

**Manchester City Council
Report for Resolution**

Report to: Executive - 3 February 2016

Subject: The Housing Investment Fund (Matrix Homes) – Phase 2

Report of: Strategic Director (Strategic Development) and the City Treasurer

Summary

This report outlines the progress made since the setting up of the joint venture partnership between the Council and the Greater Manchester Pension Fund, Matrix Homes, and the successful delivery of 240 new homes for sale and market rent.

Officers are now seeking approval to bring forward a second phase of the Housing Investment Fund project to build new homes for sale and market rent across five further sites in Manchester.

Recommendations

The Executive is recommended to;

1. Note the progress made to date and the successful delivery of the first phase of the HIF project.
2. Approve the selection of the Greater Manchester Pension Fund as the preferred investment partner to develop a second phase of the Housing Investment Fund project.
3. Approve, either the further development of the existing joint venture Matrix Homes Limited Partnership; or delegate authority to the City Solicitor to develop a second joint venture with the Greater Manchester Pension Fund (under the Matrix Homes branding).
4. Approve the disposal of the 5 sites to the joint venture structure at Market Value and delegate authority to the Head of Development – Strategic Development to finalise the terms.
5. Delegate authority to the City Treasurer, City Solicitor, Director of Housing and the Head of Development - Strategic Development, in consultation with the Executive Member for Finance and the Deputy Leader with responsibility for Housing, to agree the terms of the new investment with the Greater Manchester Pension Fund and to take all necessary legal, financial and operational steps to implement a phase 2 of the Housing Investment Fund.

Wards Affected:

Ardwick, Gorton North, Miles Platting and Newton Heath, Charlestown

| Community Strategy Spine | Summary of the contribution to the strategy |
|---|--|
| Performance of the economy of the region and sub region | Delivery of the project will contribute to meeting new build housing targets for the City and the support the aims of the Residential Growth Strategy and play a key role in the City's economic development. |
| Reaching full potential in education and employment | Working families will be a key target market of the new homes to be provided and this initiative will help to attract and retain economically active individuals. The development of these homes will also support direct employment opportunities for the City and the Greater Manchester area. |
| Individual and collective self esteem – mutual respect | The well designed homes and estates to be provided will improve the quality of life for local people. |
| Neighbourhoods of Choice | The provision of these homes will increase housing choice within the city and contribute to the availability of neighbourhoods of choice. |

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

Revenue costs in developing the proposal are contained within existing budgets. Subject to approval, project management costs will be funded by GMPF and recharged to the scheme at implementation. The Council will receive a proportion of the receipts in the form of revenue income on completion of the development and pay down of any debt finance.

Financial Consequences – Capital

The market value of the Council's land will be assessed prior to the granting of the leases. Current estimate of market value is in the region of £4M. This will be the value of the Council's investment which together with the revenue return will be paid to the Council over the life of the investment.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- Housing investment and mortgage support within Manchester – January 2012
- The Housing Investment Fund – December 2013
- Draft Residential Growth Strategy – October 2015

1.0 Introduction

- 1.1 The first phase of the Housing Investment Fund (HIF) Project was developed as a response to increases in demand for housing in Manchester due to household and population growth, the reduction of available development and mortgage finance, and the need to consider new ways to finance and build new homes.
- 1.2 The HIF project has now set a precedent for investment based approaches to residential development, to attract institutional investment into Manchester, whilst also providing a pathway to homeownership for economically active residents and stimulate activity in the house-building sector.
- 1.3 The Council's Residential Growth Strategy sets out the aims and aspirations for Manchester to deliver good quality, well managed accommodation for sale and rent, and to create attractive and successful neighbourhoods. Demand for housing in Manchester continues to increase, as the economy grows and more jobs are created. The HIF project is a key component of the Growth Strategy in creating a new supply of housing to meet the demands of a growing, mobile workforce, and a population that require a comprehensive choice of housing type and tenure.
- 1.4 The primary purpose of the HIF was to prove a concept and to practically build housing in a housing market that wasn't developing housing, especially on higher risk sites. The proposal in this report, is to develop a second phase to accelerate the rate of house building in the City, which alongside other initiatives will increase the volume of new homes built. By retaining our land asset as an investment, the scheme will financially benefit the City and give it a long term stake in neighbourhoods with a much higher degree of control than if sites are sold.

2.0 Background

- 2.1 Matrix Homes is the joint venture partnership between the Council and the Greater Manchester Pension Fund (the Pension Fund) set up in April 2014 to bring forward the development of 240 Homes for sale and for market rent, investing £24m across 5 sites in the city.
- 2.2 The aims of the joint venture partnership are for both the Council and the Pension Fund to take a revenue return on their investment and a share in the capital return. Revenue return is generated through market rentals and the capital return through house sales. The five main elements of the HIF are:
 - An investor (the Pension Fund) to fund the construction costs of the development
 - A landowner (the Council) to provide the sites to build the units on
 - A development contractor to design and build the properties
 - A head tenant (management company) to lease and undertake the long term management of the privately rented units

- A Sales and Marketing team to publicise the development and sell the homes for home ownership.

