



REPORT OF:	Head of Property
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TO:	EXECUTIVE
DATE:	26 April 2018
EXECUTIVE MEMBERS:	COUNCILLOR MRS N.J. BRAMHALL / COUNCILLOR MRS R. RENTON

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	PRESTON WARD

SUBJECT:	DEVELOPMENT OF UNIT 1, PITWOOD PARK
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RECOMMENDATIONS:

That :

- (i) the Head of Property be authorised, in consultation with the
 - a) Head of Finance
 - b) Executive Member for Property and Acquisitions; and
 - c) Executive Member for Finance

to make the necessary consultancy appointments to progress and submit a Planning Application for the development of Unit 1, Pitwood Park, in accordance with the budget set out in the Exempt information contained in Part 2 of this agenda;

- (ii) the Head of Finance be authorised, in consultation with the Head of Property and Executive Members for Property and Acquisitions and Planning Policy, subject to key stage sign off as set out in this report to include the costs of the project within the Capital Programme as detailed in the Exempt information Part 2 of this agenda
- (iii) the Head of Property be authorised in consultation with the Executive Member for Property and Acquisitions to appoint the necessary Consultants for the redevelopment of Unit 1, Pitwood Park to prepare the necessary documentation and to obtain competitive construction tenders, subject to key stage sign off set out in this report;
- (iv) the Head of Property be authorised in consultation with the Executive Members for Property and Acquisitions and Finance to finalise, agree and sign construction contracts subject to key stage sign off set out in this report;
- (v) the Head of Property be authorised in consultation with and Executive Member for Property and Acquisitions to agree the plot sales and subsequently enter into and complete individual sales for each of the residential dwellings, on the basis outlined within this report.

REASONS FOR RECOMMENDATIONS:

The existing asset is in poor condition, represents an ongoing cost burden to the Council whilst it remains vacant and has been identified for residential redevelopment. The property is vacant and would require significant investment in order to be suitable for re-letting as an industrial unit, with the prospect of only minimal rental income for the Council for all other possible uses.

A variety of development options have been considered for the site but as the site is currently allocated for business uses, in planning terms the only alternative acceptable use is residential redevelopment, with the majority of dwellings being sold as starter homes – homes that are sold at a 20% discount to make them affordable to first time buyers (under 40 years old).

The Council's purpose of redeveloping this site is in part to help the Council to meet its 5 Year Plan aspirations to be financially self-sufficient but the primary objective being to provide homes that help address the local housing affordability challenge. This is in support of the principle adopted by the Executive in approving the Emerging Housing Policy in April 2017 that requested schemes such as this, be considered on a case by case basis to determine what accessible housing product be provided.

The recommended option will deliver shared equity homes to local residents via starter homes and a further shared equity purchase option whilst also delivering a commercially acceptable return on capital deployed.

EXECUTIVE SUMMARY:

Unit 1 Pitwood Park is an important regeneration opportunity in Preston and the Council-owned site is identified as being in need of investment/redevelopment. This has become more apparent as the existing building continues to depreciate and demand for industrial uses in the area remains low.

The property is a former industrial unit, which is vacant and in poor condition. In its existing form it is considered to be unattractive to potential industrial occupiers without substantial capital investment. The site is currently allocated for business uses and in planning terms the only alternative acceptable use is redevelopment with the majority of units being offered as starter homes.

This site has been identified by the Executive as a priority site for providing homes that help address the local housing affordability challenge in adopting the Emerging Housing Policy at its meeting in April 2017 and identified that a planning application be submitted on this site for starter homes.

Redevelopment of the site is proposed, which will require the existing building to be demolished to make way for a new development of 25 residential units, consisting of a mix of 1 & 2 bedroom flats and 2 and 3 bedroom family homes. To satisfy planning requirements for change of use, 17 of the new dwellings will be delivered as starter homes, which under government guidelines can only be sold at a maximum of £250,000 or 20% less than market value, whichever is the lower. The remaining 8 dwellings will be priced at full market value.

It is proposed that, in addition to the cap on value the starter home criteria stipulates, all 25 dwellings on the site will be sold on a shared equity basis, with the Council retaining 25%

ownership via an equity charge.

The 25% equity stake would be recouped by the Council at the time the property is sold by the first owner or through staircasing (if the owner wishes to purchase all or part of the remaining equity share at any point), noting that government guidance prohibits the sale of the homes at full market value until five years after the first sale. This Council's equity share would be secured by means of a second charge on the property and a restriction would be entered on the registered title to the property, requiring the Council's written consent to any disposal of the property. The risk to the Council of not being repaid its 25% equity stake is considered to be low in view of the measures which would be taken to protect its interest at the Land Registry.

In addition, and reflecting the financial benefits to the first owner of the considerable discount to market values that the starter home product includes, it is proposed that the Council would share in 60% of any uplift in value obtained on the purchased 75% (as the initial value of the units was capped due to their starter homes status). This would be secured by way of a clawback charge / covenant.

