

	<p align="center">Cabinet 20 April 2020</p>
	<p align="center">Report from Strategic Director, Community WellBeing</p>
<p align="center">Purchase of 114 Affordable Homes in Alperton</p>	

Wards Affected:	Alperton
Key or Non-Key Decision:	Key Decision
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Part Exempt – Appendix 1 is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
No. of Appendices:	4 Appendix 1 (exempt): Financial Investment Appraisal Appendix 2: Site location Appendix 3: Site plan Appendix 4: Site Illustration
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Hakeem Osinaike Operational Director of Housing Email:Hakeem.Osinaike@brent.gov.uk Tel: 020 8937 2023 Nick Ljustina Operational Director of Property & Assets Email:Nick.Ljustina@brent.gov.uk Tel: 020 8937 5025

1.0 Purpose of the Report

- 1.1 This report seeks permission to purchase the long leasehold interest of 999 years in 92 affordable rented homes (flats) and 22 shared ownership homes

(flats) at the Grand Union site located in Beresford Way, Alperton HA0 1NW ('the scheme'), from St. George Development Ltd who is the freeholder and 'developer'. The scheme is currently in development with an estimated practical completion date of November 2021 for the affordable rented homes, and May 2023 for the shared ownership homes. See images in Appendices 2-4.

- 1.2 The purchase price agreed in principle for the 114 affordable homes is £27m (Twenty Seven million pounds) exclusive of Stamp Duty Land Tax (SDLT) and disbursements – see financial model in Appendix 1.
- 1.3 The developer will grant the Council a 999-year lease at a peppercorn rent on completion of the contract for the 114 affordable homes. The developer will continue to insure the premises during the construction and until completion of the contract.

2.0 Recommendation(s)

2.1 Cabinet is asked to:

- (i) Note the contents of this report;
- (ii) Approve the proposed purchase of the long leasehold interest in 114 affordable homes within the scheme currently in development for the purchase price of £27m (plus statutory costs), subject to contract and subject to a) clean and marketable title b) financial and legal due diligence and c) vacant possession, with a target exchange of contract in May 2020; and;
- (iii) Delegate authority to the Strategic Director of Regeneration & Environment in consultation with the Lead Member for Regeneration, Highways, Planning, to negotiate and agree the terms and thereafter enter into a contract with the developer for the purchase of the scheme.

3.0 Detail

- 3.1 The Grand Union development will deliver a total of 3,030 homes in the Alperton area. It is a development spanning 10-15 years but the first homes are now being built. The planning application reference of the development is 18/0321.
- 3.2 Under the section 106 agreement between the developer and the Council dated 28th September 2018, 35% of these homes will be affordable. This totals about 1,050 homes of which 30% (315) will be shared ownership and 70% (735) rented. The rent is required to be capped at Local Housing Allowance (LHA).
- 3.3 The developer is seeking a buyer for the 92 affordable rented homes and the 22 shared ownership homes, totalling 114 affordable homes. The 114 affordable homes are being sold as a package within blocks A and B (affordable rented homes) in phase 1 and block D (shared ownership) in phase 3 (see appendix 3). Construction of the 1st phase of this development comprising 92 affordable rented homes commenced in December 2019.

3.4 The breakdown of the 114 affordable homes is as follows:

	Shared Ownership	Rented	Total
Manhattan/Studio	5	0	5
1 Bed 2P	3	31	34
2 Bed 3P	7	24	31
2 Bed 4P	1	34	35
3 Bed 5P	0	2	2
3 Bed 6P	6	1	7
Total	22	92	114

3.5 The Head of Housing Needs has confirmed that the size breakdown will meet the essential housing needs of households on the housing register and the location of the scheme will be beneficial.

3.6 Officers have approached the developer regarding the possibility of purchasing these homes. An agreement in principle has been reached on a purchase price of £27m via private treaty, which means an average of just under £237K for each home.

3.7 The target average development cost under the New Council Homes Programme (NCHP) is £280K per home. As such, at just under £237K per home, this purchase represents good value for money.

4.0 Grand Union Site

4.1 The Grand Union site is a former 22-acre industrial estate in the borough.

4.2 The site is bounded by Beresford Avenue to the north, the A406 to the east and the Grand Union canal to the south.

4.3 Bisected by the River Brent, the development is formed of two parcels of land – the northern parcel which forms the majority of the site and a smaller southern parcel.

4.4 The development is expected to have 6 phases. Demolition commenced in May 2019 and the completion of the entire scheme is expected by 2038.

4.5 The scheme will be a mix site development, which will also include offices, a nursery, shops, cafes, bars and a community centre.

5.0 Financial Implications

5.1 The analysis assumes that 92 homes will be let at London Affordable Rent (LAR) rates and 22 will be Shared Ownership (with rent capped at 2.75% of market value).

