

REPORT TO:	Cabinet Meeting 12th December 2016
AGENDA ITEM:	
SUBJECT:	Real Letting 2 Property investment
LEAD OFFICER:	Mark Meehan Director of Housing Need
CABINET MEMBER:	Councillor Alison Butler Cabinet Member for Home, regeneration and Planning and Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	ALL

CORPORATE PRIORITY/POLICY CONTEXT

The council has a range of statutory duties in relation to homelessness including a duty to secure accommodation for eligible homeless households. Within that range of statutory duties is the requirement to ensure that any emergency temporary accommodation provided for homeless households is suitable, and that certain types of emergency shared accommodation are only provided for a maximum of six weeks for households with dependent children or where a household member is pregnant. A key priority is to meet housing need. Since November 2012, local authorities have been able to discharge the full housing duty by a private rented sector offer under s193 of the Housing Act, as amended by s148 (5)-(7) of the Localism Act 2011. The accommodation must be suitable but does not require the applicant's agreement to be a valid offer. The report outlines the options for the second phase of expanding suitable accommodation in Croydon to support this priority/policy context.

AMBITIOUS FOR CROYDON & WHY ARE WE DOING THIS

The proposed investment in the Real lettings property fund detailed below will assist the Council to meet its statutory duties to homeless families, by providing a long-term sustainable accommodation solution and reducing use of expensive and unsuitable emergency accommodation. This will address the following Ambitious for Croydon aims and objectives:

Croydon's Community Strategy 2016-21 seeks to tackle the lack of affordable housing, overcrowding and rising homelessness and to reduce the number of homeless families and individuals living in temporary accommodation. A key priority under Outcome 2: A place of Opportunity for Everyone, is to prevent homelessness and to enable individuals and families facing homelessness to secure long-term sustainable housing solutions.

The Council's Ambitious for Croydon outcomes, as set out in the Corporate Plan 2015-18, include providing a choice of home for people at all stages of life and enabling homeless households to access suitable accommodation.

The Ambitious for Croydon performance framework sets targets for reducing the use of emergency and temporary accommodation.

FINANCIAL IMPACT

Dealing with increasing homelessness is currently resulting in significant cost pressures to the council. In November 2013 an investment of £20m was agreed to increase the supply of accommodation for homeless households. In 2014 a second investment of £10m was agreed giving Croydon access to 146 homes from both investments. There are still increasing demand pressures on the housing system leading to increasing cost pressures. An additional investment of £15m with Real Lettings 2 is recommended which, will increase the supply of accommodation by 47 units, that the council is able to discharge its housing duty into.

KEY DECISION REFERENCE NO 3116CAB

The Leader of the Council has delegated to the nominated Cabinet the power to make the decisions set out in the recommendations below

1. DRAFT RECOMMENDATIONS

- 1.1 The Cabinet is recommended to approve the £15 million investment in the acquisition of property for use as Private Rented accommodation the terms detailed in this report.

2. EXECUTIVE SUMMARY

- 2.1 This report updates Members on the Real Lettings financial model approved by Cabinet on the 18th November 2013 to address housing needs arising from the homelessness situation in Croydon. The Real Lettings Scheme was introduced by Croydon in January 2014. The Scheme enables the Council to discharge housing duty to the private sector, in effect ending its responsibility for permanent re-housing.
- 2.2 Croydon has invested £30 million in Real Lettings to date. The investment has given Croydon access to a minimum of 146 quality private sector units. The scheme to date has provided access to 151 units. The unit splits into: 1x studio, 12x 1bed, 134x 2bed, and 4 x 3bed accommodations. Each tenancy comes with ongoing tenancy support and assistance in finding employment/training as well as assistance in finding further private sector accommodation.
- 2.3 The scheme has also seen a 3% cash yield return on investment plus Croydon will get a share of the capital appreciation of the assets at the point of sale. This scheme has seen a reduced reliance on nightly charged accommodation over which the Council have no control in respect of supply and costs. It has also contributed to ensuring that the number of households having to stay in

shared B&B accommodation beyond the six week limits remains as low as possible. The investment of £15m for the Real Lettings 2 will continue to alleviate the cost pressure from B&B accommodation.

- 2.4 Whilst the existing investment in Real Lettings has increased supply of affordable accommodation, Croydon is under financial pressure, with the freezing of local housing allowance rates (LHA) for 4 years, under welfare reform. Currently in Croydon an average 2 bed property per calendar month (PCM) rent is £1,200 where the LHA is only £900, leaving a £300 difference. We anticipate this gap will only widen over the period of the freeze, creating further pressures. We are proactively working with residents; to prevent their homelessness and this investment will assist in providing a steady supply of affordable private sector accommodation.

3. Outcomes of the Real Letting scheme

The Real Lettings Property Fund LP (“The Fund”) is a UK limited partnership with a proposed life of five years (extendable by two further periods of one year), which offers investors the opportunity to invest in a diversified portfolio of London residential property which achieves a significant social impact in the area of London homelessness, of which Croydon can be a significant investment partner and nominator of homeless households to the properties, as they become available.

Real Lettings property Fund 1

- 3.1 169 people have been housed via the programme and 36 moved into private sector accommodation. Taking account of the placement fee the Council have seen annual savings of £521k for B&B nightly costs. The Council has received two quarterly payments of £226k, which is the distribution of profits, and this is expected to continue each quarter going forward. The distributions are expected to equate to roughly a 3% cash yield return on investment.

3.2 Real Lettings Property Fund 2

The Fund seeks to raise between £60 and £100 million; £60 million in the first round. The Fund aims to deliver a cash yield of 2.0% averaged over years 3-7 as distributions commence from year 3 onwards. The investment is anticipated to benefit from capital appreciation. The total investor internal rate of return is 5.2% over the 7 year period. Croydon aims to invest £15million in RLPF2 for access to 47 units on top of its existing £30million investment in RLPF1. This will bring the total investment to £45million

3.3 St Mungo’s:

The Fund will lease these properties to St Mungo’s lettings, for a minimum of 5 years on lease terms which insulate the Fund from insurance and routine maintenance costs, as well as the risk of tenant voids. St Mungo’s will itself sub-let the properties to tenants at risk of homelessness on a 12 month AST at Local Housing Allowance (LHA). This allows Croydon to discharge its housing duty to the cases it refers into this scheme.

3.4 **St Mungo's Funding:**

St Mungo's receives 21% of the LHA income per property, as well as a placement fee from Croydon. The Fund offers a number of attractive features that a standard investment into residential property would not normally provide, namely:

- Minimum 5 year lease agreements
- A one-point-contact tenant and a strong covenant
- No void risk and free from operational repair obligations (due to lease structure)
- Measurable social impact in addressing homelessness
- Lease payments will be linked to Local Housing Allowance

The Fund has been structured in order to achieve social impact in the area of homelessness. It will achieve this by scaling up a proven effective model for transitioning formerly homeless people, or those at risk of homelessness, into successful Private Rented Sector tenancies, with resulting improvements in housing options, progress towards work and re-integration into society, and greater resilience against reverting to homelessness again.

3.5 **Benefits of investing in the fund**

For an investment of £15m there is the potential to receive an estimated 2% yield return from year three of the contract. The service will commence in January 2017, to which the Council will have 100% nomination rights. St Mungo's have right of refusal to a placement, if the referral is deemed inappropriate which are likely to be rare, as checks are carried out beforehand.

3.6 The significant benefits are an ability for the LA to discharge its housing duty, along with the risk on voids and bad debts being removed from the LA. There are likely to be better outcomes for households, including sustained tenancies and support into employment, and others as detailed below:

- Detailed assessment of the client's suitability for the Private Rented Sector (PRS)
- One point of contact for the tenant for both assessment and resettlement
- Tenancy sign up (including explanation of rights and responsibilities)
- Tenancy set up (utilities, benefits, council tax, grant applications, furniture sourcing)
- Six months core resettlement support including 3 home visits
- Referral to in-house employment, training and education support
- 'under one roof' – all the support services are managed by Real Lettings. If a client misses a rent payment, St Mungo's provide support to get back on track. In maintaining the properties, staff pick up on un-reported issues
- Ongoing 'low level' support as and when required
- Signposting to external agencies where appropriate
- Monday – Friday tenant helpline (with out of hours service)
- Good Neighbour tele-befriending scheme – weekly contact from a trained volunteer
- 12 monthly tenancy checks to ensure tenant is still managing in tenancy/home
- Tight void/arrears management – tenants are not allowed to accrue arrears

