

From red flags to green lights: making problem properties lender-ready

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Trowers & Hamlin speakers



Jo Judge
Partner, Trowers & Hamlin



Lauren Mason-Smith
Senior Associate, Trowers & Hamlin



Nicola Almond
Legal Director, Trowers & Hamlin

Savills speakers



Adrian Shippey
Director, Savills



Sarah MacGregor
Associate Director, Savills



Ben Nield
Associate Director, Savills



Conor Keegan
Surveyor, Savills



Anna Lynch
Surveyor, Savills

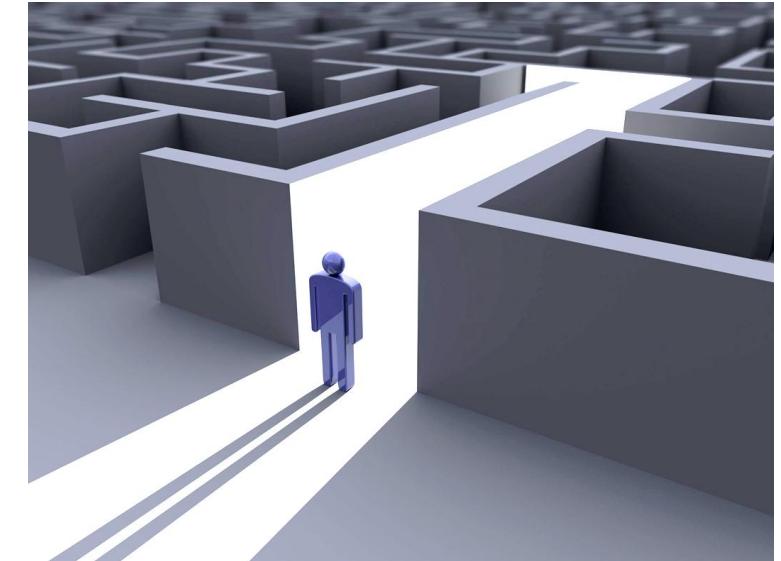
Difficult does not mean **Impossible**



It will take time, competence, legal input and cost to resolve.

But could produce high value results.

**If you are interested?
... lets go**



Fictional Scheme

| Fictional Scheme Details | |
|--------------------------------|---|
| Property Address: | Flats 1-50 Riversway Court, 45 Rivers Walk, Newport NP1 9XX |
| Title Number: | CYM123456 |
| Current Registered Proprietor: | Oakbridge Housing Association Limited |
| Original Lease Date: | 25 March 1995 |
| Lease Term: | 99 years from 25 March 1995 (69 years unexpired) |
| Lender | Security Trustee Limited 25 March 1995 |
| Section 106 Agreement Date: | 25 March 1994 |
| EPC Rating: | D |



Short Lease



What is Leasehold Enfranchisement?



Social Housing Flats



A long leasehold flat owner wishing to obtain a lease extension



Socially Rented Houses



A long leasehold house owner wishing to obtain their freehold



Social Rented Blocks of Flats



A group of leaseholders wishing to acquire the freehold of their block

Leasehold Titles – An ever-increasing problem



- A leasehold title is a title granted for 'a term of years' and therefore a diminishing asset
- The leasehold value of the asset continually erodes over time
- At lease expiry there will be no value and potentially a claim for dilapidations
- Financial institutions will not accept short leases for loan security
- You may already have stock that cannot be charged due to its short lease length

IGNORING THE PROBLEM WILL NOT RESOLVE IT



The Legislative Acts

There are **two** primary pieces of legislation enabling leasehold enfranchisement.

