Report to the Cabinet

Report reference: ***C-044-2020/21***
Date of meeting: ***03 December 2020***

Epping Forest District Council

Portfolio: **Housing and Community Services – Cllr H Whitbread**

Subject: **St John The Baptist Church – Development Opportunity**

Responsible Officer: **Deborah Fenton (01992 564221).**

Democratic Services: **Adrian Hendry (01992 564246).**

Recommendations/Decisions Required:

1. **Cabinet are asked to approve progression to full planning and give approval to commit the capital required (£3,692,023) to build out the proposed scheme which can be viewed in appendix A. This will form part of phase 5 of the council house building programme; and**

2. **That Cabinet note the beginning of Phase 5, which will be funded from the HRA account.**

Executive Summary:

The Council was approached by representatives of the Church to enquire as to whether there would be any appetite to undertake a joint project to develop a community hall and accommodation. The Church is keen to ringfence any residential accommodation for Key Workers. Furthermore, the community hall will be utilized by the Church and other local groups. The full details are subject to negotiation, however, a brief report has been prepared by our consultant (Metaplan). This indicates that subject to a mix of affordable and shared ownership housing, the project would provide a healthy return for the Council over the period of the Business Plan. In addition, a much-needed community resource would be created.

Funding for the project will come from the HRA account. A grant will also be sort from Homes England to which we are an investment partner.

Reasons for Proposed Decision:

The development of affordable housing supports the overall aspirations of the Councils Corporate Plan – Stronger Place, Stronger Communities.

The opportunity to partner with St John The Baptist Church provides both financial and community partnership benefits for the Council.

Other Options for Action:

Not to progress to full feasibility in which case the Church would contract with a private developer.

Report:

Historical Context

The Church was granted Outline Planning consent in 2015 to construct a two-story community building to the side of the historic church building. The cost of undertaking the project was found not to be feasible. In early January 2020 the Council was approached by the Church to discuss the appetite for engaging in a joint project to provide both a community facility and residential accommodation.

Introduction

An initial scoping report was submitted in March outlining the feasibility of the proposal to provide affordable housing above a new single storey community building to the rear of the Church. Following this, a stage “0” architectural study and cost estimate were commissioned to further explore the initial conclusion formed in March. The results are presented below.

Methodology

Three options have been prepared by ECDA:

A. 4 x 1 bed flats; 4 x 2 bed flats plus community space with double height hall, in three storeys.

B. 2 x 1bed flats; 6 x 2 bed flats plus community space in three storeys.

C. 3 x 1bed flats; 7 x 2 bed flats plus community space in three / four storeys.

Option A was rejected on the basis of high cost and poor efficiency and not taken further.

Options B and C have been studied by Airey Miller who have produced a cost estimate drawn from experience on other local schemes making various assumptions for “design and build’ procurement, a degree of inflation and some allowance for risks.

Build costs have been assumed to be £2,560 / m2 (which is somewhat higher than £2,250/m2 assumed in March). The proposed designs are all relatively efficient with only 15% non-lettable space. Data for both sale values and rental rates have been estimated based on comparable accommodation in Epping on Rightmove (July 2020), which shows very little change since March.

Viability studies have been created using SDS ‘Proval’ appraisals for ‘Land’ together with ‘Rent and Sale’

Feasibility Study

The tables below show summaries of financial outcomes for each option for 1 and 2 bed flats of each tenure. The Councils financial assumptions have been used in the ‘affordable’ calculations including assumed management, maintenance and service costs; voids at 3% pa; an annuity mortgage structure at 3.4%; a discount rate of 3.5% and inflation set at 2.5% of all income and costs. Grant has been assumed for all the ‘affordable’ options set at 30% of the qualifying costs – the basic assumption for recycling RTB receipts. It should be noted that this is somewhat artificial and distorts the calculations to some extent.

Option B

It can be seen that for Option B, net profit is reduced to 5% for outright sale after allowing for the provision of the ground floor community space. This option therefore has poor viability at this level assuming that 15% is a normal commercial target, and 10% is a working minimum.

