

Report of:	Richard Horniman, Director of Regeneration and Culture. Ian Wright, Director of Finance. Councillor Ashley Waters, Executive Member for Regeneration. Councillor Chris Hobson, Executive Member for Finance and Governance.
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Submitted to:	Executive - 16 February 2021
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Subject:	Gresham Housing Phase 2 - Long Term Lease
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Summary

Proposed decision(s)
That Executive approves the disposal of Phase 2 of the Gresham Housing Site to Thirteen Housing Group on a 999 year lease at nil consideration for the reasons set out in the business case.

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Decision.	Yes.	No	No.

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
The development of housing, will contribute towards Middlesbrough’s Housing Growth Programme and increase the quality and quantity of homes available to residents.	Investing in Middlesbrough to provide new housing on a key site, which will support the regeneration of the town centre and help create an attractive place to live, work and visit.	The proposed development of 81 new Band A homes will potentially generate over £110k per year from Council Tax to support the Council’s Medium Term Financial Plan.

Ward(s) affected
Newport Ward.

What is the purpose of this report?

1. The purpose of the report is to consider the proposed disposal of Phase 2 of the Council's land in the Gresham Regeneration Area to Thirteen Housing Group on a 999 year lease.

Why does this report require a Member decision?

2. The proposal relates to the long-term lease of land with an Asset Valuation of in excess of £150k.

Report Background

3. The Elected Mayor of Middlesbrough has an ambition to attract an additional four thousand people to live in the town centre in the next ten years. The Mayor's ambition accords with the priorities for Place, set out in the Strategic Plan 2020-23, which states that the Council will build more town centre homes to boost businesses and increase vibrancy, while reducing the need to build on green space.
4. The Housing Local Plan 2014 identifies a priority to develop of new housing to meet aspirational needs and create a sustainable and balanced mix of housing in order to deliver successful regeneration on brownfield sites such as Gresham.
5. In addition, the Council's Strategic Housing Market Assessment (2016) identifies a need for an additional 200 affordable homes per annum over the period 2016-34.
6. The establishment of a viable and vibrant city centre living concept will give confidence to occupiers, developers and investors that the town centre is a safe, comfortable and well managed place in which to enjoy living, learning/working and leisure time.

Gresham Phase 1

7. In August 2019, Executive approved the creation of a Strategic Partnership with Thirteen Housing Group and North Star Housing Group, so that the parties could work together in a cohesive way to bring sites forward, primarily in urban locations but potentially throughout the town, to facilitate its housing development programme.
8. The first site to be brought forward under the Strategic Partnership arrangement was the Gresham Phase 1 housing site, for which Executive approved a lease to Thirteen for a period of 999 years.
9. Market research undertaken by Thirteen had identified that there was demand for high quality affordable homes close to the amenities in the town centre and proposed a mix of mews houses, apartments and bungalows, based on the needs of local residents, to create a modern housing offer for the community.
10. The Council has subsequently completed the demolition of the remaining properties in Phase 1 and entered into a lease with Thirteen, with work commencing on site in December 2020.

Gresham Phase 2

11. As reported in August 2019, Executive had previously approved the sale of the remainder of the Gresham site (including three commercial properties on Linthorpe Road) to Teesside University to facilitate the development of a Student Village. The proposed sale would have generated a capital receipt for the Council.
12. The Council was subsequently informed that the University was withdrawing its offer for the site as a consequence of interest expressed by Thirteen Group to redevelop the whole of the Gresham site for residential housing and because the need for additional student accommodation would be met by the completion of the Cornell development.
13. Thirteen confirmed their interest in securing the additional land at Gresham (excluding the three Linthorpe Road properties), which was to be sold to Teesside University as a Student Village, to complement their initial proposal and have submitted a Development Appraisal based on an 81 unit scheme of affordable homes and apartments. A site plan is attached as Appendix 1.

