THE AFFORDABLE HOMES RENTAL FUND

SOCIAL IMPACT REPORT 1
AUGUST 2012 – MARCH 2013

"LOCAL HOMES FOR LOCAL PEOPLE TAKING OFF"

CONTENTS

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EXECUTIVE SUMMARY

The Affordable Homes Rental Fund (AHR Fund) exists to house people affordably who otherwise would not be able to live in their communities. At the same time, it helps to stabilise and strengthen these places as sustainable social and economic locations. The AHR Fund was created by Resonance with seed funding from Big Society Capital and is now looking to raise additional investment. This report presents the early evidence for the social impact of this initiative as well as its potential for the future.

The AHR Fund intends to simply, but effectively, address a persistent market failure in financing community-led affordable housing - particularly long term mortgage finance for rental homes. It delivers a "one-stop-shop" for both development and long term mortgage finance, which traditional lenders cannot currently provide on terms suitable for the borrowers. The Fund has already extended loans and made loan commitments of £1.4m in its initial months of operation, covering four separate community groups and 20 affordable homes. These have all scored highly on our chosen measures of social impact around (i) community leadership, (ii) community stability, (iii) affordability, (iv) additionality, and (v) security of tenure.

There has also been key learning around the challenges faced by community groups in bringing forward viable projects, and the different procurement models community groups can use to interact with developers. The Fund has now established a pipeline of potential projects requiring finance, which could exceed £30m.

Although the AHR Fund has only recently been established, there are signs that it is already having a significant social impact through its operations at a number of levels: through the projects financed, the community organisations strengthened, and in stimulating the overall market for community led housing being developed.

At its heart is the powerful idea of lending to lay-led community organisations, increasingly demonstrated in real projects coming to fruition, so that local people can solve their own local affordable housing needs and steward much needed community-held assets for future generations.

INTRODUCTION

About the fund

The Affordable Homes Rental (AHR) Fund was established in August 2012 by Resonance through its community lending vehicle, Community Land & Finance CIC, with anchor investment by Big Society Capital of £2.5m. In response to significant demand, the Fund is now embarking on a second round of fundraising seeking to increase the Fund by a further £2.5m, in which Esmée Fairbairn Foundation has already made a commitment of £0.5m.

The Fund invests through loans to community led organisations in the UK providing affordable rental housing for local people and strengthening local communities.

The current status of the fund is that it has:

- Disbursed loans of £0.3m to two projects
- Approved loans of £1.1m to two further projects, which are currently fulfilling conditions prior to drawdown
- Received additional applications for funding of £3m from 5 projects
- Beyond this, identified a potential future pipeline of projects of a further £24m

Background on affordable housing

Community Land Trust (CLTs) are commonly used vehicles for communities undertaking affordable housing projects. Given the severe shortage of affordable homes for rent throughout many areas of the UK, there has been a surge of members of the community coming together to tackle this problem themselves for the good of their community. As a result, figure 1 demonstrates how CLTs are being established across the width and breath of the UK.

The AHR Fund offers a loan product to CLTs and other community led organisations, which struggle to access appropriate finance from traditional lenders, thereby allowing them to establish financially viable projects. The Fund can offer both development finance to fund construction of a project, and a 7-8 year rental mortgage to finance rental homes once the project is built.

This allows the borrower to build a track record of operations and debt repayment, allowing it to refinance at the end of the loan term with a traditional mortgage lender. Due to the structure of its loan product (see Appendix 1) the Fund is able to provide up to 100% of the development finance required, dramatically simplifying the financing challenge for CLTs.