2.3 Considerable experience has been gained and lessons learnt, by both the Council and the Pension Fund through the delivery of the project and the partners have now developed a working governance and financial structure that can be used to access further institutional investment for the building of new homes in Manchester.

3.0 The Housing Investment Fund Phase 1

3.1 A team from the Council were appointed to project manage the Housing Investment Fund project on behalf of the investment partners in November 2012. The team were responsible for the day to day delivery of the project, co-ordination and direction of a multi-disciplinary project team with expertise drawn from internal Council departments including legal, financial, procurement and property advice, and external professional advisors. The key deliverables achieved were:

- Successful procurement and appointment of the contractors and partners
- Resolution of the legal and leasing arrangements between the Homes and Communities Agency, the Council and Matrix Homes
- Financial Modeling to demonstrate project viability
- Management of the contractor to undertake the design of the homes and planning approval for the five sites
- Legal arrangements between the Council and the Pension Fund to the set up the JV.

3.2 Significant progress has been made since the formal setting up of the joint venture, and the construction of the properties has now completed, or is close to completion, on all five sites (sites are programmed to complete early 2016).

3.3 Summary of sales and rental figures end of November 2015;

| Total Units for Sale | Sold at Nov 15 |
|-----------------------------|--|
| 121 | 98 |
| Total Units for Rent | Number let to Tenants at Nov 15 |
| 119 | 109 |

3.4 The sales of the homes has progressed well and demand has been strong across all sites with properties being released on a phased basis, and sales prices consistently exceeding the values in the financial model. Just over half of the for sale properties have been purchased with assistance from the Government's Help to Buy scheme aimed at supporting first time buyers. The

availability of Help to Buy has made the purchasing of homes more affordable by offering purchasers a 20% equity loan, when matched by a deposit of 5%.

- 3.5 Demand has also been strong for the rental properties with all released properties now let or reserved on the sites, with the remaining rental units to be released on a phased basis.
- 3.6 Data collated during the lettings process across three sites has shown the majority of tenants, 63%, are aged between 25-34, with a further 20% in the 18-24 age bracket. 35% of households have incomes of £30k to 39k, 33% have incomes ranging from £20k to £29k, and 12% of households accessing the homes have incomes of £10k to £19k.
- 3.7 Rents across the portfolio sites ranged from £475 per month for a 2 bed property in West Gorton to £900 per month for a 3 bed property on the site in Chorlton. Tenants would have met the financial criteria to rent a home if their income was more than a third of the rent, therefore households earning between £17.1k and £23k per annum were able to rent 2 and 3 bed homes across three of the sites.
- 3.8 Analysis has also shown that the majority of households have moved from within the Greater Manchester area, with only a very small proportion moving from over 7 miles from each site and the vast majority moving 3 miles or under.
- 3.9 Both partners in Matrix Homes are pleased with sales and rental performance, the financial performance and with the overall delivery of the project. Considerable experience has also been gained and lessons learnt, by both the Council and the Pension Fund in the delivery of phase 1, which has demonstrated a new way of utilising institutional investment for the building of new homes in Manchester.
- 3.10 The latest financial model forecasts that the investment returns to the Council will be favourable and will exceed the original business plan. The primary reasons for this are effective cost control and a higher than anticipated demand for sales properties which resulted in properties being sold at a much higher rate than envisaged. It is acknowledged that the availability of Help to Buy did support these sales rates and the potential to secure Help to Buy on phase 2 will be explored.

4.0 The Proposed Housing Investment Fund Phase 2 - Feasibility

- 4.1 Following the success of the first scheme, officers are now developing the second phase and have identified a number of potential Council owned sites for residential development using the HIF Model. High level feasibility work is underway to identify the constraints and viability of the sites for development.
- 4.2 Please see below site location (see Appendix 1 for site location maps). The wider boundaries are indicative only and allow for the best design to be

developed for each site taking into account any local considerations such as green space strategies, access issues and other local community input. This means that on some sites, only a proportion of the land shown on the plan will be used for the housing development:

| Sites | | Potential Units |
|-------|--|-----------------|
| 1. | Coverdale Crescent, Ardwick, Manchester, M12 4BJ | 50 |
| 2. | Downing Street, Ardwick, Manchester, M13 9XJ | 31 |
| 3. | Hinchley Road, Higher Blackley, Manchester, M9 7FG | 74 |
| 4. | Miles Platting, Oldham Rd/Varley St, Manchester, M40 8BS | 72 |
| 5. | Peacock Centre & adj. land, Gorton, Manchester, M18 8AX | 100 |

- 4.3 Initial housing market analysis has been carried out on the tenure mix surrounding the sites, showing that there is a blend of owner occupation, private rented and social rented properties within a mile radius of each site, and that social housing is the largest tenure group in the surrounding areas of two of the sites.
- 4.4 Further studies are taking place across the 5 sites over the next few months including site investigations. The site investigations and associated surveys (topological, ecology reports etc.) will determine the suitability of the sites for residential development and shape the next steps for the project.
- 4.5 Approval is sought to dispose of the land identified for the second phase of the HIF as work is undertaken to refine the number of units and the tenure mix on the sites. Officers will ensure that the right product, investment return and regeneration outcomes are delivered, and that appropriate levels of owner occupation can be achieved along with an appropriate number of private rented units across the portfolio of the sites. Delegation of the final decision to proceed is being sought through this report.

