

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2458

Title: Mitre Yard Loan Facility

Executive Summary:

In November 2018, the Mayor secured £486 million from the Government's Land Assembly, Small Sites and Accelerated Construction Funds to help deliver 8,000 housing completions by 2030.

This funding was approved by Mayoral Decision (MD)2396, which provided a standing delegation to the Executive Director of Housing and Land to approve its allocation in pursuit of the Mayor's housing ambitions.

This decision requests approval for GLA Land and Property Limited (GLALP) to provide a £19,100,000 loan facility to Mitre Yard Properties (2020) Limited to unlock 241 homes, delivering at least 42% affordable by habitable rooms, and starting on site by September 2020.

Decision:

That the Interim Deputy Executive Director for Housing & Land approves:

The use of the Land Assembly, Small Sites and Accelerated Construction Funds to provide a £19,100,000 loan facility to Mitre Yard Properties (2020) Limited.

AUTHORISING DIRECTOR

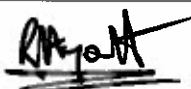
I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: Rickardo Hyatt

Position: Interim Deputy Executive
Director for Housing & Land

Signature:



Date: 9 March 2020

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

Introduction

- 1.1. MD2396 Land Assembly, Small Sites and Accelerated Construction Funds, signed in November 2018, approved receipt of funds from Government totalling £486m (part of the Mayor's Land Fund) to help unlock and accelerate housing delivery in London through land assembly, infrastructure investment and provision of gap funding to support the delivery of 8,000 housing completions in London by 2030.
- 1.2. MD2396 delegated authority to the Executive Director of Housing and Land in consultation with the Deputy Mayor for Housing and Residential Development, to approve, via a Director Decision the allocation of new funding in accordance with the terms associated with the programme and in pursuit of the Mayor's housing ambitions.
- 1.3. This decision form seeks the Director's approval to allocate a £19,100,000 interest bearing loan facility for a period of 5 years (with the potential to extend to 6 years), from the Land Fund to the Special Purpose Vehicle (SPV) Mitre Yard Properties (2020) Limited (MYPL), established by City and Docklands (C&D) to bring forward the development.
- 1.4. The investment will be made from the Land Fund and would be structured to match the expected growth in capital value as the project stabilises. The funding would be provided as mezzanine finance during the development and stabilisation period of the Mitre Yard scheme at Old Oak Common in order to unlock residential development of 241 homes (with no fewer than 42% affordable by habitable rooms), and enables additional affordable delivery compared to the extant planning permission requiring 35%.
- 1.5. Due diligence has now been completed in respect of the proposed intervention, the details of which are set out below and in Part 2 of this DD.

Build to Rent funding

- 1.6. Investment in the UK Build to Rent (BTR) market has increased significantly over the last 10 years. However, because BTR investments generate returns from long-term operational cash flows rather than sales receipts it is very challenging to acquire development period finance at rates capable of competing with private-sale led development. When expected rental cash flows are capitalised the level of capital value generated at the start of operations, compared to private sales receipts, is typically insufficient.
- 1.7. Developers of Build-to-Rent (BTR) homes encounter funding challenges that limit the amount of housing coming forward. Due to higher costs (as BTR schemes are typically completed to a higher specification than private sale schemes) and lower values available from BTR investment the return requirements for investors are often pressured to the point that investments are not made, and alternative development strategies are pursued – typically private sale led schemes.
- 1.8. MYPL approached the GLA to explore options for unlocking the Mitre Yard development at Old Oak Common by providing finance. Without GLALP mezzanine/ junior debt funding support this development would not be considered commercially worthwhile to proceed. If the proposed loan facility is not approved the development is not expected to come forward without significant amendments and delay.
- 1.9. The Draft London Plan recognises that the Build to Rent development model differs from a traditional private-sale led scheme and the potential role it can play in accelerating delivery. Therefore, in Policy

H11 it allows, where a development meets several criteria, for the affordable housing offer to be solely Discounted Market Rent at a genuinely affordable rent level (preferably London Living Rent).

- 1.10. Mezzanine financing could play a significant role to bridge the gap between senior debt and equity financing for BTR schemes. This development provides an opportunity for the GLA to step into an enabling role in the BTR development financing market via the Land Fund, particularly in relation to complex schemes.

Stakeholders

- 1.11. C&D is a privately-owned development, management and investment company with a focus on developing and managing new build apartment schemes in key growth areas of London. Development is undertaken through project specific SPVs with the development for this site being undertaken through Mitre Yard Properties (2020) Limited.
- 1.12. Mitre Yard Properties (2020) Limited (MYPL) as the development SPV is registered in the UK and holds ownership of the site.
- 1.13. Customer services are provided in-house by C&D's wholly owned entity called A Way of Life which delivers its housing management function. C&D are in the process of registering A Way of Life as a for profit Registered Provider that will hold and manage its future affordable assets.

