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**Title: New Build and Development Update**

**Report of: TGHC Director of Customers and Communities**

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### **Purpose of Report**

1. The purpose of this is to:-
  - Provide the Board with an update on the current phases of new build activity;
  - Seek Board approval to register Keelman Homes under the Help to Buy scheme to support the strategy for sales properties.

### **Background**

2. Further to previous reports that have been presented to the Board regarding activity on New Build Phases 1 and 2, this report provides a further update on progress since the meeting on 20 November 2014.
3. All proposed sites and units 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 meet the strategic needs of the Council in terms of housing provision, planning requirements and housing need.

### **Update – Phase 1**

4. This phase of works is being delivered in partnership with Esh Construction Services and will deliver 15 new affordable units, utilising HCA grant that is being introduced by the developer. The sites and proposed property mix are included at Appendix 1.
5. As reported previously the new unit at 73 Marian Court, Teams completed in June 2014 and was subsequently let.
6. The development at Felling Library completed during November with six 3 bed houses being provided. The street name is Nugent Row. An open event was held in early December and was well attended with all six properties being successfully let and customers signed up the following week. Affordable rents of £101.53 per week are being charged with tenancies commencing 15 December 2014.

7. The development at Strathmore Road completed 12 December with two 4 bed properties being provided. Both properties were let with tenancies commencing on the 15 December and 22 December and affordable rents of £120 per week being charged.
8. Works are continuing at the Kirkwood Gardens site, with completion of the six units on the site estimated to be in March 2015, which will ensure compliance with HCA grant conditions.

## **Update - Phase 2**

### ***Lonnen site***

9. Phase 2 of the new build programme proposed 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.
10. 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 Galiford Try and they are introducing grant into the schemes.
11. Works commenced at the beginning of June on the Lonnen site and the site is expected to complete before the end of March. The site will include a mix of social rents (14 units) and private sales (6 units).
12. The sales properties are 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.
13. Further to the previous board meeting an independent valuation report has been commissioned to verify asking prices for sales and typical market rents. The sales valuations are consistent with current asking prices and the market rent assessments (when reduced to 80% to give an affordable rent) are almost identical to the estimates that had been used on the financial models.
14. There have been a number of interested parties in the sales properties, although the agent has advised that feedback has been that potential buyers have indicated they want to see the properties built before committing. Additionally two potential buyers have enquired about the availability of the Help to Buy scheme in relation to these properties.
15. Enquiries have been made with the Homes and Communities Agency regarding registering Keelman Homes as a vendor under Help to Buy scheme. There are no additional fees for registering to sell properties under this scheme and through the existing Service Level Agreement that Keelman Homes has with Yorkshire Housing, they could take on the role of Help To Buy Agent, again with no additional cost to Keelman Homes,
16. The scheme will enable prospective buyers to access a government backed 20% equity loan to assist with the purchase. Reducing the mortgage needed to 75%.

Buyers are required to pay a 5% deposit. The scheme is expected to make properties more affordable to customers looking to get on the property ladder.

### ***Runhead Site***

17. Further to the previous board reports advising that this scheme has been deferred to be delivered in 2015, we are discussing this scheme with both Galiford Try and the HCA to establish what grant can be achieved through the HCA's continuous market engagement process. As the initial preparatory work and planning have been achieved, the indications are that an application for this scheme would be viewed positively as a confirmed, ready to commence development.
18. Galiford Try have yet to submit a revised cost plan taking into account service diversions. Galiford have committed to hold contract prices, but they have yet to confirm that they have secured further grant for this scheme.
19. In the event of Galiford Try being unable to deliver this scheme, Keelman Homes can apply for grant in its own right, and the scheme could potentially be delivered as part of a package with the preferred development partner as part of the 2015-18 programme.

### **Empty Homes Purchase and Repair**

20. As per the previous board report, the five units that were in the current programme have now completed and returned to use as affordable homes. All grant has now been drawn down and the HCA advised that the programme has concluded.
21. 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.
22. The draft contract for the Empty Homes element of the 2015-18 programme has not yet been issued but available empty properties are being identified in anticipation of the contract commencing.

### **Future phases and Affordable Homes Programme 2015-2018**

23. As detailed in previous board reports, grant has been secured to support delivery of a further 27 new build units during the 2015 -18 programme. The draft contract has been received and signed and returned to the HCA. The sites and proposed unit mix are attached at appendix 3.
24. The process of identifying further sites that can be delivered through the continuous market engagement route is ongoing, although unlike in previous rounds where indicative bids could be submitted, they require certainty and firm proposals on any additional schemes that are being proposed.

