

# Sage Housing Social Bond Framework September 2020



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## Introduction

Sage Housing is a responsible and rapidly growing social business, committed to delivering great value for our investors whilst continuously contributing to the sustainability, success and wellbeing of the communities that we serve.

The greatest social value that we deliver is through the provision of new affordable homes, which is our core business. According to the House Builders Federation, in their 2018 report into the economic output of housing, housing generates £7.7bn for public services before planning obligations (which Government valued at £6bn in 2016/17) are accounted for. Our rented homes are rented at discounts to the prevailing open market rate and are let only to people on local authority housing waiting lists who are in housing need. Our shared ownership homes are sold only to those who would find open market purchase unattainable. We expect to deliver at least 20,000 modern and efficient new build homes over the next several years, delivering considerable value to our customers, to the local economy and to the exchequer overall.

The development of new homes means that we enable the creation of employment for the thousands of people who work in our supply chain, constructing and managing thousands of new properties across England. The UK's housing supply chain is estimated to be worth nearly £12bn per year. According to MHCLG every £1m of housing output supports 19.9 direct jobs and 15.6 indirect jobs. By this measure our portfolio commitment increase in 2019 alone supported 11,900 direct and 9,400 indirect jobs.

We also create value for local economies, by helping to redevelop land and regenerate areas where housing and jobs are badly needed. According to the House Builders Federation, housing creates £38bn of economic output each year and was responsible for 698,000 jobs.

Strong links between secure housing, health and employment outcomes are well documented. According to UK charity Shelter, experience of multiple housing problems increases children's risk of ill - health and disability by up to 25% during childhood and early adulthood. Poor quality housing also increases a child's risk of poor educational attainment and can limit their opportunities in later life.

Our commitment to high levels of environmental responsibility has never been more important. Commissioning energy efficient buildings not only helps mitigate the effects of climate change but has the added benefits of more affordable and better for their wellbeing. In excess of 98% of our homes have an EPC rating of B or above and all are fitted with low energy lighting. In addition:

- 85% of our homes in management have green communal spaces
- 25% of our homes in management have playing fields

We are committed to operating as a value-driven social business, which is recognised as a valuable partner to government and communities. We believe that having a strong ESG proposition creates value across the business – for customers, stakeholders and investors alike. We already do a great deal to support the communities where we have homes but as we mature as a business, we will further embed our ESG strategy and establish ourselves as one of the leading proponents of sustainability, social value and responsible investment in the housing sector.

A robust and ambitious approach to ESG is also an important aspect of our risk management construct – reputationally, operationally and financially. Increasingly, investors and analysts and

auditors are focusing on assessing the robustness of our ESG commitments when evaluating our business.

Sage's ESG responsibilities, alongside our regulated duties, are therefore our Board's top priority. Our Board leads on setting objectives and ensuring that Sage leadership delivers against them in a timely and transparent way.

### Social Bond Framework

As part of the broader sustainability strategy, Sage Housing has established this Social Bond Framework (the Framework). Generally, the Framework is aligned with the ICMA Social Bond Principles (SBP)<sup>1</sup>, which are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the social bond market.

The Framework is presented through the 4 key pillars of the Social Bond Principles

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

### Reporting Use of Proceeds

Net proceeds or an equivalent amount of net proceeds will be allocated to the financing and/or refinancing of projects that meet the eligibility criteria defined below:

SBP category	Eligible Projects	SDG mapping
Affordable Housing	<ul style="list-style-type: none"><li>• The provision of homes for social and affordable rent across England.</li></ul>	<ul style="list-style-type: none"><li>• No poverty</li><li>• Good health and wellbeing</li><li>• Affordable and clean energy</li><li>• Decent work and economic growth</li><li>• Reduced inequalities</li><li>• Sustainable cities and communities</li><li>• Responsible consumption &amp; production</li><li>• Climate action</li></ul>

This will be reported in Sage's annual financial statements each year, and available on Sage's website: [www.sagehousing.co.uk](http://www.sagehousing.co.uk)

### Defining target populations

Housing requirements are set by local planning authorities (usually local authorities) on the basis of National Planning Policy Framework guidance which directs them to identify housing market areas and objectively assess needs within that area. The needs take in to account open market and affordable housing requirements.

Sage provides affordable housing across a range of tenures, from social rent to shared ownership. Sage's portfolio is 100% focused on affordable and social rental and shared ownership properties. We have no open market exposure. All our rented homes are let to people on the local authority

housing registers, who have been identified as being in housing need. Eligibility for social and affordable rented housing is determined by local authorities using a points-based system which assesses housing need. Criteria varies from local authority to local authority, but priority is typically given for:

- Homelessness
- Overcrowding
- A medical condition made worse by current housing arrangements

Our rents are set according to the planning (Section 106) Agreement for the homes, as either Social or Affordable Rents.

