

The Battle of Cable Street
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COMMUNITY LAND TRUST FINANCING

Understanding the diversity of models in Europe

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LONDON CLT (LCLT)

With the participation of



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LONDON CLT (LCLT)

STATE OF AFFORDABLE HOUSING IN LONDON

London, with more than **8 million inhabitants**, is a major international metropolis as well as **one of the most expensive cities in Europe**. In 2018, the **average rent** for a three-bedroom apartment in some prime London areas was as high as **£5,398** - almost twice than in Paris for a similar product (Christie, 2018).

The **average housing price** in the capital is today estimated at **£484,926**, representing an **increase of 67% in a decade** (Office for National Statistics, 2018).

Prospective first-time home buyers in London in 2017 were expected to spend 13 times their annual earnings to buy a home (Office for National Statistics, 2019).

LEGAL AND POLITICAL BACKGROUND

Against this backdrop, the **2012 London Olympics** was a **disruptive event** which forced citizens to band together so that the fallout of this mega-project could benefit Londoners. In **2004**, Citizens UK¹⁰⁶ **secured the promise of a CLT as part of the Olympic legacy**. A year later, the Greater London Authority (GLA) required the implementation of a **pilot project** proving the viability of the concept prior to providing land for a CLT on the Olympic site.

East London CLT had been formally created by Citizens UK in **2007**. By 2009-2010, the **St Clements Hospital site**, in the London Borough of **Tower Hamlets**, was targeted as a potential pilot. After **substantial campaigning** and negotiations, design workshops and other key events, the first 23 CLT homes were built on the site, as part of a larger development.

Since the **2014 local elections**, **East London CLT's scope has expanded to all of London**, with an initial project in **Lewisham**. London CLT members are today working on **getting local officials to commit** to the creation of CLT homes in their Borough. These groups can then benefit from London CLT staff expertise to help develop their housing projects.

LONDON CLT LEGAL STATUS AND GOVERNANCE

London CLT has evolved into a London-wide organisation¹⁰⁷ supporting local projects at the borough level, in partnership with Citizens UK.

London Community Land Trust (London CLT) is today a registered **Cooperative and Community Benefit Society**, each member holding a **£1 share** in the society. This legal framework allows the organisation to **earn surplus revenue to be reinvested in the community**.

Placing **citizen involvement at the heart of their organisation**, London CLT bases its internal governance structure on **traditional CLT tripartite governance**¹⁰⁸, reaffirming the heritage of the US model (Smith, 2018).

¹⁰⁶ A national community organising charity, partner of London CLT.

¹⁰⁷ Similar to Bristol CLT.

¹⁰⁸ The Board of a 'traditional' CLT is composed of three parts, each containing an equal number of seats. One-third represent the interests of people who lease land from the CLT. Another other third represent the interests of residents from the surrounding 'community'. The remaining third are made up of public interest representatives, local funders, non-profit organisations, Social Housing Companies etc.)

London CLT in brief

Date of creation	2007 (12 years)
Nature	Grassroots initiative
Legal Structure	Community Benefit Society
Target population	-Modest to middle-income households: Closing the gap between 'people qualifying for council property and people who can afford to buy their own home' (SHICC, 2018) -Equivalent to the area's median income (£31,234, in 2017 in Tower Hamlets)
Membership fees	£1 (equity share)
Home pricing *	-Average price per m ² in Tower Hamlets: £8,545 (ONS, 2016) -Average housing price in Tower Hamlets: £500,000 -Resale price St Clements: £130,000 (1-bedroom) -Approximately 30% of the housing market
Projects	-1 project achieved (St Clements: 23 units) -1 project with planning permission (Lewisham: 11 units) -3 written agreements to include CLT homes on-site (78 homes) -9 active campaigns
Workforce	- 2 FTE, 5 part-time employees (SHICC, 2018)
Number of members	London CLT has 2,500 members in total, including: -130 stakeholder members -2,780 community members -40 resident members
Resale formula	Resale price commitments are determined based on the Area Median Income (AMI). They roughly represent a third of AMI (Smith, 2018, p. 59)
Ground lease	-At St Clements there is a £50 p.a. ground-lease fee which is paid directly to the Ricardo Foundation. A monthly rent of £15 is additionally paid to cover service charges -Underlease of 250 years
Yearly budget	Operational budget: £190,000 (2017) - £146,000 (2018)
Sources of funds	-Public support to access land and for start-up -Capital and revenue financing from charitable funders and ethical bankers -Citizen financing through share issuing

