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THE NEW COMMUNITIES  
PARTNERSHIP

# Kent Housing Group: Future Funding of Housing



## Help to Deliver Housing

- Dramatic cutbacks in the availability of grants and funding to build and develop socially focused property
- Government policy has also placed restrictions to cap Housing Allowances and reduce social rents charged by registered providers by 1% per annum
- Loss of stock due to Right to Buy and sale of high value homes
- Social sector organisations withdrawing from the development of socially focussed property
- Social sector organisations have been forced to cut back on the provision of services or turn to expensive and/or inadequate properties provided by private landlords and private ventures



## Cheyne Social Property Impact Fund

- Launched in 2014 to deliver the extra homes & facilities required to address outstanding social challenges within the United Kingdom
- Work exclusively with non profit, social sector organisations, to invest in, acquire and develop property to help deliver social services
- Balance social return with financial return. We do not capitalise on development profits, instead we reinvest capital into improving the quality of provision and reducing social service costs & rents
- We work with New Philanthropy Capital (a Social consultancy) to ensure our investments are socially responsible. Big Society Capital is a seed investor in the Fund
- We are a private landlord and not regulated by the HCA hence the properties are not subject to RTB or rent regulations
- In May 2016 the Social Property Impact Fund formed a public – private alliance with Kier Living and the Housing Growth Partnership, a HCA backed investment vehicle, called the New Communities Partnership



## Deployment Criteria

The Fund will assist in unlocking fundamentally viable developments and assets through the following core strategies:



### **New build / turn key development**

- The fund will develop turn-key assets for the benefit of social sector organisations, take 100% of the risk in terms of development, construction, refurbishment & financing as required
- Development sites are sought subject to Planning Consent



### **Asset acquisition**

- The fund will acquire completed assets through multiple procurement strategies, such as:
  1. Simple asset transactions backed by forward commitment (where applicable)
  2. Golden Brick/Staged payment transactions
  3. Forward funding development projects



### **Sale and leaseback**

- The fund will acquire existing assets from social sector organisations on a sale and leaseback structure



## Lease Structure

- The leased properties will be owned by the Cheyne Social Property Impact Fund and leased
- The lease will be a Fully Repairing & Insuring Lease (“FRI”) and linked to CPI
- The Fund will pay a Management & Maintenance allowance which indexes annually at CPI
- The properties will not be subject to RTB nor rent reduction
- The lease will include Social Covenants which are reviewed annually
- Leases range from 21 Year “operating Lease” which is off balance sheet to 35/40 year leases “finance lease”, on balance sheet but ownership reverts to the leasee at the end
- At the end of the initial operating lease period the leasee has three choices:
  - Allow the lease to end
  - Acquire some or all of the properties
  - Roll the lease for another period



## Social Metrics of the Fund

- Many investors devote funds from their Corporate, Social, Responsible allocation & want to ensure the investments are achieving a “Social Good”
- New Philanthropy Capital (“NPC”), a social consultancy, initially supported the Fund with the development of social due diligence processes and periodically support the Fund with social due diligence on possible investments
- NPC sits on every investment committee as the Social Impact Member, and thus reviews all investments
- Each investment will have clearly defined social impact goals, with on-going monitoring & social covenants to help ensure the objectives are reached
- The Fund undertakes annual Social Audits. This ensures the leasee is consistently using them to achieve a positive social outcome
- Annual report on the Fund on progress to date by Professor Jennifer Rubin (Professor of Public Policy) and her team at King’s College London



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## What is the New Communities Partnership?

- The New Communities Partnership has been formed by Kier Living, the Cheyne Social Property Impact Fund and The Housing Growth Partnership
- Kier is one of the UK's leading house builders
- The Housing Growth Partnership is backed by the Homes and Communities Agency and Lloyds Banking Group and was created to promote housebuilding in the UK
- The Partnership has combined to facilitate the development of around 10,000 new homes in the UK, many of which will be sold or rented at affordable levels
- The Partnership aims to unlock the production of much needed mixed-tenure housing



Homes &  
Communities  
Agency



## Areas of focus for the Partnership

General Needs  
Accommodation to  
Support affordable / social  
housing needs

Sub-market Rented housing  
to support key workers,  
squeezed middle

Shared Ownership  
models

Supported Accommodation  
for socially excluded groups

Market Rent  
and Rent to Buy

Private Sale  
including  
Starter Homes

Care Services including  
affordable residential care  
and NHS support

Leasehold and affordable  
rent Extra Care with dementia  
provision

Regeneration



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## How can the Partnership help?

