



Report of the Head of Scrutiny and Member Development

Scrutiny Board (Environment & Neighbourhoods)

Date: 17th January 2011

Subject: Development of a Rent to Mortgage model

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

1.0 SUMMARY

- 1.1. The purpose of this report is to describe the development of a rent to mortgage housing product, which was considered by Executive Board on 15th December 2010, for information and discussion by Scrutiny Board. It provides detailed information particularly on the mechanics of the model and how it is anticipated it would work. This is a pilot scheme and is one of a number of new housing products which the council has developed over the last few years to respond to the prevailing market conditions and provide new opportunities for residents. The Executive Board report is appended for information.
- 1.2. The product will be trialed on a small number of properties located in the east Leeds (EASEL) regeneration area.

2.0 BACKGROUND

- 2.1. A key aspect of the delivery of regeneration within the East and South East Leeds area has been the development of mixed income, mixed tenure communities. The programme of work so far also recognises that the area lacks a variety of housing choices. This, coupled with the notion of developing the housing “ladder” in Leeds has led to the development of a number of housing products enabling people to access home ownership. A summary of these products is included as Appendix A.
- 2.2. The council’s rent to mortgage product was developed as a response to the tightened mortgage market and in particular the difficulties people face where lenders are asking for high levels of deposits. The development of a rent to mortgage product allows the occupier to rent a property for a specified period of time during which there is an opportunity to either acquire the property outright or to acquire it by way of a shared ownership lease enabling the occupant to buy the property in stages.
- 2.3. This model does not require the applicant to have either a deposit or a mortgage in place straightaway and differs from other models such as equity loan in this respect. Rather, it allows the occupant to rent a new home at an “intermediate rent” (this is described further below), and a period of up to five years within which they can save towards a deposit and eventually purchase the property. Buying the property could either be as an outright purchase or by buying the property in stages through shared ownership.
- 2.4. The scheme will be operated by East North East Homes including advertising and letting the houses. Although the agreement cannot force occupants to save as such, review meetings will be held to assess their ability to purchase and it will be clear from the point of advertising the product, that it is envisaged as a stepping stone to home ownership. The product will be trialed for ten houses which are located in Gipton and Seacroft.
- 2.5. An eligibility criteria has been developed which gives first priority to people who live in the defined EASEL area, in addition to means testing to ensure an applicant is able to afford the rent level and subsequent purchase. It is anticipated that applicants which fall within the defined criteria would be unlikely to be able to access a council tenancy (and the associated Right to Buy), but offers a opportunity to working people who cannot yet purchase a home.

3.0 HOW THE MODEL WILL WORK

- 3.1. The scheme requires the use of assured shorthold tenancies (AST) to ensure that it can operate effectively. The Council cannot grant ASTs directly but can do so via an intermediary landlord, in this case East North East Homes, using the statutory consents and powers described in the December Executive Board report. These include Section 32 of the Housing Act 1985 which gives the Council the power to dispose (via a lease in this case) of property subject to obtaining the consent of the Secretary of State and following Executive Board approval we are now seeking this specific consent; also Section 2 of the Local Government Act 2000 which enables the Council to undertake activity to promote the economic, social or environmental well-being of its area.
- 3.2. The property would be let in the first instance as an Assured Shorthold Tenancy. During this time the ALMO would have normal repair and maintenance obligations

but the tenancy is sufficiently flexible that it can be terminated and the property purchased when the tenant is ready to do so (within a fixed timescale of five years).

3.3. The design of the model is based on that of Registered Social Landlords (RSLs) and utilises the documentation produced by the Homes and Communities Agency.

3.4. For the first phase of occupancy when the tenant is occupying the property as an assured shorthold, the rent will be charged at an intermediate rent level of 80% of the market rent and as such is higher than a social rent but lower than full market price. This is one way through which we can ensure that the tenants will be able to afford future mortgage repayments. The prevailing market rent has been calculated by Property Services looking at the market rents charged by local estate agents taking into account the type and quality of the properties. In proposing that we let the properties at the 80% market rate we are emulating the approach used by RSLs and thus their experience of demand and affordability. The table below shows how the rent levels compare for one of the plots as an example.

