

CABINET
1st March 2015

SOLICITOR TO THE COUNCIL
EXEMPT REPORT NO. LEG1602

NO. 12 ARTHUR STREET, ALDERSHOT - UPDATE

PURPOSE

The purpose of this report is to update on the progress of the project to convert 12 Arthur Street and to seek approval for funding to undertake the conversion works.

BACKGROUND

On the 1st September 2015 cabinet approved a proposal for the conversion of 12 Arthur Street, the former Relate premises, to 3 residential flats. The Solicitor to the Council was given authority to submit a planning application and to go to tender for the conversion works. A small budget of £8000 was given to enable the architect working on the scheme to draw up schematic plans to show the feasibility of the conversion. These plans have been prepared and show a scheme for 2 x 2bed flats and 1 x1 bed flat.

Planning

It has been established that planning permission is required as the Relate offices were used for counselling purposes and thus the conversion will be change of use from D1 (non-residential institution) to C3 (dwelling houses). Initial meetings with the planning management service has indicated that planning permission will be recommended subject to SPA contributions and parking being provided in accordance with standards. It is proposed to provide one parking place on the frontage and it is thought that two places will need to be provided off site rather than on street with residential parking permits.

Conversion Works

The previous Cabinet Report outlined a draft budget for limited conversion works at £90,000. However, further inspection by the architect has shown that a complete overhaul of the electrics, plumbing and heating is required for the conversion works to take place, as well as the reconfigurations of several rooms and reconstruction of several walls that are not up to the required standards for residential. The services are in a poor state of repair, and since this is a residential development all risks should be eliminated as far as possible. The works have not yet been tendered but an indicative figure of £260,000 has been given.

The value of the flats as converted in the previous Cabinet Report were given as between £140,000 and £150,000. Having had plans prepared and being able to create 2 two beds flats and 1 one bed flat, the revised values are £215,000 for a 2 bed flat and £175,000 for the one bed flat thus the increased costs of the conversion works (up to £170,000 more subject to tender) is likely to be met by the increased in value from between the previously given £420,000- £450,000 to £605,000.

Returns for each option

The Cabinet previously made no decision whether the converted flats should be sold or rented but deferred the decision to the Solicitor to the Council in consultation with the Cabinet Member for Corporate Services so that the decision could be taken when further works had progressed towards the establishment of a housing company to overcome the trading issue and any HRA / Right to Buy issues. Work has now been commissioned from Arlington Close looking at their recommended company structure and officers will be considering the report received. It is proposed that no decision be taken as to whether to sell the conversion or rent the flats until the works have been completed but this report updates the projected returns for both options.

The cost of converting the ground and 1st floor offices into 2x 2 bedroom flats, and refurbishing the 2nd and 3rd floor 1 bedroom duplex would require a budget of £260,000- see Table 3 below

Conversion with rental

Table 2 below shows that 12 Arthur Street can be expected to achieve a total income of £28,000 per annum as per the attached table. This will result in a potential rate of return of 9.4% upon the capital required for the conversion. This is a much higher rate of return than is expected in the current market conditions.

Conversion and Disposal

This involves undertaking the works and disposing of the flats.

The method to generate the highest capital receipt would be to dispose of the long leaseholds of the apartments with a ground rent of £150 P.A per apartment and then the remaining freehold. Based on the current market RBC would expect a capital receipt of £550,000, including agent fees.

This would result in a profit in the region of £280,000.

Table 1 below shows the Market Value of the premises once all the conversion work has been completed.

Market Value	
Based on the comparable properties available	
Assuming Long Leasehold	
Section	Market Value
1 Bed Duplex	£175,000
2 Bed Flat	£215,000
2 Bed Flat	£215,000
TOTAL	£605,000
Market Value of remaining freehold of 12 Arthur Street Assuming Long Leaseholds are on a ground rent of £150 p.a Using an All Risk Yield of 5% £9,000 Total Market Value assuming complete disposal:	
£614,000	

Table 2 shows the market rent that can be achieved through privately renting the flats at 12 Arthur Street following conversion

Market Rent	
Based on the comparables available (see Market Rent tab).	
Section	Market Rent
1 Bed Duplex	£8,340
2 Bed Flat	£10,200
2 Bed Flat	£10,200
TOTAL	£28,740

Table 3 shows the estimated total construction works that is required to bring the premises to an acceptable residential standard.

Construction & Refurbishment Costs	
Works Required	Cost
Preliminary conversion costs:	£96,250
Part E budget costs:	£30,000
Rewire	£15,000
Adjust plumbing:	£15,000
kitchens and bathroom	£36,000
Adjust utility meters:	£15,000
TOTAL	£207,250
Plus 10% fees 15% Contingency	£51,812
SAY	£260,000

Table 4 is the viability assessment of both options

Viability Assessment	
Disposal:	
Market Value	£614,000
Minus 10% Agent Fees	£61,400
SPA Contribution	£10,672
Conversion Cost	£260,000
DEVELOPER'S PROFIT	£281,928
PERCENTAGE	46%
Private Rented Scheme:	
Market Rent	£28,740
Minus 15% Agent Fees	£4311
Conversion Cost	£260,000
RATE OF RETURN	9.40%

The rental option will have a payback period at this rate of return in 9 years once fully let.

RECOMMENDATION

That Cabinet

- Approve a variation to the Capital Works programme of £260,000 to allow for the conversion works to be tendered and the build contract awarded.
- Delegate authority to the Head of Financial Services, in consultation with the Cabinet Member for Corporate Services, to approve an increase in the Capital Works Programme, subject to the scheme delivering a rate of return of at least 7%, should the tender process exceed £260,000