

HOUSING AND COMMUNITY SAFETY ADVISORY COMMITTEE

BRIEFING PAPER

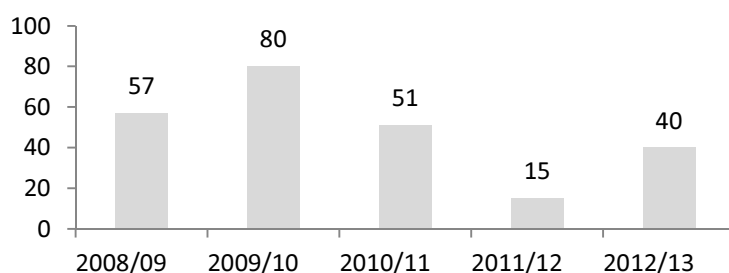
INTERMEDIATE HOUSING STRATEGY (OPTIONS)

11/02/14

BACKGROUND

- 1 Being a predominantly expensive District with a higher than average level of detached and executive-style housing, the area has a limited number of affordable housing options for those on low to moderate income households. This is further compounded by strict planning constraints, lack of developable land (further pushing up land values), and strong competition from speculative developers – all being significant barriers to the development of new supply.
- 2 Low levels of new supply to meet growing need further exacerbates affordability issues in the area and ownership has moved that much further beyond the reach of even moderate income households. As a result, the need for intermediate and lower-end market housing has continued to rise steeply and there is a consequent growing gap in the market – one that, in the Sevenoaks District, was already far more acute than most other areas outside of London.
- 3 Where housing affordability pressures exist, housing strategy aims to provide more affordable solutions - though the influence and scope of local authority housing strategy in relation to lower-end market and affordable housing development is, of course, limited.

- **New affordable housing units completed (2008/09 – 2012/13)**



- 4 As part of Government's Comprehensive Spending Review (CSR), the social housing grant programme has been cut significantly and affordable housing development must be largely funded from other sources. In the current CSR, grant-per-unit rates have been reduced by around 60% on all non-S106 sites and completely removed on S106 sites. Government's social housing programme has therefore switched from a capital to revenue-based system. With the majority of local affordable housing coming via S106 development, this has impacted on the Sevenoaks District.
- 5 Housing providers consequently have very little upfront and non-repayable investment. Instead, they must utilise their own funds and assets, secure private finance against future capital appreciation, and enhance cash-flows through higher rents. In the short-term, funding capacity will come from increased debt underpinned by the new Affordable Rent tenure, which will generate greater revenue returns for developing housing associations.
- 6 Despite the above, the District Council does have a relatively new and significant source of capital funding through S106 affordable housing planning gains (Core Strategy, Feb 2011). These payments are provided in lieu of on-site provision on private developments of between 1-4 units and are intended to meet affordable housing needs through other means and with a degree of flexibility to allow us to look at more indirect delivery methods.
- 7 Local housing strategy has been adjusted to minimise any negative impacts of social housing grant cuts and to maximise use of a new source of funding. That said, one source of funding has not been used to replace the other.

- **UTILISING THE EXISTING HOUSING STOCK**

- 8 In order to maintain delivery of affordable housing, the District Council must be more creative with its housing strategy. This includes looking at different models to deliver viable projects in the current environment or, as is becoming more common, making better use of the existing housing stock to maximise its usefulness and economic value.

- 9 There are numerous benefits in utilising the existing housing stock to better meet a wide-range of housing and community needs. There is, in fact, wide and varied scope to do so, even in such a high-priced and heavily constrained area such as Sevenoaks. This approach can often achieve much more than direct delivery of new affordable housing, plus it is often more cost-effective and not overly influenced by the commercial sector as with S106 sites.
- 10 Such tactics can include reconfiguration to a more needed use category (e.g. from visually impaired to domestic abuse), refurbishment and improvement to preserve and/or enhance existing assets (e.g. modernising Sevenoaks Almshouses), returning to use long-term empty homes (e.g. Wood Street, Swanley), and demolition of outdated facilities to enable development of more new and modern schemes (e.g. Bonney Way and St Andrew's Court, Swanley).
- 11 This area of housing strategy is supported by initiatives to enable people to access the private sector. Key schemes currently offered are: rent-in-advance and deposit bonds; private landlord accreditation; small grants to improve private sector accommodation; and forums to engage with landlords.

- **MEETING THE NEEDS OF INTERMEDIATE GROUPS**

- 12 Intermediate social tenure options allow the District Council to control eligibility in relation to income etc., thereby ensuring that those in most need - and those key to wider community outcomes - are targeted for assistance. These are typically households on incomes between £33k¹ - £60k² pa and unable to afford to purchase on the open market without some form of financial support, but who could afford to pay more than housing association rents - and, as a consequence, they would be unlikely to secure a home through the local housing register. The District Council recently adopted an Intermediate Housing Allocations Policy to prioritise those with a local connection to the District, helping to maximise options for intermediate clients.

