

# **Report to the Cabinet**

**Report reference: C/050/2007-8.**  
**Date of meeting: 8 October 2007.**



**Portfolio: Housing.**

**Subject: Shared Ownership Policy.**

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## **Recommendations/Decisions Required:**

**That the following Shared Ownership Policy be adopted:**

**(1) 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) A minimum of 30% of the overall affordable housing provision is delivered in the form of shared ownership (New Build Homebuy);**

**(b) The target average initial equity share sold to shared owners across all the shared ownership homes within any development be 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 than 2.5% of the unsold equity per annum, with subsequent rent increases determined in accordance with the relevant housing association's rent setting policy.**

## **Introduction:**

1. Members will be aware that house prices within the District continue to increase, resulting in an increasing number of local people being unable to purchase their own home. Members will also be aware from the previous report on Home Ownership Grants Scheme that many young people are living with their parents for longer, not through choice, but through necessity. As a result, more people look to the Council to assist them with their housing needs, including those who have a reasonable income and would, in the past, have been able to buy a home on the open market. This includes existing Council tenants with reasonable incomes. This has resulted in the number of people on the Council's Housing Register increasing significantly over recent years. There were 3,633 households registered in April 2007, compared to 1,478 in April 2002 (145% increase).

2. The most common way to assist housing applicants and tenants to get a foot on the housing ladder is through new-build shared ownership (also referred to as New Build Homebuy). This is where the applicant purchases an equity share in a newly built property (e.g. 50%), and a housing association purchases the remaining share and charges the tenant

an associated rent. 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%.

3. However, a problem in Epping Forest for some time has been that, due to the current Essex Structure Plan targets being exceeded a few years ago, and the Council having to wait for the outcome of the East of England Plan before it is in a position to release additional land through the Local Development Framework, there has been a dearth of new development sites in the District - and therefore the amount of affordable homes that can be provided.

#### **Shared Ownership Provision on Affordable Housing Sites:**

4. In April 2005, the District Development Control Committee agreed that up to 25% of all the affordable homes provided on Section 106 developments should be in the form of shared ownership. Indeed, the Council has worked with a number of housing associations in recent years to provide shared ownership on new developments. In the past three years, 27 new shared ownership homes have been completed, compared to 71 general needs social rented homes.

5. However, as a result of continuing house price increases within the District, resulting in an increasing number of local people being unable to purchase their own home, it is suggested that this policy now be reviewed, and that the amount of shared ownership sought from developers and housing associations within the overall affordable housing provision on Section 106 sites be increased to a minimum of 30%.

6. It is suggested that this percentage also be applied to other, non-Section 106, sites in which the Council has influence (e.g. land that it owns and is selling on the open market), unless the Cabinet specifically resolves to seek a different amount of shared ownership at the time the disposal or issue is considered.

#### **Rent Levels and Minimum Equity Shares:**

7. It would also be helpful if the Council's Shared Ownership Policy clarifies the Council's expectations of developers and housing associations in respect of:

- (a) the minimum and maximum initial equity share that shared ownership applicants can purchase; and
- (b) rent levels that applicants pay in respect of the equity held by the housing association.

#### **Initial Equity Share:**

8. The minimum initial amount of equity that applicants can purchase has a direct bearing on the affordability of the affordable housing provision. The lower the initial amount of equity purchased, the less the applicants' monthly housing costs (in terms of mortgage and rental payments) will be.

9. Experience across the London Commuter Belt Sub-Region has established that, having regard to current property prices and average earnings, shared ownership schemes with initial equity shares of more than 35% are becoming increasingly unaffordable. It is suggested, therefore, that the Council should seek to include a requirement within Section 106 Agreements that the target average initial equity share sold to shared owners across all the shared ownership homes within any development should be 35%, and that shared owners are able to purchase a minimum equity share of 25% and a maximum equity share of 50%.

10. The Section 106 Agreement should also allow purchasers to buy additional equity shares (known as "staircasing") up to full 100% ownership, except for rural housing schemes,

which is generally not permissible by the Housing Corporation, in order to retain affordable housing in villages and for which a maximum of 80% equity can be purchased.

#### **Rent Levels:**

11. Shared owners have to pay a rent to the housing association, based on an initial percentage of the value of the unsold equity (i.e. the amount of equity held by the housing association) per annum. The rental income is used to fund the cost of the housing association's loan that is required to purchase its share and other associated costs. The initial percentage varies between housing associations, and is usually between 2% and 3%. The Housing Corporation's recommended level is 2.75%; clearly, the higher the percentage, the higher the shared owners' monthly housing costs, and the less affordable the property becomes.

12. Rent increases are then normally determined in accordance with the housing association's rent setting policy, which has to be formulated in accordance with the Housing Corporation's overall policy on housing association rent levels.

13. Therefore, in order to keep rents at an affordable level, whilst ensuring that housing associations have sufficient income to finance their loans, it is suggested that the Council should seek to include a requirement within Section 106 Agreements that shared owners should pay an initial rent of no more 2.5% of the unsold equity per annum.

#### **Statement in Support of Recommended Action:**

14. There is a need to have a clear policy on the Council's approach to the provision of shared ownership. In view of continuing house price increases within the District, it is suggested that the amount of shared ownership sought from developers and housing associations within the overall affordable housing provision on Section 106 sites and other sites where the Council has influence should be increased.

#### **Other Options for Action:**

15 The main options are:

- (a) do not have a formal policy of shared ownership;
- (b) retain the existing policy of seeking no more than 25% shared ownership of the overall affordable housing provision on Section 106 sites;
- (c) seek to obtain a different amount of shared ownership on Section 106 sites and other sites where the Council has influence;
- (d) seek a different minimum initial equity share for shared owners; and
- (e) seek a different rent level for shared ownership.

#### **Consultation Undertaken:**

16. The Council's five Preferred RSL Partners have been consulted on the contents of this report. They have agreed that there is a need for a clear Shared Ownership Policy, and that it is helpful to have one. They also agree with the proposals within this report.

#### **Resource implications:**

**Budget provision:** Nil.

**Personnel:** Nil.

**Land:** Nil.

**Council Plan/BVPP reference:** Meeting Housing Need.

**Relevant statutory powers:** Section 106, Town & Country Planning Act 1990.

**Background papers:** None.

**Environmental/Human Rights Act/Crime and Disorder Act Implications:** None.

**Key Decision Reference (if required):** None.