Site

- 1.14. Mitre Yard is located at 104-108 Scrubs Lane, NW10 6QY in the London Borough of Hammersmith and Fulham. The site extends to 0.53 hectares, comprises two parcels of land immediately to the north of Grand Union Canal, and is situated on the eastern edge of the Old Oak and Park Royal (OPDC) Opportunity area and within the Old Oak and Park Royal Development Corporation masterplan. MYPL owns the freehold of the site.
- 1.15. The Mitre Yard development is one of the first schemes capable of delivery within the Old Oak and Park Royal Opportunity Area and has a strategic location on Scrubs Lane at the entrance to the area. Development of Mitre Yard, identified as an early activation site, would be in line with the Old Oak North business plan and would serve as a catalyst for further enhanced development in the Scrubs Lane area.
- 1.16. The site has planning permission under reference 19/0104/VAROPDC for 241 apartments, 609 sqm flexible non-residential floor space and 514 sqm of flexible workspace, with 35% affordable homes (by habitable rooms).
- 1.17. It is likely that the private sector alone will struggle to bring forward comprehensive regeneration, which would lead to sub-optimal outcomes and missed opportunities.

Proposed intervention

- 1.18. To address the funding challenges and facilitate delivery of the Mitre Yard scheme GLALP will provide a £19,100,000 mezzanine finance to MYPL from the Land Fund. The term would be 5-years (with the potential to extend to 6 years) covering development, lease-up and asset stabilisation. The loan is structured to match the expected growth in capital value as Mitre Yard is stabilised. At the end of stabilisation (when the project is essentially de-risked from a development perspective) the project would be refinanced to institutional investors, reflecting the inherent value of stabilised long-term rental cashflows.
- 1.19. The contract interest rate is the combination of the development margin and the investment margin:
 - The development margin is comprised of an interest rate for affordable and non-affordable housing respectively based on square meters. This provides flexibility in agreeing loan terms to support delivery and maximise the level of affordable housing (by agreeing a lower interest rate in

respect of the affordable housing element of the funding) within the framework of State Aid requirements.

- The investment margin is reflective of the risk taken by the lender. This interest is rolled up and payable on refinancing.

- 1.20. The facility interest rate has been endorsed by the Interest Rate Setting Board and the Mayor's Land Fund Investment Committee on the basis that principal and interest are repayable 5 years after initial drawdown (with the potential to extend to 6 years).
- 1.21. No other subsidy, including grant, is required to achieve the delivery of the 42% affordable homes by habitable rooms.
- 1.22. Consideration is given to the product offered, compliance with state aid and other legal, regulatory and accounting requirements. Heads of terms of this proposal and a structure chart have been shared between GLA and C&D and external lawyers have been instructed to prepare the contractual documentation on this basis. The borrower will be paying GLALP's legal costs for the drafting of the facility agreement and intercreditor agreement. Once drafted, the contractual agreement will be subject to further financial and legal due diligence.
- 1.23. The GLA and MYPL will seek to explore the possibilities of using precision manufacturing as a way of delivering (elements of) this scheme.
- 1.24. Further detail of the funding package is set out in Part 2 of this DD.

2. Objectives and expected outcomes

- 2.1. The loan facility will accelerate the delivery of a minimum of 241 homes at Mitre Yard with all homes expected to start on site no later than September 2020 and be London Plan compliant.
- 2.2. The loan facility enables an increase in the overall provision of affordable homes by habitable rooms to 42%, an increase of 7% on the consented scheme.
- 2.3. GLALP's investment enables an improvement in the affordability levels with rental discounts increasing for all the affordable homes subsequent to the initial planning consent. The proposed accommodation schedule is outlined in the following table:

Affordable housing with GLA investment				
Types	Private	Affordabl e	Total	Affordability
studio	42	0	42	n/a
1bed	50	25	75	Maximum 70% of market rent
2bed	36	49	85	Maximum 70% of market rent
3bed	22	12	34	LLR level
4bed	3	2	5	LLR level
Total	153	88	241	
% Affordable by hab room	42%			

- 2.4. GLALP will receive a commercial rate of interest on the non-affordable elements, and a subsidised rate on the affordable elements, on the mezzanine loan facility.

3. Equality comments

- 3.1. Section 149(1) of the Equality Act 2010 provides that, in the exercise of their functions, public authorities must have due regard to the need to: eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010; 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.
- 3.2. 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.
- 3.3. The housing shortage in London disproportionately affects people with certain protected characteristics. Increasing the supply of housing, and affordable housing, will help to achieve positive impacts in line with the 'three needs' outlined above.
- 3.4. The allocation of the funding is from the Land Fund and is aimed at implementing the Mayor's policies set out in the London Housing Strategy and the London Plan. In September 2017, the GLA published an impact assessment, including an equalities impact assessment, of the Housing Strategy. Policies related to increasing housing supply and delivering affordable housing, to which this project 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. The Mayor's Equality, Diversity & Inclusion Strategy was issued in May 2018. The first chapter of this document is entitled "A Great Place to Live". Priority outcome 1.1 in the vision refers to delivering affordable, accessible and decent homes. This funding will help to deliver new housing, making the whole development financially viable, indirectly facilitating the delivery of new affordable homes in London.
- 3.6. To access the loan funding, MYPL will be required to enter into a facility agreement with GLALP, which places the following obligations on MYPL in respect of the Equality Act 2010: to comply in all material respects with all relevant legislation, including but not limited to legislation relating to equality and diversity; and to have, and fully comply with, a policy covering equal opportunities designed to ensure that discrimination prohibited by the Equality Act 2010 or which is made on any other unjustifiable basis in respect of the obligations to be performed by it under the agreement is avoided at all times. MYPL will also provide a copy of that policy and evidence of the actual implementation of that policy upon request by GLALP.

