

## **Background Paper: Disposal of HMO Housing Revenue Account (HRA) Assets**

**Sam Comerie, Regeneration Officer May 2021**

### **Background to the Decision**

- 1.1. In 2018, a Leaders Key Decision gave authority for the Council to dispose of 32 HMO HRA assets in the Arboretum area to NCHE Ltd for a capital receipt, subject to agreeing heads of terms and a robust business case by Nottingham City Homes (NCH) for the project. They would then carry out a programme of refurbishment works to the properties, which would be let as market rent homes for professionals and family occupation. The majority of the costs of purchase and refurbishment would be funded via a commercial loan from Nottingham City Council, paid back via rental income (with the remaining coming from NCH's own resources).
- 1.2. In March 2020, NCH acquired the first of four phases of properties and has now begun their refurbishment, which includes ten properties, mainly centred on Forest Road West. They expect to complete in December 2021. NCH were preparing to deliver subsequent phases however, in February 2021, at Executive Board a budget decision was made to not to progress subsequent phases. As such a number of options were considered on how to take the project forward in way that does not add further borrowing to the Capital Programme, however in a way that delivers the objectives of the project.
- 1.3. In April 2021, the Capital Programme Board agreed the recommendation to dispose of the properties on the open market, by informal tender, including a robust marketing campaign.
- 1.4. The wider options were considered to take the project forward in ways that does not add method of disposal for the properties:
  1. Sell to NCH (Some of Phase 2) – Phases 3 & 4 discounted

Officers were asked to consider the benefits of continuing with some of phase 2 to avoid the investment already made in phase 1 being 'wasted.' This was based on the fact that the majority of phase 1 properties, are concentrated on Forest Road West, so NCH developing the remaining buildings could create a cumulative benefit.

The concern of the previous investment being wasted assumes:

- (i) that the investment in phase 1 will be unsuccessful in promoting tenure diversity without a larger concentration of properties; and
- (ii) that the regeneration benefit cannot be facilitated by the private sector through a disposal process.

Before and during the project we have observed instances of professional properties being delivered to a high standard by the private sector in in the Arboretum area and although the open market option does contain more risk of failure, the recommended option still represents a good opportunity for a regeneration objectives to be achieved without the financial burden to the Council of further loans to NCH, particularly if the sales particulars are supported by strong marketing materials.

### **2. Housing Revenue Account (HRA)**

There is no allowance in the HRA capital programme to undertake work to these properties and as such this option has been discounted. Retaining these properties would generate an additional burden to the HRA programme and a revenue implication whilst the work is completed, as the HRA is incurring substantial void costs for the properties. These holding costs include 300% council tax per property and management and maintenance costs in addition to lost rental income.

### **3. Sell properties through Informal Tender**

Whilst reliance on purchasers from open market to deliver the refurbishment of these buildings with limited control by Nottingham City Council adds more risk than a procurement route (option 4), it is considered to be the best approach. This is the recommended option, as it will expedite the programme, reduce expensive holding costs whilst delivering private sector investment, which we believe will meet regeneration objectives. This will have the optimum success if the sales process is supported by a vision focused marketing campaign and robust monitoring of refurbishment by Property Services. This is in preference to disposal at auction, which may realise a higher capital receipt.

#### 4. Procure a development partner to meet specified regeneration objectives

In contract to Option 3 this would provide Nottingham City Council with the most control, however it would ultimately be a protracted procurement process, of up to 18 months, which is likely to reduce the potential capital receipt and increase the liability of holding property, noted above, through a protracted period.

A procurement would allow a development agreement to be put in place containing lease conditions like those in place for NCH. It should be noted that this will have an impact on the market value of the properties and as such the capital receipt obtained could be significantly less than open market value.

- 1.5. In Appendix 1, the subject properties are identified. Whilst this reports seeks authority for the disposal of all 15 properties, in practice the properties will likely be disposed of in three separate phases. It is currently anticipated that this will be sale of 3-4 properties per phase.
- 1.6. The Properties will be sold on 999 year lease terms, passing full repairing and insuring responsibilities to the purchaser. The Leases will also include clauses requiring refurbishment of the property within an appropriate timescale, followed by reoccupation of all units, within 3 months of completion of works. Where a property is sold subject to a lease of one of the flats within (previously sold under RTB), the 999 year disposal will limit the purchaser to recharging up to £10,000 of the cost of works only, in the first five years, and will therefore be in-line with Nottingham City Councils Leaseholder Recharge Policy.
- 1.7. We are aware of the amount of shared accommodation in the area – both student and lower income/support housing and that there is a desire to balance this and not see further properties converted to this use. Under Article 4, all properties wishing to convert to HMO use need to apply for planning permission. The existing number of HMOs in the area is a factor in whether planning permission is granted (saturation) and therefore unlikely to be granted in the Arboretum.
- 1.8. The main risk is that there may be no interest in the properties from the private sector have been mitigated by market intelligence that suggests this is unlikely, however it is important to maximise interest by keeping to the disposal timetable to ensure that the market is not flooded and avoiding the summer and Christmas lull periods.
- 1.9. Through the tender process, we will scrutinise and potentially exclude from purchase, any offers and landlords with a history of poor property and tenant management such as those who have received civil penalties or are under investigation by safer housing. It is important that we ensure the proper and beneficial use of these properties going forward to mitigate poor outcomes to residents and the onward costs of enforcement
- 1.10. A number of the properties contain leasehold interests. As freeholder, Nottingham City Council are responsible under the lease arrangements to maintain and repair the buildings. A proportion of these costs are then recharged to leaseholders. Disposal of the properties to the private sector will relinquish Nottingham City Council from these financial obligations of long-term maintenance and major repairs.
- 1.11. Project assurance has be provided by a Capital Programme Review Board in April 2021.