

<p style="text-align: center;"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p style="text-align: center;"><b>CABINET</b></p> <p style="text-align: center;"><b>7 NOVEMBER 2016</b></p>	
<p><b>CREATION OF H&amp;F SOCIAL LETTINGS AGENCY</b></p>	
<p><b>Report of the Cabinet Member for Housing – Councillor Lisa Homan</b></p>	
<p><b>Open Report</b></p> <p>A separate report on the exempt part of the agenda provides exempt information in connection with this report.</p>	
<p><b>Classification - For Decision</b></p> <p><b>Key Decision: Yes</b></p>	
<p><b>Consultation:</b></p> <p>Housing Department</p>	
<p><b>Wards Affected: ALL</b></p>	
<p><b>Accountable Director:</b> Jo Rowlands - Director for Housing Growth &amp; Strategy</p>	
<p><b>Report Author:</b></p> <p>Labab Lubab – Housing Opportunities Manager</p>	<p><b>Contact Details:</b></p> <p>020 8753 4203  <a href="mailto:labab.lubab@lbhf.gov.uk">labab.lubab@lbhf.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

- 1.1. This report sets out the current conditions in the private rented sector, the operations of private letting agents and the impact of these on the Council's housing property procurement service.
- 1.2. The report sets out recommendations for establishment of a social lettings agency in Hammersmith and Fulham, including the type of products it should offer and the marketing needed to increase its chances of success.

1.3. The report seeks Council approval for the proposed second phase of the project and the expected budgetary requirements thereof.

## **2. RECOMMENDATIONS**

2.1. That the Council establishes a social lettings agency that will co-locate with the existing Housing Property Procurement service.

2.2. To approve expenditure of £200,290 to initiate phase two of the project that will include setting up, recruiting to, marketing and launching the social lettings agency funded from an invest to save bid.

2.3. To delegate to the Cabinet Member for Housing, in consultation with Director of Housing Growth & Strategy and Commercial Director, consideration of the options and the decision to establish the social lettings agency from the Council's Local Authority Trading Company.

2.4. To delegate to the Cabinet Member for Housing, in consultation with Director of Housing Growth & Strategy and Commercial Director, to agree the project plan for phase two and to progress setting up the agency.

## **3. REASONS FOR DECISION**

3.1. Members have expressed interest in developing a Council backed organisation that will provide better access to accommodation in the private rented sector for the purposes of homelessness prevention and to those requiring temporary accommodation. The Agency will work to help vulnerable tenants sustain their tenancies, and reduce the risk for landlords to enable them to let their properties to households in receipt of welfare benefits.

3.2. Through the agency, the Council will aim to compete with private letting agencies in the private rented sector by providing tenant sourcing and letting services at competitive fees and rates.

3.3. This report proposes establishment of a Social Lettings Agency in the Borough which is part of 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'*.

## **4. INTRODUCTION AND BACKGROUND**

4.1. The private rented sector in Hammersmith and Fulham has grown considerably over the last decade. Today, it accounts for approximately 27,500 homes in the borough - roughly a third of all housing.

4.2. The increased demand for homes from tenants and the short supply, contributed to deterioration in housing conditions in parts of the market. Some landlords saw little incentive to improve the standards of their homes because desperate tenants compromised their expectations to try to secure a home.

- 4.3. This booming rental market has also priced many H&F residents and workers out of the borough and adversely affected the Council's ability to use the private rented sector to bridge the gap between the demand for, and the supply of, social housing.
- 4.4. The Council had some success in the past in using private rented sector properties for this purpose. However, changes to Housing Benefit and Local Housing Allowance (LHA) levels have compounded this imbalance. (See **Appendix 1**<sup>1</sup>)
- 4.5. This 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, as demonstrated in the table below;

