DECISION

RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO HEALTH & HOUSING COMMITTEE

Agenda Item No. 7

meeting date:	THURSDAY, 7 SEPTEMBER 2017
title:	NEW AFFORDABLE HOUSING TENURE OPTIONS
submitted by:	MARSHAL SCOTT – CHIEF EXECUTIVE
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1 PURPOSE

1.1 To inform Committee of additional affordable tenure options, the 'rent to buy' model and the 'DIY shared ownership'. Request Committee approve further investigation of these models as potential affordable housing tenures in Ribble Valley.

1.2 Relevance to the Council's ambitions and priorities:

- Community Objectives }
- Corporate Priorities } To address the identified housing need of the borough.
- Other Considerations }

2 BACKGROUND

2.1 Currently there are two distinct affordable housing options, either rent or affordable home ownership. The intermediate option of 'rent to buy' is a hybrid between the two. Heylo have developed this model which provides the security of home ownership with the opportunity to purchase more of the property over time.

2.2 The DIY (Do it Yourself) shared ownership allows households to consider a shared ownership on any property rather than restricting the option to new build only.

3 ISSUES

3.1 Appendix 1 sets out the details of the Rent to Buy model.

3.2 Appendix 2 sets out the detail of the DIY shared ownership model.

3.2 With rent to buy, customers are offered a standard form of shared ownership lease with the gifted 1% share and an affordable rent. The customer has full repairing responsibilities equal to an owner occupier for the property and providing they pay the rent, have a lifetime certainty to occupy their home.

3.3 After a period of time the customer savings could be used to buy a share and then convert to a shared ownership lease. There is no requirement to purchase additional shares at any stage and there is no deadline for this offer to come to an end. The lease will continue to run as any other shared ownership lease and the right to acquire shares will remain unaffected.

3.4 With DIY shared ownership, Heylo's new model requires affordable housing commuted sums to develop a do it yourself shared ownership scheme. The scheme enables eligible households with an agreed local connection and eligibility criteria to purchase a home of their choice through shared ownership. The scheme would be flexible to suit local needs and priorities.

- Households will apply for approval to take part in the scheme whereby their eligibility is assessed followed by a financial assessment to determine their need for affordable housing and good practice affordability checks.

- Qualifying households would be offered a value limit to purchase a property and will then be free to identify a home of their choice, this can be an existing property for sale through estate agents or even a new build open market property for sale with house builders. They will negotiate the purchase price which must be confirmed with a valuation from a RICS Registered Valuer.

- Heylo will purchase the property and grant a shared ownership lease to the purchaser who will acquire an equity share of between 1% to 75% of the property which we can agree. They will pay a rent to Heylo of 2.75% on the unpurchased share subject to annual increases of RPI plus 0.75%.

- The grant requirement for each property will be 40% of the unpurchased share which is the same basis as Heylo's offer to house builders when acquiring s106 shared ownership units.

- Any grant monies would be recycled back to the Council as and when a household staircase out of shared ownership.

4 RISK ASSESSMENT

4.1 The approval of this report may have the following implications:

- Resources – With the Rent to Buy option the Council are not required to make any contribution to delivery. The affordable housing model would be delivered through Section 106 contribution from a site. With the DIY shared ownership the Council's commuted sum monies would be utilised.

- Technical, Environmental and Legal – Heylo have delivered these products in other boroughs, the LA's will be contacted to assess the popularity and feedback from tenants and developers.

- Political – An increase in the affordable housing options is a positive improvement.

- Reputation – Important Ribble Valley support innovative methods of delivery and continuous improvement of the service.

- Equality & Diversity – None identified.

5 **RECOMMENDED THAT COMMITTEE**

5.1 Approve that these new models of delivering affordable housing are fully investigated and reported back to this Committee.

RACHAEL STOTT HOUSING STRATEGY OFFICER	MARSHAL SCOTT CHIEF EXECUTIVE

For further information please ask for Rachael Stott, extension 3235.

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A “Rent To Buy” extension of shared ownership

USING A LONG ESTABLISHED TENURE
TO HELP PEOPLE WITH LOW OR NO DEPOSITS
INTO AFFORDABLE HOME OWNERSHIP

Executive Summary

- 86% of the country's wealth was held by those aged over 45. (ONS "Wealth and Assets Survey" 2012-2014)
- Social renting households typically have just £200 in savings compared private renting households who have £1,200. However, outright owner households typically have £49,000 in savings. (Median figures according to National Housing Federation)
- Whilst the average shared ownership buyer has over £12,000 in savings these have been accumulated over several years as individuals registering for home ownership via this low cost route and are advised to save for a deposit when they first enquire.
- For thousands of families seeking a secure home the prospect of an affordable rent with long term security of tenure and the opportunity to progress towards ownership has not been widely available. Until now…
- Using the long established shared ownership lease but applying a "gifted 1%" minimum initial share the landlord and the customer can be assured of a secure housing future for the length of the lease (typically 125 years).
- Unlike other historic rent to buy models, the use of a shared ownership lease means the option to purchase is entirely with the customer and governed by a market tested process in the lease (known as "staircasing").
- Allowing customers to buy small shares in cash as they save (thereby reducing the transaction cost of purchase) will help households on even modest incomes secure their housing future and satisfy their desire to become a home owner.
- Plus, given that the shared ownership rents are linked to RPI, not interest rates or house price inflation, they will better track earnings over the long term.

