



Title: Empty Homes Purchase & Repair Programme

Report of: Keelman Homes Development & Investment Manager

Purpose of Report

1. The purpose of this report is to; 1) provide the Board with an update on current activity and progress made on 2015-18 Empty Homes Purchase and Repair Programme, 2) seek approval to use the Council's Construction Services (CS) in line with procurement rules.

Background

2. In April this year Keelman Homes was successful in a bid to the Homes and Communities Agency for Empty Homes Grant 2015-18 and awarded grant of £360k to be used towards the purchase and repair of a minimum of 18 empty properties over three years (forecast at six per year). Under the terms of the grant the properties once bought will be let at affordable rents, which are generally 80% of the market rent, via the Council's Housing Register. This builds upon Keelman Homes first round of Empty Homes, in which 5 properties were brought back into use.
3. The Empty Homes Fund bid set out Keelman Homes would support the grant with £480,000 per year capital loan (total £1,440,000 over the three years), providing for an overall budget of £1.8m for the programme.
4. The bid outlined that we would look to identify properties on former Council homes purchased via the Right to Buy as well as private homes. The deadline for completion of the purchase of the first six properties is March 2016.
5. The guidance on the bid stated that properties purchased need to have been empty for at least 6 months. There is no longer an average of two years expressed in the latest AHP prospectus, so guidance has been sought from the HCA on any requirement for an average time empty period. The HCA has confirmed that the programme sets out to bring eligible empty homes back into use, rather than achieve aspirations of the two year void period (which was programme wide, not provider specific) and has advised properties that have been empty for six months and above still achieves the main aim of the programme.
6. At its meeting on 2 July 2015 the Board received an update confirming the contract with the HCA had been signed in June 2015.

Empty Homes Purchase and Repair 2015-18

7. Since receiving certainty and contractual assurance about the grant, work has begun in earnest to identify suitable empty homes. Potential acquisitions are being considered alongside demand analysis from TGHC's lettings team to ensure that Keelman Homes is focussing on properties that will support a sustainable portfolio.
8. To date there have been four properties identified and surveyed that have been deemed as viable according to Keelman Homes development principles. These have been progressed to acquisition stage with solicitors instructed. Approval from the Chair is sought for individual acquisitions, as and when properties are identified. The properties are shown in Appendix 1 attached.
9. There are a number of other properties being considered, which are currently in the process of being surveyed to identify investment needs and demand for lettings. The properties will be then be measured against Keelman Homes development principles to ensure they are a viable investment before a monetary offer is made to the seller. Several properties identified so far have proved not to be viable using this process, and records of these are kept to build intelligence and assist officers when making future considerations.
10. To ensure that rental income can be generated from Keelman Homes capital investment made on each property at the earliest opportunity, discussions have been held with TGHC lettings team to establish realistic timescales for required works, advertising and the associated tenant checks and referencing process. It was agreed that properties at a lettable standard could be advertised two weeks before completion of sale, at the point of exchange of contracts. A prudent average estimate for the property to be let is six weeks from the point of advertising, though it is thought this timescale may be shorter.
11. Discussions with TGHC lettings team identified that where works were classed as major repairs e.g. a new kitchen could not be classed as minor repairs appropriate to be carried whilst a tenant was in occupation, there would be a significant initial void period before the property would be advertised and ready for first let due procedures used by TGHC's supply chain when completing major repairs. It is estimated up to 50% of the 18 properties forecast within the current programme could potentially require major repairs.
12. Discussions were then held with the Council's CS team, who were asked to provide realistic timescales in which major repairs could be completed on a property. CS confirmed they are able to complete any required works within a 7-14 day period from completion of sale. Works rates quoted by CS are based on the Council's 'maintaining decency' rates and a current 2.25% mark up on works has been negotiated, which is very competitive against the 10% mark up currently paid to TGHC for major repairs. It is proposed that the Development and Investment Manager has the authority to negotiate up to a maximum of 10% mark up on works, in line with mark up currently paid to TGHC, to allow for potential future supply chain price increases. The CS rates are attached as Appendix 2 and are deemed to be competitive, so provide value for money to Keelman Homes. It is proposed that CS is procured to deliver any required major repairs to properties purchased as part of the 2015-18 Empty Homes Purchase and Repair Programme, including any properties that may be acquired using additional grant obtained through the HCA's Continuous Market Engagement pot.

13. The Board is asked to approve the procurement of CS under Exemption 3.1.3 of the Contract Procedure Rules (subject to the Draft Contract Procedure Rules receiving approval at the meeting) and delegate authority to the Development and Investment Manager to negotiate up to a maximum of 10% mark up on works.
14. Keelman Homes has taken into account the impact of the recent Budget announcement that rents over the next four years reduce by 1%, and ensured that the financial model is still viable for each property it proposes for acquisition as part of the programme.
15. Further to the impact of the Budget, it is proposed to bring forward the programme to assist the company's financial position and deliver the first 12 properties in 2015/16, with the remaining six delivered in the first six months of 2016/17. This would enable Keelman Homes to receive rental income earlier than planned currently. HCA forecasting will remain prudent and start/completion dates will only be brought forward when significant legal work has been carried out, which suggests certainty of completion of sale. The HCA allow targets to be re-forecasted providing enough notice is given to allow for the money ordering process, so this would be considered before any starts/completions are brought forward. Should the programme be completed early it is hoped that additional grant could be secured through the HCA's Continuous Market Engagement (CME) and additional homes can be brought back into use.