Land Value

14. The Council has approached the proposed disposal of the Phase 2 site in the same manner as it did for Phase 1 and, as part of its due diligence processes has commissioned independent chartered surveyors, Lambert Smith Hampton (LSH), to carry out a Red Book valuation of the land, based on Thirteen's development appraisal. The Royal Institute of Chartered Surveyors (RICS) Valuation – Professional Standards (the 'Red Book') contains mandatory rules and best practice guidance for all surveyors to ensure that the valuation produced is as accurate as possible and contains all the information required.
15. An Asset Valuation undertaken by Align Property Partners values the first acre at £350k per acre, based on commercial use, and the remaining 3.57 acres at £280k per acre for residential use, giving a gross value of £1,349,600. The Align valuation assumes an estimated 50% allowance for abnormal costs, for the removal of services, foundations and roads to prepare the site for development, which gives a net value of £674,800. An Asset Disposal Business Case is attached as Appendix 2 to this report.
16. This Asset Valuation sets out a gross land value based on the comparable market value of similar development sites within the local area, and then applies an uninformed notional abnormal cost estimate to that gross figure, in order to generate the net sum that has been recorded on the Council's Asset Register.
17. For the avoidance of doubt, the follow up valuation appraisal work produced by LSH is predicated on the relevant layout, scheme and cost information presented to the Council by Thirteen, and concludes that the development proposal will not generate a payment of a capital receipt to the Council. A combination of fundamental appraisal factors have combined to drive the residual down and generate a negative out-turn land value, which in fact reaffirms the view of the partners that the scheme is not viable in pure market terms:
 - a) Income – the market value that has been applied to the sale and rent of the affordable housing units proposed is not capable of generating the level of income

required to cover the cost of delivering the development scheme that has been presented by Thirteen;

b) Development costs – the high build costs that have been incorporated within the appraisal reflect the complexities of developing a brownfield site, in such a challenging town centre location;

18. From a valuation perspective, and with consideration of the factors set out in Paragraph 16 above, the proposal to dispose of the land for £NIL consideration is justified. As a result, the residual land value becomes negative – making the development of the site not feasible in pure market terms.
19. Given the valuation evidence presented in Paragraphs 17 and 18 above, the buyer's proposal to enter into a private treaty transaction is deemed to accord with Council's asset disposal protocol. It is also recognised there is a need to approach development of the site from the perspective of a partnership that can work together in order to mitigate the effect of lower sales values and the costs of development if the site is to be brought forward in a viable form.
20. This report will, therefore, seek approval to dispose of the Phase 2 site to Thirteen on a 999 year lease. From the Council's perspective, a long-term lease is preferable to a freehold disposal as it will provide the Council with a greater level of control over the development of the site in the long term.
21. The LSH appraisal has confirmed that the build costs associated with a development of the quality proposed by Thirteen, and the limited rental income, as a consequence of social housing constraints, would not generate a capital receipt for the Council. Furthermore, from a valuation perspective, the land values that might be generated by alternative uses would not exceed that of the residential use being proposed.

Wider Socio-Economic Benefits

22. The absence of a capital receipt cannot be considered in isolation. The wider socio-economic benefits to the town must also be considered. Thirteen hold Strategic Partner status with Homes England and have secured additional grant funding to significantly increase the development of affordable homes.
23. The lease of the site to Thirteen, given their Strategic Partner status, would potentially deliver the benefits set out below:
 - a) The opportunity to further progress the Mayor's Urban Living agenda.
 - b) The completion of the redevelopment of a key gateway site.
 - c) The development of 81 units of affordable housing.
 - d) A higher than average build rate of around 50 units per year.
 - e) The generation of over 110k per year from Council Tax, based on Band A.
 - f) A 2014 study by the Centre for Economics and Business Research shows that for every pound invested in affordable house building, a further £1.42 is generated in the wider economy.

Delivery Timescales

24. The Thirteen proposal is to commence work on site in the summer of 2021 and, with a build out rate of around 50 units a year, will be complete within two years.

What decision(s) are being asked for?

25. That Executive approves the disposal of Phase 2 of the Gresham housing site to Thirteen Housing Group on a 999 year lease at nil consideration for the reasons set out in the business case.

Why is this being recommended?

26. The Elected Mayor of Middlesbrough has an ambition to attract an additional four thousand people to live in the town centre in the next ten years. The Mayor's ambition accords with the priorities for Place, set out in the Strategic Plan 2020-23, which states that the Council will build more town centre homes to boost businesses and increase vibrancy, while reducing the need to build on green space.
27. In addition, the Council's Strategic Housing Market Assessment (2016) identifies a need for an additional 200 affordable homes per annum over the period 2016-34.
28. The development of Gresham would make a major contribution to Middlesbrough's regeneration ambitions. These include:
- a) increasing developer confidence, acting as a catalyst to stimulate the Urban Living market;
 - b) enhancing the visual appeal of the town centre, which would contribute to an attractive place to live work and visit; and,
 - c) improving the vitality of the town centre, increasing occupancy and creating additional footfall as a result of additional people living in the town centre.

Impact(s) of recommended decision(s)

Legal

29. There is a specific power of disposal under S233 of the Town & Country Planning Act 1990 (TCPA) for land held for planning purposes, which will apply to Gresham Phase 2 as the land was acquired for planning purposes.
30. The Council has a statutory duty to dispose of land for the best consideration that can reasonably be obtained and there is a risk that the Council may face allegations or claims for breach of statutory duty given the absence of marketing the site and the £NIL disposal. A disposition of land held for planning purposes for a consideration less than the best that can reasonably be obtained requires secretary of state consent. However the Council's Head of Valuation & Estates, supported by the LSH appraisal, has concluded that the disposition is not a disposition at an undervalue due to the factors outlined in paragraphs 17 to 21 of this report.
31. As part of the proposed long leasehold disposal mechanism, the Council will seek an "option to surrender" from Thirteen in relation to the delivery of the scheme.

Financial

32. As part of the Council's due diligence processes to assess potential risk prior to the initial Gresham land disposal, a financial credit check was undertaken, which confirmed that Thirteen Housing Group have sufficient resources to undertake the proposed development.
33. An Asset Valuation report produced by Align values the land at £674,800, based on comparable sites that exist within the general area. However, a Red Book appraisal undertaken by independent chartered surveyors, LSH, has confirmed that the build costs associated with a development of the quality proposed by Thirteen, and the limited rental income, as a consequence of social housing constraints, would not generate a capital receipt for the Council.
34. The proposal from Thirteen will, however, potentially generate over £110k per year from Council Tax in perpetuity (based on Council Tax Band A).

Policy Framework

35. The decision would not affect the Council's policy framework. The decision is aligned with the Mayor's vision to attract an additional four thousand people to live in the town centre in the next ten years.
36. The decision is also aligned to the Medium Term Financial Plan as the proposed housing development will generate income from Council Tax.

Ward

37. The property is situated in the Newport Ward and the respective Ward Members have been consulted.
38. Members will be further consulted on any subsequent proposal made as part of the normal planning process.

Equality and Diversity

39. The Impact Assessment, attached as Appendix 3, has concluded that the decision would not have any disproportionately negative impacts.

Risk

40. The following high level risks, which are identified in the Strategic and Directorate Risk Registers, will be reduced if Thirteen build out the Gresham site at the proposed rate.
 - O1-005 - If poor economic growth occurs, then this will reduce public and private sector investment in the town, including town centre retail, housing development and business.
 - O1-045 - If delivery of the new housing programme does not meet the projected targets then this can have a negative impact on the assumptions within the MTFP.

41. The following risks are directly associated with the proposed lease of the land to Thirteen.

- a) Price: The Council has not marketed the site, so there is a risk that best consideration is not being achieved. The LSH appraisal has, however, confirmed that a proposal of the quality and nature proposed by Thirteen would not generate a land value. In addition from a valuation perspective, the land values that might be generated by alternative uses would not exceed that of the residential use being proposed.
- b) Quality: The quality of the development will be controlled via the statutory planning process and the mechanism provided by the long leasehold disposal proposed.
- c) Delivery timescales: The Council cannot directly control the build out rate, but the legal documentation will include appropriate terms regarding the timescales for planning consent, the start of development, and, an option to surrender.
- d) Judicial Review: The Council and Teesside University stated during the CPO inquiry that the subject land was to be sold to the University to facilitate the development of a Student Village. Counsel advice has confirmed that as the CPO provided that the land was to be purchased for “the purpose of development, redevelopment or improvement on the land to contribute to the promotion or improvement of the economic, social and environmental well-being of Newport Ward, Middlesbrough”, a residential development would be within the purpose of the CPO.

Actions to be taken to implement the decision(s)

42. Subject to Executive approval, the Council will commence the preparation and completion of legal documents relating to the lease of the Gresham housing site to Thirteen.

