Innovative Investment

Social investment should support innovation in housing

commonweal housing
Housing Solutions to Social Injustice

Contents

Commonweal Housing is grateful to all those who have contributed to this report.

The views and recommendations are those of individual contributors and do not necessarily reflect those of Commonweal Housing except where explicitly stated as such.

Foreword

Laurence Newman, Chairman, Grove End Housing

Developing innovative housing-based solutions to social injustices, using charitable and social investment, is at the heart of what Commonweal Housing does. Commonweal believes that social investment (SI) is able to be focused to support innovation in housing.

This report comes at a time where social investment is widely recognised as a positive and distinctive investment proposition; with benefits for both investors and for organisations delivering socially beneficial results.

The history of Commonweal Housing stems from close links with its principal funder Grove End Housing. Both Commonweal and Grove End Housing are part of the legacy of Scottish housing pioneer Sir John Mactaggart. In the 1930s Sir John's forward looking approach to designing and constructing housing was different. He understood human aspirations, and ensured that the properties he built were designed, specified, financed, managed and marketed so that they were affordable but also met the occupier's aspiration for a better standard of living.

Grove End Housing owns two large mansion block flats in North West London, one originally built by Sir John and another acquired during his time. The surpluses generated by these two properties underpin the source of funds that enable Commonweal to carry forward the original vision of helping to resolve social injustice through housing. Commonweal now works in collaboration with expert partners, facilitating them to develop innovative housing solutions to diverse inequities.

So we are delighted to publish this report that brings together the voices of experts in the fields of social investment, urban economics and the voluntary and housing sectors. Ashley Horsey discusses Commonweal's experience of using SI to support innovation in housing; Susan Fallis gives us insight into the development of the Real Lettings Property Fund - set up to help the formerly homeless to live independent lives; Vaughan Jones explores the 'natural' relationship between housing and social investment and how this combination is being used to help vulnerable migrants; Emily Bolton discusses SI as the new way to tackle England's 'broken' housing market; and Professor Duncan Maclennan argues that SI should be a key supplement to other measures needed to tackle core difficulties in the social housing market.

Social investment should support innovation in housing

Ashley Horsey, Chief Executive, Commonweal Housing

Commonweal Housing believe that social investment is best deployed in supporting the early stages of project development, trying and testing and developing new housing models; as without the trying and testing we won't have the proven solutions which can then be scaled up.

Defining what we mean by social investment is probably a good starting point. The UK Government describes it like this:

> **Social investment provides capital that enables social organisations to deliver both social and financial returns. The investment is repayable, often with interest, and is typically used to develop new or existing activities that generate income - such as trading activities or contracts for delivering public services.[1]**

More generally it is taken to mean investment where investors are keen to secure a demonstrable social impact as well as a financial return. Indeed social investment is often characterised by a willingness to sometimes accept a slightly lower rate of financial return than might be available where the social or environmental impact of the investment is not considered or indeed even actively ignored.

The UK housing market is prone to fluctuations – the national obsession with the direction of travel of house prices is only surpassed by the weather as a frequent topic of conversation by owner occupiers, generation rent or the chattering classes and vested interests of the housing and homelessness industries. Whether seen as a burgeoning pension pot for those that have; a seemingly unconquerable hurdle for those that have not or an endemic scourge that creates the problems we seek to address – or drives and maintains the business we are in and justifies our continued existence.

Like the weather's relationship with climate change – notwithstanding seasonal or annual fluctuations - the housing market is on a seemingly never ending upward trajectory. According to the Nationwide Building Society[2] average UK house prices – across the whole country, therefore masking impacts in hotspot areas – showed a 25.7% increase in the last 10 years. And this figure includes the 'market readjustment' during 2007-2009, one of the more dramatic housing bubble bursts since the war and any more recent month on month falls or rises.

If you are not a short term property speculator; for the most part investment in housing in the UK over a reasonable period is unlikely (never guaranteed - but unlikely) to put capital at too much risk.

Therefore it is no great surprise that residential property is starting to feature more and more in UK social investment with the likes of Golden Lane Housing, the Resonance Real Lettings Property Fund not to mention Commonweal's own modest successes in bringing in around £4 million of the new property backed social investment.

Our premise for this report is that there is much discussion around the growth of the social investment market and indeed the opportunities for housing (social housing, affordable housing, specialist housing, mainstream housing or supported housing, call it what you will) to tap in to that market supplementing or even replacing other funds streams such as public sector grant.