*Project 1 - St Clements

HOW LONDON CLT WAS CREATED

Upfront financial assistance

For many years London CLT has been “incubated” by Citizens UK. Citizens UK employed staff that informally assisted in the creation of London CLT, to help implement their objectives (Patterson, 2019). These staff were funded most notably by the Tudor Trust and the Oak Foundation. Other smaller grants were obtained, including £10,000 in 2014 from the National CLT Network as part of the Urban CLT Project. This money enabled them to draft a **feasibility study** and a **land agreement**, as well as **finance some initial community engagement workshops** (National CLT Network, 2018a, p. 13).

Technical assistance

In order to get the organisation up and running, London CLT also **received substantial technical assistance** from a number of professionals either **on a pro-bono or voluntary basis**.

The most significant of those professionals was Stephen Hill, a British CLT pioneer activist, who helped campaign for many years and deliver the St Clements deal (Patterson, 2019).

CREATION OF PROJECT GROUPS

London CLT was born out of the **community-organising efforts** of Citizens UK and continues to work in partnership with Citizens UK in order to organise local communities (SHICC, 2018).

London CLT currently funds Citizens UK with **£50,000** per year, over six areas, to help provide capacity for community organisers to work with local groups, to campaign and to deliver London CLT homes. This mechanism is part of **ensuring London CLT retains a people-led approach** (Patterson, 2019).

Traditionally, the development of a project is structured in the following stages, some of which may occur in parallel: organising people, acquiring control over land, raising funds, developing a plan, building the project, allocating the homes, creating a resident-led management strategy (SHICC, 2018).

PROJECT DEVELOPMENT

Site

To date, CLT projects in London have relied on public land being released, often at **below-market values**, by **different government bodies**, including: Transport for London¹⁰⁹ (TfL), the National Health Service (NHS) and Local Councils. In order to **acquire control of this land**, local London CLT members have used **two approaches** so far.

One is to use well-structured **campaigning** and **lobbying** efforts to **get political officials to commit to giving the land to the CLT** (e.g.: St Clements in Tower Hamlets or Brasted Close in Lewisham).

The other method is to **bid** on sites designated for SME housebuilders under the '**Small Sites Small Builders Programme**' launched in 2018 by Mayor of London Sadiq Khan. This programme unblocked **two sites** for London CLT (Cable Street in Shadwell and Christchurch Road in Lambeth) which will provide around **75 homes** in total.

Plan

In 2018 London CLT issued a **Community-share offer** in order to finance some of the pre-development activities on the Lewisham site (Brasted Close, 11 units). **£488,960 was raised**. This ensured a **stable cash flow** while sales of St Clements homes were being processed, thereby avoiding any delays on the Lewisham site development (London CLT, 2018b).

This fundraising campaign was set up in partnership with Ethex and Resonance. It targeted individuals as well as institutional investors such as the Joseph Rowntree Foundation, CAF Bank, Big Issue Invest, etc. **Each share was worth £1 with a minimum of £100 and a maximum of £100,000** with a **potential 5% annual return** on investment. Interest was paid back for the first time in 2018.

In parallel, London CLT also managed to **mobilise the surpluses generated** by the **sales of the 23 units at St Clements Hospital**, estimated at **£635,000**, to help ensure a pipeline of future sites (e.g. the Transport for London sites, TfL).

¹⁰⁹ Transportation company of the Greater London Authority.

Build

a. Building Homes

Like Bristol CLT, London CLT has experimented with different development processes. For their pilot scheme in St Clements (Tower Hamlets), the organisation **partnered with a major developer** (Galliford Try, Linden Homes) and an **affordable housing developer** (Peabody). Under this '**agency model**', London CLT purchased the units at a **pre-agreed affordable cost** upon practical **completion**. They have been **financed** through residents' **mortgages**. This transaction enabled them to **cover their costs and reinvest the surpluses**¹¹⁰ in developing more affordable homes (London CLT, 2016, p. 24).

At Brasted Close (Lewisham), on the other hand, London CLT is testing the '**direct development**' model. In this case, London CLT is in charge of **mobilising the construction financing** once the planning permission has been granted.

