

GOOCH HOUSE, CLAPTON – HACKNEY LIVING RENT PROPOSAL

Key Decision No - NH Q12

**CABINET MEETING DATE
(2019/20)**

24 February 2020

CLASSIFICATION:

Open

If exempt, the reason will be listed in the main body of this report.

WARD(S) AFFECTED

Hackney Downs Ward

CABINET MEMBER

Mayor Glanville, Housing Regeneration

Councillor Sem Moema, Mayoral Advisor - Private Renting and Housing Affordability

KEY DECISION

Yes

REASON

Spending or saving

GROUP DIRECTOR

Ajman Ali, Acting Group Director - Neighbourhoods and Housing

1. CABINET MEMBER'S INTRODUCTION

- 1.1. For too long renters in Hackney have been on the frontline of Hackney's housing crisis, facing high and unpredictable rents, insecure tenancies and a lack of regulation that prevents too many from having a good, stable and well-managed place to live. Our #BetterRenting campaign is addressing this, fighting for changes in law to offer renters greater stability, affordability and protection; and directly intervening by taking tougher action against rogue landlords and demonstrating what a good landlord looks like by letting out our own Hackney Living Rent homes.
- 1.2. Hackney Living Rent offers a genuinely affordable option for middle earners priced out of home ownership but without priority for social housing, with rents set at a third of local incomes. In line with our #BetterRenting campaign, it provides the standards and protections that we think should be the norm in the sector, including longer tenancies, no unfair evictions and deposits of no more than three weeks' rent.
- 1.3. I'm delighted that we're aiming to deliver the next phase of Hackney Living Rent homes at Gooch House, with 16 much-needed homes aimed at local renters and offered at rates that won't compromise their living standards or prevent saving for a deposit. By repurposing outdated bedsits that no longer meet today's standards, we're making the most of Council assets to provide high-quality, well-designed new homes and creating a local housing option that's unavailable in Hackney at present.
- 1.4. These contribute to our ambitious house building plans as one of more than 20 sites where we're delivering hundreds of genuinely affordable homes between 2018 and 2022.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1. In February 2016, Cabinet authorised the delivery of the Housing Supply Programme (HSP). The refurbishment of the 16 void bedsits at Gooch House will be delivered in line with the approved HSP.
- 2.2. The HSP has authority to deliver Outright Sale, Shared Ownership and Social Rent tenures to address pressing housing need across the borough. In order to meet the strategic objectives of the HSP, this report recommends that the 16 refurbished bedsits at Gooch are disposed of as Hackney Living Rent accommodation.
- 2.3. In January 2018 Cabinet approved the creation of the Hackney HLR Housing Company Ltd (Company number 11750958) which allows the Council to offer Hackney Living Rent homes. Hackney Living Rent homes are genuinely affordable to those on medium incomes, with rent levels set at one third of average local incomes. These homes are prioritised for individuals already living or working in Hackney and managed in line with the Council's #BetterRenting principles – secure and stable tenancies, responsive repairs

and maintenance, no extortionate letting fees and no unreasonable rent increases.

- 2.4. This report therefore recommends that the leasehold interest of the 16 refurbished bedsit properties are offered to the Hackney HLR Housing Company Limited (11750958) and let as Hackney Living Rent homes. The Hackney HLR Housing Company Limited (11750958) decision to acquire the bedsit properties will be subject to the Hackney HLR Housing Company Limited (11750958) Board of Directors' approval. Therefore the report recommends that, in the unlikely event that a sale to the Hackney HLR Housing Company Limited (11750958) is unsuccessful, the refurbished properties will remain within the Housing Revenue Account and the Council can explore re-letting them as social rented units.

3. RECOMMENDATION(S)

Cabinet is recommended to:

- 3.1. Authorise the Director of Regeneration to dispose of the 16 void bedsits at Gooch House through the Housing Supply Programme as Hackney Living Rent accommodation;
- 3.2. Authorise the Director of Regeneration to offer a long leasehold interest for the 16 refurbished bedsits at Gooch House to the Hackney HLR Housing Company Limited (11750958) for private renting at Hackney Living Rent levels at a premium equivalent to the value of the affordable property;
- 3.3. Authorise the Director of Regeneration to seek Secretary of State consent as required to dispose of the 16 void bedsits at Gooch House;
- 3.4. Delegate authority to the Group Director of Neighbourhoods and Housing, the Group Director of Finance and Corporate Resources and the Director of Legal and Governance Services to undertake such steps as are necessary to implement the above recommendations and to enter into the agreed leasehold interests.
- 3.5. Authorise the Director of Legal and Governance Services to prepare, agree, settle and sign the necessary legal documentation to effect the proposals contained in this report and to enter into any other ancillary legal documentation as required.

