

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2175

Title: Real Lettings Property Fund

Executive Summary:

This decision seeks the Executive Director of Housing & Land's approval of a bid submitted to the Homes for Londoners Affordable Homes Programme Innovation Fund. The Director has delegated authority to give approval through the provisions in Mayoral Decision-Making in the GLA because expenditure is from the budget approved by MD2125 (Affordable Homes Programme 2016-21). The proposal is to invest £15 million into The Real Lettings Property Fund 2 for the purchase of homes to accommodate individuals and families who have been homeless or are at risk of homelessness but are ready for independent living. It is estimated this investment will support the purchase of up to 330 affordable homes by December 2018.

Decision:

That the Executive Director – Housing & Land approves:

- An interest bearing loan of £15m to GLA Land and Property Limited ("GLAP") from the GLA;
- the subsequent £15 million equity investment by GLA Land and Property Limited ("GLAP") in the Real Lettings Property Fund 2 ("RLPF2"), subject to the successful conclusion of legal due diligence on the limited partnership agreement; and
- expenditure of up to £20,000 within 2017-18 on external advice required to review the limited partnership agreement, provide a report on same, and complete the contractual documents.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: David Lunts

Position: Executive Director Housing and Land

Signature:



Date:

12.10.17

PART I – NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The Innovation Fund was launched as part of the *Homes for Londoners: Affordable Homes Programme 2016-21* on 29 November 2016. This Funding Guidance invited providers to submit proposals which sought to deliver affordable housing using GLA investment in innovative ways. A template 'Expression of Interest' (EOI) form was published on 2 December 2016 and providers were invited to complete and return the form by the closing date of 13 April 2017.
- 1.2 MD2125 was signed on 13 June 2017 and approved a total programme budget of £3.25bn for the *Homes for Londoners: Affordable Homes Programme 2016-21*.
- 1.3 Resonance Limited (company number 04418625) ("Resonance") submitted an EOI by the closing date. The bid was assessed according to the criteria set out in the *Homes for Londoners: Affordable Homes Programme 2016-21 Funding Guidance* and is recommended for approval.
- 1.4 The proposal is to invest £15million of GLAP funds on a recoverable basis into the second London Real Lettings Property Fund (RLPF2) operated by Resonance and St Mungo's. The RLPF2 was registered as a limited partnership in December 2016 and the fund was launched in January 2017 with LB Croydon, LB Lambeth and LB Westminster joining as limited partners and committing a total of £45million of investment. The target size for the RLPF2 is over £100m up to a maximum of £200m by January 2019. A fund of £100m should allow the purchase, refurbishment, letting and management of around 330 affordable homes. In addition to £15million from the GLAP, the remaining funding is expected to come from other Local Authorities and investors.
- 1.5 The RLPF2 has a life of seven years, which could extend to nine years. It offers investors the opportunity to invest in a portfolio of London residential property which will achieve significant social impacts in the field of homelessness in London.
- 1.6 The Expression of Interest (EOI) submitted by Resonance meets the criteria of the Innovation Fund, in that this is an innovative way of using GLA investment. Resonance has also provided evidence that the scheme will meet the following funding criteria:
 - I. Track record of delivering homes at scale: in partnership with St Mungo's, Resonance is currently operating the RLPF1 (which has purchased 260 properties), as well as a National Homelessness Property Fund (working outside London). The RLPF2 proposal mirrors the structure of RLPF1.
 - II. Early delivery: opportunities have been acquired or lined up to enable speedy results. This proposal is to purchase existing private properties where only minor refurbishment works are required, and to let them at affordable rents. The acquisition of existing properties is much quicker than the development of newbuild homes and does not require the acquisition of land. Properties have not yet been identified, but there is a robust process in place to locate, approve and purchase properties. All properties will meet Decent Homes standards.
 - III. Scale: the delivery model is capable of being scaled up to deliver significant numbers of new homes – the delivery model could be scaled up to some extent, however there is a limited supply of existing homes and Resonance envisages that the maximum manageable size for this phase of the initiative through RLPF2 is £200million, with £100million being a more likely target outcome.

IV. Value for Money: GLA funding would be repaid on a quarterly basis from the rental income received by RLPF2 and through the capital appreciation of the properties when they are sold at the end of the term.

