

<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">ECONOMIC REGENERATION, HOUSING AND THE ARTS POLICY & ACCOUNTABILITY COMMITTEE</p> <p align="center">1 NOVEMBER 2016</p>		
<p>CREATION OF H&F SOCIAL LETTINGS AGENCY</p>		
<p>Report of the Cabinet Member for Housing and Director for Housing Growth & Strategy</p>		
<p>Open Report</p>		
<p>Classification - For Decision</p> <p>Key Decision: Yes</p>		
<p>Wards Affected: ALL</p>		
<p>Accountable Director: Jo Rowlands - Director for Housing Growth & Strategy</p>		
<p>Report Author:</p> <p>Labab Lubab – Housing Opportunities Manager</p>	<p>Contact Details:</p> <p>020 8753 4203 labab.lubab@lbhf.gov.uk</p>	

1. EXECUTIVE SUMMARY

- 1.1. This report sets out the key elements from the Social lettings Agency Cabinet report.
- 1.2. The Social Lettings Agency Cabinet report recommends establishment of a social lettings agency in Hammersmith and Fulham and sets out the type of products the agency should offer, the marketing effort needed to increase its chances of success and the indicative budgetary requirements for these proposals.

2. RECOMMENDATIONS

- 2.1. PAC to review the proposal to establish a Social Lettings Agency in Hammersmith and Fulham and make comments and recommendations as it deems appropriate.

3. REASONS FOR DECISION

- 3.1. The booming rental market in the borough has priced many H&F residents and workers out of the borough, led to a deterioration in housing standards in parts of the market and adversely affected the Council's ability to use the sector to bridge the gap between the demand for, and the supply of, social housing.
- 3.2. The gap between rising rents and low benefit levels resulted in considerable financial strain on the Council. Because, at the same time, there has been a general increase in demand for temporary accommodation. Therefore, the Council has to be more creative to increase its private rented sector property portfolio to meet this demand.
- 3.3. Further, the Council's housing strategy commitment to improve housing standards in the private rented sector, provides an opportunity to do this and affect change in the way the Council operates in the private rented market.
- 3.4. Members have expressed interest in developing a Council backed organisation that will provide better access the private rented sector for the purposes of homelessness prevention, to secure homes for use as temporary accommodation, to help people seeking rental opportunities.
- 3.5. Through its activities, the agency will drive the Council's commitment to improve housing standards in the private rented sector as outlined in its Housing Strategy, *'Delivering the Change We Need in Housing'*.
- 3.6. The agency will aim to compete with private letting agencies by providing tenant sourcing and letting services at competitive fees and rates.

4. PROPOSAL

- 4.1. The report proposes establishment of a social lettings agency that will co-locate with the existing Housing Property Procurement service.
- 4.2. The estimated cost of initiating the second phase of the project is £200,290 and will include setting up, recruiting to, marketing and launching the agency. This will be funded from an invest to save bid.
- 4.3. The second phase of the project will also consider the options to establish the social lettings agency new functions from the Council's Local Authority Trading Company.
- 4.4. Full details of our analysis and considerations can be found in the appendices to the cabinet report. Some of these are restricted as they contain information about the business affairs of the council and other organisations which are commercially sensitive.

5. OPTIONS AND ANALYSIS OF OPTIONS

- 5.1. The Council can opt to continue the current housing property procurement operation and allocate the required funding to subsidise rising market rents. However, our assessment deems this approach will not be sustainable in the long term because current projections show that funding available to attract landlords through incentives will be decreased next year and in the future.
- 5.2. Alternatively, the Council may decide to reinvigorate the current property procurement operation under the brand of a 'social lettings agency' and market the service and the new brand. However, this is also not viable for the reasons stated above.
- 5.3. This report recommends the Council establish a social lettings agency with a new and unique brand that co-locates the existing Housing Property Procurement service within the Housing Options division to maintain links to key services such as temporary accommodation, HB Assist and h&f Home Buy. The agency would also operate the private rental offer for working households as a commercial operation from the Council's Local Authority Trading Company.
- 5.4. The objective of this approach is to generate income to cross-subsidise the agency's other activities and enhance the package offered to landlords who house benefit-dependent customers.