25. Subject to discussions with Galiford Try, the Runhead scheme is a one that Keelman Homes may submit a bid against. Similarly we are in discussion with Gateshead Council about the potential timescales for the programming of the Clasper Village and Bleach Green regeneration sites, with the intention that Keelman Homes would bid for grant to support the purchase of affordable units from the appointed developer.
26. Following the recent functional review of Council services, a Housing Growth working group has been formed to look at strategic housing supply across the borough and the most appropriate use of sites for housing projects. Discussions are continuing with officers that attend this group to consider availability and suitability of further sites for Keelman to develop. This work is ongoing.

### **Next Steps**

27. Following confirmation of the HCA grant, work has commenced to arrange transfer of the confirmed sites to Keelman Homes and planning applications have been submitted in relation to Heddon View and Malton Green to ensure the sites can be developed in 2015.
28. Gateshead Council are agreeable to a continuation of the capital finance loan facility to support the next phases of development.
29. Legal and procurement advice has been sought regarding the appointment and selection of a development partner. A number of developers have indicated that the sites are of a scale that would not fit with their business model and as such have excluded themselves from consideration.
30. The Two Castles Framework that was used to appoint Esh remains valid until December 2015 and we are currently in conversation with them about their capacity to deliver further works in 2015-16, once the current phase of new build concludes, which would provide some continuity and assurance around value for money as framework rates would be honoured. They have also indicated a willingness to work in partnership with both Keelman Homes and Gateshead Council's Construction Services on future developments.
31. A subsequent report with recommendations on the appointment of a development partner will be brought to a future board meeting.
32. In relation to all future phases of work, 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.

### **Risk Management Implications**

33. In relation to the HCA grant for both phase 1 and 2, the final deadline for completion of the homes is March 2015. ESH have provided a programme that shows they will be completing all sites in the final quarter of 2014/15.

34. In relation to the Phase 2 sites, Galiford Try are aiming to complete the properties on the Lonnen site within the timescale. As indicated above, the Runhead site will not be complete by the end of March but is to be pursued as a 2015-18 scheme and subject to a grant application.
35. 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.
36. The grant allocation for the 2015-18 programme is in Keelman Homes name and therefore the risk of not completing unit numbers within the programme rests with Keelman Homes. Selection of an appropriate development partner with a proven track record is therefore critical to ensure that the proposed programme can be delivered within timescale.
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.
42. Price Waterhouse Coopers have recently been enlisted to carry out a review of development controls which will assist in identifying further risk and shaping an action plan to address any areas of concern. Formal feedback is anticipated in January.

### **Financial Implications**

43. 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. The Council are supportive of a continuation of this loan facility to fund further new build activity.
44. 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.
45. The affordable rents on all properties set will be subject to review and revaluation on completion of the schemes. The board will be receiving a separate report in relation to this.

46. 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**

47. We will be working with both developers to ensure they fulfil their commitment to ensuring considerate construction, with minimal disruption and environmental impact.
48. The Tyne and Wear Fire Service have agreed to fund the installation of sprinkler systems in new build properties in phase 1. The costs associated with the Lonnen have increased since the original grant was obtained and therefore have been removed from the specification. We have agreed that grant from TWFRS can be passported to future schemes and we will look to contribute to the cost of sprinkler installations.
49. 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**

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

### **Value for Money implications**

51. 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.
52. Legal and procurement advice has been obtained in relation to the selection of a development partner for future phases of work to ensure value for money is achieved.

### **Consultation carried out**

53. Briefings have been carried out with Portfolio Holders and Ward Councillors in all wards that will benefit from this activity.
54. 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

55. The Board is asked to : -

- note the update provided and comment on how satisfied it is with the progress made to date;
- give approval to Keelman Homes registering with the Help To Buy scheme , to increase the affordability of private sales units.

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### Phase 1 –Property Mix and Financial Projections

Cost Summary and financial projections

<b>Site</b>	<b>Site mix</b>	<b>Units</b>	<b>Unit Cost</b>	<b>Projected Contract Sum Cost</b>	<b>Net Cost to Keelman</b>
Kirkwood Gardens	5x2bed flats 1x1bed flat	6	£105,622	£633,735	£513,735
Marion Court	1x 1bed bungalow	1	£84,000	£84,000	£64,000
Strathmore Road	2x 4bed houses	2	£111,576	£ 223,152	£183,152
Felling Library	6x 3bed houses	6	£101,438	£ 608,628	£488,628
		15		£1,549,515	£1249,515

## 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

- 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, and have been independently verified by a forma valuation based on plans.

## Appendix 3 – Draft Programme 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>(Potential for grant on both sites to be pursued through continuous market engagement following discussion with Gateshead Council)</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

*n.b. Additional sales units to be built at West Park (subject to planning) to support financial model on this scheme.*