4. REASONS FOR DECISION

- 4.1 The reasons for providing this report and the recommendations within it are:
 - 4.1.1 To dispose of the 16 refurbished bedsits at Gooch House through the HSP as Hackney Living Rent accommodation;

- 4.1.2 To offer the leasehold interest of the 16 refurbished bedsits at Gooch House for sale to the Hackney HLR Housing Company Ltd (11750958);
- 4.1.3 To dispose of the 16 refurbished bedsits at Gooch House to the Hackney HLR Housing Company Limited (11750958) following agreement of the disposal value.

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 5.1. There are 16 empty bedsits at Gooch House. The option of doing nothing with the empty bedsits has been rejected, as these properties are void and present a cost to the Council in terms of lost income from the 16 households that could potentially be housed there and Council Tax liability. Plans to knock the flats through and provide bigger homes were rejected as too costly, not meeting housing need and potentially impacted by the Bedroom Tax.
- 5.2. One of the options in the February 2016 Cabinet report, authorising delivery of the Housing Supply Programme, was to explore if the Gooch House bedsits could be converted into larger two storey homes as they are stacked vertically. This was rejected due to the extent of the structural alterations that would be required to the occupied block, in terms of the risks, costs and level of disruption to residents.
- 5.3. Disposal of the Gooch House bedsits for Shared Ownership was considered and rejected, as established lenders of Shared Ownership mortgages stated that they would not be willing to lend against the properties. Despite the Council offering to underwrite the resale risk, lenders still would not agree to lend. This reflects the current Shared Ownership mortgage market, which has a limited number of active lenders who are cautious with regard to perceived risk. As a result, Shared Ownership disposals could not be pursued.
- 5.4. The option to develop a bespoke Low Cost Home Ownership (LCHO) product was extensively considered. However, the terms of the LCHO product were not financially viable or attractive to the target cohort when tested, so this option was rejected.
- 5.5. Homerton Hospital faces significant staff recruitment and retention challenges, partly due to the cost of buying or renting a home privately in Hackney. The potential to lease the Gooch House bedsits to Homerton University Hospital NHS Foundation Trust was explored. However, the Trust was not in a position to enter into a lease with the Council, and therefore this option was rejected.
- 5.6. Finally, the option of selling the bedsits to buyers on the open market was also rejected. The existing units are not readily mortgageable and would therefore appeal mainly to cash-buyers and private investors; although the current economic climate, changes to Stamp Duty (SDLT) rules and uncertainty around Brexit has reduced the number of investors in the market. If the homes purchased by investors were then let privately, this is unlikely to contribute towards creating a sustainable community within Gooch House. Ultimately the

Council wanted to ensure that these homes remained an affordable housing option for Hackney residents.

6. BACKGROUND

6.1. Gooch House bedsit project

- 6.1.1. In February 2016, Cabinet authorised the delivery of the HSP, the purpose of which is to deliver new homes in the borough to address the pressing need for new homes across a range of tenures. In addition to delivering new build properties, the programme also includes the refurbishment and reconfiguration of the 16 void bedsits within Gooch House in Clapton, in order to increase the overall level of housing supply.
- 6.1.2. Gooch House is a 17 storey 1960s tower block located close to Lea Bridge Roundabout. The block contains 80 homes made up of bedsits, one, two and three bedroom flats. Gooch House is owned and managed by the Council and the majority of the flats are social rent homes, with eight properties having been sold through the Right to Buy. The block benefits from an overnight concierge service and community room.
- 6.1.3. Within the block there are 16 small bedsits, each approximately 24 square metres in size. These are stacked vertically, one per floor, above a meeting room at ground floor level. The bedsits are in poor condition, the residents having been decanted some time ago due to management issues arising from a concentration of vulnerable occupiers within what is otherwise a family block.
- 6.1.4. Following approval of the HSP in February 2016, a locally based architect practice has been appointed to repurpose the void bedsits as thoughtfully designed studio flats. The size constraints demand a combination of standard components and bespoke fixtures to produce a high quality living environment. The chosen design will make best use of the limited space, while also providing value for money in terms of construction and maintenance costs.
- 6.1.5. An experienced Employer's Agent has also been engaged to provide cost consultancy and contract management services for the project, which is currently anticipated to be delivered by the end of 2020.
- 6.1.6. The project is predicated on converting empty Council accommodation (i.e. void bedsits) into homes that are of comparable quality to the open market equivalent, but at a lower rent. Extensive feasibility work has been carried out to determine how to deliver this unique project in a way that can meet the strategic objectives of providing a marketable and affordable product that addresses housing needs and offers the Council value for money. The Hackney Living Rent product was identified as the option that would best deliver these strategic objectives, whilst also mitigating the unique challenges associated with the size, location and historical management issues of the bedsit properties. Furthermore, the required level of refurbishment is better offset against a sub-market rental income, rather than social rent income.