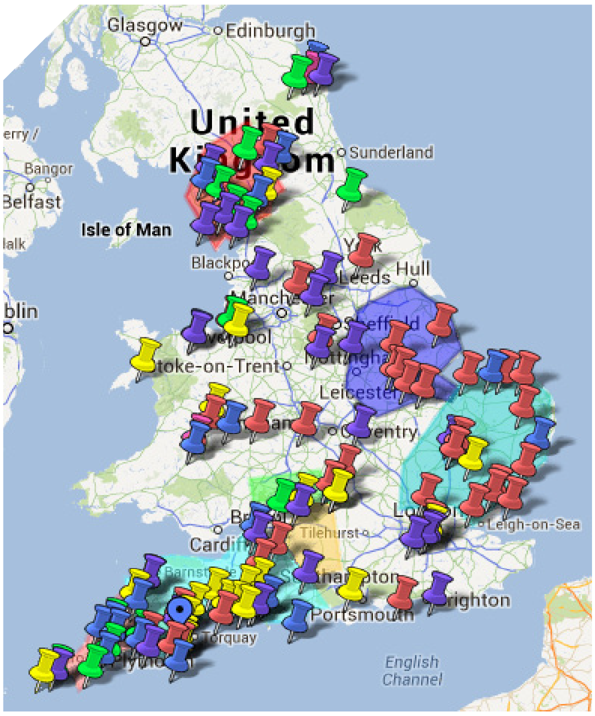


Figure 1: Map of CLTs within the UK

Source: National CLT Network

KEY

Red - Ambition for a CLT, exploring ideas

Purple - CLT formally constituted but not yet on site

Yellow - Significant progress made, but not yet on site

Green - Started on site

Blue - Scheme complete

Purpose

Through its investment activity, the AHR Fund is stimulating the growing initiative for local communities to develop their own affordable housing schemes, which offer a "lay-led" solution creating more balanced communities in both rural and more urban environments.

Community led schemes generally achieve a higher level of local consensus around development of new housing and mobilise skills and experience from local people which may otherwise lie dormant. Those involved see the benefits for their community in sustaining the demand for local services such as schools and shops, in allowing local families working in lower paid jobs to remain close to support networks and in maintaining a broader social mix in the community.

The motivation is often to pass on a thriving community to future generations. Whilst the immediate beneficiaries may not be those in most extreme housing need in our society, this early intervention helps avoid more serious long-term social consequences of community breakdown, supporting the "nearly poor" before they become the "really poor".

The Fund's investments support a range of community organisations, taking a number of legal forms, but with the common themes of:

- Creating affordable housing and community resources through the ownership of land by the local community
- Acquiring land through public investment, planning gain, philanthropic or charitable gifts, which is held in perpetuity by the local community
- Locking the value of the land and property developed in perpetuity for the benefit of the local community
- Long term stewardship of the asset by the local community for future generations

Resonance Ltd, the Fund Manager of the Fund, has produced this initial report covering how the social impact of the Fund is measured, the role of the Fund in shaping the overall market, and the key lessons learned so far from developing and deploying the Fund.

This is the first social impact report on the Fund, which is to be provided annually to investors in May/June of each year during the Fund's 10 year life. As such it presents initial data, covering less than a full year of operations, and focuses primarily on learning from the Fund's early operations.

MEASURING SOCIAL IMPACT

Approach

The Fund collects data annually from borrowers in order to measure the social impact the organisation is achieving at a project and community level, in terms of housing people affordably and supporting communities. It judges this against five areas, both at the outset of a project (its suitability and potential) and on an ongoing basis.

Data is collected between February and April of each year in relation to the previous calendar year ending 31st December. Borrowers report the quantitative indicators listed in figure 2 as well as more qualitative reporting around the relevant areas of impact. Given the short period of operations and relatively small number of loans at the point of measurement, the qualitative data has proved most meaningful at this stage though it is hoped that the quantitative measures will begin to show a more informative picture as the loan portfolio grows over time.

The above information is presented and discussed in section 1. Community impact, below. Following this, we discuss the funds place in and impact on the market in section 2, and the lessons learned so far in section 3.

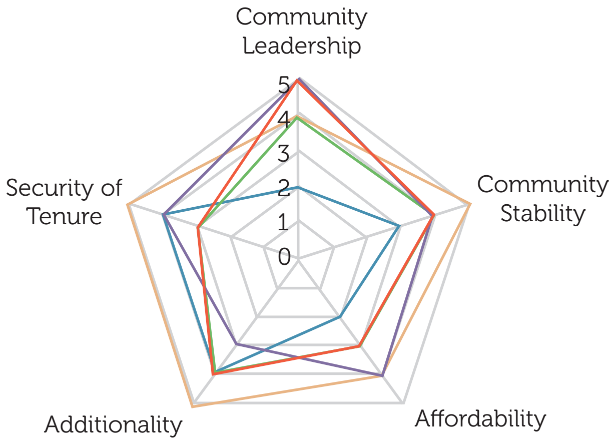
1. Community impact

a) selecting projects

In addition to the normal assessment of creditworthiness, the Fund considers five key areas of social impact when considering an application from a potential borrower, shown in the table below. The Fund scores each potential project on a scale of 1 to 5 against each of the five impact measures, which are presented and discussed within an Investment Committee and form an integral part of the loan approval process.

