# Hexagon Housing Association

# Board of Management

# Report from the Development & Regeneration Director

# Lead Board Member: Jeanette Kenyon

# 24th November 2015

# Agenda Item 12

# Land Investment Proposal

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# Summary

1.1 At the January meeting, the Board approved the recommendation that a more strategic approach to buying sites be adopted, in light of the challenges then faced with identifying and securing sites for the 15/18 programme.

1.2 It was agreed that a proposal be brought to Board setting out our approach to identifying and purchasing a small number of sites to be held for longer term development planning. It is likely that these sites will **not** have planning consent at time of purchase.

1.3 As a result of the Right to Buy proposals it is expected that there will be a minimum one for one replacement within 2 years. A planned approach to buying sites ‘ahead’ of need, will help us meet this obligation.

1.4 Once planning is secured we would seek to allocate funds / secure ‘grant’ to enable construction to commence.

1.5 The financial risk parameters around this approach were agreed at the March Board as part of the Financial Risk appetite summary where it was set out that £2.2m should be set aside as the capital at risk limit for ‘land for development’ and shared ownership schemes, as part of the total £5.7m limit.

1.6 Based on the current capital at risk position for shared ownership schemes of £127k (which we don’t expect to worsen in the near future), the maximum amount of capital at risk for buying sites, will be set at £1.7m this will support a total of £8.5m to be spent on land buying to deliver circa 100 homes. We will always work within the £5.7m limit and monitor the capital at risk exposure via the quarterly PIs. Cashflow monitoring will ensure provision of funding. The Finance and IT Director has confirmed that £5m[[1]](#footnote-1) can be afforded now, and will rise to £8.5m once the EIB loan is put in place.

1.7 This paper sets out our planned approach to procuring sites which don’t have planning consent / grant funding confirmed.

1.8 Director’s Group have approved this report and the lead board member has provided feedback which has been captured in this report.

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# 2.0 Recommendation

# That the Board approve the approach to acquiring land detailed in this report and the land investment policy, setting an initial limit of £5m, rising to £8.5m once the EIB loan is available.

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**3.0 Introduction**

3.1 It has been highlighted in previous reports the challenge we face in identifying sites for the 2015/18 programme, as we had no ‘pipeline’ of sites to bring forward. The ‘stop’, ‘start’ nature of the GLA funded programmes, along with strict time scales for delivery have made it very difficult for the team to keep pace. As reported in the PIs also on this agenda, the current position is that we have identified 174 units of the 200 needed. Most of these units have been brought to us as part of a ‘package deal’, i.e. we are not buying the site directly from the landowner, the planning design is largely fixed, and we are tied to a build contract with an already identified Contractor, who we’ve sometimes not worked with before.

3.2 The recent voluntary agreement to offer Right to Buy to HA tenants comes with a requirement to spend the receipts on replacement homes within a 2 year period, otherwise we will need to return the grant. This will put a lot of pressure on the development team to deliver to these timescales. It therefore seems sensible to put in place an approach whereby we start to identify sites which can be used to build replacement homes. It generally takes us approx.12-18 months from first identification of a deal to get on site, and an additional 18 months to complete the build, so we will need a pipeline of sites secured and on their way to getting planning consent.

3.3 In addition, there is the increased income from the Pay to Stay proposals which will need to be spent on providing new homes. We still await the finer details of this scheme.

**4.0 Delivering a Land Investment approach**

4.1 A useful tool in facilitating sites to come forward and to regain control of the process is the provision to buy land on a more speculative / unconditional basis (sites without planning consent), which will allow us to be responsive to the prevailing market conditions although strategically that site may be better developed at some time in the future. It also demonstrates to key partners such as the Local Authority and the Greater London Authority our ability to respond and deliver quickly.

4.2 Hexagon previously operated a ‘landbank’ facility of £20m, in the days when grant rates were much more favourable – circa 70%, and there was less risk to public subsidy being available for affordable homes. Under this approach all of the sites we purchased were directly from the owners, typically off-market and sometimes at auction, with a strong focus on exit strategies if we were unable to secure planning consent. We employed architects to design a scheme and secure planning permission, and we tendered a build contract to ‘partner’ contractors. This approach was stopped in 2007 following the ‘market’ crash, and the risks that followed as a result.

