



AFFORDABLE HOUSING PROPERTY FUND

AFFORDABLE PROPERTY INVESTMENTS LIMITED
("the COMPANY" or "the FUND")

a company incorporated in the British Virgin Islands

The date of this Document is 31 March 2009

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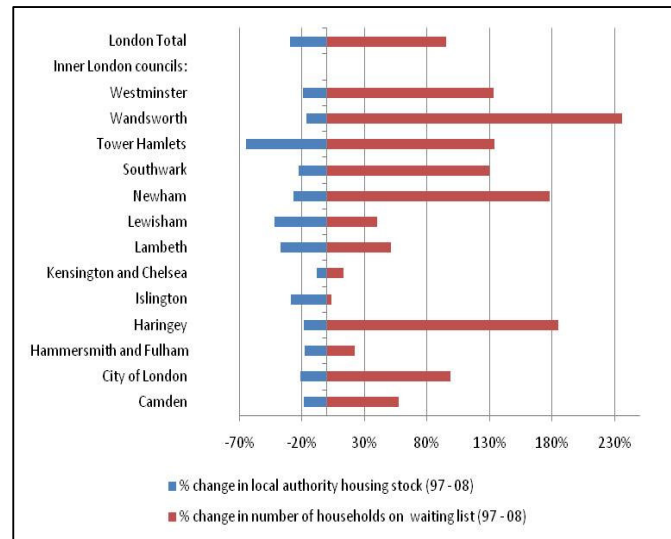
SUMMARY

- An actively managed affordable housing property fund established to profit from the downturn in house prices in the UK and focusing on a demographic (local authorities, key workers and students) and geography (London) that have good defensive qualities
- Delivering a target IRR of in excess of 9% with low volatility and correlation with other asset classes
- The fund will be investing in predominantly ex-council properties with the following characteristics:
 - positive spread of at least 1% between gross rental yield and the external cost of funding
 - a mix of 1,2,3 and 4 bedroom flats with an average property value of £130,000
 - located in inner London
 - located within close proximity to universities, schools and hospitals
 - tenants will be students, housing associations, local authorities, people on housing benefit and key workers employed in health, education and safety
- Opportunity to enhance income yields by up to 1% by increasing densities from 2 to 3 beds
- The fund will also acquire affordable housing from property developers that are constrained by capital and enter into back to back leases with local authorities
- Demand for rented property in the fund's target market is underpinned by:
 - reducing mortgage availability precluding first time buyers from home ownership and increasing the demand for rented property
 - growing unemployment raising demand for affordable accommodation
 - an increase in student numbers to achieve government targets and due to a growing number of foreign students benefiting from the lower Sterling cost of an education in the UK
 - a rising number of single family households and down sizing in the economic downturn
- Supply of housing in the fund's target market is constrained by:
 - restraints on government spending due to high levels of public debt and a budget deficit
 - the collapse of private sector construction and development and its negative impact on developers' contributions to social housing schemes under section 106 planning gain agreements
 - a lack of funding available to universities to build new accommodation
 - stricter lending covenants imposed on developers and buy-to-let landlords by banks
 - limited space for the building of new homes in London
- As a result of the above factors, gross rental yields of between 8% and 10% can now be achieved
- Hibridge Capital has a combined 15 year track record of investment in the affordable housing sector and its owners have together invested over £900,000 of their own capital in the fund
- Key investment terms and structure of the fund:
 - target size: £8m equity. First closing £2 million on 31 March 2009, second closing £6 million on 30 September 2009
 - minimum investment: £100,000
 - 1% initial fee, 1% annual fee, 20% performance fee in excess of achieving the UK base rate
 - maximum gearing: 70% loan to value of property and 1.5x interest cover
 - unauthorised investment in the shares of a BVI domiciled private company
 - term of investment: 8 years (30 Sept. 2017) with redemptions only on a matched bargain basis

Supply and demand pressures in the affordable housing sector in the UK are amplifying....

