

## **Investing in Market Housing**

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### **1. Purpose of the Report**

To update members of current position in relation to acquisition of homes for strategic housing need and put forward options for investing in housing for local people which can assist with meeting local needs whilst providing a reasonable rate of return on the investment.

### **2. Public Interest**

Council Investments in housing market and its future intentions will be of interest to anybody who is concerned about the general shortage of housing.

### **3. Recommendation(s)**

It is recommended that District Executive: –

1. Note the current position on the council's housing property portfolio as in the appendix.
2. Agree to continue to take an opportunistic approach to purchasing properties for housing purposes which fulfil a defined housing need and provide a reasonable rate of return on the capital investment of up to £600,000.
3. Agree that each purchase be approved by the Portfolio Holder for Strategy and Policy as advised by the Corporate Strategic Housing Manager, Assistant Director (Economy) and Assistant Director (Finance and Corporate Services).
4. Approve the criteria for acquisition of new dwellings as set out in this report. (Para 6.3).
5. Note the longer term options available should the council may wish to explore for developing a property portfolio as set out in para 6.1.
6. Authorise officers to begin a review of the overall management arrangements for existing properties.
7. Note that a report will be brought back in a years' time including the full costs income and yield from the implementation of this policy and receive recommendations for further capital investment.

### **4. Background: Current Position**

- 4.1 The council already owns 14 residential properties (detailed in the appendix). Many are leased to Housing Associations to fulfil the need for supported housing and temporary accommodation (i.e. contributing toward the provision of Affordable

Housing). Others are privately let and some are empty awaiting improvement and conversion or tied to commercial purposes.

## 5. Why Should SSDC Invest in Housing?

- 5.1 **The need for market housing for rent shows no signs of abating.** Some local authorities have seen a business case for responding to this gap in the market. They have set up investment and housing companies to improve local market conditions by providing market housing for rent to meet the needs of a significant cohort able to afford this option. Projected population growth and other household changes is giving rise to a shortfall in housing overall. Whilst the private sector has overtaken the social sector as main provider of rent nationally, there is a lower rate of penetration in SSDC (13.3%, compared with the county average 14.7%). It would appear that demand currently exceeds supply, especially as mortgage availability is more restricted leading more people to turn to rent.
- 5.2 **Funding of £276,500 for a ‘mortgage rescue’ scheme has already been approved,** where freehold of properties can be acquired under certain circumstances and leaving the household threatened with repossession in situ either as a shared owner (leaseholder) or as a tenant at market rates. Council owned houses therefore enable the council to broaden the tenure offer for the local community.
- 5.3 **Raised standards.** The private rented sector is generally poorly perceived in terms of quality of service. Current provision of market rented housing tends to be through a large number of very small owners – most of whom rely on agents. The lower end of the market tends to be poorly maintained and can be fraught with disputes between landlords and tenants which are difficult to disentangle. The introduction of a new provider should help to drive up standards throughout the sector
- 5.4 **There is a strong financial case.** This proposal can provide an effective use of our capital resources whilst continuing to generate at least the level of income already factored into our MTFP Market rented housing can provide a reasonable rate of return on our capital in business terms whilst fulfilling our policy objectives – making our money work for the community. In addition to a potentially higher income stream for SSDC compared with other investment, direct investment in more affordable housing would generate New Homes Bonus (at a higher rate for being ‘affordable’).
- 5.5 **Investment leverage.** Direct investment in the market could potentially unlock stalled sites (meeting wider regeneration objectives) once the developer has sufficient confidence of enough sales to overcome the upfront infrastructure costs, thus also leveraging out further market investment in home ownership. Unblocking sites in this way would also provide affordable housing in turn (through planning obligations rather than direct investment) Construction industry activity driven by our investment will feed into the local economy through local trades and suppliers.

## 6. Options for the future

### 6.1 Council becomes a major investor in housing

The council along with a number of other LA's have conducted preliminary investigations into the various options for investment vehicles, in particular

drawing on the experience of other Local Authorities who have already gone some way down each route. These options include:

- Creating a new company owned fully or in part by the council that could lever in further external investment
- Provision of new housing through investment of capital resources in a joint venture vehicle or wholly owned arms-length company Housing stock outside HRA, managed by a Housing Association
- Social Enterprise Company
- Staff Mutual
- Charitable Trust

All these investment models assume a revenue stream derived over the lifetime of the investment. Some models also produce a capital repayment at certain stages. Some are fixed term investments; others more flexible. At the current level of activity however, it is anticipated that the set up costs would be prohibitive

If there was a wish to accelerate the programme described in this report so that the council held a much larger property portfolio these arrangements can be explored.