Figure 3 shows the scoring for projects that have been approved by the Investment Committee to date. The higher scoring projects typically included community groups which played a key role in their community and were primarily motivated by solving the housing issues in their area, and building an organisation for the long term that could steward assets (with ambitions often including non-housing assets – renewables, public buildings etc) for community benefit for generations to come. These groups typically evidenced wider community involvement and had plans for further, more ambitious projects in the future. Projects that included new build schemes and conversion of empty properties also scored highly as these projects added housing stock to the area. The Fund also looked at interesting variations to the classic build model, including self-build projects, which brought additional benefits to individuals and communities, discussed further below.

Figure 3: Social impact scoring of loans approved to date



Unsuccessful Loan Applications

It is also instructive to reflect at this stage on those projects which have not secured investment from the Fund, either because they did not show sufficient social impact against the Fund's criteria and/or because the project could be financed more appropriately by mainstream lenders.

Unsuccessful applications to the Fund included:

- **Established housing co-operative** – which is based in the North West and was planning to purchase a number of units to add to its stock of social housing. Given the organisation had a successful track record of trading and securing debt against its current property portfolio, the Fund concluded that the organisation could successfully secure finance through traditional mortgage lenders.

Figure 2: Social impacts measured by the Fund

Impact	Relevance	Measurement	Quantitative indicator(s)
Community leadership	Project supported by local community, whose members are providing initiative and skills	Evidence of increased participation of community, additional initiatives etc	Number of people actively involved in local organization; Total assets of local organisation
Contribution to community stability	Real, evidenced need for project locally, and allocation policy that ensures need met.	Evidence of benefits to e.g. local school roll, shop/community centre viability, employment	Percentage increase in local school roll from tenants' children; Employment of tenants in local businesses
Affordability	Rents are genuinely "affordable" in local market context and for individual tenants	Evidence that property is cheaper for occupants to live in than otherwise available	Rent as percentage of household income; Rent as percentage of local market equivalent
Additionality	Project provides additional homes	Evidence that project either builds on vacant land or converts vacant buildings	Number of affordable housing units; Number of individuals housed
Security of tenure	Builds stable communities and gives residents sense of security and stability	Evidence that tenants are treating the homes as a long term place to live	Average length of tenancy

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- **Established charity** – which is based in the North West and runs a successful community business for the benefit of local residents on a large housing estate. This organisation was planning to purchase houses on the estate in order to rent them out to local residents. This project did not necessarily add further stock to the area (ownership of houses were simply being transferred) and the organisation was likely to secure finance through traditional buy-to-let providers.
- **Established CLT** – which is based in the South West and operates a number of affordable rental homes. The organisation applied to the Fund in order to purchase a number of properties from a local developer, which were built and already occupied by social tenancies. The Fund concluded that this proposal fell short of providing additional homes to the area and instead the organisation was encouraged to apply to the Fund to finance a number of new build projects that they have in their pipeline of projects (for which applications have now been received).

b) project profiles

In this section we present background and the qualitative impact information collected on the two community organisations which have drawn down loans to date.

Holsworthy Community Property Trust (HCPT)

HCPT is a charitable company limited by guarantee based in Devon, established in 2005 and run by five voluntary board members and one salaried part time staff member. It currently manages 15 affordable homes within four separate projects within the Torridge area. 13 homes have been disposed as shared equity sales, typically at 60% of open market values, and 2 homes have been provided for rent. The Fund provided a loan of £95k to support the refinancing of a shared equity property into an affordable rental property, in order to house a local family who were unable to secure a mortgage to purchase the property.

- **Community Leadership** – the board of directors are local people with a range of roles within the community, including solicitor, farmer, town/ district councillors and businessman. They have been involved in a voluntary capacity since HCPT was established. The group actively welcomes the involvement of local people within its internal meetings. In addition, it provides support and advice to other community groups throughout the UK who are in the early planning stage of a project, providing guidance and sharing best practice through site visits.
- **Community Stability** – Torridge is a rural area in which smaller communities can struggle to retain a balance of housing tenures and prices. HCPT's schemes are beginning to contribute to reversing this trend and have created a more cohesive community. The majority of tenants and shared owners are employed locally and, if they have a young family, contribute to sustaining the local school.
- **Affordability** – Torridge District Council has the lowest level of household income in any Devon district, and the area also has a high level of second home ownership. As a result, local people struggle to purchase local homes and if they wish to rent are

often forced to move away. HCPT has set its rental levels at £541 per calendar month (pcm) which is at about 90% of the local housing allowance (LHA) rate for the area (£600pcm). The estimated rental level for the property in the market is £550pcm but, in practice, the quality of accommodation provided is superior to that generally available and the energy efficiency of the property means that tenants should expect to have lower heating bills. These and other factors mean that the property remains "affordable" in the local context. Typical rents account for around 30% of tenants' income.