- 6.1.7. The Hackney HLR Housing Company Limited (11750958) is able to provide homes that are genuinely affordable to those on medium incomes, with rent levels set at one third of average local incomes. Letting the refurbished studio flats as Hackney Living Rent addresses the need to prioritise working people on moderate incomes, who need stable, secure and genuinely affordable homes. The size and location of the bedsit properties provides the Council with an opportunity to offer independent living at a price point that is attractive for those in entry level jobs or essential roles, who would otherwise face high rental costs in the private sector, living in shared accommodation or a long commute into the borough from more affordable locations.
- 6.1.8. For this reason, it is recommended that the leaseholds of the refurbished studio flats are offered for disposal by grant of a long lease of at least 21 years to the Hackney HLR Housing Company Limited (11750958), to be let as Hackney Living Rent. This would be subject to Hackney HLR Housing Company Limited (11750958) Board of Directors approving the acquisition in line with its business plan and associated delegated authorities, as approved by Cabinet in January 2018.
- 6.1.9. In the unlikely event that a sale to the Hackney HLR Housing Company Limited (11750958) is unsuccessful, the refurbished properties will remain within the Housing Revenue Account and the Council can explore re-letting them as social rented units.

6.2. **Policy Context**

- 6.2.1. In February 2016 Cabinet authorised the refurbishment and reconfiguration of the void bedsits within Gooch House through the HSP. In April 2019 Cabinet endorsed the progress of the HSP and the future aspirations for Council-led housing delivery in the borough.
- 6.2.2. This paper specifically seeks authority to dispose of the 16 void bedsit properties at Gooch House through the HSP as Hackney Living Rent accommodation.
- 6.2.3. The Housing Strategy adopted by the Council in January 2018 reinforces the priority of building high quality, well-designed and genuinely affordable new homes, and includes an action to set up a housing company, to help provide new Hackney Living Rent homes. These are homes that are genuinely affordable to those on medium incomes with rent levels targeted to be at one third of average local incomes. The Housing Strategy also includes an objective of addressing standards and affordability in the private rented sector.
- 6.2.4. In January 2018 Cabinet approved the creation of the Hackney Housing Company Ltd (Company Number 11738936) and two subsidiaries Hackney HLR Housing Company Ltd (Company number 11750958) and Hackney PRS Housing Company Ltd (Company Number 11750933). These companies extend the range of housing tenures that can be offered by the Council.

- 6.2.5. Hackney HLR Housing Company Limited (11750958) would be able to let these refurbished properties on an Assured Shorthold Tenancy (AST), which will provide a stable tenancy in a high-quality, compact home to those living and/or working in the borough, who would not typically qualify for social housing and for whom home ownership is out of reach. This contributes to the creation of open, cohesive, safer and supportive communities, which is one of the five themes of Hackney's Community Strategy 2018-28.
- 6.2.6. In July 2019 Cabinet authorised the Lettings Policy which has been adopted by the Hackney Housing Company for the new Hackney Living Rent and Private Rent products. As a result, those living and/or working in the borough will be the initial priority for the Hackney Living Rent properties and will benefit from the #BetterRenting principles. This provides the Council with an opportunity to demonstrate that quality, security and affordability can be delivered successfully in the private rented sector.
- 6.2.7. The introduction of a modest proportion of Hackney Living Rent homes to a predominantly social rented block will support the 2018-22 manifesto commitment of using every power available to the Council to bring empty homes back into use in both the public and private sector, to help ease the housing crisis.

