City of Westminster

Housing, Finance and Regeneration Policy and Scrutiny Committee

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Title:	Regeneration Programme
Report of:	Debbie Jackson
Cabinet Member Portfolio	Cabinet Member for Regeneration
Wards Involved:	All
Policy Context:	City for All
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1 Executive Summary

1.1 This note aims to inform the committee regarding the impacts of the pandemic on the Council's regeneration and development programme, the London property market and the measures the Council is taking to mitigate property market volatility, overseas purchasers and the impact of individual buy to rent landlords.

2 Key Matters for the Committee's Consideration

2.1 The report is intended to inform the committee of the measures being taken to mitigate the impact of the Covid-19 pandemic on the Council's development programme and demonstrate that a robust process is in place to ensure that the income generating market sale programme is safeguarded from the volatility of the London residential property market and provides every opportunity for local purchasers.

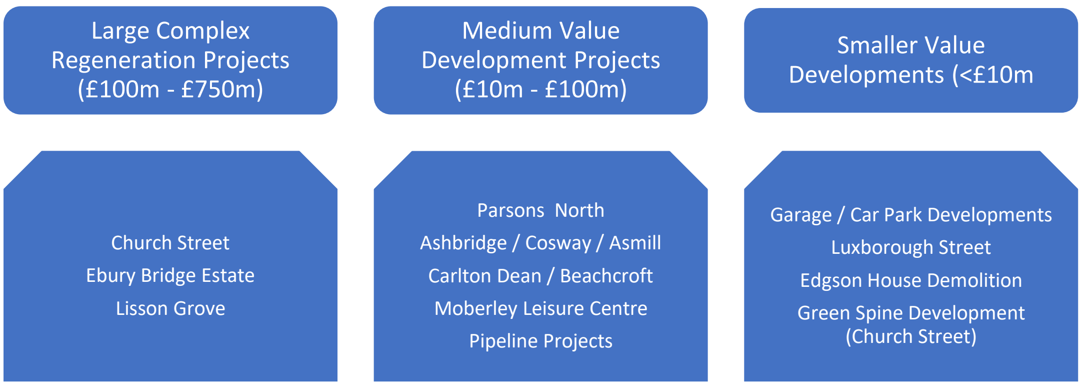
3 Background

3.1 The City is committed to the most ambitious house building programme for a generation. The Council is currently on track to deliver 1,850 affordable new homes by 2023 with sites for a further potential 2,000 new homes identified for delivery beyond that date. The delivery of the programme involves complex regeneration schemes at Church Street and Ebury Bridge Estate, public/private partnerships at Luton Street and Jubilee, as well as sensitive infill sites on existing council estates. The Council's affordable homes programme is dependent upon cross-subsidy in the form of grant funding and income from market sale housing.

3.2 Exceptional and award-winning schemes require competent and committed strategic leads and operational staff from Development, Finance, Procurement, Legal and Communications with a shared objective, working in co-located project team environments delivering multi-faceted projects.

4 Development and Regeneration Programme (DRP)

4.1 The DRP comprises over 50 live projects of varying capital value and complexity and are at various stages of delivery - some are on site and being constructed whilst others have committed capital and are in the design development stages working towards submission for planning approval. The remainder of projects are in the scoping and feasibility stage to seek strategic or outline business case approval.



4.2 The Programme includes the two large, complex regeneration schemes at Ebury Bridge Estate and Church Street. Respectively, these schemes will deliver 750 homes over the next 10 years and 1,750 homes over the next 20 years.

4.3 Given the scale and nature of the programme, it is prudent to structure the projects to ensure that the large-scale, complex projects are phased so that we are not procuring several complex schemes at the same time. We have accelerated the delivery of some of the medium and smaller schemes to focus on a continued programme of delivery across the Borough. This means that we can successfully manage the large-scale schemes to a delivery phase as these are critical for the overall achievement of the Council’s target of 1,850 new affordable homes by 2023. (Appendix 1).

5 Impact of Covid-19 on the Development and Regeneration Programme

5.1 The Covid-19 pandemic has presented challenges to the continued productivity of the whole programme from early design through to construction, sales and completion. Overall, the WCC self-delivery programme has continued to drive forwards, although the risks of site closures / factory closures / logistics impacts remains until a greater percentage of the workforce has benefited from the vaccination programme.

5.2 Despite the current high attendance on sites (currently the sites have an average 95% attendance record for operatives), production on site has been impacted. With many sites reporting a drop in productivity of 20% - 25%. The reduced productivity results from limits of the number of operatives in small spaces, the reduced material storage space due to the requirement for additional welfare facilities, staggered start / finish times and one-way systems around the sites.

5.3 This sustained loss of productivity has impacted on the Council’s 2020/21 capital spend projections for these projects, due to extended contract periods and slippage into 2021/22. Officers are working with contractors to determine whether schemes can be accelerated.

