



City of Westminster

# Cabinet Member Report

<b>Decision Maker:</b>	Cabinet Member for Housing, Regeneration, Business and Economic Development
<b>Date:</b>	1 April 2016
<b>Classification:</b>	Report for General Release. Background papers are exempt from general release as they relate to the financial affairs of an external body that are commercially sensitive.
<b>Title:</b>	Soho Housing Association – Funding requirement for lease extension on affordable housing at Wardour House, Wardour Street W1.
<b>Wards Affected:</b>	West End
<b>City For All Summary:</b>	Securing the lease extension on Wardour House for Soho Housing Association will ensure the continued use of these as affordable homes for households in housing need and contribute to mixed and sustainable communities in the City.
<b>Key Decision:</b>	No
<b>Financial Summary:</b>	Currently the Affordable Housing Fund (AHF) has balances of £186m of which £109m is not contractually committed. There are sufficient uncommitted AHF resources to fund this project. This report recommends allocating £3.5m from the AHF to Soho Housing Association to enable the lease extension on Wardour House a block containing 14 affordable homes. The cost per property to the AHF is £250k which is within the agreed funding levels for intermediate housing.
<b>Report of:</b>	Director of Housing and Regeneration

## **1.0 Executive Summary**

- 1.1 This report seeks funding approval of up to £3.5m for Soho Housing Association to enable that organisation to extend their lease at Wardour House, Wardour Street W1 by a further 90 years, so that the 14 homes there will continue to be provided as affordable housing.
- 1.2 It is estimated that the total cost of extending the lease on Wardour House will be £5.9m. Westminster's contribution towards these costs will be capped at £3.5m. Soho will finance the remaining costs of the lease extension of through borrowing.
- 1.3 Westminster's contribution towards the cost of extending the lease at Wardour House will be provided from the Council's Affordable Housing Fund (AHF).
- 1.4 The Council has sufficient balances in its Affordable Housing Fund (AHF) to part fund the cost of extending the lease on Wardour House.
- 1.5 It is proposed that Westminster provides AHF funding to Soho towards the lease extension costs at Wardour House on condition that Soho enters into a funding and nominations agreement with the City Council.

## **2.0 Recommendation**

- 2.1 That the financial details of the transaction contained in the background papers to this report be exempt from disclosure by virtue of the Local Government Act 1972 Schedule 12A, Part 1, as amended, in that they contain information relating to the financial or business affairs of an external organisation that are commercially sensitive.
- 2.2 That the Cabinet Member for Housing, Regeneration, Business and Economic Development agrees an allocation of funding capped at £3.5m which is to be provided to Soho Housing to enable their lease at Wardour House to be extended.
- 2.3 That Westminster's funding contribution towards the cost of lease extension at Wardour House should be provided from the Council's Affordable Housing Fund to ensure the 14 homes there remain as affordable housing.
- 2.4 That Westminster's funding contribution towards the lease extension at Wardour House is conditional upon Soho entering a funding and nominations agreement with the City Council.
- 2.5 That the Cabinet Member for Housing, Regeneration, Business and Economic Development delegates to the Director of Housing and Regeneration in conjunction with the Director of Law decisions relating to

entering into a funding and nomination agreement with Soho in respect of Wardour House.

### **3.0 Reasons for Decision**

- 3.1 The allocation of Affordable Housing Funds towards the lease extension on Wardour House will ensure the continued use of the 14 homes at Wardour House for affordable housing purposes which would otherwise be lost to the affordable housing sector.
- 3.2 These affordable homes at Wardour House which are in the heart of the West End will provide affordable housing for households working in the City and contributing to the economy of Westminster.
- 3.3 The purpose of the City Council's Affordable Housing Fund is to deliver affordable housing.
- 3.4 The delivery of 14 intermediate homes in the West End will assist the Council in meeting its objectives as part of the West End Partnership; ensuring the delivery of a range of housing tenures to support workers in West End businesses.

