

Rother District Council

Report to:	Cabinet
Date:	9 January 2023
Title:	Temporary Accommodation Investment Strategy Update
Report of:	Joe Powell, Head of Housing and Community
Cabinet Member:	Councillor Byrne
Ward(s):	All
Purpose of Report:	To seek approval for the amended Temporary Accommodation Investment Strategy 2023 to include the ability to purchase residential property that includes an element of commercial use as part of the freehold.
Decision Type:	Key
Officer Recommendation(s):	Recommendation to COUNCIL: That the amended Temporary Accommodation Investment Strategy be approved.
Reasons for Recommendations:	To improve the quality of accommodation and reduce costs to the Council while ensuring homeless households are well supported in the local area and are enabled to access longer-term housing effectively.

Introduction

1. A key objective within the Council's Housing, Homelessness and Rough Sleeping Strategy 2019-24 (Minute C18/65 refers) is to acquire in partnership, or develop where appropriate, Council-owned Temporary Accommodation (TA) provision to meet the varied needs of homeless households in Rother. In September 2019, Cabinet approved the allocation of £3m to purchase accommodation for temporary use by homeless households (Minute CB19/09 refers). In March 2021, Cabinet approved a further £6m (Minute CB20/119 refers).
2. The Temporary Accommodation Investment Strategy (TAIS) outlines the approximate number and types of property the Council will target for use as temporary accommodation alongside how these properties will be purchased, managed, repaired and maintained. The TAIS 2023 is included at Appendix A.
3. Through the purchase of property for use as TA, the Council is able to continue to improve the model of service it provides from one of high cost, single room accommodation – which is sometimes remotely located – to a model which:

- provides self-contained accommodation for households with children;
 - increases the amount of temporary accommodation available locally;
 - ensures a minimum quality standard of accommodation;
 - ensures a minimum standard of property management and support for residents; and
 - reduces costs.
4. To date the Housing Solutions team has secured 22 houses and flats (units of accommodation) with 16 occupied and seven under refurbishment, within one block of flats. There are a further nine units under offer at various stages of purchase. Inclusive of the 22 units of accommodation are eight units of accommodation that are used for Housing First, supporting former rough sleepers, and for which external grant has been secured from Homes England.
 5. The Council's capital investment to date is £4,356,000, including £817,650 secured Homes England grant under their Rough Sleeping Accommodation Pathway (RSAP). A further £1,375,000 is earmarked for the purchase of a further nine units of accommodation on which we have offers. The draft housing budget for 2022/23 has been reduced by £200,000, which will likely be revised upwards as further sales complete. The budget reduction captures the costs that are avoided by accommodating households in Council-owned properties as opposed to the cost we would have realised using private providers.
 6. The Council has struggled to secure sufficient numbers of freehold tenure flats to accommodate single people and smaller families with children. The market for these properties is competitive, given the rental yield they offer to buy-to-let investors. The Council observes that there is a market surplus of residential property that has a commercial retail element as part of the freehold; typically, these properties are located on high streets in Bexhill and Sidley as well as some within the towns of Battle and Rye, some of which have been vacant or unoccupied for some time.

Temporary Accommodation Investment Strategy

7. The TAIS has been in place since the Council began purchasing accommodation for this purpose in 2019. It was developed following a review of the level and type of demand for TA alongside a review of local property prices, ancillary purchase costs, investment risks and property management risks.
8. It is proposed that the TAIS be amended to include the purchase of residential property where there is a commercial element as part of the freehold. Council officers have observed that the price of residential accommodation, typically located above commercial retail units, is of lower value than equivalent property in exclusively residential areas; therefore, it is not proposed that officers deviate from the guide prices for property approved previously by Council (Minute CB20/119 refers) and which are copied at Appendix B for reference. Members should note that these approved prices are an approximate price guide for officers and not a price cap, the £9m of capital approved for purchasing TA is to secure units of accommodation, across a range of tenures and values.