Roundtables, discussion documents and seminars aplenty have been held seeking to identify how to tap in to this new source of finance. Although interestingly we believe there is a blurring of the lines in terms of definitions. On one hand you have the institutional funding of the pension funds and insurance companies; traditionally looking for very long term revenue certainty perhaps best suited to funding mainstream social housing. Then you have philanthropic money historically given away as grant funding by the good and benevolent. Finally, and what we are focusing on, social investment.

Notwithstanding the interesting Government level responses such as Big Society Capital funded from dormant UK bank accounts – this sector is for the most part that relatively small proportion of endowed charitable funds where enlightened Trustees are seeing value in mission related investment. Displaying a willingness to invest for social impact, but at all times seeking as far as possible to maintain the long term value of their endowment. In addition you now have a growing social investment asset class – with associated Funds and fund managers developing. Are they tapping in to a deeper pro-social psyche within those with spare capital to deploy… or perhaps it is a more prosaic and financially astute investment diversification strategy; or even being seen as a new market area with scope for new fees? Whatever the reason it is a potential new source of funding for housing.

So why does Commonweal believe social investment is best focused on new innovation? When there is a crying need for simply more housing?

Partly that this is the area where we work; but more significantly simply it is a matter of scale. The hundreds of millions, the billions of pounds of funding needed to meet the demand for new mainstream social housing. The social investment pot even with the explicitly philanthropic funding in the UK will barely touch the sides and will get swallowed up in one year with the ongoing demand for new homes unmet.

Maybe if we could persuade the likes of the Wellcome Trust with its £13 billion of endowments to see good housing as a major (and therefore appropriate) public health issue and one worthy of investment our view might change. However this then entails a choice requiring the wisdom of Solomon to choose between real housing need and vital medical research.

There is now little real argument about the need for more house building, but providing more homes of itself will not necessarily help those already at the margins, those facing social injustice through inability to access resources on an equal footing.

Organisations working to support such groups be they ex-offenders; those with physical or mental health needs; those escaping brutal regimes whether from abroad or within their current home environment; those with substance misuse issues or facing an array of other personal or societal demons are constantly seeking to improve their services, identify new ways to help those known to fall through the cracks in existing projects. These are the organisations and the issues where Commonweal seeks to work.

We know from our work on the supportive shared housing Peer Landlord model and our latest project supporting those with No Recourse to Public Funds – that social investment can and does make a tremendous difference. Working with investors that 'get it' and are accepting that things might fail but where they are convinced that partners are taking steps to minimise the risk of failure, capturing the learning to enable successful initiatives to be taken to scale. That is where the generous but finite social investment funding we think can and does make the biggest impact.

1. Social investment: an introduction to the government's approach - September 2014
2. UK House Prices since 1953 nationwide.co.uk/about/house-price-index/download-data#x-tab:uk-series

Social investment funding: a catalyst housing and city change

Professor Duncan Maclennan, School of Management, University of St Andrews

Dr Julie Miao, Urban Studies, University of Glasgow

Social investment funding: A catalyst housing and city change

The United Kingdom has, by international standards, a large sector of social or non-market housing. Since the 1980's the share of the sector has shrunk from just over one-third of all households to less than a fifth. In some regions, including Scotland, London and the North of England non-market housing still houses a third of households. Over the same period the ownership of the sector has shifted from predominantly public, municipal ownership to housing associations, local housing companies and other registered social landlords. These non-profits now own half the non-market sector.

In UK housing policy debate this non-market sector is widely labelled as 'social' housing. The sector is now diverse in ownership, organisational sizes, management performance and development roles. Over time association have played key, innovative roles in widening the scope of housing providers and linking shelter provision to other investments, services and policy aims. For instance housing associations have played key roles in shaping approaches to neighbourhood renewal, the provision of homes for the elderly and promoting environmental sustainability and community energy descent. More recently new times have shaped new businesses in the sector.

A defining characteristic of change in the sector over the last quarter century has been the reduction in the share of development costs covered by up-front capital grant and the gradual replacement of public finance with private capital. There is now a mature and sophisticated funding effort for the social housing sector in the UK that progressively relies less on bank loan finance and instead raises capital on the bond markets, and draws investment support from private placements as well as pension funds. The market is extensive, mature and competitive with funds raised at modest margins over LIBOR.

The UK discussion of 'social investment funds' (the concern of this collection of essays) does not embrace core private investment in social housing. It relates, rather, to the more specific notion of matching investors with an interest in a mix of pecuniary returns and the efficient achievement of positive social outcomes with potential providers of these outcomes. **It is a policy and practice term concerned with social entrepreneurship, socially responsible investment and social enterprises.**

The UK non-profit housing sector has long had an ethos of social entrepreneurship and engages easily with the achievement of broad individual and community outcomes rather than narrowly defined shelter solutions. There is already much evidence, from throughout the UK, that the non-profit social housing sector has an appetite to fund additional activities with 'social investment finance' and projects are already ongoing. There is a strong case for traditionally defined social housing providers to engage more fully with 'social investment funds' for at least part of their portfolio of investments and areas of service provision. Since 2010 capital support for truly affordable, low income social housing in England has been roughly quartered and the renewal programmes of government agencies across the UK similarly cutback. Undoubtedly a better set of outcomes from housing policies could be facilitated by increased social entrepreneurship based upon the human capital and physical assets of the non-profit housing sector. But there are limits to these possibilities too.

A new social entrepreneurship in the non-profit housing sector cannot be the main solution to the emerging shortage of close to 2 million homes in the UK. Action has to develop in a context of rebuilding core rental housing programmes rather than attenuating them. Underlying both the high house prices and market instabilities that damage our national economic progress and underpinning the emerging crisis in rents and availability of homes for Britain's younger and poorer households, there is a growing shortfall in available housing.

There is a crisis in Britain's housing supply systems. These difficulties run from Lewis to Looe and are not simply a local London problem. The costs of providing at least adequate homes are growing whilst the wages, and now the benefits, of Britain's poorest quarter of households are flat or declining.

Britain needs to remake it's housing supply system and that involves major changes in the cultures of planning, the building sector and finance. There is always a difficulty of low incomes outstripping housing costs for the nation's poorer households and efficient extensive programmes are required to address them. Social investment funds have to be a key supplement rather than the primary route to reducing core system difficulties. That said, there are important roles for social investment funds.

Housing is about more than shelter. It is about warmth and comfort, and efficient energy use; and housing for two-thirds of Britain's households is now a key asset, to be used and deployed as housing, health and care needs change in older age.

Because housing and neighbourhood attributes and services, and income after housing costs interact with so many other household choices to produce more widely defined progress and wellbeing then there are always possibilities for market and policy failure.

There is often scope for action to re-engineer the interface between housing and other services and activities to achieve better outcomes. The cutback in support for neighbourhood renewal programmes in recent years has made alternative funding for such catalytic change activities a potential arena for social investment funds.

There are already well established examples of practice in Britain, Europe and North America that highlights how social investment funding can have significant effects in reducing recurrent homelessness. The same observation applies to a wide range of neighbourhood investments and services delivered by housing non-profits.

Market and policy failures provide an extensive terrain for social investment funds to promote new ways of operating. We believe that there are two further areas for innovation and action that have a potentially strong community action base. Dealing with fuel poverty is a critical goal for both social and green investment yet the environmental and energy roles of non-profits, and the use of green and social funds within their ambit, is limited. Population ageing means not just a larger elderly population but also longer and more complex pathways through life and with major and rapid changes for the very elderly (moving from independent living, to sheltered housing, to support with care, to nursing home etc). Organising these changes is not always done well by market providers and some of the changes require actions to violate traditional policy and service boundaries.

Non-profits, with their reputations for good service provision and a positive attitude towards patient capital, could, with social investment funds, play major innovative roles in addressing this challenge that is no longer emerging but present.
Housing non-profits in Britain often deal with 'difficult' and 'risky' places and people. Setting targets by which investor returns can be defined may be difficult but it will be worth trying. The 'social investment funding' approach has made much progress in the UK over the last five years. There is a case for it to be more intimately connected to mainstream housing programmes. In North America, with Toronto a clear example, firms with a sense of corporate social responsibility but no expertise in running social funds or programmes, have pooled resources into a metropolitan area specific social investment fund.

Government now places much emphasis on the investment plan at the heart of new City Deals. Surely it is time that each city deal also aims to form a social investment fund for the metropolitan area that would be supported by the leading corporates in the local economy. Small examples of this kind of activity exist in the UK but it has to become a systematic component of policy for cities, as well as housing, in the UK.

