

**SUNDERLAND LOCAL HOUSING COMPANY UPDATE**

**REPORT OF THE DIRECTOR OF HEALTH, HOUSING AND ADULT SERVICES**

**1. Why has this report come to Committee?**

- 1.1 This report seeks to inform Committee of the background to a Local Housing Company (LHC) and provide an update as to progress made to date in the development of a LHC.

**2. BACKGROUND**

- 2.1 The Housing Green paper of 2007 set out the government's proposal to deliver 3m new homes by 2020, zero carbon homes by 2016 and increased resources to deliver more affordable homes
- 2.2 One of the initiatives launched was the Local Housing Company (LHC) concept and Sunderland was announced as one of the 14 national pilots to develop the LHC's.

The quote from the Green Paper is as follows

'Joint venture local housing companies could act as the master developer for new communities within an area, working in partnerships with builders and funders. Local Housing Companies would develop new homes and meet specific needs such as affordable and family housing'

2.3 An LHC could:

- Increase the supply of a range of homes, including affordable homes
- Allow the City Council to invest land in housing development and to capture a share of the land value
- Position the City Council at a stronger point in the centre of the development process and have a longer term influence on the use of its land and how it is developed
- Provide opportunities for a range of investment and development players to become partners of the City Council
- Create quality schemes with wider consumer choice and tenure options

- 2.4 The LHC could offer the City Council the opportunity to become a fully active player in the housing market in the area, realising greater potential from land assets by forming joint venture (JV) companies with private sector partners. The LHC may also enable the City Council to have more influence over the types of development that come forward as well as potentially providing opportunities to benefit from long term property value increases. This would help improve the

economic situation with the City and aid in the delivery of the economic masterplan for the City which is currently being procured.

- 2.5 In broad terms a LHC works by the local authority committing land to the scheme, the value of which is then matched by a development partner or partners. The LA basically agrees to forego the immediate market value of the site in return for the delivery of affordable housing and a share in the profits on the sale of market housing and 'staircasing' sales of shared ownership homes over the life of the contract.
- 2.6 Guidance on the development of LHC's was produced by the then English Partnerships (EP), now the Homes and Communities Agency (HCA), in November 2007 and has formed the basis for the development of the Sunderland LHC concept. A Sunderland model would need to reflect the specific needs of the city and wider region and would adopt the flexible approach encouraged by EP
- 2.7 In addition to general needs housing, the LHC could provide specialist housing for older people, people with disabilities, and other particular groups. Some of the sites could deliver wholly affordable housing or wholly market housing (the latter option would maximise profits which could be used to cross subsidise other LHC schemes or applied to other capital projects) or an appropriate mix.
- 2.8 The housing situation in the city is constantly changing, driven by the activities of Gentoo, other RSLs and by private developers in the city.
- 2.9 Gentoo in particular, has been particularly active as both social landlord and private developer. They have already brought the socially rented housing they own up to the decent homes standard (well before the 2010 deadline) and they are now clearing and redeveloping areas of formerly low demand social rented estates. Progress on new build has though been affected by the economic downturn.
- 2.10 Work is ongoing on the Council's Renewal Areas at Castletown and Hetton Downs, which have been the subject of update reports to this Committee recently. A joint venture agreement has been agreed between the Council, HCA and Gentoo for the development of new housing in Castletown on the former colliery properties site and work to acquire and clear housing sites in Hetton Downs/Eppleton is well advanced.
- 2.11 Work is due to start on a programme of stock renovation to be undertaken by Hendon NDC 'Back on the Map' to improve conditions in the east of the city
- 2.12 The private sector continues to build homes for sale across the city, though private sector activity is affected severely by the current housing downturn.
- 2.13 Other housing development is being facilitated by the HCA through their 'Coalfields' and Hospitals' programme which focuses on two large sites at the former Lambton Cokeworks and Cherry Knowle hospitals.