The options available in terms of development financing have then been to access **soft loans from ethical bankers or social lenders** such as Big Issue Invest (up to £10 million), London Housing Fund, Ecology BS, Unity Trust, Parity Trust and NationWide Foundation (FMDV, 2018).

Other existing and potentially mobilisable public financial mechanisms could include the **Innovation Fund granted by the Greater London Authority** (£3.15bn, 2016-2021) or the **Community Housing Fund** (£138m has been allocated to London).

Phase	GROUP & LIVE	SITE & PLAN	BUILD	BUILD
Detail	Campaigning & Admin. staff	Pre-development finance	Construction finance	Community spaces finance
St Clements	-Citizens UK -Oak Foundation -Tudor Trust -NCLTN	Developer incurred cost	Developer incurred cost	-Partner grant TFS: £1.2m -Crowdfunded: £28,000
Brasted Close	-St Clements sales (2019) -EU funding (2020)	-Community-share issue £488,766111	Provisional agreements: -Debt: Ecology Building Society and Big Issue Invest. -Grant: Greater London Authority	
Shadwell & Christchurch Road	-St Clements Sales (2019) -EU funding (2020)	Forecast: -Community-share issue -Provisional grant agreement with GLA	Forecast: -Debt: Triodos (to be tendered) -Grant: agreement with GLA	

Fig. 12 Synthesis table of London CLT project financing (Source: London CLT, 2019)

¹¹⁰ Surpluses estimated at £635,000 for the sales of the 23 units.

¹¹¹ Including Big Issue Invest, Joseph Rowntree Foundation, CAF Bank. All invested through the community share issue.

b. Financing non-residential components

Part of London CLT's focus is on transforming the neighbourhoods in which they work, for example through the **development of community spaces**. It has for instance been the ambition of London CLT throughout the St Clements project to develop a '*new community heart on Mile End Road*' (Design and Access Statement, 2013).

London CLT campaigned to **secure, within the planning process, permission to dedicate a section of the front building at St Clements as a community-use space**, meaning that the space had to be used in a way that benefits the community. To do so, the space was registered as an '**asset of community value**' enabling the sale of the property to a third party to be delayed until a community organisation had been given the opportunity to purchase it. The campaign to secure the space received considerable public support during different stages.

London CLT strengthened its proposal in partnering with Poplar HARCA (a Housing and Regeneration Community Association in East London). Together, they **designed a solid business plan** for the site based on comparable community centres in the area. (e.g. Poplar Union and the View Tube) and proposed implementing a **mixed-use space** composed of an independent **upscale café**, **affordable workspaces** dedicated to the third sector and a **community event space** (e.g. for weddings, parties, days away, etc.)

The **total capital expenditure for purchase and refurbishment** has been estimated at about **£1,200,000**, which will be covered mostly through **partner grants** and supplemented by **crowdfunding**.

The **costs of running** such a space have been estimated at **around £115,000-£120,000 per annum for the initial years**; they will be covered annually through **grants and rent** paid by hosted companies and the community¹¹².

Focus: Brasted Close (Lewisham) financial operation



Fig. 13 Brasted Close Project (source: London CLT, 2019)

Lewisham Council formally agreed in March 2016 to **transfer a site to London CLT in Sydenham for a nominal fee**. In parallel, London CLT has been working closely with 'Lewisham Citizens' (a local Citizens UK branch) to run a flagship **community-led design process**. It resulted in local residents submitting a planning application in May 2018. The proposal includes **11 genuinely and permanently affordable homes** that will form part of an existing estate. They **expected to start on-site construction by early 2019** and met with several contractors in early 2019 to look for the right partner to build the project (London CLT, 2018b).

Date	2013
Phase	Build
Origin of the land	Lewisham Local Council
Number of units	11 units
Total cost	£2,901,805 (provisional - final cost to be confirmed with preferred contractor)
Land cost	£0 (Donated by the Council)
Average sale price	approx. £160,000 - £195,000 for a 1-bedroom unit approx. £210,000 - £250,000 for a 2-bedroom unit

¹¹² For instance, a similar community space in the area charges £3,000 per day for a room hosting 250 persons. The one in St Clements would host 150.