5.0 Review of Investment Options – Soft Market Testing

- 5.1 In order to assess the investment options open to the Council, officers have carried out soft market testing with a number of large scale investors on the basis of an equity partnership model to build homes for sale and market rent.
- 5.2 Several investors were contacted, and further discussions took place with 4 organisations; to determine the interest in an equity investment model developed with the Council, along with the expected investment returns for their financial models. The key outcomes required from the soft market testing were to ensure the best possible investment return for the Council, along with sufficient control over the lifecycle of the model.

- 5.3 Following these discussions, it became clear that the GM Pension Fund were able to offer a flexible and competitive proposal for the Council which would allow the Council to bring forward housing development using the investment partnership model developed through the HIF 1. For procurement purposes the pension fund can be classed as a public sector organisation due to its administration and assets being held by Tameside MBC, a condition established by the development of phase 1.

6.0 Partnership Structure

- 6.1 The Council and the Pension Fund will both seek legal advice for the second phase of development.
- 6.2 However it is proposed to utilise the Matrix Homes branding and, where possible, corporate arrangements already in place to deliver the second phase of investment as Matrix Homes was set up to include the facility to deliver future phases of development. Under the Partnership agreements either or both of the partners can invest land assets and/or equity into the partnership.
- 6.3 It is expected that the second phase of development could be delivered through the existing Matrix Homes partnership. However it may require a new joint venture to be created, therefore the Council should be prepared to enter into a new joint venture if this is required. It is anticipated that the nature of this entity will be similar to the Matrix Homes partnership and therefore the costs associated with set-up should be less than those incurred in setting up the pilot partnership. A determination on the most tax effective structure will be undertaken as part of this process.

7.0 Resourcing

- 7.1 The Council has delivered the outcomes required during the project feasibility stage within existing budgets and team structures. Experience and lessons learned from the delivery of the first HIF project demonstrates that once approval is received to develop the second phase, a formal project management team will be required to lead and deliver the project throughout the next stages; which will include the procurement of the delivery partners, developing project viability, through to overseeing the construction, sale and rental of the new homes.
- 7.2 Officers have developed a project team structure proposal together with costs which the Pension Fund have agreed to resource up front. The team will be made up of project management expertise and professional support from internal Finance, Property and Legal services. The cost of the project team will be rolled up into the completed scheme. Should the scheme not proceed at any stage, agreement will be reached with the pension fund as to how abortive costs are managed.

8.0 Delivery Options

- 8.1 Subject to approval by the Executive, the Council and the Pension Fund will explore the delivery options for the procurement and appointment of the delivery partners for the second phase. Officers will use the Homes and Communities Agency Delivery Partner Panel 2 as this will reduce the procurement timescales (as the panel has been through the OJEU process), and provide access to a framework of prequalified house developers.
- 8.2 Using a similar approach developed through phase 1, the development contractor will be responsible for the design and build of the homes, a managing agent will lease and manage the properties and a sales and marketing team will market and sell the homes for sale. Officers will consider the option of using a consortium approach to procure the partners if this is the most efficient route to deliver the project. The DPP2 panel permits this approach and the final appointment of the procured partners will be by the joint venture set up by the Council and the Pension Fund.
- 8.3 Once the heads of terms have been provisionally agreed by the Council and the Pension Fund, officers will report back to the Executive on the proposed delivery model.

9.0 Concluding Remarks

- 9.1 The Housing Investment Fund has now set the precedent for attracting and utilising institutional investment as a successful model for building new homes for sale and market rent in Manchester.
- 9.2 The financial performance of the pilot phase of HIF has encouraged both parties to pursue a future phase of development. Utilising the legal and contractual structures put in place as part of the pilot phase of HIF will deliver efficiencies for the project. The commercial proposition from the Pension Fund delivers value for money for the Council and there is a sound investment case to utilise the Matrix Homes brand, in which both parties have invested significant time and resource creating.
- 9.3 Due to this success, officers are now seeking approval to develop the existing joint venture limited partnership, or create a second joint venture with the Greater Manchester Pension Fund.
- 9.4 Once the terms of the new investment with the Greater Manchester Pension Fund are agreed, a further report will be brought back to the Executive to seek approval to the delivery model and to enter into the proposed joint venture structure.

10.0 Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

- 10.1 Delivery of the project will contribute to meeting the aims of the Residential Growth Strategy, new build housing targets for the City and city region and thereby play a key role in the City's economic development.

(b) Reaching full potential in education and employment

- 10.2 Working families are a key target market of the new homes to be provided and this initiative will therefore help to attract and retain economically active individuals.