Background papers

Body	Report title	Date
Executive	Long-term lease of Gresham Housing Site to Thirteen Housing Group	27 th August 2019

Appendices

Appendix 1: Site Plan

Appendix 2: Asset Disposal Business Case

Appendix 3: Impact Assessment Level 1: Initial Screening Assessment

Asset Disposal Business Case

Name of Asset:	Gresham Housing Site – Phase 2 (4.57 acres)
Asset Register Number:	12029/510 – Gresham Phase 2a (3.83 acres) * 12029/510 – Amber Street car park (0.65 acres) 12029/510 – Garnet Street car park (0.09 acres) * The area differs from that given in the Asset Valuation report.
Current Use:	Vacant site comprising a partially cleared development site & two temporary car parks.
Valuation at Current Use (Asset Register) £: 2019 Asset Valuations	Gresham Phase 2a: 1.0 acres @ £175k per acre £175,000* (Commercial) 2.83 acres @ £140k per acre £396,200* (Residential) Amber Street car park: £46,000 Garnet Street car park: £50,000 Total £667,200 Above values taken from 2020 Asset Valuation Reports. * The area differs from that given in the Asset Valuation report.
Reason for Disposal:	The Council is in discussion with Thirteen regarding the comprehensive development of housing on the site, which will support the Mayor’s vision to house an additional 4000 people in the town centre of the next ten years.
Latest Valuation (Proposed Disposal) £:	Based on the Asset Valuations referred to above, but assuming that the current temporary car parking use comes to an end and the commercial and residential valuations will apply across the whole site, the proposed use valuation is: Commercial 1.0 acres @ £175k = £175,000 Residential 3.57 acres @ £140k = £499,800 Total = £674,800 £674,800 - subject to a Red Book Valuation appraisal of the proposed scheme by an independent third party valuer, to assess all applicable development and abnormal scheme costs and confirm the net residual land value payable.

Asset Disposal Stream (Please Select):

Generate Capital Receipt	√ [3]
Stimulate Economic Activity	√ [1]
Support Communities	√ [2]

(In the event of more than one stream being relevant please rank in order of importance (1), (2), (3))

Officer requesting Disposal (Responsible Service Manager):

Name:	Andrew Carr
Position:	Development Services manager

Could the asset be disposed of for an alternative use that may give a higher capital receipt to the Council?

(To be completed by Valuation and Estates): (Tick)

Yes		No	
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If yes please outline potential use:

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Estimated Value at Alternative Use:	£
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Key factors to be considered when assessing potential disposals:

1.	Contributes towards the Mayor's agenda to increase Urban Living.
2.	Maintains a vibrant town centre community
3.	Investment provides addition benefits by way of New Homes Bonus
4.	Provision of recurring income [Business Rates & Council Tax] in perpetuity

Any additional financial factors to be considered other than immediate capital receipt:

<p>Middlesbrough Council is in a Strategic Partnership with the Thirteen Group, and North Star Housing to assist in the delivery of its housing ambitions and, to this end, has agreed to lease the Phase 2 site to Thirteen.</p> <p>The subject parcel of land [measuring @ 4.57 Acres] has been identified by the partnership as an opportunity on which to bring forward housing development in an urban setting located close to the centre of Middlesbrough. Delivery of the site via this partnership vehicle would help facilitate delivery of the Council's housing development programme and bring the site into far more beneficial future use.</p> <p>The site is valued at a sum of £674,800 – with the figure stated reflecting the value of the land for commercial and market housing development and adjusted with an allowance for as yet unknown abnormal costs. A Red Book Valuation appraisal of the proposed development scheme will be undertaken by an independent third party valuer in order to assess the applicable development and abnormal scheme costs, and confirm the net residual land value payable.</p> <p>The land value will therefore be subject to further adjustment pending the outcome of that valuation exercise, and the subsequent agreement of the same with the buyer. In addition to any capital receipt payable, disposal of the land for residential development purposes will bolster the Authority's Council Tax revenue going forward in perpetuity.</p>


Asset Not Needed by the Council - Approved to proceed:

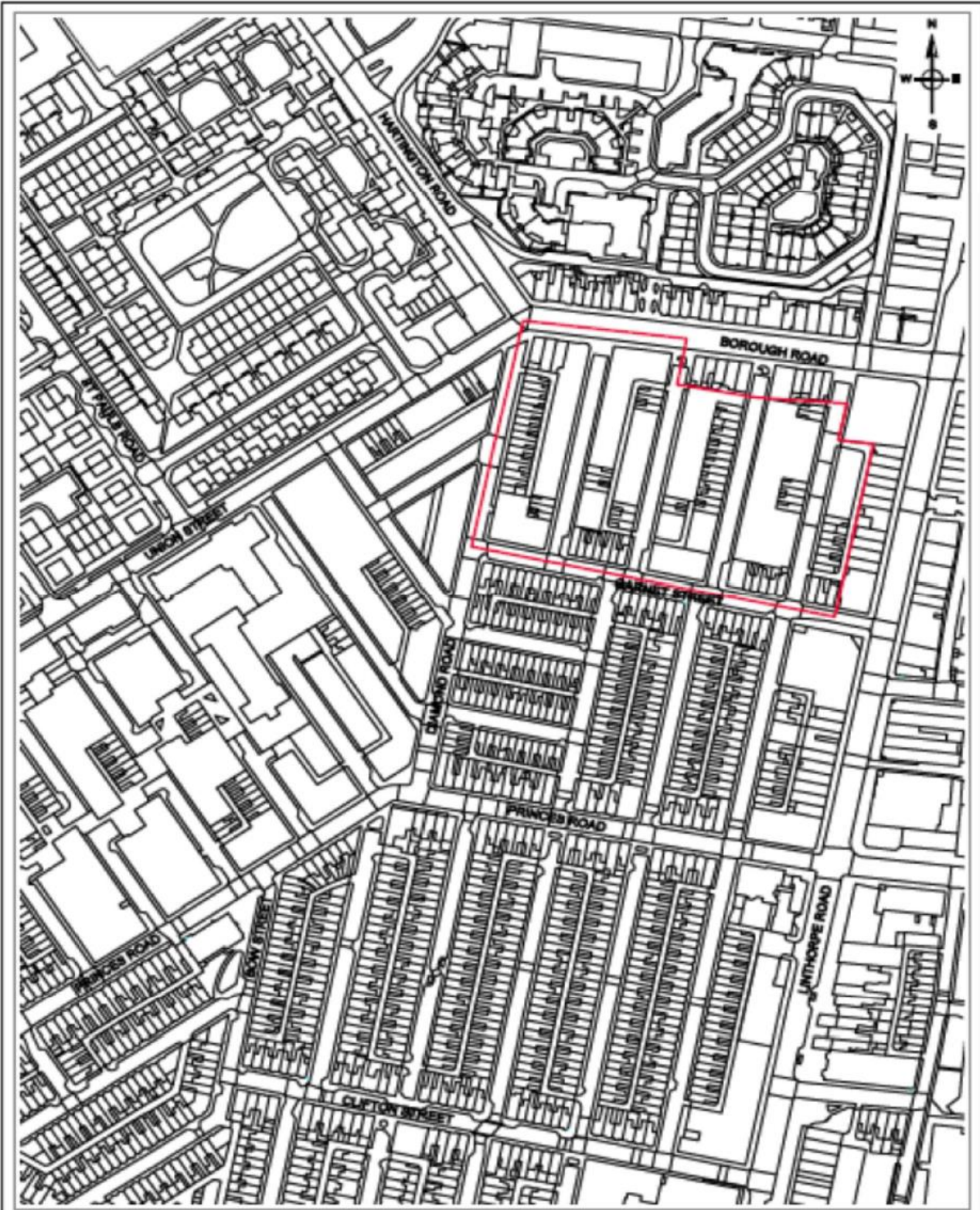
Head of Asset Management:	(Yes) Tick	No (Tick)	Date:
	✓		06 th August 2020

Preferred Method of Marketing (to be completed by Valuation & Estates): (Tick)

Formal / Informal Offers	
Private Treaty	✓
Auction	
Community Asset Transfer Process	

Method for Final Approval (before proceeding with preferred method of marketing):

Estimated Value:	Approval Required:	Authorised:	Date:
Less than £50,000	Valuation & Estates Manager		
Between £50,000 & £150,000	Director of Legal & Governance Services		
More than £150,000	Executive Committee		06 th August 2020



TIM WAKE VALUATION & ESTATES

**PHASE 2A
GRESHAM
MIDDLESBROUGH**

Scale:	1:2500
Date:	24th FEBRUARY 17
Drawn:	JMS
Org No:	—

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Appendix 3 - Impact Assessment Level 1: Initial screening assessment

