Sale of Houses in Multiple Occupation (HMOs) to NCH Private Sector Subsidiary

Background to Decision

Corporate Properties and HMOs

- On 20th October 2009, Executive Board approval was granted to a programme whereby all vacant properties owned by NCC would be reviewed as to their viability and sustainability; predominantly based on the cost of making them decent and their contribution to the housing offer. The primary aim was to optimise investment in decent homes by focusing on the most sustainable portions of stock. Those assets deemed as unviable would be disposed of, in turn generating a capital receipt for reinvestment into housing. In January 2010, under leadership instruction, this process was simplified, whereby all "estate" or purpose build properties would be retained, improved and relet, and all "corporate" (street) or non-standard properties would be sold. There is an exceptions process whereby corporate properties can be retained and standard stock disposed of, with Portfolio Holder approval).

- On 7th February 2014 Portfolio Holder approval was given to amend the process above to better align with the specific challenges of HMO stock, predominantly the location of multiple dwellings and tenancies in one building. One of the key recommendations that were approved and the one that is most pertinent to this subsequent decision was that to split the HMOs into two - disposal and retention, with 22 properties to be retained and 28 disposed of to the open market as per other corporate properties. The three properties that are the subject of this decision were to be disposed of.

NCH Private Market Subsidiary

- NCC and NCH are keen to expand their capacity to deliver and sustain excellent quality and value housing across Nottingham including the establishment of a private company to provide market rented accommodation.

- This venture is supported by NCC and it complements broader aims of providing quality housing across all tenures and the presence of institutional/ for purpose companies entering the private rented sector. These 7 units will be the let via NCH's market subsidiary.

- Approval for NCH to establish subsidiary companies was granted on 31st March 2015.

Scheme Summary:

- The three properties, comprising 7 flats, will be sold to NCH at a combined market value £535,000. They will be repaired and renovated to a high standard beyond the minimum lettable standard of the private rented sector. The properties will be let at market rent via NCH's market subsidiary. Should the combined cost of purchase and agreed essential works exceed the resultant market value, NCC will reimburse NCH the difference.

- By allowing institutional/for purpose providers such as NCH to professionally manage high quality properties in the private rented sector, we will be taking the first steps to introducing a new brand of choice, competition and quality to a tenure where standards are notoriously inconsistent and customer expectations and outcomes can be poor.

- This scheme complements work already undertaken in respect of decent homes, landlord accreditation and additional licensing.

Conditions of sale:

- The properties will be sold on their current condition
- The properties have been independently valued in their current condition, with NCH agreeing to purchase at market valuation (see attached exempt appendix).
- All the properties will be sold on 999 year (long) leases as all are within the original student restraint area (refer 2009 decision) and will all be subject to caveats preventing C4 (multiple occupation) of the flats within.
- NCH subsidiary will repair the properties to an agreed standard, including completion of the schedule of works attached to the lease and note on the Title.
- NCC and NCH will agree a full repair and improvements specification prior to works commencing, including which items will be included in the final cost calculations.
- Properties will be ready for let within 12 months of sale.
- Following completion of works, NCH will have the market value of the properties independently assessed.
- Should NCH sell the properties within 3 years of purchase, NCH shall reimburse to NCC the subsidy extended or the subsidy extended link to CPI, whichever is greater.
- NCH will pay the standard 2% purchase fee.

Subsidy:

- The properties that NCH wish to purchase from NCC are challenging due to their age, format and location (2 are in conservation areas) and there is the potential for NCH to incur a loss against their investment particularly given the aim of delivering a standard of rental property beyond the sector minimum and competing with the highest quality offers.
- In order to support NCH bringing these properties up to a higher than required standard, NCC will offer to reimburse NCH the difference should the combined cost of purchase and essential works for all three properties exceed their resultant market value, up to a maximum of 10% of the original purchase cost.
- Reimbursement will only apply to this first block of transfers as means of a kick start or safety net. It will not apply to any subsequent transfers/sales of this type.

Local Authority Consents:

- The Local Authority Consents 2013 class the empty HMO buildings as (occupied) “land”; as opposed to “vacant land” which would be the case if the properties were to be demolished and not used again. Only 5 such assets can be transferred per annum from the Local Authority to a body in which it holds an interest such as NCH or any subsidiaries thereof. Moreover, any transfers of this type must be the first to take place within the financial year, meaning that no sales to other bodies (such as to landlords at auction) can take place before.

- At present, no sales have been made to other bodies and enough consents remain for the 3 transfers to be made within the regulations.

- There are no other, immediate, candidates (properties or sites) to use the consents.

Financial Implications:

- As the properties were to be sold regardless, savings against the HRA in respect of decent homes works still remain. Selling private treaty at an agreed market value may incur a reduced receipt compared to sale at an open auction.

- The reimbursement element detailed above does incur the possibility of expenditure of up to a maximum of 10% of sale value (£53,500); however it does so within the context of NCH undertaking a scheme that goes beyond basic value for money in order to incorporate NCC's aims for the private rented sector in Nottingham.

- The completed sales to NCH would comprise the final 3 land transfer consents of the financial year. The consents having been used would allow other sales to recommence and a backlog of sales and capital receipts to come into the HRA.

Further detail regarding local authority consents and financial implications is attached at "Options note – Consents 10.08.2015"