

SUBJECT:	<i>Flats at Grand Union House, Iver</i>
REPORT OF:	<i>Cllr Paul Kelly and Cllr Trevor Egleton – Portfolio Holders for Resources and Community</i>
RESPONSIBLE OFFICER	<i>Martin Holt, Head of Healthy Communities</i>
REPORT AUTHOR	<i>Martin Holt, 01494 732055, martin.holt@southbucks.gov.uk</i>
WARD/S AFFECTED	<i>All</i>

1. Purpose of Report

To consider the opportunity to purchase 51 flats at Grand Union House, Iver for use as Affordable Housing

RECOMMENDATIONS

- a) That authority be given to the Head of Healthy Communities, in consultation with the Head of Environment and the relevant Portfolio Holders, to enter into negotiations, subject to contract, for the acquisition of Grand Union House.**
- b) That the Officers carry out a due diligence exercise, including legal, building/site survey and financial aspects and to explore options for the future management of the site and that a detailed business case be presented to Cabinet before a decision is taken on whether to acquire the site.**
- c) That an allocation of up to £100,000 is agreed to undertake the due diligence exercise and valuation required in developing the councils offer and subsequent negotiation by external consultants.**

2. Executive Summary

This report presents the case to acquire the Grand Union House site for affordable housing and recommends that the Council enter into negotiations, subject to contract, to acquire the property.

This report identifies an opportunity to accommodate those in emergency accommodation in self-contained facilities, reducing the risk to the Council and enabling the Council to reduce its expenditure on homelessness provision.

3. Reasons for Recommendations

- a. To support the Council's Medium Term Financial Strategy and reduce the cost of emergency accommodation for the homeless;
- b. To enable the Council to discharge its duty to accommodate those who are determined as homeless and in priority need.
- c. Purchase of the freehold of the site could increase the value of the Council's assets over a longer time period
- d. The provision of emergency accommodation in the district would reduce the health inequality risks associated with the placement of families out of the district.

4. Content of Report **Background**

The Council has a duty to provide emergency accommodation to those applying as homeless, pending investigation. Following a determination of homelessness the Council also has a duty to provide permanent accommodation. That duty can be discharged by providing a suitable tenancy through an Assured Short-hold Tenancy with the approval of the Council for a minimum of two years.

Legislation allows Councils to accommodate families in bed and breakfast accommodation for up to six weeks, but it also says that it is unsuitable and must be for a maximum of six weeks. Councils have to tell families placed in bed and breakfast accommodation that it is unsuitable and that it must secure alternative suitable accommodation within six weeks. Statutory guidance says that bed and breakfast accommodation is unsuitable for 16 and 17 year olds altogether, even in an emergency.

Currently homeless families with children are being managed through the provision of self-contained nightly rented accommodation, placed in B+B or provided accommodation within Registered Providers' stock. The Council currently has 69 households placed in emergency accommodation, of which 32 are in B+B, 10 in self-contained nightly accommodation, 23 in Registered Providers housing stock and 4 in other accommodation.

The annual cost of the accommodation is £800,000, funded through rental and housing benefit payments. The current net cost to the Council based on 40 homeless cases i.e. 40 cases saving £200 a week for 52 weeks, is approximately £400,000 per annum.

Should the Council acquire this property it could discharge its duty in relation to the use of emergency accommodation or could use the property to discharge its duty to accommodate by providing two year tenancies, or both? The proposal provides an opportunity for the Council to generate an income in return for providing

accommodation and reduce its costs. To enable this opportunity the Council would have to lease the property to a third party i.e. housing association

Grand Union House

Grand Union House is an office to residential conversion (15/01501/JNOT) situated on the Ridgeway industrial estate in Iver. The landowner is selling the leasehold of the property through local estate agents, who have approached several councils to enquire if there is any interest in the site as affordable housing.

The Council has been advised that the building is a steel frame, infilled with brick under a metal roof with concrete ground and first floors and anecdotally it would appear that mortgage lenders may be reluctant to loan on this type of property.

Building Control is to be asked to undertake an assessment of the site plans to identify the risks in relation to the construction, including corrosion and fire safety. Should the Council wish to purchase the flats it would be necessary to undertake due diligence investigations and be clear on how the flats will be managed. The owner will only release information in relation to the flats (detailed drawings, Fire Safety Plan, etc) following acceptance of a conditional offer to purchase.

Although it is relatively close to local amenities and transport, the building is located in a busy industrial estate with high traffic levels during working days and no amenity area except for a central courtyard. This could affect the ability to let properties especially amongst households with younger children. Car parking is available for up to 90 cars.

The block of 51 flats was originally offered for individual sale at a leasehold price of £12Million. Appendix 2 details the asking price for each flat. The flats have proven difficult to sell and are now offered as a commercial opportunity to acquire the 51 units at a reduced price '*with offers in excess of £10Million*'. The landlord may be interested in selling the freehold of the property which reduces any risks of annual increases in landlord maintenance charges.

Housing management

The flats could be rented as part of a private leasing scheme managed by a housing provider with rents capped at Local Housing Allowance levels, enabling the Council to discharge its duty to accommodate homeless households in an emergency, or following acceptance of duty, for a two year period, on an assured short hold tenancy.

The Council would be required to manage the properties however this could be achieved through a housing association or being managed through the property company currently being set up by the Council.

Many Registered Providers are reluctant to acquire properties within a larger private block of flats as this presents challenges in managing properties within a mixed tenure development (including service charge issues, management of communal spaces and disputes with private residents). If the Council wanted to acquire flats to utilise as temporary accommodation or as private rented accommodation to discharge homelessness duties, it would need to ensure that a suitable level of housing management was in place to manage the tenancies and, especially, react quickly to address any problems that arise. The issues and vulnerability around some clients moving into temporary accommodation means that housing management generally has to be more intensive in order to prevent any problems arising (including rent arrears and other tenancy breaches). This is particularly an issue where some clients have moved into the properties reluctantly and may not have a personal investment in looking after the accommodation and meeting tenancy requirements.

The proposed Council property company is unlikely to be in place at the time of any potential acquisition, so the Council would have to identify a potential partner to undertake the letting and management of the properties (possibly via a leasing arrangement between the Council and the partner).

There is a risk that the more intensive housing management required would push the management fee higher than 25% with a consequent impact on income for the Council.

There is also the risk that the Council may struggle to find a partner willing to enter into an agreement to manage the tenancies.

Financial Model

The indicative financial model is based on a £10Million loan and delivering 51 units for affordable rent at Local Housing Allowance Rates

Property Type	Number of properties
Studio flats	4
1 bed flat	23
2 bed flat	16
3 bed flat	8
Total	51

The Council currently utilises 8 X 3 bed properties at Gerrards Cross Police Station as temporary accommodation; this option effectively replaces that provision.

With a £10Million purchase price the average price per property is £196,000 which is considerably in excess of the £80,000 per property subsidy for affordable housing delivered by L+Q. However in the case of grant aiding a registered provider to acquire property the council does not receive a return on its investment.

Should the Council purchase Grand Union House the accommodation could reduce the cost of Emergency Housing provided via the private sector by £400,000 per annum.

Sensitivity analysis	Best case	Worst case
Purchase price	£10,000,000	£10,000,000
Income over 30 years	£15,568,785	£9,162,841
Total profit over 30 years	£17,963,274	£9,931,035
Total NPV over 30 years	£6,567,047	£1,966,365
Avoided Emergency Housing Costs /annum	£400,000	£400,000

(figures in brackets indicate a loss)

With the properties being used to accommodate 40 households in emergency housing need, it is estimated that an income of £15.57Million and a total profit of £17.9Million over 30 years could be achieved. The sensitivity analysis based on no rental increase, 30%management costs and a loan rate of 3.23% considered to be the worst case scenario still delivers a strong business case if the property is used to offset the emergency accommodation costs.

In the best case the annual profit ranges between £136,000 and £1,272,000 from 2019/20 to 2047/48. The stamp duty would be funded through use of the section 106 payments received by the Council.

