

Committee/Meeting: Cabinet	Date: 1 st December 2010	Classification: Unrestricted	Report No:
Report of: Corporate Director of Development and Renewal Originating officer(s) Jackie Odunoye, Service Head, Strategy, Innovation & Sustainability		Title: Options for the disposal of two long-term void properties and council properties previously in shortlife use. Wards Affected: Bethnal Green North, Bromley- by-Bow, Whitechapel	

Lead Member	Cllr Rabina Khan, Cabinet Member for Housing
Community Plan Theme	A Great Place to Live
Strategic Priority	Provide affordable housing and develop strong neighbourhoods

1. **SUMMARY**

- 1.1 In November 2006 Cabinet agreed to dispose of a portfolio of 26 houses which had previously been occupied on licence as shortlife properties. The decision was to sell them to local RSLs who would refurbish them and give the council 100% of the subsequent tenancy nominations.
- 1.2 The high cost of refurbishing these properties requires grant from the Homes & Communities Agency (HCA) and the current budget restriction on grant resources means that grant applications are very unlikely to be successful. To avoid continuing to leave the properties empty waiting for grant or other financial options to become available, the council now needs to consider a disposal on different terms.
- 1.3 This report seeks to vary the 2006 Cabinet decision and to pursue alternative routes for disposal of the remaining 17 properties. The report recommends the disposal of 5 properties in Swaton Road and briefly outlines the options for disposal of 12 properties in Bruce Road, Old Ford Road and Mount Terrace, which will be the subject of a further report to Cabinet.
- 1.4 The report also details two further long term voids which are uneconomical to repair – namely 19 Parfett Street and 102 Tredegar Road and recommends that these are declared surplus to requirements and disposed of on the open market.

2. **DECISIONS REQUIRED**

Cabinet is recommended to:-

- 2.1 Agree to dispose of five properties in Swaton Road E3 (numbers 148, 156, 162, 170 and 195) on the open market and to delegate decisions on the details of the disposal to the Corporate Director of Development & Renewal after consultation with the Mayor.
- 2.2 Note that a further report will be brought to Cabinet on the disposal options for the properties in Bruce Road, as outlined in section 6 of the report.
- 2.3 Agree to declare the properties at 19 Parfett Street and 102 Tredegar Road surplus to the Council's operational requirements.
- 2.4 Agree to dispose of 19 Parfett Street and 102 Tredegar Road on the open market and to delegate decisions on the details of the disposal to the Corporate Director of Development & Renewal after consultation with the Mayor.
- 2.5 Agree to use the resources generated from the open market sales for further affordable housing or regeneration schemes within the borough and note that the details will be considered as part of the budget process
- 2.6 Authorise the execution of the necessary documents to implement the above recommendations.

3. **REASONS FOR THE DECISIONS**

- 3.1 The November 2006 decision to dispose of the shortlife properties to local RSLs in exchange for nominations to tenancies of the improved properties has become impossible to implement, due to the high cost of refurbishment and the lack of availability of HCA grant to support the works costs.
- 3.2 The loss of these units from the pool of affordable housing should be balanced by the use of the open market sale receipt for provision of alternative affordable housing or regeneration initiatives to be carried out in the borough.
- 3.3 The remaining 12 shortlife properties in the council's portfolio, some of which are still occupied, are in a poor state of repair and further investigation is required to clarify the benefits of different options to bring them up to a decent standard.
- 3.4 102 Tredegar Road and 19 Parfett Street have been assessed by Tower Hamlets Homes (THH) as being too expensive to repair within their current maintenance budget. It is not beneficial to the Council for these properties to remain void because of the loss of rent, the costs arising from security and the dangers of vandalism and squatting.

