

Aff Housing Inquiry NAW.doc



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Communities, Equality and Local Government Committee  
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Dear Sir or Madam

## **Inquiry into the Provision of Affordable Housing**

We have been passed a copy of your letter of the 7<sup>th</sup> October 2011 inviting the submission of evidence to the above inquiry. Savills has significant experience across a broad spectrum of housing projects throughout Wales (and the UK). Some of these are very large and some quite modest, some are urban and others lie in smaller settlements and rural areas. This experience - which focuses on the delivery of all types of housing for all types of provider - has some important messages for the Inquiry and whilst we do not feature on the list of organisations attached at the end of the invitation, we hope that you can consider what we have to say.

There are three key points which appear critical to the provision of affordable housing in Wales.

The first concerns the definition of what qualifies as affordable housing. At the moment this is very narrow and captures just two forms – social rented and intermediate housing. Reasonably rigid rules are applied to what falls within these two categories. This then ties the hands of developers and authorities - and means that innovative and much needed forms of provision sometimes do not qualify as WG endorsed affordable housing even though they are clearly more (and sometimes much more) affordable than “market” housing.

This then does two things:

- a) It artificially depresses the amount of good that conventional housing schemes achieve
- b) If authorities are reluctant to consider innovative forms of provision (and stick to higher requests for approved forms) then housing development itself can become financially unviable – and will stall or fail to start. This means that there will be no housing at all, or that volume will drastically fall.

This cannot be the intention of current policy on affordable housing (and thankfully most local authorities are acting sensibly in applying their targets). However, an adjustment in the definition to include other forms (even if this was time limited or directed to certain forms) could have a double dividend. On the one hand it would increase the amount of affordable housing that would be delivered and on the other it may well accelerate a recovery in overall building activity (which has a very important – and now recognised - economic impact).

This takes us to the second point – which concerns what types of scheme or provision might qualify in an extended definition. There are four dimensions to this – financial mechanism, provision (or provider), specification and qualification.

There is a lot of expertise and experience with respect to **financial mechanisms** and we trust that the Inquiry will either already be aware of this or be directed to it by the contacts on your list. Our experience and discussions we have had with one developer confirm that there is already some momentum behind a concept which is basically described as "developer shared equity". I attach to this letter a pair of leaflets that were prepared by Westbury (which is now part of Persimmon Homes) that explains one version of the concept which already has traction elsewhere on the UK. Other versions will also be available but this is a very neat model which could be easily and successfully repeated and refined in Wales. Equally there may also be scope for much more straightforward low cost for sale housing – which can meet specific and urgent needs – especially where the discount can be tailored to a known affordability gap.

With respect to **provision** the simple point is that innovation and the scope for new or different forms of provision is just as important as it is for financial mechanisms. The Westbury note identifies how not for profit companies could be established to deliver housing and this could provide a useful and additional vehicle for provision (and should certainly not be prevented). Similar points can be made about **specification** and **qualification**. At the moment both may be choking provision of affordable housing – simply because they are making the "enabling" development either cost prohibitive or the affordable housing itself unmortgageable. On the one hand, the need to meet DQR standards could be adding so much extra cost that scheme delivery is threatened, and on the other the need for housing to be permanently available to nominated parties (and thus not openly sellable) is likely to limit access to mortgages or other forms of finance. Flexibility in both areas - even if this is for a limited time only – could therefore make a major difference to both to delivery of all forms of housing including affordable.

The third main point is the need for urgency in any review of affordable housing provision. Current conditions are unlikely to improve significantly in the short to medium term and this means that housing of all types continues to be necessary – both as a fundamental social service and as a means of sustainable economic activity. If the overall amount of housing increases then the laws of supply and demand indicate that price will fall and the need for special forms of housing should reduce. However, less people may also need it (because more will be employed in constructing the new homes or in businesses associated with that construction). This should clearly be a consideration in your Inquiry and we would be happy to provide further evidence (on the economic impact of new housing) if that would help.

We trust this is clear and that you are able to consider the straightforward but important points that are raised. If you require anything else, do please contact me.

With kind regards

Yours sincerely,



**Tim Gent**  
Director

cc: Client and Consultant Team



Affordable homes for local communities

# Braintree site leading the way...

## WHI scheme solves problem for council

**The first Westbury Housing Investments development is now underway, breaking new ground in the national affordable market sector.**

By using this highly innovative shared equity scheme, Persimmon Homes Essex has been able to revive a 64-home project in Braintree which had been mothballed for several years.