### **4.0 Background**

- 4.1 Soho Housing Association is one of the City Council's medium sized Registered Provider partners. Soho currently own around 550 affordable homes in Westminster. Soho's stock is mostly social housing, with the majority of this stock being located in Soho and Covent Garden. Elsewhere, the majority of Soho's remaining stock is located in LB Camden (c. 200 units); much of this stock is located in the West End. Soho is a permanent member of the Council's Housing Association Chief Executives Group.
- 4.2 There are a number of housing blocks owned by Soho in Westminster that are used for affordable housing purposes which are held on a leasehold basis but where there are only a few years remaining on the existing leases. Consideration has been given by Soho to extending these leases for a further period of 90 years.
- 4.3 In particular those blocks at Royalty Mansions (12 units), Wardour House (14 units) Peter Street (4 units) have 12, 19 and 23 years respectively remaining on the leases, after which these properties will revert to the freeholders.
- 4.4 Soho has requested a contribution of £3.5m from the Council's Affordable Housing Fund towards the cost of extending the lease on 14 homes at Wardour House, Wardour Street W1 - A funding rate of £250k per unit.
- 4.5 This proposed AHF funding rate of £250k per unit is comparable with other intermediate housing schemes that the Council is currently funding.

- 4.6 The freehold owner of Wardour House is Kent County Council. Soho served formal notices on the freeholder for the lease extension last summer and the freeholder has agreed the request for lease extension.
- 4.7 An independent valuer has valued the lease extension at £5.9m. Appendix 1 to this report sets out this valuation.
- 4.8 In advance of the leases referred to at para. 4.3 expiring and the properties concerned being handed back to the freeholders, Soho has been letting voids arising in these blocks on assured shorthold tenancies at market rents. Soho has secured the agreement of the Homes and Communities Agency (HCA) to do so. The HCA is the Regulator of Registered Providers in England.
- 4.9 In addition, existing social housing tenants at these blocks have been prioritised by Soho for re-housing elsewhere in Soho's stock. Historical Social Housing Grant (SHG) in those schemes at Wardour House, Royalty Mansions and Peter Street with the agreement of the HCA has already been recycled into another affordable housing scheme at St. James Dwellings which contains 69 affordable homes to enable Soho to extend their lease on that block.
- 4.10 Soho initially approached the City Council seeking Westminster's financial assistance in meeting the costs of extending leases on two blocks; Wardour House and Royalty Mansions. Wardour House contains 14 \*2bed flats and Royalty Mansions contains 12\*2bed flats.
- 4.11 The projected cost of extending the lease at Royalty Mansions which has 12 years remaining on the lease is £8.1m. The projected costs of extending the lease on Wardour house which has 19 years remaining on the lease is £5.9m.
- 4.12 Even with a contribution of c. £6.5m (£250K per unit) from the AHF toward the total estimated lease extension cost of £14m on the 26 homes at Royalty and Wardour Houses, the financial return to Soho is 2.6% which is significantly less than Soho's cost of borrowing. Therefore, extending the lease on both Royalty and Wardour is not viable.
- 4.13 However, if the lease extension on Wardour House proceeds alone, at a projected cost of £5.9m and where the Council provides AHF funding of £3.5m towards these costs, then the scheme remains viable to Soho.
- 4.14 Soho has provided a financial appraisal showing the costs and cash flows associated with the lease extension at Wardour House which is attached at appendix 2.
- 4.15 Should the AHF funding application from Soho be approved, then Soho will convert 7 homes at Wardour House currently let on ASTs at market rents to intermediate sub market rents on expiry of the short term market tenancies there.

- 4.16 It is proposed that as the remaining 7 social housing units at Wardour House become void following the rehousing of tenants there or on expiry of these tenancies, these units will also be converted to intermediate rents.
- 4.17 The average weekly intermediate rent proposed to be charged on the 14\*2beds at Wardour House will be £322 per week at 2016 prices. Rents will increase thereafter annually at a rate of CPI+1%.
- 4.18 These intermediate rents though higher than social rent levels are still significantly less than the equivalent 2 bed market rent for a property in this location. The current median market rent for a 2bed in this location in Westminster is c. £750 per week.<sup>1</sup>
- 4.19 The GLA determines eligibility for intermediate housing in London. Intermediate housing includes submarket rented accommodation, shared ownership and shared equity schemes. The current GLA household income cap for a 2bed intermediate home in London is £71k.
- 4.20 Using the GLA's affordability criteria for intermediate housing<sup>2</sup>, a 2bed intermediate home at Wardour House with a weekly rent of £322 per week could be afforded by a household with an income of £60k p.a. or a couple or sharers each earning £30k p.a.
- 4.21 Westminster has its own intermediate housing service (Home Ownership Westminster) and this service nominates eligible households to intermediate housing opportunities across the City. There are currently c. 4,500 households registered for intermediate housing opportunities in Westminster compared to c.4, 500 registered for social housing - though intermediate housing represents less than 2% of housing stock in the City compared to 26% social housing.
- 4.22 Soho has also modelled as an alternative to intermediate housing the retention of all 14 units at Wardour House for use as social housing with rents set at target rent levels. Current target rents for 2bed social units at Wardour House are c. £141 per week (at 2016 prices). This option would require Westminster to increase its contribution from the AHF from £3.5m to c. £5m (@£357k per unit).
- 4.23 Officers do not consider this alternative funding option to offer good value for money as current funding allocations from the AHF for affordable housing are significantly below £357k per unit.
- 4.24 Should Westminster agree to fund part of Soho's lease extension costs at Wardour House, then Soho will be required to enter into a nominations agreement with the City Council granting 100% nomination rights to all future voids at the scheme. Nominees will be eligible intermediate households who are registered for intermediate housing in the City.

