

THE
GOOD
ECONOMY

CIVITAS SOCIAL HOUSING PLC HALF YEAR IMPACT REPORT 2021

NOVEMBER 2021





This report has been commissioned by Civitas Social Housing PLC ("Civitas") and has been prepared by The Good Economy Partnership Limited ("The Good Economy"), a leading impact advisory firm, specialising in impact measurement and management.

The Good Economy supported Civitas to develop its impact assessment methodology and carries out a review of the impact performance of Civitas on a semi-annual basis. This report is based on analysis of quantitative data and evidence, as well as in-depth interviews with management and staff of Civitas Investment Management (the investment advisor to Civitas), partner housing associations, care providers, local authorities and residents, including a Resident Outcomes Survey carried out with a representative sample.

The findings and opinions conveyed in this report are based on information obtained from a variety of sources which The Good Economy believes to be reliable and accurate. However, the information reviewed should not be considered as exhaustive and The Good Economy, its principals and staff cannot and does not guarantee the accuracy, completeness and or fairness of the information and opinions contained herein. This report shall not be construed as a financial promotion or as a recommendation, invitation or inducement to any person to engage in investment activity.

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The information within this report is subject to change relative to new developments, facts and or research. The Good Economy therefore reserves the right (but is under no obligation) to alter the conclusions and recommendations presented in this report in light of further information that may become available.

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CIVITAS' SOCIAL OBJECTIVE IS TO HELP TACKLE THE CHRONIC SHORTAGE OF SOCIAL HOUSING IN THE UK, WITH A CURRENT FOCUS ON THE PROVISION OF SPECIALIST SUPPORTED HOUSING (SSH) FOR INDIVIDUALS WITH COMPLEX CARE NEEDS.

EXECUTIVE SUMMARY

In November 2016, Civitas was launched as the first Real Estate Investment Trust (REIT) that specialises in social housing investment, with a focus on specialised supported housing (SSH) for vulnerable people with a care need. As of September 2021, Civitas has invested £825 million in 648 properties, providing homes for up to 4,391 people.

This is the fourth half-year Impact Report produced for Civitas Social Housing PLC (Civitas or the Fund). It has been produced by The Good Economy (TGE), an independent impact advisory firm specialising in impact measurement and management. TGE assesses Civitas' performance against its stated impact objectives and the target outcomes to which the Fund aims to contribute. The report covers the six-month period from April to September 2021.



IMPACT ASSESSMENT – SUMMARY OF RESULTS

- ▶ TGE considers that Civitas has made a positive contribution to meeting its impact objectives in the past six months. Most notably, it has increased its deployment of capital and its additionality by bringing further properties into the SSH sector for the first time. All of its 29 property purchases in the period were new to the sector. This has lifted this crucial type of supply to 36% of its total portfolio, from 33% previously.
- ▶ As a result, it has grown its capacity to house people with care needs by 2% over the past six months.
- ▶ In addition, Civitas has diversified its impact by investing for the first time in day centres, as part of the support and care package to local SSH properties, that provide life skills training for vulnerable people.
- ▶ At the same time, the Fund is making progress on improving the environmental performance of its properties. Through retrofit work, it has raised the proportion of its properties with A-C EPC ratings to 54%, from 52% six months earlier.
- ▶ Civitas' environmental ambition, underscored by its partnership with E.ON, is high. Its target is for all properties to be rated A-C by 2030 – five years before the government's 2035 target.
- ▶ TGE sees Civitas as facing three main types of impact risk – execution risk, stakeholder participation risk and alignment risk. The Fund has put in place several mitigation strategies to guard against the likelihood that these risks will lead to services to residents being affected.

AS OF SEPTEMBER 2021, CIVITAS HAS INVESTED £825 MILLION IN 648 PROPERTIES, PROVIDING HOMES FOR UP TO 4,391 PEOPLE.

IMPACT REPORT – HEADLINE RESULTS

AS OF 30 SEPTEMBER 2021



£825
MILLION
INVESTED

IN 648
PROPERTIES



MANAGED BY
17 HOUSING
PROVIDERS



36% OF PROPERTIES
NEW TO SOCIAL
HOUSING AT
THE POINT OF
ACQUISITION

LOCATED ACROSS
170 LOCAL AUTHORITIES



67% OF PROPERTIES
IN THE 40%
MOST DEPRIVED
LOCAL AUTHORITIES

CAPACITY TO PROVIDE
HOMES FOR 4,391
PEOPLE LIVING
WITH CARE NEEDS



AVERAGE 25-YEAR
LEASES PROVIDE
SECURITY TO RESIDENTS





RESIDENTS SUPPORTED THROUGH CARE AND SUPPORT PROVISION

BY 119 CARE PROVIDERS



£3.51 IS CREATED IN SOCIAL VALUE FOR EVERY £1 OF ANNUALISED INVESTMENT¹



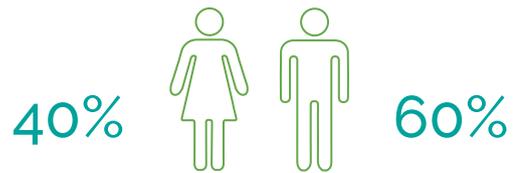
54% OF HOMES HAVE EPC RATING OF C+



99.9% OF HOMES HAVE EPC RATING OF E+

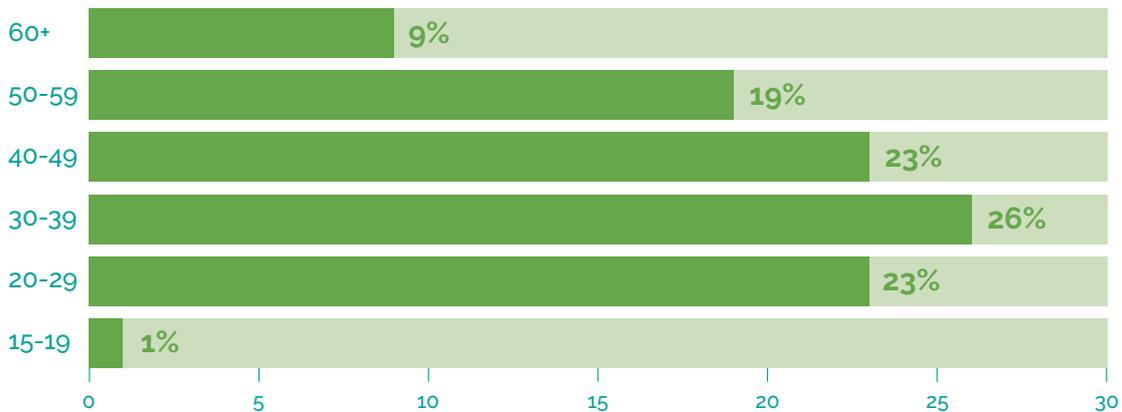


AVERAGE WEEKLY CARE HOURS
43 HOURS²



GENDER SPLIT³

AGE BREAKDOWN OF CIVITAS RESIDENTS³



1. Based on Value for Money calculation carried out as of March 2021.

2. Based on survey sample of 87 residents conducted from April to May 2021.

3. Based on resident demographics data collected from nine of Civitas' partner housing providers, covering 1,542 residents (approximately 36% of the portfolio).

