

Housing Select Committee			
Report title	Proposed in-depth review into low cost home ownership	Item No	3a
Contributors	Scrutiny Manager		
Class	Part 1	Date	4 February 2013

1. Purpose of paper

- 1.1 At its meeting on 11 September 2012, the Committee decided to undertake an in-depth review into low cost home ownership, as part of its 2012/13 work programme.
- 1.2 This paper sets out the rationale for the review, provides some background information on the current situation nationally and within Lewisham and sets out the proposed scope for the review.

2. Recommendations

- 2.1 The Select Committee is asked to:
 - note the content of the report
 - consider and agree the proposed scope for the review, outlined in section 6 and the timetable, outlined in section 7.

3. Policy context

National context

- 3.1 Most people want to own their own home, as they feel that home ownership confers a variety of benefits including increased security and a greater sense of control and belonging. Increasing home ownership has been an important goal of successive governments, and national policies have sought to encourage the expansion of this sector of the housing market. In the mid-1970s only half of all households in the UK were owner-occupiers. However, since the launch of the 'Right To Buy' scheme in 1980, governments of all persuasions have pushed policies to get more people onto the property ladder. The result, fostered by financial deregulation which led to a greater availability of mortgage finance, has been a dramatic increase in home ownership to a peak of just over 70% in 2003¹.
- 3.2 However, in addition to increasing the availability of mortgage finance, the deregulation of financial markets also led to house price inflation which was followed by the 'credit crunch'. Lenders began to market mortgages which provided 100% of the finance required or else had a very high loan-to-value (LTV) ratio; lent to those with chequered credit histories or low and insecure incomes; offered 'cash back', or 'self-certified' mortgages; and sometimes lent up to four or five times the salaries of the mortgage applicants. This was unsustainable and the availability of mortgage

¹ The end of the affair: implications of declining home ownership, Andrew Heywood, The Smith institute, 2011, p4
See: <http://www.smith-institute.org.uk/file/The%20End%20of%20the%20Affair%20-%20implications%20of%20declining%20home%20ownership.pdf>

finance for people on low incomes is now greatly restricted and home ownership in England has declined to 67.4%².

- 3.3 Over the years, governments have come up with a number of different schemes to promote low cost home ownership for aspiring home owners who would struggle to buy a home on the open market, starting with the '**Right To Buy**' scheme, which has seen over two million social housing properties transfer into private ownership over the thirty years since its inception³.
- 3.4 There have also been government backed schemes run by Registered Housing Providers to encourage **shared ownership** or **shared equity**. There has been a significant take up of these schemes although, from the purchaser's point of view, there are drawbacks as they only enable the purchaser to buy a share in the property rather than buy it outright, and pay rent on the remainder, buying additional shares if or when they are able to afford it.
- 3.5 **Self build schemes** are another way of encouraging low cost home ownership, but they have had a limited impact on home ownership in the UK. Whilst one in 10 new homes in the UK are self-built, of all French and German new builds approximately 60% are self-built and in Austria that rises to around 80%⁴. However, despite the limited impact of this method in securing low cost home ownership, Lewisham has had a successful self-build scheme⁵ and there have been recent initiatives launched to promote this way of acquiring home ownership.
- 3.6 In recent years the **Community Land Trust** (CLT) movement has begun to make headway, building low costs homes largely on donated land. CLTs also have the advantage of producing affordable homes which remain affordable, insofar as the discount at which they are bought has to be passed onto future occupiers rather than accruing to the seller as a windfall profit⁶.

Lewisham

- 3.7 There is arguably a high need for low cost home ownership schemes in Lewisham. Over the past 15 years, high levels of demand and constraints on land availability have driven an above-average growth in house prices across London, including in Lewisham, and this has limited affordability for residents. In 1997 the average house price in Lewisham was £73,789 and the median salary was £16,120, a price to income ratio of nearly 5:1. By 2010, and despite the downturn in the broader economy, the average house price in the borough had increased to £255,351 and the median income had increased to £23,592, resulting in a doubling of the price to income ratio to almost 11:1⁷. House prices have since stabilised, but mortgage finance is increasingly rationed and deposit requirements have increased. To be able to purchase a property in the lowest 25 per cent of prices in Lewisham in 2010, a single resident would need to be earning at least at the level of the highest 25 per cent of earners (£40k p.a. or more), qualify for a 75 per cent loan-to-value mortgage, and have saved £1 in every £5 that they had earned for 7 years or have other access to the £45k deposit. With personal debt levels still high - £1,700 for every adult in the UK aged 18 or older, compared to £1,000 in 1997 – this rate of saving is unlikely, and

² Ibid, p7.