Assumptions made in developing the indicative business case are:

- The cost of acquisition of the site is £10M excluding VAT and stamp duty estimated at £1.4M
- Inflation is 3% a year and this is also the discount rate used
- The financing cost is based on borrowing from the Public Works Loan Board, on an annuity basis, over 30 years
- Rents are increased in line with inflation i.e. 3% a year
- The rental income estimates are based on the affordable rent levels for the district
- Rental occupancy is 11 out of 12 months

- Management fee of 25%/property/annum is charged reflecting the higher risk associated with affordable housing
- Although the build / design life for properties is a lot longer than 30 years, all figures have been based on a 30 year timeframe
- The calculation assumes the recovery of the £10Million purchase costs over the period of the business case, but as a freehold purchase, the asset may increase in value over time
- The financial model is only an estimate and a detailed business case will be required

Sensitivity analysis of the Financial Model

The level of income will be directly influenced by the model of renting the properties and in particular the level of income required by the third party that delivers the housing management. The income will also be impacted by the ability to increase rents above the LHA rate which is currently capped.

The sensitivity analysis detailed in Appendix 1 demonstrates the return on the Councils investment would vary with changes to rental or management costs. But that if the site was used to offset the costs of emergency accommodation the Council could receive an income from rental payments of between £12Million and £16Million over a 30 year period. However if the property was not used to offset the homelessness costs the investment would not make a return on the £10Million loan.

Risks – the risks associated with the proposal include;

- Rent levels may be impacted by changes to the market due to economic volatility and may increase or decrease
- Income streams could be affected by tenants failing to meet rent payments and getting into arrears resulting in a shortfall in rental income and additional costs being incurred by legal fees associated with possession action.
- Maintenance costs may increase or decrease over time depending on the costs at that time and the levels of disrepair by tenants.
- Without full detailed construction drawings Building Control are unable to advise on the risks of condensation and corrosion to the steel frame; the structural requirements in relation to the provision of fire precautions
- The owner has not yet provided details of the acoustic insulation and noise tests between properties which will be required to ensure the prevention of nuisance between flats
- Unacceptable behaviour may lead to a higher risk of eviction and management costs

- The proximity to other commercial properties may lead to a risk of nuisance arising from the existing premises and subsequent action against those premises to abate a nuisance.
- Council may be unable to find a housing association partner or other provider who was willing to take on the management of the block or enter into a private leasing arrangements
- With over half of the properties (27) being bedsits or 1 bedroom flats, whilst they could be used as emergency accommodation they would not be suitable for a family if the council was to fully discharge its homelessness duty by offering an Assured Shorthold Tenancy requiring demand management of the accommodation space.

5. Consultation

Not Applicable

6. Options

1. To proceed to negotiate with the landowner to acquire the freehold.
2. To consider other options to accommodate homeless households including;
 - Develop a private leasing scheme with a housing provider enabling the Council's duty to be discharged over a two year period. The council would not receive an income in such a scheme but would be liable for any void payments
 - Develop alternative emergency accommodation options with other authorities, however these would take 2-3 years to be developed and implemented.
 - Develop affordable housing opportunities on Council owned land. Currently there are no sites available to the council that would allow 51 units to be developed.

7. Corporate Implications

7.1 Financial – an offer subject to contract does not commit the Council to proceeding with the purchase. A full business case will set out the financial implications before a final decision is made.

7.2 Legal – the Council has powers to acquire and dispose of property as it sees fit, in order to carry out its functions, meet its corporate objectives and to deliver services.

7.3 The use of the 51 flats would assist the Councils' homeless obligations reducing the risk of future challenges by the Local Government Ombudsman or through the legal process.

8. Links to Council Policy Objectives

Working towards safe and healthier local communities

9. Next Step

Subject to agreement the Council would enter into negotiations to acquire the site, following which detailed due diligence would be undertaken and a business plan presented to Cabinet for consideration.

Background Papers:	None.
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Appendix 1 – Private – See Part II of the Agenda

