



Report of the Director of Neighbourhoods and Housing

Executive Board

Date: 24th January 2007

Subject: Sale of Land at Argie Ave/Eden Mount Kirkstall to Home HA at 'Less Than Best Consideration'

Electoral Wards Affected:

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)



Executive Summary

This report sets out the justification for a 'less than best consideration' disposal of land at Argie Ave / Eden Mount, Kirkstall to Home Housing Association.

Home HA have successfully secured grant funding of £425,000 from the Housing Corporation to build 17 family houses for low cost home ownership on the land at Argie Avenue. The total cost of this scheme is £2.0million and the rest of the funding will be provided by Home HA through a combination of private investment and reserves.

In order to qualify for the grant funding, the Housing Corporation have stated that schemes will only be supported where land costs do not exceed £5,000 per dwelling, effectively requiring council land to be disposed of at 'less than best consideration'. Therefore, as Home HA propose to build 17 units, this equates to £85,000.

The subject site is owned by Leeds City Council and is vested with Neighbourhoods and Housing. The land consists of existing and previously demolished garage sites and is Housing Revenue Account (HRA) land. Development Department has valued this site at £800,000. Therefore the council is being asked to forego the £715,000 difference.

Home HA are willing to return to Leeds City Council a percentage of any future agreed surpluses generated by individual property sales in order that Leeds CC can reinvest this money in the area in the future.

This report aims to demonstrate the wider benefits of the scheme in terms of providing additional family affordable housing and sets out the wider financial and neighbourhood benefits. It also explains how due to escalating property prices people on modest incomes have been priced out of market value housing, but how this scheme will assist home ownership by entry onto the property ladder.

1.0 Purpose of the Report

- 1.1 To seek the approval of Executive Board to dispose of the land highlighted on the attached plan to Home Housing Association at 'less than best consideration' in order to build 17 affordable family houses for shared ownership.

2.0 Background Information

- 2.1 The proposed scheme is for 17 x 3 bed family houses for shared ownership. Home HA have secured £425,000 grant from the Housing Corporation and the remainder of the finance will be provided by Home HA through private finance and reserves. The properties will be sold by Home HA to eligible applicants on a shared ownership basis. In the first instance applicants will purchase 50% of the property through a conventional mortgage and a rent will be paid to Home HA for the remaining 50%.
- 2.2 There is the option for the shared owner to purchase the remaining 50% at full market value should their financial circumstances allow; this is known as 'staircasing'. This may generate surpluses to the Housing Association as the shared owner purchases the remaining share. A mechanism will be put in place to distribute any surpluses generated on the scheme as a result of staircasing; 75% of any such surpluses will be paid to Leeds and 25% retained by Home HA. The precise methodology for calculating surpluses will be the subject of further negotiations between Home HA and the Council.
- 2.3 Home HA has already completed two phases of work in this vicinity. This has included the refurbishment of existing council owned maisonettes leased to Home HA on Argie Ave, for mature students with dependents, and recently the HA has started on site with a third phase of refurbishment at Grayson Heights a council owned multi storey block of flats. To date in the region of £8.2m worth of investment in affordable housing has been brought to the area by Home HA.
- 2.4 The £8.2m is made up of Housing Corporation grant and Home HA contribution, which is a combination of private sector borrowing and use of reserves. This grant and investment has contributed to the refurbishment of 64 x 3bed maisonettes and the conversion of a multi storey block of flats for mature student accommodation.
- 2.5 The works undertaken by Home HA have complemented the improvement and investment works carried out by Leeds North West Homes. The overall improvements to the area have resulted in a reduction in crime and anti social behaviour and the additional number of children now in the area has boosted attendance at the local schools.
- 2.6 In July 2005 the Head of investment at the Housing Corporation wrote to all Local Authority Chief Executives in the Yorkshire and the Humber region stating that the land value element of new affordable housing schemes should not exceed £5,000 per dwelling, if a bid was being made for social housing grant. The allocation of £425,000 grant is subject to Home HA securing the land at 'less than best consideration' and so if the land is not sold at £5,000 per plot then the scheme will not proceed and the investment in additional affordable housing will be lost.
- 2.7 The figure of £5,000 as stated by the Housing Corporation has been challenged both regionally and nationally by Leeds City Council and the Council will continue to make representations about this requirement. However this remains a condition of grant within this bidding round.