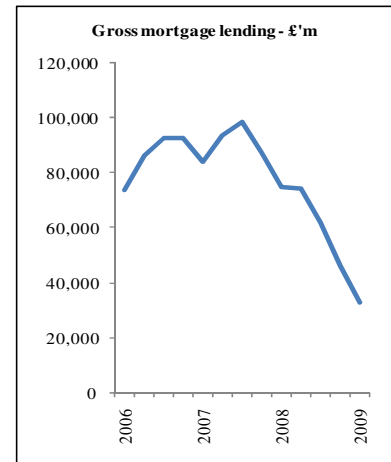
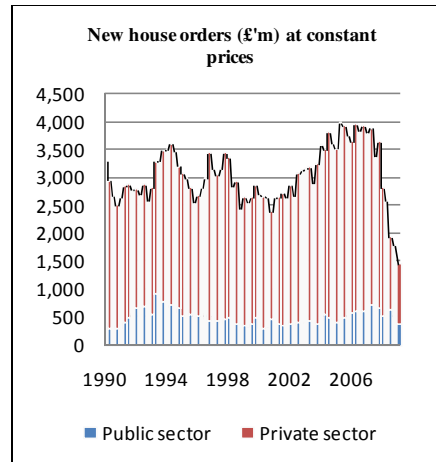
The number of people on housing benefit and in need of affordable housing in the UK is increasing due to higher levels of unemployment which is estimated to increase from the current rate of 6.7% (2.1 million) to over 9% (over 3 million) in the next 12 months.

A higher level of unemployment will add to the pressure on Local Authorities to provide affordable housing. The chart adjacent shows that in London the number of households on affordable housing waiting lists has increased on average by over 80% whilst Local Authority owned housing stock has reduced by over 30% since 1997.



At the same time the supply of new affordable housing has reduced due to the collapse of private sector construction and development, driven by a lack of bank funding and stricter lending covenants.

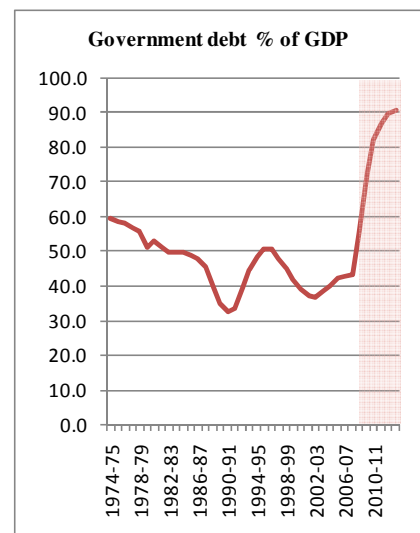
In the first quarter of 2009, year on year orders for private and public sector housing fell by over 50% and is now at historical lows - see adjacent chart.



Supply pressures in the affordable housing sector are augmented by a deterioration of public finances. Public sector net debt to GDP is projected to exceed the peak reached in both the 1970's and 1990's. Borrowing (including the financial bail out) is projected to rise to around 90% of GDP by 2014.

Funding for affordable housing from Local Authorities and Housing Associations is also constrained because a significant number of mixed tenure scheme investments with private developers are no longer proceeding due to a lack of bank funding or as a result of negative equity.

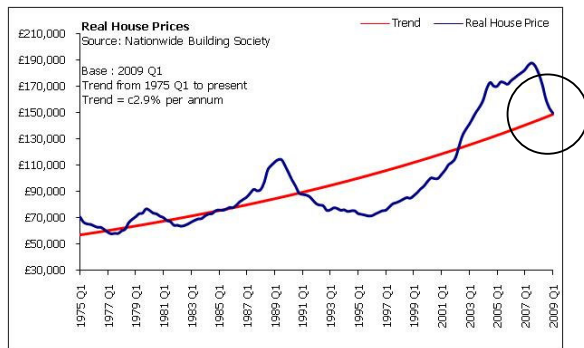
Therefore the escalating demand for affordable housing accommodation will need to be met by a growing number of private/public partnerships rather than by the UK Government on its own.



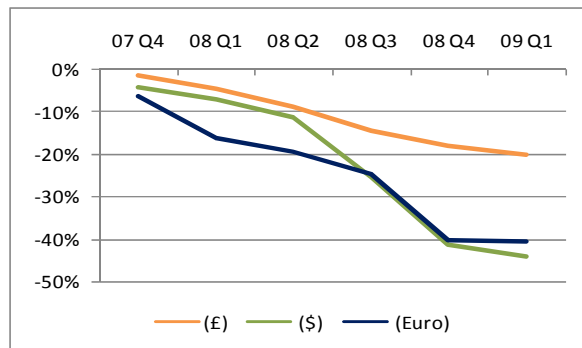
Average UK house prices are now in line with the long term trend in real house price growth

The chart below shows actual real house price growth (blue line) in the UK compared to “trend growth” (red line) of 2.9% from January 1975 to March 2009. House prices peaked in the third quarter of 2007 and since then have fallen on average by around 20% in Sterling and by over 40% in Euros and Dollars. House prices in the UK are now in line with the long term trend in real house price growth.

