



COMMUNITY SHARE OFFER

Leeds Community Homes

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The offer period

**Issue for Shares
in Leeds Community Homes Ltd**

“Share Offer”

Opens: 17 October 2016

Closes: 19 December 2016

The Board of Directors of Leeds Community Homes may choose to extend the period of the share offer for a further month, to 19 January 2017, if we have not reached our maximum target by this date.

Leeds Community Homes is a Community Benefit Society registered under the Co-operative and Community Benefit Societies Act, 2014. Registered Number 7252.

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www.leedscommunityhomes.org.uk



The Community Shares Standard Mark is awarded by the Community Shares Unit to offers that meet national standards of good practice. These standards ensure that:

- The offer document and application form are easy to understand
- You are provided with all the facts you need to make an informed decision
- The facts are supported by the annual accounts and/or business plan for the society
- Nothing in the documents is purposely incorrect, confusing or misleading

Societies are asked to sign a Code of Practice requiring them, among other things, to give the public a right of complaint to the Community Shares Unit.

For more information about community shares, the Community Shares Standard Mark and the Community Shares Unit go to: **www.communityshares.org.uk**

Opening summary

Through this share offer Leeds Community Homes Ltd is seeking to raise finance to make progress on our aim of developing a community-led approach to creating more affordable housing in Leeds.

The share offer opens on 17th October 2016 and is due to close on 19th December 2016. If our maximum target of £360,000 is not met at this date, the Leeds Community Homes Board may decide to extend the share offer for a further month to 19th January 2017.

Our minimum fundraising target – in order for the project to go ahead – is £200,000. Our maximum target for this share offer is £360,000.

The minimum that individuals can invest in this share offer is £100. The maximum that any individual can invest is £36,000 – equivalent to 10% of total capital requirements. Organisations may invest above this limit – please contact us for further information.

Leeds Community Homes Ltd is a Community Benefit Society, registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 as a Community Benefit Society. Registration Number 7252. Our rules are available to view at www.leedscommunityhomes.org.uk.

As a community benefit society, Leeds Community Homes Ltd is registered with, but not authorised or regulated by, the Financial Conduct Authority and therefore any money you pay for shares is not safeguarded by any depositor protection or dispute resolution scheme. In particular, you have no right of complaint to the Financial Ombudsman Service, nor any access or entitlement to the Financial Services Compensation Scheme.

Please note that your capital is at risk if you invest in this share offer. If you invest, you may lose some or all of the money that you invest.

The purpose of the investment

Leeds Community Homes has been established as a community benefit society with the primary aim of taking a community-led approach to creating more affordable homes in our city. Our long-term goal is to be involved in the creation of 1000 affordable homes in Leeds over the next ten years – contributing towards the target of 66,000 new homes that has been identified for Leeds.

The primary focus of this share offer – our first – is to raise finance for our first project, the purchase of 16 permanently affordable 1 & 2 bedroom flats on a city-centre development by Leeds-based developer Citu. The development forms part of Leeds' new Climate Innovation District – and the flats will be built to a high standard of environmental sustainability. The flats will be made available for affordable rental and sale – and through our role as a Community Land Trust for Leeds we will ensure that they are available for affordable housing in perpetuity. We will retain nine flats ourselves, and sell seven flats.

If we raise above our minimum target (ie the finance that we require to progress with acquiring 16 flats) we will be able to reduce the amount of long-term borrowing that we require. If we reach our maximum target, we will be able to deliver the Low Fold project without the need for long-term loan finance. A short-term bridging loan will still be required to fund the purchase of the seven flats that we will subsequently sell on.

As well as contributing to the purchase of rental flats, and the overheads required to deliver the Climate Innovation District homes scheme, shareholder funds will be used to support the work that is required to explore and plan future projects – for example feasibility studies. We will only be using shareholder funds to provide some initial working capital to explore future projects. It is anticipated that these future projects will repay these funds, however if we decide not to go ahead with any future projects then this work will be funded by the future surplus from the Low Fold development.

Our aim is that as a result of this investment we will subsequently be able to make further progress on a range of projects via a second open community share offer, which we anticipate will launch in 2019 – once the homes are occupied.

We recognise that projects to provide affordable housing have long lead-in times – and for this reason it is important that we begin to explore future projects immediately. By doing this, we can begin to develop a pipeline of projects which, in the longer term, will help us make progress towards our target of Leeds Community Homes being involved in the creation of 1000 affordable homes. These will be homes that we create ourselves – and homes that we support other community-led housing groups in Leeds to build.

During 2017 and 2018, we plan to explore and make progress on opportunities including those listed below – with a view to seeking further finance to progress them during 2019 and beyond – including through an open share offer.

- As a Community Land Trust, identify land for permanently affordable housing as part of Leeds’ proposed South Bank development – with purchase forming part of a future share offer.
- Identify small parcels of land to build environmentally-sustainable, affordable homes – with purchase forming part of a future share offer.
- Identify opportunities to partner with developers to build permanently affordable homes on sites they are developing.
- Work towards establishing a student housing co-op in Leeds.
- Support emerging co-housing projects in Leeds.
- Work with other community-led housing organisations to develop programmes for purchasing and renovating long-term empty homes.
- Offer support to community-led housing groups in Leeds to explore opportunities and to build their capacity to build affordable homes in Leeds.
- Explore how to establish a loan fund to provide finance – in particular early-stage finance – for community-led housing projects in Leeds.

In summary, by investing in this share offer you will enable us to undertake our first project – to provide 16 permanently affordable homes in the centre of Leeds. You will also be supporting us to establish ourselves as a Community Land Trust for Leeds – so that we can begin to explore and develop a range of community-led initiatives which will help us to make progress towards our long-term goal of being involved in the creation of 1000 affordable homes in Leeds.

Benefits of developing a strong membership base

By identifying people who are willing to invest in our community share offer, we will be able to access a vital source of patient, affordable capital. This investment will enable us to undertake our first project – an ambitious yet achievable project to create 16 affordable city centre homes - whilst also making it possible for us to develop a pipeline of future projects.

