

BRIEFING	TO:	ACH&PH Directorate Leadership Team
	DATE:	20/12/22
	LEAD OFFICER:	Paul Walsh, Interim Assistant Director of Housing, ACH&PH Sarah Watts, Strategic Housing Manager, Strategic Housing and Development
	TITLE:	Portland House, Wellgate Place Shared Ownership Apartments

1. Background

- 1.1** Delivery of a broader range of affordable home ownership products, and in particular shared ownership, was a key early driver of the Shared Ownership and Affordable Homes Programme 2016-21 (SOAHP), with the original prospectus setting out that grant funding bids would be expected to deliver circa 88% shared ownership. This was reported to Cabinet and Commissioners in a Decision Report of 11 December 2017.
- This shared ownership expectation was later reduced by Homes England (the Homes and Communities Agency at that time) subsequently allowing general needs rented accommodation to be included as part of a more balanced programme of delivery. Though the requirement for shared ownership was still substantial.
- As grant funding support was essential in helping to address the viability of the overall programme, a shared ownership provision had to form a part of the Council's build activity, which was again reflected in the December 2017 report.
- This principle has continued throughout the SOAHP programme (2016-21), subsequently applying to the Town Centre housing schemes, and into its successor, the Affordable Homes Programme (2021-26), which currently stipulates that circa 50% of delivery should be shared ownership.
- 1.2** Shared ownership however was not a significant part of the Rotherham housing market at that time and in being an early adopter, the Council effectively took on a market making role in delivering this tenure at reasonable scale into areas where shared ownership had little existing presence.
- There was also the view that the creation of homes in the town centre, particularly through home ownership products, would benefit the wider regeneration of the town centre.
- Learning from the delivery of the town centre programme has established that the market has reacted well to shared ownership houses, but not to shared ownership apartments. The likelihood is that the combination of a mortgage requirement, payment of rent on the unowned share in addition to service charges on apartments may be too much for the market to bear in what is still a borough of relatively depressed market

values. This is also reflected in other S/O schemes across the borough. Shared ownership houses generally have no, or minimal service charge obligations.

- 1.3** One block of apartments at Portland House, Wellgate place is proving difficult to sell under shared ownership terms. They were handed over to the Council in May 2022 and no sales or reservations have been taken. There has also been limited interest overall. The Council are now incurring costs while ever they remain empty.

Wellgate Place, Wellgate, Rotherham Town Centre

- 20 houses, all sold (12 x S/O, 8 x open market sale)
- Elizabeth House 23 apartments (11 x 1 beds, 12 x 2 beds) for council rent for over 50's. The councils rented homes are almost all let.
- Portland House 11 apartments (6 x 1 beds, 5 x 2 beds) for shared ownership, all 11 remain available.

- 1.4** Communications and sales activity

The following steps have been taken to advertise the new shared ownership homes;

- The sales office is based in the show home on site and a show apartment is dressed
- Open events and drop-in sessions held on site
- Marketing via social media (general property sales and information about the shared ownership product)
- Billboards in and around the town
- Information on webpages
- Leafleting local area / businesses / major employers
- Video promoting the new homes in the Town Centre
- Directly advertising properties to NHS and other major employers
- Direct contact by Crucible
- Advertised on rightmove and similar property portals

Concerns have been raised about the slow uptake in sales and this paper presents details of the options explored and recommendations for next steps.

2. Key Issues

2.1 Housing market conditions

The housing market is facing uncertainty and there are concerns that this could further impact on the sale of these shared ownership apartments.

Shared ownership is a sub-market product, not all mortgage lenders offer finance to purchase a property via shared ownership.

Interest rates have risen in response to economic uncertainty, and this means that people seeking mortgages will face higher costs, thus potentially further limiting their housing options.

The shared ownership apartments are aimed at providing affordable housing for people on lower incomes. If the shared ownership offer is reduced, this customer group will likely remain in or seek to access private or council rented accommodation.

The development is in an up-and-coming area of the Town Centre and this has caused some concern with surveyors in terms of valuations. We have already received some zero valuations relating to the site and although some buyers have been able to secure alternative mortgages, others have lost confidence and have walked away. Steps have

been taken to address the zero valuations. It does appear to be limited to one or two particular surveyors who have limited knowledge of the area and the Councils ambitions. A written statement has been submitted to the organisations explaining the vision for the Town Centre. Advice has also been sought from Homes England.

