

Title of Report	Acquisition of Local Space properties	
Key Decision No	FCR S078	
For Consideration By	Cabinet	
Meeting Date	18 July 2022	
Cabinet Member	Mayor Glanville Supported by: Cllr Sade Etti, Mayoral Advisor for Homelessness, housing needs and rough sleeping	
Classification	Open	
Ward(s) Affected	All Wards	
Key Decision & Reason	Yes	Result in the Council incurring expenditure or savings which are significant having regard to the Council's budget for the service / function
Implementation Date if Not Called In	26 July 2022	
Group Director	Ian Williams - Group Director of Finance and Resources.	

1. Cabinet Member's introduction

- 1.1. Hackney is in the midst of a housing crisis; The paucity of affordable accommodation within the borough is having a significant impact on the wellbeing of Hackney residents, with over 3,000 households in temporary accommodation and the 2011 census identifying nearly 33% of all households in Hackney as living in overcrowded accommodation.
- 1.2. The Council is working diligently to tackle this crisis. We are building hundreds of new homes at dozens of sites across the borough through our in-house direct delivery model, with more than half for council social rent, shared ownership or living rent. But building homes is challenging. It costs more than £300,000 to build a new council home in Hackney, and although our starting point is to build as many homes for social rent as we can, we

can't build as many as we'd like to without more direct grant funding and it is getting ever harder to do given the increase in construction costs we face.

- 1.3. This crisis, the failure by Government to give Councils the powers they need to regulate the private rented sector and the lack of affordable options has directly led to a significant increase in residents presenting to the Council as homeless. This has required the Council to source additional units of temporary accommodation to house those for whom it has a statutory duty to accommodate. This provision represents a significant cost to the Council.
- 1.4. The Council has an opportunity to add to its stock of social housing whilst supporting the earlier supply of much needed temporary accommodation at a more cost effective rate.
- 1.5. In January 2021 Cabinet supported the purchase of 24 properties being offered for sale by Local Space (Phase 1) who are restructuring their portfolio and purchasing additional accommodation for exclusive use by the Council. These 24 properties were added to the Councils HRA housing stock and let to homeless families at a social rent.
- 1.6. Phase 2 of the regeared Local Space deal will enable the sale of the remaining 34 properties by Local Space on the open market to buy more affordable stock. The Council will not purchase these properties as they do not hold the freehold and therefore they are not financially viable. To enable the sale of the properties, requires the homeless families in situ in temporary accommodation to be moved into affordable, settled accommodation.
- 1.7. To facilitate this movement, the purchase of 10 ex-right to buy properties to be added to the Councils HRA housing stock for homeless households is necessary and the Council will identify these properties where they do own the freehold. This will help speed up the provision of additional affordable accommodation through the agreement with Local Space.
- 1.8. This purchase will help to alleviate some of the pressures on the Council in the immediate and medium term while we continue work to increase the supply of affordable accommodation in Hackney and also create affordable, secure accommodation for our families.

2. Group Director's introduction

- 2.1. The lack of affordable accommodation in Hackney is having a profound impact on the borough and its residents. The borough has seen some of the biggest house price increases in the country, meaning that buying a home is out of reach for most low and even middle income families.
- 2.2. The levels of homelessness are also increasing rapidly, with the number of approaches from singles in October 2021/22 up by 19% when compared to the same period in 2018-19. Part VII of the Housing Act 1996 places on the Council a statutory duty to provide temporary accommodation after an

application is accepted until suitable secure accommodation becomes available. Consequently, expenditure on temporary accommodation is rising, from £7.38m in 2017/18, £9.37m in 2018/19, £10.13m in 2019/20, £12.7m in 2020/21 and £13.8m in 2021/22 inclusive of running costs.

- 2.3. It is a constant struggle to find suitable accommodation to place these households. Hackney has the largest temporary accommodation hostel stock in London, but it is inadequate to meet the level of demand. This has forced us to make difficult decisions; we know that local support networks are very important to residents, especially at times of stress, and we try to place them within Hackney. However, increasingly it is necessary to offer accommodation outside the borough. In September 2014 we had 293 households placed outside the borough; as of January 2022 it was 1100.
- 2.4. The purchase of 10 additional housing units to our social housing portfolio that can be offered to homeless households currently within temporary accommodation, will speed up the provision of up to 51 properties through the Local Space nominations agreement at affordable rents into which the Council can discharge homeless households.