INTRODUCTION

ABOUT CIVITAS SOCIAL HOUSING

Civitas Social Housing PLC (Civitas or the Fund) is the UK's first Real Estate Investment Trust (REIT) that specialises in social housing investment.

Civitas' specific focus is Specialised Supported Housing (SSH) – a form of community-based provision in which homes are built or adapted to support the needs of vulnerable people. Since launching on the London Stock Exchange in November 2016, Civitas has invested £825 million in 648 properties across England and Wales, providing homes for up to 4,391 people.

Civitas operates by raising capital at scale from institutional and retail investors to provide long-term equity to the social housing sector. The Fund acquires properties and leases them to housing providers to manage, with the rental income used to fund investor returns.

THIS REPORT

This is the fourth Half-Year Impact Report prepared for Civitas by The Good Economy (TGE) for the period April to September 2021. These reports provide updates on Civitas' impact performance at six-month intervals. They complement full Annual Impact Reports published in June each year.

A mix of quantitative and qualitative data informs the impact assessment. This includes portfolio data provided by Civitas, as well as information and feedback from partner housing providers, care providers and members of the Civitas Investment Management (CIM) team.⁴ For the full Annual Impact Reports, TGE also conducts a Resident Outcomes Survey with a representative sample of residents. The results of a survey conducted between April and May 2021 have been restated in this report.

This report focuses on activity between April and September 2021.

4. Civitas Social Housing PLC (Civitas) is the investment company and Civitas Investment Management Ltd (CIM) is the investment advisor to the Fund.

IMPACT FRAMEWORK

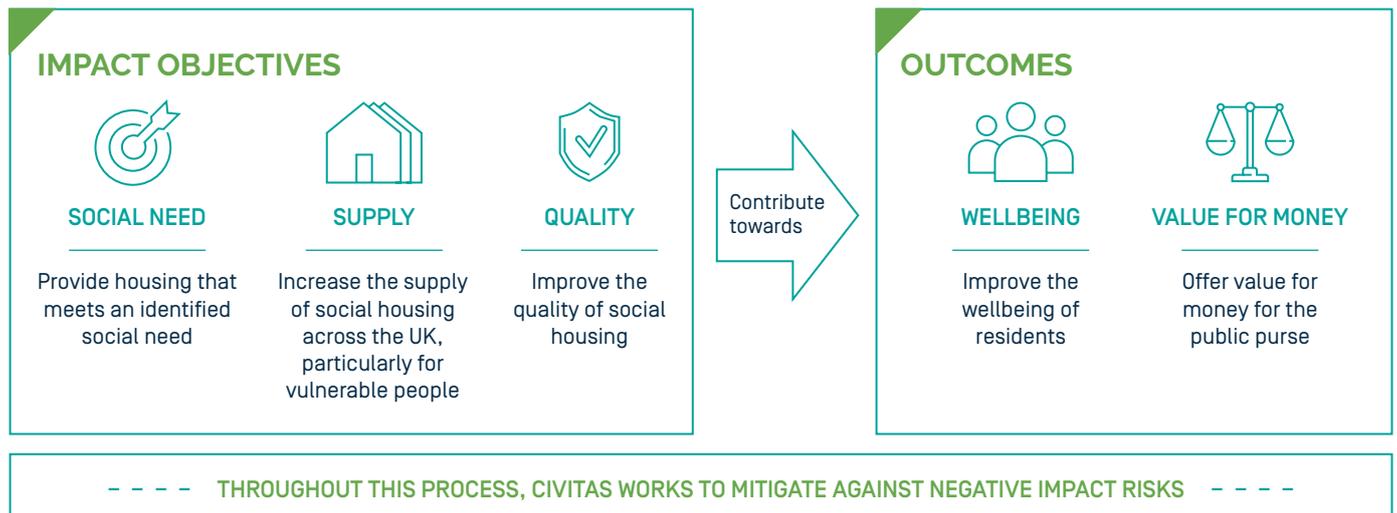
Civitas' impact goal is to increase the provision of high-quality social housing that delivers positive outcomes for people with care needs.

Civitas has developed an Impact Measurement and Management (IMM) framework. Its purpose is to identify activities and intended outcomes through which the Fund aims to contribute to positive impact creation.

This framework forms the basis of TGE's impact assessment in this report. The approach is aligned with the five dimensions of impact set out by the Impact Management Project (IMP).

Over the last 12 months CIM has been involved as a project partner in the Equity Investor Impact Reporting Project. This is a collaborative sector-led project of investors and other market participants. Its aim is to develop a common framework to enable investors to measure, manage and report on the impact of equity-based investments in the social and affordable housing sector in a consistent, comparable and transparent way.

Civitas is working towards being able to report against the metrics developed as part of the framework for its Annual Impact Report in June 2022.





IMPACT ASSESSMENT AND RESULTS

In the six months to September 2021, Civitas added 29 properties to its portfolio - all new to the social housing sector. It also formed a partnership with E.ON to improve the environmental performance of the portfolio's least energy efficient properties.

OVERALL IMPACT GOAL

To increase the provision of high-quality social housing that delivers positive social outcomes for individuals with care needs.

PORTFOLIO SUMMARY	MARCH 2021	SEPTEMBER 2021
Value of capital deployed	£803m	£825m
Number of properties	619	648
Number of units	4,295	4,391
Number of local authorities in which properties are located	164	170
Number of partner Housing Providers	16	17
Number of care providers delivering care into Fund's homes	118	119

OVERALL IMPACT GOAL: TO INCREASE THE PROVISION OF HIGH-QUALITY SOCIAL HOUSING THAT DELIVERS POSITIVE SOCIAL OUTCOMES FOR INDIVIDUALS WITH CARE NEEDS.

IMPACT OBJECTIVE

✔ SOCIAL NEED

Provide homes for individuals with an identified need for social housing.