2.2 Feedback from customers

There has been very little interest in the properties so far, and therefore feedback on any specific reasons is also limited. Feedback from sales partners, development partners and officers working on the scheme suggest that the high level of service charges are likely to be the main concern for buyers. The average service charges per property is estimated to be around £2,224 per year / £185 per month. In some instances, it can work out cheaper to purchase a house from the Town Centre developments, as these do not generally include a service charge.

2.3 Finance

As the 11 apartments remain empty;

- Est. £42.13 per week (based on 25% share) is lost in rental income
- £15.5k will have been paid for Council Tax if they remain empty at 31st March 2023
- The sale of all 11 apartments at 25% should generate £293,125 back into the HRA (currently factored into the HRA Business Plan)
- Once a sale completes the Council becomes liable to pay sinking funds on behalf of the unsold properties at £1,280 annually / £110 monthly.

The last shared ownership property at the apartments at Maltby took 28 months to sell. After two years vacant the property is subject to an additional 50% increase in council tax.

3. Options

3.1 The following options have been considered to deal with the lack of interest at Portland House;

Marketing and communications

The homes are still being marketed for shared ownership. There is budget and scope to carry out further marketing campaigns.

Work is being carried out to expand customer testimonials around Wellgate Place and in terms of shared ownership as a product. This will help us to expand social media and other promotional material. This activity will continue regardless of the decision on tenure as it supports the wider town centre housing offer.

Incentives

It is common practice for housing developers to offer incentives to help reduce some of the initial outlay which comes with buying a new home. Typical examples are as follows;

Incentive	Cost per property
Legal fees	£2,500
Flooring	£2,100 - £2,700
Large appliances	£1,500
Blinds	£1,000

This option comes with potential grant implications, as grant has already been used to subsidise the development. The grant agreement does allow incentives to be considered and this is delegated by Homes England to Local Authorities to administer. The full requirements of this are not fully understood, no guidance exists other than the need for a robust value for money exercise, process, and audit trail in place. This option would be resource intensive.

Although incentives may help reduce the initial financial burden of moving into a new home, they do not address longer term affordability challenges. There is also no guarantee that this would increase the overall interest in the homes, nor would it make them any more affordable.

Service charges

The Council could consider reducing or waiving service charges for an agreed period. The recovery could be spread over the lifetime of the block to avoid any financial loss to the Council. There are no grant implications, and this decision would be within our control.

In the case of a temporary reduction, affordability assessments should still be based on the longer-term affordability of the property, calculating this at the lower rate would risk the owner being unable to cover costs when the reduction period ends.

Unless service charges were reduced substantially, and permanently it is unlikely that this would convert into sales in the short term.

This would also go against the Councils current approach to leasehold service charges where the Cabinet mandate is full cost recovery.

Service Charges (estimated)	Annual	Monthly	Weekly
Admin and management	£167.25	£13.94	£3.22
Buildings insurance	£158.60	£13.22	£3.05
Service charges	£416.12	£34.68	£8.00
Estate charges	£162.21	£13.52	£3.12
Sinking funds	£1,239.87	£103.32	£23.84
Estate Sinking Funds	£80.68	£6.72	£1.55
	£2,057.48	£171.46	£39.56

The recommendation is not to pursue the above options.

3.2 Change of tenure

While the whole block remains empty this is the optimum time to consider a change of tenure. From a Council perspective, preference would be to retain the block as a single tenure block, due to the complexities of managing and administering a mixed tenure block.

The whole block is currently designated as shared ownership, and Homes England grant was secured for all 11 apartments at a rate of £41,500 per unit.

The capital funding guide states that as a minimum the properties should have been marketed for a 6 month period before a change of tenure can be considered by Homes England.

A conversation has taken place with the Homes England lead and they have indicated, based on the information we have shared, that a change in tenure from shared ownership to affordable rent, would be supported. A decision could be provided within a week of the request being received in writing. HE have also confirmed that this tenure change would have no impact on the grant already secured (£41,500 per unit).

The process: a letter should be submitted to Homes England for consideration to include;

- how long the property has been marketed for
- what actions have been taken to find a suitable purchaser
- why these have not been successful / feedback
- what local authority support exists for the proposed new tenure

This option is recommended.

3.2 Alternative tenure options

Council (affordable) rent

There is a risk of flooding the market by introducing further rented units within a relatively small area of the town centre. There is already one block of rented apartments at Wellgate Place: Elizabeth House, and three further blocks of rented apartments across the other two town centre sites.