- 2.8 The land at Argie Ave / Eden Mount identified for this scheme has been valued at £800,000 by the Development Department on 29 March 2006. Confirmation was received from Development Department in October 2006 that this valuation was still up to date and valid. In order to comply with the grant conditions imposed by the Housing Corporation it is necessary for the council to sell this land to Home HA at 'less than best consideration' and receive £85,000 as opposed to £800,000.

3.0 Main Issues

- 3.1 The provision of affordable housing, particularly affordable family accommodation has been recognised as a high priority by Leeds City Council. The recently launched 'Affordable Housing Delivery Plan' explains that the housing market in Leeds is experiencing high land values and property price increases. A high percentage of the population in Leeds are unable to access the housing market and the Plan stresses the importance of maximising every opportunity to deliver affordable housing.
- 3.2 The city wide house price average has increased to £158,000, which has become unaffordable to many first time buyers and increasingly unaffordable to those on average incomes. In this area of Kirkstall the average house price is in the region of £187,607. Government guidance suggests that a mortgage multiplier of 3.5 single income and 2.9 double income is affordable. Given that the average lower quartile earnings per household in Leeds are in the region of £24,000 access to home ownership in Leeds and particularly in Kirkstall is largely out of reach to those on average incomes.
- 3.3 Those on low to average incomes who are not in statutory housing need but are unable to buy on the open market are deemed low priority cases in relation to accessing council or housing association tenancies, and so are unable to secure social housing. The average number of bids per council property city wide is currently 67. However on this estate in Kirkstall there are currently 95 bids per property, and within this last financial year only two properties on this estate have become available. Therefore people on average incomes are unable to access social housing and are unable to afford open market housing.

4.0 The scheme costs for Home HA to develop at Argie Ave are as follows:

Unsubsidised

Land	£ 800,000
Construction Costs	£1, 987,598
On costs (legal and professional fees)	£ 355,593
Development Interest	£ 67,726

Total £3,210,917

Cost per unit = £188,877

Subsidised land and grant

Land (subsidised)	£ 85, 000
Construction Costs	£1,987 598
On costs (legal and professional fees)	£ 355,593
Development Interest	£ 67, 726

Equals £2,495, 916
Less grant contributions £ 425, 000

Total £2,070, 916

Cost per unit = £121,818

- 4.1 Home HA have valued the completed 3 bedroomed properties at £135,000 and intend to sell 50% initially, providing the HA with an initial receipt of £1,147,500. Home HA will then receive a projected rental income of £850,162 for the following 30 years. This assumption

includes a forecast that 50% of the shared owners will purchase the remaining 50% within 30 years. It can be seen that Home HA are in deficit with this scheme, even though they have received a grant and the land has been subsidised.

- 4.2 Home HA are willing to return to Leeds City Council a percentage of any future agreed surpluses generated by individual property sales in order that the Council can reinvest this money in the area in the future. This is a new approach which is supported by the Housing Corporation and will ensure that the Council is able to reinvest in the area in the future.
- 4.3 Home HA assume that within 30 years 50% of the purchasers will 'staircase' and buy the remaining 50% of their property. Using today's property values Home HA would receive a receipt in the region of £573,750. Negotiations will take place between the Council and Home HA that a percentage of this amount will return to Leeds CC. A figure of 75% has been suggested to Home HA and if agreed would equate to £430,312 returning to the Council.
- 4.4 It is important to note that an element of the receipt paid to the association is also used to fund the outstanding loan on the development. Also the original grant received from the Housing Corporation has to be repaid. Therefore the 75% paid to the Council would be the receipt after outstanding loan repayments have been made and the grant has been repaid to the Housing Corporation
- 4.5 Leeds City Council will work with Home HA to assess who is eligible for this scheme. It is important that applicants are able to maintain mortgage repayments but would not have been able to afford a property on the open market.
- 4.6 The following tables demonstrate the housing costs for a shared ownership purchase compared to an outright sale. It can be seen that a 30% share is a more affordable option and so negotiations are taking place with Home HA and the Housing Corporation to agree that a percentage of the new properties are sold with a 30% option to purchase.
- 4.7 'Making the Housing Ladder Work', a plan for delivering affordable housing in Leeds recognises that it is necessary to develop a range of housing options and solutions to improve access to good quality housing. Therefore it is necessary to increase the range of home ownership options to assist those on low and average incomes.

