

Meetings: Corporate Resource Management
& Governance Scrutiny Committee
Cabinet

27 February 2024
12 March 2024

AFFORDABLE HOUSING ACQUISITION: VINE STREET, HAZEL GROVE
Joint report of the Directors of Place Management and Place Regeneration

1. PURPOSE OF THE REPORT

- 1.1 To request the authorisation for the purchase of 12 recently constructed residential units at Vine Street, Hazel Grove SK7 4JS to be used for shared ownership affordable housing.

2. BACKGROUND

- 2.1 Vine St. is a recently constructed development of 12 properties in Hazel Grove. Each house has one parking space. There is no parking space for the flat but roadside parking is available. Vine Street is a predominantly residential street in Hazel Grove located just off the A6 and close to local amenities including shops, schools, train station and GP surgery.
- 2.2 Vine Street Properties Ltd acquired the partially completed development from the administrator of the original developer in 2021. The company has appointed contractors Jackson Design & Build Ltd to complete the internal works and DD Landscapes for the external works.
- 2.3 Terms have been agreed to acquire the completed homes from the developer Vine Street Properties Ltd for the total and discounted price of £2.9m subject to the satisfactory completion of all works in line with the planning approval.
- 2.4 Homes England Affordable Homes Grant has been secured, totalling £540k, to deliver the scheme as shared ownership which would meet an identified affordable housing need (Housing Needs Assessment 2019)
- 2.5 The properties are almost complete internally to a good standard and a high specification. There was an issue regarding the length of driveways which had been built slightly too short and therefore not to approved plans. This has now been rectified to the satisfaction of the Local Planning Authority (and highways) via the approval of a stopping up order which allows the driveways to be extended into land that was designated as adopted highways.

3. PROPOSAL

- 3.1 The proposal is to deliver the 12 units as shared ownership homes, for which there is an identified housing need (the units have been constructed in

accordance with planning approval for 'general needs' - they are not suitable for supported housing use).

- 3.2 The Housing Needs Assessment 2019 sets out the housing needs for the borough and for each of ten housing market areas. The report identifies these needs within the Hazel Grove area as:

HNA Township - Hazel Grove, Davenport (East), Heavily, Offerton (West)
Numbers of Households in Need of Affordable Housing - 2,179

| Dwelling type | % need (Hazel Grove, Davenport (East), Heavily, Offerton (West)) |
|----------------------------|---|
| 1 or 2 bed house | 23.7 |
| 3 bed house | 16.6 |
| 4 or more bed house | 0 |
| 1 bed level access | 31.8 |
| 2 or more bed level access | 27.9 |
| other | 0 |
| TOTAL | 100% |

Required tenure split 30% social rent/60% intermediate (shared ownership)
In addition to above there is a further annual need of 549 housing units across the borough

It should be noted that the Council are currently commissioning an update to the HNA, which given the changes in the housing market and demands on the homeless and housing options service, is expected to show a significant increase in affordable housing need since 2019.

Stockport Homes also operate a register of households interested in shared ownership properties – there are currently 2135 households on this register.

- 3.3 Details of the units are set out in the table below including sales values which have been provided by an independent RICS (Royal Institute of Chartered Surveyors) valuer:

| Unit Type | No | Size | Sales Value pu | Assumed Initial Share Purchased | Net Rent pu pw - 48 wks |
|----------------------|-----------|------------------|-----------------------|--|--------------------------------|
| 3 bed semi house | 8 | 88m ² | £280,000 | 40% | £96.25 |
| 3 bed terraced house | 3 | 88m ² | £275,000 | 40% | £94.53 |
| 1 bed flat | 1 | 44m ² | £150,000 | 40% | £51.56 |
| Totals: | 12 | | 3,215,000 | | |

- 3.4 It is proposed that the development will be delivered for shared ownership through the Housing Revenue Account (HRA), with the support of Homes England Affordable Homes grant – this grant, totalling £540k, has already been secured pending the proposed purchase, with expected completion and grant drawdown in April 2024. The properties will be acquired via a Sales and Purchase contract between Stockport Council and Vine Street Properties Ltd.

The properties will be covered by a 10 Year newbuild structural defects warranty from Advantage Home Construction Insurance. The Advantage warranty is acceptable to the majority of shared ownership mortgage lenders.

- 3.5 The total price agreed is £2.9m. A deposit of 10% will be paid on exchange of contracts, the remainder will be due on completion, apart from £500 per unit defects retention that will be held for 12 months. The agreed price includes a bulk purchase discount of circa 11% of current total value.
- 3.6 The properties will be freehold, and there are no estate management charges.
- 3.7 Stockport Homes' Sales Manager has completed local market research and is confident that there will be very strong demand for the properties based on the aforementioned figures. The most recent release of shared ownership homes in nearby Offerton received 12 applications for each of the 5 properties available. Whilst the HNA identified a higher need for two bedroomed properties (based on existing household size), demand for three bedroomed properties does tend to be higher due to both the small numbers coming forward and particularly for shared ownership, the expectation/likelihood of the household increasing in size.
- 3.8 Consultation with an Independent Mortgage Advisor has also taken place to confirm the affordability, deposits, current mortgage rates and the acceptability of the Advantage warranty. Based on the property values, purchasers will need a household income of £38,000 to afford a 3 bed house and £20,000 to afford the one bed flat.
- 3.9 A Purchaser's Agent has been appointed to ensure the properties are completed to a high standard, to the agreed specification and in line with planning and building regulation requirements.
- 3.10 Prior to exchange of contracts conditions of the purchase must be met including:
- A satisfactory contract
 - RICS Valuation Report to support the purchase and sales prices
 - Internal approvals
 - Allocation of grant from Homes England
 - A satisfactory Report on Title
 - The dwellings being acceptable to a mortgage lender