Year	2012/13	2013/14	2014/15	2015/16
Homeless Acceptances	283	385	444	406

- 4.6. Therefore, the Council has to be more creative than ever to increase its private rented sector property portfolio to meet this demand.
- 4.7. 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.
- 4.8. In November 2015, the Council decided to undertake a range of initiatives and to consult on several proposals including establishing a Social Lettings Agency in the borough.
- 4.9. The proposed Social Lettings Agency features in the Smarter Budgeting programme as part of the Decent Homes outcome and it also strongly links to the Reducing Homelessness outcome.
- 4.10. The agency's core objectives are to source properties and raise the housing standards in the private rented sector. It will also aim to generate income that can reduce the Council's spend on temporary accommodation.
- 4.11. In the future, consideration will be given to expanding the operations of the agency to include sales and acquisitions to compliment the Council's Decent Homes outcome proposal to act as a private landlord.
- 4.12. To establish a successful agency in H&F, we have undertaken;
1. Analysis of the private rented sector (**Appendix 2**<sup>2</sup>)
  2. Several study visits to existing social letting agencies in London (**Appendix 3**<sup>3</sup> contained on the EXEMPT report).
  3. Considered the practices of some of the private letting agents in the borough (**Appendix 4**<sup>4</sup>).

<sup>1</sup> Appendix 1 – Council's Current Property Procurement Operation

<sup>2</sup> Appendix 2 – Private Sector Analysis

<sup>3</sup> Appendix 3 – Study Visits [EXEMPT]

<sup>4</sup> Appendix 4 – Private Letting Agencies

- 4.13. This report considers the proposed establishment of a social lettings agency in the borough to facilitate better access to the private rented sector for people, including those who depend on welfare benefits and those in need of housing more generally.
- 4.14. The Council want 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 relationship already established with local landlords.
- 4.15. At the same time, the Council needs to modernise the way property acquisition is carried out and improve on seizing opportunities with a sizable private rented sector that continues to grow.
- 4.16. To augment the progress of the Council's exiting Leasing and Direct Lets service combined with new commercial property management services, three separate products are proposed (**Appendix 5**<sup>5</sup> contained on the EXEMPT report):
- Leasing with Full Management
  - Assured Short-hold Tenancies (ASTs) with Full Management
  - ASTs with Matching Service only
- 4.17. The report will outline the recommended approach the Council should adopt to give the social lettings agency the best chance of success. The proposed structure of the social lettings agency can be found in **Appendix 6**<sup>6</sup> (contained on the EXEMPT report).

## **5. SOCIAL LETTING AGENCIES (SLAs)**

### **What are Social Letting Agencies**

- 5.1. Social letting Agencies operate in a similar way to high street lettings agents and offer very similar products and services.
- 5.2. Agencies work to find landlords seeking tenants for their properties and match them with appropriate people in need of housing. Agents typically arrange the tenancies and provide a range of services attractive to landlords who have small/medium sized property portfolios.
- 5.3. In exchange for this menu of services, social lettings agencies usually retain a percentage of the rent charged, although this is usually significantly less than private letting agencies.
- 5.4. The fundamental 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.

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<sup>5</sup> Appendix 5 - Social Lettings Agency Products & Services [EXEMPT]

<sup>6</sup> Appendix 6 - SLA Structure and Financial Details [EXEMPT]

5.5. SLAs achieve this in different ways, the most effective of which is having dedicated tenancy sustainment officers who work with tenants and landlords to sustain and renew tenancies. They forge and maintain links with support services for the tenants to ensure they are well-equipped and can cope with the responsibilities of managing a household.

## 6. OPTIONS

6.1. Firstly, the Council can opt to continue with the current housing property procurement operation and allocate the required funding to subsidise rising market rents. However, this is not sustainable in the long term because current projections show that funding available for incentive payments to landlords that currently prop-up LHA-linked rents will be decreased next year.

6.2. It is also important to note that Housing Property Procurement service was able to breakeven in the last financial year following the Department for Communities and Local Government's £200,000 ad-hoc payment from a £5m fund announced in December 2015<sup>7</sup>. This funding however is unlikely to be renewed and cannot be relied upon.

