


LONDON BOROUGH OF WALTHAM FOREST

Meeting / Date	Cabinet 7 December 2023	
Report Title	Leyton Green Road – HRA acquisition of homes	
Cabinet Portfolio	Councillor Ahsan Khan, Deputy Leader (Housing and Regeneration)	
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Wards affected	FOREST	
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Appendices	Appendix 1 - Red Book Values June 2023 (EXEMPT) Appendix 2 - Business Case (EXEMPT) Appendix 3 - Void Cost Impact (EXEMPT) Appendix 4 - Options Considered (EXEMPT) Appendix 5 - EA Screener	

1. SUMMARY

- 1.1 92 Leyton Green Road is a housing scheme delivering 47 private tenure 1-, 2- and 3- bedroom homes as part of the Council's Leyton Green Partnership Project.
- 1.2 In June 2017, Cabinet approved 92 Leyton Green Road and the vacant site 1A Matlock Road be released to deliver housing. This was to be funded by prudential borrowing by Children's Services. An updated business case was approved at Cabinet in July 2018.
- 1.3 The aim of the Leyton Green Road (LGR) housing scheme is to deliver high quality new housing as well as creating a capital receipt that subsidises the capital cost of the respite care facilities delivered for Children's Services at Lester House (99 Leyton Green Road) in 2020.

Lester House provided a brand-new facility for young people with mild to severe disabilities and learning difficulties.

- 1.4 Planning permission for the 47 residential homes was approved on 5th May 2020 as an all-private tenure scheme on the basis that the wider scheme was providing key social infrastructure for the community.
- 1.5 Since the agreement of the original business case, there has been significant change to the housing market driven by impacts to the UK economy and resulting cost of living crisis. In addition, the ending of the government backed Help to Buy equity scheme has added further affordability issues for first time buyers.
- 1.6 Consequently, the sales rate for the market sale homes has slowed significantly, thereby delaying the receipt of the sales proceeds, and increasing the void costs being borne by the General Fund.
- 1.7 To mitigate the sales risk, and the cost pressures on the General Fund, it is proposed to swap the tenure of 17 of the 30 unsold homes from market sale to shared ownership, to be purchased by the HRA.
- 1.8 In addition to alleviating cost pressures on the General Fund, the proposal would enable additional affordable housing to be provided and will deliver a financial return to the HRA.
- 1.9 The remaining homes on the project would continue to be sold as market sale.

2. RECOMMENDATIONS

- 2.1 Cabinet is recommended to:
 - 2.1.1 Agree the purchase by the Housing Revenue Account (HRA) of 17 private sale homes on the 92 Leyton Green Project at a purchase price of £6.755m.
 - 2.1.2 Agree the change in tenure of 17 of the 30 remaining flats made up of a mix of 1-, 2- and 3-bedroom flats from private sale to shared ownership.
 - 2.1.3 Delegate authority to the Commercial Director of Property and Delivery to dispose of the 17 shared ownership units on the open market.
 - 2.1.4 Note the impact on the business case and the impact of voids on the Children's service revenue budget (exempt **Appendices 2 and 3** refers).

3. PROPOSALS

Business Case

- 3.1 The Cabinet approved business case was acknowledged to have a capital gap of £1.97m funded by prudential borrowing across a 40-year period. Selling the homes privately on the open market would keep the project within the business case parameters agreed at Cabinet in 2018.
- 3.2 However, since the approval of the business case, there has been significant change to the housing market, making homes less affordable for many people.
- 3.3 The Council's sales agents Site Sales started marketing the new homes for 92 Leyton Green Road off plan in Summer 2022. 7 units were reserved through the Help to Buy scheme before it ended in October 2022.
- 3.4 Since then, Site Sales have increased marketing activity and introduced a range of incentives and price reductions.
- 3.5 In June 2023, a new Red Book Valuation on the homes was carried out by Newsteer. Marketing prices of the homes were updated to reflect the new values. See **Appendix 1 (EXEMPT)** for the full report.
- 3.6 Currently, there are 30 unsold homes.