■ Leasehold Reform Act 1967

■ Leasehold Reform Housing and Urban Development Act 1993

Voluntary Agreement (Greater Flexibility)

Pros

- Parties free to come to their own agreement
- Parties not bound by the legislation
- No strict timescales to adhere to
- No threat of Tribunal determination

Cons

- The freeholder under no obligation to come to an agreement
- If an agreement cannot be reached, a statutory claim may need to be made, and valuable time may have been wasted
- Transactions may be slower as there are no timescales

Generally, this is the preferred route for social housing leaseholders where there is an amicable relationship between landlord and tenant and a mutual desire to achieve an outcome



Statutory Agreement

Pros

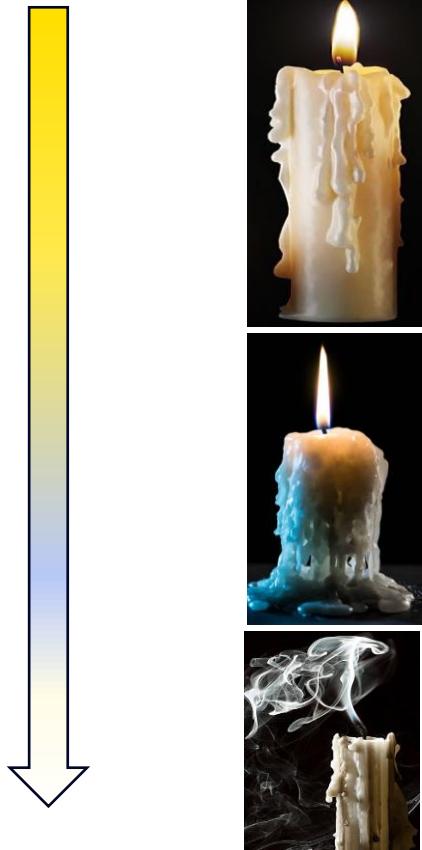
- Prescribed timescales set by statute
- Tribunal determine claims that cannot be negotiated
- Statutory formula for enfranchisement calculation

Cons

- Penalties for not adhering to prescribed timescales
- Tribunal determination is risky
- Less flexibility than voluntary route
- Service of formal notices required

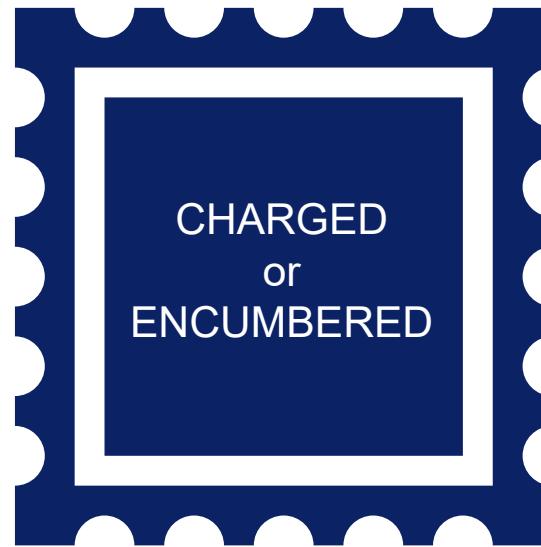
House Leasehold Value Decay – Over Time

Assuming a £500,000 house on varying lease lengths subject to a rising ground of £20 fixed for the lease term based on a 9(1) valuation under the Leasehold Reform Act 1967



| UXT | L/H Value | Ground Rent Paid to F/H | Reduction in L/H Value | Premium to acquire F/H (MV) | ROI for L/H |
|-----|-----------|-------------------------|------------------------|-----------------------------|-------------|
| 70 | £437,000 | £328 | £0 | £5,897 | 578% |
| 65 | £427,500 | £326 | -£9,826 | £7,519 | 479% |
| 60 | £417,000 | £323 | -£20,323 | £9,614 | 467% |
| 55 | £404,500 | £320 | -£32,820 | £12,320 | 451% |
| 50 | £390,000 | £315 | -£47,315 | £15,813 | 428% |

Property subject to a charge



Consent to Charge

RESTRICTION ON TITLE: No disposition of the registered estate by the proprietor of the registered estate is to be registered without the consent of Newport City Council.

