

London Borough of Enfield

Regeneration and Economic Development Scrutiny Panel

Subject: Meridian Water – Meridian Four Update

Cabinet Member: Cllr Nesil Caliskan

Executive Director: Sarah Cary

Purpose of Report

1. The purpose of the report is to present an updated to the Regeneration and Economic Development Scrutiny Panel with regard to the Meridian Water, Meridian Four Project.

Proposal(s)

2. That the Regeneration and Economic Development Scrutiny Panel notes the report and presentation.

Reason for the Proposal(s)

3. The Regeneration and Economic Development Scrutiny Panel requested an update.

Relevance to the Council's Plan

4. Meridian Water is a key component in contributing to the vision, aims and priorities of the Council's Corporate Plan.
5. **Good Homes in well-connected neighbourhoods:** Meridian Water will contribute to the Council continuing its pioneering approach to regeneration to create thriving, affordable neighbourhoods and places, and increasing the supply of affordable, quality housing options for ownership, social rent and private rent. Meridian Four will contribute to this goal through the delivery of circa 846 new homes.
6. **Safe, healthy and confident communities:** Meridian Four will contribute towards the overall strategy for Meridian Water which aims to deliver on the Council's aims to improve public health and people's well-being. Along with new homes Meridian Four will deliver community and social infrastructure; new amenity spaces and open up access to the canal.
7. **An economy that works for everyone:** Meridian Four will deliver new ground floor commercial premises and workspace.

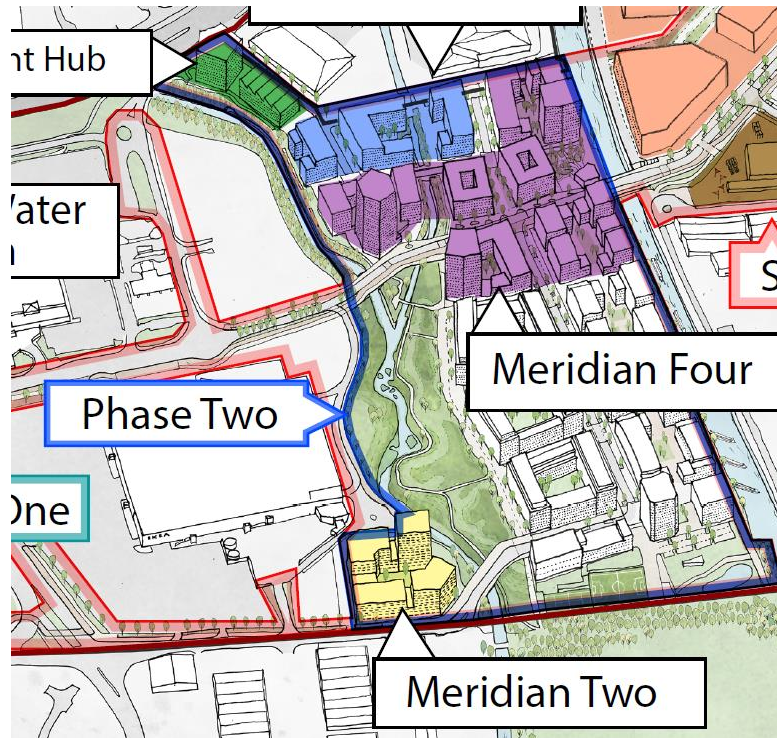
Background

8. The Phase 2 Business Plan (KD4953) report which Cabinet authorised in October 2019 set out the options appraisal for the delivery model for circa 1,550 homes within Phase 2.
9. In March 2020, the Council's Planning Committee resolved to grant planning permission for the Outline Planning Application (OPA) for Phase 2 of Meridian Water to deliver circa 2,300 homes (plus 18,000 sqm of Purpose Built Student Accommodation and Co-Living accommodation) as well as commercial, retail, social infrastructure, and public open spaces.
10. Meridian Four is the fourth development opportunity within the 85-hectare Meridian Water site, located in the northern half of the Phase 2 Outline Planning Application (OPA) area. The site is bound by the River Lee Navigation to the East and Pymmes Brook to the west and access will be created to the plots by the delivery of the Strategic Infrastructure Works (SIW) which are being delivered under funding from the Housing Infrastructure Fund (HIF) (see Fig 1).



