

Committee: Cabinet
Title: Loan to Aspire (MRH) Ltd
Portfolio Holder: Cllr Paul Fairhurst, Portfolio Holder for Business, Economy, Jobs, Investment and Strategy; Youth Services
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Date: Thursday, 26 September 2019
Key decision: Yes

Summary

1. This report presents an opportunity to acquire 10 student accommodation apartments in Cambridge through the Council's wholly owned subsidiary Aspire (MRH) Ltd.

Recommendations

2. Cabinet is recommended
 - i. To approve the acquisition of the 10 student accommodation apartments at Purbeck House in Cambridge; and
 - ii. to approve the loan of up to £2.1m to Aspire (MRH) Ltd for a period of 10 years, at an interest only rate of 5.5%; and
 - iii. to request that Council endorses the purchase and loan and authorises the necessary borrowing.

Financial Implications

3. As set out in this paper.

Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None

Impact

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| Communication/Consultation | None |
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| Community Safety | No specific implications |
| Equalities | None |
| Health and Safety | No specific implications |
| Human Rights/Legal Implications | No specific implications |
| Sustainability | No specific implications |
| Ward-specific impacts | No specific implications |
| Workforce/Workplace | None |

Situation

5. The Medium Term Financial Strategy sets out a significant funding gap in the near term and identified that commercial investment would be used in part to bridge that gap.
6. The current issues in Government have meant a one year delay in implementing significant changes to the way in which the Council is funded. However, whilst the Council may be in a slightly better financial position in 2020/21 than previously identified this is only delaying the challenge faced.
7. Investments considered, and the way in which they will be delivered, as part of the Commercial Strategy comply with the guidance set out by CIPFA and Government.
8. As part of the Commercial Strategy it has been identified that in order to establish a balanced portfolio an element of market rent housing is required.
9. An opportunity has arisen to purchase 10 student accommodation apartments in Purbeck House in Cambridge. Purbeck House consists of 151 apartments, all of which are let to Alpha Plus Group Limited (www.alphaplusgroup.co.uk) which is a private education group that owns and manages 20 schools, nurseries and sixth form colleges across the country and had a turnover to the year end 31 August 2018 of £91.1 million and a profit before tax of £21.7 million.
10. Abbey College (www.abbeycambridge.co.uk), which is adjacent to the accommodation is one of the sixth form colleges that Alpha Plus runs and it has 400 pupils at any point in time, all of whom live in nearby student accommodation.
11. As the age of the Abbey College student is primarily ranging from 16 -19 years old this is not a 'traditional' student accommodation unit. Purbeck House is split into a number of blocks and each block has a house parent in residence. All food is provided by the college within the college canteen and therefore no cooking is

done in the accommodation itself. The house parents undertake inspections of the accommodation three times a week, no alcohol is allowed and there is a curfew at 11pm each day.

12. Each apartment is held by way of a 125 year head lease expiring 31 December 2132 with a current ground rent of £200 per apartment per annum. The service charge for 2019/20 is estimated at £1,500 per apartment per annum.
13. The 10 apartments being sold consist of 9 studio and 1 one bedroom and were retained by the developer at the time of construction as a personal investment. The rental income varies by design but ranges from £12,168 - £15,548 per annum. This increases annually by the highest of 3.5% or RPI.
14. The lease to Alpha Plus Group Limited expires on 31 August 2022 and can be terminated earlier by giving 3 months' notice on 31 July each year. We understand that the tenant is currently discussing implementing a card based door entry system, at their cost, which would indicate their intention to stay beyond 2022 as the capital commitment of such a system would not be viable on the basis of the three years remaining on the current lease. However in the worst case scenario and they did terminate the lease the accommodation would be able to be let as general rental apartments (subject to legal due diligence). Purbeck House is within 15 minutes' walk of the city centre and many of the university colleges, the mainline railway station and Addenbrookes Hospital. In addition, the building is adjacent to Homerton College and Hills Road Sixth Form College.
15. The cost of purchase is £1.9 million plus legal, tax, agents fees etc. amounting to circa £100,000 making the total loan circa £2 million. In order for the completion to proceed it is recommended that the agreed loan is up to £2.1million to allow for additional work if needed. The final sum will be reported to Cabinet in due course.
16. Attached at Appendix One is the sales brochure outlining the opportunity. Since the production of the brochure, agreement has been reached with the tenant on double occupancy rates in the 9 studio apartments. Each apartment will generate an additional £1,500 in rental income per annum with an offset of an additional £38 per apartment in service charge. This has the effect of increasing the net income by just over £13,000 per annum to £144,540 in 2019/20.
17. Aspire (MRH) Ltd will incur costs for service charge, ground rent, management fees, tax advice and tax payment which reduces the net income to £114,614 in 2019/20
18. It is proposed that the Council loans to Aspire (MRH) Ltd the sum of up to £2.1 million at an interest only rate of 5.5%. This rate is based on State Aid advice given a couple of years ago where it was recommended that a new company entering this market, with no track record would expect to be charged an interest

rate of 5.08%. Since this information there have been two 0.25% interest rate raises hence the proposed rate of 5.5%.

19. At the expected borrowing requirement of £1,981,900 the annual loan repayment, by Aspire (MRH) Ltd to the Council would be £109,005 plus officer time spent working for the company, which is estimated to be £4,000 giving a total figure of £113,005 this leaves the company with a surplus of £1,609 (£114,614 - £113,005).
20. The remaining sum of £1,609 would normally be available as a dividend for the shareholder (the Council) however dividends cannot be paid until the council has a positive balance sheet. As costs such as Stamp Duty and Legal fees are included in the purchase price it inevitably means the amount paid is greater than the value of the asset. It is anticipated that within three years of purchase the asset value will have exceeded the amount paid. As an indication Purbeck House prices have increased in capital value by an average of 51% between 2008 and 2018.
21. The Council will, as set out in paragraph 19, receive £113,005 in the first 12 months by way of loan repayment and repayment of officer time. The cost to the Council of borrowing the £1,981,900 on a 10 year interest only loan from the Public Works Loan Board (PWLB) would be £29,729 leaving a surplus (profit) for the Council from this investment of £83,726
22. As the proposal is for a ten year interest only loan, at the end of the period the Council will be required to establish whether they wish the loan to be repaid (and therefore the asset sold) or whether they wish to enter into new borrowing and lending arrangements with the PWLB and Aspire (MRH) Ltd.
23. The current status of this opportunity is that, following the agreement for the double occupancy of the studio apartments, the Leader authorised a 'subject to contract and formal approval' bid of £1.9 million which has been accepted by the vendor.