UK real house price vs. trend growth

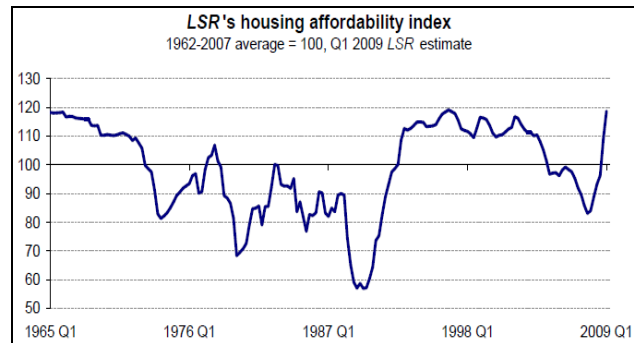


UK real house price declines in \$ and Euros



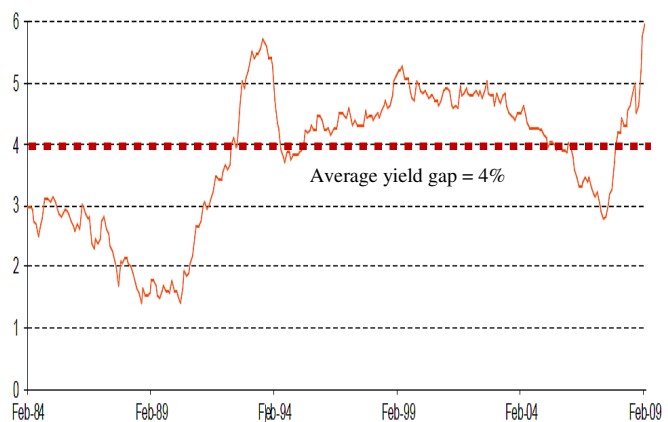
Affordability is at a high due to significant reductions in interest rate and lower house prices

The Lombard Street Housing Affordability Index measures the affordability of housing in the UK by comparing the cost of a 25-year mortgage on the average house with the average UK household disposable income. The 20% decline in house prices from their peak coupled with significant cuts in interest rate have improved affordability dramatically as shown in the chart below which indicates that affordability is now at affordability levels last experienced in 1965.