We believe that the role of people willing to invest for the long-term is crucial if we are to make real progress in creating permanently affordable housing in Leeds. Investment through this share offer provides us with an affordable source of finance at an early stage in our development – our proposed 2% interest rate (payable from year 4) is around half of what we expect to pay on a long-term mortgage. Also, by being able to access patient capital – with no interest or repayment of shares offered for three years - we can focus on delivering on our first project – and plan for future projects. This is a significant boost to us during the development phase in particular – as our main source of long-term income – rental income – is not available to us until the homes are lived in.

Attracting investment through community shares can also give confidence to lenders – as clearly they are able (in this first project) to lend to us at lower loan-to-value ratio than if we did not attract investment through community shares. Such community support can encourage institutional investors too.

We have secured the support of the Booster Programme, which is funded by Power to Change and run by the Community Shares Unit. Under this programme up to £100,000 is available to match applications for shares from the public. This means that for every pound invested by individuals, up to £100,000, another pound will be invested in match shares, so we only need £100,000 from the public to be sure of reaching our minimum target of £200,000.

The match shares will be held by Co-operatives UK, a partner in the Community Shares Unit, and will be subject to the same terms and conditions as other Leeds Community Homes members, except for its right to withdraw share capital, which will be restricted to a pro-rata amount.

Investment through community shares will also help us to build up reserves more quickly, compared with a position where we need to finance more of our activities through a higher level of long-term lending. This means that we can more quickly make progress on further projects – giving us a greater chance of meeting our long-term target of being involved in the creation of 1000 homes.

We believe that the successful completion of our first sixteen homes will establish us as a credible organisation that can deliver affordable housing in Leeds. As a result other opportunities will arise – and by 2019 we will be in a position to scale up our activities.

The primary aim of this share offer is of course to raise finance. However we also seek to demonstrate that there is an appetite locally for community-led approaches to creating housing in Leeds. If, through this share offer, we are successful in building an organisation with hundreds of members – all of whom have committed to backing our approach – we believe that this can help us to make sustained progress towards our long-term goal of being involved in creating 1000 homes.

As a new provider of affordable housing, we are starting with no capital of our own. In order for us to invest the capital needed to create more affordable homes we have to raise finance. The cost of this finance is the biggest barrier to us creating more affordable homes. Your support in providing us with capital at a reduced cost will increase our competitiveness with other developers who already have capital. This will enable us to build more affordable homes for the people of Leeds.

As a member and an investor, you will also have a say in how our organisation – set up as a Community Benefit Society and a Community Land Trust – is run. You will also be helping to shape the future of Leeds, ensuring that more affordable homes are available for people who want to live here.

Target Community

Our primary target community is people in Leeds who are in need of more affordable homes. Through providing more affordable homes to rent and to buy, we will serve people who currently find it difficult to buy or rent a decent, affordable home in our city. We will encourage people in housing need in Leeds to become members of Leeds Community Homes (people can become members of our community benefit society for £1) but we do not anticipate that many people who are currently in housing need will invest in our share offer.

With this share offer we are also targeting people in Leeds who recognise the negative impacts of a housing market which does not work for many of our citizens – and who want to play a part in creating a community-led solution. We believe there are many people in our city who acknowledge the impact on fellow citizens – and on the city as a whole – of increasing numbers of people in Leeds finding it difficult to afford a decent home to rent or buy.

This is a much wider group than the group of people who are in housing need – and we envisage that the majority of our investors will come from this wider group of Leeds citizens. We will also target a wider group of people across the UK who recognise the negative impacts of a housing market which does not work for increasing numbers of our citizens. We will seek to engage people who are keen to be part of a citizen-led approach to creating more affordable homes – and who will support our work through investing in our community share offer.

Background to Leeds Community Homes

Leeds Community Homes was set up in November 2015 as a community benefit society. Throughout the previous twelve months the seven founder members of Leeds Community Homes met regularly to explore the idea of establishing an organisation that could take the lead on developing a community-led approach to creating housing across Leeds. The founder members offer a wide range of expertise and experience in the fields of community-led housing, social enterprise and environmental sustainability.

It soon became clear that the most appropriate structure for what we wanted to achieve was a community benefit society – as it is a democratic structure which allows for community engagement, whilst enabling us to raise finance through community share offers to achieve our social objectives.

Our rules allow us to act as a Community Land Trust for Leeds – this means that any land and homes that we acquire will be affordable in perpetuity.

To date we have been successful in securing funding of approximately £50,000 towards the 2016 running costs of Leeds Community Homes, from funders including BSHF, UnLtd, the Community Land Trust Network and Power To Change. This funding has contributed towards activities including company set-up and the development of this share offer.

We believe that our success in securing a significant amount of funding at such an early stage of our development demonstrates both the current interest in community-led housing, the confidence funders have in our vision, and our ability to deliver on that vision. We believe that we will continue to be successful in raising grant finance – and have budgeted for a modest amount of grant income (£10,000 per year) for each year until 2021.

In May 2016 we engaged local social enterprise Social Business Brokers CIC, best known for their successful Empty Homes Doctor service, to lead on the development of our first community share offer.

About Leeds Community Homes

Our vision

Leeds is a city where it feels realistic for citizens to work together to create environmentally sustainable homes which are affordable in perpetuity.

Our mission

As a Community Land Trust, we create more affordable, sustainable housing, by building new homes and refurbishing empty properties. We create housing ourselves, and support others to do the same. We aim to be involved in creating 1000 affordable homes in Leeds by 2027.

Objectives

Primary

- Act as a Community Land Trust for Leeds, buying land and buildings to create homes for affordable rental and sale.
- Support other people and organisations to create community-led housing in Leeds.
- Through community share offers and other means, raise finance for community-led housing in Leeds.

Secondary

- Promote Leeds Community Homes, and the benefits of a community-led approach to creating housing in Leeds.
- Engage the people of Leeds in how to create housing which makes the city a better place to live, for all of us.
- Work at a strategic level to facilitate the development of community-led housing in Leeds.
- Run Leeds Community Homes as a successful, sustainable social enterprise.