 4.3 The housing market has long since recovered, but we are now in a facing a number of different challenges with strict delivery timescales, along with strong competition for land from both housebuilders and other Housing Associations. If we are able to position ourselves so that we can buy sites directly, whilst it is more risky, the ‘reward’ of this approach, is we can deliver better quality homes, reduce our costs, and have more control over the entire process.

4.4 Once we have identified and secured the 200 units for the 2015/18 programme, there may be further funding available via Continuous bidding (CME) and if we have identified sites for future development we will be able to readily access this funding.

4.5 This approach could open up new opportunities to work with our LA partners, in a more innovative way e.g. building on public land and providing new public facilities in return for ‘airspace’ above.

4.6 We estimate spending a maximum of £8.5m on land for development (based on 50% of land cost, across the 15/18 programme), estimated to deliver 100 homes (rent and shared ownership). The capital at risk based on this is calculated to be £1.7m (i.e. based on the risk of losing 20% of our investment).

4.7 We have directed the resources of a New Business Officer to focus on these types of opportunities in the coming months, now that the 15/18 programme shows signs of gaining momentum. This post is planned to be made permanent (subject to 16/17 budget approval by Board).

4.8 We also expect to identify land for outright sale schemes as part of this activity, these sites may be outside of our core boroughs.

4.9 Having an agreed approach to securing land to be developed for the future will improve our chances of being able to continue to deliver.

**5.0 Risks**

There are a number of risks which come from taking this approach and these are set out below:

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| **Type of Risk** | **Effect** | **Management of risk** |
| **1.0 Financial Risks** | 1.1 Expenditure tied up in Land Investment may affect the Group’s ability to develop other arising opportunities1.2 Annual interest costs of holding site until schemes actually commence, accruing interest will be charged to the Income and Expenditure account1.3 Land and property prices could fall: reducing asset value and leading to impairment  1.4 Ongoing financial upkeep of investment: taxes, utility bills | The use of the Land Investment facility will be closely programmed and monitored to ensure that the portfolio of sites held have staggered development timetables to ensure that exposure to interest, will be minimised. Cashflow monitoring will ensure provision of funding.In the procurement of some sites, consideration will be given to utilisation of land option agreements, to mitigate the immediate expenditure outlay.The Land Investment portfolio will be reviewed monthly at RAP, and quarterly by the Board and consider performance against prevailing market conditionsFully costed exit strategies will be considered as part of the proposal, taking account of house market falls / not securing planning consent in the context of the site’s existing open market value. These exit strategies will include selling the site, reviewing the tenure mix assumption (e.g. market rent / sale). Need to ensure this risk is ‘priced’ into purchase price. Need to take account of the existing use value where not residential, and consider overage clauses.Being clear in the NB proposals on the level of ‘hope value attached to the site’, based on the expected planning consent. Any potential financial loss needs to be assessed and considered as part of the proposal.Sites that are losing value whilst being held, may be considered for disposalAll services serving the sites/properties will be requested to be* suspended by the respective utility companies, the rating office will be
* advised of its non-use; or, alternatively where the site/plots may contain ‘tenants’ continuing short-term letting will be explored.
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| 1. **Operational Risks**
 | 2.1 Capital outlay on Land Investment may hamstring the associations’ abilities to finance other opportunities and have a negative effect on the Group’s development ambitions2.2 Land Investment will increase our exposure to insurance risks2.3 Sites/properties purchased, left vacant, will have environmental risks – E.g. Contamination arising from material dumped mon vacant sites2.4 Land investment sites may have security risks2.5 Maintenance risks | The portfolio of projects held under the facility will be in strict keeping with the £2.2m capital at risk limit and be proportionate to the development programmeAll sites purchased will be insured under the Group’s insurance policies for all standard risks. Robust, secure site protection will be utilised, Appropriate signage will be erected to advise of danger of trespass.Regular monthly checks will be made on all sites/ properties by the respective New Business Officer for fly-tipping, dilapidation, vandalism, squatting.All sites will be secured against vandalism and uninvited persons. All properties will be boarded by contractors, or where possible temporarily let. |
| 1. **PR risks**
 | * 1. Adverse publicity from empty properties/sites becoming eyesores
 | All sites will be appropriately maintained, secured and monitoredProperties, where possible, will be let temporarilyDemolition of obsolete buildings, immediately after purchaseRegular communication updates with LA contacts / ward councillors on development timetable |

3.8 **Appendix A** sets our proposed approach via a Land Investment Policy, which the Board is asked to approve.