6.3. Secondly, 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. This model has been implemented in several local authorities with varying degrees of success because in effect, it is little more than a re-branding exercise. The initial short-term gain from increased publicity will raise the profile of the service. However, the constraints and challenges highlighted above, will still apply.

6.4. The third option, is the Council establishes a social lettings agency with a new and unique brand that operates as a commercial vehicle from the Council's Local Authority Trading Company. The SLA would continue to be managed within the Housing Options division to maintain links to key services such as temporary accommodation, HB Assist and h&f Home Buy.

6.5. This agency will procure properties for customers in housing need and those threatened with homelessness as does the current housing property procurement service, but it will also procure properties for private tenants seeking rented accommodation more generally; thus competing with private letting agencies in H&F and beyond.

6.6. 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.

6.7. Particular emphasis should be placed on the ethical and responsible approach the agency will operate in H&F to differentiate it from competitors.

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<sup>7</sup> **DCLG Press Release** '*Radical package of measures announced to tackle homelessness*'  
<https://www.gov.uk/government/news/radical-package-of-measures-announced-to-tackle-homelessness>

6.8. This type of set up will require start-up funding from the Council, but it will aim, at a minimum, to subsidise its own activities in the future.

## **7. RECOMMENDATION – CREATION OF H&F SOCIAL LETTING AGENCY**

7.1. This reports recommends the Council creates a social lettings agency with a unique brand that will focus on its ethical and responsible approach in managing properties for landlords as well as providing a transparent support service for tenants.

### **Why Social Lettings Agency**

7.2. 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.

7.3. The SLA will supplement the work with existing partner letting agents as well as invigorate the direct marketing and property procurement efforts of the Council itself.

7.4. 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 through welfare benefit advice and training, employability support and, in some cases, provide discretionary payments to landlords in the event of accumulation of rent arrears.
- Its staff will have strong links to the Council's home ownership service, H&F Home Buy, which holds a register of over 8,000 people seeking properties to buy and/or rent who can be reached quickly and effectively. They include more than 2,700 people in key professions such as teachers, clinical staff, Ministry of Defence personnel and Fire and Rescue services.
- Its staff will have access to considerable knowledge and experience within the Council.

## Key Features of Social Lettings Agency

7.5. 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. We have outlined the marketing proposals and costs in **Appendix 7**<sup>8</sup> (contained on the EXEMPT report).

7.6. 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. An Ipsos-Mori poll published in January 2016 showed that only 25% of those polled trusted an estate agent to tell the truth.<sup>9</sup>

7.7. 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. These should feature;

- Emphasis on the Council's property management expertise as the borough's biggest landlord
- Clear commitments on how the agency will work with landlords and tenants including key undertakings such as being communicative, flexible and empathetic.
- Attractive payment packages such as rent paid in advance, guaranteed rent during void periods and assurances of speedy and efficient rent payments to landlords.
- That it will be responsive and effectively manage eviction processes for leased properties and a guarantee of returning the asset to its owners in a satisfactory condition
- Transparent tenant sourcing and vetting processes and providing information about the tenants who have identified supports needs and provision of on-going tenancy support for vulnerable tenants
- Flexible leasing arrangements to allow portfolio owners the ability refinance their properties with lenders every 3-5 years.

## 8. ACQUISITION TARGETS

8.1. Setting accurate forecasts on the number of properties a new Social Lettings Agency procures and manages will be essential for a successful business model. Realistic targets enable the Council to make practical plans for financial resources and operational arrangements to support the implementation and growth of the service.

