THE CHANGING INVESTMENT MARKET:

THE RISE OF LOCAL AUTHORITY PENSION POOLS

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- Local Government Pension Funds have become UK property's dominant domestic institutions, accounting for almost half of UK institutional investment since 2023, while private Defined Benefit schemes retreat and Defined Contribution investment remains embryonic.

- Pooling is turning fragmented local authority funds into six investment powerhouses - bringing greater scale, specialist expertise, tougher negotiations and a more hands-on approach to real estate.

- Housing and regeneration could be the biggest beneficiaries, as government pushes LGPS capital towards UK growth and local investment, aligning pension funds with more powerful devolved authorities to unlock schemes, invest in growth locations and lever in private capital.

QUICK SUMMARY

UK real estate investment volumes remain weak, but the downturn is not only cyclical: higher yields and risk-free rates have combined with a deeper structural shift in the investor base. Many traditional private sector UK Defined Benefit (DB) pension schemes are maturing and are looking to sell down their portfolios.

Defined Contribution (DC) schemes are growing rapidly through auto-enrolment and will eventually become much more important to property investment. They are not yet large enough or mature enough to replace the capital that has left the market, although new structures such as Long-Term Asset Funds are beginning to be used more widely to allow DC investment in real assets.

While the market waits for DC funds to become major players, the largest group of DB funds still active in the market, the Local Authority Pension Funds (LAPFs)[1], have become the largest source of UK-domiciled capital. Their shares of purchases and domestic institutional investment have risen sharply since before the pandemic.

The sector has increased its real estate holdings by 15% over the past three years, and more than doubled them over the past decade. They account for almost half of all UK-based institutional investment since 2023.

This would be noteworthy in itself. But their structures and strategies are also changing, with huge ramifications for the market, for housing and for regeneration. Over the past few years, the funds in England & Wales have been coalesced into six enormous pools: Border to Coast, London CIV, Wales Pension Partnership, Northern LGPS, LGPS Central and LPPI.

This reform has received less attention in the property sector than in the pension industry. But these funds will have far greater scale, bargaining power and specialist expertise than their forebears in the industry.

[1] The government tends to refer to the Local Government Pension Scheme (LGPS) rather than the individual component funds. This document uses LAPF to distinguish between the different funds involved.

The impacts of this have admittedly been limited so far. Property has been harder to transfer into the pools than listed assets because of existing mandates, pooled fund structures and SDLT liabilities, but SDLT relief announced in the recent Budget, effective for qualifying transactions from 28 October 2026, will allow this process to accelerate. The impact of the pooling and their mandates will become more apparent over the next few years.

As assets move into the pools, the real estate fund management landscape is likely to change materially: there will be fewer mandates, larger allocations, tougher fee negotiations and the pools will have more sway over investment decisions. The aspiration for some is to invest directly, rather than via managers.

Some pools are already moving in this direction, building in-house advisory capability or launching their own real estate funds and strategies, with Border to Coast and LPPI/Northern LGPS the clearest examples.

While the main justifications for the pooling were efficiency, lower costs and scale, the agenda was also to drive more investment into UK growth, local investment, infrastructure, housing and regeneration. The scale of the funds means that these ‘impact’ components, while a relatively small part of the pools’ total investment, could become a key route to unlocking stalled schemes.

The wider government agenda makes it clear it wants long-term pension capital to work alongside other government funding or investment, mayoral powers and private-sector partners to drive regeneration and housing delivery. Models already exist in the form of the Greater Manchester Good Growth Fund and the London Fund.

The plans also align with plans for local government reorganisation and devolution. Local authorities, and in particular the increasingly powerful "strategic authorities", will themselves play a major role by providing suggestions for appropriate projects. These will be aligned with their own growth strategies which will increasingly try to bring together housing, planning, transport investment and economic development.

Strategic authorities such as Combined Authorities or the GLA will have greater decision-making powers over funding as well as control over locally raised taxes. They can also set up Mayoral Development Corporations or Orders, helping to streamline development where appropriate and providing the certainty and speed that will make projects more attractive to both LAPF and wider private sector investors.

Over the longer term, DC pensions, through master trusts such as NEST, will overtake them as the main source of domestic investment. Through the Mansion House Accord they, too, have signed up to invest a certain percentage in economy-boosting assets.

The LAPFs will give some early indication of how these funds - which will be enormous in the future - will behave, although the tension between investor returns and government policy objectives will need to be navigated carefully in both cases.

INTRODUCTION

Over the past few years, the UK investment market has seen persistently low levels of transactional activity compared to longer-term trends.