6.3. **Equality Impact Assessment**

- 6.3.1. The Hackney Living Rent product will facilitate an increase in the range of tenures and housing opportunities that the Council can provide, and consequently the range of people who could benefit.
- 6.3.2. Renting the refurbished studio flats as Hackney Living Rent will provide high quality housing to those on middle incomes who are not able to afford the equivalent in the private rented market and do not qualify for social housing. The Lettings Policy adopted by the Hackney HLR Housing Company Limited (11750958) ensures that rent levels and eligibility criteria are set in line with the #BetterRenting principles.

6.4. **Sustainability**

- 6.4.1. The existing bedsits at Gooch House are outdated and in poor condition. Bringing the void units back into use as refurbished studio flats will reduce the number of Council voids and therefore reduce the Council Tax liability.
- 6.4.2. The refurbishment will create 16 high quality studio flats for local people living and/or working in the borough, who would not typically qualify for social housing and for whom home ownership is out of reach. The introduction of a modest proportion of Hackney Living Rent homes to a predominantly social rented block will contribute to creating a more diverse community within the block.
- 6.4.3. Wherever possible, the refurbished homes will meet Hackney's New Build Design Specification including low energy fixtures and fittings.

6.5. Consultations

6.5.1. Consultation and market testing formed a significant part of the feasibility process summarised under section 5 (options considered and rejected) of this report. The following groups have been consulted:

- Ward Councillors
- The Mayoral Adviser for Private Renting and Housing Affordability
- Shared ownership mortgage providers/lenders
- Hackney Matters panellists
- Independent adults who are not current property owners in the £28,000 to £58,000 income bracket (with special attention to £28,000 to £35,000 earners)
- General needs residents (the bedsits are not suitable to residents who require supported housing or accessibility measures)
- First time buyers
- Independent adults who live or work in Hackney (including Council staff, Homerton Hospital staff and Hackney Learning Trust staff)
- Independent adults who live with parents or are in shared, private rent, council or housing association accommodation (excluding housing benefit recipients)
- Adult children of Council staff who fit the above criteria.

6.6. Risk Assessment

6.6.1. The intention is to dispose of these properties to the Hackney HLR Housing Company Limited (11750958). In the unlikely event that a disposal to the Hackney HLR Housing Company Limited (11750958) is unsuccessful, it is proposed that the refurbished units will remain as part of the Housing Revenue Account and can be re-let as social rent.

7. COMMENTS OF THE DIRECTOR OF STRATEGIC PROPERTY SERVICES

7.1. It is the opinion of Strategic Property Services that a disposal on the basis set out in this report is very likely to be for a consideration less than could be reasonably obtained. To fulfill its statutory obligations under s.123 of the Local Government Act 1972 the Council must, prior to any disposal, test this hypothesis through two valuations; one to determine the market value of the property and the second to determine the value of the property with the restrictions noted in this report applied.

7.2. Depending on the result of these valuations the Council may, if it is convinced that the disposal is for the benefit of the borough in economic, social or environmental terms, either make use of the Local Government Act 1972 general disposal consent (England) 2003, or if the undervalue is determined to be in excess of £2 million, make an application to the Secretary of State for consent to this disposal.

- 7.3. If the valuations determine that the best consideration test has not been met then the disposal will also be at less than market value so a separate consent from the Secretary of State regarding the disposal of housing land will also be required.

8. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 8.1. The 16 properties at Gooch House have been empty for nearly 10 years, and this has represented a cost to the Housing Revenue Account in terms of rent loss, unrecoverable service charges and Council Tax charges. Therefore, the project to refurbish them will result in a cost saving to the Housing Revenue Account and generate income, as well as providing much needed affordable housing.
- 8.2. The project has developed from the original concept, of providing a Low Cost Home Ownership option, as a result of mortgage restrictions. Consequently, the report proposes the development of properties for Hackney Living Rent.
- 8.3. As the Council is not able to issue an Assured Shorthold Tenancy (without Right to Buy), it is required to sell the properties. It is proposed that the properties are offered for sale to the Hackney HLR Housing Company Limited (11750958), which is likely to acquire them if economically viable.
- 8.4. It is intended to sell these properties to the Hackney HLR Housing Company Limited (11750958). The value will be based on the level of rents that can be charged and the services and cost of operating the properties, such as the concierge. In the unlikely event that a disposal to the Hackney HLR Housing Company Limited (11750958) is unsuccessful, it is proposed that the refurbished units will remain as part of the Housing Revenue Account and can be re-let as social rent.
- 8.5. The financial viability or subsidy requirement for developing the scheme needs to be considered against the viability of the programme.

