

Report to the Cabinet

Report reference: C-099-2008/09

Date of meeting: 9 March 2009



**Epping Forest
District Council**

Portfolio: Housing.

Subject: Shared Ownership Schemes – Approach in the Current Market.

Responsible Officer: Alan Hall (01992 564004).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations:

(1) That, in view of the current economic climate, housing associations that are currently required to provide shared ownership properties within affordable housing developments - by either the Council's Shared Ownership Policy or Section 106 Agreements - be allowed to provide these properties either as social rented properties and/or through "Rent now – Buy later" Schemes, whereby applicants are able to rent newly-built properties at "intermediate rents", on the basis that they are able to purchase equity tranches in the property at a later date, up to full ownership;

(2) That, where the provision of shared ownership properties are required by virtue of existing Section 106 Agreements, the Director of Housing in consultation with the Director of Corporate Support Services be authorised to agree variations to Section 106 Agreements, in line with this approach;

(3) That this revised approach be reviewed, once the economic climate has improved to a point that mortgages for first time buyers are more easily obtainable; and

(4) That further tenders be invited from all the Council's Preferred RSL Partners for the sale and development of Leader Lodge, North Weald, on a similar basis to previously, but for the provision of the properties through a "Rent now – Buy later" Scheme, instead of shared ownership.

Executive Summary:

The Cabinet has previously agreed a Shared Ownership Policy, requiring 30% of properties within affordable housing developments to be provided in the form of shared ownership.

One of the effects of the current economic climate and property downturn is that housing associations are finding it difficult to sell shared ownership properties.

The report proposes arrangements for properties required as shared ownership to be provided either as social rented properties and/or through "Rent now – Buy later" Schemes, whereby applicants are able to rent newly-built properties at "intermediate rents", on the basis that they are able to purchase equity tranches in the property at a later date, up to full ownership.

The report also proposes a way forward for the development of the Council's Leader Lodge, North Weald, which was recently the subject of a tender exercise.

Reasons for Proposed Decision:

The Council's current Shared Ownership Policy was adopted just before the severe downturn in the property market. One of the effects of the down-turn is that housing associations are finding it very difficult to sell shared ownership properties, particularly since shared ownership is aimed at first time buyers, who are currently finding it very difficult to obtain mortgages.

Other Options for Action:

- Retain the existing Shared Ownership Policy;
- Allow *some* properties currently required to be provided as shared ownership, to be provided as social rented and/or through "Rent now – Buy later" Schemes;
- Allow all properties currently required to be provided as shared ownership, to either be provided as social rented or to be provided through "Rent now – Buy later" Schemes; or
- Re-tender the sale and development of Leader Lodge, on the basis that the homes be provided either all for social rent, or as a combination of social rent and a "Rent now – Buy later" Scheme.

Report:

Introduction

1. In October 2007, the Cabinet considered its future policy in respect of the provision of shared ownership schemes within new affordable housing developments. This is where an applicant purchases an equity share in a newly-built property (e.g. 50%) and a housing association holds the remaining share and charges the tenant an associated rent, based on the amount of retained equity (usually around 2.5% of the unsold equity per annum). Overall, due to subsidy (either a developer's subsidy through a Section 106 Agreement and/or social housing grant), the applicant's monthly outgoings are less than if he/she had a mortgage for 100% equity. The shared-owner then has the opportunity to purchase additional tranches of equity from the housing association, eventually up to 100%.

2. The Cabinet adopted the following Shared Ownership Policy at its meeting in October 2007:

" On development sites subject to legal agreements under Section 106 of the Town & Country Planning Act 1990, and other sites on which the Council is able to exercise influence (e.g. land in its ownership), the Council will seek to ensure that, generally;

- (a) 30% of the overall affordable housing provision is delivered in the form of shared ownership (New Build Homebuy);*
- (b) The average initial equity share sold to shared owners across all the shared ownership homes within any development is no more than 35%;*
- (c) Shared owners are able to purchase a minimum equity share of 25% and a maximum equity share of 50% for shared ownership schemes;*

- (d) *Shared owners are able to purchase additional equity shares (staircase) up to full 100% ownership, except for rural housing schemes for which a maximum of 80% equity can be purchased under current Housing Corporation policy; and*
- (e) *Shared owners pay an initial rent of no more 2.5% of the unsold equity per annum, with subsequent rent increases determined in accordance with the relevant housing association's rent setting policy. “*

3. However, this policy was adopted just before the severe downturn in the property market. One of the effects of the down-turn is that housing associations are finding it very difficult to sell shared ownership properties, particularly since shared ownership is aimed at first time buyers, who are currently finding it difficult to obtain mortgages.

4. This has resulted in most housing associations temporarily suspending the development of shared ownership properties and either;

(a) seeking additional funding from the new Homes & Communities Agency (HCA - which has taken over the funding of housing associations from the former Housing Corporation) to convert new and/or existing schemes into social rented developments; or

(b) converting shared ownership schemes into a new initiative called “Rent now – Own later”.

5. In view of the economic climate, the HCA is currently favourably considering funding requests from housing associations to provide social rented homes in respect of properties previously designated for shared ownership. If such requests are approved from housing associations for developments in Epping Forest, it could result in a significant financial investment in the District by the HCA.