What are Social Letting Agencies

- 5.5. Social letting Agencies operate in a similar way to high street lettings agents and offer very similar products and services. In exchange for their services, social lettings agencies usually retain a percentage of the rent charged, although this is usually significantly less than private letting agencies.
- 5.6. The main difference between private agencies and social letting agencies, is that the latter will offer specialised services designed to help vulnerable people maintain their tenancies and stay in their homes. This provides landlords with additional security and mitigate the risk of housing vulnerable people, which is vitally important in preventing homelessness.

Why a Social Lettings Agency

- 5.7. Currently, the majority of leased properties are coming through letting agents who charge the Council a finder's fee. However, the cost of working with letting agents is not sustainable for the Council in the long term.
- 5.8. The SLA will supplement the work with existing letting agents as well as invigorate the direct marketing and property procurement efforts of the Council itself. The SLA will have several unique selling points for landlords and tenants;
 - It will have the ability to transfer the risk of letting to welfare-dependent tenants onto itself because it will manage a diversified portfolio of properties and have provisions for managing bad debt.

- It is backed by the Hammersmith and Fulham council which is the largest landlord in the borough and is a stable, reputable and established organisation with a considerable sphere of influence in the market place.
- Its staff will have skills and capacity needed to support tenants to manage their households and sustain their tenancies and educate and train new landlords on their roles and responsibilities.
- It will have established links with Council services such as HB Assist team which specialises in helping tenants sustain their tenancies and the home ownership service, H&F Home Buy, which holds a register of over 8,000 people seeking properties to buy and/or rent.

Key Features of the proposed Social Lettings Agency

- 5.9. As a commercial enterprise, the agency will be developed to address certain gaps that currently exist in the rental market particularly concerning ethics and culture of letting agents.
- 5.10. This is particularly important because the lack of statutory regulation of letting agents has given rise to unscrupulous practices in the sector which resulted in a general assumption amongst tenants and landlords and the wider public that estate agents are typically dishonest.
- 5.11. It is therefore crucial to the success of the Social Letting Agency to distinguish itself from the competition through adoption of a strong, clear and impactful mission statement and a robust business and marketing plans to build trust and attract landlords and tenants.

6. THE PRODUCTS

- 6.1. The Council wants to build on the success of the existing Leasing Scheme using the skills and experience of the current team and taking the opportunities from the networks and relationships already established with local landlords. At the same time, should modernise the way property acquisition is carried out and improve on seizing opportunities in a sizable private rented sector that continues to grow.
- 6.2. To augment the progress of the Council's exiting Leasing and Direct Lettings service with new commercial property management services, three separate products will be launched:
- Leasing with Full Management
 - Assured Short-hold Tenancies (ASTs), with Full Management
 - ASTs with Matching Service only

7. ACQUISITION TARGETS

- 7.1. Detailed research into a profile of the current market has been carried out and a snapshot reveals a high number of properties on the market indicating high annual turnover rates.
- 7.2. Analysis was carried out to identify the number of properties that become available in borough each year through Property Website listings. This revealed approximately 10,000 properties became available each year that would fall within a reasonable price range for the Council.
- 7.3. Despite the challenging private rental sector, it is recommended that the Social Lettings Agency set an annual target of procuring 500 properties across its products which is the equivalent of 5% of the properties that become available in borough.
- 7.4. We have therefore outlined in the appendices, the potential income that could be generated by the new products such as the property management and matching service that will compete with private letting agents' offers. Additional products such as inventory checks and, tenancy arrangement/renewals, will supplement this income and further detailed planning is currently being undertaken.
- 7.5. The agency should set up and convene a minimum of two focus group sessions in the first year of operation with tenants and landlords seeking their participation and feedback in designing some of the features of the services on offer.
- 7.6. The agency should aim to obtain exceptional customer satisfaction rating across all services from users and stakeholders to boost the profile and the brand of the agency.
- 7.7. It is recommended that a review of the agency's operations is undertaken in the fourth quarter of the first financial year of full operation to analyse performance. It is expected that efficiencies can be derived from the agency in the future.

