which could help to ensure we use government funds to favour products and services that create a positive social and environmental

impact.<sup>202</sup> Second, we can develop policies to promote green purchasing in sectors such as real estate, energy and waste. Third, we can develop policies that encourage direct investment in SMEs through tax incentives, direct purchasing or procurement provisions that favour small businesses. Fourth, we can integrate performance standards in procurement policies, advocating for policies that subsidise specific social or environmental outcomes. Fifth, we can use policies to mandate transparency and reporting requirements within the impact investing market.

Subsequently, key recommendations were put forward by two industry reports (see section 2.8). First, a UK industry report (Social Finance, 2014) suggested that it may be advantageous to invest in social outcomes rather than procuring social services. This concept of investing in social outcomes could be instrumental in bringing about significant changes in the wellbeing of key populations because the investment is directly linked to a measurable social outcome rather than a general social service that may or may not achieve its intended objectives. Second, a recent industry report (Giddens et al., 2018) recommended: a) embedding social value in procurement decisions by procuring from impact businesses or including environmental metrics in procurement processes; b) procuring payment-by-results contracts and developing a government outcomes fund to streamline the payment-by-results procurement process; c) carefully re-examining how government could re-structure spending and identifying strategies for investing in long-term outcomes.

However, if we are to reform public procurement procedures, government will need to play a key role as a co-investor, regulator, procurer of goods and services, and provider of subsidies and technical assistance, which enables intentional investment aimed at achieving social and environmental impact by asset managers (see section 2.8). Moreover, the government must play a role in regulating this emergent market, helping to facilitate its growth and mitigating risks through policy support. Should the government not perform

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<sup>202</sup> While this thesis acknowledges the contribution of the Social Value Act, it was not sufficiently explicit in its criteria, and as a result, has not helped to create a distinction between service providers. The significance of this issue is to be discussed further in section 6.4.

these crucial functions, the moral hazard of inviting private asset managers, operating outside of BSC, to invest in the public or third sector would likely be too great.

*6.2.2 Market-building questions (addressed in chapter 3): How can a for-profit organisation such as a hedge fund ethically invest in the UK social housing sector?*

The emergence of impact investing has made it possible for fund managers, specialist banks and private institutional investors to ethically invest in the UK social housing sector. This market was developed precisely through the foundation of BSC, which was intended to operate as a social investment wholesaler with the purpose of creating a new stream of capital for tackling vitally important social and environmental challenges. BSC achieves this by selecting and providing seed capital to fund managers like Cheyne Capital to enter the social finance market as SIFIs and invest upfront capital into frontline SSOs, in order to achieve a measurable social impact in housing for disadvantaged groups, as described in chapter 3 (see introduction and section 3.4).

Because the defining feature of this market is the pursuit of a measurable social impact alongside a financial return, hedge funds and other asset managers must develop an approach to social impact measurement and reporting in order to receive a seed investment from BSC and invest in the sector. In addition to this, SIFIs are selected by BSC based on a number of key criteria and are subject to a number of investment restrictions and constraints, which will be described further in section 6.2.2.2.

*6.2.2.1 What are the objections?*

The objections raised so far to a hedge fund getting involved in social housing and other forms of social property relate to the divide between public versus private funding and the historical link between private finance and the exploitation of the poor, as described in chapters 1 and 2 (see sections 1.2 and 2.1). In addition to this, there is a strong negative stigma associated with using

hedge fund investments, in particular, because they are largely unregulated and are viewed by many as the most aggressive and unfettered form of private investment, as described in chapter 3 (see introduction and section 3.2). Also, as private institutional investors, hedge funds operate on the largest scale and influence global markets, which may not be well suited to investing in the public or third sector. Furthermore, prior to Cheyne Capital, a hedge fund's pursuit of financial profit had not been linked with offering patient capital to social sector organisations.

Additionally, there is an existing body of academic research that could be seen as critical of hedge fund investments in social property. This has raised several objections to such a scenario and has examined, for example, the rise of aggressive private equity in the affordable rental market and the increase in global corporate landlords (GCLs), which have exploited distressed housing markets following the Global Financial Crisis (GFC) (see section 3.2). However, this existing body of academic research does not reflect the emergence of the modern social finance market, nor does it explore how hedge funds could play an instrumental role in the development of the social finance market by unlocking institutional scale capital to invest in the public and third sector (see section 3.2).

#### *6.2.2.2 What are the restrictions both practically and through legislation and how have these been approached?*

The restrictions that govern how investments can be made were applied at the level of BSC, SIFIs and SSOs. Because BSC was created through funding from the *Dormant Bank Accounts Act* and the Merlin Banks, a number of external investment restrictions were placed upon BSC, which included securing a European State Aid exception that would allow the institution to be excluded from the European Commissions' (EC) rules (see section 3.4.1). Also, a number of mechanisms were put into place to ensure that BSC remains accountable with regard to its mission objectives and would indeed only make social investments such as the establishment of the Big Society Trust (see section 3.4.2).



In order for BSC to ensure that it invests in fund managers that help to develop a sustainable social investment market in the UK, it uses a due-diligence and screening process for each investment decision, based on a combination of three objectives: maximum social impact, a contribution to developing the social investment market, and a financial return (see section 3.4.4). Within these three categories there is a more complex framework of assessment for each potential investment. For example, BSC assesses social impact based on the strength of the social mission, governance and mission lock, business model and activities, impact performance and reporting, both at the SIFI level and looking at the way in which the SIFI manages its investments in SSOs (see section 3.4.4).

In order for Cheyne Capital to invest in the housing sector as a SIFI, it must respect a number of restrictions imposed upon it. For example, Cheyne must operate as a ‘social landlord’ that works exclusively with and invests in non-profit SSOs engaged in providing housing for disadvantaged groups, where investments must be made through joint partnerships with ‘high-impact social sector organisations,’ as indicated in section 6.1 of this chapter and described in detail in chapter 3 (see section 3.5.4). In addition to this, Cheyne set up the Fund as a legal ‘vehicle’ to hold the investment and embedded social covenants in its internal operations, governance and investments (see section 3.5.4). Furthermore, Cheyne needed to appoint a third-party social auditor to review all investments and selected New Philanthropy Capital (NPC) for this purpose (see section 3.5.4). Also, Cheyne’s investments in the sector have to demonstrate a balance between financial return and social impact; thus, it does not capitalise on development profits, and instead needs to reinvest the capital in order to improve the quality of provision, as well as reduce social services costs and rents (see section 3.5.4).

