

City Mayor Decision Report

Acquisition of Property Portfolio for Affordable Housing

Decision to be taken by: City Mayor

Decision to be taken on: 22 November 2021

Lead director/officer: Chris Burgin

Useful information

- Ward(s) affected: Westcotes and Aylestone
- Report author: Chris Burgin/Richard Sword
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- Report version number: v.4

1. Summary

The Council is committed to delivering 1,500 new council, social and extra care/supported living homes by 2023, in order to help address evidenced housing needs in the city and meet the manifesto commitment.

Whilst the demand for affordable housing continues unabated the challenges to delivery also continue. Long standing challenges like the availability of land to develop have been compounded by the impact of COVID 19 and the inevitable slowing down of supply at a time when arguably it's needed the most.

Leicester City is also subject to one of the highest rates of losses of Council Housing through the Right to Buy scheme in the Country with on average 2% of its stock (400 units) being lost through the scheme every year, placing additional pressures and wait on Council Housing and Homelessness services.

The purchase of this large portfolio of properties will boost the Council's efforts to deliver the manifesto commitment of 1,500 new affordable homes by March 2023.

2. Recommended actions/decision

That the City Mayor approves the acquisition of a substantial portfolio of properties that will increase the Housing Revenue Account stock by 371 units of accommodation, funded by the Housing Revenue Account capital programme allocation for Affordable Housing acquisitions.

3. Scrutiny / stakeholder engagement

The Housing Scrutiny Commission considered a report in November 2017 on a range of measures to increase the supply of new affordable housing. This proposal is in addition to those measures and will enable further new homes to be added to the Council's housing stock.

4. Background and options with supporting evidence

The Council is committed to delivering 1,500 new council, social and Extra care/Supported Living homes by 2023, in order to help address evidenced housing needs in the city. The Leicester & Leicestershire Housing and Economic Needs Assessment (HEDNA) 2017 concluded that the city needs a further 786 new units of affordable housing each year.

Why do we need more housing?

The number of households on the Housing Register is currently 6,366. Overcrowding remains the biggest reason for joining the Housing Register followed by people who are

homeless or threatened with homelessness. Social Housing tenants account for 24% of all households on the Housing Register.

As at November 2021 the demand and average waiting times for 1 bedroom general needs accommodation is as follows:

	Demand	Average Waiting Time
Band 1	239	5 months
Band 2	802	9 months
Band 3	773	More than 24 months
TOTAL	1814	

The figures include the demand and average waiting time across all 1 bedroom general needs accommodation (i.e. not adapted) and includes flats, bedsits, bungalows and sheltered accommodation, although there will be some variance across each property type.

What are we trying to do about it?

A wide range of opportunities have been investigated and continue to be, including building more council houses, working with RPs to deliver more affordable housing in the city, buying back former council houses and looking at the potential long-term leasing of homes and the potential acquisition of portfolios of dwellings currently owned by private or public sector landlords. This portfolio is one of those that has been considered.

5. Detailed report

The proposed purchase

The council is proposing to buy the freehold interest in 50 properties of both vacant and tenanted accommodation in Leicester. The sitting tenants will automatically become council tenants on legal completion and will benefit from all the same tenancy rights as current council tenants. There are a number of student tenancies in the portfolio and these will continue to be managed by the current management company until the end of the tenancies when they will revert to the HRA.

The properties are primarily located in the West End part of the city and the property types are:

75 bedsits in 10 properties (HIMO's)
85 studio flats
206 1,x bedroom flats
4, 2 x bedroom flats
1, 3 x bedroom house

The portfolio also includes a number of non-dwellings, car parking spaces and retail units. They are incidental to the dwelling purchases and will initially be held by the HRA, pending further review.

Due Diligence of Value

In addition to the professional assessment of the portfolio by the Council's own Member of the Royal Institution of Chartered Surveyors (MRICS) qualified officers, independent advice

was sought with regard to both the condition and valuation of the high-value property portfolio.

