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## **Housing LIN 2017 Annual Conference**

### **A festival of ideas: Friday, 24 March 2017**

**Never has there been so much money available to invest, so cheaply priced and yet so poorly used.**

**Will Institutional Capital transform the UK's housing market?**

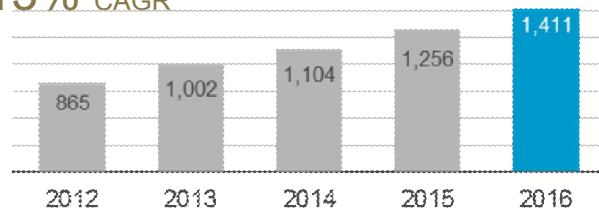
**Nigel Wilson**  
**Legal & General, Group Chief Executive**



## Legal & General: Performance driven by our long-term views

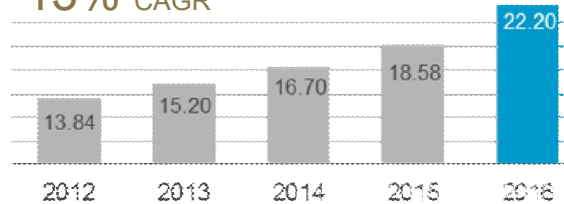
Growing net release from operations (£m)

13% CAGR



Consistent earnings per share growth<sup>1</sup> (p)

13% CAGR

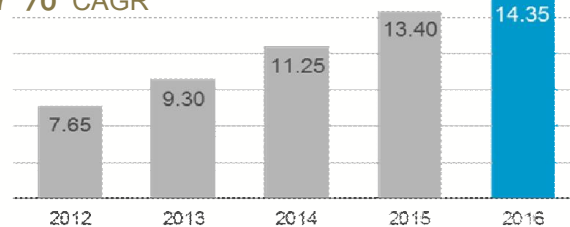


Our Strategic goals to 2020:

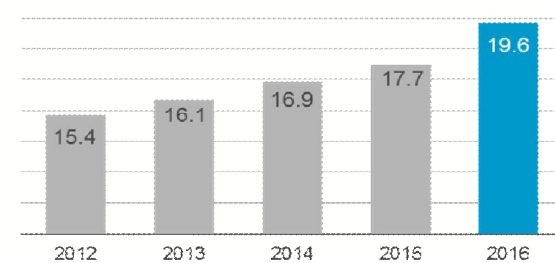
1. Achieve global leadership in pensions de-risking and provide a suite of products to maximise retirement income
2. Help people achieve security affordably through insurance and workplace pensions
3. Use our existing skills and expertise to build a world class international asset management business
4. Use 'slow money' to become the UK leader in direct investments including housing and urban regeneration
5. Achieve market leadership in digital provision of insurance and retail investments
6. To be a leader in financial solutions and a globally trusted brand

Increasing dividend per share (p)

17% CAGR



Increasing return on equity<sup>1</sup> (%)



## Clear and consistent strategy: Excellent execution

Growth drivers	2016 achievements
<b>Ageing demographics</b>	LGR record transactions £8.5bn, up 190%, including 6 US pension de-risking transactions £620m Lifetime mortgages sales, target £500m, voted best equity release / lifetime lender Agreement with Aegon to offer individual annuities to its vesting book of DC customers Solutions assets of £412bn, up 22%, UK market leader with 45% share
<b>Globalisation of asset markets</b>	252 US clients with £118.5bn assets, 4 of top 5 US DB pension funds Successfully winning US DC mandates, net flows £9.4bn (2015: £6.3bn) LGIM distribution agreements in Japan with Nikko Asset Management and Meiji Yasuda Partnering with Dutch investors in 'Build to Rent' Partnering with global investors in SME finance (Pemberton) LGIM total AUM of £894bn, up 20%, International AUM of £177bn, up 45%
<b>Creating real assets</b>	£10bn of group-wide direct investments, up 39% £940m 'Build to Rent' housing pipeline with new homes in Salford, Bristol and Walthamstow UK infrastructure investments in London Gateway Port, Stratford, and Newcastle
<b>Welfare reforms</b>	Market leading UK retail protection business, over 25% market share UK DC assets £57.1bn, up 24% DC bundled provider for Tesco Plc, with over 200,000 employees, more to follow, 50bps price cap 2.2m customers in over 9,000 schemes
<b>Technological innovation</b>	Retail protection direct sales up 7%, General Insurance direct sales up 20% My Account: nearly 900k users with c.450k new customers signed up in 2016 Investment and partnership with Smart Pension, a Fintech auto-enrolment pension provider
<b>Today's capital</b>	SME debt finance, Pemberton's final close at €1.2bn, with 80% external investment SME equity finance, £150m venture with Woodford Investment Management & British Business Bank