The novelty of this approach is that BSC has selected a hedge fund such as Cheyne Capital based on its capacity for market development. The advantage such hedge funds have offered as mainstream intermediaries is the ability to unlock private institutional capital from the capital markets and increase the scale of capital available to the public and third sector. Furthermore,

BSC developed this approach of investing in a SIFI such as Cheyne Capital, rather than providing funding directly to the public or third sector, because it believed this method had the potential to develop a more sustainable social finance market capable of financing social sector organisations over the long-term (see section 3.5.1). However, this model is not without its risks and many challenges remain in mitigating them.

#### *6.2.2.3 How do we mitigate risk?*

One significant way in which we can mitigate risks for SIFIs and SSOs is by reducing the risks associated with the sale-and-leaseback agreement, as described in section 6.1 of this chapter. With the appropriate government support and changes in housing policy that would allow for public sector budgets to be organised over the medium- to long-term, we may be able to develop the appropriate financial modelling to determine whether this new repayable finance scheme is a viable option for financing housing. Reducing the risk of the sale-and-leaseback agreement may help to address the lack of investment readiness from SSOs, which remains a major barrier to the development of this market (see section 3.5.5). Furthermore, we would need to radically reform the inefficiencies of UK building procurement so that we can deliver housing for public and third sector organisations within a shorter timescale (see section 3.5.5). Such a reform of building procurement could create added benefits for housing beneficiaries in the context of this market, such as lower rental rates (see section 3.5.5).

While this case has focused on the particularity of Cheyne Capital's relationship to BSC, as impact investing becomes more mainstream, it will likely garner interest from a range of private institutional investors who may not have been instituted by BSC and thus would not be operating under the same social covenants and investment restrictions described in chapter 3 (see sections 3.4.1–3.4.3). Furthermore, as impact investing in housing gains global momentum, as described in chapter 1 (see section 1.4.7), the risk of 'impact washing' – i.e., of certain actors using the label of 'impact investor' or making

impact claims without meaningful fidelity to impact<sup>203</sup> – will likely increase (Mudaliar et al., 2018, pp. iii, 16). Therefore, impact investing runs the risk of being used as a label for a wide range of private investors in housing, such as GCLs and aggressive private equity investors (see section 3.2) who are not committed to social impact, as indicated of the introduction of this chapter.

Mitigating the risk of ‘impact washing’ is particularly important because it could lead to poor housing outcomes for disadvantaged groups, on the one hand, and hinder industry integrity, on the other. This remains a serious risk, which requires government support, policy changes and cross-sector collaboration. At the same time, we will need to institute a number of key changes at the industry level, such as greater transparency on the part of impact investors when it comes to their impact strategy and results (Mudaliar et al., 2018, p. 16). Finally, if we are to mitigate these risks we will need to institute some degree of standardisation to social impact measurement and reporting in the context of impact investing in housing.

Instituting a regulatory framework with the appropriate government support for social impact measurement in housing could help to ensure accountability at both the level of SIFIs and SSOs. At the same time, if this market is to continue developing, it will be increasingly important to develop a robust dataset that provides evidence that can help accurately assess performance over time, that can be used to predict future outcomes and make comparisons with what has been achieved by other actors in the sector (see further Nicholls et al., 2015, pp. 253–254). Also, social impact measurement in housing could be used to help create a feedback loop between SIFIs, SSOs and housing beneficiaries, which could help to strengthen the social impact. However, further research is needed if we are to better understand how relationships between these actors inform social impact measurement.

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<sup>203</sup> Nicholls et al. (2015) highlighted this issue at the industry level (see p. 253) and also pointed out that, as microfinance attracted mainstream finance, ‘mission drift’ has occurred as a result of attempting to increase financial performance (see further Arunachalam, 2011).

6.2.3 *Housing questions (addressed in chapter 4): How is Cheyne Capital responding to the need for a financial return while providing social property?*

In order to answer this question, we can draw upon the results from both chapter 3, which focused on the investment restrictions of this emergent market, and chapter 4, which assessed what Cheyne Capital has achieved to date as a new social landlord. What these findings tell us is that Cheyne Capital has effectively reframed social housing and other forms of social property as an investment vehicle. By doing so, it has secured a broad base of investment for social property from private institutional investors, including a French pension fund, a UK pension fund and a European family office. Cheyne Capital has capitalised on the enduring demand from private institutional investors for a secure entity in which to invest its capital, which offers stable and long-term returns. In response, Cheyne has operated as an intermediary that has re-directed this institutional investment towards SSOs working with disadvantaged groups.

In order to begin earning a financial return for its investors in the Fund and make its investments financially viable, Cheyne Capital needed to deploy institutional scale capital in the housing sector as efficiently as possible. To do so, it first needed to secure a robust pipeline of projects created in joint partnership with SSOs, based on viable real estate schemes. While this remains a major challenge, the options that it has explored include a sale-and-leaseback model over a 21-year ‘full repairing and insuring (FRI) lease,’ or a 35/40 year ‘finance lease’ (see introduction to chapter 3). Additionally, Cheyne aimed to massively reduce the inefficiencies in UK building procurement because it needed to minimise the period of time during which the Fund was not earning a profit (see section 3.5.5).

Importantly, Cheyne Capital needed to achieve what we have described as *a sweet spot model*, where the business model and the impact model are one and the same (see section 3.5.5 and 4.4.1). Therefore, Cheyne Capital’s desire for a financial profit cannot be achieved without first delivering quality and affordable housing, efficiently and at scale, through a generational investment rather than a short-term gain (see section 3.5.5).

### *6.2.3.1 What projects is Cheyne Capital investing in?*

From the time of the launch of the Fund in November 2014 through to January 2019, Cheyne Capital invested in six major projects and were involved in three proposed projects where the outcome is less clear. Its first project, created through a joint partnership with Luton Borough Council aimed to reduce the number of households on the Borough Council's housing list. It resulted in the development of 80 affordable housing units, where the rents for 100 per cent of the properties were set below local LHA levels (see section 4.2.1).

Following this, Cheyne Capital's subsequent projects included: housing for homeless youth in partnership with P3, a specialist housing charity (see section 4.2.2); supported living for adults with acute learning disabilities, together with Thera Group, a specialist charitable group (see section 4.2.3); tenure-blind development with discounted rent, in collaboration with the South Yorkshire Housing Association (SYHA) (see section 4.2.4). These projects reflect the diverse range of works, spanning from retrofitting existing stock for specialised housing within a community setting (see sections 4.2.2 and 4.2.3) and new developments of tenure-blind, affordable, key worker housing (see section 4.2.4).