4. ALTERNATIVE OPTIONS

- 4.1 Rather than disposing of the Swaton Road properties on the open market the Council could continue the process of disposal to a local RSL. However, it has not been possible to conclude this option since the original Cabinet report. As detailed at paragraph 6.7 below, there are good reasons to believe that this would result in only a small number of properties becoming available for council nominations. In contrast the anticipated receipt from the recommended open market sale would provide the means to grant fund a larger number of properties for affordable rent.
- 4.2 In the meantime the poor condition of the properties and the continual squatting is both costly for the Council and degrades the local environment to the detriment of neighbouring residents.
- 4.3 There are a number of alternative options for the 12 remaining shortlife properties and these will be the subject of a future report to Cabinet.
- 4.4 The Council could refurbish 102 Tredegar Rd (a five bed house) and 19 Parfett Street (a 4 bed house) and both could be brought up to the decent homes standard. However, the costs of repairing these homes would be considerable and Tower Hamlets Homes have therefore classified these voids as uneconomical to repair within current budgets.

5. BACKGROUND

- 5.1 A Cabinet report on 8th November 2006 agreed to dispose of 26 shortlife properties which had previously been managed on licence by RSLs or Co-ops to provide temporary accommodation for single sharers. They were to be sold to local RSLs who would refurbish them and give the council 100% of the subsequent tenancy nominations.
- 5.2 The 26 properties were split into three geographical groups – Phase 1 was 9 properties in E3 and E1, most of them located in Ropery Street; Phase 2 is 5 properties in Swaton Road E3 and Phase 3 is 12 properties in E1 and E3, most of them in Bruce Road E3.
- 5.3 After a lengthy period spent in obtaining valid quotes for the purchase of the properties by local RSLs there then followed a period of over a year whilst the successful RSLs applied for grant from the Homes & Communities Agency (HCA) to support the costs of refurbishing these properties, most of which are in a very poor condition. The Phase 1 properties were eventually sold to Network Housing Group in June 2010 with the benefit of £1.5 million of HCA grant and refurbishment works are now in progress.
- 5.4 During this period, the original price offered for the Phase 1 properties (which assumed a generous level of HCA grant support) had to be reduced from

£1.3million to £800K. The costs of refurbishing these houses, some of which have structural problems as well as requiring full internal and external repair, means that the grant required per unit is substantially higher than the average grant rates for newbuild properties. In order to achieve a grant level which represented value for money, the HCA finally agreed with the Council that the receipt of £800K should be recycled to subsidise the HCA grant level on another Network newbuild scheme. The decision to recycle this grant was approved by Cabinet on 8th September 2010.

- 5.5 The experience with the Network sale has shown that the high cost of refurbishment and the current squeeze on HCA resources means the original disposal plans for the remaining properties is unlikely to be successful. With very limited resources likely to be available for grant for the remainder of 2010/11 and uncertain funding levels beyond 2011, it would neither be particularly good value for money for the HCA nor a high priority for LBTH to request grant for the remaining shortlife properties.
- 5.6 The average cost of refurbishment of the Phase 1 properties is over £180,000 per property. At this level of expenditure, even with the properties being sold at nil value, any developing RSL would require subsidy in the form of HCA grant, grant from the local authority or use of their own capital resources, alongside loan finance in order to fund the refurbishment scheme.
- 5.7 102 Tredegar Road and 19 Parfett Street are included in the Housing Revenue Account (HRA) and managed by Tower Hamlets Homes (THH). They have both been void due to their poor condition for at least the past eighteen months.
- 5.8 19 Parfett Street is a Grade 2 listed property and therefore will require specialised repairs to bring it back into use. Tower Hamlets Homes have estimated the total costs for repairing both void properties as circa £124,000 with 19 Parfett accounting for 66% of the total cost and 102 Tredegar Rd 34%. However, the costs could be more than this in line with the experience in the phase 1 shortlife disposals.

6. BODY OF REPORT

The disposal of Phase 2 properties in Swaton Road (numbers 148, 156, 162, 170 and 195)

- 6.1 The previous shortlife residents have moved out of these properties and all are currently occupied by squatters. Three properties are awaiting enforcement of possession orders obtained in court last year and two others have court hearings pending which are expected to be scheduled for November.
- 6.2 The condition of the properties is poor, with no modern kitchen or bathroom facilities, but squatters have nevertheless made a temporary home of them. Without expending large sums on a manned security presence, it is apparent

that squatters will always be able to force entry and residents are fearful of less-cooperative squatters in future.