Figure 1: Plan of Meridian Four Development Plots

11. On the 16th September 2020, Cabinet approved (KD5174) the Phase 2 Detailed Delivery Plan and the recommendation within it for the direct delivery of Meridian Four. Meridian Four comprises of five blocks sited to the north of the Phase 2 scheme to be delivered with commercial and community uses at ground floor and upper floors to provide Build to Rent and affordable homes.



12. Phase 2 of Meridian Water will deliver circa 2,300 homes. The mix for Phase 2 has been agreed as part of the outline scheme (Ref: 19/02781/RE3) which has been approved by Planning Committee. The baseline mix in the Phase 2 outline scheme is as follows:

Table1: Phase 2 Mix

UNIT MIX	Phase 2 Housing Mix
Studio/1-bed	30%
2-Bed	40%
3-Bed	20%
4-bed	10%

13. There will be multiple Phase 2 Reserved Matters applications each looking in detail at a different part of Phase 2 up to the total housing allowance for that phase of 2,300 homes. Each Reserved Matters application will contain a different housing mix to reflect the particulars of the site as well as the housing tenures. However altogether the bedroom mix for the 2,300 homes will be as outlined in the table above.
14. The Meridian Four bedroom mix reflects the requirement that Build to Rent homes typically appeal to people wanting 1-2-bedroom homes whilst the larger family sized homes (3-4 bedroom) will be prioritised for the affordable homes.

Table 2: Meridian Four Indicative Mix

UNIT MIX	2021 Update (percentages)	2021 Update (as in financial model)
Studio/1-bed	41%	348 units
2-Bed	34%	286 units
3-Bed	17%	142 units
4-bed	8%	70 units
Total Units		846 units

15. It must be noted that the mix as set out above is indicative as the project is still in the conceptual stage of design. As the design of the buildings develop and are refined, the indicative mix as set out above will be further tested and represented in its completed form at a later date.

Progress

16. During 2020/21 the procurement of the professional team for Meridian Four has been progressed. The following services have been secured to date:
- Project Managers Ikon / Cast
 - Lead Architect KCA
 - Quantity Surveyor Stace
 - Structural and Civil Engineer Pell Frischmann
 - Mechanical, Electrical and Plumbing Engineer Elementa
 - Town Planning WSP
 - Highways Pell Frischmann
17. Work started on the RIBA stages in May 2021. It is currently anticipated that a detailed scheme (RIBA 3) will be finalised in Q2 2022 with a view to submitting an application for Reserved Matters consent to the Council in Q3 2022.
18. Through the procurement of the professional services for the Meridian Four project, the team has sought to ensure that the Council's approach to promoting Equality, Diversity and capturing Social Value benefits have been captured.
19. This approach to procurement has resulted in the Council being short listed for a 2021 LGC Award as well as a National Housing Award.

Build to Rent Market

20. A Build to Rent (BtR) scheme is a residential development designed and built specifically to let homes out long-term rather than to sell. The scheme may be built and operated by the same investor, however more typically an investor will partner with a developer who will build the scheme and the BtR Investor will purchase the completed homes at the end of the build period.