LEASE EXTRACT

Dated 25 March 1995

BETWEEN

- (1) *NEWPORT CITY COUNCIL of Civic Centre, Godfrey Road, Newport NP20 4UR (the **Landlord**) and*
- (2) *OAKBRIDGE HOUSING ASSOCIATION LIMITED of Unity House, 15 Station Road, Newport NP5 4AA (the **Tenant**)*

THIRD SCHEDULE TENANT'S COVENANTS

The Tenant hereby covenants with the Landlord as follows: [...]

8 USER

- 8.1 *Not to use the Property or permit or suffer the same to be used for any purpose other than as Affordable Housing and not to use or permit the Property to be used for any trade business or profession whatsoever without the Landlord's consent.*

Use Restriction

LEASE EXTRACT

Dated 25 March 1995

8 USER

- 8.1 Not to use the Property or permit or suffer the same to be used for any purpose other than as Affordable Housing and not to use or permit the Property to be used for any trade business or profession whatsoever without the Landlord's consent.

- 8.2 For the purposes of this clause "Affordable Housing" means residential accommodation provided to eligible persons whose needs are not adequately served by the commercial housing market and which: (a) is made available at a cost below the prevailing market rate for comparable accommodation in the locality; and (b) is allocated and let in accordance with the Landlord's nomination rights and allocation policies from time to time; and (c) is subject to arrangements that will ensure that it remains available at such cost for the benefit of eligible persons in perpetuity

Forfeiture on Insolvency

FOURTH SCHEDULE FORFEITURE AND RE-ENTRY

1 FORFEITURE PROVISIONS

The Landlord may re-enter the Property and terminate this Lease if:

- (a) the rent is unpaid for 21 days after becoming due; or
- (b) the Tenant breaches any covenant in this Lease; or
- (c) the Tenant: (i) enters into liquidation (except for solvent reconstruction); (ii) has a receiver or administrator appointed; (iii) enters into administration; (iv) makes a voluntary arrangement with creditors; (v) is struck off or dissolved; or
- (d) a mortgagee takes possession or appoints a receiver

This right may be exercised notwithstanding any previous waiver or acceptance of rent, subject to Section 146 Law of Property Act 1925.

Section 106 Agreement Extract - Mortgagee Exclusion Clause

SECTION 106 AGREEMENT

Dated 25 March 1994

BETWEEN

- (1) NEWPORT CITY COUNCIL (the **Council**) and
- (2) OAKBRIDGE HOUSING ASSOCIATION LIMITED (the **Registered Social Landlord**)

SCHEDULE 3 - AFFORDABLE HOUSING PROVISIONS

Clause 8: Mortgagee Exclusion

8.1 The covenants and restrictions contained in this Agreement relating to Affordable Housing Units shall not be enforceable against:

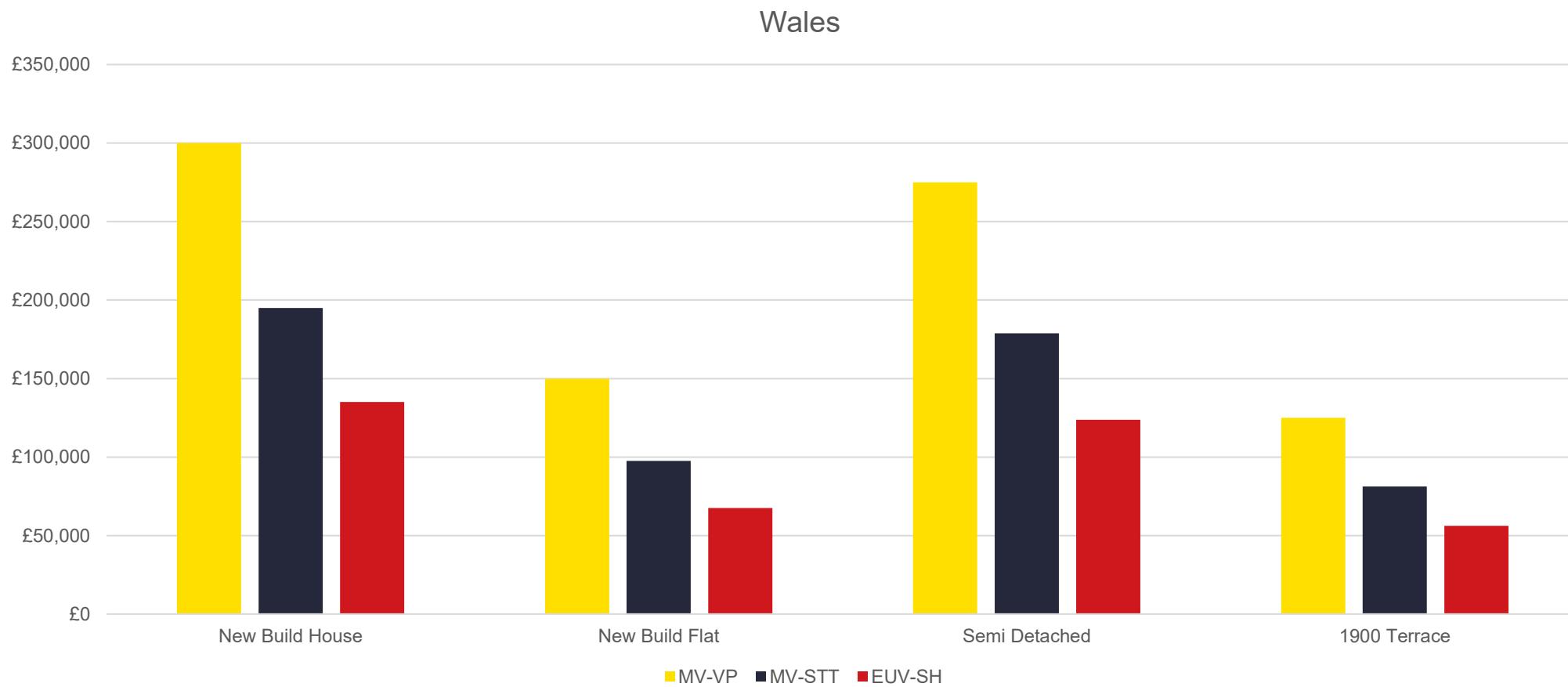
- (a) a mortgagee or chargee of the Registered Social Landlord (including a receiver or administrator appointed by or on behalf of such mortgagee or chargee) in respect of any Affordable Housing Unit; or
- (b) any person deriving title through such mortgagee or chargee (including a purchaser from a mortgagee in possession or from a receiver or administrator)

PROVIDED THAT nothing in this clause shall prevent the Council from enforcing the provisions of this Agreement against the Registered Social Landlord or any successor Registered Social Landlord other than those persons specified in sub-clauses (a) and (b) above.

8.2 For the avoidance of doubt, the exclusion in clause 8.1 shall apply to any mortgagee in possession or any receiver or administrator appointed by a mortgagee who takes possession of an Affordable Housing Unit and subsequently sells or disposes of such unit free from the affordable housing restrictions and covenants contained in this Agreement.

8.3 The parties acknowledge that this exclusion is required to enable the Registered Social Landlord to obtain funding from private lenders to finance the development and management of Affordable Housing Units.