4. Other considerations

Key risks and issues

- 4.1. Key risks to the success of this project include price falls and cost-inflation risk. The Transactions Team within the GLA's Housing and Land directorate will retain oversight of the facilities, monitoring drawdown and delivery. The loan agreement will incorporate the following:
 - an independent certifier will be appointed to ensure consistent and comprehensive recording and reporting of project, programme and financial performance against agreed metrics including forecast and actual outputs, expenditure and income;
 - quarterly project reports; and

- updated project business plan every 6 months to inform GLALP's decisions on this project and other projects that may be brought forward within the Scrubs Lane redevelopment area.
- 4.2. Project due diligence and creditworthiness assessments have been undertaken by an external commercial consultant, whose report indicated that cost and value assumptions were generally in line with its expectations, and differences generally would not have an adverse effect on delivery and security.
 - 4.3. Further information is included in Part 2 of this decision

Links to Mayoral strategies and priorities

- 4.4. The London Housing Strategy sets out the policy rationale for the GLA to take a more interventionist approach in London's land market, with the aims of: building more social rented and other genuinely affordable homes; accelerating the speed of building; and capturing value uplift for public benefit.
- 4.5. A failure over recent decades to build the number and type of homes London needs has resulted in a housing crisis characterised by increasing affordability pressures and rising housing need. To address this, the Draft London Plan sets a target of 520,000 homes over 10 years, with a strategic target for 50% of these to be genuinely affordable. In the shorter term, the Mayor has committed to start 116,000 genuinely affordable homes by March 2022.
- 4.6. The delivery of new and additional homes will help to implement Objectives 1, 2, 3 & 4 of the Mayor's Equality Framework "Inclusive London" (May 2018).
- 4.7. The Draft London Plan (Policy GG2, intend to publish version) promotes development in Opportunity Areas. Mitre Yard is within the Old Oak and Park Royal Opportunity Area.
- 4.8. The Draft London Plan (Policy H1, intend to publish version) promotes the increase of supply of affordable housing and housing in general. Mitre Yard will contribute towards the London Borough of Hammersmith and Fulham's annual target of 1,648 homes.

Impact assessments and consultations

- 4.9. Whilst for this Directors 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, and will consult with, a range of stakeholders. Further details are available in Part 2.

Investment Partner

- 4.10. In line with its Anti-Money Laundering Policy as approved by DD2095, GLA officers have carried out Know Your Customer (KYC) checks to verify the identity of the contracting entity.

Environmental Considerations

- 4.11. Opportunities for improving quality of life and place-making have been explored, and will be explored, by the borrower.

Declaration of interest

- 4.12. The officers involved in the drafting or clearance of this form have no interests to declare in accordance with the GLA's policy on registering interests which might, or might be seen to, conflict with this Director's Decision. The Executive Director of Housing and Land has identified the potential for a conflict of interest to occur with this development due to his interim role as Chief Executive of OPDC. On that basis, the Executive Director of Housing and Land has removed himself from the decision-making process for these proposals.

5. Financial comments

- 5.1. This decision requests approval for the provision of a £19,100,000 interest bearing loan facility for a term of 5 years to Mitre Yard Properties (2020) Limited.
- 5.2. The loan facility will be funded from the £486m Government's Land Assembly, Small Sites and Accelerated Construction Funds. The work is expected to start no later than September 2020.
- 5.3. The interest rate on the loan has been endorsed by the Interest Rate Setting Board.

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 project explained above, provided 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 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. As noted at paragraph 4.7 above, GLA officers have engaged with the proposed borrower in relation to the project which is the subject of this Director Decision. 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 Director Decision.
- 6.4. The provision of the loan facility at a market rate of interest in respect of any open market housing 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, it will need to be provided by a subsidiary company of the GLA, as is proposed. GLA Land and Property Limited (GLALP) is a subsidiary of the GLA.
- 6.5. External lawyers have advised GLA officers in relation to the form of facility agreement and security documentation between the GLA and MYPL.
- 6.6. Further legal comments are set out in Part 2.

7. Planned delivery approach and next steps

Action	Timeline
Completion of Loan Agreement (expected)	March 2020
Start on Site (expected)	September 2020

Appendices and supporting papers:
Appendix 1 – Mitre Yard site plan

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: until after the Mayoral election

Until what date: 11 May 2020

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:

Eric Commans has drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service:

Rachael Hickman has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 9 March 2020.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Allce

Date

9.3.20