



Report of the Director of Neighbourhoods & Housing

Executive Board

Date: 14th March 2007

Subject: Disposal at Less Than Best Consideration – Shay Street, Woodhouse

Electoral Wards Affected:
Hyde Park and Woodhouse

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the re

EXECUTIVE SUMMARY

1. The purpose of the report is to seek approval to grant a long lease at less than best consideration for 56 three bedroomed flats at Shay Street and Holborn Terrace, highlighted on the attached plan, to Connect Housing Association. This scheme will lever in £370,000 grant assistance from the Housing Corporation's Approved Development Programme, before April 2007, for refurbishment of the properties to decency standard and contribute to regeneration of the area. On completion of the scheme the flats will be let as affordable housing for students with families in line with the Council's Housing Strategy. The properties will receive a further investment of £200,000 from, and be managed by, Unipol Student Homes and let at social housing rentals governed by the Housing Corporation.
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, because of their proximity to the Universities but allowing for the cost of necessary improvements, the Development Department has estimated that the open market value would be in the region of £2.75m for student accommodation. 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, then they would be used as social rented properties. Additionally, this market use is not recommended as it is considered that this would have a negative impact on the area in terms of regeneration and balance.

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 Connect Housing Association and Unipol could also be higher, and therefore more expensive, than that carried out by a private landlord. As indicated by the Development Department, the capital to be forgone over the period of the proposed lease on a market basis is up to £1,833,892. 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 21 years. This is primarily because a lease over 21 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 £56,000 per annum or £1,176,000 , for the 56 properties over 21 years. As the grant regulations stipulate a 15 year lease, it is therefore proposed that a break clause at 15 years be included in the 21 year rental agreement.
6. 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.
7. Ward Members views have been sought and are included within the report.

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 Shay Street and Holborn Terrace properties (highlighted on the attached plan) to Connect Housing Association, for the purpose of refurbishing and improving the buildings for accommodation for mature students with families. On completion, the scheme will be managed by Unipol, via a subleasing arrangement with Connect Housing.
- 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 Connect/ Unipol, and the costs of refurbishment, subsequent maintenance, management and other outgoings. An open book approach will be adopted between the Council, Connect and Unipol.

2.0 Background Information

- 2.1 The Shay Street and Holborn Terrace properties have been subject to a peppercorn lease agreement with The Ridings HA (now Connect Housing) for the last ten years. Unipol via Connect have managed and maintained the properties and surrounding areas for the last 10 years. The reasons for leasing these properties to Connect and Unipol, was that in 1996 housing management found they were a blight on the area and hard to manage/ let. It was felt that by diversifying tenants in the area, a more stable community would be created.
- 2.2 The properties are "Bells Maisonettes" built in 1965. There are a total of 56 units, which are all 3 bedroom flats. At the time when the leases were first considered for the properties, "Bells Maisonettes" were being demolished across the city. This was because they were extremely unpopular, due to the deck access, and were in a poor state of repair with no capital available to improve and refurbish the units. "Bells Maisonettes" across the city suffered from high voids and low demand. The maisonettes at Shay Street also suffered from high crime and vandalism, and in 1996 there was a mini riot in the Cambridge Road area (adjacent to Shay Street/ Holborn Terrace) involving youths from the estate. Had these properties not been leased to Connect and Unipol, then the proposal was for them to be demolished.
- 2.3 The original concept was for Connect and Unipol to refurbish the estate of derelict "Bells Maisonettes" that had become a centre for crime in the area, allowing students with dependants who found it very difficult to access family housing, within the private sector at prices they could afford. This scheme has been extremely successful, and all the units are fully let to mature students, with families.
- 2.4 Unipol and Connect Housing have invested heavily in the properties and the area over the last 10 years. Their intensive housing management has had an immensely positive effect, and improving the estate significantly as the ASB issues have ceased. Additionally, the improvement to the properties, has also had a positive knock on effect to adjacent LCC properties in the Holborn's and Eltham's, which are now popular and not suffering from decline as they were in 1996. Additionally these improvements have led to increased investment in the area from the Universities (i.e. new student accommodation in the areas has been completed in the last couple of years). It is worth noting that by setting up the leases with Connect Housing, the problems in the area were resolved, and investment in the area encouraged, at no cost to the Council. By leasing the properties rather than the standard option of demolition, the properties were retained as an asset to the Council.

- 2.5 The Shay Street and Holborn Terrace scheme is an example of a very successful partnership between the Council, Connect Housing and Unipol Student Homes. The introduction of 56 families with around 120 children of school age increased tenant mix in the area. The children and their parents had a major impact on local schools. The parents, mainly postgraduates studying PhD's often stayed in the properties for several years (the average stay is 2 ¾ years and the longest stay has been 7 years) and have become active members of the local community and frequently serve as school governors.
- 2.6 The majority of the leases terminated early 2006, with the remainder ending June/July 2006. Unipol pay Connect a small management fee, allowing them to sub lease and manage the properties. The occupiers of the Shay Street properties are therefore tenants of Unipol. Unipol offers 1 year annual tenancy agreements. Connect Housing and Unipol would now like to extend the leases for the properties.

3.0 Main Issues

- 3.1 Connect Housing put in a bid to the Housing Corporation's Approved Development Programme (ADP) for funding to improve the Shay Street/ Holborn Terrace properties. Neighbourhoods and Housing supported this bid for funding. Connect were successful with the bid and received £370,000 to invest in the properties.