- 1.7 An Innovation Fund gateway 1 evaluation form was completed on 10 May 2017 and the proposal scored 19.7 out of a possible 25. The EOI seeks investment of £15-30million, however, it is recommended that the GLA invests £15million only, as additional funding will not deliver additional affordable homes and Resonance's view is that the maximum size of this fund (to ensure that the housing outputs can be delivered) should be £200million.
- 1.8 This proposal is an excellent fit with the GLA's strategic aims to prevent homelessness and to improve employment outcomes for formerly homeless people. By contributing to the supply of affordable rented accommodation available to (formerly) homeless households, the proposal will assist local authorities and their services to secure accommodation for homelessness prevention, temporary accommodation and/or hostel move on purposes; an additional benefit is that investing monies on a commercial basis will achieve a financial return.
- 1.9 The RLPF2 builds upon the successful track record of two similar funds that Resonance and St Mungo's are already running: The Real Lettings Property Fund 1 (RLPF1) and the National Homelessness Property Fund (NHPF). The RLPF1 (£57 million) launched in February 2013 and purchased 260 properties. Investors included Big Society Capital (a social investment institution), LB Croydon, L&Q Group and the City Bridge Trust (the City of London Corporation's Charity). RLPF1 is achieving an average net initial yield for investors of over 4% (which translates into a cash yield of 3%) and a total target investor internal rate of return of over 6% per annum by the end of the fund, including capital appreciation. This compares favourably with current average residential market yields, for example Knight Frank's UK Residential Yield Guide, April 2017¹ states that average net initial yields in zone 2-4 London are 3.5%-3.75%.
- 1.10 To date, 607 tenants have been housed, with light touch employment-focused support provided by Real Lettings if it is necessary. The *RLPF1 Social Impact Report 2015-16* reveals substantial positive outcomes: 99% of tenants sustain their tenancy for more than 6 months, 44% of tenants are in employment, with a further 29% unemployed but making progress towards work. There is further detail on the social impacts of the RLPF1 and the outputs the GLA could expect from the RLPF2 in section four of this paper.
- 1.11 The properties purchased by RLPF1 were a mixture of one and two bedroom flats, with a large increase in the proportion of two bedroom flats purchased during the second year. This demonstrates that the fund responded to the growing need from young, often one parent families, as opposed to single people or couples. By the end of 2015-16, two thirds of the households were one parent families and the *RLPF1 Social Impact Report 2015-16* argues that the RLPF1 has been particularly successful in providing secure and appropriate housing for one parent families who are particularly vulnerable to the effects of homelessness and unsuited to the standard temporary and emergency accommodation offered by local authorities.
- 1.12 The investment into RLPF2 requires a bespoke agreement and the nature of the equity investment is considered to be a complex financial commitment. As per paragraphs 18.1-18.2 of the Mayoral decision-making framework this approval therefore requires approval through a Decision form by the Executive Director of Housing & Land.
- 1.13 As this proposal involves investment into affordable homes to rent at an estimated cost of £45,454 per home, below the fixed grant rate level within the programme as a whole, it is not considered to be Novel, Contentious or Repercussive for the purposes of the Mayoral decision-making framework.

¹ <https://kfcontent.blob.core.windows.net/research/588/documents/en/april-2017-4587.pdf>

Partners

- 1.14 The RLPF2 is an unregulated collective investment scheme for the purposes of the Financial Services and Markets Act 2000 (the Act), which means that it would not be authorised or otherwise approved by the Financial Conduct Authority (FCA), and accordingly could not be marketed in the UK to the general public, but the establishment, operation and winding up of the scheme would be regulated activities under the Act. This fund structure is typical for private property investment funds.
- 1.15 Resonance is a social investment company which specialises in investments into charities and social enterprises to help them to increase their impact. It has a fifteen-year track record in this area across the UK. A subsidiary of Resonance will act as the General Partner for the RLPF2 (the partner responsible for management of the limited partnership, to the exclusion of the investor limited partners) and the fund manager. Resonance already manages six other impact investment funds which offer targeted social impacts as well as good financial returns, and is an FCA Authorised Investment Manager.
- 1.16 St Mungo's is a homelessness charity providing beds and support to more than 2,500 people a night who are either homeless or at risk of homelessness. The GLA works closely with St Mungo's on the No Second Night Out initiative and the Social Impact Bond for Rough Sleepers. St Mungo's is also an investment partner in receipt of GLA grants through the Homelessness Change, Empty Homes and Building the Pipeline affordable housing grant funding programmes, which has enabled them to deliver 169 new homes over the past three years.
- 1.17 Real Lettings is a social lettings agency established in 2005 and a division of St Mungo's. Its purpose is to secure homes in the private sector for vulnerably housed and homeless people. In addition to working with Resonance on the RLPF1 and RLPF2, Real Lettings leases one and two bedroom flats from private landlords for three to five years, operates an empty homes scheme to bring homes in disrepair back into use as social housing and has a private rented 'home finder' scheme for people at risk of becoming homeless.

