

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD2745

### Title: Restructure of Marshgate Lane & Woodlands and Masters House loans

#### Executive Summary:

This decision seeks approval for the proposed changes to the Marshgate Lane & Woodlands and Masters House loan facilities originally approved under Director Decision (DD)2305.

The restructuring of the facilities is sought to provide adequate security to address the planning and financing risks which have materialised on both sites.

The Land Fund Investment Committee has been consulted and supports this proposal.

#### Decision:

That the Mayor approves:

1. Reducing the loan commitment under the Woodlands & Masters House development facility agreement between GLA Land and Property Limited (GLAP) and Anthology Kennington Stage Limited dated 5 December 2018 by the undrawn loan facility amount of £10.214m.
2. Increasing the loan commitment under the Marshgate Lane development facility agreement between GLA Land and Property Limited (GLAP) and Anthology Development 6 Limited dated 5 December 2018 by £10.214m.
3. The amendment of the loan terms, including security arrangements, as detailed in part 2 of the decision form.

#### Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

25/2/21

## PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

### Decision required – supporting report

#### 1. Introduction and background

- 1.1 MD2207 delegated authority to the Executive Director of Housing and Land to approve, via a director decision form and subject to approval from the Mayor's Land Fund Investment Committee, land fund investments unless the investment is considered to be novel, contentious or repercussive at which point it should be approved through a Mayoral Decision. In accordance with this, because of the nature of this investment as set out in Part 2 of this document, this decision is progressing as a Mayoral Decision. The Land Fund Investment Committee has been consulted and supports the proposals in this Mayoral Decision form.
- 1.2 GLA Land and Property (GLAP) has committed £139.4m of secured development loans to special purpose vehicles ("SPVs") of Anthology Group Limited ("The Developer"). This commitment is split across five loans in four projects (three Housing Zone loans in two projects and two Land Fund loans in two projects). The projects are detailed in part 2.
- 1.3 At the time the initial Housing Zone investments were made, Anthology was a new entrant to the London market. The funding commitments made to Anthology reflected the GLA's strategy of engagement with new delivery partners to diversify and accelerate housing supply. Since then, the company's group structure has changed, with the integration of Anthology Group as a subsidiary of Lifestory Group Limited. Lifestory Group Limited's focus includes providing retired living accommodation, through its PegasusLife and Renaissance Retirement brands.
- 1.4 The Housing Zones loans were committed under the Housing Zone Loan funding programme (MD1366):
  - Wembley Parade (MD1290): allocated £34.5m Housing Zone funding in the form of an interest-bearing loan to Anthology Wembley Parade Limited to finance the development of 195 homes (of which 40% are affordable) within the Wembley (LB Brent) Housing Zone.
  - Hale Village (MD2036): allocated £55.15m Housing Zone funding in the form of two interest bearing loans to finance the land acquisition (£12m) and development costs (£43.15m) in relation to the construction of 250 homes (of which 43% are affordable) within the Tottenham Hale Housing Zone.
- 1.5 The loan facility at Wembley Parade has now been fully repaid, and the Hale Village development is in a stable condition and approaching completion – repayment of the principal and interest is expected from the sales receipts, with sales progressing at a satisfactory pace.
- 1.6 The two Land Fund loans were made under the delegation of the Homes for Londoners Land Fund (MD2207) to expedite the delivery of new and affordable homes through targeted investments in London's land market. The two schemes are:
  - **Marshgate** (DD2305): £27.9m of funding was committed in December 2018 to deliver 350 new homes (50% of which would be affordable on a habitable room basis). The contractual counterparty for this loan is Anthology Stratford Mill Limited (formerly named Anthology Development 6 Ltd, company no: 10246508).
  - **Woodlands** (DD2305): £21.9m of funding was committed in December 2018 to deliver 254 homes (50% of which would be affordable on a habitable room basis). The contractual counterparty for this loan is Anthology Kennington Stage Limited (company no: 11165855).

- 1.7 The land fund loans provide senior debt funding towards the land and development costs for each project. Additionally, the two loan facilities for Marshgate and Woodlands are interlinked via a £11.2m intercompany loan. The intercompany loan allows Anthology Stratford Mill Ltd to provide any net additional receipts beyond those required to fund the Marshgate scheme as debt funding to Anthology Kennington Stage Ltd, via their mutual holding company, Anthology Group Limited. This is subject to compliance with a set of conditions precedent and financial covenants set out in the signed facility agreements and intragroup loan agreements for the two projects. GLAP has security over the intercompany loan.