Subject of assessment:	Long-term lease of Phase 2 of the Gresham Housing Site to Thirteen Housing Group			
Coverage:	Service specific.			
This is a decision relating to:	<input type="checkbox"/> Strategy	<input type="checkbox"/> Policy	<input type="checkbox"/> Service	<input type="checkbox"/> Function
	<input type="checkbox"/> Process/procedure	<input type="checkbox"/> Programme	<input type="checkbox"/> Project	<input type="checkbox"/> Review
	<input type="checkbox"/> Organisational change	<input checked="" type="checkbox"/> Other (please state) Asset management		
It is a:	New approach:	<input type="checkbox"/>	Revision of an existing approach:	<input checked="" type="checkbox"/>
It is driven by:	Legislation:	<input type="checkbox"/>	Local or corporate requirements:	<input checked="" type="checkbox"/>
Description:	<p>Key aims, objectives and activities To assess the impact of the proposal to dispose of Council land on a long lease.</p> <p>Statutory drivers (set out exact reference) The Local Government Act 1972 Section 123, as amended by the Local Government Planning and Land Act 1980 Section 118 Schedule 23 Part V.</p> <p>Key stakeholders and intended beneficiaries (internal and external as appropriate) The Council, Thirteen Housing Group, and the local community.</p> <p>Intended outcomes The proposed disposal of the subject site would deliver the following outcomes:</p> <ul style="list-style-type: none"> • Establish a viable and vibrant city centre living concept, which will give confidence to occupiers, developers and investors that the town centre is a safe, comfortable and well managed place in which to enjoy living, learning/working and leisure time. • The redevelopment of a key gateway site. • The development of 81 units of affordable housing. • The generation of over £110k per year from Council Tax, based on Band A. 			
Live date:	February 2021			
Lifespan:	Not applicable			
Date of next review:	Not applicable			

Screening questions	Response			Evidence
	No	Yes	Uncertain	
<p>Human Rights</p> <p>Could the decision impact negatively on individual Human Rights as enshrined in UK legislation?*</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>It is considered that the disposal of the subject land on a long lease will not impact negatively on individual human rights as the proposal represents a significant and positive enhancement for the local and wider area, which outweighs the loss of the parcel of land. This assessment has been made taking into account:</p> <ul style="list-style-type: none"> the fact that the land is a former housing market renewal site that has been assembled since 2006; the development of 81 new affordable homes that the disposal will facilitate; and, the establishment of a thriving urban living market, which will diversify the town centre economy.
<p>Equality</p> <p>Could the decision result in adverse differential impacts on groups or individuals with characteristics protected in UK equality law? Could the decision impact differently on other commonly disadvantaged groups?*</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>The Council has a duty to consider the impact of the proposed decision on relevant protected characteristics, to ensure it has due regard to the public sector equality duty. Therefore, in the process of taking decisions, the duty requires the Council to have due regard to the need to:</p> <ol style="list-style-type: none"> eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it, and foster good relations between persons who share a relevant protected characteristic and persons who do not share it. <p>It is considered that the proposal to facilitate the development of affordable housing will not have a disproportionate adverse impact on a group, or individuals, because they hold a protected characteristic. Evidence used to inform this assessment includes engagement to date with relevant Council departmental teams and Thirteen, together with analysis of the terms and conditions that will be incorporated within the proposed sale.</p>

*Consult the Impact Assessment further guidance appendix for details on the issues covered by each of these broad questions prior to completion.

Screening questions	Response			Evidence
<p>Community cohesion</p> <p>Could the decision impact negatively on relationships between different groups, communities of interest or neighbourhoods within the town?*</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>There are no concerns that the proposal could have an adverse impact on community cohesion.</p> <p>The decision to dispose of the land on a long lease to facilitate the development of affordable housing will not impact negatively on relationships between different groups. The decision would assist the Council's Social Regeneration agenda, ensuring a steady supply of affordable housing to meet the needs of its emerging and aspiring population.</p>
<p>The Mayor's Vision For Middlesbrough</p> <p>Could the decision impact negatively on the achievement of the vision for Middlesbrough?*</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>The disposal of this land on a long lease is aligned to the Mayor's Vision to attract an additional four thousand people to live in the town centre in the next ten years. The Mayor's ambition accords with the priorities for Place, set out in the Strategic Plan 2020-23, which states that the Council will build more town centre homes to boost businesses and increase vibrancy, while reducing the need to build on green space.</p>
<p>Organisational management / Change Programme</p> <p>Could the decision impact negatively on organisational management or the transformation of the Council's services as set out in its Change Programme?*</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>The decision would not have any negative implications for the Council's transformation programme. The Housing Strategic Partnership will generate Council Tax which supports the Council's Medium Term Financial Plan.</p>
<p>Next steps:</p> <p>➡ If the answer to all of the above screening questions is No then the process is completed.</p> <p>➡ If the answer of any of the questions is Yes or Uncertain, then a Level 2 Full Impact Assessment must be completed.</p>				