

The Council commissioned a feasibility study leading to a Business Report on the prospects of setting up a Lettings Agency in the PRS - Private Rented Sector - operating as an independent commercial entity.

This Executive summary highlights the key issues as set out in the full version of the Business Report.

The case is made for a potential “Harrow Lettings Agency” being formed, independent of the Council, and expected in time to generate a financial return to the Council through a declared dividend. This can be accepted as income to the Council – supporting the council’s broader objectives in the borough.

## ***Making the Case – key points***

- ❖ ***Data trends show the PRS growing in Harrow, London and in England. This may claim to be a historic shift in housing tenure.***

- ❖ ***It is the only housing tenure choice for a new generation many of whom – certainly in London - are unlikely to be able to move from the PRS.***
- ❖ ***London Councils recognise the PRS as the main source of new housing supply in their local areas.***
- ❖ ***For a relatively small investment of about £200k the Council could set up a business in the commercial PRS sector working with 2-3 staff.***
- ❖ ***That can be an ethical and profitable business in the PRS – adopting best practice but adding other core values.***
- ❖ ***This overall proposal fits within the commercialisation agenda of the Council.***
- ❖ ***If adopted, it could position the Council well for further expansion of the PRS in Harrow and in North and West London.***

## ***Summary of core details***

The market growth of the PRS is evidenced in the tenure data for Harrow, London, and England. Trends in tenure and housing supply have made a historic shift and the PRS as a tenure will continue to be the choice or the only option for a range of households. More detailed information is contained in Chapter 4 of the main report.

All London Councils, and many in England, face increasing pressures in meeting housing need and homelessness. As the supply of social housing has reduced in recent years, most Councils have sought to build relationships with private Landlords to access the PRS as a source of housing supply and to a certain extent this has been successful.

But there are limits to this growth within a very competitive PRS and it makes some sense to consider a next step – trading from a commercial position within the PRS. The logic on this is set out in chapter 5 in the main report.

The financial case is based on a prudent financial model – set out in greater detail in chapter 7.

The business model sets out a strong opportunity to break even at the end of year 1 trading leading to surpluses in succeeding years that can be taken as a dividend or be used within the business to further the Council's housing objectives.

The Business Plan is also predicated on three property strands and to some extent that diversified portfolio reduces the risk elements of the new business.

The PRS attracts good and poor publicity – often in equal measure. There are some examples of very poor and in some cases dangerous housing conditions, with some instances of a housing product at the margins of criminality. But there is a strong case to be made for a vibrant PRS with excellent practice that is well managed for Landlords and Tenants.

There should be recognition of the significant contribution by all parts of the PRS –

including Landlords; sector-wide national agencies; Agents - in raising sector standards and promoting an improved business profile.

Equally, central government as well as local and regional government have sought to build a consensus on best practice and tackled sector elements that feature very poor practice – often at high cost to tenants and the image of the sector.

Chapter 6 of the main report sets out all these issues.

Lettings Agents have faced some criticism for business practice that is often adopted towards Landlords and Tenants.

The evidence in Harrow from our work with Landlords is there is room in the sector for a new business relationship that recognises a fresh approach based on sound business ethics for Landlords and Tenants – within an “offer” to Landlords that is competitive.

The other parts of the main report contribute to this historic next step for Harrow to set up a Company that can

operate *within* the PRS – being commercial, generating a financial return but contributing to an improving PRS, offering an ethical business practice for Landlords and Tenants.

## ***Project Management – key issues***

From February 2015 a project has been managed by a ‘Harrow Lettings Agency Project Board’, chaired by the Cabinet Member for Housing, with key senior officers plus an independent consultant from March 2015, to work specifically on the feasibility assessment and the arising business report.

The business report has been delivered within a project management environment that has encompassed:

- ✓ A project plan to deliver the Feasibility Assessment and subsequent Business Report
- ✓ A Risk Map and risk register
- ✓ An agreed set of Deliverables for the Feasibility and the Business report
- ✓ Financial projections and financial modeling
- ✓ Review of the Private Rented sector

- ✓ Assessment of a competitive position to trade in the sector
- ✓ A survey of Harrow landlords and forms of engagement with Landlords
- ✓ Contact with the National Landlord agencies representing the sector
- ✓ Legal advice on company formation and the requirements to trade in the sector
- ✓ A sense of required best practice
- ✓ A review of the impact on equalities through the feasibility and potential ability to trade via a commercial company
- ✓ Any impact on the Council's current activities vis-à-vis the private rented sector and engagement with landlords through the Help2Let scheme
- ✓ IT and data considerations in line with a business start up
- ✓ Key operational factors in setting up a potential business that would be able to compete in the market and be recognised as an ethical, high performing and model business practice in the sector

The Project Manager has concluded that he can recommend a Business Report that justifies the setting up of a Limited Company that can operate as a commercial entity in the private sector lettings market primarily in Harrow but also in other areas outside of the borough where lettings opportunities are gained.

