

Project Appraisal and Scrutiny Committee Recommendation

Project Name: Disposal of 18a and freehold to 18b Magrath Avenue, Cambridge.

To: Executive Councillor for Housing & Executive Councillor for Finance & Resources

Report by: Director of Customer and Community

Scrutiny committee: HOUSING COMMITTEE & STRATEGY & RESOURCES COMMITTEE

Wards affected: Arbury

Recommendation/s

Financial recommendations –

- The Executive Councillor for Housing is asked to approve this project in principle, with the Executive Councillor for Finance & Resources asked to ultimately approve the project to dispose of an HRA asset, subject to resources being available to fund any associated capital and revenue implications.
- The total capital cost of the project is estimated to be £5,000
- The capital receipt that the Council would expect to realise is in the region of £237,500, depending upon market forces at the point of sale.
- The revenue impact of the initial disposal will be negligible, with the loss of rental income for the dwelling being offset by a reduction in management and maintenance expenditure, and the ability to earn interest on the capital receipt.
- The net ongoing revenue return for this project would be £4,300 per annum in the longer term, assuming the capital receipt was in future used to fund two replacement dwellings.

Procurement recommendations:

- The Executive Councillor is asked to approve the carrying out and completion of the procurement of an agent to act on behalf of the Council and the owner of 18b Magrath Avenue, in agreement with said owner. The cost of this work is

expected to be in the region of £7,200, so one quote will be required, with the Councils' share of this cost to be met from the anticipated capital receipt for the sale.

- Subject to:
 - The permission of the Section 151 Officer being sought prior to proceeding if the quotation or tender sum exceeds the estimated contract.
 - The permission from the Executive Councillor being sought before proceeding if the value exceeds the estimated contract by more than 15%.

1 Summary

1.1 The project

To dispose of an HRA dwelling asset at 18a Magrath Avenue, Cambridge as a joint venture with the long leaseholder of 18b Magrath Avenue. The project to re-supply the two replacement dwellings will be presented as part of a wider future development project, with the capital receipt from this sale used as one of the funding streams for the new assets.

Target Dates:	
Start of procurement	July 2014
Award of Contract	July 2014
Start of project delivery	July 2014
Completion of project to dispose of the asset	October 2014
Date that project output is expected to become operational (if not same as above)	

1.2 Anticipated Capital Cost

Total Project Cost	£5,000
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Cost Funded from:

Funding:	Amount:	Details:
Reserves	£0	
Repairs & Renewals	£0	
Developer Contributions	£0	
Climate Change Fund	£0	
Other	£5,000	<i>Anticipated Capital Receipt of £237,500</i>

1.3 Procurement process

This appraisal proposes the sale of an HRA dwelling asset, and therefore the procurement implications are minimal, with the expectation that the authority will need to jointly appoint an estate agent to market and handle the sale of the property / properties, and that Legal Services will act for the HRA regarding the sale. A small provision has been made for external legal activity if required.

2 Project Appraisal & Procurement Report

2.1 Project Background

The Council owned flat at 18a Magrath Avenue is currently empty and requires a substantial level of repair and replacement works to bring it up to the decent homes standard, before it can be re-let. It has a significant damp problem, which is anticipated to result in the need to replace the flooring and also requires a new kitchen and potentially bathroom. The current valuation for the ground floor flat is estimated to be £20,000 lower than the comparable first floor flat, due to its poor condition.

The tenant who has previously occupied the premises at 18a Magrath Avenue has been temporarily re-housed with a view to agreeing permanent alternative housing. The sale of the asset can

only proceed if the tenant accepts permanent alternative accommodation.

The flat on the first floor, 18b Magrath Avenue has been sold on a long lease, with the Council maintaining the freehold for the entire building.

The council has been approached by the leaseholder of the first floor flat, with a view to their purchasing our property along with the freehold of the building in order to convert the two flats into a single dwelling house.

Advice obtained by the Council from Pocock and Shaw indicates that it would be financially advantageous to undertake the necessary work to convert the two flats into a single dwelling, with financial benefit to be derived from the 'marriage value' of the two dwellings, ie; the value of the property as a single dwelling would exceed the combined values of the two flats as separate dwellings.

The proposal to dispose of the ground floor flat was considered in the light of the potential for the Council to use the receipt to build replacement affordable dwellings elsewhere in the city for inclusion within the council owned stock. The initial offer of £150,000 indicated by the leaseholder would only be sufficient to replace the dwelling sold with a single dwelling, and although pay back would be achieved within 5 years due to the higher potential rent chargeable for the new dwelling, the outcome would replace one social housing unit with one Affordable Housing unit and provide no net housing gain.

The Council has subsequently discussed with the leaseholder the potential for buying back his flat, in order to progress the idea, but the sale price of £290,000 suggested by the leaseholder significantly exceeds the current valuation the Council has obtained, with Pocock and Shaw estimating the flat to have a market value of slightly in excess of £200,000. The valuation recognises that the current market is volatile and that the actual price achievable could vary substantially.

Purchasing the upstairs flat at the value proposed by the leaseholder would not make the overall project viable, as paying over the market value would remove a significant proportion of the marriage value of the two assets. Measured in terms of how the authority could put the net receipt to use by re-investing in new affordable housing, it would not be sufficient to finance the delivery of any increase in the supply of new-build housing, ie; the loss of a

social housing dwelling at 18a Magrath Avenue would again only fund the delivery of one new unit, with no net gain.

However a third option of jointly selling both properties along with the freehold as a whole with vacant possession has been suggested, with the Council and the Leaseholder sharing the proceeds on a pre-determined percentage split. This allows both parties to benefit from any potential marriage value, and would allow for recognition that the Council is the freeholder, but that the Council dwelling is the one which requires the greatest investment currently. It is this option that forms the basis of this project appraisal, and which has the potential to increase the overall supply of Affordable Housing.

It is estimated that the combined dwelling would be worth £550,000 once combined, but would fetch in the region of £70,000 to £80,000 lower than this without the conversion works. For the purposes of this appraisal it has been assumed that the property is sold without the works being undertaken and that the shared value realised would be £475,000.

2.2 Aims & objectives

The proposal supports the following priority within the vision for Housing Services:

- Improving housing standards: Maintaining and refurbishing council housing, and supporting the development of new affordable housing, in the public and private sector, that achieves high environmental standards of energy efficiency, minimal carbon emission, and maximum waste recycling.

The project would ultimately enable, should the purchaser so choose, the conversion of two 1 bedroom flats into a good sized 3 bedroom family house within the private sector, whilst generating a capital receipt to the Council sufficient to support the construction of two new build dwellings, with minimal borrowing required, on existing or future development site for retention within the Council owned stock.

2.3 Major issues for stakeholders & other departments

The scheme will reduce the council owned stock by one, one-bedroom flat, and reduce the rent roll until two new-build properties are completed and let.

If the Council retains ownership of its current property, a substantial resource is required to bring it up to decent homes standard.

2.4 Summarise key risks associated with the project

1. If the Leaseholder sells his flat before a decision is made on the project, the opportunity to progress will be lost.
2. It may not be possible to come to a mutually acceptable agreement on the level at which the proceeds of the two sales is to be divided.
3. The actual price achieved for the two flats on the open market may not be as high as estimated.

2.5 Financial implications

a. Appraisal prepared on the following price base: 2014/15

Assuming the two flats at Magrath Avenue sold at £475,000, and the proceeds were shared 50:50, the project would require borrowing of £67,500 to fully fund 2 new-build properties. For indicative purposes this investment would have a pay-back period of 14 years, and would deliver a net increase in the supply of Affordable Housing.

On-going revenue costs associated with the new-build properties will be funded from rental income.

2.6 Net revenue implications (costs or savings)

Revenue	£	Comments
Ongoing net impact of loss of 18a Magrath Avenue	5,200	Rent loss less reduction in management, maintenance and major repairs expenditure
Ongoing net impact if 2 replacement dwellings are created	(9,500)	Rent income less cost of management, maintenance and major repairs expenditure
Net Revenue effect	(4,300)	Cost / (Saving)

2.7 VAT implications

There are no adverse VAT implications.

2.8 Energy and Fuel Savings

Is this project listed in the Carbon Management Plan?	No
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2.9 Climate Change Impact

Positive Impact	No effect	Negative Impact
	Nil	

2.10 Other implications

An Equality Impact Assessment (EqIA) has not been prepared for this project.

2.11 Staff required to deliver the project

Service	Skills	Total Hours
Legal Services	Conveyancing	10
Property Services	Property Negotiations	10

2.12 Dependency on other work or projects

None

2.13 Background Papers

Valuation Report by Pocock and Shaw was used in the preparation of this report.

2.14 Inspection of papers

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