Values

We are community-led. We get behind people in Leeds to help them to create affordable, sustainable homes.

We are enterprising. We acknowledge how much of a challenge it is to create affordable, sustainable homes. We bring creativity and a can-do approach to tackling one of the biggest social issues of our time.

We are co-operative. We work collaboratively, across the city, with people who share our vision for creating homes that are affordable in perpetuity, and which make Leeds a better place to live.

Business model

Our business model for this share offer is based primarily around the purchase of sixteen 1 and 2 bedroom flats in the newly formed Climate Innovation District in the centre of Leeds.

The flats will be built by Leeds-based developer Citu (www.citu.co.uk). Their recent developments have included Greenhouse (the conversion of an existing building into environmentally-sound flats in south Leeds) and the Little Kelham development in Sheffield.

The flats will be available to us to purchase at a significant discount, through a developer-financed Section 106 agreement – which allows for the provision of affordable housing. Leeds City Council has indicated that it is keen to assist Leeds Community Homes in its ambition to provide affordable housing within the city. The Council is therefore supporting our involvement as the affordable provider of these homes in the Climate Innovation District.

The flats will be available to purchase in two phases. The first phase is due to complete in January 2018, with the flats in the second phase being ready for occupation in January 2019.

In phase 1 we will purchase five flats which will be available for social rent, and 2 flats for re-sale at an intermediate price. In phase 2 we will purchase four flats for social rent, and 5 for intermediate re-sale.

The Section 106 agreement stipulates that we will retain nine flats ourselves, all of which will be available at an affordable rent to people on the Local Authority's housing waiting list. We will purchase and then re-sell seven flats at a discounted "intermediate" price. These will be made available to people whose household income means that they would be unable to afford the flats at full market value.

The Section 106 agreement allows us to sell the intermediate flats with a 5% increase in price – to contribute towards our direct costs relating to their re-sale.

The flats for social rental are available to us at approximately 21% of open market value. The flats for intermediate re-sale are available to purchase at approximately 60% of open market value. A full schedule of the flats that we will purchase is included as an appendix in our business plan, which is available on our website www.leedscommunityhomes.org.uk.

As a Community Land Trust, we will ensure that the flats that we retain for rental are affordable to people in housing need, in perpetuity. A clause in the sale agreements for the "intermediate" homes will ensure that these homes are resold at below open-market value – thus ensuring they remain more affordable. We are currently taking legal advice on the most appropriate mechanism for ensuring long-term affordability. The mechanism will ensure that the homes will always be affordable even when

re-sold at any time in the future.

The “intermediate” homes that we sell on will be marketed to people whose household income is high enough to afford a mortgage at the intermediate price (approximately 60% of open market value) but not at full market value.

A 10% deposit is payable on the flats in phase 1 of the development, and this is due in July 2017. A 10% deposit for the flats in phase 2 is due in July 2018. In each phase, the remainder is payable on completion – which is due to be January 2018 for Phase 1, and January 2019 for Phase 2.

We have budgeted for one day per week of Leeds Community Homes staff time to work from 2017 until the final flats are sold – which is due to be by April 2019. This time will be required for a range of activities relating to the successful delivery of the project, such as arranging the marketing of the properties for rental and sale. We have also allocated resources to engage a project manager with extensive experience of construction projects, who will take the lead on liaison with the developers to ensure that the flats that we purchase are to the standards and specification that we require.

Once the flats are occupied, they will be managed by local social enterprise GIPSIL. They have extensive experience of managing tenancies and providing a maintenance service on rental properties. They will provide a full management service – including collection of rent, a responsive repairs service, bad debt and covering costs during void periods, for a fee equivalent to 25% of rent and service charge.

We have agreed to an open-book review of this arrangement after 12 months, with a view to reducing the fee if it becomes clear that they are able to successfully provide a high quality service to tenants at a lower price. We have budgeted for a reduction in the fee to 20% in 2020.

The flats that we own will be available at an affordable, social rent. They will be made available exclusively to people in housing need who are on the local authority’s housing waiting list. We will draw up a Housing Allocation Policy to ensure this. We anticipate that the majority of tenants will come to us via other community-led housing organisations in the city – primarily Latch, Canopy and Gipsil.

The arrangement to work with Latch, Canopy and Gipsil to identify tenants for the properties will bring a range of benefits. It will help each of the organisations to provide appropriate, high quality “move-on” accommodation for tenants – which is often in short supply. This will free up some of their current supply of homes – so that they can continue to serve greater numbers of people in housing need. Tenants will have access to high quality accommodation near to job opportunities in the centre of Leeds. Meanwhile, as a new organisation, Leeds Community Homes will benefit from finding tenants who have previously been provided with tenancy support services from Latch, Canopy and Gipsil – such as support on how to maintain a tenancy, how to manage the payment of bills etc.

A service charge, to be paid by the tenants, will be payable – to cover costs such as the maintenance of common areas. Day-to-day maintenance of the properties will be covered through the management

agreement with Gipsil. As the properties are new-build, we do not anticipate having to do any major works on the flats – such as renewal of kitchens and bathrooms, until 2030. We will re-finance at this time, to undertake these major works.

The “intermediate” flats will be promoted for sale to people who are in a position to buy a home but whose household income is insufficient to purchase a home on the development at full market value. We will establish an application process for the homes, through which people will demonstrate that their income is sufficient to afford to purchase a home at the intermediate value (approximately 60% of open market value) but not at the full value. We anticipate that we will market the properties to “key workers” – particularly people who work locally – e.g. at the school and college that have recently opened within walking distance of the development. The detail of the application process, and our approach to marketing the properties, will be drawn up by March 2017.

Once the homes are occupied, the flats will generate income for Leeds Community Homes through rent – and this rental income will be our major source of income for covering our costs, and, over time, recovering the costs incurred during the development period. The rents for the flats we will own are set as part of the Section 106 agreement, and are currently £81.29 per week for a 1 bed flat, and £97.92 per week for a 2 bed flat. We have budgeted for the 1% decrease in rent proposed by the Government for the next three years, and a CPI +1% increase from April 2021.