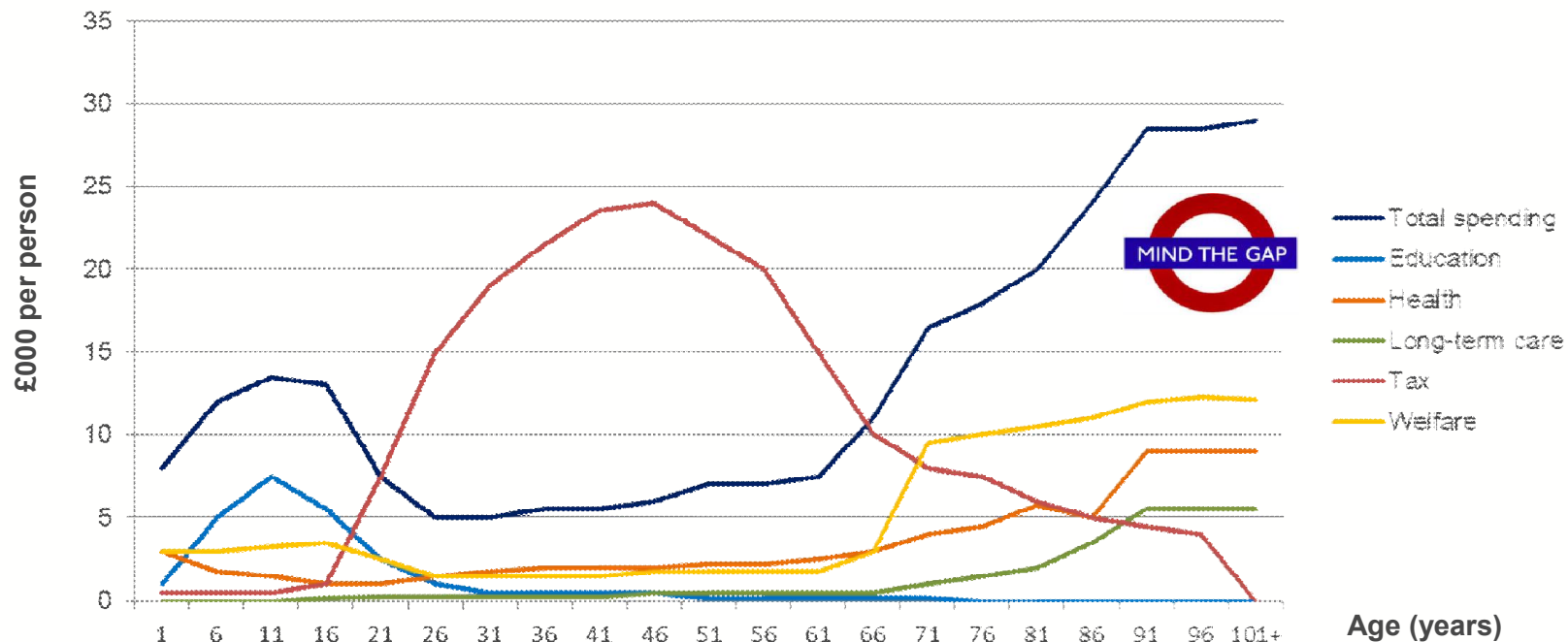
## Negative macro and demographic customer trends

