

Report of the Director of City Development

Report to Scrutiny Board (Housing and Regeneration)

Date: 25 September 2012

Subject: Development of Council-Owned Brownfield Development Sites

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

This report and associated appendices provide details of brownfield sites in the Council's ownership and the issues and activities associated with bringing these forward for development.

Recommendations

Members are asked to note the report and offer comment on the issues raised.

1. Purpose of this report

1.1 At its meeting in July, Scrutiny Board considered an initial paper on brownfield land in the city, which offered a broad picture of the recent history of development, ownership and development interests, the role of Planning and future prospects for development.

1.2 In follow up to this the Board requested:

(i) a list of all Council owned brownfield sites and buildings in the city showing how long they have been declared surplus to requirements, what marketing has been undertaken and what incentives have been offered to encourage redevelopment of those brownfield sites

(ii) a list of non Council owned land that are brownfield sites that have been declared not viable and the reasons why they are not viable and what has been offered to move those sites forward for redevelopment.

1.3 This report provides details in respect of the first request based on activities and information that are known and available internally to the Council. Work in respect of the second request is a complex exercise requiring more detailed research into third party land holdings and collation of market intelligence – this is still ongoing and will be reported to the Board's next meeting.

2. Background information

2.1 The report presented to Scrutiny Board on 20 July 2012 provided an overview of the Council's approach to selling and developing its own brownfield assets (land and buildings) and the market context in which this has taken place.

2.2 This included the ongoing work in regeneration areas that has sought to use Council owned assets as a means of generating investment and development interest, the important role public sector funding has played in pump-priming development in the city's ex-industrial areas and the way in which marketing and sale of Council land generates capital receipts.

2.3 Since the height of the market in 2007/8 there has been a marked downturn in the sale and development of all Council-owned sites, reflected in both a fall in land values and the volume of land the Council has been able to sell for development.

2.4 A disposal income of £21.6m was achieved in 2007/8 (with seven sites sold at over £1m and a further eight over £500k). Since then the average annual receipts for the 4 subsequent years to 2011/12 are around £7m (with a total of five individual sales above £1m and a further seven over £500k, within this period). The nature of the sites sold has also tended toward a higher number of smaller sites.

2.5 There is no single reason that can be given to explain why a site can be sold and subsequently developed or not. The ability to do so is very strongly influenced by a range of development factors as they apply to each site:

- (i) **Location** – some neighbourhoods or areas of the city will be more attractive to than others for residential development. This is based on either the developer's ability to sell-on the resulting housing at an acceptable profit (in the case of private interests) or the ability to effectively let and manage affordable or rented housing (in the case of affordable housing providers or institutional investors). Therefore the Council has been able to sell residential sites in Clifford and Methley in recent years although sometimes only on the second or third attempt at marketing.
- (ii) **Site size** – successful or profitable development may only be possible above a certain number of units or above a certain value of construction contract. The requirement to provide affordable housing in schemes of over 14 units means that sites that can develop economically below this threshold do also sometimes attract interest.

- (iii) **Site conditions** – by its own definition brownfield land will have existing buildings that need clearing and/or will have ground conditions/contamination that reflect the previous uses or footprints of development, which will require remediation at an additional, ‘abnormal’ cost to the developer. These will have a direct impact on the ability to make profit or fit within a construction budget and therefore the attractiveness of a site to a prospective purchaser.
- (iv) **Position** – developers will often require land to have a prominent or visible frontage to main routes to assist in marketing and enhance attractiveness to purchasers and end users; sites in ‘backland’ locations may be less attractive.
- (v) **Market conditions** – whilst the city is made up of a range of micro-markets with their own conditions that will influence the attractiveness of previously used land for development (simply evidenced by a historical comparison of house prices in Adel or Wetherby with those in Holbeck or Harehills), the attractiveness of brownfield sites is also strongly influenced by the wider economy, which dictates the pace and strength of the housing and property markets nationally, regionally and at a city level. In more buoyant conditions with higher volumes of housing build and sales and less risk to profits, brownfield sites will generally be more attractive to investors and developers.
- (vi) **Competing opportunities** – if there are other, less risky, land opportunities available (at either a micro-market or city-wide level) these will affect the attractiveness of a brownfield site to the market.