21. A BtR scheme is typically of high quality with a focus on efficiency, low maintenance and place-making. The residential blocks will incorporate amenities such as a gym, workspace, residents, café / restaurant etc which are for the use of the residents (as well as non-residents where they can be directly accessed from the outside).
22. The BtR Investor will take a long-term view of the quality and placemaking as they make their return on investment over many years (typically a 40-50 years) and therefore need to ensure that the scheme remains attractive to renters over this time period and beyond.
23. The BtR sector has become increasingly well-established over the last decade. The growth has been driven by institutions and funds looking for stable inflation linked returns largely to pay pensions after the global financial crisis in 2009. BtR is still a very small part of the private rented sector but forecasted to grow significantly as it gains a reputation for providing high quality, well-managed, secure rental homes.
24. A BtR operator will not seek to recover the properties from tenants who are not at fault, e.g. to live in or sell on, and as such no-fault evictions are not a likely scenario. They will typically increase rents in line with inflation every year and their priority is to keep tenants long term. There is also the ability for blocks to be offered to different audiences for example young professionals, families etc with brand differentiation including amenity provision and potentially rent levels.
25. A BtR scheme that is owned and managed by professional landlords and financed by institutional investors therefore offers the potential to deliver a greater supply of good quality market housing alongside a better deal for tenants.
26. The BTR will be owned by one investor and managed by one landlord, as such preventing the risk of overseas and other private investors acquiring the BTR properties proposed for Meridian Four.
27. Further to market insight, the Affordable Housing on Meridian 4 aims to deliver a higher proportion of family-sized units while the BtR options target smaller household to create a range of new housing opportunities for residents within the Borough.
28. Enfield's work establishing a borough-wide Registered Provider Framework has commenced and upon completion may be used to procure a Registered Provider partner to purchase or develop the affordable housing blocks.

Market Testing

29. Further to the 2020 Cabinet decision officers have undertaken additional soft market testing led by the Council's advisors Gerald Eve.

30. A second round of soft market testing was conducted during the first two weeks in August 2021. Six investors who expressed interest in the scheme and programme were interviewed and asked to provide feedback on the most recent project plans, including potential deal structures, programming, tenure mixes, and interest in participating in a future workshop on sustainability and building design post-Covid.
31. The responses from the SMT confirmed that the market continues to prefer delaying capital receipt payment until the completion of HIF works and detailed design to de-risk the investment. However, several investors interviewed were eager to engage in the design earlier in order to guide the development and ensure key features were included or designed to customer expectations.

Further Marketing Strategy

32. As a result of the feedback gained from the market it is proposed that:

- A further round of Soft Market Testing be undertaken in Q1 2022 by which time RIBA 2 Concept Design proposals will have been developed and be tested to ensure that the Build to Rent design proposals are market facing.
- The Selection of preferred investor partner progresses in Q2 2022 (with RIBA 3 design progressed) with a view to having selected a preferred investor partner before or during RIBA 4 design which commences Q3 2022.
- Once the preferred investment partner is selected, the council will progress any remaining RIBA 4 design and legal agreements in parallel with that preferred investor partner.
- Work to secure the main contractor will progress in parallel with securing the Build to Rent Investor and Registered Provider.

33. This strategy optimises the Council's ability to accelerate delivery of new homes on site upon completion of the HIF works expected to be from Q3 2023.

Project Viability – Previous Cabinet Report

34. In the previous cabinet report, Council elected to pursue Option 2b of the potential Meridian 4 delivery strategies evaluated at that time.

35. As financially modelled, Option 2b consisted of:

- a. A 533 scheme of 65% private tenure BtR homes (approx. 347 homes) and 35% affordable homes (approx. 186 homes) across three blocks

- b. The affordable portion of the scheme would consist of 70% London Affordable Rent (LAR) and 30% intermediate affordable tenure of London Living Rent (LLR) capped for Upper Edmonton Ward levels

