

The Foundry:

An Example of a Consortium Approach to Impact Investing

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The UK has had significant growth in social investment over the past several years. There are a growing number of trusts and foundations interested in developing the social investment market, as can be seen in the article about Esmee Fairbairn.

As a new office, conference and exhibition space called The Foundry opens in London, this article explains why The Foundry is a good example of a consortium of trusts and other social investors working together to create The Foundry.

Many trusts and foundations in the UK have embraced social investment and welcomed the opening up of the market, from charity bonds to charity banks. What was initially seen as risky and expensive is becoming better understood by institutions, and support for impact investing is growing steadily.



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However, many potential investors remain more cautious, preferring to wait and see how social investment develops before shifting resources from more familiar markets. If we are to encourage a greater range of institutions to move towards social investment, we need to ensure there are different models available to suit different risk appetites and preferred social outcomes.

The Barrow Cadbury Trust is among the group of early adopters of impact investing, and one of our aims is to grow the social investment market. We do this both by grant funding new initiatives such as Ethex (the online platform where individuals can buy and sell social investments), and by making investments where we judge either that our involvement will encourage others to follow (as in the case of the Peterborough Social Impact Bond), or where support is needed for a promising new model.

The Foundry was just such an opportunity, with its vision of developing a building that would provide accommodation, and become a focus, for human rights and social justice organisations. We, alongside the Ethical Property Company, Trust for London, Joseph Rowntree Charitable Trust and the LankellyChase Foundation, became the founder investors in a company, the Human Rights and Social Justice Centre Ltd, that would purchase, refurbish and manage a building providing offices, a conference centre and exhibition space.



The Foundry, London

The Foundry opened in September and will provide modern, fully serviced office space to social justice and human rights organisations. But it will be about more than just telephones and desks – we and our co-investors have a vision to create ‘a place for change’ where these organisations grow stronger through working together and sharing resources, as well as providing benefits to the local area, so that the Foundry becomes a beacon and an inspiration for social justice.

By putting funds into The Foundry we have made a social investment. Our return on that investment will be financial – through dividends derived from the tenants’ rents, and social, through helping these social justice and human rights organisations to develop and expand their reach.

How it began

The idea for the Foundry was based on the business model of the Ethical Property Company, a values-driven organisation, which, since 1998 has owned and managed shared office space for organisations with a social purpose. It was an attractive partner given its track record of running a successful, and ethical, business that has delivered returns to its investors over nearly twenty years. Initially, the Ethical Property Company owned all its premises. More recently, it has started to manage similar properties on behalf of other organisations, but The Foundry project was different in that it would build a partnership between a private company and charitable trusts and foundations.

Susan Ralphs, Managing Director of The Ethical Property Company, recalls that the concept emerged following conversations between Trust for London and Ethical Property about providing accommodation and support for a particular group of organisations, while at the same time testing out a model in which organisations that shared those values could pool their resources in a mission-related investment. They approached the LankellyChase Foundation and the Barrow Cadbury Trust who immediately saw the potential in partnering with others in developing a

new model of private sector/charitable trust partnership that could be used to develop the social investment sector.

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The search was then on to find a building and secure sufficient funding to realise the vision. We achieved this with a mixed structure of equity stakes and loan finance. The founder investors each contributed equity, loan finance or both, and we secured additional loans from Charity Bank, Big Society Capital, Bridges Ventures and Rathbones.

The full deal was worth £12m, which in March 2012 allowed us to buy a large Edwardian industrial property in South London. After extension and renovation, it now provides 2900m² of high quality office, conference and exhibition space in an exciting architect-designed building.

By working together we shared the risks, but we also enhanced the operation by pooling the reputations and resources of each investor organisation. We are delighted that our faith in the vision has been borne out in practice, and expect to fill the building more quickly than we had originally forecast. 85% of the space had been reserved before the building opened and there is interest in the remaining space. Once our tenants are successfully settled, we will begin our programme of public engagement to ensure we add value to the local community and wider third sector.

The journey hasn’t been without its challenges – embarking on developing a building on such a large scale in a difficult economic climate was never going to be straightforward. The single greatest challenge was undoubtedly putting the financial package together. We had originally wanted to get a greater equity to loan balance than we currently have, although the amount

of equity we secured has comfortably allowed a very acceptable loan to value ratio. We anticipate that once the building is showing a return and as more trusts and foundations become engaged in the social investment conversation, equity stakes will become more popular for both The Foundry and in the wider sector.

We also had to be bold and take some measured risks. Initial market research indicated that there was sufficient demand to fill such a building, but with many charities struggling for survival, we had to face the possibility that we might not be able to fill the building quickly enough, thus risking lower than projected returns for equity investors. However as soon as we started to market the opportunity to the human rights and social justice sector, we knew that demand was strong.

As the aim of the founding investors has always been to open up the social investment market, we continue to look for new investors. We will be refinancing within the next four years, but in the meantime are interested in finding investors who would like to buy into the concept.

Why we are all involved

Social investment, in contrast to grant funding, enables trusts and foundations to 'spend the money more than once' and thus increase the resources available to fulfil their missions. At Barrow Cadbury we were particularly keen to explore how we could participate in a project that would make the most of this kind of model.

A particularly attractive aspect of this type of investment is that by creating a social business to provide accommodation for charities, rent money that would otherwise disappear into private property remains in the sector, available for reinvestment through the payment of interest and dividends to the investors.

Fran Sanderson, Investment Director at Big Society Capital, told us that a project based around a building was attractive to them too. "Our investment in the Foundry reflects our broader market development remit – the building is designed to be a focal point where charity market intelligence can compound and grow in a supportive environment," she says. "We believe a secure and affordable tenancy also helps organisations to concentrate on service delivery and internal sustainability."

The fact that several investors were working together was another significant positive point, she emphasises: "It has also been a great opportunity in terms of representing the different stakeholder prerogatives in the capital structure, with equity and junior debt from

partners, including the foundations, allowing us and the other senior investors to offer lower-risk, lower-return debt to bring the project to scale."

As Susan Ralphs from The Ethical Property Company adds: "We were keen to work in partnership, to prove that with shared values, companies like ours can work very well with impact investors. The Foundry demonstrates that a relatively disparate group of investors can come together to make a large and reasonably complicated project work. It was a risk, but we've shared the responsibility."

Bharat Mehta, Chief Executive of Trust for London, explains that Trust for London was one of the instigators of the project. "We got involved because we wanted to prove that you could do something socially beneficial whilst also making a healthy financial return, and show that a group of charities and corporates can come together in partnership and raise money on the financial markets."

Why this is different

Once The Foundry is operational, the company will start paying dividends to the equity stakeholders. But crucial to success of the project is the social impact it will deliver both locally and to the organisations working inside the building. This part of the vision will be taken forward by a new charity that will be set up to run a programme of educational activities, engage the local community and wider charity sector with regular exhibitions, events and other activities to promote social justice issues.

We have set a framework against which to judge our social impact. It takes in indices ranging from increased collaboration between the tenant charities, to promoting ethical employment practices such as the living wage, and ensuring local residents, and the broader human rights and social justice community are engaged and using the building. We also have targets around environmental sustainability and aim to reduce energy consumption by 3% a year after the base line year. With equity stakes from organisations that exist to deliver social good, social impact is front and centre of our minds.

We believe that The Foundry doesn't just offer a new home to a handful of charities in London and a triple bottom line return for its backers, it also offers a pathway for other trusts and foundations looking for ways to fulfill their remit for mission related investments.