IMPACT OBJECTIVE	IMPACT METRICS	MARCH 2021	SEPTEMBER 2021
 SOCIAL NEED	Number of units	4,295	4,391
	Breakdown of units by care classification of residents		
	Multi diagnosis	47%	48%
	Learning disabilities	31%	30%
	Mental health	12%	12%
	Dependencies	5%	5%
	Autism	4%	4%
	Other (including homelessness)	1%	1%
	Breakdown of units by housing type		
	Supported housing	69%	69%
	Residential care	26%	26%
	Other	5%	5%
	Percentage of properties in 40% most deprived local authorities	66%	67%



CIVITAS CONTINUES TO PROVIDE HOMES FOR PEOPLE WITH AN IDENTIFIED NEED FOR APPROPRIATE HOUSING AND SUPPORT. THE FUND ENSURES THAT ALL OF ITS PROPERTIES MEET AN IDENTIFIED NEED BY REQUIRING CONFIRMATION OF COMMISSIONER SUPPORT AS PART OF ITS DEAL DUE DILIGENCE.

People living in Civitas' homes are mostly working-age adults who require relatively high levels of support in their day-to-day lives. They includes those with multiple diagnoses, learning disabilities, mental health diagnoses, dependency issues, autism and risk of homelessness.

The bulk (69%) of Civitas' portfolio is supported housing – homes built or adapted to meet residents' care needs

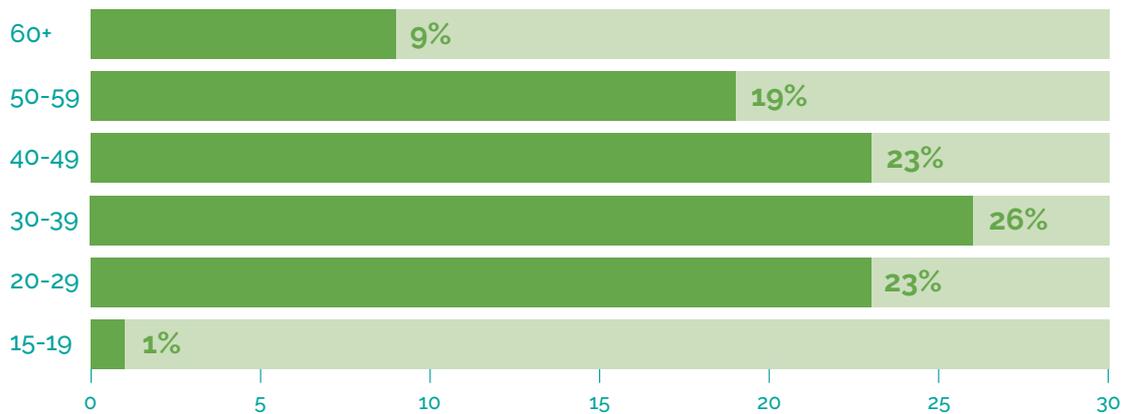
while allowing them to live as independently as possible. Residents have their own tenancy and support package, and most homes are in the community. Around a quarter of the Fund's homes provide residential care. Residents occupy rooms within larger facilities and receive standardised care packages.



CIVITAS' PORTFOLIO NOW HAS THE CAPACITY TO HOUSE UP TO 4,391 PEOPLE WITH CARE NEEDS. THIS REPRESENTS ANNUAL GROWTH OF APPROXIMATELY 2% SINCE SEPTEMBER 2020.

RESIDENT DEMOGRAPHICS⁵

AGE BREAKDOWN

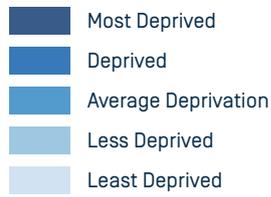


AVERAGE WEEKLY CARE HOURS
43 HOURS

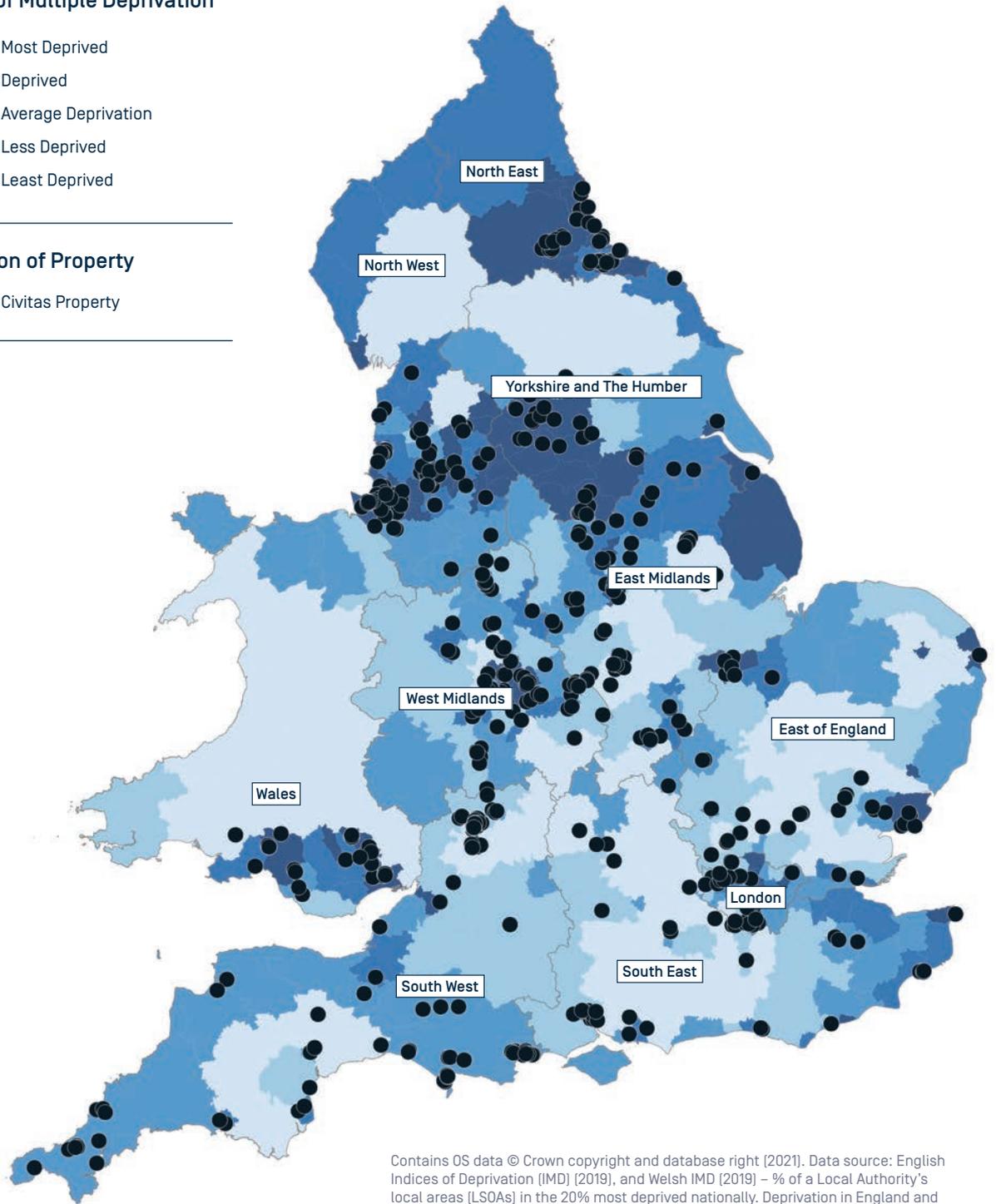
5. Age breakdown and gender split based on resident demographics data provided by nine of Civitas' partner housing providers, covering 1,542 residents (approximately 35% of portfolio). Average weekly care hours based on survey data collected remotely from a sample of 87 residents between April and May 2021.

