



**CAMBRIDGESHIRE
& PETERBOROUGH**
COMBINED AUTHORITY

CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY BOARD	AGENDA ITEM No: 3.1 (i)
26 JUNE 2019	PUBLIC REPORT <i>This report has two appendices that are exempt from publication in that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act as amended.</i>

£100m AFFORDABLE HOUSING PROGRAMME – SCHEME APPROVALS – ALEXANDER HOUSE, ELY

1.0 PURPOSE

- 1.1. To seek approval from the Board for the provision of a 21 month repayable commercial loan facility capped at £4.84m to Laragh House Developments Ltd to create housing units by converting an office building known as Alexander House, 38 Fore Hill, Ely, CB7 4AF.
- 1.2. The loan will be used to buy out the existing funder of the property and complete a rolling conversion programme to result in a finished scheme comprising 25 residential units.
- 1.3. Through this transaction the building will be brought back into full economic use and will rapidly be converted to the residential apartments for the benefit of local families and the community.
- 1.4. Providing the loan will enable four of the units to become affordable units without any grant being required. If the site was funded elsewhere, the developers will have no obligation to supply any affordable housing in the conversion.

<u>DECISION REQUIRED</u>	
Lead Member:	Mayor James Palmer
Lead Officer:	Roger Thompson, Director of Housing and Development
Forward Plan Ref: 2019/033	Key Decision: Yes
<p>The Combined Authority Board is recommended to:</p> <p>(a) Approve the provision of a commercial loan facility of £4.84m to Laragh House Developments Ltd for a scheme of 25 units based on the heads of terms detailed in the exempt Appendix 1.</p> <p>(b) Authorise the Director of Housing and Development, in consultation with Legal Counsel and the Portfolio Holder for Investment and Finance, to conclude any necessary legal documentation to secure the loan, to include taking a charge upon the land.</p>	<p>Voting arrangements</p> <p>Simple majority of all Members</p>

2.0 BACKGROUND

- 2.1. In order to have a selection of tools and a flexible approach in which housing delivery can be achieved and accelerated, on the 26th September 2018 the Combined Authority Board approved a flexible multi toolkit housing strategy.
- 2.2. The strategy included the provision of a rolling fund from within the £100m housing programme to be used for toolkit opportunities over and above just issuing traditional grant, such as a repayable loan agreement, as is being proposed in this paper.

A flexible multi-toolkit approach



- 2.3. The approved Housing Strategy included the following policy commitments
- (a) under paragraph 3.17 to promote all housing that is in addition to the existing development pipeline.
 - (b) Under section 3.18 there is a commitment to being creative and using a range of financial delivery mechanisms that have not traditionally been a public sector method to support and deliver housing.
 - (c) This proposal is further supported by paragraph 3.23 to encourage the best use of all property assets
 - (d) Under 3.24 to helping to accelerate schemes using financial mechanisms in the toolbox.
 - (e) Under 3.25 to more enabling action including loans
 - (f) Under 3.27 to taking the initiative on more direct interventions as exemplified in the toolbox above.
- 2.4. The current use of Alexander House is as offices. They are somewhat outdated and difficult to let, having a poor specification. There are significant voids in the building at present, and where space is occupied it is on short term leases or licences. The intention is that Laragh House Developments Ltd, having already acquired the property, will initiate an office to residential conversion that includes new penthouse suites on the top of the building.

3.0 PROPOSAL & CONDITIONS

3.1. The proposal is to offer a loan agreement to Laragh House Developments Ltd in the maximum sum of £4.84m for 21 months to undertake the conversion work. Detailed heads of terms for the loan are attached in exempt **Appendix 1**. The loan will be providing 90% of the capital being required and Laragh House Developments will be providing the 10% of equity from their own resources. The Loan will be drawn down on a 90/10 'side by side' basis.

3.2. The intention is to convert the property, creating 25 one and two bedded residential units. Within that there will be four affordable units (16%). The proposed refurbishment works will include:

Proposed Works (All units)

1. Stripping the property back to the structural frame
2. Inserting new vertical cores and layout appropriate for residential use
3. Creation of additional rooftop 'penthouse' space
4. Forming balconies and active spaces addressing the street frontage
5. Reducing window sizes, creating more visual interest and detail, altering the Cornice line creating more delicate eaves
6. Comprehensive external redecoration
7. Additional parking allocation where possible (off-road)

3.3. Although there is no planning obligation to do so, as part of the condition on the loan, 4 (16%) affordable housing units will be provided from the total of 25 units.

