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## Report of the Director of Neighbourhoods & Housing

### Executive Board

Date: 4<sup>th</sup> July 2007

**Subject: Lease at Less Than Best Consideration – Agreement to lease 12 miscellaneous properties to LATCH on a 25 year lease agreement**

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**Electoral Wards Affected:**

Hyde Park and Woodhouse  
Chapel Allerton  
Gipton and Harehills

**Specific Implications For:**

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

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## EXECUTIVE SUMMARY

1. The purpose of the report is to seek approval to grant a long lease at less than best consideration for 12 Leeds City Council owned miscellaneous properties, to LATCH (Leeds Action To Create Homes Ltd) who are a supported housing organisation. The proposed scheme will ensure the capital investment in the miscellaneous properties, to bring the properties up to the decency standard and contribute to regeneration of the area. On completion of the scheme the flats will be let as affordable housing to vulnerable tenants in line with the Council's Housing Strategy. LATCH will be responsible for full maintenance and repair of the properties over the term of the lease.
2. The Council's policy for disposals of land at less than best consideration requires that Executive Board approval is necessary where the proposed value to be foregone on disposal exceeds £100,000. 'Best consideration' means the highest price which could reasonably be obtainable, which is usually that which could have been achieved if the land or property had been advertised on the open market without restrictions as to use etc, which may be imposed by the Council as vendor.
3. If the properties were to be marketed without restrictions, but allowing for the cost of necessary improvements, the Development Department has estimated that the open market rent forgone would be in the region of £790,000 over 25 years. However, this market use would not be sought as these properties have always been utilised as

affordable housing. Should the properties be returned to the Council to be rented, then they would be used as social rented properties.

4. The length of lease and social housing rent levels proposed by the Council as owner will obviously restrict the value of the property. The standard of refurbishment by LATCH could also be higher, and therefore more expensive, than that carried out by a private landlord. As indicated by the Development Department, the market rent to be forgone over the period of the proposed lease on a market leasehold basis is up to £790,000 over 25 years. Therefore Executive Board is requested to approve the principle of disposal at less than best consideration, subject to approval by the Director of Development having regard to the costs of refurbishment, subsequent maintenance, management and other outgoings.
5. It is proposed that the properties are set up on a long term lease for 25 years. This is primarily because a lease over 25 years means that the Council is not liable to pay housing subsidy to Central Government for the properties. The housing subsidy equates to approx £1000 per annum per property. In this instance the Council could save approximately £12,000 per annum or £300,000 for the 12 properties over 25 years.
6. These properties have never been part of the ALMO management portfolio, and therefore have not been taken into account in the Decency costings. By continuing to lease the properties to LATCH, the Council will be ensuring that the properties are retained as social housing, for vulnerable people with Supporting People revenue funding. If the properties were to be returned to the Council, then the only alternative, with no funding available for refurbishment and Decency works, would be to dispose of the properties via the open market at auction. It is more than probable that the properties would be bought by private landlords, which would increase the instability in the area. By continuing to lease the properties to LATCH the properties remain social rented and retain the stability in the area.
- 7.. The proposed disposal is covered by Consent F of The General Consent under Section 25 of the Local Government Act 1988 for Small Amounts of Assistance 2005.

## **1.0 Purpose Of This Report**

- 1.1 The purpose of this report is to seek the support from the Executive Board to grant a long lease at less than best consideration for the 12 Leeds City Council owned miscellaneous properties to LATCH, for the purpose of refurbishing and improving the buildings for accommodation for vulnerable tenants with support needs. On completion, the properties will be managed by LATCH.
- 1.2 The length and terms of this lease will be subject to approval by the Director of Development, who will establish a reasonable rental level to be payable during the term of the lease. This will take into consideration the level of social rents receivable to LATCH, and the costs of refurbishment, subsequent maintenance, management and other outgoings. This has been estimated to be a rent free period until 2014/2015 in order to fully cover LATCH's anticipated spend on Decency works. An open book approach will be adopted between the Council and LATCH after 2014/2015, when a reasonable rent will be applied.

## **2.0 Background Information**

- 2.1 Leeds Action To Create Homes Ltd (LATCH) was established in 1989 as a small voluntary supported housing project responsible for managing 38 units (including the 12 LCC miscellaneous properties). From its inception the staff team have worked with volunteers and homeless people bringing disused and derelict properties back into use, predominantly in the Burley and Chapeltown area of Leeds, which are tenanted by single people and families. LATCH offers both long and short term support for people who are either homeless or in housing need.
- 2.2 LATCH is funded through a combination of rental income, grants and support charges. LATCH has been successful in securing funding through the National Lotteries Charities Board, The Single Regeneration Budget and various trusts such as The Sainsbury's Family Trust and the Garfield Weston Trust.
- 2.3 One of the distinct features of LATCH's work is service user involvement in refurbishment work. For example, applicants who apply for housing also assist in the refurbishment of the properties that will eventually become their homes.
- 2.4 LATCH's work in the areas of property management and housing support has been commended by the LCC Supporting People Team for helping to deliver the strategic objectives of Supporting People. They have also complimented LATCH for contributing to the aims of the Homelessness Strategy and Crime Reduction Strategy.
- 2.5 The 12 miscellaneous properties have been subject to a peppercorn lease agreement with Leeds Federated Housing Association (LFHA) for the last 10 years. LATCH via a sub leasing arrangement with LFHA, have managed and maintained the properties. These properties are:
- 2 Lascelles View
  - 4 Cowper Street
  - 138a Spencer Place
  - 138b Spencer Place
  - 88a Grange Avenue
  - 88b Grange Avenue
  - 1 Royal Park Avenue
  - 12 Kelsall Place

