



Sustainable Finance Framework

October 2021

Sage Housing

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Introduction

Sage Housing is a responsible and rapidly growing social business, continuously contributing to the sustainability, success and wellbeing of the communities that we serve and committed to delivering great value for our investors. We deliver high levels of social value through the provision of new, high quality and energy efficient affordable homes. All our rental homes are rented at discounts to the prevailing open local market rate and are let only to people on local authority housing waiting lists. Rental homes represent approximately 60% of our portfolio. Our shared ownership homes are sold only to those who would find open market purchase challenging or unattainable.

We expect to deliver at least 30,000 new high-quality and energy efficient affordable homes over the next few years, delivering considerable value to our residents and to the local economy.

Sage continues to strengthen its position as one of the UK's fastest growing providers of new affordable homes. In July 2021 it reached several milestones including the delivery of our 5,000th home since we commenced operations just three years ago. We also committed to build our 15,000th property. In 2020, Sage delivered over 2,000 homes alone, up 57% from 2019. Our goal is to deliver approximately 5,000 homes in 2021 and maintain this pace, or higher, for the foreseeable future. We believe this delivery level will place Sage as the leading deliverer of new affordable homes in England.

Since Sage was established in 2017 we have already invested over £1.2bn into new affordable homes, with a further commitment of over £1.4bn made to complete our current homes under construction. This commitment is expected to continue to grow as Sage grows its portfolio.

The development of high volumes of new homes means that we enable the creation of employment for 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 Ministry of Housing Communities and Local Government, every £1m of housing output supports 19.9 direct jobs and 15.6 indirect jobs. By this measure our portfolio commitment increase in 2020 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 often most needed.

Strong links between secure housing and health and employment outcomes are well documented. According to the UK charity Shelter, experience of multiple housing problems increases childrens' 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.

We are committed to operating as a value-driven social business, which is recognised as a valuable partner to government, communities and other providers of affordable housing. We believe that having a strong ESG proposition creates value across the business – for residents, stakeholders and investors alike.

Sage acknowledges the importance of a harmonised sector-wide ESG reporting model and we are pleased to be an adopter of the Good Economy's social housing reporting standards. The establishment of this Framework for Sustainable Finance ("Framework") signifies our long-term commitment to an ESG-centred corporate strategy.

We already do a great deal to support the communities where we have homes, and as we mature, 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 affordable housing sector.

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

We at Sage intend to issue the first "Sustainable" CMBS Bond (Sustainable Bond), defined as a bond where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects. Reference to Sustainable Bond throughout this text should be read in conjunction with this definition.

Regulatory Framework

Registered providers of social housing must comply with a regulatory framework established by the UK Government. The regulatory framework for social housing in England from 1 April 2015 is comprised of:

- Regulatory requirements – obligations on registered providers, including the ‘rent standard’ for social and affordable housing and ‘consumer standards’ governing the quality of housing service provided.
 - Codes of practice – a code of practice can amplify any economic standard to assist registered providers in understanding how compliance might be achieved,
 - Regulatory guidance – this provides further explanatory information on the regulatory requirements and includes information on how the regulator will carry out its role of regulating the requirements.
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Framework Core Components

The Framework aligns to the Social Bond Principles – June 2021, the Sustainability Bond Guidelines – June 2021, the Green Bond Principles – June 2021 and the Green Loan Principles – February 2021 as published by the International Capital Markets Association and Loan Market Association and uses the four core components of the principles as its basis being:

- Use of Proceeds,
 - Process for Project Evaluation and Selection,
 - Management of Proceeds,
 - Reporting.
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Rationale for Sustainability Bond Issuance

Sage’s purpose is to provide affordable homes and high-quality service to our residents. We aim to connect with our residents in every community we serve, creating places where people thrive and are proud to live in their own, safe home. We do this by operating within a set of principles which are already aligned to our ESG Strategy.

In June 2019, the UK became the first major economy to pass a law requiring net zero-carbon emissions by 2050. A number of local authorities, including the majority of London Boroughs, have since adopted targets for reaching net zero-carbon emissions even earlier, by 2030. Sage Housing fully supports these aims and we are taking steps to ensure we play our part in tackling the climate emergency. We are determined to meet this challenge head on and deliver more sustainable homes for all our customers, our goal for 2030 is to deliver only EPC “B” or better homes, with a targeted reduction where possible of our stock which falls below this rating. We are aiming to double the amount of our homes with an EPC rating of A by 2030.

The acute need for greater supply of affordable housing in the UK is well documented and we are utilising our financial capacity to build, in scale, affordable homes for those who cannot access housing on the open market, on both a rented and shared ownership basis. Our new build portfolio is increasingly incorporating environmental sustainability measures, meaning the homes we build will have both a positive social and environmental impact.

Sage's Response to the Housing Crisis

Local planning authorities use methodologies set out in planning guidance to identify the need for market or affordable housing within a specifically defined Housing Market Area. The methodology has three steps.

Firstly, a baseline is set based on the projected average annual household growth over a 10-year period before secondly adjusting the projected household growth figure based on the affordability of the area. Finally, a cap may then be applied which limits the increase in the minimum annual housing need figure an individual local authority can face. How this is calculated depends on the current status of relevant strategic policies for housing. The homes we develop for either social or affordable rent aim to meet the identified local need.