3. **Recommendations**

- 3.1. **Cabinet is recommended to:**
- 3.2. **Authorise budget provision and spend of up to £4.25m from for the purchase of former Right-to-Buy properties in the market to support the increased supply of temporary accommodation available to the borough.**
- 3.3. **To allocate the properties purchased for one time only nomination by Local Space as part of the agreed decant programme.**
- 3.4. **Give delegated authority to the Director of Strategic Property Services, in consultation with the Group Director of Neighbourhoods and Housing and the Group Director of Finance and Corporate Resources, to negotiate final terms, conditions on the above purchases, including price and purchase of the property.**
- 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. **Reason(s) for decision**

- 4.1. As outlined within the report, there is a significant need to expand the stock of social housing in Hackney.

- 4.2. As set out within Part 7 of the Housing Act 1996, the Council has a statutory duty to provide interim temporary accommodation to homeless households to whom it has a duty to provide permanent housing.
- 4.3. By agreeing to purchase the 10 properties, we will not only immediately increase the number of affordable units in response to the increasing demand, but will potentially have access to more units of affordable settled accommodation for those currently within our temporary provision, freeing up this stock for a speeded up programme of Local Space reprovision properties.

5. **Details of alternative options considered and rejected**

- 5.1. Do nothing and lose the opportunity to purchase former Right-to-Buy properties to support the increased supply of affordable housing in the borough, whilst also supporting and speeding up the programme of provision of units to discharge homeless households into through the Local Space nominations agreement.
- 5.2. Purchase of the phase 2 34 Units by the HRA as social housing (as with the original 24 units). Even utilising right to buy receipts this option will require significant additional capital and be more expensive than the Council's own build programme. The Council will not be the freeholder, adding substantial management complications and service charge cost risk, with many only a leasehold interest.
- 5.3. 3rd Party Purchase of 34 Units. Purchase of the portfolio by 3rd party investor 'stepping into the Council's shoes' with a back to back lease or nominations agreement. Strong institutional investor interest in this sort of product with specialist funds looking for stock (although 34 units might be too small). The Market tends to require long leases on full repairing and insuring terms (FRI) with index linked fixed rental uplifts. Interest tends to be in TA rents rather than social rents. Likely terms are therefore considered unattractive.

6. **Background**

There are significant demands for affordable housing in the borough and while the Council continues to strive to increase supply, including additional social properties, demand vastly exceeds what we can deliver; the level of churn in social housing is also decreasing and fewer properties are becoming available. In response the Council has been examining a range of options to expand our portfolio of social housing, including the acquisition of former council properties that were sold under the right to buy scheme.

On 09.11.2021 The London Borough of Hackney and Local Space entered

into a new nominations agreement for a term of 30 years expiring on 08.11.2051. As well as the terms of nomination the agreement also sets out the terms for 58 in borough units that had been identified for disposal for purchase by the Council. With the capital receipts Local Space are committed to purchase new units at a ratio of 3 for 2 (funds permitting) out of the borough. The purchased units are then in turn covered by the terms of the nominations agreement. The first 24 units (phase 1) for disposal were purchased for £9.65M on completion of the agreement. The Council from completion had 12 months to purchase a further 34 units (phase 2) after which Local Space is to dispose of the units in the open market and redeploy the capital out of the borough (for Hackney nomination).

It is estimated that the remaining 34 properties would have a market value of circa £15-16m and would be used for social or affordable housing and offer the current Temporary tenants a secure tenancy.

The first phase of Local Space properties were those where the Council were the freeholder and the Council (Housing Services) managed the block. Therefore there were no additional management costs to the acquisition and all the maintenance and repairs issues were known or the responsibility of the Council in managing the block.

The Council is not the freeholder and has no management or repairs responsibility for any of the 34 properties in phase 2. Some of the properties are previous right to buy street properties, and there are properties owned by other organisations and managed by other management companies.

In March 2022 the Council advised Local Space that it did not wish to exercise the option to acquire a further 34 properties from Local Space for the reasons set out above. Instead, Local Space are to dispose of these properties on the open market and, as above, use the proceeds to re-provide more homes in other East London boroughs thereby increasing the pool of properties to which Hackney Council may nominate nominees to whom they owe a homeless duty and discharge that duty accordingly. Enabling homeless families in temporary accommodation an affordable settled home in London.

To enable the disposal of the 34 phase 2 properties, the current occupants are to be decanted. Local Space will use properties acquired with the proceeds from the 24 phase 1 disposals to buy and refurbish an expected 36 homes that can be used to support the decant project. To speed up this process we are recommending the purchase of 10 right to buy, buy back properties and offering nomination rights to Local Space.

