CASE STUDY

A Social Return on Impact (SROI) study for an affordable housing investment

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In 2022, Mergence Investment Managers acquired a controlling equity stake in the innovative affordable rental housing group, Live Easy, through the Mergence Infrastructure and Development Equity Fund I.

Live Easy is one of South Africa's largest affordable housing rental lifestyle brands, which currently has 3,500 units over 10 building complexes in prime locations between Johannesburg and Pretoria in Gauteng, with an additional 1,000 units under development. The focus is on the "gap market" in the affordable housing segment, with the aim of closing the divide between social housing and privately owned homes. Providing for the gap market is highlighted as important in the National Development Plan.

Live Easy was co-founded 12 years ago with the introduction of the original "nano units" concept.

A so-called "nano" comprises an average 18 m2 home, with a kitchenette and bathroom. The average rental is around R3 500 per month, which makes it affordable for those in the R10 000 to R20 000 monthly income bracket.

The Live Easy tenant age profile ranges predominantly between 21 and 30 years of age. Many are in their first jobs or professions, and need accommodation that matches their aspirations and has easy access to their place of work. The buildings are located where tenants can easily access transportation to desirable nodes and business hubs. Live Easy provides a solution for this segment of customers who are price-sensitive but demand an upmarket look and feel lifestyle with quality finishes, a variety of amenities and 24-hour security. It is particularly attractive to young women who make up 60% of the tenant profile.

By deliberately focusing on the conversion of existing buildings, Live Easy has a smaller environmental impact than constructing apartment blocks from the ground up. It further plays a key role in revitalising buildings that otherwise may have gone into severe decline.

The investment case

In a bid to drill down into ESG reporting and measure the impact of its investment in Live Easy, Mergence identified an opportunity to showcase the potential Social Return on Impact (SROI) research study from EY SaTs (Strategy & Transactions Sustainability). To our knowledge this is the first time such a study on SROI has been written in South Africa. Titled "Exploring return on impact: Live Easy residential apartments 2023", the study was focused on five Live Easy buildings in the Mergence investment portfolio.

By calculating the potential SROI, Mergence can report back to investors in detail and Live Easy will be able to positively demonstrate how their affordable housing solutions provides numerous social and financial benefits to tenants beyond mere accommodation.

The EY research study used specific "Theories of Change" methodology to measure

1) The reduced carbon footprint, and
2) The safety and credit risk of female tenants.

Study background

There is a massive backlog of affordable accommodation in South Africa. With a further six million South Africans expected to migrate to urban areas by 2035[1]), access to safe, affordable, and accessible housing is needed to improve the resilience of both our cities and communities.

Women, in particular, need safe, affordable accommodation.

[1] *South African Affordable Residential Developers Association (SAARDA), 2019*

Some findings

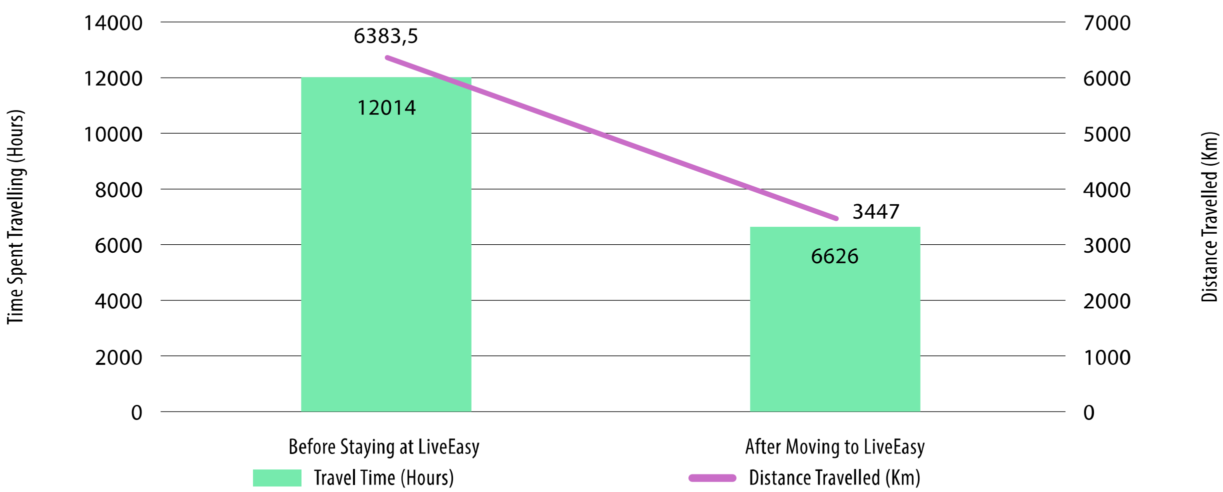
Using the two "Theories of change", the study led to a comprehensive set of findings, including:

→ Living at Live Easy reduces the tenant's carbon footprint

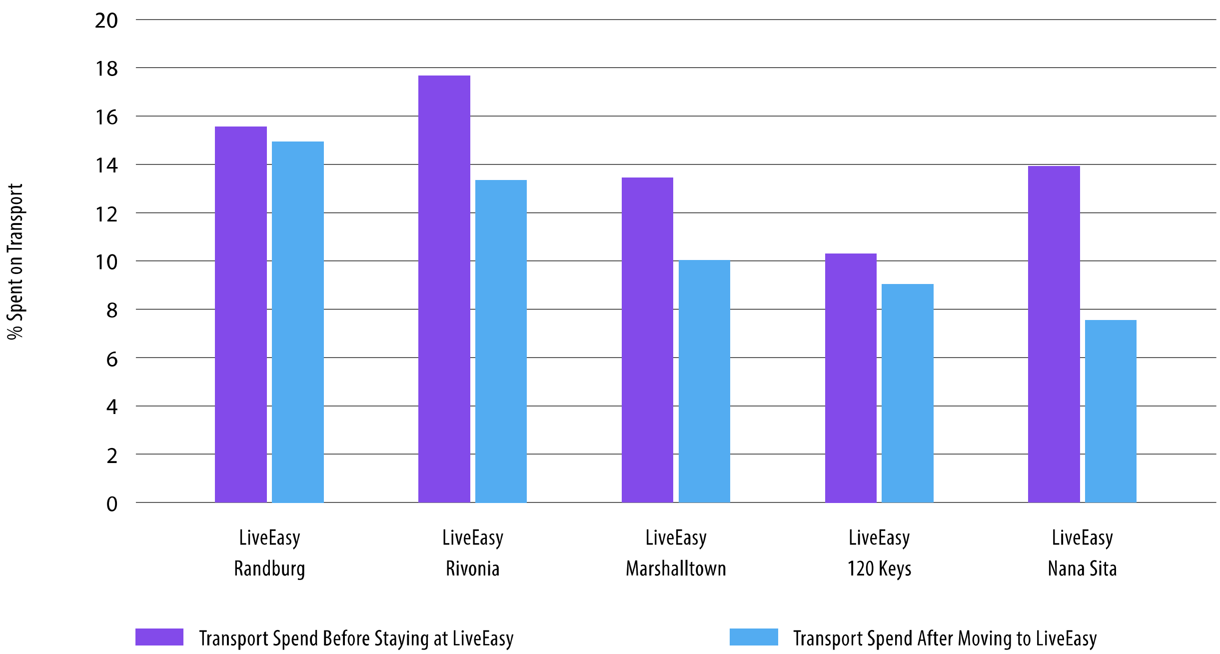
The SROI measured the average tons of CO_2 reduction achieved for each of the five buildings and their tenants.

Benefits for tenants include cost savings resulting from efficient water and energy usage, as well as savings from reduced transportation costs (time saving and financial).

Travel Time and Distance Savings



Transport Spend

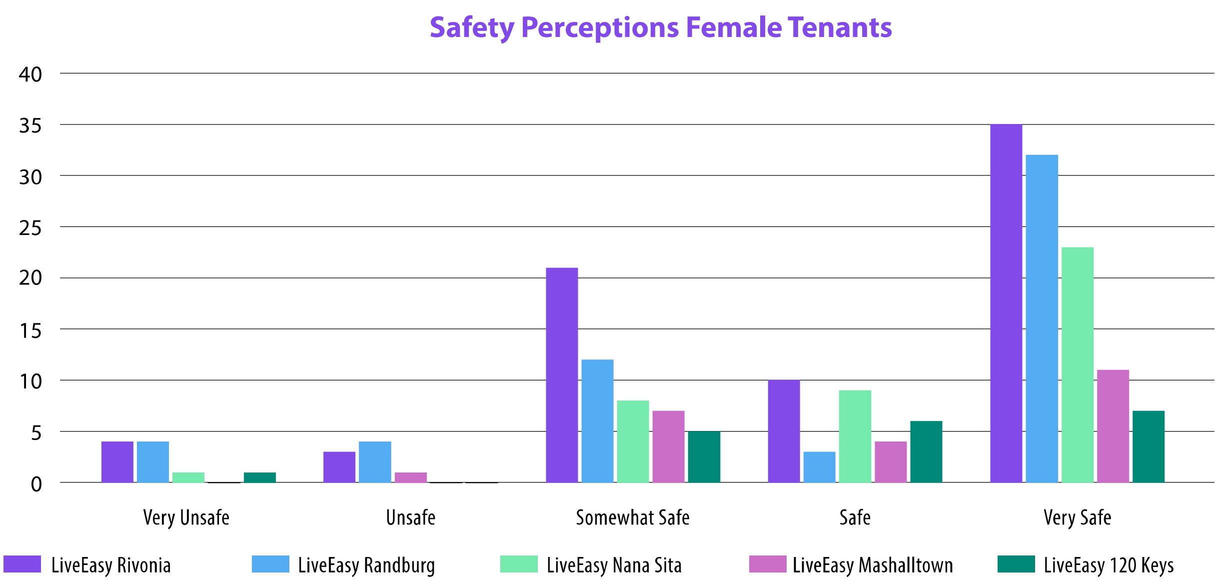


Why women choose to stay at Live Easy

Live Easy is committed to establishing a female-friendly living environment, and 60% of the primary tenants are women.

In a country plagued by crime and gender-based violence, women perceive housing as an important physical asset, as it provides protection for them and their children. This is particularly significant due to the increased vulnerability experienced within informal settlements. The provision of security systems such as strong, lockable doors, and the presence of security guards and alarm systems results in women feeling safe, thereby improving their sense of well-being too.

The Live Easy housing solution provides a means for women to maintain good credit scores for the duration of their tenancy. On average, female tenants across all five buildings allocate approximately 28% of their income to monthly rent, which is below the recommended maximum of 30% of gross monthly income that should be earmarked for rent.



Conclusion

The EY study has provided both Mergence and Live Easy with a quantifiable Social Return on Impact, allowing us to move forward into further growth measured against a baseline and armed with an improved understanding of various growth drivers. Developing more diverse and socially equal neighbourhoods is at the core of Live Easy's business concept. The buildings offer tenants safe, welcoming, and reasonably priced housing options for low- and middle-class tenants and families in close proximity to important services and commercial opportunities.