Woodlands loan facility: commitments and planning status

- 1.8 To date, the amount drawn down from the loan facility has been used to cover the land acquisition costs. No further drawdowns can be made until the site is granted full planning permission.
- 1.9 Anthology submitted a planning application for consideration by the London Borough of Lambeth in July 2019. The scheme comprises 258 homes (including 50% affordable units by habitable room). Following several meetings with the local planning authority and one extension of the determination period, Anthology lodged an appeal to the Planning Inspectorate on 13 March 2020 on grounds of non-determination. The appeal was dismissed on the 7<sup>th</sup> of January 2021 by the Planning Inspectorate.
- 1.10 The current contractual milestones are included in the table below and will be reviewed once appropriate progress has been made on a new planning application.

*Table 1 – current contractual milestones for Woodlands:*

| Milestone                                   | Current date     |
|---------------------------------------------|------------------|
| Date of Planning Permission approval        | 31 December 2019 |
| Date of appointment of Construction Manager | 31 March 2020    |
| Start on Site Date                          | 31 March 2020    |
| Practical Completion Date                   | 30 June 2022     |
| Final Repayment Date                        | 31 December 2022 |

Marshgate loan facility: commitments and planning status

- 1.11 Marshgate Lane benefits from an extant full planning permission dating from May 2017 (ref: 14/00422/FUL): it includes 254 dwellings, of which 19% are affordable housing. This consent has been subject to a number of subsequent variations and non-material amendments under section 73 and section 96a of the Town and Country Planning Act 1990.
- 1.12 Anthology's development and phasing strategy relied on the implementation of phase 1 of the scheme under the extant planning permission, whilst preparing a new planning application for the phase 2 land (the remaining land).
- 1.13 The phase 2 land planning application was submitted on the 6 June 2019 to the London Legacy Development Corporation (LLDC) and included 342 homes (of which 198 are affordable housing, this represents 61% affordable housing by habitable room).

- 1.14 A second application was submitted in parallel, on the same date, for 276 homes (79 of which are affordable, this represents 34% affordable housing by habitable room). This application was paused by the applicant until a resolution was obtained on the above planning application.
- 1.15 After this, Anthology lodged an appeal to the Planning Inspectorate following refusal of the application from the local planning authority. The inquiry took place throughout July and August 2020 and the appeal was dismissed by the Planning Inspectorate on 08 December 2020 on grounds which are primarily related to density, townscape and design quality.
- 1.16 The 75 private units in Phase 1 are under construction in accordance with the aforementioned extant planning permission. To date, the £27.9m loan facility has been used in full to part fund £38m of the land and development costs.
- 1.17 The Developer's funding model for the project relied on developing phase 1 in parallel with phase 2, allowing the phase 2 land to generate a receipt via a disposal of the affordable land interest to a Registered Provider. The planning outcome has created delays in obtaining this receipt. These challenges were exacerbated by Covid-19.
- 1.18 GLAP is not required to continue lending to Anthology Stratford Mill Limited until the funding gap is resolved.

*Table 2 – current contractual milestones for Marshgate Lane:*

| <b>Milestone</b>                                          | <b>Current date</b>                                    |
|-----------------------------------------------------------|--------------------------------------------------------|
| Date of Planning Permission approval (for phase 2)        | 29 February 2020                                       |
| Date of appointment of Construction Manager (for phase 2) | 31 March 2020                                          |
| Start on Site Date (for phase 2)                          | 31 March 2020                                          |
| Practical Completion Date (for phase 2)                   | 30 September 2022                                      |
| Final Repayment Date (for both phases)                    | Phase 1: 31 December 2022<br>Phase 2: 31 December 2022 |

### **Restructuring proposal**

- 1.19 This decision document seeks the reallocation of the undrawn element of the Woodlands loan facility (£10.214m) to the Marshgate loan facility. Doing so will contribute towards closing the funding gap required to complete phase 1 of the Marshgate Lane development.
- 1.20 This proposal was subject to internal and external legal and financial due diligence, following which a number of variations to the existing loan facilities are recommended to strengthen the GLA's security as outlined in part 2.

## **2. Objectives and expected outcomes**

- 2.1 Whilst new planning applications are being prepared for the above projects, the focus of the proposals is to ensure phase 1 of Marshgate Lane is completed.

