



City of Westminster

# Cabinet Member Report

<b>Decision Maker:</b>	Councillor Rachael Robathan, Cabinet Member for Finance, Property and Regeneration
<b>Date:</b>	17 June 2019
<b>Classification:</b>	Not for Publication
<b>Title:</b>	Purchase of the long-leasehold interest in a flat in Huguenot House, London, SW1
<b>Wards Affected:</b>	St James's Ward
<b>City for All:</b>	Proposed purchase will increase the Council's ownership of flats in Huguenot House, and provide a rental income and opportunity for capital growth
<b>Key Decision:</b>	No
<b>Financial Summary:</b>	<p>The Capital Strategy to the end of 2020 includes a budget of £24.0m for Strategic Acquisitions in Huguenot House, of which £1.35m has been spent in 2018/19.</p> <p>The proposed acquisition cost of £0.992m is within budget and would leave a further £21.6m to meet the cost of the remaining 17 flats within Huguenot House.</p>
<b>Report of:</b>	Director of Corporate Finance & Property

## **1.0 Executive Summary**

- 1.1 Huguenot House is located on an island site to the South West corner of Leicester Square and is held freehold by the Council. As well as a number of flats the building also comprises a multi-screen Cinema, 2 floors of office space and a car-park.
- 1.2 In addition to the freehold interest, the Council also owns the long leaseholds in 16 of the 34 flats within the block. This further acquisition will increase ownership to 17 units.
- 1.3 The Council currently receives an income per unit of between £1,250-£2,275 per calendar month (£15,000 - £27,300 per annum) from 13 of the flats. Two additional flats are subject to secure tenancies and a further flat is occupied under a service tenancy by the caretaker to the residential block.
- 1.4 The proposed acquisition will incur capital costs of £0.992m, which will be met from the £22.6m budget held for acquisitions in Huguenot House. The purchase will have an annual revenue impact of £0.026m, which is within revenue implications budgeted for in the Capital Strategy.
- 1.5 There are a number of significant regeneration plans in the immediate vicinity of the subject building. Of particular note is The Edwardian Group's 360-bedroom hotel opposite the site, where construction activity is due to complete later this year, as well as wider proposals by The Crown Estate.
- 1.6 The redevelopments planned could enable significant improvements and transformations to the public realm and pedestrian flows in the immediate area.

## **2.0 Recommendations**

- 2.1 That this report be exempt from disclosure by virtue of the Local Government Act 1972 Schedule 12A, Part 1, Paragraph 3 (as amended), in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
- 2.2 This paper recommends that the Cabinet Member for Finance, Property and Regeneration agrees to delegate authority to the Executive Director of Finance and Resources to purchase the long-leasehold interest in Flat 12, and to conclude all necessary negotiations and oversee legal documentation.

- 2.3 In addition, Stamp Duty Land Tax costs and legal costs estimated for the acquisition are detailed below.

	<b>Flat 12</b>
Purchase price	£924,636
Stamp duty	£63,970
Legal & valuation costs	£3,000
<b>Total</b>	<b>£991,606</b>

### **3.0 Reasons for Decision**

- 3.1 Increases the Council's ownership within Huguenot House to aid and facilitate longer-term aspirations for the site.
- 3.2 The property will be held for investment purposes and may be used for temporary accommodation or let under Assured Shorthold Tenancies (ASTs).
- 3.3 The acquisition provides an attractive investment but also enhances the capital value and equity the Council own in the site.

### **4.0 Context**

#### Property market

- 4.1 The current rental returns achieved from granting ASTs from residential acquisitions are producing a typically low gross initial yield of approximately 2.5%. This low rental return is typical of residential rental returns in prime central London – with investors being driven by the potential for capital growth.
- 4.2 However, with affordability within London continuing to be an issue – the rental markets remain active; with property advisor JLL forecasting stable rental growth.
- 4.3 Research from JLL suggests the Central London sales market continued to show signs of stabilisation during 2018. Rental growth at the lower-end of the market is outperforming in rental growth terms. with one and two bedroom flat markets showing rental growth. JLL forecasts suggest there could be a 1.5-2% rental growth pa over the forthcoming period until 2022 in Central London.