- 2.14 Housing need is increasing in Sunderland at a time when supply is falling. In part this is due to the mass demolitions of stock by Gentoo. Their replacement programme will not provide net additions for a number of years.
- 2.15 The need to increase the supply of housing in Sunderland is recognised across a number of strategies, including 'Delivering a five year supply of land for housing' report (March 2008), the Regional Spatial Strategy (RSS), the Sunderland Strategy and the recently published Sunderland Strategic Housing Market Assessment (SHMA)
- 2.16 The 5 year land supply report identified a shortfall of 1959 completed homes between 2004/5 and 2007/8. Whilst Sunderland saw significant numbers of houses being built during this period this was offset by the number of demolitions (see table 1 below). It is envisaged that the sites to be included in the Local Housing Company will be sites that previously did not have housing on them, and therefore all properties that are built will be seen as net additional homes.

Table 1: Actual Performance

<b>Year</b>	<b>RSS Net Allocation</b>	<b>Actual Net Outturn</b>	<b>Shortfall</b>
2004/5	700	370	330
2005/6	700	245	455
2006/7	700	123	577
2007/8	700	103	597
<b>Total</b>	<b>2800</b>	<b>841</b>	<b>1959</b>

- 2.17 To meet this shortfall the five year land supply report envisages 150 net new homes being completed each year over and above the RSS figures. This means that there should be 850 net completions per annum for the years 2008/9 to 2010/11 rising to 940 per year for the years 2011/12 to 2015/16 and to 1020 per annum for the years 2016/21 (see table 2 below)

Table 2: Net Additional Housing Requirement

	2008/9	2009/10	2010/11	2011/12	2012/13	5 year supply
<b>RSS</b>	700	700	700	940	940	3980
<b>Under performance adjustment</b>	150	150	150	150	150	750
<b>Total Requirement</b>	850	850	850	1090	1090	4730
<b>Compensation for lapsed permissions</b>						109
<b>Total homes over the next five years</b>						<b>4839</b>

2.18 Given the recent net completions these figures are going to be very difficult to achieve particularly with the effects of the economic downturn, which have seen new build programmes shrink considerably. Taking into account these factors these figures are now being revised. The need though to look at what else can be done to stimulate housing growth is crucial and the role that the City Council can play by using its assets becomes more paramount.

### 3. CURRENT POSITION

- 3.1 The current position with respect to the LHC is that a series of housing sites have been identified as having development potential with respect to the LHC model, sufficient to accommodate over 1600 homes. In addition, EP has indicated that the Cherry Knowle hospital site would be made available for inclusion in the LHC site portfolio.
- 3.2 Discussions, conducted centrally by the HCA, have been held with a number of potential partners, both public and private, who have all expressed a keen interest in bidding to become delivery partners in the proposed LHC. The key attraction appears to be the long term nature of the agreement coupled with the fact that up front payments for land are not required
- 3.3 The HCA has engaged consultants to value the sites and carry out a financial appraisal and this work is due for completion in the coming weeks.
- 3.4 Once the outcome of the financial appraisal and valuations are known we will be in a better position to understand the potential of the LHC and how it could contribute in the longer term to delivering much needed housing in the City. It must be acknowledged though that a LHC is only one part of the strategic approach for housing and has to be seen as complementary to the work that Gentoo are doing, the role of private developers and that of other Registered Social Landlords.

- 3.5 The HCA have created a National Local Housing Company Team, whose role it is to help coordinate the national approach to the development of LHC's. Several meetings have been held with officers from this team and local HCA representatives and they are positive about the development of a LHC in Sunderland.

#### **4. GOVERNANCE ISSUES**

- 4.1 A number of different options are being considered nationally as appropriate legal arrangements for local housing companies, including partnerships, limited liability partnerships and companies limited by shares.
- 4.2 The final decision on the most appropriate entity to be adopted for the Sunderland LHC will depend upon detailed legal and commercial advice and will take account of the risks involved with the various models and their respective tax implications.
- 4.3 All options envisage local authorities being equal partners on the LHC board and therefore able to influence the decision making of the board in respect of the types of homes to be developed, the tenure mix and the distribution of any profit arising.

#### **5. NEXT STEPS**

- 5.1 The financial appraisal and valuations of the sites are crucial to the way forward with the development of the LHC and these should be available in the coming weeks. Once available they will be the subject of detailed discussions within the Council and with the HCA. Further more detailed reports will be prepared and updates provided to this Committee in due course.

#### **6. BACKGROUND PAPERS**

None