³ See DCLG website: <http://www.communities.gov.uk/housing/homeownership/righttobuy/>

⁴ See: <http://www.constructivemagazine.com/news/mccloud-recruited-self-build-push>

⁵ E.g. Walter's Way and Segal Close (Twenty-seven houses build in two phases – in 1979 and 1984 - providing detached houses with gardens for local people). See: <http://www.segalsselfbuild.co.uk/projects/waltersway.lewis.html>

⁶ See: National CLT Network website: <http://www.communitylandtrusts.org.uk/what-are-clts>

⁷ Housing Challenges and Opportunities, officer report to the Housing Select Committee, 18 January 2012, p4

first time buyers are increasingly reliant on family support to access home ownership⁸.

4. Meeting the criteria for a review

4.1 A review into low cost home ownership meets the criteria for carrying out a scrutiny review, because it is:

- **An issue of national importance** – Ensuring access to affordable homes, including low cost privately owned properties, is a national government goal and there are a variety of current government-backed schemes aimed at promoting low cost home ownership.
- **A strategic or corporate priority for the Council and its partners** – Ensuring decent homes for all is a corporate priority and the Council is committed to promoting a wide tenure mix, including affordable owner-occupied property.

4.2 This would be an opportune time to carry out a review into low-cost home ownership. The government has sought to revive the Right to Buy scheme by increasing the discount available to council tenants to buy their homes and is also promoting a number of low cost home ownership schemes. Following the reform of the Housing Revenue Account, the Council is launching the Housing Matters Programme which may provide opportunities for low cost home ownership as well as social rented homes.

5. Promoting low cost home ownership

Right to Buy

5.1 The Right to Buy (RTB) scheme was introduced in 1980 and gives qualifying social tenants in England the right to buy their home at a discount. Secure tenants of both local authorities and non-charitable housing associations have the RTB if they have been public sector tenants for at least five years. In addition, assured tenants of housing associations who have transferred with their homes from a local authority to a housing association as part of a stock transfer retain their RTB (known as Preserved Right to Buy). The RTB discount increases with the length of tenancy up to a maximum limit:

- houses - the discount is set at 35 per cent of the property value plus 1 per cent for each year beyond the qualifying period up to a maximum of 60 per cent
- flats - the discount starts at 50 per cent and rises by 2 per cent each year up to a maximum of 70 per cent.

In terms of a cap on the discount offered, from 2 April 2012, the RTB maximum discount is £75,000 rather than £50,000. By the end of July 2012, 197 RTB1 forms had been sent by Lewisham Homes to potential applicants, and 84 completed forms received (58 were received in 2011/12 as a whole)⁹.

5.2 The statutory right that some housing association tenants have to buy their existing home is known as the right to acquire. There are conditions, such as the property must have been funded after 1 April 1997 and the tenant must not be in rent arrears, but if the conditions are fulfilled the tenant can buy the property at a discount.

⁸ Ibid, p7.

⁹ Key Housing Issues report to the Housing Select Committee, 11 September 2012, p4

Shared ownership and shared equity

- 5.3 With shared ownership a provider, usually a housing association, builds a new property and a purchaser part owns and part rents it. A shared owner is a leaseholder of the housing association, which retains the freehold of the property but can buy a 25%, 50% or 75% share and can buy additional shares over time (known as 'staircasing'). Sometimes the opportunity to staircase is limited - typically to 80% - because the housing association wishes to retain an interest in the property and make sure that properties remain affordable for future buyers.
- 5.4 The shared equity model is the model now preferred by the Government. This model enables people to buy a property on the open market with the help of an equity loan, either from a housing association, from the Homes and Community Agency (HCA) or from a developer. The homeowner then gets a conventional mortgage for their share. Rather than paying rent for the percentage of the property that they do not own, the purchaser repays the loan.
- 5.5 HomeBuy (known as FirstSteps in London) is a government backed initiative to increase low cost home ownership that is open to households that earn less than £60,000 a year and targeted at first time buyers and council/housing association tenants. The main strand of the initiative is providing equity loans via the HomeBuy Direct scheme (where the loan is 30% or less of the purchase price) or the FirstBuy scheme (where purchasers fund 20% or less of the purchase price). The equity loans are interest free for the first five years and after that, the purchaser pays a fee on the equity loan of 1.75%, rising annually by the increase (if any) in the Retail Price Index (RPI) plus 1%. If the home is subsequently resold, the percentage of the property price met by the equity loan is repaid to the housing association that built the property. The proceeds are all recycled by housing associations to provide more affordable homes.
- 5.6 The NewBuy scheme helps people get a mortgage of up to 95 per cent of the purchase price of a new property. The scheme applies to new builds only and is available from participating builders in England.

