

## CABINET

15 December 2015

<b>Title:</b> Barking Housing Zone Update and Clockhouse Avenue / Broadway Project	
<b>Report of the Cabinet Member for Regeneration</b>	
<b>Open Report with Exempt Appendix 2</b> (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 as amended)	<b>For Decision</b>
<b>Wards Affected:</b> Abbey	<b>Key Decision:</b> Yes
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<b>Accountable Divisional Director:</b> Jeremy Grint, Divisional Director of Regeneration	
<b>Accountable Director:</b> Chris Naylor, Chief Executive	
<b>Summary:</b> <p>In July 2015 Cabinet agreed to enter into an 'Overarching Borough Agreement (principles document)' with the Greater London Authority (GLA) in relation to the Barking Town Centre Housing Zone. The July Cabinet report set out the background to the Housing Zone and how it is critical to achieving the Council's ambitions for growing the borough.</p> <p>The report also set out where further approvals were needed for a number of schemes in the Housing Zone. This report is focussed on taking forward one particular scheme identified - the site bordered by Clockhouse Avenue/East Street/Broadway/Grove Place and shown in Appendix 1 - as well as providing an update on progress on wider Housing Zone schemes.</p> <p>The site currently contains a mix of mostly commercial uses - the largest of which being Wilkinsons. The site presents a negative frontage on Clockhouse Avenue to the Town Hall and the frontage to East Street is poor and dated. The Council is the freehold owner of much of the site but has been offered the opportunity to purchase the leasehold interests of Flodrive Holdings (with 82 years unexpired) within its freehold ownership and another adjacent site outside of the Council's freehold with 93 years unexpired (shown in Appendix 1). This would generate a marriage value and additional income stream and whilst those purchases alone would not cover all the land ownerships for the site it would mean the Council was in a key position to drive forward redevelopment in the future.</p> <p>External valuation consultants, BNP Paribas, were appointed to provide Red Book valuations of Flodrive's Holdings interests, the Council's current interests and the marriage value of the two interests. BNP Paribas also provided valuations for the further acquisitions required if a comprehensive redevelopment of the site was to take place together with estimating what potential values a redevelopment could generate.</p> <p>On the Council's behalf, BNP Paribas have negotiated with Flodrive holdings who have offered to sell their interests to the Council, subject to exchange by January 2016 and</p>	

completion a month later. Details of the proposed sale price and independent valuation provided by BNP Paribas is set out at Appendix 2, which is in the exempt section of the agenda as it contains commercially confidential information. BNP Paribas has also provided a detailed valuation report which concludes that the purchase makes good economic sense given the marriage value however currently it is better to hold onto the site as an investment rather than proceed with redevelopment proposals. This is due to the costs and time associated with acquisition of the remaining property interests to enable comprehensive regeneration (and lack of income during any redevelopment) but also due to the readymade income stream from the current tenants with good covenant strength like Wilkinsons, Natwest and Peacocks. The development residual is around half the investment value primarily due to the cost to secure vacant possession and construction against the value created.

The proposal is therefore to purchase Flodrive Holdings' interests to hold and positively manage the investment benefitting from the income from the site. This would fully cover the annual borrowing costs in respect of the purchase price. In addition to the purchase price there would be associated fees and taxes (Stamp Duty Land Tax, agents' fees, Due Diligence, surveys etc) totalling no more than £180,000.

It is expected land values in the town centre will improve over time particularly given major interventions like the Housing Zone, therefore the Council having ownership of a major town centre site will enable the Council to benefit from the uplift it is helping create. At this stage Cabinet is only being asked to approve the purchase of the site based on holding the site for investment. When viable redevelopment options come forward a further report will be made to Cabinet.

The report also provides an update on the delivery of other Housing Zone sites and outlines proposals for funding shared ownership units through a funding agreement with the GLA and a separate funding agreement regarding some affordable rent properties at North Street which will be let as 50% market rent units.

## **Recommendations**

The Cabinet is asked to:

- (i) Agree, subject to the completion of satisfactory due diligence, to the purchase from Flodrive Holdings of leasehold interests of the site bordered by Clockhouse Avenue / Broadway / East Street / Grove Place shown hatched in the plan at Appendix 1 to the report, on the terms set out in the exempt Appendix 2 to the report;
- (ii) Agree to the associated fees and taxes of up to £180,000 associated with the land purchase and due diligence;
- (iii) Agree to enter into a grant funding agreement with the GLA for the North Street and Kingsbridge sites as set out in paragraph 5.2 of the report; and
- (iv) Note that, subject to the agreement of satisfactory terms, a further report will be submitted to Cabinet seeking approval to enter a funding agreement with the GLA and Horizon Infrastructure to finance up to 500 shared ownership new build units, as detailed in section 5.3 of the report.