LIST OF APPENDICES:

- Appendix 1 – Implications and Risk Management**
- Appendix 2 – Council's Current Property Procurement Operation**
- Appendix 3 – Private Sector Analysis**
- Appendix 4 – Private Letting Agencies**

Appendix 1 – Implications and Risk Management

1. EQUALITY IMPLICATIONS

1.1. There are no equalities issues to be considered in this report.

2. LEGAL IMPLICATIONS

2.1. There are no legal implications arising from the proposed social lettings agency set up.

2.2. *Legal comments added by David Walker Principal Solicitor, 020 7361 2211.*

3. FINANCIAL IMPLICATIONS

3.1. This report recommends using the Council's Local Authority Trading Company to procure housing opportunities (via a Social Lettings Agency) for Hammersmith & Fulham private & social tenants. The trading company will retain responsibility for funding annual deficits should they arise, and will be beneficiary of surpluses generated.

3.2. The award of government funding in 2015/16 which resulted in the existing Housing Property Procurement Service spending to budget suggests an underlying budget under-provision of £200k. If not addressed, General Fund savings to support the under-provision will need to be identified.

3.3. The outlay in addition to existing budgets required by the recommendations in this report is £200k, of which £105k is one-off revenue expenditure and the remaining £95k is recurring revenue spend.

3.4. In order to determine whether the financial investment delivers value for money, a detailed business plan supporting these proposals would be required: this is in the process of being finalised.

3.5. However, as an indication were the Agency to deliver 40 private lettings this would generate £99k in additional income which could then be used to fund the acquisition of 33 units with 2 or 3 bedrooms for social let .

3.6. Evenly split between 2 & 3 beds the additional 33 units would result in annual revenue cost avoidance of approximately £237k - after taking into account the proportion of social tenants in receipt of housing benefit (55%).

3.7. Any such cost avoidance would be contingent on an improved performance in acquiring socially rented units, for which there was an £80k underspend against the dedicated fund in 2015/16. That underspend would, in itself have been sufficient to acquire 26 units with 2 or 3 bedrooms for social letting with associated cost avoidance of approximately £180k.

3.8. *Implications verified/completed by: Paul Gulley, Head of Financial Investment & Strategy, 020 8753 4729*

4. IMPLICATIONS FOR BUSINESS

- 4.1. Establishing a social lettings agency in H&F will increase the competition for properties in the private rented sector.
- 4.2. Given the demand for rented accommodation, the borough can absorb a social lettings agency with limited impact on the commercial lettings sector. Please see Risk 7.
- 4.3. *Comments added by Antonia Hollingsworth, Principle Business Investment Officer 0208 753 1698.*

5. RISK MANAGEMENT & EXIT STRATEGY

- 5.1. Break clauses should be inserted in lease agreements, this provides the Council with the ability to terminate leases in the event that the agency is no longer viable.
- 5.2. The Council can seek to negotiate with letting agents and suppliers to acquire and manage the properties on its behalf.
- 5.3. The Council will vacate properties and return them to the landlords as per the terms of the leases. This is contingent on the Council being able to source alternative accommodation to move the tenants and cover any costs resulting from breaking lease agreements

Risk	Comments	Impact (High / Medium / Low)	Mitigation
<p>1. Changes to Housing Benefit and Local Housing Allowance rates. Reduction of Housing Benefit rates to mirror Local Housing Allowance rates and the advent of Universal Credit</p>	<ul style="list-style-type: none"> • Reduction of benefits will adversely affect benefit claimants and the rents offered to landlords to lease their properties for this client group. • LHA (30th Percentile) rates will remain at the April 2015 levels and frozen from 2016/17 to 2019/20, which will further widen the disparity between the market rents and benefit rates. • Overall Benefit Cap – Non-exempt households will have their total benefits (subsistence benefits e.g. JSA(IB), Income Support, Child Tax Credit, etc. and Housing Benefit) capped to £442.31 per week for couples/single parents and £296.35 for single people in London from November 2016. The larger the family size, the higher the rent shortfall. • Universal Credit (UC) – combining 6 benefits, including housing benefit, into one benefit payment that is awarded direct to the claimant’s bank account in one monthly payment. Tenants are then responsible for passing the UC Housing Cost (replacing Housing Benefit) on to their landlord. 	<ul style="list-style-type: none"> • High 	<ul style="list-style-type: none"> • Regular monitoring of the financial performance of products and take actions such as varying or terminating leases when appropriate. • H&F’s HB Assist service is dedicated team of specialist officers providing welfare reform/benefit assistance, employability support, tenancy sustainment advice, landlord negotiations support, Discretionary Housing Payment (DHP) awards/support and UC online claiming assistance or Alternative Payment Arrangement applications for vulnerable tenants, to mitigate the potential impacts of Universal Credit and Overall Benefit Cap. • Tenant training and robust vetting process – nomination to properties subject to attending private rented sector tenancy induction or awareness training and passing credit checks and affordability assessment