- 13 Kelsall Avenue
- 16 Autumn Place
- 17 Autumn Place
- 21 Autumn Place

2.6 In total there are 12 units, which are a mixture of 2/3 bedroomed back to back and terraced accommodation. The reasons for leasing these properties to LFHA and LATCH, was that in the mid 1990s housing management found they were a blight on the area and hard to manage/ let. They were unpopular, due to their poor state of repair with no capital available to improve and refurbish the units. The properties were therefore let to LFHA who were able to attract Housing Corporation grant funding to invest in the properties. LFHA leased the properties to supported housing agencies (i.e. LATCH) who were in receipt of funding streams (i.e. Supporting People) to support vulnerable tenants in housing need. This scheme has proved to have been extremely successful, and has enabled LATCH to expand as an organisation.

2.7 All of the lease periods have ended, but Legal Services have confirmed that the lease agreement continues or 'holds over' by default. LATCH pay LFHA a management fee, allowing them to sub lease and manage the properties (LFHA currently pay a peppercorn lease of £1 per annum per property to the Council for the main lease agreement). The occupiers of the 12 miscellaneous properties are therefore tenants of LATCH. LFHA no longer want to be involved in the miscellaneous property arrangement, and it is proposed that the Council leases the properties directly to LATCH.

### **3.0 Main Issues**

3.1 LATCH have the funding available to bring these properties up to the Decency Standard, which they have calculated to be £134,309. LATCH are able to keep their capital costs far lower than the ALMO, as much of the work is carried out through volunteer time, rather than through contracted work.

3.2 LATCH have drawn up a specification to upgrade the properties so that they are suitable for use over the period of the lease, to bring them up to the Decency Standard. Decency works include:

- improving energy efficiency by replacing older windows
- refurbishing kitchens and bathrooms
- upgrading electrical wiring and plumbing

3.3 LATCH have confirmed that they will adopt an "open book" approach to these works, and the Council will be able to audit all works to ensure that they are being undertaken, as specified.

3.4 In order for LATCH to utilise the capital available, the property leases must be renewed. LFHA have confirmed they no longer want to be involved with the miscellaneous property portfolio, and LATCH are happy to enter into a direct lease agreement with the Council.

3.5 It is proposed that the properties are set up on a long term lease for 25 years. This is primarily because a lease over 25 years means that the Council is not liable to pay housing subsidy to Central Government for the properties. The housing subsidy

equates to approx £1000 per annum per property. In this instance the Council could save approximately £300,000 (for the 12 properties over 25 years).

3.6 On this basis a 25 year lease, between the Council and LATCH, is sought. The lease should include a break clause/rent review at regular periods. This will allow either the Council or Connect Housing to break the lease, or for the Council to instigate a rent review.

### 3.7 Rents

3.8 With the level of investment proposed, LATCH have confirmed that it will be possible to continue letting the properties at slightly below target rents – an important factor given the low incomes of the client group and the increasing affordability gap in terms of equivalent private rented accommodation. The rents per week will be approximately £67 per week, which are in line with council rents..

3.9 The business plan drawn up by LATCH provides for the rental stream covering management and repair costs, and the non-grant aided investment over the proposed life of the scheme. LATCH is not seeking to generate surpluses from this project, and have confirmed that the refurbishment works will be undertaken on a rolling programme using Planned Maintenance contractors, utilising “open-book” principles.

3.10 If the properties were to be marketed without restrictions, but allowing for the cost of necessary improvements, the Development Department has estimated that the open market leased value would be in the region of £790,000 over 25 years. However, the Environment and Neighbourhoods Department would never seek to rent these properties at market rents.

3.11 On the basis of the market valuation, Executive Board is requested to approve the principle of disposal at less than best consideration, subject to approval by the Director of Development of a reasonable rental level. It is proposed that the lease agreement includes a rent free period, whilst LATCH are undertaking the improvement works, utilising their available capital funds. After this period, an open book approach will then be adopted between the Council and LATCH to indicate the reasonable level of rental which should be paid by LATCH. The Director of Development will establish the rental level which will be payable during the term of the lease, which will have regard to the level of social rents receivable and costs of refurbishment, subsequent maintenance, management and other outgoings.

3.12 It has been estimated to be a rent free period until 2014/ 2015 will be in order to fully cover LATCH's anticipated spend on Decency works. An open book approach will be adopted between the Council and LATCH after 2014/2015, when a reasonable rent will be applied.