- Living longer, but less healthy and less financially prepared, trapped housing wealth
- Real median wages zero growth, productivity poor
- Intergenerational unfairness rising as is inequality between individuals and also across and within cities
- Public sector pensions largely unfunded and have deficit of £1.5 trillion, funded private sector pension deficit is £400b - £700b

**Brexit: We are not leavers or stayers – WE ARE DOERS**

## Funding the future?

Beveridge 2.0 does not exist. We have no economic and societal solution to Long Term Care, Healthcare and Welfare



## Incredible demand for senior living: A market failure

- Residential is world's largest asset class, yet least institutionalised in UK
- 3.3m Last Time Buyers (LTB) looking to downsize
- Around £1 trillion of LTB housing wealth
- 5.3m under-occupied homes
- 44% of LTBs have lived in their home for 30+ years
- 1% of 60+ in UK live in retirement housing vs. 5-10% in US, Australia & NZ
- 65+ forecast to grow by 50% by 2033
- Existing stock not fit for purpose; 49% of accidental deaths in 65+ linked to fall in the home

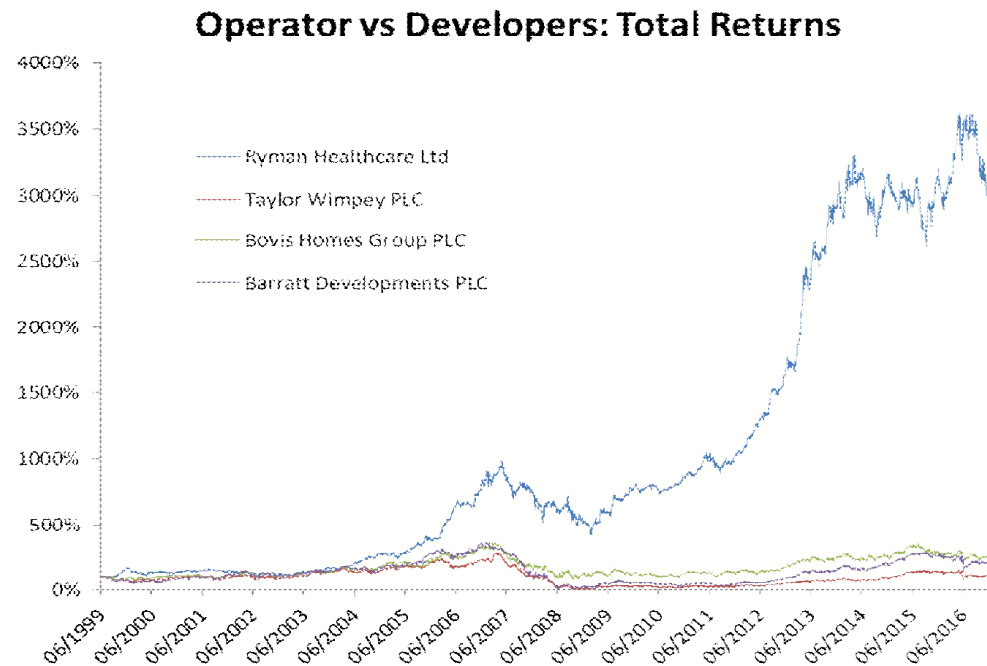
Almost no other asset class offers this scale of opportunity for institutional investors

## Housing for the elderly: A market failure

- House builders are not interested in the sector
- Business model is too long term for Private Equity
- Construction of houses is an outdated model
- Major lack of supply with only 7000 units p.a. being built.
- Meeting just 10% of the current demand in the medium term equates to
  - 300,000 homes
  - £90bn investment market

Yet very little long term institutional capital invested in UK Senior Living

## How can senior living attract institutional capital?



### Past

- One dimensional business models
- Reliance on volume short term development profits
- Operationally, schemes barely broke even.

### Future

- Focus on creating high quality, stable, long term cashflows?
- Address pension shortfall via mixed tenure – shared ownership, rental.
- Developer and Operator business model?
- Stronger link between health and accommodation budgets and financial products?



