

Briefing Note to Director of Customer & Community Services

24th July 2014

Acquisition of Market Housing on 146 Programme Development Sites

1. Executive Summary

As part of the HRA Budget Setting Report 2014/15 approval was given to allow the purchase of some of the market housing on the garage re-development sites, or alternatively to purchase existing housing on the open market. This was proposed in order to effectively spend retained right to buy receipts on new build dwellings within the prescribed time scales, whilst enabling delivery of 100% social housing on some 146 programme sites.

Due to delays in the delivery of new homes on some of the 146 programme sites, it has been necessary for some of the garage re-development sites to be amended to deliver 100% social housing, to maximise the grant funding receivable from the Homes and Communities Agency (HCA).

This paper sets out the proposed approach to purchasing market dwellings on other 146 programme sites, with a view to proceeding with the transactions.

2. Recommendations

The Executive Councillor for Housing is recommended, in consultation with the Chair and Opposition Spokesperson for the Housing Scrutiny Committee to:

- a) Approve the purchase of 4 market dwellings on the Atkins Close (garage re-development) site at an estimated cost of £1,106,400.
- b) Approve the purchase of 6 market dwellings on the Colville Road (re-development) site at an estimated cost of £1,051,350.
- c) Approve the purchase of 3 market dwellings on the Wadloes Road (vacant housing land) site at an estimated cost of £736,500.
- d) Give delegated authority to the Director of Customer & Community Services to enter into a build contract with Keepmoat for the delivery of dwellings on the Wadloes Road site should this be deemed appropriate.

3. Background

The authority entered into an agreement with Communities and Local Government (CLG), effective from April 2012, which allowed the retention of a large proportion of Right to Buy (RTB) receipts, subject to a number of conditions.

The capital receipts need to be spent on the delivery of new social housing. The preference of CLG is for the supply to be new build, which increases housing provision overall, but the agreement recognises that purchase of property on the open market for conversion to social housing is a valid secondary option.

The RTB receipt can only be used to fund 30% of each new dwelling, and funds need to be spent within 3 years of receipt to avoid paying them to central government with interest, currently at 4.5%.

The Housing Capital Plan has resource of £2,875,000 included in 2014/15 for the delivery / purchase of new social housing, allowing appropriate use of the first £862,500 of right to buy receipts, avoiding the need to otherwise release them to CLG in 2015/16.

This paper proposes the purchase of some of the market housing on the HRA development sites. The purchase of these units will be at market value, recognising that the authority has already sold the land on which these dwellings are being built to the developer, which pays for a proportion of the cost of delivering the social housing on the site. To acquire the market unit, the authority in effect needs to buy back both the land and the dwelling that has been constructed on it.

There are a number of benefits to the purchase of dwellings that are being built on HRA development sites, including:

- The ability, on some of these sites, to deliver 100% social housing
- A year's defects period for the construction of the new build dwellings with our existing new build contractor, Keepmoat
- A 12 year NHBC guarantee
- The ability to change, where possible, the specification for the fixtures and fittings of the market housing, so that it fits with our future maintenance schedules
- The ability to ensure that these units will be delivered to Lifetime Homes Standards
- The potential to mitigate Stamp Duty Land Tax (SDLT) in specific instances, where contracts facilitate this

Initially it was assumed that the authority would purchase the market dwellings on garage re-development sites. Delays in the delivery on some of the 146 programme sites have put at risk an element of the grant funding from the HCA, where dwellings need to be complete by 31st March 2015. To mitigate this risk, some of the garage redevelopment sites have been revised to deliver 100% social housing that meets HCA requirements for grant funding.

Therefore, this proposal seeks to purchase some of the market housing on other suitable 146 programme sites, either where the land was previously vacant, or where the authority can demonstrate additionality in the delivery of new social housing.

It is proposed to purchase the market dwellings directly from Keepmoat, at a price determined by the Council's valuer as part of the development agreement. This approach has the benefit of effectively fixing the purchase price at the outset of the build process, in what is currently a rising property market. The sales and marketing fees that the developer will avoid are considered to be more than offset by the risk that they take on by not benefiting from any rise in the property market.

An alternative option to spend the right to buy receipts is the purchase of other new build housing in the city, but this risks a higher purchase price for the completed new build dwellings, due to a currently rising market and competition from other prospective purchasers, without many of the benefits identified above.

There is an option to buy existing homes on the open market, but this option introduces the risks associated with the need to invest in the asset prior to being able to let it, ensuring that it meets the decent homes standard and complies with the housing health and safety rating system standards. The time frame within which the authority is required to invest the first of the RTB receipts would make identifying, confirming the condition and investment need, and completing the purchase of enough open market dwellings difficult.