Clearly, this has partly been driven by the rise in yields and risk-free rates globally, which has made real estate returns less attractive than those of some other asset classes.

The global down cycle has obscured some major structural shifts in the UK landscape. The most salient of these has been the gradual exit of many UK private sector Defined Benefit (DB) pension schemes from the market. They have generally been selling stock as they gear towards payout.

Through auto-enrolment, UK pension money is now flowing into Defined Contribution (DC) schemes, which are now beginning to aggregate too and gain sufficient scale to invest in illiquid assets such as property through vehicles such as Long-Term Asset Funds (LTAFs). Their influence will grow over time, but they are not yet market-shaping vehicles.

Today's investment market is driven by a mix of REITs, private investors and a notable number of UK-based Asset and Development Managers backed by overseas funds.

But there is one group of DB-backed investors who are still very active - indeed, they have become the largest single UK investor group: the Local Authority Pension Funds (LAPFs), which together form the Local Government Pension Scheme (LGPS).

What's more, they are themselves going through structural changes: being aggregated into six enormous 'pools', while also being asked by government to invest more both in the UK and locally, with a focus on growth and regeneration.

Given their current importance to the market, these shifts have huge implications for investment markets, for development and regeneration, and particularly for housing, where a lot of the 'local investment' flow seems set to go.

THE GROWING IMPORTANCE OF LAPFS

LAPFs at present tend to invest via Investment Managers, so it is relatively difficult to analyse their holdings and wider behaviours, or to understand quite how important their capital is.

Based on our analysis of the annual reports produced by the Local Government Pension Scheme and third-party transaction data, it is estimated that they have accounted for 7-8% of all UK property purchases over the past three years, compared to 2-3% before the pandemic. This represents 15% of all UK-based investment and 45% of all domestic institutional investment.

The LGPS sector has increased its property holdings by 15% over the past three years, and more than doubled them over the past decade.

These funds now have far more market influence and power than in the past, and understanding their strategies, behaviours and institutional links is, in turn, far more important. Their scale and return horizons could also mean they are able to invest in larger and longer-term propositions than in the past, even if overall their approach remains conservative.



Source: LGPS

The largest such fund, Greater Manchester, may now be the largest single UK-based provider of institutional capital to the real estate market. But as with its peers, GMPF is gradually transferring the management of its assets into one of the six pools set up by government reforms, in its case Northern LGPS.

THE REFORMS

The changes to LGPS structures in England & Wales can be traced back to the 2013-2015 period, when George Osborne was Chancellor of the Exchequer under the Coalition Government. At first, mergers were considered, but the 2015 budget formally announced pooling as the preferred option.

The subsequent *Investment Reform Criteria and Guidance* laid out "the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance.

"Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth."

While the "British Wealth Funds" wording has been lost over time, there is still an emphasis on local investment (see below). But the wider rationale for the pooling remains that larger funds would:

- Be more efficient, removing duplication of infrastructure and producing greater efficiencies of scale;
- Have greater negotiating power with a smaller number of mandated investment managers;
- Have their own in-house capability rather than relying on investment managers, and access more complicated opportunities in areas such as infrastructure and regeneration, with a focus on "local" projects;
- Enable the creation of specialist teams in areas such as property, rather than relying on more generalist staff working across all asset types.

Following this publication, the funds began moving their assets into eight pools, which have subsequently become six: Border to Coast, Northern LGPS, LPPI, LGPS Central, London CIV and Wales Pension Partnership.

The 2025 “Fit for the Future” consultation response confirmed that individual funds must transfer all investments to the management of the pools. It also asked that they work with local government to identify appropriate local investment.

The Government then delivered a more strident directive, what looked like a “slap on the wrist”, alongside the publication of the Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026.

It stated: “Administering authorities have differed in their commitment to asset pooling. Many retained significant control of the implementation of their investment strategy, which has led to asset pools developing large numbers of sub-funds for administering authorities to choose between, significantly undermining the benefits of scale that can be derived from consolidating investments.

“Many administering authorities also continued to make new investments outside their pool. By requiring all LGPS assets to be managed by asset pool companies and clearly delineating the roles of administering authorities and asset pool companies in managing investments, the current policy will significantly increase consolidation of LGPS investments.”

In practice, transferring bonds and equities from local ownership to the pools is relatively straightforward. Property has proved much more difficult, owing to the significant stamp duty liabilities involved.

This issue was deemed so significant that in 2025 the government announced it would be bringing forward legislation to deal with it, and the recent Budget confirmed time-limited 100% relief from SDLT for qualifying transfers of property into pooled investment vehicles, effective from 28 October 2026.