(c) Individual and collective self esteem – mutual respect

- 10.3 Well-designed homes and estates to be provided will improve the quality of life for local people.

(d) Neighbourhoods of Choice

- 10.4 The provision of these homes will increase housing choice within the city and contribute to the availability of neighbourhoods of choice.

11.0 Key Policies and Considerations

(a) Equal Opportunities

- 11.1 Local labour targets were applied to the construction contract for the first phase demonstrating a commitment to provide employment opportunities and training for local residents. Overall 49 apprentices have been given the opportunity to work on at least one of the Matrix Homes sites undertaking work such as plumbing, joinery, bricklaying and ground works. Targets and KPI's for using local labour and apprenticeships will be built into the tender process for the construction element of the second phase of the HIF.

(b) Risk Management

- 11.2 The project will comply with the standards set out in the Manchester Method and have robust risk management processes in place.

(c) Legal Considerations

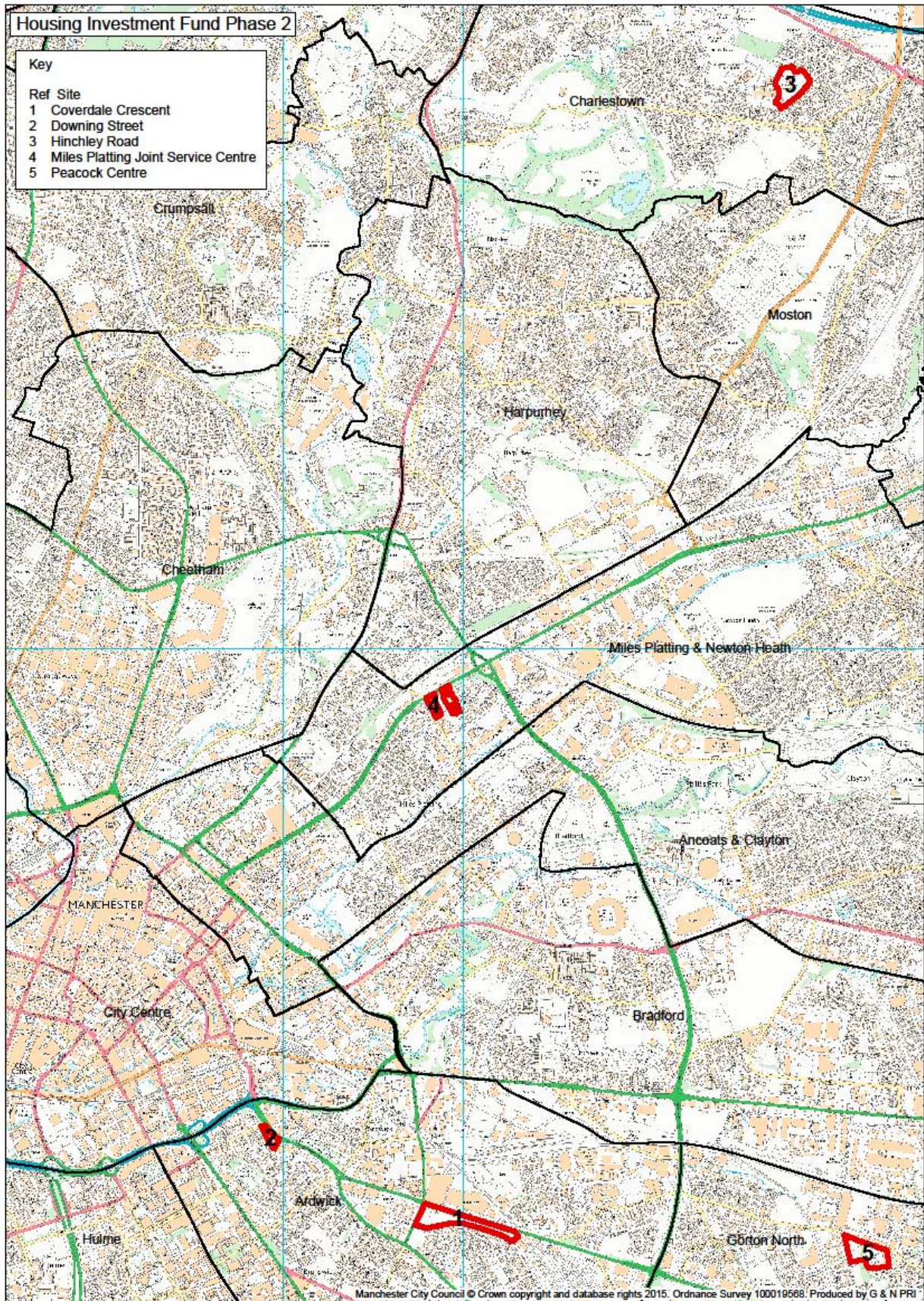
- 11.3 The legal considerations have been covered in the main content of the report.