2. Competition with private letting agents	<ul style="list-style-type: none"> • Potential for enhanced offers to landlords. • Improvement to practices in the private rented sector. • Depletion of pool of available properties 	<ul style="list-style-type: none"> • Medium 	<ul style="list-style-type: none"> • Monitor and Review
3. Competition and Resistance from other boroughs	<ul style="list-style-type: none"> • Population shifts to more affordable parts of London. • Increase competition for properties. • Increased choice for tenants • Depletion of pool of available properties 	<ul style="list-style-type: none"> • Low 	<ul style="list-style-type: none"> • Monitor and Review
4. Financial risk to the Council	<ul style="list-style-type: none"> • The agency does not meet the required targets or combination of the other risks renders the proposition not viable • Growth bid in staffing of £95K • Marketing budget of £50k 	<ul style="list-style-type: none"> • Medium 	<ul style="list-style-type: none"> • The Council is able to exit the market and bring the operation back 'in-house'.
5. Reputational risk	<ul style="list-style-type: none"> • The agency performs poorly 	<ul style="list-style-type: none"> • Low 	<ul style="list-style-type: none"> • Robust Marketing and branding plans to be put in place to ensure particular emphasis on customer-focus and business ethics can still have a positive effect on customer and stakeholder satisfaction.
6. Competition from Mayor of London's commitment to establish 'London wide social letting agency' 7. Competition with Private Lettings Agency	<ul style="list-style-type: none"> • Mayoral manifesto commitment • Potential for enhanced offers to landlords • Improvement to practices in the private rented sector • Depletion of pool of available properties 	<ul style="list-style-type: none"> • Low • Medium 	<ul style="list-style-type: none"> • Monitor and Review. Provides opportunity to use a successful H&F model. • Monitor and Review

Implications completed by: . Labab Lubab – Housing Opportunities Manager

Appendix 2 – Council's Current Property Procurement Operation

THE COUNCIL'S CURRENT PROPERTY PROCUREMENT OPERATION

The Council secures homes in the private rented sector through its housing property procurement service. This service operates two main schemes to meet the demand from homeless households, those threatened with homelessness and applicants for social housing who do not qualify for assistance.

The first is a basic matching service similar to the one offered by private letting agents. Through this scheme a person in need of housing and a landlord who has an available and suitable property are 'matched' and placed in a direct relationship with each other. The Council usually pays the landlord an incentive payment in the range of £2,000 for 1 a bedroom property, £3,000 for 2 and 3 bedroom properties and £4,000 for 4 bedroom+ properties. The rent is usually paid by the tenant directly to the landlord and is usually supplemented in part or entirely by LHA/Housing Benefit.