In order to invest at an institutional scale, Cheyne Capital's more recent projects have increased in size and in number of partners, as exemplified by the joint partnership with Bristol & Bath Regional Capital (BBRC), Bristol Council, HAB Housing and United Communities (see section 4.2.5). This new partnership between the private, public and non-profit sector employed a diversified funding model, making it possible to offer a tenure-blind development of 161 houses and apartments with six different tenure types, at various points of need demands, and nearly 70 per cent of the houses at submarket rents (see section 4.2.5). Also, this project included the first private-sector rent-to-buy model (see section 4.2.5). Furthermore, this master plan development featured housing designed with solar roof tiles and a building fabric to maximise performance, as well as a central landscape feature that included space for recreation and wildlife swales to reduce stormwater runoff (see section 4.2.5).

In summary, while Cheyne Capital has favoured mixed-tenure housing at scale, these completed works show it has provided a diverse range of housing projects at various points of need demands, including housing at discounted or submarket rent, affordable rent, sub-affordable rent, LHA rent and sub-LHA rent. The hedge fund has also provided discounted sales for SSOs needing a specific housing product for key worker housing. Most recently, Cheyne Capital invested in a regeneration programme with Stoke-on-Trent City Council for 379 new affordable houses (see section 4.2.6), further demonstrating its aim to invest at an increasingly larger scale.

#### *6.2.3.2 What challenges has Cheyne Capital faced in implementation and how has it dealt with them?*

Due to the novelty of its role as a new social landlord, Cheyne Capital experienced a level of distrust from social sector organisations and was often seen as a wolf in sheep's clothing (see section 4.4). Cheyne Capital dealt with this issue by relying on the success of its initial joint-partnerships with SSOs and its approach to social impact measurement and reporting (see section 4.4.6) to offer evidence of its commitment to social impact. However, this remains a major challenge that Cheyne Capital will need to overcome because it is impossible for it to earn a financial return for institutional investors in the Fund and a profit as an impact investor, unless it first achieves its intended social impact through a joint partnership with an SSO (see section 4.4.1).

Additionally, Cheyne Capital needed to maximise its financial return by maximising social impact (see section 4.4.1). By doing so, it has shown that it is possible to achieve *a sweet spot model* where, under certain circumstances, there is no trade-off between financial return and social impact (see section 4.4.1 and the conclusion to chapter 4). For example, Cheyne Capital cannot make a sufficient profit without first achieving an efficient delivery of quality, affordable housing for disadvantaged groups, at scale (see chapter 4, conclusion).

In order for Cheyne to ensure stable financial returns for its investors over the term of the sale-and-leaseback agreement, it has to invest in social

property that holds its value or appreciates over the term of the lease (see section 4.4.2). This has been particularly challenging for the Fund because social housing and other forms of social property are not typically known to appreciate in value. It is not generally located in areas that are attractive for investment and has a long history of property neglect, as exemplified by the existence of sink estates, which remains a concern for Cheyne Capital (see section 4.4).

Cheyne Capital has dealt with this challenge by working with public sector clients to evaluate whether, if an investment were made on a specific site, that asset would maintain its value (see section 4.4.2). Also, Cheyne worked with public sector clients to conduct financial modelling, so as to ensure that the SSO has an adequate income to pay its annual rent and cover the maintenance costs for the duration of the lease. Furthermore, Cheyne has favoured mixed, tenure-blind development because this had the potential to mitigate the risks of the sale-and-leaseback agreement by creating a revenue stream for public sector clients. Thus, these clients would have the appropriate funds to maintain the property, as described in the introduction of this chapter (see also section 4.4.2).

In addition to the above challenges, Cheyne aimed to develop social housing and affordable that is not reliant on any government grant. To achieve this, Cheyne needed to purchase public sector lands on behalf of public sector clients for its intended use value rather than its market value, as described in the introduction of this chapter. Cheyne responded to this issue by employing ‘a fair market approach’, where, for example, if a public sector client wanted 20 per cent discounted sales and 20 per cent sub-LHA, the land would need to reflect those intended purposes (see section 4.4.4). While Cheyne made some progress, the use value of land remains a major issue, particularly in the context of London, as highlighted in the introduction of this chapter (see also section 4.4.4).

The inefficiencies of building procurement in social housing constitute perhaps the largest challenge faced by Cheyne Capital, affecting the speed of its pipeline (see section 4.4.5). Cheyne dealt with this issue by using a design-and-build approach, which enabled it to pass on the risk to a contractor who was

responsible for delivering a turnkey development (see section 4.4.5). Also, even though Cheyne was particularly interested in developing new ways to accelerate the build time, it was equally risk adverse as a new institutional investor in the sector and dealt with this issue by working with public sector clients to use a local contractor (see section 4.4.5).

Looking at Cheyne Capital's six main projects tell us that there was still a time lag for most projects, that is, a period during which the projects were not earning a profit for its investors. Moreover, even though Cheyne aimed to increase the speed of delivery, aiming for new build construction to be achieved in under six months (see section 3.5.5), to date, this has not yet been achieved (see section 4.4.5). Therefore, Cheyne Capital has yet to find a solution to the question of how we might increase the speed of delivery. Therefore, this remains of the main unresolved barriers for any SIFI aiming to invest at scale in housing (see section 4.4.5).

One potential path forward in addressing this issue is for a SIFI like Cheyne to develop an in-house approach to building procurement, using offsite construction (see section 4.4.5). Another option could be to work in partnership with a set of 'impact' building constructors that adhere to strict social covenants to ensure speed of delivery, design quality and integrity of the supply chain (see section 4.4.5). Also, it may be valuable to explore how investing in *built outcomes* (see section 4.4.5) could help to address the risk of 'impact washing' from new private investors entering the sector who could sacrifice building quality to increase the speed of delivery and thus earn a faster financial return, as previously introduced (see section 1.1.3).

Also, Cheyne Capital dealt with the issue of social impact measurement by reporting the total investment made in a given project and the degree to which the investments made have helped to strengthen the social reach, or number of individuals and/or households whose needs have been met by a given public or third sector client (see section 4.4.6). If impact investing in affordable urban housing continues to develop as predicted (see section 1.4.7), we will need to address the issue of a SIFI like Cheyne Capital still reporting social impact in terms of output(s), rather than the definition of social impact



put forward by Nicholls et al. (2015b): ‘significant changes in the wellbeing of key populations...’ (p. 256), as previously highlighted in chapter 1 and 5 (see sections 1.4.1 and 5.5).

While this thesis has highlighted the main issues Cheyne faced as a SIFI operating in joint partnership with SSOs, if this is to become a viable way of developing social housing without reliance on government grant, the challenges highlighted in this case will likely need to become key areas for future research (see conclusion to chapter 4). Furthermore, if we are to employ the sale-and-leaseback model across the UK, we need further research on the long-term implications of this new model of repayable finance.

