

# Capital Investment Strategy Report

## Additional information regarding proposed cash investments

**R17**

### CCLA – Local Authorities Property Fund (LAPF)

- 1 The fund size at the end of May 2015 was £385M with 110 investors using the fund.
- 2 Of the 100 local authorities that are currently invested in this fund, the smallest investment is £25k and the largest is £20M.
- 3 The fund specialises in identifying property with only a small number of years to run on the lease, because this gives it the opportunity to change the tenant, increase the rental, improve the terms on the lease for the owner.
- 4 Investments can be made and monies can be withdrawn each month. It is possible to reduce the cost of withdrawing monies if another investor can be found to replace our investment. There is no set notice period, but the fund will work with each investor to optimise investments and withdrawals.
- 5 Their track record shows that the fund has been very successful in maintaining good rental income return even during the recession. The capital growth has also been very good in recent years. The results for the 2014 calendar year were:
  - Income return 5.4%
  - Capital growth 13.7%
  - Total return 19.1%

- 6 The fund's track record over the last 10 financial years has been as follows:

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Income	5%	4	3	5	7	7	6	6	5	5
Capital	14%	12	-12	-38	11	5	0	-2	9	12
Total	19%	16	-9	-33	18	12	6	4	14	17

- 7 The spread of investment properties at 31 March 2015 was:
  - Shops 8%
  - Retail warehouses 20%
  - Industrial 27%
  - Offices 45%
- 8 The geographic and sector spread of the fund investments at the end of 2014 was:
  - Industrials – rest of UK 24%
  - Retail warehouses 22%
  - Offices – rest of SE 18%
  - Offices – rest of UK 10%

## Capital Investment Strategy Report

### Additional information regarding proposed cash investments

- Standard retails – SE 10%
- Offices – City 5%
- Industrials – SE 4%
- Cash 7%

- 9 The risk profile of LAPF tenants at the end of March this year was 92% lower than average risk, with only 1% in the high risk category.
- 10 A few examples of the properties owned by the fund at the end of March are as follows:
- Norwich £5.3M value prime retail shop in top 10 location – the White Company
  - London EC3 £16.3M prominent city office/retail – TM Lewin
  - Magna Park, Lutterworth £15.4M high quality distribution depot - DHL
  - Cambridge science park £20.8M high quality office/lab facility - AstraZeneca
  - Coventry £21.7M distribution facility – Peugeot
  - Others are at Trinity Park Solihull; Stockley Park, West London; Beckton retail park, London E6; The Arena, Bracknell; Warwick Tech Park, Warwick

### Funding Circle

- 11 The fund size at the end of March 2015 was £600M lent to 7,200 SMEs, by 38,000 active investors.
- 12 The SME's using the fund are at the smaller end, but well established (average 8 years trading) with turnovers between £50k and £25M, the average turnover being £600k.
- 13 Secured loans are given between £5k and £3M, following a rigorous three stage credit process and offered with repayment terms from 6 months to 5 years. The majority of loans are for business expansion or for working capital (86%), and 8% are for asset purchases.
- 14 For those investors with a very diversified investment (lent to at least 100 SME businesses, with loans under 1% of total SME loan), the vast majority (96%) received returns between 4 and 10%, after fees and bad debts. Investors diversify because there is a direct relationship with the SMEs, so if they default the whole sum invested is lost.

## Capital Investment Strategy Report

### Additional information regarding proposed cash investments

- 15 For those investors with a less diversified investment (lent to at least 10 SME businesses, with loans under 10% of total SME loan), the majority (85%) still received returns between 4 and 10%, after fees and bad debts.
- 16 Loans can be made to SMEs in identified postcodes if required. This allows local authorities to support economic development in their own specific local areas.
- 17 The number of loans provided to SMEs with an IP postcode since the fund's inception are as follows:

	2010	2011	2012	2013	2014	2015 (3 mths)	Total
No. loans	2	4	3	22	43	20	94

- 18 The average interest rate return on these loans is 8.3%. Only 2 of these SMEs have defaulted and 12 are already fully repaid.
- 19 Selecting SME's based in local postcode areas gives tangible evidence of support for local businesses, growth and employment. Using the Funding Circle's technology allows councils to lend directly to local businesses without the overheads and infrastructure of specialist financial functions. This local lending can be balanced with national lending to maintain a diversified approach.
- 20 The list of 14 local authorities currently investing in the Funding Circle includes Leicestershire, Lancashire, Gloucestershire, Nottinghamshire, Spelthorne BC, Runnymede BC, Rushcliffe BC, Tandridge DC, Guildford BC. We have been provided with contacts at these councils to take up references.
- 21 Leicestershire has invested £1M in the fund, with loans limited to SMEs with credit ratings of A+ to C, with their loan limited to a maximum of 20% of any SME's loan, and to a maximum of £25k value.
- 22 SMEs repay loans on a monthly basis, paying capital and interest each month. The amount of interest income received by us as lenders each month will therefore decrease as the loan capital is paid off. To maintain a certain level of interest income, the councils will need to use the capital repayments received to re-lend to other SMEs.
- 23 Funding Circle will provide marketing and PR for Councils, by delivering council-branded direct mail and undertaking national press announcements.