Self build

- 5.7 Self build involves people building their own homes which theoretically makes the homes more affordable because (a) self builders do not have to pay labour costs if they build the house themselves or (b) even if they employ builders, the labour costs will be lower if they manage the project themselves and they may be able to acquire the land on which to build cheaply, as the credit crunch has encouraged large volume developers to sell off their land banks at considerable discounts. Although very few self build homes are completed each year, the government recently named seven sites (all outside London, although the HCA has been asked to identify more suitable sites) where public land will be made available cheaply for self-build housing, and confirmed £30 million of nation-wide funding for self-build. The funding will provide short-term loans for self-build schemes of five or more units over the next three years and can cover 75 per cent of early costs such as land acquisition, site preparation, section 106 obligations, and construction. In London, the London Mayor has combined the £5 million he received from the government's £30 million fund with £3 million from a fund of £20.5 million to promote the community right to build¹⁰, to create a London specific scheme: 'Build your own home – the London way'

¹⁰ The Community Right to Build scheme allows communities to approve local development without the need to go through the normal application process to help start building projects which could include homes, community centres and children's playgrounds.

scheme¹¹. The funding will provide loan finance up to 75% of the development cost for self build housing.

Community Land Trust

- 5.8 A Community Land Trust (CLT) is a non-profit, community-based organisation run by volunteers that develops housing at permanently affordable levels for long-term community benefit. It does this by separating the value of the building from the land that it stands on and, in the case of shared-equity homes, fixing the resale percentage. A CLT acquires land cheaply by, for example, receiving public land at little or no cost. Some of the most successful CLTs have benefited from partnering with a housing association to develop and manage the homes.

6. Scope

- 6.1 The Committee could consider each of the main options for promoting low cost home ownership and assess the advantages and disadvantages of the varying schemes, the applicability of each scheme to Lewisham and the risks and opportunities each presents to the council. Key Lines of Enquiry in relation to each option could include:

Right to Buy/preserved Right to Buy/Right to Acquire

- What are the advantages and disadvantages of RTB (a) for tenants and (b) the council and the wider Lewisham population?
- How has this affected the retained stock of council owned homes in Lewisham and stock transferred to RSLs?
- Has there been any abuse of RTB in Lewisham (e.g. by companies seeking to induce tenants to buy their properties and then sell them under rent back schemes)?
- How many applications for RTB has Lewisham Homes received since the government increased the discount and what are the future projections?
- Have RSLs that have received transferred stock seen an increase in applications?
- Do the Council and its RSL partners actively promote RTB?

Shared Ownership/Shared Equity

- What are the advantages / disadvantages of shared ownership/shared equity?
- How many shared ownership/shared equity homes have been built by RSLs in Lewisham over the past ten years?
- How many shared ownership/shared equity homes have been provided in Lewisham as a result of s106 planning requirements?
- What factors have affected take up of shared ownership/shared equity homes schemes?
- What factors, if any, have restrained supply of shared ownership/shared equity homes?

Self Build

- What are the advantages / disadvantages of self build?

¹¹ See the GLA website: http://www.london.gov.uk/media/press_releases_mayoral/mayor-launches-%C2%A38m-fund-londoners-build-grand-designs

- What examples are there of self build projects pursued by Lewisham Council or Lewisham Homes or RSLs in the borough historically and currently?
- What are the reasons behind the low proportion of self build properties in the borough and what impediments are there that may discourage self build schemes? How can these be removed?
- Is Lewisham doing anything to encourage bids to the London Mayor's 'Build your own home – the London way' scheme?
- What land currently owned by Lewisham Council might be suitable for self build? If the land was provided for free what would be the impact for the Council and how much would it cost, approximately, for a resident to self-build a family sized house on this land?

Community Land Trusts

- How do CLTs work?
- What are the advantages / disadvantages of CLTs?
- What examples are there of successful urban based CLTs?
- What land currently owned by Lewisham Council might be suitable for a CLT? If the land was provided to a CLT for free, what would be the impact for the Council and how much would it cost, approximately, to build a family sized house on this land?

7. Timetable

7.1 The Committee is asked to consider the following outline timetable for the review:

First evidence-taking session (4 February 2013):

This session would focus on written evidence. An officer report would be requested which would provide:

- information on each of the main options for low cost home ownership including the advantages and disadvantages of each option
- examples of how each option has worked in Lewisham to date and the potential for, and desirability of, encouraging each option in the future
- information on how each option might link into the Council's wider housing plans including the Housing Matters Programme.

Second evidence-taking session (6 March 2013)

This session would focus on verbal evidence. External speakers would be invited to attend the meeting to discuss the main options for encouraging low cost home ownership and how they might work in Lewisham. External witnesses could include:

- A representative from the 'Build your own home – the London way' scheme
- A representative from the national CLT Network
- A registered housing provider offering shared ownership/equity properties in Lewisham or a representative of the London Home Ownership Group (which represents all the housing associations providing low cost home ownership schemes in London).

Recommendations and final report (First meeting of new municipal year)

The Committee would consider a final report presenting all the evidence taken and agree recommendations for submission to Mayor & Cabinet.

8. Further implications

- 8.1 At this stage there are no specific financial, legal, environmental or equalities implications to consider. However, each will be addressed as part of the review.

For further information please contact Charlotte Dale, Scrutiny Manager on 0208 3149534.