Market Conditions

- 3.7 Since the original business case was approved, there have been significant changes in the housing market, making it more difficult for people to buy, particularly first-time buyers, single-income buyers, and those on lower-incomes. These are outlined below:
 - Help to Buy scheme for first-time buyers ended on 31 October 2022.
 - Interest rate rise – the average two-year fixed mortgage rate is now 6.7% and the average five-year rate is 6.2%.
 - Reduction in mortgage products - the number of products available to first-time buyers has seen the biggest reduction of any category. First-time buyers made up 27.3% of all buyers in Great Britain so far in 2023, but a 25-year mortgage with 10% deposit for an average London home (£523k) currently costs £852 more per month compared to December 2022.
 - Rents have surged ahead of wage growth and this is making house purchasing very difficult. Between 2011-2017, rents in England have grown 60% quicker than wages. Rents have increased by 16% while

average wages have increased by just 10%. Average Londoners pay 50% of their salary on rent every month.

- 3.8 The above conditions have meant that a previous sales forecast of 1-2 homes a week, is now 1 every 2 months.
- 3.9 When the business case was updated at the start of the sales launch in May 2022, the homes were anticipated to have sold by February 2023. Based on current market conditions and the current sales rates, this would take 5 years for the homes to sell (2028).
- 3.10 As a result, this places significant cost risk on the General Fund, due to increased void costs. Further detail on the financial impact is provided in **Appendix 2 (EXEMPT)**.
- 3.11 The proposal for the HRA to purchase 17 of the 30 unsold properties seeks to accelerate the capital receipts to alleviate the cost pressure on the General Fund, as well as deliver additional affordable homes for local residents, and a financial return for the HRA.

HRA acquisition proposal and benefits

- 3.12 If agreed by Cabinet, this acquisition by the HRA would provide 36% affordable housing, on a previously 100% market sale development.
- 3.13 The proposal provides affordable purchasing options to buyers in Leyton. Recent Council direct delivery projects with shared ownership have primarily been in Walthamstow. This proposal provides people local to Leyton with an opportunity to purchase a home in their neighbourhood. The homes are also located near Whipps Cross hospital (15-minute walk), providing an opportunity for key workers to purchase an affordable home near to work.
- 3.14 The homes to be converted to shared ownership are a mixture of 1-, 2- and 3-bedroom properties, summarised in the following table:

Unit Type	Unit no.
1b2p	7
2b3p	2
2b4p	6
3b5p	2
Total	17

- 3.15 These homes would provide opportunity for first-time buyers, single-income households and families looking to purchase an affordable home in Leyton.

- 3.16 Whilst marketing the market sales homes on this project in Leyton, Site Sales has received over 50 enquiries from local people since April 2023 looking to purchase a home via shared ownership. This demonstrates that there is demand for this purchasing option in the area.
- 3.17 The price points of the homes at 92 Leyton Green Road are lower than shared ownership homes recently sold at the Council's two direct delivery sites: Central Parade and Juniper House, where over 50% (Central Parade) and 33% (Juniper House) were sold to those with a local connection.
- 3.18 The average salary in Waltham Forest for a full-time working resident is £36,000. However, it is acknowledged that there are many individuals and families looking to purchase a home on lower incomes. Using the Homes and Communities Agency shared ownership calculator, it is estimated that a single income, lower than the Waltham Forest average, would be able to afford a 25% share of a one-bedroom home (average price £345,000) at 92 Leyton Green Road.
- 3.19 Shared ownership properties continue to sell well as it remains one of the only affordable equity-share purchasing products available on the market. The shared ownership homes on the Central Parade and Juniper House projects were the first to be reserved, with an average sales rate exceeding 1 home per week. If approved, the shared ownership homes at 92 Leyton Green Road are expected to be sold within 5 months of launch.

4. OPTIONS & ALTERNATIVES CONSIDERED

- 4.1 The following options were considered:
- a) Not taking any action – the project would incur significant revenue costs to the Children's Service revenue budget through the remaining void properties and there would be a delay in the receipt of capital sales. The project would remain 100% private sale without any affordable housing. The sales forecast would be slower than shared ownership, at 1 every 2 months.
 - b) Market overseas – this proposal does not align with the Council's aims with building homes for those who live and/or work in Waltham Forest. Research into this option showed that it would also require increased spending on sales and marketing fees.
 - c) Sell to the HRA for Social Rent – this option was financially not viable as it did not meet the business case outcomes for required for the

HRA and will also lead the scheme to fall foul of the Consumer Protection From Unfair Trading Regulations 2008 in terms of the previous advertising of the scheme as an all-private tenure scheme.