- 2.2 The allocation of senior debt for future drawdowns will be on equal footing with equity contributions from Anthology Group, thereby ensuring a partnership and shared-risk approach to financing its completion.
- 2.3 From a lending perspective, this approach enables GLAP to focus its resources towards the most recoverable and stable loan collateral for the two projects: a completed and marketed sale product, rather than pre-planning land for development.
- 2.4 Additional conditions and security provisions on lending to phase 2 of Marshgate Lane and Woodlands are included as part of the consideration for the re-allocation of the undrawn facility discussed above and stated in part 2.

### **3. Equality comments**

- 3.1 Under section 149 of the Equality Act 2010, as public authorities, the Mayor and GLA are subject to a public-sector equality duty and must have 'due regard' to the need to (i) eliminate unlawful discrimination, harassment and victimisation; (ii) advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and (iii) foster good relations between people who share a relevant protected characteristic and those who do not. Protected characteristics under section 149 of the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status (all except the last being "relevant" protected characteristics).
- 3.2 The housing shortage in London disproportionately affects people with certain protected characteristics. Increasing the supply of housing, and in particular affordable housing, will help to achieve positive impacts in line with the 'three needs' outlined above.
- 3.3 The delivery of new and additional homes will help to implement the objectives of the Mayor's Equality Diversity and Inclusion Strategy "Inclusive London" (May 2018). This includes working with housing associations, councils, developers, investors and government to help increase the supply of homes that are genuinely affordable to buy or rent. This will help to tackle the inequalities experienced by certain groups of Londoners most affected by the city's shortage of affordable homes.
- 3.4 The continued allocation of development funding is from the Land Fund, which is aimed at implementing the Mayor's policies set out in the London Housing Strategy. In September 2017, the GLA published an impact assessment, including an equalities impact assessment, of that strategy. Policies related to increasing housing supply and delivering affordable housing, to which this programme will contribute, were also covered by the Integrated Impact Assessment (IIA) for the Draft London Plan, published in November 2017.
- 3.5 The IIA concluded that the cumulative impact of these policies combined with policies for flexible housing mix, inclusive design and accessible housing would contribute to creating inclusive communities, relieve housing pressures that disproportionately affect lower-income groups and ensure the needs of diverse groups are considered in housing delivery and design.

### **4. Other considerations**

#### *a) Key risks and issues*

- 4.1 Key risks to the success of these projects include sales risk, planning risk and cost-inflation risk. Further information is included in Part 2 of this decision.

*b) Links to Mayoral strategies and policies*

- 4.2 The Publication London Plan (Policy H1) promotes the increase of housing supply, including provision of affordable housing. The development facilities provide an obligation for Anthology to deliver 50% affordable housing on Marshgate and Woodlands.
- 4.3 In the London Housing Strategy (May 2018), the Mayor states his intention to reverse the decline of Small and Medium Developers. The provision of GLAP loan finance to Anthology has enabled the company to grow and create a pipeline of sites. The ongoing provision of GLAP loan finance to Anthology would contribute toward the aim of developing this pipeline and support the financial stability of the business, as well as its ability to grow in future years.
- 4.4 The Publication London Plan (Policy GG2, SD1) promotes development in Opportunity Areas. Marshgate is within the Lower Lea Valley Opportunity Area. The Plan (Policy GG2) also advocates the prioritisation of development of Public Sector Land whilst understanding the value of existing places. Woodlands & Masters House is a former NHS Trust property and part of a conservation area. The proposal aims to retain some of this character as well as the culturally important Cinema Museum onsite.

*c) Impact assessment and consultation*

- 4.5 Whilst for this Mayoral Decision the GLA has not considered it necessary or appropriate to consult any persons or bodies including those specified in section 32(1) of the Greater London Authority Act 1999, the borrowers as the developers have consulted with a range of stakeholders via the planning application process. Further details are available in Part 2.

*d) Declarations of interest*

- 4.6 The officers involved in the drafting or clearance of this form do not have an interest to declare in accordance with the GLA's policy on registering interests which might, or might be seen to, conflict with this decision.

**5 Financial comments**

- 5.1 This decision requests approval for the transfer of a loan facility of £10.214m from Anthology Kennington Stage Limited – the Woodlands site – to the loan commitment to Anthology Development 6 Limited – the Marshgate site.
- 5.2 The loan facilities were funded from the Mayor's Land Fund and were initially approved in December 2018 under DD2305. The funding source has now been switched to an intercompany loan from the GLA to GLAP. Within the GLA, the loan to GLAP will be funded from the MHCLG Land Fund.
- 5.3 The transfer of the loan facility will contribute towards closing the funding gap on stage 1 of the Marshgate site. The funding gap has arisen because of delays on planning approval for stage 2. The reduced commitment for the Woodlands site will then be fully drawn and no further funds will be considered for Woodlands until planning permission is secured.

