

**To:** Councillor Chris Hobson, Executive Member for Finance & Governance  
Ian Wright, Director of Finance

**From:** Justin Weston, Head of Finance & Investments

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### **Middlesbrough Development Company Loan – Boho Village**

The Executive report on 1<sup>st</sup> September 2020 gave approval, subject to delegation, for £24m of council borrowing to be used to finance two Middlesbrough Development Company (MDC) projects: Boho Village (Bright Ideas) and the former CSI site. The projects align with the strategic priorities of the Mayor to accelerate the delivery of new homes and commercial properties in the town centre, create quality places to live and to act as a catalyst for regeneration and growth, attract inward investment and promote urban living.

Boho Village is a scheme to deliver 61 residential units on four plots of Council owned land at Cleveland Road, Middlehaven. The full project plan is set out at **Appendix A** with some artist's impressions of the scheme at **Appendix B**. Key issues to note on this are as follows:

- Planning permission was previously granted to Bright Ideas for this land and the proposed scheme but the project stalled as third party funding could not be raised.
- The revised planning application now includes 16 houses and 45 apartments in total.
- Housing Associations who were originally going to fund the scheme via Bright Ideas are more likely to deal with and purchase these units through MDC, given its council links.
- MDC is to help deliver the scheme by taking over the developer role, providing 100% project funding and underwriting the purchase of any unsold units. Bright Ideas will become Development Manager and receive a fee and profit share as part of this role.
- The cost of the scheme is £6.7m with the market valuation of the completed units being £7.3m, giving a profit of £0.6m if all of the units are sold by MDC.
- A previous marketing study undertaken via MDC suggests that there is high demand for purchase of the units in the proposed location from housing associations. There is also reasonable interest from private tenants to rent these units on a short-term basis.

Without Council intervention, it is unlikely that the scheme will proceed in its current form, as no third party is interested in funding the whole development. As the Council's Development Company, MDC is asking the Council for a £7m loan to fund this scheme. The timescale for development is for construction to start by the end of 2020 and for the scheme to be complete and the units marketed and either sold or rented by the early to mid-2022.

The arrangements for issuing the loan, the various risk protection measures within the contract and the risks to the Council by funding this scheme are set out at **Appendix C**. There will be an initial loan covering the construction period of 2-3 years followed by a secondary loan for a maximum of 30 years. The lowest risk option would be the sale of all units to housing associations pre-completion of the development. The most risky option is that the units do not sell well and that rental demand for the remaining units is low.

Boho Village is now at the exchange of contracts stage between the Council, MDC and Bright Ideas as the Council needs to surrender the previous option it granted to develop the site and then sell the land to the Development Company. The exchange of contracts will lead to financial commitments against the loan being required. In line with the Executive report, it now needs the Executive Member for Finance & Governance and the S151 Officer for the Council to approve the loan facility of £7m for the project to move forward.

**Appendices A – C are confidential at this stage: Please contact the reporting officer above if you need to see the complete briefing note.**