- d) Privately rent on the open market – an option to let the properties through Lettings Waltham Forest was explored. This option would not have met the business case requirements as there would only be a short-term revenue benefit rather than the upfront capital receipt.

- 4.2 The options above have been discounted on the basis that they do not offer the same level of benefits as the preferred option, and/or they were financially viable. Further detail is provided on the options appraisal within **Appendix 4 (EXEMPT)**.

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

- 5.1 The HRA's 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.
- 5.2 Providing additional affordable homes supports the Capital Investment Strategy, and Local Plan policies.
- 5.3 This provides affordable homes on a development, where previously there was no affordable provision, within an area where affordable homes are currently in demand. Since April 2023, over 50 enquiries on this scheme have been made for shared ownership properties at Leyton Green Road for both 1 and 2 bed properties by residents who are currently living within the borough. The sales team will prioritise residents of the borough over purchasers who are living in other boroughs.

6 CONSULTATION

- 6.1 Consultation was carried out in May 2020 as part of the original planning application process.
- 6.2 The project team will engage with existing residents of the scheme to inform them of the changes to the development (if approved).

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 Shared Ownership units.

- 7.1.2 The sales risk is being borne by the HRA for the properties it is purchasing. However, this risk is being mitigated as the purchase price reflects a 10% discount below the Open Market Value assessed by Newsteer, reflecting the achieved sales values for the market sale properties sold to date at LGR. Void costs will continue to be incurred by the General Fund, and not the HRA, until the properties are sold.
- 7.1.3 The purchase price excludes sales and legal costs associated with selling the properties as shared ownership, which are being funded from the existing LGR project budget.
- 7.1.4 The agreement to sell also includes that if a (shared) owner staircases to 100% in the first 5 years, effectively becoming the private owner of the property, the HRA will repay the 10% discount to the General Fund as there is no long-term financing and sales risk for the HRA. The 10% discount value will be calculated based on the lower of the original Open Market Value or the value of the final 100% staircasing price.
- 7.1.5 The acquisition has been assessed against the HRA affordability framework, to ensure the purchase is viable for the HRA. This framework includes 3 key requirements for a scheme to be considered viable:
- The scheme pays back within 40 years.
 - The scheme delivers minimum annual revenue growth to the HRA of 1%.
 - Revenue generated is sufficient to cover all operating costs (including interest) in every year of the scheme.
- 7.1.6 The proposal achieves these financial hurdles based on the following funding model:

Acquisition Cost	£6.755m
Acquisition Funding	
Initial share shared ownership receipts	£2.25m
RtB receipts	£2.7m
HRA borrowing	£1.805m
Total funding	£6.755m

- 7.1.7 The HRA borrowing (including interest costs) will be funded through a combination of staircasing receipts and rental income from the shared ownership properties. Staircasing is assumed at 7% every 5 years. Based on this staircasing rate and proposed funding strategy, the HRA loan will be repaid by year 11.
- 7.1.8 The additional funding requirements will be included in the update to the HRA MTFs and HRA Capital Programme that is currently being worked on and will go to Cabinet in February 2023.

Risk

- 7.1.9 The properties are being purchased at a discount to mitigate the sales value risk to the HRA. The remaining unsold homes will be marketed as private sale at the current Open Market Values in order to optimise capital receipts and remain within the capital gap approved in the overall business case for the project. However, should sales of the private sale properties continue to be slow, there is scope within the business case to reduce the price or offer incentives in order to try to accelerate the sales. Further detail is provided in the business case in **Appendix 2 (EXEMPT)**.

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.
- 7.2.5 A shared ownership lease will need to be developed for the scheme along with updated plans to reflect the change in tenure.

7.3 Equalities and Diversity

- 7.3.1 The recommendations do not have a direct impact on protected characteristics. An EIA screening template is provided in **Appendix 5**.

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

- 7.4.1 The sustainability proposals set out in the original scheme are not impacted by this proposal. The housing development has been completed.

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)

None.