

# GREATER **LONDON** AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD1176

**Title:** Wood Street Custom Build Development Loan

### Executive Summary:

The Wood Street Custom Build project in Waltham Forest was approved by the Housing Investment Group (HIG) in December 2012 with first stage loan approval for £800,000 subject to the successful conclusion of Due Diligence.

This paper states the conclusion of the due diligence exercise and recommends that GLA Land and Property enters into a loan agreement with Wood Street Development Partnership (WSDP) for the increased amount of £870,000 to enable the delivery of 4 x 1 beds and 4 x 2 beds flats.

### Decision:

That the Director approves a development loan of £870,000 to deliver eight open market residential units and expenditure of £10,000 to support the project.

### 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:** David Lunts

**Position:** Executive Director Housing and Land

**Signature:**



**Date:**

7.3.2014

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1 The Wood Street Development Partnership (WSDP) have submitted a bid for the Custom Build funding to develop eight units by adding an additional storey to an existing building.
- 1.2 The Wood Street project in Waltham Forest was approved by HIG in December 2012 with first stage loan approval for £800,000 subject to the successful completion of Stage 2 Due Diligence. This second and final stage has now been concluded (see Appendix 1) and this Directors Decision is recommend for approval.
- 1.3 During the due diligence period the loan amount required increased to £870,000. The increase reflects tender prices received by the applicant. The 75%/25% loan to equity rule has not been breached as the applicant has increased their equity contribution. There is sufficient budget within the programme to accommodate this variation.
- 1.4 There were initial challenges with the security of loan as the applicant, WSDP, has low assets and turnover. As a result, the Stage 1 approve was proposing that WSDP should chose to partner with an existing GLA investment partner. However, the Area Team and WSDP unsuccessfully explored a number of possible options for partnership with an Investment Partner.
- 1.5 Finance, the Area Team and Wood Street have consequently worked closely together to reach a loan structure that mitigates risk sufficiently in the absence of an Investment Partner and creates a viable development. Over the last few months progress has been made and risks to GLAP's loan investment have been mitigated by, for example,
  - WSDP receiving deposits on five flats to an open market value higher than GLAP's development loan;
  - WSDP putting their resources into the project in advance of first loan draw down;
  - Each loan draw down will be linked to pre-agreed milestones;
  - GLAP will have step in rights to control the development lease should pre agreed conditions not be met and;
  - GLAP will have first charge over the freehold of the property.
- 1.6 It has been agreed that repayment of the Custom Build Loan will be by proceeds from first sales, and the loan agreement will make this explicit.

#### **2 Other considerations**

##### **Risk**

- 2.1 As part of the due diligence, WSDP set up a risk register to demonstrate how they are managing risks (see appendix 2). In addition to risks outlined by WSDP there are risks specific to GLAP.
- 2.2 The two main risks to GLAP's loan are Construction Risk and Sales Risk.
- 2.3 Construction Risk has been mitigated by:
  - The loan will be structured so that it can only be drawn down at particular development milestones;
  - WSDP is in receipt of tenders from two contractors interested in doing the project;

- Planning has been achieved, and;
  - WSDP have experience in completing a small retail to residential development on the ground floor of their block.
- 2.4 Sales Risk has been mitigated by:
- Early marketing of the properties, and;
  - Receipt by WSDP of deposits on five flats to an agreed value higher than GLAP's loan.
- 2.5 In order to avoid the risk of challenge from any unsuccessful organisations the assessment has followed the clear process for the assessment agreed at HIG in December 2012.
- 2.6 As with any funding programme there is a risk of insolvency, fraud or misappropriation. This is mitigated through the detailed due diligence that has been carried out on WSDP, the project cash-flow and the level of security offered to GLAP. Furthermore, GLAP will have a first charge on the freehold of the property and the development lease to be granted to WSDP, giving GLAP the ability to take over the development should a breach situation arise

### ***Links to Mayoral strategies and priorities***

- 2.7 The funding links back to 'Laying the foundations' – a housing strategy for England, published in November 2011 by HM Government. The national housing strategy recognises the importance of Custom Build Housing and the difficulties of groups accessing conventional loan finance and pledged £30 million, £5 million of which will be used in London, of short-term project finance on a repayable basis. Approving the proposal will be significant for the successful implementation of Build Your Own Homes the London Way.