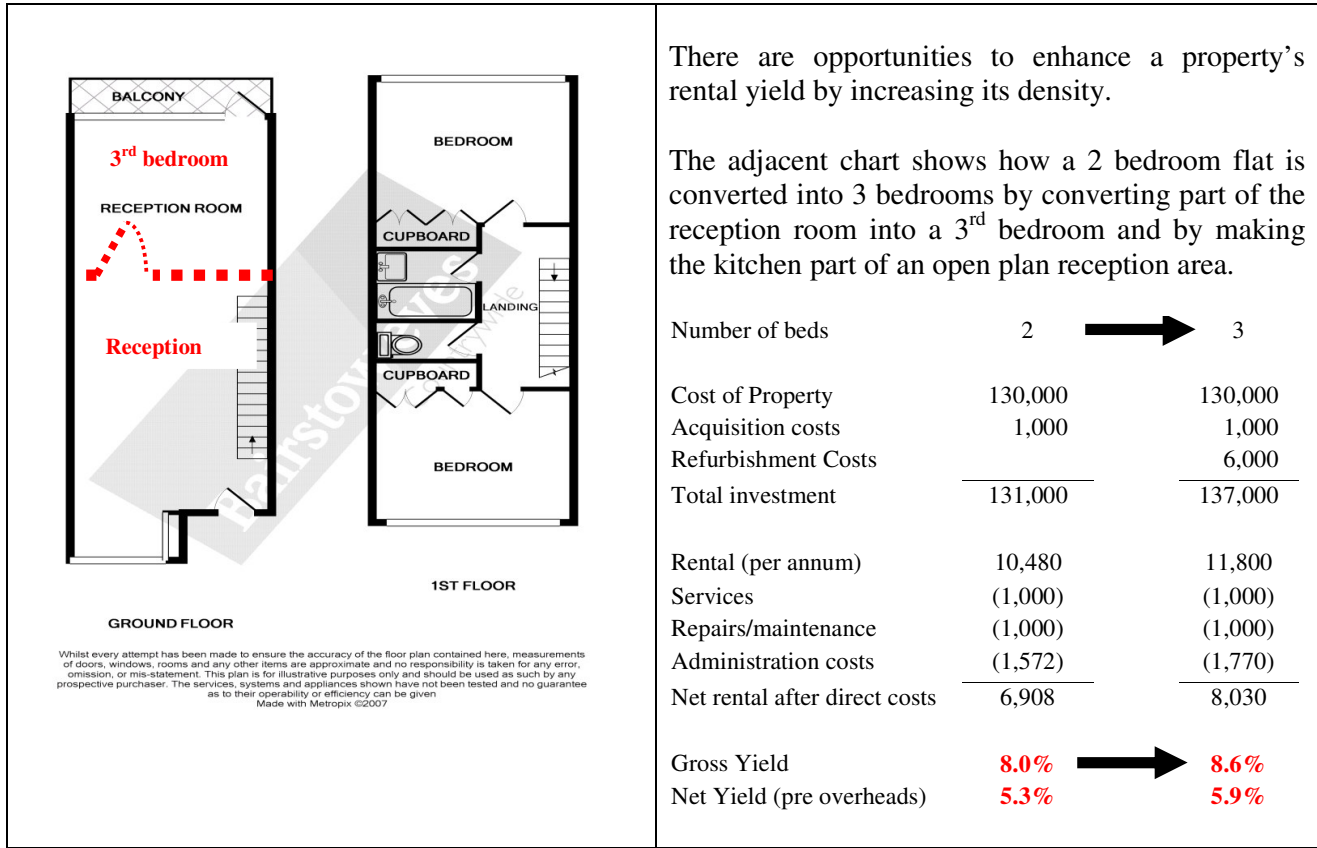
Current property yields reflect a healthy premium over long dated index linked gilts

Rental yields in the Fund’s sector of the market have on average increased to 8% and in distressed situations properties can be acquired on yields of up to 10%. This is a premium of between 6.7% and 8.7% over the current yield on long dated index linked gilts.



Over the long term UK property yields have on average exceeded the yield on long dated index linked gilts by around 4% as shown in the adjacent chart. The current yield gap reflects a compelling value proposition even if you assume that real yields on gilts increase by 1%.

Opportunity to enhance yields ...through increasing density

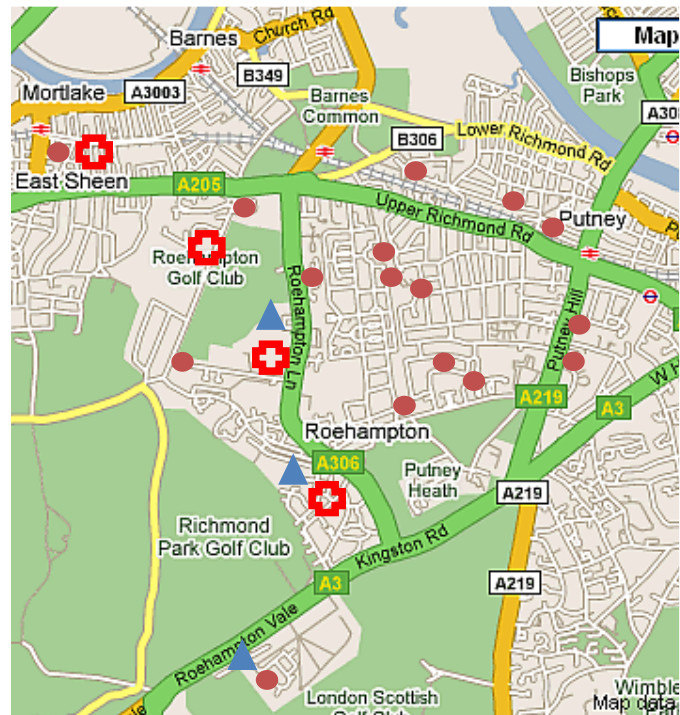
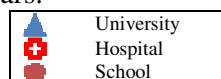


Geographic focus

The Fund's focus is on acquiring ex-council properties in inner London – traditionally the first area in the UK to recover from a housing downturn and where the supply and demand dynamics are most favourable.

