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## Report of the Director of Environment and Neighbourhoods

### Executive Board

Date: 11<sup>th</sup> September 2007

**Subject: Lease at Less Than Best Consideration – Agreement to lease 23 miscellaneous properties to Canopy on a 25 year lease agreement**

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**Electoral Wards Affected:**

Gipton and Harehills  
Hyde Park and Woodhouse  
Beeston Hill and Holbeck  
Burmantofts and Richmond Hill

**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 a peppercorn rent (less than best consideration) for 23 Leeds City Council owned miscellaneous properties, to Canopy Housing Project 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 Decent Homes Standard and contribute to regeneration of the area. On completion of the scheme the houses will be let as affordable housing to vulnerable tenants in line with the Council's Housing Strategy. Canopy will be responsible for full maintenance and repair of the properties throughout the term of the lease.
2. Of the 23 properties, 10 are currently managed by East North East Homes Leeds, 4 by Aire Valley Homes, and the remaining 10 are shortlife stock, which have never been part of the ALMO portfolio's. The shortlife properties were originally leased to Leeds Federated Housing Association (LFHA), who then set up a sub leasing arrangement with Canopy (the properties are occupied by Canopy tenants). LFHA no longer want to be involved in shortlife stock, so the proposal is for Canopy to lease the properties directly from the Council.
3. The 14 properties that are part of the ALMO management portfolio, were taken into account in the Decent Homes Standard (DHS) funding allocation. However, the structural works required for the properties are over and above decency, and the full funding has not been provided for. It is therefore proposed that for these 14 properties,

part of the DHS provision is paid over to Canopy, from East North East Homes Leeds and Aire Valley Homes, for them to undertake the required work to support the renovation of the properties. This principal has been adopted by the Council with existing leases of properties to Canopy in the Burley Lodge and Beeston Hill areas of the City. For the remaining 10 shortlife properties, no decency funding has been identified (as the properties fall outside of the ALMO remit). Therefore, Canopy will fund 100% of the DHS work.

4. 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.
5. If the properties were to be marketed for sale on the open market then the Council's Development Department has estimated that the total value would be in the region of £2,142,500. However this approach would not be supported by Environment and Neighbourhoods, as it would result in the properties no longer being available as rented social housing. Disposal of the properties on the open market would go against the aims and objectives set out in the Affordable Housing Strategy.
6. The total current rent due to the Council on the 23 properties when occupied amounts to approximately £1,225 per week or £58,888 per annum. Over the 25 years proposed for the lease to Canopy, the potential rent loss to the Council would be in the order of £1,472,200 assuming annual increases in line with those at present.
7. 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 £23,000 per annum or £575,000 for the 23 properties over 25 years.
8. Taking into account loss of rent, the ALMO capital assistance and the housing subsidy savings, the Less Than Best subsidy figure for the Canopy scheme equates to £987,200 over the 25 year period or £39,488 per annum for the 23 properties.
9. By leasing these properties to Canopy the Council will be ensuring that they are retained as social housing (particularly for the Refugee community in Harehills properties). If the properties were to be retained by the Council, then the only alternative, with no funding available for renovation above the decency standard, would be to dispose of the properties via the open market at auction (as was previously planned for the 10 East North East Homes Leeds and Aire Valley Homes properties). It is more than probable that the properties would be bought by private landlords, which would increase the instability in the area. By leasing the properties to Canopy the properties remain social rented and contribute to the stability of the area.
10. Environment and Neighbourhoods and Legal and Democratic Services are liaising regarding the specific legal consents required to grant the lease.

## **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 23 Leeds City Council owned miscellaneous properties to Canopy, for the purpose of refurbishing and improving the buildings for accommodation for vulnerable tenants. On completion, the properties will be managed by Canopy.

## **2.0 Background Information**

- 2.1 Canopy Housing Project was established in Hyde Park in 1998 to tackle the twin issues of homelessness and derelict properties. It operates a refurbishment programme involving volunteers working alongside those without a home, to bring derelict properties back into use. In the main the properties are sourced from Leeds City Council or Housing Associations (RSLs) on long leases and they are sub-let to households who participate in the renovation and who then become Canopy tenants when the renovations are complete. Canopy usually works with BME individuals and communities, such as Refugees, who can find it difficult to access suitable housing and who can become excluded. They now have over thirty properties on leases in the Burley Lodge and Beeston Hill/Holbeck areas of the city.