Social investment and the fourth sector: homes for vulnerable migrants

Vaughan Jones, Independent Consultant and Former Chief Executive, Praxis

Social Investment and the fourth sector: homes for vulnerable migrants

Key points

- Social investment and housing are natural bed-fellows
- There are new areas of social exclusion unaddressed by past paradigms of welfare and social housing.
- Praxis, Commonweal Housing, Local Authority and Social Investors have created a new partnership to address housing needs of vulnerable migrants.
- The project is a demonstration of an emerging new fourth sector with new organisational paradigms to address complex social issues.

Social investment uses money in a way that is fiscally sound, ethical and maximises value. It engages with the complexity of bringing about justice in the social realm. It is presumptuous to assume that all conventional investment is unworthy or that adding the label "social" transforms that investment into social good. Both require critical faculties and sound judgement.

The relationship between housing and investment needs little expansion. Property is solid investment. Fluctuations occur as with any investment market but as a long term secure investment it is, let's say, safe as houses.

The relationship between housing and social innovation and experimentation has been a given for a long time. Housing Associations have grown and expanded as one of the most solid examples of social entrepreneurship. However, past certainties are under scrutiny. There is a discourse across the whole spectrum of economics and politics as to the extent to which the provision of housing under subsidy is fair or unfair, empowering or dependency creating. That said, given that access to decent and affordable homes, is central to human community and housing is a major economic driver, this remains a key arena for social investment and innovation.

Well-rehearsed models of addressing social need through welfare and state provisions are being re-aligned radically. The financial dependency of large third sector providers upon government funding tragically results in some being increasingly outside the parameters of provision once designated as a safety net.

Mainstream economic and political models follow a neo-liberal pathway into austerity and create a growing “precariat” of people living increasingly unsafe, uncertain and insecure lives. More people even in prosperous Western economies are excluded both financially and socially. Prominent among the precariat are migrant workers, asylum seekers and survivors of human trafficking.

An important partnership is being established between Praxis Community Projects, a ground-level, innovative organisation addressing the needs of vulnerable migrants, Commonweal Housing, a ground-breaking housing charity exploring innovation at the sharp end of homelessness provision, local authority Children’s Services departments, charitable foundations, and Big Society Capital, the social investment agency managing income from dormant bank accounts. An investment of £2.5 million will purchase seven properties owned by Commonweal Housing and managed by Praxis.

> **“... given that access to decent and affordable homes, is central to human community and housing is a major economic driver, this remains a key arena for social investment and innovation.”**

Praxis is commissioned by a local authority to house and support parents and children, who are migrants and housed by Children Services under Section 17 of the Children’s Act. They are entirely within the core client group of Praxis. In addition to providing accommodation, Praxis will add value to the local authority by providing support, group work developed with survivors of trafficking, advice and guidance including in immigration matters and after-care support. The local authority will be exercising its duty of care more effectively and Praxis will ensure that its clients are not being abandoned in poor accommodation and isolated. A major component is the capacity for Praxis to use any surplus, normally the profit of a private landlord, to provide accommodation within the properties for a small number of its own clientele, destitute and vulnerable homeless migrants.

Whilst the housing market can fluctuate, investors can be confident that their investment will not collapse. For their risk management, it is highly unlikely that they would lose money. It is far more likely that they will receive a good return for re-investment in future projects, especially important for the charitable foundations.

As a social innovator, Commonweal Housing are keen to apply research and evaluation methodologies to ensure that there is in-depth and nuanced learning. In this way not only they, but also the housing and social investment sectors will be able to learn from the project.

It is important to locate this alliance of interests within the wider context of an emerging new approach to social innovation. This is a new pattern of interoperability between diverse actors with a mutual interest in creating benefit for society as well as profit and economic growth. Some have called this the “fourth sector.” Admittedly the term appeared in an episode in the political comedy “The Thick of It” in which government minister Nicola Murray MP says: “It’s all about empowering ordinary people to do extraordinary things. The Fourth Sector is between the other three sectors, but it’s also the periphery around them, so it’s very much encompassing. It’s incorporating, it’s enveloping, within and without.”

In contrast to that vacuous rambling, this social investment at the margin of homelessness work is concrete and ground-breaking. In its whole, with all its stakeholders taken into consideration, it tackles a complex and challenging social issue through the combined action of a voluntary organisation, a third sector catalyst, local government, charitable foundations and even has a toe into the banks.

Of course, it is not without risks or challenges. It is addressing an unpopular cause in a turbulent social policy context. Every project, within the emerging fourth sector, will need to balance social and financial risk. In this case the financial risk is low but it is dependent on bold actors in the social field.