Creation of a pipeline of future projects

The majority of shareholder funds will be devoted to the successful completion of the project to purchase 16 flats on the Climate Innovation District. Funds will be allocated towards the purchase of the flats, and will also cover other costs that Leeds Community Homes incurs during the period.

We will also allocate a small amount of shareholder funds to the development of schemes which will create the pipeline of projects necessary for us to achieve our long-term goal of being involved in the creation of 1000 community-led homes in Leeds.

During 2017 and 2018, we plan to explore and make progress on opportunities including those listed below – with a view to seeking further finance to progress them during 2019 and beyond – including through an open share offer.

- As a Community Land Trust, identifying land for permanently affordable housing as part of Leeds’ proposed South Bank development – with purchase forming part of a future share offer.
- Identify small parcels of land to build environmentally-sustainable, affordable homes – with purchase forming part of a future share offer.

- Identify opportunities to partner with developers to build permanently affordable homes on sites they are developing.
- Work towards establishing a student housing co-op in Leeds.
- Support emerging co-housing projects in Leeds.
- Work with other community-led housing organisations to develop programmes for purchasing and renovating long-term empty homes.
- Offer support to community-led housing groups in Leeds to explore opportunities and to build their capacity to build affordable homes in Leeds
- Exploring how to establish a loan fund to provide finance – in particular early-stage finance – for community-led housing projects in Leeds.

During 2017 and 2018, we will allocate shareholder funds so that we can employ a member of staff for one day per week to develop this pipeline of future projects. We recognise that housing projects typically have long lead-in times. To ensure that we are able to make progress towards our long term goal of 1000 homes, it is important that we begin to establish a pipeline of projects immediately. The delivery of the projects themselves will be funded by a future share offer and other sources of finance. It is anticipated that these projects will provide a return on the funds invested and so will eventually recoup this development time.

Longer-term development

Leeds Community Homes intends to follow the purchase of homes in the Climate Innovation District, with subsequent projects over time to reach our target of 1000 affordable homes over 10 years. The financial projections associated with the development demonstrate that the Society could afford for some members to apply for a limited amount of share withdrawal from 2020.

However we expect that further projects will have been developed by that time and that we would then propose, in 2019 or soon after, either to launch another project specific offer or move to a rolling “open share offer” where existing and new investors will be asked to invest in further developments, or a fund to allow original investors to withdraw. Either of these alternatives could also therefore accommodate more of the original investors to withdraw their shares.

Members will be regularly updated as to progress and Society Directors will present future plans (including allocations of surpluses to allow for share interest to be paid and the amount available

for share withdrawals) to members at the Annual General meeting at which all members have voting rights.

Directors hope and expect that this first share offer will be the first of a rolling programme of share offers by LCH to achieve its longer-term goals. However potential investors should be aware that our ability to repay more than a small amount of shareholder funds each year relies on us being able to successfully launch future share offers. Ideally these share offers will enable us to develop future community led housing projects, however if we can't identify future projects we will launch an open share offer to create a fund to allow for the withdrawal of original investors shares.

It is for this reason that we will begin work to identify future projects in 2017 – rather than waiting until 2019. In this way we give ourselves every chance of launching an open share offer in 2019 – to raise further capital and to provide greater liquidity – and thus begin to repay shareholders who wish to be repaid.

Investors should also be aware that we may also be required to suspend share withdrawal in the future to provide finance for a future project. However, as stated above, we will seek to move to an open share offer from 2019 in order to increase the liquidity of members' shares.

Capital requirements

The following table demonstrates the capital requirements for the project at the key development stages:

July 2017

Following set up costs and deposits on Phase 1 properties.

January 2018

Following the purchase of the Phase 1 properties and prior to disposal of the properties for resale.

July 2018

Following disposal of the Phase 1 properties for resale and further deposits for the Phase 2 properties.

January 2019

Following the purchase of the Phase 2 properties and prior to disposal of the properties for resale.

May 2019

Following disposal of the Phase 2 properties for resale and the point at which the operating model becomes rental income and associated costs only.

The finance required to cover these capital requirements is demonstrated across the two scenarios of A: where the minimum share target of £200,000 is reached and B: where the maximum share target of £360,000 is reached.

Scenario A : minimum shareholder funds

Capital requirements

	Jul-17	Jan-18	Jul-18	Jan-19	May-19
Intermediate flats for resale	23,840	217,173	41,924	385,427	0
Flats for affordable rental	16,312	163,124	173,394	265,824	265,824
Set up costs	41,766	43,397	43,797	44,824	44,824
Net operational cash (inflow) /outflow	(24,339)	(6,452)	(1,394)	10,523	6,328
Cash balances	142,421	82,758	42,279	43,403	41,433
	200,000	500,000	300,000	750,000	358,409

Finance

Community shares	200,000	200,000	200,000	200,000	200,000
Bridging loans		300,000	100,000	550,000	
Mortgage					158,409
	200,000	500,000	300,000	750,000	358,409

Scenario B - maximum shareholder funds

Capital requirements

Intermediate flats for resale	23,840	217,173	41,924	385,427	0
Flats for affordable rental	16,312	163,124	173,394	265,824	265,824
Set up costs	41,766	43,397	43,797	44,824	44,824
Net operational cash (inflow) /outflow	(24,339)	(6,452)	(1,394)	10,523	6,328
Cash balances	302,421	82,758	102,279	43,403	43,025
	360,000	500,000	360,000	750,000	360,000

Finance

Community shares	360,000	360,000	360,000	360,000	360,000
Bridging loans		140,000		390,000	
Mortgage					
	360,000	500,000	360,000	750,000	360,000

Shareholder funds will contribute towards the cost of purchasing flats, and provide working capital during the period 2017-2019 – at which time all flats will be rented out/have been sold, and we will be generating sufficient income to cover our operating costs, primarily through rental income.