5.4 Officers have worked closely with the supply chain throughout the year to ensure that sites have continued to operate with a keen focus on the safety of the public and the workforce. As a result, 30% of the sites remained open throughout the first lockdown, with many of the sites re-opening ahead of the lockdown ending. There has been open dialogue and collaboration across the programme to ensure that the Construction Leadership Council advice and other best practice was shared and discussed with all contractors.

5.5 The impact of the pandemic on Registered Providers (RPs) and external developer activities is significant; this poses a material risk to the achievement of the Council’s 1,850 affordable housing target by 2023. As the management and decision making on these schemes is largely outside of the council’s control, this creates risk to the delivery of the target if schemes are delayed or do not come forward as forecast. In order to mitigate this risk, we work with the Affordable Housing Team to monitor these projects and assess quarterly updates provided by RPs (report due March ’21). Work is underway to assess additional opportunities and understand if any schemes within the existing programme can be accelerated.

5.6 Officers have used technology including the Microsoft suite and Building Information Management (BIM)to maintain productive engagement with the supply chain, holding virtual design and progress meetings, and using remote cameras to monitor site activity.

5.7 On-line public communication events for planning consultations and construction updates have proved to be popular with the community and have delivered valuable engagement across schemes.

5.8 The impact of Covid-19 will continue to create significant risk across the development programme. This is particularly evident on schemes within the delivery phase, where the prioritisation of vaccine roll-out means that the majority of construction site workforce is unlikely to be vaccinated until late 2021 and the need to manage the risk of site closures, sudden loss of operatives and impact on programme delivery.

5.9 The private developer market is continuing to assess their options due to the ongoing implications of Covid-19, along with their business strategy for central London and what this means more broadly for development across their portfolios. We are working with them to assess the impact on the Councils affordable housing delivery targets and opportunities that may arise, such as stepping in to assist with delivery.

5.10 Changes to guidance from the Construction Leadership Council, or increased restrictions could cause additional delays to work. Measures currently in place to reduce risk, may impact productivity even if workforce is available. Manufacturers are also susceptible to closure and staff shortages for the reasons above. The supply chain remains fragile following closures across the UK and mainland Europe in 2020.

5.11 The team continues pro-active engagement with contractors and consultant across the programme to understand and manage potential impacts. We also work with our supply chain to share best practice in respect of safe methods of working, additional welfare space, parking arrangements and changes to site operating hours where permitted.

5.12 The continuing impact of the pandemic also creates risk for the development sales programme as detailed in the following sections.

6 Impact of Covid-19 on the Residential Market

6.1 The residential market has been directly affected by COVID-19 across tenures. Savills quarterly market update further clarifies that whilst positive sentiment has started to return with a spike in sales rates and values, 2021 continues to be described as a year in three parts.

6.2 Q1 2021 has seen continued rise in number of transactions and property prices as purchasers take advantage of the stamp duty holiday deadline. Most of the demand continued from the UK domestic market and Asian purchasers alongside those from the Middle East, reflecting the international nature of the central London market.

6.3 Greatest impact is predicted for the middle of the year, Q2, where the end of the SDLT holiday coincides with likely unemployment as the furlough scheme comes to an end and businesses reassess plans, along with continued restrictions on international travel.

6.4 Q3/Q4 2021 is predicted to see market improvements as unemployment falls and low interest rates are restored which will aid market demand. The predicted increase in demand will also be aligned with confidence with the roll out of the Covid-19 vaccine. This is likely to be felt most keenly in Westminster and the Central London market which has been held back by international travel restrictions and where demand is expected to return strongly once travel resumes.

6.5 Against the backdrop of Covid-19 restrictions, the acute housing undersupply across London has been exacerbated by Covid-19 with new housing starts falling to an average of 12,500pa. This will underpin price and rental growth in the Capital as the market returns to chronic undersupply.

6.6 This indicates that demand is likely to have recovered by 2022/2023, when the next schemes are programmed to launch on the market. These will include Cosway Street, 300 Harrow Road, Ebury Phase 1 and Jubilee.

Prime Central London Growth Forecasts % – Capital Growth					
2020	2021	**2022**	**2023**	2024	2025
-2.5	2.5	**6.0**	**4.0**	3.0	3.5
Prime Central London Growth Forecasts % – Rental Growth					
-3.5	0.5	**3.0**	**3.0**	3.0	2.5

*above table taken as an average opinion of JLL and Savills growth forecasts dated Q1 2021/Q4 2020. JLL have only provided predictions for 2025

7 Mitigating Sales Risk – Assessing Value

7.1 At every stage, projects are subject to a rigorous viability process including completion of a RICS Red Book Valuation by an external agent. The Red Book benchmarks the project against achieved values on similar schemes and the second-hand market in the area, providing an independent valuation which the Council can place reliance upon.

