

BREAKFAST BRIEFING – ESTATE REGENERATION

On the 14th July 2016, Baily Garner hosted a Breakfast Briefing on the topic of Estate Regeneration. The briefing took the form of four 5 minute presentations and a Q&A discussion around the key issues when considering modern approaches to Estate Regeneration.

In view of the immediate disruption and uncertainty of Brexit to finance markets, the ensuing political upheaval, the on-going housing crisis and the need, even more so, to understand and get the best value from our assets being paramount, the briefing was agreed to be particularly timely. The outgoing PMs' 100 worst estates initiative has very much put regeneration back on the agenda.

The briefing was approached very much from a collaborative perspective and a range of expert speakers were invited to give us the benefit of their thoughts. Here is a summary of what was raised to help us all get the best out of our assets.



Participants:

Martin Zdravkov	Aviva Investors
Nick James	Barratt London
Daren Nathan	Durkan Limited
Adrian Mitchell	Guinness Partnership
Jamie Hunter	Hill Partnerships
Gareth Crawford	Home Group
Robert Black	Kensington and Chelsea TMO
Tom Jackson	Linkcity
John East	London Borough of Barking and Dagenham
Edith Fekarurhobo	Newham Council
Mekor Newman	Newman Francis
Jim Saunders	Pinnacle Group
Neal Hunt	Poplar HARCA
Emma Brown	Southern Housing Group Limited
Shelagh Grant	The Housing Forum
Elaine Bailey	The Hyde Group
Simon Vevers	The Hyde Group
Richard Ashdown	U.L.L. Property
Paul Bridge	U.L.L. Property

Andy Tookey	Baily Garner LLP
Bradley Webster	Baily Garner LLP
Clive Smith	Baily Garner LLP
Ian Maun	Baily Garner LLP
John Milner	Baily Garner LLP
Matt Hornsby	Baily Garner LLP
Neil Hope	Baily Garner LLP
Rob Ireland	Baily Garner LLP
Stuart Wigley	Baily Garner LLP



BAILY • GARNER
-is forty!





Elaine covered some of the key considerations when planning a regeneration scheme from the perspective of a Housing Association.

Regeneration is actually about people, homes, communities and relationships. Many tenants love where they live, and the communities they are part of, whatever the landlords might think about the condition of stock, so any mention of potential regeneration may make them think “but, what’s wrong with what we have already – I like it as it is”. So **you have to win their hearts and minds by robust and genuine resident consultation**; something that is both time consuming and expensive but worth it in the long run. Get champions on board, they will help you understand about life on the estate and sell the benefits by enthusing their fellow tenants.

In the current climate we have to increase the densification of estates by building units for open market sale to cross subsidise the cost of providing social housing. And, even here we are seeing a high proportion of lease agreements and shared ownership purchases, as this is the only way some can afford London priced property. Couple that with the government’s latest proposed Right To Buy initiative (and resultant income drops) and the targets to build even more affordable housing, and you can see how the RSLs are being financially squeezed from both sides.

To get any scheme off to a good start, an adjacent piece of land to the site in which to decant first phase residents will remove a lot of initial problems and although making the first phase ‘outright sale’ will help with cashflow, on the Hyde’s Packington Estate in Islington (as an example), making the first phase superb social housing on a canal front, which all residents (decanted or not) could see, increased interest and commitment to the scheme, which in turn results in a better long term deal for all – Hyde call it patient capital.

You will encounter problems along the way - **throughout the duration of the scheme, which of course can be years, the potential scale of economic change that can happen within the period means you have to keep on top of the financials, taking into account and stress testing all sorts of cycles including political.**

So to help you overcome some of these, get a (local) political consensus that your project is a ‘good thing’ and only go for detailed planning for the first phase (and outline planning for any subsequent phases) as things will change and you don’t want to get locked in to an approved scheme design that you may want to (expensively) change later.



SPEAKER:

Martin Zdravkov – Aviva

The Funder's view



Martin spoke from the funder's perspective and straight away told everyone "There is money out there for estate regeneration – there is an appetite".

Picking up on Elaine's point about patient capital, he explained that with 25 years involvement in pension fund investment where you are looking for low but long term income flow, they are the original experts in patient capital! Investors also get a good feeling from fact that capital is generating 'real good' – real homes and better environments, but remember these are long term relationships you are forging so, whilst we would expect all parties to be prudent, don't be financially adversarial and try beating us down on rate too keenly and too early!

The best schemes are where all parties engage early and understand each other's perspectives, working in true partnership.

There are different pools of capital within any funding model and for a 30 year regeneration project **you don't want to be using too much short term bank funding.** (You'd buy one pair of boots to go on a 100 mile hike, not keep topping up with cheap flip flops!)

And also remember the Funders do know about property investment (in Aviva's case £20bn's worth) so use their knowledge, talk to potential partners (as there are 'horses for courses') and choose your partners wisely.



SPEAKER:

Richard Ashdown – U.L.L. Property

The Viability Modeller's view



ULL provide advice on Land acquisition and development solutions - how to make developments viable before they go to planning (e.g. negotiating section 106 rules)

No two sites are the same so the new London Mayor's comments that blanket levels of affordable housing is not the way forward is, in ULLs opinion, a wise position to take.

So...how to make projects more viable? Here's a couple of thoughts.