We are in advanced negotiations with Ecology Building Society to provide bridging loans to cover the purchase of the intermediate flats, and to provide a 25-year loan to fund the purchase of the flats that we will retain for affordable rental. We expect an initial interest rate of around 4% - but have budgeted for 5% in our financial projections. We have also stress-tested our plan at interest rates of up to 8%. Due to the relatively low loan to value ratio, we are confident we would be able to withstand such rises in interest rates.

We are negotiating a bridging loan for the period between purchasing the first intermediate flats and the re-sales of the final intermediate flats, which are scheduled for April 2019. We will draw down the bridging loan as required. The following summary explains how we will draw it down in the scenario where we raise £200,000.

- Initial bridging loan, January 2018: £300,000.
- Bridging Loan reduces to £100,000 in March 2018 after two intermediate flats are sold.
- Bridging Loan increases to £550,000 in January 2019 to fund purchase of five intermediate flats.
- By April 2019 Bridging loan decreases to £158,675 after sale of 5 intermediate flats.
- In April 2019 the Bridging Loan is converted to a 25 year mortgage of £158,675. We have budgeted for an interest rate of 5% on both the bridging loan and the mortgage in our financial forecasts.
- An initial fee – for arranging the bridging loan and mortgage – is budgeted at £4,125.

During the period of the bridging loan, interest will be payable on the loan, but no capital will be paid off. We expect to pay an arrangement fee of £4125 for the bridging loan and long-term mortgage with Ecology Building Society. Interest payable on the bridging loan is budgeted to total £11,374.

Narrative summary of business model

Our business model is based primarily around rental income from the nine flats that we will retain on the Low Fold development. The flats will be rented at an affordable, social rent, a rent that is agreed as part of the Section 106 agreement. The initial weekly rent for a one-bed flat is £81.29, and for a two-bed flat is £97.92. This is budgeted to reduce by 1% in 2019 and 2020 and then increase by CPI +1% after that. We have budgeted for annual 2% increases from April 2021.

Once all of the nine flats that we will retain are occupied, our annual rental income will total approximately £40,000. We also attract £10,000 of grant income per year. The fee we will pay to GIPSIL to manage the flats equates to approximately £11,500 per year. This leaves us with an annual gross profit of approximately £38,500, with which we cover overheads of approximately £18,000. These overheads include Leeds Community Homes staff time, premises, administration, accountancy and other business costs.

In addition, mortgage interest is approximately £7,500 per year. Corporation Tax typically accounts for around £1000. From 2020 we will pay 2% interest on shares, which will accrue to shareholders' accounts. This leaves around £7,500 retained profit each year, from 2020.

We have also budgeted for a small amount of grant income - £10,000 - for each of the five years from 2017. Given our success in attracting a larger amount of grant income in 2016, (approximately £50,000) we are confident that we will continue to be able to attract a smaller amount of grant in the five years that follow.

In January 2018 we will acquire 2 one-bed flats and 3 two-bed flats. The total weekly rental income from these five flats is budgeted at £456.34. In January 2019 we will acquire another four 1 bedroom flats. The additional weekly rental income for these flats is £321.91 (allowing for the 1% drop in rent). Total weekly rental income, when all flats are occupied in January 2019, will be £769.16 (allowing for the 1% rent cut).

We have engaged local social enterprise GIPSIL to provide a full management service on the flats that we own, to include rent and service charge collection, provision of a responsive repairs service, bad debt and coverage of costs during any void periods. GIPSIL will charge a fee of 25% of the rent & plus service charge. They have agreed to work with us on an open-book basis, and we will review the cost of delivering the service after 12 months – with a view to reducing the charge to 20% in 2020.

We will also incur central Leeds Community Homes overhead costs. We will seek to employ an Executive Director for 2 days per week – one day to work on the Climate Innovation District project, and one day to work on developing a pipeline of future projects, and to undertake tasks relating to the running of the Society. Other office and admin costs, including marketing, insurance and accountancy will also be incurred.

We will also engage a professional project manager, until the completion of all the flats, to ensure that the flats on Low Fold are built to our requirements. We also allowed for a contingency of 2% of the total project cost – in recognition of the fact that projects to develop homes can sometimes incur unexpected costs/suffer from delays.

We also have finance costs, including an initial set up fee for the lending facility. We will then incur monthly interest payments on the bridging loan, which will be in place until the last intermediate flat is sold (and which will reduce each time we sell one of those flats). Finally, the remaining balance on the bridging loan will transfer to a 25 year loan with Ecology Building Society.

We make a loss in 2017 and 2018 because of the range of one-off costs of that we incur during the development period, and because we do not begin to generate any rental income until January 2018 (and at that stage it is only from the 5 flats in Phase 1, not nine). We are budgeted to generate rental income from nine flats from January 2019.

From this time, our income covers our costs, and we begin to make a yearly operating profit. We make a small operating profit in 2019, and this profit increases in 2020. It is in 2020 that we expect to begin to pay interest on shares – with 2% interest due to accrue to members' share accounts from 2020.

As a result of the profits that we generate each year from 2019, we will return to a positive accumulated profit position in 2027.

The above summary demonstrates that we expect to make a small yearly operating profit from 2019. We propose beginning to pay interest of 2% on shares from 2020 and we propose to accrue interest to our shareholders' accounts.

We acknowledge that when we begin to pay interest on shares, in year 4, we will still be in a negative accumulated profit position – ie we will have not recouped by that date the losses we made in the first three years. However we propose to pay interest from 2020 as we believe that paying interest will not adversely impact upon our ability to pay our creditors – primarily our mortgage provider. This is because we will be in a cash strong position. Mortgage repayments are primarily a cash flow concern, and by accruing interest to our shareholders accounts we will not be affecting our cash flow. As long as we are making a yearly operating profit – which we will be by year 4 – we are confident that we can meet our payments to our creditors, and pay interest at 2% to our investors.

Our summary profit and loss forecast for the period up until 2031 demonstrates that we will return to a cumulative profit position in 2025.

In accordance with our Rules, any future surpluses will be used to further the aims of the society.

Profit and loss forecasts, cashflow forecasts and balance sheets for the period up to 2030 are included with our business plan, which is available via our website www.leedscommunityhomes.org.uk.

What happens if we raise more than our £200,000?