7.2 Red Book valuations are undertaken by external agents independent from the sales team working on the scheme, following RICS cross industry standards, and ensure the values reflected in project appraisals do not include an unconscious optimism bias.

7.3 When reviewing viability, i.e. as part of a business case, a project may choose to consider future inflation and regeneration value of the scheme, both increasing the potential achievable values. This is a reasonable assumption where a programme may be more than 5 years from completion and values may be expected to grow materially before they are marketed.

7.4 Inflation assumptions are reviewed constantly by finance and reflect a range of opinions, smoothed to avoid exaggerating inflation.

7.4 However, the Full Business Case for each project always reflects the latest Red Book valuation, based on net achieved values, ensuring the Council budgets prudently and does not over commit resources in hope of a future return that may not materialise.

7.5 A prudent approach to capital receipts limits the impact of a drop in the market on the wider capital strategy. To further insulate the programme, each project holds contingencies to absorb increased costs but also falls in capital receipts.

7.5 As a result, the Council is more likely to outperform its assumptions, with the benefits released to the wider capital programme as receipts are received, rather than in the Council's baseline position.

7.6 Alongside a robust assessment of the capital receipts the development sales team are involved in the early stages of the process to ensure that schemes are optimised whilst the proposed specification appropriate for the market and within the cost plan.

5.2.6 Instructed agents are required to provide detailed pricing assessments for each scheme, accounting for an appropriate level of asking prices having regard for market comparable evidence and performance, and to allow for an appropriate margin above business plan requirements to allow for their agency fees, legal incentives and dealing margins to be provided for.

5.2.7 Cabinet Member approval is sought in advance of acceptance of any offers for delegated authority to accept within the dealing margin and the offers received are subject to challenge on receipt.

5.2.8 By having tailored marketing strategies for each site, and the instruction of an appropriate team, the sales programme has continued to perform to business plan requirements throughout the pandemic.

Mitigating Sales risk – Macroeconomic Impacts

7.1 Any sales programme will be exposed to risks outside of the control of the developer and the Prime Central London Market recently has been clouded by the uncertainty of Brexit and Covid-19 as well as their secondary impacts of potential recessional and a fall in attractiveness of London to purchasers.

7.2 The Council receives regular updates across its programme and centrally on the impact of macroeconomic factors on its sale programme and how this feeds through to the wider capital strategy.

7.3 Consensus opinion is that majority of Covid-19's impact on the economy will be recovered in the next few years, assuming no further Covid restrictions are required. Westminster are well place to capture the growth in the market as only one scheme is expected to launch in 2021/22, with the largest part of the Council's sales programme following in 2022/23 onwards.

7.3 Mitigating Sales risk – Minimising Overseas sales

7.3.1 At the outset of each scheme, an appropriate sales strategy is obtained from the instructed sales agents applicable to each site which accounts for an assessment of both the domestic and international markets.

7.3.2 Each strategy is centred on a 'local priority first' strategy whereby marketing is only undertaken domestically for a dedicated period prior to any international marketing if relevant for the scheme.

7.3.3 For Carrick Yard/Luton Street, the priority period for domestic marketing alone was for 3 months from March 2020 to June 2020 with priority period of 7 weeks alone for domestic purchasers to reserve at the scheme. Any offers received from international applicants during that time were on hold until after the priority period.

7.3.4 Although there was a subsequent launch in June 2020 in HK & Shanghai, there are no current plans for any further international events and the current marketing strategy has reverted to a domestic only approach. Focus now is driving domestic owner occupier interest to the marketing suite (programmed for March 2021) through the agreed communications and media plan and the show homes that are programmed for completion in September. This domestic only marketing approach is consistent across the development sales programme including schemes at The Masefield and Venice Court.

7.3.5 For Venice Court and The Masefield, although there has been no international marketing at all, or international events, international interest has been received following the release of the websites. Any offers that have been accepted from any purchasers living overseas – whether moving to London as an owner occupier, or as an investor – have been accepted only after a similar dedicated domestic priority period. Domestic owner occupiers for both schemes remain the dominant purchasers.

7.4 Mitigating Sales Risk – Minimising Buy to Let Landlords

7.4.1 Across the development sales programme, interest is seen across the purchaser profile from first time buyers to families and downsizers. Interest is also seen from those purchasing as an investment with a view to renting the properties and acting as a landlord.

7.4.2 Analysis of the those that have brought to date as investors has broadly been seen within the following categories;

7.4.3 Purchasing as a short-term investment; this has included parents buying properties on behalf of children of secondary school age who will be going to university. View to rent prior to children occupying whilst at university or within early stages of their careers. Parents to then to become owner occupiers when downsizing.