Civitas' portfolio is located in 170 local authorities across England and Wales. These include some of the most deprived areas of the UK, with 67% of properties in the 40% most deprived local authorities.

Index of Multiple Deprivation



Location of Property



IMPACT OBJECTIVE

▀ SUPPLY

Increase the supply of social housing across the UK for vulnerable people with care needs.

IMPACT OBJECTIVE	IMPACT METRICS	MARCH 2021	SEPTEMBER 2021
 SUPPLY	Number of properties	619	648
	Number of units	4,295	4,391
	Percentage of properties converted to social housing sector for the first time	33%	36%



CIVITAS IS A MAJOR INVESTOR IN THE SOCIAL HOUSING SECTOR AND HAS MADE A SUBSTANTIAL CONTRIBUTION TO INCREASING SUPPLY SINCE LAUNCHING THE FUND IN 2016. AS OF SEPTEMBER 2021, IT OWNS 648 PROPERTIES THAT CAN HOUSE UP TO 4,391 PEOPLE.

In the last six months, Civitas has scaled up its new social housing for vulnerable individuals with care needs. This follows a period of relatively slower growth, with Civitas having acquired as many properties in the last six

months [29] as it had in the previous two years. An £84.5m loan facility agreed with M&G Investments in February 2021 has enabled this growth.



ALL OF THE 29 PROPERTIES ADDED BETWEEN MARCH AND SEPTEMBER 2021 HAVE BEEN BROUGHT INTO THE SOCIAL HOUSING SECTOR FOR THE FIRST TIME. THIS TAKES THE PORTFOLIO TO 36% OF PROPERTIES WHICH ARE NEW TO THE SECTOR AT ACQUISITION.

Civitas has performed well in terms of increasing the supply of social housing during this period, with the proportion of new social housing increasing from 33% to 36%.

The properties acquired by the Fund in the last six months include two Day Centres in Newport. These provide life skills

training for residents in local supported housing properties with mental health needs and learning disabilities. They are run by a local care provider, are embedded in the community and have the capacity to serve a combined 120 people.⁶

6. Note these 120 service users are not included in Civitas' total number of units [4,391] since these are day centres rather than homes.

IMPACT OBJECTIVE

QUALITY

Improve the quality of social housing.

IMPACT OBJECTIVE	IMPACT METRICS	MARCH 2021	SEPTEMBER 2021
 QUALITY	Percentage of residents who reported that they were satisfied with the quality of their home*	87%	87%*
	Percentage of homes with EPC rating A-C	52%	54%
	Percentage of homes with EPC rating A-E	99.9%	99.9%
	Number of EPCs improved during the last 6 months	-	21
	Percentage of homes meeting key compliance requirements	99%	99%

*Based on data from a resident survey conducted with a sample of 87 residents between April and May 2021.



IN A SURVEY OF CIVITAS RESIDENTS, 87% OF RESPONDENTS WERE SATISFIED WITH THE QUALITY OF THEIR HOME.

This is in line with the wider population, where 90% of adults report being satisfied with their accommodation.⁷

Civitas continues to receive monthly compliance data from all housing providers. As of September 2021, the Fund's statutory compliance rate was 99% across the portfolio - the same as it was as of March 2021. TGE have heard that this level of compliance is better than the wider affordable housing sector.



7. Office for National Statistics (ONS), English Housing Survey data on attitudes and life satisfaction, 2019-20.



54% OF CIVITAS' HOMES HAVE EPC RATINGS OF A-C AND 99.9% ARE RATED A-E.

Civitas is making progress in this area. In the six months to September 2021, the proportion of homes rated A-C increased from 52% to 54%. Moreover, during that period 21 homes were improved to C ratings: this included 15 homes previously rated E and six previously rated D.

Civitas' environmental performance target is for all properties to be rated A-C by 2030. This is five years ahead of the government's 2035 Clean Growth Strategy. Following a pilot study, Civitas is progressing the implementation of Phase 1 of the rollout over its broader portfolio alongside the major energy supplier E.ON. Within

this partnership, E.ON identifies the works required to upgrade properties and provides access to grants due to its national scale, while Civitas is committing funding to those works and collaborating with partner housing providers. As of September 2021, the retrofit pre-works surveys are approximately 50% complete. Measures such as solar panels, external wall insulation and loft insulation commenced in November 2021 and are set to be completed in February 2022. This programme benefits from the government's ECO3 and AoR funding alongside capital investment from Civitas. See McAteer Court case study on page 26 for further insight.

CASE STUDY: ACTIVE ASSET MANAGEMENT IN BIRMINGHAM

Civitas' properties in this scheme consist of 14 supported housing properties, all located on a residential close just outside Birmingham. These provide 32 units in a mix of 2- and 3-bed houses and flats.

Civitas acquired the properties in 2017, but the breakdown of relationships between the local authority and housing provider resulted in a gradual decline in nominations. The properties were transferred to another partner with a strategic relationship with locally based care providers and the local authority in 2020. Civitas funded works to adapt the properties for people with complex support needs who wished to live in a normal house on a residential street. They are now used as single-occupancy homes for vulnerable people including individuals with challenging behaviour who are unable to share with others.

