

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2305

Title: Marshgate Lane & Woodlands and Masters House Loans – London Boroughs of Newham and Lambeth

Executive Summary:

MD2207 established the Homes for Londoners Land Fund to enable the GLA to take a more interventionist approach in London's land market, with the aim of getting more homes built, increasing the proportion of affordable homes, accelerating the speed of building, and capturing value uplift or public benefit.

MD2207 also approved terms for the delegated authority to the Executive Director of Housing and Land to approve the fund's investments, subject to the prior approval of the GLA's Land Fund Investment Committee (LFIC) where required.

Following consideration and approval by the LFIC, this Director's Decision requests approval for the provision of two interest-bearing loan facilities from the Homes for Londoners Land Fund for a total of £49.8m to two companies within the Anthology Group to enable the delivery of over 600 homes at Marshgate Lane (LB Newham), and Woodlands & Masters House (LB Lambeth). No fewer than 50% of these (on habitable room basis) will be genuinely affordable homes, with all units starting on site no later than March 2020.

Decision:

That the Executive Director of Housing and Land approves:

1. The allocation of £27,905,000 by way of a loan facility from GLA Land and Property Limited under the Homes for Londoners Land Fund (MD2207) to Anthology Development 6 Limited for the purpose of accelerating the delivery of 350 homes at Marshgate Lane (LB Newham), including 50% affordable housing; and
2. The allocation of £21,854,000 by way of a loan facility from GLA Land and Property Limited under the Homes for Londoners Land Fund (MD2207) to Anthology Kennington Stage Limited for the purpose of accelerating the delivery of 254 homes at Woodlands & Masters House (LB Lambeth), including 50% affordable housing, noting that legal and financial due diligence in respect of these proposed loan facilities have been satisfactorily completed as described in the report below.

AUTHORISING DIRECTOR

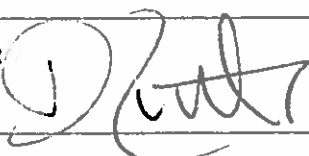
I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: David Lunts

Position: Executive Director for
Housing & Land

Signature:



Date:

03/12/18

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

Introduction

- 1.1. MD2207 approved the establishment of an £250m investment fund for buying and preparing land for new and affordable housing, related due diligence work and enabling costs of development. The fund is to be drawn from the GLA's housing and land resources and receipts.
- 1.2. The GLA is in the process of negotiating new funding streams from MHCLG and as a result, subject to the proposal meeting all the necessary approvals, hurdles and drawdown timescales, this funding may be drawn from an alternative agreed source.
- 1.3. 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, the fund's investments.
- 1.4. This report seeks the Director's approval to allocate two interest-bearing loan facilities totalling £49.8m to Anthology Development 6 Ltd and Anthology Kennington Stage Ltd respectively, both wholly owned subsidiaries of Anthology Group Limited. The fund will be used to finance land and development across two sites - Marshgate Lane, LB Newham (Site 1) and Woodlands & Masters House, LB Lambeth (Site 2).
- 1.5. The loans will enable Anthology Development 6 Ltd and Anthology Kennington Stage Ltd to deliver 600 homes between them, of which no fewer than 50% (by habitable rooms) will be affordable, with all units starting on site before the end of March 2020.
- 1.6. Anthology Group Limited approached the GLA to explore the options to fund the land acquisition and development costs of the two sites, allowing them to substantially increase the affordable housing provision on each. If the proposed loans are not approved, Anthology Group would be required to seek alternative funding through the financial markets. Having to negotiate alternative funding would slow down the delivery of the schemes.
- 1.7. The Mayor's Land Fund Investment Committee (LFIC) has approved the facilities subject to satisfactory legal and site due diligence on the basis that these facilities are fully repayable by December 2022.
- 1.8. 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 report.
- 1.9. The Transactions Team within the GLA's Housing and Land directorate will retain oversight of the facilities, monitoring drawdown and delivery.

Summary

- 1.10. Anthology approached the GLA for assistance in financing the purchase and delivery of two sites. Site 1 currently has planning permission for 14% affordable and Site 2 has no requirement for affordable housing and houses The Cinema Museum, a locally significant cultural asset.
- 1.11. Using GLA debt finance Anthology propose to densify the sites and deliver no less than 50% affordable housing. This will increase the number of affordable homes from the consented position on Site 1 (14%) and the subject to planning level on Site 2. These homes will start-on-site no later than 31 March 2020.