2.6 The Council’s brownfield sites, a large proportion of which are in regeneration areas (including cleared housing) will often display negative characteristics in respect of at least one and usually more of these development factors. Multiple negative characteristics will combine to pose a significant challenge to the viability of development and the attractiveness of a site for prospective purchasers.

3. Main issues

3.1 The term ‘brownfield’ encompasses a variety of land types and assets in the Council’s ownership:

- Vacant buildings that have previously been used by services but which have been declared surplus and have no active use or other service proposals;
- Land that has been cleared of former service buildings and which has been declared surplus and has no active use or other service proposals;
- Land that has been cleared of obsolete or unsustainable housing as part of the Decent Homes and other programmes (including private properties that have been acquired to enable area-clearance);
- Land or buildings that are currently unused but which are being actively considered for Council development to support new service delivery;
- Vacant land that has been acquired in preparation for other developments or services uses.

- 3.2 Appendix 1 shows that there are 136 such sites or unused buildings on the Council's current brownfield list. It should be noted that this is a snapshot in time and that other sites will be added when declared surplus and removed once sales are confirmed. Appendix 2 shows the location of these sites by area wedge.
- 3.3 The Council has a number of means through which it can attempt to bring forward development or improvement of these sites. It can:
- undertake building itself (for example through construction of new schools) funded by internal or external finance;
 - seek a disposal directly to a developer through open marketing and invitation of offers, private treaty, one-to-one sale or selling the property at public auction;
 - seek a less-than-best consideration disposal to a third party in return for other quantifiable benefits (for example disposal to an affordable housing provider in return for lettings nominations);
 - consider more bespoke methods of securing development (for example through the creation of joint venture arrangements or development agreements for packages of sites);
 - consider alternative uses for the site that do not involve direct development but improve its condition and value to the local neighbourhood (for example in considering regeneration and reallocating land uses across a wider area).
- 3.4 Appendix 1 indicates for each of the Council's brownfield sites whether it is in the process of being disposed of; there is an intention to dispose; there is a proposition for other service uses; or whether future intentions are to be confirmed.
- 3.5 In any case there is a defined process for dealing with the disposal of land or buildings. A report to the Resources and Council Service Scrutiny Board in April 2012 set this process out in detail.
- 3.6 Sites will become surplus to operational requirements following a delegated decision from the relevant service Director or a resolution of Executive Board as appropriate. Once the building or site is vacated it passes into the control of the Asset Management service for appropriate security and management.
- 3.7 As a site is passed onto this list an appropriate method of potential disposal is assessed, alongside ongoing consideration of service needs for land or buildings that may arise, with the aim to get the best corporate balance between accommodating new or changed service needs and the best financial returns from sale of the Council's vacant land.
- 3.8 It can often take time to ensure that all of the Council's other land or property needs, which can change significantly within and across services relatively quickly, have been assessed and ruled out in relation to a site before proceeding with a disposal.