Independent condition surveys and valuations were therefore commissioned by EBS utilising external professional surveyors who are qualified Member of the Royal Institution of Chartered Surveyors (MRICS) and RICS Registered Valuers who are Directors/Partners of their companies with residential valuation experience and have knowledge of the residential property market in Leicester. Their appointment as external experts was with a view to recommending a purchase price that would represent good value for the Council, and to highlight the overall maintenance costs and risks identified during the survey process.

Survey Findings:

The general assessment from the independent survey team was that the buildings are in fair condition, with common issues including aged mechanical and electrical systems; end of life timber framed windows and doors; recommended internal works such as replacement floor coverings and lifecycle redecoration, commensurate with the age of the buildings

It is projected that the portfolio will require improvement works and these improvement works will be included within the Capital programme of the HRA. The projected maintenance costs have been included within our financial affordability modelling.

Valuation Reports:

We appointed three Independent valuations (Readings, Shonki Brothers & Andrew Granger) of the portfolio and with the properties sold individually at auction, the lower of the valuations was £27.85 million and the higher £29.20 million. It was noted by one of the independent valuers that the high occupancy rate would potentially result in less opportunity for the Council to negotiate a discount on the asking price.

Independent valuations were based on rental income capitalised at an average gross yield of between 7.4% and 7.8%.

It should be noted that the residential properties would be brought into the Council's housing estate and would not therefore be purchased as an investment portfolio. Officers in Housing Finance have therefore undertaken a high-level financial viability of the proposed purchase, including forecast costs and rental income. This has helped to determine the value of the properties to the Council and a purchase price that could be considered affordable given that the Council's rental income is based on charging affordable rents.

The vendor's original asking price for the portfolio was £28.3 million. This price was negotiated down to £26,623,370.94.

Based on the independent valuations, the Council's valuer considers that the portfolio represents a reasonable acquisition at the agreed price, representing a cost in the region of £70,000 - £75,000 per unit as compared to the cost of building new properties that currently costs in the region of £130,000 to £160,000 per unit (subject to any changes to the Mean build cost rate taken from The Building Cost Information Service (BCIS) data and the estimated gross internal areas of the properties). It should be noted that these are only estimated costs provided and does not take into consideration any land purchase costs or any other associated development/contingency costs which would normally be considered when building new properties.

Headline data from the Housing Register

Overall number of households on the Housing Register

- The number of households on the Housing Register has decreased by 2% from 6,486 at end of 2019/2020 to 6,366 at end of 2020/2021.

Banding proportions

- Band 1, those with the most urgent housing need, applicants account for 14% (869). The figure at end of 2019/2020 was 14%.
- Band 2, those with a higher need than those in band 3, applicants account for 38% (2,404) of all households on the Housing Register. The figure at end of 2019/2020 was 39%.
- Band 3, lower priority, applicants account for 49% (3,093) of all households on the Housing Register. The figure at end of 2019/2020 was 47%.

Primary reasons for joining the Register

- Overcrowding remains the biggest reason for joining the Housing Register and currently accounts for 63% (4,003) of the register.
- People who are homeless or threatened with homelessness accounts for 18% (1,157) of all households on the Housing Register. The figure at end of 2019/2020 was 17% so this remains relatively steady despite the unique challenges of 2020/2021.

Primary demand

- Demand across all types of accommodation is high and outstrips supply.
- The highest General Needs demand is for 2-bedroom accommodation which accounts for 34% (2,174) of total demand. The figure at end of 2019/2020 was 33% so this remains relatively steady.

Other observations

- Social Housing tenants (Leicester) account for 24% (LCC tenants 1,009, 16% & RSL tenants 488, 8%) of all households on the Housing Register. This is unchanged from 2019/2020.

Why this purchase is proposed ?

Land availability remains a key constraint for housing development in the city. The new Local Plan seeks to address the residential land availability constraint but is not currently

due for adoption until late 2023. This Local Plan timetable will, of course, impact on the timing of pre-planning application work for sites that could potentially be released for housing development. It has been agreed that Housing will not bring forward any of these sites ahead of the formal adoption of the new plan so that the council cannot be seen to be acting prematurely without due consideration of the statutory planning processes and associated political/reputational risk.