- **Additionality** – HCPT have created additional homes through a mixture of converting properties, new build schemes and acquisitions of properties. HCPT plan to create 50 homes over the next few years and schemes they have in the pipeline include new build, self-build and properties with arable plots, allowing tenants to make a living from the sale of locally grown produce. This first small loan from the Fund takes HCPT to 15 properties and contributes to its capacity to run its affairs without subsidy and accelerate its development pipeline.
- **Security of Tenure** – HCPT has a strong commitment to providing secure, affordable housing to eligible tenants and there has been little movement in the resident group over the last few years, demonstrating that residents are treating these properties as a home they want to live in for the long term. A small number of shared owners have moved on, driven by their increased ability to afford alternative accommodation.

Cornwall Community Land Trust (CCLT)

- CCLT is an Industrial & Provident Society based in Cornwall and was established in 2006 as an "Umbrella" organisation to support community led affordable housing projects across Cornwall. CCLT is run by seven voluntary board members and two salaried staff members. It has supported affordable housing projects within nine communities across Cornwall, totalling 118 homes. These include the scheme at Blunts, East Cornwall, for the provision of eight affordable homes. The Fund provided loans totalling c£200k to support the refinancing of two shared equity properties into affordable rental properties, in order to house two local families who were unable to secure a mortgage to purchase the property.

- **Community Leadership** – CCLT, as an umbrella organisation, develops projects in its own right and has also supported the creation of seven community led organisations undertaking affordable housing projects within Cornwall. It is led by seven local board members who have been involved in a voluntary capacity since its establishment. Their backgrounds include accountant, surveyor, town planner and civil servant. CCLT has catalysed the CLT movement in Cornwall, running seminar days to connect with local CLTs and the wider community, and is also playing a pivotal role in the creation of other schemes around the UK through sharing best practice.
- **Community Stability** – Blunts is within a very small Parish in East Cornwall, comprising of a number of small hamlets and one village. It shares similar local dynamics to Torridge (where HCPT above operates), namely, low levels of income coupled with an expensive property market. Through this scheme, CCLT has created the opportunity for eight families to remain in the area in which they were brought up and now work. This will allow them to bring up their young families in the area, who will attend the local school in the future and will grow up surrounded by their wider family in the community.
- **Affordability** – the average rental levels of £531pcm for the properties are below the local housing allowance for the area of £562pcm. Rents equate to around 80% of the market rental levels for properties in the area and rent as a proportion of tenant income ranges from 25% to 30%.

- **Additionality** – the Blunts scheme created eight additional homes in an area with a severe lack of affordable housing stock. The houses were built on vacant land, which was provided by the local council and CCLT plan to replicate this scenario in other similar areas of Cornwall.
- **Security of Tenure** – CCLT is firmly committed to the provision of stable, affordable housing and carefully selects eligible families in line with its allocation policy, providing tenancy agreements in accordance with this commitment to stable accommodation. In addition, there is also an ambition that the families concerned eventually acquire the property, on an affordable basis, which would further enhance security of tenure for the family. In this case, the benefit of the property for local affordable use would be preserved by requiring any future sale to be on an affordable basis to an eligible buyer (under the Local Authority's "Section 106" provisions governing the creation and use of affordable properties). The CLT would then be able to recycle the capital for the sale into new affordable local developments. The terms of the loan from the Fund allow for early repayment to achieve this outcome.

c) overall quantitative measures

The loan agreement for each borrower requires reporting on nine quantitative measures set out in the figure 4 for the existing borrowers to the Fund. Given that the Fund is still at an early stage the number of data points are limited for this first reporting round, however, it is expected that this data will build a quantitative picture of the Fund's impact over time.

The Fund is continuing to refine its thinking on social impact measurement and is working closely with Salford University on a project to create an industry standard approach to measuring social impact for CLTs. The results of this work will be reflected in future reports.

2. Building & Shaping the CLT Market

The Fund is a key player in building the CLT market, a key social impact in itself, which is achieved through:

- **Early stage dialogue** – with community groups taking their first steps on a project, offering support and guidance on the key ingredients required to transform their ideas into reality. Resonance Ltd, as the Fund Manager, may also input into some initial meetings and site visits to share best practice to help groups shape their vision for the project. Examples have included Cherwell CLT and Presteigne Community Housing Group. Where more substantial "investment readiness" work is required the Fund can signpost groups to appropriate consultancy input. The Fund has already had some impact on helping schemes that were dependent on HCA subsidy or allocating some units to open market sale to plug financing gaps to redesign their offering to produce higher proportions of affordable housing (for example Transition Homes Totnes).
- **Comfort letters** – are issued to potential borrowers who require pre-development funding at the planning stage of their process, for example from the "CLT Fund" managed by Venturesome. Comfort letters issued by the Fund provide confidence and comfort to pre-development funders that