- 5.2 The purchase price offer is £27m whilst the total cost of the scheme to the Council is £30m (when including 12% for fees and contingency) and would sit within HRA. The average cost per home is £265k including all on costs (£237k based on purchase price only).
- 5.3 The net annual rental income after allowing for voids and bad debts on the 114 residential homes amounts to c £0.9m. The appraisal shows the scheme to be financially viable with a payback period of 44 years. See Appendix 1 (exempt) for summary of the financial assessment undertaken.

In addition to this a number of different scenarios have been modelled and are included in Appendix 1 for information. The scenarios are:

1. Failure to secure the SDLT exemption noted below would increase the cost of the scheme by c £1m and increase the payback period by 3 years to year 47.
 2. Impact of homes being completed/handed over late (assumed 6 months after Nov 2021 completion date) would increase the payback period by 1 year to year 45.
- 5.4 Circa 30% of the scheme will be funded from retained Right to Buy (RTB) receipts which have been applied to the total build cost of the 92 homes, this comes to value of £7.3m. Under current GLA guidance, RTB receipts cannot be applied to the Shared Ownership elements of the scheme.
- 5.5 It has been assumed that the Council will receive 100% Stamp Duty Land Tax (SDLT) relief based on the assumption that:
- a) the Council is deemed to be a relevant housing provider that is controlled by its tenants; and
 - b) the application of RTB receipts meets the requirements of a qualifying public subsidy.

These assumptions will need to be fully tested along with the Council's tax advisors and HMRC. Failure to secure the SDLT exemption noted above would increase the cost of the scheme by c £1m and push the payback period to year 47.

5.6 Risks

- 5.6.1 The rent level(s) under Shared Ownership is based on market value and is capped at 2.75%. Any changes to market value will have an impact on income and thus the financial viability.

5.7 Main Assumptions

The following assumptions have been made in undertaking the financial viability.

- Shared ownership staircasing (25% ownership, 75% rent)

- Rents assumed at LAR rates
- Rent increase assumed at CPI plus 1% for 5 years, thereafter at CPI
- CPI assumed at 2%
- Housing management at £600 and maintenance cost at £600, per property
- 2% Bad debt and 2% Void
- Service charges will be cost neutral
- Cost of Capital – Interest rate on borrowing at 3%

6.0 Legal Implications

6.1 Section 120 of the Local Government Act 1972 provides that

For or the purposes of —

- (a) any of their functions under this or any other enactment, or
- (b) the benefit, improvement or development of their area.

The Council may acquire by agreement any land, whether situated inside or outside their area.

6.2 The Council will be purchasing 22 affordable homes that will be rented to Council tenants. Section 79 of the Housing Act 1985 provides that the tenant of a council property will be a secure tenant provided that in accordance with section 81 of the Housing Act 1985 the dwelling is the tenants main or principal home. Accordingly, the provisions of the Housing Act will entitle the secure to purchase their home under the right to buy scheme.

6.3 The shared ownership leases will be entered into between the Council and the long leaseholder. It is likely that the tenants will be required to purchase percentage shares usually a minimum of 25 percent or more in the dwelling and pay the Council rent. Rent will be paid until such time as the Tenant acquires 100 percent of the equity in the property.

6.4 The Council has the power to dispose of property under Section 123 of the Local Government Act 1972 for the best price reasonably obtainable (This type of disposal would be covered under the General Consents and would not need specific consent under Circular 06/03)

6.5 The Council legal department will undertake all the necessary due diligence Prior to exchange of contracts. Accordingly, all the necessary searches and Title information will be examined prior to entering into the contract to ensure that the Council will acquire the property with good and marketable title.

6.6 For both Low Value and Medium Value Contracts, the relevant Operational Director has delegated authority to authorise the procurement of such contracts and award the contracts.

7.0 Equality Implications

7.1 No equality implications have been identified.

8.0 Consultation with Ward Members and Stakeholders

8.1 This paper will be circulated to all Ward Members.

9.0 Human Resources / Property Implications

9.1 There are no further property implications or human resources implications in relation to this report.

10.0 Public Services (Social Value) Act 2012

10.1 The Council is under duty pursuant to the Public Services (Social Value) Act 2012 (“the Social Value Act”) to consider how services being procured might improve the economic, social and environmental wellbeing of its area; how, in conducting the procurement process, the Council might act with a view to securing that improvement; and whether the Council should undertake consultation. Officers will have regard to considerations contained in the Social Value Act in relation to the proposed procurements and where appropriate, include reference to social value being 10% of the evaluation score.

Report sign off:

Phil Porter

Strategic Director for Community Wellbeing