



Report to the Board

18 September 2014

Title: Keelman Homes New Build – Update

Report of: Managing Director

Purpose of Report

1. This report provides the Board with an update on: -
 - The current two phases of new build activity for Keelman Homes
 - The success of securing grant in line with the recent bid to the Homes and Communities Agency (HCA) for the forthcoming Affordable Homes Programme (2015-18).

Background

2. Further to previous reports that have been presented to the Board outlining progress against New Build activity, this report provides a further update on progress.
3. All proposed sites referred to in this report have been subject to a desktop appraisal.

Update – Phase 1

4. There are 15 units currently being developed in this phase of works, utilising developers grant and working in partnership with Esh Construction Services. The sites and proposed property mix are included at Appendix 1.
5. The re-built unit at 73 Marian Court, Teams, which had previously been the site of a one bed bungalow has now transferred into Keelman Homes ownership. The property was completed in June, three months ahead of schedule and has now been advertised and let on with an affordable rent set at £75.92 per week.
6. The site was transferred at nil value to Keelman Homes and this property has been built by Local Environmental Services, utilising grant allocation from Esh Construction Services and the remaining capital for the re-build being provided through capital borrowing, in the same way as all other new units in these current phases of activity.

7. The development at Felling Library is currently on site with the transfer of the sites at Strathmore Road and Kirkwood Gardens completed in June.
8. Works commenced at the Strathmore Road site in July with foundations in place for the two units on this site and a target completion of November.
9. Similarly works are in progress at the Kirkwood Gardens site, with construction activity commencing in August and a target completion of the six units on the site estimated to be in January 2015.
10. All properties in this phase of works are expected to be complete within the current financial year to comply with HCA grant conditions.

**Update - Phase 2
Lonnen site**

11. Phase 2 of the new Build programme proposes to provide 29 units across two sites in the West of the borough at the former Lonnen Sheltered Scheme site and a cleared garage site on the Runhead Estate.
12. The sites and proposed property mix for these units are shown in Appendix 2. As with the first phase of properties, these units are being financed through a combination of capital loan facility and HCA developers grant. In this phase the construction partner is Galiford Try.
13. Following planning determination being issued on the Lonnen Site, the works commenced at the beginning of June with a draft programme targeting completion in early 2015. The site will include a mix of social rents (14 units) and private sales (6 units).
14. In relation to the private sales properties, the estimated valuations used in the financial model agreed with the developer, are conservative estimates of what is being achieved currently and are consistent with local knowledge of recent sales and valuations of similar type properties.
15. The new build properties are now being marketed via Your Move with initial asking prices of £150,000 for the 3 bed houses and £170,000 for the 4 beds. These prices have increased from what was originally factored into financial projections to reflect improvements in the market and interest will continue to be monitored over the coming months.

Runhead Site

16. Extensive site investigation works identified an electrical diversion which has had an impact on the programme. Additionally the developer have recently had confirmation from Northumbrian Water that there is a sewerage drain cutting across the site which will either need to be diverted or will compromise the number of units than can be achieved on the site.
17. Planning determination was granted on 15 May and the site has already been declared surplus and transfer of the site at nil value is imminent.
18. The service issues identified are currently being discussed with the developer and options being revisited together with revised timescales for the scheme.

Future phases and Affordable Homes Programme 2015-2018

19. In January this year the Homes and Communities Agency announced the bidding round for the 2015-2018 round of the Affordable Homes Programme with bids invited from developers for confirmed sites that would be developed during this window.
20. A number of sites were considered through the joint TGHC and Council working group and following discussion with the HCA a bid was submitted prior to the end of April. The prospective units and site mix that were bid for are shown at Appendix 3.
21. Having discussed the various sites and proposals at length with the local HCA officers, it was recommended that due to uncertainties about the programming of the Clasper Village and Bleach Green regeneration sites, that these should not feature in the bid as firm schemes but should be approached via the continuous market engagement route once a developer has been identified via Gateshead Council.
22. Keelman Homes was notified in July that it had been successful in its bid to the HCA and grant has been secured to progress with the schemes outlines in appendix 3. This confirmed grant will support the provision of 45 affordable units, with 18 purchase and repair properties and 27 new build units. Work is currently underway to firm up designs and progress with transfers and planning on these sites to ensure activity can commence in April 2015 in line with the proposed programme.
23. Discussions with the HCA have indicated that there is likely to be an opportunity to consider further sites as and when they become available through continuous market engagement. Work is ongoing to look at additional sites.

Risk Management Implications

24. With regard HCA grant on all properties in Phases 1 and 2, the risk to the grant remains with the developers and not with Keelman, therefore there will be no financial risk to Keelman of the completions not being done prior to March 2015, other than the loss in rent and sales opportunities should this occur.
25. A number of development principles have been established to ensure that risks of new build development are mitigated.
26. Each scheme will have its own financial model and there will be no cross subsidy between the sites.
27. Each scheme will provide a minimum projected internal rate of return (IRR) of 5%. The financial model for the Lonnen site has been recalculated to take into account the increase in build costs and the model still achieves the minimum required IRR.
28. Each scheme is expected to demonstrate a positive net present value.
29. These principles have been applied to all sites in the 2015-18 affordable homes programme.