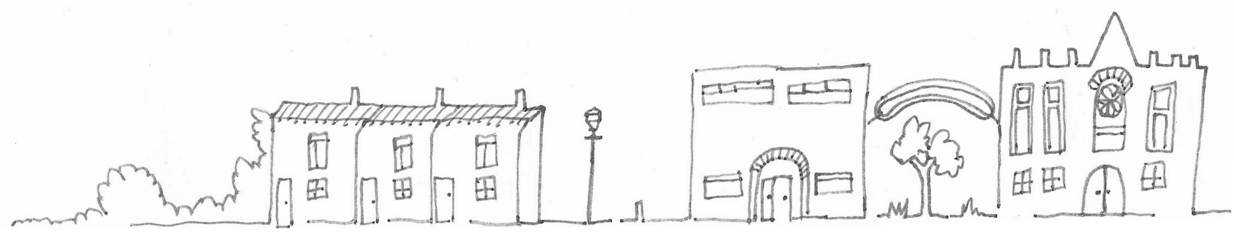
Figure 4: Data Returns

Data points	HCPT AHR Loan	CCLT AHR Loan
1) Number of affordable housing units	1	2
2) Number of individuals housed	2	4
3) Rent as percentage of household income	30%	30%
4) Rent as percentage of local market equivalent	98%*	80%
5) Total assets of CLT	£560k	£200k
6) Number of people actively involved in CLT	6	9
7) Percentage increase in local school roll from tenants' children	0%	0%
8) Employment of tenants in local businesses	Yes	Yes
9) Average length of tenancy **	Too early	Too early

* these homes are deemed affordable given higher energy efficiency build

** this data is not meaningful given tenants only recently moved into the homes these fragile, and often start up, organisations have the ability to raise finance to both build their scheme and subsequently refinance the construction loan into a longer term loan product, and ultimately into a traditional mortgage. The Fund will perform initial due diligence analysis on a proposed scheme to ascertain if the project is viable and would meet the criteria of a loan from the Fund. To date 5 comfort letters have been issued by the Fund, representing potential loan value of £2.7m.

- Approach to diligence – the Fund works very closely with organisations going through the loan application and diligence process, which has a number of positive impacts. For first time borrowers, this intense diligence process challenges key assumptions within the project plan and improves governance. It is also a crucial ingredient for the lay Directors gaining confidence that the Fund can deliver, providing certainty for their project. In addition, for organisations which may have a track record of smaller projects, the Fund's supportive approach to a larger more substantial project has resulted in organisations growing in confidence and feeling more empowered to take on more challenging projects. This was recently evidenced by the Fund working closely with a community group in the East of England which had previously managed single unit properties and was now "stepping up" to a multi-unit project. The initial diligence work by the Fund with this team has allowed it to take the decision to proceed itself with the project for now, rather than handing it over to a larger, less locally accountable organisation.
- Working with other funders – the Fund both supplements and compliments other funders who are together building the financing market for community led affordable housing. The Fund's ability to invest stimulates financing options from the early stages of a project, through construction and into the longer term rental stages of the project. For example, the Fund provides comfort to those providing pre-development finance in the early stages of a project but also provides comfort to development finance providers such as the ethical banks, including Charity Bank and Ecology Building Society, who require assurances that longer term finance post-construction is available. The Fund is also actively pursuing co-lending opportunities to larger projects with a number of the ethical banks.
- Sharing knowledge – another of the broader positive impacts of the Fund's initial operations has been establishing a network of links amongst other key participants within the emerging CLT market. This includes, working with the National CLT Network, other Community Development Finance Institutions (CDFIs) such as Foundation East, umbrella CLT organisations throughout the UK (including CCLT and Cumbria Rural Housing), ethical banks, academic institutions (including University of Salford), and attending and presenting at relevant market events (for example, the National CLT Conference, the Good Deals conference, and presentations to local CLTs held in Cumbria and East of England). The impact of this knowledge sharing includes sharing of best practice and learning, as well as simply encouraging local groups with the knowledge that barriers to financing have been dramatically lowered by the Fund's operations.