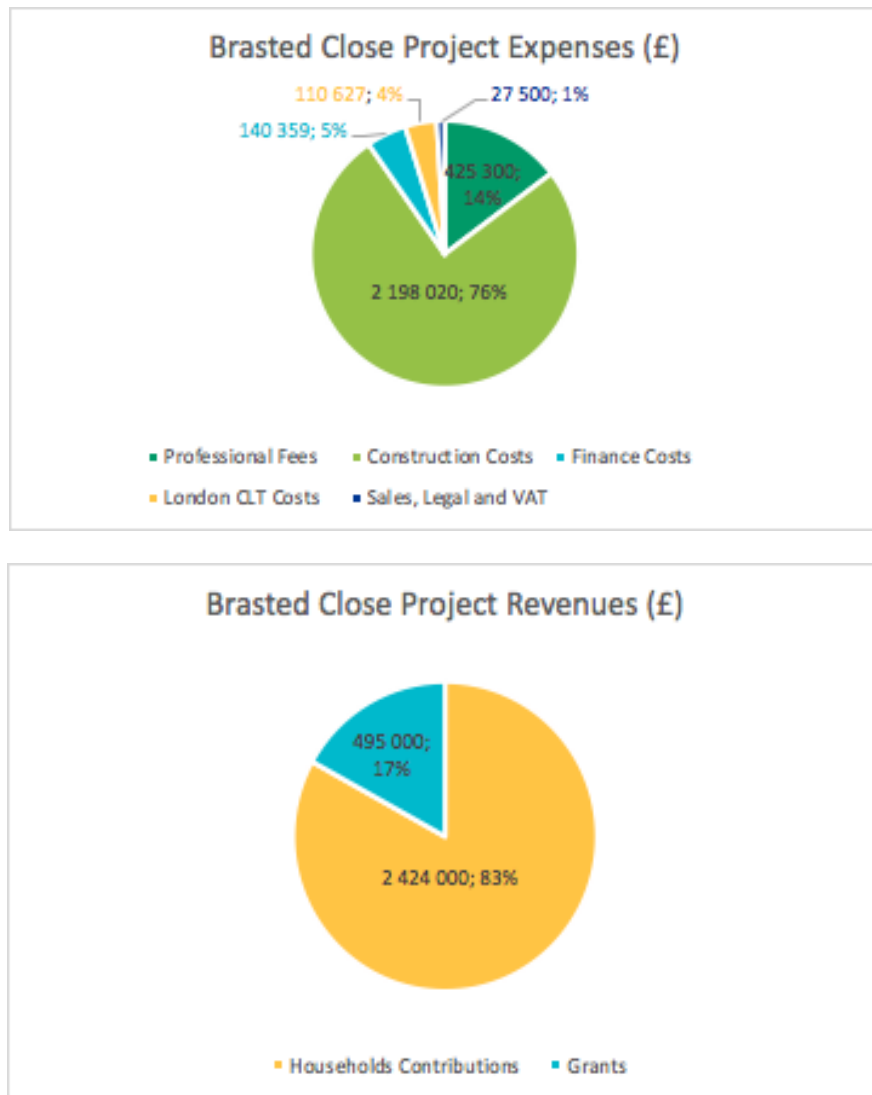


Fig. 14 Brasted Close financial operation (Sources: London CLT, 2019)

LONDON CLT OPERATION

Purchase and resale of units

London CLT targets modest to middle-income households usually earning £25,000 – £50,000 a year. They thus aim at closing the gap between ‘people qualifying for council property and people who can afford to buy their own home’ on the private market (SHICC, 2018).

The allocation process has been designed through consultation with residents. It is based on five guiding principles (fairness, transparency, simplicity, legality and scalability). In order to be eligible, would-be buyers have to present a minimum of five years’ connection to the neighbourhood, belong to and participate in the local community, be priced out of the open housing market, and be in housing need but able to contract a mortgage.

The unit price is based on the average mortgage available to households in the neighbourhood. It thus takes into account the Area Median Income (AMI) according to the following formula, and amounts to approximately to $\frac{1}{3}$ of the AMI:

$$[(\text{AMI} \times \text{home value ratio}) / 12] / 3 - 150$$

Determine the AMI, multiply the AMI by a ratio determining the value of a home according its size, divide this number by 12 in order to establish monthly gross pay average, divide this number by three

to establish one-third of this monthly gross pay. Subtract £150 per month to include estimated service charges and ground-lease fees.