In addition to the HEDNA evidence, the Adult Social Care Division has recently completed its assessment of what additional supported housing is required in Leicester over the next 10 years, 2019-2029. A proportion of this required new supply of Extra Care and Supported Living homes should be delivered within the next 4 years. It was initially thought that 155 Extra Care units would be delivered in time to be counted towards the 1,500 manifesto target but it is now accepted that this will not be the case.

The current limited availability of land for new build, the timetable for the adoption of the new Local Plan and its impact on the timing/availability of new sites for residential development, the time-limited availability of Right To Buy Receipts (for use towards the new supply of affordable housing) and the 1,500 target itself have all resulted in a current heavy reliance on acquisitions for our new supply of affordable housing. Once the new Local Plan has been adopted, new build council housing is expected to be significantly scaled up from existing numbers.

Each year the Local Authority loses on average 400 Council homes a year through the right to buy scheme. Since 1981 when the Council had over 36,000 Council homes the total number of properties the Council owns has reduced by 16,000 to 20,000. The Council continues to lose on average 2% of its Council homes through this scheme each year.

The purchase of this portfolio will help mitigate both the lost council homes and also mitigate lost Council rent, with this portfolio making up a proportion of the net addition of the £2.1m additional rental income expected from acquisitions and new builds during 21/22.

The addition of this portfolio to the stock will have a net positive effect and add to the availability of social housing in the city and benefit those on the housing register. The current number of vacancies are low because the current landlord continues to re let the units ahead of the sale completing; however, all future vacancies will be let via Leicester Homechoice. Based on the current LCC vacancy rate this will generate in excess of an additional 20 available lets per year.

The existing tenants will all become council housing tenants at the point of completion and will be asked to sign a tenancy agreement. They will then benefit from having a secure tenancy, being charged an affordable rent, their homes being added to the councils ongoing programme of planned maintenance work and energy efficiency works carried out as the council endeavours to meet its climate emergency targets.

Funding

In November 2019, £70m was added to the HRA capital programme to support the delivery of additional affordable housing. A further £30m was added to the programme in 2021/22. The proposed purchase, if approved, will cost £26.62m and would be funded from this resource. Stamp Duty is expected to add up to £800k.

In addition, following the acquisition, funding will be drawn down to undertake associated works to ensure they all meet Council standards.

Further funds to sustain on-going activity will be proposed to be added to the HRA capital programme for 2022/23 to be considered by Council in February 2022.

Current risks to delivering the 1500 manifesto commitment

The terms of the COVID 19 lockdown have resulted in practically all forms of housing development being stalled. Within a week of the lockdown, work was stalled at our own newbuild council sites and at all other sites where affordable housing was under construction (e.g. via Planning Gain/Section 106 and/or via Registered Providers, etc), viewings of former council-owned homes (potential acquisitions) stopped and RPs advised the Council that they had to stall work on any proposals not yet in contract (e.g. the 155 units of Extra Care proposed at two council-owned sites).

The proposed public consultation on the new Local Plan has had to be delayed and this will, in turn, delay the timetable for achieving the adoption of the new Local Plan and the availability of the sites proposed through the Plan. At the time of writing, it is not yet known when the lockdown might be lessened and what the timetable might be for a return to pre-lockdown development activities.

The uncertainty around when there will be a return to normal construction activity and what the revised timetable will be for the new Local Plan present key risks to there being sufficient building capacity, time, materials or sites available in time to allow for 1,500 completions by March 2023.

6. Financial, legal, equalities, climate emergency and other implications

6.1 Financial implications

The purchase price of the portfolio is £26.62m, with Stamp Duty estimated to be up to £800k. Repair and maintenance work will be required over the life of the assets and will be funded from existing budgets.

The acquisition of properties into the HRA provides an on-going revenue stream which helps to support and sustain the HRA, countering the loss of stock through Right to Buy. Financial analysis of the forecast income and expenditure associated with the acquisition indicates that this will make a positive contribution to HRA finances.

Existing budget approvals to support this purchase are included as an immediate start within the HRA capital programme for Affordable Housing. Dwelling costs will be financed through a combination of Right to Buy receipts and prudential borrowing. RTB receipts, if not spent within 5 years, would otherwise have to be paid over to government.