In particular, SW15 (adjacent map) is an area that is well known to the Directors of the Fund and has a significant concentration of hospitals, universities and schools attracting the Fund's targeted tenant base of nurses, students and teachers.

It is also an area where there is growing pressure on the Wandsworth local authority to deliver affordable housing. In this respect, the number of households on local authority housing waiting lists in this area has increased by 230% to 8,924 households over the last 10 years.



Projected returns – base case is 9% with upside potential

The table below provides a “base case” analysis of how the financial objective of an internal rate of return of 9% is achieved by the Fund. We have assumed no capital or rental growth in the first 2 years.

Assumptions - base case

Gross yield	8.0%	
Void period (months)	0.20	
Other property costs/rentals	2.0%	
Average value per property (£000)	120	
Number of properties	56	
Establishment costs (£'000)	42	
Repairs/refurbs (% rent)	10%	
Valuation fee (per property) (£'000)	0.14	(to establish NAV of fund)
Service charge (per property) (£'000)	1.0	
Fund management fee (% NAV)	1.00%	
Property administrator fee (% rental)	15.00%	(incl VAT) (letting and administration)
Cost of funding	6.5%	
LTV	70.0%	
Base rate	5.0%	
Nominal capital growth per annum	4.0% (none in first 2 years)	27% property value growth
Cost inflation	2.0%	
Nominal rental growth per annum	3.0% (none in first 2 years)	

Model workings:

Year	1	2	3	4	5	6	7	8
Gross yield	537.6	537.6	553.7	570.3	587.5	605.1	623.2	641.9
Establishment costs /performance fee	(42.0)							(178.3)
Fund management fee (% NAV)	(20.2)	(20.2)	(22.8)	(25.6)	(28.6)	(31.6)	(34.7)	(38.0)
Property administrator fee	(80.6)	(80.6)	(83.1)	(85.6)	(88.1)	(90.8)	(93.5)	(96.3)
Repairs and refurbs	(53.8)	(53.8)	(55.4)	(57.0)	(58.7)	(60.5)	(62.3)	(64.2)
Service charge	(56.0)	(57.1)	(58.3)	(59.4)	(60.6)	(61.8)	(63.1)	(64.3)
Accounting charge	(2.0)	(2.0)	(2.1)	(2.1)	(2.2)	(2.2)	(2.3)	(2.3)
Valuation fees	(7.8)	(8.0)	(8.2)	(8.3)	(8.5)	(8.7)	(8.8)	(9.0)
Company Administrator	(5.0)	(5.1)	(5.2)	(5.3)	(5.4)	(5.5)	(5.6)	(5.7)
Other property costs	(10.8)	(10.8)	(11.1)	(11.4)	(11.7)	(12.1)	(12.5)	(12.8)
Funding cost	(305.8)	(305.8)	(305.8)	(305.8)	(305.8)	(305.8)	(305.8)	(305.8)
Net return	(46.3)	(5.7)	1.9	9.8	17.8	26.2	34.7	(134.8)
NAV	(2,016)							3,798.9
Net return	(2,062)	(5.7)	1.9	9.8	17.8	26.2	34.7	3,664.2
IRR	9.0%							

The table below provides a sensitivity analysis on the internal rate of return assuming different capital and rental growth assumptions. To achieve the Fund’s objectives it needs to achieve nominal capital growth of 27% over the term of the Fund and nominal annual rent increases of at least 3% per annum from year two onwards.