From this number it is then possible to estimate the average mortgage available to would-be buyers, working on the assumption of a 10% deposit, 25-year mortgage and fixed rate of 5%¹¹³.

For the pilot project, only **two lenders** (Ecology Building Society, and Nationwide Building Society) **agreed to offer mortgages to the CLT residents**.

Nationwide Foundation was willing to lend up to 95% of the value of the property with an initial 60-month **fixed rate** of 2.74%, which then increases to 4.24% for the remainder of the mortgage. **Ecology Building Society was willing to lend up to 90% and charge a variable interest rate** of between 3.50% and 5.50%.

As London CLT is currently working on access to further mortgage options, it is also in discussions with **Parity Trust** to be a lender for future projects.

In parallel, London CLT developed, in partnership with **Nationwide**, a **standard certificate** allowing for the **recognition of the CLT properties as eligible for a regular mortgage application**. This standard helps process CLT residents' cases more rapidly (National CLT Network, 2018b, p. 24).

As for the ground leases, Linden Homes and the **Greater London Authority still own the site** (in freehold¹¹⁴) until completion of the site. The **freehold will then revert to the Ricardo Community Foundation**, a charitable organisation with representatives from the key stakeholders at St Clements. **London CLT owns the headlease**¹¹⁵ on the CLT homes. Once the unit is allocated, **London CLT signs an underlease of 250 years with the residents**.

Building management

In order to maintain the building, **each household pays a £150 monthly provision to contribute to the service charges and ground-lease fees**.

The ongoing **community life** is ensured via the development of a **resident-led management strategy**. For instance, at St Clements, a **residents association** has just been set up which, once Linden Homes finalises and leaves the site (end of 2019), will be responsible for the site management. The group comprises **six appointed residents** (including three from CLT homes). Its specific activities have yet to be detailed (London CLT, 2018b).

London CLT operations and development of new projects

The **operational expenditure** to run London CLT has been estimated at around **£170,000 per year**. In order to carry out its activities – coordinating campaigns, scouting sites, supporting development of homes – **London CLT has two FTE, representing five part-time staff**.

Core employees include two **campaign managers**, a **finance manager**, a **communities manager**, and a **human resource & office coordinator**. They are assisted by external project managers as consultants. These **back-office functions are included in every project's business plan** looking to be financed, and further grants help cover the remaining staff costs.

Maintaining a balanced annual budget remains a challenge for London CLT, although it benefits from a **wide range of sources of regular income** such as from the **community-share issues, which made it possible to smooth cash flow** in between project delivery (£492,225 in 2018), **membership fees** (£1 each for 2,500 members), **ground-lease fees** (£50 p.a.) at St Clements) and the sale of units (£378,060 in 2018 for St Clements)

¹¹³ Estimates taking into account historic lending rates.

¹¹⁴ Permanent and absolute tenure of land or property with freedom to dispose of it at will.

¹¹⁵ Ownership of a property for a fixed period of time.

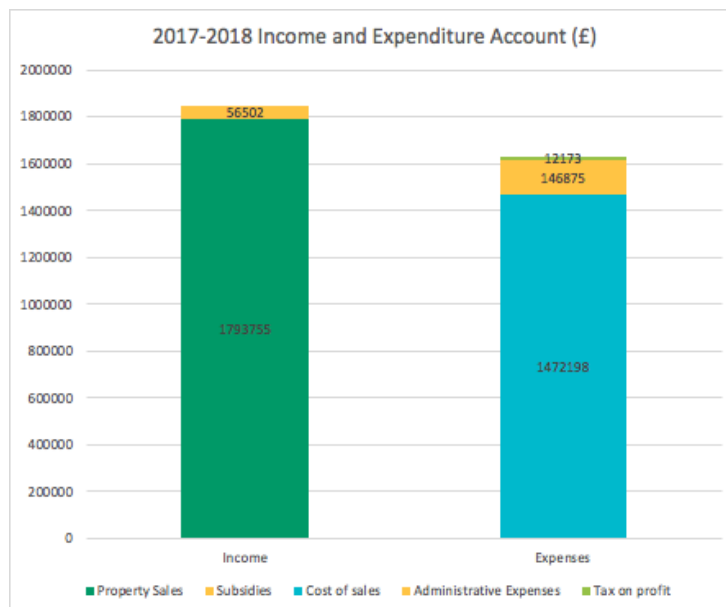


Fig. 15 2017-2018 Budget (Source: London CLT)

In parallel, London CLT also has to cover the cost of sales, taxation, payment of interest on London CLT shares (aimed at 5% per year), repayment of withdrawn shares and administrative expenses.