- 6.3 In the light of the number of complaints received from neighbours about the length of time that the properties have been empty and boarded up, the speed with which the properties are sold and refurbishment contractors start work is a consideration which will influence the choice of the course of action.
- 6.4 The recommended option is to sell the five properties on the open market. The Service Head, Asset Management considers that the most appropriate method of disposal will be by auction. The sale will generate a receipt. The properties were last valued in 2006 at an average of £292,000. These figures need to be adjusted to reflect the deterioration of the properties and current market prices and an initial estimate of £200,000 per unit (i.e. a total of £1,000,000) is considered reasonable. As part of the auction process, the auctioneers will be required to provide formal valuations prior to the auction in order to set reserve prices below which the properties would not be sold. To safeguard the Council's interests, sales would not proceed below the agreed reserve price.
- 6.5 It is estimated that the timetable for disposal on the open market would involve the appointment of an auction company in December and that the properties would be available for viewing by potential purchasers in January with the sale taking place in February. The auctioneers will of course require vacant possession of the properties and therefore this timetable may be delayed by a few weeks dependent on the scheduling of the squatters' eviction by the court bailiffs.
- 6.6 This report recommends that the receipt from the proposed sale is ring-fenced for use either for regeneration purposes or as Local Authority Grant to support the construction of new affordable housing. The current average grant level from the HCA for an affordable rent unit is around £100,000. The sale receipt could therefore provide funding for around 10 new units for rent.
- 6.7 Should members be unwilling to lose these five properties from the social housing stock, an alternative option is to carry on with the process of selling the properties to an RSL to deliver refurbished homes for council nominees, in line with the 2006 decision. As detailed at 5.3 to 5.5 above, there is no current prospect of an allocation of HCA grant and it is evident that this route would require a sale at nil value. Poplar HARCA were the winning bidder in 2008 but they have confirmed that the scale of their other development commitments means they cannot currently finance the refurbishment works without grant. The estimated cost of refurbishing these properties, in line with established costs on the similar Phase 1 properties, would be £180,000 per property. Network Housing Group, who are refurbishing the Phase 1 shortlife properties, have indicated that they would only be able to fund refurbishment works from their own resources if they were granted permission to refurbish some of the houses for open market sale. This option would therefore generate no receipt for the council and would only produce nominations to tenancies in 2 or 3 refurbished family homes.

- 6.8 It is likely that a sale to an RSL might take longer to accomplish a start of works on site than the timetable outlined at 6.5 above. Although the process of sale to an RSL might be completed by the end of January 2011, the RSL would then need to observe their approved processes for drawing up schedules of work and tendering contracts for the refurbishment works. The auction sale may result in purchase by individuals who might occupy the properties and carry out their own refurbishments or by small developers who would carry out works themselves.

The disposal of void properties at Parfett Street and Tredegar Road

- 6.9 19 Parfett St. is a mid terraced four bed dwelling of 114sqm floor area. The property was constructed around 1800 and is a Grade 2 listed building containing many original features. 102 Tredegar Road is a five bed mid terraced house constructed around 1900 with a floor area of 206sqm.
- 6.10 The majority of the works required in both properties could not be carried out using THH's current Measured Term contracts. The properties require complete refurbishment and renewal of all internal fittings and fixtures and extensive repairs. The repair cost for bringing the two properties back into use are estimated at £82,000 and £42,000 respectively, subject to a finalised schedule of works and tender.
- 6.11 The disposal of these two properties on the open market could realise a substantial receipt. The receipt would be ring-fenced for use either to provide new affordable housing or for other regeneration activities. A recent valuation by the Council's Asset Management Team of the properties in their current state has valued 102 Tredegar Rd at £500,000 and 19 Parfett St at £450,000.