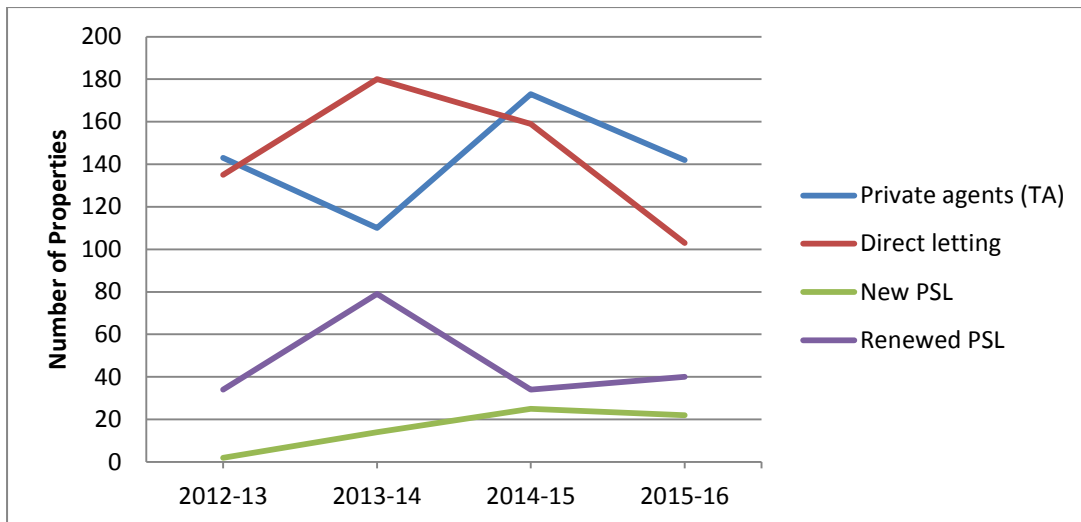
The second is a leasing scheme where properties are leased and managed from landlords for a number of years. The service assumes day to day management of the properties, either directly or through letting agents, and are therefore able to place more than one person in the accommodation during the lease period. The service would pay the landlord an incentive payment (as above) and the rent is collected by the service and paid to the landlord/letting agent. These rents also often paid from, or supplemented by, LHA/Housing Benefit.

The service also procures Bed & Breakfast and Hostel accommodation to assist people in urgent housing need.

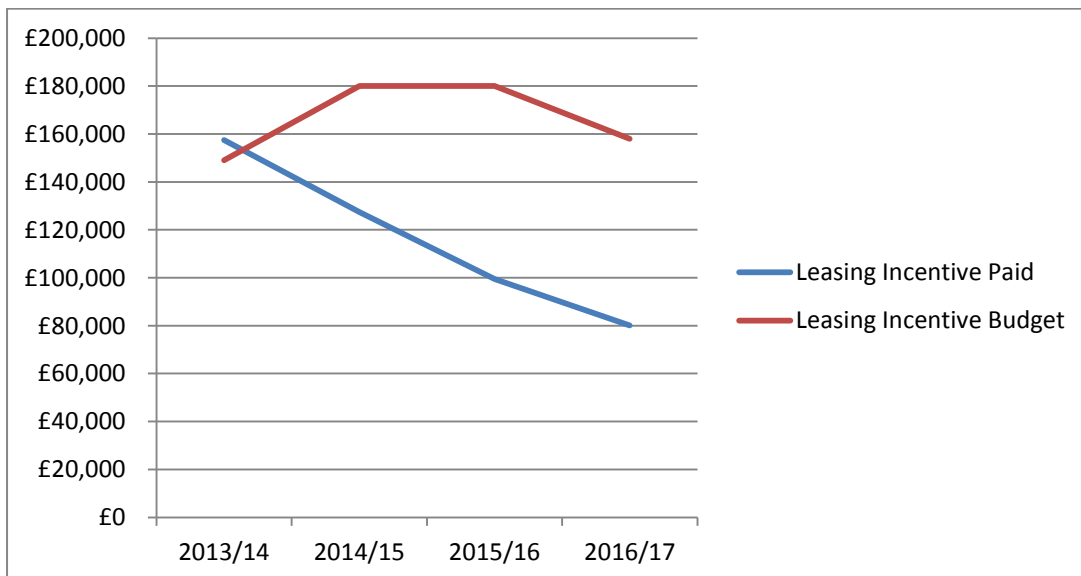
The Council's current Housing Property Procurement service consists of a service manager, six procurement officers and an administrative support officer. Two procurement officers specialise in operating the Council's private leasing scheme. Two specialise in the matching scheme. One officer manages the process of renewing leases and handing back properties at the end of leasing agreements and the sixth is tasked with bed and breakfast/hostel procurement and supporting the other officers.

Trends

The challenges facing the service reflect the market conditions outlined in this report. Generally there is a tangible downward trend in the number of properties being procured through the various schemes. However, there are encouraging signs as the service is improving the retention and renewals of existing leased properties;



The difficulties experienced by the service in procuring properties is further illustrated by the amount underspent in the budget available for incentivising landlords to lease their properties to the Council;



Current Property Portfolio

Housing Property Procurement's portfolio consists of 800 properties; 761 in London and 39 outside of London. Of the 761 London properties, 513 have been secured through letting agents and 248 are leased directly from landlords.