The homes in the town centre were designed to support wider regeneration and to begin to create a new residential offer. Lettings at Elizabeth House were restricted to people over 50 and uptake has been slow. These are now almost fully let. The two blocks of apartments at Westgate Riverside: Arthur Wharton and Tom Burgess House, have been advertised for let over the last three weeks and are in the process of being matched with tenants. These are not age restricted and there appears to be more success letting them so far. Therefore, it is proposed that Portland Apartments be let as the same criteria as Arthur Wharton and Tom Burgess House

It should be noted that although the grant rate would have likely been higher for an affordable rent unit at the point of application (£45,500 per unit was granted for Elizabeth House), we would be unable to recover the difference in retrospect (equivalent to £44,000).

The block would be managed and maintained by the Council and allocations made via the current Allocations Policy. The new build lettings policy would apply. This ensures the applicants being signed up or transferred into the new homes do not have existing rent arrears or management issues.

The Planning Service have confirmed that the planning application indicates that these homes must remain as affordable homes unless a new planning application is made. A change from shared ownership to affordable rent would be satisfactory under the current application.

Homes England have suggested that this decision could be agreed within the next two weeks. Changing from shared ownership to affordable rent would be the quickest tenure change to mobilise if supported by the Council.

Consultation would need to take place with existing owners, shared owners, and tenants on Wellgate Place. There is a small risk that some buyers may feel that they were mis-

sold which could result in complaints. As the development already has all three tenures operating, this would be the least contentious option for tenure change from a customer perspective. Essentially the overall number of rented units would increase but the mix of tenure types remain the same.

The specification of Portland House was built to a slightly higher specification than the rented accommodation at Elizabeth House, in that additional kitchen appliances were included. If the properties are later rented, the additional items will be 'gifted' so they become the responsibility of the tenant and they will not be maintained by the Council going forward.

This is the recommended option.

Council (social) rent

The Council can in some circumstances agree to charge a lower 'social' rent. Although it is beneficial to tenants to keep rents as low as possible, this is not the preferred option for the following reasons;

- The apartments were built under SOAHP, and Affordable Rent was a condition at that time
- Homes England have indicated an expectation that Affordable Rent will be charged, and they will have to give final approval
- Tenants at Elizabeth House, are charged Affordable Rent, it would be at odds to have two blocks on the same development at different rent levels
- Portland House has a slightly higher build specification to Elizabeth House, again it would seem at odds to have a lower rent
- A difference in rent could increase the risk of tenants requesting transfers between the two blocks, which would result in additional voids costs.

The option is not recommended.

Open market sale

- Sale properties have sold well on this development, but the apartments would still include high service charges which could be off putting to potential buyers / investors.
- There would be no limits on purchasers, and it is likely to attract investors / private landlords.
- Given the current market conditions it could still take time to fully complete sales on the block.
- This is not an affordable housing product so a planning application would need to be submitted to request the change.
- The Council would remain responsible for overall management of the block and collection of service charges unless an investor opted to purchase the whole block.
- A change of tenure to open market sale would have a financial impact as there would be an expectation that grant would be repayable to HE and the Council may not fully receive their costs.

This option is not recommended.

Discount for sale

- Sale properties have sold well on this development, apartments would still come with high service charges which could put off potential buyers / investors.
- First homes are relatively new, and the Council may be liable to repay the grant.
- It would bring an immediate receipt into the HRA.

- Given the current market conditions it could still take time to fully complete sales on the block.
- The Council would remain responsible for overall management of the block and collection of service charges.
- The Council would be liable for administering First Homes, with no current processes set up to support this offer.

This option is not recommended.

Rent to Buy

- The Rent to Buy market is untested in Rotherham and the Council may be liable to repay the grant.
- The Council would remain responsible for overall management of the block and collection of service charges.
- The Council do not have Rent to Buy processes in place and are unable to offer the Assured Shorthold Tenancy agreements required to administer Rent to Buy.

This option is not recommended.

4. Recommendations

4.1 Given that the apartment block cannot be sold in its current form, and it cannot continue to remain empty any longer, it is recommended that DLT support the change of tenure of Portland House from shared ownership to general needs affordable rent with no age restriction. DLT are also asked to agree that marketing activity should cease.

If agreed, the next steps;

- Cease active marketing, pending decision
- Brief Cabinet Member, to understand approval required
- Seek approval to proceed
- Letter requesting support from Homes England
- Homes England decision
- Consult with customers / local members
- Update housing systems
- Advertise properties via the current Allocations Policy