- 3.9 In considering the scope for a disposal, Council surveyors make an initial assessment of development factors (size, location, site conditions, position, other opportunities, market conditions, likely disposal terms) and planning allocation. Legal checks on Title are also undertaken.
- 3.10 This will inform the case for commissioning further work to support taking the site to market, which will involve two key elements to assist in 'de-risking' the site for a purchaser and to give the Council a realistic understanding of the prospects of a sale and of securing both appropriate development and land value.
- 3.11 The first is a range of more detailed desk top studies into matters such as ground conditions, topography, past uses, ecology and services to the site collectively referred to as 'stage 1 checks'. This offers a detailed picture of technical constraints and development possibilities.
- 3.12 The second is planning guidance, which can be provided in the form of a planning statement (a light touch development brief) for the site or in the form of an outline planning permission. Both offer a clear and certain view of the acceptable development uses, the likely form of development and the capacity of the site, to assist a prospective purchaser in understanding the likely costs and potential for income associated with an acquisition, build and sales project.
- 3.13 The costs to the Council associated with producing the stage 1 checks and planning guidance and the timescales involved are not insubstantial. For a medium sized site, the cost in staff time, expert input and bought-in information could be around £20,000 and the whole process can take a minimum of 6-8 months subject to any complications that may arise. It is therefore important to prioritise the sites for which this work is undertaken.
- 3.14 Not every site the Council intends to sell will need or lend itself to this work - either immediately or at all. There may be specific market intelligence that indicates a delay to bringing a site to market will ultimately result in a better land value returned to the Council; there may be existing market interest that does not need a de-risking approach; there may be a shared ownership interest (where the council has freehold but there is a third party leasehold interest); there maybe better overall value to be achieved in taking a site to auction to be 'sold as seen'; there may be interest in Community Asset Transfer; or there may be potential to package a cluster of sites as part of area-based regeneration activities and planning tools such as neighbourhood frameworks, masterplans and action plans may offer a more coherent way of articulating and stimulating development potential.
- 3.15 For sites that have void buildings on them a view is taken whether there is a significant negative impact on neighbourhood amenity and better value to the Council in committing cost to undertake either demolition or sufficient refurbishment to make the site more attractive and saleable.
- 3.16 Ward Members are consulted throughout the process of declaring land surplus, exploring development potential and disposal. Where there are objections to proposed changes of use or to the sale itself, these are further investigated and may involve consultation with Executive Members. As and when agreement can be reached on the principles of development and disposal, the Acting Chief Asset Management Officer considers a report on the proposed disposal method to ensure

the best possible receipt can be obtained. All marketing is dealt with by the Council, unless a site is to be sold at auction, in which case agents are appointed.

- 3.17 It is not standard practice for the Council to offer incentives as part of a sale as there is no statutory basis for doing so and offers received for a site would reflect current market conditions. However a case can be made for disposal at a value that is less than the best consideration that could be expected on the open market, if there are other quantifiable benefits accruing to the Council that offset the reduced monetary value. This has often been the case for sales to Housing Associations in return for lettings nominations or to voluntary sector/community groups where the sale is part of a Community Asset Transfer.
- 3.18 The Council seeks to ensure with any sale of land that this will result in development rather than just a transfer of an asset to another party. Sales can therefore often be conditional on planning (this is also due to the purchaser requiring planning consent to secure funding for the purchase and development) and may also be accompanied by a development agreement that places conditions on the sale for development to take place. Purchasers may also make their acquisition subject to more detailed site investigations where there may be a perceived risk to development and values.
- 3.19 In recognition of the challenges in attracting interest in its brownfield sites, the Council has established other means of achieving sales and/or development.
- 3.20 The EASEL project is the most recent example, whereby a long term pipeline of sites was guaranteed to a development partner on an agreed contractual basis through a joint venture arrangement, in return for the construction of new homes and land values returned to invest in regeneration. Although the first phase of this in Gipton and Seacroft has proceeded, the housing market will preclude the more substantial development programme originally envisaged.
- 3.21 The Council has PFI deals in place for new schools and prospective deals for new housing and the Residual Waste Treatment Plant, each of which is a means of enabling brownfield development on its land. These require identification and set aside of land some time in advance of the contracts to minimise risk to the Council and create procurement certainty.
- 3.22 For its more marginal and challenging sites the Council can consider other less conventional ways in which disposal and development can be realised:
- Deferred purchase (disposal and land value returned to the council only upon completion of development, to assist development cash flows)
 - Equity Share in houses constructed (the Council takes a stake off-set against land value)
 - Profit Share (either an agreed proportion of sales or through overage)
 - Direct financial assistance (in the form of cross subsidy from more viable sites in a sales package)
 - Purchase of houses to guarantee level of sales revenue (requiring Council capital or use of land value)
 - Partnering with Registered Providers (which may require HCA grant to be allocated)
 - Infrastructure improvements by LCC (requiring up front capital investment)