The following is a summary of our currently accumulated Right to Buy receipts:

| Quarter date for Receipt | Retained 1-4-1 Receipt Value (Per Quarter) | Retained 1-4-1 Receipt Value (Cumulative) | Amount of New Build Expenditure Required (Cumulative) | Deadline for Receipt to be spent on New Dwelling |
|--------------------------|--|---|---|--|
| 30/6/2012 | 0.00 | 0.00 | 0.00 | N/A |
| 30/9/2012 | 305,694.44 | 305,694.44 | 1,018,981.47 | 30/9/2015 |
| 31/12/2012 | 1,052,927.43 | 1,358,621.87 | 4,528,739.57 | 31/12/2015 |
| 31/3/2013 | 721,056.95 | 2,079,678.82 | 6,932,262.73 | 31/3/2016 |
| 30/6/2013 | 558,506.20 | 2,638,185.02 | 8,793,950.07 | 30/6/2016 |
| 30/9/2013 | 648,902.97 | 3,287,087.99 | 10,956,959.97 | 30/9/2016 |
| 31/12/2013 | 939,637.07 | 4,226,725.06 | 14,089,083.53 | 31/12/2016 |
| 31/3/2014 | 1,556,452.02 | 5,783,177.08 | 19,277,256.93 | 31/3/2017 |
| 30/6/2014 | 1,025,279.68 | 6,808,465.76 | 22,694,885.87 | 30/6/2017 |

Atkins Close

Atkins Close is a garage re-development site, previously providing 14 garages which were in poor condition and not well let.

The current development appraisal delivers 8 social housing dwellings and 4 market housing dwellings on the site. A decision to purchase the 4 market dwellings will result in the provision of 100% social housing on this HRA site, with the acquisition of 2 two-bedroom houses and 2 three-bedroom houses, as per the table below:

| Plot No | Size | Type | Value (£) |
|--------------------------------------|------|---------------------|-----------|
| 1 | 2B4P | Semi-Detached House | 250,000 |
| 2 | 2B4P | Semi-Detached House | 250,000 |
| 3 | 3B5P | Semi-Detached House | 290,000 |
| 4 | 3B5P | Semi-Detached House | 290,000 |
| Total Sale Price | | | 1,080,000 |
| Stamp Duty Land Tax | | | 22,400 |
| Legal Fees | | | 4,000 |
| Total Cost to Cambridge City Council | | | 1,106,400 |

The above market values have been provided by the Council's valuer as part of the existing development agreement.

Colville Road

Colville Road is a housing re-development site, previously providing 18 homes, 17 of which were tenanted and 1 which had been sold historically under the RTB.

The current development appraisal re-supplies 19 social housing dwellings on the site, and increases the density to also deliver 14 market housing dwellings on the site. A decision to purchase the 6 of the 14 market dwellings will result in the provision of approximately 75% social housing on this HRA site, with the acquisition of 5 two-bedroom and 1 one-bedroom apartments, as per the table below:

| Plot No | Size | Type | Value (£) |
|--------------------------------------|------|-----------|-----------|
| 17 | 2B4P | Apartment | 175,000 |
| 18 | 2B4P | Apartment | 175,000 |
| 19 | 2B4P | Apartment | 175,000 |
| 20 | 2B4P | Apartment | 175,000 |
| 21 | 2B4P | Apartment | 175,000 |
| 22 | 1B2P | Apartment | 160,000 |
| Total Sale Price | | | 1,035,000 |
| Stamp Duty Land Tax | | | 10,350 |
| Legal Fees | | | 6,000 |
| Total Cost to Cambridge City Council | | | 1,051,350 |

The above market values have been provided by the Council's valuer as part of the existing development agreement.

In the case of the Colville Road development, the market housing purchased would constitute only part of the overall market housing on the site.

For the total sale price of £1,035,000 the Council will purchase the six flats together with the freehold of the land. This has been agreed with Keepmoat.

Wadloes Road

Wadloes Road is a vacant development site for housing purposes, previously containing a commercial building which was demolished for safety reasons.

The current development appraisal delivers 6 social housing dwellings and 3 market housing dwellings on the site. A decision to purchase the 3 market dwellings will result in the provision of 100% social housing on this HRA site, with the acquisition of 2 two-bedroom flats and 1 three-bedroom house, as per the table below:

| Plot No | Size | Type | Value (£) |
|--------------------------------------|------|----------------|-----------|
| 5 | 2B3P | Apartment | 205,000 |
| 6 | 2B4P | Apartment | 200,000 |
| 9 | 3B5P | Detached House | 315,000 |
| Total Sale Price | | | 720,000 |
| Stamp Duty Land Tax | | | 13,500 |
| Legal Fees | | | 3,000 |
| Total Cost to Cambridge City Council | | | 736,500 |

The above market values have been provided by the Council's valuer as part of the existing development agreement.

In respect of both Colville Road and Atkins Close, where the developer is on site, it is anticipated that the authority will directly purchase the completed market dwellings, which will incur SDLT, as part of the transaction.

For the Wadloes Road site there may be an opportunity through the use of a build contract, to mitigate SDLT liability, otherwise direct purchase will apply. If a build contract is used, it will operate separately from the existing development agreement for the delivery of the social housing achieving HCA grant.

This proposal to purchase the market dwellings on Atkins Close, Colville Road and Wadloes Road totals £2,894,250 against the budget of £2,875,000. This in turn will allow £868,275 of right to buy receipts to be spent rather than £862,500 as mentioned above.

Discussions with Keepmoat about the potential to purchase these market dwellings is in the early stages, but understandably the developer is keen to progress and conclude discussions swiftly, to avoid their incurring unnecessary financing, sales and marketing costs or incurring a delay in the sale of the open market housing if we were not to proceed.

4. Summary

In summary, the recommended option for the use of the first tranche of right to buy receipts is the purchase of 13 market dwellings on existing HRA sites, in negotiation with Keepmoat.

5. Decision Making Process

This report will form the basis for an urgent decision by the Executive Councillor for Housing, under the HRA Acquisition and Disposal Policy, following consultation with the Chair, Vice Chair and Opposition Spokesperson for the Housing Scrutiny Committee.

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