Operation of the RLPF2

- 1.18 The operation of the RLPF2 is governed through the following agreements:
- A Fund Management Agreement between RLPF2 and Resonance
 - A Framework Agreement between RLPF2, Resonance and St Mungo's, which includes a standard property lease.
 - A Limited Partnership Agreement between RLPF2, Resonance, St Mungo's and each investor.
 - Service Level Agreements between Real Lettings and London local authorities and other providers of homelessness services.
- 1.19 Please see appendix 1 – RLPF2 Operation Diagram for details of the relationships between the partners. This follows the typical form for a private property fund. There are three relevant entities involved in the provision of this investment vehicle:
- I. Resonance Impact Investment Limited – provides the key property investment services.
 - II. Resonance RLPF2 GP Limited – established to act as a General Partner of the Fund and acts as the central entity responsible for the management of the Fund.
 - III. Resonance RLPF2 Nominee Limited is the company name under which the properties are jointly held with the GP with them being held in trust on behalf of the investors.
- 1.20 Below is a summary of how the RLPF2 operates:
- I. Resonance Impact Investment Ltd (RIIL – FCA authorised fund manager which is a subsidiary of Resonance Ltd) is targeting investment of over £100m up to a maximum of £200million by

January 2019. £45million has been secured to date (not including the GLA's proposed investment).

- II. RIIL sources properties, on behalf of RLFP2, in partnership with Real Lettings (part of St Mungos) using a bespoke online database.
- III. RIIL and Real Lettings decide quickly (usually within 24hours) if the property is suitable for the client group, using a scoring system to rate the suitability of the property.
- IV. The RLFP2's Investment Committee meets weekly and commits funds to acquiring properties. RLFP2 approves between five and ten acquisitions each week.
- V. RIIL oversees conveyancing work and completion of the acquisition of the property on behalf of RLFP2. Resonance RLFP2 GP Limited and Resonance RLFP2 Nominee Limited (two Resonance subsidiaries) jointly hold the properties in trust on behalf of the RLFP2's investors.
- VI. The annual fund management fee receivable by RIIL is equivalent to 1% of the investment during the investment period and 0.75% of the investment following the investment period.
- VII. The RLFP2 GP Limited may employ contractors to undertake minor refurbishment works to the property.
- VIII. RLFP2 (i.e. RLFP2 GP Limited & RLFP2 Nominee Limited) lease the property to Real Lettings (St Mungos) for five years on the basis that the RLFP2 receives Local Housing Allowance (LHA) rates for each property, less a fixed percentage which is retained by Real Lettings and used to pay for housing management, routine maintenance and insurance.
- IX. Real Lettings seeks a nomination for the property from the local authority or other provider of services for homelessness. Local authorities and providers pay a fee per placement to Real Lettings to cover Real Lettings' costs of placing the tenant. Local Authorities who are also investors enter into a separate Nominations Agreement with Real Lettings, giving them a fixed nominations profile for a number of properties commensurate with the value of their investment.
- X. The property is let by Real Lettings to the tenant at the LHA rate through a one year Assured Tenancy Agreement (AST), which can be extended if the tenant meets certain measures.
 - It is envisaged that over five years each property will be let two or three times to different tenants.
 - Investors will receive a quarterly return from year 3 of the RLFP2, which is expected to equate to around 2-3% of their investment (although work is ongoing to verify the expected yields which could apply, it is anticipated that a realistic range in the current market is likely to fall between 2-3% for this element of investor return). It should be noted that this element of the return is not exposed to any void or operational maintenance risks (which are taken by St Mungo's under the lease) and so is relatively secure.
- XI. At the end of seven years (including a two-year investment period from the start of the RLFP2 to purchase all the properties, plus the five year leases to Real Lettings), the properties will be sold either on the open market, or on arms-length market terms into another impact investment fund which is seeking to address similar social issues. The latter solution is preferred by Resonance since it would offer investors an equivalent arrangement from a financial point of view, and would also preserve the social value of the portfolio, which has been constructed to serve a specific social need.
- XII. Investors share in the uplift in property value when the properties are sold. For RLFP1 the return to investors when properties are sold is estimated to add a further 3% to annual returns. The total return on the RLFP1 is therefore around 6% per annum, and a sensible expectation for total returns on the RLFP2 could be around 5% per annum.