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<sup>8</sup> Appendix 7 - Marketing Proposal and Financial details [EXEMPT]

<sup>9</sup> Ipsos MORI Veracity Index 2015: Trust in Professions

<https://www.ipsos-mori.com/researchpublications/researcharchive/3685/Politicians-are-still-trusted-less-than-estate-agents-journalists-and-bankers.aspx>

- 8.2. The current private rented market prices and our proposed Lease Fee will of course be crucial in the success of a Leasing Scheme, but equally, the size of the private rented sector and the number of properties that become available on the market each year is a key factor.
- 8.3. 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.
- 8.4. Analysis was carried out to identify the number of properties that become available through Property Website listings each year. The research excluded all premium properties with rents above the Council's reasonable price range to reveal that approximately 10,000 private rented properties become available to rent in Hammersmith and Fulham each year.
- 8.5. 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.
- 8.6. The current Housing property procurement function operates within the budget set for Housing Options. We have therefore outlined the potential income that can be generated by the new function of the social lettings agency. This is the property management and matching service that will compete with private letting agents' offers.
- 8.7. In **Appendix 8**<sup>10</sup> (contained on the EXEMPT report), we have identified the key markets and potential income generation streams. We also used average rent values to determine the potential gross income from rental streams alone in three scenarios;
- Business plan 1 (baseline) – In-borough Leasing, Property management and matching products
  - Business plan 2 – In-borough Leasing and focusing Property management and matching to the most expensive area in the borough (W6)
  - Business plan 3 – Out-of-borough Leasing and in-borough Property management and matching products.
- 8.8. Additional products for the property management and matching service, such as inventory checks and, tenancy arrangement/renewals, will supplement this income and detailed planning is currently being undertaken.
- 8.9. 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.
- 8.10. 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.

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<sup>10</sup> Appendix 8 - Key Markets, Income Generation & Business Plans [EXEMPT]



8.11. 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.

## **9. LEGAL IMPLICATIONS**

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

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

## **10. FINANCIAL AND RESOURCES IMPLICATIONS**

10.1. 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.

10.2. 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.

10.3. 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.

10.4. 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.

10.5. The assumptions inherent within the business plan (specifically capacity and pricing) should be stress-tested to determine the tolerances within which the proposals remain sensible.

10.6. However, as an indication were the Agency to deliver 40 private lettings (as indicated in Appendix 5 contained on the EXEMPT report) 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 .

10.7. Evenly split between 2 & 3 beds (and using the average subsidy requirements outlined in Appendix 8 contained on the EXEMPT report), 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%).

10.8. This would be repeated for each additional 40 private lettings converted into 33 social lettings, so long as the placed tenants remain with their chosen landlord.

10.9. 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.

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

## **11. IMPLICATIONS FOR BUSINESS**

11.1. Establishing a social lettings agency in H&F will increase the competition for properties in the private rented sector.

11.2. 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**.

11.3. *Comments added by Antonia Hollingsworth, Principle Business Investment Officer 0208 753 1698.*

## **12. RISK MANAGEMENT & EXIT STRATEGY**

12.1. 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.

12.2. The Council can seek to negotiate with letting agents and suppliers to acquire and manage the properties on its behalf.

12.3. 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"> <li>• Reduction of benefits will adversely affect benefit claimants and the rents offered to landlords to lease their properties for this client group.</li> <li>• LHA (30<sup>th</sup> 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>High</b></li> </ul>	<ul style="list-style-type: none"> <li>• Regular monitoring of the financial performance of products and take actions such as varying or terminating leases when appropriate.</li> <li>• H&amp;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.</li> <li>• 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</li> </ul>