Stuart McAvoy – Principal Accountant

6.2 Legal implications

6.2.1. The Council can acquire land and property for the provision of housing accommodation pursuant to Sections 9 and 17 of the Housing Act 1985 (as amended). The properties are

currently occupied on private sector Assured Shorthold Tenancies and as the Council is precluded from letting premises on AST's the tenants will be offered secure tenancies following legal completion. Those dwellings subject to student lets will not convert on completion and will be managed separately until the expiry of the existing agreements. It should be noted that secure tenancies will be subject to the Right to Buy under Part V of the Housing Act 1985 to those secure tenants who can meet the "tenant condition" under the Act.

6.2.2. The Council has undertaken a due diligence exercise in respect of the following:-

- Occupation Agreements/AST's for each property;
- Compliance with regulatory requirements (including planning use, building regulations approval having been obtained, fire risk assessments and EPC's having been provided for each dwelling);
- Title;
- Current position in respect of rent arrears and tenancy deposits held by the Seller.

This exercise has revealed that a number of the dwellings are currently used or works having been carried out without the benefit of planning permission. In addition, works to some dwellings have been carried out without having obtained building regulations approval. This represents potential risks in terms of planning enforcement action or the need to obtain retrospective building regulations approval. It is anticipated the Council will have full information and disclosure before completion. However as the majority of breaches occurred some years ago and therefore enforcement action is no longer possible; and although there remains a potential risk of action for non-compliance the risk is considered low. The Council will also be taking an indemnity from the Seller on completion in respect of action for potential breaches and this will minimise potential risk for the Council.

John McIvor, Principal Lawyer, ext. 37-1409

6.3 Equalities implications

Under the Equality Act 2010, public authorities have a Public Sector Equality Duty (PSED) which means that, in carrying out their functions, they have a statutory duty to pay due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity between people who share a protected characteristic and those who don't and to foster good relations between people who share a protected characteristic and those who don't.

Protected Characteristics under the Equality Act 2010 are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

This report seeks approval for the acquisition of a portfolio of properties that will increase the HRA stock by 383 units of accommodation

The acquisition of such dwellings would impact positively on people from across all protected characteristics by helping to help meet evidenced housing needs in the city.

This would also help to progress towards the council's aim of achieving an additional 786 new affordable homes each year. It is important that inclusive design principles are adhered to in relation to any refurbishment works that are carried out.

Surinder Singh, Equalities Officer, Ext 37 4148

6.4 Climate Emergency implications

Housing is responsible for 33% of carbon emissions in Leicester. Following the city council's declaration of a Climate Emergency in 2019, and its aim to achieve carbon neutrality, addressing housing emissions is a vital part of the council's work. This is particularly important through the council's housing stock, where it has the greatest level of control.

As noted in the report, condition surveys of the properties have been carried out, providing information about issues that would need to be addressed, some of which would have a bearing on the energy efficiency of the units. As part of the improvements there should be consideration of further opportunities to increase the energy efficiency of the properties, as carrying out works simultaneously generally presents the most cost-effective option. Measures should include fitting high levels of insulation, low carbon heating, low energy lighting and renewable energy sources such as solar PVs. Not only would this minimise carbon emissions from the properties, it would also significantly reduce energy costs and could increase comfort levels for residents. A toolkit is also being developed to support the achievement of reduced carbon emissions in council capital construction and renovation projects.

Aidan Davis, Sustainability Officer, Ext 37 2284

6.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

7. Background information and other papers:

None

8. Summary of appendices:

Appendix A provides financial details of the properties to support the recommendation to proceed with the purchase.

The general covering report is not exempt, but the specific details given about the properties in Appendix A is exempt. This is because it gives specific information about the properties which relates to the financial and business affairs of the Council. This is exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended.

Appendix A is therefore marked "Not for Publication".

9. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

No

10. Is this a "key decision"? If so, why?

No – as the funding is in the approved capital programme as an immediate start and the acquisition of property is not a key decision.