Project Costs

- 1.21 The GLA investment of £15million will be paid to the RLFP2 upfront during 2017-18.
- 1.22 The GLA's rationale for investment into the RLFP2 is to prevent homelessness, to provide move on accommodation and to assist Local Authorities to meet the demand for temporary accommodation; the return on the GLA's investment is an additional benefit.

- 1.23 The RLPF2 will operate a quarterly distribution policy in the region of around 2-3% annually of an investor's investment. The RLPF1 is currently achieving a net initial yield of over 4% on individual properties, which equates to around a 3% cash yield to investors (after taking into account fund level operating costs). However, Resonance recommends that for the second London fund, due to higher property prices in the current London property market, a net initial yield of around 3-4% would be more realistic on individual properties, which equates to a 2-3% cash yield to investors (after taking into account fund level operating costs).
- 1.24 As the investment is to be made through GLAP, it is likely that there will be a requirement to pay corporation tax on the net margin cash yield and on the capital appreciation. It is not certain GLAP will get a tax deduction for the interest payable to the GLA, therefore the table below sets out the worst-case scenario (paying corporation tax on the full returns). If the interest is partly or wholly tax deductible, this will mitigate the corporation tax charges in the table and improve the return on investment and subsequent cumulative cashflow position.

This indicative cashflow sets out how the GLA's investment could work:

(£m)	TOTAL	Year						
		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Investment	-15	-15						
Return of capital	15							15
Capital appreciation from sale of properties (e.g. 4% capital appreciation per annum over average 6 years held)	3.6							3.6
Cash yield received (e.g. 2.5% per annum, based on 3.5% NIY and 1% fund cost)	1.875			0.375	0.375	0.375	0.375	0.375
Corporation tax (applied at 19% to April 2020 and 17% from April 2020)	-	0	0	-0.071	-0.071	-0.064	-0.064	-0.676
Cumulative Cashflow	4.529	-15	-15	-14.696	-14.393	-14.081	-13.770	4.529

- 1.25 Based on this cashflow, the GLA could expect to receive a total return of £4.529m over the seven year period, against its £15million investment as a worst-case scenario for tax purposes.
- 1.26 GLA Treasury has confirmed that this return compares favourably with the GLA's cost of capital which is approximated by the Public Works Loan Board's rates; for a similar period, this could be 2.9%.
- 1.27 A legal fees budget of up to £20,000 will be required in 2017-18. This budget is requested based on an estimate received from external specialist advisors. Legal advice will be sought in two phases:
- I. Review the Limited Partnership Agreement and provide a report to the GLA highlighting issues of legal concern
 - II. Provide legal advice to enable the completion of all contractual documents in relation to this investment.
- 1.28 Splitting the legal instruction into two phases will allow the GLA to have full knowledge of any issues before committing to further legal expenditure. Phase I will cost £10,000. At this point it is not possible to estimate the cost of Phase II, however for the purposes of this MD, it has been assumed up to £10,000 will be required should the GLA decide to progress this proposal. This expenditure can be accommodated within the directorate's existing revenue budget. Should more than £10,000 be required for Phase II, a further approval for the additional expenditure will be sought from the executive director housing and land.

2. Objectives and expected outcomes

- 2.1 Investment into the RLPF2 is a good match for the GLA's strategic objectives and it will achieve both a social impact and a commercial return:

Affordable Homes

- 2.2 The GLA is investing into the RLPF2 to meet a specific need, and not with the aim of supporting affordable housing, however, on the basis that the majority of Local Housing Allowance (LHA) rents are less than 80% of market rents and all properties will meet or exceed Decent Homes standards, it is expected that most of the properties will meet the planning definition of affordable housing.
- 2.3 The properties are only guaranteed to be let at LHA rents for five years. However, to quantify the number of affordable units delivered through RLPF2, the GLA will specify that Real Lettings reports to the GLA on the rent levels achieved, both as a weekly amount and as a percentage of local market rents. This will enable a number of the homes to be counted against affordable housing targets.