As of today, London CLT is operating well. In 2018 it made £230,442¹¹⁶ in profit on sales (London CLT, 2018a). Its total equity amounts up to £535,536 of which 90% is shared capital (£492,133).

CONCLUSION

London CLT is planning to develop around 110 homes across London by 2021 (London CLT, 2018b) and has committed to developing a pipeline of hundreds of homes in the medium term (London CLT, n.d.a). As of today, there are a number of **financial challenges** that London CLT faces, but the two most substantial are **raising new capital** and **maintaining operations within very tight project budgets**.

In order to deliver projects, **London CLT must borrow money from investors**. At a small scale (e.g. £2m), a large number of potential lenders exist, offering a wide range of conditions. However, **at a larger scale (e.g. £10m+) potential investors are scarce**. These investors have **clear requirements regarding loan-to-value ratios**, commonly in the realm of a 60/40 split. This means that in order to **access this capital finance** London CLT would **need to consistently input 40% of the project costs** – either using sources other than debt, or by identifying junior lenders in some circumstances. Part of this amount could be covered by grants or community-share issues. However, it's unlikely that grants could cover 40% of a project's costs, and there is little precedent for community-share issues in the UK over £1m (Patterson, 2019).

London CLT has to operate within very tight project budgets so that it can deliver **100% genuinely and permanently affordable homes**. As **construction costs are very high** in London, this must be monitored and controlled as tightly as possible. The **margin for error in terms of project management is very low**. There is thus a real challenge for London CLT to **maintain the affordability** of its homes as well as its **ethos**.

Forming a clear and **solid strategy for these two risks** is vital if London CLT is to scale up and sustainably run a community-led organisation developing mixed and integrated projects. If this **growth is indeed possible**, it will then generate its **own challenges**. Namely, how to grow sustainably while ensuring that every London CLT project is community-led and that the organisation itself continues to be democratically run.

¹¹⁶ £43,403 left after having covered for the loss of previous years.

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FMDV (Global Fund for Cities Development) is in charge of coordinating the Financial Models Work Package (WP) of the SHICC project. FMDV mobilises its internal expertise and reaches out to other networks and partners (in particular from the finance community and local and regional governments) to analyse CLT/OFS financial models, develop new financing and engineering approaches for CLT/OFS, and disseminate knowledge that will help make the model widespread in the North-West Europe region.

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With the participation of

The City of Lille



City of Lille supports the project management and coordinates the partnership agreement. As lead partner of the project, it is involved in all Work Packages (WPs) in order to ensure their proper coordination and advancement.

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CLT Brussels



CLTB leads the general coordination of the project, along with the City of Lille. As part of this project, CLTB develops new financial models and new strategies for enhancing community involvement. As a pilot CLT, CLTB will inspire other initiatives in the region. Through its involvement in capacity building, long-term effects and communication Work Packages, CLTB contributes to the spreading of the CLT model within the North-West Europe (NWE) region and helps emerging CLT to overcome their initial barriers.

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CLT Ghent



To support Community Land Trusts, CLT Ghent is leading the four CLT Pilot Work Packages and contributes to other aspects of the programme.

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London CLT



London CLT brings practitioner expertise as a CLT in the very expensive housing market of London. It has particular experience in engaging with communities and the state, based on a community organising approach. It is making the change from a grant-funded not-for-profit organisation with a campaigning emphasis to a sustainable social enterprise, actively exploring a diverse range of social finance options. LCLT is keen to develop new ways to create sustainable funding.

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UK National CLT Network



Leads the Communications Work Package (WP); leads the Start-up Fund WP, building on its existing grant programme that provides small grants for nascent or new CLT to buy in technical support and reach key milestones; leads the Long-term Effects WP, specifically delivering the advocacy campaign work and social-impact measurement work; and supports the delivery of other aspects of the programme.

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