The service's in-borough leased property portfolio consists of 184 properties, 146 leased directly from landlords and 38 are leased through letting agents. Of the 184 properties 35% (65) are leased from Council leaseholders.

The ideal scenario for the Council would be to reverse these numbers. The Council should have more directly leased properties than those secured through agents. Primarily because agents and providers charge a finder's fee for their services and are therefore a significant cost to the Council.

This is common in the sector because it is generally accepted by local authorities that agents who operate across borough boundaries have more detailed knowledge of their markets and much larger landlord databases built over several years.

Interestingly, 59% of the Council's 248 directly leased properties are in Hammersmith and Fulham and of these 60% are two bedroom or larger. This clearly demonstrates that, for the majority of in-borough landlords, the financial package is not the principle motivator when you consider how much they can potentially obtain through private market lets. This is echoed by portfolio landlords interviewed in phase one of the project and who have worked with the Council for over 12 years.

It is therefore reasonable to deduce that the Councils' current operation has been successful in leasing and retaining properties in expensive boroughs and should be able to continue to do so with a more concerted effort in marketing and negotiations.

It is a testament to Housing Options' Property Procurement team's effort that Hammersmith and Fulham can boast to be one of the very few boroughs in the country who do not have any families in Bed and Breakfast accommodation.

The Council must now consider how it will to continue its procurement operations given the prohibitively expensive and highly competitive private rented market. It must also decide on the approach for renewing leases of properties that had started as far back as 2009 when the Council was able to be more competitive with its financial packages in the private rented sector.

Appendix 3 – Private Sector Analysis

PRIVATE SECTOR ANALYSIS

This section summarises research that has been carried out into the private rented sector in Hammersmith and Fulham. It also measures how these market conditions compare with the Council's current schemes to acquire private rented homes to meet the demand for Temporary Accommodation.

Leasing Schemes are the main way the Council acquires private rented accommodation. For many years, the Council has been aware that it cannot offer Lease Fees that can compete with the commercial market prices. More recently, the buoyant and relatively stable Private Rental Market means that landlords can demand uncompromising rental prices across most areas of the borough.

It has therefore become increasingly difficult to provide Temporary Accommodation on a sustainable financial footing because to do so; fees to landlords for leased properties would have to be below the market level, usually at or around rates based on or around the current Local Housing Allowance.

At present, monthly lease fees paid by the Council to landlords of properties within the borough are negotiated between a broad range of between current LHA rates and up to 10% above the rates. These are exceeded from time-to-time and a case-by-case basis.

Research was undertaken to compare these upper Lease Fee rates currently paid set against market rates in the four main postcode areas W12, SW6, W14 and W6.

The analysis shows that the Council is most competitive in W12, achieving the best comparisons on one bedroom properties. Predictably, the findings shows that our Lease Fee offer is least competitive in the W6 postcode area.

In summary the research broadly reveals that:

- The Council's current Lease Fees offered to landlords, range between just 40% of the market rate, up to 90% depending on location.
- W12 is the most viable area to focus acquisition activity across all property sizes this is because rents are lower in this part of the borough. (W6 is least viable
- W14 and SW6 Lease Fees are relatively competitive for one and two bedroom accommodation
- one-bedroom Lease fee is still competitive in W12 and relatively viable in W14 and SW6
- two bedroom Fees remain viable in W12, but W14 and SW6 are becoming uncompetitive
- three and four bedroom accommodation remains marginally viable in W12
- current rates are not viable for three and four bedroom competitive across W6, W14 and SW6.

The research finds that in order for a new Council-run Social Lettings to be genuinely competitive in the current market, while operating within budgetary controls, it needs to combine prudent increases in its lease fees with a shift towards a focus on dynamic sales techniques on its unique range of services and incentives.

Although an increase to Lease Fees is recommended, these need to be moderate because inflated rates will impact on financial plans.

Appendix 4 – Private Letting Agencies

PRIVATE LETTING AGENCIES

The private rented market has seen an increase in the number of private letting agencies in the borough over the past decade.