Proposition

Site 1: Marshgate Lane

- 1.12. Site 1 is located in the Lower Lea Valley Opportunity Area and falls under the London Legacy Development Corporation in terms of the development control. It has existing planning consent for 228 residential units with 14% affordable (32 units) and 50,000 sqft commercial workspace.
- 1.13. Anthology's proposal is to increase the number of residential units to 350, of which no less than 50% (on habitable room basis) will be affordable. The commercial workspace will also be increased to 60,000 sqft.

Site 2: Woodlands & Masters House

- 1.14. Site 2 is a former NHS Trust Property which sits just outside the Elephant & Castle regeneration area. It has a PTAL rating of 6a/6b and the surrounding area has been subject to significant development. Woodlands & Masters House falls under LB Lambeth administration and forms part of the Renfrew Road Conservation Area. Masters House is a Grade II listed building. Woodlands & Master House was a NHS Trust market disposal site with no minimum requirement for affordable housing.
- 1.15. Anthology are proposing to develop up to 254 homes in a series of low rise units and a tower around a square. No fewer than 50% of the homes, on habitable room basis, will be affordable.

Funding

- 1.16. This report seeks to commit two interest-bearing loans of £27,905,000 and £21,854,000 respectively from existing uncommitted funding in the Land Investment Fund (see MD2207) to be fully repaid by December 2022.
- 1.17. As at the date of this paper there are sufficient funds in the Mayor's Land Investment Fund to cover these loans.

Stakeholders / Contractual Arrangements

- 1.18. The Counterparties in respect of the funding agreements are Anthology Development 6 Ltd and Anthology Kennington Stage Ltd respectively, both wholly-owned subsidiaries of Anthology Group Limited. Each counterparty will enter into a Loan Facility Agreement with GLA Land and Property Limited (GLALP). Further detail regarding the facility agreements and security arrangements are included within part 2.

Appraisal

- 1.19. Project due diligence and assessment of creditworthiness has been undertaken. The GLA's consultants report that Anthology's cost and value assumptions were generally in line the consultant's expectations, and differences generally would not have an adverse effect. Further detail is included in Part 2.
- 1.20. The GLA's Interest Rate Setting Board considered a report summarising the scheme and the counterparties' creditworthiness on 18th July 2018. The Land Fund Investment Committee recommended, and Anthology agreed on, an interest rate in line with the recommendations of the IRSB. Further details are included in Part 2.

Project Milestones

- 1.21. Marshgate Lane, LB Newham: There is existing planning permission for Phase 1 and Phase 2 of the project. Start on site commences on phase 1 in January 2019, with practical completion of the whole development in September 2022. Woodlands and Masters, LB Lambeth: Planning permission will be submitted in June 2019, with approval expected in December 2019. Start on Site is projected for March 2020, with Practical Completion in June 2022.

Governance

- 1.22. GLALP will enter into a separate loan facility agreement with each of the borrowers. A designated officer from the GLA's Housing and Land Directorate will manage this relationship with overview from the Housing and Land Directorate Management Team. The funding agreements also place reporting obligations on the counterparty linked to project milestones.

Conclusion

- 1.23. The proposed loans will facilitate and accelerate delivery of over 600 houses at Marshgate Lane and Woodlands & Masters House.

2. Objectives and expected outcomes

- 2.1. The loan agreements will accelerate the delivery of two residential developments comprising over 600 homes, including approximately 300 affordable homes.