The content of this report has been endorsed by the assistant chief executive (corporate resources)

CCB Approval Date	CCB ref. number
03/11/2016	CCB1177/16-17

4. CONSULTATION

- 4.1 The options and proposal have been considered with Housing, Gateway and Welfare Service, external legal, Head of Adult Social Care, SCC, and Finance.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 5.1 This proposal would require investment of £15m in Real Lettings 2 which would be treated as capital expenditure. It is estimated that this investment will generate an Internal Rate of Return of 5.2% (which considers all future cash flows including cash yields and capital appreciation). This is greater than Croydon's current cost of capital at 3.85% and so therefore RLF2 is deemed a profitable investment. However this would need to be offset against the need to borrow funds to raise the £15m investment, which would likely be over a period of 8 years at 1.99%.

The opportunity cost arising from the alternative option forgone would equate to 2% interest received on current treasury investments, excluding the cost of borrowing. The average cash yield for the RLPF2 investment is 2% between years 3-7. Taking the cost of borrowing into account this investment is anticipated to be cost neutral to the Council.

Croydon will invest in 47, 2 bed homes and expects a throughput of just under 50%; therefore the modelling assumes that our housing duty to 70 families will be discharged through the RLPF2 contract term.

The anticipated savings to the Emergency Accommodation budget through the use of this scheme is £19k.

5.2 The effect of the decision

The investment made in the fund would be classified as capital expenditure. Additional borrowing would be required in order to raise sufficient funds for this investment. It is likely the borrowing would be spread over 8 years at 1.99%

The placement fees will be funded from within the existing temporary accommodation budget

5.3 Options

The supply of self-contained accommodation is heavily constrained, the Council are in strong competition with other boroughs and the placement of a homeless household in B&B is both expensive and unsatisfactory as a housing solution. This results in limits on the availability of supply and an upward pressure on pricing. In respect of shared accommodation, the Council also needs to be mindful of its legal duties.

The aim will be to significantly reduce the use of shared Bed and Breakfast. This will be done by developing a portfolio of provision, including this scheme, which will combine use of the Council's own stock, private leasing, direct relationships with private landlords, privately financed provision and self-contained Bed and Breakfast.

5.4 **Future savings/efficiencies**

The opportunity to build in future savings and efficiencies will be explored as the scheme progresses through:

- Appreciation of the fund over the 7 year period is assumed to provide additional capital receipts for the council over and above the original investment.

5.5 **Risk**

It is important to acknowledge that the Real Lettings options is not without risk.

5.5.1 **Market Fluctuation**

The GP / LLP arrangement is a well-established structure for investments and is typically used in investments where there are a small number of investors, committing known sums to a fund of a certain size. The Council is thus protected by a legal agreement that limits loss to the committed sum of £15m. The investment is projected to return up to 2% per annum to each investor. However there is no guarantee of this return as it is subject to market conditions.

Consideration has been given to the 5.2% annual increase used in the Real Lettings model. House price changes are volatile and will react to both supply/demand and external economic influences.

To test the Real Lettings assumption, regard has been had to a number of national indices produced by Halifax, Nationwide, Land Registry and Office of National Statistics.

The subscription agreement makes Croydon a partner in the fund. The nominations agreement would allow for a contract with St Mungo's to provide the vacant properties for nomination. The investment, which is for a period of five years (with a possible 2, 1 years extensions); cannot be withdrawn from during that period. Therefore, once committed the authority will have a legal obligation to pay the committed sum in full. The fund is a close-ended fund and so the principal invested will not be returned until the end of the life of the scheme. It may be possible to exit early by selling the authority's share on the secondary market, but this option may entail a discount on the sum invested. These funds are highly illiquid and the secondary markets are not developed.

When investing the authority should assume that the investment is for the whole life of the fund with no certainty of early redemption and to consider that early redemption will be heavily penalized.

This will be mitigated through the wording of the nominations agreement, a robust escalation process with St Mungos and membership of the Advisory Committee.

5.5.3 Liability

The legal documentation that form these agreements comply with generally accepted standards. The structure should ring-fence this authority's investment into the fund and therefore the principal at risk is limited to the authority's committed sum of £15m, hence the name of the arrangement.