OPTION B	SALE		RENT		SHARED OWNERSHIP	
SALES	(3,340,000)		-		(1,169,000)	35.00%
Land Cost	-		-		-	
Construction	2,797,360		2,795,313		2,795,313	
Fees	263,453		377,367		377,367	
Marketing	50,100		-		-	
TOTAL COST	3,110,913		3,172,680		3,172,680	
Gross Profit	(229,087)	7.4%				
Interest	76,541		(inc Fees)		(inc Fees)	
Net Profit	(152,546)	4.9%				
Grant	-		(951,804)	30%	(951,804)	30%
NPV of Rent	-		(1,772,282)		(1,114,636)	
Deficit (surplus)	-		448,594		(62,760)	
IRR	n/a		1.93%		3.92%	

For the 'affordable' uses it can be seen that:

a. At LHA levels without more grant, the scheme would not be viable over 30 years. Even using the Councils very low interest rates, the scheme produces a deficit and has an IRR < 2%. It is not unusual for providers of affordable housing to use a 'time horizon' of 45 or even 60 years, however this permutation (assuming an 'annuity' mortgage type), would run a revenue deficit for over 30 years. This option would achieve 'payback' by year 34 i.e. well within the 'design life' of the buildings.

b. For Shared Ownership, using the Councils policy of a 35% share, this Option returns a small surplus and has an IRR of 4%. This calculation excludes any additional profit from 'staircasing'…after payback of grant, the long-term surpluses could boost the IRR by a further 2%. Full grant has again been assumed.

Option C

For Option C, the additional two units improves profitability to 13.7% (Gross) and 13% (Net). This should be regarded as an acceptable starting point

OPTION C	SALE		RENT		SHARED OWNERSHIP	
SALES	(4,110,000)		-		(1,428,000)	35%
Land Cost	-		-		-	
Construction	3,245,725		3,244,073		3,244,073	
Fees	306,501		437,950		437,950	
Marketing	61,650		-		-	
TOTAL COST	3,613,876		3,682,023		3,682,023	
Gross Profit	(496,124)	13.7%				
Interest	87,648		(inc Fees)		(inc Fees)	
Net Profit	(408,476)	11.3%				
Grant	-		(1,104,607)	30%	(1,104,607)	30%
NPV of Rent	-		(2,188,443)		(1,361,591)	
Deficit (surplus)	-		388,973		(212,175)	
IRR	n/a		2.34%		4.77%	

For the affordable uses of this option:

a. For rent at LHA levels, the picture is similar to Option B with a substantial deficit but is improved to the extent that a "payback" would be achieved in 32 years and the IRR is >2%.

b. For Shared Ownership, a healthier surplus would be achieved and an IRR of 5%. Whilst this would be low for a typical Housing Association, with its lower cost of borrowing, the Council may find this acceptable. Again, profit would be boosted by circa 2% through 'staircasing' surpluses.

c. A mix of say 3 units for rent with 7 units for S.O. could produce a low but acceptable IRR.

Risks

Having moved the scheme along to this second stage, some of the cost and design risks have been reduced. The principle risk now relates to planning permission:

- The site is small, constrained and in a very prominent location - the consented design was potentially very expensive.
- Some housing has been assumed at the 3rd and 4th storeys – planning officers have already signalled concerns in terms of competing with the height, mass and scale of the Church building.
- 'Zero parking' has been assumed for the flats, but balconies have been included where possible addressing concerns regarding private amenity space is available

The community building is assumed to be a "shell only" so there would be the cost arising from the fit out of £250,000 to fund. Two parking spaces have been provided for Church use.

Conclusion

The premise of building a single storey community building funded by residential accommodation above still appears to be possible. However, building costs have increased while sales values have remained static. The scheme is larger in terms of the sellable space, and good efficiency in the design is helpful.

Option B is marginal in terms of its basic cost: value ratio. However, for a shared ownership scheme it may be possible, particularly if the council were able to flex its policy regarding the terms of sale.

Realistically, Option C is better and use for some form of affordable housing should be possible, subject to planning and a policy decision regarding grant input.

Next Step

The next step would be to test the design with planners at a “pre-app” meeting. The application has been submitted. If the larger mass is not possible, alternatives would be converting some of the ground floor space to residential use or selling some of the flats outright to cross-subsidise the affordable homes, or a capital contribution from the Church as part payment for the community building.

Resource Implications:

The capital required is (£3,692,023) to build out the proposed scheme in appendix A

Legal and Governance Implications:

Any professional consultancy services will be precured in line with the Council procurement rules.

Safer, Cleaner and Greener Implications:

The desk top study assumes nil parking which fits with our declaration of a climate emergency.

Consultation Undertaken:

Initially consultation has been undertaken with the Portfolio holder and Members at a recent workshop.

Background Papers:

Check may/July

Risk Management:

Included in the report