*6.2.4 Design and social impact questions (addressed in chapter 5): How can we use design to achieve a greater social impact in social housing?*

The Integral Housing Strategy (IHS) aimed to show how design is fundamental to achieving a total value offering (VO), which could create a multi-level social impact (see section 5.2). This multi-level social impact could include social and economic benefits for housing beneficiaries, savings for SSOs, and an increase in property value, which creates benefits for both the SIFI and SSO (see section 5.2). However, in order to achieve this total VO, we would need to design social housing based on key design criteria, as described in the Design Principles, in sections 5.3.1– 5.3.5.

If we were to design social housing based on longer term thinking, rather than short term economics, this can offer a range of benefits that could strengthen the social impact. For example, by maximising building performance, we can reduce the running costs or life cycle costing of the building (see section 5.5). This has the added benefit of reducing the energy costs of the residents and the carbon emissions associated with the structure (see section 5.5). Also, by designing flexible social housing, rather than housing that becomes obsolete over time, we can accommodate the changing needs of SSOs and beneficiaries, and potentially reduce building maintenance costs over the lifetime of the building because the structure would allow for simple adaptations that respond to changing household needs over time (see section 5.3.2.6).

Furthermore, by designing housing that is integrated within the natural environment through, for example, green roofs, we can achieve stormwater, air pollution and energy benefits for the SSO and residents (see section 5.3.4).

However, if we want to use design to achieve a stronger social impact in terms of significant improvements in the wellbeing of key populations, as defined in chapter 1 (see section 1.4.1) and further discussed in chapter 5 (see section 5.5), we could design housing to relate to a range of non-residential uses, such as social enterprises for local economic growth, workshops for various onsite services, communal spaces for social services and care through partnerships with SSOs, and public parks for recreation and cultural activities (see section 5.2). Furthermore, chapter 5 has argued that the deliberate aim of reintegrating social programmes in housing for disadvantaged groups through mixed-use communal spaces and a range of non-residential services is fundamental to increasing the social reach of SSOs and, in turn, achieving a social impact, in terms of measurable changes in the wellbeing of key populations, over the medium- to long-term (see section 5.5).

#### *6.2.4.1 Are there principles we can identify from existing architectural projects that can be applied universally to meet social housing needs?*

The IHS identified five key design principles: diversity, connectivity, flexibility, human scale and environmental integration, which could be applied universally to increase the social value and in turn the social impact of housing in the context of this market (see section 5.3). These principles were drawn from significant pre-existing social housing projects, including the Jeanne Hachette Complex in Ivry-sur-Seine in Paris by architect Jean Renaudie (see section 5.3.1.1) and Alexandra Road Estate in the London Borough of Camden by architect Neave Brown (see section 5.3.2.1). These projects were selected on the basis that they were created under similar constraints: they needed to deliver quality, affordable housing, at a large scale, with easy access to the city centre, and they have both maintained their value over the long term (see section 5.3).

The Principles aimed to show how a SIFI like Cheyne Capital, which had no previous experience in social housing, could draw inspiration from

exemplary individual projects as a starting point to guide the design, help to inform key elements, and make more valuable design decisions. Furthermore, the Design Principles aimed to address five main issues in the normative approach to designing social housing, which are: one, a lack of urban intensity due to the fact that social housing is generally configured for single-use, which does not create a balanced ratio between dwelling density and mixed-use (see section 5.3.1); two, an overemphasis on fortification, which leads to segregated, polarised communities (see section 5.3.2); three, a lack of flexibility in the design, which can result in obsolescence (see section 5.3.3); four, a closed building façade, which creates a hard transition between the public realm and the private individual dwellings (see section 5.3.4); five, a lack of integration between housing and the natural environment; which can contribute to environmental issues relating to stormwater, air pollution, and energy use (see section 5.3.5).

#### *6.2.4.2 How can design be used to help achieve the goal of affordable housing that can be scaled, while also demonstrate a social impact?*

The prototypical Design Module presented in chapter 5 demonstrated how we could use this design exercise to develop a flexible housing programme based on housing without a specific site, so that it could be scaled up and down and applied in multiple contexts (see section 5.4). To achieve this, we developed a precisely designed system, to maximise the total rentable area, on the most universal form: the cube (see section 5.4). The Module also demonstrated that we could use a mix of prefabrication with onsite assembly and simple construction techniques that could be employed by a SIFI like Cheyne Capital, who are risk-averse. The advantage of this approach is that it may be able to achieve a more efficient delivery time, at scale, while allowing for simple modifications to be made at a later date (see section 5.4.6).

Additionally, the Module has shown that we could create a split-level structure to introduce a communal mixed-use space on the ground floor and roof level, while increasing dwelling density (see section 5.4). The significance of this communal space is that it could allow SSOs to work alongside housing

beneficiaries to create a range of social programmes that respond to the specific needs of the community. Furthermore, chapter 5 has aimed to show that if we are to achieve a measurable social impact in housing, in terms of significant changes in the wellbeing of housing beneficiaries, we will need to include onsite space for social programmes (see section 5.4.3).

While prefabricated housing could offer an effective way to deliver housing at scale, it has not yet been explored in the context of this case and many challenges remain. These include the lack of skills in UK building procurement in social housing, which could increase risk for SIFIs aiming to employ innovative design schemes in deprived areas. Moreover, we have yet to deliver housing in the context of this emergent market that includes onsite communal space. Therefore, we will need to develop pilot projects and test out how the design of onsite communal space could be linked to significant improvements in the wellbeing of housing beneficiaries.

#### *6.2.4.3 How can design be incorporated into this process?*

One of the advantages of introducing a SIFI like Cheyne Capital to this emergent market is that it presents the possibility of connecting architects with a viable form of funding. Because a SIFI like Cheyne is operating outside of public procurement rules (see chapter 2, introduction), it is able to commission the architecture from SMEs who are currently excluded from the market (see conclusion to chapter 5). Therefore, this market could represent one way to finance the delivery of more housing for disadvantaged groups with higher quality design and materials, by using less costly but potentially more innovative small design practices. However, in order to connect more architects and other design practitioners with impact capital provided by a SIFI like Cheyne Capital, we need to create stronger links between impact investing and housing design (see section 5.6).

One key recommendation would be to develop a design brief for design practitioners and SIFIs to work with, which can help to develop a body of knowledge for how we can use design to increase the social impact, while designing housing based on a new set of objectives and constraints, over the

medium- to long-term (see section 5.6). Additionally, it may be useful to institute long-term partnerships between SIFIs and design practices, so as to develop a new set of key design objectives and measure performance over time, rather than commissioning the architecture based on one-off projects (see section 5.6).

