PROJECT PLAN:	**Empty Homes Investment**
DATE:	**23rd August 2021**

1) Objective:

To achieve the improvement and re-use of empty and poor quality residential properties within key target areas of Middlesbrough.

2) Reason for Project:

The Council resolved in December 2019 to allocate £1.5m of Sec 106 funding toward bringing back empty homes into beneficial use in the Newport and North Ormesby wards. This proposal is a suggested way forward to deliver that goal albeit with some of the parameters now slightly varied.

MDC is an appropriate vehicle for the Council to deliver the project as it is commercial in nature and deals with property matters. MDC have the resources and expertise to effectively deliver this Council goal.

3) Council Resolution:

The Council Cabinet are requested to provide MDC with a £1m loan which will allow it to deliver empty and poor quality homes acquisition and refurbishment. This may be directly or through similar arrangements with suitable partner organisations

4) Background:

Empty and poor quality homes affect all areas of Middlesbrough and are detrimental to the wider regeneration goals of the Council. Their presence blights communities and directly counteracts other Council initiatives.

This problem was recognised by the Council and a proposal made in 2019 to invest in the acquisition, refurbishment and re-letting of homes in two key areas particularly affected by the problem.

Since then the funding allocated to the project (sec 106) has been committed elsewhere but the need for the project remains. In late 2020 MDC were requested to explore ways in which this goal could still be achieved.

MDC in conjunction with Thirteen Group set up a working party to consider the problem for one such area – Gresham, in Newport Ward. This was a complimentary strategy to work on looking at improving poor quality properties in and around the proposed Gresham new build scheme currently be proposed by the Council and Thirteen.

In tandem with this MDC looked at a pilot scheme in North Ormesby on Cadogan Street where a significant number of houses in this small area were empty and dilapidated. The street had become a source of antisocial and criminal behaviour and Council resources were being heavily expended in the area to try and improve the situation.

Ultimately the pilot scheme in Cadogan Street was initially unsuccessful, mainly due to the unwillingness of landlords to engage at all with efforts to discuss the condition and future of their properties. Efforts continue in this regard but a complimentary approach is also required.

The empty properties working group however continues to meet and attendance at the meetings has been expanded as knowledge and strategies are exchanged. Additional attendees from various Councils departments are now present along with other companies and organisations who have property assets or interests in the area.

The potential exists for MDC to deliver Council goals directly or via partnerships with one or more third parties. Such organisations would be:-

- Socially responsible landlords set up to provide low cost rental accommodation across Teesside.
- Companies with Funding and a Business Plan to acquire properties at scale in the key target areas.
- Possessing the systems and infrastructure to deliver the identification, acquisition, refurbishment, letting and tenant / property management functions.

5) <u>Objective Delivery</u>

Middlesbrough postcodes TS1 and TS3, (incorporating Newport and North Ormseby wards), are the proposed target areas.

MDC and its partner(s) will identify potential residential properties in these areas with the support of the Council which could be targeted for acquisition, refurbishment and re-letting.

The method by which properties will be identified and assessed for acquisition will be based on an agreed criteria and investment model backed up by independent valuations. Only properties that satisfy these criteria will be considered for purchase.

MDC and its partner(s) will engage with property owners to establish potential for acquisition producing an appraisal which covers all costs of purchase, refurbishment and potential income.

If a property is accepted for acquisition the MDC and the partner(s) will manage the process and fund all costs associated with purchase and the refurbishment works.

Once refurbishment is complete the properties will be let by MDC or the partner(s). Properties will be let on an affordable basis using agreed letting criteria and managed intensively to ensure all tenancy and property services are delivered to high standards.

The proposed project life is 20 years.

6) <u>Objective Delivery Alternatives:</u>

Do nothing:
The TS1 and TS3 postcodes have a high percentage of empty and dilapidated properties which will remain in that condition. Dubious landlords may target these properties re-letting them in very poor condition and to undesirable tenants. This will not improve the local environment or help local communities.

Council initiatives such as the Gresham urban renewal scheme or similar area based strategies such as selective landlord licensing will be impacted detrimentally.

Organisations may still acquire and improve some properties in these postcodes but they will not necessarily focus resources on these key Council target areas or to the scale required to have a meaningful impact.

The objective will not be achieved.

7) <u>Project Timescales:</u>

The following project delivery timescale is suggested:

- Council Approval – September 2021
- Partner Procurement - October 2021
- Start Assessing Properties - October 2021
- Partner Agreements signed – November 2021
- Commence purchases – January 2022
- First properties ready to let – April 2022
- End of project and loan repaid - 2042

8) <u>Partner Procurement:</u>

MDC will carry out a partner selection process based upon the following criteria:-

- Organisations will need to be established socially responsible landlords set up to provide low cost rental accommodation.
- They will need to have robust and established governance and management systems.
- They will need to demonstrate a secure funding line and a Business Plan to acquire properties at scale in the key target areas.
- They will need to show a successful track record of carrying out the activities outlined in this project in Teesside and have an excellent corporate reputation to match.
- Partner(s) will be expected to cover MDC's cost of providing the loan and so financial proposals for this will be required as part of any bid.
- They will need to have established systems and infrastructure in place to deliver the identification, acquisition, refurbishment, letting and tenant / property management functions.
- They will need to demonstrate added value to the project such through the use of local labour or businesses, community / voluntary groups.
- The will be expected to follow the approach adopted in this Project Plan.
- For simplicity of management and governance MDC will look to appoint a single partner as its preference but where this is not possible multiple partners may be considered.

