

# An affordable home is where the heart is for most DC pension savers

We believe using direct contribution (DC) pension fund investments to help tackle the UK's housing shortage could be the way to the hearts of retirement savers when it comes to helping them understand – and maybe even embrace – the concept of looking beyond traditional public market investment funds.

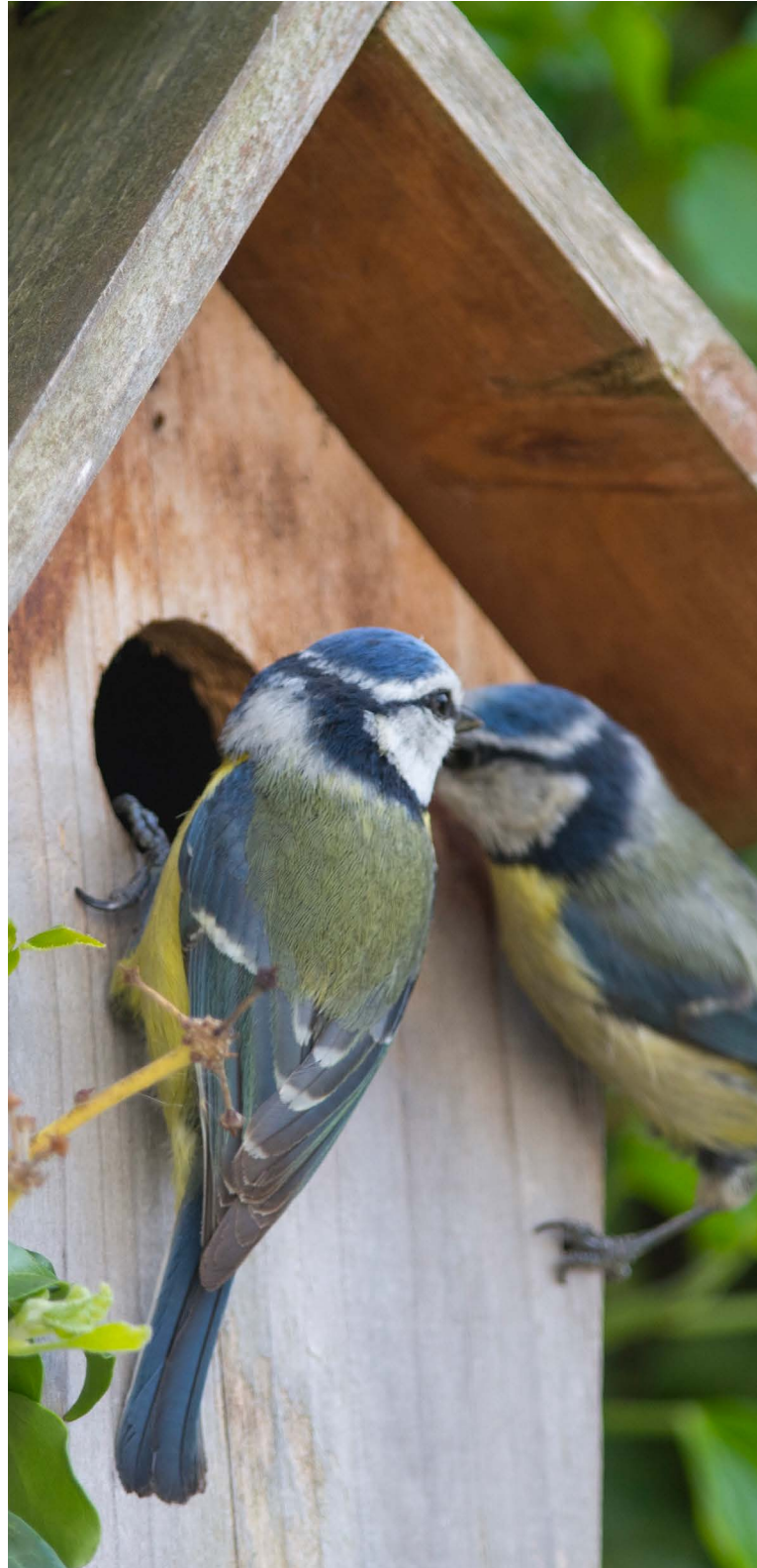


**Rita Butler-Jones**  
Head of DC, Legal & General

The suggestion comes from a survey by Legal & General's asset management division<sup>1</sup> which asked more than 2,000 people currently investing in a DC pension, for their views on private market investments. Across all generations, 70% said they'd feel more positive about their pension if its funds were being used to help support affordable housing schemes.

## Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.



1. Research carried out in April 2024 by Ignition House on behalf of Legal & General's asset management division. The research sampled 2,024 people in the UK who were currently contributing to a workplace pension.