The financial aspects of this development are set out in the exempt information Part 2 section of this agenda.

Executive has authority to approve the above recommendations subject to approval of recommendation (ii) by Full Council.

STATUTORY POWERS

1. The Council has no statutory obligation to undertake this work but has general powers of competence under section 1 of the Localism Act 2011 to do anything that individuals with full capacity generally may do, subject to the provisions of the Act.

BACKGROUND

2. The freehold of Unit 1, Pitwood Park is owned by the Council and comprises of a 1,625 sqm disused laboratory with associated landscaping and car-parking. The industrial estate borders the Preston regeneration area to the east and south and the property is 1 mile from Tattenham Corner Train Station.
3. The property was constructed in the early 1970's as a perfume factory and laboratory and forms the southern-most end of the Pitwood Park industrial estate in Tadworth, adjacent to the railway line. The last tenant of the property vacated occupation in 2013 and the property has been vacant ever since, although the lease continued until the Council agreed to take a surrender of it in 2016.
4. An application to have the building listed was refused in 2017.
5. In the April 2017 the Executive received a report on the Emerging Housing Policy which reported that acquiring housing is challenging for many in the Borough on low to moderate incomes. By way of update to the figures tabled in that report, the average price of property in the Borough sits at £420,831¹ according to the Housing Price Index HPI, this is among the highest value the average price has been since

¹ Average price as at December 2017.

the financial crash in 2006/7. The average price of housing is more than 9 times² the average salary of a person working in the Borough.

6. The April 2017 report sought agreement by the Executive for the Council to use its property portfolio to provide housing that meets local needs on a case by case basis, rather than adopting a 'one size fits all' approach to the provision of affordable housing, including recommending the exploration of innovative models of housing delivery.

KEY INFORMATION

Current Position

7. The existing property is in poor condition and is likely to require a minimum of c. £3.5m of capital investment to bring the property to a lettable condition for any use. These works would include reroofing, major repairs to external walls, renewing and replacing all existing windows and external doors, redecoration of internal walls, floors and finishes, new boilers and electrical rewiring, new fire alarm, sprinklers and lightning protection including the removal and repair of existing services. Resurfacing work would also be required for the external car park and pathways.
8. In addition, due to the building's specialised design, these costs are expected to increase once a detailed scope of refurbishment has been agreed to bring the property into a lettable condition for the chosen use. The above figure assumes the property will continue to be used as a pharmaceutical laboratory.
9. A marketing report obtained from Stiles Harold Williams advises, even with significant capital investment to refurbish the unit, that the level of income achieved through re-letting would not provide a sufficient level of return within a reasonable period to justify the investment and that it is unlikely that there would be demand for a pharmaceutical laboratory in that area. They also conclude that projected rental values for other uses would result in an estimated 13 – 40 years (excluding inflation) before the rent obtainable would pay off the initial capital works. Further information is provided in the Exempt Part 2 section to this agenda.
10. Alternative uses for the site have therefore been considered. In accordance with paragraph 7 of the starter homes guidance to justify a departure from the current employment allocation on the site, a residential starter home scheme is required.

Development Proposals

11. The redevelopment scheme proposes the demolition of the existing industrial unit and the creation of a shared equity, traditional housing development of one and two bed flats to compliment an offer of two and three bed family homes.
12. The combination of starter homes and shared equity means that homes on this site can be made even more accessible for the type of people that the Council wishes to assist through this scheme. This is because the initial value of a starter home is capped at £250k or 80% of market value (whichever is lower), and the shared equity 'benefit' is applied to the capped value rather than the market value. Starter homes

² According to the Office of National Statistics 2017 data.

are specifically targeted at people who have not previously been a home buyer, and who are below the age of 40 at the time of purchase.

13. The proposal is outlined below:
 - 4 x one bedroom 'starter flats', sold on a 75:25 shared equity basis
 - 4 x two bedroom 'starter flats', sold on a 75:25 shared equity basis
 - 10 x two bedroom 'starter houses', sold on a 75:25 shared equity basis
 - 7 x three bedroom homes, initially marketed on a 75:25 shared equity basis
However, the demand for larger shared equity units may not be as high as for smaller units so if there is no local demand after a fixed timescale, these would likely revert to full price market units, without purchasers being subject to any qualifying criteria.
14. For all shared equity units, the equity stake would be recouped either via staircasing or on sale of the unit by the first owner. In addition, and reflecting the financial benefits to the first owner of the considerable discount to market values that the starter home product includes, it is proposed that the Council would share in 60% of any uplift in value obtained on the purchased 75% (as the initial value of the units will be capped due to their starter homes status). This would be secured by way of a further clawback charge / covenant.
15. The sale receipts upon first sale will cover the construction costs of the project. In the event that the projected development costs rise, it is proposed that a number of three bedroom homes will be offered at market value instead of the discounted value to ensure the development costs are met upon completion of all initial sales.
16. The project will be governed by key stage sign off;
 - Stage 1 - Appointment of relevant members of the professional team and sourcing necessary surveys with the submission of a planning application and an updated development appraisal.
 - Stage 2 – Appointment of consultants and surveys required to prepare and tender the construction contract.
 - Stage 3 – Review of tender costs and sales values to inform a decision to enter into a contract with a developer to construct the scheme, followed by a contract with a local agent to complete plot sales.