9. VAT Implications on Land & Property Transactions

- 9.1. The refurbishment of the properties will incur VAT at the standard rate. The onward lease will be exempt from VAT and so the VAT incurred on the refurbishment works will need to be included in the Council's Partial exemption calculation. However, as the lease is for at least 21 years, the lease would be zero rated and the VAT on the refurbishment would not impact the Council's partial exemption calculation.

10. COMMENTS OF THE DIRECTOR, LEGAL & GOVERNANCE SERVICES

- 10.1. Under the Hackney Mayoral Scheme of Delegation of January 2017, the disposal of land is reserved to the Mayor and Cabinet.
- 10.2. Section 123(1) of the Local Government Act 1972 provides the Council with the power to dispose of land and property, provided such disposal is made for the best consideration reasonably obtainable. However, the General Disposal Consent 2003 removes the requirement for local authorities to seek specific consent from the Secretary of State for any disposal of land where: the local authority considers that the purpose for which the land is to be disposed is likely to contribute to the achievement of any one or more of: (i) the promotion or improvement of economic well-being; (ii) the promotion or improvement of social well-being; (iii) the promotion or improvement of environmental well-being; and the “undervalue” (i.e. the difference between the unrestricted value of the interest to be disposed of and the consideration accepted) is £2 million or less. Where the case does not fall within the terms of this General Consent then an application to the Secretary of State for Communities and Local Government for a specific consent is required. Furthermore, the General Consent Order 2003 specifies that it is the responsibility of the Council to satisfy itself that the land is held under powers which permit it to be disposed of under the terms of the 1972 Act. The 2003 Consent does not apply to the disposal of land held under powers derived from the Housing Act 1985.
- 10.3. The 16 Gooch House bedsits are part of the Housing Revenue Account (HRA). Section 32 of the Housing Act 1985 empowers the Council to dispose of land held for the purposes of Part II of that Act. Although the disposal can be any manner the Council determines, the Consent of the Secretary of State is required to any disposal of Part II land (HRA). The Secretary of State has issued a General Consent Order (The General Housing Consents 2013 – S32 of the Housing Act 1985). The General Housing Consent 2013, titled Disposal of Land at A3.1.2(c)(ii), permits a disposal for consideration equal to its market value to a company owned by a Local Authority with a Housing Revenue Account, provided that the disposal is one of the first five such disposals in a financial year. If this provision is used then the offer to grant a lease to the Hackney HLR Housing Company Limited (11750958) must be in line with the open market value being paid by the company. The disposal of the bedsits as part of the Housing Revenue Account (HRA) pursuant to Section 32 of the Housing Act 1985 and the Secretary of State General Consent Order 2013 to a registered provider of social housing must be for consideration equal to its market value.
- 10.4. If the consideration is less than equal to market value of the 16 bedsits then the Council cannot rely upon a General Consent and, in accord with s.32(2) of the Housing Act 1985, the Secretary of State’s specific consent will be required for the disposal to the Hackney HLR Housing Company.
- 10.5. It should also be noted that if the proposed arrangements do transfer the bedsits at consideration which is less than market value then Article 107 of the Treaty on the Functioning of the European Union concerning State Aid must be examined. State Aid is aid granted through state resources which distorts or threatens to distort competition by favouring certain undertakings and is

capable of affecting trade between Member States. If all four of the above criteria are met then the aid is potentially illegal unless an exemption applies. If any of them are not met then these transfers at less than market value will not be State Aid and will not contravene the rules. As the transfers will be based upon only letting the bedsits as Hackney Living Rent accommodation then it is difficult to see how certain undertakings could be favoured or competition could be distorted. Legal Services will continue to advise as the nature and value of the transactions becomes clearer.

APPENDICES

EXEMPT

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

None

Report Author	Nikketta Wilks - Tel: 0208 356 1721 Project Officer- Housing Supply Programme nikketta.wilks@hackney.gov.uk
Comments for and on behalf of the Group Director of Finance and Resources	Deirdre Worrell - Tel:020 8356 7350 Director of Finance deirdre.worrell@hackney.gov.uk
Comments for and on behalf of the Interim Director of Legal & Governance	Georgia Lazari - Tel: 0208 356 1369 Interim Senior Regeneration Lawyer georgia.lazari@hackney.gov.uk