- Utilising the expertise of the Partnership it will acquire land, at fair market value, from public sector organisations or the private sector and progress that land through development, into planning and construction taking all the risks along the way thus providing a turn key solution
- NCP will provide mixed communities by balancing the mix of tenures on each scheme
- The sales risk on open market sale properties will be taken by Kier Living whilst the ownership of the rental tenure properties will be with the Cheyne Social Property Impact Fund
- The mix of tenures can be adjusted to meet the demands and needs of the local demographics. The difference between the indexed lease payment and the market rent will generate a surplus for the leasee
- NCP is a private entity and not regulated by the HCA



Open Market Sale



Shared Ownership



Discounted Market  
Rent



LHA



## Procurement & Development

- The sale of land and entering into leases is outside of procurement rules
- An independent valuer would be appointed to opine on the value of the land once the use has been established through planning approval
- The partnership would then seek to pay this valuation amount thus ensuring Value For Money is received for the land and thus avoiding any State Aid concerns
- With regards to the development, the leasee would agree a pre-let prior to sale of land and development start
- To ensure procurement rules are not breached the leasee would not have the legal ability to influence the design and specification of the units. However the partnership will want the leasee to formalise the lease upon build completion and hence works closely with the leasee throughout the process



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## Development example – Affordable Housing, Luton

- An investment with Luton Borough Council which has 6,600 households on the waiting list, including 1,000 households in temporary accommodation. 75% of applicants request a 1 bed or 2 bed flat
- Construction started of 80 1- and 2-bedroom homes for the Council in April 2015 to provide accommodation for residents on the housing waiting list
  - The properties are to be constructed as 3 low-rise blocks, with ample parking space and gardens, in a town centre location with good access to transport links, the town centre and amenities
  - The Council takes no financing, development nor construction risk associated with the project thus receiving a turn-key solution
- The Council has entered into a 21 year fully repairing and insuring lease arrangement allowing them to nominate the households to the properties.
  - Allocations based on a clear measure of need, with priority allocated to those with greatest needs
  - Council is responsible for ongoing management and maintenance of the building for which it earns a commercial fee
  - Rent is set at 74% of open market rent and indexed annually at CPI + 1%
  - Council creates an operating surplus from its management and maintenance activities
  - The land was valued by an third party valuation agent and the Fund paid that valuation to the council





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## Supported Living for Acute Learning Disability – Thera Trust

- Charity's Situation.
  - National registered charity who support adults with acute learning disability
  - Difficult for the charity to identify properties that are suitable for tenants and have security of tenure. This has slowed the ability to provide care in a community setting
  - Private landlords often not willing to provide long term leases therefore disruption to the beneficiary at the end of lease if renewal is not available
- Solution
  - The charity works with the beneficiary & their family to identify type and location of property required
  - The charity arranges and manages the adaptations to the property if required for the beneficiary
  - The Fund pays for all the property adaptations
- Outcome
  - The Fund has provided a commitment to fund c. £15 million of properties over 24 months for the charity
  - Commissioners have preferred this outcome as they are now confident that the charity can provide the care and housing support for referrals
  - Beneficiaries have a stable home in a location of their choice





## Development Example – Discounted Rented, Sheffield

- The Fund acquired a 1.06 Acre site in Kelham Island with detailed consent for C3 Residential Use from a private land owner
- The Fund set out a brief to achieve a mixed tenure scheme which maximises the amount of affordable housing on site
- 35% of the units will be let at a discount to market rent
- The previous s106 had zero affordable homes
- The Fund has no requirement to make a typical ‘development profit’ on development costs due to its social mission
- 65% of the units will be for PRS. Rents in Sheffield are increasing at 4% annually. Net rent to the Fund will be indexed at CPI
- South Yorkshire Housing Association will enter a 21 year FRI lease. This will create a positive revenue surplus for them





## Development example – Mixed Tenure Housing, Luton

- Option on a 6.67 Acres outside the M25 from a private land owner
- Council set out a brief to achieve a mixed tenure scheme which maximises the amount of discounted rent & discounted sale housing on site
- Previous scheme had limited affordable housing. Scheme has been redesigned in order to improve the design and integration within the wider community
- Upon completion the Council would enter into a 21 year term lease. The Council intends to use the site to provide a majority of key worker housing and some local housing provision
- The mixed tenure of the units will allow the local authority to manage those tenure units as they see fit to meet local demand
- The Council will generate a surplus from the management and maintenance activities





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