Financial Implications

30. There are no financial implications arising out of this report.
31. The affordable rents set will be subject to review and revaluation on completion of the schemes.
32. The financial models used for all schemes include management, repair and improvements costs as well as making an allowance for rent losses.

Health and Environmental Implications

33. Keelman Homes will be working with developers to ensure they fulfil their Social Responsibility Policies which outline their commitment to ensuring considerate construction, with minimal disruption and environmental impact.
34. The Tyne and Wear Fire Service have confirmed there is funding available to support the installation of sprinkler systems in all of the units provided through phase 1 and phase 2. We have agreed that on future phases we will look to contribute to the cost of sprinkler installations and discuss match funding arrangements with TWFRS.
35. Through targeting vacant sites that have been previously cleared or currently are covered by properties that are not in use, the proposed schemes will significantly improve the local environment.

Equality and Diversity Implications

36. There are no equality and diversity implications. Any accessibility issues will be considered through the design and build phase.

Value for Money implications

37. Throughout the project we will be working closely with the developers to ensure value for money is being achieved on all aspects and specifications of the build.

Consultation carried out

38. Briefings have been carried out with Portfolio Holders and Ward Councillors in all wards that will benefit from this activity.
39. All Councillors have received a briefing on the project. A series of pre-planning consultation events were carried out in relation to the phase 1 properties and feedback collated. Similarly a consultation event has taken place in relation to the Lonnen and Runhead sites and feedback collated.
40. Further consultation will be carried out in relation to schemes in the 2015-18 programme ahead of activity commencing, in line with the process on the current phases.

Recommendation

41. The Board is asked to note the update provided on the new build programme and comment on how satisfied it is with the progress made to date.

Contact: Phil Gallagher, Head of Investment and Development Tel No: (0191) 4336155

Phase 1 – Revised Property Mix and Financial Projections

Cost Summary and financial projections based on **Affordable Rents**.

Site	Site mix	Units	Cost per unit	Total Cost	IRR	NPV per unit	Cost to Keelman
Kirkwood Gardens	5x2bedflats 1x1bedflat	6	£109,731.00	£ 658,386.00	5.11%	385	£538,386
Marion Court	1x 1bed bungalow	1	£89,273	£89,273	5.09%	228	£69,273
Strathmore Road	2x 4bedhouses	2	£125,600	£ 251,200.00	5.29%	1450	£211,000
Felling Library	6x 3bedhouses	6	£ 115,038	£690,228.00	5.77%	3519	£570,228
		15		£1,408,887			£1,388,887

- Note that surplus, Internal Rate of Return (IRR) and Net Present Value (NPV) are all shown on a per property basis, over a 50 year period. The IRR is the rate of return expected to be received on the investment. NPV is a standard economic term which shows the present value of net cash inflows generated less the initial investment.

Phase 2 – Rental Units

Cost Summary and financial projections based on **Affordable Rents**.

Site	Site mix	Units	Cost per unit	Total Cost	IRR	NPV per unit	Cost to Keelman
The Lonnen	6x3bed 8x2bed	14	£115,817	£1,621,451	5.38%	1697	£1341451.58
Runhead	2x4bed 2x3bed 5x2bed	9	£108,884.68	£979,962.15	6.30%	5443	£799,962.15
		23		£2601413.73			£2,141,413.73

- Note that surplus, Internal Rate of Return (IRR) and Net Present Value (NPV) are all shown on a per property basis, over a 50 year period. The IRR is the rate of return expected to be received on the investment. NPV is a standard economic term which shows the present value of net cash inflows generated less the initial investment.

In relation to the 6 properties that are proposed to be made available for sale, estimated sales values are as follows:

- 2 x 4 Bed at £170,000
- 4 x 3 Bed at £150,000

These estimates have been made based valuations of similar properties and in consultation with developers, although on completion these values will be determined by the current market and local variances and will be subject to a formal valuation.

Appendix 3 – Final Bid Submission for 2015-2018 - Affordable Homes Programme

Year 1 - 2015/16		Year 2 - 2016/17		Year 3 - 2017/18	
Site	Units	Site	Units	Site	Units
<i>New Build</i>		<i>New Build</i>		<i>New build –purchase</i>	
Heddon View (LES depot)	2 x 2 bed houses 4 x 2 bed Flats	Malton Green	9 x 2 bed houses	Clasper	30 Units
Malton Green	4 x 2 bed bungalows	West Park	2 x 2 bedroom bungalows 6 x 3 bed houses (Rent)	Bleach Green	30 Units <i>(Both sites withdrawn from bid to pursue through continuous market engagement)</i>
Empty Homes Purchase and repair (Various)	6 units	Empty Homes Purchase and repair (Various)	6 units	Empty Homes Purchase and repair (Various)	6 units
Totals	16 Rented Units		23 Rented Units		6 Rented units

Bid for grant to support provision of 45 Rented Units in total. Year 3 sites at Clasper and Bleach Green to be revisited via continuous market engagement.

N.B: Intention is to build an additional 2 units at West Park for private sale to support finance on this scheme.