## **Reason(s)**

Delivery of the Barking Housing Zone is central to the Borough's objective of 'Growing the Borough,' the Council taking ownership of a prominent town centre site gives greater scope to realise values from the regeneration work underway and control future development opportunities.

### **1. Introduction and Background**

- 1.1 By Minute 26 (21 July 2015), Cabinet approved a number of recommendations to take forward the Barking Town Centre Housing zone. It highlighted a number of schemes under development which would be subject to more detailed Cabinet reports in due course. This report focuses on three of these.
- 1.2 The site bordered by Clockhouse Avenue / Broadway / East Street / Grove Place (and referenced in this report thereafter as The Site) is shown in Appendix 1 and reflects the significant freehold ownership of the Council. The majority leaseholder (Flodrive Holdings) has approached the Council to see if the Council would consider purchasing their leasehold interests. Cabinet in July gave approval to explore the feasibility of the Council acquiring the site and pursuing a comprehensive redevelopment. Consultants BNP Paribas were appointed to assess the viability of purchasing the leasehold interests and carry out an assessment of the cost of acquiring all the necessary interests to enable a redevelopment of the site as well as setting out the potential development value of a comprehensive redevelopment and to give their opinion on the highest value the Council should offer for the leasehold interest.
- 1.3 A grant funding agreement with the GLA is proposed for the North Street site, between the London Road junction and Whiting Avenue, where it is proposed to build 14 x 50% market rent units and the former Kingsbridge site at King Edwards Road where it is proposed that 24 shared ownership units will be provided.

### **2 Feasibility Results**

- 2.1 On behalf of the Council, BNP Paribas produced a detailed red book valuation on the Council's current interests at Clockhouse Avenue, the value of Flodrive Holding's interests, the marriage value of the Council and Flodrive Holding's interests, the costs of further acquisitions required to enable a comprehensive redevelopment of the site and finally the potential values generated by a comprehensive redevelopment. A summary of BNP Paribas's full report, setting out the additional value created by the marriage of the Council's freehold interest with Flodrive Holdings's leasehold interests, is set out at Appendix 2 in the exempt section of the agenda due to the commercially confidential nature of the information.
- 2.2 The Appendix evidences that from a straight investment perspective, buying in the Flodrive Holding's interests makes clear economic sense. Borrowing costs for the land purchase would be covered from the rental income.

### 3. Redevelopment Options

- 3.1 The site occupies a significant and prominent location in the town centre with significant scope for intensification including significant residential development on upper storeys. There could be substantial regeneration benefits in terms of better frontages to East Street, Clockhouse Avenue and the Broadway, better facilities for retailers and other commercial uses as well as new homes. The former Burtons building on the north west corner does not form part of the Council's or Flodrive Holdings' interests but is the only element of architectural/historic merit and it would be proposed to retain this building which is also the only part of the existing site with residential units. BNP Paribas's appraisal looked at a development option with ground floor commercial space and 167 apartments.
- 3.2 BNP assessed the remaining property interests required to be purchased to enable comprehensive redevelopment of the site. Compulsory Purchase Order powers may need to be used. The costs of securing the additional leases required resulted in BNP's report concluding that a redevelopment would not currently make economic sense compared to holding and managing the existing asset. The development residual is around half the investment value primarily due to the cost to secure vacant possession and construction against the value created. This would change over time as values rise and/or more intensive development proposals would also improve viability. Therefore at this stage Cabinet is only being asked to approve the purchase of the site in order to benefit from the marriage value and income stream which would comfortably fund borrowing and running costs. Future redevelopment options would be subject to a future Cabinet report when and when viable development proposals are available. Wilkinsons' lease expires in 2020 and in light of this and the resulting reduced acquisition costs it would be sensible to review redevelopment proposals again no later than 2018.
- 3.3 As the July 2015 Housing Zone Cabinet report set out there will be significant change in Barking over the coming years with high quality schemes and other interventions helping to improve development viability. The Council's ownership of a key town centre asset will ensure the Council realises some of the benefits of the town regeneration uplift.