The housing provider worked with Civitas to improve each property. This included works such as changing lights to surface-mounted LEDs, changing locks to thumb turns,

changing the hobs from gas to induction, installing doors with two-way hinges and installing streetlights. In addition, the Clinical Commissioning Group purchased a garden pod for staff when the resident needs space.

This case study provides an example of Civitas being proactive as an asset manager, stepping in to support housing providers and committing capital to fund improvement works where it is evident that schemes are not working. It also reinforces the importance of strong, strategic commissioning relationships in the provision of appropriate housing and care support for vulnerable adults. Ultimately, the quality of partners and the strength of local commissioning relationships are key to mitigating negative impact risks with such schemes.

TGE will look to visit this scheme for the full-year Impact Report in June 2022 to assess the strength of these partnerships, and to hear feedback directly from residents and staff.

➤ TARGET OUTCOMES

This section assesses the change in outcomes experienced by Civitas' stakeholders.

As these are influenced by many factors, Civitas' activities, as the investor and property owner, only contribute to these outcomes partially. Nonetheless, it is important to assess them since they provide the ultimate insight into the real-world impact that Civitas contributes to.

In the table below, these outcome areas have been categorised according to the Impact Management Project (IMP) dimensions of impact. This is an internationally recognised approach to impact measurement, which categorises impact according to five core dimensions: What, Who, How Much, Contribution and Risk.

TGE have identified the main target outcomes which Civitas aims to contribute towards:

- Improve resident wellbeing
- Provide value for money.

IMPACT MANAGEMENT PROJECT		OUTCOME: WELLBEING 	OUTCOME: VALUE FOR MONEY 
WHAT impact is Civitas having?		Change in residents' physical and/or mental wellbeing	Value for money for public budgets by delivering a cost-effective solution to housing individuals with care needs
WHO is experiencing the impact?		Residents with mostly high acuity care needs	Local authorities / Central government
HOW MUCH impact is Civitas creating?	Scale	Large scale – 4,391 potential residents (at full occupancy) as of September 2021	Large scale – 4,391 potential residents (at full occupancy) as of September 2021
	Depth	Dependent on degree of change in wellbeing	Dependent on cost-differential between Civitas property and alternative housing
	Duration	Likely long-term – most SSH intended to provide a long-term home for residents	Likely long-term – 25-year leases with most properties intended as long-term homes for residents
What is Civitas' CONTRIBUTION to what would likely happen anyway?		SSH widely held to offer positive wellbeing benefits for residents with care needs. Therefore, resident wellbeing likely better than what would have occurred without availability of Civitas property	Civitas funding contributes to increasing the supply of specialist housing, easing the burden on residential or inpatient facilities. Therefore, health and social care costs likely better than what would have occurred anyway
What is the RISK of the impact not happening?		Execution risk/Stakeholder risk: <ul style="list-style-type: none"> — Homes do not meet resident needs as effectively as expected — Housing providers and/or care providers deliver sub-standard services to residents 	Efficiency risk/Alignment risk: Social care cost associated with Civitas property turns out more expensive than potential alternative housing settings

TGE judges that Civitas' assets can be classed as 'Contributing to Solutions', based on the IMP's classification of impact performance. In terms of Civitas' contribution to this impact as an investor, TGE is of the opinion that Civitas:

- Signals that Impact Matters
- Engages Actively
- Grows New/Undersupplied Capital Markets.

TARGET OUTCOME

WELLBEING

A core element of Civitas' overall impact goal is to provide housing that supports the wellbeing of people living with support needs.

To assess Civitas' contribution to this outcome area, TGE conducted a Resident Outcomes Survey between April and May 2021 in partnership with 13 care providers. A random sample of 87 residents participated.

Residents were questioned on aspects of their physical and mental wellbeing. These were:

- Physical health
- Social connections to others
- Quality of support network
- Confidence levels
- Feelings of independence.

Results were broadly positive. More than half of residents reported marked improvements in their confidence levels and feelings of independence since moving into their Civitas-owned home. While they reported less positive results over their social connections, this reflects the survey's timing during the Covid-19 pandemic.

Full results can be found in [Civitas' Annual Impact Report 2021](#), published in June 2021.



MORE THAN HALF OF RESIDENTS REPORTED MARKED IMPROVEMENTS IN THEIR CONFIDENCE LEVELS AND FEELINGS OF INDEPENDENCE SINCE MOVING INTO THEIR CIVITAS-OWNED HOME.



TARGET OUTCOME

VALUE FOR MONEY

Provide value for money for the public purse by offering cost-effective housing for people with care needs.

TARGET OUTCOME	IMPACT METRICS	MARCH 2021	SEPTEMBER 2021*
 VALUE FOR MONEY	Total Social Value	£127.0m	£127.0m
	Social Impact – the value of improved outcomes for residents	£51.2m	£51.2m
	Fiscal Savings – the savings generated for public budgets	£75.9m	£75.9m
	Social Return on Investment – the social value generated for every £1 invested [over the duration of the investment]	£3.51	£3.51

*September 2021 results are re-stated from Value for Money calculation carried out as of March 2021.

Independent research by Mencap found that someone living in SSH requires, on average, state funding of £1,569 per week for housing and care.

- This is £191 lower than residential care homes; and
- £1,931 lower than inpatient places.⁸

VALUE FOR MONEY CALCULATION

To assess Civitas' contribution to this outcome area, TGE calculated the value for money generated by Civitas' portfolio in June 2021.

This was carried out in partnership with Social Profit Calculator (SPC), an independent organisation that specialises in calculating the financial value of social, economic and environmental impacts.

The method involved using the answers provided by residents as part of the Resident Outcomes Survey to produce an overall Total Social Value. This figure is underpinned by two components:

- **Social Impact** – The value of improved personal outcomes for residents resulting from improved wellbeing, mental and physical health, reduced social isolation, increased confidence and independence.
- **Fiscal Savings** – The savings generated for public budgets through reduced care costs due to residents moving into Civitas-owned housing from alternative settings.

A full description of the calculation method can be found in [Civitas' Annual Impact Report 2021](#).

8. Mencap & Housing LIN, Funding supported housing for all: Specialised Supported Housing for people with a learning disability, 2018.

RESULTS

THE RESULTS OF THE CALCULATION CARRIED OUT IN JUNE 2021 ARE BEING RE-STATED IN THIS REPORT. THESE SHOW THAT THE CIVITAS PORTFOLIO DELIVERED £127.0M OF TOTAL SOCIAL VALUE IN THE YEAR TO MARCH 2021.

