



**Haringey** Council

Agenda item:

[No.]

**CABINET**

On 15<sup>th</sup> June 2010

Report Title: **Enfranchisement of Residential Leasehold Properties**

Report of: **Niall Bolger – Director of Urban Environment**

Signed :

Date:

24 June 2010.

Contact Officer : Nick Powell, Head of Housing Strategy Development & Partnerships  
Tel: 020 8489 4774, email: [nick.powell@haringey.gov.uk](mailto:nick.powell@haringey.gov.uk)

Wards(s) affected: **Seven Sisters,  
Tottenham Green and Tottenham Hale.**

Report for: **Key Decision**

### 1. Purpose of the report

- 1.1. To seek agreement to revise a previous delegated authority decision to dispose of the Council's leasehold interest in four leasehold residential properties that are in the final years of their leases deemed as a wasting asset.
- 1.2. To seek agreement to enfranchise these four properties whereby two will be retained in social housing use and two will be sold due to being surplus to requirements.
- 1.3. To seek agreement to ring-fence the capital receipt to enable the enfranchisement of the properties detailed therein with the surplus to the Council's resources.

### 2. Introduction by Cabinet Member (if necessary)

### 3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

#### 3.1 Council Plan Priorities:

- Encouraging lifetime well-being at home, work, play & learning.
- Promoting independent living while supporting adults and children in need.
- Delivering excellent customer focussed cost effective services.

3.2 The Council's Housing Strategy 2009-19.

3.3 The Council's Homelessness Strategy 2008/11

3.4 One of the key objectives within the Strategic & Community Housing Service's business plan is to maximise the development of affordable housing, by attracting investment and ensuring effective partnership working, to meet the needs of residents and help build strong and environmentally sustainable communities.

3.5 The disposal of the properties proposed in this report form part of the Council's planned programme of disposals which will help to underpin the Council's Capital Programme.

#### **4. Recommendations**

4.1. Cabinet agree to revoke the previous decision to dispose of the leasehold interest of the four below properties take under Delegated Authority on 23<sup>rd</sup> April 2009.

4.2. Approval to allocate circa £105,000 of Capital funding to Strategic & Community Housing to be repaid from sales receipts during 2010/11.

4.3. Approval to the acquisition of the freehold reversionary interests of four residential properties currently leased to the Council:

- Property 1
- Property 2
- Property 3
- Property 4

4.4. Approval to ring-fence funds from the capital receipt of the subsequent disposal of two of the freeholds with vacant possession at:

- Property 1
- Property 2

4.5. That the net proceeds of the sales be made available for the Council's Capital Programme.

#### **5. Reason for Recommendation**

5.1 The Council's Strategic & Community Housing Service (S&CH) holds a number of leasehold residential street properties, currently 33 in total, acquired individually in past years. The majority of these properties have unexpired lease terms ranging from 10 to 74 years and therefore require no action at present. However, there are four with a short term remaining that require immediate action. All properties are let as general needs accommodation on secure tenancies and are now managed

by Homes for Haringey.

- 5.2 As the leases reach their final years it has been the S&CH's practice to re-house the occupants to suitable alternative accommodation and dispose of the remaining lease prior to expiry in order to avoid any claim by the freeholder against the Council for dilapidation. This also releases a small capital receipt for the residual leasehold interest currently estimated at approximately £20-30K per property for the unexpired lease. The residual value is due to the leaseholder (the Council) having a statutory right to enfranchise and secure the property freehold which is usually worth considerably more than the lease acquisition and freehold enfranchisement costs.
- 5.3 The lease disposal proceeds are treated as capital receipts and taken into Corporate resources to be used in accordance with the Council's financial strategy.
- 5.4 Presently the Housing Service does not directly benefit from the small leasehold disposal receipts. However, it does bear the cost of suitably re-housing the secure tenants and this also has the consequence of the loss of an affordable home, usually a family unit that could otherwise have been used in the reduction of temporary accommodation. It is currently estimated that in 2010/11 the average cost to the Council of maintaining a family in emergency accommodation will be £6,000 p.a. When this is considered against the estimated disposal receipt of £20-30,000 it represents a deficit within five years and does not offer best value when considering other options available.
- 5.5 Therefore, it is proposed to enfranchise and dispose of two units and enfranchise, improve and retain two units.

## **6. Other Options Considered**

- 6.1 There is the option of retaining the long term use of the properties by applying to the owners for an extension of the lease. However, this is not considered viable in these cases because of the compensation that would be payable to the freeholder due to the considerably enhanced value of the new lease compared to the current lease's short unexpired period.
- 6.2 Another option would be to dispose of the remaining leasehold interest to all of the four properties. This would only yield a capital receipt of circa £85,000 as does not offer best value, in light of the Home Loss and re-housing cost for the existing tenants.
- 6.3 The final option would be for the council to enfranchise all four properties and then dispose of the freehold interest. However, whilst this would provide a capital receipt of circa £642,000 the Council would need to take legal proceedings to obtain vacant possession of the two properties currently occupied by secure

tenants. This would be in addition to allocating suitable alternative accommodation with Home Loss compensation.