3.4. The remaining units will be sold to the Market. Attached in exempt **Appendix 2** is the Laragh House Developments business plan which includes the strategy, location and boundary plan, market report, pricing schedule for the unit sales, development appraisal and cash flow with a projected drawdown schedule and cost report. It is projected that repayments of the loan capital will commence in October 2020 and by end February 2021 re-payments will have repaid the loan with all interest in full.

3.5. The loan will be secured against a charge on the land on which the property sits.

3.6. In addition to the re-payment of the interest, CPCA will share 50% of any profit from the scheme up to a maximum total profit sum of £500,000. In the event of any profit in excess of £500,000, CPCA will receive 40% of any additional profit achieved.

- 3.7. The loan will be Conditional upon Laragh House Developments Limited securing a planning consent for the creation of the rooftop penthouse units and upon providing a valuation of the property once it has the benefit of the planning consent, that the property is worth no less than the notional purchase price or starting value of £2.1m.

4.0 CONCLUSIONS

- 4.1. This opportunity creates and brings into supply 25 homes in a building that currently comprises under occupied and poorly specified offices. It creates an additional four affordable homes that would otherwise not be delivered by the market, with no requirement for grant support.
- 4.2. It will be a significant addition to the local private and affordable housing stock. It will provide opportunity for those that live and work locally or aspire to live in the locality, without paying the price premium normally associated with brand new housing development.

5.0 FINANCIAL IMPLICATIONS

- 5.1. It is proposed that the Combined Authority provides a £4.84m commercial loan facility for a twenty one month period to Laragh House Developments Ltd. Anticipated commencement of drawdown is September 2019 from the £100m Housing programme.
- 5.2. Maximum loan drawdown is projected to be £4.55m (In Aug 2020), however this is reliant upon the first properties being sold in Sept 2020. We are proposing to offer a loan for £4.84m so that the borrower has sufficient funds to ensure completion of the project without relying upon revenue from projected sales to complete the project. **This loan will be secured by our taking a charge against the property** and is subject to the borrower satisfying the finance related conditions as set out in the 'Heads of Terms – loan agreement'.
- 5.3. The interest rate is 3.29% as shown in the heads of terms with the other commercial terms (see exempt **Appendix 1**). Overall interest projected to be payable by the borrower is £138,524. The overall return reflects the balance of the debt and the funding from the borrower, the financial standing of the borrower and the overall risk of the project. In this case the risk is mitigated because the funding is being used to convert an existing building and a primary charge is secured against the asset.

LEGAL IMPLICATIONS

- 6.1 At its meeting on the 26th of September 2018, the Authority agreed by a majority to:
- a) agree the approach to delivering the Housing Strategy set out in the 31Ten report in Appendix 1 of the report.
 - b) agree the concept of creating a revolving fund of monies from within the £100m programme for housing investment, to run within and beyond the 5 year programme.
- 6.2 The Combined Authority has the ability to lend under s.12 Local Government Act 2003 “power to invest” as well as under a general power of competence provided that it is compliant with European state aid rules.
- 6.3 In making any such investment the Authority is required to have regard to the government’s statutory guidance on Local Government Investment (section 15 Local Government Act 2003) and specific guidance published by the Chartered Institute of Public Finance and Accountancy.
- 6.4 A charge will be taken over the property and only released as sales are being completed and loan re-payments made.
- 6.5 The devolution deal of June 2016 placed no particular restrictions on the use of the £100m housing programme for such purposes. The £100m must be used for delivering housing and growth and use of the funds for this purpose was supported by the business case agreed with Government in March 2018 and the subsequent Housing Strategy.

6.0 CONFIDENTIAL APPENDICES

- 6.1. Exempt Appendix 1 – Heads of Terms for Loan Agreement between CPCA and Laragh House Developments Ltd
- 6.2. Exempt Appendix 2 – Laragh House Developments Business Plan

<u>Source Documents</u>	<u>Location</u>
Cambridge and Peterborough Combined Authority Housing Strategy	The Incubator 2, First Floor, Alconbury Weald Enterprise Campus, Alconbury Weald, Huntingdon, PE28 4W