- Transfer of affordable housing requirements from other market-lead sites

- 3.23 It may also be possible to support prospective purchasers or developers in applications for grants or loans from government, for example in the recent rounds of 'Get Britain Building' and 'Kickstart' funding from the Homes and Communities Agency.
- 3.24 The whole process from a site being declared surplus to it being sold and subsequently developed can take time and there is no set timescale given the variety in sites, local issues and service needs that change over time. The current dip in the property market also has a major bearing on this, though a large proportion of council sites are anyway located in challenging markets (or in areas where there is no property market at all to speak of).
- 3.25 Of the Council's current brownfield sites there are 23 that are proposed for alternative Council uses. For the most part these are sites that have been vacated and/or cleared in the last 6-7 years. Sites for the Little London and Beeston Hill and Holbeck housing project have been specifically cleared or mothballed in anticipation of the new housing development; there are other sites that have been identified to accommodate new school developments. The largest of the sites is at the former wholesale fruit and vegetable market in Cross Green and has been set aside for the new Residual Waste Treatment Plant.
- 3.26 There are 72 sites with potential for residential development. The majority of these have been declared surplus and cleared within the last 5-10 years and are located within difficult markets such as inner city neighbourhoods or Council housing estate areas, being former housing sites, schools, community centres. Land in Middleton has been vacant for a longer period following earlier clearance activities. A smaller number of sites are former garage and commercial sites and there are also a number of existing buildings that will be sold for refurbishment and reoccupation.
- 3.27 There are a further 33 sites with potential to accommodate either commercial or residential uses or mixed use development, subject to developer interest. The key dates for closure, vacation and clearance of these are mixed reflecting the varied nature of past uses and some of the more long-standing challenges relating to site conditions.
- 3.28 There are 21 sites with potential for development to accommodate commercial uses. Larger strategic sites such as land at Elland Road or Eastgate are often subject to development proposals involving third party interests, require resolution of complex commercial matters or land assembly. These are sites that are often central to the city's wider ambitions and have long lead-in times to negotiate deals and acceptable development solutions prior to disposal.
- 3.29 There are 98 sites which currently have activities underway to support forthcoming disposal and 15 that are currently in the process of being sold. Five of these are disposals to Housing Associations under the Affordable Homes programme, where the sites have arisen from clearance of unsustainable homes; three are for residential conversions of existing buildings, two for new build housing and five for commercial uses.

4.0 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 There has been no specific consultation on this report, which presents information from Council records for discussion by the Scrutiny Board.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There has been no Equality Impact screening undertaken for this report, which presents information from Council records for discussion by the Scrutiny Board.

4.3 Council Policies and City Priorities

4.3.1 The remediation and development of the Council's brownfield sites relates strongly to a range of objectives within the City Priority Plans, supporting neighbourhood regeneration and housing growth.

4.4 Resources and Value for Money

4.4.1 There are no specific resource implications related to this report.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no specific legal implications related to this report.

4.6 Risk Management

4.6.1 There are no specific risks related to this report, which presents information from Council records for discussion by the Scrutiny Board.

5. Conclusions

5.1 The Council's list of brownfield sites is a dynamic one, reflecting surplus properties added in and sales off on a rolling basis.

5.2 Unless the Council is able to undertake development for its own service uses, the ability to secure development on this land is driven by the interest of third parties. The Council undertakes a variety of activities to reduce risk associated with these sites and to stimulate interest, by providing technical checks, planning clarity, packaging and marketing activity. However the costs and resources associated with this together with the lack of viability on some sites requires a prioritised approach that results in some sites remaining in an undeveloped and unmarketable state for considerable periods.

5.3 Sites that have been vacant and available for development the longest are in the most challenging sub-market areas of the city and often have multiple challenges that limit the interest of third parties to purchase and develop there.

6. Recommendations

6.1 Members are asked to note the report and offer comment on the issues raised.

7. Background documents¹

- 7.1 Report to 20th July Housing & Regeneration Scrutiny Board, 'Brining Forward Brownfield Development Sites'.

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.