



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:	REDHILL WARDS

SUBJECT:	DEVELOPMENT OF 16-46 CROMWELL ROAD, REDHILL
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RECOMMENDATIONS:

That:

- (i) the Head of Property be authorised in consultation with the
 - Head of Finance
 - Executive Member for Property and Acquisition; and
 - Executive Member for Finance

to proceed with a re-development of 16 – 46 Cromwell Road, Redhill that achieves a profit less than would be considered commercially viable to enable a financial contribution for off-site affordable housing (as detailed in the Exempt part of the agenda) to be made;
- (ii) the Head of Property, in consultation with the Executive Member for Property and Acquisitions be authorised to market and sell long leasehold interests of the residential flats at 16-46 Cromwell Road, Redhill, of which 50% will be sold on a shared equity basis with the Council retaining a 25% equity share.
- (iii) these proposals be noted as replacing those agreed by the Executive in April 2017.

REASONS FOR RECOMMENDATIONS:

Since initial proposals were presented to the Executive for the Cromwell Road scheme in April 2017, the indicative profit from the scheme has reduced. In commercial terms if an off-site affordable housing contribution were provided this would not allow the Council to achieve the developer profit of 15% (as previously outlined).

The Council's purpose of redeveloping this site is only in part to help the Council to meet its 5 Year Plan aspirations to be financially self sufficient with the primary objective being to support the Cromwell Road site development as a priority site for providing homes that

help address the local housing affordability challenge, hence it is proposed that on this scheme the Council take a reduced developer profit to enable a financial contribution to off-site affordable housing to be made.

In addition, to further deliver on the Executive's commitment to seek to deliver housing that meets the needs of local people (also agreed in April 2017), it is now proposed that a number of shared equity homes are provided on the Council's Cromwell Road development site.

EXECUTIVE SUMMARY:

Cromwell Road is an important regeneration opportunity in Redhill and the Council owned site is identified as being in need of investment/redevelopment. The Executive agreed in April 2017 that a redevelopment of the site be undertaken comprising demolition of the existing building and redevelopment to create a modern ground floor retail unit and 32 flats above. The residential flats are proposed to be a mix of 1 and 2 bedrooms.

Initial proposals presented to the Executive for the Cromwell Road scheme in April 2017 recognised that the financial viability of the scheme meant that on-site affordable housing provision was not appropriate, and estimated (based on a developer's profit of 15%) that a financial contribution would be made instead.

Scheme design has now been progressed and is informed by technical consultant input and site surveys, resulting in increased construction costs. This means that if the Council were to take a developer's profit of 15%, the scheme would not allow for any off-site affordable housing contribution.

In April 2017, the Executive agreed that the ability of the Council's property activities to deliver housing products that benefit local people should be considered on a case by case basis.

The Cromwell Road site has been identified as a priority site for providing homes that help address the local housing affordability challenge. It is therefore proposed that on this scheme the Council take a reduced developer profit to enable a contribution to off-site affordable housing to be made.

To further deliver on the objective of using this Council owned site to provide homes for local people, it is proposed to sell half of the flats on a shared equity basis, with the Council selling a 75% share at market value and retaining a 25% equity charge. The remaining flats would be sold on the open market and the retail unit would be retained as a commercial asset and let to a retailer.

The proposed shared equity product provides the opportunity to assist local households (who may currently be renting, or staying with friends and family) to take their first step onto the housing ladder.

The Executive has authority to determine the recommendations.

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. Cromwell Road is an important regeneration opportunity in Redhill and the Council owned site is identified as being in need of investment/redevelopment. The Executive agreed in April 2017 that a redevelopment of the site be undertaken comprising demolition of the existing building and redevelopment to create a modern ground floor retail unit and 32 flats above. The residential flats are proposed to be a mix of 1 and 2 bedrooms.
3. In April 2017, the Executive agreed that the ability of the Council's property activities to deliver housing products that benefit local people should be considered on a case by case basis.
4. The Cromwell Road site has been identified as a priority site for providing homes that help address the local housing affordability challenge, it is therefore proposed that on this scheme the Council take a reduced developer profit to enable a contribution to off-site affordable housing to be made.
5. To further deliver on the objective of using this Council owned site to provide homes for local people, it is proposed to sell half of the flats on a shared equity basis, with the Council selling a 75% share at market value and retaining a 25% equity charge. The remaining flats would be sold on the open market and the retail unit would be retained as a commercial asset and let to a retailer.
6. The proposed shared equity product provides the opportunity to assist local households (who may currently be renting, or staying with friends and family) to take their first step onto the housing ladder. The property prices that can be achieved through the shared equity product mean that these units will be accessible to younger individuals, couples and families on low to middle incomes. It should be noted that this housing initiative is separate from the work being undertaken by the housing team and through our planning policies to deliver social and affordable rented homes via registered providers such as Raven housing Trust.
7. A planning permission will imminently be submitted for redevelopment of the Cromwell Road site for 32 x 1 and 2 bedroom flats with retail at the ground floor level.

KEY INFORMATION

Shared Equity Proposals

8. It is proposed that 50% of the residential units (ie 8 one bedroom flats and 8 two bedroom flats) be sold as shared equity units at 75% of market value, with the equity stake to be recouped either via staircasing or on sale of the unit by the first owner.

9. The schemes will be cost neutral to the Council initially (i.e. development costs will be fully recouped from initial sales receipts). Table 1 in the Part 2 section of the agenda, provides more information.
10. The shared equity model proposed (which will enable the Council to provide some homes on these sites that are more accessible to local people, especially younger/working families) is as follows:
 - i. The units are sold at 75% of market rates
 - ii. The 25% equity stake is recouped by the Council at the point the property is sold by the first owner or through stair casing (if the owner wishes to purchase all or part of the remaining equity share at any point).
 - iii. This Council's equity share would be held as a second charge on the property, with a restriction on legal title at the point of sale meaning Council approval must be obtained to any onward sale. The risk to the Council with these mechanisms in place is considered to be low.
 - iv. Local connection criteria will be used to ensure that the new homes benefit people who live or work locally.
 - v. A covenant would be used to ensure that units were not rented out privately.
 - vi. Units will be marketed as shared equity for an agreed time, however if there is no demand these will revert to market sale units. Similarly, in the event that development costs increase, the Council has the ability to alter the proportion of shared equity units to ensure that the initial scheme remains cost neutral.

Recouping the equity stake – assumptions

11. Whilst – according to the Office for National Statistics – the average person stays in their home for 11 years, we expect the units at Cromwell Road to trade on more quickly.
12. This is based on the type of units (young individuals or couples occupying smaller units can be expected to move to larger units to accommodate growing families) and also our experiences at the Watercolour development.
13. Table 2 in the Part 2 section of the agenda includes a worked example of how the Council and property owner will benefit from the shared equity model.

Affordable Housing Contribution

14. Cromwell Road site has been identified as a priority site for providing homes that help address the local housing affordability challenge, it is therefore proposed that on this scheme the Council take a reduced developer profit to enable a contribution to off-site affordable housing to be made.
15. If the Council were to take a commercial approach and seek a developer's profit of 15%, the scheme would not allow for any affordable housing contribution and this would be addressed via the usual planning channels that any commercial developer would be subject to.

OPTIONS

16. The financial implications of the options below are set out in Table 3 within the exempt report in Part 2 of the agenda.

Option 1

17. Proceed with the sale of 50% of the units on a shared Equity basis and accept a lower profit level to enable an affordable housing contribution to be made as set out above. **This is the recommended option**, which will result in the opportunity to assist local households (who may currently be renting, or staying with friends and family) to take their first step onto the housing ladder and allow additional affordable housing to be provided elsewhere in the borough via the proposed financial contribution

Option 2

18. Take a purely commercial approach to the developer achieving a greater profit and selling all residential units on a full market value basis. **This is not the recommended option** as the Council is in the position that to use its property activities not only to generate profit but also to contribute to wider social and environmental objectives, including regeneration and meeting the housing needs of local people. This is an area where the commercial market is not currently delivering.

POLICY FRAMEWORK

19. The relevant Policy Framework comprises the adopted Five Year Plan and Core Strategy. The Five Year Plan vision outlines how (amongst other things) we will become an increasingly commercial organisation, but also that we will respond to the needs and demands of our residents.
20. In the Core Strategy, Redhill is an identified regeneration area and much progress had been made to progress improvements in the adjacent Marketfield Way area and the Sainsbury's site. The redevelopment of the Cromwell Road site will deliver a significant improvement to a landmark area of Redhill and will further progress the regeneration strategy for Redhill. In addition, these 32 market and shared equity homes will contribute to the delivery of the Core Strategy target of 460 new homes a year.

LEGAL IMPLICATIONS

21. 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.
22. 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.
23. In this case, the primary objective of the scheme is to achieve regeneration of a site within the RTCAAP that will not be achieved by market forces. This will generate

direct economic and social benefits to the Borough by providing additional housing and creating local jobs through re-occupation of the shop units.

24. Therefore, 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.

FINANCIAL IMPLICATIONS

25. 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

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

RISK MANAGEMENT CONSIDERATIONS

27. The main risks for the Council in undertaking development are in terms of construction cost changes and market fluctuations.
28. However, in this case, these risks are considered to be small, as the construction programme is short and the intention would be to pre-let the commercial element prior to the construction.
29. Furthermore the housing market is still strong and demand for retail premises continues to be steady.

CONSULTATION

30. Portfolio Holders for Property and Acquisitions and Finance have been consulted regarding these proposals.

Background Papers:

1. Local Plan: Core Strategy
http://www.reigate-banstead.gov.uk/downloads/download/22/adopted_core_strategy_july_2014
2. Redhill Town Centre Area Action Plan
http://www.reigate-banstead.gov.uk/downloads/download/109/redhill_town_centre_area_action_plan
3. 5 year plan 2015-2020
http://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/our_5_year_plan