6. “Rent now – Own later” schemes (also referred to as “mortgage to rent” schemes) are being advocated by the Government in the current economic climate. Although different housing associations operate different approaches, commonly, the schemes enable applicants - who would ordinarily be seeking to enter home ownership as first-time buyers – to *fully rent* a newly-built property, that was originally developed for shared ownership, at an “intermediate rent” (with levels set at around 80% of market rents for the local area), on the basis that they are able to purchase an equity in the property at a later date (eg. 20% - 50%). Applicants are then able to purchase additional tranches thereafter, up to full ownership. Some housing associations *require* the applicant to purchase an equity tranche within 3-5 years (otherwise they are required to vacate the property); others take a more flexible approach and simply support/encourage applicants to purchase a share when the market and personal circumstances allow. One of the benefits of “Rent now – Own later” schemes is that minimal (if any) social housing grant is required from the HCA.

7. Bearing in mind the Council's current Shared Ownership Policy, the attached Appendix lists for information all of the currently proposed affordable housing developments in the District that include an element of shared ownership.

Proposed Way Forward

8. In view of the current economic position, it is recommended that housing associations that are currently required to provide shared ownership within affordable housing developments - by either the Council's Shared Ownership Policy or Section 106 Agreements – be allowed to provide these properties either as social rented properties and/or through a

“Rent now – Buy later” Scheme. Since it is felt that such schemes that *require* applicants to buy within 3-5 years are unreasonably restrictive and onerous (since it is often not possible for applicants to know whether they will be in a more favourable position in the near future, especially when some factors are outside of their control), it is suggested that such requirements should not apply to schemes operating in the Epping Forest District.

9. Where the provision of shared ownership properties are required by virtue of existing Section 106 Agreements, it is recommended that the Director of Housing and the Director of Corporate Support Services be authorised to agree variations to Section 106 Agreements, in line with the proposed approach.

Leader Lodge, North Weald

10. In June 2007, the Cabinet agreed to seek the improvement and conversion of Council-owned Leader Lodge, North Weald into four self contained flats, together with the development of a new annexe comprising at least two self contained flats within the grounds, in partnership with one of the Council’s Preferred RSL Partners. The Cabinet agreed that all of the new and converted flats should be sold on a shared-ownership basis.

11. A subsequent tendering exercise was held in July 2008, in order to ensure maximum value for money. One of the requirements of submitting a tender was that the selected RSL should submit a bid to the HCA for social housing grant (SHG) funding for the proposed annexe, which the Council would support. The Cabinet agreed that, subject to the receipt of planning permission and the RSL undertaking the approved development, the freehold of Leader Lodge and the associated land should be sold to the selected RSL for its tendered sum, after the outcome of its bid to the HCA was known.

12. Tenderers were asked to provide two tender prices. One price would be paid to the Council if SHG was allocated by the HCA, and another price if SHG was not allocated. The highest tender received was from East Thames, which was selected by the Housing Portfolio Holder accordingly. However, East Thames subsequently withdrew its tender stating that “the current housing market and its future uncertainty means that we cannot afford to take the risks that entering into this scheme would currently open us up to”. In accordance with the Housing Portfolio Holder’s decision, the second highest tender, from London & Quadrant (L&Q), was accepted.

13. However, L&Q has now also advised that it is unable to develop the scheme at its tendered sum, due to the sharp reduction in property prices since the time it submitted its tender.

14. In view of the current market difficulties, it is therefore recommended that, if planning permission is received for the proposed development at Leader Lodge, the properties should be provided through a Rent now – Buy later Scheme, as set out in this report - instead of through shared ownership.

15. Since this approach would be on a different basis to that on which tenders have been sought – and in any event, since both East Thames and L&Q subsequently had to withdraw their tenders - it is recommended that a new tendering exercise be undertaken with all of the Council’s Preferred RSL Partners, on a similar basis to previously, but on the basis of a Rent now – Buy later Scheme.

Resource Implications:

None.

Legal and Governance Implications:

Section 106, Town and Country Planning Act 1990.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

All of the Council's Preferred RSL Partners have been consulted on this report. They welcome and support the proposals.

One RSL commented that it thought the Homes and Communities Agency (HCA) would only agree to funding for shared ownership properties being converted to a "Rent now - Buy later" Scheme if the occupants were **required** to purchase an equity tranche within 3-5 years. This has been taken up with the HCA and a response is awaited. The response will be reported orally at the meeting, since it may affect the recommendations.

Background Papers:

None.

Impact Assessments:

If the recommendations are adopted, it should enable a wider pool of people to be considered for affordable housing.

The only risk to the Council is in relation to developments on Council land. In the current economic climate, developers and housing associations are more likely to buy Council-owned land for affordable housing if it is provided either for social rent or through a "Rent now – Buy later" Scheme, since the viability of the development is not affected by market conditions.

APPENDIX

Currently proposed affordable housing developments in the District that include an element of shared ownership.

Development	No. of Shared Ownership Properties	Comments
Epping Forest College, Loughton (Phase 1)	7	Currently on-site – Completion expected in November 2009
Epping Forest College, Loughton (Phase 2)	9	Follows-on from Phase 1 – Completion expected in 2010/11
EFDC Small Development Sites (6 locations)	11	Currently on site – Completions expected from June 2009
Merlin Way, North Weald	6	Revised detailed planning application from developer expected soon
Station Approach, Ongar	7	Awaiting the developer to start on site
White Lodge / The Limes, Waltham Abbey	38	Awaiting detailed planning proposals from the developer
St. Johns School, Epping	11	Awaiting detailed planning proposals from the developer
Acres Avenue, Ongar	12	EFDC-owned land. Awaiting land transfer to Estuary Housing Association before the development can commence
Leader Lodge, North Weald	6	EFDC-owned land. Cabinet decided that all the properties should be shared ownership. Plans currently being drawn up by L & Q Housing Society. Needs planning permission.
Church Hill, Loughton	10	EFDC-owned land. Cabinet has decided to defer the open market sale of the land until market conditions have improved. Previously agreed that all of the affordable housing should be shared ownership.