Bases of Value



Four points to liberate value



Short leases



Section 133 Relaxation



Section 106 Wording



Cladding

Opportunity to increase value from EUV-SH to MV-STT

- Background and illustration
- Different physical characteristics
 - Large volumes, geographically concentrated, homogenous stock
 - Risk of market saturation
 - Mono tenure
 - Visually distinct as social product
 - Catch up repairs
 - Lower rents and sales values than surrounding private markets
- Reduced investor appeal

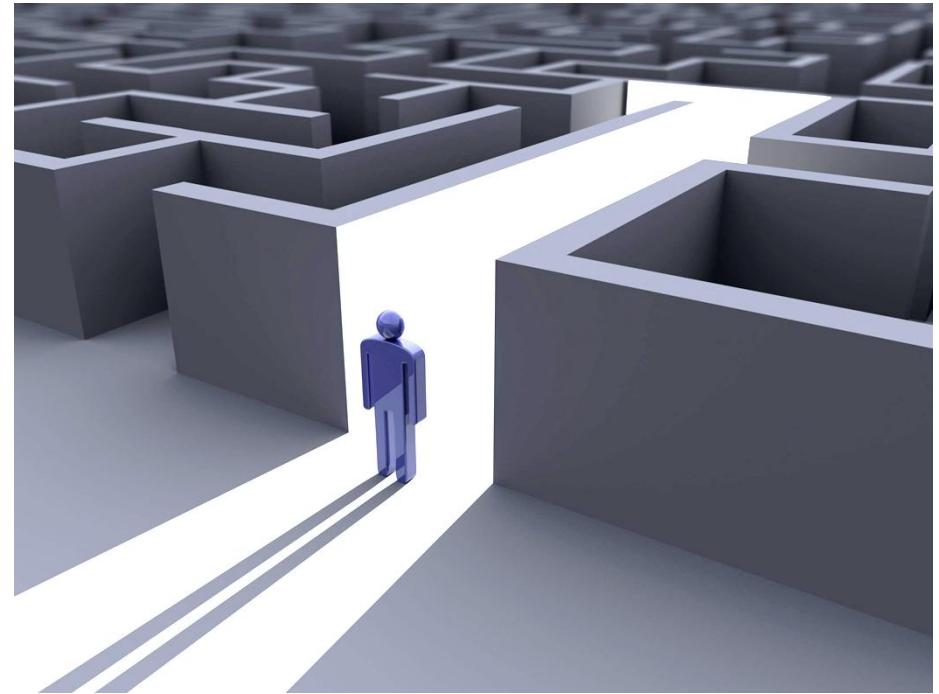


EUV-SH
MV-STT
(transfer)
MV-STT
(traditional)
MV-VP

Investment appetite:

- Valuer to assess
- Difficult markets
- RSL purchaser
- MV-STT more akin to EUV-SH
- Beware of clawback arrangements

Speak to your valuer and solicitor early to optimise the lending potential.



Cladding – Portfolio lending issues

Building Lender and investor confidence

- Any impact apparent on voids and bad debts – generally limited – waking watch ?
- Building Safety Act 2022 – Regulator – Responsible person
- EWS1 – RICS gradings
- PAS9980
- Risks apparent & Intrusive investigation
- Remediation works costs
- Remediation Timelines



Cladding – Portfolio lending issues

Building Lender and investor confidence

- Fire Risk Assessments
- Tri Fire – Chartered Fire Engineers
- Third party responsibility - Litigation & recovery – speak to your solicitor
- Withheld Value?



Homes for the Future – Community Housing Cymru & Savills Economic Research 2025

WQS 2023 Sets expectations for Wales.

CHC and Savills briefing paper 2025:

- ✓ Worst case EPC A by 2050 is unachievable
- ✓ Blanket targets are unhelpful
- ✓ Prioritise tenant's needs within the requirements
- ✓ Prioritise “deliverable” targets
- ✓ Launch Retrofit Skills Programme
- ✓ Explore Green Finance Initiatives
- ✓ Review sustainable Reference Rents to make rent setting fairer for tenants