2. Competition with private letting agents	<ul style="list-style-type: none"> <li>• Potential for enhanced offers to landlords.</li> <li>• Improvement to practices in the private rented sector.</li> <li>• Depletion of pool of available properties</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Medium</b></li> </ul>	<ul style="list-style-type: none"> <li>• Monitor and Review</li> </ul>
3. Competition and Resistance from other boroughs	<ul style="list-style-type: none"> <li>• Population shifts to more affordable parts of London.</li> <li>• Increased competition for properties.</li> <li>• Increased choice for tenants</li> <li>• Depletion of pool of available properties</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Low</b></li> </ul>	<ul style="list-style-type: none"> <li>• Monitor and Review</li> </ul>
4. Financial risk to the Council	<ul style="list-style-type: none"> <li>• The agency does not meet the required targets or combination of the other risks renders the proposition not viable</li> <li>• Growth bid in staffing of £95K</li> <li>• Marketing budget of £50k</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Medium</b></li> </ul>	<ul style="list-style-type: none"> <li>• The Council is able to exit the market and bring the operation back 'in-house'.</li> </ul>
5. Reputational risk	<ul style="list-style-type: none"> <li>• The agency performs poorly</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Low</b></li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
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"> <li>• Mayoral manifesto commitment</li> <li>• Potential for enhanced offers to landlords</li> <li>• Improvement to practices in the private rented sector</li> <li>• Depletion of pool of available properties</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Low</b></li> <li>• <b>Medium</b></li> </ul>	<ul style="list-style-type: none"> <li>• Monitor and Review. Provides opportunity to use a successful H&amp;F model.</li> <li>• Monitor and Review</li> </ul>

Implications completed by: Labab Lubab – Housing Opportunities Manager, Ext: 4203.

**LOCAL GOVERNMENT ACT 2000**  
**LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None.		

**LIST OF APPENDICES:**

**Appendix 1 – Council’s Current Property Procurement Operation**

**Appendix 2 – Private Sector Analysis**

**Appendix 3 – Study Visits [contained on the EXEMPT report]**

**Appendix 4 – Private Letting Agencies**

**Appendix 5 – Social Lettings Agency Products & Services [contained on the EXEMPT report]**

**Appendix 6 – Social Letting Agency Structure and Financial Details [contained on the EXEMPT report]**

**Appendix 7 – Marketing Proposal and Financial details [contained on the EXEMPT report]**

**Appendix 8 – Key Markets & Income Generation [contained on the EXEMPT report]**

## **Appendix 1 – 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.

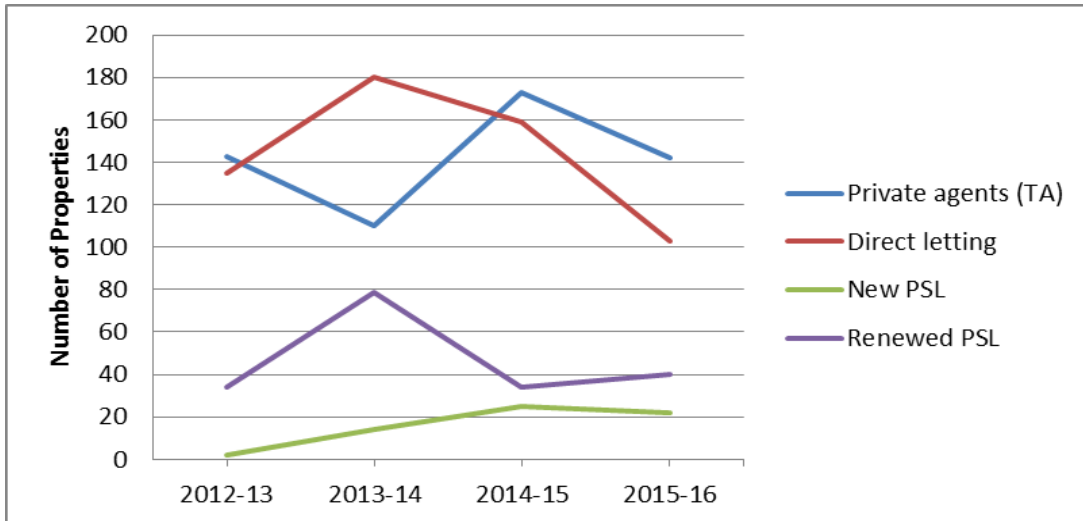
The second is a leasing scheme where properties are leased and managed from landlords for a number of years. The service assumes day to day management of the properties, either directly or through letting agents, and are therefore able to place more than one person in the accommodation during the lease 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.