Local Space has modelled two different forms of decant programme and the impact of nomination rights to 10 additional properties. These are:

1. Decant Prioritised Programme: This programme prioritises homes for

those who need to vacate their phase 2 disposal property so that we may dispose of it. The impact of this approach means that Hackney Council wait an extra year to receive their first available property for Homeless Nominations, but that overall, the reprovision project is concluded quickest (by 2026/27 rather than 2027/28).

2. Phased Programme: This programme balances the use of newly available properties as equally as possible between properties made available to new Hackney nominees and those used for decanting occupants of phase 2 disposal properties. This results in Hackney receiving their first available properties in 2022/23, and more properties in earlier years. The negative impact is that it takes longer to conclude their entire programme meaning Hackney will wait until 2027/28 (an extra year) to receive the final properties available for nominees.

On the basis the Council purchased the 10 properties and offered Local Space nomination rights through 2022/23, Local Space's modelling concludes that this would accelerate the programme (regardless of whether Decant Priority or the Phased approach was chosen). In the case of the decant priority approach it brings forward the first available properties for Hackney nominations by 1 year and delivers a boost to Hackney nomination availability in year 2. In the case of a phased decant programme it delivers a boost to both decant and nominations in the first year of the programme.

Please find in Appendix 1 Local Spaces Paper; Hackney Decant Modelling Hackney Reprovision Project for more details and the assumptions behind the modelling.

Policy Context

- 6.1. Hackney is in the midst of a severe housing crisis and for many residents means they are unable to access accommodation within the borough that is affordable. In seeking a resolution, these households are approaching the Council to try to access social housing, but the level of demand far exceeds that which we can supply.
- 6.2. As a consequence these families are often living in insecure, unaffordable and/or overcrowded housing. Living in unsuitable accommodation has a detrimental effect on a household's health and wellbeing as well as impacting negatively on future life chances leading to poverty, inequality and hardship.
- 6.3. There are over 13,000 households waiting for a home on the Council's housing register. By contrast the supply of social housing being made available to let is reducing considerably; only 640 lets were made available between April 2018 and March 2019, compared to 1,132 the previous year and 1,229 in 2016/17.

- 6.4. The levels of homelessness are also increasing rapidly, with the number of approaches in 2018-19 up by 39% on the previous year. Part VII of the Housing Act 1996 places on the Council a statutory duty to provide temporary accommodation after an application is accepted until suitable secure accommodation becomes available.
- 6.5. Currently, the Council has responsibility for housing 3300 households in Temporary Accommodation. In order to be in a position to discharge our duty to these households, we are required to make a reasonable offer of secure, suitable and affordable accommodation. In the current financial climate, the options for placement either within the reducing stock of social housing or into affordable privately rented accommodation are limited.
- 6.6. The proposals outlined in this report, if pursued, will not only add 10 additional housing units to our social housing portfolio that can be offered to homeless households currently within temporary accommodation, but also speed up the provision of up to 51 properties through the Local Space nominations agreement available at affordable rents into which we can discharge homeless households. The rents are to be set at established London Affordable Rent levels. As 80% of TA residents are working, this will be within the household budget.
- 6.7. This proposal is also in line with the position agreed by Cabinet in March 2021 to authorise the principle of purchasing former Right-to-Buy properties including those owned by Housing Associations to support the increased supply of affordable housing in the borough.

Equality impact assessment

- 6.8. There is no foreseeable adverse equalities impact arising from the purchase of these properties. By acquiring these properties and adding them to our portfolio we increase the housing opportunities that the Council can provide and consequently the range of people who could benefit.

Sustainability and climate change

- 6.9. None of the recommendations in this report would have a direct impact on the physical or social environment.

Consultations

- 6.10. No formal consultations are required as part of this report to purchase additional properties. The required consultation for the decant programme will take place as standard practice. Insert text here.

Risk assessment

- 6.11. Acquiring these 10 properties is expected to speed up the purchase of circa 51 affordable properties by Local Space out of the borough. There is the possibility that market conditions and the requirement of the Local Space Nominations Agreement that the properties have a minimum EPC of B after refurbishment, limits the market to such an extent that the modelling work undertaken by Local Space proves to be inaccurate and the purchase of the 10 properties proves to have a lesser effect than modelled.
- 6.12. The condition of the 10 properties to be purchased by the Council is to be established and the prices paid will reflect the condition. The properties are also all to be within Council owned blocks where the condition of the entirety of the blocks is understood.