Options for the use of the receipts generated by these open market disposals

- 6.12 The recommendation to Cabinet is that the receipt should be used for the provision of further affordable housing or regeneration schemes within the borough. There are a number of options outlined below for expenditure of these receipts, currently estimated at £1.9 million.
- 6.13 The council's current housing stock requires considerable investment to bring all dwellings up to the Decent Homes standard. An additional £1.9M applied to the capital budget administered by Tower Hamlets Homes would enable internal works to be carried out to over 150 properties or internal and external works to 95 properties. (Average costs per property of £12,000 for internal works and £20,000 for internal and external works.)
- 6.14 In 2009/10 the council established a budget for the purposes of buying back properties on our estates which had been sold under the Right to Buy. The average cost of buying back and refurbishing a 3bedroom or larger property was just under £240,000. The £1.9M receipt could therefore be used to

acquire a further eight properties on the open market and making them available for rent under our the Choice Based Lettings system.

6.15 The receipt could also be used to provide additional funding for the current programme of Local Authority newbuild. The council has received allocations of HCA funding for phase 1 of this programme, providing 17 units, but only received funding for 9 units in the proposed phase 2. The average grant rate from the HCA for the 17 approved units was £100,000 per property, all properties being 3 bedrooms or larger. The £1.9M receipt could therefore be used to produce around 19 additional new council-owned units for affordable rent on one of the sites identified in the council's phase 2 bid. These potential schemes are listed below.

a) Bradwell / Moody Street, Longnor Estate, E2. The 9 units already promised HCA funding under Phase 2 of the programme are planned to be located on this site, but architects are currently working up proposals which may enable up to 40 units to be built there.

b) There were an additional 11 sites identified in the phase 2 bid, potentially providing 79 units. The sites range in size from 2 units to 10 units with one larger site on Cranbrook Estate which could accommodate 26 units.

6.16 As noted above, the level of Social Housing Grant received by local RSLs to subsidize the delivery of new affordable housing units for rent over the past year has been around £100,000 per unit. The receipts from the disposals proposed in this report could be given to one of our Preferred Development Partner RSLs as grant to allow the building of 19 new properties which would be available for letting to local families.

6.17 The council has already drawn up a Local Investment Plan which outlines our priorities for investment over the next fifteen years. The recent Comprehensive Spending Review has made clear that central government funding for housing schemes will be severely limited and grant funding from Local Authorities may enable additional RSL schemes to be completed.

6.18 Many of the priority schemes in the Local Investment Plan are major schemes which require considerably more than £1.9M in public subsidy, but there are a number of smaller schemes which have been given high priority in the Local Investment Plan. A list of potential schemes is given in the table below, along with details of their current status

Scheme name	RSL	Estimated no. affordable rent units	Scheme status
Stepney's, 373 Commercial Rd	Swan	6	New planning application due before year end
100 Violet Road	Not known	23	No planning application – various RSLs considering site purchase
Shipton House, Shipton Street	Peabody	13 (supported housing)	Planning granted
Arrow Road, E3	Poplar HARCA	6	Planning granted

Whitehorse Road	Southern	9	No planning application – site assembly required

- 6.19 The decision on which of these options should be adopted for the expenditure of the £1.9M receipt, or such higher sum as might be achieved by the sale, will be delegated to the Director of Development and Renewal, after consultation with the Mayor.

Terms and conditions of disposals of shortlife and long term void properties

- 6.20 The properties proposed for sale on the open market are all terraced houses and in line with the council’s Disposals Policy, they would each be sold on long leases, which will enable terms and conditions to be attached to the sale.
- 6.21 Local residents have expressed considerable concern over the length of time that the council has left these properties empty and in a semi-derelict state, and over the possibility of future crime and anti-social behaviour if the properties are left empty again. It is therefore proposed that a covenant be attached to each sale (whether market sale or sale to an RSL) to require that the properties are brought back into residential use within 18 months of the sale. Failure to comply with the conditions attached to the sale requiring the properties to be brought back into reasonable beneficial use would result in financial penalties to the purchaser and the potential of the property being re-possessed by the Council