### 3.12 Alternatives for the Properties should the scheme not proceed

3.13 All the properties must be brought up to the Decent Homes standards. These properties were not included in any of the Council's or ALMO's 'Decency' costings, and the West North West Leeds Homes Business Plan does not include future refurbishment liabilities associated with these properties. Should these properties return to the Council, capital funds would not be available to undertake the works.

3.14 If the properties were to be returned to the Council, then the only alternative, with no funding available for refurbishment and Decency works, would be to dispose of the properties via the open market at auction. It is more than probable that the

properties would be bought by private landlords, which would increase the instability in the area. By continuing to lease the properties to LATCH the properties remain social rented and retain the stability in the area. The ALMO strongly support the proposal for LATCH to continue to lease and manage the properties, who provide a valuable service to vulnerable tenants.

### 3.15 Further Action

3.16 The renegotiation of the leases has now commenced. A draft lease is being prepared which will run for 25 years, with a regular break clauses and rent reviews as standard. The purpose of this long lease agreement is twofold, firstly in relation to LATCH having the security to invest their own capital monies into the properties and secondly due to housing subsidy issues.

## 4.0 **Implications For Council Policy And Governance**

4.1 The Affordable Housing Plan was agreed by the Executive Board in November 2006. The current proposal is in line with its objectives, but specific approvals are required at an early date to secure the grant funding. The Plan will rely upon use of the Council's powers to dispose of sufficient assets at less than best consideration to maximise the level of investment in affordable housing in Leeds.

4.2 The Council's policy for disposals of assets at less than best consideration requires that Executive Board approval is necessary where the proposed value to be foregone on disposal exceeds £100,000. 'Best consideration' means the highest price which could reasonably be obtainable, which is usually that which could have been achieved if the land or property had been advertised on the open market without restrictions as to use etc, which may be imposed by the Council as vendor. Executive Board approval is requested to the principle of disposal at less than best consideration and the amount of the rental subsidy through a rent free period, will be determined by the Director of Development under delegated powers when the necessary projected outgoing information is agreed.

## 5.0 **Legal And Resource Implications**

5.1 The proposed disposal is covered by Consent F of The General Consent under Section 25 of the Local Government Act 1988 for Small Amounts of Assistance 2005.

5.2 The market leasehold of the properties was valued at £790,000 by the Development Department in April 2007 on an open market basis as required by the relevant statutory regulations. Such figures would only be achievable if the Council is prepared to see the properties sold or leased respectively to a private landlord for letting on the open market, however that path is not recommended due to its potential adverse impact on the Council's regeneration proposals and community cohesion in the area. The rents charged by LATCH are in line with the social rents Leeds City Council would charge.

5.3 By leasing the properties out for over 25 years, the Environment and Neighbourhoods will save approximately £300,000 in housing subsidy.

5.4 LATCH have funding available within their capital programme to refurbish the properties and bring the up to the Decency Standard. The costs are in excess of £134,309. No capital funds would be required to refurbish the properties from the ALMO helping to achieve 'Best Value'. As the properties are to be leased to

LATCH, they will revert back to the Council on expiry of the lease, in an improved state. LATCH have provided financial figures to demonstrate their continued investment in the properties for the term of the lease. On top of the £134,309 capital investment, LATCH propose to commit approx £250,000 for planned maintenance over the period of the lease. LATCH will adopt an open book approach to enable the Council to establish a reasonable rental level after allowance for the outgoings.

## **6.0 Conclusions**

6.1 If the properties were to be leased without restrictions, but allowing for the cost of necessary improvements, the Development Department has estimated that the open market leasehold value would be in the region of £790,000 over 25 years.

6.2 However, in consideration of the benefits to be brought by the scheme proposed by LATCH, it is recommended that the Council's policy for disposals of land at less than best consideration be utilised, and a 25 year lease be drawn up between Leeds City Council and LATCH, with regular break clauses and rent reviews as standard. There will be a rent free period whilst the capital investment is being spent. After this period an 'open book' approach will be adopted between LATCH and the Development Department to establish a reasonable rental level to be payable during the term of the lease. This rental level will take into account the social rents receivable and costs of refurbishment, subsequent maintenance, management and other outgoings.

6.3 The benefits of the scheme are:

- The properties would be brought up to the Decent Homes Standard and remain as social rented properties for vulnerable tenants
- LATCH would continue to build on the good property maintenance/ improvement work
- These difficult to let properties would remain occupied
- LATCH would remain viable as an organisation and would continue to contribute to the LCC Housing Strategy, Supporting People Strategy, Homelessness Strategy and Crime Reduction Strategy

## **7.0 Recommendations**

7.1 Executive Board is requested to approve the principle of a 25 year lease to LATCH at less than best consideration, subject to approval by the Director of Development of the terms of the lease and a reasonable rental level to be payable during the term of the lease, having regard to the level of social rents receivable and costs of refurbishment, subsequent maintenance, management and other outgoings.