



Bold Street Housing Regeneration

11 April 2019

Report of Director for Economic Growth and Regeneration

PURPOSE OF REPORT					
To update Cabinet Member on progress with the Bold Street housing regeneration scheme and to confirm PlaceFirst as the council's developer and to dispose of the site for best consideration to enable new housing development to proceed.					
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input checked="" type="checkbox"/>	Referral from Cabinet Member	<input type="checkbox"/>
Date of notice of forthcoming key decision	27 February 2019				
This report is partially exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Exempt section – Appendix 2 – PlaceFirst Summary Development Appraisal and officer comments					

RECOMMENDATIONS OF COUNCILLOR EILEEN BLAMIRE

- (1) Reaffirm PlaceFirst as the council's preferred developer for the Bold Street scheme.
- (2) Officers negotiate and secure an option agreement contract with PlaceFirst to develop Bold Street for housing for private market rent.
- (3) To dispose of site to PlaceFirst for £1, at best consideration as supported by the March 2019 independent valuation report.

1.0 Introduction

1.1 The Bold Street Regeneration Scheme consists of a previously cleared housing site in Morecambe's West End. The original aims of the scheme were to attract a private developer to deliver quality housing stock, reverse the negative perception of the West End as a place to live and act as a demonstration to the market (refer to Relationship to Policy Framework).

At its meeting in 6 September 2016 Cabinet resolved (Item no. 17):

To approve PlaceFirst as the council's preferred to developer for the site, subject to:

- *The satisfactory completion of due diligence and any appropriate negotiations, to help ensure deliverability, suitability and financial viability of the proposed scheme;*
- *No further site assembly/clearance costs falling on the Council.*

To dispose of the site to PlaceFirst at less than best consideration, up to a maximum undervalue of £60,000, recognising that this action is in support of improving the economic, social and environmental wellbeing of the area given the scheme benefits.

1.2 Informing the 2016 Cabinet decision was an independent valuation that noted the site's marginal nature, due to low house prices and potential ground condition issues. The valuer stated that any increases in development cost would result in a significant decrease in the viability of the development. As part of their detailed development work PlaceFirst commissioned a ground investigation survey and the results indicate the load bearing of the ground is poor, requiring abnormal costly groundworks to stabilise house construction.

1.3 Members should also note that the option to develop council housing on this site has previously been discounted due to Members' desire to secure an improved tenure mix in the West End and to provide something other than a low / social rent type tenure, of which the West End has an abundance. From a management perspective, 37 properties in the West End separate from any estate would not operationally practical

2.0 Proposal Details

2.1 PlaceFirst's most current proposal is a new build mix of houses and apartments with gardens, car parking and landscaping for private market rent (Appendix 1 – PlaceFirst Development Proposal). The development will consist of:

- 15 x 4 bed terraced houses,
- 16 x 2 bed apartments
- 6 x 1 bed apartments.

2.2 The housing mix is based on PlaceFirst's award-winning refurbishments and this new build scheme aims to set a similar high standard. Given the success of West End One, and the high level of interest in the second phase, the new build houses and apartment on Bold Street will add to tenure choice in the West End. Planning approval is required, however, there are no issues reported in the ability to secure approval for this development proposal. Members will recall that PlaceFirst's West End One development won the 2017 Sunday Times Homes Award for best refurbishment. In 2018 they also won three further Sunday Times awards for their Welsh Streets project in Liverpool – a development proposal that was supported by Liverpool councillors' visit to the West End to review PlaceFirst's work.

2.3 PlaceFirst's business model depends on attaining a minimum yield on their development costs. The challenges of the local market limit the rental income and, when set against the high cost of development, Bold Street is a marginal proposition. From their projections, the forecast yield is lower than PlaceFirst would normally work to, but they are still keen to continue to invest in Morecambe (Exempt Appendix 2 – PlaceFirst Summary Development Appraisal and officer comments).

2.4 The council intends to use the same form of contract, an option agreement, as used previously for the second phase of Chatsworth Gardens. The form of contract has already been agreed and will save both time and cost. The contract provides PlaceFirst with the option to acquire the Bold Street site and to only build the agreed development. If a start is not made in 12 months then the council can exercise a reverse option to buy the site back. The consideration given for both the option and the reverse option is £1 (Refer to Legal Implications).

2.5 The principal challenges to developing a viable scheme are:

- House prices in Heysham North at £109K are £76K lower than the Northwest average (Office for National Statistics Dec 2018).
- Poor ground conditions require specialist costly works far in excess of a regular site.
- Construction costs are equal to or greater than development value.
- The triangular plot and surrounding buildings limits the number of units on site.

2.5 The 2019 valuation report states that the site has nil value. This confirms that in disposing of the Bold Street site for £1 to PlaceFirst the council is still achieving best value (Appendix 3 – Independent site valuation).