### 4. Options Appraisal – East Street/Clockhouse/Broadway site

Option	Advantages	Disadvantages
Status quo (not purchasing leasehold interests)	Continuing to receive income as freeholder with no additional expenditure.	Failure to benefit from marriage value of leasehold and freehold interests. Limited opportunity to benefit from future redevelopment opportunities.
Sell freehold interests	Capital receipt.	Failure to benefit from marriage value of leasehold and freehold interests. No financial or other benefits from any future redevelopment opportunities.
Work with third party development partner who would fund purchase	No immediate financial outlay but opportunity for role in redevelopment opportunities.	No guarantee that Flodrive Holding's offer to the Council would remain open or at same price. Procurement issues. Delays.

## 5. Housing Zone Update

5.1 The table below gives a brief update on each Housing Zone scheme.

<b>Scheme</b>	<b>Update</b>
Cambridge Road	Planning application due to go to Development Control Board in December. Cabinet report 10 <sup>th</sup> November secured approved for land sale and entering into intervention agreement with GLA.
Gascoigne West	Public meeting with residents in mid December. Site forming part of Creative Industries Zone bid. Design work about to commence.
London Road/James Street	Feasibility for car park access alterations completed. Meetings being established with TfL regarding bus turning circle. Meeting with White Horse site owner regarding progressing masterplan for site.
Crown House	Meetings taking place with leaseholder owner - proposals to come forward as part of a future Cabinet report.
Abbey Sports Centre	Development agreement with Lindhill signed. Pre-planning consultation underway. Planning application to be submitted early next year.
Gascoigne East Phase 1	Contractors (Bouygues) appointed for first sub-phase – 190 units including LBBD affordable rent and East Thames Group shared ownership. Next sub-phase contract will be start on site in June 2016 and subsequent phases will include a number of private sale units depending on viability and Reside Shared ownership.
North Street	Pre-planning consultation meetings have taken place with a planning application for a terrace of 14 50% market rent rent units to be submitted in December.
Kingsbridge	Architects have been appointed and will submit a reserved matters application in the new year for a Reside shared ownership scheme.

5.2 In relation to North Street and Kingsbridge as part of the Housing Zone, the GLA is offering £24,000 grant per unit. Approval is sought from Cabinet to enter into the grant funding agreement with the GLA to access this funding subject to confirming the remaining capital costs are funded. The remaining construction costs for North Street form part of the HRA business plan scheduled for Cabinet in January.

### 5.3 Shared ownership funding proposals

5.3.1 The First Steps Challenge Fund (FSCF) was established by the GLA, setting out a challenge to new and existing providers to step up their activity and deliver at least an additional 4,000 homes for shared ownership in the 2015-20 period across London. Due to the importance of shared ownership homes in London the GLA invited funding applications where proposals clearly contribute to increasing the numbers of shared ownership units delivered.

5.3.2 Under this funding arrangement the GLA is making up to £180m available on a recoverable basis. The funding prospectus encourages bidders to work with potential investors to attract further funding. The objective of the Fund is to seed

interest in shared ownership as an investment asset and to help to move away from paying out grant towards new models that better recycle subsidy.

- 5.3.3 An application has been made for funding to the FSCF in partnership with Horizon Infrastructure which represents a number of local authority pension funds. Terms are being negotiated by officers and will be submitted to Cabinet for approval in January 2016 which could fund up to 500 shared ownership units. Homes built under this Fund will be advertised on the First Steps portal and will be prioritised for eligible households, who must be earning less than £66,000 a year, or £80,000 if it is a family buying a three bedroom (or larger) home. It is expected that this funding would be used for a number of Barking Housing Zone projects including the former Kingsbridge site and the Gascoigne phase1 development.

## **6. Consultation**

- 6.1 Given the nature of land negotiations, there has not been public consultation over this proposal to date however any redevelopment proposals would be subject to a further Cabinet report and pre-planning consultation as well as the formal planning consultation processes for any future application.

## **7. Financial Implications**

Implications completed by: Carl Tomlinson, Finance Group Manager

- 7.1 The Council currently owns the freehold for this site as part of its Commercial Property Portfolio and receives an annual rent income of £147,000 from Flodrive holdings, the leaseholder.
- 7.2 For reasons of commercial sensitivity, the cost of purchasing the leasehold interests is set out in appendix 2 in the exempt part of the agenda.
- 7.3 In addition to the agreed purchase price, the Council will incur costs as part of the acquisition in respect of Stamp Duty Land Tax, agent's fees, legal fees and due diligence of £180,000. The annual cost of the total amount of borrowing is estimated at £200,000.
- 7.4 The additional annual rent income that will be forthcoming subsequent to the proposed purchase amounts to £285,000 which will create an annual surplus of £85,000. Potentially this sum could be used as additional contribution to the repayment of the principal amount borrowed until the debt is paid off. If the site is disposed of and a capital receipt is received the borrowing would be repaid in full.
- 7.5 It is unlikely that the Council will incur revenue costs in respect of the day to day running of the site since these expenses are the responsibility of the leaseholders. The only items that would be the responsibility of the Council are major maintenance or repair costs that are deemed to be outside the terms of the lease. Given the condition of the buildings, however, costs of this nature are felt to be unlikely and, in any case, will become evident during the due diligence process prior to completion of the purchase.
- 7.6 In summary, the acquisition of these leases is a viable proposition for the Authority given that the annual cost of borrowing and loan repayments will be covered by the