- 2.2 The 23 properties Canopy are proposing to lease from the Council can be broken down as follows:

### **2.3 Short-life Properties (9 units)**

- 2.4 These 9 miscellaneous properties were subject to a peppercorn lease agreement between the Council and Leeds Federated Housing Association (LFHA) for the last 10 years. Canopy via a sub leasing arrangement with LFHA, have managed and maintained the properties for the period of the lease. These properties are:

- 1 Kelsall Place
- 19 Kelsall Place
- 23 Kelsall Avenue
- 24 Kelsall Avenue
- 28 Kelsall Avenue
- 23 Kelsall Terrace
- 22 Autumn Street
- 13 Burley Lodge Road
- 59 Burley Lodge Road

- 2.5 The lease agreement between LFHA and the Council has now ended, and LFHA no longer wish to manage shortlife stock. As these properties were not part of the ALMO portfolio and have not been included in Decency costings. It is proposed that Canopy continue to manage the properties. This will be formalised by 25 year leases, and Canopy will be responsible for the undertaking and funding of all the Decency works at a cost of £37,580. It must be recognised that this cost of £37,580 does not take into account contractor costs and labour, as the nature of the organisation is for Canopy staff residents to undertake the works as part of the tenancy agreement.

2.6 Aire Valley Homes Properties (4 units)

2.7 The four properties, managed by Aire Valley Homes, that Canopy are requesting long leases from the Council are:

- 11 Recreation Street
- 33 Recreation Street
- 40 Recreation Street
- 6 Shafton Place

2.8 These properties are all high cost voids that have been empty for a long period. In order to bring these properties back to a lettable standard Aire Valley Homes would have to invest £56,000. The cost of the work required over and above the Decent Homes work has not been provided for within the ALMO Business Plan or in the Decent Homes funding allocation from Department for Communities and Local Government (DCLG).

2.9 Leeds South Homes (now the newly formed Aire Valley Homes) approached Canopy Housing Project and offered these four properties to share the cost of bringing these properties back to a lettable standard.

2.10 Leeds South Homes Senior Management Team initially agreed to fund 25% of the costs (£14,000), but agreed to increase the existing financial contribution to 50% (on the basis of the extremely poor state of repair of the properties due to the long void period). This increase will allow the partnership with Canopy to continue and contribute towards creating a sustainable area that otherwise the properties may remain empty. Therefore, Aire Valley Homes will be contributing approximately £28,000 to the refurbishment works, subject to final costings.

2.11 It has been noted that there could be potential Regional Housing Board funding to demolish part of the Recreation estate, however there are no firm plans or timescales at this stage. Canopy and Aire Valley Homes are aware of this issue, but wish to continue with the leases.

2.12 East North East Homes Leeds Properties (10 units)

2.13 Canopy are coming to the end of their programme in south Leeds and are now looking to expand their operations into the east of the City to work specifically with the refugee communities. They have been in discussions with East North East Homes Leeds about the potential for them to take on a number of empty properties in the Harehills area that have been declared surplus to requirements by both East North East Homes Leeds and the Council. These properties were declared surplus to requirements as they require substantial investment to address structural disrepair to bring them back into use and further investment to meet Decent Homes Standard. The cost of the work required over and above the Decent Homes work has not been provided for within the ALMO Business Plan or in the Decent Homes funding allocation from Department for Communities and Local Government (DCLG).

2.14 The ten properties, managed by East North East Homes Leeds, that Canopy are requesting long leases from the Council are:

- 40 Sandhurst Terrace
- 7 Seaforth Place
- 13 Seaforth Place

- 23 Strathmore View
- 3 Trafford Avenue
- 95 Dorset Road
- 56 Seaforth Road
- 11 Seaforth Avenue
- 41 Bellbrooke place
- 51 Nowell Lane

2.15 Although all of these properties had been put forward for disposal this was put on hold following representations from local Ward Members concerned that they would be purchased at auction by unregulated absentee landlords who have proliferated in the area and destabilised the community. Ward Members expressed a strong desire that the properties to be brought back into use for the benefit of local families. Canopy would be able to deliver this outcome.