Setting up a "Harrow Lettings Agency" at this juncture as a commercial concern follows the established market trends in housing supply but it also positions the new lettings company to access areas of housing intensification in Harrow and west London that are coming on stream over the next 3-10 years.

In recommending this position to the Project Board some key questions have been considered and these are highlighted in this Executive Summary.

### *Key questions to consider*

- Is this a proper and legal use of powers available to the Council?

- Is the proposal in line with emerging best practice towards the private rented sector?
- Have the Risks been fully assessed and sufficiently considered within the recommendations?
- Can the allocation of start up funding be justified and allocated for the proposed business venture?
- Is there a strong element of "Invest to Save" in any proposals generated from the project?
- Will there be a positive impact on meeting housing need in Harrow and containing the growing Homelessness costs?
- Are the proposed operational arrangements right for the business?
- Is the timeline to start the business realistic within the proposals?

- Does this proposal contain the required synergy and strategic fit within the Council's overarching agenda?

## *Choice in Housing*

Housing options for many people have become very difficult and for some –are a burden on their lives. Much has been written about the housing market and the pressures that are evident in London and the south-east of England.



Firstly, it is clear that access is being restricted to the owner occupied sector through restrictions on gaining mortgage

finance and in meeting higher property values.

Secondly, the social housing sector has huge and unmet demand with lower levels of new supply compared to previous years and resurgence of RTB.

In that scenario, the private rented sector in England has grown significantly to the point that it contains more homes than the social housing sector – a historic tipping point in supply and housing choice in England back towards the 1950's.

Achieving a working synergy with the private rented sector is well set out in Harrow's Housing Strategy and Private Sector Housing Strategy.

The Council already recognises the importance of the private rented sector as a supply of housing in the borough noting the constraints on the supply of social housing and the financial barriers in people accessing the current owner occupied sector.

The dominance of the PRS, according to industry experts and available data, is unlikely to change in the next 5-10 years although severe housing market fluctuations should never be ruled out.

The position of London as a world-class city is likely to continue the trend of foreign investment capital in new housing making properties unaffordable to many seeking to buy. This has been one important and salient factor in the consequent expansion of the PRS in the capital.

Harrow has an excellent track record of working with Landlords to source properties in the PRS to offer a package of measures for homes to be let at LHA rates – as demonstrated by the current Help2Let scheme.

This will continue but the growth in property values and demand means that the gap between LHA rates and the commercial rent yield is growing – meaning that the Help2Let scheme is being forced to look at landlord options outside of Harrow and has a current focus in Birmingham.

There is an opportunity to merge the Help2Let function with the proposals for setting up a Harrow Lettings Agency and this is discussed in greater detail in the report.

### ***Additional Key Findings from the feasibility assessment and reported in the Business report***

Legally – there is no impediment to the Council making the decision to set up a private Company for the purpose of trading as a Lettings agent. The most readily adoptable form would be a company limited by shares, which would be wholly owned by the council.

As noted above, trends from available data suggest that the PRS is on course for a fundamental tenure shift in England. The PRS is becoming the dominant tenure - for young people and newly forming households. This is as a result of choice or necessity.

In Harrow, as an outer London Borough, with a relatively small social housing sector, the tenure shift towards the PRS is noted in the

Housing Strategy and Private Sector Housing Strategy – following the national data trends.

Other factors including population increase, the constriction of available mortgage finance, and the changing nature of social housing supply means that this overall data trend is likely to continue.

Of course, there are a number of housing markets in England but the position of Harrow as an outer London borough means that it must look to the demand/supply dynamics in London as being a crucial factor.

Setting up a Harrow Lettings Agency in the commercial lettings sector would be viewed as a groundbreaking development by a London local authority.

Many London local authorities are at the point of a “Help2Let” model of various hues in seeking greater access to private Landlords to gain supply in the PRS through various incentives – reducing homelessness and meeting housing need.

But for Harrow, with established practice in this sector, it is clear that the Help2Let model is going against the grain of market forces and will increasingly struggle to gain a supply of homes in the PRS in Harrow and surrounding areas at LHA levels. This is leading to boroughs entering “bidding war” which is ultimately counter productive.

