

## LONDON BOROUGH OF WALTHAM FOREST

Meeting / Date	<b>Cabinet</b> <b>8 June 2023</b>	
Report Title	<b>Jazz Yard – Sales Strategy for Unsold Homes</b>	
Cabinet Portfolio	Councillor Ahsan Khan, Deputy Leader (Housing and Regeneration)	
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Wards affected	Hoe Street Ward	
Public Access	<b>OPEN except for Appendix A and B which are EXEMPT</b> in accordance with Section 100(A-H) of the Local Government Act 1972 and Schedule 12A as amended, on the grounds that it involves the likely disclosure of exempt information as defined in Part 1, paragraph 3, as it contains information relating to the financial or business affairs of any particular person (including the authority holding the information) and disclosure would not be in the public interest.	
Appendices	Appendix A - Financial Implications (EXEMPT) Appendix B - Options Analysis (EXEMPT) Appendix C - Equality Analysis	

### 1. SUMMARY

- 1.1 The Jazz Yard is part of Sixty Bricks', the Council's wholly owned development company, Phase 1 programme. The programme has delivered 299 homes, 74% (222 units) of which are affordable homes over 85% (188 units) of those are for social rent.
- 1.2 Jazz Yard has delivered 83 homes, 45% (37 units) of which are affordable. Of these homes, just under half (17 units) are shared ownership.
- 1.3 As a result of changing market conditions, there are currently 13 unsold homes for private sale at the Jazz Yard. This report seeks approval from Cabinet to change the tenure of these remaining homes from private sale to shared ownership. In the current market, shared ownership homes are performing strongly, as also evidenced for other schemes across the borough.

- 1.4 This proposal will increase the amount of affordable housing being delivered at the Jazz Yard from 45% to 60%, by increasing the number of shared ownership homes from 17 to 30.
- 1.5 Offering shared ownership provides an opportunity for those residents, including key workers, who are unable to afford to buy private sale homes, a chance to own their own home. This tenure also allows the Council to prioritise sales to those already living and working in the borough.

## **2. RECOMMENDATIONS**

- 2.1 Cabinet is recommended to:
  - 2.1.1 Agree the purchase by the Housing Revenue Account (HRA) of the private sale homes from Sixty Bricks at a purchase price of £5.40m, funded through £1.62m of shared ownership sales receipts, £2.16m of Right to Buy receipts and £1.62m of HRA borrowing.
  - 2.1.2 Agree the change in tenure of the 13 remaining one bed flats at the Jazz Yard from private sale to shared ownership.
  - 2.1.3 Delegate authority to the Commercial Director of Property and Delivery to dispose of the 13 shared ownership units on the open market.

## **3. PROPOSALS**

### ***Background***

- 3.1 Cabinet approved the loan drawdown and land disposal of the land for the Jazz yard scheme in October 10<sup>th</sup> 2019. The Housing Revenue Account (HRA) budget approved by Cabinet at the time was £11.606m, funded by GLA grant, sales of the shared ownership properties, borrowing and other housing capital resources, to fund the affordable housing element of the scheme. The general fund budget and loan contributions agreed at the 10<sup>th</sup> October 2019 Cabinet meeting were, £4,779m worth of equity contributions and £11.152m respectively to finance the delivery of the private units.
- 3.2 The home and current tenure mix for Sixty Brick's overall Phase 1 programme, including the Jazz Yard scheme, is summarised in the table below.

Projects	Homes				Completion Date
	Private	SO	Social Rent	Total	
Centenary House	22	12	11	45	Aug-21
Sansom Rd			31	31	Oct-22
Essex Close	11	3	6	20	Oct-22
Hylands Phase 1			120	120	Nov-22
Jazz Yard	46	17	20	83	Dec-22
<b>Total</b>	<b>79</b>	<b>32</b>	<b>188</b>	<b>299</b>	
Housing mix %	26%	11%	63%		

3.3 The Jazz Yard scheme has delivered, 46 private sale homes, 33 of which have been sold at a sales rate of 6 homes per month. However, the ending of the Help to Buy incentive, together with recent increases in mortgage costs, demand for private sale homes has significantly reduced. Since the end of Help to Buy, there have been fewer viewings, and no reservations. Furthermore, several buyers have pulled out of purchases.

3.4 As a result of the slow market conditions, the company is short of its income target for financial year 22/23 by £5.4m, which is the value of the 13 unsold homes at the Jazz Yard. This income is critical to fund Sixty Bricks' overheads over the next two years, prior to the next phase of development bringing in income.