The partnership is currently a construction for a limited purpose and in the longer term some critical, systemic challenges will need to be addressed. We still lack an infrastructure which facilitates the interoperability of the relevant actors and engenders a dynamic for scalability and cycles of innovation.

There is a long way to go in engaging larger financial institutions with the very weakest in society. If this comparatively modest project is successful then Praxis, with its partners, will need to develop mechanisms whereby capital itself can have a more fluid ownership between the financial backers and Praxis as a front line delivery and social change agent.

But this is an evolutionary process which pools social and financial capital in a creative way. The emerging fourth sector is still crystallising its vision and intention and prototyping innovation. This makes social innovation in housing a crucial space to be for people, from whatever starting and vantage points, who have a commitment to addressing need and building an inclusive society.

Funding the gap in the housing market

Emily Bolton, Director, Social Finance
Tim Rothery, Associate Director, Social Finance

Funding the gap in the housing market

The housing market in England is broken. Whatever way the figures are cut, we just don't build enough houses in this country. Over the last 20 years, average house building has equated to just 140,000 units a year, compared to the 250,000 new homes which most industry experts forecast are needed to keep up with the demand created by a growing and ageing population and increasingly smaller household sizes. The failure of supply to meet demand has led to a dramatic increase in the relative price of housing. Over the last 20 years average house price inflation has exceeded 7% and the affordability of housing has declined sharply across the spectrum. A greater proportion of income is spent on paying for housing, leaving less for basics such as food, clothing and heating. The cost of housing benefit continues to rise and now exceeds £21bn per year in England, the equivalent of more than £400 per person, and more and more in work households are having to accept state support to meet their housing costs. At the other end of the spectrum organisations who previously relied on being able to access accommodation to help deliver support services to the most vulnerable individuals and households are finding their funding models no longer sustainable as they compete for increasingly scarce housing.

A Solution

One route to launch new housing-based models is via social investment. In contrast to mainstream investors, social investors directly seek positive social impact in addition to financial returns. Social investment has grown to a market of around £300m per annum. today and is forecast to grow to approximately £1bn by 2016. This expanding market is still not sufficient to tackle the huge investment need for housing supply to meet demand, but has a very important role to play. This role can be broken into three parts:

1. Social Investment can help fund innovation and the development of new models for individuals and households with distinct needs.
2. Social Investment can help scale existing models, demonstrating viability and help provide an investment track record which allows access to mainstream capital markets.
3. The explicit alignment of social and financial returns and the forms of governance that accompany social investment can help ensure needs of individuals are best met.

Social Finance has been working with housing associations, local authorities, charities and social enterprises over a number of years to develop new models and partnerships which can increase the supply of good quality, well managed housing. Our work has focused in particular on projects that aim to provide homes for the homeless, those with additional support needs or those on low-to-middle incomes. The crux of our work is developing sustainable models that can change the lives of some of the most vulnerable people in society. For many a stable, safe home is something they have spent a lifetime dreaming of. For others housing is necessary, but is only part of the solution. A home offers stability, shelter and but also crucially provides a locus for delivering interventions addressing other needs ranging from addiction and mental illness to loneliness and low self-esteem.

Innovation and Scaling

We need to develop new models and to test their efficacy. There are groups within society that “the market” fails and there has been a history of negative outcomes. For example, the Making Every Adult Matter (MEAM) coalition estimates that there are 56,000 people at any one time who are ‘routinely excluded from effective contact with the services they need’ and ‘tend to live chaotic lives that are costly to society.’ The old models of support have largely not worked for these groups and history demonstrates that maintaining the status quo will not improve outcomes for these individuals.

Social investment has a role to play in helping test new models at a scale where the impact can be reliably measured. A number of innovative housing based models have recently been established, often creating partnerships among different organisations to best address a common problem. These include the Golden Lane Housing model of supporting people with learning disabilities in their own home, or the Real Lettings Fund which is providing homes and support for people who would in many cases have remained stuck in unsuitable, unsecure and poor quality temporary accommodation.

These models have been funded by social investors who are as interested in the social outcomes as their financial returns. The interest in the social benefits enables these investors to take a greater perceived risk than a mainstream investor. In these instances social investment address the funding gap which exists between grant funding and traditional mainstream finance providers. If investment in these initial models is successful it will be possible to establish a track record which could encourage mainstream investors to follow and bring in a greater scale of funding.

