

## **BURLINGTON MEWS UPDATE**

### **Finance & Investment Advisory Committee - 8 September 2020**

Report of	Deputy Chief Executive and Chief Officer - Finance and Trading
Status	For information
Also considered by	Cabinet - 17 September 2020
Key Decision	No

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#### **Executive Summary:**

This report provides an update on the development of the houses in Burlington Mews.

Due to the impact of the Covid-19 pandemic on the housing market, the Council has taken the opportunity to revise its approach to selling the houses to protect its investment in the properties.

In contrast to the sales market, the lettings market has strengthened partly due to lockdown encouraging more home buyers to test living outside city centres in larger properties.

The original intention was to put all the houses up for sale. The new approach is to proceed with a mix of sales and lettings to increase the options available as the situation evolves.

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**Portfolio Holder** Cllr. Matthew Dickins

**Contact Officers** Adrian Rowbotham, Ext. 7153

Detlev Munster, Ext. 7099

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#### **Recommendation to Finance and Investment Advisory Committee:**

Advise Cabinet with views on the recommendation below.

#### **Recommendation to Cabinet:**

The revised approach for the disposal of the houses in Burlington Mews contained in this report be supported.

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**Reason for recommendation:** To enable flexible decisions to be made regarding the disposal of the houses in Burlington Mews whilst the economy and the housing market fluctuates due to the impacts of the Covid-19 pandemic.

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### **Introduction and Background**

- 1 It was agreed by Council on 22 November 2016 that 10 town houses would be built on part of the site of Buckhurst 2 Car Park, Sevenoaks and that the sales proceeds from the housing scheme (now known as Burlington Mews) would part-fund the development of Sevenoaks Town Car Park.
- 2 Development of the houses has progressed with the launch event taking place on 16 January 2020 with completion due to take place on 28 August 2020.

### **Development of the Houses**

- 3 The contract for the development of the houses was awarded to A.B. Canham and Son with work commencing on 12 April 2019.
- 4 A variation was agreed for a higher specification in the expectation of achieving higher sales figures. The build was initially on schedule, with regular LABC warranty and building control site visits. The show home was launched 16 January 2020.
- 5 The impact of Covid-19 entailed a temporary shutdown from 27 March to 11 May 2020, meaning that the original end of build date of 25 April 2020 could not be met.
- 6 The final works including snagging are currently taking place with two of the three blocks completed as follows:
  - Block A (plots 1-3): 31 July 2020
  - Block B (plots 4-7): 28 August 2020
  - Block C (plots 8-10): 14 August 2020
- 7 As of 28 August 2020, three of the houses will be let, one under offer for sale and the remaining six listed for sale, with the Council covering costs including insurance, council tax, utilities etc until disposal.

### **Impact of Covid-19 on the sale of the houses**

- 8 It has been well documented that the Covid-19 pandemic has had a major impact on the economy as well as the housing market.
- 9 When the houses were initially put on the market in January, a price range for each property was agreed with Savills (selling agent) with the total of the lowest figures in the range meeting the amount required to part-fund the Sevenoaks Town Car Park.

- 10 Acceptable offers on two houses were received. Contracts were due to be exchanged shortly after the Covid-19 pandemic started and due to Government advice, the process stalled for a time.
- 11 Since then, one perspective purchaser withdrew their offer and the other has come forward with a new offer for a different house within the development.
- 12 Savills' most recent marketing report estimates that current achievable prices are 10% lower than those proposed earlier in the year.
- 13 In contrast to the sales market, the lettings market has strengthened partly due to lockdown encouraging home buyers to test living outside city centres in larger properties.

### **Revised Approach for the Disposal of the Houses**

- 14 It remains the aim that the sales proceeds from the houses will part-fund the development of Sevenoaks Town Car Park.
- 15 Originally the intention was to sell all the houses as soon as possible within the agreed price ranges. The Chief Executive and Chief Officer - Finance & Trading have now revised this approach recognising that it may take longer to achieve the original aim in the current circumstances.
- 16 Due to the ongoing uncertainty in the housing market it is proposed to proceed with a combined sales and lettings approach to increase the options available as the situation evolves.
- 17 An offer for the purchase of one of the houses in line with Savills' latest estimates have recently been accepted.
- 18 Several houses (initially three) will be available to be let and there has been significant interest. The tenants of one moved in on 18 August 2020 and the tenants of other two are due to move in on 29 August and 1 September 2020.
- 19 When the initial three houses are let, it will then be determined whether other houses will also be let depending on activity in the sales market.
- 20 Government legislation states that Sevenoaks District Council is unable to hold properties with assured short-hold tenancies (ASTs). Therefore, the Council has granted a head-lease over three of the houses to Quercus 7 for a term of three years. Savills have been appointed by Quercus 7 to manage the lettings, lease renewals and rent collection. The Council will retain the freehold and control of a management company set-up to manage the communal road, landscaping and security.
- 21 There will be break clauses in the leases with Quercus 7 to ensure that the Council has some flexibility to react to changing market conditions.
- 22 The approach to reduce the number of houses for sale in the near term might support prices as the development becomes established in the market.

## **Other Options Considered and/or Rejected**

Keeping the houses on the market at the original prices was rejected as the market has changed and offers now being received were more in line with Savills revised pricing.

Detailed modelling has been carried out with different mixes of sales and lettings over a four-year period.

The movement in houses prices over the next few years is very uncertain so recent trends have been used in the modelling to obtain a consistent approach. The modelling shows that the sell 5/let 5 mix is preferable to the sell 3/let 7 mix using the above assumption but a different movement in house prices could alter the outcome.

A separate assessment of letting all the properties for thirty years was also carried out. This resulted in a worse position than the above mixes and has therefore been ruled out.

The proposed approach gives flexibility between selling and letting and should reduce the period that the houses will remain empty.

## **Key Implications**

### Financial

The original intention was to sell all the houses therefore, the time between costs being incurred to build the car park and houses, and the sales proceeds being received for the houses was shorter than is now the case. Funding during this gap will be by internal borrowing, so long as it is available, until the capital receipts from the sales and income from lettings are received.

If the total income received from sales or lettings is less than the amount assumed to part-fund the Sevenoaks Town Car Park development, alternative funding would be required. That could be from other capital receipts or external borrowing that would have revenue budget implications.

If the total income received is more than required, that could be used to fund other capital schemes.

### Legal Implications and Risk Assessment Statement.

There are no legal implications arising from this report. However, Members are reminded (as set out) that Sevenoaks District Council is unable to hold properties with assured short-hold tenancies (ASTs). In order to allow the properties to be let, the Council has therefore granted a head-lease over three of the houses to Quercus 7 Ltd and the Company acts as Landlord. This is a lawful use of the Company, but Members are asked to note this approach.

Risks remain around the unpredictability and volatility of the property market, but the revised approach will allow a more flexible approach as the market changes.