3.0 Details of Consultation

3.1 Officers briefed the Housing Regeneration Cabinet Liaison Group meeting on 11 February 2019 on Bold Street’s updated design proposals and financial challenges. Members asked questions of officers and there was an open discussion. The development proposal was received favourably

4.0 Options and Options Analysis [including risk assessment]

	Option 1: Re-market the site by holding a new developer procurement process.	Option 2: Continue with PlaceFirst as preferred developer and enter into option agreement to dispose of site
Advantages	None as it is unlikely any other developer (either in the sale or RSL market) would be interested in the site and/or able to develop a viable proposition.	Award winning developer is a known quality and keen to invest further in Morecambe. Current proposal represents two years’ design and development work to overcome site viability challenges. Advanced stage of development planning with significant costs incurred, demonstrates commitment to achieving an early start if approved
Disadvantages	Time and resources to undertake procurement Previous open procurement resulted in no interest from the market, except PlaceFirst. It highly unlikely any new developer interest will materialise Further delay and cost to bring forward new scheme, including increased holding and maintenance costs. Damage to an excellent working relationship with an award winning developer that wants to invest more in Morecambe and the district.	None
Risks	Loss of existing opportunity with PlaceFirst. Fail to secure new interest, or interest of a quality that meets the council’s regeneration objectives.	None

5.0 Officer Preferred Option (and comments)

5.1 There are no advantages to **Option 1: Re-market the site by holding a new developer procurement process**. The combination of continuing low property values in the West End and costly ground condition issues to rectify are likely to preclude any interest from developers or Housing Associations based on development viability. The relationship with PlaceFirst is good and they are the only private developers to have shown: commitment to the area; an ability to deliver in difficult circumstances over the last decade; and who have the resources to invest.

5.2 The preferred option is **Option 2: Continue with PlaceFirst as preferred developer and enter into option agreement to dispose of site** as this will provide a known quality of housing and meets the council's regeneration objectives.

6.0 Conclusion

6.1 In order to secure a positive development result for this long-standing regeneration project the best way forward is for Cabinet to confirm their 2016 decision to appoint PlaceFirst as preferred developer and to enter into the option agreement contract to dispose of the site to PlaceFirst. The developer has invested significant resources into both this scheme and the wider West End regeneration and have worked to secure and bring forward a viable scheme. They are of a known and proven quantity who provide award-winning homes for people and this should continue with the progression of the Bold Street proposal.

Appendices

Appendix 1 - PlaceFirst Development Proposal for Bold Street

Appendix 2 - PlaceFirst Summary Development Appraisal and officer comments (Exempt)

Appendix 3 – Independent site valuation

RELATIONSHIP TO POLICY FRAMEWORK

The Council's 2016-20 Corporate Plan notes that the Council's Vision for Morecambe and Heysham is: a confident community with a regenerated living, working and leisure environment, acting as a focal point on Morecambe Bay to enjoy and interact with the wider landscape

Regenerating the West End of Morecambe is a long-standing corporate priority, and contributes to the Council's Health and Well-being and economic growth aspirations as set out in the Corporate Plan and Local Plan.

Bold Street is identified in the Masterplan as an area for high intervention. The progressed schemes for Marlborough Road and the odd numbered side of Bold Street are a partial solution for this area. The remainder of Bold Street (even numbered side) exhibited some of the poorest property conditions in the district. The Masterplan recommends a housing remodelling and improvement project to acquire and demolish the even numbered side of Bold Street and back Winterdyne Terrace to develop, as an initial aspiration, new private housing.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Human Resources, Sustainability and Rural Proofing)

The West End Masterplan has carefully considered issues of sustainability and is based on sustainable principles. Human rights and diversity issues are given special consideration as

owner interests are acquired. The proposal would have local community safety benefits by removing derelict properties which are susceptible to illegal and anti-social activities.

LEGAL IMPLICATIONS

Legal Services have been consulted and comments inserted within the body of the report where appropriate. The legal implications members are being asked to re-confirm are essentially the same as considered in 2016. However, specifically in relation to the Options would make the following further observations:

The legal implications of progressing with Option 2 are as follows:

General Disposal considerations

The proposal between the developer and the council will effectively amount to a disposal of land.

Members can be assured that the city council has openly and transparently issued a developer tender brief twice, once in March 2014 and again in April 2016 and this has resulted in the offer from PlaceFirst. The offer reflects the current market value of the site and has been tendered in accordance with the council's property disposal procedures and legislative requirements.

The most recent independent RICS surveyor report advised that the site has a negative or nil value. The proposal in Option 2 is to dispose of the council's holdings for £1 represents best consideration and market value.

