

OVERVIEW & SCRUTINY COMMITTEE

CHAIRMAN: Cllr Mike Haines

DATE: 15 January 2018

REPORT OF: Business Manager, Housing and Health

SUBJECT: TEIGNBRIDGE SHARED EQUITY SCHEME

PART I

1. PURPOSE

To advise Members of the previous shared equity scheme run by Teignbridge District Council and Sovereign Housing Association and request the views of the Overview & Scrutiny Committee regarding the following.

1. Should the Council invest in creating a further shared equity scheme to assist first time buyers access the housing market?
2. If so, do the Overview and Scrutiny Committee support running a potential pilot scheme in Chudleigh using the section 106 offsite contribution from the Rivendell application (£600k) or to extend the scheme to other areas in Teignbridge such as Newton Abbot and if so how would that be funded?

2. BACKGROUND

In 2013 Sovereign and Teignbridge launched an open market homebuy product for prospective first time buyers wishing to purchase on the second hand homes market. The scheme involved investment of £246,125k (plus admin fee) from the Council and £90,000k from Sovereign Housing Association. Full scheme details attached as Appendix 1.

It's purpose was to stimulate the local housing market and assist first time buyers with the deposits required to access a mortgage and reach their first step on the housing market, as well as provide a financial return to the Council and Housing Association. 9 properties were purchased under the scheme and the scheme ended due to the launch of the Governments help to buy product and Sovereign no longer wishing to invest in the product.

Shared equity products would count towards delivery of affordable housing as long as funding returned to the Council was ring-fenced for future affordable housing products. Affordable housing is defined as *Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible*

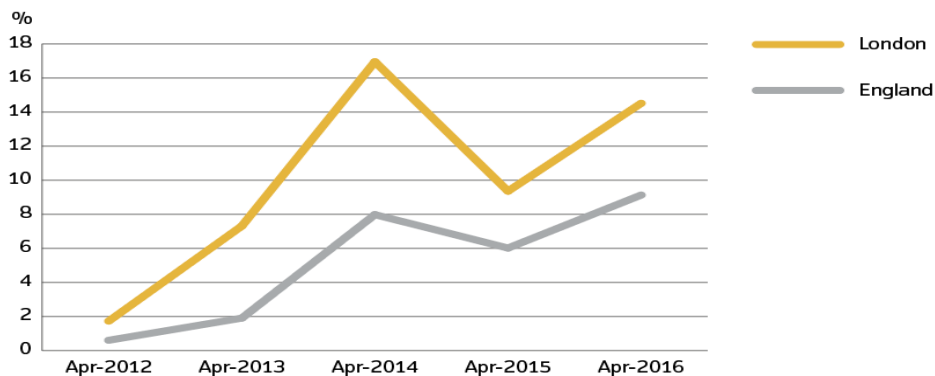
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households or for the subsidy to be recycled for alternative affordable housing provision. It would not however attract New Homes bonus payments as it does not deliver a new unit of accommodation

We believe there is still a market for this scheme and given the rate of return on those properties that the Council invested in which have subsequently been sold, it could be a solid investment for the Council. Also, given the investment in Newton Abbot Town Centre, it could be argued that property prices are more likely to increase, hence now is an opportune moment to invest in property in the Newton Abbot area.

In the year to April 2016 average house prices in Teignbridge rose from £205,907 to £226,424, an annual increase of 9.96%, above the national average increase of 9.1%. However the figures fluctuate significantly from month to month with the highest annual increase for Teignbridge between 2015-16 was 9.96% (year to April), and in some months during the year there was negative growth. The latest annual figure to August 2017 is 7.29%.

UK House Price Index England: April 2016



3. MAIN IMPLICATIONS

How does it work?

Eligibility

The scheme was originally open to those who had a local connection with Teignbridge, earned less than £60k (joint income) and unable to purchase a home on the open market without the equity loan. It is proposed that the maximum joint income is raised to £80k in accordance with the Help to Buy shared ownership criteria.

Priority was given to first time buyers, keyworkers, and social housing residents giving up a family home or households renting privately for three years or more. The schemes marketing attracted a lot of interest predominantly from young first time buyers but also

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included those in middle age who had given up hope of ever getting a foot on the housing ladder, applicants included firemen, nurses and local government staff.

The length of the repayment mortgage could be no more 35 years and no higher than the value of the share the applicant was buying. Self-certified, guarantor and mortgages that offer further borrowing were excluded. Applicants need to have sufficient funding to cover the legal costs and stamp duty and a minimum of 10% of the mortgage.

Funding

Applicants were offered up to 25% of the max home price of £160k for a 2bed and £190k for a 3 bed. It is proposed that these figures are increased to £180k and £220k respectively.

The loan was charged at a rate of 0.75%, with an additional annual review with an additional yearly increase of RPI plus 0.5% (currently 3.9%). If RPI stays at 3.9% the total interest rate to the customer at the end of the ten years would be 1.1%. Finance have commented that in medium to longer term this may not be favourable compared to our lost interest (usually related to base rate), however in order to avoid registration with the Financial Conduct Authority we need to ensure any product we offer is at a rate lower than the market.