9) <u>Financial Matters:</u>

Project Funding MDC to the Partner(s):
£1m is proposed as the initial tranche of funding to be made available for the project. This will be in the form of a loan to the partner(s) from MDC which is used for initial capital refurbishment works post acquisition and pre first letting.

The level of spend anticipated on each property will be a function of the amount of work required. It is likely to be in the range of a few thousand pounds up to say £25,000 for very bad condition units. The average is likely to be in the £10,000 - £15,000 range meaning that it may be possible for the £1m funding to enable around 70 -100 properties to be brought back into beneficial use.

Property purchase will be a partner(s) responsibility and they will be funding all costs associated with this including registering the MDC first charge once refurbishment loan costs are drawn down. A company debenture as security for the loan may be considered as an alternative to charges on each property.

They will also fund these capital refurbishment works initially and reclaim this from MDC through draw downs from the loan. Once a property is fully refurbished and ready to let the partner(s) will request a payment based on the pre-agreed refurbishment cost of each property. As these are pre-agreed costs these are translated into actual costs once the works are carried out. This cost draw down from MDC is likely to be on a monthly basis or quarterly basis.

The loan to the partner(s) will incur a cost charged by MDC which is negotiable. The partner(s) will need to outline how this cost is covered such as through the payment of an interest rate on the loan.

The cost will be incurred for all funds drawn down via the loan from the first letting of the property and then continuing until repayment of the proportion of the loan relating to that particular property.

The loan to the partner(s) for each property will be repaid in full upon disposal or no later than the project end date, (2042).

All other lifetime costs associated with properties acquired as part of this relationship between MDC and its partner(s) will be covered by the partner(s). This includes ongoing maintenance, tenant related fees, vacant property Council tax and utilities costs etc.

Council to MDC Loan:
MDC in turn will have a loan facility with the Council itself to cover the costs of direct acquisitions or loan to its partner(s). ie. also for up to £1m. This will likely be drawn down monthly.

The Council will make a charge for providing the funds to MDC, rate to be agreed.

10) <u>Risk Assessment:</u>

A simple SWOT analysis has been undertaken for the project as follows. Funds loaned to the partner(s) from MDC will be secured via a registered first charge on each property acquired, (or similar security mechanism). As MBC own 100% of the shares of MDC this means MBC also have a secure legal interest in these properties.

Strengths
- Loan amounts secured against property or property company
- Tangible and immediate results from property improvements
- May use local community / volunteer groups to do refurbishment works
- Supports other Council initiatives

Weaknesses
- Need to have willing property sellers
- Property market variations may make some properties too expensive
- Partner loan cost offer not covering Council loan provision costs
- Long term loan repayment cycle

Opportunities
- Could be extended if successful

- Improving market may allow early property disposal and loan repayment
- Targeting low refurb cost empties will spread loan over more units
- Demonstrating MBC commitment to existing communities

Threats

- Competition for property acquisition
- Refurb costs higher than expected so lower unit numbers acquired
- Unforeseen costs arise during refurbishment
- Unable to find tenants

In response to some of the weaknesses and threats identified above the following mitigation is suggested:-

- Lack of willing sellers – undoubtedly there will be unwilling sellers but there are sufficient suitable properties in TS1 and TS3 to give ample opportunities to locate alternatives.

- Market variations – The property market post Covid has rebounded but TS1 and TS3 still have many low value units suitable for this project.

- Interest rates – These are historically low with forecasts remaining so in the short term. The Council borrowing costs will be calculated over the loan availability period which is also relatively short term. Any deficit should be very small compared to the overall benefits of the scheme.

- Repayment cycle – The long stop date for the project is necessary to support long term benefits to these areas. This is a long stop however and properties may be disposed of before this date or refinanced by the partner(s) as their business plan develops.

- Market Competition – This is thought to be minimal and there are a high number of properties which could form part of this project.

- Higher Refurb costs – This may occur but the benefits of bringing these significantly dilapidated properties back into use will have a disproportionately higher impact on local communities.

- Unforeseen costs – The partner(s) will need to demonstrate a robust system for cost control and that they are an experienced company for this type of work. Buildings will be surveyed prior to acquisition and a fixed price refurbishment contract is used.

- Tenant Unavailability – The partner(s) will be asked to price their rents below affordable levels for the type of property meaning tenant sourcing is never a problem.

11) Benefits:

The risk to MDC and the Council is negligible on all levels. Financially, the costs are low, with the added benefit of being able to recoup borrowed monies in any future property sale.

Delivery of goals is as close to guaranteed as possible, given that the partner organisations should be well-established and run. Reputationally, MDC and the Council can only benefit from such a partnership as tangible results will be delivered to the targeted areas within Middlesbrough.

Social benefit is delivered as every property is let to a person or family in housing need, including those facing homelessness, with tenant support provided where required.

Environmental benefit is delivered by bringing properties up to decent and (at least) legally required environmental standards.

Partner(s) will need to be well governed companies, backed by established investment requiring high levels of governance and due diligence. Together, the project is therefore sustainable and meaningful.

The project will be managed by MDC which has the resources and expertise to ensure its successful delivery.