3. Lessons Learned

Key Challenges for Projects

The Fund has seen that community groups looking to set up affordable housing projects will typically encounter the three challenges below:

1. **Business planning** – community groups tend to have difficulty accessing professional and technical skills to help them shape and prepare viable business plans, which can be shared with key stakeholders in a potential project. The Fund helps to overcome this challenge through early stage dialogue and advice as well as liaising with "investment readiness" consultants in the market, including those provided by Resonance itself.
2. **Sourcing land** – the challenge here is firstly identifying a suitable plot of land in the local area, secondly negotiating a price that results in the project being financially viable and thirdly securing planning permission for the project. The Fund helps to overcome this challenge through sharing experience of potential models with early stage projects, including having land vested to the CLT from the local authority for a minimal consideration, subsidising the land cost by including the sale of open market units in the project, or sharing the increased value of the land with the landowner where the social aspect of the project can help in "unlocking" planning permission.
3. **Securing finance** – community groups struggle to access finance at all stages of a project, including risk finance for the pre-development stage, development finance for the construction phase and longer term mortgage finance for the rental stage. The primary reason is that these organisations are typically small, volunteer based and with little track record to comfort traditional lenders. The Fund helps to overcome this challenge by issuing comfort letters to risk capital providers and providing up to 100% of both the development finance and longer-term mortgage finance during the initial rental period. This results in the borrower building a track record in order to refinance with a more traditional lender in the future. It was this challenge that provided the original impetus for the creation of the Affordable Homes Rental Fund.

"Community led" and "developer led" projects

Although the vast majority of projects in the market tend to be created and led by members of the community for the benefit of the wider community, the Fund has seen a number of projects that could be described as "developer led". By this we mean that the organisation initially instigating and driving the project forward is not a self-formed local group, but rather a development company which may promote affordable / community projects in various locations.

Such development companies may take a variety of forms, from charity to Community Interest Company, and may in the latter case be seeking to generate some financial as well as social returns from their activities for external shareholders. Clearly, it is paramount to understand the real intentions of an organisation in such a project, to ensure there is not simply "badging" of a purely commercial project as "social impact", in order to maximise profit.

As a result the Fund will challenge such organisations to provide substantive evidence and commitments to support their case for social impact. In practice, this has resulted in organisations modifying their approach to business in order to provide long-term community stewardship of the assets created. This might involve including more local people on the board of the developer organisation, as well as working more closely with other socially motivated businesses and charities to find solutions to managing assets for social benefit.

Central to this issue is how the development organisation interacts with the local CLT or community it is seeking to assist. The Fund is able to comment on three broad approaches observed to date:

- **Developer becomes community steward** – this may include commercial developers who are interested in entering the market for community led affordable housing. Our experience is that the best of these are proactive in researching the support for development of affordable housing by local people, for example by conducting extensive door to door surveys to establish the need for, and optimal shape of, a local project. These organisations do not however necessarily proceed in partnership with a separately constituted local CLT. This may be because such an organisation does not exist, or because the development organisation does not see them as a viable partner, or due to other incompatibilities. In this scenario, the key issue has been ensuring that any rental element of the development will be appropriately stewarded by the developer. The Fund has gained comfort on this point through ensuring a number of conditions are met including; (i) confirmation that the developer organisation is itself appropriately constituted to ensure that the benefit of its activities is "locked" for social purposes (for example, via a Community Interest Company); (ii) the appointment of an appropriate organisation to manage the rental element of the project, if the developer cannot fulfil this role; (iii) confirmation that the local council are supportive of the project, and (iv) an appropriate policy is in place, and if necessary enshrined in its constitutional documents, for the organisation's ongoing involvement with local stakeholders, including board representation.

- **Developer partners with community steward** – this is where the developer works from the start alongside a separately constituted local CLT and has pre-arranged terms for handing over the project to that CLT as its intended long-term steward. This scenario may come about where a local council has identified a plot of land to be developed for affordable housing and has identified a developer with a track record to develop the site in partnership with a newly formed CLT or similar community group, which can take ownership at an appropriate date in the future. Here, best practice includes pre-contracting between the development organisation and the nascent CLT for the conditions necessary for eventual transfer of the project, and the terms on which that will occur.

- **Housing Association acts as developer and community steward** – in this model, local CLTs effectively hand over projects to local Housing Associations for both the development and rental periods. The CLT's role is generally limited to that of project instigator and, therefore, the social impact of such projects is limited to the provision of housing rather than the wider benefits of creating a CLT with its own assets that can act as a catalyst for future projects. The CLT itself has no financing needs arising from the project and therefore the Fund has not been directly involved in such projects. This model has however sometimes been seen as the "Plan B" for CLTs which cannot raise their own finance, or view this as too risky. Some initial conversations with CLTs going down this route have indicated that once the first project has been completed this way, the newly formed group has momentum and confidence to do more on its own. This is anticipated to occur more readily as the current round of HCA grant funding will shortly come to an end and the less well-endowed housing associations will no longer be able to plug the 'equity gap' offered by the HCA.