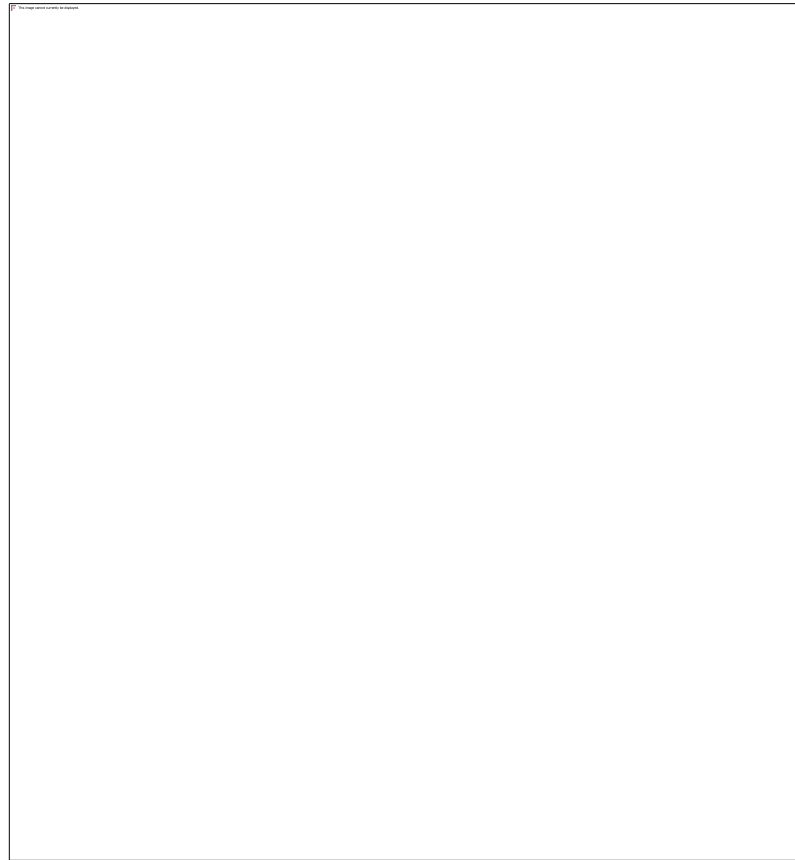


Figure 2 – Three blocks making up the 533-home scheme

- 36. As shown above in Figure 2 533 homes can be accommodated in Plots Z05-04; Z05-06; and Z05-07 of the Phase 2 outline scheme.
- 37. The scheme was approved for up to circa 800 homes (notionally split 520 market homes and 280 affordable homes) by adding two additional plots (Z04-01 and Z04-05) to the M4 parcel (as shown overleaf in Figure 3), rather than increasing the number of units included in the Z05-04; Z05-06; and Z05-07 plots by adding height.

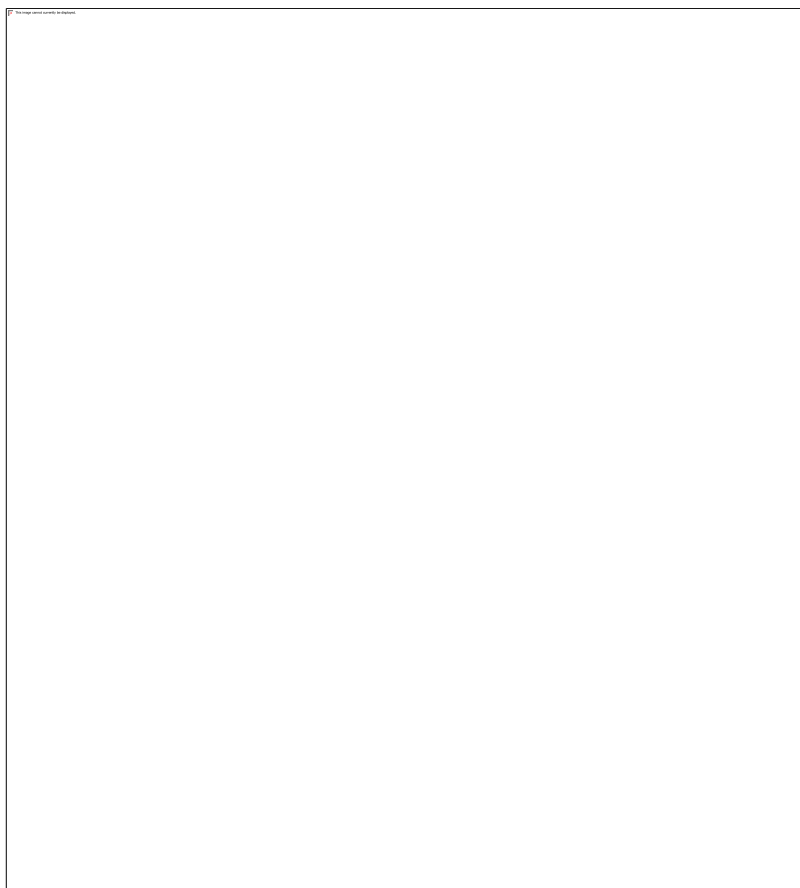


Figure 3 - Five blocks making up the 846-home scheme

38. The Scheme was initially modelled to begin construction in September 2022 when it was believed that the Homes Infrastructure Fund (HIF) works would be completed. The programme has been adjusted to factor in the current expected completion of the HIF works.
39. The construction of Meridian Four is planned to start on site upon the completion of the HIF in Q4 2023. To ensure the accelerated delivery of new homes on Meridian Four the proposed programme key dates are as follows:

Table 3: Project Milestones

Milestones	Programme Dates
Selection of Preferred RP	Q3 2022*
Reserved Matters Planning Submission	Q3 2022
Completion of HIF Works	Q3 2023
Completion of Contract with BtR Investor	Q4 2023**
Main Contractor approved	Q4 2023
Start on Site	Q4 2023
Completion of First homes	Q4 2026

* Under review considering timings of delivery of Council Registered Provider Framework

** Timing of selection of BtR engagement reflects Investor Partnering approach during RIBA 4 design alternative will be that the BTR investor is secured post RIBA 4 and contracts would be conditionally agreed prior to start on site. Start on site would be later in this scenario

Main Considerations for the Panel

Proposed Scheme (circa 846 units)

40. The 2020 Cabinet Report considered various options from 533 to 1,500 homes in the Meridian Four delivery strategy.
41. Market testing has confirmed that a scheme of circa 846 units with all five plots as set out in Figure 1 of this report for Build to Rent and affordable homes for Meridian Four.

a Appraisal Update

42. Since September 2020, additional work has been undertaken to update and refine the financial appraisals from the notional targets used to recommend Option 2b to reflect the evolved scheme's focus, accelerated delivery, real world conditions and changes in the market.
43. An updated financial model for Meridian Four has been prepared using the increased number of homes and a revised unit and tenure mix. It includes details on infrastructure expenditure, updated build costs, professional fees, and market and affordable rental values.
44. The revision includes an indicative tenure mix of 70% market-rate and 30% affordable which has been calculated in order to work towards achieving 40% affordable homes across all of Phase 2 supported by GLA grant funding.

Table 4: Phase 2 Homes

PLANNED PHASE 2 HOMES	Market Rate Homes (approx.)	Affordable Homes (approx.)
Parcel		
M2	0	275
M3	135	80
M4	580	260
Parcel 5 – Parcel 10	685	335
Total Units	1400	950

45. The updated financial modelling for Meridian Four includes grant funding allocated by the GLA (subject to final agreement). The forthcoming allocation will support the delivery of the target number of Social Rent and Shared Ownership affordable homes across the Phase 2 site.
46. A series of sensitivity analysis were produced to further measure the scheme's current financial position.
47. The updated viability modelling of Meridian Four has been undertaken including comparison of assumptions reflecting changes between the

appraisals developed for the September 2020 Cabinet Report and those updated to reflect the current market and inputted into Gerald Eve's Meridian Four financial model.

b RIBA 4 Design

48. To also reflect feedback from the Soft Market testing from the build to rent market and to enable the delivery of the programme to commence Meridian Four works on site in 2023 it is proposed to delegate to the Programme Director of Meridian Water in consultation with the Executive Director of Resources, the decision to forward fund the Meridian Four RIBA 4 design.

Budget impact - Capital

49. The Q1 Capital monitoring report submitted to Cabinet 15th September 2021 (KD5335) sets out the revised 10 year capital programme for all schemes including Meridian Water. The table below summarises the latest position and shows a total approved budget of £835.179m to financial year 2030/31 of which Meridian 4 comprises £325.089m.

Table 5: Ten Year Capital Budget

10 yr capital budget £000's	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27 to 2030/31	Total
Meridian Water	85,815	158,212	26,672	25,826	28,942	127,024	452,491
Meridian Four	6,077	16,210	83,011	73,725	73,725	72,341	325,089
Total Meridian Water	109,740	214,173	109,683	99,551	102,667	199,365	835,179

50. The forecast expenditure (Meridian Four) for 2021/22 and 2022/23 is £2.994m and £20.396m respectively and include additional costs of £1.930m (resulting from the delivery of larger scheme) and £6.160m (to progress RIBA 4 design).