### ***Proposals***

3.5 To be able to pay off its debt, and continue to operate within its working capital limit, Sixty Bricks needs to sell the remaining 13 homes by October 2023. However, given the significant slowdown in the private sales market, particularly for one-bedroom flats (which is the unit typology of the unsold flats), there is a risk the homes will not be sold by this time

3.6 The Sixty Bricks Board and Executive have conducted a root and branch analysis of the private sales. To improve the position, they have changed marketing agent, implemented a plan for improved and increased digital marketing of the homes, and approved a small additional incentive to capture additional sales. This activity has improved the sales of the homes. However, within the current market

context, with high interest rates and no Help to Buy available (which supported 95% of Sixty Bricks private sales prior to the end of the scheme in October 2022), it is anticipated that the units will still only sell at a rate of 2 per calendar month, meaning insufficient income in to Sixty Bricks to meet working capital requirements and repayment of debt.

### ***Disposal strategy***

- 3.7 The recommended option is for the sale of the remaining 13 units to the HRA for shared ownership. This option:
- a) Secures sufficient capital receipts for Sixty Bricks to enable it to repay its debt, and operate for a further two years (based on the current development programme for Phase 2)
  - b) Delivers a financial return to the HRA
  - c) Increases the amount of affordable housing for local residents (with a household income of c. £40,000 per annum).
- 3.8 The alternative options that were reviewed for the disposal of the units are highlighted in section 4.
- 3.9 The following criteria were taken into consideration in assessing all options:
- a) Optimising the amount and timing of sales receipts.
  - b) Repayment of the debt by Q2 23/24.
  - c) Minimising financial risk for the HRA and Sixty Bricks.
  - d) Optimising affordable housing provision.
- 3.10 Whilst retaining the units as private sale would increase the capital receipts in the long run, due to the higher value, Sixty Bricks would be unable to repay its debt for several months due to the slower sales rate, significantly increasing its interest costs.
- 3.11 Based on a sales rate of 4 sales per month for the shared ownership homes (similar to the sales rate achieved on the shared ownership homes already sold at Jazz Yard), it is forecast that all the homes would be sold by October 2023, assuming marketing starts in June 2023
- 3.12 To mitigate the commercial risk to the HRA, it is recommended that Sixty Bricks secure a purchaser for the shared ownership homes prior to the HRA purchasing them from Sixty Bricks.
- 3.13 The proposal increases the amount of affordable housing from 45% to 60%, by providing an additional 13 shared ownership units.

### **Risk Management Strategy**

- 3.14 The key risks associated with the proposed disposal strategy are:

### ***Financial Risk***

- 3.15 There is a risk that the shared ownership homes will not be sold for the target price or achieve the forecast sales rate. This risk is low, given the performance of the shared ownership sales to date at the Jazz Yard.
- 3.16 A database of potential purchasers has already been set up, and will be approached in June 2023, following Cabinet's approval to swap the tenures. Bairstow Eves, Sixty Brick's sales agent, will conduct the marketing. Bairstow Eves provides Shared Ownership marketing for a significant number of Registered Providers with good performance rates. They have a branch presence in Walthamstow, and 14 branches within five miles of the Jazz Yard.

### ***Planning Risk***

- 3.17 A deed of variation will be required to the s.106 agreement, because of the change in tenure. As the proposal increases the amount of affordable housing, the planning risk is low. The proposal has been discussed with the Planning team.

## **4. OPTIONS & ALTERNATIVES CONSIDERED**

- 4.1 Several other disposal options were considered. These are as follows:
- a) Convert to private rental sector, prioritising key workers
  - b) Continue to promote the homes on the private market, accepting a longer sales timeframe
  - c) Create a rent to buy model
  - d) Sell to the HRA for Social Rent
- 4.2 The options above have been discounted on the basis that they do not offer the same level of benefits, when measured against the criteria as set out in section 3.9 of the main report. Further detail is provided in Appendix B.

## **5. COUNCIL STRATEGIC PRIORITIES (AND OTHER NATIONAL OR LOCAL POLICIES OR STRATEGIES)**

- 5.1 The Council has set ambitious plans for housing delivery and has demanding housing targets to reach from the Mayor of London. The acquisition will contribute to meeting these targets by securing additional affordable homes for the Council.
- 5.2 The Jazz Yard forms part of the Council's commitment to facilitate and enable the delivery of 27,000 new homes of all tenures over the next 15 years, with particular emphasis on providing affordable homes for local residents.

