

Proposed leasing of 80 South Street, Yeovil, BA20 1OT

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Purpose of the Report

The purpose of this report is to seek members approval to lease 80 South Street, Yeovil BA20 1OT to two local developers with whom SSDC have worked with in the past.

Forward Plan

This report did not appear on the District Executive Forward Plan as a report had previously been submitted to District Executive in April 2014 and it was anticipated that the building would have been undergoing renovation by now. This is a follow up report as the previous scheme has been unsuccessful.

Public Interest

This report concerns the potential leasing of a prominent listed building in Yeovil owned by SSDC to two local developers of rented accommodation.

Recommendations

That District Executive approve:

1. The granting of a full repairing lease for 15 years to two local developers for 80 South Street, Yeovil BA20 1OT for conversion into four one bedroom flats in accordance with the rental value and conditions set out in this report.
2. That SSDC will retain nomination rights for the occupiers of the new flats with preference going to key workers and that the rent values will be set at Local Housing Authority (LHA) rental rates.
3. That the annual rental difference of £2,430 from the previous proposed scheme be found from the general fund for 2015/16 and added to the medium term financial plan for future years.

Background

80 South Street is a prominent listed building in the centre of Yeovil. It has been empty for several years and all attempts to rent it commercially or to interest a Registered Provider (RP) in renovating it for letting have been unsuccessful. In 2014, the Executive agreed to market the property for freehold disposal at a value of £175,000. The best offer received was £150,000, which was declined at that time because by then the council was considering the property for a project which incorporated a Day Centre. The property was not further marketed for a commercial tenant, or freehold disposal, either during the Day Centre project or since that project ended.

At the District Executive meeting held in April 2014 it was resolved that the property would be converted into accommodation and a Day Centre and be leased to a social Landlord, one of our local partner Registered Providers (RP). That RP has since pulled out of negotiations and with the recent changes made to the operating model for RPs, it is unlikely that it or any of our other RPs would be interested in the project again. All our other partner RPs were subsequently also offered and declined the offer of getting involved with the property.

After receiving confirmation that the Day Centre project was no longer proceeding, SSDC advertised in the Western Gazette for developers who might have been interested in taking on the residential conversion of this property. Two responses were received, one from two local developers who have worked in partnership with SSDC in the past and one from a local not for profit charity who also specialise in social housing provision. Having viewed the property, the not for profit charity has decided that the project was too extensive for them and they are no longer interested. This left the two local developers (potential tenants)

Report

Discussions have taken place with potential tenants and the following proposal has been brokered. The property will be leased to them for 15 years on a full repairing lease for £6,000 a year (£500 per month). They have agreed to a break clause in year five of the lease and then yearly thereafter, following the service of 12 months notice on the leaseholder. This will give SSDC more flexibility over the future use of the building.

The property will be converted into four one bedroom flats, subject to planning permission.

Funding will be as follows;

1. Empty property grant funding from SSDC at £12,000 per flat x 4 = £48,000. This is the maximum that can be awarded per flat under the council's empty property grant scheme.
2. Wessex Home Improvement Loan (WHIL) funding of £15,000 (at 4% fixed rate) per flat x 4 = £60,000. This is the maximum that can be awarded under the WHIL scheme. This loan will not be secured against the property but other assets held by the interested party

Total build cost = £108,000. This figure has been agreed with the potential tenants and they are confident they can do the conversion within this budget and maintain the building in good condition for the rest of the duration of the lease period.

Rental income at LHA rates = £399.98 per one bed flat x 4 x 12 = £19,199.04 p.a.

Repayment of WHIL loan (180 months at £443.81 per month) = £5,325.72 p.a.

Lease cost for building payable to SSDC at £500 per month = £6,000 p.a.

Potential tenants maintenance costs/voids/ profit = £7,873.32 p.a.