This is divided into:

- **£51.2M** OF SOCIAL IMPACT
- **£75.9M** OF FISCAL SAVINGS

*Note these figures do not equal £127.0m due to rounding.

Using these values and the total amount invested by Civitas, SPC calculated the portfolio's SR0I ratio at £3.51 as of March 2021. This means that every £1 invested in Civitas generated £3.51 in social value on an annualised basis (based on the portfolio of homes as of March 2021 and with a WAULT period of 22.64 years).



**£3.51 IS CREATED
IN SOCIAL VALUE
FOR EVERY £1
OF ANNUALISED INVESTMENT**



MITIGATE IMPACT RISKS

Throughout the investment process, Civitas aims to mitigate against negative impact risks.

 MITIGATE IMPACT RISKS	IMPACT METRICS	MARCH 2021	SEPTEMBER 2021
	Number of partner housing providers	16	17
	Of which are Registered Providers (RPs), regulated by the RSH	15	16
	Of which are charitable organisations, not regulated by the RSH	1	1
	Number of partner housing providers declared non-compliant with the RSH's governance and viability standards	8	10
	Number of partner care providers ⁹	118	119

IMPACT RISK

Impact risk is the likelihood that impact will be different than expected, and that the difference will be material from the perspective of the people or planet who experience impact. TGE has analysed the potential impact risks of Civitas using the [IMP's impact risk assessment framework](#).

The IMP identifies nine types of impact risk that enterprises and investors may be exposed to. TGE has classified three risk categories as material in regard to Civitas: execution risk, stakeholder risk and alignment risk. In this section, we describe the nature of the risk, the level of risk and the mitigating actions Civitas is taking to address the risk. This

analysis will be further developed in the Annual Impact Report and will remain an ongoing aspect of TGE's impact analysis.

It should be noted that Civitas is a member of the Equity Impact Project (EIP) that was established by Big Society Capital and The Good Economy. This project aims to ensure the market for private investment in social and affordable housing is underpinned by 'rules of the game' to help ensure that intentions are always clear, incentives are aligned, and there is transparency and accountability to all stakeholders, including residents. Civitas plans to report using the EIP framework in its next Annual Impact Report.

During the reporting period a hedge fund short-seller¹⁰ published an Open Letter to the Civitas board regarding the activities of Civitas and the CIM team. TGE has discussed the claims made with the CIM team, noting that Civitas published a 37-page rebuttal of the claims that was subject to full legal verification. One of the claims relates to the nature of the lease agreements and how risk and returns are shared with partner housing providers.

This point is relevant to TGE's role as Civitas' independent impact advisor given the risk to delivering positive outcomes for residents and partner housing organisations if the lease arrangements are not sustainable.

Other points relate to Civitas' financial transactions and how these deals are structured. This falls outside the scope of TGE's assessment and so these are not addressed in this impact report. However, TGE notes that they have been addressed separately by Civitas.

9. Care providers are regulated by the Care Quality Commission, but ratings are not systematically monitored by Civitas.

10. The organisation stands to gain if Civitas' share price falls.

EXECUTION RISK

Execution risk refers to the probability that activities are not delivered as planned and do not result in the desired outcomes. Part of the success of Civitas' model depends on selecting quality partners with the management experience and operational capability to deliver well-managed, high-quality services on a long-term, sustainable basis. This is particularly important given Civitas' residents typically have high acuity needs and are likely to require accommodation and support for several decades and sometimes for the whole of their lives.

LEVEL OF RISK

This risk is assessed as High given the fact that 10 out of Civitas' 16 partner RPs (accounting for 84% of Civitas' units) have been declared non-compliant with the RSH's Governance and Financial Viability Standards (four with a grading and six with a Regulatory Notice).¹¹ The most recent Regulatory Notice was issued to Falcon Housing Association. This was issued outside the reporting period but before final publication of this report (November 2021). Falcon is Civitas' largest tenant with 850 units.

One of the factors behind these regulatory assessments is that a small number of specialist housing organisations have grown fast through working with a range of developers/aggregators and funders to expand their SSH portfolios using a lease-based model, including lease arrangements with Civitas to meet exceptionally high demand. The RSH has published their views on the risks associated with the lease-based model and is currently carrying out a review of all such providers.¹² It should be noted that the RSH produces a risk profile each year which highlights many risks the sector is subject to, including the cost of decarbonisation, cladding risk and servicing debt. None of these risks apply to SSH providers who are only managing associations.

MITIGATION STRATEGIES

Civitas is well aware of this risk which has been an ongoing concern for several years. TGE have heard from several providers they do not think their finances are strong enough to support further growth and are focused on consolidation and strengthening of existing management and operations. Civitas is committed to supporting improvements in its housing providers' governance standards, operational capacity and financial viability. However, these improvements will take place over time, and the future outlook for some of these providers remains uncertain. Civitas has already undertaken several mitigating actions to address the execution risks identified. These include:

Being an active landlord. Civitas prides itself on being an active and engaged investor in the SSH sector that is committed to high operational and service delivery standards. The Fund has learnt lessons and built-up additional expertise from some early investments. It has further strengthened its due diligence procedures and monitors housing providers' financial and operational performance on a monthly basis. Civitas receives monthly compliance data from all of its partner housing providers, relating to key health and safety areas such as Fire Safety, Gas Certificates and Asbestos. It also receives monthly information on the percentage of voids (covered and uncovered) from all partner housing providers. Data at 30 September 2021 shows Civitas' housing providers are 99% compliant with health and safety requirements. TGE has also seen evidence which shows that the portfolio has a small percentage of uncovered voids.

This shows that Civitas has asset management systems in place to monitor the safety and occupancy of its stock. The level of uncovered voids impacts financial viability of housing providers which in turn may erode the overall provision of services. Civitas also pays close attention to rent setting as it views mispricing of rent as a major risk to providers in this space (see Value for Money section on page 20). Currently, all of Civitas' providers, including Falcon, are fulfilling their lease agreements, including paying their rent on time and complying with operational standards.

Change of lease terms. Civitas has introduced two changes to lease terms to improve how financial risk is shared between the Fund and its partner housing providers. These two changes are: a Force Majeure clause which requires Civitas and the provider to create a contingency plan if a significant government-led event occurs that impacts a housing provider's ability to meet its lease obligations; and a cap of 4% and a collar of 1% on rent increases, regardless of the level of inflation. These clauses have been implemented on all of Civitas' recent transactions. A plan to implement them retrospectively on all historic leases has not yet been executed.