Another crucial step forward is to define what built outcomes we want to achieve in the context of this market, over the medium- to long-term. For example, we could focus on maximising building performance (see section 5.5) and promoting mixed, tenure-blind development (see sections 4.2.5, 4.4.2). Also, we could enforce a new set of housing space standards, which include, for example, onsite space for social programmes to take place in housing. Additionally, if we are to innovate in the design of housing in the context of this market, using a new design brief based on investing at an institutional scale, it will be important to gather together world experts across multiple sectors by means of conferences and symposia (see section 5.6).

### **6.3 Theoretical implications**

The implications of this research challenge and disrupt the normative assumption that we cannot use a hedge fund to effectively meet the housing needs of local councils, charities, and housing associations. Through this case analysis, this thesis has shown that we can successfully use a hedge fund to deliver ‘turnkey development’ and ‘asset acquisition’ for quality, affordable housing for disadvantaged groups, at scale, with little to no reliance on government funding (see chapter 4, introduction). Furthermore, due to Cheyne Capital’s financial literacy, rigour, and strict timetable, its role as a new social landlord has the potential to be significantly more efficient than housing delivered by the public sector (see section 3.5.6).

In addition to these findings, this case has shown that perhaps the most significant barrier for the timely delivery of UK social and affordable housing is not access to adequate funding, but rather the inefficiencies in UK building procurement (see chapter 2, introduction, and chapter 3, section 3.5.5). Cheyne Capital has shown that it can play an influential role as an intermediary by

reframing social housing and other forms of social property as an investment vehicle and attracting private institutional investment to invest in housing for public and third sector providers. The Fund has demonstrated it can effectively increase its seed funding from BSC from £12 million to around £900 million, with relative ease (see chapter 4, introduction). However, this novel approach to financing housing for disadvantaged groups at scale will only work effectively if we massively reform building procurement to render it significantly more efficient (see section 3.5.5). Therefore, if impact investing in social property is to work over the long term with the financial timetable of a hedge fund like Cheyne Capital, we will need to increase the speed of delivery of a robust pipeline of projects.

Furthermore, because Cheyne Capital has indicated that if it was to massively reduce the speed to delivery to, for example, under six months, it could also lower rental rates, impact investing in social property could also be less costly than housing delivered by the public or third sector (see section 3.5.5). Also, as Cheyne Capital aims to deliver housing that maintains or appreciates in value (4.4.2), rather than using the traditional approach to social housing, which has generally led to a depreciation in the value of housing, this could fundamentally challenge the assumption of what social housing *is* in the context of this market. Moreover, this concept of social housing that appreciates paired with tenure-blind development could lead to more socially inclusive communities based on sustainable development, in the context of this market over time.

#### **6.4 Policy implications**

The development of the modern social finance market in the UK is the product of one of the most proactive policy environments, characterised by intensive activities and programmes (see section 3.3), which has led to the creation of BSC, the Fund, and the appointment of Cheyne Capital as a SIFI (see chapter 3, conclusion). While these policies have played a key role in transforming how we fund social sector organisations in the context of this market, once Cheyne

Capital has entered the sector as a new social landlord, it has lacked sufficient government support.

Importantly, this emergent market is lacking a clear regulatory framework in the context of social property, which is essential if we are to mitigate the risks and capitalise on the opportunities of introducing private institutional actors to the sector. Therefore, if we are to use this new capital model, based on instituting large SIFIs as new social landlords to provide access to repayable finance through a sale-and-leaseback model, we need further involvement from the local and national government and additional policy support, as indicated in section 6.1 of this chapter.

This case has shown that we can effectively use private institutional investment from a hedge fund to finance housing for disadvantaged groups. However, the challenges that Cheyne Capital faced, as one of the earliest examples of impact investing in social property, were massive.

If we are to ensure that SIFIs can continue operating as BSC intended, we will need policy support to address the following six key areas: one, ensure financial return is dependent on social impact so the impact model and the business model are the same for all SIFIs entering the sector (see section 4.4.1); two, ensure that social housing that appreciates in value is a critical criteria of this market and must be demonstrated by all SIFIs (see section 4.4.2); three, mitigate the risks of the sale-and-leaseback agreement for SIFIs and SSOs (see section 4.4.3); four, ensure that the sale of public sector land is based on its intended use value and SIFIs are guaranteed fair access to purchase public lands on behalf of public sector clients in areas where land values are highest (see section 4.4.4); five, radically reduce the time and cost inefficiencies in building procurement in social housing (see section 4.4.5); six, institute some degree of standardisation of social impact measurement in social property for SIFIs and SSOs to use (see section 4.4.6).

Without further policy support in these six key areas, there would be no way to ensure the integrity of this emergent market or how to regulate private institutional investors, who have not been instituted by BSC and may not be committed to social impact. Furthermore, without adequate policy support for

the sale and leaseback agreement, the risks of protecting investment for SIFIs, on the one hand, and social impact for SSOs, on the other, would likely be too high. If we do not examine how to employ policy to mitigate the risks of the sale and leaseback agreement for both SIFIs and SSOs, it is unlikely that this new model of repayable finance will effectively lead to a large number of joint partnerships between SIFIs and SSOs over the long-term, as highlighted in section 6.1 of this chapter.

Additionally, we are at a critical juncture in the evolution of this market, at which impact investing can be used to reform building procurement in particular (see section 6.2.1) and public procurement procedures in general (see section 6.2.1.1). Therefore, it will be equally crucial to institute policies that can help by addressing the inefficiencies in UK building procurement in social housing. Also, we need to define what constitutes ‘impact’ building contractors who abide by the social covenants and financial constraints of a SIFI like Cheyne Capital (see section 3.5.5). Without instituting policies to reform building procurement procedures, we will not be able to protect investment and ensure long term engagement of SIFIs effectively.

While this thesis has acknowledged the contribution of the Social Value Act, it is not specific enough to establish critical criteria for reforming building procurement (see section 2.8) based on the recommendations highlighted in this chapter (see section 6.2.1 and section 6.2.1.1). As a result, we need to institute additional policy support to establish a clear demarcation between ‘impact’ building contractors abiding by strict social covenants and delivering housing within a radically reformed timetable (see section 4.4.5), and conventional building contractors who are not. Without additional policy support to reform this aspect of public procurement procedures, it is unlikely we could ensure fair access for ‘impact’ building contractors. Also, we may need to institute policy incentives for ‘impact’ contractors to deliver housing according to the financial timetable of SIFIs entering the sector.

Similarly, we will need to institute policy support to define the criteria of ‘impact’ design practices and institute policies to support fair access for SMEs operating as ‘impact’ design practices. However, if we are to introduce



‘impact’ design practices, currently excluded from the market due to their size, to design housing based on a new set of social impact objectives, such as maximising building performance, further policy research is needed.