Capital growth	Rental growth					
	0.0%	1.0%	2.0%	3.0%	4.0%	5.0%
0.0%	0.7%	1.1%	1.6%	2.0%	2.5%	3.0%
1.0%	2.7%	3.1%	3.5%	3.9%	4.4%	4.8%
2.0%	4.5%	4.9%	5.3%	5.7%	6.1%	6.5%
3.0%	6.3%	6.6%	7.0%	7.4%	7.7%	8.1%
4.0%	7.9%	8.3%	8.6%	9.0%	9.3%	9.7%
5.0%	9.5%	9.9%	10.2%	10.5%	10.9%	11.2%
6.0%	11.1%	11.4%	11.7%	12.0%	12.3%	12.7%
7.0%	12.6%	12.8%	13.1%	13.4%	13.7%	14.1%

Advisors

The Directors of the Fund will be advised by Hibridge Capital, which comprises the following mix of skills and experience:

Garth Jagles

- A Director of Affordable Houses Co since 2003, he was responsible for negotiating land purchases, obtaining the interest and support of Local Authorities, developing potential strategic partnerships with landowners and other stakeholders and obtaining funding for delivery of rural affordable housing
- Has well established relationships with local councils in the London area and estate agents operating in this sector of the market
- MBA and law degree

Mark Olivier

- Co-founded Hibridge Capital and since 2003 has managed investments of over £30 million in various asset classes delivering an IRR to investors of in excess of 20%
- Over 15 years experience in investment banking previously with Hawkpoint Partners, providing corporate finance and strategic advice to companies in the financial services sector including: Abbey National, Pantheon Ventures, Prudential (US), Nedbank and the Copenhagen Stock Exchange
- Part of the senior executive team responsible for the establishment and management of a UK based asset management and private banking business with over £2 billion under management and administration
- Managed over £400 million of excess capital for a bank, investing in several debt and private equity opportunities
- Qualified chartered accountant

Mark Faulkner

- Co-founded Hibridge Capital in 2003
- Over 20 years experience in providing financial planning advice to high net worth individuals
- A partner in Roundhouse Financial Services LLP a successful London based independent financial advisor
- In 1994, Mark co-founded a property company in the UK, investing in ex council properties. It has grown to be one of the largest private landlords to the Nottinghill Housing Association. Over the last 8 years it has also been the best performing residential property portfolio funded by the Royal Bank of Scotland
- a Non Executive Director of a £30 million venture capital fund, Octopus Titan VCT 1 and 2. The Fund focuses on providing early stage, development and expansion funding to unquoted companies domiciled in the UK with a typical deal size of £0.5 million to £2 million

Contact Mark Olivier on marko@hbcap.com if you are interested in this offering.

PRESS

1m more on housing waiting list

BBC 16 May 2008

One million more people in England could be on the waiting list for social housing within two years, council leaders are warning. About 4m people are now waiting for a council or housing association home, and the Local Government Association expects this to reach 5m by 2010. Factors driving demand include high house prices, the credit crunch, and fewer new homes being built, it says. In a report to be published later, the LGA will say almost half of councils are struggling to meet the demand for social housing. It is calling for councils to be given greater freedom to increase their housing stock by being able to borrow freely and remortgage assets to reinvest. Paul Bettison, chairman of the LGA's environment board, said councils had been "hamstrung" by the lack of freedom to borrow against council assets to invest in building or buying new homes. "With the banks overstretching their credit facilities, it could well mean that in the coming months councils will have to help pick up the pieces as people end up on social housing waiting lists," he said. Liberal Democrat housing spokesman Lembit Opik said: "Ministers should feel ashamed for presiding over a doubling in the social housing waiting list since Labour came to power."

Student numbers up almost 10% - rate of university applications and acceptances soars in record-breaking year, says Ucas

Guardian, Wednesday October 15 2008

The number of students starting full-time undergraduate courses in UK universities this year rose 9.7%, figures show today. The total applying was 582,6576, up 9.5% on 2007 figures (531,898), according to the university admissions service, Ucas, and higher than forecasts released over the summer. But the figures included more than 13,000 nursing and midwifery applicants that in previous years would have gone through a different admissions system, NMAS. Without them, there was a 6.3% increase in students accepted on to courses this year - 451,871 students.

"These final provisional figures make 2008 a record-breaking year in terms both of those applying and those being accepted to full-time higher education courses," Ucas said. "The increase in both applicants and acceptances is particularly strong in England, but all parts of the UK saw higher numbers." Last year saw a rise of 5.4% in the number of applicants, so this is the second year of very strong growth. Ucas's chief executive, Anthony McClaran, said: "This has been a remarkable year for applications to full-time undergraduate courses in the UK. "Demand has not simply remained steady – it has increased very significantly on top of last year's strong growth." Women continue to outnumber men in undergraduate numbers - 249,294 compared with 202,577, up 11.7%

on 2007 compared with a 7.3% increase in male students. And the majority of full-time undergraduate students are under the age of 20.