Based on evidence so far, it would appear that all approaches have a place in the market. The first brings the potential for some of the dynamism and entrepreneurialism of small commercial developers to be harnessed for community projects, providing sufficient safeguards around social purpose can be introduced. The second potentially represents a true partnership between professional development skills and longer-term local stewardship, with each organisation playing its appropriate role at the relevant stage. The third is a touch point between the traditional world of social housing through Housing Associations and the community led model, which may in some cases yield projects which cannot occur under other models.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PROSPECTS FOR THE FUTURE

Overview of Deal Pipeline

The Fund currently monitors a pipeline of projects requiring finance over the next 12 to 18 months totalling almost £30m with the following emerging characteristics:

- More geographic diversification - initial loans were concentrated in the South West of the UK, however the Fund is now seeing projects throughout many regions of England (including the North West, North East, East and South East) and also Wales and Scotland.
- More construction – initial loans have been to refinance development loans on properties, which had been built on the assumption of shared-ownership sale but where lack of mortgages for tenants made this unviable. More community groups are now considering using the Fund to finance construction of property as new build projects, as well as conversion of unused property.
- Increase in project size – groups are becoming more ambitious with regard to the number of units within a single project and this results in an increased financing requirement from the Fund.
- Increase in self build –involving future tenants in building or finishing off the properties is becoming a more common feature in many projects. This potentially brings even higher social impact from tenants learning new skills and taking even greater responsibility for their housing environment and that of their local community.

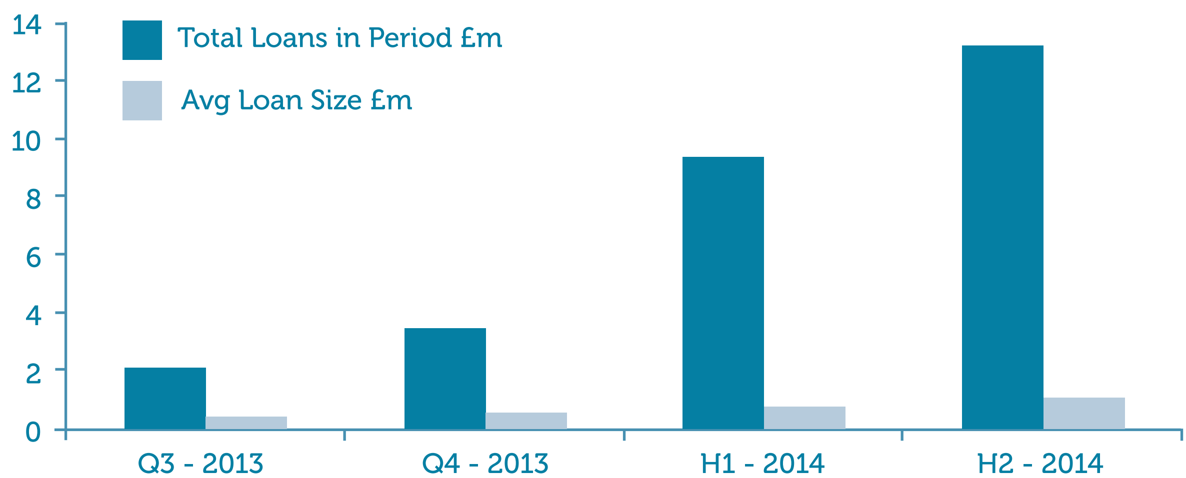
Successful Loan Applications in the pipeline

In addition to the existing loans extended, the Fund currently has two offers of finance out to other community groups, which are due to draw down in the coming months:

Project A

The AHR Fund is providing a loan of £400k in support of a community group in Norfolk, for the conversion of a local building into 11 affordable homes for local families. The group is made up of local volunteers who currently manage a number of affordable rental homes in the area and are pivotal within the community, organising fund raising events and community and social events. This project will allow local families to remain in the area they were brought up in, in order to work and bring up their young families in the area, further strengthening the community. The building, which is currently being used as office space, will be converted into 11 affordable rental

AHR FUND PIPELINE



properties. This will add much needed affordable housing stock, which is severely lacking in the area, due to the high demand for holiday homes. The group will set rent levels at around 80% of the market value for the area and will build upon their six year track record of providing secure, affordable housing to local families.