We conducted the research as part of Legal & General's moves to widen access to private market investments for DC investors. We believe that exposure to private market assets introduces more diversity into DC investment portfolios which could help spread financial risk. We also believe that investing in high-growth sectors such as affordable homes, science and technology and clean energy could create the potential for long-term financial value for those saving for their retirement.

In addition, it isn't only DC pension savers who could benefit from investing in areas not usually included in DC pension strategies. We believe investing in private markets could also offer potential opportunities to boost the UK and global economy and help fund projects linked to issues that communities both need and care about such as the provision of clean energy sources, roads, local jobs and housing.

The illiquidity of private market assets means they're typically suited to investors with longer-term time horizons such as pension schemes. In exchange for investing money over the longer term, private markets have the potential to offer an 'illiquidity premium' which refers to the additional return received to compensate for tying up capital in an asset for a long time which could be as long as a decade or more.

However, private market assets can be more complex to invest in and manage, which can mean higher fees compared with traditional assets. So, it's important to consider the potential

value that investing in private markets might bring to an overall portfolio rather than considering fees in isolation.

And while as asset managers, pension providers like Legal & General might feel comfortable with the rationale for investing in private markets, it's important to us to take scheme members with us as we map out long-term investment strategies which involve their pension savings. Hence our research into what they know about non-traditional market assets such as real estate and social infrastructure, and how they feel about them.

Local authority housing waiting lists have averaged 1.3 million households over the last four decades<sup>2</sup>. Estimates suggest that 145,000 new affordable homes are required each year<sup>3</sup> but, on average, 52,000 affordable homes are built<sup>4</sup>. Therefore, the need for more affordable homes in the UK could also, in our view, present an opportunity for institutional investors like us at Legal & General to gain increased exposure to a highly regulated and relatively low-risk sector, offering sustainable returns, long-term inflation-linked income and tangible social impact.

Legal & General's recent survey suggests how deeply the lack of affordable homes appears to be preying on the minds of UK retirement savers. We may speculate on the reasons for this, but rising prices in the last few years appear to have made home affordability a 'live' issue among most of the DC savers we surveyed. As one put it:



**“...affordable housing is so important, especially for young people trying to get on the ladder. You know, it's near enough impossible these days... there also isn't enough of it (affordable housing).”**

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Our research demonstrates that members of DC pension schemes have also made the connection between investing in affordable housing as being both socially positive and a relatively sound long-term investment for their money. When asked if they felt that pension companies investing in affordable housing would perform worse financially than those who did not, just 8% said they did, while 60% felt that investing in this way would lead to better financial performance.

It's possible that investing in affordable homes could also result in members making increased pension contributions with 55% of respondents saying they'd be prepared to pay more into their scheme if they thought it was being invested in this way. Perhaps unsurprisingly, younger age groups were particularly supportive of the concept with 66% of those aged between 18 and 24 at the time of the survey saying they'd be inclined to pay more compared with 47% of those aged between 55 and 65.

Across all age-groups, 61% said they'd be prepared to pay more in fees for their pension to see their funds invested in affordable housing. Of these, 78% would pay more than £50 a year in additional fees while 36% would be prepared to pay more than £100 a year.

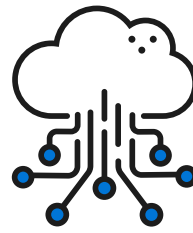
Of the other options put to them, investing in clean energy came a close second with 66% saying they'd feel more positive about their pension if it invested in this area, followed by 60% for investing in innovation and technology, and 49% for investing in private, unlisted companies.

Among those we interviewed, typical comments were:

**“I think it’s quite a good idea (to invest) because safe and affordable housing is something which each of us needs on a daily basis. So I think it’s a good investment because you’ll always get good returns. If not straight away, maybe within a longer time period. So, whether you’re rich or poor, you always need to have a safe place to live, so it’ll always be demand for this.”**

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**“I think I'd feel more confident that the investment's gonna do well because, you know, there's such a demand for it. So it'd make me feel like, you know, fingers crossed nothing's gonna go wrong with that investment because there is such a demand for affordable housing. And it also, I think, sits quite nicely with me because I know that when I bought my first house, it was a new build, it got me on the ladder, it allowed me to buy my next home with the profit that I got from the first one. So it would make me feel quite relaxed and confident.”**

So, would understanding the rationale behind investing a proportion of DC funds in private market investments and what this could mean for real-world projects that they understand and support, help scheme members to engage more with their pensions? When it comes to issues dear to people's hearts, such as affordable homes, Legal & General's survey findings suggest that it would.

2. Department for Levelling Up, Housing and Communities, Local Authority Waiting Lists as at January 2024.

3. Heriot-Watt University & National Housing Federation – Housing Supply Requirements across Great Britain, April 2019.

4. Department for Levelling Up, Housing and Communities, Affordable Housing Supply Statistics 2022-23 as at January 2024.

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