7. Comments of the Group Director of Finance and Corporate Resources.

- 7.1. The purchase of 10 ex-RtB properties is required to enable the decant of the phase 2 Local Space properties which don't fit into the Council's Social Housing portfolio. Whilst the purchase is not viable to the HRA, considering the wider Council cost of Temporary Housing there is an overall saving to the Council.
- 7.2. The average ex-RtB property value is £400,000, plus £25,000 for Stamp duty (SDLT) and potentially costs to fit out to the Council's standard subject to an inspection. The total cost would be funded from £130,000 of GLA buyback funding leaving a borrowing cost of £295,000. The annual borrowing cost of this value exceeds the (social) rent charged on the property, and so even excluding management and maintenance cost is not viable to the HRA.
- 7.3. Apply this to the Local Space properties, the cost of 10 properties is £4.25m. For this £1.3m can be funded from GLA buyback funding, leaving £2.95m of housing resources required to fund the acquisition with an annual interest cost of £60,000. The rent generated from these properties also equates to £60,000 and thereby paying for the interest cost without any surplus to repay debt, funding future investment or maintenance costs.
- 7.4. As an alternative to the GLA buyback funding, the Council could use surplus of RtB 1-4-1 funding for the equivalent value.
- 7.5. As the properties are in existing housing blocks, there is minimal additional management and (block) maintenance costs. There would be internal maintenance responsibility of these properties.
- 7.6. Under the RtB and GLA funding regime, the value of the property is protected from a cost floor sale value where the property can't be sold for less than the purchase cost for a period of 15 years. Therefore in assessing the viability it is not required to repay the borrowing/purchase price, but

viability should consider future investment cost of around £3,000 per year (assumption in Asset Management Strategy).

- 7.7. If these properties are not purchased, the tenants would have to be moved to alternative Temporary Accommodation, likely nightly paid and out of borough. Taking into consideration the wider impact of housing and the cost of temporary accommodation, the purchase of these social rented properties will save the General Fund around £50,000 p.a. Therefore, the rent charged on the property and the General Fund saving from TA would provide sufficient resources to cover the borrowing cost and maintenance/investment in the property, with any debt repaid on any future potential sale of the property.

8. VAT implications on land and property transactions

- 8.1. Property transactions generally involve complex VAT issues that can impact the Council's partial exemption calculation. The proposed acquisition programme cost does not attract VAT and whilst the letting of residential property is exempt from VAT, when used as social housing it is considered a non-business transaction and therefore there are no VAT issues to consider.

9. Comments of the Director of Legal, Democratic and Electoral Services

- 9.1. S120 of the Local Government Act 1972. This section enables the Council to acquire by agreement any land for the purposes of discharging any of the Council's functions or for the benefit, improvement or development of its area. The Council may exercise this power whether or not the land purchased by agreement is immediately required for the intended purpose and the Council may use the purchased land in the interim for the purpose of discharging any of its other functions.
- 9.2. In the event the Council purchases properties outside its district. Section 14 of the Housing Act 1985 permits the Council as a local authority to exercise powers conferred by section 9 to 13 (Housing Act 1985) outside its district.
- 9.3. Section 9(1) of the Housing Act 1985 permits the Council to provide housing accommodation by erecting houses, or converting buildings into houses, on land acquired by them or acquiring houses.
- 9.4. Pursuant to S120 of the Local Government Act 1972 and sections 14 and 9(1) of the Housing Act 1985 the Council will be in a position to purchase the properties within the borough and outside of the borough.

- 9.5. Under Section 1 of the Localism Act 2011, the general power of competence, the Council has power to do anything that individuals with full capacity generally may do.
- 9.6. Normally the acquisition and disposal of land is a matter reserved to the Council's cabinet, and the Mayor pursuant to the Mayor's Scheme of Delegation 2017. The Report delegates authority to the Director of Strategic Property Services, in consultation with the Group Director of Neighbourhoods and Housing and the Group Director of Finance and Corporate Resources, to negotiate final terms, conditions on the above purchases, including price and purchase of the property. Exercise of that delegated authority would be subject to compliance with the legal requirements around land acquisitions and these would be considered at the relevant time.

Appendices

Appendix 1 - Hackney Decant Modelling Hackney Reprovision Project

Exempt

Not applicable

Background documents

None

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