OPTIONS

17. The financial implications of the options below are set out in the exempt report in Part 2 of the agenda.

Option 1

18. Demolish and redevelop the property as set out above. **This is the recommended option**, which will provide another much needed homeownership option to local residents whilst also delivering the most economically viable outcome for the property. It will also contribute to the regeneration activities taking place in Preston. By retaining an interest in the development via the shared equity component of the residential units and the overage covenant, the Council will also benefit from a future income stream that accrues from the benefit of predicted growth in property values.

Option 2

19. Refurbish the existing property. **This is not the recommended option** as the property is not configured to current industrial market requirements, which severely limits potential occupier interest and rental value. Significant capital investment is required to render the unit lettable and the potential rents for all uses that would be achievable are too low to render this a viable option.

Option 3

20. Dispose of the property in its current condition. **This is not the recommended option** as, without planning permission, any sale would only happen at a deeply discounted price to reflect the poor quality of the existing property as an investment.
21. Furthermore, any opportunity for maximising the sites' potential to improve housing accessibility, income generation and profit from development for the Council will be lost, as well as any potential to control the regeneration of this site.

POLICY FRAMEWORK

22. Preston is identified in the Core Strategy 2014 as a priority regeneration area, with the site within the Preston Regeneration Area. The document states that existing housing offers do not meet the needs of local residents and that there is a lack of affordable housing options in the area – particularly for those, in line with the objectives of the Preston Planning Framework, who are able to move up the property ladder.
23. Pitwood Park Industrial Estate is identified in the emerging Development Management Plan (Regulation 19 version) under policy EMP2 – Local Employment areas, as a Local Employment Area and would generally be safeguarded from a total loss of employment space by, and unless justified by, the provisions of policy EMP4 – Safeguarding employment land and premises.
24. Limb 1. C) of policy EMP4 details that the loss of employment land and premises will only be permitted if: 'The proposal would provide a public benefit which would outweigh the loss of the employment floorspace'.
25. Paragraph 7 of the Starter Homes guidance details that: 'Starter Homes exception sites are expected to be on land that has been in commercial or industrial use, and which has not currently been identified for residential development. Suitable sites are likely to be under-used or no longer viable for commercial or industrial purposes, but

with remediation and infrastructure costs that are not too great so as to render Starter Homes financially unviable.'

LEGAL IMPLICATIONS

26. The Council has general powers of competence under Section 1 of the Localism Act 2011 to undertake any activity which an individual with full capacity may undertake. This includes improving service provision and quality of life in identified regeneration areas by developing the Council's own land.
27. The Council must show that commercial activity would benefit its area and the residents, and that the profit generated by such an activity is only ancillary to the general benefit to the residents. However, if profit is the main driver, a special purpose company must be created for that purpose.
28. The primary objective of the scheme is to provide housing options that will not be achieved by market forces and deliver regeneration of a site. Since the profit the Council would generate is ancillary to this aim, the Council does have the legal capacity to undertake the scheme in its own right and not through a company.
29. The procurement of consultants and contractors required to perform the contract will comply with the Council's Contract Procedure Rules and any applicable EU legislation.

FINANCIAL IMPLICATIONS

30. The capital and revenue implications of the proposals have been set out above and in more detail in the exempt report in Part 2 of the agenda.

EQUALITIES IMPLICATIONS

31. There are no equalities implications arising from this proposal.

RISK MANAGEMENT CONSIDERATIONS

32. The main risks for the Council in undertaking development are in terms of construction cost changes and market fluctuations.
33. However, in this case, these risks are considered to be small, as the construction programme is short. The Watercolour development at Merstham in 2008/09 delivered shared equity units which proved popular and to date around 38% have been resold since then.
34. Furthermore the projections for the housing market remain strong although there remains some uncertainty around the impact of Brexit to cost inflation and property values.

CONSULTATION

35. Portfolio Holders for Housing, Property and Acquisitions and Development Management have been consulted regarding these proposals and the April 2017 Housing Initiatives paper has been considered by Executive Members.

Background Papers:

1. Local Plan: Core Strategy
http://www.reigate-banstead.gov.uk/downloads/download/22/adopted_core_strategy_july_2014
2. 5 year plan 2015-2020
http://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/our_5_year_plan
3. Preston Planning Framework
http://www.reigate-banstead.gov.uk/downloads/file/130/planning_framework
4. Starter homes planning practice guidance
<https://www.gov.uk/guidance/starter-homes>