Currently, there are no specific statutes governing the operation of letting agents. Although, most tend to follow the guidance published by organisations such as the Association of Residential Letting Agents (ARLA)¹ who provide guidance and best practice codes to letting agents and customers.

ARLA's latest guidance (July 2015) promotes best practice in letting and management of the properties and highlights recent changes in legislation particularly the Immigration Act 2014, Consumer Rights Act 2015 and Deregulation Act 2015.

Products & Services

Private letting agents typically offer landlords two main services; a let-only service and full property management service. In some instances, an agency may choose to offer a hybrid of the two products to landlords to provide greater choice as well as increase revenue.

The two typical types of services are compared below;

Service	Full Property Management	Matching Service / Let Only
Market appraisal	Yes	Yes
Comprehensive marketing and promotion of properties	Yes	Yes
Key-holding service	Yes	Yes
Flexible accompanied viewings	Yes	Yes
Negotiation of terms and creation of tenancies	Yes	Yes
Tenant referencing	Yes	Yes
Inventory checks (check-in and check-outs)	Yes	Yes
Registration and management of deposits	Yes	Yes
Negotiation of tenancy renewals & rents	Yes	Yes
Rent collection	Yes	
Provision of EPCs and Gas safety certificate	Yes	
Regular property inspections	Yes	
Tenant liaison (enquiries, maintenance)	Yes	
Emergency service for tenants (24hrs)	Yes	
Regular maintenance reports	Yes	
Co-ordination and management of maintenance works	Yes	
Instruction and payment of contractors	Yes	
Negotiation of deposit release	Yes	
Service of notices	Yes	
Advice on legislation compliance	Yes	
Provision of financial statements (monthly/quarterly)	Yes	

Fees & Charges

There is also no industry standard for the prices agencies choose to charge for their products and services. Our analysis of fees charged by some agents in the borough show that letting agents' prices vary greatly. Letting and management fees start at around 10% (lettings only), but can rise to as much as 18% of the gross rent for the tenancy period.

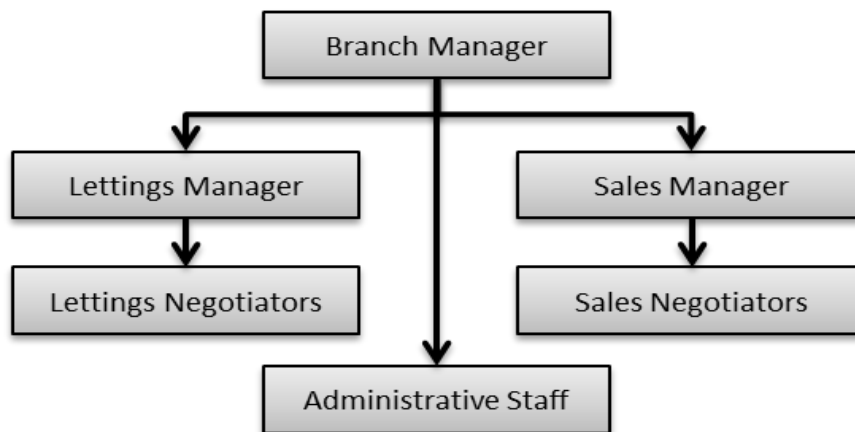
¹ ARLA 'Private Rented Sector Code of Practice' Updated July 2015
http://www.arla.co.uk/media/1043126/private_rented_sector_code-amended_july_2015.pdf

Some smaller agents undercut bigger companies to gain a foothold in the market place, but this is rare. In some instances, it is common practice to charge the landlord and tenant for the same service; e.g. tenancy renewal.

Services	Typical rates in H&F
Full Property Management fee (landlord)	13% - 18%
Let Only service fee (landlord)	10%
Tenancy Arrangement fees (landlord & tenant)	£120 - £210
Inventory Checks - "Check In & Check Out" (landlord & tenant)	£100-£450
References (per tenant)	£25 - £60
Guarantor fee (tenant)	£25 - £60
Tenancy renewal fees (Landlord & Tenant)	£90-£200

Typical Estate Agency structure

The typical estate agency operational structure is illustrated below and almost all the positions are heavily incentivised.



Bigger estate agents hand over management of properties to a central hub that deals with landlord and tenant enquiries, whereas smaller agents deal with these aspects directly.