Background to the disposal of the 12 properties in Bruce Road and other locations

- 6.22 The 12 properties making up Phase 3 of the shortlife property portfolio are numbers 9, 11, 46, 48, 50, 52, 58, 62, 64 and 66 Bruce Road E3, 93 Old Ford Road E3 and 34 Mount Terrace E1. Nine of the properties are still occupied by shortlife groups and 3 are squatted. One property is managed under licence by Phoenix Housing Cooperative and eight by Tower Hamlets Users of Shortlife Housing (TUSH) who are themselves managed by Stadium Housing Association, a subsidiary of Network Housing Group.
- 6.23 The 9 licenced houses are currently being maintained by their licencees and there appear to be 22 single people and two families in occupation. Some properties are split into self-contained flats, but the majority are used as shared houses. The 2006 Cabinet decision to dispose of the houses stated in relation to the issue of rehousing that where an RSL is unable to rehouse existing occupiers, a one-off offer of reasonable accommodation will be made by the Council.
- 6.24 The condition of the three squatted properties is very poor.. These terraced houses need to be brought up to a modern standard where they could provide suitable long term accommodation for people in housing need.
- 6.25 Although the same difficulties apply to implementing the 2006 Cabinet decision, due to the greater complexity of this phase of the portfolio because

the majority of the units are legitimately occupied it is proposed that alternative options are investigated in more detail in consultation with the RSLs and the residents and that a further report is brought to a future Cabinet.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 7.1 Cabinet is asked to approve the disposal of seven properties at open market value. These are 148, 156, 162, 170 and 195 Swaton Road, 19 Parfett Street and 102 Tredegar Road.
- 7.2 All of these properties have been unsuitable for letting for some time. It is not seen to be beneficial for these properties to remain empty as they are generating no rental income, are expensive in terms of security and other costs and, due to their current state of disrepair, can have adverse environmental impacts.
- 7.3 On 8th November 2006 Cabinet agreed to dispose of all of the Swaton Road properties to registered social landlords. Paragraph 6.7 of this report sets out the reasons why this is no longer considered to be a viable option – the main one being that Homes and Communities Agency grant is no longer available to RSLs to enable them to refurbish the properties themselves. A similar rationale exists in the case of 19 Parfett Street and 102 Tredegar Road.
- 7.4 An alternative option would be for the Council to refurbish these properties and bring them back into use for rent. The respective refurbishment costs of each property would be as follows :-

Address	Individual Refurbishment Cost (£)	Total Refurbishment Cost (£)
Swaton Road Properties	180,000	900,000
19 Parfett Street	82,000	82,000
102 Tredegar Road	42,000	42,000

- 7.5 The report indicates that this is an impractical option because Tower Hamlets Homes have classified these voids as uneconomical to repair within current budgets (Paragraph 4.4).

- 7.6 Cabinet are advised that, given an approximate net rental income of £ 5,000 per annum the payback period (i.e the time period over which the Council would recoup its investment) for each property would be as follows :

Address	Individual Refurbishment Cost (£)	Payback period (years)
Swaton Road Properties	180,000	36.0
19 Parfett Street	82,000	16.4
102 Tredegar Road	42,000	8.4

From this analysis it can be seen that, particularly with 102 Tredegar Road, payback will be within nine years. The refurbishment costs of £ 42,000 would have to be offset by compensatory savings from the Housing Revenue Account. Members are advised that the HRA budget for 2010/11 is particularly tight. The advantage though of taking this option would be two-fold in that the property would deliver a continuing revenue stream after the payback period ends and the asset would still remain in the Council's ownership.

Despite this disposal is still seen as the most financially advantageous route for the Council. There is no initial outlay on refurbishment (only costs of sale) and the potential receipt from this particular disposal would be in the region of £ 500,000 (see below). Officers are of the opinion that more social for let properties could be delivered through open market sale.