1. Remember MMC? The initial model, around 20 years ago, was that a number of organisations clubbed together to create a factory that researched, created and supplied bespoke housing products that organisations could then bid for funding for from the Housing Corporation to use on their schemes. To cut a long story short, this process fell away but today L&G homes are making bold claims about making building homes cheaper, quicker and more

sustainable using their component based solutions (<http://www.legalandgeneral.com/homes/> for more details). **It might just be worth checking out whether you need to consider buying xx number of units from them!**

2. Regeneration contracts and procurement in general currently seems to focus on identifying the constructors who can complete your 20 year scheme (all of whom we probably know already) who then, if they fail to deliver whatever is required, don't get paid!... with 'conflict' being the result. Perhaps greater emphasis should be placed on incentivising the contract to provide the best solutions or the best product - a contract that focuses on "what would make it work better for you."



SPEAKER:

Andy Tookey – Baily Garner LLP The Regeneration Consultant's view



Brexit will have a short term impact – it is just one of many uncertainties along the road for Regeneration which is a long term strategy – in fact uncertainty is the only certainty.

The recent impact of private sector investment can't be underestimated either, but the current uncertainty may lead to a re-balancing of house building priorities, possibly even challenging the current government's stated policies. Watch this space!

Regeneration does not necessarily mean 'demolish and rebuild' as is the perception in some quarters and if you look at where regeneration schemes work well, it is where an area of deprivation is close to a more desirable area – these tend to be areas which are regenerated first. i.e. the low hanging fruit. However, **whilst there are good social and economic returns to be had, you need to ensure that we are not guilty of gentrification and pricing the poorer residents out of the market and the area.**

Looking at London, many schemes were built when London was depopulating and so did not maximise density (by about 48,000 units some reports say) so regeneration and redevelopment provides an opportunity to redress this together with creating the case for improved transport links and other infrastructure initiatives.

From an asset management point of view, demolition and new build rebases the asset's life cycle and the buildings themselves can be redesigned, upgraded and updated, providing (for example) more energy efficiency and better interactions within the communities so eliminating previous design flaws or mistakes.

The main disadvantage of regeneration is the huge time frame and scale of disruption, especially for residents, that results from decanting and simply living in, around or next to a building site for many years. You'll become part of the community's lives for many years and will see a potentially huge turnover of people working on this type of project. That said, it can all be very rewarding watching things change for the better as long as you enshrine into the project the original scheme objectives – the reasons why you are all there.

Refurbishment does offer a cheaper alternative to regeneration (and is shorter term) so can provide targeted improvements (e.g. better environmental performance or improved security). It will enhance values but won't usually realise the scale of densification that regeneration will.



There are pros and cons to both options and a good mix of refurbishment and regeneration, taking the best elements of both, needs to be a factor in your viability for individual estates. Keep what's good and change what isn't. We have some good examples of both in this Baily Garner publication.

Every developer is grappling with land availability and price to make future schemes viable. Can we build more efficiently? Will we see more standardisation? Our experience is that many schemes seem to want bespoke solutions, especially if they are developer led as they don't fully understand enough about refurbishment or regeneration. This report put together by Sheffield Hallam University, Poplar Harca and CIH Regeneration Revival? Making housing-led regeneration work across England is a great resource for reference but its single key message is that it takes a single entity with the right resources and capability to lead deliver a successful regeneration scheme.

The Q and A covered raised the following discussion points:

- Regeneration is a long game and generally the successful schemes bypass all cycles, including political and the current planning and RTB changes not yet on the statute books are just an example.
- Such cycles are just one of many hurdles to overcome and all regeneration projects flex with the market and circumstances...but most of them usually complete.
- There are signs that Housing is a perhaps once more being considered by Central Government as a piece of infrastructure (with all the investment opportunities that result) A similar change in policy emphasis from 'house ownership' to 'housing' could also be on the cards.
- The Housing Forum are currently reviewing the efficiency of leasehold management and hope a new approach to property management can be found soon.
- **Regeneration is more than bricks and mortar, there is human capital and there is a key role for local government to give real leadership here** (Haringey example) as they know better what is required locally. Perhaps local government should take more of a lead and move ahead in spite of central government policy initiatives - as we are hearing today, there are plenty of funding options to use outside central grant.
- The Bermondsey Academy model (Hyde) is a great example of the benefit of social regeneration. Their scheme set off a chain reaction on infrastructure and commerce to improve the prosperity of the local area and Hyde is currently recruiting and training tradesman from the local community to carry out some of their own work.- these are just the sort of social benefits that regeneration can bring - win: win.
- Perhaps in the past we as an industry have been too guilty of just pointing out to central government what is wrong rather than working together to provide the right solutions - It's not about public or private or infrastructure, it's about a collaborative partnership.
- We must get social and affordable rents right or we will 'lose the youngsters' (especially in London) who will, rebel if we don't provide realistic and affordable solutions - new social housing products are needed.
- But these problems and solutions are different dependant on stock or where the sites are (e.g. Barking and Kensington/Chelsea comparison - where the same solutions are not practical for a variety of reasons). **Different communities and areas require different regeneration solutions, Concentrate on providing community facilities with estates to give residents a focus and resistance to gentrification is a great way to engage and build resident confidence.**
- Set up 'residents associations' with responsibility to run and manage resultant project issues
- Let's stop residents feel "it's being done to us" and get them much more involved in "what they want to happen in their street". We all know something needs to happen anyway but it's much easier to achieve if everyone is on board.
- The Breakfast briefing closed with a response to the question "So, is there an appetite for regeneration?" Andy summarised that; **There's both a need and from what we've heard today an appetite too.**

Contact:



Andy Tookey FRICS, APMP
t: 020 8294 1000
andy.tookey@bailygarner.co.uk



BAILY • GARNER
-is building!

London (Head Office)
146-148 Eltham Hill,
London SE9 5DY
t: 020 8294 1000
f: 020 8294 1320

Birmingham
55 Charlotte Street,
Birmingham B3 1PX
t: 0121 236 2236
f: 0121 236 3323

For more details of these projects visit our website:

www.bailygarner.co.uk