Appendices

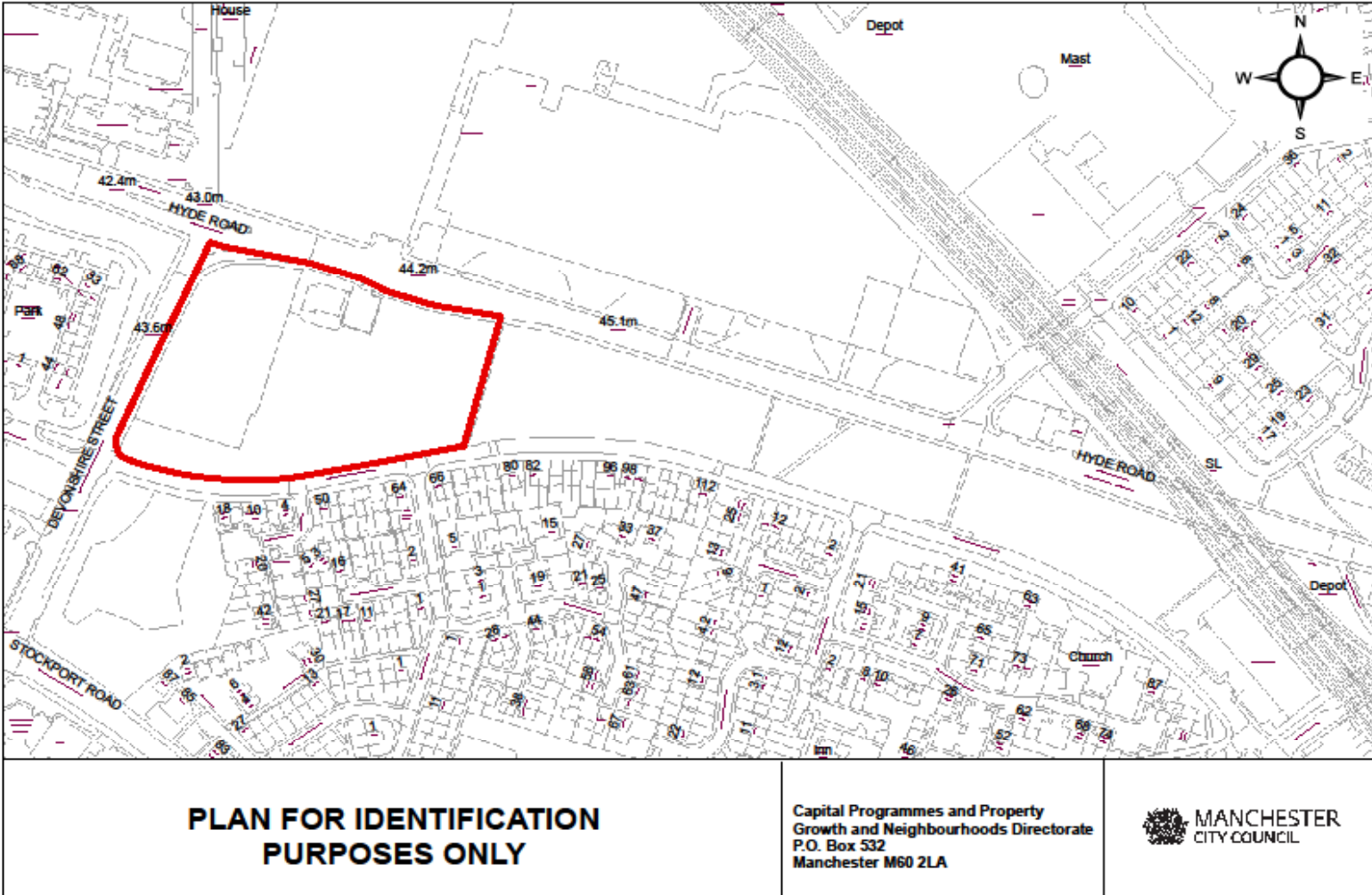
Appendix 1:

- (a) HIF 2 – 5 Sites Overview
- (b) 1. Coverdale
- (c) 2. Downing Street
- (d) 3. Hinchley Road
- (e) 4. Miles Platting
- (f) 5. Peacock Centre and adjacent land