- 100% of our rented homes are either social or affordable rent.
- To date we have housed 1600 families in rented homes
- Over 75% of our homes are family sized (2 bedrooms+)
- Average household income for our rented homes is £15,441
- 59% of our customers are in receipt of some form of state benefit to pay for their housing costs.
- Our average rent is £138.35 pw
- Our average social rent offers an average discount of 51% on open market levels
- Our average affordable rent offers an average discount of 27% on open market levels
- Our blended portfolio is 30% below open market levels
- We have exchanged contracts and are committed to building a further 4,300 affordable and social rented units

Our shared ownership homes, which comprise 40% of our total portfolio, are sold to people for whom open market purchase would be unattainable. Purchasers will buy a share of the property and pay rent on the rest. Eligibility is determined by government criteria:

- Household income must be below £80,000 (of £90,000 in London)
- Buyers must not own another home (it is permissible to have previously owned a home)
- Buyers must be purchasing their first home or be unable to afford to buy through other means

Our shared owners apply through:

- The average price of our shared ownership properties is £229,761 for a flat and £257,364 for a house
- The average income for our shared owners is £33,630 for a couple or £26,315 for a single person
- The average initial purchase that our customers buy in their home is 42%

#### [Process for Project Evaluation and Selection](#)

Sage only delivers affordable housing, so all of our activities will be compatible with the eligibility criteria outlined for the Social Bond envisaged issued in October 2020. The proceeds from this Social Bond will be primarily used for the refinancing of existing borrowing used in the construction and commissioning of the portfolio of the secured by the bond. Any excess will be directed towards the provision of further affordable rented or shared ownership homes.

Sage Housing has established an inter-departmental Social Bond Committee (the “Committee”) which is responsible to oversee the selection, evaluation and monitor of Eligible Social Projects. The Committee comprises our Chief Financial Officer and our Head of Internal Audit and Risk.

## Management of Proceeds

Sage Housing intends to allocate, over time, an amount equal the net proceeds of the Social Bond to finance or refinance Eligible Social Projects, selected in accordance with the eligibility criteria, and using the evaluation and selection process outlined above. As described above, because Sage only delivers affordable housing, all of our activities will be compatible with the eligibility criteria outlined for this Social Bond. The proceeds from this Social Bond will be primarily used for the refinancing of existing borrowing. Any excess will be directed towards the provision of further affordable rented or shared ownership homes.

Sage has a Social Asset Register and an internal process to earmark and track the allocation of outstanding Social Bond net proceeds to Eligible Social Projects, but as described above as Sage delivers only affordable homes, we believe that all of our delivery is eligible.

Pending full allocation, Sage Housing will temporarily hold the unallocated net proceeds at its own discretion in cash or cash equivalents, or in other short-term liquid marketable instruments.

## Reporting

Sage Housing will provide an Allocation Report to inform about the allocation of proceeds as well as an Impact Report to communicate the positive impact of financed social projects. The reporting will be made available within one year from the issuance of any social bonds and will be updated annually until full allocation of the Social Bond net proceeds. The reporting will be made available in Sage's annual financial statements which are published on the Sage website: [www.sagehousing.co.uk](http://www.sagehousing.co.uk).

### Allocation reporting

- Total amount of outstanding Social Bond
- Details of financed homes
- Balance of unallocated net proceeds

On an annual basis, our existing external auditor (Deloitte - or any subsequent external auditor) will review the proceeds allocation from Social Bond issuance, the project selection process and allocations in accordance to Sage's Social Bond Framework.

### Impact reporting

On a best effort basis, Sage Housing intends to report on the environmental impacts achieved by Eligible Social Projects funded. The impact reporting will include a description of Eligible Social Projects and impact metrics as listed below. Where relevant, information may be provided on data reporting, and impact assessment method, to increase transparency.

SBP category	Potential impact indicators
Affordable Housing	<ul style="list-style-type: none"><li>– Number of social/affordable housing units constructed</li><li>– Number of families housed in Sage's social housing units</li><li>– Average discount of rents to market level retained at 30% or higher</li><li>– Job creation and support linked to Sage portfolio</li><li>– EPC ratings of Sage portfolio</li></ul>



	<ul style="list-style-type: none"> <li>– 100% safety compliance</li> <li>– Access to green space</li> <li>– Customer arrears at or below sector average</li> <li>– Long-term: reduction in local authority housing waiting list times</li> <li>– Long-term: improved indices of multiple deprivation rating in areas of delivery</li> </ul>
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## External Review

Sage Housing has engaged an external verifier to review the Social Bond Framework. The independent Second Party Opinion on the Framework's environmental credentials and its alignment with the Social Bond Principles has been received by Sustainalytics. The document is summarised in the offering circular.

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