



Title: New Build and Development Update

Report of: TGHC Director of Customers and Communities

Purpose of Report

1. The purpose of this is to:-
 - Provide the Board with an update on the current phases of new build activity for Keelman Homes;
 - Provide an update on the Empty Homes Purchase and Repair programme;
 - Notify the Board of the success in securing grant in line with the recent bid to the Homes and Communities Agency (HCA) for the forthcoming Affordable Homes Programme (2015-18);
 - Seek formal board acceptance of the grant conditions associated with both New Build and Empty Homes Purchase and Repair proposals, and;
 - Seek delegated authority in relation to the negotiation of private sales properties as referenced in this report.

Background

2. Further to previous reports that have been presented to this Board outlining progress against New Build Phases 1 and 2, this report provides a further update on progress since the meeting on 14 July 2014.
3. All proposed sites referred to in this report have been subject to a desktop appraisal which included input from working group members, comprising of officers from TGHC, and Gateshead Council, to ensure the sites met the strategic needs of the Council in terms of housing provision, planning requirements and housing need.

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 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 an anticipated completion in November. The transfer of the sites at Strathmore Road and Kirkwood Gardens completed in June, again at nil value.
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 at 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 Galliford Try and they are introducing grant into the schemes.
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 were agreed with the developer and based on local knowledge, recent sales and valuations of similar type properties and were conservative estimates of what was being achieved at the time the scheme was first proposed.
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 (£150,000 for 4bed and £130,000 for 3 bed) to reflect improvements in the market and interest will continue to be monitored over the coming months.
16. In line with requirements set out by the Charities Commission, in order to progress with sales and dispose of land as a non-exempt charity, Keelman Homes needs to:-
 - (a) *obtain and consider a written report on the proposed disposition from a qualified surveyor instructed by the trustees and acting exclusively for the charity,*

- (b) advertise the proposed disposition for such period and in such manner as is advised in the surveyor's report (unless it advises that it would not be in the best interests of the charity to advertise the proposed disposition), and*
- (c) decide that they are satisfied, having considered the surveyor's report, that the terms on which the disposition is proposed to be made are the best that can reasonably be obtained for the charity.*

17. As the properties at the Lonnen are currently being marketed based on the local agents estimated valuation and are attracting some interest, it is recommended that the board delegate authority to negotiate sales to the Managing Director and the TGHC Director of Customers and Communities subject to offers and sales being progressed in line with a qualified surveyor's report.

Runhead Site

18. Extensive site investigation works identified the need for an electrical diversion which has had an impact on the timescale for 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.
19. The service issues identified mean that this scheme will not be able to be delivered within the timescales necessary to achieve HCA grant conditions in the current round of allocation. However, Galiford Try have committed to holding their costs and are exploring the possibility of using grant allocation from their 2015-18 award to supplement the scheme costs.
20. Some contingency sums were built into the original model and subject to receiving revised costs from Galliford Try and confirmation that they can match grant contribution from their 2015-18 allocation, we will re-assess the viability of the scheme to ensure it can continue with the proposed number of units.

Empty Homes Purchase and Repair

21. Further to previous reports, outlining the progress on the acquisition and return to market as affordable rents of five empty homes, utilising HCA grant, board are advised that the fifth and final property in this current programme was scheduled for completion in September, six months ahead of the deadline for compliance with grant conditions and within the original budget.
22. The properties acquired to date and budget breakdown are shown at Appendix 3. The final property purchased through this scheme was 16a Brearley Way, which is a 1 bed ground floor flat in Felling. This unit was a conversion of a previously vacant commercial unit and a tenant with mobility needs, requiring level access accommodation has been identified to take on the tenancy. The proposed affordable rent will be approx. £78 per week.
23. Following award of grant in the 2015-18 allocation for the purchase and repair of a further 18 empty properties, work is under way to identify potential acquisitions and we are discussing with the HCA the possibility of commencing with purchases in advance of April 2015 subject to appropriate properties being available.
24. An audit of the first two properties purchased through this programme in relation to compliance with HCA requirements was carried out towards the end of

September and the outcome and any recommendations arising will be brought to future Board meetings.

Future phases and Affordable Homes Programme 2015-2018

25. The board received a presentation at the April meeting on an outline bid submission in relation to the above.
26. The bid was submitted prior to the end of April and following discussions with the HCA, the prospective units and site mix that were bid for are shown at Appendix 4.
27. Board members will note that the unit numbers in the final bid have reduced significantly from those detailed in the presentation.
28. Having discussed the various sites and proposals at length with the local HCA office, 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.
29. 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.

Next Steps

30. Following confirmation of the HCA grant, work has commenced to arrange transfer of the confirmed sites to Keelman Homes and the planning determination on each sites will need to be progressed. Pre-application advice was obtained on each of the sites and design suggestions incorporated following discussion with the HCA.
31. Offers to provide capital finance for the confirmed sites are currently being considered and legal and procurement advice is being obtained regarding the appointment and selection of a development partner.
32. Consultation with Portfolio Holder, Ward Members and local residents will be carried out in line with the procedure followed on the current schemes being delivered.
33. Additional sites that may be included in a continuous market engagement application to the HCA will be considered by the cross service working group to identify those which have the potential to be delivered within the 2015-18 programme.