9. All prospective property purchases are valued independently by Royal Institution of Chartered Surveyors (RICS) qualified surveyors and the Council's Acquisitions Officer, an experienced property sales agent, who ensures that best value is achieved for the Council against her knowledge and experience of the local housing market.
10. The commercial retail element of the freehold will also form part of the survey completed by a RICS qualified surveyor, to include its value and likely rental yield. The value of the property purchase will be guided by the approved indicative purchase prices for residential purchases (see Appendix B). Any rental income generated by the commercial retail element will add surplus income to the Council.
11. The commercial purchase and management will be undertaken in consultation with the Council's Estates team and be added to the Council's asset register. Responsibility for repair and maintenance of the commercial element will depend on the terms of any existing lease and the Housing Needs team will assume the freeholder maintenance costs and responsibility for the whole building.
12. There is a risk that vacant commercial retail property proves difficult to re-let in the current environment. Where let, the Council will inherit sitting tenants and there is a risk that they may struggle to meet their rental and other lease obligations. Where possible and appropriate new commercial tenants will be sought where required. Alternatively, the Council is aware that a number of voluntary and community sector agencies struggle to find suitable and affordable accommodation in which to operate; although these may be unable to pay a commercial rent.

Conclusion

13. The purchase of property for use as TA provides the Council with more control over the quality of TA available locally as well as being able to achieve greater control of revenue costs. The Council is finding it difficult to secure freehold accommodation for single people and smaller families.
14. The recommended amendments to the TAIS will enable the Council to secure property that has a commercial retail element as part of its freehold. The approach will allow the Council to have more success in securing freehold flats, conveniently located in central locations, and provide the opportunity for the Council to generate income through retail leases.

Financial Implications

15. The financial costs and benefits of the proposal are detailed in the report and appendices. The Council's Housing Solutions and Estates teams will review each property purchase against the TAIS and the Estates team's processes and procedures.

Legal Implications

16. The legal implications of the proposed recommendation are detailed within the report and its appendices.

Environmental

17. The accommodation purchased will continue to be offered to tenants with the following standard: EPC C or above. The housing will comply with Health and safety standards for rented homes (HHSRS) and Decent Homes Standard.
18. In line with the Council's strategic documents:
 - Rother District Council Corporate Plan 2014-2021 – Quality Physical Environment/ Reducing carbon emissions - support low carbon initiatives, reduce fuel poverty
<https://www.rother.gov.uk/strategies-policies-and-plans/corporate-plan-2014-2021/>
 - Rother Environment Strategy – priority area Sustainable energy
<https://www.rother.gov.uk/strategies-policies-and-plans/environment-strategy/>

Risk Assessment Statement

19. The TAIS has been amended and describes how the Council will conduct due diligence in order complete the purchase of residential properties to minimise investment risks.
20. It is possible that there may be a reduction in the level of homelessness we experience over time. The exit strategy from the investment will be to first review whether any property owned by the Council can be put to a different use; ultimately any asset under Council ownership can be sold and the capital receipt reinvested into Council budgets.
21. There are also risks associated with choosing not to invest in property for use as TA. The Council has had some success in reducing the rate at which the number of households in TA rose prior to the pandemic; however, in addition to minimising demand, the Council needs to reduce the amount it spends on providing TA.
22. There is a risk to Council reputation of continuing to use single room accommodation to house families with children which may be seen as compromising the Council's values and ethics.
23. There is a financial risk to the Council in taking ownership of retail premises which, in other circumstances would not be considered a prudent investment.
24. There is a reputational risk to the Council should commercial premises remain empty for any length of time, as retail premises are visible and there will be an expectation on the Council to keep them occupied.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	Yes	Access to Information	No
Risk Management	Yes	Exempt from publication	No

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Appendices:	Appendix A – Temporary Accommodation Purchase Strategy 2023 Appendix B – Indicative Property Prices
Relevant Previous Minutes:	CB19/09 CB20/119
Background Papers:	Housing, Homelessness and Rough Sleeper Strategy 2019-24 Health and safety standards for rented homes (HHSRS) A decent home: Definition and guidance for implementation (June 2006 update)
Reference Documents:	List any published documents you want to reference.

TEMPORARY ACCOMMODATION INVESTMENT STRATEGY 2023

The Temporary Accommodation Investment Strategy will outline the approximate number and types of property the Council will target for use as temporary accommodation alongside how these properties will be purchased, managed, repaired and maintained.

1. Property Purchases

The risks of each potential investment will be considered by carrying out due diligence to include the following:

- Valuation.
- Market Conditions.
- Building surveys.
- Funding options.
- External red book valuations.
- Future costs: e.g. ground rent, service charges, major works, and maintenance throughout the lifecycle of the property.

The Council will employ the services of an external consultant to source and oversee each property transaction in-house in partnership with internal colleagues. It is proposed that other external specialist property investment advisors be retained on each transaction as required, advising on suitability having undertaken detailed pre-purchase due diligence, including valuation and risk analysis.