Project B

The AHR Fund is providing a loan of £680k to a community group in Devon, which is undertaking a self-build project. The project is being supported by a Community Interest Company which has developed a model for community self-build projects that it hopes to replicate in other areas of the country. The project will see a group of local families form a CLT in order to build six eco-homes, creating a high level of social impact, as follows:

- Creating affordable housing with an equity stake, which can be fundamental to rural village regeneration.
- Allowing families to escape the cycle of short-term private rentals, which can force many families to move their children's school, commute longer distances or simply move away to a bigger town or city.
- Allowing local families that never thought they could afford to buy in their home-village to assemble a 25% equity stake (by building the house themselves) which helps to secure their place in the community.
- Helping to rebalance local age and income demographics, supporting local businesses, schools, shops and transport routes.
- Self-builders often gain transferable construction skills from the process, allowing them to maintain their own properties and widening employment opportunities

Future funding needs

In its initial months of operation the AHR Fund has demonstrated its potential to have significant, focussed social impact in stimulating community-led affordable housing initiatives. All around the country projects providing local homes for local people are beginning to take off, with success stories building confidence in other local groups to "do it for themselves".

The Fund is now close to having deployed its initial round on investment and is now seeking to raise at least a further £2.5m to continue investing into the significant pipeline of projects ahead, totalling around £30m. Increasing the total size of the Fund to over £5m in this way will also allow the Fund to invest into larger projects without the risk of excessive concentration of investment in a single project. In this way, we would expect a further increase in the Fund's size to further accelerate some of these larger projects, which would otherwise need multiple funders.

The outlook for community-led affordable housing looks promising, but remains at a stage where the difference between success and failure is still often dictated by availability of financing. The AHR Fund can continue to play a critical role in addressing that financing gap and giving communities the tools they need to succeed in their goals.

APPENDIX 1

resonance
community land & finance cic

Affordable Homes Rental Fund

The Affordable Homes Rental Fund has been established in response to the growing number of community groups looking to create affordable local rental housing, in areas where property prices prevent many local people from being able to afford accommodation.

The initial fund is £2.5 million and has a target to lend on 24 rental homes in the next 12-18 months

Who is it for?

The Fund is open to any Community Land Trust (CLT) or other community-led group seeking finance for affordable rental housing. It enables community schemes to be delivered without the need for grant funding and can also provide development finance where project plans include an affordable rental component along with other shared ownership/open market homes for sale.

As the repayment profile tracks rental inflation, borrowing from the Fund typically enables the applicant to borrow more than would be offered by conventional mortgage providers. Within 8 years the organisation should then be able to refinance and obtain a conventional 25 year capital repayment mortgage.

A typical example

A CLT in the North West wants to create 8 new homes in their village, 4 to be for shared ownership and 4 for rental. The development costs are £900,000, and once completed, ongoing finance of £400,000 would be required for the rental housing.

In approaching a conventional mortgage provider they find that they can not borrow the full development cost as the anticipated net rental income in the first 1-2 years was significantly less than the capital and interest repayments, based on a 6% interest rate. They are therefore unable to proceed without sourcing some alternative funds to bridge the gap.

The Affordable Homes Rental Fund's solution means that repayments are calculated to track forecast rental income. Interest is fixed at 5% and the capital element repaid is capped to match the balance of cash available from the net rental income. As rents increase with inflation, so the capital element repaid is also increased. After 7-8 years, inflationary rent increases are likely to enable the customer to afford to refinance with a conventional mortgage provider.

The maths

Development finance required:	£900,000	
Post-construction finance need per unit	£100,000	
Net rents		£6,000
Max capital & interest loan from conventional lender @ 6%	£75,000	
Finance shortfall	**£25,000**	
With AHR Fund Interest on 100% development cost @ 5%		£5,000
Capital repayment capped at balance of net rents		£1,000

What are the key eligibility criteria?

The Fund will consider propositions from entities that satisfy the following criteria:

- The applicant should be a formally constituted CLT or other community-led organization
- The planning consent must include a suitable Section 106 agreement, critically to include a mortgagee-in-possession clause
- Gross rents must be affordable in the local market
- Capacity from experienced person or organization to project manage any development and provide ongoing property management of rental units

Loan terms

- Borrow up to 100% of capital required, or max. 17x net rents
- Interest rate fixed at circa 5% with a 1% arrangement fee (7.5% for development stage with a 1.5% arrangement fee)
- Repayment term 8-9 years, with repayment profile tracking rental inflation

How do I apply?

By submission of an application form from our website:

http://www.resonance.ltd.uk/funds/community-land-trust-rental-housing.

Each proposal will be considered on its individual merits, including the extent to which it meets the Investment Criteria and aims of the Fund.

Or if you wish to discuss your suitability to the Fund, please contact Resonance Limited (advisor to Community Land & Finance CIC):

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