additional revenue generated. In the longer term the Council will be in a key position to drive forward the redevelopment of the site and will benefit from any increase in property values brought about by the other developments proposed for the Barking Town Centre area.

- 7.7 Paragraph 5.2 above mentions that the GLA are offering an Affordable Housing Grant of £24,000 per unit in respect of the North Street and Kingsbridge Housing Zone proposals. Subject to Cabinet agreement, across these two proposed developments 26 units of accommodation are likely to be constructed and the grant received will, therefore, be £624,000. This is non repayable grant that will be used as a contribution towards the Council's scheme development costs.
- 7.8 The North Street scheme is in the current HRA Capital programme and has a total budget of £3.21, the majority of which will be spent in 2016/17. The Kingsbridge scheme has an estimated cost of £2.5m and options for the funding of this project are currently under consideration. Therefore the signing of this agreement in respect of the grant funding towards the cost of this project will be subject to appropriate funding for the total scheme being agreed and put in place.

## **8. Legal Implications**

Implications completed by: Dr. Paul Feild, Senior Governance Lawyer

- 8.1 The Council has powers to explore suitable delivery options. Section 1 of the Localism Act 2011 provides a general power of competence enabling the Council to do anything individuals generally may do, therefore allowing the Council to undertake a wide range of activities. Furthermore Section 111 of the Local Government Act 1972 enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any of its functions, whether or not involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.
- 8.2 As explained in the body of this report, the implementation of these initiatives will require the Council to enter into a variety of legally binding agreements including, conditional grant funding agreements, development agreements, planning performance agreements, partnering agreements, traditional property transactions such as purchasing of interests early termination of leases and licenses and potential procurement compliance issues. These will require early consultation with affected and interested parties to ensure swift progress of the component projects of this programme.
- 8.3 As the Housing Zone implementation will require the acquisition and potentially disposal of interests in land the Council Constitution and its Land Acquisition and Disposal Rules require such decisions be taken by the Cabinet.

## **9. Other Implications**

- 9.1 **Risk Management** - Below is an assessment of key risks.

<b>Risk</b>	<b>Mitigation</b>	<b>*Likelihood</b>	<b>*Significance</b>	<b>*Risk Factor</b>
Tenants leave/Rental income falls	Assess as part of Due Diligence however no expiry of major tenant until 2020.	1	3	3
Structural problems	Structural survey as part of Due Diligence. Negotiate price reduction if necessary.	1	3	3
Asbestos in buildings	Surveys as part of Due Diligence. Negotiate price reduction if necessary.	1	2	2

(\*Risk Level: 1= Low; 5 = High)

- 9.2 **Contractual Issues** - The purchase of the land would require due diligence to be carried out. BNP Paribas' valuation is Red book and involved inspections and detailed measurements however surveys have been commissioned to highlight any structural or other issues which would impact on any obligations the Council would have as leaseholder.
- 9.3 **Staffing Issues** - If the purchase is agreed it is important to ensure the site is proactively managed to maximise rental income. This is being considered as part of a wider review of the Council's Commercial portfolio and how it is managed.
- 9.4 **Customer Impact** - The current proposal for purchase of leasehold interests would have negligible customer impact. Redevelopment proposals would have significantly more impact but would be assessed as part of a future Cabinet report. No equality impact assessment has been undertaken to date, but would form part of any future redevelopment proposals.
- 9.5 **Safeguarding Children** - No direct issues arising with potential impacts only likely to arise from redevelopment proposals which would be subject to a future Cabinet report.
- 9.6 **Health Issues** - Health issues are only likely to arise from redevelopment proposals which would be subject to a future Cabinet report.
- 9.7 **Crime and Disorder Issues** - Crime and disorder issues are only likely to arise from redevelopment proposals which would be subject to a future Cabinet report.

**Background Papers Used in the Preparation of the Report:** None

**List of appendices:**

**Appendix 1:** LBBB Freehold ownership Plan and Flodrive Holding Leasehold interest plan

**Appendix 2** BNP Paribas Valuation Letter (exempt information)