¹ Maximum income of £33k to be eligible for Sevenoaks District Housing Register

² Maximum income for Government's shared-ownership products

- 13 Shared-ownership housing has been the most popular intermediate product to date, it being a generally viable housing model and mostly in demand throughout the last decade or so. This tenure has, in the main, been delivered by the District Council and its housing association partners through Government's various incarnations of its intermediate housing initiative – most recently with the Help to Buy³ scheme and, before that, HomeBuy.
- 14 Although these national schemes have provided for a particular purpose and effectively assisted a large number of households, there is an opportunity (and scope) to offer variations of previously tried-and-tested intermediate products and ones that would meet different needs and aspirations here in the Sevenoaks District. This would create a more bespoke range of products to better respond to local housing need and demand.

CURRENT INTERMEDIATE STRATEGY TACTICS

- A HOME OF YOUR OWN

- 15 With the above in mind, the District Council and Moat Homes have jointly developed a bespoke shared-ownership scheme for those people with a local connection.⁴ This assists households to purchase housing on the open market rather than through specific social housing schemes where you would normally find a mix of social rented and intermediate housing, i.e. the social element of a private development or a small mono-tenure 'estate'.
- 16 This project has not only widened choice for those in need, but also negated land and development requirements - completely bypassing what can otherwise be a significant and lengthy process. This approach of retrospectively switching existing housing to affordable tenures has also helped to rebalance local stock profiles by introducing affordable tenures into typically private neighbourhoods, albeit in a small way.

³ Help to Buy: <https://www.gov.uk/affordable-home-ownership-schemes/help-to-buy-equity-loans>

⁴ A Home of Your Own: <http://www.moat.co.uk/ahomeofmyown/>

- 17 Scheme criteria/mechanics were developed in such a way as to maximise positive knock-on effects across housing and wider community strategy. This is very well demonstrated in the first project case study, as set out below.
- 18 To date, this scheme has enabled the purchase of six private dwellings, all of which have been transferred to the social sector and are all now designated as affordable housing. This project has also brought in external investment to the sum of £720,000 (with a further £503,000 being inputted by the District Council from S106 gains).
- 19 All S106 grant investment under this scheme will be recovered at the point of sale or at each stair-casing application, along with any uplift in property value. Those funds will then be reinvested in affordable housing initiatives to help deliver local housing strategy long into the future.
- 20 This particular scheme was runner-up in the National Housing Awards 2013 for Excellence in Affordable Housing and has also been shortlisted for the First-Time Buyers' Awards 2014. Moat is just about to introduce this model in London (with GLA funding) and a number of other areas are currently under consideration.

CASE STUDY

- Alex and Susannah rented in Sevenoaks through Moat Homes for the past 8-years with their three young children
- Wanted to buy a home in the area so their children could stay at their schools
- Due to local house prices, were close to giving up on the prospect of ever owning a property
- Now purchased 3-bed house in Westerham (sale price of £230k with 65% share)
- Children continue to attend their school
- Can grow up in a safe and familiar rural environment
- Susannah also now works at another pre-school in the town

- Retained a key member of the local workforce
- Over-crowded family living in WKHA home moved into vacant Moat home
- A homeless family then moved into vacant WKHA home
- Effective use of social housing stock - homes more suited to households

- **HOMESTEADING**

- 21 There are typically between 400 - 500 long-term empty homes in the Sevenoaks District at any one time. Local housing strategy seeks to make best use of empty homes and, again, this can help to deliver affordable housing with no associated land and development requirements. This area of housing strategy also contributes to wider community strategy outcomes such as minimising anti-social behaviour and criminal activity – such issues being typically associated with long-term empty homes.
- 22 The District Council is currently able to offer two grant options (both externally funded) to encourage property owners to bring long-term empty homes back into use. Both schemes require the property owner to either sell on or rent the home out, however. These grants are aimed property owners who might not have the funds to bring homes up to a saleable standard. They are also aimed at smaller developers who refurbish properties with a view to renting out or selling on at a profit, which brings in an SME support element.
- 23 Again, the District Council identified a variation on existing grant models to deliver wider outcomes. In this particular case, a homesteading approach can provide local first-time buyers with financial assistance to purchase run-down empty homes with a view to undertaking or commissioning refurbishment/ improvement works as part of a more affordable solution to securing a first home, i.e. securing a sub-standard property and benefitting from any potential uplift in value through subsequent improvements works (generating equity and lowering mortgage default risk, in the process). In this case, the applicant would live in the home.
- 24 Although in its early days, this is expected to be a popular initiative and one that has the potential to be extended. An initial pilot is set to provide three grants, each with a maximum of £15,000 assistance. A charge would be placed on the

property and investment recovered at the point of sale, along with any uplift in property value. Applicants would also have the option to repay the money earlier, should they wish to do so. Resultant funds would again be reinvested in affordable housing initiatives (as per S106 planning requirements).

- 25 A key outcome of the project is to help free-up social and lower-end private rented housing by proving the means for financially-sound households to own a home. This then creates key social sector vacancies that can be offered to priority households in need through the local housing register and can, in turn, help to address overcrowding and other poor housing issues. This is an effective housing strategy approach and one that is essential in an area with so few affordable housing development opportunities.

