

Appendix 4 - Exit Strategy

1. Introduction

An external market appraisal was commissioned for the Starboard Way scheme to obtain expert advice on the marketability of Shared Ownership homes. (Confidential appendix 3.) The information in the market appraisal has shaped the recommended exit strategy.

The market appraisal advice with regards to the 4 bed houses is that *“historically, although 4-bedroom shared ownership homes have not had very strong demand, there has been a historical need for small numbers of such units.”* The advice does however say that *“potential purchasers may wish to buy a 4 bedroom to convert one into a home office with the trend of ‘home working’ being accelerated due to the COVID pandemic.”*

The advice received states that Southampton City Council should consider offering just four of the 9 x 4 bed properties for Shared Ownership.

The council would not want homes to be marketed for Shared Ownership when sales demand is not sustainable. The homes could instead be targeted for rent, to people on the housing waiting list. This appendix details an exit strategy which should allow reversion to rented tenure in the event of inadequate shared ownership sales demand.

Provided that risk management is implemented in line with the recommended exit strategy and that final tenure designation decisions can be made swiftly according to dynamic circumstances, void risk will be mitigated. This should mean that properties being marketed for Shared Ownership and which do not elicit qualified sales demand, can be instead let as rented homes to people on the council’s housing register.

2. Exit Strategy

The exit strategy is detailed below in three sections relating to the different house/flat types.

2.1 4 bed Shared Ownership houses

Initially market 4 of the 9 x 4 bed homes for Shared Ownership (plots 67–70)

- If no interest from prospective purchasers who are assessed to be viable after 6 weeks of marketing:
 - take all 4 properties (plots 67–70) off the market
 - allocate all 9 properties as Social Rent. (plots 67–70 & 71-75)

- If interest only from 1 or 2 prospective purchasers who are assessed to be viable after 6 weeks of marketing:
 - take 2 properties (within plots 67–70) off the market
 - allocate 7 properties as Social Rent.
- If interest from 3 or 4 prospective purchasers who are assessed to be viable after 6 weeks of marketing and at least 2 deposits have been taken:
 - obtain updated sales advice on the prospect of viable customers for the remaining batch of 5 properties (plots 71-75). (Demand for other properties might be exhausted despite the interest to date)
 - if advice is positive, release properties (plots 71-75) one by one incrementally for marketing to meet the predicted demand
 - however, prior to the first releases for marketing of plots 71-75 ensure that at least 2 properties (within plots 67–70) are sold and deposits are secured for the other 2 plots
 - prior to any further releases for marketing of plots 71-75 all but one of the preceding property releases should have deposits secured against them
- If any property has been marketed for 3 months and a sale has not been achieved nor a deposit taken for it
 - take the property off the market
 - allocate it as Social Rent.

2.2 3 bed Shared Ownership houses

These are the original 19 x 3 bed houses approved Shared Ownership tenure in January 2021. (Plots 48-66.) Marketing advice is currently positive.

Initially market all 19.

- If a deposit has not been taken on any individual property which has been marketed for 5 months:
 - take the property off the market
 - allocate the property as Affordable Rent.

2.3 1 and 2 bed Shared Ownership flats

These comprise a single 1 bed and two 2 bed flats on each of the 3 floors of apartment Block C: 9 homes. (Plots 39-47). All flats share a common entrance core.

It is uncommon within the sector for rented tenures and sale tenures to share a common entrance core.

An exit strategy for poor sales does not form part of the recommendations.

3. Shared Ownership fit-out specification

In the Registered Provider sector, Shared Ownership homes often have upgrades specified in respect of certain elements of internal fit-out. Usually, these upgrades are confined to kitchens, bathrooms and floor coverings more generally.

Upgrades already specified for the 19 No. 3 bed Shared Ownership homes approved for this tenure in January 2021 include:

- Built in ovens and hobs and extractor hoods
- Kitchen spotlights
- Glass shower screens
- Soft close toilet seats
- Carpets

At the current stage of construction, specification of all the above upgrade items to the newly designated Shared Ownership homes would incur abortive costs and delays. Primarily this is due to changes to kitchen unit layouts to incorporate built-in appliances and electrical wiring.

To avoid any significant abortive costs or delays it is proposed that freestanding cookers be provided instead of built-in appliances for the additional Shared Ownership homes. Shower screens, soft close toilet seats and carpets are still recommended. This is an adaptation to the existing principles of specification upgrades.

The recommended exit strategy involving delivery of rental units instead of additional Shared Ownership homes in the event of inadequate sales demand, could present significant complexities to internal fit-out. However, by adopting the above upgrade fit-out specification principle, a pragmatic approach to the exit strategy can be made.

This proposal is that upgrades specified for the additional Shared Ownership homes be confined to:

- Freestanding ovens
- Glass shower screens
- Soft close toilet seats
- Carpets