(a) HIF 2 – 5 Sites Overview

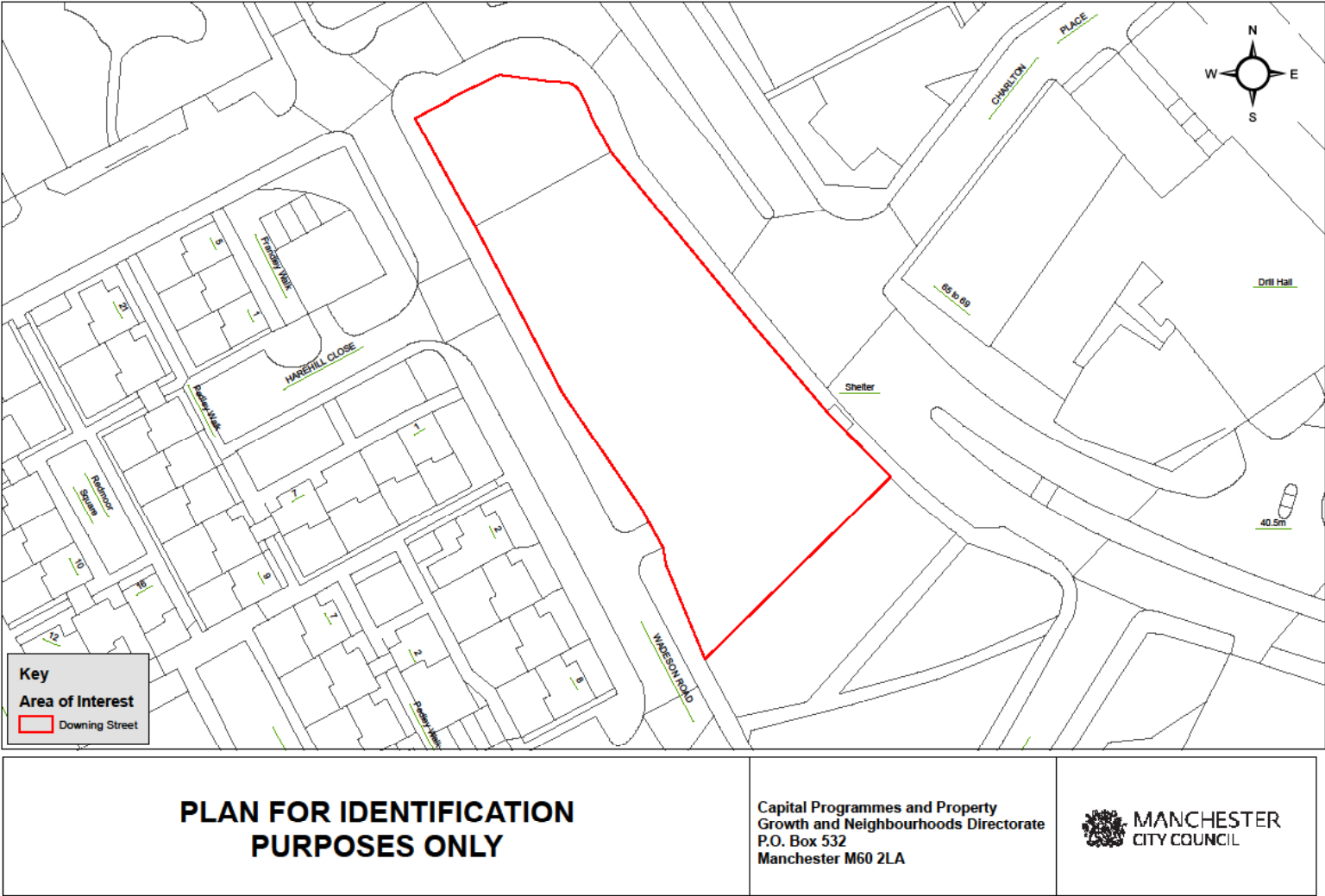


(b) 1. Coverdale



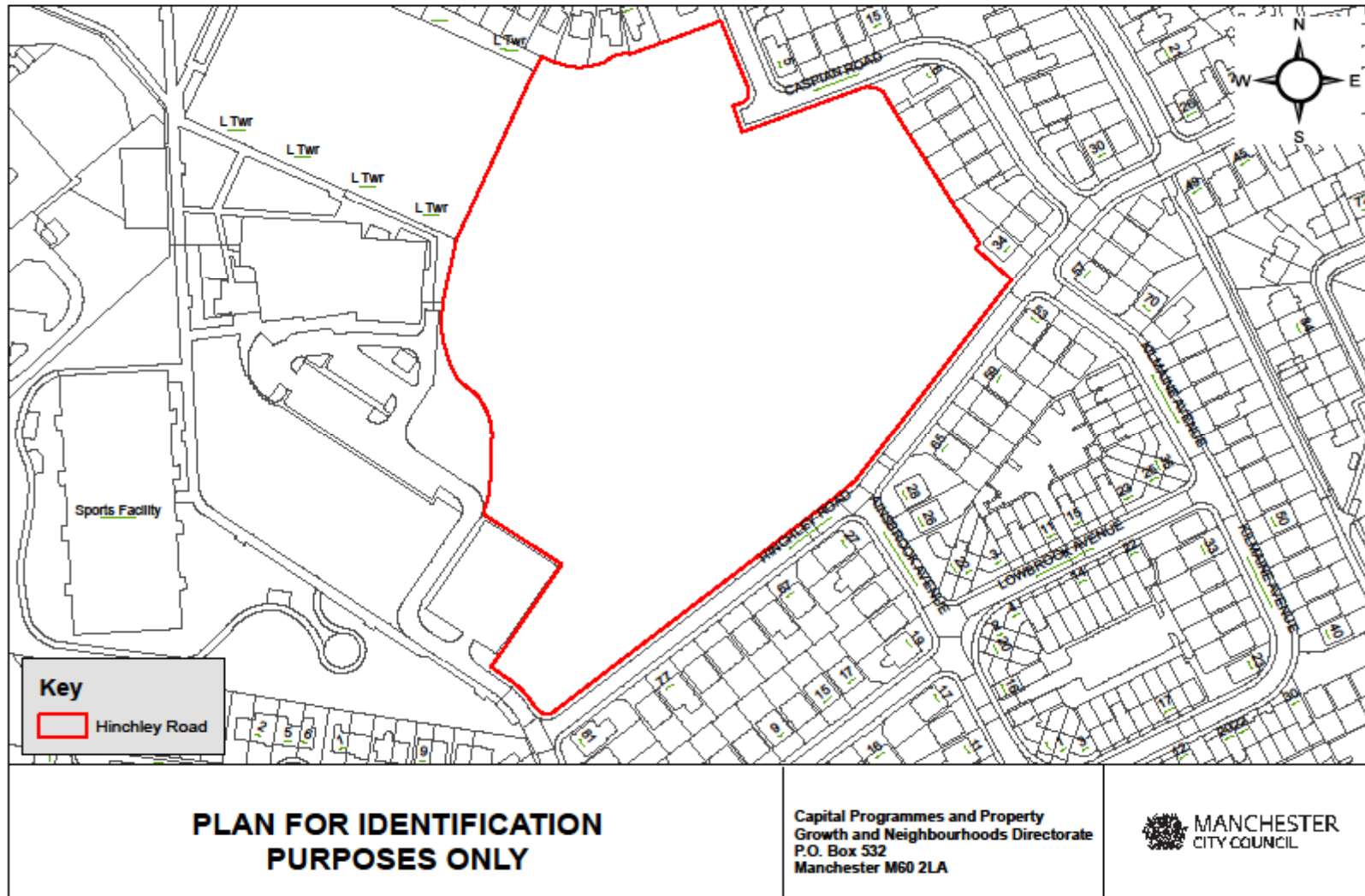
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