Homelessness prevention and provision of move-on accommodation

- 2.4 A growing number of households are facing homelessness and seeking assistance from local authorities: statutory homelessness data reveals that between Q1 of 2010/11 and Q1 of 2015/16, there was a 96% rise in the number of homeless households whom London authorities accepted a duty to assist. Rough sleeping too is rising: between 2009/10 and 2014/15, there was a 106% increase in the number of rough sleepers seen in London (CHAIN data).
- 2.5 In combination with reductions in Local Housing Allowance and the total benefit cap, rising homelessness means local authorities and their services are finding it increasingly difficult to secure private rented accommodation for use as temporary accommodation for households whom local authorities accept a duty to accommodate, as an option for households whose homelessness they seek to prevent, and for those ready to move on from hostel accommodation.
- 2.6 London boroughs' net expenditure on temporary accommodation in 2014/15 was £64.2 million; 67% more than in 2011/12. The number of tenancies London boroughs secured for households facing homelessness, by way of a homelessness prevention option fell by 63% between 2009/10 and 2014/15. A 2015 Homelessness Link survey reported that those in London experience greater difficulty in moving people on: 36% of residents are ready to move on, compared to 25% across England, and 51% of those ready to move on had been waiting for over 6 months, compared to 27% across England.
- 2.7 Local authorities have also made very limited use of the provision, introduced in 2012, that allows them to discharge their duty to homeless households with an offer of suitable private rented accommodation, and the lack of availability of affordable accommodation could be a factor in this decision.
- 2.8 The fund offers a home for people able to live independently, whilst providing light touch support and monitoring, giving tenants a sense of responsibility for their home, with the aim of preparing them to move on.
- 2.9 As part of the investment in Real Lettings the GLA will enter into a nominations agreement with St Mungos for clients who have exited rough sleeping from the mayoral rough sleeping services. This nominations agreement will be for units acquired with the £15million investment. The GLA will have first refusal on these units and where no suitable client(s) can be found these units will revert to the standard Real Lettings list.

Helping local authorities to meet the demand for temporary accommodation

- 2.10 Statutory homelessness data shows a 33% increase in the number of households in temporary accommodation provided by London authorities between Q1 of 2010/11 and Q1 of 2015/16.
- 2.11 Families with children formed the majority of the households within the first fund, and they were often young, one parent families removed from emergency accommodation. The properties purchased by this fund offer stable accommodation and provide local authorities with a cheaper and healthier alternative to the use of B&B accommodation.

Commercial return

- 2.12 The return is not the rationale for the GLA's investment, but as described in part 2 of this paper, it is an additional benefit.

Wider social impacts

- 2.13 The RLPF2 will have wider social impacts in line with the GLA's strategic role. The *RLPF1 Social Impact Report 2015-16* outlines the achievements of the first fund using key measures against the themes of improving housing opportunities, progressing towards work and improving resilience against homelessness: 39% of tenants are employed, 24% are in training or education and 26% are actively seeking work. Furthermore, 100% of tenants keep their homes in an adequate or better condition and 87% say the property has had a positive impact on their support networks and relationships.

3. Equality comments

- 3.1 This initiative will have a positive impact on individuals and families with a range of protected characteristics who disproportionately experience homelessness.

4. Other considerations

a) key risks and issues

- 4.1 There are five significant risks associated with this proposal.

1) House Price Inflation slows or reverses - the GLA won't receive a return (or will receive a smaller return) on the capital appreciation element of the total return when properties are sold at the end of the fund

- 4.2 The repayment of the GLA's initial investment of £15million and an estimated half of the forecast return is dependent on house prices when the properties are sold (c. 2024) being higher than they are when properties are bought (in 2017 and 2018). As the RLPF2 is unleveraged, falls in house prices would result in corresponding falls in the value of the GLA's investment, e.g. a 10% fall in house prices would reduce the value of the GLA's investment to £13.5million. Barring a near complete collapse in house prices, the GLA would still be able to realise a proportion of its investment. This is a lower risk position than an equivalent leveraged property fund, where a given percentage fall in house prices would result in a higher percentage fall in the value of investment.

- 4.3 Recent forecasts of residential house prices provide some reassurance that London house prices will continue to rise to 2024: Savills November 2016 residential property forecast estimates that London prices will increase by 11% to 2022. Furthermore, the Office of Budget Responsibility is currently forecasting national house price growth in the region of 3-6% per annum to 2022.