TGE is of the view that these amendments are a positive step. However, the nature of the Full Repairing and Insuring (FRI) leases can make it difficult for some of these housing providers, who are generally small, specialist organisations, to build up sufficient capital reserves to deal with structural, more expensive issues, such as roof repairs. This is a responsibility of the housing provider under the FRI lease. This presents a potential impact risk to residents, as it has the potential to impede on the quality of service the provider is able to deliver.

11. G1/V1 is the highest Governance and Viability grading which means that an RP meets the RSH's governance and viability requirements and has the financial capacity to deal with a wide range of adverse scenarios. Anything lower than G2/V2 is deemed non-compliant with the standards. G4/V4 is the lowest possible grading. The RSH does not publish Regulatory Judgements for RPs with fewer than 1,000 units. Instead, in the interests of transparency, it publishes a Regulatory Notice where it has evidence that a small RP is not meeting regulatory standards.

12. RSH, Lease-based providers of specialised supported housing: Addendum to the Sector Risk Profile 2018.



Transfer of leases. Transfer of leases can be used as a mitigation strategy in the event that another provider is unable or unwilling to continue managing the properties, or where a provider wishes to rationalise its management operations. Civitas has been actively involved in the transfer of leases from one provider to another, and in some cases has provided payments to the receiving providers to cover the costs of onboarding fees and ensure repairs and maintenance services are appropriately developed. From an impact perspective, the key concern is whether there is any disruption to residents during these transfers. TGE's understanding is that there have been no instances in which transfers have led to individuals losing their accommodation or experiencing direct negative impacts.

Best practice seminars and establishment of The Social Housing Family (TSHF). CIM holds regular seminars for its housing providers, that are sometimes attended by the RSH, focused on sharing experiences and improving operational performance. It has also been involved in the establishment of TSHF, a Community Interest Company whose purpose is to

assist in operational and governance enhancements within the SSH sector. This organisation has had limited resource and capacity to date, but the expectation is that it will be capitalised and become more active in driving industry standards in the future.

Establishment of Qualitas. CIM has been directly involved in the establishment of Qualitas Housing with the aim of diversifying its provider base. Qualitas Housing has been established as a Community Benefit Society that aims to provide a range of housing options and healthcare facilities for vulnerable individuals. It is currently managing 182 units for Civitas, with Exemplar Health Care as the care provider for those units. The partnership with Qualitas represents the first with an organisation which is not a Registered Provider of Social Housing (RP), and so is not regulated by the RSH.¹³ Qualitas Housing is the second member of the TSHF. Currently, all operational functions are outsourced but the expectation is that Qualitas will build an executive team and in-house operational capacity as it builds out further and aims to establish itself as a high-quality specialist provider.

13. In May 2020, Civitas shareholders voted on and approved a proposal to modify the investment objective and investment policy of the Fund which allowed it to sign leases with organisations that are not RPs. This change was made to allow the Fund to benefit from enhanced diversification in respect of working with different counterparties, including charities, and the nature of the provision that is delivered within its properties.

STAKEHOLDER RISK AND ALIGNMENT RISK

Stakeholder participation risk refers to the probability that the expectations and/or experience of stakeholders are misunderstood or not taken into account. Alignment risk refers to the risk that impact creation is not locked into the enterprise or investor model, such that when the model is put under pressure, financial motivations may drive decisions.

Level of risk

These risks are assessed as Medium. The most important stakeholders are the residents. Here, TGE has evidence that Civitas is committed to investing in high-quality accommodation with appropriate support, and that Civitas proactively engages in adapting properties if they do not meet individual needs. TGE will continue to carry out Resident Outcome Surveys as part of the annual impact assessment to hear first-hand resident's views on the quality of housing and support.

The other key stakeholders are the housing partners. TGE interviewed four housing providers for this report as well as several investors and market observers. There were concerns that the lease terms have not always worked favourably for housing providers and there is a need for greater stakeholder alignment.

Furthermore, concerns were raised by market observers about Civitas' closeness to certain care providers, notably Specialist Healthcare Operations, and perceived conflicts of interest. In its Market Update issued in October 2021,

Civitas has explained these relationships and their strategic importance to the Fund's growth plans. Positive impact creation is more likely to occur where there is clear impact alignment across all parties. TGE recommends that Civitas prioritises openness and transparency in all transactions going forward.

Mitigation strategy

There is a view among stakeholders representing different segments of the market that it would be valuable for industry players to come together to agree codes of practice for lease-based deals and ensure funding terms help organisations to invest in sustainable growth and build their financial resilience. It was also felt there is a need for more education and skills development among housing providers regarding different funding models, including understanding the pros and cons of different models and how to negotiate fair financial terms. There may be a role for industry bodies, such as the National Housing Federation, to play in this regard.

TGE have discussed this idea with Civitas and they are fully supportive. This would build on the Fund's active engagement with the sector to date and the intentions behind establishing the TSHF. Civitas is an evergreen fund that is seeking to deliver long-term sustainable financial, social and environmental value. For Civitas, alignment is built into the investment model as only a strong, stable, high performing sector will deliver consistent, low-risk, long-term financial returns.

THE PURPOSE OF IMPACT INVESTING IS TO PROVIDE FINANCE THAT HELPS CONTRIBUTE TO SOLUTIONS IN WAYS WHICH ARE DEMAND-LED RATHER THAN FINANCE-LED. THIS IS AN IMPORTANT TIME IN THE SCALE-UP AND DEVELOPMENT OF THE SSH SECTOR. IT IS ESSENTIAL THAT THERE IS AN ALIGNMENT OF VALUES AND ACTION ACROSS THE MARKET ECOSYSTEM THAT HELPS BUILD A ROBUST, TRANSPARENT SECTOR THAT CAN DELIVER QUALITY ACCOMMODATION TO VULNERABLE ADULTS OVER THE LONG-TERM AND RESPOND TO THE HIGH LEVELS OF DEMAND.

CASE STUDY

MCATEER COURT	
Care Provider Essential Care and Support	Local Authority Durham County Council
Housing Provider Falcon Housing Association	Number of Residents 8



Location: Durham

SCHEME OVERVIEW

McAteer Court is an 8-bed supported living facility in Durham which provides homes for people living with mental health diagnoses.

Falcon Housing Association is the housing provider, while care services are provided by Essential Care and Support.

McAteer Court comprises a block of purpose-built single-occupancy flats, with each resident having their own front door. In addition, there is also a 1-bed semi-detached house next door. This building is used by the McAteer Court care staff as an office, while one resident lives in this building with their own supported living tenancy.