## **3 Financial comments**

- 3.1 The agreed loan amount is £870,000 to be repaid, with interest, to GLAP by 31<sup>st</sup> March 2016. For interest rate details please see Appendix 1, paragraph 8 (confidential, in the Part 2 paper).
- 3.2 The due diligence completed on WSDP has been more in depth than the standard review of accounts as the organisation applying for the loan has a limited history and the nature of a Custom Build loan dictates that conventional sources of finance for the project must be unavailable to the applicant.
- 3.3 There are no charges against the borrower and the director has no history of involvement with businesses that closed unfavourably.
- 3.4 This loan may be granted based on confirmed collateral made up of the freehold of the flat and control of one of the ground floor flats. Additional collateral to be considered could include cash deposits held in an escrow account which would serve as provisional payment for one or more of the completed units.
- 3.5 GLAP has relied on the external valuation of the property provided by WSDP. The interest rate offered will be based on this valuation and any additional security offered (see 3.4).
- 3.6 Payments to WSDP should be made based on contracted milestones. These milestones should be based upon amounts invoiced by the contracted builder, and proof that each invoice has been cleared should be provided before the next payment is made. The loan payment should not at any point give rise to WSDP having a GLA balance on account beyond the period it takes to pay the vendor obligation it was paid over for.
- 3.7 GLAP should agree step-in rights if milestones are not met by specified dates or if the contractor is not paid within 30 days of the loan instalment being made.

- 3.8 GLAP must have first charge on the collateral and no dividend payments or similar should be made by WSDP before the loan is fully repaid to GLAP.

#### **4 Legal comments**

- 4.1 Section 30 of the Greater London Authority Act 1999 (as amended) (GLA Act) gives the Mayor a general power to do anything which he considers will further one or more of the principal purposes of the GLA as set out in section 30(2) of the GLA Act which are (1) promoting economic development and wealth creation in Greater London, (2) promoting social development in Greater London and (3) promoting the improvement of the environment in Greater London.
- 4.2 Previously the GLA was prohibited from using these general powers to incur expenditure in providing any housing. This prohibition was removed by section 186 of the Localism Act 2011 which came into effect on 1 April 2012.
- 4.3 Section 2.7 of this report indicates that the objectives of entering into this loan agreement fall within the GLA's statutory powers as described in section 4.1.
- 4.4 As the loan agreement will involve charging a commercial rate of interest and taking legal charges over land as security the contracting party will be GLAP rather than GLA, to ensure compliance with the Greater London Authority (Specified Activities) Order 2013.
- 4.5 By the Mayoral Decision MD1018 the Mayor delegated authority to the Deputy Mayor for Housing, Land and Property, the Executive Director of Housing and Land and the Executive Director of Resources to authorise GLAP to enter into loan agreements for Custom Build Housing which are consistent with the principles of the scheme with organisations that are approved as successful applicants for such funding in accordance with the Bidding Guidance and the relevant corporate governance arrangements. As stated in paragraph 1.11 of MD1018 the role of GLAP is to be limited to entering into and operating the loan agreement. It is intended that the GLA will retain control of the manner, basis and terms on which GLAP enters into the loan agreement.
- 4.6 It should be noted that as GLA Land and Property Limited will be a party to the legal documentation, GLAP will need to approve the proposed transaction in accordance with its constitution.
- 4.7 The loan agreement will incorporate the terms of the standard Heads of Terms for Custom Build with additional clauses highlighted in this paper. It is intended that the loan agreement will be based on the HCA's Custom Build loan agreement with appropriate amendments.
- 4.8 It has been recommended by Legal that external solicitors are used to draft the legal documentation and a quote from Trowers & Hamlin LLP has been received.
- 4.9 As draft Heads of Terms have been agreed in principle with the applicant and HCA's loan agreement will form a base, the legal fees for the funding agreement and legal charge should be no more than £5,000. In addition, there is a requirement for an intercreditor deed (£3,500) and property title due diligence (£1500). Each quote excludes Vat and disbursements. It is recommended that GLA apply a cap of £10,000 plus Vat and disbursements for the legal work on this project.

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

5.1 The table below outlines next steps based on approval for the loan in January 2014:

Milestone	Completion Date
Enter into contract	March 2014
Contractor procured	April 2014
Start on Site	May 2014
Loan Draw down 1	June 2014
Loan Draw down 2	January 2015
Completion	April 2015
Sale of unit and repayment of GLA Loan	September 2015
Longstop date for loan repayment.	April 2017

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

Appendix 1: Wood Street Stage 2 – Due diligence Confidential and not for publication

Appendix 2: Risk Register



**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) 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 approval or on the defer date.

**Part 1 Deferral:**

**Is the publication of Part 1 of this approval to be deferred?** No

**Part 2 Confidentiality:** Only the facts or advice considered to be exempt from disclosure under the FOI Act should be 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:**

Owain Roberts has drafted this report in accordance with GLA procedures and confirms that:

✓

**Assistant Director/Head of Service:**

Jamie Radcliff 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.

✓

**EXECUTIVE DIRECTOR, RESOURCES:**

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

**Signature**

*M. J. Allen*

**Date**

*6.3.14*