Financial cost benefit of energy investment

Average annual energy bill

| Property type | EPC rating A | EPC rating B | EPC rating C | EPC rating D | EPC rating E | EPC rating F | EPC rating G |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1-bed flat | £466 | £790 | £1,209 | £1,691 | £2,242 | £2,881 | £3,448 |
| 2-bed flat | £474 | £916 | £1,369 | £2,012 | £2,758 | £3,527 | £4,569 |
| 3-bed terraced house | £468 | £1,000 | £1,696 | £2,381 | £3,291 | £4,133 | £5,174 |
| 3-bed semi-detached house | £466 | £985 | £1,719 | £2,368 | £3,284 | £4,297 | £5,278 |
| 3-bed detached house | £485 | £1,087 | £1,876 | £2,587 | £3,523 | £4,677 | £5,957 |
| 4-bed semi-detached house | £694 | £1,206 | £2,168 | £3,074 | £4,277 | £5,612 | £7,942 |
| 4-bed detached house | £652 | £1,313 | £2,346 | £3,250 | £4,422 | £5,621 | £8,150 |
| 5-bed detached house | £645 | £1,817 | £3,109 | £4,285 | £5,813 | £7,571 | £10,474 |

Average energy bill calculations are based on energy consumption data from the EPCs of all homes for sale on Rightmove in August 2025, combined with the latest energy meter data, factoring in the latest energy price cap for October to December 2025.

- The average UK rating is a D
- The average monthly energy bill for a 3-bed semi-detached house with EPC D is around **£197pm (£2,36pa)**
- It is likely the average Housing Association EPC is better than the UK average
- The average energy saving from EPC D to C for a 3 bed Semi-Detached House is around **£700pa**
- Research suggests that achieving EPC C & B would save the NHS **£85M per annum*** due to improved health benefits
- Housing Association in Wales support 37,000 jobs equating to **£1.4 Billion** economic contribution. Construction Industry Training Body estimates the workforce needs to expand by **13%** to meet new retro-fit challenges & targets** adding an additional **£182 Million** to the Welsh economy
- Meeting national CO2 emissions targets and reducing environmental impact

*Source CIH 2025

** Construction Industry training Body Nov 2024

Net Zero 2050

Impacts On Value EUV-SH

3BH
<40yo
EPC D
£122pw



£76,000
8.35% GY

+£60,000
EPC A

3BH
<40yo
EPC A
£122pw



£36,000
17.9% GY
25YR Smoothed
(2050)

3BH
<40yo
EPC A
£122pw



£21,000
29.9.3% GY
10YR Smoothed
(2035)