## **6.2 Incremental Investment in Housing**

A further option is to continue with the current activity, gradually building on the portfolio of properties through further investment. However should this portfolio grow we will need to consider the managing properties in a different way.

It is important to note that the need for an affordable housing programme remains – the options listed above provide additional routes to meeting some types of housing need but should not be seen as a substitute to traditional social housing provision.

## **6.3 Criteria for Acquisition of properties**

The following criteria should be followed for all new acquisitions:

- Must meet a defined need
- Can meet an anticipated rate of return after costs at prevailing Public Works Loan Board for 25 year fixed rates (currently 3.10%)  
After :-
- Void rent arrears, possible Council Tax, and bad debts ( if we are the landlord)
- Costs of appropriate management arrangements (if there is a full repairing lease)
- Work required to bring the property to an acceptable standard
- An allowance for on-going maintenance and repairs

## **6.4 Management Arrangements**

The District Council is not a stock-holding housing authority and no longer retains housing management and maintenance skills in-house. Acquiring a small number of properties for market rent will require engagement with professional housing management services such as through a Housing Association partner.

The nature of the property will determine the most appropriate management arrangements. For instance if the council bought a large property which was suitable for use as a HMO it might be that a lease arrangement to a trusted third such as a housing association would be most appropriate. On the other hand a new dwelling on an emerging or recent development could be let by the council with a third party acting as our managing agent.

It is recognised that as the portfolio of properties grows then there may be opportunities to rationalise the management arrangements, and this will be reviewed for existing and new properties as exiting arrangements meet break points.

## **7. Financial Implications**

If members approve the proposals to release £600,000 for this purpose – the annual loss of interest that is calculated for any project would be around 3% a loss of £18,000. In this case for each property purchased a business case demonstrating the net income meets prevailing 25 year fixed term PWLB rates there will be no ongoing revenue effects.

The properties are likely but not guaranteed to gain capital value and can be sold at a later date. There are possible issues regarding “Right to Buy” that need resolving as part of the letting process.

## **8. The Next Stages**

The Strategic Housing team will investigate opportunities to acquire as they arise and consult with Finance as to the meeting of the criteria above. Each acquisition will be subject to a review of return and demand. Accounts will need to be set up to clearly demonstrate the return on investment. At the same time officers can review other options with potential partners, including comparing potential returns.

## **9. Carbon Emissions and Climate Change Implications**

We may need to consider the energy efficiency ratings of any proposed acquisition and whether investment should include remedial works to improve this.

## **10. Equality and Diversity Implications**

No implications.

## **11. Implications for Corporate Priorities**

The proposal will assist with Focus three: Homes, particularly with the statement “We want decent housing for our residents that matches their income”

## **12. Privacy Impact Assessment**

This report does not directly impact on any data held of a personal nature. However, there will be such implications to consider when a preferred route is chosen if the Council has to directly maintain tenancy records.

## Appendix

### Existing residential dwellings owned by SSDC

Address	Description	Current leaseholder	Current use
117a Sherborne Rd, Yeovil	SSDC own the freehold of the land on which Stonham built 6 bedsit units.	Stonham	Supported housing for P4A client group
117 Sherborne Rd, Yeovil	6 bedsits	BCHA	Temporary Accommodation under an SLA
2 Crimchard, Chard	4 self-contained units	Stonham	Temporary Accommodation under an SLA
17, Woodland Grove, Yeovil	4 bedsits	BCHA	Temporary Accommodation under an SLA
34 & 34a Goldcroft, Yeovil	Former empty property	Privately let	Converted into four privately let flats (one still with work underway)
72 South Street, Yeovil	Former residential property until recently used as a training centre	County Council	Empty
80 South Street, Yeovil	Former residential property until recently used as arts centre, offices & cafe	Private	Empty
6 South Western Terrace, Yeovil	Shop premises with (potential) accommodation above	private business	Retail on ground and first floor – top floor thought to be empty
7 South Western Terrace, Yeovil	Shop premises with (potential) accommodation above	Empty	Empty
11, South Western Terrace, Yeovil	Shop premises with (potential) accommodation above	private business	Restaurant on ground floor Upper floors thought to be empty
Flax Lodge, Torbay Road, Castle Cary	2 bed house – no garden	Privately let through agency	residential
Mirrolds & Gables End, Touches Lane, Chard	2 x 4 bed houses	Privately let	residential