(c) 2. Downing Street



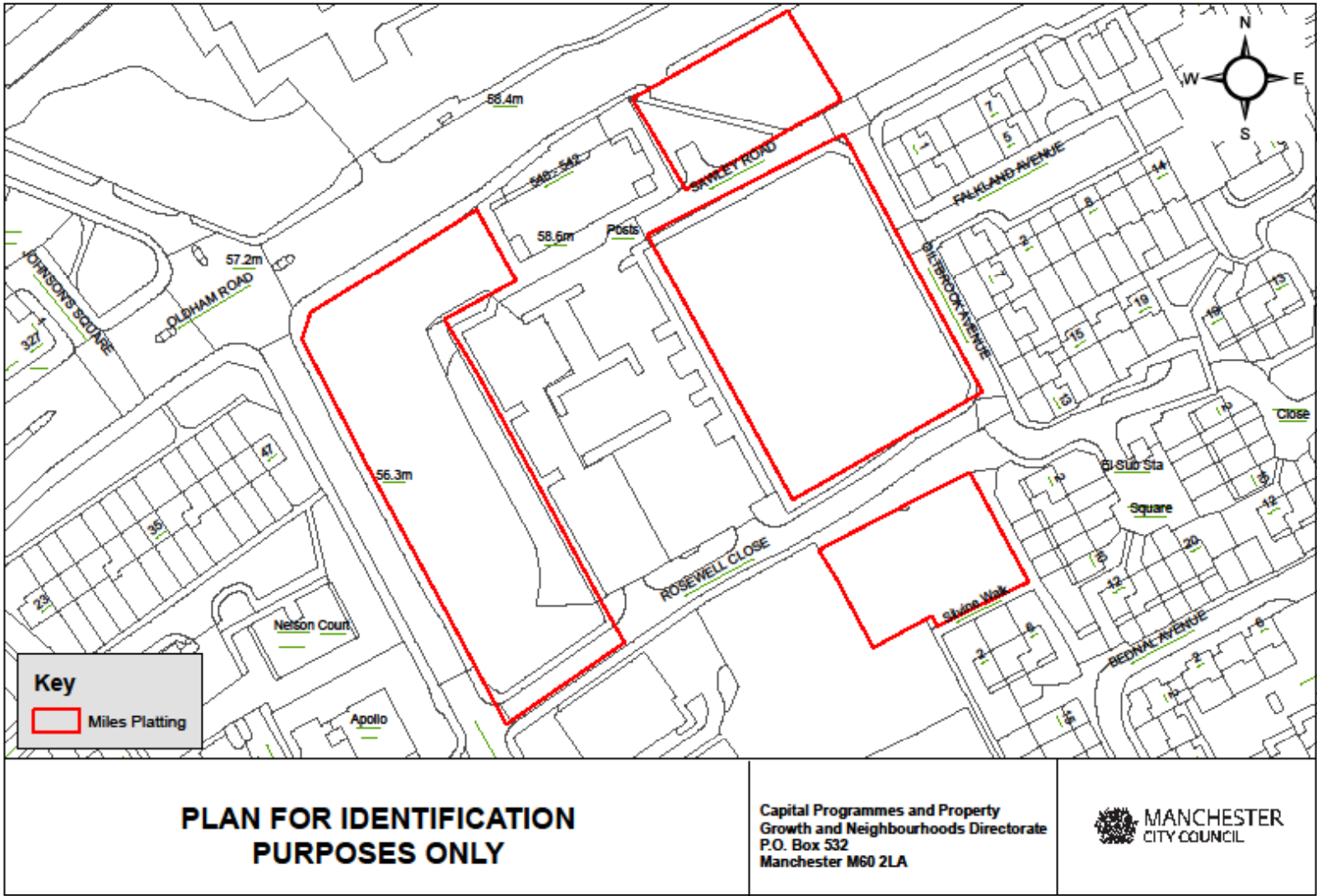
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(d) 3. Hinchley Road