### **3.0 Main Issues**

3.1 All of the 14 ALMO properties are currently vacant, and the remaining 10 shortlife properties are let to Canopy tenants.

3.2 All of the properties are miscellaneous acquisitions located within blocks of back to back or through terrace streets rather than purpose built Council housing. Most of the remainder of the properties within the streets on which these properties are located are in private ownership or RSL/private landlord lets. All of the properties require substantial renovation work over and above the work required to meet the Decent Homes Standard.

3.3 The 10 shortlife properties were not part of the ALMO portfolio or part of Decency costings. Additionally, the ALMO Business Plans had little provision for the high costs associated with bring these types of properties up to the Decent Homes standards (hence the properties being declared surplus).

3.4 Canopy have inspected the ALMO properties and identified all of them are suitable for use to continue their work in south Leeds and to extend their activities into the Harehills area of east Leeds. One of the properties in east Leeds (41 Bellbrooke Place) is end of terrace and is next to a property used by the Police and Neighbourhood Wardens and has been earmarked as a possible operational base for Canopy to use whilst volunteers and tenants work on the other properties.

3.5 In order for CANOPY to successfully bring the properties back into use they would require the properties on a long lease at a peppercorn rent. Additionally, Canopy have negotiated a contribution from the East North East Homes Leeds and Aire Valley Homes, towards the cost of Decent Homes works required in order for their operations to be financially viable. Previously the Council has granted leases on properties that Canopy have taken into management, and the appropriate ALMO has contributed to the cost of works required. Similar terms are therefore requested for these properties.

3.6 In so far as the cost of works is concerned to the ALMO stock, East North East Homes Leeds would contribute £32,000 to cover the cost of materials required, whereas Aire Valley Homes will contribute £28,000. The labour is being provided by Canopy volunteers. Additionally, East North East Homes Leeds would also undertake £30,000 worth of specialist gas and electrical works at the properties as Canopy do not have access to CORGI (gas) and NICEIC (electrical) registered

and/or approved installers. All 14 properties would therefore be renovated and made habitable, and brought up to Decent Homes Standard.

- 3.7 The average cost of decency works will be £6,200 per unit under the Canopy proposal, whereas the average would be around £20,000 per unit if East North East Homes Leeds were to commission the work.
- 3.8 If, at the end of the lease period, Canopy Housing Project decided to return the properties to the Council rather than apply for a lease extension, then the properties would be in a habitable condition.
- 3.9 The Leeds East Homes Board (now East North East Homes Leeds), the Leeds South Homes Board (now Aire Valley Homes), Environment and Neighbourhoods Decision Panel and Asset Management Group have all supported the lease of the properties to the Canopy Housing Project. However Executive Board approval is required for leases that are less than best consideration.
- 3.10 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 negative housing subsidy to Central Government for the properties. The negative subsidy equates to approx £1000 per annum per property. In this instance the Council could save approximately £575,000 (for the 23 properties over 25 years).
- 3.11 On this basis a 25 year lease, between the Council and Canopy, is sought. The lease should include a break clause and review at regular periods. This will allow either the Council or Canopy to break the lease. Canopy have confirmed that they will adopt an open book approach throughout the Decency works and period of the lease. Should Canopy evidence that they are making surpluses, after the completion of the works, then the Council will be able to instigate a rent review.
- 3.12 Rents
- 3.13 The total current rent due to the Council on the 23 properties when occupied amounts to approximately £1,225 per week or £58,888 per annum (calculated over a 48 week rent period). Over the 25 years proposed for the lease to Canopy, the potential rent loss to the Council would be in the order of £1,472,200 assuming annual increases in line with those at present. 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.
- 3.14 With the level of investment proposed, Canopy have confirmed that it will be possible to let the properties at slightly below target rents (target rents are based upon the city wide average required to meet rent convergence targets between Council and Registered Social Landlord rents). This is 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.
- 3.15 The business plan drawn up by Canopy provides for the rental stream to cover future management and repair costs. Canopy is a not for profit organisation and is not seeking to generate surpluses from this project, and have confirmed that the refurbishment works will be undertaken by volunteers, including the future tenant(s)

supervised by their qualified staff team. This approach mirrors that taken by Canopy with other Council and RSL leased properties in Burley Lodge and Beeston Hill. Additionally, Canopy will work closely with the ALMO teams to ensure the works are completed to a satisfactory standard.