Alongside the above recommendations, if new social landlords like Cheyne Capital are to increase the social impact of housing, we need to institute new policies that ensure that we design social housing and other forms of social property such as assisted living for the elderly as part of a broader social programme (see section 5.3.2.1). This process may involve securing policy support for a new set of building standards in the context of this market that includes the provision of onsite communal space. This change in building standards is particularly important because it would make it possible to include spaces as part of social housing and other forms of social property that are intended to extend the social reach of a local council, housing association working, or charity working with housing beneficiaries while promoting onsite civic engagement from the housing beneficiaries. Lastly, if we are to measure the social impact, in terms of significant changes in the wellbeing of housing beneficiaries, we need to create spaces in housing for this social impact to take place and engagement on the part of housing beneficiaries throughout the measurement process.

## **6.5 Recommendations for future work**

The subsequent sections offer a set of recommendations for future work in practice, academic research, and how we might better integrate the two. The first section aims to address the lack of engagement on the part of design practitioners involved in innovating in the design of housing for disadvantaged groups. The second section presents two critical areas for future research into impact investing in social property by looking at: a) social impact measurement in housing; b) how we might employ impact investing to utilise private institutional investment to build for climate change, environmental sustainability, and urban resilience. The third section highlights the importance of establishing a feedback loop between developments in practice and academic research. The final section specifies the forms of collaboration between the

practice of impact investing in social property and academic research on the design of the built environment.

#### *6.5.1 The need for design practitioner involvement*

Having looked at this topic, what do we now want to see happen? Concerning innovating in the design, we need a call to action for more architects and design practitioners to get involved in impact investing in social property, as described in chapter 5 (see section 5.8). Achieving a new degree of participation from architects, engineers, landscape architects, and urban designers is crucial. Developing innovative design solutions and including exemplary design features are fundamental to embedding social value and creating social impact in housing. Design could also be a powerful approach to achieving significant changes in the wellbeing of housing beneficiaries, as highlighted in chapter 5. Likewise, we will need greater cooperation and engagement from planners, contract surveyors, and private developers if we are to create new forms of sustainable and inclusive development.

Ensuring greater involvement from design practitioners remains a significant challenge. We have had a longstanding history where architects and other design practitioners have tended not to fully engage in housing projects for the very poor or most disadvantaged, as described in chapter 1 (see section 1.2.2 and 1.2.3). While the reasons for this may have changed over time and involve a complex range of wider stakeholders and drivers, we face a similar issue today. If we are to reform social housing and other forms of social property to be on the leading edge of design innovation, we need to address the fact that the majority of UK design practices are currently excluded from the market due to their size as SMEs (see chapter 2, introduction).

We will also need to create a stronger link between design practitioners and impact investing by generating knowledge of this emergent market within design discussions (see section 5.8) and incentives through government support. Furthermore, it may be useful to establish a design brief that defines the design objectives in the context of this market (see section 5.8). Therefore, achieving

greater involvement from design practitioners will need to be addressed from building procurement, architecture and design, and government policy.

This thesis has highlighted the role that a SIFI, such as Cheyne Capital, can play in unlocking more design talent because it operates outside of public procurement procedures and can commission the architecture from SMEs that are currently excluded from the market (see section 5.7). However, we also need significant government legislation and policy support, as outlined in this chapter (see section 6.4). Therefore, ensuring design practitioner involvement in this market and innovating in housing will involve engaging a range of stakeholders across multiple sectors, as described in chapter 5 (see section 5.8).

#### *6.5.2 Advancing academic research into social impact measurement*

If we are to measure the social impact of housing beyond the outputs in terms of the number of houses/units delivered as a result of the investment, social impact measurement is perhaps the single most crucial area for future work and academic research. This thesis has offered an exploratory framework for how we might approach social impact measurement by focusing on a multi-level approach that has two iterations (see section 4.4.6 and section 5.6). However, this foundational research on social impact measurement on a market that is still in flux is limited. It has not included a robust dataset to show, for example, how increasing the speed of delivery has created a measurable social impact in terms of reducing negative externalities of households on social housing waiting lists or reducing the rental rates for housing beneficiaries over the short, medium, and long term.

If we are to advance our understanding of social impact measurement in housing, it may be interesting to consider how SIFIs might achieve different levels of innovation. These levels could range from a positive but lower impact in terms of *housing as a social impact* to a higher or multi-level impact. Studying this impact may involve examining how SIFIs could radically reform building procurement to be significantly more efficient and thus less costly (see section 3.5.5 and 3.5.6). If a SIFI like Cheyne Capital could help reform social housing, an area of the sector with extreme funding constraints, to become the

most time and cost efficient, it would be interesting to study how the emergence of this market and introduction of private institutional investors as a new social landlords could generate measurable savings for government, SSOs, and housing beneficiaries.

If we are to innovate in housing and achieve a more significant social impact through impact investing, it is imperative to set a range of new design and building targets over the short, medium, and long term. These targets could include maximising building performance and delivering tenure-blind development that is committed to environmental sustainability (see section 4.2.5). Furthermore, if we are to maximise building performance and reduce the carbon emissions associated with the building construction, materials used, and building life cycle, these savings could demonstrate how impact real estate creates a measurable impact that is different from the normative approach. Also, tenure-blind development could create a revenue stream for SSOs, which we could measure to evaluate the performance of the investment over time.

Another critical consideration would be to explore how we might meet a range of new social objectives for key populations in housing. If we could achieve this, we may be able to measure how those changes in wellbeing could contribute to savings achieved in other sectors, as described in chapter 5 (see section 5.7.2). Also, it may be interesting to examine existing research on design and social innovation in housing (see e.g. Manzini et al., 2015). This research might help to inform new knowledge of how we could use design to create pilot projects in housing for disadvantaged groups, which demonstrate a measurable social impact, in terms of significant changes in wellbeing.

In order to develop a standardised approach to social impact measurement it may be worthwhile to develop the three general approaches of measuring social impact examined in this thesis: one, by examining the savings achieved through this novel form of partnering based on a sale and leaseback agreement between SIFIs and SSOs (see section 4.4.6); two, by examining the savings achieved through maximising building performance (see section 5.6) and delivering low carbon architecture; three, by examining the savings achieved through significant changes in the wellbeing of housing beneficiaries

(see section 5.6). Furthermore, we will need to understand better how we can measure each of these three approaches on a macro, meso, and micro scale, which correspond with the savings achieved for government, SSOs, and housing beneficiaries.