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<sup>1</sup> From GLA Rent Map

<sup>2</sup> Intermediate housing costs should not exceed 40% of net household income

- 4.25 Soho will also be required to enter into a funding agreement with the City Council that will require Soho to repay the full/part of the AHF contributions to the City Council where units at Wardour House cease to be used for affordable housing in the future.

## **5.0 Financial Implications**

- 5.1 This project will ensure the continued use of the 14 homes at Wardour House for affordable housing purposes. The report recommends a grant of £3.5m to achieve this. As stated in paragraph 4.4, the cost per property is about £250k per property. This is within the current funding range and represents good value for money.
- 5.2 Within the capital programme for 2016/17 there is a budget of about £23m for grants to external parties (excluding Westminster Community Homes). This grant can be funded from this budget.
- 5.3 Currently the AHF has a balance of about £186m. Of this, £77m is contractually committed. There are sufficient uncommitted resources within existing AHF balances to fund this project.
- 5.4 A proposal to make a grant towards a similar scheme for 12 flats at Royalty Mansions is not recommended because it would cost more per unit than the current funding range.

## **6.0 Legal Implications**

- 6.1 The Council has a power to acquire property under s120 Local Government Act 1972 generally or specifically under s17 of the Housing Act 1985.
- 6.2 The Council can provide financial assistance to Soho Housing Association under s24 of the Local Government Act 1988 and this contribution will be secured by a funding and nominations agreement to regularise the position between the parties and protect the Council's interests.
- 6.3 It is a legitimate use of the AHF to use monies for the provision of more affordable homes within the City of Westminster.

## **7.0 Consultation**

- 7.1 West End Ward Members have been consulted on this proposal. Both Councillor Glanz and Roberts have responded confirming their support for the proposal that will keep Wardour House in affordable housing use.

**If you have any queries about this Report or wish to inspect any of the  
Background Papers please contact:**

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**Background Papers:**

Appendix 1: Valuation of lease extension at Wardour House

Appendix 2: Financial appraisal of lease extension at Wardour House

For completion by the **Cabinet Member for Housing, Regeneration, Business and Economic Development**

**Declaration of Interest**

I have <no interest to declare / to declare an interest> in respect of this report

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

NAME: \_\_\_\_\_

State nature of interest if any .....  
.....  
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*(N.B: If you have an interest you should seek advice as to whether it is appropriate to make a decision in relation to this matter)*

For the reasons set out above, I agree the recommendations in the report entitled **Soho Housing Association – Funding requirement for lease extension on affordable housing at Wardour House, Wardour Street W1** and reject any alternative options which are referred to but not recommended.

Signed .....

Councillor Daniel Astaire, Cabinet Member for Housing, Regeneration, Business and Economic Development

Date .....

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and this pro-forma is returned to the Secretariat for processing.

Additional comment: .....  
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If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Head of Legal and Democratic Services, Strategic Director Finance and Performance and, if there are resources implications, the Strategic Director of Resources (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Cabinet Member: Your decision will now be published and copied to the Members of the relevant Policy & Scrutiny Committee. If the decision falls within the criteria for call-in, it will not be implemented until five working days have elapsed from publication to allow the Policy and Scrutiny Committee to decide whether it wishes to call the matter in.