Whilst we are confident that we can deliver on our plans with a mix of shareholder funds and long-term borrowing, it would clearly be beneficial to us if we can reduce our long-term borrowing requirements. Understandably, the profit generated through providing affordable rental housing is limited. If the rent is not required to service a long-term debt, we are able to build up capital reserves more quickly, and be in a position to deliver on future projects more quickly. We would also become profitable more quickly, be in a position to pay interest on shares, and begin to return shareholder

capital to those who request it.

If we reduce our long-term borrowing then we will reduce our monthly cash outflows. We will no longer need to pay interest on the loan nor will we have any capital to repay. This reduction in our cash outflows enables us to build up our cash reserves. This will then reduce the amount of external finance required for future projects.

Please note: if we reach our maximum target of £360,000, we will still require a bridging loan to cover the period between the purchase of the intermediate flats and their re-sale. We expect the arrangement fee to be the same as the one we have currently outlined in our budget.

By reducing our initial borrowing, we would also give ourselves the opportunity, in the longer-term, to borrow against the properties that we own at the Climate Innovation District development, in order to provide finance for future projects.

As there is no requirement for a long-term loan in this scenario, our profit and loss position improves from 2020. However, as share capital has increased to £360,000, the 2% interest that will accrue to shareholders' share accounts is £7200 in 2020 (compared to £4,000 in 2020 in the scenario where we raise our minimum investment of £200,000)

Our balance sheet is much stronger in this scenario because we have not been required to take out a £158,409 loan.

More detailed financial projections are available in our business plan, which can be found at www.leedscommunityhomes.org.uk.

What happens if the share offer is undersubscribed?

If we have not reached our maximum target of £360,000 by 19th December 2016, the Board may decide to extend the offer period by one month. In the event that we do not reach our minimum target by 19th January 2017, we will not proceed with our community share offer. No shares will be allocated and any money committed by our investors will be returned. All money pledged electronically during the share offer period will be held in a secure account by Ethex, who are providing us with the online share offer platform. During this period, Leeds Community Homes will not have access to these funds.

If we reach our minimum target or above, the share offer will close by 19th January, the funds will be transferred to Leeds Community Homes and we will contact our shareholders to notify them of their investment in Leeds Community Homes. If we do not reach our minimum target, investors' money will be returned in full as soon as we can process the refunds. We anticipate that money would be returned within one month of the closure of the share offer, if we were not to meet our minimum target.

What happens if the share offer is oversubscribed?

The share offer will close if we reach our maximum target. People who express an interest in investing in Leeds Community Homes but are unable to do so will be kept informed of our intentions with regards to future share offers. It is our intention to move to an open share offer in 2019.

When will the work that this share offer will support begin?

As outlined previously, the primary focus of the share offer is the acquisition of 16 flats on the Climate Innovation District development in Leeds. If the share offer is successful, the preparatory work to acquire the flats will begin almost immediately, once shareholder funds have been received. This will be in January 2017 (if the share offer closes in December) or February 2017 (if the share offer closes in January).

As outlined previously, deposits are due to be paid on Phase 1 at Low Fold in July 2017, with completion in January 2018. Phase 2 deposits will be required in July 2018, with the flats being made available to be lived in by January 2019.

Similarly, our project development work (to develop future projects) will begin almost immediately after the share offer closes and shareholder funds have been received. This project development work will require the equivalent of one day per week of Leeds Community Homes staff time – and it will involve undertaking feasibility studies and other exploratory work to identify and develop opportunities to deliver community-led housing in Leeds.

Minimum and maximum investments

The minimum amount that can be invested by an individual in this share offer is £100. Shares are available to be purchased in £50 instalments.

The maximum amount that can be invested by an individual is £36,000 – equivalent to 10% of the capital we are seeking to raise. Organisations seeking to invest larger amounts should contact Leeds Community Homes to discuss this further.

We of course acknowledge that not everyone who supports the aims of Leeds Community Homes will be in a position to invest. However, membership of the Society is open to anyone who supports our aims, on payment of £1. Membership offers people the opportunity to participate fully in the Society. For more information about becoming a member of Leeds Community Homes, please visit www.leedscommunityhomes.org.uk.

Financial returns

For the first three years after we close this share offer, we do not anticipate paying any interest on your shares, nor returning any of your capital. Our focus will be on using all available resources to further the aims of Leeds Community Homes. From year 4, we anticipate beginning to pay interest on shares, and also anticipate being able to begin returning shareholders' capital.

Interest will accrue from 1 April 2020 on all shares issued as part of this share offer. From this date we expect to pay an interest rate of 2% on shares held. We propose that interest will accrue to members' share accounts.

Provision is made in our Rules to pay interest on share capital at such rates that may be determined by Directors from time to time. The maximum amount of interest that we will pay at any time in the future will be 2% above base rate.

Leeds Community Homes anticipates paying interest gross to investors, unless required to do otherwise by HMRC. Investors should report their gross income to HMRC in their annual tax return.

Track record

Leeds Community Homes was set up as a community benefit society in November 2015. Since then the seven founder members – who have formed our first Board of Directors – have focused their efforts on establishing Leeds Community Homes, developing relationships with key stakeholders in the city, and securing funding to enable us to develop plans for our first community share offer.

Funding, of approximately £50,000, to develop and run Leeds Community Homes during 2016 was secured from a range of funders, including UnLtd, BSHF, Power To Change and the Urban Community Land Trust Fund. Our success at securing such a level of funding, at an early stage in our development and at a time when competition for any available funding is intense, demonstrates the interest in our approach and the confidence stakeholders have in our ability to deliver on our vision.

This funding will all be spent by 31 December 2016 and does not form part of the balance going forward of Leeds Community Homes.

As detailed in the Appendix of the Business Plan (which is available via our website), the current Directors of Leeds Community Homes bring a wealth of relevant experience and expertise to the organisation. Each has a long track record of working in Leeds – in a wide range of relevant sectors. They are all on the Board in a personal capacity.