- 3.16 If the 23 properties were to be marketed without restrictions, but allowing for the cost of necessary improvements, it is estimated that the open market leased value would be in the region of £2,632,500 over 25 years. However, the Environment and Neighbourhoods Department would never seek to rent these properties at market rents.
- 3.17 On the basis of the market valuation, Executive Board is requested to approve the principle of disposal at less than best consideration at a peppercorn rent.
- 3.18 Alternatives for the Properties should the scheme not proceed
- 3.19 All the 23 properties must be brought up to the Decent Homes standards. Whilst 14 of these properties were included in the Council's original estimates in so far as 'Decency' works are concerned, the renovation costs required to make them habitable were not. The East/North East Homes Leeds and Aire Valley Homes Business Plans do not include the renovation cost or future refurbishment liabilities associated with these properties. Should these properties be retained by the Council, capital funds are not available to undertake the renovation works. The 10 shortlife properties were never included in Decency costings.
- 3.20 If the properties were to be retained by 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. This is not an option that is supported by Ward Members. By leasing the properties to Canopy the properties remain social rented, retain stability within the area and would provide homes for potentially excluded individuals/families. The ALMOs strongly support the proposal for Canopy to lease and manage the properties as they will provide a valuable service to vulnerable tenants.

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

- 4.1 The Affordable Housing Plan was agreed by the Executive Board in November 2006. The Canopy proposal is in line with its objectives. 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.

## **5.0 Legal And Resource Implications**

- 5.1 Environment and Neighbourhoods and Legal and Democratic Services are liaising regarding the specific legal consents required to grant the lease.
- 5.2 The market value of the properties was estimated at around £2,142,500 by the Development Department on an open market basis as required by the relevant statutory regulations. Such figures would be achievable if the Council adopted the usual approach of selling the properties at auction, however that path is not recommended due to its potential adverse impact on the Council's regeneration proposals and community cohesion in the areas.
- 5.3 The open market leased value would be in the region of £2,632,500 over 25 years, however this approach would not be supported as the properties would be lost to the social rented sector, going against the objectives of the Affordable Housing Plan.
- 5.4 By leasing the properties out for 25 years, Environment and Neighbourhoods will save approximately £575,000 in negative housing subsidy. However, the rental loss to the ALMOs will be approximately £1,472,200 assuming annual increases in line with those at present.
- 5.5 Canopy will be spending £155,580 capital on the 23 properties, with a contribution of approximately £90,000 from the ALMOs. However, the £155,580 does not take into consideration the labour costs. The contribution asked of the ALMOs has been provided for in their Business Plans.
- 5.6 Therefore, taking into account loss of rent, the ALMO capital assistance and the housing subsidy savings, the Less Than Best subsidy figure for the Canopy scheme equates to £987,200 over the 25 year period or £39,488 per annum for the 23 properties.

## **6.0 Conclusions**

- 6.1 If the properties were to be sold without restrictions, but allowing for the cost of necessary improvements it is estimated that the open market value would be in the region of £2,142,500.
- 6.2 However, in consideration of the benefits to be brought by the scheme proposed by Canopy, it is recommended that the Council's policy for disposals of land at Less Than Best consideration be utilised, and a 25 year lease at a peppercorn rent be drawn up between Leeds City Council and Canopy, with regular break clauses and the option for a rent review as standard.
- 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
  - Canopy would continue to build on the good property maintenance/ improvement work
  - These vacant properties that are in disrepair and are blighting the area would become occupied



- Canopy would remain viable as an organisation and would continue to contribute to the LCC Housing Strategy, Supporting People Strategy, Homelessness Strategy, Empty Property and Crime Reduction Strategy

## **7.0 Recommendations**

- 7.1 That members note the contents of this report
- 7.2 Executive Board is requested to approve the lease of the 23 properties listed in the report to Canopy Housing Project, at a peppercorn rent for a 25 year period at Less Than Best consideration.
- 7.3 That formal negotiations commence to complete the leasing arrangements with Legal and Democratic Services and Canopy.