Further layers of protection are provided by due diligence, governance and the practical arrangements, which form part of the legal agreement. Extensive due diligence prior to final commitment to the fund is critical to ensure that the legal agreements are as anticipated and that the various supporting statements are verified. The voting rights are anticipated to be split evenly as we're aiming to obtain 25% of the investment.

5.5.4 Voids and Unforeseen Costs

The fund will lease the properties to St Mungo's lettings for a minimum of 5 years on lease terms which will insulate the fund from insurance, routing maintenance costs, as well as the risk of tenant voids.

5.5.5 Track Record

The council have undertaken a number of Investments with this fund, which has a track record of delivery contractual obligations, and to date has provided a yield against investment.

5.5.6 Control

The voting rights are anticipated to be split as follows:

- Any day-to-day non material decisions are made by way of an Ordinary Resolution (which requires 50% of investors' approval)
- Any important decisions are dealt with through a Special Resolution (which requires 75% of investor's approval)
- Investor votes are proportionate to their capital contributions to the Fund (including Carried Interest Partners)
- Croydon have 49% of the voting rights in RLPF1.
- Croydon has a seat on the fund's advisory board

As Croydon is anticipated to hold a larger percentage of the investment in Real Letting 1, it is anticipated that the Council will hold increased control of Real Lettings 2.

(Approved by: Lisa Taylor, Assistant Director of Finance and Deputy Section 151 Officer)

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 *'The Acting Council Solicitor and Acting Monitoring Officer confirm that the Council has obtained external legal advice on this matter and comments that there are no direct legal implications arising from the recommendations in this report.*

Approved for and on behalf of Jacqueline Harris-Baker, Acting Council Solicitor and Acting Monitoring Officer'.

7. HUMAN RESOURCES IMPACT

- 7.1 There are no human resources impacts to note.

(Approved by: Deborah Calliste: HR people Department Lead Human Resources)

8. EQUALITIES IMPACT if an equality analysis has been completed it should be listed as a background document and provided to me with the final report

- 8.1 The scheme will impact positively upon homeless families in reducing the amount of time spent in bed and breakfast and move them to more suitable forms of self-contained PRS accommodation. There may be a negative impact on families that need to move out of their local area to secure suitable accommodation and this impact will be mitigated as much as possible through the support mechanisms.

Analysis carried out in relation to the housing strategy, draft homelessness review and the St St Mungo's Social Impact report identified a number of different groups with protected characteristics that are more likely to be in housing need or homeless. Homeless households with "family commitments", when compared to the general population, are

- More likely to be younger
- More likely to be from the BME community,
- More likely to be headed by a female, and
- As a household are more likely to be headed by a lone parent
- More likely to have dependent children
- More likely to be pregnant

The scheme will build on the previous scheme Real Letting scheme and ensure that households will not spend as long accommodated in emergency bed and breakfast accommodation (regarded as "unsuitable" if provided to a household with dependent children or a pregnant family member for more than six weeks),

and the council will be in a position to offer more suitable, self-contained PRS accommodation more quickly and within government timescales.

9. ENVIRONMENTAL IMPACT

9.1 No specific adverse environmental impacts have been identified resulting from the proposals contained in this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 No specific adverse crime and disorder impacts have been identified resulting from the proposals contained in this report

11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

11.1 Local authorities are required to provide accommodation to homeless households in accordance with the provisions of Part VII of the Housing Act 1996. In discharging this duty local authorities must ensure they comply with the requirements of Homelessness (Suitability of Accommodation) (England) Order 2003 (SI 2003/3326) and ensure that homeless households with dependent children or that include someone that is pregnant are only accommodated in bed and breakfast shared accommodation in an emergency and then for no longer than six weeks. The council is now compliant with this requirement but is at risk of becoming non-complaint each week and it is therefore recommended as reasonable to invest a further £15m in real Letting 2 Scheme to enable Croydon to comply with its statutory duties. It is requested that Cabinet provide delegated authority to the Section 151 Officer and the Cabinet Member for Housing to approve the investment method.

CONTACT OFFICER:

Name:	Mark Meehan
Post title:	Director of Housing
Telephone number:	0208 760 5474

BACKGROUND PAPERS - LOCAL GOVERNMENT ACT 1972