Appendix 2

GRAND UNION HOUSE IVER BUCKINGHAMSHIRE SL0 9JQ UPDATED 16/11/16

UNIT NUMBER	FLOOR	SPLIT LEVEL	NO OF BEDS	BATHS	SQ.FT.	SQ.M.	REC. ASKING PRICE	REC. ASKING RENT PCM	GROSS Y	UNIT NUMBER
16	FIRST	STUDIO	STUDIO	1	378	35.1	£175,000	700	4.80%	16
44	FIRST	STUDIO	STUDIO	1	404	37.5	£180,000	700	4.67%	44
43	FIRST	STUDIO	STUDIO	1	409	37.9	£180,000	700	4.67%	43
23	SECOND	STUDIO	STUDIO	1	441	40.9	£187,500	750	4.80%	23
2	GROUND		1	1	434	40.3	£195,000	750	4.62%	2
7	GROUND		1	1	468	43.4	£200,000	750	4.50%	7
4	GROUND		1	1	506	46.9	£205,000	750	4.39%	4
34	GROUND		1	1	508	47.1	£205,000	775	4.54%	34
25	GROUND		1	1	523	48.4	£207,500	750	4.34%	25
29	GROUND		1	1	526	48.8	£207,500	775	4.48%	29
27	GROUND		1	1	523	48.4	£207,500	750	4.34%	27
51	SECOND		1	1	529	49.1	£207,500	775	4.48%	51
3	GROUND		1	1	555	51.5	£210,000	800	4.57%	3
6	GROUND		1	1	612	56.8	£212,500	800	4.52%	6
17	FIRST	DUPLEX	1	1	673	62.4	£215,000	850	4.74%	17
45	FIRST	DUPLEX	1	1	672	62.3	£215,000	825	4.60%	45
18	FIRST	DUPLEX	1	1	695	64.5	£217,500	825	4.55%	18
19	FIRST	DUPLEX	1	1	699	64.9	£217,500	825	4.55%	19
13	FIRST	DUPLEX	1	1	699	64.9	£217,500	825	4.55%	13
14	FIRST	DUPLEX	1	1	684	63.5	£217,500	825	4.55%	14
46	FIRST	DUPLEX	1	1	695	64.5	£217,500	825	4.55%	46
47	FIRST	DUPLEX	1	1	700	64.9	£217,500	850	4.69%	47
40	FIRST	DUPLEX	1	1	700	64.9	£217,500	850	4.69%	40
41	FIRST	DUPLEX	1	1	694	64.4	£217,500	825	4.55%	41
42	FIRST	DUPLEX	1	1	673	62.4	£217,500	825	4.55%	42
9	FIRST	DUPLEX	1	1	723	67.1	£220,000	850	4.64%	9
36	FIRST	DUPLEX	1	1	723	67.1	£220,000	850	4.64%	36
35	GROUND		2	1	516	48.2	£240,000	850	4.25%	35
28	GROUND		2	1	501	46.5	£240,000	850	4.25%	28
5	GROUND		2	1	668	62	£260,000	925	4.27%	5
1	GROUND		2	2	739	68.6	£275,000	950	4.15%	1
32	GROUND		2	1	780	72.4	£275,000	950	4.15%	32
31	GROUND		2	1	770	71.4	£275,000	950	4.15%	31
8	GROUND		2	2	696	64.6	£275,000	950	4.15%	8
24	GROUND		2	2	823	76.4	£285,000	975	4.11%	24
26	GROUND		2	2	823	76.4	£285,000	975	4.11%	26
20	FIRST	DUPLEX	2	1	836	77.6	£287,500	975	4.07%	20
12	FIRST	DUPLEX	2	1	820	76.1	£287,500	1000	4.17%	12
15	FIRST	DUPLEX	2	1	826	76.7	£287,500	1000	4.17%	15
48	FIRST	DUPLEX	2	1	836	77.6	£287,500	975	4.59%	48
39	FIRST	DUPLEX	2	1	836	77.6	£287,500	975	4.07%	39
33	GROUND		2	2	844	78.3	£287,500	1000	4.17%	33
30	GROUND		2	2	874	81.1	£290,000	1000	4.14%	30
22	FIRST	DUPLEX	3	1	896	83.2	£307,500	1100	4.29%	22

10	FIRST	DUPLEX	3	1	896	83.2	£307,500	1100	4.29%	10
50	FIRST	DUPLEX	3	1	897	83.2	£307,500	1100	4.29%	50
37	FIRST	DUPLEX	3	1	896	83.2	£307,500	1100	4.29%	37
11	FIRST	DUPLEX	3	1	1047	97.1	£320,000	1100	4.13%	11
49	FIRST	DUPLEX	3	1	1146	106.3	£320,000	1100	4.13%	49
38	FIRST	DUPLEX	3	1	1146	106.3	£320,000	1200	4.50%	38
21	FIRST	DUPLEX	3	1	1149	106.6	£325,000	1200	4.43%	21
TOTALS					36107	3350.5	£12,547,500	45800	4.38%	TOTALS