The Council will also consider options for the development of property where this is assessed as cost effective, relative to purchases; development options may include modular construction.

2. Property Standards and Management

All property purchased will adhere to decent homes standards or be refurbished to meet these standards. Properties will be inspected by the Council Environmental Health team to ensure compliance with the Housing Health and Safety Rating Systems (HHSRS) standards.

The Council will ensure each property has a minimum EPC standard of C or above prior to it being used as accommodation to accommodate homeless households temporarily.

The cost of repairs, maintenance and refurbishment are highlighted within the within the main report. It is proposed that the repairs, maintenance and refurbishment elements of the portfolio be delivered from existing resources within the Council's Housing Needs team with support from the Estates Maintenance and Private Sector Housing teams. We will contract additional specialist services as required.

We will also seek to commission a specialist property management service either from market providers or in partnership with neighbouring local authorities - already managing similar accommodation – to manage the tenant liaison and move-on responsibilities.

Households placed in temporary accommodation owned by the Council will not be required to pay utility bills as the accommodation is temporary. The Council will meet these costs and recharge the tenant an affordable personal contribution towards the cost; these personal contributions are standardised across all types of temporary accommodation provision, including private sector provision. Households will be required to pay Council Tax.

All white goods supplied by the temporary accommodation residents will be PAT tested by the Council and replaced as necessary where existing white goods are faulty.

3. Property Type, Tenure & Location

Freehold tenure is preferred to leasehold. Freehold provides greater levels of security than a leasehold asset that would effectively decrease in value over time. However, the Council will consider leasehold properties where leases are in excess of 99 years and where former local-authority flats – managed by Registered Provider partners – are available for purchase, following a due diligence process.

In addition, opportunities to acquire either very long leases of 900 years plus or a share of a freehold with flat purchases will be considered. There is the potential risk of purchasing leaseholds with poor quality freeholders or their agents; it is felt prudent to consider such purchases only following proper due diligence of the Freehold and management arrangements; should there be any significant changes to the either the freehold owner or management company that affect the quality of freehold management then a sale of the relevant asset can be considered.

The Council will consider property purchases where the present planning use is not residential – such as former residential care homes or guest houses, subject to close consultation with planning colleagues.

The Council will consider the purchase of residential property that includes a commercial element as part of the Freehold. The commercial valuation and survey will form part of the main building survey and existing due diligence processes, informed by the Council Estates team. The Council will look for opportunities to align purchases with wider strategic regeneration objectives.

Homeless applicants will be accommodated temporarily under the Council's Housing Act powers, which it is able to do when a household is homeless. This is the practice presently in self-contained temporary accommodation operated by private providers and by neighbouring local authorities already managing their own temporary accommodation.

The Council will consider opportunities to purchase property for use as temporary accommodation across the whole of the Rother district with a focus on urban areas which are close to amenities, schools and transport links. The Council will focus on purchasing former local authority housing as these tend to be in urban areas as well as having been built to minimum space and decent homes standards.

4. Property Price

Taking all of the above considerations into account, the following specific criteria are proposed:

- Up to £6m is set aside to purchase HMO, 1, 2, 3 and 4 bedroom flats and houses.
- Freehold preferred and leasehold considered where Registered Provider is the Freeholder or the lease is over 900 years; share of freehold is also considered.
- Geographically located within the Rother District
- Meets decent homes standards or can be affordably refurbished to meet these standards.

Funding for the acquisition of assets should be reviewed on a case-by-case basis.

The Council will review this strategy as the portfolio develops and as the Council's business needs evolve.

It is possible that we will experience a reduction in the level of homelessness we experience over time. The exit strategy from the investment will be to first review whether any property owned by the Council can be put to a different use, for example accommodating households permanently as part of potential future strategic aims; ultimately any asset under Council ownership can be sold and the capital receipt reinvested into Council budgets.

Indicative Property Prices

	Target Price	Total cost of purchase	No	Total Investment	Annual Saving	Avg. Annual Yield
2 HMO	-£500,000	-£541,434	2 (14 units)	-£1,082,869	£50,576	4.67%
1 Bed Flat	-£160,000	-£171,669	5	-£858,347	£20,772	2.42%
2 Bed Flat	-£190,000	-£202,956	11	-£2,232,512	£67,492	3.02%
3 Bed House	-£277,750	-£294,468	5	-£1,472,340	£21,613	1.47%
Total	-£1,127,750	-£1,210,527	35	-£5,646,067	£160,454	3.30%