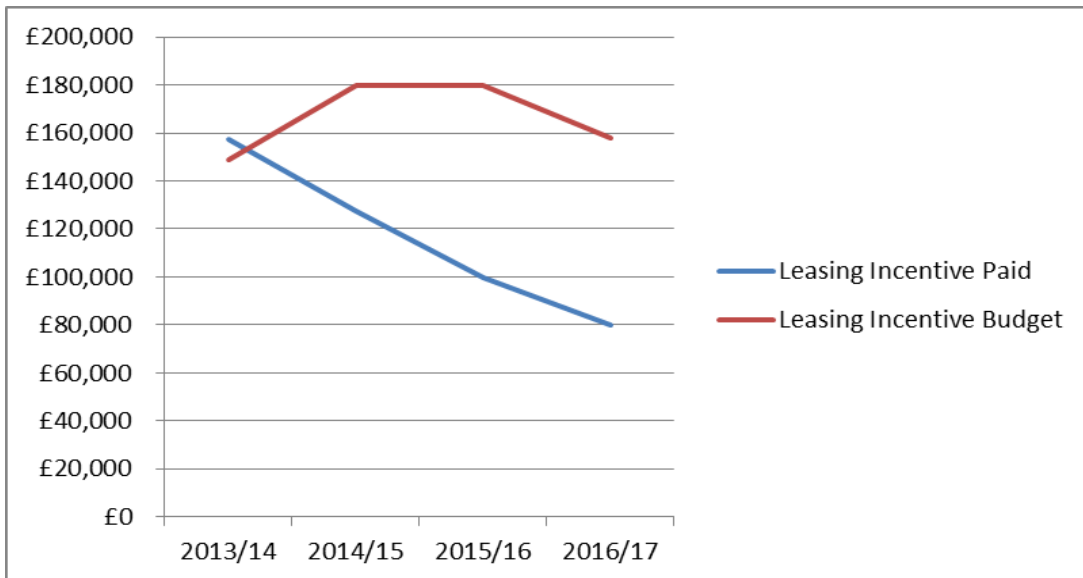
The Council's current Housing Property Procurement service consists of a service manager, six procurement officers and an administrative support officer. Two procurement officers specialise in operating the Council's private leasing scheme. Two specialise in the matching scheme. One officer manages the 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 2 – 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)<sup>11</sup> 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

<sup>11</sup> 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](http://www.arla.co.uk/media/1043126/private_rented_sector_code-amended_july_2015.pdf)

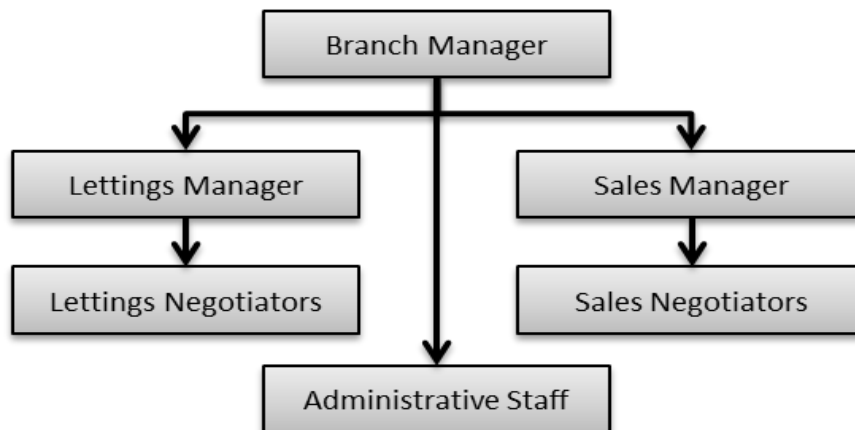
that letting agents' prices vary greatly. Letting and management fees start at around 10% (lettings only), but can rise to as much as 18% of the gross rent for the tenancy period.

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.