51. Compared to the latest budgets, approved by Cabinet as part of the Quarter 1 monitoring cycle, this results in a pressure in of £1.103m across 2021/22 and 2022/23 which will be contained by the re-profiling of expenditure for Meridian Four from future years budgets, which are sufficient to cover this, as set out in the table below.

Table 6: Meridian Four Budget Spend

Meridian Four Professional Fees Estimates £'000:	2021/22	2022/23	Total
Estimated	1,064	14,236	15,300
Increase required	1,930	6,160	8,090
Forecast Qtr2	2,994	20,396	23,390
Budget	6,077	16,210	22,287
Shortfall /(Surplus)	-3,083	4,186	1,103*

* Sufficient budgets for Meridian 4 in later years to contain pressure

52. Cost estimates for all works in the programme will be reviewed as part of the Quarter 2 capital monitoring cycle, appearing elsewhere on the agenda, and resources re-allocated and re-profiled to ensure sufficient budgets are in place to expedite works without changing the overall budget which was approved by Council 2nd March 2021 (KD 5210).

Budget impact - Revenue

53. Works costs are capital in nature therefore the proposed increase will not have a revenue impact.

Debt

54. Proposed increase in expenditure for this component of the programme will not result in increased costs for the scheme as a whole therefore there is no impact on borrowing from this proposal.

55. Financial modelling for the whole programme is undergoing a review, the results of which will not be known until after final budgets and MTFP are approved by Council 9th February 2022. Revised assessments of borrowing will therefore be reported as appropriate once known.

Taxation

56. Council will recover input VAT in normal manner for additional costs. No implications to report.

57. The proposed risks associated with the proposals as set out in this report are set out in the table below.

Table 7: Risk and Mitigation

Risk	Mitigation
Project Viability – Council exposure to financial risk due to changes in overall viability of the project	As part of the project due diligence the Council will be continually testing project viability including the monitoring of build cost inflation and undertaking market engagement to monitor changes to the investor / Registered Provide markets
Direct delivery – Council exposure to financial risk due to change in project viability	As part of the project due diligence the Council will be continually monitoring project viability and will be reporting at each RIBA stage by report to Programme Director
Build to Rent Investor not secured, Council's Forward Spend not returned	Council has undertaken soft market testing which has positively supported approach to delivery and interest in the scheme. On-going engagement with the market

	<p>will be undertaken to ensure that the scheme design remains market focused.</p> <p>Position will be reviewed before committing RIBA 4 spend.</p>
Proposed design does not meet Build to Rent Investor requirements	<p>Specialist professional team have been procured who are conversant in the requirements of the market.</p> <p>Engagement will be sought from market to inform design work during RIBA 2-4 stages.</p> <p>Build to Rent identified that there is interest in early engagement to inform design.</p>
Registered Provider (RP) – RP not secured or delayed	<p>The Council are in the process of setting up an RP Framework. Other routes to the market will also continue to be considered should any delays to the framework result in an RP not being secured prior to the commencement of RIBA 4 design.</p>
Build Costs – M4 viability impacted by build cost inflation	<p>M4 finances have been reprofiled to take account of inflationary pressures and on-going monitoring of build cost changes is in place through appointed Quantity Surveyor</p>
Timetable changes – challenges to programme as a result of interfaces with other workstream or change in market or approach	<p>M4 programme has been constructed to counter scenarios such as the timing of securing BTR investor, RP Investment etc. Programme interfaces regularly reviewed against master programme.</p>

58. It is therefore recommended that the Meridian Four scheme proceeds as detailed above to accelerate the delivery of much needed housing and affordable housing to the Enfield and Edmonton areas, to reduce the impact of time on cost any further, and to secure grant funds that have been committed by the GLA to deliver Social Rent and Shared Ownership affordable homes.

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Appendices

n/a

Background Papers

n/a