However, none of this will be possible without first developing a robust dataset based on evaluating joint partnerships between SIFIs and SSOs over time. To achieve this, we will need to monitor the performance of SIFIs and compare it with public procedures for building procurement in social housing. Alongside this, we will need to examine the social impact of maximising building performance and how, for example, it could offer savings over the lifecycle of the building while reducing the carbon emissions associated with the housing sector. Also, we will need to monitor the social impact of pilot projects in housing, which aim to create significant changes in the wellbeing of housing beneficiaries, as described in chapter 5 (see section 5.6).

Furthermore, it may be particularly strategic to examine how each of these approaches to social impact measurement relates to one another and offer added benefits when addressed together. If we could develop a new revenue stream, we could use this additional capital to innovate in the building materials, provide mixed-use communal space, and incorporate green roofs and programmes for urban agriculture, as part of housing. Instituting programmes for urban agriculture which ensure direct access to nutritious food for housing beneficiaries could positively influence health outcomes, and this relationship between housing beneficiaries, healthy food access, and health outcomes is an important strand for future research.

Lastly, if we are to capture the social value and, in turn, the social impact of housing in the context of this market, it may be useful to examine existing research the Social Return on Investment (SROI) (see chapter 2, introduction). It may be interesting to consider how existing research on SROI could help inform the development of a standardised approach to social impact measurement for housing in the context of this market (see chapter 2, introduction).

### *6.5.3 Connecting impact investing in social property with building for climate change, environmental sustainability, and urban resilience*

Perhaps one of the most important untold stories on this topic is to examine how the emergence of impact investing could offer a tremendous opportunity to leverage private institutional investment to fill the financing gap for building for climate change, environmental sustainability, and urban resilience. If impact investing in social property continues to develop as anticipated, it would also be interesting to study through academic research and ongoing symposia how this market could present a further opportunity for financing climate change adaptation measures in new and retrofit housing.

Given that impact investing in affordable urban housing is estimated to be one of the largest areas of growth in this market in the coming decade, as described in chapter 1 (see section 1.4.7), we are experiencing a timely moment to intervene in the design to institute a new range of design objectives for social and affordable housing targets within this market. These objectives could ensure that all new and retrofit housing deliver net zero whole life carbon by 2030. It could also ensure quality and affordable tenure-blind development that exemplifies sustainable building design. If we can align impact investing ambitions with the targets of the Royal Institute of British Architects (RIBA) 2030 Climate Challenge (Royal Institute of British Architects (RIBA), 2019), we could formulate a strategic plan in Britain to finance these urgent transformations of the built environment.

Alongside this, it will be equally important to examine how impact investing could help mitigate the risks of climate change for vulnerable groups, such as the elderly. Addressing this challenge will likely involve changes in practice where the public, private, and non-profit sectors will need to work together to examine densely populated areas where vulnerable groups are most at risk to extreme climatic events and then partner with private institutional investors to finance climate change mitigation measures for housing in these areas. It will be equally important to connect the impact investing market with existing discussions in practice among leading architecture, engineering, and landscape architecture practices to develop state-of-the-art design strategies to

retrofit existing housing stock and transform housing design to help ensure climate resilience for those who are most vulnerable now and in the coming decades.

In addition to connecting the impact investing market with efforts to build for climate change, environmental sustainability, and urban resilience, we also need to develop academic research on this topic. Unfortunately, this is an area of the market where, to date, no academic research has taken place. To address this gap, we need to connect research on impact investing in housing with existing research on the 2030 Agenda for Sustainable Development (United Nations, 2015) and the architectural and urban aspects of the Sustainable Development Goals (the SDGs) (Royal Institute of British Architects (RIBA), 2017a, 2017b, 2018, 2019, 2020a), as indicated in section 5.6.1. Additionally, it will be crucial to look at existing research on reducing the carbon emissions associated with the built environment and climate change adaptation measures in the housing sector. If we can connect these bodies of work and create an ongoing feedback loop between practice and academic research, there is hope that the emergence of this market and the influx of private institutional capital in the sector could help lead an impact revolution for building for environmental sustainability.

Examining a topic of this scale and complexity will require interdisciplinary research and global collaboration. It will be equally important to conduct policy research to support these efforts. For example, in order for SIFIs to invest private institutional capital in mitigating the risks of climate change for key populations, we will need to challenge the investment restrictions placed upon BSC by the *Dormant Bank Accounts Act*, which prevented it from making ‘place-based’ investing (see section 3.4.1). This topic is a critical strand for future research if we are to develop the strategic planning necessary to address growing concerns over UK flooding, coupled with the increasing risk of overheating in high-rise urban housing.

#### *6.5.4 Creating a feedback between academic research and practice*

Even though there were aspects of Cheyne Capital that remained private due to the confidentiality of its investments, this research project was distinct and innovative, given the level of access I was granted, particularly at such an early stage in the development of the Fund. At this intermediary stage in market development, it remains mostly unclear whether other alternative investment managers entering the sector as impact real estate investors will allow external access by way of in-depth academic research, given the tendency of hedge funds to operate in secrecy.

However, in order for academic research on impact investing in social property to be effective, we need to establish a stronger integration between a SIFI like Cheyne Capital and academic research. If we are to begin addressing foundational issues highlighted in this case, we need further academic involvement in these projects as they take place in practice. Also, we will need to establish a feedback loop between observations in this emergent market, academic research into issues arising in practice, and how we are implementing potential solutions in practice. Perhaps the solutions proposed in this thesis will help to serve as a platform for further academic research and demonstrate to other hedge funds entering the sector the value of offering access for external academic involvement.

#### *6.5.5 Specifying the forms of collaboration between the practice of impact investing in social property and academic research*

Establishing a stronger collaboration between the practice of impact investing in social property and academic research is a vital area for future work, although it could prove to be significantly challenging. Besides a level of secrecy from alternative asset managers who may not be open to academic observation, particularly from those that are outside of their profession, there remains a lack of knowledge and engagement of this emergent market from design practitioners, as described in section 6.5.1.

At the time of completing this thesis, there were a growing number of efforts to establish new forms of collaboration between impact investing and



business school curriculum. For example, Harvard Business School developed an Impact-Weighted Accounts Initiative (IWAI) chaired by Sir Ronald Cohen to advance accounting for impact by driving the creation of financial accounts that reflect a company's financial, social, and environmental performance.<sup>204</sup> This ambitious academic initiative is helping to guide how impact accounting develops in this emergent market and seeks to show how we might reimagine capitalism and consider how we can create a more sustainable form of capitalism for all people and the planet (see further Serafeim et al., 2019). During this same time period, Saïd Business School at the University of Oxford created the Oxford Future of Real Estate Programme.<sup>205</sup> This online programme examines topics such as the future of housing and residential property markets and the future of real estate funds and represents the closest academic analysis of this emerging industry to date.