Governance, Effectiveness and Transparency

Social investors generally require strong social as well as financial governance. Typically investment brings explicit requirements to report with greater frequency and in more detail on the social objectives alongside the financial returns. The oversight and rigorous analysis generates increased accountability and incentives to ensure that the needs of a vulnerable population are being met. The use of data in this way allows for controlled innovation and the potential for positive information feedback loops to be created. Through strong transparent social governance, recipients of support, delivery partners, investors and other stakeholders can demonstrate that funding is being used as effectively as possible, and ensure that limited resources are being used to maximise social impact.

Conclusion

Social investment is not going to solve problems of the national housing market. However, it does have the potential to stimulate the creation of new housing-based investment models for those most in need and provide a route to which the most successful can achieve scale. By embedding strong social governance, social investment provides an additional level of accountability and incentives to ensure that the needs of a vulnerable population are being met in the best way possible.

Yielding benefits for the formerly homeless

Susan Fallis, Director of Real Lettings
the St Mungo's Broadway social lettings agency

Yielding benefits for the formerly homeless

Real Lettings is a social lettings agency set up in 2005 by the homelessness charity Broadway, now St Mungo's Broadway. It was created to help secure homes for vulnerably housed and homeless people in the private rented sector and it has since helped hundreds of tenants to escape a cycle of homelessness.

But how does it work?

Very simply, Real Lettings leases properties from private landlords for up to five years and lets them to people who were formerly homeless and who are ready to live independently.

We work closely with our tenants, providing practical advice on how to maintain tenancies and supporting them to develop the skills they need to move on in a planned way. We think of ourselves as a 'stepping stone' into the mainstream private rented sector (PRS).

We would like to help more people like Sandra and Lucy. In the past few years, however, it has become becoming increasingly difficult to find landlords who will work with us.

Case study

Sandra*, aged 23, is one of our tenants. Formerly a retail supervisor, she first became homeless when she and her daughter were asked to leave the home of the family friend with whom they were staying.

Having no choice but to ask her local authority for help, Sandra was initially moved into a shared property with other single mums. As she says, it was far from ideal both for herself and her daughter Lucy,* aged two.

She said: "We had a room to ourselves but we shared the property with five other families and it was difficult. The communal and cooking areas were so small that we just had no space. I was also the only one cleaning."

Thanks to Real Lettings, after just two weeks Sandra was found a Real Lettings home in North London. She is now living there with Lucy and she said: "Lucy likes the flat and it's perfect for my family right now. I've only been here for a few weeks and I'll learn more about the area soon."

*Sandra and Lucy's names have been changed

Rents are rising in London and the amount of Housing Benefit our tenants can claim is decreasing. Landlords like the service we offer – guaranteed rent – but not the level of rent.

One way we're tackling this is through the Real Lettings Property Fund (RLPF). Set up in February 2012, the RLPF is a social impact investment fund, designed to provide both a commercial return to investors as well as achieve significant social impact in the area of homelessness. It was developed by social investment company Resonance and Broadway (now St Mungo's Broadway).

Broadway first came across Resonance while trying to source investment for Real Lettings – everyone we spoke to wanted to invest in us, but not in property. Resonance was the first organisation that really got what we were trying to achieve – to increase the number of decent properties that were available and affordable for the client group.

Resonance has since secured £36.5 million of investment into the Real Lettings Property Fund, enabling the fund to purchase one and two bedroom properties across London.

The properties are then leased back to Real Lettings for five years. Real Lettings guarantees the rents and maintenance of the property, managing the risk that we are best placed to take. Investors receive a commercial risk-adjusted return on their investment, receiving both rental yield on the properties and the potential for capital appreciation over the life of the fund.

The social impact of the fund is measured against the following three key areas:

- **Improving housing opportunities**
- **Progressing towards work**
- **Improving resilience against homelessness.**

Having social investment has given us control over the quality of the properties – all properties are refurbished to decent homes standard – and the flow of properties.

It was easier to get initial investment to a proven model as there were five years of audited accounts and social outcomes to demonstrate this was a viable social business model. It was tried and tested and we could prove it worked. The rental return to investors is guaranteed – we take all the risk, and we know we can sustain that risk because we've done so for over five years. This is all in addition to the fact that investors get any capital gain from property price inflation which gave them the confidence to invest from £50,000 (a smallest individual investor) to £20,000,000 (London Borough of Croydon).