Risk Management Implications

34. In relation to the HCA grant for both phase 1 and 2, the final deadline for completion of the homes is March 2015. Esh Construction Services have provided a programme that shows they will be completing all sites in the final quarter of 2013/14.
35. Having commenced discussions at a later date, the timescales for completion on the phase 2 sites with Galliford Try are much tighter. Galiford have however indicated that they intend to complete the properties on the Lonnen site within the

timescale. Due to service issues outlined above, the Runhead site will not be complete by the end of March but Galliford Try are in discussion with the HCA about ensuring grant for the nine units in this scheme can be confirmed from their 2015-18 allocation.

36. 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.
37. A number of development principles have been established to ensure that risks of new build development are mitigated.
38. Each scheme will have its own financial model and there will be no cross subsidy between the sites.
39. 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.
40. Each scheme is expected to demonstrate a positive net present value.
41. The same principles in relation to acquisitions will continue to be applied.

Financial Implications

42. These current phases of the new build programme are being financed through a combination of grant funding and capital borrowing from the council as part of the Councils ongoing Capital programme.
43. Financial projections for the next phases of new build have been made on assumed grant rates and on all schemes the grant confirmed reflects what was included in the bid. Financial modelling will be revisited to take into account actual borrowing rates and revised construction costs, although some assumptions have been included in the financial forecasts to reflect these.
44. The affordable rents on all properties set will be subject to review and revaluation on completion of the schemes.
45. The financial model used for all schemes includes management, repair and improvements costs as well as making an allowance for rent losses.

Health and Environmental Implications

46. We will be working with both developers to ensure they fulfil their Social Responsibility Policy which outlines their commitment to ensuring considerate construction, with minimal disruption and environmental impact.
47. 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.

48. 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

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

Value for Money implications

50. 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.
51. Selection of a development partner for future phases of work will be carried out through an appropriate procurement procedure to ensure value for money is achieved.

Consultation carried out

52. Briefings have been carried out with Portfolio Holders and Ward Councillors in all wards that will benefit from this activity.
53. All Councillors have received briefings on the project. A series of pre-planning consultation events were carried out in relation to the current activity and this process will be replicated on future phases.

Recommendations

54. The Board is asked to: -
- note the update provided on the new build programme and empty homes purchase and repair programme and comment on how satisfied it is with the progress made to date;
 - confirm acceptance of grant conditions in line with the HCA's offer for the 2015-18 Affordable Homes programme (In relation to both New Build and Empty Homes purchase and repair);
 - delegate authority for the negotiation and acceptance of offers on private sales properties to the managing Director and the Director of Customers and Communities, in consultation with the Chair.

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	5x2bed flats 1x1bed flat	6	£109,731.00	£ 658,386	5.11%	385	£538,386
Marion Court	1x 1bed bungalow	1	£89,273	£89,273	5.09%	228	£69,273
Strathmore Road	2x 4bed houses	2	£125,600	£ 251,200	5.29%	1450	£211,000
Felling Library	6x 3bed houses	6	£ 115,038	£690,228	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%	1,697	£1341451.58
Runhead	2x4bed 2x3bed 5x2bed	9	£108,884.68	£979,962.15	6.30%	5,443	£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 £150,000
- 4 x 3 Bed at £130,000

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 - Budget Breakdown

Property	Type	Ward	Time Empty	Estimated Affordable Rent Level	Estimated Market Value	Purchase Price	Estimated Investment Costs	Management Fee
81 Hertford, Low Fell	1bedflat	Chowdene	12 months	£83	£55,000	£48,000	£4,000	£2,650
7 Malory Place, Central	2bedhouse	Bridges	30 months	£91	£82,000	£55,000	£16,030	£3,602
17 Keates Walk	1bedflat	Bridges	6 months	£78	£48,000	£41,000	£4,000	£2,300
124 knightside Gardens	1bedflat	Dunston Hill & Whickham East	6months	£78	£65,000	£54,500	£9,500	£3,200
16a Brearley Way	1bedflat	Felling	11 years	£78	TBC	£17,500	£36,000	£2,500

Property	Type	Ward	Total Cost	Loan Used	Loan Remaining	Grant Used	Grant Remaining	Total Remaining
					£200,000		£100,000	£300,000
81 Hertford, Low Fell	1bedflat	Chowdene	£54,650	£44,650	£155,350	£10,000	£90,000	£245,350
7 Malory Place, Central	2bedhouse	Bridges	£74,632	£44,632	£110,719	£30,000	£60,000	£170,719
17 Keates Walk	1bedflat	Bridges	£47,300	£27,300	£83,419	£20,000	£40,000	£123,419
124 knightside Gardens	1bedflat	Dunston Hill & Whickham East	£67,200	£47,200	£36,219	£20,000	£20,000	£56,219
16a Brearley Way	1bedflat	Felling	£56,000	£36,000	£219	£20,000	Nil	£219

Appendix 4 – 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> Heddon View (LES depot) Malton Green	2 x 2 bed houses 4 x 2 bed Flats 4 x 2 bed bungalows	<i>New Build</i> Malton Green West Park	9 x 2 bed houses 2 x 2 bedroom bungalows 6 x 3 bed houses (Rent)	<i>New build –purchase</i> Clasper Bleach Green	30 Units 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.