

CABINET

26 JULY 2022

MEDWAY DEVELOPMENT COMPANY LTD – PRIVATE RENTED SECTOR PROPOSAL

Portfolio Holders: Councillor Howard Doe, Deputy Leader and Portfolio Holder for Housing and Community Services

Councillor Adrian Gulvin, Portfolio Holder for Resources

Report from / Author: Sunny Ee – Assistant Director, Regeneration

Summary

This report recommends the Cabinet to agree that one of the five apartment buildings at the Chatham Waterfront scheme should be retained by the company to provide homes for rent to customers in the private market.

1. Budget and Policy Framework

1.1 Cabinet has previously approved the creation of Medway Development Company (Private Rented Sector; PRS) Limited to allow an option, in the right circumstances, for homes to be rented to customers in the private market. The company is a subsidiary of Medway Development Company Ltd. (MDC)

1.2 Medway Council is the sole shareholder of Medway Development Company (Private Rented Sector; PRS) Limited with that role being undertaken by Cabinet.

1.3 The report provides a strategy and business case for implementing this proposal to Exempt Appendix 1.

2. Background

2.1 The works are progressing forwards on the Chatham Waterfront site which will see the construction of 182 new homes, new commercial spaces for cafes, restaurants and offices alongside a new public realm to create a vibrant centre for Chatham.

- 2.2 The scheme comprises five apartment blocks, of various sizes, with each having its own architectural identity to create a high-quality residential development adjacent to the river Medway.
- 2.3 It is widely recognised that the UK has a long-term housing shortage, which has persisted for over 40 years.
- 2.4 Historically, an average house would be around four times the yearly household income, however this now exceeds eight times and is continually growing, which is creating market changes and strong PRS growth. The high purchase cost, coupled with a requirement for large deposits has made home ownership impossible for many.
- 2.5 PRS is therefore being proposed for Block C (71 apartments) at the Chatham Waterfront scheme, following the agreement by Cabinet to create a private rental subsidiary, Medway Development Company (PRS) Limited.
- 2.6 As we have progressed through the early construction phases of the scheme, we have also seen a high number of enquiries from private investment funds, who specialise in providing high quality homes for rent, which reinforces this demand.
- 2.7 Chatham is a desirable location for PRS, having excellent nearby transport links and extensive local amenities offered by the High Street. The regeneration works underway are also starting to transform the area.
- 2.8 The growing PRS market offers an opportunity for the Council to generate long term revenue streams, but also responds to market demand, by providing high quality rental accommodation.
- 2.9 It is important that future revenue streams are generated to support ongoing investment and maintenance for the long term and this proposal will enable this.

3. Council Overview

- 3.1 MDC regularly meets with the Assistant Director for Regeneration and Chief Operating Officer to review progress.
- 3.2 The MDC Board continues to meet and dashboard reports are provided to the Council on a monthly basis and Cabinet on a bi-annual basis.
- 3.3 The bi-annual reports to the Cabinet as shareholder outline progress, budget expenditure, risks and methods to mitigate.
- 3.4 This proposal is presented to consider the recommendation outlined at section 7 of the report.

4. Risk Management

- 4.1 The previous agreement to create the subsidiary has arisen through a proactive risk management approach, to prepare for changing market conditions.
- 4.2 The company regularly reviews risks and this has identified that PRS is an emerging market with strong growth projected, but also provides an opportunity for long term revenue streams.
- 4.3 Should Cabinet agree to proceed, then it is proposed to coordinate engagement meetings with the Council with appropriate expert advice.
- 4.4 These meetings will focus on risks, such as agreeing appropriate specifications for the fit out to ensure lifecycle maintenance is considered, statutory and regulatory compliance considerations, staffing requirements and appropriate management systems to guarantee that the scheme is maintained to the highest standards.
- 4.5 The Board of Directors for Medway Development Company (PRS) Limited. will also oversee the implementation of the scheme and will closely monitor all operational aspects.

5. Financial Implications

- 5.1 The proposals would lead to a long-term loan arrangement being established. The financial overview is provided in the Chatham Waterfront PRS Business Case to Exempt Appendix 1.
- 5.2 The interest rate for the restructured loan will be agreed, as the block approaches completion, under the Chief Operating Officer's delegated authority, however this would be secured against the asset, therefore reducing the risk and allowing for an interest rate lower than the current 6% charged by the Council. The range 3.0% to 3.5% assumed in the modelling is not unreasonable in that context.
- 5.3 The Business Case identifies that extensive long term revenue streams will be generated through the proposal.

6. Legal Implications

- 6.1 The Cabinet as Shareholder needs to be satisfied that its investment is being appropriately used and the projects are progressing satisfactorily, which is reflected in the Business Case.
- 6.2 The Cabinet as Shareholder needs to approve the PRS proposal as a variation to the business plan.

7. Recommendation

- 7.1 It is recommended that the Cabinet agrees that Block C should be converted to a Private Rental Sector (PRS) scheme as set out in the Chatham Waterfront PRS Business Case attached at Exempt Appendix 1.

8. Suggested Reasons for Decision

- 8.1 To continue the regeneration of Chatham with the provision of high-quality PRS accommodation, which responds to changing market demand, but will also generate long term revenue streams for the Shareholder.

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Appendices

Exempt Appendix 1 – Chatham Waterfront PRS Business Case

Background Papers

None