2) Real Lettings is unable to meet its financial commitments under the leases and therefore the GLA doesn't receive the anticipated quarterly cash yield element of the return

- 4.4 The capability of St Mungo's to meet its financial commitments under the lease depends on the receipt of rental income from tenants and local authorities. It could be argued that this risk is not a significant one, as the 2015-16 Social Impact Report states that 87% of tenants are not in rent arrears, an improvement of 3% on the 2014-15 report.
- 4.5 61% of the tenants in RLPF1 are in receipt of housing benefit, which reduces this risk as housing benefit is paid directly to St Mungo's. In addition, the RLPF1 business plan assumed increases in LHA rates, which relies on local authorities using discretionary housing payments to top-up the rents, but the RLPF2 has been established on the assumption that LHA rates are frozen until the end of the Fund's life. Nonetheless, St Mungo's financial modelling for the RLPF2 has accounted for the roll out of universal credit and the lowering of the benefit cap (local authorities have provided assurances that they will continue to use discretionary housing payments where necessary).
- 4.6 The RLPF2 can let a maximum of 20% of properties on an open market basis if necessary. The RLPF1 has similar flexibility, but has not needed to make significant use of this. This flexibility has been designed to ensure that Real Lettings has some flexibility to manage its lease obligations (for example a property could be let at market rates if a tenancy ends less than a year before the end of the life of the fund, as there is a risk that a year would not provide significant time for a new tenant to move on from the Real Lettings property). This flexibility could also be used to allow the RLPF2 to purchase an entire block of homes and let them to a mixture of tenants, to avoid a concentration of vulnerable people.
- 3) *St Mungo's is unable to continue managing the homes***
- 4.7 St Mungo's is currently identified as the managing agent for the properties and is well placed to perform this role. If, for whatever reason, St Mungo's was unable to continue to perform this role then the RLPF2 would seek an alternative partner to take over the leases, to continue with the fund and to provide this element of the return and social impact.
- 4) *St Mungo's is unable to move households on from these properties***
- 4.8 Given that these properties offer tenants a good quality, stable home, tenants may not wish to move on to the private market. Although this would not affect the return to the RLPF2, it would negatively affect Real Lettings' ability to provide further nominations to local authorities and would not maximise the social impact possible from the investment. There could also be a significant negative reputational impact on St Mungo's if tenants were made to leave properties so that they could be sold at the end of the fund. This risk is significantly mitigated by Resonance's existing strategy of developing future follow-on impact funds which could acquire the portfolio at that point.
- 4.9 The 2015-16 Social Impact Report states that 46% of tenants who have participated in an annual tenancy review are not confident looking for another private rented sector property, although this still represents a fairly early stage of tenancy for many reviewed. Improving overall prospects for move-on is a major area of focus for St Mungo's and Resonance. Their approach is multi-faceted, including providing tenants with training on the skills and knowledge required to find and manage a new home, encouraging them to save for a rental deposit through matching what the tenant saves with a grant, and other similar initiatives. The learning from each annual Social Impact Report produced by the fund is significantly contributing to increasing the understanding of what makes positive move-on for this client group possible, and providing the ability to trial many different approaches to this issue including sourcing alternative accommodation with housing associations or increasing supply through modular housing.
- 5) *The RLPF2 purchases properties that are affordable to first time buyers***
- 4.10 It may be argued that the RLPF2 will purchase properties that are affordable to first time buyers, and therefore reduce the number of properties available to first time buyers. As the RLPF2 will meet a specific need, providing properties to people who are at risk of or who have experienced homelessness and who have very few housing options, there is a strong strategic argument for investment.

- 4.11 The RLPF2 will need to purchase properties in low value areas, where the yield may indicate that properties are more valuable as private rented properties than as owner occupied properties, and therefore it is likely that private landlords would purchase these properties, rather than first time buyers. The RLPF2 is also not at a scale which would affect the market as a whole.

b) links to Mayoral strategies and priorities

- 4.12 As detailed above, this proposal is an excellent fit with the Mayor's priorities to prevent homelessness, provide move-on accommodation and help Local Authorities to meet the demand for temporary accommodation and to improve employment outcomes for formerly homeless people

c) impact assessments and consultations.