## Case study: Extra Care Charitable Trust - A positive role within the 'Ageing Population Eco System'



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The UK's ability to innovate has to improve

We have to collectively develop critical and integrated commercial solutions to societal problems

- Long Term Care – Modern, efficient and low cost
- Segmented Housing – Solving intergenerational unfairness
- Lifetime Mortgage - £5bn market by 2020 why not £10bn
- DB and DC Pensions (accumulation and decumulation) – Costs too high?
- Critical Illness – Inadequate cover
- Wearable Devices – Big data analytics
- Life Insurance – Through the workplace?

## The construction market for housing: We must innovate



We have been making cars like this for decades, why not houses?

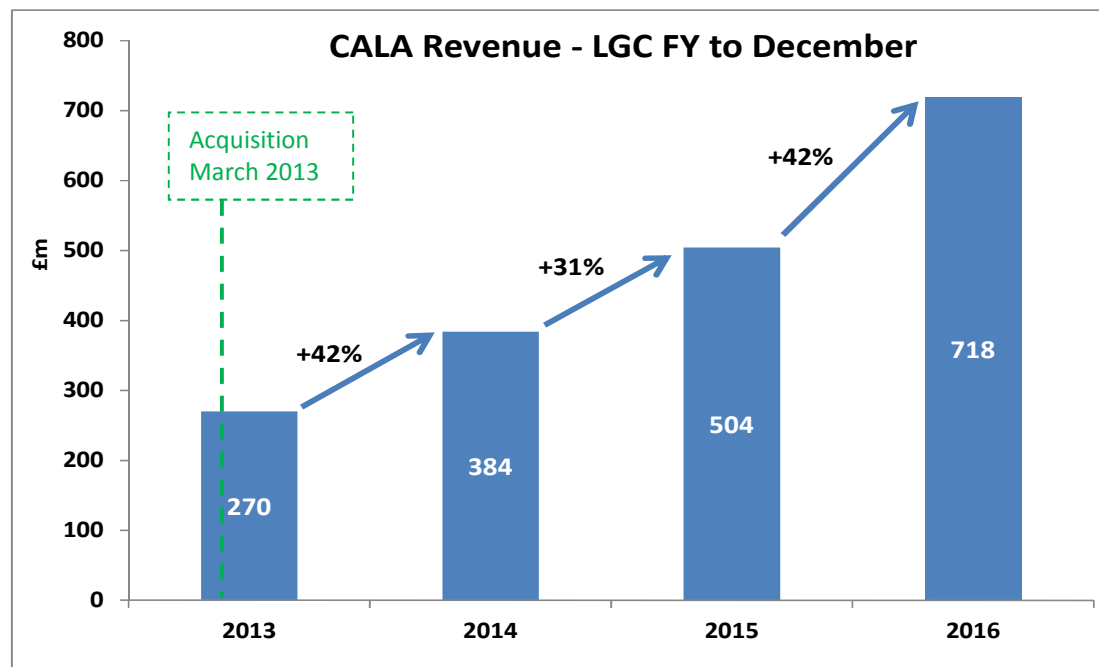


## The construction market: We must innovate



Yet we haven't changed our house building in centuries

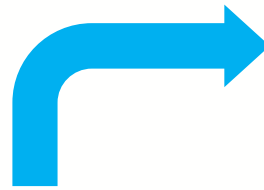
## CALA revenue £270m to £718m



## Crowthorne: From brownfield to a community in 18 months

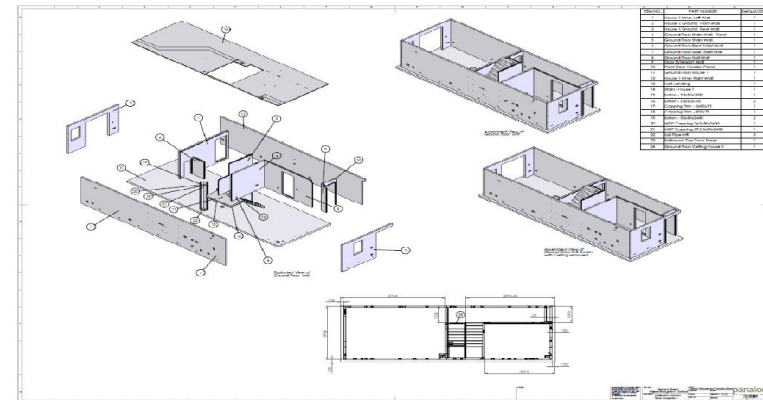


17 years in planning



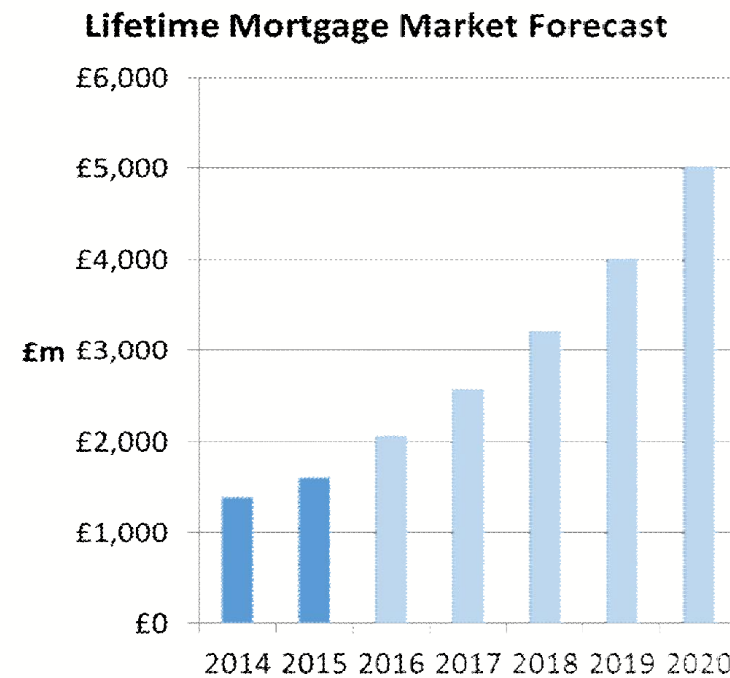
# L&G innovation in housing: Precision built modular construction factory

- Factory will produce 5,500 units per year
- Modules built in less than 7 days
- Construction up to 70% quicker than traditional build
- Longevity at least equivalent to traditional build
- Highly energy efficient
- Exceptional green credentials
- But the industry needs to share our ambition and innovate with us for this to thrive



## L&G innovation: Zero to £800m in 2 years

- £1.5tn of housing equity owned by over 55s\*