3BH
<40yo
EPC A
£122pw



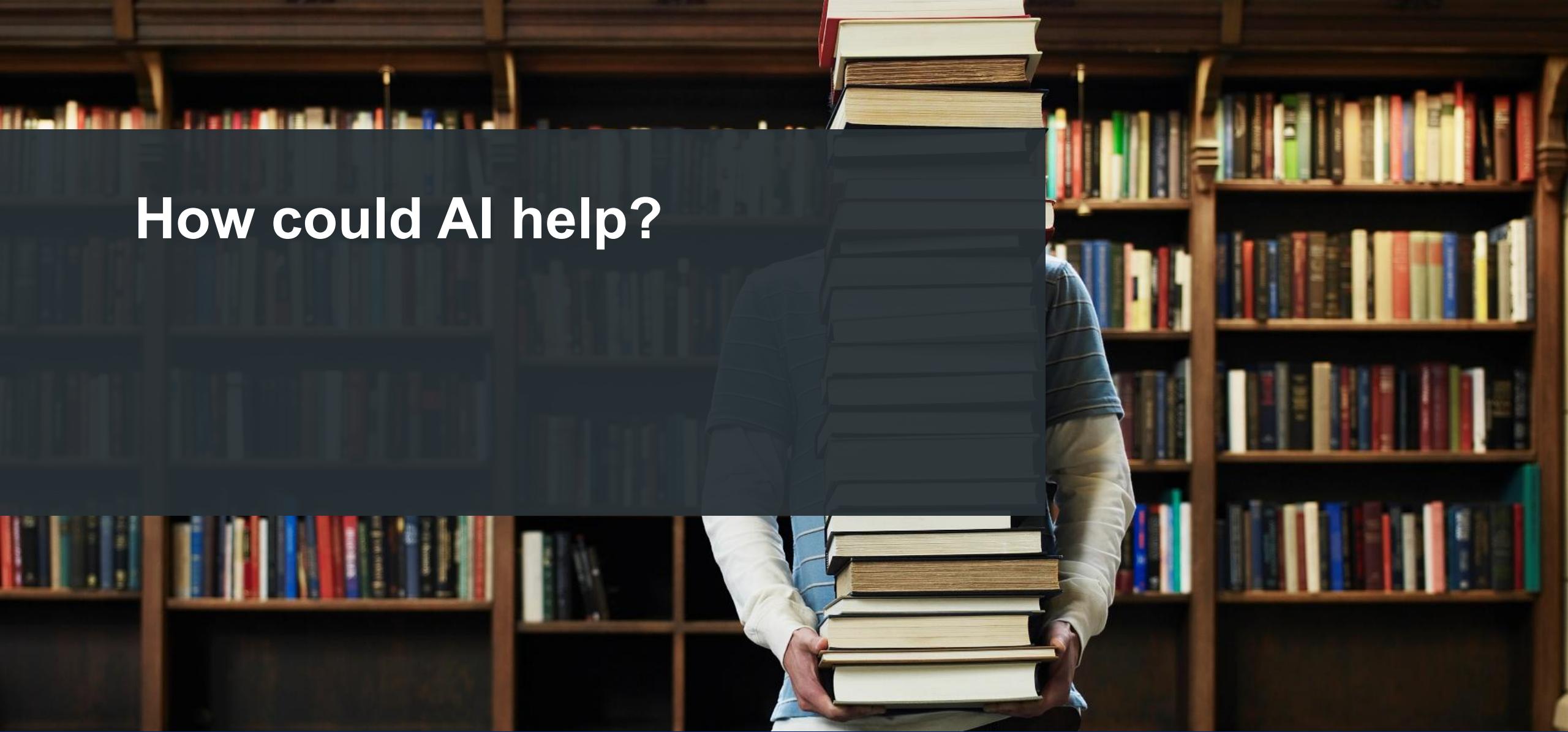
£16,000
38.7% GY
5YR Smoothed
(2030)

Note: A maximum government cap to EPC improvement costs would improve viability although may not fully deliver the agenda

EPC Impact on Value incl. Equalisation Rent

| EPC Cost V Typical 3 bed EUV-SH | | Rent £/pw needed to get back to funding position £76K | |
|---------------------------------|---------|---|---------|
| Control Property (excl. EPC) | £76,000 | Control Property (excl. EPC) | £122.00 |
| EPC D - C (smoothed to 2050) | £59,000 | EPC D - C smoothed to 2050 | £136.00 |
| EPC D - B (smoothed to 2050) | £42,000 | EPC D - B smoothed to 2050 | £150.01 |
| EPC D - A (smoothed to 2050) | £36,000 | EPC D - A smoothed to 2050 | £155.00 |
| EPC D - C (smoothed to 2035) | £54,000 | EPC D - C smoothed to 2035 | £139.85 |
| EPC D - B (smoothed to 2035) | £32,000 | EPC D - B smoothed to 2035 | £157.71 |
| EPC D - A (smoothed to 2035) | £21,000 | EPC D - A smoothed to 2035 | £182.01 |
| EPC D - C (smoothed to 2030) | £52,000 | EPC D - C smoothed to 2030 | £141.44 |
| EPC D - B (smoothed to 2030) | £28,000 | EPC D - B smoothed to 2030 | £175.72 |
| EPC D - A (smoothed to 2030) | £16,000 | EPC D - A smoothed to 2030 | £186.34 |

Note* Assumes: £60k EPC D-A, £48k EPC D-B and £24k EPC D-C (Indicative only)



How could AI help?

Green lights

- Short Leases
- Section 106 Wording
- Cladding
- Decarbonisation Costs
- Section 133