Paul Gibbs, Essex Development Director, explained that plans for the two-acre brownfield site had become unviable as its original Section 106 agreement was set before the market downturn.

It originally determined that the vast majority of the units would be social rented and with no grant available this meant that the income received from the RSL would not have covered the build cost.

Paul explains: "The first thing we had to do to tackle this problem was to use a HCA toolkit to show Braintree District Council that the original Section 106 was unviable.

"When explaining the various options available the only one that provided the council with an acceptable affordable homes solution was using a mix of Westbury Housing Investments units together with a smaller number of conventional social rented properties."



**CASE STUDY**

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The new Section 106 agreement now provides 30% of the scheme as affordable homes. A total of 15 of these two-bedroom properties will be procured by WHI and four homes will be let for affordable rent via a local RSL.

All the affordable rented units will meet or exceed HCA standards and all will still be built to Lifetime Homes standards.

The WHI homes will be offered exclusively to Braintree Council nominees for an agreed period. Purchasers will initially buy 75-80% of the equity. The cost per month for the shared equity homes compares very favourably to RSL shared ownership and affordable rented schemes.

When owners staircase to full ownership the net receipts will be recycled into other local affordable housing projects in the same way as recycled grant. If there are no suitable recipient developments by agreed dates, the receipts are payable directly to Braintree Council.

### “An inventive answer to the 'difficult' issues facing the site”

“The WHI scheme provided a solution to everyone involved on a site which, given the absence of grant, was unviable and would have remained mothballed for the foreseeable future,” Paul stresses.

Housing Research and Development Manager at Braintree District Council Tim Lucas has welcomed the scheme as an inventive answer to the 'difficult' issues facing the site.



He said: “We worked hard to reach a position which was agreeable to us all and the WHI scheme was an excellent way forward for this particular project.”



## Affordable homes for local communities

Commenting on how the new Section 106 agreement was put together, Rory O'Byrne, Head of Social Housing at national law firm Gateley LLP, said: "The council's concerns were resolved through face to face dialogue and the result is a model WHI scheme which works on every level to the benefit of local people in housing need as well as those directly engaged by Persimmon and the wider local economy.

"The key to the scheme becoming operational was to amend the existing S106 agreement to provide the same quantity of affordable housing for sale to the same local people as would otherwise have acquired those houses from a registered provider."

The amended S106 at Braintree is unique in several respects including:

- 1 It allows the council and Persimmon the flexibility to deliver traditional affordable housing (i.e. homes for rent and shared ownership sale to an RSL) or to deliver homes for sale under the WHI scheme or both
- 2 It differs and exceeds the benefits of other shared equity models as over time the owners of the WHI homes are likely to purchase the remaining shares in their homes and this money will be held by Westbury Housing Investments in a ring-fenced account and will then be recycled at regular

intervals to other local WHI schemes and/or to traditional affordable housing schemes and/or paid to the council to help with providing affordable housing.

**"I look forward to seeing this model of affordable housing rolled out across England."**

Rory added: "I look forward to seeing this model of affordable housing rolled out across England in co-operation with other progressive and forward thinking local authorities.

"I congratulate Westbury Housing Investments, Persimmon Homes and Braintree District Council for their focus, determination and pragmatism in finding a solution to the 'unaffordable housing' crisis."



## Affordable homes for local communities

Jane Dempster, Company Solicitor with Persimmon plc, explained that in addition to ensuring that the company had model S106 provisions which could be used on future WHI schemes, she was keen to see that the legal framework did not unnecessarily complicate the sale of the WHI homes.



She explained: "We have achieved a structure which streamlines the development and sale of these homes alongside the development and sale of the open market housing on the site. The conveyancing for the Braintree scheme will be dealt with by the in-house legal department at the Essex office and we look forward to involvement in this pioneering scheme."

The concept and detail of the scheme was initiated by Ashley Lane, Persimmon's Group Partnerships Director,

who says he looks forward to the scheme being rolled out throughout the group.

**"It is a way of getting Britain building again"**

"I encourage all the regional companies to take this up. It is a way of getting Britain building again and tackling the affordable homes crisis."