- 7.7 The most recent valuation (circa 2006) of the Swaton Road properties was £ 292,000 per property (£ 1,460,000 in total). Paragraph 6.4 of the report though indicates that it would be highly unlikely to realise this value at auction and a more likely sale value is £ 200,000 per property (£ 1,000,000 in total). This is both due to depreciation and changes in the housing market since that date. The report states though that a reserve price would be set so as to protect the Council's position should the sale price at auction be below the deemed market value as at that date.
- 7.8 Paragraph 6.11 states that the anticipated receipts from the sale of 19 Parfett Street and 102 Tredegar Road could be £ 450,000 and £ 500,000 respectively.

- 7.9 Receipts from the sale of all seven properties could be wholly recyclable provided they are set aside for affordable housing or regeneration purposes.
- 7.10 The system of capital regulations for the HRA introduced as part of the Prudential Borrowing system in April 2004 enables 100% of non-right to buy housing receipts to be retained by the Authority if they are used for affordable housing or regeneration purposes. It is not necessary to earmark the receipt against a specific regeneration or affordable housing project. However, to enable the Authority to demonstrate that it has utilised the receipt for the specified purpose the three year capital programme must contain sufficient projected expenditure on relevant projects to cover the retained element of the receipt. If the allocation to either a regeneration or affordable housing project is not made 75% of dwelling sales (excluding right-to-buy) or 50% of the non-housing receipt has to be paid into a national pool administered by the Government. The programme currently contains sufficient projected expenditure for this purpose. Alternatively, the authority may choose to use the capital receipts for non regeneration or non affordable housing purposes, but in that case only 25% of the receipt would be available to the authority.

In view of the very limited funding available for investment in housing and regeneration following the Spending review, Members may wish to consider the use of this funding alongside other priorities as part of the budget process.

8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 8.1 Members need to have regard to the power in section 123 of the Local Government Act 1972 for the Council to dispose of land. This requires any disposal to achieve the best consideration reasonably obtainable unless the Secretary of State consents to the disposal. As it is proposed to sell these properties by auction and with the safeguard of a reserve price best consideration will be shown to have been achieved.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The equalities implications of the actions recommended here have been considered and it is evident that a decision to sell these properties on the open market would reduce the current number of properties available to be let as affordable social housing for those on low incomes. The report explains why the economic repair of these properties is not possible and suggests that the effects of the sale can be mitigated by ensuring that the sale receipts are ring-fenced to facilitate the construction of other new affordable housing units in the borough.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 10.1 These properties have had no major works to improve their condition for a very long time and are currently very poorly insulated and have deficient heating systems. Refurbishment of the properties, whether carried out by an

RSL or by a private purchaser, will bring them up to modern standards and contribute to a more sustainable neighbourhood.

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 It may not be possible to sell these units in the current economic climate but this risk will be mitigated by close management of the disposal process.
- 11.2 If the units remain empty there is ongoing risk of further squatting, vandalism and anti social behaviour.
- 11.3 It is possible that even after the disposal these units may not be brought back into residential use in a reasonable time scale, but this will be mitigated by inserting clear requirements in the terms of the leasehold disposal.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 12.1 It is evident from a number of complaints from local residents that the presence of these semi-derelict properties contributes either to actual crime, evidenced by the number of instances of unauthorised occupation by squatters, or the fear of crime. Speedy action by the council to arrange for these houses to be refurbished by their new owners will assist in reducing the negative impact of these houses and will contribute to a regeneration of this part of the borough.

13. EFFICIENCY STATEMENT

- 13.1 The housing resource represented by these 20 properties is currently much under-used, with 7 properties in unauthorised occupation, three standing empty and the others occupied by people who would not have priority on the council's Common Housing Register. The open market sale of these properties will generate a receipt which can be used for the provision of new affordable housing, built to a modern standard and let to people on the Common Housing Register.

14. APPENDICES

Appendix 1 – plans of shortlife properties

Appendix 2 – plans of long term void properties

Local Government Act, 1972 Section 100D (As amended) List of “Background Papers” used in the preparation of this report

There are no background papers