- 3.2 Connect have drawn up a specification to upgrade the properties so that they are suitable for use over the next 15 years. This specification includes:

- improving energy efficiency by replacing older windows and tackling cold bridging
- refurbishing kitchens and bathrooms
- upgrading electrical wiring and improving communal area security

On top of this Unipol are proposing to invest a further £207,000 into the properties. The works will include:

- fast internet access
- providing CCTV to common areas
- replacing furnishings as required

- 3.3 Connect and Unipol 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 to secure this funding, the property leases must be renewed with Connect Housing and Unipol. Under the grant rules for the Housing Corporation, Connect Housing must lease the properties for at least 15 years.

- 3.5 It is proposed that the properties are set up on a long term lease for 21 years. This is primarily because a lease over 21 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 £1,176,000 (for the 56 properties over 21 years).

- 3.6 On this basis a 21 year lease, between the Council and Connect Housing, is sought. The lease should include a break clause/rent review at 15 years. This will allow

either the Council or Connect Housing to break the lease after 15 years, or for the Council to instigate a rent review.

3.7 Rents

- 3.8 With the level of investment proposed, Unipol 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 £76.51. If Leeds City Council were to rent the properties as social housing units, the rents would be £67 per week. Unipol have outlined that the difference of £9.51 per week, is due to Unipol offering white goods with the properties and that a service charge is included. Taking these factors into consideration the rents are in line with those which Leeds City Council would charge.
- 3.9 The business plan drawn up by Connect and Unipol provides for the rental stream covering management and repair costs, and the non-grant aided investment over the proposed life of the scheme. Neither organisation is seeking to generate surpluses from this project. Connect Housing 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, because of their proximity to the Universities but allowing for the cost of necessary improvements, the Development Department has estimated that the open market value would be in the region of £2.75m for student accommodation. (However this is not recommended as it is considered that this would have a negative impact on the area in terms of regeneration and community cohesion).
- 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 Unipol and Connect are undertaking the improvement works, utilising the Housing Corporation Grant. After this period, an open book approach will then be adopted between the Council, Connect and Unipol, to indicate the reasonable level of rental which should be paid by Connect. 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 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 ‘Decency’ costings, and the Leeds North West Homes Business Plan does not include future refurbishment liabilities associated with this estate. Should these properties return to the Council, capital funds would only be available to undertake the works from potential Prudential borrowing to be funded from rental income. Leeds North West Homes strongly support the proposal for Connect Housing and Unipol to continue to lease and manage the properties. Additionally, discussions have been held with the Little London PFI team, who have confirmed that these properties are not suitable to be included in the PFI.

- 3.14 The continuation of this scheme ensures the provision of accommodation for mature students with families, a need in the student market not currently catered for in the private sector.
- 3.15 Ward members views have been sought regarding this scheme and they are supportive of the principle of the project. Comments were raised regarding the location of the CCTV coverage and the landscaping works, and it has been proposed that these issues regarding the detail of the scheme are to be worked through in separate briefing sessions.
- 3.16 Further Action
- 3.17 The renegotiation of the leases has now commenced. A draft lease is being prepared which will run for 21 years, with a break clause at 15 years. As previously outlined, the purpose of this is twofold, firstly in relation to the Housing Corporation funding and secondly due to housing subsidy issues.

4.0 Implications For Council Policy And Governance

- 4.1 The Council's Affordable Housing Task Group is bringing forward an Affordable Housing Plan for consideration by Executive Board. 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 land at less than best consideration to maximise the level of investment in Leeds of social housing grant from the Housing Corporation for provision of a range of affordable housing. 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. 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 outgoings 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 freehold of the properties was valued at £2.75 million by the Development Department in May 2006 on an open market basis as required by the relevant statutory regulations. The capital to be foregone over the period of the proposed lease on a market basis is up to £1,833,892. 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 Unipol are in line with the social rents Leeds City Council would charge.
- 5.3 By leasing the properties out for over 21years, the Neighbourhoods and Housing Department will save approximately £1,176,000 in housing subsidy.

5.4 Connect Housing have received an allocation of Social Housing Grant from the Housing Corporation, as part of the 2006/08 Approved Development Programme, of £370,000 to contribute towards the refurbishment of Shay Street/ Holborn Terrace. Total scheme costs are in excess of £570,000 with the balance of funding being financed by Unipol. No capital funds would be required to refurbish Shay Street/ Holborn Terrace from Leeds North West Homes (LNW) or the Department of Neighbourhoods and Housing helping to achieve 'Best Value'. As the property is being leased to Connect Housing, it will revert back to the Council on expiry of the lease, in an improved state. Connect Housing and Unipol have provided financial figures to demonstrate their continued investment in the properties for the term of the lease. On top of the £570,000 grant and Unipol investment, Connect and Unipol propose to commit £450,000 for planned maintenance over the period of the lease. Unipol and the Connect Housing will adopt an open book approach to enable the Council to establish a reasonable rental level after allowance for the outgoings. Therefore the scheme will be subsidised by both the Housing Corporation in capital terms and by the Council in rental terms.

6.0 Conclusions

6.1 If the properties were to be marketed without restrictions, because of their proximity to the Universities but allowing for the cost of necessary improvements, the Development Department has estimated that the open market value would be in the region of £2.75m for student accommodation.

6.2 However, in consideration of the benefits to be brought by the schemes proposed by Connect, it is recommended that the Council's policy for disposals of land at less than best consideration be utilised, and a 21 year lease be drawn up between Leeds City Council and Connect Housing, with a break clause at 15 years. There will be a rent free period whilst the grant is being spent. After this period an 'open book' approach will be adopted between Unipol 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

7.0 Recommendations

7.1 Executive Board is requested to approve the principle of a disposal to Connect at less than best consideration, subject to obtaining the Secretary of State's consent and 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.