The loan was repaid in full once the house was sold, final mortgage instalment paid or the end of ten years whichever happened first. The loan repayment remained at 25% based on the selling price The Council would have a second charge on the property. Applicants were responsible for legal costs, stamp duty and other associated buying costs

Example :

House price cost	£ 200,000.00		RPI	3.90%						
Council's loan	£ 40,000.00			0.50%						
Applicant deposit	£ 10,000.00		Total annual increase	4.40%						
Admin	£ 1,000.00									
Interest rate to applicant										
Loan £40k RPI 3.9%										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Annual interest rate	0.75%	0.78%	0.82%	0.85%	0.89%	0.93%	0.97%	1.01%	1.06%	1.11%
Annual interest cost	£ 300.00	£ 313.20	£ 326.98	£ 341.37	£ 356.39	£ 372.07	£ 388.44	£ 405.53	£ 423.38	£ 442.00
Interest cost per month	£ 25.00	£ 26.10	£ 27.25	£ 28.45	£ 29.70	£ 31.01	£ 32.37	£ 33.79	£ 35.28	£ 36.83

Restrictions

- The maximum property size needed to be suitable for the applicants housing need plus 1 bedroom
- The mortgage offer should not have a retention of more than £5k
- The property should be residential with no commercial use
- The property must not be owned or part owned by partner, family member or business associate

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Considerations

Administration - The Council previously paid £1,200 per unit to Sovereign. We would either need to procure a partner to administer the scheme or have sufficient capacity to administer it in house.

Legal considerations- Impact of Consumer Credit Act 1974.

Eligibility criteria- We could restrict the scheme to 2 beds only as this may mean applicants are more likely to upsize for the 10 years and the money would be repaid more quickly and reduce risk of loans not being paid in full at the end of the term

Risk

There are a number of risks to the project. These are detailed below:

Risk	Impact	Likelihood	Mitigation
Properties do not increase in value or decrease in value and applicants cannot pay deposit	5	2	Current property values in TDC have increased on average of 7.29% amount per year
Applicants unable to pay loan at end of term due to financial circumstance	5	1	Robust financial assessment of applicants financial situation at point of application
Properties purchased have structural/repair issues	3	1	Requirements for structural surveys on any property purchased
Applicants defaults on mortgage	3	1 (2 if mortgage interest rates rise in future)	Robust financial assessment and monitoring. Council has second charge on property
First lender making further advances placing TDC equity loan at greater risk if house prices drop or further advance does not add proportionate value to property	3	1	Mechanism to ensure any further borrowing from first lender triggers the opportunity for us to review our funds lent.
Fire, Flood Subsidence or structural defect	3	1	TDC to ensure applicants are adequately insured on an annual basis

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Evaluation of the Sovereign scheme

Nine properties were sold under the scheme. The summary of the sizes and values can be found below.

House size	Cost	Equity Loan	Area
Ranged between 1bed flat and 3 bed house	Prices ranged from £83,000 to £171,000	Ranged from £20,750 to £44,000	7 in Newton Abbot, 1 in Teignmouth and 1 in Kingsteignton.

Two of these properties have subsequently been sold and the loans repaid with a further loan in the process of being repaid.

Resume of loans repaid	Loan amount	Returned	Profit	Time
Loan 1	34000	39602.27	5602.27	38 months
Loan 2	10750	11397.59	647.59	20 months
Loan 3	28125	33196.72	5000	48 months

Total of all three loans	72875	84196.58**	11321.58	15.53% gross return on investment
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Pilot scheme or a full roll out?

The Council has recently received off site affordable housing contributions of around £600k from schemes in Chudleigh in lieu of 12 units of accommodation onsite. Based on an average of £50,000 per home this funding has the potential to fund a pilot scheme in the Parish of Chudleigh. Housing Enabling staff have held initial discussions with Chudleigh Town Council who wished to explore this and other options based on need.

Chudleigh has the scope to provide a pilot as recent developments have delivered rented and shared ownership homes with future delivery to be provided by allocated sites within the Local Plan. This opportunity could bring a further product to the market to blend in with the existing and future provision.

This potential initiative could be explored by way of a drop in session in the Town in accordance with the Community Led Housing Initiatives.

**Further roll out could be funded using the £84,196.58 which has been paid back to Teignbridge so far. This funding is currently in the Affordable Housing Capital Programme and could be recycled for further equity loans across Teignbridge.

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4. GROUPS TO BE CONSULTED

Comments from Legal and Financial Services.

The report has been circulated to Legal & Finance for comment. Finance amendments have been incorporated into the report.

Legal Services have confirmed that the Consumer Credit Act 1974 does not have any adverse implications on the proposals as the interest rates involved are lower than any commercial rate and the offer is to a select class of person.

Legal Services have also confirmed that the use of the S106 funds from Rivendell accords with the terms of the Agreement.

6. TIME-SCALE

Subject to comments from Overview & Scrutiny Committee Officers intend to work up proposals for Executive approval in March with a scheme launch in April 2018.

7. CONCLUSION

Following the success of the previous scheme this proposal would offer a relatively low risk opportunity to assist first time buyers get a foot on the property ladder, create additional churn in the market and provide a financial return to the Council.

Amanda Pujol, Business Manager, Housing and Health

Wards affected	<i>All</i>
Contact for any more information	<i>Graham Davey, Housing Enabling Manager</i>
Background Papers (For Part I reports only)	<i>Details of original scheme</i>
Key Decision	<i>No</i>
In Forward Plan	<i>Yes</i>
In O & S Work Programme	<i>No</i>