**6 Legal comments**

- 6.1 Under section 30(1) of the Greater London Authority Act 1999 (as amended) ("GLA Act"), the GLA has the power to provide the loan funding for the projects explained above, on the basis that doing so will further one or more of the GLA's principal purposes of: promoting economic development and wealth creation, social development, and the improvement of the environment in Greater London. The project will deliver new housing, including affordable housing, and it is open to the GLA to take the

view that funding it will promote both social and economic development, and is therefore within its power contained in section 30(1) of the GLA Act.

- 6.2 In exercising the power in section 30(1), the GLA must have regard to the matters set out in section 30(4-6A) of the GLA Act, and also the Public Sector Equality Duty in section 149 of the Equality Act 2010. Reference should be made to section 3 above in this respect.
- 6.3 In addition to the above, where the GLA is proposing to use the power conferred in section 30(1) of the GLA Act, the GLA must consider consulting in accordance with section 32 of the GLA Act. GLA officers have confirmed it is not considered necessary or appropriate for the GLA to consult with any other persons or bodies including those specified in section 32(2) of the GLA Act for the purposes of this Mayoral Decision (paragraph 4.5 above).
- 6.4 The provision of the proposed loans on market terms is likely to constitute a specified activity, as defined under section 34A of the GLA Act and the Greater London Authority (Specified Activities) Order 2013/973. Accordingly, the loans need to be provided by a subsidiary company of the GLA, as is currently the case. GLA Land and Property Limited (GLALP) is a subsidiary of the GLA.
- 6.5 External lawyers are advising GLA officers in relation to the amendments required to the Marshgate and Woodlands loan facility documentation and related security. Officers must ensure that all necessary and appropriate steps are taken, and suitable agreements entered into with the borrower SPVs to formalise the amendments before committing to the same.

## **7 Planned delivery approach and next steps**

### *Next steps*

- 7.1 External legal advisors have prepared standstill agreements between the GLA and the borrower SPVs in respect of both loan facility agreements. The standstill agreements allow the borrower to draw down from the existing Marshgate Lane facility until 25 February 2021, whilst reserving the GLA's rights in respect of the existing loan breaches for that period. The Woodlands loan will be fully drawn, once the loan amendments are effective, and no further amounts will be made available on Woodlands until a satisfactory planning permission is obtained on both phase 2 of Marshgate Lane and Woodlands. The standstill agreements were signed on 16 December 2020 and will initially remain in place until the earlier of the date at which the legal agreements setting out the proposed loan restructure are entered into, or 25 February 2021. This timing can be extended by agreement.
- 7.2 Marshgate Phase 2 and Woodlands will be reviewed for ongoing lending, at the GLA's discretion, once new plans for a revised planning submission are developed by Anthology Group and once satisfactory due diligence on new schemes are completed as described in part 2.
- 7.3 Traderisks has completed a viability assessment of both projects and supported the GLA in negotiating revised terms with Anthology as outlined in Part 2.

*Table 3 – outline timetable for delivery of next steps:*

| <b>Activity</b>                                                                                           | <b>Timeline</b>    |
|-----------------------------------------------------------------------------------------------------------|--------------------|
| Appointment of external solicitors and drafting of revised loan facility agreements (funded by Anthology) | w/c 4 January 2021 |
| Enter into restructured loan facility agreements & review of development and repayment milestones         | w/c 1 March 2021   |

### **Appendices and supporting papers:**

None.

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

**Part 1 - Deferral****Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason: To maintain the confidentiality of the revised transaction terms until it is completed, and to avoid prejudicing any refinancing required on other Anthology projects.

Until what date: 31 July 2022

**Part 2 - Sensitive information**

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form - YES****ORIGINATING OFFICER DECLARATION:**

Drafting officer to  
confirm the  
following (✓)

**Drafting officer:**

Marc Jacquemond has drafted this report in accordance with GLA procedures and confirms the following:

**Sponsoring Director:**

Rickardo Hyatt has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

**Mayoral Adviser:**

Tom Copley has been consulted about the proposal and agrees the recommendations.

**Advice:**

The Finance and Legal teams have commented on this proposal.

**Corporate Investment Board**

This decision was agreed by the Corporate Investment Board on 22 February 2021.

**EXECUTIVE DIRECTOR, RESOURCES:**

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

**Signature**

*D. Gane*

**Date**

23 February 2021

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor

**Signature**

*D. Bellamy*

**Date**

22 February 2021