During the conversion works it is possible that a rear access will need to be created from SSDCs neighbouring short stay car park. There is also a damp problem in the side wall that needs to be resolved on the eastern boundary with the same car park which will also require the temporary loss of a few spaces. It is proposed that these rights will be granted without any consideration for the potential loss of revenue from the temporary loss of these spaces

After completion of the conversion it is proposed that a new pedestrian gate will be created, under licence, from the southern boundary of the property out onto the neighbouring short stay car park. The access will be licenced so that it can be terminated in the event that SSDC considers alternative uses for its asset.

Advantages of this Proposal

- 80 South Street will be brought back into use and will no longer be a liability to SSDC.
- Four flats will be created that will greatly increase the asset value of the building giving SSDC the option to sell them at a later date should this be desirable.
- SSDC will have nomination rights to the building and four local households from the Housing Needs Register will be rehoused during the lease period at the LHA rate which will be below the open market rate.
- This project and ‘deal’ should not be looked upon purely in terms of economic return. The fact that the new flats will be let to local residents at LHA rates arguably puts it in the same position as new build projects which SSDC helps fund in partnership with Registered Providers to create affordable housing for rent-often at much greater cost.
- This represents good value for the council and is unlikely that a similar outcome could be achieved without spending considerably more money.

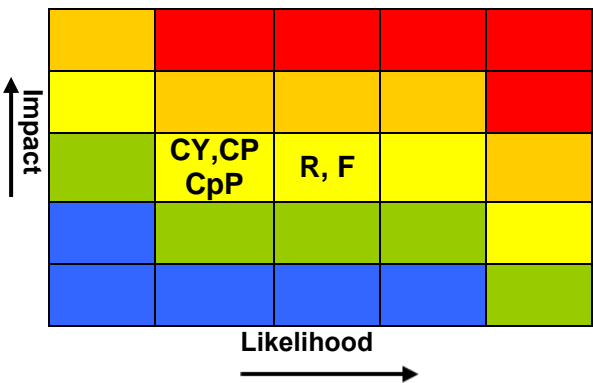
Financial Implications

In April 2014, District Executive noted the additional rent of £8,430 in relation to the Day Centre and related accommodation scheme proposed with the previous RP. When they (and our other RP partners) decided not to proceed it resulted in a potential loss to the MTFP of that amount. This revised proposal would go some way to mitigate that loss and generate a rental income of £6,000. This is a decrease of £2,430 from the previous scheme and therefore this amount would need to be found from the general fund for 2015/16, and added to the medium term financial plan for future years.

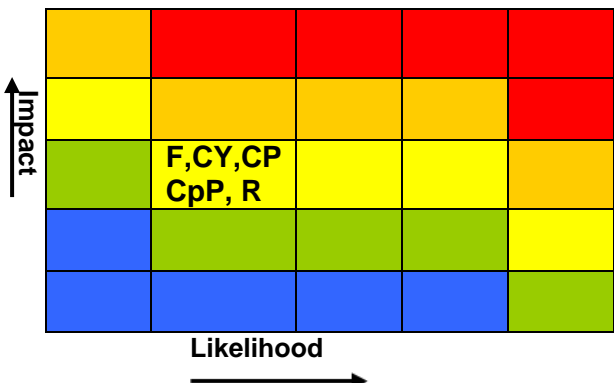
Had members decided to sell the property in 2014 when an offer was made, investing the sale price of £150,000 would have resulted in interest of £4,725 per annum over the longer term. This revised proposal with rental income of £6,000 per annum exceeds the value of any interest that would have been made.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories	Colours <i>(for further detail please refer to Risk management strategy)</i>
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Council Plan Implications

Homes - deliver appropriate housing for SSDC residents that match their income.

Carbon Emissions and Climate Change Implications

There will be significant carbon savings in refurbishing an old building as opposed to new build.

Equality and Diversity Implications

There are no adverse Equality policy or diversity implications to this report.

Privacy Impact Assessment

There are no adverse personal data implications to this report.

Background Papers

None