A NEW INITIATIVE TO CONSIDER

- 26 At present, certain West Kent Housing Association tenants can be offered financial assistance to down-size to a more suitable housing association property. The Small is Beautiful scheme helps to free-up family-sized housing for those in priority need, but requires the allocation of a smaller social tenure property. A full-time under-occupation officer (situated at West Kent Housing Association) is in post to deliver this initiative and is part-funded by the District Council through its S106 affordable housing planning gains.
- 27 Although this is an effective housing strategy approach, particularly for those affected by welfare reform and subject to the spare room subsidy, there is another potential variation which could deliver a better outcome.
- 28 A tenants' incentive scheme (TIS) would offer a separate financial incentive whereby certain social tenants would qualify for a payment – but in this case, the tenant/s, would need to give up their tenancy in its entirety. This approach would result in a net addition of one social sector property per case, unlike the Small is Beautiful scheme which trades one home for another.

- 29 Inadequate funds for a deposit and legal fees are often the only barrier to what could otherwise be a perfectly manageable home ownership arrangement. As a consequence, households can be stuck in unsuitable tenures for years on end and with no real hope of progression. A TIS could therefore provide the means for tenants - those typically able to afford mortgage payments - to part-fund the initial outlay costs, e.g. legal fees and/or deposits.
- 30 A TIS could be considered a value for money housing strategy solution, particularly when weighed-up against direct development investment and related outcomes. This is therefore considered to be a worthwhile housing strategy approach for members to consider as a housing strategy tactic and to complement the two existing bespoke intermediate housing schemes, as set out above.
- 31 A set of example rules have been put together with the aim of freeing-up existing social housing whilst also maximising other consequent impacts on wider housing and community strategy (Appendix A).
- 32 Similar schemes currently operate in Guildford; Runnymede; St Albans; and the London Borough of Hillingdon. Each operates differently, however, and officers have pulled together best practice to create a bespoke model which would best support housing and community strategy here in the Sevenoaks District.

DEFINITIONS

Affordable housing:

Generic name for social tenure housing, e.g. social rented; affordable rented; shared-ownership; shared-equity; and intermediate rented.

Includes low-cost home ownership schemes designed to meet the needs of households who cannot access full cost market housing but who can afford to pay more than housing association rents.

Social rented housing is owned by local authorities and housing associations/providers for which guideline target rents are determined through the national rent regime.

Affordable Rented housing is let by local authorities or housing associations/providers to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent and up to a maximum of the relevant Local Housing Allowance (including service charges, where applicable).

Homes that do not meet the above definition of affordable housing, such as 'low cost market' housing, may not be considered as affordable housing for planning purposes. They can, however, still meet the needs of low-income groups so are considered in wider housing strategy.

Examples of rules/options:

- Open to all assured HA tenants in the District;
- Maximum purchase price of £250,000;
- Tenants must have a specified level of savings to cover the cost of moving home (e.g. removals, valuation fee, etc.);
- Help to Buy requirements to apply (i.e. household income not to exceed £60k pa, property to be purchased as the 'only or principle home', size of property to be purchased may have one additional bedroom compared to the needs of the household);
- No minimum length of tenancy required (to assist all those who can afford to buy as this will recycle as much affordable stock as possible);
- May purchase anywhere in Kent, or any local authority area adjoining the District (?), freehold or leasehold;
- Any permanent structure – no caravans or house boats (there will be stipulations re: unexpired lease terms for leasehold properties);
- Level of loan incentive based on a sliding scale according to size of existing home, e.g. £15k for a 1-bed; £18k for a 2-bed; £20k for a 3-bed; and £25k for a 4-bed and above (1-beds are needed due to spare room subsidy tenant transfer requirements);
- Incentive to be paid to the solicitor acting for the tenant at exchange of contracts so that the incentive may be used to fund the deposit payable at exchange and/or legal costs;
- Moat to carry out affordability checks (including taking reasonable steps to ensure housing costs remain affordable in a changing market) and providing the applicant with a maximum purchase price;
- It is not proposed to prescribe maximum prices as per LB Hillingdon example, as these would need to be regularly monitored and updated;
- Clear rent account required at point of application and completion (the tenant would be unlikely to obtain a mortgage offer if in arrears);
- Vacant possession of HA property required at completion;

- HA property to be left in a clean and tidy condition. If not, re-charges to apply;
- Charge to be placed on purchased property so that the SDC loan incentive 'equivalent' is repaid in full when the owner moves or assigns the property (or after 5-years, which ever is soonest –mirroring Help to Buy equity loan scheme); This will ensure both the owner and SDC share in any price uplift (i.e. property costs £150,000; tenant provided with incentive loan of £15,000, representing 10% of the value of the property; when property is re-sold, it is worth £200,000; SDC repaid £20,000); and
- All repaid loan incentives to be collected by Moat and re-used by Moat for agreed affordable housing initiatives.