More students came from Eastern Europe, though students from Poland fell 24.5% to 1,500. Students from Bulgaria and Romania rose by more than 100% to 821 and 622 respectively. Students from Singapore rose by 32.2%, from China by 22.3% - by far the largest overseas contingent at 5,969 students - and from India by 17.1% (1,714).

The largest number of students have opted to study law, but courses offering combinations of subjects are still proving popular – most are up by over 40%, with animal science numbers up 52.2%. Almost one in 10 students found their place through the Clearing system. The higher education minister, David Lammy, said the figures showed a strong increase in the number of acceptances into universities and higher education in England. "It is also good to see that the proportion of 18-year-olds and under from families on lower incomes has also increased although there remains more to do.

"This is at a time when the government has introduced an improved student financial support package, and spending on higher education stands at more than £7bn a year, an increase of 23% in real terms since 1997." Lammy added he was encouraged by the increase in people applying for foundation degrees, up 17% on this time last year. "We are well on track to meet our target of 100,000 enrolments by 2010," he said. The final figures for 2008 entry are due in January 2009.

UK Student accommodation sales top £700 million as higher education continues to boom

29 January 2008

Demand continues to outstrip supply in £20 billion sector, says King Sturge

The UK's student accommodation sector is no longer a niche property market and is now recognised as an asset class in its own right by financial institutions and investors, according to a new report. The latest student accommodation report from international property consultants King Sturge says there were over £700 million of transactions in the sector last year. And with the numbers of students continuing to rise - there were more than 1.43 million in full-time higher education in 2007, an increase of almost 6 per cent on the previous year - demand continues to outstrip supply, with an ongoing shortage of quality student accommodation in city centres.

As rental growth continues and the total value of the UK's 450,000 purpose-built beds passes the £20 billion mark, the report says investors have come to view the sector as being relatively secure and stable amid the current economic uncertainty. "This year we have recorded a strong increase in the number of privately developed, purpose-built beds, up by 36 per cent since 2005 to more than

123,500," says Philip Hillman, the national head of King Sturge's UK student accommodation group. "It is clear that the sector is entering a new phase of university-led development and refurbishment of existing stock, alongside an increased focus on the provision of premium accommodation for overseas students in major European university centres. And while significant opportunities still exist in London, with its supply-demand imbalance, this may be somewhat tempered by an increasingly restrictive planning regime."

Other findings in the King Sturge study include:

- student numbers - the overall trend in student numbers is continuing upwards following a dip in 2006, which coincided with the introduction of variable tuition fees. The total figure has risen 31 per cent over the past decade, and this figure is expected to exceed 3 million by 2014.
- accommodation provision - the private sector still only provides accommodation for 9 per cent of the full-time students in higher education, while the proportion of students living at home has increased slightly to 18 per cent, but the increase has not matched many forecasts by those who were concerned at the impact of tuition fees.
- developer-operators and investors - the three market leaders in the sector remain Unite Group plc, UPP and Opal Property Group. Between them they account for more than half of the UK's existing student beds, and the 38,000-plus which are currently in the pipeline. The report also highlights increased activity among housing associations, for example, Sanctuary's 800-bed scheme for Queen Margaret University in Edinburgh and Signpost Homes' new accommodation at Exeter University.
- overseas student demand - the report notes that university applications from EU students has risen more than 14 per cent in the past two years, while the figure for non-EU students is 5.5 per cent, with London alone attracting around 32,000 Chinese students.
- key locations - outside London, Manchester has the UK's highest student population, at around 70,000, followed by Glasgow, Birmingham, Leeds and Edinburgh.
- the London market - London has more than 250,000 full-time students in over 20 universities and is now attracting overseas investors such as US private equity house, Blackstone Property Management Ltd., which is developing major 1,000-plus bed schemes focused on the overseas student market.

Philip Hillman concludes: "Despite the general uncertain economic outlook, more students are choosing to participate in higher education - a trend that shows no sign of slowing. "After a period of extraordinary growth in the development by the private sector of direct-let student accommodation, the prime focus now for the private sector is for direct-let schemes in the capital. "There will, however, continue to be large-scale developments in provincial university cities, where there is still an imbalance in the supply of good quality purpose-built accommodation."