Housing cost for shared ownership for single earners (per month)

Entry level	Price	Unsold equity	Rent on Unsold equity	Mortgage costs	Total housing costs	Gross annual income required*
100% purchase	£135,000	100%	0	£624.78	£624.78	£38,571
50% share	£ 67,500	50%	£154.70	£312.39	£467.09	£28,295
30% share	£40,500	70%	£220.00	£187.43	£407.43	£24,731

Housing cost of shared ownership two or more earners (per month)

Entry level	Price	Unsold equity	Rent on Unsold equity	Mortgage costs	Total housing costs	Gross annual income required*
100% purchase	£135,000	100%	0	£624.78	£624.78	£46,551
50% share	£ 67,500	50%	£154.70	£312.39	£467.09	£34,150

30% share	£40,500	70%	£220.00	£187.43	£407.43	£29,848
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* Formulae taken from Housing Market Assessment for Leeds 2006 carried out by Outside UK

5.0 Implications for Council Policy and Governance

- 5.1 Under the provisions of Section 123 of the Local Government Act 1972, local authorities have a fiduciary duty to dispose of surplus land and property for the best consideration reasonably obtainable. However, it is recognised that there may be circumstances where an authority considers it appropriate to dispose of land at an undervalue and the present proposals enable the Council to use General Consent powers to dispose of land at 'less than best consideration' to a registered social landlord for provision of affordable housing.
- 5.2 Providing affordable housing also supports the objectives in the 'Vision for Leeds' 'Narrowing the Gap' ensuring that all the people in Leeds are sharing in the success of the city by providing people on modest incomes access to good quality affordable housing. By disposing of land at Argie Avenue, the Council will enable the provision of 17 additional affordable family houses in an area of great housing need.
- 5.3 The Leeds Housing Strategy 2005/6- 09/10, highlights the need to increase the supply of affordable housing in order to meet high levels of need, requirements and aspirations. It recognises that investment from the Housing Corporation should be utilised to deliver new low cost home ownership for those on low incomes.
- 5.4 The Affordable Housing Delivery Plan provides a strategic framework for improved access to existing housing and provision of new affordable housing for those unable to afford to buy or rent on the open market. This delivery plan was approved by Executive Board on 15 November 2006.
- 5.5 The Council's Asset Management Group supported the recommendation for the 'less than best consideration' disposal of land at Argie Ave/Eden Mount, Kirkstall to Home HA at the meeting held on 17 November 2006.

6.0 Legal and Resource Implications

- 6.1 The Council has powers to dispose of land at 'less than best consideration' through the general consent under section 25 of the Local Government Act 1988 for the disposal of land to registered social landlords 2005. There is a limit of £10,000,000 on the amount of assistance that the Council can give in total under this consent in any financial year. The Development Department has confirmed that this application for 'less than best consideration' approval falls within this limit.
- 6.2 The open market land value is £800,000 and the disposal price is £85,000, which is based on the Housing Corporation's land value formula of £5,000 per dwelling. Therefore the Council is asked to forego a capital receipt of £715,000 as a land value subsidy to provide leverage of £425,000 grant assistance and £2.0m private investment in affordable housing.

7.0 Conclusion

- 7.1 In order to maximise additional affordable housing opportunities and attract Housing Corporation funding it is necessary to dispose of land at Argie Ave/Eden Mount at 'less than best consideration'.
- 7.2 The proposed development of 17 affordable family houses at Argie Ave / Eden Mount will contribute much needed affordable housing to an area where there are high land and property prices and where demand for social rented stock is higher than the city wide

average. The development will contribute to the regeneration and improvement works already seen in this area. The development also brings investment to the value of £2.0m in to the area.

8.0 Recommendations

Executive Board is requested to :

- Approve the disposal of land at Argie Ave/ Eden Mount (area highlighted on the attached plan) at 'less than best consideration' to Home HA on terms to be approved by the Director of Development for the purpose of developing 17 family houses for shared ownership.
- Note that the approval is subject to the provision that a mechanism is put in place to distribute any surpluses generated on the scheme as a result of staircasing and that 75% of any such surpluses will be paid to Leeds City Council and 25% retained by Home HA.