Compatibility and simplicity…

- The benefit of using the standard form shared ownership lease with a "gifted 1% share" is that this sits consistently alongside typical shared ownership delivery – which means a single tenure and an easier model for customers to understand.
- This means that providers like heylo can offer a zero share option for customers who need to save for a deposit alongside the current 25% to 75% share offer for customers who have a deposit and can get a mortgage.
- New private providers, like heylo, and existing providers such as Housing Associations who already deliver shared ownership could implement this model in scale, immediately.

Rent to Buy Using A Shared Ownership Lease

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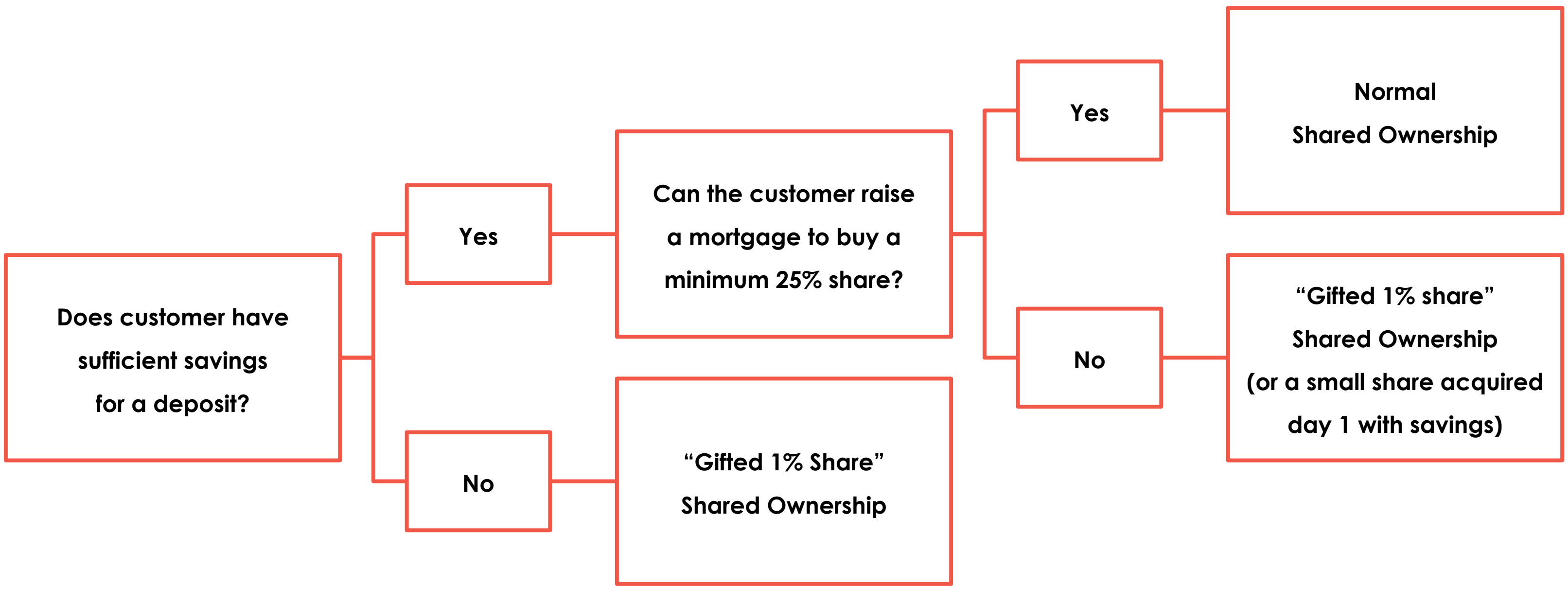
- Customers are offered a standard form shared ownership lease with a "gifted 1% share" and affordable low rent to allow the customer to save for a deposit (via a Help To Buy ISA) and move into ownership when they are ready.
- Provided that the customer pays their rent they, and their family, will have life-time certainty to occupy their home.
- After a period of time, say every 5 years, the customer's savings could be used to buy a share in the property via the established staircasing provisions in the shared ownership lease with a simplified valuation and legal process (costing c.£500).
- Via the staircasing provisions the customer will also have the option to buy a larger share using a mortgage, as typically happens in shared ownership. In the event of a mortgage funded purchase the normal valuation and legal conveyancing process would be required (costing c.£2,500) therefore this is only really economically sensible for larger share purchases.
- The weekly and monthly initial rents and indicative income requirements for various property values using this Rent To Buy model are as follows:

Property Value	Weekly Initial Rent	Monthly Initial Rent	Indicative Income Required
£150,000	£79.33	£343.75	£12,000
£200,000	£105.77	£458.33	£18,000
£250,000	£132.21	£572.92	£24,000
£300,000	£158.65	£687.50	£30,000
£350,000	£185.10	£802.08	£35,000
£400,000	£211.54	£916.67	£39,000
£450,000	£237.98	£1,031.25	£44,000
£500,000	£264.42	£1,145.83	£49,000
£600,000	£317.31	£1,375.00	£60,000
£700,000	£370.19	£1,604.17	£70,000
£800,000	£423.08	£1,833.33	£81,000

Above figures based on S106 properties delivered as Rent to Buy with a 0% shared ownership lease and an initial rent of 2.75% on the property value (increasing annually with RPI + 0.75%). Income requirements are based on standard HCA affordability calculations.

Customer Flexibility – 1 tenure, 2 solutions

- Based on their circumstances customers can self-elect their route to ownership.



- This solution can be supported by a consistent marketing message to avoid tenure confusion.
- Properties delivered, through either route, will be affordable housing.
- The application of customer subsidy (such as Help To Buy) will further improve affordability and could provide a deposit contribution for eligible households in high value areas such as Greater London.

Rent To Buy Customer "Journey"

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- Day 1 - Customer signs lease with "gifted 1% share"  and starts saving 
- After a few years… Using their savings  they buy their first share in cash  and continue to save
- Some years later… Using savings and a mortgage  they buy a bigger share 
- At some point in the future… Using their embedded equity and increased earnings they buy outright 

(This will trigger a "100% staircasing fee" of 1% of the property value which allows the landlord to recover the 1% gifted share)

About shared ownership

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- Created in 1970 to address dis-enfranchisement of middle income earners with a desire to buy a home but an inability to afford the mortgage on the whole of a property.
- 125-150Y leasehold property where customer owns a share & rents remainder at a below-market rate – these rents are linked to RPI not interest rates.
- There are around 240,000 properties across the UK - typical owners are 30 to 40 years old, have household incomes of £30k to £40k and own buy 30% to 40%.
- Because the rent is set at a low level and the lease does not have any capital repayment element shared ownership enfranchises 4 to 5 times more households.
- Shared ownership is a family tenure and predominately buyers move from a rented tenure – these households could get a mortgage and buy a property outright… just not one the right size or in the right location… hence they rent.
- Affordability of buying with shared ownership is equal to or better than affordable rent.
- The customer has the right to increase their share towards full ownership by paying then OMV for the share they have not already purchased.
- "Shared" tenures are now a core route to ownership but annual delivery of shared ownership has only been around 8,000.
- There is an established second-hand market for shares.
- The long term rents are increasingly attractive to institutional investors as a match to pensions.
- Until recently the tenure has been provided by Housing Associations but there are an increasing number of new entrants, like heylo, looking to drive delivery.
- To maximise delivery of the shared ownership and Rent to Buy tenures using a standard form lease there are a handful of 'barriers to entry' such as mortgage provision, SDLT rates and Section 106 planning guidance which could easily be updated to reflect the Government's aspirations for increased supply by non-Housing Associations.

About Heylo

- Heylo is a joint venture with Lancashire County Council pension fund.
- Heylo issues 68 year index linked bonds achieving a very low cost of funding and operates a very efficient operating model allowing it to pass these benefits on to purchasers in the form of very low cost home ownership models.
- Compared to other private ownership tenures (outright purchase, help-to-buy, starter homes) heylo's part-buy part-rent model enfranchises up to 3 times as many purchasers without the need for Government subsidy.
- And… It exactly matches the long term funding liabilities of the pension fund.
- The focus of the model is standard shared ownership which has been around for over 30 years.
- To date Heylo has raised £300 million with a further £500 million in the pipeline.
- Heylo achieves Government Affordability targets with no Government subsidy.
- For S106 Heylo is already active in over 100 local authorities and is working with 7 of the top 10 house builders to fulfil their S106 commitments on new build sites.
- Heylo further offers a range of products based on Shared Ownership to address;
  - Purchasers who want to enter the housing ladder on second hand homes.
  - Local authorities or housing associations who want to replace homes or make the capital receipts that they have go further.

Heylo is now the UK's largest provider of shared ownership housing - with no grant.

heylo's Key Operating Relationships

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Lancashire County Council

LPP Local Pensions Partnership

the guinness partnership

Bellway

BOVIS HOMES

BARRATT HOMES

Keepmoat

REDROW

PERSIMMON Together, we make a home

Pinsent Masons

UBS

RBC Capital Markets

hometrack

EY

savills