- 4.13 The RLPF2 will produce an annual social impact report, to report on the impact of the fund in terms of improving housing opportunities, making progress towards employment and improving resilience against homelessness. RLPF1 has produced three annual reports to date (and is shortly to publish a fourth) and has demonstrated significant positive impacts in the fields of preventing homelessness and helping people into work.

5. Financial comments

- 5.1 The GLA will lend £15m to GLAP and GLAP will invest in the limited partnership. This will be paid upfront during the 2017/18 financial year which will enable the fund to purchase homes to provide short-term lets to individuals and families who are formerly homeless or at risk of homelessness but ready for independent living.
- 5.2 GLA's investment of £15m into the Real Lettings Property Fund will be paid back in full at the end of year seven, as well as an additional estimated 4% per annum return (over six years) from the capital appreciation of properties (up to £3.6m). This element of the return on investment is conditional upon the properties increasing in value over the seven-year period.
- 5.3 Additionally, it is expected that GLA will receive a 2.5% return on investment per year from year three (up to £1.875m). Hence, GLA's total return on investment could reach £5.475m. As the investment will be made through GLAP, which has a requirement to pay corporation tax on the net margin and capital gain, this total return could be reduced to £4.592m (applying 19% tax to April 2020 and 17% from April 2020 onwards).
- 5.4 Although recent forecasts are quite optimistic, when it comes to residential house prices in London, the risk of slowdown or downturn in the housing market represents the biggest concern to the above investment, which may result in GLA's inability to fully recover its £15m investment. However, since the fund does not use leverage, it is less exposed to this risk than similar property funds which use leverage.
- 5.5 As the investment will need to be made through GLAP, GLAP will need to be funded. This funding should be provided as a £15m interest bearing loan from GLA to GLAP. It is not certain GLAP will get a tax deduction for the interest payable to the GLA. If the interest is partly or wholly tax deductible this will mitigate the corporation tax charges in the table per para 1.24 and improve return on investment and subsequent cumulative cashflow position.
- 5.6 Approval is also sought for the expenditure of £20k to obtain external Legal advice to review and report back on the limited partnership agreement. This cost is to be expended from Management & Consultancy budget within Housing & Land department and will be incurred in the 2017/18 financial year.
- 5.7 An investment into a limited partnership is tax efficient (as GLA is a non-taxpayer). Advice will be required if another type of vehicle is proposed. The GLA should take early specific advice on SDLT to

establish whether an investment in the manner described could give rise to SDLT. If the proposal is approved, draft transaction documentation should be reviewed by Finance/Tax at an early stage.

6. Legal comments

- 6.1 The foregoing sections of this report indicate that the decisions requested of the Executive Director – Housing & Land fall within the statutory powers of the GLA to promote and/or to do anything which is facilitative of or conducive or incidental to the promotion of social development in Greater London and in formulating the proposals in respect of which a decision is sought officers have set out above how they have complied with the Authority's related statutory duties to:
- (a) pay due regard to the principle that there should be equality of opportunity for all people;
 - (b) consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
 - (c) consult with appropriate bodies.
- 6.2 In taking the decisions requested of him, the Executive Director – Housing & Land must have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and persons who do not share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010). To this end, the Executive Director – Housing & Land should have particular regard to section 3 (above) of this report.
- 6.3 The balance of the legal comments relating to the requested decisions are in part 2 of this decision form.

7. Planned delivery approach and next steps

- 7.1 Close consultation with GLA finance and TfL legal has been conducted as part of the initial assessment of the opportunity. Further due diligence by an external legal firm to review and enter into the Limited Partnership Agreement.
- 7.2 Once the GLAP has completed the Limited Partnership Agreement, the GLA should take on a monitoring role to ensure that all affordable homes delivered through the RLPF2 are recorded, and to keep abreast of anticipated returns.
- 7.3 The next steps are summarised below:

Activity	Timeline
Complete initial due diligence	Sep 2017
Complete Limited Partnership Agreement	Sep 2017
Announcement and publicity	Oct 2017
Investment period ends	Jan 2019
Quarterly returns received	From Oct 2019
Fund closes, properties sold and capital appreciation element of return received	Jan 2024 - Jan 2026

Appendices and supporting papers:

Appendix one - RLPF2 Operation Diagram

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – YES

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Rachael Hickman has drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service:

Jamie Ratcliff has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 9 October 2017.

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature



Date

12.10.17

Appendix one - RLPF2 Operation Diagram