However, there will not be a mass overnight transfer of properties. The main reason for this is that most of the assets are held through mandates with investment managers or in pooled funds with other investors. These cannot be easily collapsed overnight.

The process is likely to last up to 2030 or even beyond, but the end point will be six pools comprising multi-billion-pound real estate investment mandates, managed by specialist in-house teams.

THE IMPACTS

The changes will have major ramifications for the UK property fund management industry and the scale and nature of local authority pension fund mandates. The exact effects are hard to predict, but there are some clues in government policy wording, as well as documents issued by the pools themselves.

Firstly, the pools will have far greater scale than the component LAPFs. Even if allocations to property remain constant, this could potentially allow them to invest in larger projects with longer-term return horizons (including in development).

Secondly, there will be fewer mandates available for investment managers, although the individual sizes will increase. This will give the pools more power in dictating the terms of the relationship, including fees.

Thirdly, the pools will have far more in-house specialist expertise and become more active in setting strategy and overseeing individual transactional decisions, even if they retain investment managers. The relationship between the two parties will become more one of partnership rather than a hands-off mandate.

Fourthly, pools will aim to set up their own funds with in-house expertise, without any requirement for external investment managers. There are already signs of pools moving in this direction, although it remains to be seen whether it is plausible or cost-effective.

Typical of the direction of travel overall is Border to Coast's UK Real Estate Fund, launched in October 2024. It began with £1.2bn of assets provided by three LGPS property funds: Tyne & Wear, Cumbria and South Yorkshire. It was earmarked to grow to more than £3bn by 2029.

The pool's 2025/26 report says that the expansion of the fund is a "major objective", alongside delivering an "in-house investment advisory capability".

Aberdeen has been appointed to work with its "dedicated internal Real Estate investment team to support, develop and implement the investment strategy, source high-quality real estate opportunities across the UK, and provide portfolio management services for Real Estate assets." This implies that it is more of a partnership than a passive outsourcing relationship.

The fund currently has a c. 20% allocation to industrial and a further c. 13% allocation to warehouses, while residential accounts for less than 5%. The recent pattern of acquisitions suggests that investing more in housing is a key part of their strategy.

For example, in August it purchased an 866-unit single-family rental portfolio from Blackstone and Regis's Leaf Living for £400m. In February, it also closed a forward-funding deal for Springstead Village in Cambridge (139 homes being developed by a JV between Bellway and Latimer). Not that the approach is purely residential; the fund has also bought a portfolio of Lidl supermarkets and was reportedly the underbidder on a prime Manchester office scheme.

Border to Coast also has the £0.5bn UK Opportunities strategy, which "is dedicated to delivering long-term investment opportunities in the UK on behalf of Partner Funds." Targeted on growth sectors such as clean energy and life sciences, it is designed to invest in areas such as infrastructure and private credit, as well as real estate and regeneration.

LPPI and Northern LGPS's joint venture aimed at the residential market, set up in December 2025, further demonstrates how housing is a recurrent theme. It acquired PRS Holdco, the operating business of troubled PRS REIT, for £1.1bn, and plans to invest a further £1bn to expand the portfolio by more than 15,000 homes over the next decade. At the time of writing, the two pools were reported as being on the verge of acquiring BTR operator Fizzy Living from Greystar.

In July, they announced the launch of Four Corners, an in-house property management platform for their growing portfolios. It "will have the scale, expertise and infrastructure to deliver a more responsive, consistent and professional landlord-resident relationship."

Some other funds, though, are taking a more conventional approach. London CIV's UK housing fund invests in various managed funds, including CBRE's UK affordable housing fund, while LGPS Central's UK Direct Property Fund aims to pull together a diversified commercial property portfolio via DTZ Investors. Both were launched in 2023.

Schroders has been appointed on a £2bn mandate from Wales Pension Partnership to deploy in core and operational real estate, with £400m earmarked for local and impact investment.

A NEW MODEL FOR REGENERATION?

Running alongside the pooling initiative, the UK Government has also been encouraging a small but significant slice of LGPS money into more impactful investments, with a particular emphasis on the local. This has persisted even though the wording around "British wealth funds" has been dropped.

This also began under George Osborne's chancellorship but is succinctly explained in the 2025 Fit for the Future consultation: "*The government believes that as an institutional investor the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks through increasing its long-term investment in local communities.*"

Under the proposals, local and strategic authorities and their local funds would be asked to provide a list of appropriate priority projects. These would then be assessed by the pools, which the government believes "*are in a position to provide a central source of investment expertise to assess, commit to and manage local investments and do not face the same potential conflicts of interest.*"

The document points to Border to Coast and LPPI as having "facilitated pool investment in local opportunities and working closely with their partner [authorities] to identify local opportunities." While this might include local businesses in key sectors, regeneration and housing projects are clear targets.