4. FINANCE

- 4.1 The financial details are summarised in the table below:

| | |
|-----------------------------|------------|
| Acquisition Price | £2,900,000 |
| Works cost | £0 |
| On-costs | £135,920 |
| Development Period Interest | £9,723 |

| | |
|-------------------------------------|-------------------|
| Total estimated scheme costs | £3,045,643 |
| Less | |
| Homes England Grant | £540,000 |
| Shared Ownership Sales Income | £1,286,000 |
| HRA Loan | £1,219,643 |
| Total | £3,045,643 |

- 4.2 The financial appraisal summary (appendix 1) demonstrates that the scheme can be delivered in line with approved parameters and is in profit by year 24 with a positive NPV (net present value) of £90,093 and a profit of 3.60%. The loan for this project is allowed for within the HRA business plan. As detailed in the appraisal and table above, post initial sales, the outstanding HRA loan, which will be serviced by the rental income from the unpurchased equity will be £1.29m
- 4.3 The scheme has been stress tested for a reduction in sales values, the results of which are below. However, sales prices are unlikely to reduce in the next 6 months, by which time all properties are expected to be sold.

| | Base Sales Prices | 2% Decrease | 5% Decrease |
|--------------|-------------------|-------------|-------------|
| NPV (£) | £90,093 | £30,876 | -£57,952 |
| Profit (%) | 3.60% | 1.23% | -2.31% |
| Payback Year | 24 | 25 | 27 |

5. HRA DEVELOPMENT PROGRAMME

- 5.1 The tables below set out key information regarding HRA development schemes which are currently on site and in the pipeline;

CURRENTLY ON SITE

| Scheme | No. units | Tenure | Completion date |
|--|------------------|--|------------------------|
| Rough Sleeper Accommodation Programme | 8 | Social Rent | March 2024 |
| Edinburgh Close, Extra Care, Cheadle | 49 | Social Rent & Older persons shared ownership | August 2025 |
| LAHF (Local Authority Housing Fund - refugees) | 6 | Social Rent | March 2024 |

PIPELINE SCHEMES

| Scheme | No. units | Tenure | Start on site date |
|----------------------------------|------------------|--------------------------------------|---------------------------------|
| London Rd. Hazel Grove | 32 | Social Rent | March 2024 |
| Vine St. Hazel Grove | 12 | Shared Ownership | March 2024 (acquisition) |
| Meadow Mill S106 | 11 | Social Rent | March 2024 (acquisition) |
| Hallfield, Offerton | 7 | Supported (LD – Learning Disability) | June 2024 |
| Truro Ave. Brinnington | 6 | Social Rent | November 2024 |
| Alpine Rd. Portwood | 3 | Social Rent | November 2024 |
| St. Thomas' Gardens, Shaw Heath | 68 | Social Rent & Shared Ownership | September 2024 – September 2025 |
| Grafton St. Ph. 2, Heaton Mersey | 6 | Social Rent Older Persons | March 2025 |
| Higher Hillgate | 24 | TBC | August 2025 |

- 5.2 The pipeline programme is built into the HRA business plan (along with capacity to deliver additional units in the future) and the HRA has the capacity to deliver both the pipeline and additional units in the future. Council officers receive a quarterly update from Stockport Homes which shows how the new build programme is expected to be spent and when loan draw-downs are expected.

6. **RISKS**

- 6.1 As these homes are already built, many of the usual development risks are not applicable. The outstanding risks associated with this proposal are detailed below:

| RISK | MITIGATION ACTION |
|-------------------------------------|---|
| Quality of homes is unsatisfactory. | A Purchaser's agent has been appointed. Their role is to inspect the build and to ensure the properties are finished to the agreed specification in line with planning, building regulation requirements and the warranty provider. |

| | |
|--|--|
| | A retention of £500 per unit is to be held for 12 months in case defects are not remedied. |
| The properties do not sell as quickly as expected. | The Viaduct sales team currently has 2135 customers on the register of interest list waiting for a shared ownership house. A sales period of 6 months from handover has been allowed for in the appraisal. |

- 6.2 Given that a grant funding bid has already been submitted and approved for this project there is also a risk if the scheme does not proceed. If grant is handed back to Homes England it will make it difficult for Stockport Council to secure grant for other schemes in the future.

7. **RECOMMENDATION**

- 7.1 That, subject to the purchase conditions outlined in section 3 being met, Cabinet approves the purchase of 12 residential properties on Vine Street Hazel Grove for use as affordable housing as described in this report.

Anyone requiring further information should contact:
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Appendix 1