## **7 Summary**

- 7.1 It is proposed for the four below leaseholds be enfranchised with two to be retained as permanent affordable accommodation in the Council's freehold ownership. The costs of such a strategy would generally be less than the value of the assets acquired although each case would be assessed on its merits with lease disposal still considered as an option to achieve best value.
- 7.2 The Council's Capital Asset & Strategy Board is in full support of the proposals to enfranchise these properties, as it represents value for money and is a good example of the council making the best use of its resources.
- 6.1. The leasehold street properties that require action to avoid potential dilapidations claims and costs at lease end are:
- Property 1
  - Property 2
  - Property 3
  - Property 4
- 7.3 Two of these properties, Property 1 and Property 2, are currently void, being deferred from disposal pending agreement to enfranchise.
- 7.4 Corporate Property Services have prepared valuations for the remaining leases, the cost of enfranchisement and the estimated freehold sale values.
- 7.5 Securing the freeholds for retention of all four properties would require an allocation of funding from the Council's Capital programme estimated at £433,000. However, this would secure assets to the value of approximately £1,075,000, save the re-housing and home loss costs of the existing occupants and cascade down to reduce temporary accommodation at a total average saving for all four homes of £24,000 per year resulting, in simple terms, of a pay back period of 18 years.
- 7.6 Housing subsidy income, management and maintenance costs are considered to be neutral in this respect.
- 7.7 However, in recognition of the current capital funding situation the recommended alternative is for a self funding arrangement by which all four properties could be enfranchised with two of the resulting freeholds then being sold on the open market. The receipts from those two disposals will provide the funding to repay the cost of the initial four freehold acquisitions leaving the Council with two freehold acquisitions at no overall cost.

7.8 The values given in Appendix 1 demonstrate the viability of this option. If the freeholds were acquired individually it would only require circa £105,000 to fund the initial freehold acquisition, the subsequent open market disposal would provide funding for the second and third acquisition and the second sale would provide the funds for the fourth enfranchisement, repayment of the initial funding allocation and also provide for fees and improvements to the two retained properties.

7.9 In detail the proposal would be to enfranchise and sell Property 1 and Property 2; enfranchise, improve and retain Property 3 and Property 4. This is on the basis that both Property 1 and Property 2 are currently void and the tenants of Property 3 and Property 4 do not wish to move and it would require legal possession proceedings to obtain vacant possession.

## **8 Chief Financial Officer Comments**

8.1 This report proposes a more flexible approach to the disposal of leasehold residential properties, by allowing an option to acquire the freehold if this is thought to provide better value for money and enhance the capital receipt. This approach has been approved by the Capital and Assets Strategy Board.

8.2 With respect to the properties identified within this report the recommended approach is expected to increase the total capital receipt to the Council whilst at the same time allowing 2 properties to be retained and therefore reducing the cost to the Temporary Accommodation budget.

8.3 The expected costs and receipts are shown in Appendix 1.

8.4 However, there is a cash flow implication in that the recommended option requires £105,000 of capital funding to be made available and the capital receipt that this helps to generate will be received at a later date. Thus Cabinet approval is required in order to create the initial budget.

## **9 Head of Legal Services Comments**

9.1 Subject to title investigation and satisfaction of the qualifying conditions the Council has the statutory right to acquire the freehold reversionary interests. The subsequent disposal of two properties will be under section 32 of the Housing Act 1985 subject to Secretary of State Consent. The Secretary of State has issued some General Consents. Legal advice should be sought at the time of disposal to see whether any of these consents would apply.

9.2 Corporate Legal Services has no comment as to ring fencing of finances.

## **10 Head of Procurement Comments**

10.1 Not applicable.

## **11 Equalities & Community Cohesion Comments**

11.1 Minority and disadvantaged groups have a higher than average dependence on affordable housing and increasing housing supply, especially of social rented housing, will therefore be beneficial for those groups in helping to meet housing needs.

11.2 The loss of any affordable housing is regretted, however, this loss is offset as the resultant capital receipt is used in accordance with the council's policies that are directed at all disadvantaged groups.

## **12 Consultation**

12.1 The residents of Property 3 and Property 4 have been consulted and provided with the information relating to their security of tenure as a tenant of a leasehold property. They have also been provided with information pertaining to the decant procedure and the legal process to obtain vacant possession in the event that agreement to enfranchise is not forthcoming.

## **13 Service Finance Comments**

13.1 These four units of housing were acquired as long leases under the open market acquisitions programme. Historically, as these leases approach lease end, it has been common practice to dispose of these units in order to avoid having to meet dilapidation claims from the freeholder. Property Services has now carried out valuations of these properties illustrating that disposal without the prior acquisition of the freehold will give rise to a forgone capital receipt.

13.2 If the Council acquires the freeholds of all four leaseholds properties, at a cost of £433,000, it is estimated that the capital receipt can be enhanced by £557,000.

13.3 The report proposes that two units are sold and that two be retained. The sale proceeds will then be available to carry out the necessary capital works required for the retained units.

## **14 Use of appendices**