- Professor Paul Chatterton, an academic at Leeds University, was also the driving force behind LILAC, the pioneering, multi-award-winning co-housing project in west Leeds.
- Jonathan Lindh is a director of Leeds Environmental Design Associates, and is an architect with substantial experience in housing, self-build, and community, education and office building design.
- Steve Hoey is director of Leeds self-help housing social enterprise Canopy Housing Project. Under his leadership Canopy has this year won the prestigious BSHF World Habitat Award – to be presented in Ecuador in October 2016.
- Gill Coupland is co-director of Social Business Brokers CIC – and is the driving force behind Empty Homes Doctor – a service run by Social Business Brokers which has helped to bring over 150 long-term empty homes in Leeds back into use since 2013.
- Rob Greenland is co-director of Social Business Brokers CIC, the social enterprise that delivers the Empty Homes Doctor service. He has over 20 years of experience working with social enterprises in Leeds.
- James Hartley is Chief Executive of Latch, the Chapeltown-based self-help housing social enterprise which has been renovating empty homes for 25 years.

- Jimm Reed has been involved in housing for 16 years, and has developed a particular expertise insupporting community-led housing groups. He acted as project manager for the pioneering LILAC scheme in Leeds.
- Paul Belbin has over 25 years of experience in the social housing sector, and is currently Development Manager at Gipsil. He has extensive experience managing services for offenders, the homeless, young people and other vulnerable groups across northern England.

Conflicts of interest

Each of the people currently on the Board is there in a personal capacity. They each bring a wealth of relevant experience and expertise, including from their current, paid jobs. We acknowledge the great benefit this can bring to Leeds Community Homes, but also of course recognise the potential for conflicts of interest.

We have a Register of Interests – and all Board members have declared their current interests. Board members are asked to inform their fellow directors of any new potential conflicts of interest.

When necessary, Board members acknowledge a potential conflict of interest, and remove themselves from that particular Board discussion and decision. For example, Paul Belbin was not involved in the decision making process for appointing Gipsil as managing agents for Low Fold. Similarly, Gill Coupland and Rob Greenland were not involved in the decision making process to engage Social Business Brokers CIC to provide a co-ordinating role for Leeds Community Homes from May 2016.

Board members are encouraged to raise any potential conflicts of interest, if the person themselves has not previously acknowledged the potential conflict.

There is no payment for Board members for being on the Leeds Community Homes Board of Directors. Reasonable out-of-pocket expenses are paid in appropriate circumstances – such as travel expenses when a Board member is representing Leeds Community Homes at an event.

Board members do not stand to gain financially from this share offer.

Strengthening the Board

Current Board members acknowledge that as Leeds Community Homes develops, we will need to further strengthen the Board. A Skills Audit is scheduled for February 2017 – to identify current skills gaps – and a recruitment campaign will begin soon after this date – to encourage members to apply to be elected to the Board.

We anticipate that we will seek to recruit Board members with a range of skills in order to further strengthen the Board – in particular in relation to the financial expertise that we will require as the Society expands. We also acknowledge the need to recruit more people to the Board so that it better reflects the communities that we wish to serve, in terms of age, gender, ethnicity and first-hand experience of the impact of poor quality, unaffordable housing.

Our first Annual General Meeting will be called by July 2017. This will be an opportunity for current directors to stand for re-election, and for other members of the Society to put themselves forward for election to the Board.

Financial risks

Although shares are withdrawable, this is subject to three months' notice, and is at the discretion of the Directors, especially if there are insufficient funds to make repayments. The Directors have decided that no investment can be withdrawn for the first three years, in order to give Leeds Community Homes the opportunity to establish itself and to give our first projects the greatest chance of success.

Directors hope and expect that this first share offer will be the first of a rolling programme of share offers by LCH to achieve its longer-term goals. However potential investors should be aware that our ability to repay more than a small amount of shareholder funds each year relies on us being able to successfully launch future share offers. Ideally these share offers will enable us to develop future community-led housing projects. However if we are unable to identify future projects we will launch an open share offer to create a fund to allow for the withdrawal of original investors shares.

It is for this reason that we will begin work to identify future projects in 2017 – rather than waiting until 2019. In this way we give ourselves every chance of launching an open share offer in 2019 – to raise further capital and to provide greater liquidity – and thus begin to repay shareholders who wish to be repaid.

Investors should also be aware that we may also be required to suspend share withdrawal in the future to provide finance for a future project. However, as stated above, we will seek to move to an open share offer from 2019 in order to increase the liquidity of members' shares.

We strongly encourage investors to consider their investment to be a long-term commitment to the development of a community-led approach to creating affordable housing in Leeds. An investment in Leeds Community Homes should be considered as a long-term investment, which may generate some financial benefits, whilst providing a range of social benefits to people in Leeds who will be able to access permanently affordable housing.

Returning Capital

As stated above, we anticipate that capital will begin to be returned to investors from 2020, with a limited number of shares being bought back gradually over time. However this is not guaranteed and

the decision to return capital will be made by the Directors. Members of Leeds Community Homes will be consulted at the time.

Who can invest?

Individuals over the age of 16, and organisations may invest in this offer.

Share type

Our Rules allow for withdrawable share capital. We are offering “withdrawable” shares that cannot be sold, traded or transferred between Members, unlike the “transferable” shares of a typical limited company, and only Leeds Community Homes can buy them back. Leeds Community Homes is a Community Benefit Society registered under the Co-operative and Community Benefit Societies Act, 2014. Registered Number 7252.

The minimum amount that can be invested through this share offer is £100. Above this minimum of £100, we are offering people the opportunity to invest in multiples of £50.

Please note:

Shares in Leeds Community Homes cannot be sold, transferred or exchanged (except on death or bankruptcy) or traded on any Stock Exchange and there is no possibility that they will increase in worth beyond their nominal value.

After a fixed period of three years following the closure of the share issue, shares are withdrawable on three months notice. Leeds Community Homes will not pay you back more than you paid for your shares.

Although shares are withdrawable, you may not be able to withdraw your shares if Leeds Community Homes does not have sufficient funds available at the time you wish to withdraw them or if the Directors have otherwise suspended the right to withdraw at that time.

