



Item

Review of Shared Ownership Housing at Virido, Clay Farm

To:

Councillor Richard Johnson, Executive Councillor for Housing

Report by:

Julia Hovells, Principal Accountant

Tel: 01954 - 713071

Email: julia.hovells@cambridge.gov.uk

Wards affected:

Abbey, Arbury, Castle, Cherry Hinton, Coleridge, East Chesterton, King's Hedges, Market, Newnham, Petersfield, Queen Edith's, Romsey, Trumpington, West Chesterton

Key Decision

1. Executive Summary

- 1.1 As part of the new build housing programme, the Housing Revenue Account has delivered some new shared ownership homes, to meet an intermediate housing need in the city. The first properties at Scholar's Court, Homerton, completed in December 2016, are now all sold. The second scheme of properties at Virido, Clay Farm is however proving more difficult to sell. The properties at Virido, Clay Farm were built with a grant funding contribution from Homes England (formerly the Homes and Communities Agency).
- 1.2 The 26 shared ownership properties were completed and handed over between May and August 2017, and at the time of writing this report only 3 had been sold, with a further 7 reserved for sale.

- 1.3 Officers have conducted a review of the position, taking into consideration a number of factors, with this report making recommendations for the future of these properties.

2. Recommendations

The Executive Councillor is recommended to:

- 2.1 Approve that the rent to be charged on the unsold equity (the proportion of the dwelling retained by the HRA) be reduced from 2.75% to 2.25% for all units at Virido, Clay Farm.
- 2.2 Note the decision by officers to re-market the unsold shared ownership homes at Virido, Clay Farm using the latest market valuations for the shares to be sold, employing a new agent to market and sell the homes and using a show flat or open day, as advised by the successful sales agent.
- 2.3 Approve that if after 3 months of active re-marketing, homes are still not selling, delegated authority is given to the Strategic Director in consultation with the Executive Councillor for Housing, to explore, and if appropriate, convert the homes to affordable rented accommodation.

3. Background

Page: 2

- 3.1. The HRA shared ownership housing at Virido, Clay Farm is proving difficult to sell in the current market, and as such officers have conducted a review of the options available to the Council.
- 3.2 At the time of writing this report, of the 26 new homes 3 had been sold and a further 7 had been reserved, with 16 still available for sale. The shared ownership homes have been marketed for the Council by BMA Property Group, who also undertook this work for the new homes at Scholar's Court, Homerton.

3.3 The table below shows the current position in respect of the homes at Virido, Clay Farm:

Plot	Address	Property Type	Status	Old Market Valuation	New Market Valuation
SR.04	1 Fowler Avenue	1 Bed Flat	Sold - May 18	£290,000	
SR.05	3 Fowler Avenue	2 Bed Flat	Available	£370,000	£370,000
SR.06	5 Fowler Avenue	2 Bed Flat	Available	£375,000	£370,000
SR.12	7 Fowler Avenue	1 Bed Flat	Reserved	£290,000	£290,000
SR.13	9 Fowler Avenue	2 Bed Flat	Available	£370,000	£370,000
SR.14	11 Fowler Avenue	2 Bed Flat	Available	£375,000	£370,000
SR.18	13 Fowler Avenue	1 Bed Flat	Reserved	£290,000	£290,000
SR.19	15 Fowler Avenue	2 Bed Flat	Available	£370,000	£370,000
SR.20	17 Fowler Avenue	2 Bed Flat	Available	£375,000	£370,000
SR.23	19 Fowler Avenue	1 Bed Flat	Reserved	£290,000	£290,000
SR.24	21 Fowler Avenue	2 Bed Flat	Available	£370,000	£370,000
SR.25	23 Fowler Avenue	2 Bed Flat	Available	£375,000	£370,000
RY.12	26 Dobson Way	3 Bed Flat	Available	£415,000	£400,000
RY.13	28 Dobson Way	2 Bed Flat	Available	£370,000	£370,000
RY.14	30 Dobson Way	2 Bed Flat	Available	£370,000	£370,000
RY.27	32 Dobson Way	3 Bed Flat	Reserved	£415,000	£400,000
RY.28	34 Dobson Way	2 Bed Flat	Available	£370,000	£370,000
RY.29	36 Dobson Way	2 Bed Flat	Available	£370,000	£370,000
RY.35	38 Dobson Way	2 Bed Flat	Reserved	£370,000	£370,000
RY.36	40 Dobson Way	2 Bed Flat	Available	£370,000	£370,000
RY.42	42 Dobson Way	2 Bed Flat	Reserved	£370,000	£370,000
RY.43	44 Dobson Way	2 Bed Flat	Available	£370,000	£370,000
HK.08	31 Drury Avenue	4 Bed House	Reserved	£515,000	£500,000
HK.17	29 Drury Avenue	2 Bed Duplex	Available	£490,000	£455,000
HK.18	23 Drury Avenue	3 Bed Duplex	Sold - Jun 18	£450,000	
HK.19	25 Drury Avenue	3 Bed Duplex	Sold - Jul18	£450,000	

3.4 It is evident that the 1, 3 and 4 bedroom homes have either sold or have been reserved, but that the properties remaining are the 2 bedroom flats. The revised valuations are unchanged in many cases, with 6 of the available 16 plots (8 of the unsold plots) realising a reduction in market

value. The authority is required to dispose of the homes at the latest value obtained.