Plot	Market Rent	Intermediate Rent	Social rent
127	£525 pm	£420 pm	£304.5 pm

3.5. When the occupier chooses to purchase the property they can either do so outright or opt to buy the property in stages through a shared ownership lease – buying either 25, 50 or 75% of the unit. As a shared owner they become fully responsible for the repair and maintenance of the property irrespective of the percentage they purchase. In this phase the council will receive a capital receipt in addition to a rental charge on the unsold proportion. Again, adopting the existing model used by RSLs, this is proposed as 3% of the unsold equity in the property. At this stage the shared owner would be making mortgage repayments and paying rent on the remaining proportion of the property.

3.6. For example, if the occupant chooses to purchase the property at an initial level of 25%, the income received by the council would be:

Plot	Full price	25% purchase receipt received by LCC	Remaining charge on LCC equity at 3%
127	£97,000	£24,250	£187 pm or £2,184 pa

3.7. For the occupants, using the mortgage calculator provided by the website direct.gov.uk we can estimate their payments as follows:

Rent	mortgage payment (6% interest rate)	Total cost
£187 pm	£156pm	£343 (plus ongoing maintenance and repair)

3.8. The charge paid on the unsold equity is calculated at 3%. This calculation is comparable to that set by RSLs and in that respect we are making use of their market experience of the affordability of this home ownership model – bearing in mind the purchaser will need to meet their mortgage payments and any maintenance costs.

3.9. Through testing the model we will be able to build up our intelligence of what is affordable in this market particularly as mortgage products change. The RSL sector has been offering shared ownership for around 20 years and a local example is Chevin Housing (through their subsidiary Rosa Homes) who have successfully let homes in east Leeds on this basis.

4.0 NEXT STEPS

- 4.1. Following Executive Board approval to the development of this pilot project, we will seek the consent of the Secretary of State to the disposal of the properties as a lease to East North East Homes.
- 4.2. The details of the lease to ENEH will be finalised which will set out the operation of the scheme including advertising and letting the Assured Shorthold Tenancies.

5.0 CONCLUSION

- 5.1. The Rent to Mortgage scheme is a pilot product which seeks to introduce a new way of supporting access to owner occupation through an initial period of rent and an opportunity to purchase a property in stages. It is aimed at people who aspire to purchase their own home but who are not in a position to purchase straightaway. It will also support the objective of developing mixed income communities and a housing market ladder within east Leeds.

Appendix A

Product	Key Features
Equity Loan	<p>A loan of (typically) 30% towards full purchase price of a property which is repayable on sale of the property</p> <p>Owner meets the cost of the deposit required by the lender plus monthly mortgage repayments on the remaining loan</p> <p>The scheme at Amberton Park Gipton is an example of this wherein the Council provided the funding to assist purchase for eligible applicants</p>
Homebuy Direct	<p>A loan of 30% towards full purchase price of a property is provided by the Homes and Communities Agency and a developer and is repayable on sale of the property.</p> <p>Owner meets the cost of the deposit required by the lender plus monthly mortgage repayments on the remaining loan</p> <p>The scheme is open to people with a household income of up to £60,000, who could not otherwise afford to buy a suitable property on the open market in the area where they live or work.</p> <p>The HCA has provided funding for this product for a number of developers including Bellways and Urban Splash in the east Leeds regeneration area.</p>
Private sector equity products	<p>A number of developers operate their own equity loan scheme often at a slightly lower rate eg 25% which is payable on sale of the property or may be a time limited loan of say 10 years.</p> <p>Owner meets the cost of the deposit required by the lender plus monthly mortgage repayments on the remaining loan</p> <p>An example of this is the Opening Doors product offered by Bellway Homes nationally and which was offered as part of the east Leeds regeneration area.</p>
Local Lettings	<p>The council's approach to letting its secure tenancies has included the development of local lettings policies which for example include a priority for working families to access new homes. This is to support the development of mixed income communities.</p> <p>An example of this has been the new build council housing in Gipton and Seacroft developed through the east Leeds programme.</p>