Falcon Housing Association informed TGE that this is a relatively settled property, with most residents having lived at McAteer Court since before Civitas' acquisition. The longest-serving resident has been living at McAteer Court since 2010, while the most recent move-in took place in 2018. TGE has heard that most residents feel very comfortable at the property, with a good relationship with support staff that has built up over many years. Residents generally see the property as a 'forever home' and have no immediate plans to move anywhere else.

RETROFIT WORKS

McAteer Court was identified by Civitas as a property suitable for retrofit works to improve its environmental performance. This formed part of a pilot programme to lift the Civitas portfolio's performance.

The programme began with Civitas undertaking a full review of EPC ratings across its portfolio, with a focus on identifying the worst-performing properties. McAteer Court was identified as one of those, with EPC ratings for the building all Es and Fs.

Having reviewed available retrofit funding, Civitas worked with Falcon and Pacifica Group to identify grant funding available from

Durham County Council for the installation of air source heat pumps at McAteer Court. Falcon then worked alongside a local installation company for the pumps to be installed on the exterior of the property. Falcon also committed its own capital for metal cages to be placed around the pumps, both to ensure resident safety and to protect the pumps. The key benefits include projected annual electricity cost savings of £799 per property and carbon emission reduction of 19.8 tonnes annually.



AS A DIRECT RESULT OF THE INSTALLATION, ALL FLATS AT MCATEER COURT HAVE BEEN UPGRADED TO EPC RATING C.

Falcon informed TGE that Civitas played a key role in enabling these works. Falcon would not have considered air source heat pumps because they are expensive to install and it was unaware of the available grant funding. This provides a clear example of Civitas bringing tangible additionality to the sector.



AS A LARGE-SCALE ASSET OWNER COMMITTED TO IMPROVING ITS PORTFOLIO'S ENVIRONMENTAL PERFORMANCE, CIVITAS IS CONTRIBUTING TO RETROFIT WORK SUCH AS MCATEER COURT TAKING PLACE THAT WOULD BE UNLIKELY OTHERWISE.



APPENDIX

APPENDIX 1 – DATA SOURCES

DATA SOURCE / EVIDENCE	OVERVIEW	EVIDENCE RISK	LIMITATIONS
Property-by-property portfolio data	Portfolio data provided to TGE by Civitas every six months. For each property, this data provides the following info: acquisition date, address, partner details, number of units, care classification of residents, property description and whether property is new to SSH at the point of acquisition.	Low	Reliant on accuracy of data provided by Civitas.
EPC data	Dataset showing distribution of EPC ratings in the Civitas portfolio. This is provided to TGE by Civitas.	Low	Reliant on accuracy of data provided by Civitas.
Housing provider monitoring data [as of Sept 2021]	Overview of the KPI data Civitas receive from RPs on monthly basis. This includes info on number of properties, number of units and operational compliance levels.	Low	Reliant on accuracy of data provided by Civitas.
Resident demographics data	Resident demographic data provided by nine of Civitas' partner housing providers, covering 1,542 residents (approximately 36% of portfolio). This data was provided to Civitas by the housing providers, before being passed on to TGE.	Medium	Reliant on accuracy of data provided by housing providers, and on accuracy of sample in representing the broader portfolio.
Resident Outcomes Survey data	Survey data collected remotely from a sample of 87 residents, covering 13 care providers (approximately 2% of portfolio). Residents completed the surveys on paper and the care provider scanned them back to TGE.	High	Small sample size – outcomes data disclosed by surveyed residents may not be representative of experiences of wider portfolio of residents. Also, reliant on accuracy of data provided by residents.
Due Diligence questionnaire template	Blank template of Civitas' Due Diligence questionnaire. This was provided to TGE to show the areas Civitas requires info on as part of their standard process on all deals.	Low	Reliant on Civitas requiring info on all the listed items in the DD template when considering deals.
Interviews with housing provider partners	Interviews carried out with Civitas' housing provider partners. Through these interviews, TGE aim to find out about the housing providers' general relationship with Civitas, as well as specific details in relation to selected schemes.	Medium	TGE speak to at least one partner housing provider for each Impact Report. This means TGE have spoken to the majority of Civitas' partner providers since 2017 but not all.
Interviews with care provider partners	Interviews carried out with care providers who deliver support services to residents living in Civitas-owned homes. Through these interviews, TGE aim to find out about the CPs' general relationship with Civitas, as well as specific details in relation to selected schemes.	Medium	TGE speak to at least one partner care provider for each Impact Report. Civitas work with over 100 care providers and so TGE have only had conversations with a small proportion since 2017.
Interviews with CIM staff	Interviews carried out with various members of CIM's staff, including the organisation's directors as well as those from investment teams, asset-management team and healthcare teams.	Medium	Reliant on the accuracy of the answers provided by CIM staff. Also, though these conversations provide insight into the Fund's processes and activities, they cannot provide the full picture since some info is confidential and cannot be shared.
Monetisation data from Social Profit Calculator (SPC)	Monetisation data provided to TGE by SPC – an independent organisation specialising in calculating the financial value of social, economic and environmental impact. This monetisation data is based on the wellbeing outcomes disclosed by residents through the Resident Outcomes Survey. SPC use their own monetisation model to calculate the monetary value of the outcomes experienced by residents. This is based on a Social Return on Investment (SROI) framework which uses monetised outcomes (financial proxies) to quantify and communicate the relative value of outcomes.	High	Monetisation data is based on a small sample of residents (87) whose experiences may not be representative of the wider portfolio. Also, methodology to calculate monetised value of wellbeing outcomes is SPC's Intellectual Property so is not fully disclosed. This risk is however limited by the fact that SPC's methodology is aligned to 'best practice' valuation techniques outlined in the HM Treasury Green Book and OECD guidance, and uses values that have been used in government policy analysis.

DATA SOURCE / EVIDENCE	OVERVIEW	EVIDENCE RISK	LIMITATIONS
G/V gradings of partner RPs	TGE conduct a review of the Governance and Viability (G/V) gradings published by the RSH for each of Civitas' 16 partner RPs.	Low	None – the RSH is an independent regulatory body. These gradings should accurately reflect an independent appraisal of their standard of governance and financial viability.
Letter from short-seller to Civitas board (and response from Civitas)	Letter to Civitas board published by a hedge fund short-seller in September 2021. The letter presented doubts regarding Civitas' model and presented reasons for the firm adopting a short position. Civitas published a detailed 37-page rebuttal in October 2021.	Medium	As a short-seller targeting Civitas, this organisation stands to gain if Civitas' share price falls.

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