If Leeds Community Homes made significant losses the Directors may need to write down the value of the shares, upon the advice of the auditor or accountant.

Should you then wish to withdraw your shares, you will then only receive the written down value of those shares.

As a community benefit society, Leeds Community Homes Ltd is registered with, but not authorised or regulated by, the Financial Conduct Authority and therefore any money you pay for shares is not safeguarded by any depositor protection or dispute resolution scheme. In particular, you have no right of complaint to the Financial Ombudsman Service, nor any access or entitlement to the Financial Services Compensation Scheme.

Please note that your capital is at risk if you invest in this share offer. If you invest, you may lose some or all of the money that you invest.

Other important legal information

Anyone interested in applying for shares in Leeds Community Homes is strongly advised to take appropriate independent advice. The list of risks contained in this document is not necessarily comprehensive. Shares in the Society are not “investments” for the purposes of the Financial Services Marketing Act 2000 (FSMA), therefore you do not have the level of protection that you may otherwise be offered by that Act or subsidiary regulations. In particular, this document does not need approval (and has not been reviewed, authorised or otherwise approved) by an “authorised person” under section 21 of FSMA or by any regulatory body.

Leeds Community Homes Ltd was registered with the Financial Conduct Authority on 30 November 2016 (Registered Number 7252). Our governing document – the Rules of Leeds Community Homes Ltd, is available on our website and explains Member rights as well as the management and constitution of the society.

If Leeds Community Homes is wound up, its assets will be first used to meet its liabilities, next to repay Members for their shares, and finally any surplus remaining will be passed on to a prescribed community benefit society, a Community Interest Company, a registered social landlord, charity or charitable bencom, or an equivalent body.

Democratic rights

Leeds Community Homes is set up as a community benefit society. This is a democratic structure which provides all members – however much or however little they have invested – with an equal say in the running of the organisation. This contrasts with a typical company structure – where voting power is linked to the level of investment.

Benefits of being part of this democratic structure include:

- A vote at General Meetings. All members are entitled to one vote – regardless of how many shares they hold.
- The right to attend General Meetings at which Board Members are elected.
- The right to stand for election to the Board.
- Being kept informed of our progress through a Members’ e-newsletter and through other forms of social media. Being consulted on key decisions, and being involved in creating an effective campaign for more community-led, affordable housing in Leeds.

Please note that investing in Leeds Community Homes' share offer does not guarantee or improve a person's chances of being housed in one of the homes that we develop. Homes owned by Leeds Community Homes will be allocated according to a needs-based Housing Allocation Policy which will be available for you to view. You will also have the opportunity to contribute to the further development of this Policy in the future.

Eligibility for membership

Members must be at least 16 years of age.

Shares cannot be held in joint names.

Charges and running costs

There are no charges made on your investment, but the costs of attracting more finance, and of running and growing Leeds Community Homes, will be paid for by the business and will be taken into account when determining the annual interest rate that is due to be paid to investors from year 4.

Governing document

A copy of the society's rules is available on our website

www.leedscommunityhomes.org.uk

If you require any clarification of anything in our rules, please contact us:

info@leedscommunityhomes.org.uk

Business plan

A copy of our business plan is available on our website

www.leedscommunityhomes.org.uk

Share application form

Application form for purchase of shares in Leeds Community Homes Ltd

You may apply for shares in Leeds Community Homes Ltd by completing the form below, or by visiting www.ethex.org.uk/leedscommunityhomes

I wish to become a member of Leeds Community Homes Ltd in accordance with the rules and apply for:

Shares to the value of £_____ (minimum £100 - larger amounts in multiples of £50) and enclose a cheque for this amount, made payable to Ethex Investment Club Ltd.

For this offer the minimum shareholding is £100 and the maximum that an individual can invest is £36,000. Organisations wishing to invest above this amount should contact Leeds Community Homes to discuss this further.

Applications can be sent to:

Ethex, The Old Music Hall, 106-108 Cowley Road, Oxford, OX4 1JE.

Please use capital letters when completing this form.

Name and Address

First name (in full)

Last name

Date of Birth

Address

Town/City

Postcode

Email

Tel No.

If you have been living at the above address for less than three years, please provide us with your previous address:

Organisation name (if applicable)

Registered company/charity number/society number (if applicable)

Name of signatory

Position in organisation

Agreement

I have read the Share Offer Document, including the section on Financial Risks.

I wish to become a member of Leeds Community Homes

I agree to be bound by the Terms and Conditions included in the Share Offer Document and in the Rules of Leeds Community Homes (*available on our website www.leedscommunityhomes.org.uk*).

I understand that the Board of Directors of Leeds Community Homes may reject my application, and are not obliged to tell me why it has been rejected

I consent to receiving formal notices by email and links to formal documents on the Leeds Community Homes website

Signed as a Deed

Signature

Name in print

Date

Please send your completed application form and payment to Ethex (*Cheques made payable to Ethex Investment Club Ltd*) to Ethex, The Old Music Hall, 106-108 Cowley Road, Oxford, OX4 1JE.

Data protection and money laundering

The data provided by you on this form will be stored on a computerised database. The data will only be used for Leeds Community Homes' purposes and will not be disclosed to any third party. It is a condition of the offer that to ensure compliance with the Money Laundering Regulations 2003, Leeds Community Homes may at its absolute discretion require verification of the identify of any person seeking to invest.

Notices by email and documents on our website

To reduce our administrative costs, we would like to be able to send you formal notices by email and refer you (by email) to documents posted on our website. By signing this form you are consenting to receiving such notices by email and accessing documents through our website.

If you have any queries about your application please call Ethex on **01865 403304**
You can also apply online via **www.ethex.org.uk/leedscommunityhomes**

This Community Share Offer Document is available to download at:
www.leedscommunityhomes.org.uk

It is also available at:
www.ethex.org.uk/leedscommunityhomes

A detailed business plan, which includes detailed financial projections, and the Rules of Leeds Community Homes, are also available to download from the Ethex and Leeds Community Homes websites.



Leeds Community Homes