

**REPORT OF**    **Head of Communities and Place**

**To:**                **Community and Resources Committee**

**Subject:**        **4/5 Hubbastone Road conversion for hostel accommodation**

**Date:**            **25<sup>th</sup> July 2022**

**Reference:**

<b>PURPOSE OF REPORT:</b> To consider the conversion of the offices at 4/5 Hubbastone Road into hostel accommodation
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## **1. INTRODUCTION**

TDC own the freehold of these two office properties (built as houses) that sit at the entrance to the Fish Dock at Appledore. No 4 is part occupied by 2 office tenants producing a rental income of £2,356 per annum and No 5 is currently empty.

Planning was obtained for No 5 in February 2021 for change of use from offices (Class E) to hostel accommodation due to the interest from Harland & Wolff in utilising the building for their own hostel type accommodation.

Conversion of 4/5 Hubbastone Road into hostel accommodation offers the opportunity to provide an 8 bed hostel.

## **2. REPORT**

TDC is spending a disproportionate amount of revenue on temporary accommodation, the projected expenditure for 2022/23 being circa £1m. Given current residential property market conditions and the attraction of the area for second home owners and investors using properties as holiday lets and AirBnB lets, suitable properties for hostel accommodation are extremely difficult to come by on the open market. This has led to the consideration of alternative properties and in particular office properties that are suitable for conversion to hostel use both inside and outside the Council's property portfolio. 4/5 Hubbastone Road is such a property that sits within the Council's portfolio.

5 Hubbastone Road has been vacant since September 2020. There has been no interest from potential office tenants for the vacant space at Nos 4 and 5. No 5 in particular is now in poor condition, suffering from damp and would need significant capital spending on it to bring it up to a lettable standard and compliance with the latest building regulations. TDC estimates put this figure in the region of £150,000. Given that, if fully let, the rental income would only be in the region of £12,000pa combined with the inevitable void period prior to any letting, there is no justification for this spend.

Discussions have taken place on and off with Harland & Wolff since 2020 however, despite encouragement to do so, they have not submitted a proposal and therefore it has not been possible to issue Heads of Terms or progress this interest. It was on the basis of their original interest in No 5 that TDC submitted the application for change of use to hostel accommodation.

In June 2022 the decision was made by SMT to inform Harland & Wolff that TDC was now looking at using 4/5 Hubbastone Road for its own hostel accommodation so was ending discussions over use of the property by Harland & Wolff.



Discussions have been held with H&W and we intend to investigate, with them, the possibilities of delivering some dormitory accommodation on their site, subject to achieving the necessary consents. The Council will be as facilitative as possible to meet the business requirements and help the company thrive.

Although predominantly an industrial area, there are a handful of other residential properties in the immediate vicinity and both local buses and the facilities of Appledore are within a 10 minute walk so the location is suitable for hostel accommodation.

As shown in the figures below in Financial Implications, significant capital will be required to carry out the conversion costs. Recent changes to Building Regulations have imposed extra thermal efficiency requirements and hence extra costs however the benefit will be a more sustainable building.

Capital funding will come from different sources – Finance report that there is £226K in the Housing Capital Budget and £146K in a housing reserve that was originally set aside for additional housing options team staffing (who are now recurrently funded) and hence is spare. Grant funding is also currently being explored.

The Finance modelling shows the conversion of these properties into hostels is self-financing, i.e. the capital costs incurred in converting the properties can be repaid from the rents charged and recovered via Housing Benefit.

Planning for use as hostel accommodation only exists for No 5 therefore a separate planning application for change of use will need to be submitted for No 4 as Use Class for this property is still as offices

### 3. IMPLICATIONS

#### Legal Implications

The requirement to serve notice on tenants in No 4. Leases contain the ability for TDC as landlord to serve notice at any time on the tenants to terminate the lease. A minimum of 3 months' notice must be given

#### Financial Implications

1 - Finance have run a financial analysis of conversion costs of both Nos 4 and 5 as well as just No 5. The results are summarised below clearly showing that both options are financially very favourable to the Council.

Converting 4&5 into an 8 bed hostel would generate net income of £39k per annum at 80% occupancy and when one takes into account the temp accommodation costs saved, this provides a **positive revenue contribution of £146k per annum**

The corresponding figures for just converting number 5 in a 4 bed unit are **£14k & £67k respectively per annum**

The payback period for converting 4&5 is 1.71 years and for converting just 5 is 3.08 years.

The hostels would require occupancy rates of *29-34% to breakeven*



Conversion Hubbastone Road		
Unit no's	4 & 5	5
Bedrooms	8	4
Net Book Value	£0	£0
Conversion Costs	£250,000	£206,500
<b>Total Capital Costs</b>	<b>£250,000</b>	<b>£206,500</b>
<b>Annual Costs</b>		
Running Costs	£50,581	£25,291
Rental Income at 80% Capacity	(£108,741)	(£54,370)
<b>Net Running Costs</b>	<b>(£58,160)</b>	<b>(£29,080)</b>
Financing Costs	£18,750	£15,488
<b>Net Costs</b>	<b>(£39,410)</b>	<b>(£13,592)</b>
<b>External Provider costs</b>		
Potential B&B Nights Saved	2336	1168
Average cost per night (after Housing Benefit recovery)	£45.70	£45.70
<b>Total Costs</b>	<b>£106,751</b>	<b>£53,375</b>
Hostel Net Costs	(£39,410)	(£13,592)
B&B Savings	(£106,751)	(£53,375)
<b>Potential Saving PA</b>	<b>(£146,160)</b>	<b>(£66,968)</b>
Cost of Capital recovery (Years)	1.71	3.08
ROI	58.46%	32.43%
Break Even Occupation Rate	29.00%	34.00%

2 - Loss of rental income of £2,356 per annum once the office tenants have vacated.

#### Human Resources Implications

Significant Officer Contract administration time overseeing conversion works unless outsourced

Ongoing maintenance responsibility for Property team

#### Sustainability Implications

Opportunity to improve sustainability of property to comply with Building Regulations standards on energy efficiency as part of the conversion works

#### Equality/Diversity

n/a

#### Risk Management

Ongoing maintenance works

#### Compliance with Policies and Strategies

Helps towards delivering the Homelessness Strategy 2020-2025 and increase hostel capacity as part of the Communities, Health and Housing theme.

#### Lead Member Views

Cllr Hicks (Lead Member for both Property and Economy) consulted 15/07/22



#### **4. CONCLUSIONS**

The use of 4/5 Hubbastone Road as hostel accommodation represents an opportunity to reduce the current expenditure on temporary accommodation by utilising a TDC owned building that is currently underused. The capital spend required to modernise and convert the property has a short payback period.

#### **5. RECOMMENDATIONS**

Members approve the proposal for the use of 4/5 Hubbastone Road as hostel accommodation as detailed in this report and give authority for the capital spend on the conversion costs and the submission of planning permission for change of use of No 4 from office use to hostel use.

#### **SUPPORTING INFORMATION**

Consultations: Senior Management Team

Contact Officer: Nick Argles

Background Papers:

