

Cabinet (Resources) Panel

8 March 2016

Report title

Developers' shared equity units as affordable housing

Decision designation	AMBER
Cabinet member with lead responsibility	Councillor Peter Bilson City Assets
Key decision	No
In forward plan	No
Wards affected	Oxley
Accountable director	Lesley Roberts, Housing
Originating service	Housing Services
Accountable employee(s)	Kenny Aitchison Service Manager Housing Strategy & Development Tel 01902 554841 Email kenny.aitchison@wolverhampton.gov.uk
Report to be/has been considered by	

Recommendation(s) for action or decision:

The Cabinet is recommended to:

1. Approve the principle of the Council receiving an assignment of a share in the equity of six housing units as a form of affordable housing provision at Buttercup Close, Rakegate.

1.0 Purpose

- 1.1 The purpose of this report is to seek approval from Cabinet (Resources) Panel for the Council to receive an assignment of an equity share for housing units as a form of affordable housing. Further, this report seeks authority from Panel to accept an equity share in six properties at the former Rakegate Primary School, now known as Buttercup Close.

2.0 Background

- 2.1 The Council defines ‘affordable housing’ as housing provided, with subsidy, for rent or sale at a price which is affordable to local people in housing need, and which meets their housing requirements. Local people in housing need are those who are unable to meet their housing requirements in the general housing market because of the relationship between local housing costs and incomes.
- 2.2 What constitutes affordability, for the purposes of the Council’s planning policy, was determined by the 2002 Wolverhampton Housing Needs Survey with regard to local income levels and housing costs for dwellings of varying types, subject to review in the light of any subsequent surveys. The affordability measures used in the Housing Needs Survey 2002 and the 2004 update are that housing should cost no more than three times gross income for mortgage borrowing; and no more than 25% of net household income for rent.
- 2.3 To meet affordability requirements most affordable housing provided on new developments is affordable housing for rent, owned by Registered Providers. Whilst provision of affordable rented tenure is the priority for meeting identified housing need, intermediate housing products can also be provided under the National Planning Policy Framework definition of affordable housing. Shared equity is one of a number of products defined as intermediate housing, which may be used in exceptional circumstances as an alternative tenure option.
- 2.4 Since 2009 the Council has adopted a flexible approach to securing Section 106 Planning Obligations on housing developments where financial viability has been an issue.
- 2.5 Where viability has been determined as an issue, negotiations between the Council and developers have in some instances resulted in developers offering their shared equity products as part of the Section 106 planning obligations as affordable housing.
- 2.6 Developers building new houses within the City offer prospective buyers a range of options to enable them to sell including shared equity. Where prospective purchasers do not have sufficient finance for a deposit, developers offer an equity loan to bridge the gap between the available mortgage and the purchasers own deposit. The Government scheme “Help to Buy” offers purchasers up to 20% equity loan where the purchaser can provide a 5% deposit and a mortgage for the remaining 75%.

- 2.7 For a developer's shared equity units the retained equity (usually up to 20% of the sale value) may be held by the developer. The developer is expected to act in an open and transparent manner, to avoid the risk of the product being sold on the open market without the Council's consent.
- 2.8 In order for a developer's shared equity product to be fully acceptable to the Council as an affordable housing contribution in S106 agreements or development agreements, the Council has sought to create a mechanism that ensures the equity share can be recycled into the provision of affordable housing in the city in perpetuity. By adopting the process of the Council taking an assignment of the legal charge on the property, we can ensure that should the property owner buy out the remaining 20% share of their home the value of that equity share is recycled for further affordable housing. A worked example of this arrangement is set out in Appendix 1.
- 2.9 As part of the affordable housing offer, Taylor Wimpey proposed that the shared equity product outlined above, with the Council taking an assignment of the 20% equity charge from Taylor Wimpey UK Limited.

3.0 Shared Equity Units at former Rakegate Primary School

- 3.1 Rakegate Primary School was declared surplus by the Council and sold by invitation to tender. Taylor Wimpey paid a capital receipt to the Council but subsequently argued that the development was not financially viable if there was to be the amount of affordable housing, required by the Council's planning policies, on site.
- 3.2 Taylor Wimpey was given planning permission for 41 houses, with a planning requirement of 25% of these to be affordable. In total ten units were provided as affordable units; four rented and six shared equity, with an informal agreement that 20% equity share would transfer to the Council at point of sale of each of the six units.
- 3.3 The individual units have been transferred to the home owners subject to a charge in favour of Taylor Wimpey UK Limited. This charge will be assigned to the Council. The effect of this will be that the Council will own 20% of the equity in the six properties.
- 3.4 The 20% equity share for the six properties currently has a total value of £160,996, which is gifted to the Council as part of the requirement for affordable housing on this site.

4.0 Financial implications

- 4.1 The equity share for the six properties will be transferred to the council and appear a long term debtor on the General Fund balance sheet. When the Council's equity is bought out by the occupant this will result in a capital receipt to the General Fund. The amount received will depend on the level of the housing market at the time. Should the home owner default on their mortgage, the mortgage lender will have first charge on any monies received. [JB/24022016/K]

5.0 Legal implications

- 5.1 At the former Rakegate Primary School, the individual units have been transferred to the home owners subject to a charge in favour of Taylor Wimpey UK Limited. This charge will be assigned to the Council. The effect of this will be that the Council will own 20% of the equity in the six properties.
- 5.3 The Council will need to comply with the terms of the legal charges once they are assigned, including accepting payments from the plot owners if they wish to reduce the equity share held by the Council. [TS/24022016/E]

6.0 Equalities implications

- 6.1 Affordable Housing whether for rent, shared ownership or shared equity, is specifically targeted at people and families who cannot afford to rent or purchase housing on the open market.

7.0 Environmental implications

- 7.1 There are no environmental implications resulting from this report.

8.0 Human resources implications

- 8.1 There are no human resources implications resulting from this report.

9.0 Corporate landlord implications

- 9.1 The equity share held by the Council will be a property asset, however this asset can only be used for further investment in affordable housing.

10.0 Schedule of background papers

Appendix 1 - Shared Equity Worked Example

Shared equity is an Intermediate Housing tenure within the extended definition of 'Affordable Housing' in Annex Two of the National Planning Policy Framework (27 March 2012).

Shared equity is designed to assist individuals purchasing a property at a cost below the open market value in circumstances where they are unable to afford a mortgage for the full property value.

Unlike shared ownership (another form of Intermediate Housing tenure), instead of part buying and part renting a property, the proposed shared equity scheme will allow an individual to secure a conventional mortgage with a high street lender and to share the equity with the Council. In other words a shared equity scheme operates as a deferred payment arrangement.

By way of example for the proposed Council shared equity arrangement;

- An individual may secure a mortgage from a high street lender for a percentage, say seventy per cent, of the purchase price of the property.
- In respect of the remaining thirty per cent the Council will retain an equity share.
- The mortgage from a high street lender will rank as a first charge in favour of the high street lender.
- The Council will be entitled to a charge in its favour to the value of its equity share. This charge will rank as a second charge.
- Usually no interest is charged upon the Council's equity share.
- Repayment of the Council's equity share may occur as follows:
 - (a) Upon the resale of the property.
 - (b) After a fixed period of time (5 - 10 years) of occupation of the property.
- The repayment sum is linked to the property value at the time of the resale.
- Marketing of the shared equity units is undertaken by the house builder/developer, who will also be responsible for producing the marketing for any other intermediate homes on their development.