7.4.4 Purchasing as a short-term investment: purchasers who will be downsizing in the future and will be living within the schemes as owner occupiers. Purchasing with pension monies with a view to rent on a short-term basis prior to occupation.

7.4.5 Purchasing as a short-term investment: purchasers who are currently living abroad but are moving to London and will be living within the schemes as owner occupiers. View to rent prior to occupation.

7.4.6 Purchasing as a longer-term investment and to hold as a buy to let landlord.

7.4.7 For any reservations that are accepted from buy to let investors, these are subject to set lease terms. This is particularly relevant for those holding as a longer term buy to let landlord.

7.4.8 The lease terms across the Development Sales Programme are very clear and prohibit short term lets (less than 3 months) and occupation for holiday or vacation lets.

7.4.9 This therefore restricts any purchasers acquiring an apartment for air bnb, holiday lets, or to secure short term high rental lets.

7.4.10 For those that are buying as a rental investment, this must be on an assured short hold tenancy basis or other form of unprotected tenancy if it is for a fixed term of 12 months or less. This removes the ability for the tenant to obtain security of tenure.

7.4.11 For any periods longer than 12 months, where the lessee wishes to underlet, rather than sublet, the lessee must seek Landlord (WCC) written consent (not to be unreasonably withheld or delayed).

7.4.12 Continued assessment of the above also forms part of the managing agent contract whose responsibility will also include managing any requests for tenancies and to seek approval from the Council as Landlord to proceed.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact Report Author 07816 282059
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Appendix 1 - 1850 Target Project List

Scheme	Provider	Stage
1 Chadwick Street	RP	Complete
Balcombe Street	WCC	Complete
Beachcroft	WCC	Complete
Blomfield Villas	WCC	Complete
Buckingham Palace Road	RP	Complete
Dixon Butler Mews	RP	Complete
Dixon Butler Mews/ Woodfield Mews - Wood House	RP	Complete
Dolphin Square - The Maida Centre	RP	Complete
Dorset Close	RP	Complete
Dudley House	WCC	Complete
Edgware Road	WCC	Complete
Elgin Estate	RP	Complete
Gloucester Terrace	WCC	Complete
Greek Street - Complete	RP	Complete
Hathaway House	RP	Complete
Jubilee Sports Centre - Cannon House	RP	Complete
Ladbroke Grove - St Johns Wood Terrace	RP	Complete
Mozart Estate Office - Bruckner Street	RP	Complete
North Wharf Gardens Paffington	RP	Complete
North Wharf Road	RP	Complete
Plympton Place	RP	Complete
Queen Anne's Gate	RP	Complete
Rathbone Place	RP	Complete
Self Financing	WCC	Complete
Spots - WCH - Intermediate Rent	RP	Complete
Spots - WCH - Social Rent	RP	Complete
Spots purchases - WCC	WCC	Complete
Tollgate Gardens	WCC	Complete
Tothill House	WCC	Complete
Westbourne Park - Dolphin Square	RP	Complete
Westbourne Park Baptist Church	RP	Complete
WCH Spot Purchase	RP	Complete

Ashbridge	WCC	Construction
Ashmill	WCC	Construction
Berwick Street	WCC	Construction
Cleveland Street	RP	Construction
Cosway Street	WCC	Construction
Dora House	RP	Construction
Edinburgh House	WCC	Construction
Ergon House	RP	Construction
Falkirk House	WCC	Construction
Farm Street	WCC	Construction
Greek Street	RP	Construction
Helmsdale House	WCC	Construction
John Aird Court	WCC	Construction
Lanark Road	WCC	Construction
Lisson Arches	WCC	Construction
Luton Street	WCC	Construction
Melrose & Keith	WCC	Construction
Moberly and Jubilee	WCC	Construction
Moxon Street	RP	Construction
New Scotland Yard	RP	Construction
Ordnance Mews	WCC	Construction
Parson's North	WCC	Construction
Sunderland House	WCC	Construction
West End Gate	WCC	Construction
Whiteleys Centre	RP	Construction
Adpar Street	WCC	Procurement
Cirencester (Senior Street)	WCC	Procurement
Cochrane Street (Wellington Street)	WCC	Procurement
Desborough	WCC	Procurement
Glastonbury House	WCC	Procurement
Lapworth Court	WCC	Procurement
Luxborough	WCC	Procurement
Queens Park Court	WCC	Procurement
Torridon Car Park	WCC	Procurement

MOT Yard	RP	Design & Development
Palace Court	RP	Design & Development
Self Financing	WCC	Design & Development
SPOT Purchases WCC	WCC	Design & Development
SPOTS WCH	RP	Design & Development
St John's Terrace - VW2	RP	Design & Development
Victoria Wharf 2	RP	Design & Development
Wardour Street	RP	Design & Development
Alexandra Buildings - Castle Lane	RP	Design & Development