- Ageing population and continued house price growth will drive further growth
- £18bn has been released over last 25 years\*\*
- LTM can be used to modernise existing homes so retirees don't have to move
- LTM is a solution to maturing interest only mortgages



Sources: \*Age Partnership, \*\*Equity release council



## L&G innovation in housing: Build to rent: Zero to £1bn in 2 years



2016 - £600m joint venture with PGGM

2017 = £1bn of committed capital

2018 > £10bn opportunity

## Ten steps we are taking

- |     |                                 |                                            |
|-----|---------------------------------|--------------------------------------------|
| 1.  | Mortgage Club                   | £50b origination in 2016, 25% market share |
| 2.  | Surveying                       | 450,000 in 2016, market leader             |
| 3.  | CALA Homes (Build to Sell)      | £700m in 2016, from £300m in 2012          |
| 4.  | Private Rental (Build to Rent)  | (Yr 1) 1000 units. £10bn opportunity?      |
| 5.  | Retirement Homes                | Enter in 2017                              |
| 6.  | Lifetime Mortgages<br>share     | £600m (yr 1), £800m (yr 2) 30% market      |
| 7.  | L&G Community Homes<br>achieved | 4,000 acre land bank, 250 acres planning   |
| 8.  | Modular construction            | Precision built                            |
| 9.  | Finance for Care & Extra Care   | £350m to date, more to follow              |
| 10. | Household Insurance             | £500m premiums                             |

### Partners we are working with, to do this the right way:



The Age of No Retirement

Shelter