Each individual fund ("administering authority") will be required to set out their objectives and a target allocation range for local investment. These will need to align with the Local Growth Plans produced by each local or strategic authority.

The pools would then carry out due diligence on proposals, working with the individual funds as well as with the Combined Authority and City-Region or County Mayor as applicable.

At a time when such projects are facing severe headwinds in terms of viability and finding finance, these moves could offer an all-important lifeline to stalled schemes. They could also help to sustain urban housing delivery, which is in crisis.

The Government's plans for local government reorganisation and further devolution will provide a further stimulus. In time, strategic authorities such as the GLA or the Combined Authorities will have more decision-making powers over funding pots, as well as more revenue-raising abilities.

They will also be able to set up Mayoral Development Corporations or Orders to streamline development in selected locations, as well as providing their own funding or investment. The aim is clearly to align these with investment from the relevant pool to support particular schemes or promote growth and private sector activity in identified areas. Indeed, this coordination, and the certainty and speed it offers, would help to make investment in such projects viable for LAPFs and the wider private sector.

The prototype, in some ways, is perhaps the £2bn Greater Manchester Good Growth Fund. This has combined the GMPF money with National Wealth Fund backing, government funding streams, and borrowing secured against future growth in business rates.

It has invested in new homes and town centre regeneration in locations such as Oldham, Salford, Stockport and Wythenshawe, as well as commercial schemes in the city centre.

While the £500m London Fund backed by London CIV and LPPI is of smaller scale and now closed, it provides a similar exemplar, having invested in offices, residential build-to-rent platforms and a fund aimed at redeveloping heritage assets for sectors such as the creative industries. It aimed for a "double bottom line" which combines investment opportunities with social and economic benefits for Greater London.

Similarly, Wales Pension Partnership has specified to Schroders that £400m of its £2bn of investments should be invested in local opportunities across Wales, including workspace, affordable housing and healthcare.

Other funds are showing their willingness to participate. Border to Coast, for example, recently produced a report on how its investments, and those of other LGPS pools, could help unlock UK growth.

The LPPI/Northern LGPS housing initiatives mentioned earlier in this report have been particularly praised by Government Ministers. The investment demonstrates "the vital role LGPS pools play through investing at scale in national priorities while creating value for the scheme" and collaboration between pools that will "help support investment and growth to all parts of the UK."

Cllr Eleanor Wills, Chair of the Northern LGPS, was quoted as saying they are proud of *"supporting the government's plan to provide much-needed affordable homes across the country for hardworking families, including right here in the North of England, while securing the pensions of our members."*

This quote also demonstrates the tensions in the policy. The funds' primary duty remains providing a secure return to their members. Proposals must therefore remain commercially viable over the long term, whether as standalone investments or as part of wider initiatives involving other parties who can play a de-risking role.

The most likely scenario is that social and wider economic value will be key in differentiating between various options with similar projected returns, rather than being placed above other criteria. These could include, for example, gap funding alongside other institutions, strategic authorities or private capital to unlock important regeneration schemes or projects of wider economic importance.

There is also a clear link to devolution, in particular the greater powers and funding capabilities of the new strategic authorities. As mentioned above, the ability of the relevant tier of local government to provide its own funding alongside the certainty and speed produced by measures such as Mayoral Development Corporations or Orders could in itself make projects more commercially attractive.

Indeed, with the exit of many other funds from this space, this role becomes more critical, particularly as their scale and horizons mean they may be able to take up propositions that other currently active investors might find too large, complicated and long-term. This may not be sufficient to be a game changer on its own, but they could be powerful catalysts for further investment from the private sector. Indeed, co-ordinated action by the various parties may itself be attractive to other investors.

A FINAL WORD...

Over the next decade, as a result of auto-enrolment, private Defined Contribution schemes will gradually become the more dominant part of the market, overtaking LGPS.

Like LGPS capital, they are increasingly being aggregated into master trusts such as NEST and the People's Pension. The Mansion House Accord, a voluntary initiative, has seen many sign up to invest at least 10% of their default funds in private markets such as real estate by 2030, including at least 5% of total fund assets in UK private markets.

So, while the current wave of LGPS money can be seen as a 'bridge' between the end of the old private DB-orientated market and the new DC world, the current moves are also a vague prototype for how domestic funds will invest in the future.

For the time being, their importance and orientation towards housing and regeneration, scale and longer-term mindset are shaping future as well as current trends.

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