3.5 Officers have conducted a review and have explored the options open to the Council. The options considered were:

- Continue to market as currently, but with revised sales values where appropriate
- Re-market using revised sales values, but using a different sales agent, exploring the use of show flats and open days
- Re-market using revised sales values, but using a different sales agent, exploring the use of show flats and open days, whilst also reducing the rent payable on the unsold equity (the proportion of the dwelling retained by the HRA)
- Convert the available homes to affordable rented accommodation
- Dispose of the homes on the open market or to Cambridge City Housing Company to be let at sub-market rents.

3.6 The option to dispose of homes on the open market was discounted from the outset of the review, as many of the homes were built as part of the planning requirement for a minimum of 40% affordable housing on the site and with Homes England grant funding for this tenure.

3.7 The option to convert the homes to affordable rented homes would require a planning variation to recognise the change from intermediate to affordable rented housing, and would be subject to the agreement of Homes England, who had specifically awarded grant for the shared ownership tenure. The impact on those who have already purchased their shared ownership home, of converting some homes in each of the shared ownership blocks to affordable rented homes, also needs to be considered. It was concluded that this option should only be further explored if re-marketing the properties as shared ownership housing did not prove successful.

3.8 The options available for re-marketing of the homes as shared ownership housing were considered to be the preferable options initially. Officers did not feel that continuing to market the homes with the current

sales agent, but at marginally lower sales values would have a significant enough impact to increase sales.

- 3.9 It is clear that there is shared ownership housing available on the market from a number of other registered providers, which is in competition with that for sale by the Council. Other registered providers adopt a much more proactive approach to sale of the homes, using show flats and open days to garner interest. Registered providers, who have delivered shared ownership homes for many years, also vary the level of rent which they charge for the unsold equity or the proportion of the dwelling which they retain as landlord. This decision is based upon the location, current market conditions and financial viability of each scheme.
- 3.10 The Homes England model lease, which we are required to adopt as a result of having utilised grant funding, uses 2.75% of the value of the unsold equity as the guide for rent levels. Providers do have the ability to vary this aspect of the lease though, and other registered providers may charge between 2% and the maximum of 3%.
- 3.11 Officers considered the financial impact for the HRA of reducing rents from the original 2.75% of unsold equity to 2.5%, 2.25% and 2%. The review also took into consideration the proportion of the homes which buyers are acquiring or proposing to acquire, which to date is over 40% on average, compared to the 30% originally assumed in our scheme viability.
- 3.12 The original scheme viability for the Clay Farm site was undertaken a number of years ago, before the Homes England model lease was adopted. As such, the rent levels assumed in the HRA business plan at the time were based upon shared ownership lessees paying rent on the unsold equity in line with the Local Housing allowance levels. As these rent income assumptions were lower than the rents derived from the adoption of the model lease approach to setting rents using 2.75% of the unsold equity, we are able to reduce rents without impacting our HRA budgets. The actual rent income received will obviously be lower if rent levels are reduced, but this should be weighed up against the fact that the units are currently vacant and are generating no rental income at all.

- 3.13 This report therefore proposes that the remaining 16 shared ownership homes are re-marketed, using the latest market sales values, using a new sales agent, taking the agent's advice about the use of a show flat or open day and reducing the rental element that is charged on the unsold equity from 2.75% to 2.25%.
- 3.14 If this rent reduction were applied to all reserved and available units, based upon an average property value and the sale of an average share of 40%, a buyer would see a reduction of £91.67 per month in the rent that they would be required to pay, reducing the average rent payable from £504.25 to £412.58, alongside any mortgage payment which they would have.

4. Implications

(a) Financial Implications

Page: 6

The financial implications associated with this decision will be incorporated into the HRA as part of the HRA Budget Setting Report in January 2019. Any additional costs for marketing of the flats will continue to be met from the capital receipt for the sale of each share as is currently assumed. There is not expected to be a negative impact on the rental stream compared to that currently incorporated into the financial assumptions for the HRA.

(b) Staffing Implications

The report recommends that the work involved in marketing the shared ownership homes be passed to an external agent. Officers will procure the agent and undertake the work to create a show flat, if this is deemed of benefit by the selected agent, within existing staffing resources.

(c) Equality and Poverty Implications

An Equalities Impact Assessment is not considered to be required as part of this report, as there is no change in policy proposed.

(d) Environmental Implications

There are no adverse environmental implications anticipated as a result of changes proposed in this report.

(e) Procurement Implications

The procurement of an agent to market the shared ownership homes is anticipated to require three quotes following a request for quotation process against an agreed specification, due to the anticipated value of the work involved for the remaining 16 homes.

(f) Community Safety Implications

There are no direct community safety implications associated with this report.

5. Consultation and communication considerations

Tenant and Leaseholder representatives are being consulted on these proposals as part of the Housing Scrutiny Committee scrutiny process.

6. Background papers

Background papers used in the preparation of this report:

- (a) Shared Ownership Model Lease Urgent Decision – September 2017

7. Appendices

There are no appendices to this report.

8. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

Julia Hovells, Principal Accountant

Telephone: 01954 - 713071 or email: julia.hovells@cambridge.gov.uk.

This page is intentionally left blank