Risk Management Implications

16. The risk of not completing unit numbers within the programme rests with Keelman Homes. Prudent grant forecasting with the HCA will ensure that Keelman Homes is able to deliver.
17. A number of development principles have been established to ensure that risks of new build development are mitigated. These same principles in relation to Purchase and Repair acquisitions will continue to be applied. In relation to acquisitions, investment needs and demand analysis on TGHC managed estates are being carefully considered.

Financial Implications

18. The financial model used for all schemes includes management, repair and improvements costs as well as making an allowance for rent losses.
19. The affordable rents on all properties set will be subject to review and revaluation on completion of the schemes. The board will be receiving a separate report in relation to this.
20. Financial implications related to the timing of the property purchases have been included within the report.

Health and Environmental Implications

21. By bringing properties back into use, the proposed acquisitions will significantly improve the local environment and provide attractive, well-maintained affordable housing for people in Gateshead.

Equality and Diversity Implications

22. There are no equality and diversity implications arising from this report. Design and accessibility of each proposed acquisition is considered through the property survey phase.

Value for Money implications

23. Throughout the project we will be working closely with contractors to ensure value for money is being achieved on all aspects and specifications of required works.

Consultation carried out

24. Briefings have been carried out with the Portfolio Holder and Ward Councillors in all wards that will benefit from this activity.
25. Local offices where this activity is occurring have received briefings and been consulted with in relation to lettable demand of individual properties.
26. TGHC employees involved in lettings and repairs have been briefed and are aware of activity.

Recommendations

27. The Board is asked to
 - (i) note progress made by the New Build Manager towards targets;
 - (ii) approve the procurement of CS under Exemption 3.1.3 of the Contract Procedure Rules (subject to the Draft Contract Procedure Rules receiving approval at the meeting), to carry out any required major works to properties purchased as part of the 2015-18 Empty Homes Purchase and Repair Programme, including any properties that may be acquired using additional grant obtained through CME, and delegate authority to the Development and Investment Manager to negotiate mark up on works up to a maximum of 10%.

Keelman Homes Empty Homes Purchase & Repair Programme 2015-18

	Property addresses	Postcode	Ward	Property Type	Pur £s	Inv £s	Rent Income	NPV	IRR	Legal Comp	Date Let	Empty from date	Time empty (mths)
2015-16													
1	10 Daffodil Close	NE21 4EJ	Blaydon	1-bed flat	£55,000	£1,000	£80.54	£8,108	13.37%	25-Sep-15	02-Nov-15	Oct-14	12
2	17 Hadrian Gardens	NE2 5ES	Blaydon	3-bed house	£85,000	£2,800	£103.76	£1,526	5.71%	02-Oct-15	16-Nov-15	Feb-15	12
3	67 Marian Court	NE8 2HY	Lobley Hill and Bensham	3-bed house	£72,000	£9,700	£103.76	£14,245	14.00%	02-Oct-15	16-Nov-15	Aug-13	30
4	34 Cedar Grove	NE40 3RQ	Ryton, Crookhill and Stella	2-bed house	£80,000	£2,000	£94.34	£1,364	5.51%	09-Oct-15	23-Nov-15	Jan-15	11
5													0
6													0
7													0
8													0
9													0
10													0
11													0
12													0
13													0
14													0
15													0
16													0
17													0
18													0
													0
													0
AVERAGE TIME EMPTY (MONTHS) =												33	
AVERAGE TIME EMPTY (YEARS) =												2.71	

Key / Notes:

- 1 Estimated data
- 2 Inv £s - all works costs include a prudent contingency
- 3 Rent income - rent is based on 50 weeks using current Affordable Rent data
- 4 14% - this IRR was too high to calculate but is higher than 14%
- 5 Legal Completion - subject to the legal process e.g. Solicitor timescales, searches etc
- 6 Date Let - based on 6 weeks from the point of sales completion for the lettings process to take place
- 7 Time empty (mths) - based on from when property is first empty to the point of sale completion

TGHC Maintaining Decency Programme 2014/15

2011/12 Rates	2012/13 Rates
£24.18	£24.86

	2011/12 Rates	2012/13 Rates	2014/15 Rates
Bathrooms	1,511.13	1,546.18	1,835.35
Kitchen	2,455.09	2,599.90	2,933.59
Heating - Boilers	1,539.94	1,663.20	1,927.41
Heating - Distribution (like for like)	982.02	1,049.76	1,116.37
Heating - Distribution (concealed flues)	N/A	1,074.61	1,090.49
Heating - Fires	598.40	558.25	645.84
Full Rewire	2,565.66	2,614.85	2,727.25
Partial Rewire	1,517.24	1,647.87	1,572.91
Remainder Rewire	N/A	1,776.93	1,797.01
Boiler only Electrical works	N/A	136.70	142.31
Electrical Test (DEICR)	N/A	N/A	103.48

The current 2014/15 rates will be subject to an agreed 2.25% mark up for CS overheads and profit.