Legal Framework/Agreement

The form legal framework between the council and PlaceFirst is the same as previously negotiated and agreed for the second phase of Chatsworth Gardens. The council's legal services team will be involved in necessary revision and finalisation of the agreement concerning the disposal of the site.

Other matters

Planning approval will be required for the implementation of the scheme.

FINANCIAL IMPLICATIONS

The original site, with dilapidated properties was purchased through a combination of the Homes and Community Agency (HCA), Regional Housing Board (RHB) and city council funding. Approximately £1.3M capital and revenue expenditure has been spent to date. Informed by the 2019 valuation report the current net book value is set at nil.

There is no requirement for RHB funding to be repaid upon disposal of the site, however, under the HCA funding agreement the council is required to repay funding on disposal of a HCA property. For Option 2 the proposal is for disposal at 'nil' (or low) value it is not expected that clawback will apply. The table below provides a high level comparison of the budgetary impact between the options currently available to the Council as follows:

	Option 1	Option 2 (Proposed)
	Current site £000's	As Recommended £000's
Revenue Costs: Annual	5	0
Income: Capital Receipt	0	0
Net Cost / - Net Income	5	0

Under **Option 1**, the annual site holding costs would continue until a successful developer procurement had concluded and the site could be disposed of and/or developed in some way. One risk with this option is that if emergency repairs are required or the properties deteriorate to the point they become unsafe then the council could incur greater costs up to £20K.

In terms of the Financial Implications of confirming Cabinet's 2016 decision to progress with the PlaceFirst's proposal as outlined in **Option 2**, these should be read in conjunction with the implications, figures and assumptions which are detailed in Appendix 1 and Appendix 3. It should be noted that development appraisals depend on the accuracy of the underlying variables and the experience of current ongoing schemes elsewhere. It is considered that the Developer has employed reasonable and prudent cost benchmarks and market value assessment informed by the views of a leading construction consultant, published statistics on private rent, bespoke market research and local agents. Officers within Financial Services and Economic Development Have reviewed the assumptions contained within the financial model in detail and are comfortable with the competency of the underlying data.

As it did with Chatsworth Gardens, the Developer intends to form a specific Special Purpose Vehicle company (SPV) for this proposal to meet funder's requirements and provide transparency. This will also enable the council to monitor scheme costs, cash flow and ongoing viability. The council's experience with the developer on Chatsworth Gardens has shown they are able to control costs and treat with the council on an open and transparent basis. The main risk therefore arises through the future management of the property portfolio and its ongoing viability, which will be shaped in the main by levels of rent that can be achieved and overall levels of voids.

PlaceFirst's offer reflects this position and the nil site value. Their proposal would however, reduce ongoing liabilities of holding the site, noting that the bulk of projected annual holding costs are not currently budgeted for.

The council's Capital Programme does not currently include a budgeted capital receipt for this scheme and so there would be no associated capital financing impact upon transfer, regardless of whether or not the Developer led scheme is approved.

The progression of a site development scheme would positively impact to some degree on the future council tax yield and New Homes Bonus funding, although it is not possible to forecast this at present.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:
Human Resources:

The human resources these are principally from Economic Growth and Regeneration, although other services support is required, including Financial, Property and Legal. Progressing with the Place First proposal in Option 2 will require input from Legal, Financial and Property Services officers' time in negotiating and drafting the detailed terms of the underlying legal documentation. Ongoing input will be required to monitor the progression of the proposal in implementation from Economic Growth and Regeneration although other services support will be required including Financial, Property and Legal.

Option 1 would require human resources from Economic Growth and Regeneration to undertake a further procurement exercise. This will require further support from Property, Finance and Legal Services that will be greater than for Option 2, as it will be a new developer, new contract, proposals and financial model.

Information Services:

No Information Service implications.

Property:

The major implications for the involvement of Property Services are discussed in the body of the report and Legal Implications section. The proposal involves the disposal and future monitoring of the implementation of a new build residential development to the terms of the council's Corporate Property and Disposal Strategies. The progression of the project requires input from the council's property services staff in conjunction with Economic Growth and Regeneration staff leading the project.

Open Spaces:

No Open Space implications

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments.

BACKGROUND PAPERS

Winning Back Morecambe's West End Masterplan - available on Lancaster City Council Website:

<https://www.lancaster.gov.uk/business/regeneration/west-end-masterplan>

Bold Street Regeneration Cabinet Report - January 2014

<https://committeeadmin.lancaster.gov.uk/ieListDocuments.aspx?CId=297&MID=6177>

Bold Street Housing Regeneration, preferred Development Partner Cabinet Report September 2016

<https://committeeadmin.lancaster.gov.uk/ieListDocuments.aspx?CId=297&MId=6738&Ver=4>

Contact Officer: Tom Brown, Economic Development Officer

Telephone: 01524 582326

E-mail: tbrown@lancaster.gov.uk

Ref: Bold Street