We were also able to deliver over a shorter time period due to savings on start up costs and lessons learned to inform the business plan.

This summer the RLPF published an 18 month social impact report. Its main findings were that:

1. Well-structured social investment can work better than traditional approaches

Real Lettings is able to deliver higher quality properties, more reliably and at greater scale than was possible with negotiating leases with individual private sector landlords. The fund is also structured for investors in a way that de-risks the investment even compared to a traditional residential property fund. The fund benefits from a five year lease on all properties with no void or maintenance risk. The fund is also buying a much more diversified portfolio through its focus on single units, which work for the tenant group, rather than a few large block purchases.

2. Evidence for the positive impact on tenants is beginning to build

There has been 100% tenancy sustainment for those in tenancies to date and all tenants have evidenced they are taking care of their home at the three month stage. A high proportion are also integrating socially and progressing towards work.

The RLPF has demonstrated that social and financial goals can be achieved simultaneously in the London housing market. Acquiring the properties to meet the fund's and Real Letting's needs has been relatively straightforward due to the common goal.

Where do we go from here?

Despite being a proven model, the biggest challenges facing us have been that house prices have risen significantly in London between the original feasibility study two years ago and buying the first property, as well as developing a model that is suited to impact monitoring. Investors want to know what is not happening as well as what is happening. We've also learnt a lot working together as a new partnership team.

The key to success, I believe, is an integrated approach. Every step of the process is delivered with Real Lettings and Resonance involved at all stages, from pitching to investors to property selection.

The RLPF is sustainable and a good example of social investment supporting innovation in housing and actually increasing the number of affordable properties available to homeless people. St Mungo's Broadway, in partnership with Resonance, is currently scoping out a new property fund for the rest of the UK with this easily replicated model helping to meet the needs of new beneficiaries.

Since July 2013, RLPF has bought 94 properties and is currently providing a home for 59 people and their families (the remaining 35 properties are with lawyers or being refurbished). As James, one Real Lettings tenant, recently said on moving into his property: "I am really excited about the future."

Concluding Comments: Social investment - what next?

Ashley Horsey, Chief Executive, Commonweal Housing

Funding the un-fundable, or at least the less attractive propositions is surely what charitable - philanthropic - social investment is there for isn't it? And without the trying and testing of new housing models how will we reach the tried and tested that more mainstream funders (by which you might also include a cash strapped public sector) want to see and would prefer to invest in?

Commonweal Housing believes that social investment should be used for new project development and innovation. While there may not be 100% consensus for this ascertation, there is certainly a tacit nod of approval from the diverse contributors to this report as to this being a sensible option, even if not necessarily the only one.

The scale of the demand for social housing is the key issue here. There just isn't enough housing to meet needs. Other, larger reservoirs of cash and funding are needed if any meaningful inroads are to be made to resolve this crisis.

Pension funds and insurance companies on the one hand should and are looking at ways to make their investment funds positively engage with this agenda.

However for most charitable Trust and Foundations, even with the best intentions their endowed funds are not able to touch the sides of the demand, even if fully utilised in this one area.

But, as Commonweal has demonstrated through our Peer Landlord and lately our No Recourse to Public Funds social investment models, even relatively modest investment sums can be used to facilitate and deliver excellent schemes. Innovative schemes that address social exclusion and meet the needs of vulnerable service users, whilst at the same time also being able to deliver positive financial results for social investors.

Of course it is entirely reasonable for charitable trusts and foundations to seek to protect their endowed funds. Therefore those that are utilising such funds for mission related social investment being able to secure them against property assets helps, even if the project itself is as yet untested or unproven.

Indeed that is at the heart of Commonweal's thesis; namely that protecting (as much as investment funding should be protected) this valuable funding 'pot', whilst at the same time enabling innovation and testing of new models, is a win-win for trust and foundation funds. Enabling the successful model to be identified which can and should then be able to attract other funding streams be that state funding or potentially more mainstream – less benign social investment where investors are assessing their 'risk' on evidence and track record data.

In terms of what next?

Over the coming year Commonweal intends to:

- Continue developing our next social investment funded project – reaffirming our successful model.
- Lobby to have social investment in housing featured in relevant APPG agendas
- Work with others to promote greater social investment funding to be targeted at housing related projects and initiatives.
- Share learning and feedback from our existing social investors.

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Commonweal works to develop housing solutions to social injustices, capture learning and achieve replication of proven success.

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