While the two above mentioned academic programmes are helping to advance knowledge on this topic in business and real estate and represent ground-breaking efforts to create synergies with practice, neither consider residential architecture or the design of the built environment. Likewise, academic programmes on the built environment, including architecture, urban design, landscape architecture, and urban planning, do not currently include a curriculum on impact investing, and it has not yet garnered interest as a subject of study.<sup>206</sup>

In order to create a dynamic, ongoing conversation between these rapid developments in practice and academic research on the design of the built environment, it will be essential to encourage new forms of interdisciplinary collaboration between finance and architecture and work to unify these disciplines in a collective effort to address the shortage of quality and affordable urban housing. One particularly promising path forward might be to consider

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<sup>204</sup> See further <https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx>.

<sup>205</sup> See further <https://www.sbs.ox.ac.uk/programmes/executive-education/online-programmes/oxford-future-real-estate-programme>.

<sup>206</sup> It is interesting to note that the Graduate School of Design at Harvard University developed a series called Design Impact in 2020, which examines topics such as slum upgrading, regenerative design, and design equity (see <https://www.gsdimpact.com>). However, this series does not account for impact investing or the rise of private institutional investment in housing.

how leading design practitioners and design institutes, like the Royal Institute for British Architects (RIBA), could help mobilise a global movement for interdisciplinary initiatives between leading social finance advocates like Sir Ronald Cohen, design practitioners, housing experts, and government.

As part of this effort, it would also be valuable for institutes like RIBA to help campaign for this topic to be included in current discussions on the built environment. This could take the form of an interdisciplinary symposium between RIBA, the Oxford Future of Real Estate Programme, the Architectural Association (the AA), and the Impact-Weighted Accounts Initiative at Harvard Business School to begin discussing how we might better integrate existing discussions on this topic with the design of the built environment. Establishing greater collaboration between these efforts through a broader conversation between finance and architecture is particularly important for connecting existing discussions on social impact measurement and accounting with current discussions on measuring building performance, evidence-based design, and design outcomes.

In addition, it will be important to consider how we could develop an interdisciplinary design initiative in the academy that examines the intersection between architecture, real estate, social entrepreneurship, sustainable development, social impact measurement, and the study of government policy. This potential new area of inquiry could be included as part of undergraduate studies, post-professional degrees, executive education, and doctoral programmes.

As part of this initiative, we could also develop design-based research that seeks to examine creative solutions to five potential areas of future inquiry pertaining to the design brief presented in this case which include: one, housing design, building performance, net-zero whole life carbon, evidence-based design, and social impact measurement; two, building procurement reform, efficiency, scalable siteless housing design, and measurable economic savings; three, participatory design, placemaking, resident-empowerment, and social impact; four, the UN Sustainable Development Goals (SDGs), and building for climate change, environmental sustainability, urban resilience, and

environmental impact; and five, dual-use residential architecture, mixed-use communal space, civic engagement, social entrepreneurship, and economic impact. Here these potential strands of future design-based research could examine social, environmental, and economic impact individually as well as collectively and test out a new range of design solutions for how we articulate social impact measurement for housing.

If we are to continue tackling some of our most intractable social challenges like the creation of housing that offers a promise out of poverty, we will need to drive the creation of a new generation of leading design students and practitioners that can operate a juncture between architecture, business, real estate, government, and social entrepreneurship. However, this will not be possible without support from leading institutions like RIBA and ongoing discussions on how the next generation of architects and design practitioners can engage more centrally in this emergent market.

## **Conclusion**

This thesis has provided the first in-depth academic study of impact investing in social property by examining the case of Cheyne Capital and its role in developing housing for disadvantaged groups. It has offered insight into this emergent field and the opportunities, risks, and challenges of this new capital model.

In order to assess whether impact investing has worked as a viable and ethical approach to delivering social housing and other forms of social property at scale, this thesis has offered three central pieces of evidence. First, it has shown how BSC helped create the Fund through seed investment and how Cheyne Capital has needed to operate under specific social covenants and investment restrictions. Second, as a large SIFI, Cheyne Capital has successfully unlocked and leveraged private institutional capital for housing for disadvantaged groups. Third, Cheyne Capital has effectively turned this investment into housing by developing joint partnerships with a diverse range of SSOs and delivering at least six quality, affordable housing projects, investing around £900 million into the sector. Therefore, this case study has

shown that we can use a large SIFI to deliver social housing and other forms of social property based on a new form of repayable finance.

If we can continue developing this market, based on joint partnerships between SIFIs and SSOs, there is hope that we can address the fundamental problem of providing quality and affordable housing for disadvantaged groups in or near city centres where land values are highest. Given that this is a ‘wicked problem’ (see introduction, chapter 3) that we have been attempting to resolve in Britain since the mid-nineteenth century, but is still mostly unresolved today, we need to address this problem from a new and different approach. Perhaps the creation of the modern social finance market and the introduction of hedge funds as financial intermediaries and new social landlords could offer a promising path forward.

While significant challenges remain in mitigating the risks of this novel form of partnering between SIFIs and SSOs, if we work to resolve them with policy support, impact investing in social property could offer a new opportunity to meet the housing needs of public and third sector organisations serving disadvantaged groups now and in the coming decades. Given that the total number of new build social housing is estimated at 90,000 *per year* in England, and 100,000 *per year* in Great Britain, over a 15-year time horizon as indicated in chapter 1 (see introduction and section 1.1.3.1), employing private institutional investment may offer the most viable solution to meeting these targets. SIFIs could also play a crucial role in addressing the financing gap for building for climate change, environmental sustainability, and urban resilience, and this is a key area for future work and academic research, as indicated in the previous section.

Notably, the financial imperative of a SIFI like Cheyne Capital to deliver affordable housing within a radically reformulated timetable while demonstrating a measurable social impact could offer a powerful solution to reform the time and cost inefficiencies and create added benefits at multiple levels (see section 3.5.5 and 3.5.6). Therefore, the introduction of a private institutional actor, such as Cheyne Capital, could reshape and transform

building procurement practices while helping to achieve our estimated housing targets.

If we can connect a SIFI like Cheyne Capital with a fraternity of architecture, engineering, and landscape architecture practices, we can begin addressing these housing targets in a way that foregrounds creativity. While there is much work to be done, if we can develop effective partnerships between a SIFI like Cheyne Capital and innovative design practices, there is also hope that this new social landlord could use its access to private institutional investment to deliver quality housing that is genuinely affordable and committed to environmental sustainability.

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