At this point, there is a question of how to move forward in securing a stronger position in the PRS taking account of the commercial and market forces plus the trends in supply that are the critical factors.

The feasibility assessment has considered that there is room in the market place for a Lettings Agent that does have a well-considered and attractive market offer to Landlords.

It makes a great deal of sense to build on the experience of Help2Let and the positive working experiences that have been gained. This will have to mesh the opportunities to meet housing need but also offer a commercial service to Landlords and Tenants.

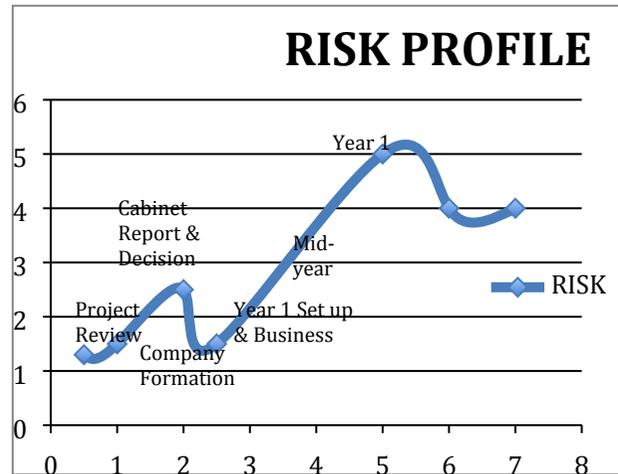
A Business start up will require working capital before a working profit return can be generated. This is fundamentally linked to the risk appetite of the Council in assessing this business proposal.

Operationally, the Project team has agreed that the business venture needs to start from the position of:

- a retail shop front service based in central Harrow
- a website that reflects a leading edge point in the sector
- strong sense of publicity, communications and branding
- compatibility in the business operations of Help2Let and a proposed Harrow Lettings Agency



## Finance and Risk



Finance and Risk are key elements of this business proposal. The Risk profile will only level off once the business starts to trade and generates a return by the end of year 1 – underpinned by a Year 1 Business Plan.

Although the risk factors are highest in year 1 – there are significant opportunities past that year as LB Harrow’s own PRS investment comes on stream and PRS opportunities are made available in Harrow and west London generally (Housing Zone and Intensification

areas) but particularly in housing intensification areas e.g. Old Oak common.

The Feasibility has concluded that success of the business will be enhanced if the company embraces the private sector culture and mentality. That will have an impact on recruitment; the staffing structure; pay and reward in the Company.

Harrow has an option to be part of that market.

## Our selling point



## *Conclusion to Executive Summary*

A “Harrow Lettings Agency” can be a force for good in the sector aligning with the best in class and moving with the sector and national agencies that are doing so much to promote the sector and drive up standards.

An Agency operating in the commercial sector could merge the requirements of meeting housing need through the PRS as well as providing a housing product that generates a financial return to the Agency.

There is some sense that the dynamics of the PRS market should be considered as a whole and that the Council – through a commercial Lettings Agency – would be better placed to engage and recruit Landlords for a more complete range of lettings in the sector.

A new Agency in the sector could set it’s own path of ethical lettings that are consistent with generating a healthy rate of return – maximising opportunities for landlords and delivering a fair and cost effective lettings service to tenants backed by excellent standards in customer care.

There is much discussion on the notion of “generation rent” and what that means for the private rented sector.

In that setting, there is an opportunity to influence that agenda and be placed at a leading edge of better practice e.g. a fairer deal for tenants in terms of fees; more security of tenure in the PRS through longer tenancies; a fairer deal for Landlords.

Lettings in the PRS are here to stay and seem set to grow more as a housing tenure – they may be for life as a voluntary option of housing – as is the choice of tenure in other European countries.



There are strong supply side factors in reaching towards the notion of a “Harrow

Lettings Agency” operating in the commercial PRS – meeting housing need but also generating profit that can be re-invested back into the Council and the wider requirements of housing in the borough.

Of course, this overall proposal has to balance risk and reward and be based on a market assessment with evidential factors that justify the risk.

In summary, Harrow has a historic choice to gain a place in the PRS market – becoming a key player and a model of excellent practice in the sector in Harrow with the potential to grow in other areas e.g. in north and west London.

If the Project Board believes that there is merit in this overall approach - the recommendations from the Business report may open up a path to re-align Harrow’s influence in the PRS towards a new and more influential position from inside the sector.