## 5.0 Financial Implications

### Capital funding

- 5.1 The Capital Strategy includes a budget of £22.6m for acquisitions related to Huguenot House, of which £4m is budget for 2019/20. The proposed acquisition of Flat 12 Huguenot House would leave a remaining budget of £21.6m, which, based on the value of acquisitions made to date, is enough to acquire the remaining 17 units.

### Capital expenditure

- 5.2 The proposed acquisition has an estimated capital cost of £0.992m. The cost breakdown is shown in paragraph 2.2
- 5.3 The estimated costs are in line with the market value of the property as certified independently by Lambert Smith Hampton in accordance with S123 of the Local Government Act 1972.
- 5.4 The acquisition will be made through a tripartite agreement with Westminster Community Homes (WCH) who will act as the landlord. As a result, the capital cost will be treated as REFCUS (revenue expenditure financed from capital under statute) as the asset will be owned by WCH, who will transfer the asset to the council at nil cost following the end of the tenancy.

### Revenue implications

- 5.5 The property is a 2 bedroom flat with a current Assure Shorthold Tenancy (AST) in place, which commenced on 14<sup>th</sup> August and has a 12-month term. The AST currently generates annual rent of £30,420, a gross return of 3%.
- 5.6 WCH will act as Landlord for the property passing the net rent generated over to the Council. Whilst the flat has a AST currently in place, it is prudent to assume 25% of rent will be spent on maintenance or lost through void periods. The net rent passed to Westminster is estimated to be £22k per annum.
- 5.7 The Council will incur annual revenue costs of £48k to meet the capital cost of the acquisition. As the table below shows the net revenue cost to the council per annum, assuming the current rental levels, is £0.026m. This is within the revenue costs budgeted for in the Capital Strategy.
- 5.8 The Council will initially hold the unit as investment property until the council choose to progress the development of Huguenot House.

<b>Annual Revenue Impact</b>	<b>£'000</b>
Rent Income	(30)
Maintenance and Voids	8
Net rent passed to WCC	(22)
Revenue cost of Capital Expenditure	48
<b>Net Revenue Cost</b>	<b>26</b>

## 6.0 Legal Implications

- 6.1 The Director of Law comments that Local Authorities have many general powers to purchase land, but section 120 Local Government Act 1972 provides a general power to acquire by agreement. A local authority may purchase for the purposes of their functions or for the benefit or improvement of their area under section 120. It should be noted that the statute enables local authorities to purchase property even if such property is not immediately required for the intended purpose; and, until it is required for the purpose for which it was acquired, any land acquired may be used for the purpose of any of the council's functions.
- 6.2 On acquisition a Local Authority must bear in mind its Property Procedure Rules and the purpose for which the property is acquired.
- 6.3 The Local Authority is not under an explicit duty to acquire property at market value but must have regard to its fiduciary duties and best value.
- 6.4 There is no formal decision to regenerate, so no compensation is payable at this stage.

## 7.0 Consultation

- 7.1 Ward members have continually been consulted on proposals, acquisitions and resident engagement and will continue to be.

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

David Hodgkinson, Director of Corporate Finance & Property

BACKGROUND PAPERS:

- N/A

For completion by the **Cabinet Member** for Finance, Property and Regeneration

**Declaration of Interest**

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

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

NAME: **Councillor Rachael Robathan, Cabinet Member for Finance, Property and Regeneration**

State nature of interest if any .....

.....  
*(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 **Purchase of the long-leasehold interest in a flat in Huguenot House, London, SW1** and reject any alternative options which are referred to but not recommended.

Signed .....

Councillor Rachael Robathan, Cabinet Member for Finance, Property and Regeneration

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: .....  
.....  
.....

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 Director of Law, the Executive Director of Finance and Resources, and,. If there are human resources implications, the Director of People Services 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.



**Other Implications**

- 1. Resources Implications**
- 2. Business Plan Implications**
- 3. Risk Management Implications**
- 4. Health and Wellbeing Impact Assessment including Health and Safety Implications**
- 5. Crime and Disorder Implications**
- 6. Impact on the Environment**
- 7. Equalities Implications**
- 8. Staffing Implications**
- 9. Human Rights Implications**
- 10. Energy Measure Implications**
- 11. Communications Implications**

Note to report authors: If there are particularly significant implications in any of the above categories these should be moved to the main body of the report.