- 5.3 The proposal will increase the number of Council owned homes at the Jazz Yard by providing an additional 13 shared ownership units. This increases the percentage of affordable housing from 45% to 60% on a per home basis.
- 5.4 The shared ownership units are all one-bedroom homes and would be affordable to households on an annual income of approximately £40,000. It will attract new economically active people and families into the area who will contribute to the sustainability of small local shops and businesses.
- 5.5 Council acquisition of affordable, new homes will increase the Council's target on the total percentage of affordable housing as part of the authority's housing stock. This aligns with the *Waltham Forest Housing Strategy: Housing Futures; decent roof for all* adopted by full Council in April 2019.
- 5.6 Providing additional affordable homes supports the Capital Investment Strategy, and Local Plan policies.

## **6. CONSULTATION**

- 6.1 Consultation has been carried out with residents and other local stakeholders throughout the Jazz Yard development.
- 6.2 No consultation is required in respect of this decision as it will not directly impact any existing Council residents.

## **7. IMPLICATIONS**

### **7.1 Finance, Value for Money and Risk**

- 7.1.1 The scheme has been assessed financially by the Housing Delivery Team and Housing Finance as the HRA will fund the unit swap from private tenure to Affordable Housing Units.
- 7.1.2 The acquisition of the affordable units has been assessed against the HRA affordability framework. This ensures the scheme is viable and that consistent with the outputs from other New Build schemes. This framework includes 3 key requirements for a scheme to be considered viable:
  - Revenue generated is sufficient to cover all operating costs (inc. interest in every year of the scheme).
  - The scheme pays back within 40 years.
  - The scheme delivers minimum annual revenue growth to the HRA of 1%.

- 7.1.3 The acquisition meets the hurdles set as part of the framework and the scheme pays back in 17 years.
- 7.1.4 The use of RTB receipts on this scheme allows 40% of the development costs to be funded and along with the receipts from the shared ownership first tranche sales reduces the overall borrowing required from within HRA resources to £1.6m.
- 7.1.5 Risks and mitigations have been considered as part of the overall financial appraisal exercise with various sensitivities being run against the base assumptions. To maintain financial resilience this scheme will need to be able to respond appropriately to any future changing conditions. The current mitigating actions are strategic and timely, underpinned by stress testing.
- 7.1.6 The required HRA capital budgets to be approved based on the current scheme appraisal are as follows:

Price	£5,400,000
S/O Sales	(£1,620,002)
RTB Receipts	(£2,160,000)
Borrowing	(£1,619,998)
	<u>(£5,400,000)</u>

- 7.1.7 There is sufficient funding within the HRA Capital Programme for the £1.6m borrowing.
- 7.1.8 Detailed financial metrics based on the above purchase price and funding strategy are provided in Appendix A.
- 7.1.9 The disposal strategy proposed, ensures that the asset remains in the ownership of the Council. Once the loan is repaid after 17 years the assets are estimated to be worth £6.3m.

## 7.2 Legal

- 7.2.1 The Council has the general power of competence under section 1 Localism Act 2011 and ancillary powers under section 111 Local Government Act 1972 to do anything, which is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.
- 7.2.2 Under sections 1 and 12 of the Local Government Act 2003 the Council may borrow money or invest for any purpose relevant to its functions or for the prudent management of its financial affairs. The borrowing must be prudent and comply with the Prudential Code.

7.2.3 The Council as local housing authority has the power under section 9 Housing Act 1985 to provide housing accommodation, amongst other things, acquiring houses within the Borough.

7.2.4 The Council as Landowner will need to enter into a deed of variation to the s.106 agreement, to reflect the change from private sale to shared ownership

### 7.3 **Equalities and Diversity**

7.3.1 The recommendations do not have a direct impact on protected characteristics. The updated Equality Analysis is in Appendix C of this report.

### 7.4 **Sustainability (including climate change, health, crime and disorder)**

7.4.1 The sustainability impacts related to the scheme remain as outlined in the initial scheme sustainability analysis of the October 2019 Cabinet report, paragraph 7.7 and Appendix D.

### 7.5 **Council Infrastructure**

7.5.1 There are no impacts on Council infrastructure.

## **BACKGROUND INFORMATION (as defined by Local Government (Access to Information) Act 1985)**

There is no background information related to the preparation of this report.