**Appendix A**

**Hexagon HA Land investment Policy**

Land holding is a policy adopted by many housing associations in London in response to a very competitive environment, a scarcity of suitable land for development and rising land prices. Land investment is where Hexagon buys land before securing any grant funding for the proposed development and / or securing planning consent.

The advantage of this traditional method of land acquisition is that it is relatively risk free in a rising housing market in somewhere like London .However, its major disadvantage is that it is very slow and cumbersome. It could take anything up to 2 years from the identification of land to planning consent being granted or grant funding being confirmed. In the current market vendors will not usually wait this length of time before they can sell their land.

The advantage of adopting a land investment strategy is that Hexagon will be able to secure land for future development that it would have otherwise lost. Also, once Hexagon has secured some land it becomes much easier to respond to the timescales imposed as part of the right to buy scheme. This approach will convince the GLA and local authorities that we will be able to “deliver” future developments. The deliverability of schemes is one of the most important factors that now determine whether schemes are supported by the GLA. However, it must be recognised that acquiring sites through Land investment carries significant risks.

 In order for a Land Investment policy to be effective, it needs to be able to:

1. Effectively and objectively assess the risks involved in any purchase venture, in relation to the opportunities presented. The balance of risk and reward should be carefully considered.
2. Be capable of making a decision rapidly, *once all the relevant information is to hand.*

This policy will cover the acquisition of land that can then be fully designed and ready to commence on site, or the acquisition of completed schemes in advance of grant funding.

Sites will be purchased for land investment if it meets the following criteria:

* The site fits within the requirements of the Development strategy prevailing at that time
* Purchase contracts are exchanged subject to detailed planning permission being granted. In certain circumstances Hexagon may buy land unconditionally. In these circumstances a planning investigation must be completed by a planning consultant, stating the likelihood of the scheme getting planning permission. Where possible this report is to include a letter of comfort from the local planning department for the proposed development and must be received before the land is acquired.
* Sites with an outline residential planning approval or are zoned for residential development or have a strong likelihood of gaining planning approval subject to an assessment and recommendation by an independent expert planning consultant;
* Sites which can easily be disposed of, if necessary, and have a clear exit strategy;
* An independent valuation has been obtained and a rigorous technical appraisal and risk assessment has been carried out (including geotechnical investigations, service enquiries, etc as necessary);
* Availability of finance at the time of acquisitions giving consideration to our committed development programmes at that time
* The purchase can be accommodated within the £2.2m capital at risk limit approved by the board.

**1.0 Approval / Reporting Process**

1.1 Approval should be from Risk Assessment Panel (RAP) who will have been provided with a New Business Proposal report specifically highlighting and assessing the risks, in particular the financial risks and proposed exit strategies which should be backed up by and independent Valuer’s report.

1.2 Any site purchased under the land investment policy will be reported to the next available Board meeting for information.

1.3 The Board will receive an update report via the quarterly PI on ’Capital at Risk’. However, RAP will monitor the financial position of any land investment and report any significant changes to the Board as and when they arise.

1.4 RAP will monitor the progress with land investment sites and make recommendations to the Board about their retention/disposal if there has been no progress for more than 24 months

**2.0 Monitoring**

2.1 Capital expended in land/property acquisition will be made available for recycling as and when grant is confirmed for the scheme.

**3.0 Uses**

3.1 Land investment will be available to:

1. Acquire land to spend Right to Buy receipts and income from pay to stay.
2. Acquire land to spend an existing Social Housing Grant (SHG) allocation.

c. Acquire land on which a bid is to be made to secure GLA funding for an allocation in the next funding round.

d. Acquire land to develop outright Sale schemes.

1. £5m will secure land for approx. 60 homes [↑](#footnote-ref-1)