Newly developed rental and existing homes that have become void are let to those on local authorities' housing registers. We have nominations agreements in place with these authorities in areas in which we operate which guarantee those on the housing register access to our available units. The housing registers use a point or band-based system to identify specific housing need and prioritise applicants.

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 waiting lists.

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.



Sage's Response to the Housing Crisis

100% of our rented homes are either social or affordable rent. As at September 2021, we have delivered 3,396 affordable rental homes.

- Over 76% of our homes are family sized (2 bedrooms+),
- Average household income for our rented homes is £17,934, compared to the national average household income of £29,900.
- 63% of our customers are in receipt of some form of state benefit to pay for their housing costs,
- Our average rent is £147.44 per week,
- Our average social rent offers an average discount of 40% on open market levels,
- Our average affordable rent offers an average discount of 24.3% on open market levels,
- Our blended portfolio is 26% below open market levels.

We have exchanged contracts and are committed to deliver 9,628 affordable and social rented units, (as of September 2021).

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 and local authority criteria:

- Household income must be below £80,000 (or £90,000 in London),
- Buyers must not own another home at the time of legal completion (it is permissible to have previously owned a home but we find many are first time buyers),
- Buyers must be unable to afford to buy through other means.

Our shared owners apply for Sage properties through a number of routes including 'Help to buy' agent waiting lists, Sage's own shared ownership sales portal at www.sagehousing.co.uk/sales or through our partner agent web sites along with Rightmove. As at June 2021:

- The average price of our shared ownership properties is £241,030 for a flat and £257,412 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%.

Our intention is that the 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/GBP Category	Eligible Projects	SDG Mapping
Affordable Housing Energy Efficiency	- The provision of homes for social and affordable rent across England, - Provision of energy efficient homes with EPC ratings of B and above with a considered effort to achieving A grading where possible.	- No poverty, - Good health and wellbeing, - Affordable and clean energy, - Decent work and economic growth, - Reduced inequalities, - Sustainable cities and communities, - Responsible consumption and production, - Climate action.

Use of Proceeds/Management of Proceeds

Sage Housing intends to allocate, over time, an amount equal the net proceeds of a Sustainable Bond to finance or refinance eligible social and green projects, selected in accordance with the eligibility criteria, and using the evaluation and selection process outlined below.

As described above, because Sage only delivers affordable housing, all our activities will be compatible with the eligibility criteria outlined for this Sustainable Bond. The proceeds from this Sustainable Bond will be primarily used for the refinancing of existing borrowing (for the avoidance of doubt this means any borrowing which meets our affordable criteria outlined above and have an EPC rating of B or better). Any excess will be directed towards the provision of further affordable rented or shared ownership homes. Where properties do not meet our criteria of Sustainable (for example, have an EPC rating below B), proceeds will be used in accordance with our current social bond framework (eligibility/criteria outlined in above section) with every effort made to bring these units into compliance with our Sustainable criteria. Reporting will distinguish between these two uses.

Sage has a Sustainable Asset Register and an internal process to assign and track the allocation of outstanding Sustainable Bond net proceeds to Eligible Sustainable Projects. As described above, as Sage delivers only affordable homes, we believe the majority of our homes are eligible. Pending full allocation (which in any event will be within 24 months), 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.

Process of Project Evaluation and Selection

Sage only delivers affordable housing, so all our activities will be compatible with the eligibility criteria outlined for the Sustainable Bond envisaged for a future issuance. Projects are evaluated and selected by Sage's inter-departmental Sustainable Bond Panel (the 'Panel') which is responsible for overseeing the selection, evaluation and monitoring of proposals. The Panel comprises our Chief Financial Officer and our Head of Internal Audit and Risk. In addition, it is our intention to shortly establish a separate ESG panel to champion a sustainable agenda throughout all of Sage's operations.

The Panels will pay particular attention to perceived unintended social and environmental risks generated by our developments. This includes but is not limited to: worker health and safety, community relations and environmental concerns related to a development. We work closely with our Estate and Property Managers to engage proactively with our residents encouraging feedback on improvements they would like to see in the communities in which they live. Feedback is reported to the Panel on a quarterly basis and our Customer team takes this forward implementing changes and making improvements. We are working towards exploring avenues with our developers to reduce the carbon footprint of the development stage, although this is very much in its infancy we are hopeful we will be able to make a meaningful impact.



Reporting

Sage Housing will provide an Allocation Report to inform about the allocation of proceeds as well an Impact Report to communicate the positive impact of financed sustainable projects. The reporting will be made available within one year from the issuance of any sustainable bonds and will be updated annually until full allocation of the Sustainable 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

Allocation reporting

- Total amount of outstanding Sustainable 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 Sustainable Bond issuance, the project selection process and allocations in accordance to Sage’s Sustainable Bond Framework.

Impact reporting

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

SBP/GBP Category	Potential Impact Indicators
Affordable Housing	<ul style="list-style-type: none">• Number of social/affordable housing units constructed,• Number of families housed in Sage’s social housing homes,• Average discount of rents to market level retained at 30% or higher,• Job creation and support linked to Sage portfolio,• EPC ratings of Sage portfolio,• 100% safety compliance,• Access to green space,• Customer arrears at or below sector average,• Long-term - reduction in local authority housing waiting list times,• Long-term - improved indices of multiple deprivations rating in areas of delivery.

External Review

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



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