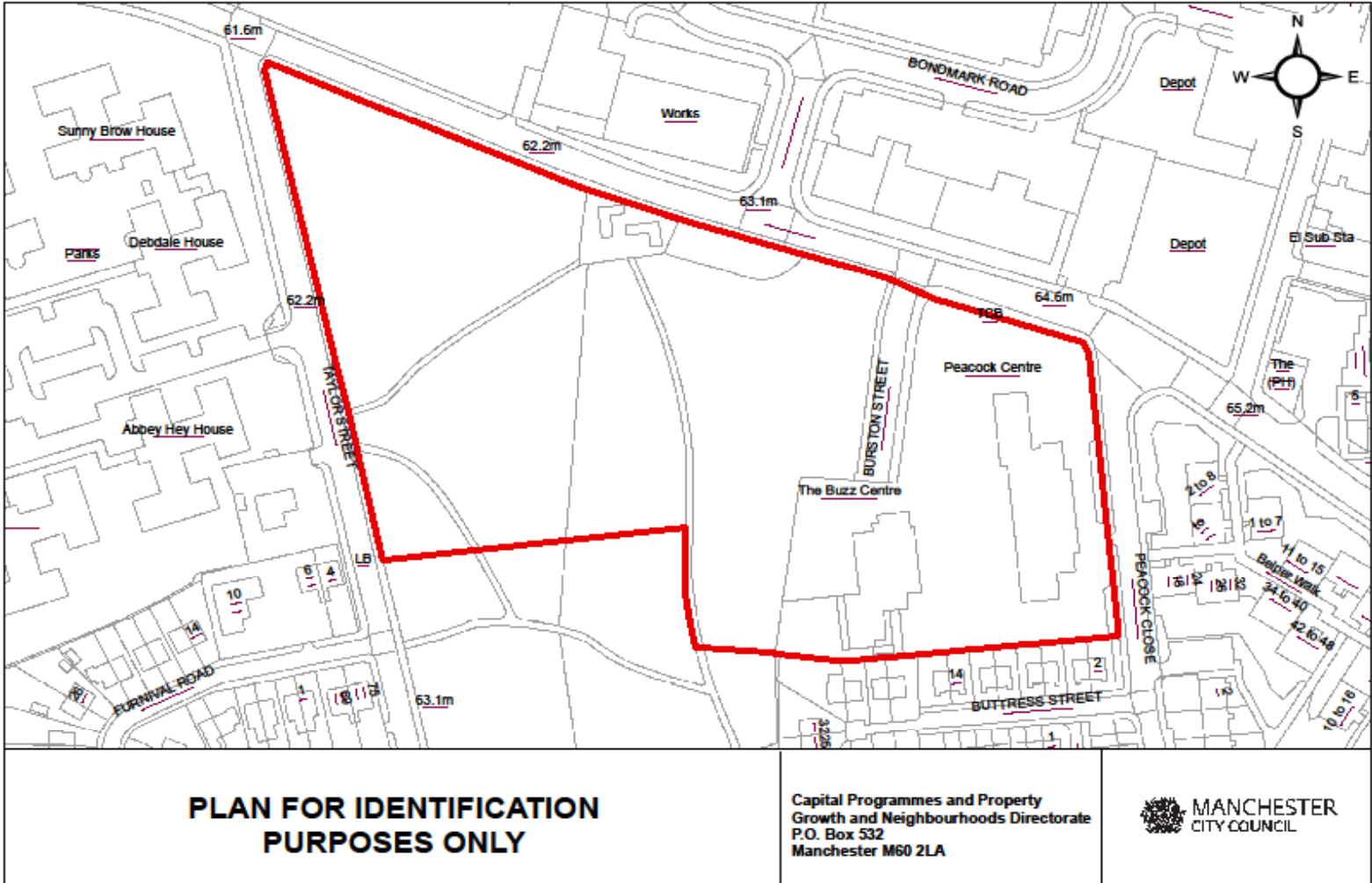
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(e) 4. Miles Platting



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(f) 5. Peacock Centre and adjacent land



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