3. Equality comments

- 3.1. The allocation of the funding in this report implements the Mayor's policies under his London Housing Strategy (LHS). An equality impact assessment of that strategy was undertaken which found that "...LHS policies are likely to have broadly positive benefits in relation to social and economic sustainability objectives such as improving health, reducing inequalities, increasing accessibility, and economic development..."
- 3.2. The Mayor's Vision for a Diverse and Inclusive City was issued as a consultation draft in June 2017. 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 loan funding will help to deliver new affordable homes in London.
- 3.3. In November 2017, the GLA published an Integrated Impact Assessment of the London Plan, including an equalities impact assessment, of that strategy. The policies related to increasing housing supply, to which the Marshgate Lane and Woodlands & Masters House schemes will contribute to, concluded that promoting the development of different types of housing to meet the needs of potential residents, whilst targeting 50% affordable housing, would deliver health benefits, economic benefits and environmental benefits. Furthermore, the provision of housing – including maximising the delivery of affordable housing – would be in line with other policies of the London Plan (such as Policy 3.5), which ensure that the needs of different groups are taken into account when designing housing.
- 3.4. In order to access funding, the borrowers will be required to enter into contract with GLALP. The contracts place the following obligations on the borrowers in respect of the Equality Act 2010:
 - The borrowers shall comply in all material respects with all relevant Legislation, including but not limited to legislation relating to: health and safety; welfare at work; and equality and diversity.
 - The borrowers shall have, and fully comply with, a policy covering equal opportunities designed to ensure that unfair discrimination on the grounds of colour, race, creed, nationality or any other unjustifiable basis directly or indirectly in relation to the Works is avoided at all times. It will also provide a copy of that policy and evidence of the actual implementation of that policy upon request by GLALP.

4. Other considerations

a) Key risks and issues

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

b) Links to Mayoral strategies and priorities

- 4.2. Draft New London Plan (Policy GG2, SD1) promotes development in Opportunity Areas. Site 1 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. Site 2 is a former NHS Trust property and part of a conservation area. The proposal aims to retain some of this character as well as retain the culturally important Cinema Museum onsite.
- 4.3. Draft New London Plan (Policy H1) promotes the increase of supply of affordable housing and housing in general. Site 1 will contribute towards Newham annual targets 3,850 affordable housing starts-on-site and Site 2 will contribute towards Lambeth's 1,589 annual target.
- 4.4. In the London Housing Strategy (May 2018), the Mayor states his intention to reverse the decline of Small and Medium Developers. Anthology has experienced personnel but was only formed in 2013. Initially starting with a 200 units site in Hoxton, they have now successfully brought forward four medium sized sites (150-300 units), with one more site due to come forward in 2019. Anthology will hand over their first site of 198 units in September 2018. This makes it difficult for them to secure competitive finance from commercial lenders.
- 4.5. Anthology's growth has been made possible by the GLA through previous loans for two sites. The proposed new loan will see Anthology build on the GLA supported growth and establish a track record of successful delivery.

c) Impact assessments and consultations

- 4.6. 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.

d) Know Your Customer

- 4.7. 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 entities.

e) Environmental Considerations

- 4.8. On both sites opportunities for improving quality of life and place-making will be explored. Already on Site 2 the proposal includes the provision of a new urban square.

5. Financial comments

- 5.1. This decision requests approval for two loans; one for £27.9m, one for £21.9m totalling £49.8m. The loans will be funded from the £250m Land Fund, or alternative approved funding source, and are scheduled to be repaid by 31 December 2022 at the latest. The loans will support the delivery of over 600 homes in total; no fewer than 50% of which will be affordable.

- 5.2. The site value and work in progress will provide security for the loans. The GLA will be the sole funder to the scheme.
- 5.3. The interest on the loans will be paid biannually.
- 5.4. Project due diligence and creditworthiness assessment has been undertaken and the consultant's report that Anthology's cost and value assumptions were generally in line with the consultant's expectations, and differences generally would not have an adverse effect.

6. Legal comments

- 6.1. Under section 30(1) of the GLA Act 1999, the GLA has the power to provide the loan funding for the schemes explained above, on the basis that to do so will further one or more of the GLA's principal purposes. 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. Those matters have been taken into account as considered appropriate by the GLA in respect of these schemes, as detailed in this report.
- 6.2. 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, 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.
- 6.3. Further legal comments are set out in Part 2.

7. Planned delivery approach and next steps

Action	Timeline	
	Marshgate Lane	Woodlands and Masters
Completion of loan agreement	December 2018	December 2018
Start on site (expected)	January 2019	December 2019
Completion of Development (expected)	September 2022	June 2022
Repayment of Loan	December 2022	December 2022

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? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

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:

Gwen Mansfield has drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service:

Jamie Ratcliff 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 3 December 2018.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Allen

Date

3.12.18