**For further information on the scheme contact:**

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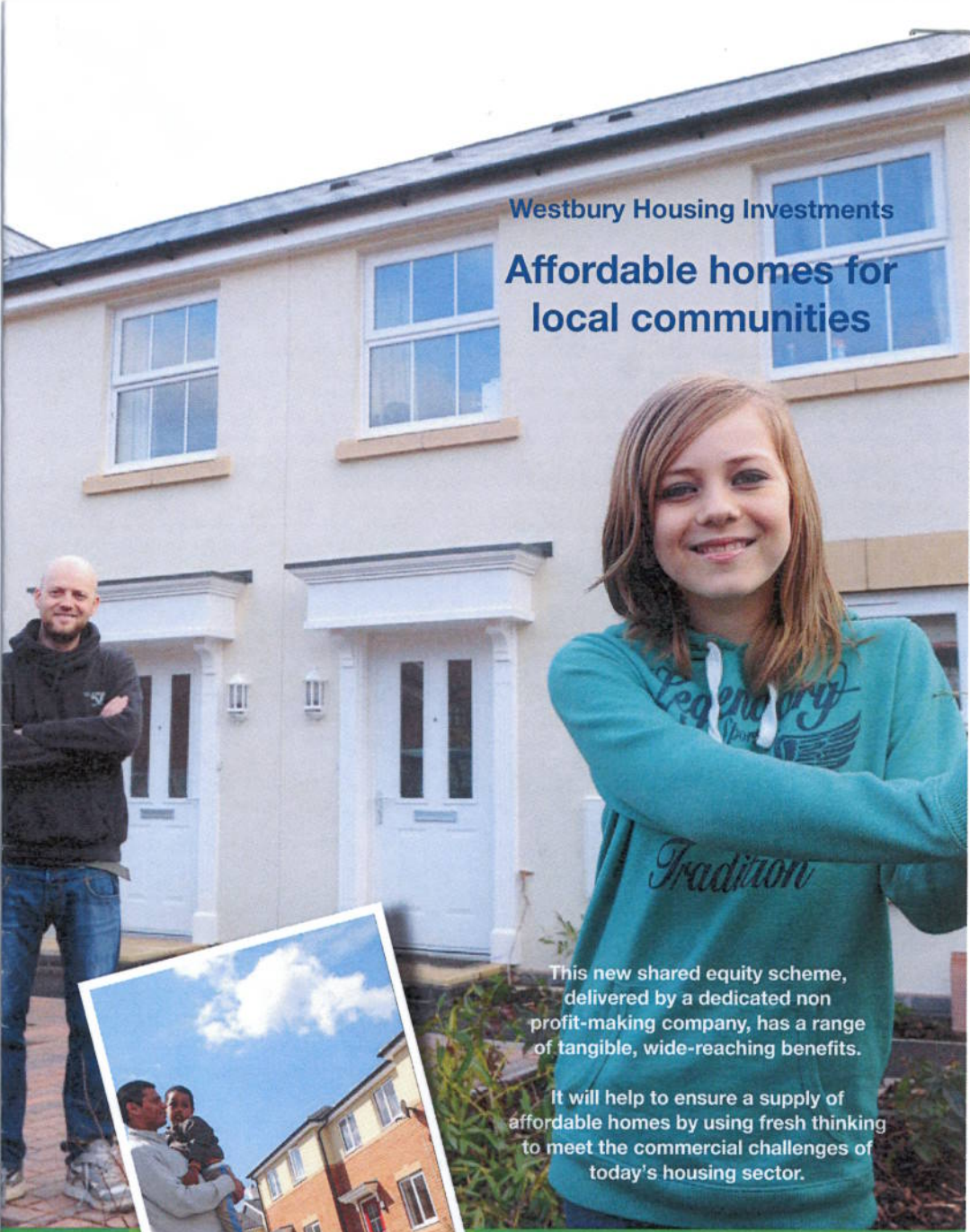
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**PERSIMMON**  
Together, we make a home

**Westbury**  
housing investments





**Westbury Housing Investments**  
**Affordable homes for local communities**

This new shared equity scheme, delivered by a dedicated non profit-making company, has a range of tangible, wide-reaching benefits.

It will help to ensure a supply of affordable homes by using fresh thinking to meet the commercial challenges of today's housing sector.



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Affordable homes for local communities



## Background

The majority of affordable social housing is now provided to Registered Social Landlords by housebuilders through Section 106 planning agreements which typically have called for 80% of these homes to be rented, 20% shared ownership.

The declining property market has meant that the lower values of these rented and shared ownership homes has put these sites in jeopardy due to commercial unviability. This has led to developments either being halted or in some cases not even started.

A new initiative was therefore needed to meet the challenges of this economic climate - a climate which has seen grant funding dry up and first time buyers squeezed out of the market due to lack of mortgage finance.

If the tenure mix of Section 106 sites is changed by introducing shared equity homes in place of rented and shared ownership (typically to 50% rent, 50% shared equity whilst maintaining the total number of homes built), the site can become viable.

In addition, aspiring home owners using shared equity as opposed to shared ownership do not need to find such a large initial deposit.

**Good news for people looking to get a foothold on the housing ladder, good news for communities and for local authorities who need to continue to meet demand for affordable homes.**

The Persimmon Homes Group achieve this through the use of a dedicated non-profit making company - Westbury Housing Investments - who will also recycle any surpluses arising from ultimate shared equity sales back into the local area to produce more affordable homes.

It will ensure that neighbourhoods retain their vitality and sustainability, development sites are financially sound and meet planning obligations and that the local housing market is kept moving - with resultant benefits in so many areas.

**The need for such an initiative has never been as great.**



**The chart shows the costs Steve and Laura could incur for an average £160,000 home.**

It shows the possible cost implications for outright purchase, shared equity and shared ownership tenure at varying levels of 'purchase'.

**Average rent would be £900 per month and social rent £300 per month.**

Scheme	Client deposit	Subsidy
Outright purchase	10% £16000	£0
Outright purchase	5% £8000	£8,000 build
Shared equity 10%	5% £8000	£16,000 SE
Shared equity 15%	5% £8000	£24,000 SE
Shared equity 20%	4% £6400	£32,000 SE
* Shared equity 25%	3.75% £6000	£40,000 SE
Shared ownership 40%	10% £6400	£96,000 rented
Shared ownership 50%	10% £8000	£80,000 rented
Shared ownership 75%	10% £12000	£40,000 rented

● This table is for internal comparison only, not for customer use





## How does it work?

**This shared equity scheme is aimed first time buyers and 'returners' to the housing market.**

Purchasers take out a mortgage for 75% of the property's selling price and are then given a loan from Westbury Housing Investments for the remaining 25% of the equity which is interest-free for five years.

In the sixth year the interest is fixed at 1.75% and then increases at a rate of RPI+1% annually for the life of scheme, which is 15 years in total.

Residents have the option to staircase their shares up to 100% ownership at anytime over the 15 year duration.

Westbury Housing Investments is a separate trading company which is not for profit. The only charges applied are running and management costs and legitimate overheads. Any surpluses generated in its trading activities or the increase in value of equity held in a rising market which is released when the property is sold is ploughed back into providing affordable housing in the local area.

This ring fencing of the surpluses will meet the 'perpetuity' requirement of many adopted affordable housing policies and does not differ from the situation in conventional RSL shared ownership schemes and the use of staircasing receipts as recycled capital grant funding.

As with conventional Section 106 affordable housing, the shared equity homes will go to appropriate people nominated from the waiting lists of local authorities or their designated agent.

This ensures that priority is given to people in housing need and on the waiting list for affordable housing.

The specification and quality of homes being developed under this initiative will be as high as those in the private sector.



Mortgage required	% purchased	Lender	Rate & product	Mortgage per month	Rent	Total per month	Income
£144,000	100%	Abbey	5.79% track	£909	£0	<b>£909</b>	£36,000
£144,000	100%	Abbey	5.79% track	£909	£0	<b>£909</b>	£36,000
£136,000	100% 10% loan	Nationwide	3.94% track	£695	£0	<b>£695</b>	£34,000
£128,000	100% 15% loan	Nationwide	3.69% track	£620	£0	<b>£620</b>	£32,000
£121,600	100% 20% loan	Nationwide	3.69% track	£589	£0	<b>£589</b>	£30,000
£114,000	100% 25% loan	Nationwide	3.29% track	£523	£0	<b>£523</b> *	£28,500
£57,600	40% 60% rented	Abbey	5.79% track	£364	£220	<b>£584</b>	£18,000
£72,000	50% 50% rented	Abbey	5.79% track	£455	£183	<b>£638</b>	£20,500
£108,000	75% 25% rented	Abbey	5.79% track	£682	£92	<b>£774</b>	£28,500

Figures correct as at August 2011.

4 X GROSS INCOMES TO EQUIVALENT MORTGAGE REBATS.

To discuss further please call



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A supporting pack outlining all the legal implications of this scheme is available upon request.

*Westbury Housing Investments represents the trading interests of Persimmon Homes, Charles Church Developments and Westbury Partnerships.*



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